

## Towards 2025





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# The Business Growth Agenda

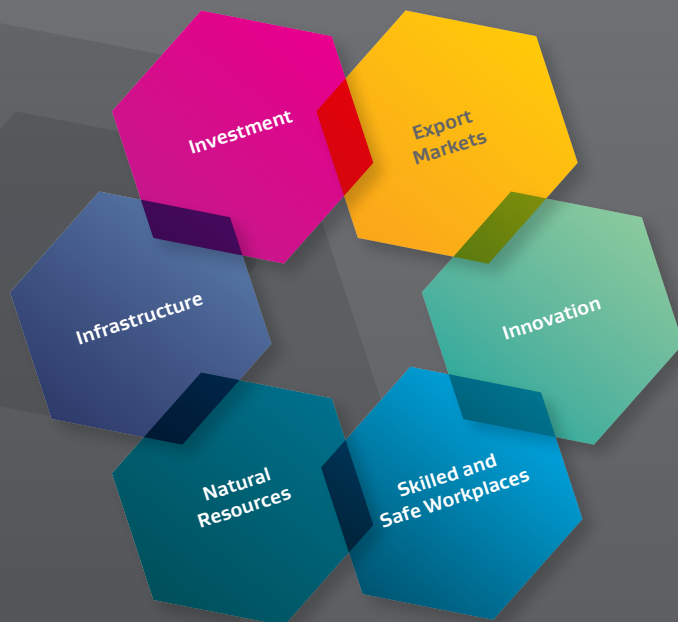
It is businesses that drive economic growth and build a more successful economy with more jobs for Kiwis.

Growing competitive businesses creates jobs and increases exports to the world. Nothing creates sustainable, high-paying jobs and boosts our standard of living better than business confidence and growth.

Building a more competitive and productive economy for New Zealand is one of the key priorities the Prime Minister has laid out for this Government to achieve. The Business Growth Agenda drives this by ensuring the Government stays focused on what matters to business, to encourage confidence and further investment.

There are six key inputs that businesses need to succeed and grow. By focusing on these areas we will ensure businesses have the opportunity to lead economic growth.

## The six key areas in the Business Growth Agenda:



The Government is holding itself accountable to the business community and to the public to achieve tangible progress in each of these areas.

The Ministry of Business, Innovation and Employment and the Treasury are working alongside other agencies to coordinate the Business Growth Agenda and ensure businesses can more easily access the advice and support from government agencies they need to be successful.

### GROUP OF MINISTERS FOR:

#### Export Markets:

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Hon Paula Bennett  
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Hon Nathan Guy  
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Hon Paula Bennett  
Hon Amy Adams  
Hon Simon Bridges  
Hon Dr Nick Smith  
Hon Nathan Guy



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# Introduction

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The Government has set four key priorities to deliver a stronger and more prosperous New Zealand.



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The Business Growth Agenda (BGA) is central to the Government's priority of building a more productive and competitive economy. Lifting productivity and competitiveness is critical to creating business opportunities, more jobs and higher wages, and ultimately the higher living standards to which New Zealanders aspire.

This report outlines the significant progress we have made in delivering on nearly 500 specific actions across the BGA and particularly the priority actions that were set out last year. It also sets out the future direction of the BGA, which this year will focus on investing for growth. We are prioritising key areas that we see as particularly critical to further build business confidence and to provide the platform for sustained growth into the future.

# Economic context

The New Zealand economy has recorded five years of growth and is set to continue to expand over the coming years, despite a weaker near-term outlook since the release of the 2015 Budget.

The economy grew by 3.2 per cent in real terms in the year to March 2015. This is the fastest growth in a March year since 2006, and higher than most other developed countries. This growth has been broadly based, benefiting people in large and small centres and rural areas. All regional economies have been growing, with above average growth in nominal terms in Southland, Canterbury, Marlborough, Waikato and Northland.

Recent growth has been driven by private consumption (averaging 3 per cent over the past three years) as household incomes have expanded with rapid employment growth. Consumption expenditure has also been boosted by population growth driven by a strong net inflow of migrants.

The labour market has been buoyant with employment growth remaining strong at 3 per cent in the year to June 2015 and the unemployment rate averaged 5.7 per cent in the year to June 2015, down from 6 per cent a year ago. We have seen 68,000 jobs created in the past year, and average annual wages have increased by nearly \$6,000 in the last four years. Treasury forecasts wages will rise by a further \$6,500 to around \$63,500 by mid-2019 – considerably faster than inflation.

Residential and business investment were also important drivers of growth in the past year. Residential investment growth has averaged nearly 16 per cent over the past three years, as the rebuilding of Christchurch progressed and house building in Auckland increased. The rate of growth in residential investment is expected to ease as the Christchurch rebuild plateaus and net migration inflows decline. Residential investment in Auckland is expected to offset this decline.

Business investment growth has averaged 6 per cent per annum over the past four years as firms catch up from low investment during the financial crisis and expand their capacity to meet increasing demand. Business spending on research and development has been growing steadily, although off a low base, with expenditure equivalent to 0.54 per cent of GDP in 2014.

Exports also contributed to growth in the economy in the year to March 2015 – particularly services exports. Increased visitor arrivals from China and higher daily spending by visitors have boosted services export receipts.

The export sector is facing some challenges – most notably in the dairy industry, where increased production in New Zealand and elsewhere, high stocks in China, and Russia's ban on agricultural imports from some nations have led to sharp price drops. The dairy sector is an important sector of the economy, contributing just over 20 per cent of our exports and around 4 per cent of our economy, and so the fall in dairy prices will be challenging for some businesses and for some regions. It will also affect our economic growth, which is now expected to trend at up to 2.5 per cent over the next year, slightly lower than in the Budget Update released in May.

But dairy is not all that we do. There has been good growth in services and high-value manufacturing. Our information and communications technology (ICT) industry has grown at a rate of 9 per cent per annum since 2008, and now contributes 1.7 per cent of GDP. The high-tech manufacturing sector has grown 22 per cent over the past 5 years. International education is now worth nearly \$2.85 billion to the economy, and supports more than 30,000 Kiwi jobs.

Strong growth is anticipated for the meat, horticulture, and seafood sectors and it is expected that this will help to partially offset the decline in the dairy sector. Total meat

and wool exports are expected to increase by almost 11 per cent to \$9 billion by 2019. Strong growth in kiwifruit and wine exports is driving horticulture export revenue past \$4 billion, and it is forecast to reach \$4.6 billion by 2019. Seafood export earnings are forecast to reach \$1.8 billion by 2019, driven primarily by growth in aquaculture.

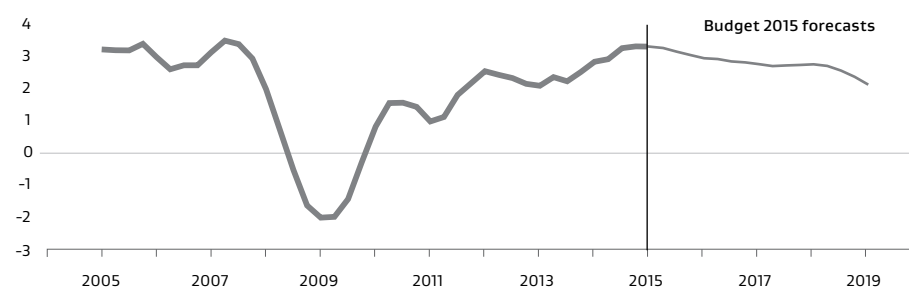
The recent decline in the value of the New Zealand dollar (which is linked to the downturn in dairy prices) and falling interest rates presents new opportunities for export growth. The headwinds created by a strong dollar over a number of years have meant that New Zealand exporters have had to work hard to remain competitive in the global market place. Now these exporters are well positioned to reap the rewards of a lower exchange rate in both new and existing markets.

Exports are expected to continue to grow as demand for New Zealand products increases with the ongoing recovery in developed economies and high, albeit slowing, growth in China. The underlying drivers of our growth – high migration, robust construction activity and solid labour income growth – remain intact, reflecting the underlying strength and resilience of our economy.

Now is the time to invest for ongoing growth – the kind of growth that all New Zealanders and regions will have the opportunity to benefit from. Sustained economic growth will translate into real benefits for New Zealand households and give businesses around the country the confidence to invest and hire.

## Economic growth is set to continue over the coming years

Real GDP, annual average percentage change



Source: Statistics New Zealand, the Treasury

# What Does Economic Success Look Like?

New Zealand has recovered well from the Global Financial Crisis and has laid the foundations to grow positively. Now is the time to invest for ongoing growth – the kind of growth that will provide our children and grandchildren with one of the most prosperous and liveable small countries in the world. We want growth that all New Zealanders will have the opportunity to benefit from.

Many of the challenges we face (for instance rising house prices and environmental constraints) are a reflection of our success. To continue to support growth we need to address our challenges and provide businesses with the confidence they need to invest.

Despite our strong recent performance, a substantial income gap remains between us and many other developed countries. Much of this gap appears to be because New Zealand is uniquely small and remote from our historic markets.

In order to help drive activity in the right areas and to provide the focus we need if we are going to meet our ambitions, officials and industry representatives been working together to consider what economic success for New Zealand would look like in ten years' time. The key elements of this work are captured below.

## What would economic success look like by 2025?



An economy like this will grow our productivity and incomes, delivering real and ongoing improvements in quality of life for all New Zealanders.

## To be successful requires action across a range of areas:



The BGA sets out the actions that we are taking in these areas to strengthen our economy, improve productivity and competition, and create jobs.

The BGA has already delivered considerable success. Nearly 500 projects have been initiated and over 250 have been completed. Businesses and government need to maintain the momentum that we have built. This refresh of the BGA contains many further projects aimed at continuing to deliver strong economic growth.

The Government is committed to staying focused on what matters to business. Ministers and agencies will continue to engage with the business community to identify and focus on those things that will make the most difference to improving the growth of the New Zealand economy and to achieving our high-level goal to increase the ratio of exports to GDP to 40 per cent by 2025.



The main focus over the next year is on ensuring businesses have the motivation and the confidence to invest. Each of the BGA's six key inputs for growth has a role to play:

### **Building Export Markets**

Increasing exports relies on adding value to volume and developing stronger international connections to provide New Zealand businesses with access to international skills, ideas, capital and markets. It is these connections that provide us with the platform to be world-leading, and become a hub for talent and ideas for the Asia-Pacific region. To do this we will continue to deepen and future-proof New Zealand's trade strategy and help firms to grow internationally, providing businesses with the ability and know-how to take advantage of overseas opportunities. By addressing domestic and offshore barriers to internationalisation, we will improve our businesses' international competitiveness, while ensuring New Zealand has efficient and effective border services to manage the risks that come with greater international flows of people and goods.

### **Building Innovation**

Innovation enables firms to more efficiently produce products and services that are further up the value-chain – that attract a premium from our natural resources, intellectual edge and industry know-how. Inherent in New Zealand's DNA is a 'can-do' attitude which inspires us to be innovators and global leaders in our chosen fields. We will encourage and enable business-led innovation (especially through R&D) to improve business productivity. We are also planning to increase the impact of the Government's R&D investment in public research organisations, attract multinational investment and build global connections in R&D, and make the most of the digital economy to help our businesses lift their productivity and open new opportunities for export growth.

### **Building Investment**

Attracting high-quality business investment into all parts of New Zealand plays a critical role in creating economic growth and lifting productivity, and is an essential ingredient for building an innovative and internationally-connected economy. By attracting the investment our economy needs, we can help build and grow the economy that we envisage – one that is agile, resourceful, innovative and world-beating. We will focus on attracting high-quality foreign investment that provides businesses with the capital necessary to grow and access international connections and talent. Facilitating the flow of capital to regional and Māori investment opportunities will give more New Zealanders the opportunity to share in the benefits from growth. This will be reinforced by embedding and monitoring reforms to financial market regulation and improving New Zealanders' financial capability and access to high-quality financial advice, as well as rebuilding the Government's balance sheet.

### **Building Natural Resources**

New Zealand's abundant natural resources are central to our economic prospects, especially in our non-urban regions. By improving our resource management system, building growth from more efficient land and resource use, and realising greater value from our freshwater, marine and aquaculture resources we will be able to continue to enjoy the benefits that flow from our resources into the foreseeable future. Improving the productivity of our resource-related industries while reducing their environmental impact will help create a more productive and competitive economy – building economic resilience, and meeting global consumer preferences for high-quality goods and services with lower environmental footprints.

### **Building Skilled and Safe Workplaces**

A highly skilled workforce, safe and flexible workplaces and sensible regulation help make New Zealand an attractive place for businesses and workers. New Zealand needs to further develop an innovative, adaptable and inclusive education system that provides the skills necessary to succeed in an increasingly globalised labour market and to make this country a real hub of talent and ideas for the Asia-Pacific region. Our focus is on lifting achievement for every student, improving information and pathways for learners, increasing the relevance of tertiary education and building effective links between education and employment. This will ensure our education system provides the skills that businesses and workers need. Building skills to ensure workforce success for Māori and Pacific peoples, and supporting people moving from benefits into the workplace, are important elements in equipping all of our people to participate and succeed in our economy and society. We will reinforce this by enhancing employment relations/standards regulation and improving the health and safety system to make our workplaces fairer, safer and more productive.

### **Building Infrastructure**

Appropriate, resilient infrastructure supports investment, growth and the quality of life in all parts of New Zealand. We cannot become more internationally connected, link our regions and cities, and reduce the impacts of distance without the necessary infrastructure. In order to improve our domestic and international flows of people, goods and information we will continue to work on removing the bottlenecks on our road networks, strengthening rail, sea and air infrastructure, completing the deployment of ultra-fast and rural broadband and improving infrastructure decision making. We will also focus on increasing competition and efficiency in residential construction, reforming the social housing sector, rebuilding Christchurch, improving water management and investing in social infrastructure (including schools and hospitals) in order to provide infrastructure that meets the ongoing needs of our communities.

We are well placed to shape our future and move towards becoming one of the most prosperous, inclusive and liveable small countries in the world, one that builds on our strengths and celebrates our successes. Taken together, the actions outlined in this agenda will provide New Zealand businesses with the confidence and ability to invest for sustained growth, while ensuring that the impacts of that growth are managed well into the future.







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# 01 Building Export Markets

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## Building Export Markets

The Government has committed to the following high-level goal:

***Increase the ratio of exports to GDP to 40 per cent by 2025.***

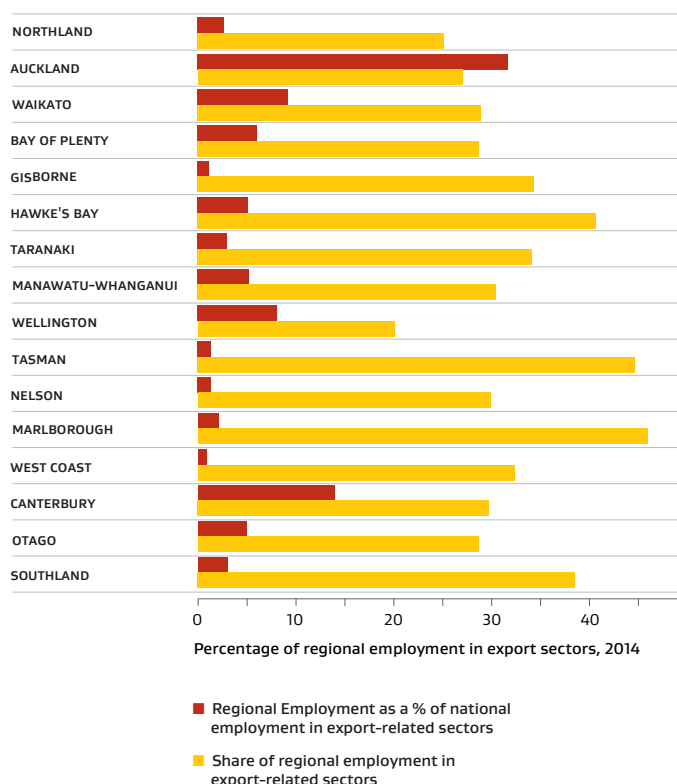
### Growing more internationally connected businesses.

Internationally connected businesses offer significant benefits to our economy. They grow faster, innovate more, and bring more capital and jobs into New Zealand. They also attract skilled and innovative individuals and pay higher wages to New Zealanders. They are a critically important and valuable asset for New Zealand.

Over the past 5 years, New Zealand's total exports, which include pastoral-based products such as dairy, meat and forestry as well as services such as tourism, education and commercial services, have increased by 21 per cent and are now valued at more than \$67 billion. Creating an environment where New Zealand businesses are able to seize opportunities in an increasingly Asia-Pacific centred world is critically important for a prosperous New Zealand.

We have had some notable successes in a range of sectors over the past year. Since 2012 tourism has grown 21 per cent to exceed \$8 billion, with Chinese visitors spending over \$1 billion. Tourism expenditure is critically important for many regional economies

#### Exporting is a major source of jobs



Source: Ministry of Business, Innovation & Employment

### Chapter summary

Over the next year government agencies will be working to broaden New Zealand's trade opportunities, to ensure our exporters have sustained and sustainable opportunities to grow. The key focus in these activities is to continue to add greater value to our exports through diversifying our product and market base.

We will be actively promoting trade negotiations with the EU and deepening economic linkages with Latin America's Pacific Alliance countries. We will seek to further strengthen our trade agreements with China and ASEAN countries, and will seek to successfully conclude the TPP and other current negotiations.

We will help exporters maximise the benefits of new trade opportunities in Korea and through the WTO Government Procurement Agreement. We will actively target non-tariff barriers, and continue our work to build the world's most efficient and cost-effective border management system.

Back home, NZTE and Callaghan Innovation will help to build the pipeline of export-active companies, while Tourism New Zealand and Education New Zealand will work to extend the recent growth record of New Zealand's tourism and international education industries.

New Zealand exporters have been working hard in the last several years into the headwind of a historically high New Zealand dollar. With the dollar now dropping, our exporters have the opportunity to significantly grow their contribution to New Zealand's prosperity.

such as Otago and the West Coast, where the sector accounts for between 10 and 15 per cent of regional GDP and an even higher proportion of jobs in the regions. During the same period, the economic contribution from international education increased by \$258 million to total \$2.85 billion. This increase was driven by strong growth in tuition fee income, which rose 17 per cent (\$129 million) from 2013 to reach a record \$884 million.

Information and Communication Technology (ICT) exports have grown 70 per cent since 2010 and were worth \$930 million in 2014. We can expect ICT exports to continue growing with the successful conclusion of the World Trade Organisation (WTO) Information Technology Agreement in July of this year. Once it has entered into force, the agreement, between more than 50 WTO Members including the European Union, will progressively eliminate tariffs on a range of IT related products, giving this innovative export sector more opportunities to expand.

## Building Export Markets

Notwithstanding these successes, the last year has also been challenging for some sectors with slowing demand in China pushing down commodity prices – most notably felt in the dairy sector. In value terms, dairy exports fell 22 per cent over the last year, driven by a 58 per cent decline in exports to China. Currently the value of our dairy exports to China is roughly equivalent to that of 2012.

The downwards pressure on key commodity prices is a timely reminder of the need to continue to diversify both our product and market base. The active pursuit of free trade agreements (FTAs) has increased the range of countries that we can sell to and has created many new opportunities for businesses over the last 20 years. It has also strengthened our resilience in dealing with global economic challenges such as the eurozone crisis and the current softening of growth in China. By continuing to diversify our product and market base and focusing on moving our exports up the value chain, we can develop a more robust economy that is not as susceptible to commodity price fluctuation.

Significant trade policy successes over the last year include the signing of an FTA with Korea, New Zealand's sixth largest export destination, and our agreement with China to explore an upgrade of the China-New Zealand FTA. Upon entry into force, the Korea-New Zealand FTA will result in the elimination of tariffs on around 48 per cent of our exports to Korea. The China-New Zealand FTA upgrade, on the other hand, recognises the seriousness that both sides place on their commitment to the FTA remaining a modern, comprehensive, 21st century agreement. Exploring the upgrade with China is an opportunity to look at broadening the FTA to cover new issues, but also improve the quality of the current commitments in the FTA. This will ensure our businesses remain competitive with those of our trade competitors.

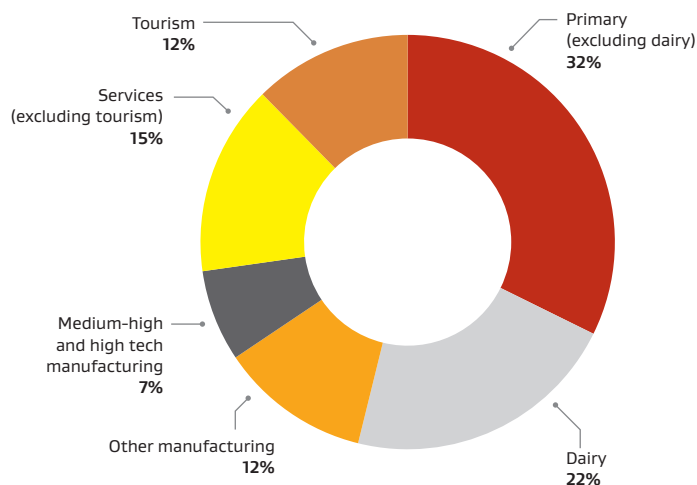
Our accession to the World Trade Organisation's Government Procurement Agreement (GPA) represents another important win, and will give New Zealand businesses enhanced access to a market worth US\$1.7 trillion (roughly equivalent to the size of the Canadian economy).

The recent decline in the value of the New Zealand dollar and falling interest rates, which are linked to the downturn in dairy prices, also present us with new opportunities for export growth. The headwinds created by a strong New Zealand dollar over a number of years have meant that New Zealand exporters have had to work hard to remain competitive in the global market place, and are now well-positioned to reap the rewards of a lower exchange rate in both new and existing markets.

We have not yet made the progress we would have liked towards our target of exports to 40 per cent of GDP by 2025. Recent technical revisions by Statistics New Zealand to the way in which the data is calculated has resulted in a shift downwards in the real export to GDP ratio for the last few decades, although this has had little impact on its growth rate. Economic activity in domestically-focused sectors (such as construction in Christchurch) has also been strong, making it difficult to increase our ratio of exports to GDP. In addition to this we face a difficult external environment with the growth of global trade volumes continuing to slow post-Global Financial Crisis and competition for new markets increasing. It's increasingly clear that a significant lift in our export performance is still required if we are going to meet our goal.

We therefore need a greater focus on adding more value to volume: building on our traditional primary sector strengths to capture greater value-add and supporting the development of high value, premium, knowledge-intensive businesses.

### New Zealand's exports in the year to March 2015

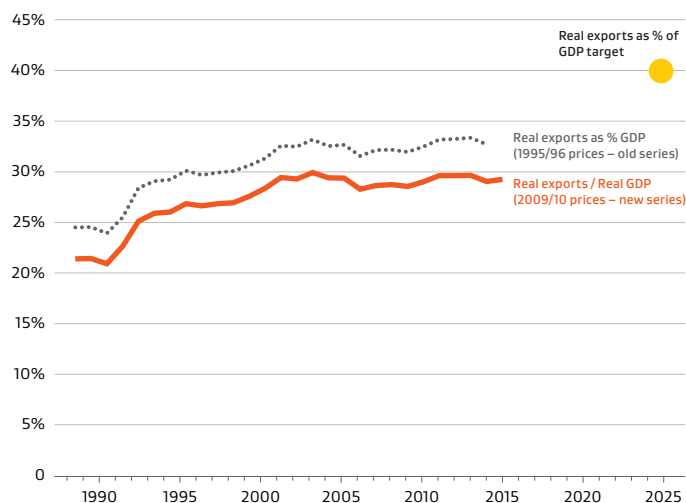


Note: Other manufacturing is defined as textiles, clothing and footwear manufacturing; furniture manufacturing; jewellery and silverware manufacturing; not including dairy processing (which is captured in "Dairy") or food (captured in "Primary").

Source: Statistics New Zealand (March years)

### Tracking our progress toward the exports to GDP target

#### Percentage of GDP



Note: In December 2014, Statistics New Zealand revised the way in which data is calculated, resulting in a shift downwards in the real export to GDP ratio. The graph shows our progress according to revised methodology as well as the previous methodology.

Source: Statistics New Zealand (March years)

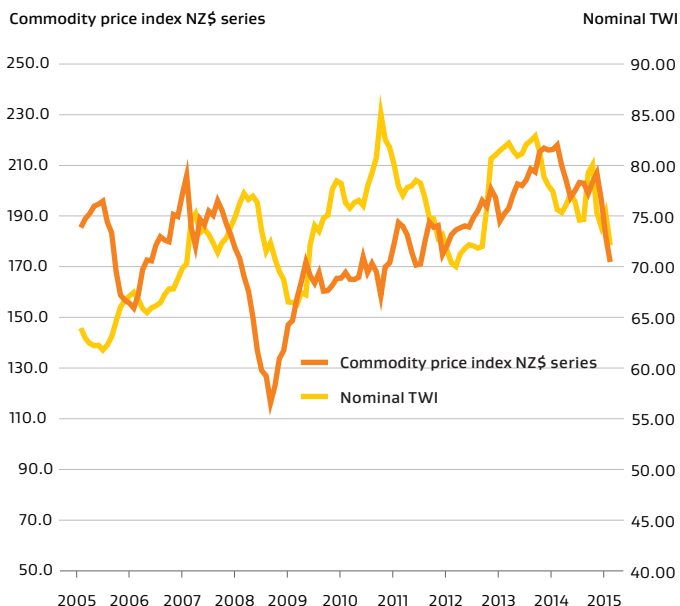
Exporting provides business with access to new and bigger markets, as well as an entry into internationalised business networks and global value chains. These opportunities have supported greater specialisation and the development of new export streams, in both the high-value manufacturing and commercial services sectors.

This transition is underway. Exports of processed primary products, such as infant formula, have been growing at an annual average rate of 8.2 per cent per annum over the last 10 years compared to 4.3 per cent growth in unprocessed products. New export streams have also emerged with the value of commercial services exports growing 8 per cent per annum since 1995 compared to 4 per cent for goods. These new exports are now valued at an impressive \$4.6 billion.



## Building Export Markets

### Commodity prices affect the value of the New Zealand dollar



The burden of scale, however, remains significant for New Zealand businesses, warranting an active role for Government in assisting New Zealand companies to grow offshore. The Government's investment of an additional \$69 million over four years into New Zealand Trade and Enterprise (NZTE) has already resulted in an increase in the number of companies it intensively works with. This additional assistance provides scope for more companies to shift their focus towards making the most of global opportunities by NZTE assisting to manage the challenges inherent in operating from a small and distant market.

In the future, global growth will be increasingly driven out of the Asia-Pacific rim. We are well positioned to take advantage of our proximity with many fast-growing markets within a single long-haul flight from New Zealand. Our geographic location, which positions us between the growing regions of South America and Asia, will allow businesses to connect easily with markets in both continents. Recent Air Service Agreements (ASAs), which support direct flights to Argentina, have further opened South America to New Zealand businesses, creating the potential for production chains that bridge Asia and South America via New Zealand.

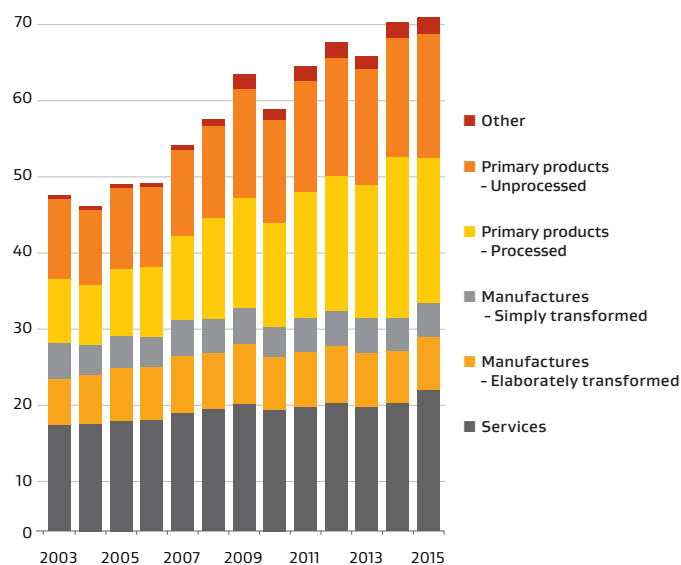
Underpinning this shift in global growth are our established trade and investment relationships with developed country partners, such as the US and EU. We continue to work to modernise and leverage these relationships to improve our access to the innovation, skills and capital which will in turn support growth with newer markets.

The Māori economy, now assessed to be worth some \$42 billion, is increasingly gearing up to participate more directly in new and developing export markets using Māori strengths in relationship building and cultural identity to carve out a unique proposition for New Zealand.

With emerging economies increasingly looking for safe food and high quality services, New Zealand's reputation will remain a critical component of our international marketing. The power of the consumer is growing in many of our major markets, and these consumers attach value to our guardianship of the environment

### We are adding value to volume

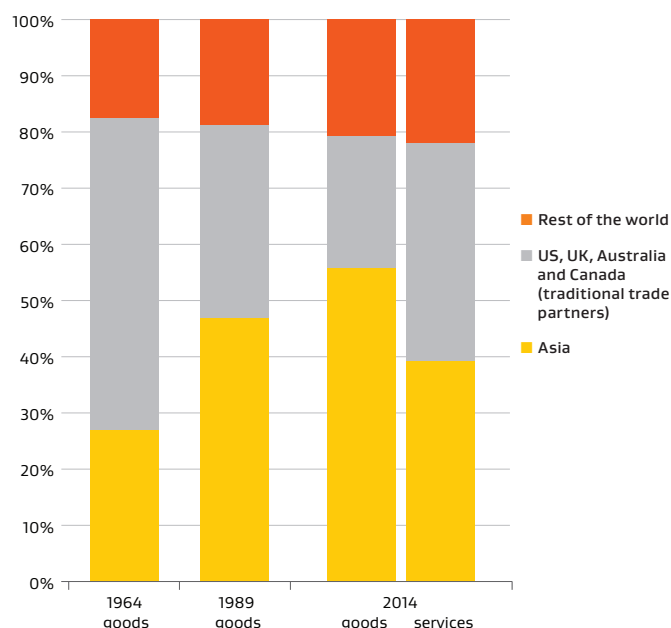
New Zealand Exports, NZ\$ billions



Note: Classification differences mean that this graph has slightly different sectoral percentages to the graph on page 13 titled "New Zealand's exports in the year to March 2015"

Source: Statistic New Zealand (March years)

### Our trade is increasingly focused on Asia-Pacific



Note: The data providing a breakdown of trade in services by region is only available from 2007 onwards

Source: UN Comtrade, Statistics New Zealand

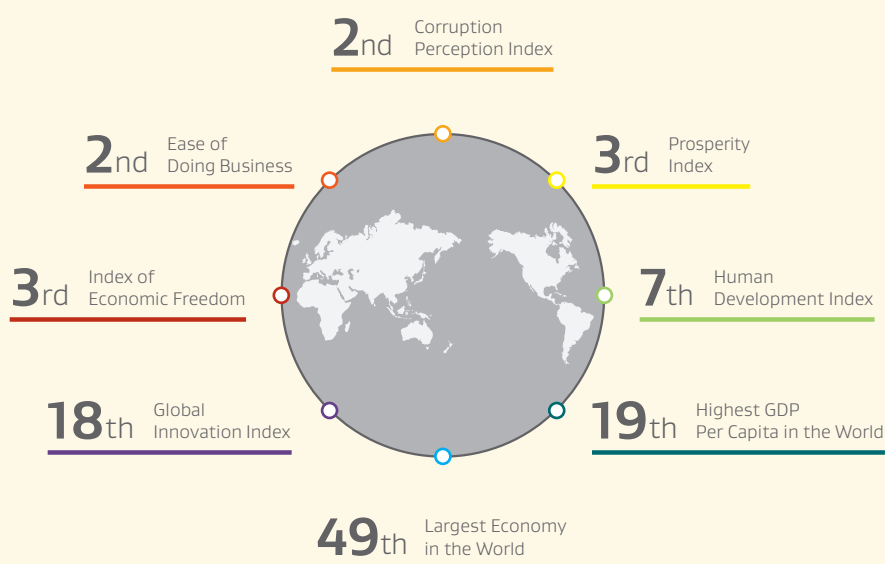
and reputation for quality and integrity. We need to build on those strengths at the same time as leveraging those assets to drive price premiums.

