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## Business R&D and Technology Transfer Incentives

MINISTER	PRIORITY	DEADLINE
Prime Minister	Routine	24 December 2009
Minister of Finance	Routine	24 December 2009
Minister for Economic Development	Routine	24 December 2009
Minister of research, Science and Technology	Routine	24 December 2009

### EXECUTIVE SUMMARY

Attached for Ministers' information is a set of material outlining options for lifting business R&D performance. Ministers are invited to consider their preferred scope, scale and cost of additional business R&D support.

The material has been prepared and endorsed by senior officials from Ministry of Research, Science and Technology, Department of Prime Minister and Cabinet, Treasury, Ministry of Economic Development, and the Foundation for Research, Science and Technology. Officials intend to test this material with business stakeholders in January 2010.

It is recommended that Ministers meet to discuss their views and preferred next steps in January, in advance of reporting back to Cabinet in February. Ministers are invited to provide any immediate comments or feedback on the material via their departments on their return in January should they wish.

### CONTACTS

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### ANNEX

Annex One: A3 sheet context and initiatives for business R&D and technology transfer.

# MoRST Briefing

## Business R&D and Technology Transfer Incentives

### SUMMARY OF PROPOSED OPTIONS

1. There is a well established case for supporting business R&D and innovation at some level and all OECD countries do this. However, there is a wide variety of schemes and approaches used. This at least partly reflects the difficulty in attributing impact to any particular scheme or project. It also reflects the complex nature of business innovation and the different paths to impact.
2. R&D schemes generally fall within a range from highly non-discretionary (in which the Government does not exercise discretion over the project and the firm chooses what it does), such as a tax credit, to highly discretionary grants such as through TechNZ (in which the funder agrees the project). Officials prefer a combination of both discretionary and non-discretionary support, if affordable, as they have complementary objectives.
3. Further, officials agree also that the main objectives of any new spending on a business R&D package should be (i) to build scale in R&D carried out within New Zealand firms and (ii) to enhance technology transfer outcomes and the flow of knowledge from publicly funded research organisations into firms.
4. Officials' view is that new initiatives should operate alongside the existing TechNZ grant programme.

### **\$100–200M additional spend**

5. Officials consider that for \$100–\$200m of new expenditure it would be feasible, subject to further design work, to implement a non-discretionary grant for business targeted at a subset of firms and capped to manage the fiscal impact. This would support R&D within firms.
6. Officials suggest that a new technology transfer voucher be introduced that incentivises linkages between firms and public research organisations. This would be affordable as part of this package.

### **\$25–50m additional spend**

7. For a more modest level of new expenditure of \$25–\$50million, officials consider a non-discretionary grant for R&D would not be feasible owing to the degree of targeting required to limit the fiscal impact. However, it would be feasible to introduce a voucher for a subset of firms to fund accelerated development of R&D opportunities. This would have lower compliance and more flexibility for these firms than existing TechNZ grants. In return, firms would receive a lower subsidy from Government and there would be greater ex-post scrutiny of the

impact on the firm's performance. This package would also include the linkages voucher described above.

8. Both this and the previous option could also accommodate additional public/private partnerships in areas that support the Economic Growth Agenda as well as a centre or centres of excellence in technology transfer to provide support and better co-ordination of commercialisation and technology transfer through universities and CRIs.

#### **\$0m new expenditure**

9. In the absence of any new funds for business R&D, officials consider that the existing TechNZ grant schemes should continue to be the main support mechanism. Reprioritised funds could be applied to piloting the linkages voucher described above and a centre of excellence in technology transfer.
10. *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
11. Further information on the package options is provided in the attached documents.

#### **Funding sources**

12. Ministers will need to consider funding sources when considering these options. Treasury recommends funding through a combination of reprioritisation in Vote RS&T, the *[deleted - free and frank]*, reprioritisation from other votes or a combination of these.
13. The initiatives in these packages could also be implemented in stages. For example the vouchers could be piloted at a modest level in 2010/2011 and scaled up in future years. The non-discretionary grant, which will require considerable work on implementation details, could be introduced part way through 2010/11 to lessen the fiscal impact in the first year.

## RECOMMENDATIONS

14. I recommend that you:

a.	<b>Note</b> the attached material on options for additional support for business R&D.	Yes / No
b.	<b>Consider</b> your preferences for scale and scope of packages and preferred sources of funding.	Yes / No
c.	<b>Note</b> that if Ministers wish, they may provide initial feedback through their respective departments prior to meeting in late January.	Yes / No

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