



19 June 2009

R&D funding not working

The New Zealand Manufacturers and Exporters Association (NZMEA) are calling for the Government to reinstate a Research and Development (R&D) investment incentive in the wake of abysmal R&D statistics released today. Business sector investment in R&D was at 0.51 percent of GDP, about one third of the OECD average.

NZMEA Chief Executive John Walley says, “Even taking into account our relatively small elaborately transformed sector, and the almost complete absence of military research and development, underinvestment in R&D is hurting our tradeable sector which must remain internationally competitive.”

Finance Minister Bill English spelt out the problem in Parliament on Wednesday saying, “the tradeable sector of the economy, including manufacturing, the primary sector, and export of services such as tourism, has been in recession for the last five years, while the non-tradeable sector, which has been about consumption, housing, and Government spending, has grown remarkably fast over those five years.”

Mr Walley says, “Bill English clearly sees what is happening; talk is easy though, we need action.”

“The reason house prices and consumption have grown at the expense of the tradeable sector is because our economic policy settings offer distorted incentives. Land and housing investments are tax havens that fuel the appetite for debt on these assets driving currency speculation that overvalues our dollar, further encouraging the consumption of imported goods.”

“Consequently the lack of investment in activity and R&D combined with an overvalued currency discourages investment in the tradeable sector.”

Table 2 R&D tax Incentives, 2004-2005

	Level of R&D	Increment of R&D	Combination of level and Increment
Tax Credits	Canada; Italy; Japan; Korea; Mexico; Netherlands; Norway	Ireland; United States	France; Portugal; Spain
Tax Allowances	Belgium; Czech Republic; Denmark; Hungary; United Kingdom		Austria; Australia

Source: OECD

“As the table shows the majority of our OECD competitors including Australia, the United States and the United Kingdom have incentives for R&D investment. R&D is an internationally mobile component of business, so if firms can get better tax rules elsewhere then R&D activity is likely to leave. We heard Navico announce that they would move their R&D department to New Zealand when the R&D Tax Credit was introduced; now we face the prospect of innovative firms leaving,” says Mr. Walley.

“Recent statistics show that capital good imports decreased 30 percent over the March quarter demonstrating that New Zealand firm’s investment in new technology is continuing to wane. Now is the time to assist firms to invest in their future growth.”

ⁱ ‘Research and Development’, <http://www.mea.org.nz/document.ashx?id=498>