As a government, our goal is to support the development of a diverse range of high-value, internationally connected businesses able to seize opportunities in an Asia-Pacific centred world.

### Major milestones achieved over the last year include:

- **Signing of the Korea-New Zealand FTA**, which marks the conclusion of our 10th FTA, will eliminate tariffs on 48 per cent of exports upon entry into force.
- **Increasing exports with Taiwan by over 15 per cent** following the entry into force of ANZTEC (the Agreement on Economic Cooperation between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu).
- **Agreement to explore an upgrade of the China-New Zealand FTA** will ensure that access to our second largest market, worth over \$10 billion in 2014, continues under favourable conditions. As a result, New Zealand businesses entering China will remain competitive to those of our trade competitors.
- **Accession to the WTO Government Procurement Agreement**, which gives New Zealand businesses enhanced access to a new market worth over \$1.7 trillion.
- **Significant growth in tourism** with the number of tourism arrivals breaking 3 million per annum, and tourism earnings exceeding \$8 billion for the first time.
- **Significant growth in the international education industry** with enrolments reaching the highest levels since 2004. The estimated value of New Zealand's international education industry has increased by \$258 million to reach a total value of \$2.85 billion.

### New Zealand – ready to seize opportunities



- **Increasing the number of companies intensively serviced by NZTE** by 100 to reach a total of 625 companies, with a focus on ICT, Māori and high value food and beverage companies with demonstrated capability to grow internationally.
- **Increasing New Zealand's footprint in the ASEAN region** and in other emerging markets. NZ Inc. agencies have increased their staff numbers in Singapore, Jakarta, Ho Chi Minh City and Yangon, as well as in the Middle East and South America.
- **Continuing to roll out Trade Single Window (TSW)** with additional functionality that allows trusted traders to manage some of their own information online including the creation of client and supplier codes.
- **Concluding an Air Services Agreement with India** that provides for the airlines of each country to code-share on airlines from third countries. This will enable Air New Zealand to work with its Star Alliance partners, Singapore Airlines and Air India, to boost travel between India and New Zealand.
- **ICT exports have increased in value by \$384 million** since 2010 to reach a total value of \$930 million in 2014. IT design, consulting and development services alone were worth \$357 million in 2014.
- **Integration of the NZ Story** into company websites, events, marketing collateral, client presentations, promotional videos, with over 2,400 registered users downloading over 14,000 items such as images, videos and logos.
- **Creating Seafood and Wine versions of the NZ Story** to assist these sectors as they shift from a volume to a value proposition offshore.

# Next steps

To deliver on our vision of growing businesses that are internationally connected and able to add value to volume and seize opportunities for New Zealand in an increasingly Asia-Pacific centred world, the Government will focus its efforts over the next year on the following seven key areas:

### 1. An ambitious free trade strategy

Minimising barriers to the flow of goods, services, capital, ideas and people across borders is critical to achieving our export goal. Over the next year, we will refresh New Zealand's Trade Policy Strategy to enable our exporters to seize opportunities presented by new markets and sectors when they arise. By actively updating our strategy to reflect the changing global environment, we will help ensure the New Zealand economy is well-positioned to ride out economic shocks, and that our approach to trade policy and negotiations supports the structural shifts required to make the most of new opportunities. These include pivoting towards emerging economies such as those in South America, and fine-tuning our negotiating framework to ensure we are getting the results we need from agreements. As part of this, we are putting increased emphasis on modernising our trade and investment frameworks with partners capable of boosting our access to innovation, skills and capital, such as through the FTA we are seeking with the European Union (EU). Our trade strategy also includes a deepening of our relationship with ASEAN economies, strengthening and building upon already existing trade relationships. Through our participation in negotiations to conclude the Trans Pacific Partnership (TPP) agreement and the Regional Comprehensive Economic Partnership (RCEP) agreement, we will ensure New Zealand remains an integral part of a more integrated Asia-Pacific region.

To ensure we remain ahead of the pack, we must constantly work to better leverage those FTAs already in place and address emerging issues that have become more prominent in global trade. This will include further embedding and updating agreements already in effect by strengthening regulatory cooperation and making the most of scheduled reviews. This ensures existing agreements remain current and fit for purpose. An example of this effort can be seen with China and New Zealand agreeing to launch a "joint assessment mechanism to upgrade the China-NZ FTA" in a manner that recognises the strong growth and increasing sophistication of the trade and investment flows between our two countries.

To maximise the impact of our trade strategy, it is critical we retain a strong New Zealand agency presence in foreign markets to help our exporters do business overseas. A reinforced offshore presence allows us to help New Zealand businesses assess the risks and opportunities, identify routes to market, find distribution partners, identify potential customers, understand nuances in the market, evaluate competition, set up their overseas presence and resolve access problems when they occur. Adopting an all-of-government approach represents a major investment to assist our exporters make the most of the increasing number of opportunities that can be found within a single long-haul flight from New Zealand.



### Spot light

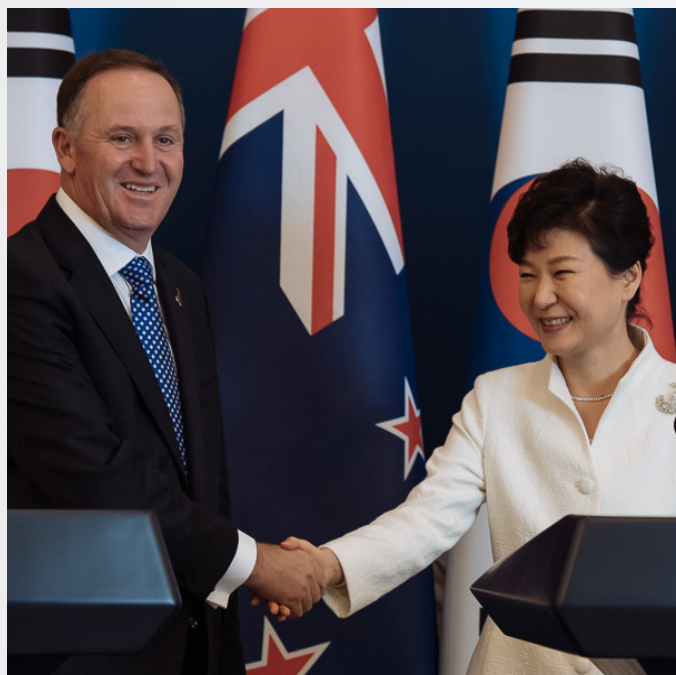
## The Korea-NZ FTA

Korea is New Zealand's sixth largest export destination for goods and services, and eighth largest import source of goods and services, with total two-way trade of \$4 billion in the year ending December 2014.

Korea has a number of FTAs in place with some of New Zealand's key competitor countries. These FTAs have, over time, eroded the competitiveness of New Zealand exporters with, for example, 15 per cent tariffs in the wine industry putting New Zealand at a significant disadvantage against competitor countries such as the EU, United States (US), Chile and Australia.

On entry into force of the Korea-New Zealand FTA, tariffs will be eliminated on 48 per cent of our current exports and duties, with all tariff reductions largely implemented within 15 years. In the kiwifruit industry alone, tariffs will be eliminated from their current 45 per cent within five years of entry into force of the agreement, opening up significant new opportunities for trade.

The FTA will create new service opportunities in both markets, and offer improved market access commitments and protections for New Zealand investors in Korea. It will also provide a mechanism through which to deepen cooperation between our countries in a number of other areas, including in the primary sector and on issues related to labour and the environment.



### 2. Maximise the benefits to exporters of our trade agreements

FTAs and other trade agreements provide better access to markets. But they can only deliver on the promise of better access if New Zealand exporters utilise and leverage the FTAs available to them. This means exporters need to ensure they are claiming the preferences to which they are entitled (i.e. the lower tariff rate offered through the FTA). With the conclusion of each new trade agreement, the Government actively works to promote awareness of the agreement so that businesses, including small and medium-sized businesses, are able to take advantage of the concessions offered, or access granted, by recently concluded free trade agreements.

An example of this can be seen in the Government's focus on promoting uptake of the WTO GPA, which came into effect on 12 August 2015. In order to promote the benefits offered by the GPA, including access to a \$1.7 trillion market in government procurement, NZTE is holding a series of roadshows and trade missions to raise awareness of the GPA. NZTE will also facilitate in-market initiatives to introduce foreign government buyers to New Zealand exporters. Similarly, we are actively working to promote the Korea-NZ FTA to exporters so that they are ready to take advantage of its concessions once the agreement has entered into force.

Alongside its work implementing FTAs, the Government is committed to reducing regulatory barriers that inhibit trade, and prevent businesses from fully realising their export and internationalisation potential. Focusing both domestically and offshore, agencies across



Government are working together to identify and prioritise regulatory issues that are hindering our exporters' efforts. In order to make this process more efficient and to ensure the best outcome for exporters, the Government will create a single cross-agency group that can coordinate efforts in this area, and identify new ways Government can reduce barriers to exports. This could include amending domestic regulations as well as ensuring that trade commitments made by other countries to New Zealand are enforced, including through litigation where necessary. For example, New Zealand will continue its WTO dispute settlement litigation against Indonesian agricultural import restrictions, which have resulted in a 90 per cent decline in beef exports to Indonesia.



## Building Export Markets

### 3. Develop the world's most efficient and cost-effective border management system to support trade and people flows

Our borders and border services are a critically important element of our overall efforts to grow trade and travel, while managing the risks this presents. How well we carry out these functions matters for export competitiveness, which relies on efficient supply chains, as well as New Zealand's attractiveness as a place to do business and as a travel destination.

New Zealand's success in growing trade and travel is placing increased demand on our border services. The border agencies (New Zealand Customs Service, Ministry for Primary Industries and Immigration) are working together to ensure we maintain and enforce a world class border management system that is cost effective to operate and for business to use. We will also ensure that New Zealand is protected from potential harm – including biosecurity risks, terrorism, people smuggling, the activities of organised trans-national criminal groups and the impact of imported drugs.

There are opportunities to consider how we give our trade partners greater assurance that they can 'trust' goods that originate in New Zealand and improve the travel experience for arriving passengers. Assurance will provide New Zealand exporters with greater access into overseas markets and with less disruption from overseas customs or security administrations. This includes exploring the possibility of Trusted Trader and Trusted Traveller schemes to facilitate more effective and efficient flows of goods and passengers.



#### Spot light

## Māori business internationalisation

The value of the Māori asset base is now \$42.6 billion, an increase of \$6 billion since 2010. However, average productivity of the Māori asset base remains below that of the overall New Zealand economy and exports from Māori-owned businesses account for just 5.5 per cent of the value of New Zealand's total exports. There is significant potential to lift the productivity of the Māori asset base leading to improved profitability and export performance that will strengthen Māori economic wealth and provide increased opportunities for Māori.

He kai kei aku ringa – the Crown-Māori Economic Growth Partnership – includes several recommendations to support Māori business internationalisation and export growth, including Te Puni Kōkiri support for Māori focused trade missions, and Government agencies collaborating on a range of projects to unlock the potential of Māori-owned assets. Te Puni Kōkiri's Māori Business Facilitation Service supports export-ready Māori businesses, including Māori Small and Medium Enterprises, through business advice, mentoring and networking opportunities.

Te Puni Kōkiri and NZTE are supporting increased collaboration amongst Māori businesses, particularly in the food and beverage sector, which includes the Indigenous Cuisine Cluster and the Miere Honey Cluster. NZTE is also working to lift Māori capability in the export sector and raising the profile of the Māori contribution to the New Zealand economy. This includes sponsoring the He kai kei aku

ringa award for Māori Excellence in Export as part of the 2015 New Zealand International Business Awards.

The private sector is also playing a vital role to support Māori business development. Groups such as Poutama, an independent charitable trust established to provide business development services to Māori, and the Federation of Māori Authorities (FOMA) have played a significant role in helping Māori firms lay the groundwork to successfully internationalise and grow.

Efforts to increase the internationalisation of Māori businesses and associated export-led growth are complemented by government funding and support for innovation, particularly within the Māori primary sector. This includes the Government's Te Pūnaha Hīringa Māori Innovation Fund as a key initiative to support Māori collectives increase the productivity of their assets through innovation.



## Building Export Markets

### 4. Grow NZTE's portfolio of export-active companies

In today's market, New Zealand companies need to be competitive on a global scale. Market entry is tough and unforgiving, and even though global trends such as advances in communication technology can help to reduce barriers to trade, scale and distance remain significant challenges to businesses. To reduce this burden, NZTE aims to increase the impact of our support to businesses in order to help them on their international journey.

NZTE will continue to evolve its services suite to deliver maximum impact to firms wanting to grow internationally. NZTE will grow the number of firms it works intensively with to 700 (the F700), using NZTE's core implementation methodology, the Customer Way, with a focus on early stage ICT, Māori, and premium food and beverage companies.

As well as growing the number of companies NZTE works with intensively, it will strengthen the pipeline of future F700 companies, many of which are based in regional New Zealand. NZTE and Callaghan Innovation are launching a refreshed Regional Business Partner Programme to help to build the pipeline of innovative regional export companies and make it easier for businesses to understand the support they can access from the regional partners. Co-location of business support services in regional business hubs will create a 'one-stop shop' for businesses. NZTE will work to actively identify and support companies with the hunger and ambition, capability and capacity to embark on their global journey.

NZTE is also working to identify and support firms willing to work together to grow internationally. By working together companies are more likely to overcome global challenges and the barriers of scale. We intend to increase our efforts to support and co-invest in business-led go-to market coalitions of companies.

Through the Government-to- Government (G2G) Know How Office, NZTE and MFAT are also promoting and selling New Zealand Government IP and expertise to offshore government clients, often working in partnership with New Zealand private sector firms.

### 5. Growing international education

The international education sector is one of New Zealand's key export earners, and it plays an important role ensuring New Zealand's workforce has the skills and abilities required for a globally competitive economy. New Zealand's international education industry experienced growth of 13 per cent in 2014 with enrolments now at the highest levels since 2004. International Education contributed \$2.85 billion to the New Zealand economy last year, supporting 30,230 jobs across the country.

Ensuring New Zealanders are equipped with the international capabilities, readiness and competitiveness required for the global economy is essential. Our future workforce needs a greater understanding of the cultures and languages of our key markets in order to effectively work with them. To ensure our next generation of workers have these skills, the Government is investing in language learning at school level and study abroad in Asia for tertiary students.

In an increasingly competitive world, we need to ensure our international education strategy is fit for purpose and is attracting students who can benefit New Zealand. We are planning to expand the Prime Minister's Scholarships for Asia to include South America, and aim to build brand ambassadors for New Zealand and develop the international marketers, traders, diplomats, and entrepreneurs of tomorrow.

Another undeclared asset is our substantial number of international alumni, both overseas and in New Zealand. Our world class education system attracts highly skilled individuals who are fluent in other languages and commercial practices. They represent a largely untapped resource for companies looking to internationalise and for public sector agencies. We are developing a new project to link our international alumni more explicitly with our international sector. The potential talent pool is large. From 2006 to 2013, a total of nearly 22,000 international students completed Bachelor's degrees in New Zealand universities, and a further 19,000 completed post-graduate degrees.







### 6. Increasing value to New Zealand from tourism

International tourism is a major export earner for New Zealand. Tourism directly contributed \$8.3 billion (15.3 per cent of exports) to New Zealand's GDP in the year to March 2014, and this number is projected to grow. Visitor arrivals have just passed 3 million annually and are expected to grow four per cent a year, reaching 3.75 million visitors in 2021, earning New Zealand \$11.1 billion – an increase of over 48 per cent on 2014 expenditure.

To capitalise on this success, the Government has committed to continue supporting the industry as it responds to increased demand and converts it into greater earnings. Partnerships with airlines and airports provide essential foundations for building and sustaining supply-side capacity. Tourism New Zealand and the Ministry of Business, Innovation and Employment will continue to work closely with airlines and airports to support and build direct services and in-bound seat capacity to New Zealand. The Government will also maintain and seek new agreements that support the aviation routes that are critical to developing tourism.

With demand from emerging markets set to increase and in some instances outpace demand from advanced economies, Tourism New Zealand is committed to investing early within emerging markets like India, Indonesia and Brazil. Investing ahead of the curve will accelerate the positioning of New Zealand as a high-value destination early in these markets' development.

To build growth in periods with traditionally lower demand, Tourism New Zealand is placing increased focus on promoting arrivals in the shoulder seasons. Through its Regional Growth Programme the Government will also, in partnership with local stakeholders, help leverage the potential to build tourism in regions outside of the traditional main destinations for international visitors to New Zealand.

The business events sector is a high value market for New Zealand, delivering a direct contribution to New Zealand's export earnings through the money spent by international delegates. It also acts as an economic development tool by facilitating new international business to business relationships and bringing visitors to New Zealand during off-season periods to help bridge those slow periods.

### 7. Develop and grow New Zealand's international marketing brand

New Zealand has a successful, well-regarded national brand. Our image is largely centred on New Zealand's natural beauty and environmentally conscious population – a result of the successful 100% Pure New Zealand campaign that has run for the past 15 years.

Governance and people anchor our reputation; however there is a lack of cultural visibility and limited knowledge of our capability in science, technology, goods and services. As our export portfolio further diversifies and we see sharp growth in services, technology and value streams within the primary sector, it is essential that we extend New Zealand's reputation beyond our current known strengths. Competitive positioning and differentiation against other advancing nations becomes increasingly necessary as we compete to supply key growth markets in Asia, the Middle East and the United States.

The NZ Story provides a comprehensive and compelling narrative to support the success of New Zealand businesses on the world stage. Successfully marketing New Zealand to buyers and influencers allows New Zealand companies to take better advantage of new export opportunities.

Investment in the integration of the NZ Story into the education, tourism and immigration marketing and activation programmes has already been successful. We are further increasing our investment in 2015 through a transfer of \$3 million from NZTE to develop and grow the NZ Story for exporters of goods and services. Building on this success, our Major Events Initiative presents an opportunity to convey a compelling story to visitors and the world. This initiative will incorporate insights from New Zealand's national brand and perception research to inform key decisions and influence our prospecting programme.

To sustain our long-term competitive advantage and grow our exports over time, we must also remain vigilant in protecting our reputation and maintaining our integrity. To mitigate against any potential threats to our reputation, we will continue to engage with the market and regulators to ensure that our laws and regulations are fit for purpose without being burdensome on businesses.

## Building Export Markets



71% of our total 2014 exports (goods and services combined) were sent to countries within the distance of a single long-haul flight from New Zealand – the area within the dotted line.



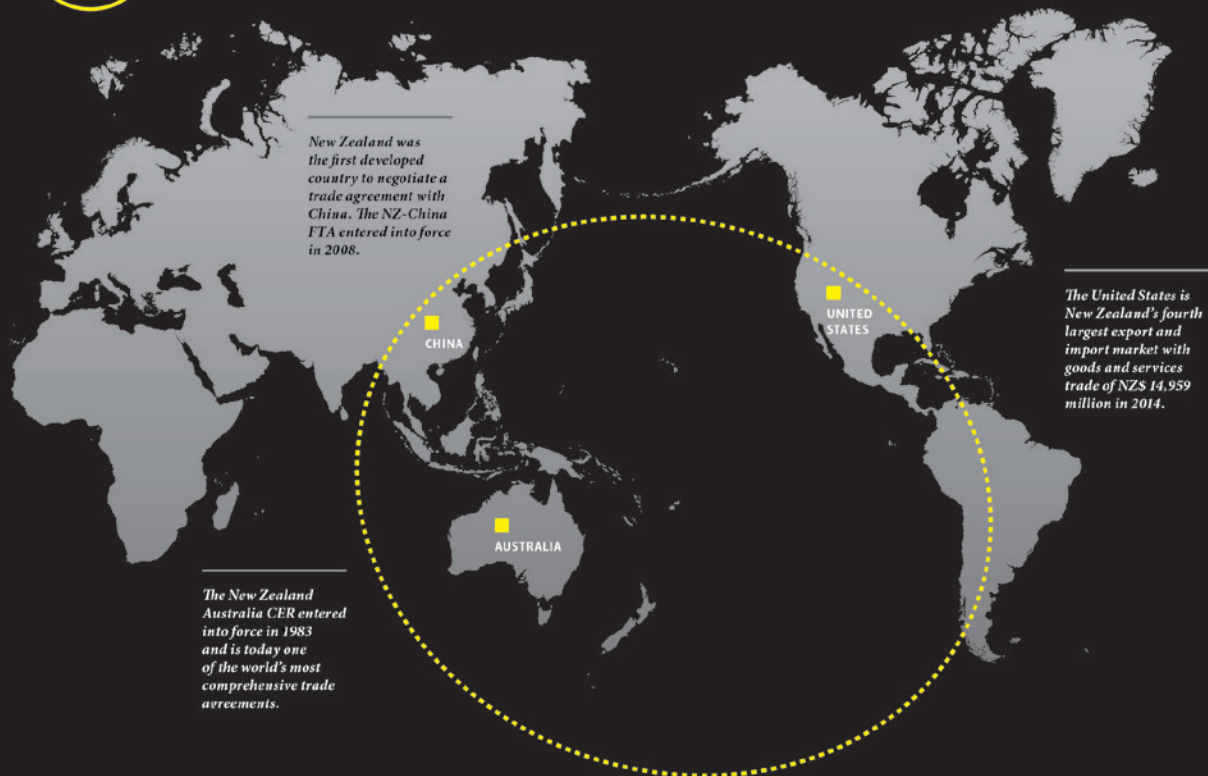
New Zealand has concluded trade agreements with sixteen markets located within a long haul flight from New Zealand. We have negotiations under way with nearly all remaining countries located within this range.



In the five years to December 2014 New Zealand goods exports to these markets grew 32%, whereas New Zealand merchandise exports to the rest of the world grew 14%.



### WITHIN REACH OF A SINGLE LONG-HAUL FLIGHT – NEW ZEALAND 2014 EXPORTS



Goods account for three quarters of the value of NZ exports to the countries closest to us, with services making up the remaining 25%. The split to countries further afield is 70% goods and 30% services.



New Zealand is well-placed to benefit from our relationship with Asia as consumers in the region begin to shift from middle-income to high-income brackets.



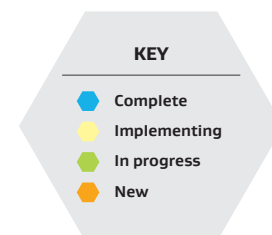
77% of total foreign direct investment (FDI) in New Zealand is sourced from markets within a single haul flight.



# Project update

We have now completed 44 projects in the Export Markets workstream. This report adds 23 new projects. We have 17 existing projects in progress and 4 in the final implementation phase.

BUILDING EXPORT MARKETS					
	All actions	New	In progress	Implementing	Completed
Status June 2014	64	3	19	17	25
Status September 2015	87	23	16	4	44



## Projects and progress

Action	Lead agencies	Status	Comment
<b>Ambitious free trade strategy</b>			
Prepare and publish an updated trade strategy for New Zealand	MFAT	New	Over the next year officials intend to refresh New Zealand's Trade Policy Strategy to ensure that our approach to trade and trade negotiations continue to support exporters and the New Zealand economy.
Complete negotiations for the TPP agreement	MFAT	In progress	New Zealand is committed to finalising an agreement as soon as possible that provides commercially meaningful access opportunities across the region for New Zealand exporters and investors. TPP Ministers made substantial progress towards this goal during their recent meeting in Hawaii in July, and agreed to continue engagement over the coming period to resolve the remaining issues.
Lift our engagement and seek a strategic partnership with South East Asian nations	MFAT, NZTE	In progress	The 40th Anniversary of the ASEAN-NZ relationship is a milestone event and we are working to set a new strengthened framework for the relationship. It will lift our relationship to one of closer engagement and mutual benefit.  Efforts to capitalise on ASEAN 40 are progressing well, with a number of Ministerial-led trade missions underway to coincide with ASEAN 40 celebrations.
Grow our international footprint to balance our trade interests across the Asia-Pacific region and more broadly around the world	MFAT, NZTE	In progress	The programme is on track. The Consulate General in Chengdu, China, opened on 11 November 2014 and is now operational.  We have added new New Zealand Trade and Enterprise positions in countries as diverse as Colombia, Saudi Arabia, Papua New Guinea, and Abu Dhabi, and have increased our presence in the Philippines, Indonesia, Australia, the UK, Germany, the US, Spain, Chile, and China.
Launch a new push into Latin America by developing a partnership with the Pacific Alliance	MFAT	New	The Pacific Alliance (involving Chile, Colombia, Mexico and Peru) is the most dynamic integration mechanism in Latin America and makes up around one third of Latin American GDP. New Zealand is one of the most active Observer members of the Alliance, and has engaged regularly with Pacific Alliance member countries, including at Ministerial level, to explore ways to deepen New Zealand's relationship with the Alliance. Most recently this saw Minister of Trade Tim Groser participate in the Pacific Alliance Summit in Paracas, Peru in July. Supporting these efforts there has also been a parallel increase in NZ inc resources in the Latin American region. NZTE and ENZ are looking to enhance their presence in Colombia over the next year, and the Government intends to establish an embassy in Bogota in the 2016/17 financial year.



## Building Export Markets

KEY: ■ Implementing ■ In progress ■ New

Action	Lead agencies	Status	Comment
Pursuing the launch of an EU-New Zealand FTA	MFAT		The EU is New Zealand's 3rd largest export destination (and a key market for high value products and services), 2nd largest source and destination of overseas investment and 2nd largest services export market. It is a global trade and investment heavyweight – with total GDP of more than NZ\$20 trillion, a sophisticated consumer market and high levels of R&D investment. With New Zealand now one of only six WTO members not to have a preferential market access arrangement with the EU either in force or under negotiation, the case for upgrading our trade and economic relationship through negotiation of a modern, high quality, FTA is compelling. Ministers and officials are stepping up work with EU counterparts to secure a decision to launch negotiations.
Negotiate a successful FTA “upgrade” with China	MFAT		<p>Following agreement in November 2014 to explore an upgrade of the FTA, an assessment process was launched in March 2015 which is expected to take 6-8 months to complete. Known as the Joint Assessment Mechanism, the purpose of the process is to provide the basis for decisions on the guidelines of the upgrade negotiations including objectives, methodology, scope and timeline.</p> <p>Officials are working to conclude this work by October and provide Chinese and NZ Ministers a joint proposal/scope for their endorsement and announcement. Subject to endorsement, it is hoped that negotiations could commence by end of the year with a view to concluding by the end of 2016.</p>
Negotiate priority Air Services Agreements (ASAs) to build transport connections	Transport, MFAT		<p>A replacement ASA has been negotiated with India, which, among other rights, now provides for the airlines of each country to code share on airlines from third countries. An ASA has been signed with Greece and enhanced air services arrangements signed with the Philippines and Viet Nam. ASAs have now been negotiated with all six Gulf Cooperation Council members and formal signing opportunities are being pursued. A further six ASAs were negotiated in 2014 with smaller markets.</p> <p>A New Zealand delegation plans to attend the next ICAO air services negotiation conference in October 2015 at which, among other relationships, establishing new air services arrangements in Central America will be a focus.</p>
Negotiate priority Double Taxation Agreements to prevent cross-border transactions being taxed twice	IRD, Treasury, MFAT		<p>New Zealand is actively renegotiating Double Taxation Agreements (DTAs) with China, Korea and Norway, seeking to update existing agreements.</p> <p>Preliminary discussions with Australia to review the current 2009 DTA, and discussions for new DTAs with Portugal and the Slovak Republic are planned for later this year. The updated DTA with Canada, signed in 2012 to replace the existing 1980 DTA, is scheduled to enter into force for withholding taxes later this year.</p>
Implement NZ Inc country and regional strategies	MFAT secretariat, cross-agency work programme		<p>NZ Inc. strategies for ASEAN, Australia, China, India, and the Gulf Cooperation Council (GCC) are all progressing</p> <ul style="list-style-type: none"> <li>We are currently staging a programme of events across ASEAN's capital cities to celebrate 40 years of relations, culminating in a Commemorative Summit in Kuala Lumpur in November.</li> <li>We are working with China on a FTA upgrade, agreed during President Xi Jinping's visit in November. The Agreement on NZ-China science and technology cooperation in April has opened opportunities for further collaboration.</li> <li>We are working with Australia to establish a platform for improved bilateral science and innovation cooperation. This platform will be used to build pathways for NZ's knowledge-intensive firms to access Australian markets.</li> <li>The Cricket World Cup was successfully leveraged to build relationships with India's business and political leaders. These relationships are now being used to strengthen trade and economic linkages, with an upcoming business mission to India in September and planning underway for leveraging Black Caps tours in 2016.</li> <li>The Prime Minister and Trade Minister led a business delegation on a trade mission to Saudi Arabia, Kuwait and the United Arab Emirates (UAE) in April, supporting opportunities for NZ businesses and launching initiatives such as the #whynewzealand education campaign in Saudi Arabia. Work to move the NZ-GCC FTA towards legal verification and signature continues.</li> </ul>

## Building Export Markets

KEY:  Implementing  In progress  New

Action	Lead agencies	Status	Comment
<b>Maximise the benefits to exporters of our trade agreements</b>			
Maximise the benefits of accession to the WTO Government Procurement Agreement with roadshows and facilitation of kiwi exporters	NZTE		NZTE has planned a programme help exporters leverage and maximise the benefits of this Agreement. This includes a trade mission to the US to introduce key businesses to the opportunities offered by the GPA.
Successfully implement the Korea FTA and promote the opportunities for New Zealand exporters	MFAT, NZTE		New Zealand is well on track to complete its domestic approval process by September. However, progress through the Korean parliamentary system has been delayed, meaning that we may face a later-than-anticipated entry into force (EIF) date of the FTA. The Ministry is working closely with Korean officials to achieve EIF before the end of 2015.
Set up a cross-agency group that proactively works to reduce non-tariff barriers to trade	MFAT, MBIE, MPI, Customs		Agencies are currently undertaking a stocktake of the work to address non-tariff barriers to trade and are engaging with key industry groups and businesses. The stocktake will inform and direct the effort and activities of the cross agency group.
Target efforts to maintain existing market access and promote FTA uptake	MFAT, MBIE, MPI		<p>Agencies are continuing to work together, in New Zealand as well as in FTA markets (Thailand and Malaysia for example), to promote our FTAs and provide advice to business on FTA utilisation.</p> <p>In its first year of operation, our FTA with Chinese Taipei (ANZTEC) has seen a 15.4 per cent increase in New Zealand exports to reach \$1.15 billion in the year to 31 December 2014.</p> <p>Agencies are continuing to work together, in New Zealand as well as in FTA markets (Thailand and Malaysia for example), to promote our FTAs and provide advice to business on FTA utilisation.</p> <p>In its first year of operation, our FTA with Chinese Taipei (ANZTEC) has seen a 15.4 per cent increase in New Zealand exports to reach \$1.15 billion in the year to 31 December 2014.</p> <p>In addition, work continues to protect existing market access and reduce barriers to exports from NZ businesses. This includes enforcement of trade agreements where necessary, such as the WTO dispute challenging Indonesia's agricultural trade barriers.</p>
Conduct fit-for-purpose tests on market-facing regulatory regimes	Treasury, MBIE, MPI		<p>With the Food Act 2014 scheduled to come into force on 1 March 2016, the focus is on developing regulations to make this Act fully operational. MPI is developing a Food Safety Law Reform Bill to address recommendations of the Government's WPC Inquiry and to improve alignment of legislation across the food regulatory regime. Cabinet has signed off the policy for the Bill, which is now being drafted for introduction by the end of 2015.</p> <p>In April 2015 Ministers requested regulatory agencies take international impacts into account when designing, changing or implementing regulations. MBIE, Treasury and MFAT are working with key agencies to identify and address any issues faced in taking an international connections perspective to regulation.</p> <p>Regulatory impact analysis guidance is currently being updated to prompt agencies to take into account international impacts when designing regulatory change. MBIE is reflecting the two objectives of facilitating movement of skilled people across borders and reducing barriers to competition in its current reviews of occupational regulation regimes.</p>
<b>Develop the world's most efficient and cost-effective border management system to support trade and people flows</b>			
Increase the use of SmartGate at New Zealand airports to speed up people flows	Customs		The Government has committed over \$6 million to fund additional next-generation SmartGates. Nine new generation SmartGates will be installed this year, with the remaining 20 to be installed over the next 18 to 24 months.
Roll out digitally-based operating model for all visa-processing	MBIE		<p>As at June 2015, 60 per cent of visa applications by volume are able to be lodged online. eVisas for Student Visa applicants onshore and offshore and for Work and Visitor visa applicants offshore will be rolled out later in the year, along with VisaView for onshore education providers.</p> <p>Work is underway to enhance technology to allow for family groups and tour groups to apply online (similar to an applicant applying for a single visa) meaning 80 per cent of visa types by volume will be available online during 2016.</p>

## Building Export Markets


KEY:  Implementing  In progress  New

Action	Lead agencies	Status	Comment
Review our biosecurity system to ensure it effectively manages biosecurity risks as volumes of passenger movements and goods grows	MPI		Initial engagement with key stakeholders completed. Draft Direction statements to go to public consultation in late 2015.
Complete trade single window for exporters and importers	Customs, MPI		Continue the progressive roll out of Trade Single Window into 2016.
Establish Mutual Recognition Programmes to ensure efficient passage of New Zealand goods	Customs		Customs New Zealand is actively working with countries that make up New Zealand's top six export markets to develop security arrangements that ensure efficient passage for New Zealand goods.
Implement Border Clearance Levy to allow border management systems to adjust for changing volumes of travellers.	MPI, Customs		Public consultation is completed. Implementation expected by 1 January 2016.
Develop a Trusted Traveller and Trusted Traders border programme with key trading partner countries	MPI, Customs, MBIE, DIA, Transport		Scoping work will focus on exploring the concepts of Trusted Trader and Trusted Traveller, how to operationalise Research, Science and Technology; and address issues around infrastructure supporting trade.

