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Mr Ralph Lattimore  
Assistant Commissioner  
Productivity Commission  
PO Box 80  
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Ref No: C06/06026

Dear Ralph,

**Productivity Commission review of public support for science and innovation in Australia**

On behalf of the Commonwealth State and Territory Advisory Council on Innovation (CSTACI), we thank you and your colleagues for attending our June meeting to discuss the Commission's research study on public support for science and innovation in Australia.

CSTACI is a unique body as it brings together the major jurisdictional players responsible for developing and implementing government interventions in the industry innovation system and draws together innovation knowledge and experiences gained across Australia and New Zealand.

CSTACI was established by commonwealth, state and territory industry ministers at their February 2000 meeting. Its role, as established, was to enhance innovative activity across Australia by adopting a targeted and strategic approach to innovation issues to improve the effectiveness, integration and coordination of the National Innovation System.

A particular role was to enhance the integration of and interfaces between stakeholders in the innovation system at the national, regional, sectoral and international levels. This role arose from an appreciation that Australia needs to participate in international technology developments and have the capacity and interfaces to adapt those developments to Australian industry requirements for domestic and international markets.

Across CSTACI, members have employed different innovation policy approaches and experimented with a variety of innovation policy models and program designs. Members have also acquired considerable knowledge in the design, implementation and management of a range of innovation programs through the interchanges that occur in the biannual meetings.

CSTACI has developed and enhanced its role over the past 6 years and is currently examining a number of research projects of strategic interest to inform innovation policy and program development. The research projects include promoting nanotechnology, industry-research interaction, the commercialisation of research and intellectual property management, skills

mobility, early stage venture capital, development of innovation statistics to measure performance, and examination of the need for a National Innovation Research and Policy Centre.

As agreed at the June 2006 meeting, there are a number of key issues which CSTACI members feel are relevant to the Commission's inquiry into public investment in science and innovation in Australia.

In relation to the first Term of Reference, CSTACI considers that there is a need for better Australian capability in ongoing independent advice in innovation research and policy. Quantitative data on innovation is poor in terms of metrics, availability and consistency and is also not available over any significant length of time. The recent ABS Survey of Business Innovation is a notable exception and its continuation is critical. Any ongoing gap in research capability will reduce the collection and analysis of data to inform ongoing independent advice in innovation research and policy.

Members consider it important that the Commission recognise that the timeframes to identify both the impact of government intervention on innovation and the impact of the innovation itself are invariably long. It is very difficult to identify and quantify cause and effect in many innovation interventions and CSTACI sees an urgent requirement for research directed towards determining the best methods of measuring innovation impact in the Australian and New Zealand context, to better inform policy and decision makers. In particular sectors where accepted metrics may not be available, a case study approach may provide a valuable means of gaining a perspective on the impact of innovation.

CSTACI reiterates that while the Commission's study should acknowledge that innovation policy and subsequent programs are developed to impact on specific objectives in parts of the innovation system, the effectiveness of the system is strongly related to the degree of inter-connectedness of the parts of the innovation system. Thus, it is important that the Commission's report does not examine each program in isolation.

The report should acknowledge and analyse the role and importance of non-R&D related innovation activities as well as R&D activities. Queensland recently did a study on industry/research linkages, in which it defined non R&D innovation as encompassing:

'(new) management practices, process adaptation, logistics management (that shortens/makes more reliable the supply and delivery chains), workplace re-organisation (increasing productivity and efficiency), and the application of new technologies, and capital investment in new plant and equipment.'

In relation to impediments to the effective functioning of Australia's innovation system, CSTACI identifies collaboration both between research organisations and industry, and between SMEs and other industry players, as key issues. CSTACI sees options, such as relationship building - possibly through collaborative centres and networks - as essential to build effective innovation outcomes. The problem of improved collaboration is compounded by the large number of very small innovating businesses in Australia.

Australia also needs to maximise the returns on its investment in public sector R&D in universities and science agencies. The commercialisation arms of Australian universities, with one or two notable exceptions, may not be operating as effectively as possible. Intellectual Property management and demand-driven commercialisation are significant issues.

To get the 'best bang for the taxpayer's buck', CSTACI considers that a range of interventions is needed. Under our federal system of government, the Commonwealth and the states and territories have responsibility for providing and delivering a wide range of positive intervention

services underpinning industry innovation. The decision-making principles and program design elements that underpin the range of programs supporting innovation in jurisdictions provide both alternative and complementary choices in a complex ecosystem. The existence of alternative interventions should not be interpreted as duplication, or as impediments to efficiency and effectiveness, particularly where different jurisdictions offer similar services to different target clients within their jurisdiction.

While the number of programs available may be criticised as too large and/or confusing, they are a response by Australian and New Zealand governments seeking to address particular market failures. Several states and territories have been through their own review processes over the last year in the innovation research and policy area, with rationalisation and restructuring resulting in some instances. CSTACI does, however, support the view that very large programs may not be appropriate when particular target outcomes are being sought – for example, for a particular sector or size of firm.

CSTACI is also aware that individual states and territories have provided submissions to you, as has the Commonwealth.

In terms of the broader social and environmental impacts of public support for science and innovation in Australia, CSTACI is looking to the Productivity Commission to provide advice and direction on priority setting in science and innovation and the building of appropriate scale. While acknowledging that countries cannot be competitive in all sectors, Australia, for example, has particular competitive advantages in a number of sectors. There is therefore a need to address the current focus of innovation support and whether this should be more tightly directed. Accordingly, an assessment of the National Research Priorities may be appropriate.

On behalf of CSTACI, we look forward to your report, and stand ready to assist the Commission further should you require additional input to the review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tricia Berman', with a long horizontal flourish extending to the right.

Tricia Berman  
General Manager  
Innovation Policy Branch  
Innovation Division  
Chair, CSTACI

21 September 2006