

Business R&D and Technology Transfer—The Initiatives

There is economic value in stimulating business to invest in innovation activity

We can do this through support for in-firm research and supporting firms to access the expertise of our publicly-funded research organisations. Most OECD countries provide a mix of both discretionary and non discretionary support as evidence shows this is optimal.

In New Zealand.....

- We currently have discretionary grants delivered by FRST through TechNZ. These support high risk, technology stretch projects. They also provide support for firms to develop R&D capability (including management development and student internships) and support to small firms through the regional technology partners network
- But.....New Zealand lacks a broader based incentive to support more R&D development work, where the business controls the expenditure and claims it back
- There is also a need to strengthen linkages between our firms and publicly-funded research organisations

There are pros and cons in providing support in different ways.....

Delivery Mechanism	Advantages	Disadvantages
R&D tax initiative A broad based subsidy to firms based on R&D spend, delivered through the tax system	<ul style="list-style-type: none"> • Evidence shows that R&D tax credits increase firms' R&D • Broad based – no need to decide which firms are in/out • Comparable internationally • Low admin costs and relatively easy to administer / audit 	<ul style="list-style-type: none"> • High fiscal costs can be hard to limit • Part of subsidy will go to reclassified R&D expenditure
Targeted non-discretionary grants A rules based subsidy to firms based on R&D spend to support development activity	<ul style="list-style-type: none"> • Tighter criteria to limit fiscal cost • Rules based - provides transparency around eligibility • Can utilise the processes established for the previous R&D tax credit to manage and administer 	<ul style="list-style-type: none"> • Not as broad based as a tax incentive—inevitably the number of eligible firms will be limited • Rules around who is in/out may lead to gaming • Part of the subsidy will go to reclassified R&D expenditure • New administration and compliance processes required • Few precedents outside New Zealand
Discretionary grants Provides a grant for a specific R&D project or to improve capability. Eligibility is judgement based. (TechNZ)	<ul style="list-style-type: none"> • Can focus support towards government priority areas • Levels of funding can be controlled • Ensures funding results in additional R&D activity • Can be targeted to complement other government support 	<ul style="list-style-type: none"> • Needs bureaucratic judgment on eligibility, low transparency • High compliance costs for firms and government • One-off effect on R&D • Uncertainty of getting a grant puts off some firms

Priority Actions - In firm R&D

Two approaches are feasible

Targeted non– discretionary grant

- Targeted at R&D intensive firms to give greatest impact and control costs
- To support more R&D development work that firms undertake that is essential to their on going profitability
- Put NZ on a level playing field internationally
- Could be rolled out by January 2011
- Design criteria require further development

Development Vouchers

- If you decide not to pursue a non discretionary grant there is an option to create development vouchers
- These would be targeted at R&D intensive firms who are more likely to increase their long term R&D spend
- Support would fund development activity in the firm and would accelerate the commercialisation of previous research work
- The firm would provide the majority of funding
- Eligibility would be mostly judgement based
- Design criteria require further development

Priority Actions - Technology Transfer

An integrated package of measures is suggested

A key element of this mix is a Technology Voucher. A new initiative aimed at putting firms in the “driving seat” to hold the purchasing power.

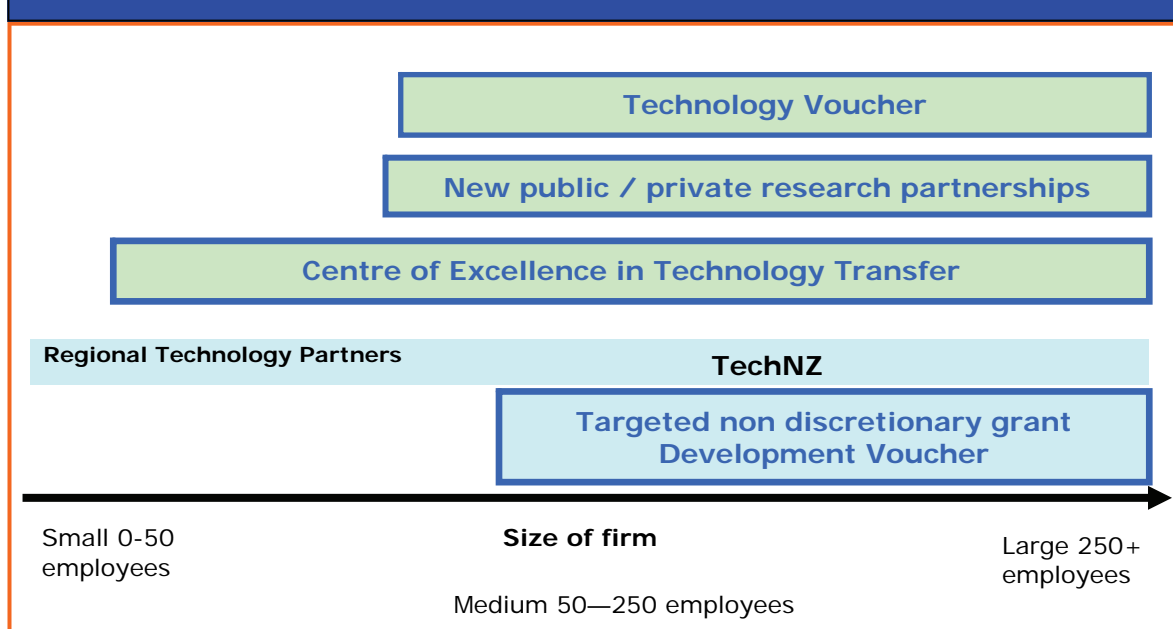
- Targeted at medium to large firms with limited in house research capability, but who can grow through the adoption of new technology
- Vouchers to be spent with accredited research organisations—in effect subsidising firm access to our RS&T knowledge base
- Vouchers up to \$1M—firm to match. They will reduce compliance costs & ease access to publicly-funded research organisations

Centre of Excellence in Technology Transfer

- Standards within our commercialisation offices are variable. A stronger, more capable national network could be developed

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

A package of new and existing support covering a wide spectrum of New Zealand Firms



Potential packages of support

1. If there was an additional \$100—200M available
 - A non discretionary grant—subject to design
 - Technology voucher
 - Technology transfer initiatives
 - Continue TechNZ
 - *[deleted—confidentiality of advice]*
2. If there was only an additional \$25—50M
 - Technology voucher
 - Development voucher / grant
 - Technology transfer initiatives
 - Continue TechNZ
 - *[deleted—confidentiality of advice]*
3. If there was no additional funding
 - Technology Voucher pilot
 - Centre of excellence in technology transfer