



# **LEADER OF THE OPPOSITION THE HON KIM C BEAZLEY MP**

**CHECK AGAINST DELIVERY**

**EMBARGOED UNTIL DELIVERY**

**INNOVATION BLUEPRINT NUMBER SEVEN  
BRISBANE TECHNOLOGY PARK  
10 JULY 2006**

## **TURNING AUSSIE BRILLIANCE INTO DOLLARS**

I'm delighted to be speaking here today at Brisbane Technology Park – the home of nearly 70 innovative businesses and 1200 people, including your great enterprise, QMI. On-the-ground proof of why the Queensland Government is a national leader in innovation.

Today I want to talk to you about the passion we share – transforming Aussie ingenuity, creativity and ideas into high skilled jobs and export dollars.

Turning home grown brilliance into the products and services that will be Australia's passport to future prosperity.

I believe in a prosperous future for our kids. I see an innovative future for our nation. I want to build a high-wage, high-skill, modern economy that sells Aussie ideas and Aussie goods to the world.

That's why I'm going to kick-start the next generation of innovation in the private sector.

That's why I'll reform R&D investment arrangements.

That's why I'll develop the capacity and diversity of our universities.

That's why I'll rebuild Australia's great research institutions, including the CSIRO.

Because I believe it is innovation that will give our great Australian industries a great future.

Innovation will guarantee our manufacturing sector is always modern and export-oriented.

Innovation will guarantee our mining and agriculture sectors build their skills and add value to exports.

Innovation will guarantee our services sector drives into the region with the banking, financial, educational and environmental services of the future.

The message I want you to take away today is this: I will lead a government that is relentlessly committed to innovation and I will kick-start a new agenda for innovation – to ensure Australia’s progress and success in the 21<sup>st</sup> century.

In the past, governments of all persuasions have emphasised the discovery side of innovation - the work that goes on in research institutions and universities.

I believe what’s been overlooked is the adoption and dissemination of innovation in individual businesses.

I’m not saying we have to choose one over the other, but our future innovation strategy must have a stronger focus on what business and industry need.

To do this we must give our businesspeople, our manufacturers and our entrepreneurs the conditions, opportunities and incentives they need to thrive and compete. So when they take the risks, take the plunge and launch themselves on the world market they’re rewarded.

I’ll make sure that when they put in they get back. I’ll be right there with them every step of the way.

I’m convinced our national innovation strategy must support ideas and invention through the whole life cycle from ideas to the market – at “proof of concept” stage, at product development stage and at the commercialisation stage.

To do this we must build a clever, confident culture that stems forever the haemorrhaging of Australian ideas - the great ideas that are barely off the drawing board, before they’re snapped up by our competitors. Because I want an export avalanche here in Australia. Not somewhere else in the world.

You only have to look at what happened to Sydney Uni’s solar hot water system technology – sold to a Chinese entrepreneur who captured 80 per cent of the world market and is now the richest man in China.

When we needed nation building through innovation, we got John Howard, who sat back while we were gazumped by the Chinese.

John Howard, whose idea of investment in learning is to cut a staggering \$5 billion from our universities.

Whose answer to the skills shortage is to turn 300,000 Australians away from TAFE.

Whose solution to innovation incentives is to massively increase effective tax on investment in research - by cutting the R&D tax concession.

Who arrogantly ignores the warning from Hutch Ranck – the Chair of the Asia Working Group of his own Science, Engineering and Innovation Council - who has said:

*Without a systematic and strategic approach, Australian science and innovation capabilities will be washed over by the tidal wave of progress being experienced in China and India and by the resulting global response.*

The result?

Our competitors storm past us.

- India turns out 110,000 IT professionals every year;
- China produces 600 000 engineering graduates every year;
- And together, they produce four million new graduates annually.

### **Australia's future prosperity**

All of you here know that world economic conditions couldn't be more favourable for Australia. We're in the fastest growing region in a growing world economy. Prices for our exports are at a fifty year high. Yet this Government hasn't used this opportunity to invest in productivity.

