

SUBMISSION COVER SHEET

Inquiry into a State-Based Reform Agenda

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By email: reformagenda@vcec.vic.gov.au

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The Commissioners
Victorian Competition & Efficiency Commission
Level 14, 55 Collins Street
Melbourne VIC 3000
Australia

16 August 2011

Dear Commissioners,

Re: The Inquiry into a State-Based Reform Agenda

AusBiotech welcomes the opportunity to contribute to the Inquiry into a State-Based Reform Agenda, which is being conducted by the Victorian Competition and Efficiency Commission (the Commission) at the behest of the Victorian Treasurer.

AusBiotech understands the terms of reference for this Inquiry require the Commission to undertake two broad tasks:

1) benchmark Victoria's competitive position relative to other Australian and key overseas competitor jurisdictions, including in relation to:

- state taxes on business and investment
- regulatory settings and regulation-making processes
- the quality and price competitiveness of economic infrastructure (such as roads, ports, rail and energy)
- innovation
- the education and skills base of the population; and
- labour force participation rates.

2) investigate the 'most advantageous' package of policy reforms that the Victorian Government can undertake to improve productivity, participation and the competitiveness of the Victorian economy.

Background

AusBiotech is Australia's biotechnology industry organisation representing over 3,000 members and encompassing the human health, medical devices and diagnostics, food technology, agricultural, environmental and industrial sectors in biotechnology.

With almost half of Australia's biotechnology sector residing in Victoria, AusBiotech members contribute to the economic growth and prosperity of the State by providing highly-skilled, highly-paid jobs as they advance solutions to important state and national issues in health, food, fuel, agriculture and climate change.

AusBiotech was previously part of the extensive collaboration on the Victorian Biotechnology Strategic Development Plan (BSDP) and applauds the recent news that the Victorian Government will establish a new advisory council for Victoria's biotechnology sector, the Victorian Biotechnology Advisory Council (VBAC).

AusBiotech will actively support the Victorian Government, through the VBAC, by offering expert analysis on current and emerging opportunities and threats to the biotechnology sector, supporting the implementation of the Government's biotechnology policy and assisting in a coordinated approach to fostering innovation and growth in Victoria's life sciences industry.

AusBiotech expects that the VBAC will become, to a significant extent, responsible for developing and implementing the strategy by which innovation and biotechnology efforts will contribute to an increase in productivity which in turn will improve the economic and social wellbeing of Victorians.

In the meantime, AusBiotech is pleased to make this submission to the Inquiry primarily focussing comments in relation to factors impacting on the ability of Victorian biotechnology sector to innovate and on the skills base required to support the growth of biotechnology in this State.

Innovation

Biotechnology is a key Victorian industry of the present and future – capable of driving economic growth and prosperity all the while working on solutions to address issues in health, agriculture, climate change, food and fuel supply. AusBiotech believes the Government should not restrict itself from taking an interest in or being supportive of any particular areas of innovation.

AusBiotech believes that biotechnology-based innovation is a vital element in influencing Victoria's competitiveness and productivity. Although many of AusBiotech's members are typically small or medium-sized growth enterprises, there are a number of large biotechnology companies that are post-revenue and playing on the international stage.

Irrespective of size, biotechnology companies employ a highly-skilled workforce and conduct comparatively high amounts of R&D as they focus on developing a competitive advantage for their organisation. That advantage may take many forms including intellectual assets such as patents, trademarks or trade secrets, clinical trial expertise, a platform technology or product range. The purpose of the innovation from the organisation's perspective is to bring reward for successfully bridging the gap between an identified unmet need and the performance of the organisation. Victoria's productivity and competitiveness are consequentially enhanced as a direct result of the success of the biotechnology innovators that are based in this state.

Some examples of Victorian-based biotechnology companies are:

Acrux
Biota Holdings
CSL
Mesoblast
Neural Diagnostics Pty Ltd
Phosphagenics
Sienna Cancer Diagnostics
Starpharma

Biotechnology companies additionally impact on Victoria's competitiveness by attracting investment from domestic and international venture capital funds and multinational corporations. AusBiotech calls on the Victorian Government to develop, either independently or in alignment with the Federal government, further incentives to encourage investment in innovation in this state.

Incentives such as the much-needed Research & Development (R&D) Tax Credit will provide a major boost for innovative biotechnology companies and spill-over benefits for the Victorian community from biotechnologies. Biotechnology, life sciences and innovative companies have much to gain from the new R&D Tax Credit scheme with the program set to deliver a 45% refundable tax credit to companies with a turnover of less than \$20 million and a 40% offset to all others. The Victorian Government should consider supporting companies based in this state to maximise the value they derive from this tax incentive for their businesses by strategically partnering with AusBiotech in the provision of intensive workshops over the coming months that will drill into the details of the new tax credit scheme.

In respect of healthcare, AusBiotech understands that the Government is not in the business of spending the millions, and oftentimes billions, of dollars necessary to translate technologies from 'bench to bedside.' Consequently, Victorians (and other Australians alike) must rely on companies and financiers to take the risks and invest in the commercialisation of novel medicines, diagnostic and devices.

