



THE HON KELLY O'DWYER MP
MINISTER FOR SMALL BUSINESS
ASSISTANT TREASURER



9 December 2015

Opening address to the Blenheim Partners and MGSM Insight Series, Sydney

Introduction

It is wonderful to be here at, I understand, the inaugural event for Blenheim and MGSM in launching this really interesting report which I had the good fortune to read through last night.

One of the great take-outs of this report for me was your analysis around risk and reward. Mathias Cormann, who I am replacing here today, clearly also did his own analysis of risk and reward given that his second baby is on the way and he conducted that with his wife and he realised that the risk was much higher than the reward hence me being here. It is very kind of you to give me such a warm welcome.

One of the things that I say, and I say often, is in our 25th year of uninterrupted economic growth we can't take our prosperity for granted. We are one of very few countries in the world that has had such a long run of economic growth and it is not something that is predestined. Our prosperity is not predestined. We need to have very clear vision of where we're going and we need to unlock the economic potential of our nation in order to make sure that our living standards can remain high and that our economy will continue to grow.

Economic priorities

The Government has a clear plan for stronger growth, to create more jobs and to repair the Budget. We want to ensure we are in the best possible position to take advantage of all of the opportunities that are coming our way. While being as strong and as resilient as possible in the face of inevitable global economic headwinds.

As a team and as a government, our focus is on making our economy more competitive, more productive and more innovative. This is a long term strategy that's designed to maintain and grow our prosperity. It is also a strategy that should be embraced by both sides of the House regardless of party, regardless of background.

Short term challenges

The Government in this respect is faced with the same challenges that face so many corporate boards. Three year terms are very short and four year terms are of course much better, and of course anybody who is elected to Government thinks terms should be so much longer than that. Extending parliamentary terms has been put to the Australian people before and the Australian people have said no to that.

Therefore, the Government of the day needs to juggle keeping the public happy making sure they go through that election cycle every three years whilst making sometimes very politically unpopular and difficult decisions to prepare the country for long term prosperity.

Major reform in the country has more often than not been met with very fierce opposition, but it is absolutely vital that critical reforms are pursued in the national interest. Australia's history has been littered with reform decisions that were incredibly unpopular at the time, but brave decisions were made and committed leaders and committed teams of governments implemented them.

Over time though these decisions have proved transformational, propelling Australia into one of the social and economic powerhouses of the world.

Consider: the floating the dollar; deregulation of banks; privatisation of government assets; cutting tariffs; major tax reform through the introduction of the GST and cutting personal income taxes and other taxes; the introduction of strict gun laws. These are just some examples.

Each of these reform measures faced extreme opposition – in fact John Howard was advised to wear a bulletproof vest when selling gun reform in Sale - and we expended, at that time, a significant amount of political capital. But, it is clear that each of these reforms paved the way for a higher quality of life in Australia.

Corporate boards face criticism similar to the Government and tough decisions need to be made on boards to ensure long term value creation are not being sidelined for the sake of presenting a positive set of short term numbers.

It takes strong leadership both in Government and the private sector to minimise the focus on the short term, to minimise the focus on that white noise to develop strategies for long term prosperity.

Overcoming challenges

The most recent economic growth figures show average growth this year to be around 2.5 per cent, exactly as we forecast in the Budget, before strengthening to 3.0 per cent in 2016 and 3.1 per cent in 2017.

While we're optimistic about the outlook moving forward, we are still dealing with a significant transition in our economy, and we are still facing economic challenges. Stronger economic growth means higher investment and an increase in jobs.

Last year our monthly job creation has been more than ten times than Labor created in 2013. The Turnbull Government will continue to focus on growth in our new policies with our free trade agreements that will support and underpin growth in jobs. We are of course keeping a very keen eye on international developments, particularly in China and Europe, as they will affect global outlook and global confidence which will inevitably have an impact in Australia. A number of developing economies have similarly hit a weak patch with the South African, Russian and Brazilian economies contracting. After coming off a high 10.5 per cent growth, the OECD's leading indicator for the Chinese economy fell to 97.2 from 97.6. A level below 100 signifies a slowdown while a level above signals an acceleration. This currently sees economic growth at 6.9 percent, before pulling back to 6.2 per cent in 2017.

