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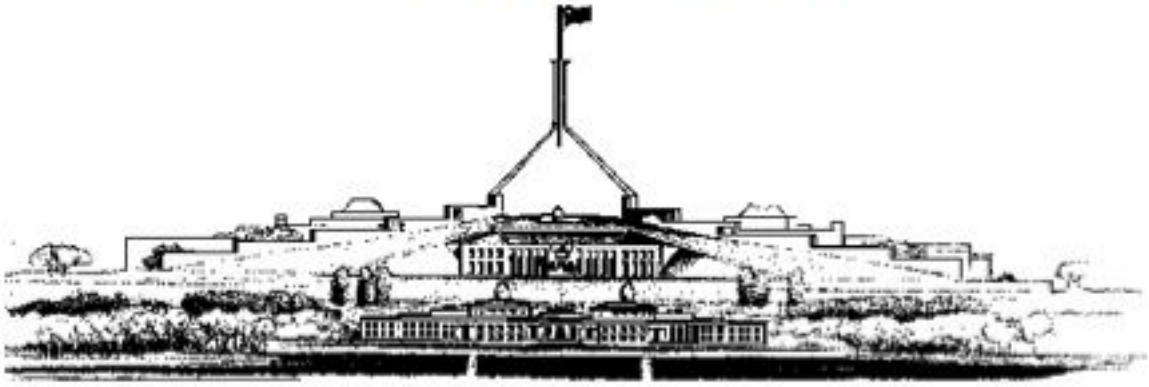

HOUSE OF REPRESENTATIVES

Federation Chamber

BILLS

Appropriation Bill (No. 1) 2015-2016, Appropriation Bill (No. 2) 2015-2016, Appropriation (Parliamentary Departments) Bill (No. 1) 2015-2016, Appropriation Bill (No. 5) 2014-2015, Appropriation Bill (No. 6) 2014-2015

SPEECH

Wednesday, 27 May 2015

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Questioner		**Responder**	
Speaker	Fletcher, Paul, MP	**Question No.**	

Mr FLETCHER (Bradfield—Parliamentary Secretary to the Minister for Communications) (18:16): I am pleased to rise to speak in this debate on the appropriation bills. In the time available to me I would like to focus on three particular issues. Firstly, to highlight the fact that the budget contains a number of measures to boost small businesses and start-up businesses. Secondly, to highlight the importance of start-up businesses. Thirdly, I would like to draw a distinction between the coalition's approach to supporting start-up businesses and that of the Labor Party.

I turn first, then, to the measures to support start-up businesses in this budget. These are of great importance because in any country with a successful technology sector the role of start-up companies is critical. If we can lift our level of start-up activity in Australia the economic benefits will be significant. This budget contains a number of measures to stimulate the start-up community and entrepreneurship. We have committed to streamlining business registration processes to make it quicker and simpler to set up a new business. Starting a new business is not easy but governments can do a lot to make the path easier for Australians who are prepared to have a go. The government are going to develop a single, online registration site for business registration including company registration. We will allow start-up companies to immediately deduct professional expenses incurred when they begin a business, such as legal expenses on establishing a company trust or partnership, rather than the present situation in which you write them off over five years. This, again, will provide immediate cash flow benefits.

Employee share schemes are vital for start-up businesses. The previous Labor government, unfortunately, was hostile to employee share schemes. Its tax settings made such schemes unattractive to offer or to participate in. The coalition has a very different attitude. From 1 July there will be expanded tax concessions for employee share schemes to make it easier for small start-up companies to attract and retain the talent they need to grow. Start-up companies in the early stages of growth will face a lighter tax burden. For companies with an annual turnover of less than $2 million the company tax rate will be cut by 1.5 percentage points to 28.5 per cent. Start-ups will also benefit from an important stimulus measure for businesses with an annual turnover below $2 million. Between now and the end of 2016-17 any asset worth up to $20,000 purchased by a small business will be immediately deductible in full, again, giving a significant cash-flow boost.

The government have also announced that we will be removing obstacles to crowd sourced equity funding, that is to say, using the internet to raise equity for new projects or business ventures often involving relatively small amounts raised from large numbers of people. In other countries this is an increasingly important source of funding for start-up businesses, but presently there are regulatory restrictions that limit its availability in Australia.

