

Crunch hits R&D and start-ups

Sophie Morris and Ben Potter

Big pharmaceutical companies are warning the Rudd government that many breakthrough medical technologies will be lost unless it offers funding to support research and development that is being threatened by the credit crisis.

A high-level pharmaceutical industry committee appointed by Innovation Minister Kim Carr has recommended a new program to replace the \$700 million Commercial Ready grants that were controversially axed in the budget in May.

The *Australian Financial Review* understands that a 150-page report was delivered to the minister last week recommending new competitive grants of up to several million dollars each to support companies commercialising research.

The review comes as the venture capital industry seeks additional federal government support to cope with the effects of the financial crisis on technology companies in early stages of development.

The Australian Private Equity & Venture Capital Association has asked Senator Carr to make \$150 million to \$200 million sitting in existing innovation funds available to second and third stage development companies.

These are companies with initial funding that have achieved required milestones but not self-sufficiency.

Katherine Woodthorpe, chief executive of Avcal, said Avcal understands that the government has received between \$150 million and \$200 million from successful investments via industry innovation funds under a separate program.

"We believe that in this very difficult time that it would be a good thing to recycle that money back into the venture capital industry," Dr Woodthorpe said. Start-up companies in life sciences, information technology and clean technology are struggling as potential customers reduce discretionary spending and capital becomes scarce.

A spokeswoman for Senator Carr said that "we are aware that as a direct result of the global financial crisis there are some serious issues about the flow of capital for innovative companies and the minister is very happy to look at proposals from venture capital groups".

The pharmaceutical industry committee has recommended to Mr Carr in its report that there should be two categories of grants — one for big pharmaceutical companies and another for smaller start-ups. The report is believed to argue that extending the assistance to bigger firms would help maintain pharmaceutical industry jobs in Australia at a time when the government is concerned about rising unemployment.

The committee that devised the proposal for a new grants scheme was co-chaired by the chief executive of CSL, Brian McNamee, and a departmental official, and included representatives from AusBiotech, the Generic Medicines Industry of Australia, Medicines Australia and unions.

The chief executive of AusBiotech, Anna Lavelle, said there was an urgent need for government intervention to ensure that promising R&D was not lost due to lack of funds.

"If the government does not step in with a rescue package, they will go. We need to make a decision as a country to help those companies survive the next 12 months," she said.

The committee is understood to have recommended that commercialisation grants of up to several million dollars each should be offered to firms that meet strict criteria and have proved their research concept but need support to get it to market.

The government's review of innovation chaired by Terry Cutler recommended a scheme offering repayable grants of up to \$700,000 to help high-risk start-up firms in development stages.

But the committee has argued that further support is needed to take the research from proof of concept stage through the "valley of death" to the point when a discovery can attract investors.

The Commercial Ready scheme was axed in the federal budget in May to save more than \$700 million, although some of this funding was redeployed for climate research. Dr Lavelle said the scheme had been highly successful and the industry was disappointed it had been scrapped.

Farmers d

Sophie Morris

The close relationship between farmers and banks that has survived years of drought has been tested in recent months as farm groups claim banks are not passing on interest rate cuts in full to farmers.

Rural debt has more than doubled since the drought began in 2001 — leaping 14 per cent to \$58 billion in the past financial year as fuel and fertiliser prices climbed and farmers banked on the prospect of a good season and an agricultural boom.

But farmers have since watched commodity prices slide, and drought in some regions and heavy November rains in others threaten the harvest of what had been a promising winter crop.

And despite assurances from the banking sector at a rural finance summit hosted by Agriculture Minister Tony Burke in October that they would promptly pass on interest rate cuts to rural borrowers, farmers say not all banks have done this.

Mr Burke again raised the issue in parliament when the Reserve Bank of Australia last cut the official cash rate on December 2, after concerns that the November cut had not been passed on to agricultural loans and overdrafts.

Several of the big banks immediately passed on the December 1 percentage point cut to small business loans, including those of farmers.

But National Farmers Federation economist Charles McElhone said that while a number of banks had passed on some or all of the December rate cut, there were still concerns that some farm loans were not receiving the same treatment as home loans, which were in the public spotlight.

He acknowledged banks might face different borrowing



Rural debt ha

KEY POINTS

- Farm groups are failing
- They say worse than

costs in the climate and between banks still "robust".

"There is a pass-on of loans to farmers we would possible of passed through."

"There is a transparent small business and it can track."

These concerns by Victorian agriculture pres who said delays in the November

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