Instead of building a more productive, modern economy, the Howard Government leaves a massive legacy of foreign debt. Half a trillion dollars - one of the highest levels of foreign debt in the world - with an interest bill reaching \$500 million every week. Meanwhile our current account deficit will hit a record \$62 billion in the next year.

The Australian Treasury warns that even if this stabilises, to service it will require sustained trade surpluses of up to three quarters of a per cent of GDP. Something not seen in Australia for more than 35 years.

If we run record trade deficits when the world prices for our exports are so high, there is only one way to turn this around and build the trade surplus we need.

Innovate – or die.

So after 10 long years, what is John Howard's agenda for productivity?

He doesn't have one. All he has are his extreme IR laws.

Well I can assure you, I have a very different vision.

I see productive Australian industries flourishing in a modern economy. Modern manufacturing, smart services, value adding mining, diverse and sustainable agriculture, competing with the world and winning in the global market.

Over the last 18 months I've released major policy Blueprints to build this Australia.

Blueprints to develop an Australian fuels industry that ends our dependence on foreign oil; and to tackle the threat of climate change. To build a sustainable future.

A Blueprint to set great national goals for the health of the next generation of Australians – our kids. The workforce of the future.

Labor Blueprints to invest in the skills of our people; and to rebuild our crumbling infrastructure. Two of the key drivers of productivity for the future.

And today I'm announcing my Blueprint for Innovation – the third great driver of national productivity. A Blueprint to turn Aussie brilliance into dollars. A nation building framework for the future.

So when I'm in government:

- I'll kick start the next generation of innovation in the private sector;
- I'll reform R & D investment arrangements;
- I'll develop the capacity and diversity of our universities; and
- I'll rebuild Australia's great research institutions, including the CSIRO.

### **Commercialisation in the private sector**

For too long we've assumed that innovation must be knowledge-supply driven rather than industry-demand driven.

I'm convinced this over reliance on 'knowledge-push' has meant that the tail has been wagging the dog.

Instead of starting the innovation process in the research lab, I believe we need to start with the market - what the customer or business or manufacturer wants, and go from there.

As one commentator aptly puts it:

*Innovation happens when bright people trained in universities are confronted by real life company problems in urgent commercial situations. Out of this friction comes solutions, which market forces will hurtle into production if they work.*

What drives innovation is people working together to come up with the answers that the market demands.

So I announce today that Labor will establish *Enterprise Connect* – a network of new innovation centres across the country to connect people in business with the ideas people. Innovation centres where business can go to find and adapt new ideas and research, take up new technology and to test new products and processes.

*Enterprise Connect* will be relevant across a range of business, manufacturing and services sectors – everything from fabrication, mining and biotechnology to education, legal and finance services.

Today Jenny Macklin will be releasing the full details of Labor's *Enterprise Connect* – a plan offering four key services.

First, advice on boosting productivity, efficiency and export value with on-call business advisers, technical experts and scientists to help with tailor-made solutions.

Second, access for businesses to research labs and equipment, data processing systems and testing and prototyping facilities that are already up and running in universities, TAFEs and other agencies.

Third, labs equipped to provide sophisticated testing facilities for emerging knowledge-based industries with the capacity to test and prototype here in Australia.

And fourth, critical benchmarking; sizing up local industries to identify their strengths and weaknesses and help to develop innovation and growth strategies.

Imagine the benefits for business.

For example some small boat manufacturers in southern Queensland already use the testing facilities for moulded hulls at QMI. *Enterprise Connect* centres in other parts of Australia could broker access to these facilities and offer similar prototyping services around the country. Actually I'm guilty of preaching to the converted. What *Enterprise Connect* aims to do happens here every day.

But what I want for Australia is for this to happen every day, across the whole country.

That's why a Federal Labor Government will support the initial establishment of up to 10 *Enterprise Connect* innovation centres. This will involve support of up to \$20 million each, over four full years, for establishment costs. A down payment on giving Australian companies that vital, competitive edge.

## **Knowledge Transfer Partnerships**

To further strengthen innovation, we need to build greater collaboration between experts in science and research, and people in business – wiring them together.

