



Made in Oz an industry worth a song and dance

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At the recent Eurovision Song Contest, the semi-finals opened with the anthem, *Made in Switzerland*, honouring the iconic products of the host nation. Surrounded by dancing dairy cows, the chorus celebrated Switzerland's role in creating the internet, the garlic press, fondue forks, cellophane and much more.

It was a reminder of how countries, regardless of size, can produce world-changing goods if they harness human creativity, capital, and a dose of ambition. Sadly, many Australians believe we have little to sing about when it comes to manufacturing. The common lament is the Australian economy "digs things out of the ground, but we don't make anything here anymore".

We need to put this notion to bed. It's simply not true: manufacturing is our sixth largest industry and produced \$137 billion of output while employing 930,000 people last year. But equally important is the fact we need to urgently improve the position of our manufacturers in global manufacturing value chains to sustain the standards of living that make our country the best place to live.

Australian manufacturing has quietly risen to the challenges of global competition. Increasingly, when global customers need reliably high-quality goods, whether in medical devices, vitamins, food, or complex manufacturing, they are turning to Australia due to our exceptional production standards. However, we need to supercharge our national capacity to commercialise research and development so we can build off our increasingly advanced manufacturing base.

We face a confluence of disruptive forces: great power competition between China and the US is reordering international trade and supply chains. Meanwhile, technological disruption is generating a global race to seize segments of global value chains by leveraging new national comparative advantages. The extent to which a nation's businesses can apply AI and human-machine pairing to production will be powerfully determinative of whether a country can maintain or grow its role in value chains.

The environments countries create to mobilise money and innovation will be vital to future prosperity. The intensity of business R&D in Australia has fallen to a two-decade low, constrained by skilled labour shortages, our rigid workplace relations system, and an uncompetitive tax system. Even in large multinationals, Australian branches are routinely

losing the internal battle for R&D budget to overseas peers. Apart from being a small market where ideas can be sent to be tested and fail with little global consequence, we need to offer much more to attract serious international capital.

Manufacturing is a rare standout in our innovation economy, reinvesting 4.2 per cent of its value-add back into R&D. But with the economy-wide rate languishing around 1.0 per cent, we need to build off the successful base manufacturing has demonstrated.

We should introduce business revenue-based financing for IP commercialisation. Think HECS for R&D: government loans to fund research which are repaid as a percentage of future product revenue. This would align financing with the commercial life cycle of IP development, offering financial protection during the periods between innovation and market success.

We should introduce an industry-wide patent box system. The government has explored giving medical and biotechnology businesses a reduced tax rate of 17 per cent on income derived from IP they patent and commercialise here.

These systems help incentivise businesses to keep IP in Australia. We should establish a national IP bank to house IP created by universities and public research institutes and release it to industry through standardised contracts and royalty agreements. Royalties generated would be shared between the bank, the government, and the originating research institutions. This would help accelerate the process of getting university innovation from the lab to the marketplace.

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