

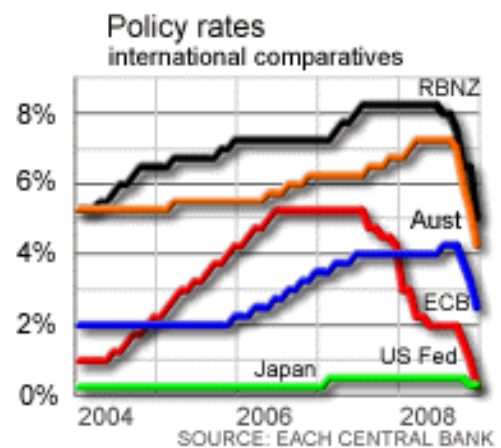
15 January 2009

Competitive in 2009?

John Key has assembled his economic advisors today to discuss the economic situation and look for ways to improve economic plight in 2009. The New Zealand Manufacturers and Exporters Association (NZMEA) say that any credible policy initiatives must make our international competitiveness the priority as New Zealand lags behind on many economic indicators that determine business success.

National's 100 day program has put additional cash in New Zealand consumer's pockets but has done little to address factors such as business tax and interest rate structures that will determine our ability to compete overseas.

R&D incentives	
New Zealand	15% Investment tax credit
Australia	12.5% deduction on Australian owned R & D 17.5% incremental premium for companies that have increased R & D over the average of the past 3 years 30% of eligible expenditures - Investment Tax Credit for small companies
United Kingdom	175% for SMEs 130% for large companies



<http://www.scitax.com/pdf/international.R&D.tax.credits.survey.pdf>

NZMEA Chief Executive John Walley says, "The evidence shows that the same disadvantaged position in terms of tax shortcomings and interest rate differentials that have made conditions difficult for exporters over a number of years still persist. The continuing interest rate differential is holding up exchange rates and denying our exporters the truly expansionary conditions that would be provided by lower interest costs and better margins from a lower exchange rate. These conditions are badly needed as international markets worsen. The abolition of the Research and Development (R&D) tax credit, which was smaller than in most other developed countries in any case, has only served to degrade our international competitiveness."

"The new Government has mentioned the need to improve productivity in New Zealand. Incentives to improve innovation at the macroeconomic level, and exchange and interest rate stability need to be at the heart of this effort. Stable rates will give firms the confidence to invest while incentives provided by the Government can encourage investment in productive activity. If we see a prolonged focus on investment in productive enterprise then New Zealand will come out of this crisis stronger, but if investment in assets like housing continue to be favoured by the Government, we are likely to see the same problems repeat themselves as we slip further behind the OECD leaders," says Mr. Walley.

"We need to see the Government use fiscal policy to support productive investment in the short-term, and remove the link between inflation control and interest rates in the medium-term to provide a more stable investment environment for the productive economy."ⁱ

ⁱ 'Monetary Policy and Productivity', <http://www.mea.org.nz/document.ashx?id=22>