

HD Innovation and the digital economy

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Ladies and gentlemen, it is a great pleasure to be here today in the city synonymous with innovation.

This dinner symbolises the confidence we have in the existence of a near seamless interaction between Australians and Americans – firms, scientists, entrepreneurs and technologists.

The US is at the heart of global intellectual endeavour. Your research institutions are the most significant research partner of every country on earth. Our research scholars are in the top 10 of your global collaborators. You generate nearly 60 per cent of the world's venture capital. We respond with a substantial number of the 8,000 Australian firms operating here being beneficiaries of that.

Our mutual direct and indirect investment is surging – 10 times the value for either of us of what we invest in **China**, for example. Those are just stats. It's bright people who drive that and the drivers are around me tonight.

In the early 1970s, some of the world's best and brightest scientists, economists and others came together to write a book titled "The Limits of Growth".

This book, which had a profound impact on public policy for decades, predicted that the world would run out of many **energy** commodities, including **oil** and gas. Other books around the same time predicted the onset of a new ice age. Given that the reserves of all key commodities are today in fact much greater than estimated in 1970, what went wrong? A reading of the book will show that the authors took little account of innovation.

Similarly, as recently as the early 2000s, the US was expected to outstrip its natural gas endowment and become a significant gas importer. LNG import terminals were built up and down the gulf coast. Today, as a result of innovations in horizontal drilling and fracking, the US is awash with gas. Those same terminals are being turned around to use for gas exports.

An age of cheap gas is credited with sparking a renaissance in US manufacturing in fields such as plastics, fertilisers and petrochemicals. These stories reinforce the enormous significance of innovation to sustainable growth and prosperity.

For many people, innovation is something intangible; something very talented and bright people do. Yet innovation is simply a new method, a new idea, a new product, a better process or a solution – it is within the power of everyone to innovate. This is something enlightened companies and enterprises strive to capture. Empowering people on the 'shop floor' can ignite truly outstanding innovation and serious productivity gains.

The key is providing environments that both stimulate and foster creative thought, an environment where there is both a sense of personal opportunity but also responsibility – to think “How can we do this better?” These are places of **energy**, where people are empowered to identify new solutions, better ways of doing things, regardless of how small or incremental.

In a perverse way, the phenomenal success of countless start-ups in Silicon Valley has undermined the cause of innovation elsewhere. As a consequence of the Valley’s spectacular successes, the innovation quest has assumed a mystique which can prove both irresistible but also very narrow from a public policy point of view.

Governments, for instance, have time and again failed in top-down attempts to artificially create technology precincts, whereas successes have usually emerged in a far more organic, ‘bottom-up’ environment.

Innovation is seen by many as only associated with IT start-ups and **billion** dollar IPOs.

The role of government is not to be the primary font of innovation, but to create an environment which fosters it in an endless search for improvement in whatever we do. Smart governments seek to keep taxes at a level which leaves plenty of blue sky for people to strive for. This fosters risk taking, it fosters hard work, it fosters productive change, and it fosters innovation.

Prudent governments strive to live within their means, to keep taxes at a level that facilitates competitive trade, attractive investment and sustained innovation. They also seek to both minimise and reduce the web of regulations that can strangle a spirit of enterprise with costly and time-consuming compliance burdens.

The global financial crisis of 2008 has spawned a firestorm of new and unnecessary regulation in many developed economies, including Australia, which must be reversed if innovation is to thrive.

Like the enlightened enterprises I spoke of earlier, good governments look to put the onus on individuals to take personal responsibility for those things that they are equipped to influence, because change and innovation starts with each and every one of us.

It means encouraging choice and flexibility in the workplace and in so many other areas of our lives, because one size doesn’t fit all and government does not always know best. For individuals, it involves endlessly honing and applying the innate talents that you have been born with, whether you are good with your hands, or a strong left or right brain thinker, whether you possess musical or sporting skills or are a strong all-rounder.

Play to those strengths and don’t waste your life being preoccupied with your weaknesses and trying to prove that they are not. It’s why in strong communities, the talents of every individual are acknowledged, they are celebrated and nurtured. For organisations and companies, like individuals, the greatest rewards come from backing your strengths.

Those who succeed invariably have clearly identified what their business or organisation does best and then relentlessly sought to grow and adapt those strengths, to both innovate and to leverage advantage.

It is no different for a country. The most innovative and resilient economies are those which focus on their strengths and don’t waste precious resources, skills and focus propping up industries that other countries are better placed to provide.

It is these four principles that I have touched on which have shaped our policy agenda as a new government in Australia:

Living within our means

Freeing up regulation

Fostering a culture of personal responsibility; and

Backing our strengths as a country.

These principles are fundamental to fostering robust private sector led growth, driven by trade, investment and higher productivity, an environment where innovation can flourish.

There is urgency about all this.

The explosion of the middle class in the region around us, from 600 **million** today to 3.2 **billion** within 15 to 20 years, is a once in a millennium phenomenon.

Australia needs to position itself in a lean, highly competitive, highly focused way to capture the enormous opportunities that are in prospect in the region around us.

Following the policy framework dictated by the four principles of living within our means, reducing regulation, restoring a culture of personal responsibility and backing our strengths will achieve this competitive positioning.

Notwithstanding our trials and tribulations, we are well placed to achieve this transition. The performance of Australia's economy has been remarkable – 23 years of continued growth.

Our primary industries – agriculture, **mining** and **energy** – remain fundamental to our nation's future growth.

But make no mistake – Australia's is an unabashedly and undeniably modern and future-facing economy.

