THE UNIVERSITY OF MELBOURNE

20 December 2006

Science and Innovation Study
Productivity Commission
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Email: science@pc.gov.au

Dear Commissioner

RE: Productivity Commission Research Report on Public Support for Science & Innovation

Thank you for the opportunity to respond to your Draft Research Report on Public Support for Science and Innovation. Melbourne Ventures welcomes the report as a significant development in articulating ways the government can stimulate innovation in the economy. The focus on science and innovation is particularly timely given the assertive initiatives currently being promoted by governments in other OECD countries.

Melbourne Ventures is the technology commercialisation company for the University of Melbourne. Our core business is facilitating the transfer of technology developed in the University's research laboratories into the marketplace, and our review of the Draft Report has been directly informed by our day-to-day experiences in commercialisation.

We have outlined our responses to the Draft Report under the headings below.

Introduction

Melbourne Ventures is pleased to see that careful consideration has been given to the very real challenges associated with commercialisation, and the need to set expectations appropriately in this area. In particular, we endorse the draft report's finding that "The increasing policy imperative for commercialisation is built on an overly pessimistic view of Australia's capabilities" (Overview, p. XXVI). From our vantage point at the coalface of technology commercialisation we share the Commission's view that much successful commercialisation has taken place in Australia in the recent past which has not been widely appreciated or celebrated. Furthermore, we note that even in the past 3-4 years many universities have substantially improved their commitment to this area. This trend is not yet manifest in the DEST research commercialisation data used by the Commission, which is in many cases of 2002 vintage.[1] We believe that a lack of self-belief in our ability to succeed remains a powerful impediment to more vibrant commercialisation activity.

We also agree, perhaps surprisingly, with the Commission's view that "placing undue emphasis on commercialisation may have unintended effects" (Overview, p. XXVI). Whilst we are ardent

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advocates of the importance of commercialisation, in our view the level of attention given to commercialisation in public discourse has created a false impression that commercial considerations are (or should be) driving the majority of research activity. In fact the reality is that the number of new patent filings (an admittedly narrow definition of commercialisation activity) at the University of Melbourne comprises less than 1% of the University's total publication output, and royalty income equates to a few percent of total research income (which is similar to the experience of universities worldwide). Commercialisation is thus a niche activity within the University enterprise in numerical terms. Nevertheless it is a vital niche that can significantly impact the broader institution and economy. Commercialisation activity can drive meaningful and long-lasting relationships between Universities and industry: witness the relationship of over 20 years between the University of Melbourne and Cochlear Ltd, which was spawned through commercialisation of a University-developed invention but has since grown to encompass a wide range of mutually beneficial interactions, and generated considerable economic wealth. Commercialisation activity serves a vital role in extending and reaching beyond the boundaries of a university, and thus fills a critical niche within the institution, but over-stating its role and impact merely leads to disappointment and a perpetuation of the pessimism noted above.

Stimulating the conversion of ideas to opportunities

Our experience on the front line of commercialisation makes us acutely aware of the gap in support available to develop technologies which are on the cusp of being "industry-ready". The Group of Eight recently proposed the establishment of a dedicated "Innovation Stimulation Fund" to address this gap, and this proposal received strong support from the House of Representatives Standing Committee on Science and Innovation.[2] Whilst we note the Commission's view that further detail should await the outcomes of BIHECC's study in this area, we believe the case has already been well made. There are good international precedents for a scheme of this type; one example being the proof of concept funds created by the UK government's Higher Education Innovation Fund (HEIF) Rounds 1-3. For example, the White Rose Technology Seedcorn Fund established with funds from the UK government's University Challenge initiative has invested in 18 companies, many of which have gone on to raise further investment in follow-on rounds.[3] We would urge the Commission to strengthen its support for this type of proposal (pp 6.53-6.55).

Capability building for Technology Commercialisation

We commend the Productivity Commission for noting the importance of critical mass in commercialisation (p 6.52) – in our experience it is extremely difficult to find all of the skills required for commercialisation in a single individual (or even in a small group). Quality commercialisation requires a diverse mix of skills in Intellectual Property, Market & Technical Assessment, and finance and law. There is a strong argument to focus support and effort on a smaller number of larger commercialisation groups to ensure quality outcomes are achieved. Certain universities in the UK have already successfully adopted this model, for example WestFocus, which is a consortium of seven universities in South and West London and the Thames Valley that have joined forces to build critical mass for innovation support.[4] Closer to home, Australian universities have also begun to collaborate in certain areas of commercialisation, e.g. through the pre-seed venture capital fund Uniseed, which is a joint venture of the Universities of Queensland, Melbourne and New South Wales. This is a trend which we believe should be encouraged, and we support the Commission's draft conclusions in this area, but would further recommend that the Commission explicitly recognise the need for this principle to be reflected in the design of any future funding scheme.

Towards improved CRC models and complementary programs

We agree with many of the Commission's findings with regard to the CRC program (p 9.52ff). In particular, we are concerned at the excessive management and legal overhead which has evolved in such centres, as the balance of risks and returns has shifted over time. The University of Melbourne's experience is that negotiations to establish CRCs are long and complex. For example,

its involvement in the 2004/05 round (in which it was involved with 4 successful applications, although it ultimately only participated in 3 CRCs) took more than 900 hours of negotiation of complex, voluminous legal documents which if outsourced would have cost in the order of $0.75M.

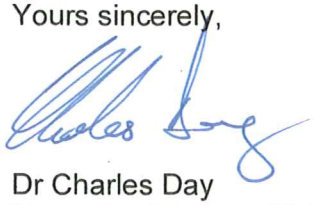
We would welcome initiatives to simplify and streamline the structural design of CRCs, and examination of more flexible, complementary models for collaboration, as well as better co-ordination between different arms of government on this matter (e.g. between the CRC program and the Australian Taxation Office).

Taxation reform – a missed opportunity?

Whilst we welcome the Productivity Commission's highlighting of Tax issues in commercialisation (p 6.46 in the Draft Report), we are disappointed that these issues did not receive greater prominence. The 2006 IPRIA report[5] mentioned by the Commission lays out a number of challenges in the current tax system which are very familiar to us from daily experience. Effective tax reform could both reduce obstacles to commercialisation, as well as creating powerful incentives to make it happen. Whilst we recognise the complexity of any tax reform, we would urge the Commission to raise the prominence of tax issues in its final report.

I wish you well with your further research, and please don't hesitate to contact me should you have any further questions or if I can be of assistance in any way.

Yours sincerely,



Dr Charles Day
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"Technology Commercialisation for the University of Melbourne"

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[1] National Survey of Research Commercialisation, Years 2001 and 2002, DEST, 2004.
[2] Pathways to Technological Innovation, Standing Committee on Science and Innovation, 2006
[3] www.whiteroseseedcorn.com
[4] www.westfocus.org.uk
[5] Rider et al, IPRIA Report 01/06, 2006