### Grow NZTE's portfolio of export-active companies

Grow NZTE's number of intensively-engaged companies from 500 to 700	NZTE		NZTE has grown the number of intensively engaged companies it works with to 625. The growth in the portfolio has focused on early stage ICT, Māori, and premium food and beverage companies.
Relaunch the Regional Business Partners Programme to build the pipeline of innovative regional export companies	NZTE		The RFP for the Regional Business Partners Network is currently in the market (closes 28th August). Successful respondents will begin delivering the contracts from 1 January 2016. An official relaunch is likely to be around March 2016.
Identify and support business-led coalitions to enter new offshore markets	NZTE		Build a business-led pipeline of firms seeking to collaborate in order to enter into new offshore markets The pipeline now has 14 Active coalitions involving 114 companies that are fully formed and NZTE is supporting in-market. There are 12 potential coalitions under development.
Use G2G Knowhow office to develop commercial export opportunities for New Zealand's Public Sector intellectual property and capability	NZTE, MFAT		Over the next year we plan to expand business development activities to grow and diversify G2G income to more countries and across an expanded range of intellectual property.
Set up regional Business Hubs as a focal point for regional business growth activities and coordination of central and local government agencies	MBIE		NZTE and MBIE are investigating the feasibility of creating an initial 3-4 business hubs in key regions to promote regional growth, and serve as a one-stop hub for government interactions.

### Growing international education








Review Education New Zealand to ensure it continues to be fit for purpose and is well placed to achieve the international education industry's medium-term goals	ENZ		A PIF review of Education New Zealand is underway and will be completed during this calendar year.
Expand the Prime Minister's Scholarships to Asia to include the Prime Minister's Scholarships to South America	ENZ		The success of the Prime Minister's Scholarships to Asia has resulted in 470 students from eight New Zealand universities to date being engaged with 30 institutions overseas to extend the understanding and knowledge of Asia for New Zealanders. Additional funding is now planned to extend the scholarships to Latin America.
Use the International Education Growth Fund (IEGF) to support the growth of revenue from education and training delivered offshore	ENZ		Next round of IEGF will open for applications in March 2016. Planning is currently underway to undertake an external review of the effectiveness of the programme to date.

## Building Export Markets

KEY:  Implementing  In progress  New

Action	Lead agencies	Status	Comment
Expand the Education New Zealand Regional Partnerships Programme to accelerate the growth of international education regionally.	ENZ		The Regional Partnerships programme developed by Education New Zealand to support the development and growth of the international education industry in New Zealand's regions, will be expanded to increase both the number of regions that are engaged and also the depth of activity in international education.
Leverage international alumni linkages to lift the skills of our international workforce in the public and private sector	ENZ		<p>Currently around 700 international student alumni have signed up through Kea.</p> <p>The "Every kiwi counts" Kea survey was distributed two weeks ago and is being promoted via ENZ channels.</p> <p>ENZ is currently developing a webpage around Alumni with a call to action to join Kea for <a href="http://studyinnewzealand.com">studyinnewzealand.com</a>.</p> <p>ENZ is focusing on leveraging the international student alumni as brand ambassadors for New Zealand, and New Zealand education, through improved connections and communications on how they can support New Zealand.</p>

### Increasing value to New Zealand from the Tourism Industry




Deliver marketing activity to build shoulder season arrivals	TNZ		Tourism New Zealand launched its renewed 100% Pure New Zealand campaign in July – reflecting a significant shift in timing as TNZ focuses on promoting arrivals in the shoulder season (October, November, March and April). There has already been a shift to an extended peak season, with total holiday arrivals for May up 16.5 percent, making for a record-breaking autumn.
Develop international-standard convention centres in Auckland and Christchurch, and Queenstown	MBIE		<p>Following the signing of the Supplementary Agreement to the NZICC Agreement on 26 May 2015, the NZICC design has proceeded to the Developed Design stage. Planning and design is currently underway for the Christchurch Convention Centre with Master Developer Plenary Conventions NZ and Preferred Operator Accor.</p> <p>The Queenstown Lakes District Council is in the process of planning its proposed convention centre at Lakeview.</p>
Give priority, through the Government's Tourism Growth Partnership, to investment in tourism initiatives that support economic development in regional New Zealand	MBIE		The Prime Minister's portfolio statement, which will be released before the next round of the TGP opens, will signal to the industry that priority will be given to projects that support economic development in regional New Zealand and encourage greater regional dispersal of visitors.
Deepen partnerships with air services industry to strengthen demand and value of routes	MBIE, TNZ		Air Services growth is substantial with capacity expected to grow 6.3 per cent in the year to end May 2016. New services to Argentina, USA and the Philippines as well as more services from China expected this year.
Capture the full potential value from growing Asian visitor markets	MBIE, TNZ		<p>Asia growth has been strong with arrivals up 20.5 per cent for the year to end June.</p> <p>New Zealand's growth in all Asian markets has exceeded Australia's growth over the past twelve months.</p>
Complete Nga Haerenga - The New Zealand Cycle Trail	MBIE		18 of the 23 Great Rides that comprise Nga Haerenga, the New Zealand Cycle Trail are open. Two of the remaining five trails are due to open this financial year.
Establish and implement Māori Tourism Action Plan	TPK, MBIE		Work continues in alignment with the Māori Tourism Action Plan. NZ Māori Tourism continues to build capability in the Māori tourism sector and to develop and promote Māori tourism and trade products to offshore markets.

### Develop and grow New Zealand's international marketing brand

Invest an additional \$3 million in Budget 2015 to boost marketing of the NZ Story offshore, including \$2 million for a business leveraging programme	NZTE, NZ Story		<p>New marketing contact programme launched to increase awareness and uptake of the NZ Story among the export community, with 202 new registrations in July 2015 alone.</p> <p>Over 150 new images loaded onto <a href="http://NZstory.govt.nz">NZstory.govt.nz</a> over August/September providing a complete refresh of the toolkit for users.</p> <p>In addition, the business leveraging programme for Rugby World Cup 2015 is set to begin on 13 September 2015 in a joint initiative with Air New Zealand.</p> <ul style="list-style-type: none"> <li>The initiative showcases stories of New Zealand businesses via NZTE's campaign "The Advantage Line".</li> <li>The campaign utilises NZ Story imagery and assets, draws parallels between rugby and business and provides a platform for businesses to tell their own commercial and brand stories.</li> </ul>
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## Building Export Markets

KEY:  Implementing  In progress  New

Action	Lead agencies	Status	Comment
Expanding and developing the New Zealand Story to attract high-value investor migrants seeking to domicile in New Zealand	NZ Story		Immigration New Zealand is exploring ways to better integrate the New Zealand Story in its activities to high-value, high impact investor migrants.
Relaunch the NZ FernMark to create export ambassadors - brands that capture and encapsulate the New Zealand brand in their products	NZ Story		<p>FernMark Licence Programme on track for relaunch in September 2015. A new criteria and attraction programme will grow the network of visible and authentic brand ambassadors carrying the FernMark internationally.</p> <p>With an Augmented Reality experience attached to the new FernMark device, consumers globally will interact with the NZ Story and link to verification data providing assurance regarding the use of FernMark.</p> <p>A pilot programme is underway with 10 businesses to test and enhance the programme with demand for the FernMark growing in anticipation of the upcoming relaunch.</p>
Use the Major Events Development Fund to grow major events that help tell the New Zealand story	MBIE		The opportunity to consider NZ Story objectives and insights during the Major Events Development Fund investment process is being investigated. The aim is to enable the Major Events Investment Panel and Major Events Ministers Group to consider the ability of major and mega event investments to contribute to strengthening New Zealand's brand and furthering NZ Story objectives.

The list of completed BGA actions can be viewed online in the following location  
[www.mbie.govt.nz/info-services/business/business-growth-agenda](http://www.mbie.govt.nz/info-services/business/business-growth-agenda)



## Building Export Markets

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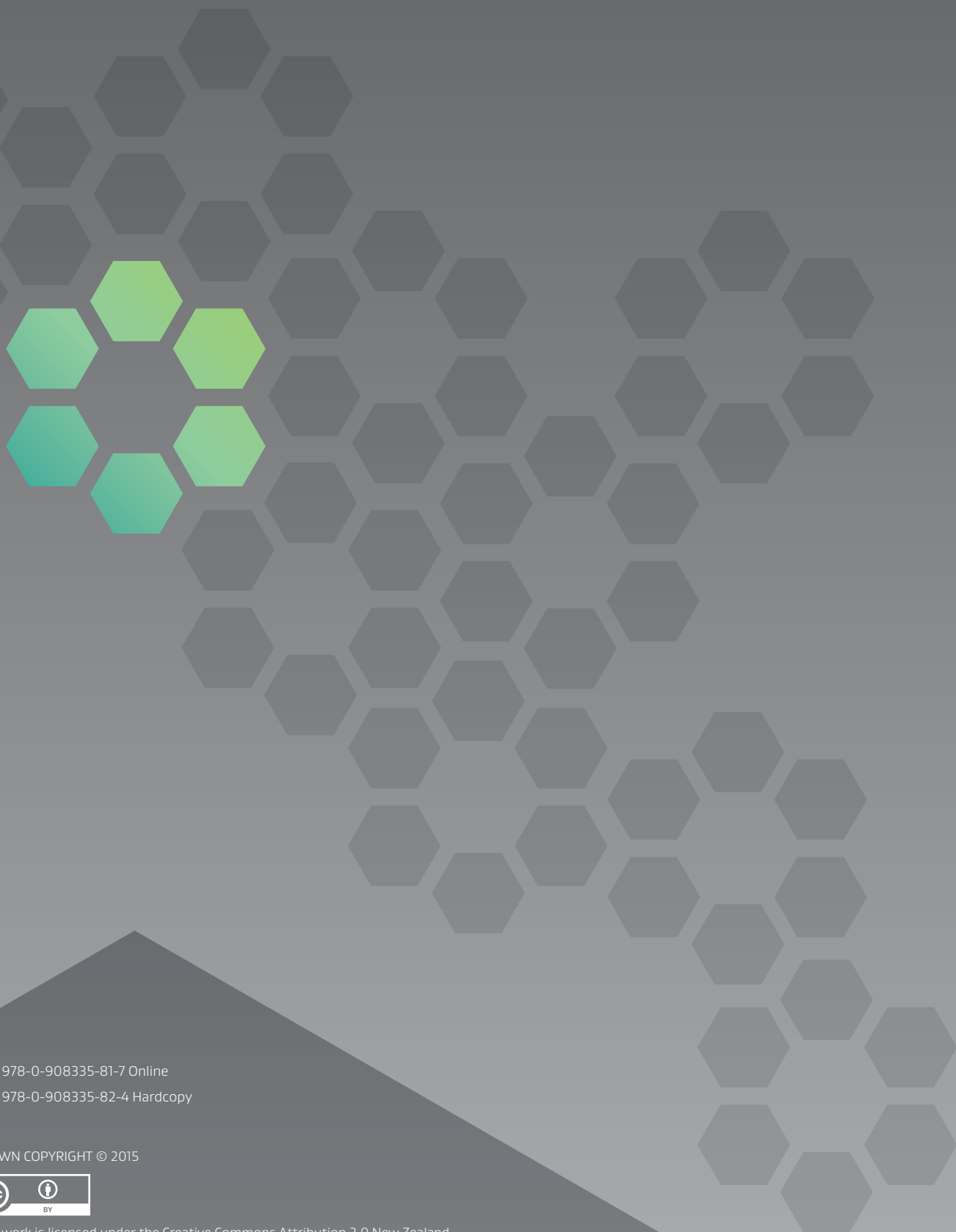


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# 02 Building Innovation

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## Building Innovation

The Government has committed to the following high-level goal:

***Encourage New Zealand's business sector to double its expenditure on Research & Development (R&D) to one per cent of GDP.***

Innovation – the application of new ideas, processes and technologies – enables firms to produce new products and services, and to produce them more efficiently.

The Government is encouraging the development of New Zealand as a hub for high-value, knowledge-intensive businesses to ensure New Zealand's future prosperity. Conducting more R&D and lifting innovation will drive better firm performance and productivity growth, and lead to a wealthier and healthier country.

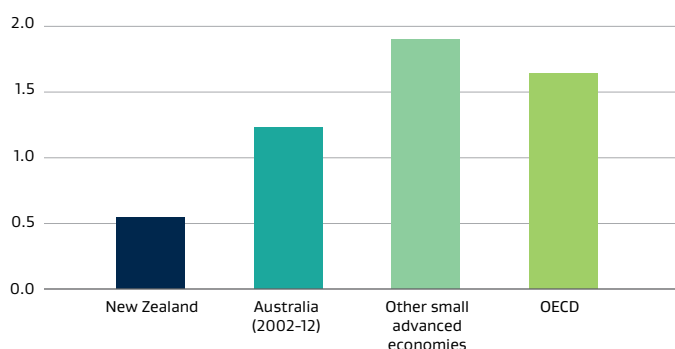
New Zealanders are naturally creative and embrace a “can-do” culture which inspires the development of original products and services. We are the easiest place in the world to start a new business and second for ease of doing business (according to the World Bank's latest Doing Business Report). New Zealand is also recognised for its innovation, recently listed as the 15th most innovative economy in the world (2015 Global Innovation Index). However, our small domestic market and distance from world markets presents an ongoing challenge to scaling up our good ideas and innovative businesses to compete successfully internationally.

New Zealand has recently been developing a strong base of high-tech firms in information and communications technology (ICT), manufacturing, agri-tech, advanced food and beverage, and medical and education technologies. The growth of these firms is underpinned by investment in R&D and by exporting. For example, in 2014, New Zealand's 100 largest technology companies (the TIN 100) spent \$680 million on R&D and had higher offshore sales (\$5.6 billion) than New Zealand's total meat exports (\$5.5 billion). TIN 100 offshore sales were about \$1 billion a year higher than they were in 2008, despite the global financial crisis and the high Kiwi dollar.

R&D performed by New Zealand businesses has been growing steadily, by 6.4 per cent a year from 2010 to 2014. However, this growth is occurring from an historically low base and we have not yet made sufficient progress in closing the gap in R & D intensity with other advanced economies. Measured business expenditure

### New Zealand's business R&D is lower than many other advanced economies

Business expenditure on R&D (BERD) as a percentage of GDP, 2014



## Chapter summary

The level of business investment in R&D in New Zealand is growing rapidly, but needs to grow faster to achieve our goal of lifting Business R&D to 1 per cent of GDP.

Over the next year, the Government will continue to invest heavily in encouraging business innovation, and continually evaluate the effectiveness of programmes aimed at developing New Zealand's high-tech sector. We will use the new Investment Attraction Strategy to attract more R&D by multi-national companies in New Zealand.

We will continue to strengthen New Zealand's innovation infrastructure with our ambitious upgrade of New Zealand's broadband capability, and seek further private sector investment into innovation hubs and precincts around New Zealand.

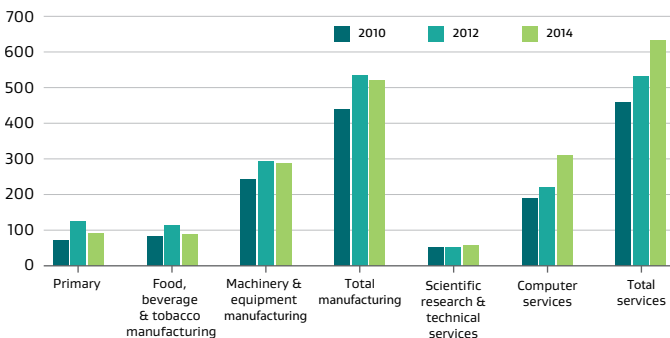
A big focus will be on continuing the development of New Zealand's fast growing digital economy by encouraging innovation in the provision of public sector services, ensuring Government settings encourage the adoption of innovative new business models, and ensuring all New Zealanders have the ability to participate in the modern digital world.

Our programme to increase the impact and relevance of New Zealand's publicly funded scientific research will continue, following on from the release of the final National Statement of Science Investment and the reform of the Ministry of Business, Innovation and Employment's (MBIE) contestable research fund.

We will continue to boost the number of skilled people available to fuel the development of New Zealand's high-tech companies by growing more science, engineering and ICT graduates at home, and developing new ways to recruit entrepreneurs and skilled people from offshore.

### New Zealand is developing a strong base of R&D-intensive firms

Business expenditure on R&D by sector and selected industries, \$ millions



## Building Innovation

on R&D is likely to increase in coming years once a number of new Government initiatives are reflected in R&D statistics, such as new funding for business R&D grants, technology incubators and repayable grants for start-ups.

Other measures of business investment in R&D already paint a stronger picture. For example, the number of full-time equivalent R&D personnel employed by businesses increased by 14 per cent from 2012 to 2014 (from 5,100 to 6,100). The number of R&D personnel is an important leading indicator of investment in R&D.

New Zealand's ICT sector is proving to be an important source of innovation and an engine for export growth. The sector produces twice as many innovations that are "new to the world" than the New Zealand average. ICT is one of the most R&D-intensive sectors – 37 per cent of computer system design firms invest in R&D compared to a New Zealand average of 8 per cent.

The recently released 2015 ICT Sectors Report shows that New Zealand's IT sector has been growing at speed, and our technology sector is increasingly diverse and sophisticated. The value of listed IT stocks on the NZX was \$7 billion as at April 2015. Prior to 2011, that value was below half a billion. There is a steady flow of IT start-ups and early-stage businesses being established. Over the last five years, IT and software firms attracted almost one third of New Zealand's venture and early-stage investment.

The ICT sector is also expanding internationally. The percentage of New Zealand firms with off-shore holdings increased from 18 per cent to 26 per cent between 2009 and 2013. The exports of IT services are growing strongly. The value of IT service exports increased by \$514 million between 2008 and 2014, from \$416 million in 2008 to \$930 million in 2014. Companies such as Orion Healthcare, Xero and AranzGeo are good examples of weightless ICT exporters.

A significant trend is the overall digitalisation of the economy, with some sectors undergoing fundamental changes. ICT and online services provide businesses with a means of overcoming geographical barriers to accessing new markets and customers. New Zealand export businesses are increasingly using online channels to deliver products and services and reach offshore customers, particularly in large markets like China where it can

be very expensive to use existing distribution channels or seek to duplicate those channels.

To be successful in global markets, it is important New Zealand businesses have access to market information, are aware of consumer preferences and have new product development processes in place. Government supports commercialisation by providing market and investment information from New Zealand Trade and Enterprise (NZTE) and MBIE across a range of sectors, helping to fund commercialisation activities, and in some cases through the supply of prototyping equipment.

New Zealand makes a substantial investment in R&D through public research organisations, including our universities. Our high proportion of public investment in public research makes this a particularly important source of R&D for business innovation in New Zealand. It is critical for public research organisations and businesses to collaborate in order to successfully exploit this resource. Firms engaged in R&D have greater absorptive capacity to use research created elsewhere in the innovation system, including universities.

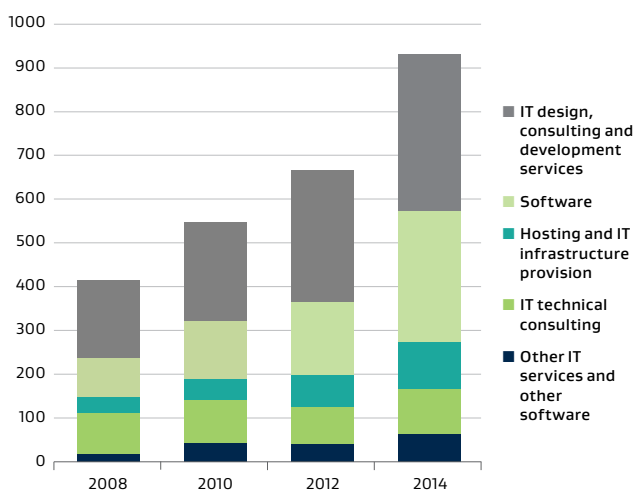
The Government wants to make it easier for businesses to benefit from working with our universities and public research organisations so that we can achieve our technological potential. Recent reforms to our contestable science funding have a strong focus on increasing end-user uptake of public research and encouraging research collaboration with businesses.

The new National Science Challenge for Technological Innovation, launched in September, will provide another strong link between businesses and researchers with its emphasis on strategic research into new materials, new manufacturing processes, robotics, automation and analytics.

Innovation hubs and precincts are an important driver of innovation collaboration by physically bringing together industry, education providers and research providers, and driving stronger links between them. The Government has been working with hubs across New Zealand to attract more private sector investment alongside public research organisations.

### IT service exports

NZ\$ millions



Source: Statistics New Zealand

### There is a steady flow of investment into IT companies

Venture and early stage investment in IT and software firms, \$ millions



Source: Ministry of Business, Innovation & Employment

## Building Innovation

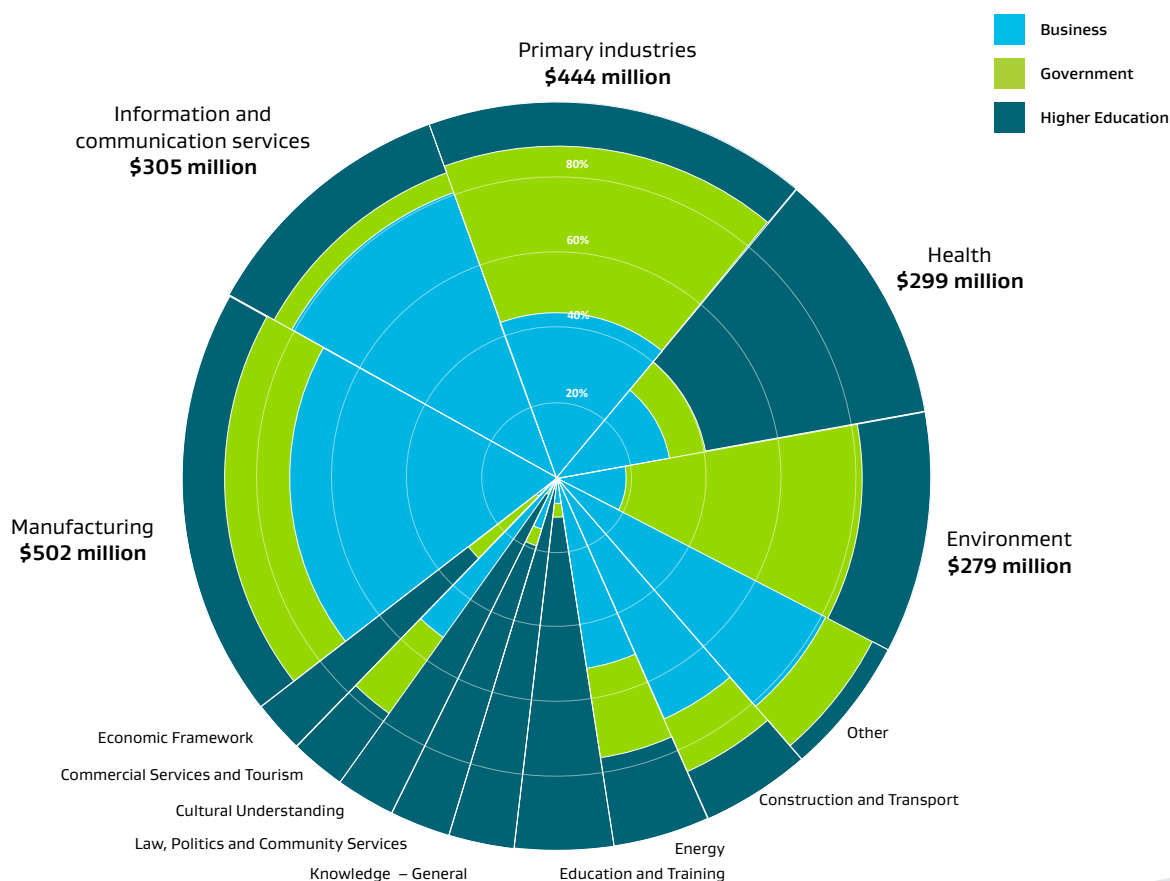
Upgrading New Zealand's communication infrastructure is a crucial part of the Government's agenda to build innovation. The ultra-fast broadband project has now reached 724,000 premises across New Zealand, and uptake is slightly above expectations at this stage of the project at nearly 15 per cent. Meanwhile 93,000 rural copper lines have been upgraded and 242,000 rural premises can now access fixed wireless services under the rural broadband initiative.

Good progress has been made in lifting the number of young people graduating with key skills for innovation. The number of full-time students studying engineering has increased by 25 per cent to over 8,600 between 2008 and 2014, and the number of graduates is up by 383 (23 per cent) over the same period. The number of domestic ICT graduates at the bachelors or higher level has risen from 1,145 graduates to 1,550 graduates between 2010 and 2014, and plans are underway to accelerate that further with three new ICT graduate schools.

The Government is working with economic development agencies around the country to deliver tailored advice and support to businesses that want to grow through R&D and exports. Auckland, as our largest city, plays an important role in New Zealand's innovation system. Auckland is well-placed, with its large population, high share of foreign firms and high level of exports, to help New Zealand reach its target of increased business expenditure on R&D.

We are making good progress in lifting innovation to drive economic growth but we will need to redouble our efforts if we are to achieve our economic and social goals. To this end, the Government will focus on seven priority areas. The innovation work programme represents a comprehensive set of balanced interventions focussed on the critical areas where progress is likely to make the most difference.

### Expenditure on R&D, purpose of research and sector of expenditure



Source: Statistics New Zealand R&D Survey 2014

### Spot light

# Business Accelerators provide commercialisation skills and capital for savvy start-ups

The Accelerator 'Lightning Lab' was launched successfully in Auckland, as part of a nationwide roll-out of the programme to provide entrepreneurs across New Zealand with the opportunity to supercharge their start-ups.

Starting in March this year, nine teams in Auckland began their 13-week Lightning Lab journey, based at GridAkl. They worked with more than 100 mentors to upskill their entrepreneurial abilities and underwent intensive business planning for their start-ups based on digital technologies. Each team received \$18,000 seed investment and the programme culminated with Demo Day, where teams pitched to a room of more than 200 early-stage angel and venture capital investors for further funding.

More than 500 people tuned in for the livestream of the event from over 11 countries. The event saw huge investment interest, for both the Demo Day fund and the participating start-up ventures. A total investment of \$700,000 was raised.

This year also saw over 200 enquiries for the Lightning Lab from all over the country and offshore. This was a great response from the start-up community, and the applications received were of high quality. The critical ingredient the Investment Panel looked for was

having a remarkable team. Teams chosen were multi-disciplinary, had experience in their respective industries and were very business-savvy.

The interest received was helped by Lightning Lab being established and well-known. While this was the first programme to be hosted in Auckland, it marked the third Lightning Lab programme in New Zealand. The two digital Lightning Labs in 2013 and 2014 saw a total of nine new start-up companies receive \$4.4 million in early-stage angel funding between them.

The next Lightning Lab is being run in Christchurch by the Canterbury Development Corporation. The Christchurch programme is being delivered in the new GreenHouse Innovation Hub within the Innovation Precinct. Ten teams have been selected and are currently participating in the programme, which will come to an end in mid-November in the form of a Demo Day.

In a first for New Zealand, Lower Hutt is hosting a Lightning Lab pilot to give start-ups with a physical product, for example hardware, the opportunity to grow their companies faster. The accelerator commenced in August with seven participating teams, and is due to run until November 2015.

### Spot light

# E-Health and the drive to digitise

## The drive to digitise the health system creates innovation opportunities – at home and abroad.

The potential for digital solutions to improve health outcomes and the productivity of the health system is without question. Based on the common national identity number, contemporary privacy environment and a history of ICT adoption by clinicians, New Zealand has a unique environment to experiment fast, create proven solutions and grow smart and relevant health ICT companies. This gives health ICT vendors the opportunity to market proven systems offshore.

Health is New Zealand's second-fastest growing sector and second-largest by employment growing 8.1 per cent in 2014. The size and growth of the sector heightens the need to improve productivity and provision. The 2015 TIN 100 report describes the healthcare sector as "the largest opportunity of our generation", with annual growth expected to average 5.2 per cent between 2014 and 2018.



Digitalisation of the health sector also has real benefits for New Zealanders, a third of whom have real-time access to their health information online via a patient portal. We are growing the number of mobile applications, monitoring devices and other equipment that can interact with consumer health information, bringing the 'internet of things' to the health sector.

### Major milestones achieved over the last year include:

**Committed up to \$210 million to extend ultrafast broadband to cover at least 80% of New Zealanders.** As at June 2015, 724,000 end users were able to connect through the UFB initiative.

**Three new technology incubators established**

to create new R&D-intensive start-ups. Eighteen high-tech start-ups are on their way to commercialising valuable new intellectual property(IP) after receiving repayable grants of up to \$450,000 over two years.

**Invested an additional \$100 million in the Rural Broadband Initiative.** As at June 2015, 242,000 end users were able to connect through the RBI programme.

**Legislation implemented to ensure the tax system does not discourage R&D.**

**Allocated \$28.6m over four years for the ICT Graduate School programme.**

Successful proposals for Auckland and the South Island have been announced.

**Launched and implemented six National Science Challenges** which align and focus New Zealand's research on large and complex issues by drawing scientists together to achieve a common goal through collaboration.

**Grown the number of engineering students by 25% over six years and the number of graduates by 23%.** Lifted the number of degree-level and above ICT graduates from 1,145 in 2010 to 1,550 in 2014.

**Launched the New Zealand Business Number (NZBN),** a single identifying number assigned to all businesses, government agencies and commercial entities, designed to make it easier for businesses to work with government.

**485 high-tech firms increased their investment in R&D** through government grants with \$433 million in active contracts. Total funding for R&D grants through Callaghan Innovation increased to \$161.5 million per year.

**Announced that Vodafone, Kathmandu and Wynyard Group will be anchor tenants in the Christchurch Innovation Precinct.**

**Created a new \$50 million Mobile Blackspot Fund** to extend mobile coverage into black spot areas of main highways and key tourist areas.



## Major milestones



# Next Steps

To deliver on our vision of developing New Zealand as a hub for high-value, knowledge-intensive businesses which create value through innovation (including R&D), the Government will focus its efforts over the next year on the following seven key areas.

### 1. Encourage business innovation

We will work through Callaghan Innovation to keep increasing business R&D and provide firms with access to the technical knowledge, product development and commercialisation expertise they need to take their innovative products and services to the world.

Early-stage and start-up businesses are often the generators of new ideas, products and services. Callaghan Innovation is helping to create new R&D-intensive start-ups by funding accelerator and incubator programmes. This includes the new technology incubators, which provide repayable grants for start-ups. Technology-focused incubators are privately-owned businesses that concentrate on commercialising complex intellectual property sourced primarily from publicly-funded research organisations such as universities and Crown research institutes.

Callaghan Innovation also provides New Zealand businesses with access to a range of other products and services to support them to undertake R&D and commercialise their innovations. National Technology Networks enable New Zealand businesses to access R&D and technology expertise from local and international research providers.

