

As a nation, we have spent and continue to spend billions of dollars on education, research and development. It is now imperative that this intellectual property be commercialised for the benefit of the many stakeholders. The stakeholders include our economy, Australian businesses, entrepreneurs, educational and scientific institutions and the individuals from whence the intellectual property emanated – the scientists, researchers, technologists and entrepreneurs. We are dealing with a largely untapped national asset. By realising the commercial value of our intellectual property assets in the most strategic manner, we will also guarantee the wealth and social fabric of future generations of Australians.

Our organization subscribes to the views of Lester Thurow, the former Dean of MIT, Sloan School of Management who said last decade *“In the coming century there will be a historic movement in wealth away from Nations with natural resources and capital. In the twenty-first century brain power and imagination, invention and the organisation of new technologies are the key strategic ingredients.”*

In the Australian investment and financial markets a gap has existed in funding of initial commercialisation of innovation, science, research and technology and early stage company growth. In addition, a further gap has existed in our national ability to collaborate across multi-disciplines to assist science, research and technology to commercialise and to encourage and facilitate the growth of smaller and emerging businesses to take advantage of the many global opportunities that exist. These gaps are very real for nascent companies. Whilst the current Government has commendably initiated a number of actions to correct deficiencies in funding markets much still needs to occur in relation to:

- Channel;
- Distribution;
- Building *current* examples of successes which can be capitalised on and create investment interest and demand;
- Developing entrepreneurial talent;
- Creating footprints in strategic market sectors overseas so these companies can pull through other Australian companies (this is a strategy that Israel has been good at);
- Removing structural barriers and impediments to investment;
- Building Australia’s profile as a nation that can innovate and create business opportunities from its innovation.

The Industry of the Emerging Companies and its Opportunities

There are many reasons for engaging in commercialisation and attracting investment capital into Australia. These reasons include improved economic productivity, entry into new industries, access to new markets and increased ability to compete in an ever changing global environment.

Australia has many assets. These include education, health, intellectual property, know-how, economy, environment, political stability, technology, financial systems and quality of lifestyle. Recently Columbia University’s Center for International Earth Sciences Network (CIESIN), the Yale Center for Environmental Law and Policy and the Global Leaders for Tomorrow Environmental Task Force of the World Economic Forum, ranked 122 countries against an

'Environmental Sustainability Index' (refer www.ciesin.columbia.edu/indicators/ESI). The results of this survey demonstrate the strong correlation between a nation's environmental quality, economic development, social health, citizen welfare, and land productivity. Australia was ranked in the top ten.

Emerging Industry Challenges

Emerging industries face specific areas that require active collaboration of skilled people who recognise the value of other disciplines and who have similar motivation. As Henry Ford said *"Individuals make a successful enterprise – not Institutions"*. I would put a twenty first century spin on this and say, *"Individuals take positions of global leadership – not Institutions"*.

Collaboration is the cornerstone of what is required between Public Sector and Industry which includes small to medium size businesses as well as multinationals, Scientists and Researchers, Financial Institutions and specialist commercialisers and entrepreneurs to work together in a win-win manner.

Critical to this process of collaboration is building a network that sustains the effort and inputs required, as well as leverages and captures the knowledge, expertise and experience of these hubs. This allows frameworks to be built, which add to the collective knowledge base, intellectual property and talent pool.

Many of the barriers faced as a sector need intelligent thinking, systems and collaborative effort. These include:

- Regulatory barriers imposed by major trading partners and lack of uniformity of regulation;
- Independent verification processes regarding robustness of claims, scalability, effectiveness of new technologies;
- Preparedness of Australian companies to adopt "Made in Australia" technology early. Perhaps an incentive programme needs to be built. I find it hard to commercialise and get interest in companies and technologies which no-one in Australia is prepared to back as they don't have the risk profile or willingness to trial the new even when risks are isolated and removed;
- Co-operation between industry players domestically which includes both government and corporate sectors;
- Leveraging of existing distribution channels;
- Strategic partnerships to enable clusters of smaller organizations to compete in overseas markets;
- Creation of new international distribution channels as our market is too small to support new businesses without significant exporting occurring;
- Strategic building of the International brand of Australia in relation to emerging companies – "ie how Ireland has built its IT brand;
- Using Alliances where ever possible to create a 'the peleton effect';
- Innovative financing of the various export opportunities that exist; and
- Ways to assist emerging companies with issues concerning growth, which include trade facilities, insurance and performance bonds.