That's why I'm announcing today that a Federal Labor Government will establish new *Australian Knowledge Transfer Partnerships* - the high-powered 'buddy' system used in many countries. To begin with Labor will put aside \$10 million in each full year to fund up to 200 knowledge transfer partnerships - for projects lasting up to two years.

Each *Knowledge Transfer Partnership* will be a collaboration of at least one business and a university, public research agency or TAFE. They'll work on specific projects like improving production and management processes or building and testing new prototypes or a new product launch.

What's special about these partnerships is that they will be anchored by a skilled person specifically hired to undertake that project.

This is how it would work. A recent graduate, postgraduate, TAFE Diploma holder or postdoctoral researcher would move in with the company becoming the living link between what business needs and what research can provide.

They'll be a bridge between firms with specific customer and market needs and universities, TAFEs and agencies like CSIRO.

## **Venture Capital**

Many of you know that investing in innovation involves risk. For every good idea that succeeds, there are dozens that don't. But unless we actively encourage investors, even the best ideas risk missing out on essential financial backing.

We cannot build a modern economy without a stronger venture capital market. What we've got just isn't working.

The chief of the Australian Venture Capital Association, Andrew Green, recently described the rules governing private equity investment in Australia as "like dealing with Botswana".

In Australia today, venture capital represents only 0.1 per cent of GDP – a mere third of the OECD average. Without any depth in our venture capital markets firms have to rely on equity markets to fund new ventures. And equity markets are simply less willing to take risk.

To deepen Australia's venture capital market, we need different treatment for early stage venture capital that facilitates innovation, and late stage private equity most often used for expansions and buy-outs.

Over coming months, Labor will be consulting the business community on the establishment of an 'Enterprise Investment Scheme' similar to that adopted in

the United Kingdom, which provides tax incentives for investors who subscribe to innovative companies.

I can also announce that a Federal Labor Government will put forward a plan to establish a new Venture Capital Exchange to help foster a risk capital market for emerging companies.

This will make it easier for emerging companies to list, and for investors to get the information they need before investing. It will give investors direct access to innovative businesses.

## **Health Research**

One key sector where Labor is determined to build our innovation performance is health and medical research.

Many of the world's great discoveries have come from Australian scientists and medical researchers – earning us a fistful of Nobel Prizes.

However it takes more than pure Aussie brilliance and dedication to make these miracles happen. Funding and facilities are critical.

For example, cutting edge developments like computer simulated drug testing require expensive and complex technology.

So I announce that a Federal Labor Government will establish a dedicated Health and Medical *Enterprise Connect*.

Researchers would be able to test drugs and conduct other research in one central location. Perhaps more importantly, small and medium bio-technology firms could negotiate access to the equipment and technology available already available in facilities across Australia.

By localising such technology in Australia, we can open the doors to global companies involved in drug development, also encouraging them to undertake post-screening clinical trials here.

All too often, Australia is overlooked by large multinational pharmaceutical companies selecting sites for clinical trials.

So I announce today that Labor will fund a new *National Clinical Trials Network* in public hospitals. This would support the development and clinical testing of new products in Australia. A plan to give patients quicker access to life-saving treatments while keeping our intellectual property here.

A Federal Labor Government will invest \$6 million annually in this Network to support the establishment and operation of clinical studies as well as the collection and analysis of data.

## **Modern information and communications technology**

But, of course, none of this can happen without the most modern information and communications technology.

This requires a considerable change in the approach taken by government.

Labor will re-order the priorities of National Information and Communications Technology Australia – currently the key organisation for innovation in information communications technology.

Labor sees NICTA as having a more significant role in commercialisation. For example one option would be for NICTA to help companies make the best commercial use of the broadband network. Another would be funding more “entrepreneurs in residence” within NICTA.

But the most important thing government can do in the information and communications technology field is to finally give Australia a high-speed broadband network.

I have made this commitment.

To a broadband system that's 25 times faster than the speeds available in Australia today – a system which will get us where so much of the rest of world already is – from Korea to Slovenia.

This has so many applications for our innovative industries, especially in the services. In education, in finance, in law.

Take just one example - the growing revolution in health care offered by telemedicine.