The Primary Growth Partnership (PGP) enables innovation in the primary sector and facilitates collaboration across the value chain. Business expenditure on R&D for the purposes of the primary sector has increased significantly since 2004, with the most significant increase occurring between 2010 and 2012, suggesting that it was primarily due to co-funding through the PGP. The Ministry of Primary Industries will implement administrative changes to simplify reporting requirements and provide assistance for facilitating collaboration across the value chain to further enable industries, in particular smaller industries, to access the PGP.

Te Pūnaha Hīringa: Māori Innovation Fund is a new \$2 million per year fund, which will assist Māori collectives to gain the understanding and knowledge needed to realise the economic potential of their assets.

The Pre-Seed Accelerator Fund is intended to stimulate and attract investor interest in publicly-funded R&D. The fund has been in existence for 10 years and data collected in 2014 show steady improvements in commercialisation by research organisations.

## CallaghanInnovation

### What we do

#### Delivering innovation services to businesses

Technology and product development

Access to experts

Innovation skills

Business collaborations

R&D Grants

#### Building New Zealand's innovation capability

Inspiring current and future innovators

Technology networks

International partnerships

Pilot plants, incubators and innovation precincts

National Science Challenge: Science for Technological Innovation



## Building Innovation

### 2. Attract multi-national R&D investment in New Zealand

To achieve the interlinked goals of lifting business R&D and building an internationally-connected science system, we intend to attract more foreign investment in R&D.

Government recently launched the New Zealand Investment Attraction Strategy to encourage more foreign direct investment in New Zealand through direct investment in companies, investment in R&D, and encouraging investor migrants.

Foreign direct investment (FDI) in R&D is 'high-quality' inward-investment. This kind of FDI can have a number of benefits, including better integrating New Zealand into global supply chains, enhancing research skills and capability, and improving the productivity of our domestic firms.

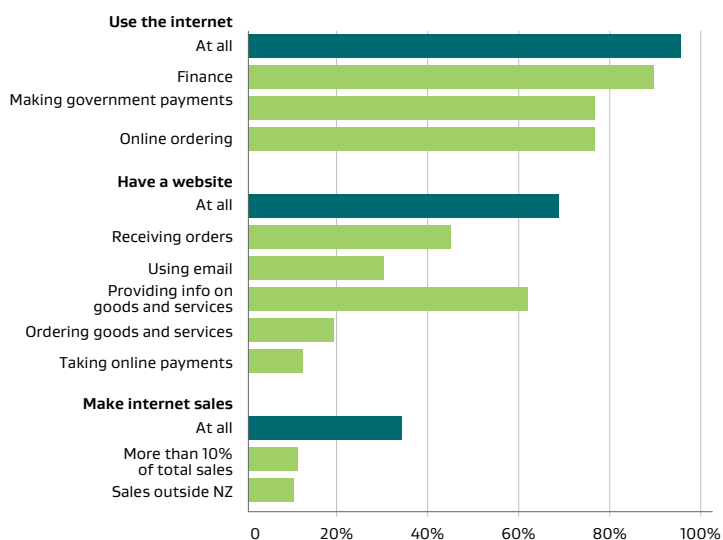
Research has shown that foreign-owned firms located in New Zealand invest more heavily in R&D than domestic firms. Attracting more FDI in R&D will make a significant contribution to lifting business R&D spending. We will develop a more responsive and coordinated approach to R&D investment opportunities, improve our understanding of what influences R&D investment decisions, market New Zealand as an R&D destination, and ensure complementary investments in the science system.

New Zealand produces only 0.5 per cent of the world's science, as measured by citable output; much of the science and technology we rely on is produced overseas. Equally, much of the research undertaken in New Zealand has a global application. We also intend to publish a new international science and innovation strategy in the 2015/16 year. This will encompass:

- Actions to build genuine depth and scale in science collaborations
- International science cooperation, including prioritising opportunities in regions/economies, partner organisations, sectors and access to research infrastructure
- Internationalisation of innovation, including attracting R&D investment from multi-national companies, and connecting international skills and talent to innovation hubs.

### There are opportunities for businesses to extract more value from digital technologies

Percentage of New Zealand businesses, 2012



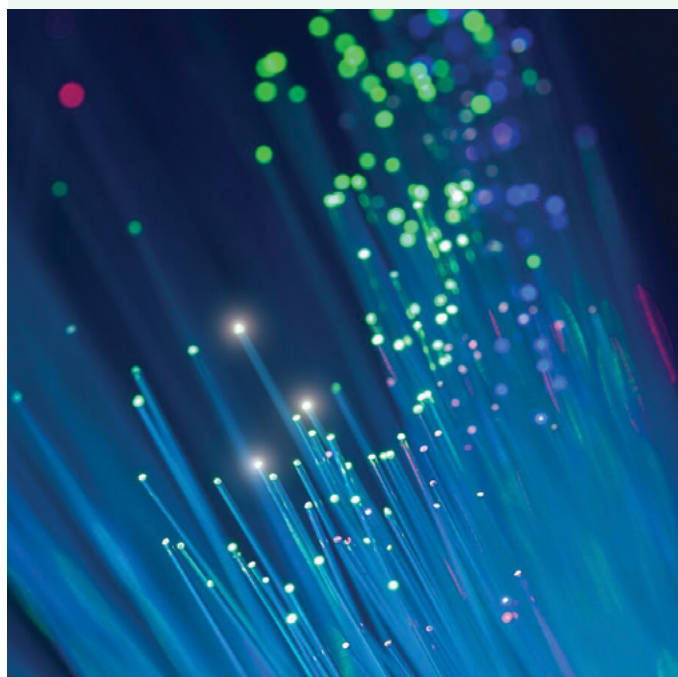
Source: Ministry of Business, Innovation & Employment

### 3. Strengthen New Zealand's innovation infrastructure

Broadband connectivity is an important driver of economic growth and innovation, and is important for social connection. New Zealand is well-positioned to enable innovation that requires fast connectivity services with the extension of the Ultra-Fast Broadband (UFB) programme to at least 80 per cent of the population, and the next round of rural broadband investments. Competitively-priced and resilient international connectivity is also important for businesses, our research and education institutes and other users.

Innovation hubs and precincts contribute to innovative activity by physically bringing industry, education providers and researchers together. Collaboration between industry and public research organisations can help to create scale and depth in the innovation system by bringing together different combinations of knowledge, expertise and resources. Co-location makes it easier for R&D-performing firms to seek tacit knowledge and skills from research activities performed by universities, and to bridge the gap between concepts, production and markets. Our focus will be to ensure that hubs and precincts are emerging that attract private investment with the right scale and characteristics to be sufficiently attractive to multi-national investors.

Regional research institutes also have the potential to improve the connections between industry research and public research, and help the science system become more responsive to end-user needs. We will investigate the establishment of privately-led regional research institutes outside of the three main centres. Regional institutes could add to New Zealand's capacity to accelerate the development of science into technology, attract international R&D investment and expand export opportunities. Institutes could also be used to leverage stronger private sector investment in R&D and help grow business R&D over the medium term.



## Building Innovation

### 4. Make the most of the digital economy by encouraging more effective use and uptake of ICT

The ever-evolving digital world is impacting on almost all aspects of New Zealanders' lives. ICT is changing the way businesses and government operate, how education and healthcare are delivered, how primary industries operate, and how people and communities interact.

Government has a key role to play in ensuring that New Zealand is ready to take advantage of the opportunities driven by this technological change, while still ensuring that we operate securely in an increasingly digital world.

The cross-agency Digital Economy Work Programme will help to ensure that government is focused on the right initiatives and areas to achieve the following high-level outcomes:

- Increasing the proportion of New Zealand's exports from the ICT sector
- Smart use of ICT raising the productivity of New Zealand firms and encouraging product and service innovation across all sectors
- New Zealanders with the skills and opportunities to participate in the digital economy, in the workforce, and critical services online.

The work programme covers a range of interconnected areas that are critical to fostering innovation. Focus areas for the programme include the ICT sector, skills, use of ICT by business, broadband connectivity, security and privacy, regulation, and use of ICT by government.

**Supporting the growth of a competitive, export-focused ICT sector will help to build a diverse and resilient economy.** ICT is a priority sector for attracting international investment – as identified through the New Zealand Investment Attraction Strategy. NZTE are also focusing on early-stage ICT companies as they grow the size of their 'Focus 700' portfolio.

**Ensuring that firms have access to the ICT skills they need to grow is critical to enabling growth in the ICT Sector, as well as other sectors of the economy.** The ICT Skills Forum connects industry associations with government to collectively address challenges for firms in attracting, retaining, and making best use of domestic and international talent. Government is collaborating with NZTech to run a series of immigration seminars and workshops to build business knowledge to use the immigration pathway to find the skills they need, address pain points and ensure immigration adds value to the sector.

**Encouraging better use of ICT by small businesses to improve productivity across the economy is an area led by the private sector, with government support.** For example, MBIE, Crown Fibre Holdings and NZTE are supporting better information and events to promote the benefits of broadband uptake for small business. Government is also helping to build the ICT capability of businesses through NZTE-run Digital Enablement workshops, by providing Business Capability Vouchers, and supporting the Digital Journeys diagnostic tool, which helps businesses build customised action plans to improve their competitive edge.

Government initiatives, such as Business Accelerators and introducing the New Zealand Business Number, help reduce business costs and make operating in a digital environment more attractive for New Zealand businesses.



**Enhancing domestic and international connectivity so that New Zealand is a highly connected society and a leader in digital innovation will enable the continued growth of the digital economy.** This is a key component of priority area three: Strengthening New Zealand's innovation infrastructure.

**Government is continuously monitoring regulations to ensure that they enable the development of ICT-rich innovative products and services.** This is addressed in priority area five: Adopt regulations that support innovative new ICT products and services.

**Striking the right balance between innovation, security and privacy protection is key to a strong ICT sector, and will ensure that all New Zealanders operate securely in an increasingly digital world.** We have an opportunity to position New Zealand as a cyber-security leader, by encouraging firms to develop security solutions and promoting our approach with robust privacy settings. The refresh of New Zealand's Cyber Security Strategy and Action Plan will provide clear direction for a response by both the government and private sector to evolving cyber threats.

### Spot light

# Māori business engagement with the innovation system

He kai kei aku ringa (HKAR) – The Crown Māori Economic Growth Partnership – identifies challenges that Māori-owned firms and the businesses of Māori collectives face in engaging with the science and innovation system.

Callaghan Innovation is now active in providing expertise and networks to assist Māori businesses to understand their R&D needs and use R&D to take their products up the value chain.

In May 2015 Callaghan Innovation held a first-of-its-kind Inspire event specifically aimed at Māori businesses. Experts were brought out from Stanford University's Business and Design School to speak on innovation and the use of design-thinking in business. A significant aim of the event was to generate an increased focus on innovation and to motivate businesses to become more ambitious.

The event was held over two days and representatives from 70 leading Māori businesses attended. The event included presentations from some of Māori's most innovative businesses and a site visit to Fisher and Paykel Healthcare's innovation hub. Practical workshops were held with the Stanford design experts. The Stanford group remained in New Zealand for a week and held workshops with Māori business.

## Nuku ki te Puku cluster

Building on the learnings from the 2014 delegation to the United States of America, two significant Māori entities, Ngai Tahu and Te Arawa Group Holdings, joined the Nuku ki te Puku cluster and participated in this year's delegation to San Francisco. They attended the IP Innovation Food and Agricultural event held at the Mixing Bowl Hub, Silicon Valley. The visit has built on the cluster's exposure to the latest developments in food technology and food industry trends, as well as supporting them to establish connections with international and US-based food technology experts.

A highlight was connecting with Treasure8, a food innovation and technology company. Discussions are underway to partner with Treasure8's R&D team to produce healthier foods using innovative food technologies, and to explore opportunities for cluster



members to establish a presence in Treasure8's innovation hub. Connections were made with a number of international experts via a targeted workshop at Stanford University, to build on relationships established through the government-supported Stanford Bootcamp Programme and the Callaghan Innovation Inspire Event, which Stanford facilitated. A full day with IBM executives provided invaluable insight into the use of technology to make sense of large data using algorithms that can then be used to drive a business's commercial decisions.

**Ensuring that New Zealanders can fully participate in a digital world and allow communities to realise the educational, economic and social benefits of ICT.** As ICT becomes more integrated into the lives of New Zealanders it is important to ensure all citizens have the skills and confidence to make the most of these digital opportunities.

The Government is establishing a \$30m Māori ICT development fund to support Māori economic development and Māori language and culture through ICT. The Ministry of Education (MoE) is currently considering next steps for the Computers in Homes initiative, which provides training, technical support, refurbished computers and home Internet to families of students in low-decile schools. Work is also underway to improve digital literacy through Pathways Awarua, established by the Tertiary Education Commission.

Government is continuing to strengthen its understanding of digital participation and literacy issues by supporting the research of the World Internet Project.

**Through the Better Public Services Result 9 "Better for Business" and Result 10 programmes, government is improving its interactions with businesses and the public through the use of digital technology.** Government is working with the private sector to trial new and innovative models for procuring effective ICT solutions and tackling difficult problems. This work includes the Result 9 Accelerator programme and the GovHack NZ event hosted in Wellington in July.



### 5. Adopt regulations that support innovative new products and services

Our regulatory systems need to be flexible enough to allow for disruptive innovation. Innovation-friendly regulation can help society make the most of its technological and creative potential.

The convergence of the telecommunications, IT, media and entertainment sectors has opened up new opportunities for businesses and consumers, but requires government to ensure regulatory systems reflect modern realities. To address this, the Government is taking a comprehensive look at existing regulatory settings. This includes a review of the frameworks for telecommunications, consultation on the regulation of content, and the tax treatment of cross-border services and how this is impacted by market and consumer trends.

The creative industries have become a core part of New Zealand's economy. According to research commissioned by industry group WeCreate, the film and television, book and music industries alone contribute \$3.5 billion to New Zealand's GDP. We intend to undertake a study to deepen our understanding of how these industries use the copyright and designs regimes. Compiling a quality evidence base will help us gauge whether these regimes are enabling us to make the most of our technological and creative potential.

The creative sector study is intended to encourage a discussion between government, business and the wider community about the role of copyright and registered designs in light of a rapidly changing technological landscape.

New Zealand's competition law regime is designed to promote competition for the long-term benefit of consumers. Competitive rivalry incentivises firms to invest in innovation, which helps them become more competitive and successful in global markets. While New Zealand's competition law regime is generally regarded as being at or near international best practice, we are committed to systematically reviewing key elements of this regime that will enhance competition to drive innovation and protect consumers.

Specific actions we are taking include reviewing the misuse of market power prohibition and related matters in response to the Productivity Commission's recommendations in their Boosting Services Sector Productivity inquiry. We will also pass the Commerce (Cartels and Other Matters) Amendment Bill to criminalize serious cartel behaviour and clarify the law in relation to pro-competitive collaborative arrangements.

To reduce other potential barriers to competition, we are:

- Amending the Dumping and Countervailing Duties Act 1988 to introduce a bounded public interest test which takes into account the effects of imposing anti-dumping and countervailing duties on competition and consumer welfare
- Developing best practice guidance on elements of occupational regulation regimes, starting with the criteria for rule-making, and testing this with reviews that are currently underway
- Giving greater prominence to competition analysis and international connections in regulatory impact analysis guidance
- Reviewing the current civil aviation exemption from competition law as part of the Ministry of Transport's Civil Aviation Act review.



## Interactive games industry

The New Zealand interactive gaming industry has rapidly grown from small beginnings to become a multi-million dollar export industry and one of the core sectors of New Zealand's creative economy. According to research commissioned by the Interactive Games and Entertainment Association, New Zealanders spend over \$295 million on interactive games each year. Interactive games are a serious business for New Zealand.

The disruptive growth in digital sales, via app stores and broadband internet, has also led to a boom in exports of New Zealand-made game software. The New Zealand Games Developers Association reports that export revenue more than doubled in the year to 31 March 2014 to \$80.2 million.

The vast majority of earnings are derived from exports of smartphone and online games primarily through the Internet and app stores – ideal weightless exports. A number of New Zealand-made interactive software games have reached a large international audience. 'Path of Exile' by Grinding Gear Games now has over seven million customers and was awarded the Best PC Game of 2013 by 'PC Gamer magazine'. In 2014 PikPok's 'Into the Dead' had over 30 million downloads and its Dreamworks-licensed title, 'Turbo FAST', crossed the 50 million download mark. Over 100 million users are registered on PikPok's game platform.

New Zealand game developers were early adopters of digital distribution, allowing them to compete on the world stage. These firms have established an international reputation for producing high-quality games and have a loyal fan base. The key to their success has been to create innovative products, maintain ownership of the creative intellectual property and adopt innovative models such as in-app purchases and advertising embedded in games.



## Building Innovation

### 6. Increase the impact and relevance of publicly-funded scientific research

We have recently launched the final National Statement of Science Investments (NSSI) to set a clear strategic plan for the science and innovation system. A draft NSSI was released for public consultation in May 2014. The final NSSI sets out the Government's vision for the future science and innovation system in New Zealand over the next 10 years and identifies the key priorities for investment.

Improving the impact and value of the Government's investments in science and innovation requires robust monitoring and evaluation. We are investing in a data improvement project to develop better information to help drive system performance. This information will inform the development of an annual science and innovation system report. In turn, the report will provide a solid base for assessing the impact of the Government's investment in public science research and innovation, enable more informed prioritisation and policy choices, and provide a useful tool for researchers and other participants in the science and innovation system.

New Zealand makes a substantial investment in R&D through public research organisations (PROs). Our high proportion of investment in public research makes it a particularly important source of R&D for business innovation in New Zealand and means that it is critical for PROs and businesses to collaborate and share knowledge. The Government aims to make it easier for businesses to benefit from working with PROs so that we can better reach our technological potential.

Recent changes to the science and innovation system have aimed to increase the relevance and impact of research by focusing on end-user engagement and uptake of research. The National Science Challenges, the introduction of Crown Research Institutes (CRI) core funding and ongoing changes to contestable funding are key elements of this shift.

The new MBIE-contestable research fund will be introduced through the 2016 funding round, with a call for proposals issued by the end of 2015. It will support research through an open competition of excellent research ideas with the purpose of creating value for New Zealand through challenging and transforming our economic performance, strengthening our stronger society and the sustainability and integrity of our environment. We will issue a triennial investment plan in October 2015, providing a three-year view of expected investment opportunities through the fund and signals of how the Government wants to grow and change our investment. The fund will provide funding through two investment mechanisms: one to rapidly test promising, high-risk research with potential for impact; and the other to develop ambitious, well-defined and excellent research ideas to impact.

The Government recently launched the Science for Technological Innovation National Science Challenge. The Challenge will develop new and innovative technologies to create commercially successful, breakthrough products. It will enhance New Zealand's capacity to use physical and engineering sciences for economic growth with an emphasis on new materials, new manufacturing processes, robotics, automation and analytics. The Challenge will see businesses involved in the research process earlier on, to help create ground-breaking technology that can be more easily commercialised.

CRI core funding was introduced in July 2011. The contracts for CRI core funding will expire in June 2016. As current contracts come to an end we will look at the ongoing role and level of core funding. We propose to review CRI core funding to determine its fit in the science system and assess its impact across various domains.

### 7. Grow the availability of innovation skills in New Zealand

Being able to access the right skills is crucial to firms' ability to grow and innovate. Supporting greater innovation across our economy – and attracting high-value, knowledge-intensive firms to New Zealand – will mean growing our supply of workers who are highly skilled in technology (including engineering and ICT) and the sciences, and fostering entrepreneurship and an "innovation mindset" across our business community.



To meet the existing needs of our growing high-tech industries, we have invested in engineering training in order to lift the number of graduates by an additional 500 per year by 2017, and we are establishing ICT Grad Schools in Auckland, Wellington and Christchurch to link students with industry and deliver graduates with work-relevant, business-focused skills. We are also looking at further ways to support and attract entrepreneurial talent, both in New Zealand and from abroad. The September 2015 launch of the Science Challenge, Science for Technological Innovation, includes a focus on building New Zealanders IT, data analytics and modelling skills.

In the longer term, strengthening New Zealand's pipeline of talented innovation workers starts with engaging our young people and our communities. A range of initiatives are in place under the Science in Society strategy A Nation of Curious Minds – He Whenua Hihiri i te Mahara to engage New Zealanders of all ages in science and technology, spark interest in science and technology careers, and foster the ongoing curiosity on which innovation depends. These include the Unlocking Curious Minds contestable fund supporting local and regional projects that engage communities to learn about science, and a participatory science platform to create research partnerships between communities and scientists.

A review of the positioning and content of digital technologies in the New Zealand Curriculum and Te Marautanga o Aotearoa is underway. The review is a priority action in A Nation of Curious Minds. The review will identify the competencies, skills and knowledge we want for all our students to equip them as digital citizens, and the skills students need to pursue digital technologies for NCEA and beyond. It will enable the development of options for changes to the curriculum, and provide advice on how to ensure implementation is effective.

# Innovation in the screen industry



In April 2015 Callaghan Innovation launched the inaugural C-Prize, an innovation competition aiming to boost New Zealand's position as world leader in the development of unmanned aerial vehicles (UAV) technology in the screen industry.

The goal of the C-Prize is to encourage Kiwi innovators to develop cutting-edge UAV technology that solves technical challenges and opportunities identified by leaders in the New Zealand screen industry. These include improving their ability to record and reproduce high-definition sound, operate in rough weather, and track objects for augmented reality and visual effects purposes. The C-Prize also gives the screen industry an opportunity to engage with New Zealand's wider commercial and scientific communities.

The competition is co-sponsored by Kiwi UAV and technology companies Animation Research Ltd, Aeronavics, Shotover Camera Systems and Park Road Post, with the support of NZTE, the NZ Film Commission, the New Zealand Cinematographer's Society, Creative HQ, Sqore, the UAVNZ industry association, Massey University and the OpenLab. It is open to individuals based in New Zealand or teams with two or more members residing in New Zealand.

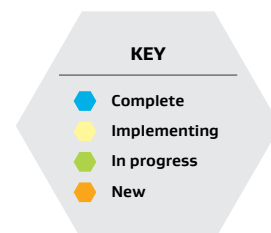
The best UAV design entries were revealed in July, with each of the six finalists receiving \$10,000 each, as well as support through workshops to develop their designs into working prototypes. The teams have four months to build, test and present a business pitch on their working prototype before the overall winner is announced on December 1. The ultimate prize is \$50,000, as well as an expenses-paid trip to exhibit at the 2016 National Association of Broadcasters trade show in Las Vegas, the largest international trade show for media content and technology.



## Project update

We have now completed 33 projects in the Building Innovation workstream. This report adds 34 new projects. We have 13 existing projects in progress and 15 in the final implementation phase.

BUILDING INNOVATION					
	Projects	New	In progress	Implementing	Completed
Status August 2014	63	2	20	13	28
Status June 2015	95	34	13	15	33



## Projects and progress

Projects	Lead agencies	Status	Comment
<b>Encourage business innovation</b>			
Refine Callaghan Innovation Grant Programmes and product offerings to maximise increases to business innovation	MBIE, CI	In progress	MBIE and Callaghan Innovation are working together to identify improvements that can be made to existing grants programmes so that grants programmes and other business support work together more effectively to increase business innovation.
Conduct a Performance Indicator Framework Review on the development and implementation of Callaghan Innovation	SSC, CI	New	SSC will commence a PIF Review in early 2016 on the implementation of Callaghan Innovation, how well it is placed to deal with the issues that confront it in the medium-term future, and areas where it needs to do most work to make itself fit for the future.
Strengthen Callaghan Innovation's regional footprint to encourage innovation by regional firms	CI	New	Callaghan Innovation is exploring opportunities to strengthen its regional presence, consistent with demand for its services in the regions.
Enable smaller primary sector industries/firms to innovate through the PGP	MPI	In progress	MPI will implement administrative changes to simplify reporting requirements and provide assistance for facilitating collaboration across the value chain to further enable industries, in particular smaller industries, to access PGP.
Evaluate progress with the new Technology Incubators and the performance of the wider incubator system	MBIE, CI	New	MBIE will evaluate the remodelled Incubator Support Programme in 2016, and then conduct a performance evaluation of the Incubator Support Programme at the end of its 3-5 year pilot. Callaghan Innovation is conducting annual operational reviews of its Technological Incubators, with the first one completed in August 2015 and the next one due by 31 August 2016.
Review the Pre-Seed Accelerator Fund (PSAF) allocation	MBIE	New	Investigate if the PSAF allocation is at an optimal level to meet demand. Review will be complete by the end of 2016.
Improve the standards infrastructure to support productivity and innovation.	MBIE, Standards Council	In progress	The Standards and Accreditation Bill 2014 will implement new arrangements for the standards and conformance system. It awaits Third Reading. Standards New Zealand, the Standards Council and MBIE are working closely together to make sure there is a seamless transition to the new arrangements.
Alleviate black hole R&D expenditure and introduce a R&D tax cash-out	IRD, Treasury	Implementing	Legislation alleviating black hole R&D expenditure and allowing innovative start-ups to cash-out R&D tax losses was introduced in February 2015 to apply from the 2015/16 financial year.
Further leverage 'Better by Design' programme to encourage firms to undertake design-led innovation	MBIE	Implementing	Good progress has been made to grow the number of businesses in Better by Design's new programme with 49 businesses now in the programme, 53 per cent growth this financial year.

Projects	Lead agencies	Status	Comment
Assist Maori collectives to gain knowledge and realise their potential through Te Pūnaha Hīringa: Maori Innovation Fund	MBIE	<span style="color: yellow;">●</span>	The Fund has two streams: 1. Commercial Advisors Scheme (80 per cent of the Fund, \$1.6 million per annum): Māori collectives can apply for funding for a Commercial Advisor who will mentor and support the collective through professional advice. 41 collectives were approved for funding in April 2015. 2. Governance and Management Development Scheme (20 per cent of the Fund, \$0.4 million per annum): Members of Māori collectives can attend subsidised training in governance, management or business skills. This stream has been underway since February 2015.
Maximise the competitiveness of the New Zealand business environment to encourage innovation	MBIE	<span style="color: yellow;">●</span>	The Commerce Commission (International Cooperation and Fees) Act was passed in October 2012, the Consumer Law Reform Bill was passed in December 2013, and the Commerce (Cartels and Other Matters) Amendment Bill is awaiting the Committee of the Whole stage. These legislative changes will support a more competitive business environment and deter anti-competitive behaviour.
<b>Attract multi-national R&amp;D investment in New Zealand</b>			
Use the New Zealand Investment Attraction Strategy to encourage more multinational companies (MNC) to conduct R&D in New Zealand	MBIE, NZTE, CI	<span style="color: orange;">●</span>	Current work includes resourcing an 'end to end' model to provide consistency across all phases of attraction, led by MBIE in cooperation with NZTE and Callaghan Innovation. Underpinning this model is New Zealand's unique value proposition as an attractive place to conduct R&D. This includes initial identification of priority sectors where New Zealand has an existing competitive edge, to be confirmed by the end of 2015. This value proposition is strengthened by wrapping government support around MNCs to help them navigate the New Zealand policy landscape. The project will soft launch in early 2016, aiming to be fully resourced by early 2017.
Specifically encourage Multi-National Investment in innovation hubs around New Zealand	MBIE, NZTE	<span style="color: orange;">●</span>	The current work programme around MNC investment in New Zealand-based R&D is focused on attracting investment into our Innovation Hubs as they develop. This project is in its early stages, with Lincoln Hub currently being treated as a priority. Plans to develop a fulltime MNC attraction manager for the Lincoln Hub are underway in the short term. In the medium term there is also scope to extend similar support arrangements to other Innovation Hubs as resources allow.
Develop an International Science and Innovation Strategy to prioritise our offshore engagement	MBIE	<span style="color: orange;">●</span>	The Strategy will incorporate a stronger international dimension to guide the Government's science and innovation activity and will encompass: Actions to build depth and scale in science collaboration; prioritisation of regions/economies, partner organisations and sectors and research infrastructure access opportunities; and leveraging opportunities presented by the New Zealand Investment attraction strategy.
Design science and innovation components for upcoming NZ Inc. strategies with the EU, Australia and the US	MBIE	<span style="color: yellow;">●</span>	MBIE is implementing science and innovation components of NZ Inc Strategies for Australia, India and China.
<b>Strengthen New Zealand's innovation infrastructure</b>			
Increase the rollout of New Zealand's fibre-to-the-premises UFB programme to at least 80 per cent of the New Zealand population	MBIE, CFH	<span style="color: orange;">●</span>	<p>As at 30 June 2015, deployment of the first phase of the UFB programme was 54% complete and more than 724,000 end users have access to fibre and 106,000 users are connected (14.6% uptake). New Zealand had the highest annual growth of fibre connections from June 2013 to June 2014 among developed countries.</p> <p>The Government has announced its intention to extend the UFB programme to cover at least 80 per cent of New Zealanders, and additional investment of up to \$210 million.</p> <p>It is expected that successful UFB providers and towns covered will be announced from early 2016.</p>
Set a new target for broadband speed in rural areas by 2025	MBIE	<span style="color: orange;">●</span>	<p>The Government has announced the following new rural broadband targets to be achieved by 2025:</p> <ul style="list-style-type: none"> <li>99% of New Zealanders have access to broadband at a peak speed of 50Mbps</li> <li>100% of New Zealanders have access to broadband at a peak speed of 10Mbps</li> </ul>



## Building Innovation

KEY: ● Implementing ● In progress ● New

Projects	Lead agencies	Status	Comment
Roll-out Stage 2 of the Rural Broadband Initiative and the Mobile Black Spots Fund to lift speeds towards the new broadband target	MBIE, CFH	<span style="color: orange;">●</span>	<p>As at 30 June 2015, over 242,000 rural homes and businesses are able to access fixed wireless broadband and more than 93,000 rural lines have been upgraded to deliver improved fixed-line broadband.</p> <p>Government is investing an additional \$100m in the Rural Broadband Initiative and is creating a \$50m Mobile Black Spot Fund which will extend mobile coverage into black spot areas of main highways and key tourist areas.</p> <p>Announcements on successful areas for the next stage of improved rural broadband and mobile coverage will be made in 2016, following decisions on new UFB areas, to ensure efficient overall broadband coverage.</p>
Encourage the development and review performance of New Zealand's innovation hubs and precincts	MBIE	<span style="color: orange;">●</span>	<p>Construction has begun on some sites in the Christchurch Innovation Precinct. High-level architectural plans for the new buildings at Lincoln Hub have been developed and Cabinet approved \$107.5 million for Lincoln University's Hub-focused rebuild. Food HQ in Palmerston North has expanded its membership. Callaghan Innovation is investigating options to revitalise its Gracefield campus in Lower Hutt as a high-value manufacturing innovation precinct.</p> <p>MBIE will be investigating relevant performance metrics for measuring the indicative impact of New Zealand innovation hubs and precincts. Findings will be reported on during the latter half of 2015.</p>
Establish new privately-led regional research institutes	MBIE	<span style="color: orange;">●</span>	Specific criteria for determining the location, research focus and allocation of funding to establish regional research institutes are being determined prior to an expressions of interest and request for proposals process.
Review investments in scientific infrastructure in New Zealand, and in particular digital research infrastructure	MBIE	<span style="color: orange;">●</span>	MBIE will commission a review of existing digital research infrastructure investments. This review will consider existing investments in REANNZ, NeSI and NZGL, and how future Crown and sector investment can better support science, innovation and broader economic opportunities in big data, analytics and ICT research. The review will report back to Minister Joyce by November 2015.
Increase the number of Centres of Research Excellence (CoREs)	TEC	<span style="color: yellow;">●</span>	Two selection rounds to fund three general CoREs and one Māori CoRE have been completed and the successful applicants announced. Contract negotiations are now underway between CoREs and the TEC, with the new CoREs to be funded from 1 January 2016. This will increase the total number of CoREs to 10.
Strengthen the governance of universities to ensure a stronger economic contribution to New Zealand	MoE	<span style="color: yellow;">●</span>	<p>The Education Amendment Act 2015 provides for smaller university and wānanga councils and increases the flexibility to enlist the skills required for governance. The deadline for new councils to be in place is 30 June 2016, however many institutions have started the transition sooner.</p> <ul style="list-style-type: none"> <li>Two new councils are in place for the University of Canterbury and Te Wānanga o Aotearoa</li> <li>Six out of 11 of the universities and wānanga have had new constitutions gazetted</li> </ul> <p>Three institutions that have not yet provided proposed constitutions are consulting with stakeholders on proposals.</p>
Allocate funding for an anchor tenancy on a second trans-Pacific cable	MBIE	<span style="color: yellow;">●</span>	The Government has agreed to fund \$15 million to secure anchor tenancy for Research and Education Advanced Network New Zealand (REANNZ) on the proposed Hawaiki trans-Tasman and trans-Pacific cable. This agreement is conditional on Hawaiki's ability to obtain financial capital for the project.
<b>Make the most of the digital economy by encouraging more effective use and uptake of ICT</b>			
Establish a Digital Economy Work Programme to maximise digital uptake and productivity growth across New Zealand	MBIE	<span style="color: orange;">●</span>	<p>The Digital Economy Work Programme is being developed to ensure that government is collectively focusing on the right initiatives, in the right areas, to support the development of New Zealand's ICT Sector and the uptake and smart use of ICT across the economy.</p> <p>This work programme covers a range of interconnected areas that are critical to fostering innovation through technological change. Focus areas for the programme include the ICT Sector, skills, use of ICT by business, broadband connectivity, security and privacy, regulation, and use of ICT by government.</p>