AusBiotech congratulates the Victorian Government for recognising in their submission to the Senate Inquiry into the Patent Amendment (Human Genes and Biologicals) Bill 2010 the importance of patents as a primary incentive for investment in R&D. With the average cost of discovering and developing a new medicine running to more than AUD\$1 billion and the average development time for a new medicine of 10-15 years, the Victorian Government argued strongly that patents on genetic materials and biologicals were critical to underpin the commercial success of biotechnology companies. This view was completely aligned with the submission made by AusBiotech.

Perhaps with the exception of their use in the treatment of domestic sewage, many Victorians would be unaware of the huge potential for microbes and other biological-solutions to positively impact the cost-efficiency of industries as they comply with regulations governing the safe discharge of solid and liquid waste. A wide range of industry types are affected, including businesses in the mining, paper processing and brewing sectors. AusBiotech suggests that the Victorian Government establish strategic partnerships with key members of the biotechnology community to ensure that Victorian industry has access to the most innovative, green and cost-effective waste management practices available.

Victoria is home to a number of internationally-renowned universities, institutes and biotechnology companies engaged in medical and biotechnological research. Their research achievements are significant and in many instances world-leading and it is from within these organisations that Victoria's talent base for innovation will continue to emerge.

The Victorian Government should strive to build a business environment that inspires confidence in investors and the biotechnology industry to maintain and grow their investment in the life sciences in this State. Such government support will ensure that highly-skilled innovators and the cutting edge biotechnologies they apply will continue to be available for the benefit of all Victorians.

AusBiotech recommends that the Victorian Government establish significant post-doctoral fellowships designed, unashamedly, to retain our home-grown innovators and entrepreneurs within the State. At the same time the Government should consider launching a specific linkage grant scheme that would enable our best and brightest to participate in international collaborations and exchanges with a view to attracting international investment in Victorian-based research, the benefit of which will ultimately flow to Victoria as enhanced productivity from innovation.

AusBiotech also applauds the Victorian Government's foresight and commitment to innovation by funding outright, or in strategic partnerships, the establishment of world-class innovation and biotechnology facilities such as the Centre for AgriBioscience, the Australian Synchrotron and the Victorian Comprehensive Cancer Centre.

Notwithstanding any of the above, AusBiotech is aware that some industry commentators believe the State, and indeed Australia, could better capture the value of its research output in the form of domestic and export product sales and more jobs. AusBiotech suggests that enhanced commercialisation skills may be useful for biotechnology companies, universities and institutes to access in order to: decide when may be the best time to partner versus 'going it alone'; derive realistic technology valuations; design, conduct and evaluate the success of 'proof-of-concept' studies; and craft commercial agreements that incorporate acceptable innovator:partner splits in relation to return of investment.

AusBiotech suggests this would be an excellent opportunity for the VBAC to take the lead on as it considers the best path forward to capture maximum productivity gains for the State from its biotechnology resources.

The Regulatory and Tax Environment

With the community keenly focused on the carbon tax scheme following the recent announcement of the Australian government's Clean Energy Future plan, AusBiotech urges the Victorian Government to harness the momentum and support the biotechnology sector as it seeks to provide industry with a range of sustainable and renewable alternative energy sources such as biofuels. Biofuels are capable of significantly reducing the carbon emissions associated with transportation and thus boost the productivity of those industries that adopt them in favour of fossil fuels. The Government can assist by creating a supportive regulatory framework to facilitate the development of alternative biofuels as well as by fostering an environment in which there is open dialogue between the policy makers, industry end users, the biotechnology sector and the wider community.

AusBiotech believes the Victorian Government's approach to the application of regulatory and tax regimes should take into consideration the size and relative capabilities of large firms versus small to medium-sized enterprises (SMEs).

In the relation to payroll tax, AusBiotech requests the Victorian government consider increasing the deduction threshold level above which payroll tax is payable thereby allowing small innovative companies to focus their resources on attaining proof-of-concept and other critical path outcomes in the most time and cost efficient manner possible.

Biotechnology companies are typically SMEs and would therefore not be expected to have the same depth of resources, either financial or labour, as large firms. AusBiotech has heard from its members about the significant net negative economic and administrative burdens that arise from responding to approval and environmental regulations. Not surprisingly, these impacts are felt most intensely by SME and may be directly linked to their competitiveness.

That said, AusBiotech acknowledges the continuing effort of the Victorian Government to minimise the regulatory burden placed on the business of biotechnology (and other) companies and notes that the VCEC was recently commissioned to review Victoria's regulatory framework. AusBiotech is of the view that sufficient time, resources and commitment should now be shown by the Government to consider and, where appropriate, implement the recommendations contained within the Commission's report taking into account the potential impacts on biotechnology companies.

Conclusion

AusBiotech is committed to working productively with the Victorian Government, via its new Department of Business and Innovation, to drive the delivery of biotechnology-based innovation and achieve relevant State-based reform.

If you would like to discuss any elements in this submission, please feel free to contact me on alavelle@ausbiotech.org or on 03 9828 1404.

Yours sincerely



Dr Anna Lavelle
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AusBiotech