We have also announced changes to the significant investor visa, with applicants for this visa now required to invest at least $500,000 in eligible Australian venture capital or private-equity funds—that is to say, funds which invest in start-up and small private companies. Clearly, this budget is a start-up budget to support our growing start-up sector. Let me turn to why start-up businesses are so important.

In the technology sector, around the world, start-up companies form a critically important part of the growth cycle. A start-up is a company formed from scratch, typically with the aim of commercialising some technology. It might be software, medical technology, biotechnology or renewable-energy technology. The most successful start-ups grow at extraordinary rates. Google, for example, was founded in 1998 and by 2014 it was the third-largest company in the world by market capitalisation.

Start-up companies have a hunger and dynamism that older and more bureaucratised corporates often lack. The companies that have built significant scale are the most visible. But there is vigorous activity among earlier-stage technology-sector companies in Australia. If, for example, you visit the tech-sector co-working space Fishburners, in Piermont, you feel a palpable sense of energy and dynamism. You notice the diversity of the people there and the many start-up businesses that are working to get off of the ground.

One such business is Wattcost. As founder David Soutar explained to me, their product will let you monitor your home-power usage on your mobile phone without needing complicated installation. Many similar co-working spaces to Fishburners are springing up around the country as an increasing number of Australians of all ages, but particularly young Australians, choose to start businesses rather than join an existing corporate.

One young Australian I met recently, Sam Crowther, has created a technology solution for easier and safer website login and user authentication. His technology, Kasada, eliminates the need for passwords. It allows a photo taken by the user to be turned into a unique key. At the age of 19 Sam is currently in Silicon Valley, signing off on an integration into a global networking company.

Other examples I have seen recently are numerous. I have been very impressed with the work of Chris Gilbert and Jonny Wilkinson, for example. They are the cofounders of Equitise Crowdfunding Australia. Chris is an ex-Deloitte consultant and Johnny is an ex-Citigroup analyst. Chris and Jonny left their corporate jobs to start Equitise, an Australian crowdfunding platform, which was officially launched in New Zealand late last year by Chris. The pair had initially intended to launch the platform in Australia but after the recent changes to New Zealand laws, legalising crowdfunding last April, Equitise went ahead with a New Zealand launch.

Current legislation in Australia means equity crowdfunding platforms do face some significant regulatory barriers but, as I mentioned earlier, the budget contained an announcement that the Abbott government intends to remove obstacles in Australia to crowdsourced equity funding. This means that people like Chris and Jonny will not need to set-up shop in New Zealand to run a crowdfunding platform serving Australian investors and clients.

Another strongly emerging trend is the significant support coming from big corporates working with start-ups. Last week I visited Telstra's accelerator, muru-D, based in Paddington, in Sydney, which is home to a diverse range of start-ups. Those businesses that secure a spot in muru-D join for six months. They receive tailored support from Telstra, including legal services and access to specialised skills within Telstra, such as their user-experience team. Telstra provides a cash contribution and, in return, takes an equity stake.

I had the opportunity to speak to the CEOs of a number of businesses at muru-D—for example, the founder of Freight Exchange. This is a digital marketplace that enables long-distance freight carriers to connect seamlessly with their customers to sell their excess capacity. There is Disrupt, a business that is selling custom-made surfboards using 3D modelling—all delivered through digital sales channels. Both of these CEOs spoke very positively about the benefits their businesses have enjoyed from participating in the muru-D accelerator program. This trend of large corporates supporting start-ups is very much to be encouraged.

A number of iconic Australian organisations are involved in similar innovation initiatives. For example, both the Commonwealth Bank and Qantas are working with TechBeach, a commercial accelerator based in Manly. I had the opportunity to visit TechBeach earlier this month to chat with its CEO and co-founder, Darren Younger.

Another trend that is very evident in the start-up space is an increasing focus on fintech—that is to say, the digital transformation in financial services. The new Sydney fintech hub Stone & Chalk is an illustration of this trend. This is an independent not-for-profit fintech hub, with the objective of helping to foster and accelerate the development of fintech start-ups.

Stone & Chalk has received seed funding from many of Australia's largest financial institutions, including ANZ, HSBC, Macquarie Group, Suncorp and Westpac. It is chaired by the former CEO of the AMP, Mr Craig Dunn, who, I am very pleased to say, is a constituent of mine in the electorate of Bradfield.