Telemedicine is a great example of a field where innovative Australian ideas now need to be turned into commercial applications. It has the potential to overcome the Australian tyranny of distance in health care delivery. And with national investment and support, Australia can be a world leader in the field.

With Labor's super fast network, we can deliver the necessary speed to connect doctors in the bush to city specialists. We can transmit images from a nurse in Dalby to a paediatrician at Royal Brisbane in a matter of seconds.

Where once bush kids learned on School of the Air now we'll look after them with Health on the Net.

## **Lifting Australia's R&D performance**

I want to turn now to research and development. We do need brilliant ideas. And that means greater investment in research and development.

The Hawke and Keating Governments made R&D a priority as they transformed the Australian economy. Business R&D investment increased every single year under Labor.



It's no coincidence that manufactured exports rose – at an average of 12.9 per cent a year.

But just months after he came to office, John Howard took an axe to the R&D program, effectively halving the R&D tax concession. Overnight R&D growth stopped and then investment actually fell. Even now, the level of R & D investment is barely higher than it was in 1996.

After 10 long years, Australia's investment in R&D lags behind the rest of the world. Our businesses are investing in R&D at little more than half the rate of our competitors. It's not good enough.

My Shadow Minister for Industry, Stephen Smith, delivered a significant paper in this area at my Party's recent New South Wales conference.

Our Caucus Economics Committee, ably chaired by my Sydney colleague, Chris Bowen, has done recent work in this area.

And Federal Labor's think-tank, the Chifley Research Centre, is commissioning a report on the future of Australia's incentives for R&D - to review the current tax arrangements and examine alternatives.

That's why I announce today that a Federal Labor Government will substantially reform and expand Australia's R&D incentives.

Several alternatives are on the table already.

Many in industry would like to lift the tax concession back up to 150 per cent.

Certainly, after the Hawke Government introduced this policy it had remarkable success. But I'm not convinced the same approach is as relevant in 2006.

I'm concerned that most of the government expenditure would be spent on subsidising investment that's already occurring. And restoring the 150 per cent rate would be expensive, costing over half a billion dollars every year.

As Wayne Swan announced in May, all of Labor's spending decisions will be subject to Labor's Budget Rules – surplus budgets and no increase in the overall tax burden. That means that we'll be keeping spending on a short leash.

So if we're allocating scarce public resources to R&D incentives, I want to know that we're adopting the most efficient option. I believe incentives should focus on getting *higher* levels of R&D investment.

That's what is attractive about a second option – giving greater incentives for increased and additional R&D investment, rather than overall R&D levels. This could be done by converting the benefits of the existing different rates - for all investment and new investment - into a single higher concession. The new single rate, which would be higher than the current 175 per cent, would apply to increased investment above a previous level or benchmark.

This approach has been taken by many of our competitors - including the US, Canada, France, Japan, Sweden, and Taiwan. In fact, Australia is now one of few countries that still provides a tax concession to all R&D expenditure.

A more modest change, but also focussed on new investment, would be to extend the current concession on increased and additional investment.

The base could be expanded to include investment in plant and equipment and other forms of expenditure currently excluded from the incremental concession.

Or a simple way to provide a more powerful incentive would be to increase the existing 175 per cent rate.

A variation on this would be to provide an increase in the rate for additional investment which is committed in partnership with the private sector, or allow the private partner the benefit of the deduction on an appropriate level of public spending in the partnership.

Any of these options could be quite targeted and relatively affordable.

A more ambitious option is to convert the R&D concession into a program of loans and grants.

If we fully converted the concession into a scheme focused on financing R&D, we'd have a program with a budget of many hundreds of millions of dollars every year.

I'm very attracted to this option if it can be made to work.

A program based on grants and loans would give us more flexibility in lifting R&D investment. The size of financial help could reflect a firm's individual conditions or perhaps the conditions of specific sectors or their potential to contribute to Australia's future prosperity.

The loan or grant could also take into account how much a firm is investing in R&D relative to their overall size.

Grants and loans would especially help SMEs and start-up businesses that often have tax losses, and therefore get little benefit from a tax concession and only limited incentive from the current tax offset.

