

24 June 2008

Dr Terry Cutler, Chair
Review of the National Innovation System
Department of Innovation, Industry, Science and Research
GPO Box 9839
CANBERRA, ACT 2601

Dear Dr Cutler

We refer to the recent Federal Budget decision to discontinue the Commercial Ready and Commercial Ready Plus programs as of 28 April 2008.

As a broad alliance of industry, investment and research organisations dedicated to supporting Australia's innovative future, we write to you to emphasise the implications this decision will have on our national innovation system, as well as the potential costs to innovative companies, the community and the economy if this issue is not addressed as a matter of urgency. All three organisations together represent the discovery and commercialisation pathway and we all agree on the need for government to play an active role.

As you would be aware through various submissions to the Review of the National Innovation System, there have been a number of repercussions as a result of the axing of the program. A number of companies have been left severely compromised, having spent significant sums of money to reach the point of acceptance by AusIndustry.

There will be further problems associated with the withdrawal of a very effective program which, in its various incarnations, supported successful commercialisation of many Australian innovations leading to substantial companies such as Biota, ResMed, Ventracor and many other highly successful companies. In many cases, these are companies providing products that are improving the quality of life for Australians and for those in international communities.

The statement cited as the basis for the decision to end Commercial Ready was flawed. In justifying the decision, much was made of a comment the Productivity Commission made in its 2007 report into **Public Support for Science and Innovation** that *"There is robust evidence indicating that the Commercial Ready program supports too many projects that would have proceeded without public*

funding assistance.” There is little supporting evidence for the statement and no understanding of the impact of delay has been recognised.

Additionally, early stage, high risk, high growth enterprises have not been distinguished from larger firms which are accused of receiving “industry welfare”. The implication in the report is that some funding was too large, even when capped at \$5 million. Of the 454 grants only two were at this cap. Intellection Pty (arguably the best CSIRO spin-out) and BluGlass Limited (spun out of Macquarie University).

Furthermore, the Productivity Commission did not argue that the program should be discarded, but that a stronger filter should apply to grants.

There is general market consensus that there is little basis for the statements of the Productivity Commission. Not least, this is because the research would have been carried out, but due to lack of funds it would be much more slowly, resulting in a higher risk that they would fail to achieve commercial success.

The ramifications of the withdrawal of a program to assist commercialisation of R&D are:

1) Products will not be commercialised

Many small companies will fail to commercialise their products without the additional government support. The gap exists at the stage where firms are making little or no revenue and find it hard to access capital. Commercial Ready allowed leverage of the capital. Many of these companies were spin-outs from public sector research agencies which will now have their commercialisation avenues reduced significantly. There is a high risk that we will lose a significant proportion of companies that were relying on this grant for short term cash flow to speed up the research in order to take advantage of a market opportunity. Some of these companies will now relocate overseas or fail.

2) Intellectual Property (IP) will be lost overseas

IP will increasingly be lost offshore as companies go overseas to raise funds. Commercial Ready grants had a substantial influence on the decision to keep early stage companies in Australia.

3) Reduction in capital flowing to early stage sector

There will be a reduction in investment for startups, from both domestic and foreign sources. As an example, a fund of \$100m that might have made a total of 20 investments, which would have included \$10m of Commercial Ready grants across the portfolio, will now have to find that \$10m from the fund. In this example, that would equate to two less investments that the fund will be able to make. Offshore, that ability to access grants is a useful incentive for offshore money to flow into the sector.

4) Lost leverage

The loss to the industry is well above the approximately \$700 million in ‘savings’, taking into account the matched funding. If one considers that additional investments are sometimes dependant on successfully obtaining a grant and the fact that the

funding would be several times the grant size over the investment cycle, then the loss of the leverage of investment from the grant money will be manyfold.

5) Australia's reputation as a 'clever country' diminished

Commercial Ready grants led to employment opportunities for science and medical professionals. Science as a career path will become less attractive for students if there is less prospect of a relevant job at the end of study. Australia's ability to promote and develop world class Australian ingenuity and technical expertise also suffers.

It is necessary for Australia to continue to produce innovative companies into the 21st century. The mining boom will not last forever. The removal of Commercial Ready will impede many businesses from commercialising their innovation and will prohibit the creation of numerous successful enterprises to support the Australian economy.

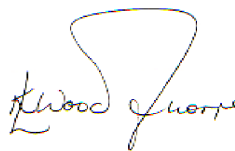
In your capacity as Chair of the National Innovation Review Panel, we urge you to strongly recommend appropriate measures to redress this problem as a matter of urgency. AVCAL, AusBiotech and Research Australia have each made submissions that outline a number of options for replacement programs.

We ought to strive and encourage the building of new enterprises that have global potential and that will give the Australian economy a future beyond the resources boom.

Yours sincerely



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