There is clearly significant activity in the start-up sector and, in my judgement, that activity level amongst Australian start-ups is increasing, which is to be welcomed.

How then does the approach that the coalition is taking in this space contrast with the approach of the Labor Party? In his budget reply speech two weeks ago, the opposition leader announced a plan for a $500 million smart investment fund. We all want to see more Australian tech sector start-up companies grow into large, successful employment-generating companies with a sustainable market position, much like SEEK, the company that the opposition leader cited in his budget reply speech, and other success stories such as, just to name a few, Cochlear, Atlassian and REA.

The opposition leader's proposal, I am sorry to say, was a little bit light on detail. To start with, he did not say where the money will come from. This measure was unfunded, as were the other measures he advocated in his speech which, in total, if implemented, will cost taxpayers many billions of dollars. Nor was there much detail about how the proposed smart investment fund would work, apart from the opposition leader saying that it would 'partner with venture capitalists and fund managers to invest in early-stage and high-potential companies'.

This sounds much like the Innovation Investment Fund, which ran from 1997 until new funding was withdrawn in last year's budget. But the opposition leader failed to tell us how he would overcome the difficulties that the Innovation Investment Fund experienced in its later years under the Labor government. Certainly, the Innovation Investment Fund—I need to be very clear, Madam Deputy Speaker—had some significant early successes after it was established earlier in the Howard government years. For example, in round 1, not only was there funding of SEEK, as the opposition leader noted, but there was also the funding of LookSmart, which was one of the early search engines. That proved to be a very successful financial investment.

But, over time, the financial performance of the IIF deteriorated very significantly—that is to say, the success rate on investments dropped very sharply. Then a really quite significant development occurred in 2013. In 2013 the then Labor government announced that there would be $100 million of public money invested through the IIF, in conjunction with three private sector managers. One was to get $40 million; the other two were to get $30 million each. They were then to go out into the private sector, raise matching private sector capital and then set up in operation new funds to invest venture capital.

Unfortunately, two of the three private sector managers failed to raise the matching private sector capital and, as a consequence, those funds did not go ahead. This reflects the reality that venture capital, as an investment class in Australia, has generated poor returns over the last decade or so, making many investors reluctant to put money in. I want to be very clear about what I am arguing here. I am certainly not arguing against venture capital as an investment class. On the contrary, I think most people who look at the technology sector and start-up sector in Australia believe that we need to increase the amount of venture capital in Australia. So I think we can all agree on the objective. If the particular policy measure that the opposition leader proposed—that is to say, putting in $500 million of government money—is to be taken seriously, we need to have an answer as to how it will overcome the difficulties which had been experienced with similar programs under Labor government control in the past.

It is certainly the case that some very successful technology nations—and I am thinking here particularly of Israel—have seen significant public sector investment into venture capital. The well-known book about the technology sector in Israel entitled *Start-up Nation: The Story of Israel ' s Economic Miracle* gives more detail on that. I am sure that the member for Gellibrand will have more to say on this topic in his forthcoming book. I look forward to reading it. I am sure it will be available in all good bookstores and I am sure it will sell even better than recent books about the IT and technology sectors in Australia.

Nevertheless, the obvious question that arises is whether a Shorten Labor government would do a good job of getting a good return on publicly invested venture capital. When you consider Labor's track record and approach in funding technology during the Rudd-Gillard-Rudd years, we repeatedly saw poorly designed hastily conceived schemes to pump billions of dollars of taxpayers money into government owned behemoths such as the $43 billion National Broadband Network Co and the $10 billion Clean Energy Finance Corporation. Rather than stimulating the private sector, the policy objective seemed to be to drive the private sector off the field.

A key point here is that the Abbott government has the focus on stimulating private participants and attracting private capital into the technology sector. Some of the policy measures in this year's budget that I described earlier are very much designed to encourage further private sector activity. By contrast, the Leader of the Opposition is proposing yet another government administered fund, but he has failed to explain how it will help towards an objective of boosting the private venture capital market.

Let me conclude with the observation that Australia's start-up community is larger and more active than ever and needs very much to be encouraged. There is no disagreement that we want to boost the tech sector and start-up activity. We have a set of practical measures in this year's budget that are designed to achieve that objective. I commend those measures and the budget to the House.