

# Innovation

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*Australia's ongoing prosperity depends on its ability to innovate; this requires leadership, clear policies and a national innovation strategy coupled with bi-partisan commitment to structural reform, investment and human capital. Building a sustainable innovation capital requires an immediate and long-term focus.*

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### Why does this matter?

The total economic value derived from digital innovation in Australia represents 7.4 per cent of the country's total gross domestic product (GDP) over the past two decades, compared with 11.2 per cent of GDP in advanced economies.

Australian investment in R&D is declining. Australia spends 1.88 per cent of its GDP on research and development, which is well below the OECD average of 2.38 per cent. Australia currently ranks number 12 out of the 16 countries surveyed on its level of business expenditure on digital R&D.

Currently, the proportion of organisations in Australia that receive government funding for innovation is remarkably low — the lowest in the OECD for large firms and the second lowest for SMEs according to 2019 OECD analysis.

This lack of funding is not only damaging to our current levels of innovation but will have a negative effect on our long-term ability to innovate and commercialise those innovations.

### Addressing the challenges

Australia's innovation system requires a whole-of-government reform initiative. There must be long-term political will to execute on the many moving and interconnected parts — competition policy, tax reform, R&D funding, developing private and public sector commercialisation capability, and labour market reforms.

Government leadership is required if Australia is to reap the substantial economic benefits provided through a vibrant, innovation led, world class digital R&D industry. Renewed support for tax incentives that help offset the cost of R&D and targeted digital grant funding is urgently needed.

Government needs to take on a prominent role and refresh the innovation agenda. It also needs to

develop and own an ambitious national vision to focus investments and capability-building in innovation, through policies and legislation. To ensure a comprehensive and cohesive approach is taken, government must co-design and partner with industry and research institutions.

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*"Digital innovation can deliver \$315 billion in gross economic value to Australia over the next decade, making it a critical ingredient in the nation's ongoing economic success." Data61*

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### AIIA recommends

- ✓ A national body be established to advise on and oversight a National Innovation Agenda with transparent governance, clear objectives and measured performance indicators;
- ✓ Stimulating the digital industry to undertake their R&D activities in Australia through increased grants and internationally competitive tax incentives;
- ✓ The development of guidelines, education and tools to support R&D Tax Incentive compliance requirements and reduce compliance costs;
- ✓ Developing capability in commercialisation of digital products and services through education, attracting skilled migrants with expertise in commercialising digital products and services, and providing industry-based mentoring for commercialisation by global experts; and
- ✓ Implementing a "collaboration premium" under the R&D Tax Incentive proposed by Innovation and Science Australia (ISA) to encourage cross sector collaboration including with the Australian Public Sector.