Projects	Lead agencies	Status	Comment
Encourage better use of ICT by small businesses to improve productivity across the economy	MBIE	<span style="color: orange;">●</span>	<p>Government is providing information on how ICT can be used within a firm to boost productivity and better connect with consumers and suppliers, and has supported the Digital Journeys diagnostic tool which helps businesses build customised action plans to improve their competitive edge through ICT.</p> <p>Work is also underway to build the capability of small businesses so that they are able to make the most of the opportunities from ICT. NZTE have run Digital Enablement workshops in Northland and Southland aimed at small business, and are trialling a new digital service targeted towards NZTE F700 customers and the wider business community.</p>
Deliver the Better Public Services Result 9 “Better for Business” programme to make B2G transactions easier	MBIE	<span style="color: green;">●</span>	<p>The Result 9 target of a 25 per cent reduction in the cost for business of interacting with government has made progress over the past two quarters – the current indexed Government score representing a 16 per cent drop in effort since the baseline survey in 2012. This downward trend is positive, but achieving the target remains dependent on successful implementation of a portfolio of key change initiatives.</p> <p>The programme is currently undertaking a reset of the Result 9 Roadmap – which is taking a comprehensive view of the work being undertaken by Result 9 agencies to achieve the Result 9 targets by 2017, and the future state for business customers by 2023.</p>
Deliver the Better Public Services Result 10 programme so New Zealanders can make their government transactions digitally	DIA	<span style="color: green;">●</span>	<p>The Government is on track to achieve its target that by 2017, 70 per cent of New Zealanders’ most common transactions with government will be completed in a digital environment.</p> <p>The Result 10 Blueprint – the overarching plan for the programme – is currently being refreshed to shift the focus of the programme from simply increasing the volume of digital transactions towards delivering integrated digital services which will substantially change the way government services are delivered.</p>
Encourage innovative public sector ICT procurement models including accelerator programmes and hackathons	MBIE	<span style="color: orange;">●</span>	<p>Government is working with the private sector to trial new and innovative models for procuring effective ICT solutions and tackling difficult problems.</p> <p>A GovHack NZ event was hosted in Wellington in July. This event, supported by MBIE, allowed developers to utilise selected government data in new and interesting ways to tackle problems and create valuable solutions.</p> <p>New Zealand’s first government-focused Accelerator was launched in April 2015. The Accelerator was initiated by the Result 9 – Better for Business partnership, in collaboration with Wellington business incubator Creative HQ. The Accelerator brought private sector entrepreneurs and mentors together with public sector staff to work on solutions to problems that business customers experience when dealing with government. It enabled government to co-design and co-develop with the private sector while driving rapid delivery and fast fail of potential solution concepts. A second accelerator is being planned for next calendar year.</p>
Review and refresh New Zealand’s Cyber Security Strategy	DPMC	<span style="color: orange;">●</span>	<p>New Zealand’s Cyber Security Strategy and Action Plan is currently being refreshed, to provide clear direction for a stepped-up response by both the government and private sector to the growing and evolving cyber threat. The strategy emphasises the importance of partnering with the private sector, enabling economic growth, ensuring national security, and protecting human rights in an online environment.</p>
Ensure all New Zealanders can fully participate in a digital world with online access and digital literacy programmes	MBIE, MoE, TEC, DIA	<span style="color: green;">●</span>	<p>Work is underway to improve digital literacy through increasing uptake of digital learning tools like the TEC-funded Pathways Awarua and the Literacy and Numeracy for Adults Assessment Tool. Adult and community education funding also supports digital literacy courses for those with limited exposure to computing.</p> <p>The Computers in Homes programme is providing low-income families with computers and training, support and assistance with connection costs to help build parents’ and their children’s skills in digital technology. Approximately 16,000 homes have received assistance from the programme since it was piloted in 2000. A further 1,500 low-income families will be provided with computers during 2015/16 financial year.</p>

## Building Innovation

KEY: ● Implementing ● In progress ● New

Projects	Lead agencies	Status	Comment
Encourage new education learning models with N4L Limited (school sector) and ITES programme (tertiary sector)	MBIE, MoE, TEC, DIA	<span style="color: green;">●</span>	<p>New education learning models will be supported by the Network for Learning's Managed Network, which provides schools with fast, reliable internet complete with uncapped data, web filtering and network security services.</p> <p>As at 10 August 2015, 1,965 schools had been connected to the Managed Network.</p> <p>By the end of 2015, all state and state integrated schools will have upgraded ICT networks, and by the end of 2016, all schools will be able to connect to the N4L Managed Network.</p> <p>The 2014 Innovations in Tertiary Education Delivery Summit (ITES) brought together more than 200 key stakeholders from the tertiary education sector to discuss the challenges and opportunities of rapid technological development and global innovations for the delivery of tertiary education.</p> <p>A series of follow-up meetings were also held with stakeholders to discuss how to capture the opportunities of new technologies in education.</p> <p>Feedback from the ITES meetings are being integrated into the work programmes of tertiary education agencies.</p>
Encourage new e-health delivery programmes to improve Health sector efficiency and develop the health-tech sector	MoH, MBIE	<span style="color: green;">●</span>	<p>The National Health Information Technology Board (NHITB) – which is supported by the MoH – run a range of initiatives to improve health outcomes for New Zealanders through smart use of ICT. Initiatives include ConnectedHealth, which is establishing an environment for the safe sharing of health information. The NHITB established the Telehealth Forum to promote the use of telehealth, and maximise the benefits of the Government's ultrafast broadband programme.</p> <p>As at 30 June 2015, a third of New Zealanders have real-time access to their health information online via a patient portal. A campaign to expand adoption of patient portals will continue until October 2016.</p>
Establish a Māori ICT Development Fund	TPK	<span style="color: orange;">●</span>	Work is underway to launch the Māori ICT Development Fund which will support Māori economic development and Māori language and culture through ICT. This \$30 million Fund was appropriated in Budget 2014.
Conduct a Data Futures Programme to encourage the use of data for analytics and innovation in the public and private sectors	Statistics	<span style="color: orange;">●</span>	In February 2015, the Government endorsed the principles of value, inclusion, trust and control as a foundation for data use in New Zealand, and in August 2015 agreed to establish a Data Futures Partnership. The Partnership is a cross-sector group of influential people working together to drive behavioural change across the data-use ecosystem, and promote high-trust and high-value data use for all New Zealanders. Members of the Partnership will be largely non-government and able to provide a useful outside-in perspective on relevant government programmes.
<b>Adopt regulations that support innovative new products and services</b>			
Enhance competition to drive innovation (and protect consumers)	MBIE	<span style="color: orange;">●</span>	In November 2015, Cabinet is to consider the release of an issues paper seeking submissions on whether section 36 of the Commerce Act is working effectively and if it requires amendment.
Undertake a study of the use of copyright and design in the creative sector	MBIE	<span style="color: orange;">●</span>	Undertake a study of the use of the copyright and design regimes by the creative sector. This will include compiling an evidence base to support potential reform of copyright and designs legislation.
Create a single trans-Tasman patents examination regime with Australia to simplify patent applications	MBIE	<span style="color: green;">●</span>	A Bill to introduce necessary legislative amendments in Australia was passed in February 2015. The corresponding New Zealand Bill is expected to be introduced in early 2015.
Conduct the scheduled review of the Telecommunications Act	MBIE	<span style="color: orange;">●</span>	Government is reviewing the Telecommunications Act to ensure that regulatory settings for communications markets encourage innovation, investment, and competition.
Review the regulatory environment for media content	MCH	<span style="color: orange;">●</span>	<p>The convergence of the previously separate telecommunications, information technology, media and entertainment sectors is opening up exciting opportunities for businesses and individuals. The content market, and how content is created and distributed continues to evolve rapidly. This review is to ensure that our legislation and policy is fit for purpose.</p> <p>Government will consider next steps with the review following consultation in late 2015.</p>
Review the application of GST to cross-border services and electronic goods	IRD	<span style="color: orange;">●</span>	The Government consulted on proposals in August and September 2015. Potential changes following the outcome of consultation could be progressed through the next Omnibus Tax Bill.

Projects	Lead agencies	Status	Comment
Review Energy Market Regulation to ensure innovative forms of energy use and technology are encouraged	MBIE	<span style="color: orange;">●</span>	The Electricity Authority is responsible for promoting competition in the electricity market and is currently researching the competition, reliability and efficiency effects of the Low Fixed Charge (LFC) Regulations. As well, MBIE has established a Smart Grid Forum that is exploring how to help consumers understand and compare the opportunities for new energy technologies.
Review transport regulation to encourage the use of new technologies	MoT, NZTA	<span style="color: orange;">●</span>	Intelligent Transport Systems (ITS) apply ICT to vehicles. If technologies that enable vehicles to communicate digitally with other vehicles and with infrastructure (so called connected vehicles) become ubiquitous, they would form the largest computer network in New Zealand. In 2014 the Government agreed to an ITS Technology Action Plan with 42 specific actions that include a scan of transport regulations to ensure there are not unnecessary barriers to the uptake of technology, including the use of driverless cars.
Review the regulation of transport services to cater for new ICT-enabled operating models	MoT	<span style="color: orange;">●</span>	Technology is changing the taxi and private hire car sector internationally and in New Zealand, as it is enabling innovative and alternative services. The Ministry of Transport is reviewing the regulatory framework for this sector to ensure it is fit for purpose and meets New Zealand's future needs.

## Increase the impact and relevance of publicly-funded scientific research

Finalise and publish the First National Statement of Science Investment	MBIE	<span style="color: green;">●</span>	On 28 May 2014, MBIE released the draft NSSI. MBIE received 108 submissions on the draft. The final NSSI was launched in October 2015.
Publish an annual Science & Innovation System Performance Report to provide a solid basis for policy development	MBIE	<span style="color: orange;">●</span>	A cross-government project is being developed to improve science and innovation data and information. This information will feed into the annual Science & Innovation System Performance Report and will provide a solid basis for policy development and prioritisation.
Progress and regularly evaluate the National Science Challenges Programme	MBIE	<span style="color: green;">●</span>	Seven of the eleven National Science Challenges have been launched. The next three challenges will be launched throughout the last quarter of 2015, with the final challenge being launched in early 2016.
Review CRI core funding	MBIE	<span style="color: orange;">●</span>	CRI core funding was introduced in July 2011. The contracts for CRI core funding expire in June 2016. To determine whether changes should be made to CRI core funding to maximise its effectiveness, MBIE is currently undertaking a review of CRI core funding. Officials will report back to Minister Joyce by October 2015.
Conduct a strategic refresh of the Health Research Council (HRC)	MBIE, MoH	<span style="color: orange;">●</span>	MBIE and MoH are jointly undertaking a strategic refresh of the HRC. The refresh aims to maximise the contribution of the HRC to broader health and economic outcomes. Officials reported to joint Ministers in June 2015.
Conduct an independent review of the policies for funding the overhead costs across the research system	MBIE	<span style="color: orange;">●</span>	The initial review is complete. In response to the recommendations we will introduce a more comprehensive approach to cost disclosure with funding agencies to increase the transparency of overhead costs.
Investigate whether the intellectual property (IP) settings of public institutions are optimal for technology transfer	MBIE	<span style="color: orange;">●</span>	The IP settings of public research organisations are being considered as part of a broader project on ways to improve the commercialisation and collaboration between public researchers and business. A recent independent review of the commercialisation partner network concluded that this programme was working effectively to develop and share best practice on commercialisation across universities and CRIs.  Further investigation will take place as a component of MBIE and CI's review of technology-focused incubators and will be reported on in conjunction with the review findings in 2016.
Ongoing refinement of programmes to strengthen collaboration, knowledge exchange and value creation between businesses and public research organisations	MBIE, CI	<span style="color: yellow;">●</span>	Callaghan Innovation has an important role to strengthen collaboration and knowledge transfer, e.g. through its National Technology Networks and Technology Incubators. MBIE is responsible for ensuring that these programmes are delivering on this policy intent and identifying whether there are constraints to that working well.
Increase and reform contestable funding	MBIE	<span style="color: yellow;">●</span>	The revised contestable funding mechanism will be launched by the end of 2015. The additional \$56.8m provided in Budget 2014 will provide greater scale and predictability of funding in the 2015 investment round and in future years.
Increase the Performance Based Research Fund (PBRF) to \$300 million a year	MoE, TEC	<span style="color: yellow;">●</span>	The PBRF will be increased to \$300 million a year by 2016.

## Building Innovation

KEY: ● Implementing ● In progress ● New

Projects	Lead agencies	Status	Comment
Review the operational settings of the PBRF	MoE, TEC	<span style="color: yellow;">●</span>	The Government completed the review of the PBRF in 2013 and decisions were announced in March 2014. Work is underway with the sector to implement these decisions prior to the next Quality Evaluation in 2018.
Increase annual public science and innovation funding to 0.8 per cent of GDP as fiscal conditions allow	MBIE	<span style="color: yellow;">●</span>	Funding for science and innovation will increase to \$1.5 billion in 2015/16, a 70 per cent increase since 2007/08. This includes an additional \$20 million a year for the Business R&D Growth Grants from 2015/16.
<b>Grow the Availability of Innovation Skills in New Zealand</b>			
Investigate the development of Global Impact Visas to encourage young tech entrepreneurs to migrate to NZ	MBIE	<span style="color: orange;">●</span>	Investigate the development of a targeted programme to attract, select and integrate talented and innovative entrepreneurs and start-up teams with global networks to grow our high tech sector.
Invest in increasing engineering graduate numbers building on the target of 500 additional graduates per year by 2017	TEC	<span style="color: yellow;">●</span>	This action will help increase the proportion of students graduating with an engineering qualification to nearer the OECD average and grow New Zealand's innovative economy. Between 2008 and 2014, the number of fulltime equivalent students enrolled in engineering study increased by 25% to over 8,600. The number of engineering graduates increased by 383 (23%) over the same period. As part of Budget 2015 the government invested \$11.4 million over four years to increase the number of graduate students.
Increase the proportion of students studying to be engineering technologists and technicians through the Engineering E2E project	TEC	<span style="color: orange;">●</span>	This will help increase the proportion of students graduating with an engineering qualification to nearer the OECD average
Set up new ICT Grad Schools	TEC	<span style="color: green;">●</span>	<p>The ICT Graduate Schools involve consortia of tertiary providers and ICT businesses to teach ICT students. They will help address high-level ICT skills shortages and grow our high-tech economy. Graduates will have work-relevant, business-focused skills, and will have clear pathways from education into employment.</p> <p>Following a competitive selection process, the schools for Auckland and Christchurch have been announced. Announcements for the Wellington ICT school are expected in the second half of 2015.</p>
Implement the Science in Society strategic plan, <i>A Nation of Curious Minds: He Whenua Hihiri I te Mahara</i>	MoE, MBIE, PMCSA	<span style="color: green;">●</span>	<p>As part of A Nation of Curious Minds, the Ministry of Education is delivering initiatives to:</p> <ul style="list-style-type: none"> <li>• Improve initial teacher education with increased science and technology teaching competencies, leading to increased confidence in teaching science and technology</li> <li>• Improve the quality and relevance of continuing professional learning and development opportunities for teachers in science and technology</li> <li>• Review the positioning and content of digital technologies within the New Zealand Curriculum and Te Marautanga o Aotearoa</li> <li>• Encourage youth into science and technology-based careers.</li> </ul> <p>Other innovation focused projects have now been launched and include:</p> <ul style="list-style-type: none"> <li>• The Participatory Science Platform project – an integrating action under the plan which engages young people, communities and scientists in collaborative science projects, with pilots in Otago, Taranaki and South Auckland</li> <li>• The Unlocking Curious Minds contestable fund pilot – encourages “harder to reach” New Zealanders, especially young people, to take part in new science and technology projects.</li> </ul>
Publish employment outcome information and likely industry demand indicators	MoE, TEC, MBIE	<span style="color: yellow;">●</span>	Recent improvements to learner information included updating the Occupation Outlook report and app, and publishing the Moving on Up report on the outcomes of graduates. These tools support prospective learners when making a decision on career options by helping them to determine what their chances are of getting a job once they have finished studying.

The list of completed BGA actions can be viewed online in the following location  
[www.mbie.govt.nz/info-services/business/business-growth-agenda](http://www.mbie.govt.nz/info-services/business/business-growth-agenda)

## Building Innovation

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## Building Innovation

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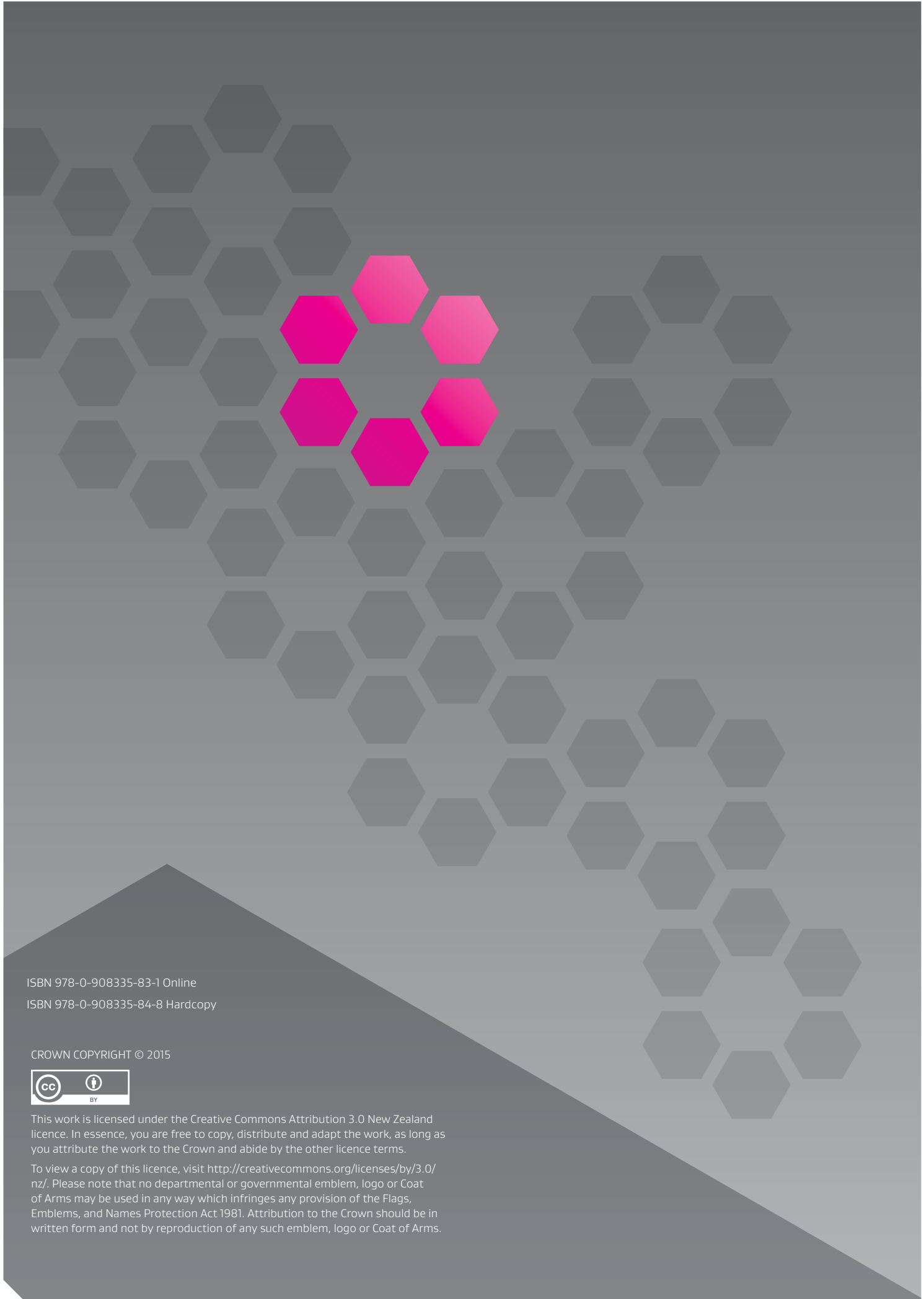


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# 03 Building Investment

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## Building Investment

The Government has committed to the following high-level goal:

***Significantly lift the rate of business investment as a percentage of GDP to accelerate growth throughout New Zealand.***

Attracting high-quality business investment into all parts of New Zealand is critical to strengthening economic growth and lifting productivity, and is an essential ingredient for building an innovative and internationally-connected economy.

Investment is vital for fuelling growth both in New Zealand's main centres and regional economies. Investment brings the financial capital that firms need to establish new operations, expand their operations or meet the costs of accessing overseas markets. Investment helps stimulate productivity improvements by allowing firms to unlock more productive capital. Particular types of high-quality investment can also bring access to new ideas, technology or production processes that can help firms to innovate and add value to the goods and services they produce.

Private non-residential investment is a key measure of business investment. It measures investment by private firms into fixed capital used in production, such as land improvements, machinery and technology. Higher rates of business investment can help drive productivity improvements and help our firms to grow and export. Investment by New Zealand businesses into productive capital has fluctuated between 11 to 14 per cent of GDP since 1990. While our rate of business investment is comparable to the OECD median, we need to lift it significantly if we are to improve productivity, grow our businesses and reach our overall target of increasing exports to 40 per cent of GDP. When we set this target in 2012, we estimated that our exporting businesses would need an extra \$160 to \$200 billion of new productive capital to reach this goal. Capital inputs into our tradeable sectors have grown at an average of 2.3 per cent annually between 2011 and 2013, which is in line with growth in the productive capital stock for the whole economy but below the 4 to 5 per cent of annual growth needed to reach the productive capital estimate.

### Chapter summary

Over the next year, government agencies will be working with the business sector to support and attract higher levels of business investment to help drive growth throughout New Zealand.

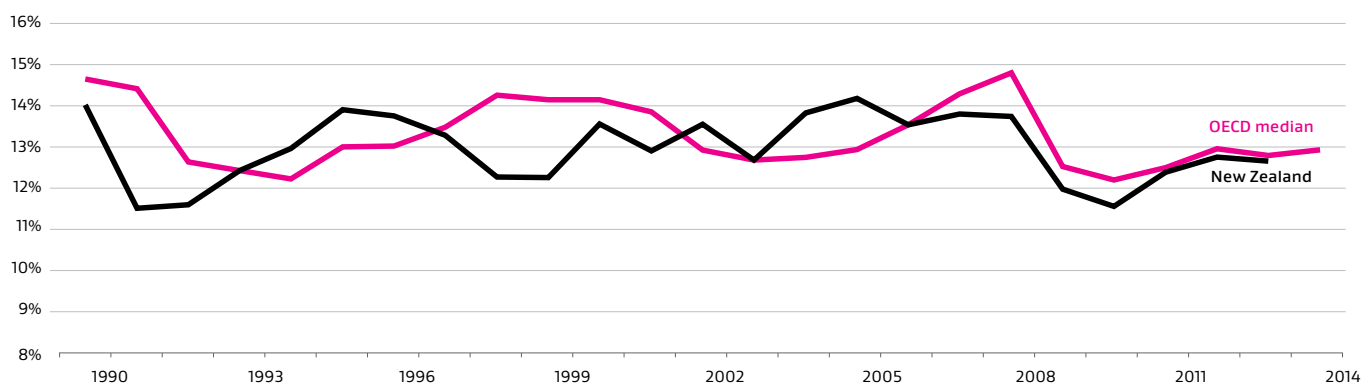
We will implement an ambitious strategy to attract high-quality investment from offshore to bring new technologies and ideas and help forge international connections into markets in the Asia-Pacific and beyond. It is important that our investment efforts benefit all parts of our economy, so we will continue work to identify and realise the wide range of investment opportunities in our regions.

We will implement, embed and monitor reforms to our capital markets regulation to support thriving capital markets and further lift investor confidence, and work will continue to build a strong Crown balance sheet. We will also modernise and streamline our tax policies and processes, and we will work to lift financial knowledge and capability to help everyone get ahead financially.

In recent years we have done much to help build thriving, confident financial markets to provide strong capital flows to our growing businesses and support investor confidence. Building on what we have achieved, we now have an opportunity to lift rates of business investment to drive growth.

### Lifting investment by New Zealand businesses above current levels will help to fuel growth

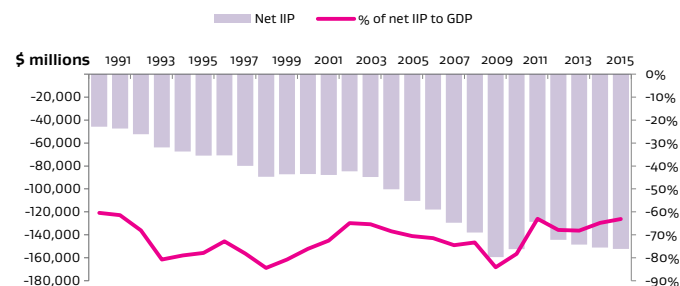
Private non-residential investment as a percentage of GDP



Source: OECD

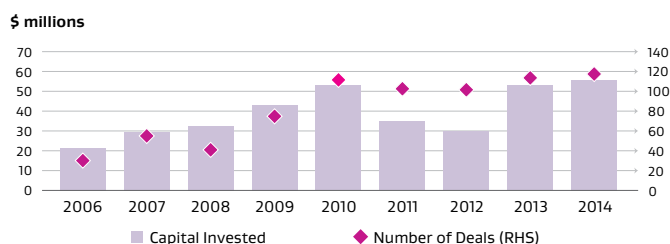
## Building Investment

### New Zealand's net International Investment Position has reduced as a percentage of GDP



Source: Statistics New Zealand

### Early stage investment activity is reaching record levels

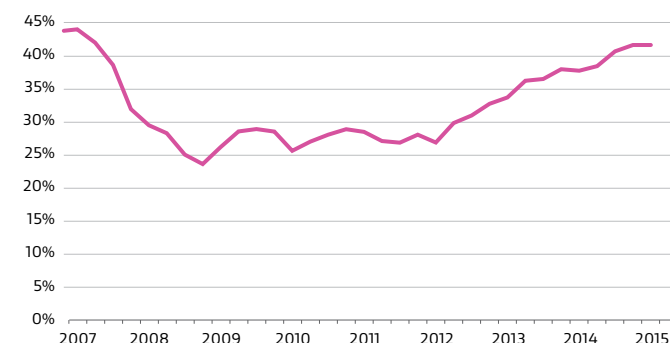


Source: New Zealand Venture Investment Fund, Angel Assn New Zealand

Note that this graph depicts NZVIF investment activity only, and represents only part of early stage investment activity overall.

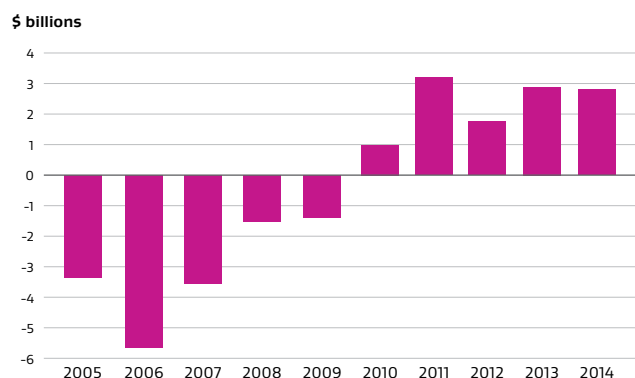
### Our public equity markets have grown over recent years

Total equity market capitalisation of the NZX as a percentage of GDP



Source: NZX, Statistics New Zealand

### Saving rates by New Zealand households have been positive since 2010, providing additional capital to support investment



Source: Statistics New Zealand

This chapter focusses on lifting business investment to accelerate growth. The actions in this chapter will contribute toward the productive capital we need. For instance, achieving the targets for each of the three priorities under the Investment Attraction Strategy would contribute around \$58 billion of capital. Unlocking regional investment opportunities will also provide an important contribution. Other actions are aimed at ensuring we set the right conditions to support higher rates of investment into productive capital, including by building well-functioning financial markets, streamlining our tax processes, sustaining stable fiscal management and lifting investor confidence.

A country's net International Investment Position provides a snapshot of international financial assets and liabilities. New Zealand is an international debtor, with our international liabilities exceeding international assets over time. Our net debtor position reached a record high of 85 per cent of GDP in 2009, and then retreated as investors and savers responded to the Global Financial Crisis and government policy changes. Our current net international liability position as a percentage of GDP has reduced to 64 percent, the lowest level since 1991.

If we are to build a successful New Zealand economy, it is vital that all regions will have the opportunity to grow and prosper. Growing our economy requires investment to flow beyond our major centres and out to our regional economies. While the regions are diverse, they provide much of the primary products so vital to our export success. Investment can help our regions grow these industries and add value to these products, as well as realise new investment opportunities.

Providing New Zealand firms with access to the capital they need to grow relies upon a well-functioning investment ecosystem, with strong sources of early-stage capital and thriving capital markets to provide conduits for investment.

Given the chance, many young New Zealand firms have the potential to offer innovative new products and ideas and can help contribute to the development of a knowledge-intensive economy. Reflecting this, there has been strong activity in our early-stage capital markets over the past year. Angel investment increased from \$53.1 million through 114 deals in 2013 to \$55.9 million through 118 deals in 2014 – a record high. Growth in angel investment activity over the last few years has been largely driven by the rise of investment in software companies. In 2014, \$26.2 million was invested in New Zealand software companies, building on the \$27.9 million invested the year before. There was also major growth in early-stage investment in food and beverage companies – which attracted \$4.8 million of investment in 2014 compared to \$900,000 in 2013.

New Zealand's public equity markets have also performed well over recent years. Total market capitalisation of the NZX increased from around 38 per cent of GDP to around 42 per cent in the year to June 2015. Growth in our public equity markets in 2014 was driven by strong listing activity over this period, which contributed an additional \$4.7 billion. Although initial public offering (IPO) activity has been lower in the first half of 2015, total equity market capitalisation has reached \$100 billion for the first time and equity markets have experienced strong increases in trading.

Investor confidence levels can have a major impact on investment activity, and there is evidence that the confidence of New Zealand investors is increasing. The Financial Market Authority's 2015 survey shows that retail investor confidence in markets has stabilised, from 59 per cent to 60 per cent between 2014 and 2015, up from 54 per cent in 2013. Importantly, these results reflect the increasing confidence of investors in New Zealand's financial market regulation following the recent reforms of the Financial Markets Conduct Act.

## Building Investment

New Zealanders are also saving more than they have in the past. For the past five consecutive years, New Zealand households have collectively saved more than they have spent. In the year ended March 2014, aggregate household savings stood at around \$2.8 billion, building on the \$2.9 billion saved by households in 2013. This is good news from an investment perspective, as household savings can provide an important source of domestic funding for investment.