Our fourth biggest export industry is education. We welcome around half a **million** foreign students to our shores every year, who pursue secondary school, vocational training or study at one of our 39 universities – five of which are in the world's top 100.

In fact, Australia is the country with the third highest tally of top 100 universities in the world.

We are a knowledge-based economy, a smart, technologically savvy country with world-leading research capacity, and a reputation as innovative problem solvers.

Not surprisingly, this reputation for innovative problem solving stems principally from the industries and from the myriad of services that cluster around the strengths of our economy – those things that we do as well as anyone and better than most.

I'm talking about **energy** and resources, food and agriculture, education, health and medical research and tourism and hospitality. As a government, we will give priority to these strengths and the enablers that cluster around these sectors such as major infrastructure, logistics, transport, ICT and high-end manufacturing.

This strength is complemented by Australia's unique multicultural society. Nearly 30 per cent of Australians are overseas born and more than 2.1 **million** Australians speak an Asian language at home. The true strength of Australia, I believe, is this potent combination of the two – the old and the new, growing and developing together.

It is in fact in our great, traditional primary industries – **mining**, agriculture and **energy** – that we often see examples of quite spectacular technological innovation. For instance, in our Pilbara region of Western Australia, one of the world's major **iron ore mining** provinces, Rio Tinto has implemented a trial program where fully laden 'robot trucks', weighing as much as a fully fuelled Airbus A380 and as high as a two-storey building, are operating in **mining** pits, often within a few metres of workers. The trucks are controlled not from close proximity to the site but from Perth, more than 1500 kilometres away.

In water management, irrigation systems in the Goulburn and Murray River Valleys have had the most significant upgrade in over 100 years, using technologies, experience and expertise from innovative businesses, such as Comdain Infrastructure and SKM. This project, in one of Australia's crucial food producing areas, has reduced water use by over 30 per cent in the last 10 years and supported a \$9 **billion** industry, including \$1.5 **billion** of exports.

In the health sector and particularly in medical technologies, we also have great capabilities. At the University of Queensland's Australian Institute of Bioengineering and Nanotechnology, Vaxxas is hoping to achieve the "holy grail" of the vaccine industry – a pain-free way to deliver vaccines without needles and syringes. Its 'Nanopatch' is a silicon patch with thousands of small projections that are designed to hit abundant immune cells in the skin.

In 2012, the Vaxxas syndicate was judged the Best Venture Capital Investment at the Vaccine Industry Excellence Awards, held in Washington DC. Many of you may have also heard of an Australian **company**, Freelancer.com, the world's largest freelancing and outsourcing website for small business. Literally founded in a garage in 2008, it has followed the celebrated path of the likes of Apple and Microsoft to become a major global technology **company**. With about ten **million** members, it basically allows people to find a freelancer at low cost after posting their project requirements online. As an Australian, these examples are things to be truly proud of, but we can do much more to foster innovation and encourage entrepreneurs.

For instance, I'm interested in exploring ways to reduce the obstacles Australian start-ups face when taking their new and innovative ideas to market, through crowdfunding. Currently, in Australia start-ups can raise up to \$2 million of capital in a 12-month period without a disclosure document, but only from up to 20 retail investors and they are prohibited from advertising these small-scale offerings.

I'm following closely the progress of the United States' Jumpstart Our Business Start-ups Act which would allow entrepreneurs to crowd-source debt or equity and significantly reduce the cost of raising capital for start-ups by streamlining financial disclosure requirements. We are also reviewing how to reduce the barriers to employee share ownership which impede unlisted businesses wishing to offer equity to their employees.

The US of course remains one of Australia's key partners across trade, investment and innovation. Two-way trade between our nations is at an all-time high, having increased by over 38 per cent since our historic free trade agreement was signed in 2005. We have enjoyed a very close and very strong relationship with the United States for over 70 years.

Now we stand at the threshold of taking this to another level through collaboration – investment, knowledge and business partnerships – and the exchange of ideas across the region, as we enter the final stage of negotiations for the Trans Pacific Partnership (or TPP), with the 12 parties representing 40 per cent of global income and a market of some 800 million people.

The world economy is moving to integrate supply chains, using technology in ways that were unimaginable only 10 years ago, to foster cross border collaboration. To give you an example – while in LA this week, I met the heads of film production for several major studios. We discussed how Australian companies are successfully collaborating to pick up discrete parts of the film production process.

Today, a movie can be shot in one location, edited in a second country using technologies such as Adelaide's Cinesync; set to a sound score in a third; with post production digital effects added in yet another place by groups such as Sydney's Animal Logic. This will be the future of many industries – being part of a global supply chain, bound together by technological innovation.

In closing, it has been a real pleasure to be able to talk to you briefly today about Australia and what the Australian Government sees as the great strengths of our economy and where we are headed as a nation.

The US and Australia share an Asia Pacific destiny, strategically and commercially. Our economic ties are strong. IBM, Amgen, Eli Lilly and Boeing are only some of the US firms that have committed to establishing major research ventures focusing on innovation in Australia.

I hope today I have presented a strong case for considering my great country as an investment destination offering a highly skilled workforce that is adept at applying technology in our fields of expertise. More than many other nations, we understand that efforts to increase prosperity depend enormously on innovation.

I remember years ago when we were doing the US-Australia FTA we used to talk about the creation of an investment super highway. Driving down that super highway are enthusiastic, intelligent, ambitious and tech capable human beings. You are among the throng. You are our hope for an ever-strengthening relationship that holds the key not only for a better life for all of us, but for our newly hopeful, dynamic Asian-Pacific neighbours.

Thank you.

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