



**Opening Statement – Senate Economics References Committee
Inquiry into Australia’s Innovation System**

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CSL is an Australian-based, multinational, speciality pharmaceutical company. We develop, manufacture, and market biological products to treat and prevent serious medical conditions.

CSL began in 1916 as the government-owned Commonwealth Serum Laboratories. We were privatised in 1994.

We are now a \$45 billion company, employing more than 13,000 staff in 27 countries and have substantial manufacturing operations in the US, Germany, Switzerland and here in Australia.

Research and development are critical to our business and each year we spend around 9% of our revenue on R&D, that’s around \$700m Australian dollars. We are the largest private investor in R&D in Australia.

We are also the only manufacturer in the ASX 20.

I would like to focus these remarks on two areas of particular concern to CSL for which we have reform proposals. Both of these relate to Australia’s ability to commercialise our intellectual property.

Too often it is either not translated from an idea into a product or, goes offshore for development at a very early stage and Australians miss out on the real economic payback and the employment and multiplier effects that come from manufacturing.

I will draw upon CSL’s own experiences, but much of what we are talking about is not sectoral, but applies to all industries.

To help address this, the first reform we would suggest is additional focus on *translational research*. It is important to take novel ideas to a stage where there is the potential for commercial interest – where the technical concept has been proven, but commercial viability is uncertain and commercial risk remains.

Only limited translational research occurs in Australian academia, so an appropriate way for the government to progress and increase the value of IP from early research is to specifically target a portion of R&D funding for translational research.

CSL recommends that around 20% of grants made from the new Medical Research Future Fund should be allocated for this.

This would increase the likelihood that the large investment that the Australian government makes in tertiary education and basic research would actually translate into product that can be taken through to market.

The second reform that we would like to propose, relates to the final stage of product commercialisation - large scale manufacturing for supply to global markets. This is by far the most important national opportunity to maximise the financial and employment returns from home-grown innovation.



We think it's important to encourage 'advanced manufacturing' to develop in Australia on a significant scale. We characterise advanced manufacturing as the production of innovative products for global markets. This will typically involve highly paid, highly skilled staff and significant local multiplier effects that flow to the community.

Advanced manufacturing is suited to Australia but Australia is not - *currently* - an attractive place for advanced manufacturing.

And because of this, other countries are reaping many of the benefits of Australian research.

Global competition tends to require scale economies for cost effectiveness – especially important in capital intensive activities like manufacturing. This means that innovative products – which will often be appealing to global markets, must be manufactured at global scale often in a single or small number of large facilities. This increases the competition stakes.

Australia has a modest domestic market which means that it will rarely make sense to manufacture solely for national demand. Our physical distance from the major global markets is also something of a disadvantage, but, as logistics become more efficient and a proportionately lower part of the cost of goods, this is becoming less relevant.

The combination of these two industrial economics effects means that absent a strong drive to make Australia a more attractive location, we can expect that innovative manufacturing on our shores will continue to decline.

CSL's contribution to this debate is by way of a recent real-life example.

Last year, CSL needed to decide on a location for a new manufacturing facility to produce a family of innovative haemophilia products through biotechnology manufacturing methods. This will be a platform technology for CSL, with other products to come in the future.

The value of the initial capital investment will be around half a billion US dollars and the economic value created to the local community will be roughly equivalent to what CSL contributes to Australia today.

A significant proportion of the R&D and scientific proof of concept work was done in Australia.

After a very thorough evaluation of all the global alternatives, including Australia, in a process that took almost a year, we decided to build the plant in Switzerland.

As you would expect, our review was thorough and we considered multiple criteria, including labour costs and productivity, availability of skilled resources, industrial relations and corporate tax and other governmental charges.

We are very comfortable with the decision in the interests of CSL shareholders (roughly 50% of whom are Australian domiciled), but it does raise questions about Australia's competitiveness for these projects.

Perceptions of our industrial relations environment and a generally high cost structure are unhelpful, but one of the most significant impediments to Australia's competitiveness, at least as a location for advanced manufacturing for export markets, is its high corporate tax rate. The relevant corporate tax rate for footloose projects is fully three times that of some other jurisdictions that are suitable targets for new investment.

CSL believes that Australia should introduce a very specific and highly targeted differential corporate tax rate of not more than 10% for new advanced manufacturing.



Its aim would be to capture investment in Australia that would not otherwise take place here. As such, it seems to make sense that Australia should look to gain revenues of 10% or something, as opposed to 30% of nothing.

It should be an incentive focussed on Australian IP and Australian manufacture with specific qualifying requirements

We have articulated this proposal at length in various papers and I would be happy to provide those to the Committee.

Conclusion

Senators, in conclusion, when Australia earns royalties on '*invented here*' but does not get the returns on '*made here*' it does not secure the full range of benefits from its innovation system.

In a way, Australian taxpayers are underwriting the R&D for others to reap the really big economic benefits that flow from commercialisation.

An enhanced focus on translational research and an Advanced Manufacturing Tax, would encourage this very specific, but very lucrative type of investment in Australia and it would capitalise on the enormous ongoing investment that the government is making in R&D.

Finally, CSL would be delighted for the Committee or individual Senators to visit either of our R&D and manufacturing facilities at Parkville or at Broadmeadows.

We are very happy to answer any questions that Senators may have.

Thank you.