As a trading nation, we do see that prices for our key commodities like iron ore, coal, oil and gas and others have fallen dramatically in recent times.

When we came into Government the iron ore price was at about \$120 a tonne, in last year's Budget it was at about \$90 a tonne, in the lead up, just before Christmas last year when we published our mid-year economic budget update, we downgraded our forecast to \$60 a tonne.

History has since told us that it would have been more realistic, with the benefit of hindsight, to have downgraded things a little bit more to around \$40 a tonne.

Innovation

Our assets in this country are not just below the ground, as our Prime Minister is fond of saying, our greatest asset is our people and our greatest asset is our intellectual capacity.

A transitioning economy and rapid developments in science and technology are changing the traditional jobs and industries not only Australia-wide, but world-wide as well.

We can't rely on the old industries and business models if we are to make the most of the opportunities presented by our new global economy. As a country, we must embrace an entrepreneurial and innovative mindset to create an agile economy and prepare for the jobs and industries of the future.

A strong innovative ecosystem is one that supports the key drivers of competitiveness, productivity, economic growth and higher living standards. There is overwhelming empirical evidence of the importance of innovation to the Australian economy.

First, innovative businesses play a disproportionately large role in the economy. In 2012-13, only 42 per cent of businesses with at least one employee were innovative. But these businesses accounted for around 70 per cent of total employment, capital expenditure and business income.

Second, innovative businesses compare extremely favourably to businesses which don't innovate. They are 31 per cent more likely to grow their income and 46 per cent more likely to report increased profitability; and three times more likely to increase the range of goods and services they offer in the market.

Third, the activities undertaken by innovative businesses have the most potential to bring about positive spill-over because they demonstrate the benefits and lower the costs of adopting new technologies; they encourage the spread of knowledge and stimulate other businesses to innovate in work to compete; and we know that for every \$100 million invested by business in research and development they are estimated to return between \$150 and \$200 million to the economy.

Australian innovation agenda

In the decades ahead, innovation is going to play a key role in lifting Australian productivity and economic growth and support our living standards. It will help create new jobs and help position Australia to take advantage of new technologies and seize new opportunities.

We have in this country got world-class universities and one of them is partnered today in producing the report that we have before us, and these universities produce leading-edge, internationally recognised research, year in, year out.

But the problem is that this significant effort is not translating into the commercial outcomes that our \$9.7 billion annual investment in science and research can potentially generate.

A key question and a key reason is the collaboration between industry and our researchers is not as great as it can be. Australia lags well behind other OECD countries in the proportion of businesses that collaborate with research institutions on innovation.

Consequently, there is a gap. For our industries to be globally competitive, Australia does have to improve its ability to secure economic payoffs from publicly funded research. Which is where the Prime Minister's release of the Innovation Package comes in. The key to doing that is to foster cultural change and greater collaboration between the two sectors.

On an international scale, there are many case studies that were looked at. Programs that paved the way for greater Australian collaboration to foster better innovation, including:

Germany's one example with their 'SIGNO' program; Israel's 'MAGNETON' program encourages technology transfer from research institutions to business through collaboration by funding joint projects; the UK's The Catapult Program is another example.

Locally, the Government spends around \$225 million Industry Growth Centres and that will help increase collaboration between industry and will help boot our innovation potential.

At the same time, the Government recognises the need to provide a comprehensive policy framework for all our innovation efforts.

Crowd-sourced equity funding in my space will be available for public companies, provided they fall within the assets and turnover cap of \$5 million.

By introducing this crowd-sourced equity funding framework the Turnbull Government will open up new funding avenues for start-ups and will help to grow small businesses whilst still providing very strong protections for investors.

Conclusion

We are dealing with a significant transition in our economy, and given all of the external challenges we're facing, we are continuing to grow. Our economic plan for stronger growth is focused on more jobs and making sure that our economy performs better than other economies in other parts of the world and that is good news. We will continue to focus on this and getting the economic settings right, the tax settings right, to make sure that we can unlock that growth and potential. We maintain focus on the long term prosperity of the economy and we are looking to the long term to make the right decisions in the national interest.

Thank you.