Issues of Financing

"Lack of money is the root of all Evil" George Bernard Shaw

Capital is still hard to come by in Australia for emerging businesses. The VCLP - Venture Capital Limited Partnership Structure - (if approved and I hope it is by the Federal Government) should encourage greater flow of capital into Australia. The following potential barriers need to be examined:

- **Employee Share and Option Plans** – this needs an urgent review. This has been on the Governments Agenda for a long while but little progress. This is an issue for our client base, as they need to use equity to compensate for below market salaries. It is an issue for Venture Capitalists as they don't want to see large salary bills and need the management team incentivised with equity. In addition many of our clients cannot justify the legal and accounting costs of prospectus and getting this approved by ASIC (usual cost is min. \$50,000 with most costing up to \$150,000). Taxation of ESOP needs overhauling; it is not workable see next comment. Most overseas investors I have worked with have been amazed at the complexity of our ESOP rules.
- **Taxation of illiquid capital gains** – Many illiquid assets become taxable under CGT rules. This is unworkable and stops many companies engaging in growth and/or reorganizing their capital so that they have a structure that could be invested in by an overseas company. We need to have rules that illiquid capital gains are not taxed UNTIL they become liquid (ie as per US). Most overseas investors I have done transactions with cannot believe that we get taxed for much illiquid capital reorganization. Some simplification has occurred here but more is needed as it does not cover all the scenarios which are faced by businesses needing to reorganize for capital investment purposes.
- **Accounting standards** – if we are serious about creating global companies we should really look at adopting US GAAP. The cost of running two sets of books is prohibitive.
- **Export Financing** – increasingly we see companies, which cannot engage in any additional exporting because they have used up all their capacity at their bank. These companies should not have to use investment capital to grow their exports – investment capital should be used for expanding the business, entering new markets, acquisitions that can create the returns required by an investor. Currently letters of credit and trade facilities require security and many have no security cover left. We need to set up a better and faster system, which looks just to the export receivable as the security. This will require collaboration between insurance companies, banks and the government in some form of simple scheme.
- **Performance Guarantees** – many of our clients cannot expand operations, as they need to post performance guarantees overseas. They cannot do this, as they do not have the balance sheet or financial capacity so they are refusing export opportunities. Again I believe there is a simple solution that is some form of Government endorsement system with some insurance enhancement could overcome this.

All of the above can be summarised as characteristic of most of Australia's policies and structural guidelines which are set up with large corporates in mind. These companies can afford to lobby and be proactive in submissions to Government. Unfortunately growth companies are also captured and they are hampered from building, growing, transitioning and expanding (ie issuing a prospectus for Microsoft Employee Share Scheme versus one for a small company with 50 people and \$20 million in revenue moving overseas).

Other Suggestions

- We need to take positions of leadership. Good example is environment. This is a particular lucrative sector for Australia with much R&D, science, know-how and IP. However, in terms of policy we are seen as laggards with the US in terms of areas like Kyoto Protocol. Here is an industry where we could take and establish leadership but we need to do it now.
- We need to look at ways to encourage involvement of individual people who are suitable Mentors and/or Companies that have groups of people with requisite expertise and experience ie a number of our clients who are 'making it' allow emerging companies to utilise

some of their distribution or infrastructure assets. Skill set knowledge transfer is critical, which requires willingness to learn, contribute and disseminate.

- Involvement and collaboration of Industry Partners who can provide access to channel, technology verification, platform and additional resources as required in their areas of expertise and knowledge. This involvement speeds the path to market, reduces risk, enables early technology adoption and assists in getting early wins.
- Building and encouraging Executives and Entrepreneurs who have a passion for, commitment to and a track record of success in assisting, building and working with growth companies; experience and expertise in commercialising of technologies and who have professional skill sets, relationships and financial acumen.
- Simplifying IP protection systems and providing support so that nascent companies can afford IP protection before they export not after they have 'lost' the rights to their IP, as they could not afford the patents.

Lindley Edwards, June 2002