Introducing a third party like a financial institution or venture capital firm into the relationship could introduce stronger market disciplines, allowing a market-vetting mechanism.

We won't return to the days of governments picking winners.

As we look at each of these options, we'll be consulting with business, experts and interested parties to determine the best way ahead to lift R&D and build a more innovative and modern Australian economy.

## **Reform of the university sector**

Of course when it comes to building a modern economy, we simply won't do it without our universities. A point this Government refuses to acknowledge.

The Howard Government now boasts the shameful distinction of being the only government of a developed country to cut public investment in tertiary education over the last 10 years.

And while Australia steadily falls behind, other OECD nations have increased their spending on tertiary institutions by 38 per cent.

I have a different view.

I see universities as vital, diverse and flexible contributors to our society and our economy.

As places of enormous and exciting potential:

- To expand and transfer our national pool of knowledge;
- To engage with and contribute to their communities;
- To network the views of Australian and international experts;
- And, crucially, to foster innovation.

As part of Labor's policy development my Deputy, Labor's Shadow Education Minister, Jenny Macklin, has been identifying the fundamental reforms this vital sector needs. And she'll be releasing a major discussion paper on this in the near future.

But let me be clear on this point: if universities are to have the flexibility to do all this we must end the unified national system – it no longer reflects the reality of modern Australia.

Labor will end the Howard Government's "one size fits all" approach.

Labor will reform the system. It must value the individual and divergent missions of each of our universities.

We will allow them to do what they do best. We'll build a financing and regulatory system that promotes, not stifles, diversity.

And most importantly we'll lift quality and standards to protect our international reputation for excellence.

## **Rebuilding our national research icons**

Finally, I want to make this promise to the hardworking staff of the CSIRO – those dedicated people working to find solutions to complex issues like water, manufacturing, agricultural and environmental sustainability and energy.

Take the people working at CSIRO's Manufacturing Institute. They're top-class researchers but they also understand everyday industry problems and they work hard to make Australian manufacturing globally competitive.

I say to these people – the scientists, the researchers, the technicians - Labor will rebuild and reinvigorate CSIRO - we'll use your experience and excellence to build Australia's modern economy.

And we'll do the same for the 71 Cooperative Research Centres across the country – 47 of them with a Queensland presence. A system introduced by Labor and neglected by the Howard Government. By next year the number of CRCs will be cut back to 57 and there's no certainty of any funding at all after 2010.

Labor recognises that CRCs are important forums for industry, researchers, universities and government to connect across the manufacturing, mining, ICT, agriculture, environment and medical sectors. Labor will continue to support CRCs and bring them closer to industry through *Enterprise Connect*.

## **Conclusion**

There's much more we must do to take innovation forward – including issues that I've barely touched on.

Take intellectual property – the primary product of many Australian companies. There's more to do here - from simplifying tax treatment of IP ownership structures to easing the burden on firms which commercialise IP. We will also be looking at more realistic and competitive depreciation regime for intellectual property.

This is an area where my Shadow Minister, Stephen Smith, is doing much detailed work.

Then there's finding new ways to develop the next generation of Australia's business management. And we must have innovation strategies for the markets where we've already got global scale.

Because the government I lead will be unswerving in its commitment to nation-building. That is how we will build a modern economy.

You know, I've been around politics a long time. I was born into a political family. I lived and breathed the ups and downs of my father's career in public life, long before I embarked on mine.

And I've spent so long crossing the continent from Perth to Canberra I've fondly come to regard seat 1C on the eastward bound Qantas Boeing as my second home.

Over the years I've been asked thousands upon thousands of questions.

Some are harder than others.

But, luckily, the one I'm asked all the time is the easiest of all to answer.

People always ask me why I do it. The answer is simple.

Because of these passionate beliefs.

My belief that this great country can and must stand on its own two feet in the world.

My belief in the brilliance, determination and hard work of the Australian people.

And my belief, that when an Australian government works with its people, we can achieve anything and everything.

That's why I do it. That's why I wouldn't do anything else. And that's what is driving me on to win the election.

Thank you.