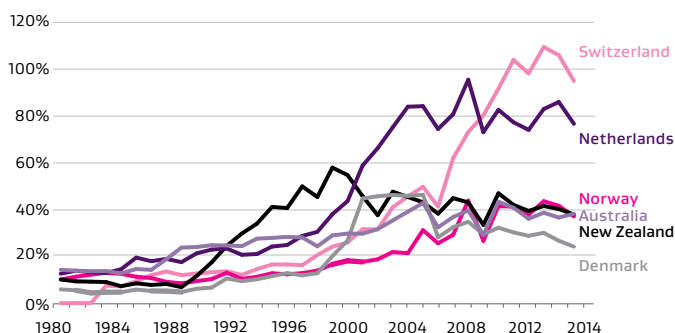
In the future, global growth will increasingly be driven out of the Asia-Pacific. Building solid international connections is critical if New Zealand is to continue to grow and take advantage of opportunities abroad. High-quality foreign direct investment (FDI) not only provides financial capital that can be used by New Zealand firms to grow, but can help to build these important international linkages. These linkages can help us lift our export performance and overcome New Zealand's small size and distance from major markets. High-quality FDI can also transfer new knowledge and technologies from foreign markets that support productivity improvements and innovation.

High-quality FDI providing these benefits can help our economy grow at a faster rate than if we financed our growth using domestic capital alone. At around 38 per cent of GDP, New Zealand's overall stock of FDI is similar to other small, advanced economies but has grown more slowly over the last 10 years and is dominated by investment into our finance and insurance firms. In 2015, 32 per cent of our total FDI stock of \$99.6 billion was channelled to our finance and insurance sector. Lifting our overall rate of high-quality FDI warrants a concerted, whole-of-government approach to address the barriers to attracting this investment to our shores.

Over the next year, we will also continue our focus on reducing the real interest rate premium on our long-term government debt relative to Australian and United States equivalents. This interest rate premium has flow-on effects for our economy and impacts on the investment decisions of businesses through its impact on the cost of capital. Therefore, reducing this premium can support New Zealand businesses to invest and grow by lowering the cost of finance. While a multitude of factors influence this premium, we can help to reduce it by following prudent and stable fiscal management and by building well-functioning capital markets.

### New Zealand's stock of FDI is similar to other small, advanced economies but has grown more slowly in recent years

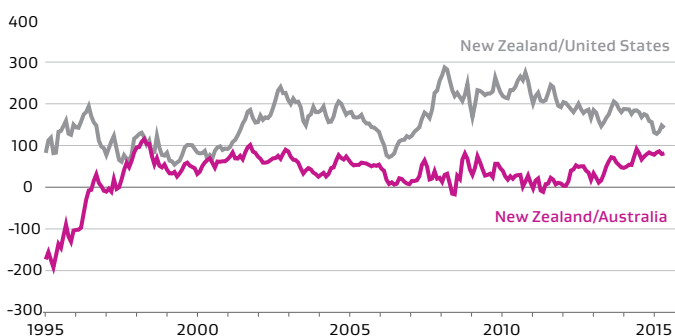
FDI stock as a percentage of GDP (1990 – 2013)



Source: Treasury, United Nations Conference on Trade and Development, 2015

### Tracking our progress on reducing the interest rate premium on our long-term debt

NZ/US and NZ/Aus long-term interest rate differentials (10 year government bonds)  
Basis points



Source: Treasury, RBNZ, Haver Analytics

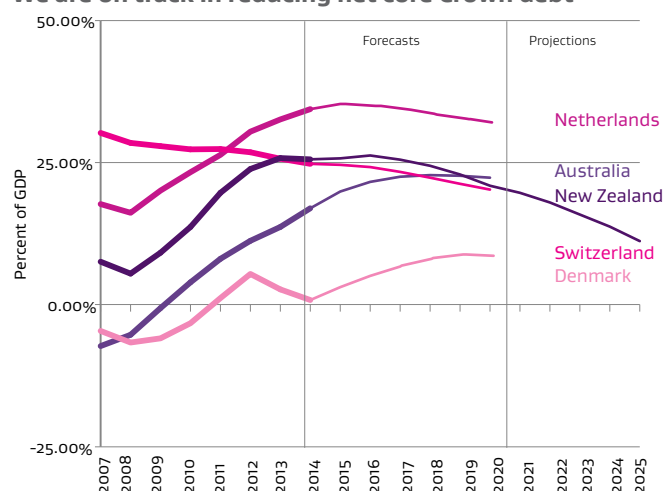
### Over the past 12 months, there have been a number of examples of offshore firms making significant investments in New Zealand, including:

INVESTOR	DESCRIPTION	PRIMARY REGION OF INVESTOR
Oji Holdings Limited	Investment in Carter Holt Harvey's pulp, paper and packaging function worth around \$1 billion	Japan
Universal Robina Corporation	Purchase of food manufacturer Griffins for around \$700 million	Philippines
Beijing Capital Group	Purchase of Waste Management for \$950 million and subsequent investment in the company	China
Fu Wah International Group (HK)	Development of a \$200 million Park Hyatt-branded hotel on Auckland Waterfront site.	China
Legg Mason Asset Management (Japan) Co., Limited	Legg Mason Japan launched a New Zealand-specialized bond fund	East Asia
Pan Pacific Capital Limited	Secured investment from Taiwan and New Zealand Venture Investment Fund (NZVIF) for high-growth fund to help internationalise New Zealand firms	China
China Fiber Optic Network System Group Limited	Established a combined fibre optic manufacturing and research facility in Auckland	China
Fosun International and Nanjing Sinolife United	Acquisition of New Zealand-based nutritional supplements maker and distributor for \$23.37 million.	China

## Building Investment

Stable fiscal management over recent years has given us a solid platform for growth. A continuing area of focus is to ensure that our asset and liability positions are well-managed. Over the past year, we have seen growth in a number of areas of the wider Crown balance sheet. An important driver of growth in the financial asset portfolio has been investment growth in investment portfolios, such as those managed by ACC and the New Zealand Superannuation Fund. In the year to June 2015, ACC's investment portfolio grew by \$4.6 billion, while the New Zealand Superannuation Fund added around \$3.1 billion. These investment portfolios are expected to contribute to further growth in the financial asset portfolio in the future. Budget 2015 forecasts also predict further growth in the social asset and commercial asset portfolios, the latter to be driven by growth in state-owned enterprise investment in physical assets and growth in Kiwibank mortgages. Between 2014 and 2015, total Crown liabilities increased from around \$175 billion to \$185 billion. Of this amount, around \$38.5 billion represents insurance liabilities that are mostly held by ACC, EQC and Southern Response. Over the coming years, liabilities to EQC and Southern Response are expected to fall as earthquake insurance settlements progress. Budget 2015 forecasts predict that total liabilities are expected to peak in 2016/17 before beginning to fall as Crown borrowing decreases.

### We are on track in reducing net core Crown debt



Source: International Monetary Fund, World Economic Outlook Database, April 2015  
Source (for NZ): Treasury projection of core Crown net debt (Budget 2015)

### Spot light

## CarbonScape: an early equity crowd-funding success story

Following the reforms to financial markets legislation, firms can now raise capital on equity crowd-funding platforms. Growing New Zealand firms can use equity crowd-funding platforms as a way to gain access to a wide range of investors. A number of New Zealand firms have successfully raised capital on these platforms to support their future growth, and significant investor interest has seen some offers exceed their funding targets.

In December 2014, Marlborough-based clean-tech carbon refining firm CarbonScape raised over \$764,000 from 207 investors on equity crowd-funding platform Snowball Effect.

This is nearly double the initial funding target of \$400,000. CarbonScape intends to use this capital to set up a pilot plant to provide 'green' coke to New Zealand Steel and to hire engineers to support this project.

In addition to CarbonScape's successful capital raising, a diverse range of other projects and firms have been successfully crowd-funded over the last 12 months and many of these offers far exceeded their funding targets, including:

	TARGET	CAPITAL RAISED
<b>Renaissance Brewing</b> Craft beer brewer	\$600,000	\$700,000
<b>The Patriarch</b> New Zealand film	\$300,000	\$488,800
<b>Aeronavics</b> Producer of aerial drones	\$750,000	\$1,500,000
<b>Invivo</b> New Zealand wine brand	\$500,000	\$2,000,000
<b>PledgeMe</b> Crowd-funding website	\$50,000	\$100,000
<b>Sellshed by Websoft</b> mobile trading app	\$250,000	\$711,100
<b>Breathe Easy</b> Medicine for treating cystic fibrosis	\$350,000	\$613,428
<b>Retirement Income Group</b> Provider of retirement income products	\$250,000	\$455,300
<b>Red Witch</b> Guitar pedal manufacturer	\$368,000	\$406,772
<b>Punakaiki Fund</b> Investor in New Zealand start-ups	\$200,000	\$2,000,000



### Major milestones achieved over the last year include:

#### Completing and publishing regional growth studies

for Tai Tokerau/Northland, Toi Moana/Bay of Plenty and Manawatū-Whanganui to identify growth and investment opportunities in each region.

#### Increasing NZX equity market capitalisation to

over 40 per cent of GDP in early 2015, the highest level since 2007. Total market capitalisation exceeded \$100 billion for the first time in early 2015.

#### Reaching record levels of angel investment,

with \$55.9 million invested through 118 deals, up from \$53.1 million invested through 114 deals the year before.

#### Ongoing progress on NZTE's Regional Investment

**Attraction Programme**, with 14 Regional Investment Profiles being published to give potential investors a high-level view of the strengths and investment opportunities of our regions.

#### Making solid progress on developing the Asia Region

**Managed Funds Passport**, which will help create stronger capital linkages across the Asia-Pacific by reducing the barriers that currently prevent a managed fund based in one jurisdiction from being offered in another.

**Strengthening our consumer credit laws.** All provisions of the Credit Contracts and Consumer Finance Amendment Act came into force on 6 June 2015 and the Responsible Lending Code was issued on 17 March 2015.

#### Completing the overhaul of our financial markets

**legislation.** The Financial Markets Conduct Act regime came into full force on 1 December 2014, improving the disclosure of information to investors and providing for new capital raising options.

#### Facilitating the establishment of new public growth

**markets**, like the new NXT market, with simpler disclosure and listing rules to provide a lower-cost way for New Zealand firms to list publicly.

#### Bringing the Limited Partnerships Amendment Act and Companies Amendment

**Act into force** to bolster confidence in our corporate and financial markets regulation and ensure that New Zealand remains a trusted place to do business.

#### Supporting the development of equity crowd-funding

as a new source of capital to help New Zealand firms to grow. Already there has been significant interest in crowd-funding from firms and investors alike.

## Major milestones

### Spot light

## NXT Market: widening the pool of capital to help young New Zealand firms grow

Young New Zealand firms need strong, liquid sources of capital to help them realise their growth potential. Supporting young firms to grow requires a pipeline of capital sources to help firms move through the stages of development. While New Zealand has strong sources of early-stage capital and well-functioning public equity markets, it is important we have a source of capital available that responds to the needs of growing firms that aren't yet ready to list on the NZX Main Board.

The reforms of the Financial Markets Conduct Act (FMC Act) support the establishment of new public growth markets to respond to the needs of growing New Zealand firms. The first of these markets, NZX's new NXT Market, was launched on 17 June 2015. The NXT has simpler disclosure and listing rules to provide a lower-cost way for firms to list publicly. The NXT Market also opens up new investment opportunities for New Zealand investors who are aware of the risk profile of young firms with high-growth potential.

### Spot light

## Gelita Ltd: Investing in new plant in New Zealand

Gelita is a global supplier of gelatine products for the food, health, nutrition and pharmaceutical industries, and for technical applications. The company is based in Germany but has locations throughout the world.

In July 2015 Gelita decided to retain and modernise its earthquake-damaged gelatine plant in Christchurch, which had been under threat of closure. This decision has saved 60 direct jobs worth \$4.3 million and export income of up to \$14.5 million annually, as well as payments of \$4.2 million for local supplies of raw materials and \$4.5 million for local supplies of goods and services.

In 2015, New Zealand Trade and Enterprise (NZTE) worked closely with the Canterbury Development Corporation (CDC), its regional investment agency partner, and supported Gelita out of Germany with a grant for feasibility investigations to help Gelita's New Zealand management build a business case with the company's owners in Germany to retain the plant in New Zealand. The decision will allow for a modern, environmentally sustainable and more efficient plant to continue operating for years to come.

This has resulted in a \$20-\$25 million reinvestment (equating to 1 per cent of Gelita's global revenues) into the company's New Zealand operation which ultimately resulted in \$83.3 million of potential direct economic impact.



# Next steps

To deliver on our vision of attracting high-quality investment into all parts of New Zealand, the Government will focus its efforts over the next year on the following five key areas:

### 1. Support and attract investment into all parts of New Zealand

Investment has a central role to play in improving the competitiveness and productivity of New Zealand industries and regions. Lifting our current rates of business investment is vital if we are to sustain our economic growth and meet our export target.

While domestic investors provide an important source of the capital we need to grow, attracting international investment will help us grow faster and achieve our export target sooner. In addition to providing capital, high-quality international investment can help New Zealand firms grow by forging international connections, enhancing access to export markets and global supply chains, and bringing new technologies and ideas to help add value to goods and services. Our stock of FDI is similar to other small, advanced economies, but has grown little since the mid-1990s and is lower than comparable countries when overseas investment in our finance and insurance sector is removed. Overseas investors may be unaware of the investment opportunities available here, or may be put off by the cost and complexity of learning about our business environment or regulations. New Zealand's current state of international investment, and the benefits that foreign investment can bring us, are explored further in the separate BGA Report: International Investment for Growth.

We are developing a New Zealand Investment Attraction Strategy to attract higher levels of business investment to accelerate growth throughout the whole of New Zealand. This strategy is based on an aligned, whole-of-government effort to attract high-value FDI in areas of competitiveness, attract overseas investment in research and development, and expand our pool of 'smart' capital from migrants. Underpinning these three priority areas are several cross-cutting actions, including maintaining a pipeline of investment opportunities and supporting the development of regional and Māori investment opportunities. This reflects a key focus of the strategy which is to ensure that all of New Zealand benefits from our investment attraction efforts, and that our investment attraction efforts will rely heavily on the investment opportunities present in our regions.

We are looking at how we can provide more resource to the Overseas Investment Office (OIO) to improve its efficiency at screening applications. We are also looking at providing better information to investors and improving how they provide information to the OIO. These changes seek to improve the efficiency of the screening process and to make it easier for international investors to navigate.

New Zealand's regions are diverse, with each specialising in different activities and industries depending upon its particular mix of natural resources, infrastructure and people. This diversity means that our regional economies offer up a vast range of investment opportunities for both domestic and offshore investors. Maximising these opportunities can help to grow industries, incomes and jobs in our regions.

To maximise the investment opportunities present in our regions, the Government has completed Regional Growth Studies for Northland, Bay of Plenty, East Coast and Manawatu-Whanganui. Regional Growth Studies analyse the underlying strengths of each region to draw out specific opportunities for investment, and also identify barriers to realising these opportunities. Building on the studies, government agencies are now working in partnership with key regional stakeholders including local businesses, local government, iwi and Māori, to realise the opportunities identified in each region.

NZTE's Regional Investment Attraction Programme also plays an important part in supporting regional investment. NZTE is working with regional agencies and private sector stakeholders to identify, assess and develop specific investment opportunities to take to investors. NZTE has published 14 Regional Investment Profiles to give potential investors a high-level view of each region's strengths and investment opportunities.

Māori, iwi and hapū will continue to play a central role as partners and co-investors in identifying and realising regional investment opportunities. Growing a productive, innovative and internationally-connected Māori economy will deliver prosperity to Māori and resilience and growth to regional economies. While regional and Māori investment opportunities have significant commercial potential, many are not yet at an investible stage and face a number of challenges. Realising these opportunities requires industry, iwi and Māori, and central and local government to work together. The Government is committed to working with regional partners to develop Regional Economic Action Plans to identify the specific contribution we can make to realising these opportunities.

The building and construction industry is a significant part of the New Zealand economy, and investment in the growth of New Zealand housing stock is an important part of our investment story. The Investment chapter of the Business Growth Agenda therefore highlights a number of projects to improve the operation of New Zealand's housing market that cross over from the Natural Resources and Infrastructure chapters.



## Building Investment

### New Zealand Investment Attraction Strategy

Priorities	Target	Potential actions include:
Attract high-value FDI in areas of competitiveness for New Zealand	Facilitate investments with a potential direct economic impact of \$5 billion over three years	<ul style="list-style-type: none"> <li>• Deliver a programme of Investment Showcases to promote investment opportunities in priority sectors</li> <li>• Update NZTE's sector investment prospectuses and promotional collateral</li> <li>• Market specific investment opportunities to prospective investors in priority markets</li> <li>• Deliver a comprehensive package of investor facilitation services</li> <li>• Deliver a tailored aftercare programme to monitor past investments and encourage follow on investment</li> </ul>
Attract overseas investment in R&D, especially from multi-national corporations	Attract 10 new international companies to undertake R&D activity in New Zealand over the next five years	<ul style="list-style-type: none"> <li>• Identify and articulate New Zealand's value proposition as an R&amp;D location</li> <li>• Develop a comprehensive package of R&amp;D support available for investors</li> <li>• Engage with the research community to develop the pipeline of R&amp;D investment opportunities</li> <li>• Engage with strategically targeted companies to meet their R&amp;D needs</li> <li>• Deliver an investor liaison programme to encourage existing investors to expand into R&amp;D activity</li> </ul>
Expand New Zealand's pool of 'smart' capital by attracting individual investors and entrepreneurs to reside in New Zealand	Double the amount of capital migrant investors and entrepreneurs have brought to New Zealand from \$3.5 billion to \$7 billion over the next three years	<ul style="list-style-type: none"> <li>• Review relevant migrant visa categories to enhance their attractiveness to high-quality applicants</li> <li>• Deliver a series of tailored promotional events in key offshore markets</li> <li>• Strengthen Immigration New Zealand's capacity to provide a responsive, personalised service for high-value applicants</li> <li>• Develop a programme to introduce migrant investors and entrepreneurs into local business and investor networks</li> <li>• Continue to undertake research into the economic contribution of investor and entrepreneur migrants</li> </ul>

### 2. Implement, embed and evaluate recent regulatory reforms to financial market regulation to ensure they allow financial markets to thrive

Thriving financial markets are essential for our economic growth. They give New Zealand firms access to the capital they need to grow, and enable investors to capture more of the gains from the success and growth of New Zealand businesses. The recent reforms of the Financial Markets Conduct Act (FMC Act) regime support thriving financial markets. The reforms are bolstering investor confidence in our financial markets, supporting the development of innovative new sources of capital, streamlining the capital-raising process for businesses, and minimising the costs of financial markets regulation.

Over the next five years, we will actively monitor the effectiveness of these reforms to ensure that they continue to achieve their intended purpose and that our regulations are able to respond to new challenges or opportunities in the market. This monitoring programme is based on a 'living system' approach that identifies and evaluates evolving opportunities and risks, allowing appropriate adjustments to be made where needed. A baseline report has been completed and early monitoring reports will be completed in 2016, 2017 and 2018, with a final comprehensive evaluation of the reforms completed in 2019.

The reforms will be assessed against 24 monitoring indicators including the Financial Market Authority's annual investor confidence survey. The 2015 survey shows that retail investor confidence in markets has stabilised, from 59 per cent to 60 per cent between 2014 and 2015, up from 54 per cent in 2013. Because a key focus of the FMC Act is to promote the confident participation of investors in financial markets, it is important that we measure the impacts of the reforms on lifting investor confidence over the next few years.

Next year, the International Monetary Fund (IMF) Financial Sector Assessment Programme (FSAP) will also undertake an in-depth analysis of our financial sector. This involves an examination of the quality and efficiency of our regulations and oversight regime. New Zealand was last assessed in 2004, so the next assessment will give us an updated view of how our financial markets have developed and the effects of the recent reforms.



### 3. Rebuild the Government's balance sheet to reduce the risks of future adverse events, and optimise the allocation of Crown capital

A strong Crown balance sheet is crucial if we are to weather the effects of any future shocks to our economy. Well-managed assets and liabilities, and a strong net worth attributable to the Crown, can provide a fiscal buffer that allows the Government to sustain activities in the event of a major shock without needing to change tax or expenditure policies. It also gives the Government flexibility to allocate capital to priority areas and uses that benefit New Zealanders.

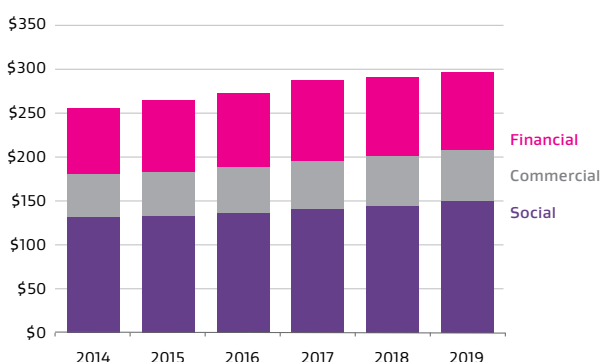
The Government's focus on responsible financial management over the last few years has put us in a strong position. Forecast operating surpluses from 2015/16 will flow through to a stronger balance sheet, and we remain on-track to meet our target of reducing net core Crown debt to below 20 per cent of GDP by 2020.

Expected increases in assets and decreases in liabilities by 2019 will contribute to a stronger net worth attributable to the Crown. Total Crown assets are expected to reach \$296.3 billion in 2018/19, an increase of \$40.2 billion. This is likely to be driven by increases in social assets, like student loans, as well as increases in plant, property and equipment. Increases are also expected in the financial asset and commercial asset portfolios. Liabilities are expected to begin to fall in 2017/18 from a peak of \$199.7 billion in 2016/17.

Reducing the interest rate premium on our long-term government debt remains a focus of the BGA. This premium can have an impact on the investment decisions of businesses through its influence on the cost of capital, so reducing it is vital if we are to boost investment. A range of factors influence the interest rate premium, including currency or inflation risk and low national savings. However, we can help to reduce this premium through astute fiscal management and by building a strong Crown balance sheet to provide a buffer against future shocks.

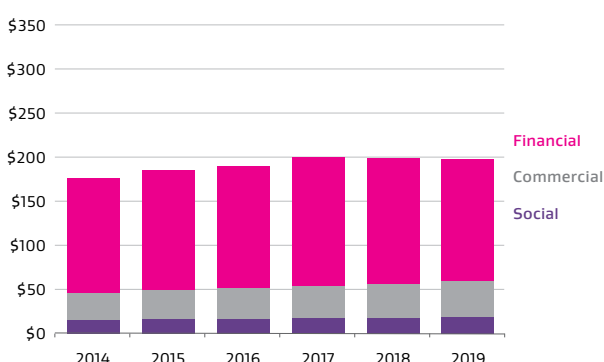
#### Rebuilding New Zealand's Crown balance sheet to provide a buffer against future shocks

Total Crown assets (\$billions)



Source: The Treasury

Total Crown liabilities (\$billions)



Source: The Treasury

### 4. Modernise IRD's systems to preserve our broad-based tax base, reduce compliance costs, and smooth tax collection impacts on firm cash-flows

Having an efficient and effective tax system is important for the sound operation of the economy. Tax systems provide revenue to fund government expenditure, but tax collection must be done in a way that is fair and efficient. A well-functioning, modern tax system makes it simple and clear for taxpayers to pay tax and doesn't detract from the ease of doing business or inhibit investment decisions.

Inland Revenue's (IRD) Business Transformation Programme will modernise IRD's systems and processes to make it easier for New Zealanders to pay tax, receive entitlements and interact with IRD. This programme is more than just replacing the IRD's dated computer system. It involves modernising and streamlining IRD's policies and processes and changing Government policy and legislation. The aim is to preserve our broad-based, low-rate tax system, as well as reduce compliance costs and smooth tax collection impacts for businesses.

For example, the Government is exploring expanding withholding taxes to cover a greater range of contractors earning employment-like income. This would remove these contractors from the current provisional tax regime, reducing their compliance costs and smoothing the impact of tax collection on their cash-flows while helping to preserve our broad-based, low-rate tax system.

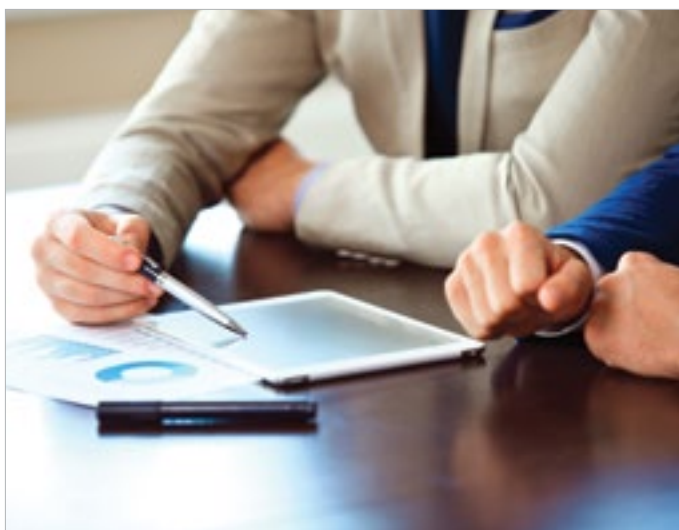
Later in 2015, IRD will be consulting on detailed changes aimed at making it easier for New Zealand businesses to meet their tax obligations, including by enabling businesses' payroll and accounting software to provide PAYE and GST information directly to IRD's systems. This would reduce the effort businesses face in meeting their tax obligations, meaning more time for them to focus on their operations. Options are also being considered for firms to make tax payments over the course of the year as they earn income to smooth the impact of tax collection on firm cash-flows.



## Building Investment

### 5. Improve the financial capability of all New Zealanders and encourage personal savings and investment

Strong financial capability is about having the financial knowledge, confidence and motivation to make and implement financial decisions that improve both individual and whanau wellbeing over a lifetime. Currently, nearly one third of New Zealanders have very low levels of financial capability. Low financial capability can act as a barrier to New Zealanders making sound financial judgements, growing their personal savings, managing debt or making investment decisions that can help to grow our economy.



Building the financial capability of New Zealanders is a shared responsibility requiring strong commitment and co-ordination between the public and private sectors. Government agencies, community organisations, schools, workplaces and the financial services industry all play a part.

On 5 July 2015, the Government announced its Government Statement on Building Financial Capability in New Zealand, which confirms the importance of lifting financial capability and sets out the roles and activities of different government agencies in achieving this. The Government is working collaboratively to take advantage of opportunities to build financial capability, and to implement a strategy aimed at enhancing the financial wellbeing of all New Zealanders, with a particular focus on lifting Māori and Pasifika financial capability.

Good quality financial advice, that is unbiased and tailored to each individual's needs, can help New Zealanders to make confident and informed financial decisions. It is vital that we have a regulatory regime that supports the provision of quality financial advice. We are reviewing the regulations that deal with financial advice (the Financial Advisers Act and Financial Service Providers Act) to ensure that there are protections in place to give consumers the confidence to invest, identify ways to limit the complexity of these regulations and ensure that the costs of regulation do not outweigh the benefits.

Businesses also rely on good quality information to support investment decisions. NZTE's Better by Capital programme will continue to help businesses understand the types of capital and investment options available, support them to become investment ready and help them to access investor networks both domestically and offshore.

## Building financial capability is a shared responsibility



From the Government Statement on Building Financial Capability

### Spot light

# Encourage investment into regional New Zealand

Each region of New Zealand offers up its own variety of investment opportunities based on its natural resources, infrastructure and people. Developing these investment opportunities can help to drive growth, create jobs and raise incomes in these areas. Identifying and developing these opportunities relies on a strong partnership between government and regional stakeholders including local businesses and industry groups, councils, iwi and Māori.

Through the Government's Regional Growth Programme, government agencies have been working closely with a range of regional stakeholders to develop Regional Growth Studies for particular regions. These studies closely examine the strengths of each region in order to draw out investment opportunities.

Under the programme, the investment opportunities of four regions have been analysed:

REGION	INVESTMENT OPPORTUNITIES IDENTIFIED INCLUDE:
East Coast (Gisborne, Wairoa, Napier, Hastings) (released April 2014)	<ul style="list-style-type: none"> <li>• High-value primary processing</li> <li>• Tourism</li> <li>• Services, including education and training, healthcare and social services</li> </ul>
Tai Tokerau/Northland (released February 2015)	<ul style="list-style-type: none"> <li>• Tourism</li> <li>• Forestry</li> <li>• Dairy</li> <li>• Aquaculture</li> <li>• Marine manufacturing</li> <li>• Horticulture</li> </ul>
Toi Moana/Bay of Plenty (released May 2015)	<ul style="list-style-type: none"> <li>• Forest and wood fibre processing</li> <li>• Horticulture and processing</li> <li>• Agriculture and processing</li> <li>• Apiculture</li> <li>• Aquaculture</li> <li>• Manufacturing</li> <li>• Tourism</li> </ul>
Manawatū-Whanganui (released July 2015)	<ul style="list-style-type: none"> <li>• Tourism and visitor services</li> <li>• Sheep and beef farming and processing</li> <li>• Intensification of land use</li> <li>• Mānuka honey</li> <li>• Fresh vegetables</li> <li>• Poultry and grain processing</li> <li>• Affordable care and lifestyle for older people</li> <li>• Business process outsourcing and food innovation outsourcing.</li> </ul>

Building on the investment opportunities set out above, Regional Economic Action Plans will be developed to help realise the investment opportunities identified in each region by prioritising key actions and identifying who will be responsible for implementing them.

NZTE has released 14 Regional Investment Profiles to promote investment opportunities in each region of New Zealand. While the Regional Growth Studies drill down to examine specific investment opportunities in particular regions, the Profiles provide a high-level view of the strengths and opportunities in each region of New Zealand. The profiles are tailored to potential investors and are published online as a tool that can be easily accessed by investors to allow them to match their investment interests with the opportunities and strengths offered by particular regions. To do this, each profile highlights the strengths of each region, areas of opportunity for investment, and case studies from businesses that have already invested in the region.

Working in partnership with regional economic development agencies, NZTE has identified opportunities with high direct economic impact potential, co-funded pre-investment studies and matched opportunities with strategic investors. NZTE also recently completed five workshops with 100 economic development professionals from 12 regions to improve joint investment attraction and retention efforts.

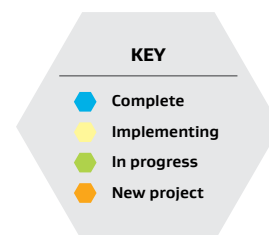




# Project update

We have now completed 36 projects in the Building Investment workstream. This chapter adds 8 new projects. We have 19 existing projects in progress and 4 in the final implementation phase.

BUILDING INVESTMENT					
	All projects	New	In progress	Implementing	Completed
Status June 2014	54	0	20	9	25
Status October 2015	67	8	19	4	36



## Projects and progress

Project	Lead agencies	Status	Comment
<b>Support and attract investment into all parts of New Zealand</b>			
Develop and implement a New Zealand Investment Attraction Strategy	MBIE, NZTE, MFAT, MPI, Callaghan Innovation, Tsy, TPK		We are developing an ambitious Strategy to attract higher levels of business investment to accelerate growth throughout New Zealand. A Taskforce has been established to align a whole of government effort to identify, attract and integrate high quality investors, whether businesses or migrants, to benefit the New Zealand economy.
Attract high-value FDI in areas of competitiveness for New Zealand	MBIE, NZTE, MFAT, MPI, Callaghan Innovation, Tsy, TPK		The high-value FDI priority theme targets the attraction of investments that can bring a range of benefits to New Zealand, whether they are in the form of enhanced market access and integration with global value chains, the transfer of new technologies, processes and know-how to New Zealand firms, the creation of highly skilled jobs, the development of our natural resources, or improved infrastructure.  We need to increase the quality of overseas investment, which means an active shift towards the tradable or innovation enhancing sectors, where investment is more likely to produce these additional benefits to New Zealand.
Attract overseas investment in research and development, especially from multi-national corporations	MBIE, NZTE, MFAT, MPI, Callaghan Innovation, Tsy, TPK		To achieve Government's interlinked goals of lifting business R&D and building an internationally connected science system, New Zealand needs to attract more foreign investment in R&D.  The MNC R&D priority theme seeks to attract overseas firms to establish an R&D presence in New Zealand, introducing companies of a greater size into the New Zealand economy, and helping to transfer valuable skills into New Zealand.
Expand New Zealand's pool of 'smart' capital by attracting individual investors and entrepreneurs to reside in New Zealand	MBIE, NZTE, MFAT, MPI, Callaghan Innovation, Tsy, TPK		Investor and entrepreneur migration provides a point of difference to other mechanisms for bringing investment into New Zealand. As well as supplying financial capital, individual investors and entrepreneurs bring in new ideas, entrepreneurial flair, overseas networks and business experience.  Changes to business policy settings came into effect in early 2014. We continue to review investor and entrepreneur policy settings to ensure we are attracting investors and entrepreneurs who will contribute the most to the economy.
Encourage a more positive environment for international investment and explain the benefits to New Zealanders	Tsy, MFAT, MBIE		A report titled <i>International Investment for Growth</i> will be published alongside the Investment chapter launch.  This report highlights the current role of FDI and ODI in our economy and our current approach to foreign investment. It looks at the role of FDI and ODI in increasing jobs, skills and wages, supplying capital, raising productivity and innovation, and exporting and firm internationalisation. This will support the New Zealand Investment Attraction Strategy outlined in this chapter.

