

SUBMISSION ON

Advanced Manufacturing Industry Transformation Plan

SUBMITTED TO:

Advanced Manufacturing Industry Transformation Policy

Ministry of Business, Innovation & Employment

PO Box 1473

Wellington 6140

Via: info@advancedmanufacturing.nz

DATE:

Tuesday 13 July 2022

Contents

Contents	1
About Us.....	1
Overview	2
Staff in Manufacturing Sector	3
Investment Assistance is Crucial	4
Accessible R&D.....	5
Conclusion	6



businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand

About Us

The Business Central Group, which includes members of Business Central, Wellington Chamber of Commerce, Porirua Chamber of Commerce, and Export NZ Central is a business membership association, representing around 3,600 members across Central New Zealand (Gisborne to Taranaki and down to Nelson). Manufacturing forms a significant share of membership, and we regularly survey our members to ensure our advocacy reflects their needs.

Overview

Business Central strongly endorses the intent of the Advanced Manufacturing Industry Transformation Plan (the ITP). For New Zealand's Manufacturing sector to remain competitive in a global market, we need forward thinking investment – particularly as high commodity prices, rising interest rates, and a worker shortage limit our capacity for growth. The ITP helps deliver this, and our members strongly support its intent.



businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand

Investing in advanced manufacturing, and more importantly, facilitating businesses themselves to invest in advanced manufacturing, will help us stay competitive globally, and growing domestically.

Budget 2022 stated the aim to transition New Zealand to a high wage, low emission economy. Investment in advanced manufacturing does both, improving our productivity and wages while streamlining production processes to reduce emissions. It is important we get this programme right.

When consulting with our members on the ITP, they highlighted three core pillars of improvement to make the programme as successful as possible:

- First, increased access to labour, helped by changing perceptions of the manufacturing sector, investing further in the apprenticeship boost scheme and creating an efficient immigration system.
- Second, making investment in advanced manufacturing equipment affordable, primarily through accelerated depreciation settings.
- Finally, improving incentives for businesses to develop their own new technologies by broadening criteria, and lowering compliance costs for access to research and development (R&D).

By expanding on these points, the ITP can improve on an already strong start and help transform New Zealand's manufacturing sector, boosting wages and productivity across the economy.

Staff in the Manufacturing Industry

We endorse Section 1 of the ITP, dedicated to changing perceptions of the advanced manufacturing sector. Members have highlighted to us that outdated perceptions of the manufacturing sector hinder their ability to employ skilled staff, despite offering higher wages than other sectors.

Our quarterly Central New Zealand Business Confidence Survey has repeatedly shown a shortage of staff to be the most pressing issue in the manufacturing sector. This is particularly relevant for younger staff, who often have misconceived notions of the nature of the industry, or what types of jobs are available. Manufacturers have told us that nearly half their workforce is now in logistics, tech, and sales, rather than more traditional roles within the industry. As businesses shift to more advanced technologies, this share will only increase.

While the ITP takes welcome steps to address the perception issue, this alone is not sufficient to solve the skills shortage. Migration is the most effective way of doing so, we recommend the report examine further ways to hire staff from overseas. Immigration lets business access the frontier of advanced manufacturing skillsets, and through new workers, we can unblock the labour shortages hindering growth.

Initiative 14 of the ITP suggests the Immigration Rebalance is designed to improve the skills available to the manufacturing sector. The feedback we have had from users of the new system has told us the opposite – that the Rebalance has added costs and decreased access to talent from around the world.

Ensuring an open, cost-effective, and efficient immigration system that encourages workers to come to New Zealand is a vital part of industry's shift towards advanced manufacturing, and we urge the government to explore ways to help achieve this.

We also recommend policymakers develop skills domestically through the continued funding and expansion of the Apprenticeship Boost Scheme. Our members have had excellent feedback on this scheme, finding it accessible and value-adding. The programme is currently time-limited to December 2023, with Budget 2022 halving the first-year incentive payments. We recommend the permanent funding of the programme with restored incentives, and also strongly recommend its expansion to upskill the New Zealand labour force.



businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand

Investment Assistance is Crucial

The ITP is correct to identify improving access to capital as a priority for the programme. Without access to capital, businesses will not be able to access the next generation of industrial technologies and will fall behind international competitors.