## Building Investment

KEY: ● Implementing ● In progress ● New

Project	Lead agencies	Status	Comment
Support the development of regional and Māori investment opportunities	MBIE, NZTE		<p>The Government is working with regional stakeholders to identify and develop regional and Māori investment opportunities. Studies have been completed for Tai Tokerau/ Northland (in February 2015), Toi Moana/Bay of Plenty (in May 2015), and Manawatū-Whanganui (in July 2015). An economic potential study was also completed for the East Coast region in April 2014.</p> <p>Regional Economic Action Plans will be developed to identify the contribution that Government can make to realising regional and Māori investment opportunities.</p>
Develop options to improve the utilisation and productivity of Māori assets	TPK, MBIE, LINZ		Reforms to the Te Ture Whenua Act and the establishment of a Māori land service are progressing. These initiatives will help empower Māori land owners to best utilise their assets and improve productivity.
Improve Overseas Investment Office efficiency	LINZ, Tsy		<p>A review of Overseas Investment Office (OIO) fees is currently underway. The review will consider options to improve processing times by adjusting fees to increase resourcing for the OIO.</p> <p>The OIO is looking at a number of initiatives to improve the quality of applications received from investors as part of an ongoing programme. This involves providing more specific information to investors, and changing the way in which investors provide information to the OIO.</p>
Deliver an Asia Region Funds Passport to allow a managed fund based in one jurisdiction to be offered more easily to investors in other participating jurisdictions	MBIE		The rules of the Passport are currently being finalised, and are expected to be completed in the first quarter of 2016.
Evaluate progress with the new Technology Incubators and the performance of the wider incubator system	MBIE, Callaghan Innovation		MBIE will evaluate the remodelled Incubator Support Programme in 2016, and then conduct a performance evaluation of the Incubator Support Programme at the end of its 3-5 year pilot. Callaghan Innovation is conducting annual operational reviews of their Technological Incubators, with the first one already completed and the next one due by 31 August 2016.
Improve the operation of the housing market by streamlining the consenting process for developments in Special Housing Areas	Tsy, DIA, MBIE, MfE		The Housing Accords and Special Housing Areas Act creates a framework for Central and Local Government to improve housing affordability by facilitating an increase in land and housing supply. Progress includes Accords with the Auckland, Christchurch City, Wellington City, Queenstown-Lakes, Tauranga City, Western Bay of Plenty, Nelson and Tasman Councils. The Act includes provisions to establish Special Housing Areas, enabling streamlined plan change and resource consent processes to accelerate housing development. To date, 118 SHAs have been created in Auckland, Wellington, Tauranga, Western Bay of Plenty and Queenstown-Lakes.
Improve the operation of the housing market by freeing up Crown and Council land for housing	Tsy, DIA, MBIE, MfE		The Government is working with local authorities and the private sector to identify areas where the Crown or Council owned land can be used for housing, or regulatory options can be progressed to help free up private land for housing. The first such development is underway on Crown owned land at Awatea/Carrs Road Christchurch. In Auckland, there are approximately 500 hectares of vacant or underutilised Crown land with zoning that could support housing. A development agreement on the first parcel of land is expected by the first quarter of 2016.
Extend support for early stage investment	NZVIF, MBIE/ Tsy		The Government has extended the Crown's underwrite facility to NZVIF until 2022, to give NZVIF the flexibility and confidence to continue to make co-funding commitments into new venture capital funds and partnerships. The Government expects NZVIF to become self-sustaining over time, and the extension of this guarantee gives NZVIF the time to make that adjustment.
Advance mutual recognition of imputation and franking credits with Australia	Tsy, IRD		<p>New Zealand and Australian Governments have agreed that possible implementation of mutual recognition of imputation and franking credits will be considered in the Australian White Paper review of the tax system.</p> <p>The New Zealand Government has made a submission on mutual recognition in response to the Australian White Paper. It is currently under consideration.</p>

Project	Lead agencies	Status	Comment
<b>Implement, embed and evaluate recent regulatory reforms to financial market regulation to ensure they allow financial markets to thrive</b>			
Implement, embed and evaluate the reforms to financial markets regulation	MBIE	<span style="color: green;">●</span>	<p>MBIE is working with the Financial Markets Authority to implement and actively monitor the reforms under the Financial Markets Conduct Act. A baseline review has been completed and 24 monitoring indicators have been set to measure the effectiveness of the reforms. Ongoing monitoring reports will be released in 2016, 2017 and 2018, with a final evaluation of the reforms undertaken in 2019.</p> <p>The evaluation of the impacts of the reforms is supported by the accountability process. MBIE's annual report includes FMA performance measures which focus on outputs that are aimed at increasing investor confidence in New Zealand financial markets.</p> <p>An assessment of our financial sector will also be undertaken by the IMF's Financial Sector Assessment Programme (FSAP).</p>
Support options for lower cost public listings	MBIE	<span style="color: yellow;">●</span>	Regulations under the FMC Act support new lower-cost public markets such as the NXT market, which launched in June 2015. MBIE will continue to investigate proposed markets with potential operations.
Introduce new macro-prudential tools to help manage financial system risks	Tsy, RBNZ	<span style="color: yellow;">●</span>	The RBNZ is consulting on changes to the loan-to-value restrictions that were introduced in 2013 to reduce systemic risk arising from the housing market. The changes are to target investors and the Auckland housing market, whilst relaxing restrictions slightly in the rest of the country, and will come into effect on 1 November.
Explore how risk management tools such as derivatives could address volatility in agricultural commodity prices	Tsy, MBIE, MPI	<span style="color: orange;">●</span>	The Government intends to work with financial and primary sector representatives to understand the scale of the problem, the opportunity for risk management tools to address price volatility, and any required market development (taking into account the risks associated with such derivatives).
<b>Rebuild the Government's balance sheet to reduce the risks of future adverse events, and optimise the allocation of crown capital</b>			
Return government books to surplus and start paying down debt	Tsy	<span style="color: green;">●</span>	The May 2015 Budget Economic and Fiscal Update (BEFU) forecasts a return to surplus in 2015/16 and reductions in net debt starting in 2018/19.
Rebuild the Crown's balance sheet as a buffer against future adverse events	Tsy	<span style="color: green;">●</span>	Forecast operating surpluses from 2015/16 onwards are expected to flow through to steady growth in net worth attributable to the Crown, which is expected to grow by \$18.1 billion over the next five years to reach \$93.6 billion in 2018/19. Over this period total assets are forecast to grow by \$40.2 billion to stand at \$296.3 billion in 2018/19 and total liabilities are expected to peak at \$199.7 billion in 2016/17 and fall thereafter.
Reduce the Crown's risk exposures	Tsy	<span style="color: green;">●</span>	<p>The fiscal strategy is on track to reduce core-Crown net debt to 20% of GDP by 2020, enhancing the resilience of the Crown balance sheet.</p> <p>The unwinding of risky positions taken under the banking deposit guarantee scheme and AMI support package is continuing, and Treasury continues to develop work to understand, measure and manage risks that have a financial impact on the Crown balance sheet.</p> <p>Specific policy work continues to address specific risks to the Crown and wider economy including those arising from the financial sector and natural disaster.</p>
Sharpen incentives on State agencies to use existing Crown capital well	Tsy	<span style="color: yellow;">●</span>	The Treasury's Investment Management and Asset Performance team is working with investment intensive agencies over the next year to develop investor confidence ratings and long term investment plans, which together will provide a better long-term view of agency use of capital and management of assets.
Introduce private sector capital and disciplines through public-private partnerships (PPPs)	Tsy	<span style="color: green;">●</span>	The Ministry of Education signed its second PPP contract for four schools in May 2015 and has commenced a business case exploring PPP for a third bundle of schools. Three consortia were shortlisted and have received the Request for Proposals document for the Puhoi to Warkworth roading PPP project. The Auckland Prison PPP achieved Financial Close in early September. The Auckland South Correctional Facility, NZ's first PPP prison, began receiving its first prisoners in May 2015 and is approaching 50% capacity through staged introduction of prisoners.
Review the Earthquake Commission Act	Tsy	<span style="color: green;">●</span>	A discussion document on the review of the EQC Act was released on 6 July 2015, with submissions closing on 11 September 2015. Officials are currently considering submissions on the discussion document and will advise Ministers on the outcome of this consultation later this year.

Project	Lead agencies	Status	Comment
<b>Modernise IRD's systems to preserve our broad-based tax base, reduce compliance costs, and smooth tax collection impacts on firm cashflows</b>			
Modernise the provision of PAYE and GST information	IRD		Proposals to modernise the way in which New Zealand businesses meet their tax obligations, by enabling businesses' payroll and accounting software to provide PAYE and GST information directly to IRD's systems, will be released for consultation in November 2015. This should minimise the effort businesses face in meeting their tax obligations, meaning more time for them to focus on their operations.
Deliver better business tax processes	IRD		Proposals to reform the provisional tax rules are under development and, along with proposed changes to rules for filing and paying, will be released for consultation in November 2015. These proposals should be of particular interest to small and medium-sized businesses, as they will enable resources spent on tax compliance to be moved to running their business. More flexible rules are being considered to assist businesses which earn seasonal or irregular income with their tax compliance.
Introduce property tax compliance measures	IRD, LINZ, Tsy		<p>As part of Budget 2015, the Government announced measures targeted at ensuring better compliance with the tax rules as they apply to the sale of property, to ensure that property investors pay their fair share of tax, whether they are from New Zealand or overseas.</p> <p>The measures are aimed at providing clearer rules to encourage compliance and assist IRD in its enforcement of the rules.</p> <p>The measures include:</p> <ul style="list-style-type: none"> <li>A new requirement for transferors and transferees to provide their IRD numbers (and foreign equivalent if applicable) at the time of transfer of the property. Additionally, an 'offshore person' will be required to provide evidence of a New Zealand bank account as a prerequisite to obtaining an IRD number. These requirements came into force on 1 October 2015.</li> <li>A 'bright-line' test for the sale of residential property. This will require income tax to be paid on any gains from the sale of residential property that is bought and sold within two years (subject to some exemptions). Legislation is before the House to enable the 'bright-line' test to come into effect from 1 October 2015.</li> <li>A potential withholding tax for non-residents selling residential property, to supplement the bright-line test. This measure recognises that enforcing tax rules on non-residents in this context is difficult, especially those with only limited engagement with New Zealand. An issues paper on the withholding tax was released on 31 August 2015.</li> </ul>
Respond to the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan	IRD, Tsy		<p>Base erosion and profit shifting can result in multinationals paying little or no tax anywhere in the world. The OECD BEPS action plan represents the culmination of over two years' work by the international community and provides an international consensus on tax law standards.</p> <p>The Government will consider the extent to which the OECD recommendations should apply to New Zealand, and will include consideration of the effect that tax policy has on the productive sector of the economy and compliance costs. Any changes will be subject to the usual public consultation processes.</p>
<b>Improve the financial capability of all New Zealanders and encourage personal savings and investment</b>			
Deliver programmes and other actions to improve New Zealanders' financial and investor capability	MBIE, CFFC, FMA		Government agencies will be working more collaboratively, across government and with the private and community sector, using their networks to identify opportunities to build the financial and investor capability of more New Zealanders. The Government Statement on Building Financial Capability was released on 3 July 2015.
Review the Financial Advisers Act 2008 and Financial Service Providers Act 2008	MBIE		This review is analysing the role of financial advice in New Zealand and ensure that our system provides access to quality financial advice so that businesses, investors and consumers can make informed decisions. An options paper is scheduled for release towards the end of November. Final recommendations on improving regulatory settings will be made to the Minister of Commerce and Consumer Affairs by July 2016.
Explore options for a one-off enrolment of all salary and wage earners not already in KiwiSaver	Tsy, IRD		Officials will explore options for how this can be implemented once Government books return to surplus and debt repayment is on track.

The list of completed BGA actions can be viewed online in the following location  
[www.mbie.govt.nz/info-services/business/business-growth-agenda](http://www.mbie.govt.nz/info-services/business/business-growth-agenda)

## Building Investment

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## Building Investment

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# 04 Building Natural Resources

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## Building Natural Resources

The Government has committed to the following high-level goal:

***The quality of our natural resource base improves over time, while sustaining the growth needed from key sectors to meet our 40 per cent exports to GDP target***

### Improving productivity while reducing environmental impact.

New Zealand's natural resources are central to our economic prosperity, especially in our regional economies. A large proportion of New Zealand's export income comes from primary products – goods produced from the land, freshwater or ocean. As well as underpinning our economy, New Zealand's natural environment is integral to our sense of national identity and has important cultural and recreational significance.

The Government is committed to increasing the ratio of exports to GDP by growing more internationally connected business. Over the past five years, New Zealand's total exports, which include non-pastoral-based products and services such as tourism, have increased by 21 per cent and are now valued at more than \$67 billion. The primary sector accounts for over 50 per cent of exports, with 2015 export revenues valued at \$35.7 billion. There is a big opportunity to grow food exports in particular as a result of the increasing per-capita consumption of proteins by the rapidly growing numbers of middle-income consumers around the Asia-Pacific Rim.

A cornerstone in our approach is to add more value to volume: building on our primary sector strengths to capture greater value of every tonne we sell overseas. Supporting the productive use of our urban, rural and Māori land will help meet both our growth and environmental aspirations. Through more efficient land and resource use and realising greater value from our freshwater, marine and aquaculture resources, we will be able to continue to enjoy the immense benefits of our natural resources.

We now have a clearer picture of the state of our natural resource base. Recently the Government released the first comprehensive and independent report on the state of New Zealand's environment, called Environment Aotearoa 2015. This report shows that we are making good progress in areas such as reducing transport and home heating emissions, improving the clarity of our freshwater, and reducing overfishing and bycatch of protected species. However, the report also shows we still face challenges in freshwater, climate change and biodiversity.

We can meet those challenges and sustain and protect our environment, while at the same time increasing primary sector productivity through a range of smart interventions and investments outlined in this report. Given the importance of the primary industries to our economy, we need to maintain and grow the productivity of our agricultural and horticultural land. We are working with industry and investing in new technologies (such as precision agriculture and new farming techniques) to reduce the environmental impact of agricultural and horticultural land uses without compromising economic growth.

## Chapter summary

The Natural Resources stream of the Business Growth Agenda is, over the next year, focused on practical initiatives to improve land productivity and increase incomes while improving environmental outcomes.

We will work closely with land users to apply the best research and techniques to land management, and progress the reforms of the Te Ture Whenua Māori Act 1993 to unlock the potential of Māori-owned land.

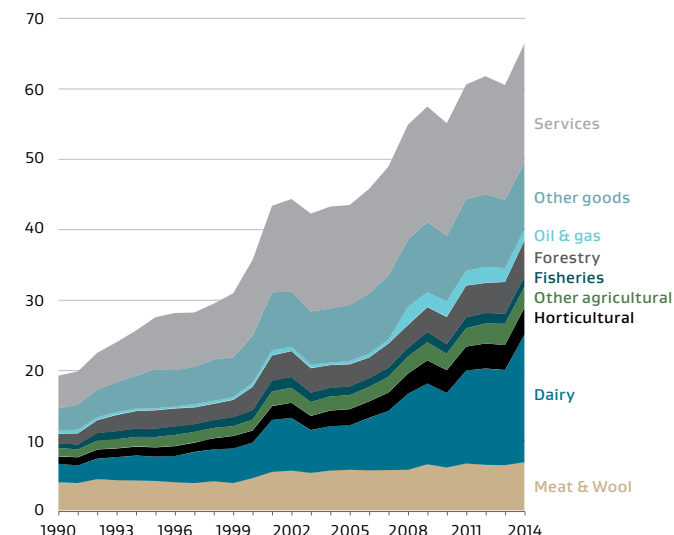
Our resource management reform process will focus on achieving a parliamentary majority to meaningfully improve Resource Management Act processes, provide investor certainty and speed up the release of greenfield and brownfield land in urban areas.

The freshwater programme will continue to build on the new regulatory framework for freshwater while ensuring the development of water storage projects that improve land productivity and environmental outcomes.

We will participate fully in climate change negotiations, and focus our domestic activity on developing and implementing technologies and techniques that will reduce and mitigate our emissions which are heavily concentrated in agriculture and transport.

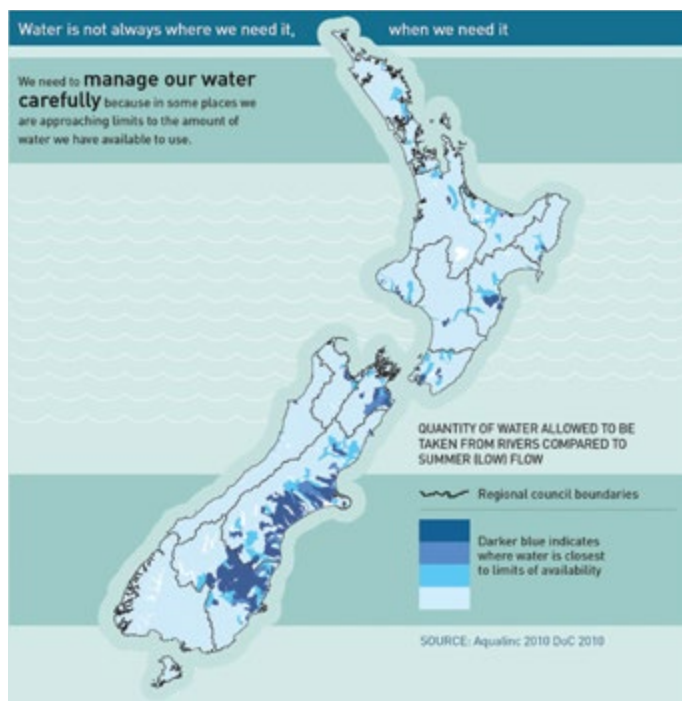
### Primary products remain a major part of our export mix

Exports, \$ billions, June years



Source: Statistics New Zealand, Ministry for Primary Industries

## Building Natural Resources



There is also the opportunity to increase the productivity of the forestry sector, already the third highest contributor to New Zealand's GDP. Currently only about half of all logs harvested are processed domestically, meaning that we are missing out on a significant portion of the potential value of our forestry products. Increasing the level of onshore processing and manufacturing is key to meeting the Wood Council's target of increasing the export value of wood products to \$12 billion in 2022.

Both our economy and environment remain under pressure from pests. Exotic pests are estimated to cost New Zealand's primary industries up to \$3.3 billion per year. Diseases such as TB affect livestock and cause direct losses. Exotic insect and diseases damage crops and reduce productivity. Meanwhile within a decade, weeds could degrade seven per cent of the conservation estate resulting in a loss of native biodiversity equivalent to \$1.3 billion. While the cost of defending New Zealand's borders and managing established pests is high (more than \$290 million annually), the potential cost of an incursion such as foot and mouth disease or the establishment of a Queensland fruit fly population would be devastating to the primary sector.

We are working with councils and businesses such as OSPRI to better coordinate and increase the impact of pest management across New Zealand. Science research plays a critical part, with the National Science Challenge New Zealand's Biological Heritage focused on improving biosecurity, protecting and managing native biodiversity and enhancing our resilience to harmful organisms. Collaborative research is underway to provide decision makers with accurate, comprehensive biodiversity and biosecurity information, help reduce risks and threats, improve the efficacy of pest management, and enhance and restore resilient ecosystems.

We continue to see further potential for New Zealand in our oil and gas reserves. While the recent downturn in petroleum prices is likely to impact on exploration activities in the short term, it is not expected to have any marked long term impact. We will continue to build New Zealand's profile through promotion and providing access to comprehensive data. Exploration permits issued under Block

Offers 2012-14 are expected to keep exploration activity in New Zealand steady for the coming few years.

Our marine environment is rich in species and habitats, and provides a significant contribution to our economy as well as ecological and recreational benefits. The benefits range from supporting local employment through to generating export earnings from commercial fishing and aquaculture, tourism and marine-based oil and gas production. We have to maintain the right balance between economic potential and ensuring the ongoing health and productivity of our oceans, which means managing the immediate challenge of competing uses. In the longer term we also have to consider ocean acidification, sea level rise, and the effects of land run-off for species and habitats.

In September 2015, the Prime Minister announced the creation of an ocean sanctuary in the unique and pristine Kermadec Region of the South Pacific. At 620,000 square kilometres, the sanctuary will be one of the world's largest and most significant fully protected areas. The Government will be introducing legislation to Parliament to enact the new sanctuary. This initiative reinforces NZ's leadership in sustainable management of the marine environment.

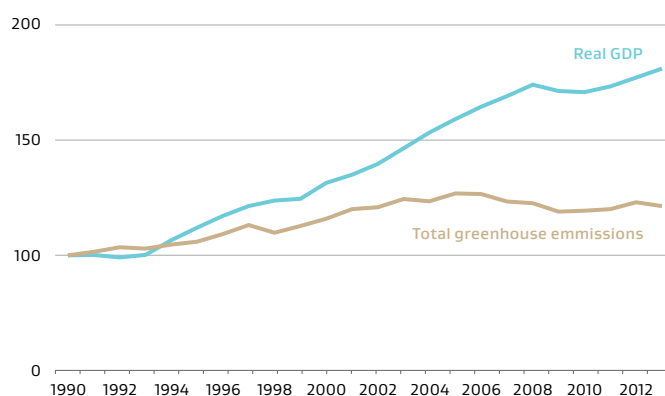
Greenhouse gas emissions contribute to global warming and we are determined to make our contribution to emissions reduction. New Zealand's emissions peaked in 2005 and have remained stable for the last decade despite significant economic growth. We have also achieved a 31 per cent decrease in the emissions intensity of our economy since 1990. However reducing our gross greenhouse gas emissions remains a challenge.

In July 2015 we announced a new target to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030. We also have a target to reduce New Zealand's emissions by 50 per cent of what they were in 1990 by 2050. Science is critical to achieving these targets. We have set up partnership programmes to reduce emissions through energy efficiency. We have also invested in promising new agricultural climate change mitigation technologies such as the creation of low methane feeds and feed additives. In addition we are providing incentives to encourage the establishment of long term forests as carbon sinks targeting highly erodible marginal pasture land.

The eight agencies of the Government's Natural Resources Sector work with Business NZ to progress a range of initiatives, including aquaculture, and the transition to a low emissions economy.

### We are decoupling greenhouse gas emissions from economic growth

Index, 1990 = 100, December years



Sources: Ministry for the Environment, Statistics New Zealand

### Major milestones achieved over the last year include:

- **Published the national level environmental report, Environment Aotearoa 2015.** This report and the Environmental Reporting Act, passed into law in September 2015, will ensure environmental reporting is regular, independent and robust.
- **Published growth studies for Gisborne/Hawke's Bay, Northland, the Bay of Plenty and Manawātū-Whanganui** that identify opportunities to sustainably grow regional incomes, jobs and investment. A **Bay of Plenty Regional Economic Action Plan** was launched in October, and plans are underway for the other regions. These plans agree priority actions.
- **Opened the first stage of the Central Plains Water Enhancement Scheme**, which will help to provide a reliable supply of water to the upper central Canterbury plains (see Spotlight).
- Announced the **creation of a new ocean sanctuary in the Kermadec region** of the South Pacific ocean. At 620,000 square kilometres, the sanctuary will be one of the world's largest and most significant fully protected areas.
- Developed the **Māori Agribusiness Pathway to Improved Productivity programme** to support Māori primary sector asset owners to sustainably increase the productivity of their assets.



- **Released the amended National Policy Statement for Freshwater Management**, which includes the National Objectives Framework.
- Signed nitrogen reduction agreements totalling 170 tonnes through the **Lake Taupō Protection Project** in partnership with local government (see Spotlight)
- **Changed the resource consent process** to create more certainty over timeframes for applicants and clarify information requirements.
- **Forged innovative public-private partnerships** with leading businesses resulting in a commitment of more than \$30 million for conservation projects (see Spotlight).
- Awarded 15 petroleum exploration permits through **Block Offer 2014**, the most successful year yet. Collectively these permits have committed work programmes expending around \$110 million.
- **Investment of \$8 million over four years in pre-commercial petroleum and minerals exploration data acquisition projects**, to generate data that is fundamental to advancing minerals exploration in New Zealand.
- Implemented a new **framework to sustainably manage New Zealand's Exclusive Economic Zone (EEZ) and continental shelf**, which came into effect in June 2013. Since then, the Environmental Protection Authority has granted four consents for petroleum activities and declined two applications for seabed mining activities.
- Set up partnership programmes to **increase productivity and reduce carbon emissions** through energy efficiency, including reducing the energy used in processing (Energy Efficient Meat and Dairy Plant programme), reducing fuel use in medium-sized fleets of heavy vehicles (Expanded Heavy Vehicle Fleet programme) and increasing uptake of fuel efficient tyres, with 60 per cent of the tyre market participating (Fuel Efficient Tyre programme).
- **Invested approximately \$20 million annually and collaborated with key overseas and domestic partners** through the Global Research Alliance, the New Zealand Agricultural Greenhouse Gas Research Centre and the Pastoral Greenhouse Gas Research Consortium resulting in promising new agricultural climate change mitigation technologies.



# Lake Taupō Protection Project

A major milestone has been achieved three years ahead of schedule to protect water quality in Lake Taupō from the effects of nitrogen leaching into the lake.

- The Government, Waikato Regional Council and Taupō District Council committed \$79.2 million to reduce nitrogen discharge into the Lake by 20% by 2018. The target was based on a strong body of scientific evidence.
- In 2007, the Lake Taupō Protection Trust was established as an independent entity. The Trust deployed the funds to purchase land and nitrogen and to encourage and assist land use change in the Lake Taupō catchment.
- The Trust's work was given effect through a variety of measures introduced under the *Regional Council's Regional Plan Variation 5*. The main initiative was the introduction of a cap on nitrogen emissions from farms, limits on wastewater discharges, and allowing nitrogen to be traded within the overall cap. This innovative scheme is the first of its kind in New Zealand and has attracted strong interest from overseas. All farms within the Taupō catchment now have resource consent conditions that require them to operate within a cap.
- By mid-2015, the Trust secured nitrogen reduction agreements totalling 170 tonnes, meeting the Project target. This has been achieved through strong collaboration and commitment from all parties, but particularly landowners through land use change.
- Ngāti Tūwharetoa, the biggest private sector landowner in the catchment, has been a key partner in the governance of the Project, with 65% of nitrogen discharge reductions to be made on iwi lands. Businesses such as Mighty River Power have invested in carbon in the catchment, doubling the Project's economic and environmental benefits.
- As a result of the Regional Council's Plan changes farmers have been employing better farming practices, as well as undertaking new lower-nitrogen ventures, for example producing and marketing sustainable beef such as *Taupō Beef*, a brand that has been endorsed by the Waikato Regional Council. A brand trial proved consumers' willingness to pay more for this high quality product.
- Even though the Project has reached its goal of securing contracts to cut nitrogen leaching by 170 tonnes a year, work will continue to finalise various arrangements related to the reduction.
- A monitoring programme is currently being established to ensure that water quality is sustained for future generations, protecting the lake as well as the significant financial investment in the Project.



# Next steps

To improve the productivity of our resource-related industries while reducing their environmental impact, the Government will focus its efforts over the next year in the following key areas:

### 1. Maximise the productivity of agricultural and horticultural land while reducing environmental effects

We will support the productivity performance of the primary sector through the Regional Growth Programme (PGP) of regional growth studies and economic action plans, Primary Growth Partnership programmes to accelerate primary industry technology transfer and uptake of best practice, and a range of initiatives addressing future skills and capability needs across the primary sector.

The PGP will continue to invest in long-term innovation programmes with industry to increase the market success of the primary industries. One PGP programme is trialling Manuka plantations on marginal land to reduce erosion on hill country sheep and beef farms and diversify the farm system. Another is developing new products and services to improve nutrient use efficiency and reduce nutrient losses to the environment. The Pioneering to Precision programme seeks to improve fertiliser practice on hill country farms through remote sensing of the nutrient status of the farms and precision application of fertiliser.

We will create settings where more output per unit of input can be generated from our rural land. This will include helping farmers match the choice of land use with its potential and allowing flexibility in approach to suit markets and the climate.

Erosion has a major impact on water quality and the biodiversity of our waterways as well as impacting on the productivity of the land. \$20 million is available through the Erosion Control Funding Programme for new erosion control works and is expected to treat between 12,000 to 25,000 hectares of severely eroding land in the Waipatu catchment (see Spotlight). An important erosion control initiative is the revised Afforestation Grant Scheme, which will see \$22.5 million invested over the next six years. As well as reducing soil erosion, new forests store carbon and improve water quality.

Pests are a major threat to biodiversity and also have significant impacts on the productivity of our land and water resources. The Government spent over \$290 million on pest management in 2014/15. Weeds compete with productive uses and support the spread of disease. Land management practices that support productive use of land will also help meet our environmental aspirations.

To better protect native species from animal pests, the aerial 1080 programme is building from 150,000 ha to 450,000 ha per annum over five years. A new budget initiative in 2015 also seeks to harness community support to halt the decline of New Zealand's iconic kiwi, with \$11 million of funding over four years set aside for breeding and predator control programmes.

We will continue investing in research and other initiatives to help the agriculture and forestry sectors with the challenges arising from climate change, e.g. through the Sustainable Land Management and Climate Change fund.

#### Spot light

## Restoring the Waipatu catchment

The Waipatu catchment is one of the largest in the Gisborne district. The steep land has a high risk of soil erosion, and many slopes are actively eroding. It has the highest suspended sediment yield of any river in New Zealand and one of the highest in the world. Restoring the health of the catchment will take 100 years.

The Ministry for Primary Industries (MPI), Ngati Porou and the Gisborne District Council have initiated a collaborative programme to restore the Waipatu River catchment. The vision for the work is: *Ko te mana ko te hauora o te whenua; ko te hauora o nga awa; ko te hauora o te iwi* – Healthy land; healthy rivers; healthy people.

Much of the eroding land in the catchment is Māori owned, and is the target for this programme. The Treaty of Waitangi settlement between the Crown and Ngati Porou includes a relationship accord and a commitment to address soil erosion in the Waipatu catchment.



The initial focus is on erosion control to stop greater physical damage to the catchment, and bring social and economic gains to iwi and landowners. Later activities will focus on initiatives that support Māori land owners and their governance bodies to increase the productivity of their land through farm management practices or changes to land use.



# Conservation Partnerships

Businesses can play a vital role in conservation by working in partnership with the Department of Conservation (DOC) and the broader conservation sector in New Zealand.

Innovative conservation partnerships have been forged with New Zealand businesses, resulting in a commitment of more than \$30 million dollars for conservation.

- Fonterra is investing \$2 million a year for the next 10 years into community-based work programmes to improve the natural habitats of five key catchments in significant dairying regions across New Zealand.
- Air New Zealand has committed \$7.4 million into a partnership with DOC which is helping to promote Great Walks, bring back some of New Zealand's rarest birds to the Great Walks, and expand DOC's marine reserve monitoring programme.
- New Zealand Aluminium Smelters Ltd and Forest & Bird are helping to ensure the ongoing survival of the kākāpō. Over 25 years NZAS have committed \$4.5 million to Kākāpō Recovery as well as 1100 volunteer hours. Over this time the kākāpō population has more than doubled, to 126 birds in 2014.
- Dulux New Zealand is giving assistance to a kea nest monitoring programme, and to paint and protect DOC huts and other recreation and historic assets.
- Mitre 10 and DOC have a ten-year partnership to support the recovery of the takahē, including building new breeding units and

safe homes; better monitoring and control of takahē predators; and transferring birds to offshore islands and predator-free sites.