We are encouraged by the commitment to investigate accelerated depreciation, outlined under Initiatives 3 and 4 of the ITP. As the report points out, New Zealand is an outlier among wealthy countries in our strict depreciation requirements, which largely discourage productivity-enhancing investments.

Manufacturers want to upgrade their productivity through investment in advanced manufacturing but are often hamstrung by high upfront costs. These costs are exacerbated by slow depreciation rates, which treat investment in plant and equipment as less tax advantageous than shorter-term investments. As interest rates rise, this problem will worsen.

Effectively – the current depreciation settings are a ‘factory tax’ on investment into machinery – particularly the higher-value equipment promoted by the ITP. A benchmark rule of economics is that when you tax something, you get less of it. When tax settings punish long-term investment in equipment, our long-term productivity suffers.

We ***strongly recommend*** that the ITP focus on improving incentives to invest in these new technologies and that the best means of doing so is accelerated depreciation, in line with our international counterparts.

Other options – such as investment grants, and low-interest loans are worth examining, but our preferred model is standardised accelerated depreciation, which cuts out unnecessary bureaucracy and provides certainty for businesses looking to invest in the sector.

Any change to lower depreciation costs for businesses will help make the ITP more effective and enable the joint transition to a more productive, lower-emission economy.



businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand

Accessible R&D

As with access to capital, a workable and flexible R&D system is essential to equip our manufacturers for the digital age.

Under the current R&D tax credit scheme, significant investments over a long period of time remain high-risk and unaffordable for many smaller manufacturers. At a threshold of over \$50,000 a year, and a limited return of just 15%, the existing incentives do little to address the high upfront and ongoing compliance costs.



businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand

For small, start-up manufacturers the capability to apply for grants is often limited. It is not uncommon for businesses to spend \$20,000 - \$30,000 navigating opaque and inaccessible application systems, eroding much of the value provided by the grants.

We endorse the inclusion of improved R&D access in the ITP, and encourage the programme to go further. Thresholds should be lowered, and the tax credit for those who participate in R&D should be increased. More support for businesses to navigate the application process would be welcome – reducing reliance on expensive third-party service providers to deliver applications.

Increased investment in R&D flows through across the entire economy – and will help put New Zealand at the forefront of digital transformation. For businesses to adapt to an advanced manufacturing environment, it is important that their access to R&D is expanded, and that the system becomes more workable and affordable to access.

Conclusion

Manufacturing forms a significant part of New Zealand's economy and an even larger section of our exports. Around the world, countries are pursuing new policies and making investments to modernise the sector, raising productivity and wages while lowering emissions.

To stay competitive in the global market, we need investment now. We welcome the ITP, as an attempt to keep our manufacturing sector competitive and recognise the value it provides to the New Zealand economy.

Aspects of the ITP meet the needs of industry – improving access to capital and changing the perceptions of manufacturing which limit the ability to recruit talent. This is welcome.

We also urge the ITP to go further in creating settings that are favourable to a high-productivity sector. For skilled staff, this means improving our immigration settings, so that the best workers from around the world are available to employers. For access to capital – this means accelerating depreciation timeframes to encourage investment in new equipment.

Without these concrete improvements, our manufacturing sector risks being left behind by international competitors that have more effective settings in place for their domestic industry.

Thank you for your consideration of this submission, and we look forward to working with the Government to deliver an effective plan for our manufacturing sector.

Ngā mihi nui,



Simon Arcus
Chief Executive
Business Central

Business**Central** 

businesscentral.org.nz
info@businesscentral.org.nz
04 473 7224

Level 7
JacksonStone House
3-11 Hunter Street
Wellington 6011

PO Box 1087
Wellington 6140
New Zealand