- Whio Forever is a partnership between Genesis Energy and DOC that is working to double the number of fully operational secure whio breeding sites, and to boost pest control efforts for Whio conservation.
- The NEXT Foundation, the dairy industry, and philanthropists Gareth and Sam Morgan are helping to transform the way invasive predators are managed on mainland New Zealand. The programme focuses on developing tools and technologies to enable the complete removal of rats, stoats and possums from large areas of New Zealand, and to protect sites from reinvasion.
- DOC's partnership with the Tourism Industry Association is an enduring commitment to support businesses that exemplify kaitiakitanga.

These partnerships create value for both the partner and DOC, and demonstrate the symbiotic nature of conservation and business and how investment in conservation actively benefits business. DOC is working to build partners who are champions for conservation – the goal is that every business fosters conservation for this and future generations. To discuss partnership with DOC, contact your local DOC office.



## Building Natural Resources

### 2. Provide more flexible governance options for Māori land, and assist Māori trusts and landowners to improve the productivity of their land

There is considerable potential to improve the productivity of Māori-owned land by turning unused or under-utilised land into productive land. This was recently confirmed in a PwC report *Growing the Productive Base of Māori Land* (2014). To unlock this potential we will help Māori landowners collaborate with the wider community and industry, and to build economies of scale.

The Te Ture Whenua Māori Bill is due to be introduced in early 2016 alongside other initiatives to improve Māori landowners ability to utilise their land. The Bill will help improve the productivity and performance of Māori land by empowering owners to make governance and land-use decisions without going through Māori Land Court processes, while protecting ownership. A new Māori Land Service will provide administrative support for owners, assist governance entities and provide mediation for disputes. Other barriers to Māori land utilisation will also be explored and addressed in the Bill, including rating and valuation, landlocked land, and paper roads issues. The \$12.8 million (over four years) Te Ture Whenua Network fund announced in Budget 2015 will target initiatives to improve the productivity of Māori land.

Through a collective approach across central and local government agencies, industry, iwi, and Māori businesses, we are working on new avenues to pursue Māori land productivity. We are investigating what services can be accelerated to assist Māori landowners make decisions on the best use of their land, and to realise those aspirations through Māori business development.

### 3. Encourage regional economic development with certain and timely processes for allocating access to resources

The Government's focus is twofold: to implement the current resource management legislative reform package by 2016; and to provide more consistent national direction. The reform package will achieve certainty for businesses and communities, improve efficiency, and enhance the

capability and capacity of local decision-makers. Following enactment of the legislation, we will focus on implementing the package of reforms with councils, resource management practitioners, iwi and businesses.

Our efforts will be focused on providing greater national direction and consistency on topics where there is no clear basis for local variation, and benefits and costs are national. We will support councils and decision-makers to implement changes to the planning and consenting processes, and we will help to develop a new national planning template to improve plan-making and consistency between districts. We are committed to providing national direction on land supply and affordability of housing, to support councils planning for future demand in these areas.

We will support iwi and councils in developing Iwi Participation Agreements, and we will also complete the review of Environment Canterbury's governance structure.

In the tourism sector, 41 per cent of our international visitors are attracted by our spectacular landscapes and natural scenery (refer to Exports Market chapter).

We are partnering with the Tourism Industry Association to develop commercial initiatives that promote and enhance conservation. Our aim is to ensure our environment is protected while enhancing the visitor experience to public conservation areas.

### 4. Free up urban land supply and accelerate access and use of it

The Government is very focused on increasing the supply of land and affordable housing in urban areas. Using a three-pronged approach we will: increase land supply (greenfield and brownfield sites); secure large-scale housing developments; and better gear the regulatory framework to utilise land.

The Government is considering the findings and recommendations from the Rules Reduction Taskforce, which were publicly released in September. We will be looking for high value opportunities for central government and local government to address regulatory requirements affecting property owners that are not fit for purpose.

### 5. Improve the efficiency of freshwater allocation and usage within limits, and encourage investment in water storage and irrigation

Improving freshwater management is a long-term endeavour, and significant progress is being made. The Land and Water Forum brings together people and organisations with a stake in freshwater and land management to deliver robust advice to inform our policy direction.

The primary vehicle for progress in this area is the National Policy Statement for Freshwater Management (NPS-FM). This will give greater transparency to the relevant science, streamline processes, and focus discussions on the values communities want to achieve. Compulsory national values have been established for ecosystem health and human health.

To assist with the transition to the new freshwater management system, central government and councils will work together to develop best practice approaches and guidance for collaborative planning and technical matters.

Our focus is to improve water quality and the efficiency of its allocation by supporting councils, iwi, business and community

involvement in freshwater management and increasing the extent and depth of national direction. In addition, we will produce economic and environmental impact studies to promote informed decisions about water quality and quantity limits, and management approaches. We will continue to investigate approaches for allocating fresh water to its best value use, and address the rights and interests of iwi and hapū in fresh water.

We will also support investment in irrigation infrastructure to improve agricultural productivity, improve environmental outcomes, and facilitate export growth.

We are considering a range of options to determine the types of initiatives that will provide the best value for money and leverage from a \$100 million fund for restoring key freshwater bodies. The purchase and retirement of farmland is one in a suite of initiatives that could also include other protection or remediation activities. The focus will be to identify what would be the most appropriate solution for each catchment to achieve greater freshwater quality. We also will continue to work with the Iwi Leaders Group to better manage our rivers, lakes and groundwater.



### Spot light

## The Central Plains Water Story

**The opening of the Central Plains Water Scheme Stage 1 in August 2015 is a significant milestone in providing a reliable supply of water to the upper central Canterbury plains.**

Since 2008, the combination of improving primary sector confidence, the focus on collaborative catchment-wide water management solutions under the Canterbury Water Management Strategy, the determination of Central Plains Water Ltd shareholders, Board and staff, and the partnership with central government have been instrumental in launching the scheme. Specific central government support has been via a variation to the Rakaia River Water Conservation Order, grant funding from the Irrigation Acceleration Fund and mezzanine funding from Crown Irrigation Investments Ltd.

Stage 1 has resulted in 15,000ha being converted from ground water abstraction to surface water irrigation distributed in pipelines by gravity. This has saved a significant amount of electricity. When the scheme is fully operational (60,000ha), 300 million m3 of alpine river water will be introduced into the catchment per annum, enabling 75 million m3 of groundwater abstraction to be retired, replenishing deep aquifers. This will result in a 15 to 20 per cent reduction in the use of groundwater within the catchment, which will address over-allocation, increase flows in lowland streams and help improve water quality in Lake Ellesmere Te Waihora.

Central Plains Water Ltd will manage within a nutrient discharge load limit set under the Resource Management Act, and encourage its farmers to improve farm practices over time under an audited farm environment plan system. The 110 Stage 1 farms recently completed

their Farm Environment Plans and the company has an extensive water monitoring programme in place to assess effects.

The extensive stockwater supply system will be systematically replaced, improving water use efficiency (the old stockwater races can lose up to 95% of their flow) and eliminating maintenance costs. Water from the pipelines will also be released in a managed way to improve flows in lowland streams in dry times to support environmental and cultural values.

A further 40,000ha of soils suitable for many land uses can be irrigated from the development of further stages. Once fully developed, the scheme is estimated to be able to generate \$276 million of additional net revenue and 926 full time equivalent jobs for Canterbury and NZ each year.

The key long term spinoff from infrastructure delivering reliable water is that farmers will have the tools needed to adjust land use to the greatest return per unit of water used and per unit of nutrient lost. The link between these metrics and the regulatory system via the consents and monitoring systems will be transparent to the general public, so farmers will be able to show that what they are doing is a sustainable use of natural resources. Adaptive management by the farmers and the regulatory system will occur continually in response to changing market, climatic and environmental pressures. The focus now is on implementing the changes on the ground.



## Building Natural Resources

### 6. Develop our aquaculture, fisheries and other marine resources, while maintaining marine biodiversity and sustainability

We are exploring a more integrated approach to managing New Zealand's marine resources, especially how to deal with tensions between different uses. This will allow greater certainty in the development of our rich marine resource base, while supporting our unique oceanic environment.

An operational review of the fisheries management system is underway to enable greater benefit to be obtained by all sectors, including the commercial sector. Regulatory changes are also being developed to support the commercial use of Precision Seafood Harvesting technology.

We will provide greater national direction in regional coastal planning for aquaculture (under the Resource Management Act), to create more certainty for industry and councils on how aquaculture will be managed, and to improve investor confidence. We will also investigate new growth opportunities.

### 7. Improve energy efficiency and use of renewable energy to raise productivity, reduce carbon emissions and promote consumer choice

New Zealand needs to reduce greenhouse gas emissions to become more productive, reduce risks from fuel price volatility, and do our fair share on climate change. This transition has already started – our emissions peaked in 2005 and have remained stable since despite significant economic growth, and the emission intensity of our economy has decreased 31 per cent since 1990.

About 80 per cent of New Zealand's electricity is from renewable sources, putting us in the top five countries for renewable electricity. We therefore have to look at reducing emissions from sectors beyond

electricity generation. New Zealand's Emissions Trading Scheme, one of the world's first, puts a price on emissions. We are also working with businesses and households through energy efficiency programmes.

The introduction of new technologies like solar photovoltaic power system and smart meters, gives consumers greater choice about how to meet their energy needs and use energy more efficiently. Through the Smart Grid Forum, a joint initiative with the Electricity Networks Association, we are looking into how new technologies can empower consumers and help meet emissions targets.

In the transport sector, alternative fuels and new vehicle technologies offer opportunities for emissions reductions. We are developing policy options to encourage the uptake of electric vehicles. Because most of our electricity is from renewable sources, opportunities to shift from fossil fuel energy to electricity can make significant emission reductions.

About half of New Zealand's greenhouse gas emissions come from agriculture. Our emissions per unit of production have improved steadily and as a result, our agricultural products have lower emissions footprints than products from many other countries. We invest approximately \$10 million per year in R&D to develop new technologies to mitigate agricultural emissions. This includes reduction of methane and nitrous oxide emissions and increasing soil carbon. New Zealand leads the world in biological emissions mitigation research, giving us an opportunity to reduce global emissions by helping countries reduce their agricultural emissions.

Carbon dioxide removals from forestry are one of New Zealand's largest and cheapest forms of meeting our emissions targets. The Government supports tree planting programmes including the Afforestation Grant Scheme, East Coast Erosion Control Programme, Permanent Forest Sink Initiative, and the Emissions Trading Scheme, which also discourages deforestation of planted exotic forests.



## Renewable energy – making the most of our advantages

New Zealand has an abundance of renewable energy development opportunities and expertise to take to the world.

New Zealand is gifted with an abundant supply of renewable energy resources. We are world leaders in geothermal energy, we have world-class wind resources, extensive hydro-electricity, and potential sources of bioenergy in forestry. We are also highly effective system operators, integrating variable generation in a long stringy network while maintaining security of supply and a competitive market. In 2014, renewable energy accounted for 80 per cent of our electricity generation.

This long history and expertise in renewables places us at the forefront of emerging global opportunities. Worldwide, the renewable energy industry grew three-fold from 2005 to 2013, driven by new technology and rising costs of traditional fuels. This growth is only expected to accelerate, particularly with our nearest trading partners in Asia and the Pacific region. To make the most of these developments, Government and industry are working to leverage our renewable advantage. For example:

- Our generation companies are investing overseas in the design, construction and maintenance of new renewable power plants

- Contracting, consulting, and service based firms are taking their domestic renewable expertise to new international markets
- Government funding renewable energy basic research through our Crown Research Institutes, such as Scion and GNS
- Government agencies supporting the commercialisation of new renewable based products and closer collaboration with industry, such as the Wood Energy Hub between EECA and Venture Southland
- The New Zealand Aid Programme delivering practical, renewable energy solutions to the Pacific region

With an abundance of renewables, we can build on our competitive advantage in the domestic production of energy-intensive goods and services, and capitalise on industry expertise in servicing growth in renewable energy offshore. Export opportunities include electricity and renewable energy services and expertise, energy efficiency products and services, and bioenergy opportunities from forestry.

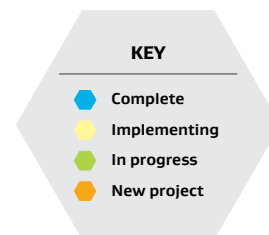
Currently our exports of goods and services in the renewable energy area bring in tens of millions of dollars to the New Zealand economy. There is potential to increase this through more focused coordination, trade missions and other opportunities on the international stage.



# Project update

We have now completed 35 projects in the Natural Resources workstream. This report adds nine new projects. We have 27 projects in progress and three in the final implementation phase.

BUILDING NATURAL RESOURCES					
	All projects	New projects	In progress	Implementing	Completed
Status June 2014	59	4	25	8	22
Status November 2015	74	9	27	3	35



## Projects and progress

Project	Lead agencies	Status	Comment
<b>Maximise the productivity of agricultural and horticultural land while reducing environmental effects</b>			
Farm Systems Change	MPI	<span style="background-color: orange;"></span>	<p>This programme aims to transform New Zealand's farms to a more sustainable operating platform through productivity and process changes. This will be done through these key areas of activity:</p> <ul style="list-style-type: none"> <li>• Analysis of high performing farm systems to identify core capabilities, investment needs, return on investment and implementation needs – precision agriculture.</li> <li>• Standardising investment processes to increase access to capital by farming businesses.</li> <li>• Working with selected farmers to trial and refine our approach and build 'change ambassadors'. The first year will focus on dairy, sheep and beef.</li> <li>• Providing grants to farmers to assist with afforesting their erosion prone land. Erosion has a major impact on water quality and the biodiversity of our waterways as well as impacting on the productivity of the land. An important initiative is the revised Afforestation Grant Scheme, which will see \$22.5 million invested in planting 15,000 hectares of land over the next six years. Funding via the Erosion Control Funding Programme targets land in Gisborne District including the Waiapu Catchment with 1,500 hectares of target land being funded in the past 18 months.</li> </ul>
Accelerate primary industry technology transfer and embed best practice knowledge	MPI	<span style="background-color: green;"></span>	<p>Primary Growth Partnership (PGP) programmes are trialling and supporting the most successful ways of enabling technology transfer. Several current programmes contribute towards achieving environmental protection while also increasing profitability, including:</p> <ul style="list-style-type: none"> <li>• The Transforming the Dairy Value Chain programme, which piloted Sustainable Milk Plans in the upper Waikato region and developed a land application data standard to support the interchange of information on farm inputs.</li> <li>• Another funded project is investigating new products that aim to improve nitrogen and phosphorous use efficiency in pastoral farming systems.</li> </ul>
Supporting primary sector growth in the regions	MBIE, MPI, LINZ	<span style="background-color: green;"></span>	<p>The first regional growth studies have been completed, with studies released on Gisborne/Hawke's Bay, Northland, the Bay of Plenty and Manawatu-Wanganui. Work has now started on Regional Economic Action Plans in these regions. These plans are prioritising the opportunities identified in the studies and indicate where and how Government will support the realisation of these opportunities. The Bay of Plenty Economic Action Plan was launched on 29 October 2015 with the Northland Economic Action Plan scheduled for launch in February 2016.</p>

## Building Natural Resources

Project	Lead agencies	Status	Comment
Develop landscape scale regeneration, biodiversity protection, and pest control partnership programmes	DOC, MPI		<p>Several initiatives are in development working in partnership with businesses such as OSPRI to reduce pests, and enhance habitat protection. Examples include the 'Cape to City' project in the Hawke's Bay, and new initiatives to support honey production.</p> <p>Further work is planned on the NZ Wilding Conifer Management Strategy including the "War on Weeds" programme to deal with problem wilding conifer spread while supporting a vibrant and growing forestry sector. The spread of wilding conifers which without management could cover up to 22% of the country within two decades, costing the economy up to \$2 billion.</p>
Harness community support to halt the decline of New Zealand's iconic kiwi	DOC		\$11.2 million of funding has been set aside over four years for breeding and predator control programmes. In addition, a new Threatened Species Ambassador has been appointed to work with DOC and the Minister to further strengthen philanthropic, commercial and volunteer partnerships.
Investigate options to speed up the goal of a predator free NZ	DOC, MPI		<p>Government will establish a project to investigate further the options to increase the pace in securing our landscapes and the economy against pests to:</p> <ul style="list-style-type: none"> <li>• Leverage investment in TB eradication.</li> <li>• Increase iwi, local government, business, and community involvement to aspirational goals of "Predator Free NZ" and "War on Weeds".</li> <li>• Pilot with community groups projects that aim to eliminate pests at the local level.</li> </ul>
<b>Provide more flexible governance options for Māori land, and assist Māori trusts and landowners to improve the productivity of their land.</b>			
Reform the Te Ture Whenua Māori Act 1993 to unlock the economic potential of Māori land for its beneficiaries, while preserving its cultural significance for future generations	TPK, LINZ		The reform of the Te Ture Whenua Māori legislation will empower owners of Māori land to make their own decisions for their land, supported by an enabling institutional environment, while preserving the land's cultural significance for future generations. Cabinet agreed to progress a proposal to improve the utilisation of Māori land through the proposed introduction of a Te Ture Whenua Māori Bill. An exposure draft of the Bill was released for consultation, and approximately 400 submissions were received from members of the public. These submissions have been analysed and, to respond to various points raised in these submissions, Cabinet agreement is being sought to make a small number of substantive changes to the Bill. Minister Flavell has announced that he intends to introduce the Bill into Parliament in early 2016.
Work with Māori to identify and promote best practice governance models for, and improve the productivity of, collectively held resources	TPK, MPI, LINZ, MBIE		<p>To complement the introduction of the Te Ture Whenua Māori Bill, agencies will:</p> <ul style="list-style-type: none"> <li>• Support Māori landowners to establish an appropriate form of governance from the enhanced suite of options in the new Bill.</li> <li>• Progress other land-related issues to complement the Bill, including rating, valuation, landlocked land and paper roads.</li> <li>• Roll out the Te Ture Whenua Māori Network fund (\$12.8 million set aside over four years as part of Budget 2015).</li> </ul>
Build the capability of regional Māori business to improve the productivity of Māori land	TPK, MBIE, MPI, LINZ		<p>MPI's Māori Agribusiness Programme is dedicated to partnering with Māori to sustainably increase the productivity of their primary sector assets such as agriculture, horticulture, forestry, or seafood that are in collective ownership. It has a specific focus on tangible on the ground projects that will lead to sustainably increasing their productivity.</p> <p>The outcomes of prototypes assessing development and investment paths are being evaluated.</p> <p>Current initiatives include bringing under-utilised fragmented Māori freehold land into production under the best possible land use; and exploring the economic benefits of collectivising farming options. It also includes LINZ's work with the Federation of Māori Authorities and Landcare Research to develop a pilot virtualisation tool to enable Māori landowners to make better decisions around productivity. Initial focus is on the kiwifruit industry.</p>

## Building Natural Resources

Project	Lead agencies	Status	Comment
<b>Encourage regional economic development with certain and timely processes for allocating access to resources</b>			
Streamline and speed up the regional planning and resource consent processes	MfE		<p>The Government is currently reviewing the complete package of proposed Resource Management reforms and legislation is expected to be introduced in 2015. The reforms include changes to simplify and speed up the plan making process, including through the development of a new Resource Management Plan planning template for Councils. The Government is currently undertaking research, concept design and initial stakeholder engagement for the template. It will then work with local government on a standard format and structure, definitions and other content.</p> <p>The proposed Resource Management Reforms include changes to the consenting process which will seek to improve the consent, notification, submission and appeals process, making it easier to use and relative to the activity being undertaken. This includes a fast track process for simpler consents. A new six month consenting process came into force in March 2015.</p>
Achieve improved Māori participation in natural resource management	MfE, MPI		<p>The proposed Resource Management Reforms include changes to clarify the role of iwi/hapū in planning, specifically the requirement for councils to invite iwi/hapū to enter into an agreement on how the councils and iwi/hapū will work together through the planning process. The changes also set clear expectations on councils to involve iwi/hapū in the planning process.</p>
Provide a forward agenda for national guidance on resource management that is understandable, relevant and timely	MfE, MPI		<p>The Government has released a forward agenda of topics to be addressed with national direction, which is available on the MfE website. Final policy decisions are now confirmed for National Environmental Standards (NESs) for telecommunications, and submissions are being analysed on plantation forestry. Exclusion of dairy cattle from waterways will be consulted on in early 2016, informed by policy design recommendations from the Land and Water Forum.</p> <p>The Government is also scoping national direction on natural hazards, aquaculture, urban development, pest control and biodiversity, and working towards amendments to the NESs for air quality and contaminants in soils.</p>
Set up an independent environmental reporting regime	MfE		<p>In October 2015, Statistics NZ and MfE published a national level environmental report, Environment Aotearoa 2015. This report and the Environmental Reporting Act, passed into law in September 2015, will ensure environmental reporting is regular, independent and robust.</p> <p>A number of other projects are underway that will ensure environmental information is consistently monitored and that datasets are nationally representative. Some of these initiatives will also provide information on processes, primarily for the RMA and tools under it. Together, these projects help improve our understanding of the environmental system, in particular for freshwater.</p> <p>Statistics NZ also released in March 2014 an online product rebranded as New Zealand Progress Indicators (replacing the former SDI (Sustainable Development Indicators)).</p>
Undertake Environment Canterbury Review	MfE, DIA		<p>Environment Canterbury's (ECan) current governance arrangements are due to expire in October 2016. The Environment Canterbury (Transitional Governance Arrangements) Bill was introduced to the House on 26 August 2015. The Bill provides for a mixed-model governance structure for ECan comprising seven elected councillors and up to six Government-appointed councillors for the 2016-2019 local government term.</p>
Invest \$8 million over four years to further build our knowledge about petroleum and mineral resources across regional New Zealand	MBIE		<p>Significant research is being undertaken on a range of pre-commercial data acquisition projects and related studies.</p>
Respond to the Parliamentary Commissioner for the Environment's (PCE) final report on oil and gas oversight and regulation	MfE, MBIE, MPI		<p>The PCE's final report on oil and gas oversight and regulation was published on 4 June 2014 and included six recommendations, five for Crown ministers and one for regional councils. As a final government response to recommendation six, in July 2015 MPI issued guidance covering what is commonly referred to as landfarming, which the PCE has publicly endorsed.</p> <p>Officials at MfE and MBIE are continuing to work on the four remaining recommendations directed to central government.</p>

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Project	Lead agencies	Status	Comment
Grow tourism on Public Conservation Land	DOC		<p>Project Groundswell, a collaboration between DOC and the Tourism Industry Association has several new initiatives underway to produce gains for both the economy and conservation in this area.</p> <p>DOC, Heritage New Zealand and the Ministry of Culture and Heritage are developing a strong, tourism-focused brand, "Landmarks", around historic and natural places which are special to us as New Zealanders.</p>
Improve government provision of building, property and natural resources information and services	LINZ		<p>A range of new initiatives will improve land information systems to enable better integration of property / land information across central and local government.</p> <p>The initiatives include:</p> <ul style="list-style-type: none"> <li>• Integrated Property Services (IPS), an overarching programme of work, will improve the supporting information for the Three Waters Better Data, Forward Works Viewed, and Smart Cities projects.</li> <li>• Three Waters Better Data work will ensure more consistent data collection on central and local government infrastructure and built assets to support operational, all-of-life management and replacement planning.</li> <li>• The Forward Works Viewer gives a shared online view of planned repair and construction, enabling the building and construction industry to efficiently coordinate effort. Used in Christchurch to support the rebuild, there is interest from other regions including Auckland.</li> </ul> <p>The Smart Cities project will improve the information required to manage our key urban areas, enhancing usage of city resources and information for citizens.</p>
Combatting kauri dieback	DOC, MPI		<p>Kia Toitu He Kauri Keep Kauri Standing, New Zealand's strategy for managing kauri dieback disease was released in 2014. The Kauri Dieback Management Programme has now evolved from the establishment phase into a long-term delivery phase.</p>

### Free up urban land supply and accelerate the use of it

Free up land supply in urban areas to provide more housing	MBIE, MfE		<p>Land supply has been identified as a key issue for the supply and therefore affordability of housing. The Housing Accords and Special Housing Areas Act (HASHA) passed in 2013 created a framework for accelerating housing development, by enabling streamlined resource consenting processes for residential developments in Special Housing Areas (SHAs).</p> <p>The Government has agreed accords with Auckland Council, Christchurch City Council, Wellington City Council, Queenstown-Lakes District Council, Tauranga City Council, Western Bay of Plenty District Council, Nelson City Council and Tasman District Council. To September 2015, a total of 118 SHAs have been established with 86 in Auckland, 21 in Wellington, nine in Tauranga, one in the Western Bay of Plenty and one in the Queenstown-Lakes District.</p> <p>In addition, the Minister for the Environment has announced his intention to develop a National Policy Statement on Urban Development, which will provide direction and guidance to local councils.</p>
Actively monitor the content of the Auckland Unitary Plan and Christchurch District Plan and report back on implications for Government priorities	MfE		<p>Officials are closely monitoring decisions coming out of the Auckland Unitary Plan and Christchurch District Plan Review processes for their ability to result in high quality plans and implement government priorities including:</p> <ul style="list-style-type: none"> <li>• The ability of the plans to deliver sufficient development capacity for housing and business and enable access to jobs and housing.</li> <li>• Enabling the recovery and rebuild of Christchurch.</li> </ul>
Consider how local government regulatory performance can be improved and costs to business reduced	DIA, Treasury		<p>The Government response to the Productivity Commission's report on better local regulation includes the establishment of the Rules Reduction Taskforce, which will identify opportunities to address unnecessary or poor-performing local regulation that adversely affects property owners. The Taskforce engaged with the public and sector groups online and through a comprehensive series of community meetings from March to June 2015. Submissions closed on 15 June 2015, with submissions received on over 2000 topics. On 31 August 2015, the Taskforce reported back to the Minister of Local Government. The Taskforce report was publicly released in September and the Government is now considering the Taskforce's findings and recommendations.</p>

## Building Natural Resources

Project	Lead agencies	Status	Comment
Improve the operation of the housing market by reforming resource management	Tsy, DIA, MBIE, MfE		The Resource Management Reform Programme will put in place measures to ensure local authorities are enabling sufficient and responsive supply of land for urban development.
<b>Improve the efficiency of freshwater allocation and usage within limits, and encourage investment in water storage and irrigation.</b>			
Improve the governance and allocation of fresh water	MfE, MPI		<p>The Government has given the Land and Water Forum (LAWF) a renewed mandate. LAWF's high level recommendations on managing usage within limits, and other relevant advice, will contribute to policy development. Consultation on next steps is planned for early 2016.</p> <p>As part of this work, an optional collaborative planning process (to be included in the proposed Resource Management Reforms) will support better management of fresh water. Work is continuing on mechanisms to increase the value of freshwater while managing usage within quality and quantity limits.</p>
Set effective objectives and limits for water quality and quantity and timeframes for adoption	MfE, MPI		<p>Amendments to the National Policy Statement for Freshwater Management (NPS-FM) (including introducing a National Objectives Framework) came into effect on 1 August 2014. The framework included bottom lines for water quality and brought Council implementation forward to 2025. Support for implementing the NPS includes:</p> <ul style="list-style-type: none"> <li>Working with regional councils to identify and resolve skill shortages and staff capability that limit their ability to implement the NPS-FM. This includes a project currently underway between central government, councils and industry to develop guidance on the appropriate use of OVERSEER in relation to water quality limits.</li> <li>Ongoing exchanges to help build regional council capacity in collaborative planning, economics and technical aspects of freshwater management.</li> <li>A working group to examine how Farm Environment Plans could be used as both a planning and regulatory tool for farmers. The group has now reported and shared its findings with the Land and Water Forum and other stakeholders.</li> <li>Development of resources to provide a clear understanding of the intent behind the objectives and policies in the NPS-FM. A guide to the NPS-FM has been published, as well as a guide to accounting for water takes and contaminant discharges.</li> </ul> <p>Online resources will also be designed for use by the wider community. Guidance material will continue to be refined as policy develops and as specific areas of support for councils and the community are identified.</p>
Work with iwi to ensure that iwi/hapū rights and interests in water are recognised	MfE		<p>In January 2015 Cabinet agreed a workplan (further endorsed by the Iwi Chairs Forum) to guide the collaborative work of the Crown and the Freshwater Iwi Leaders Group (ILG) to develop options to address iwi/hapū rights and interests.</p> <p>Since February 2015, Ministers have worked with the ILG to identify priority workstreams and key objectives to address iwi/hapū rights and interests in fresh water. In August 2015 Cabinet approved priority workstreams and the workstream specific objectives. The Crown and the ILG are working collaboratively to identify options under each of those workstreams. By the end of 2015 it is proposed that the development of options will culminate in a discussion document (agreed by Cabinet) that will be consulted on in early 2016.</p>
Invest up to \$400 million to encourage irrigation and water storage development	Crown Irrigation Investments Ltd, Treasury and MPI		The Crown owned company became operational on 1 July 2013. Crown investment will target supporting viable scheme propositions in the critical uptake risk period. The Company has made its first investment in Central Plains Water (Stage 1) and is engaging with a number of other potential investment partners. There are currently 4 projects in the pipeline approaching the 'investment ready' stage.
Support irrigation projects through the Irrigation Acceleration Fund to deliver water and energy use efficiency initiatives	MPI		The Irrigation Acceleration Fund has been operational since September 2011. To date, grant funding of \$31.847 million has been committed to support 19 projects. Collectively, these projects provide a potential for approximately 260,000 ha of irrigation. Other projects are at the concept development stage. Budget 2015 extended the Fund by a further \$25 million.

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Project	Lead agencies	Status	Comment
Develop a framework for proposed investment of \$100 million of funding towards initiatives to improve the quality of our freshwater	MfE		The Government is considering a range of options to determine the types of initiatives that will provide the best value for money and leverage from a \$100 million fund for freshwater. The purchase and retirement of farmland is potentially one option in a suite of initiatives that could also include other protection or remediation activities. The focus will be to fund the most appropriate catchment-specific interventions to achieve the greatest net benefit for freshwater quality.
<b>Develop our aquaculture, fisheries and other marine resources, while maintaining marine biodiversity and sustainability</b>			
Explore opportunities to support aquaculture development regionally	MPI		<p>Government is providing \$3 million support (possibly rising to \$26 million) towards a \$141 million project for Opotiki. This includes a new harbour entrance and wharf, and a processing site to service a new 3800ha offshore marine farm.</p> <p>The \$3 million will fund further feasibility work over the next two years. At the end of this feasibility stage a Better Business Case will be completed and a decision made on the remaining funding sought of \$26 million.</p> <p>Initial stakeholder engagement on the land-based aquaculture review has been completed. Public consultation is expected to begin in late 2015, with final decisions in 2016.</p> <p>Aquaculture has been placed on the forward agenda for National Direction, and MPI is leading work to finalise the specific tool for implementation.</p> <p>MPI is investigating Government intervention to unlock salmon growth opportunities in Marlborough.</p> <p>Regional Agreements for New Space Regional Māori Aquaculture Settlements were signed with Marlborough, Tasman and Auckland iwi in July 2015. MPI is providing further advice on the four remaining priority regions in Northland, Waikato East Canterbury and Southland.</p>
Increase the productivity and efficiency of the wild capture fisheries sector	MPI		An operational review of fisheries law and regulation is underway, including developing regulatory changes to support precision seafood harvesting. Agencies are working on this with Business NZ members.
Implement the EEZ legislation, including introducing regulations, to maximise economic opportunities while better managing the environmental effects of activities within it	MfE		<p>The Government has finalised regulations for discharge and dumping activities, and burial at sea, in the EEZ and continental shelf. The regulations are the final components of the regime planned under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 (EEZ Act). They came into force on 31 October 2015.</p> <p>Officials have commenced a review of cost recovery for the EPA's EEZ function, in line with best regulatory practice and recommendations from the recent EPA review. Consultation will take place on any proposed changes.</p> <p>The Government is seeking to introduce a number of amendments to the EEZ Act to improve its efficiency and effectiveness.</p>
Investigate options for graduated marine protection	MfE		<p>In September the Prime Minister announced the creation of a new ocean sanctuary in the Kermadec region, one of the most pristine and unique places on earth.</p> <p>The Government is progressing development of a proposal to reform marine protection, as part of ensuring New Zealand has world leading systems for the use, management and protection of our oceans. Public consultation on a proposed graduated approach to marine protection is expected to begin in late 2015.</p>
<b>Improve energy efficiency and use of renewable energy to raise productivity, reduce carbon emissions and promote consumer choice</b>			
Engage constructively in international negotiations on climate change	MfE, MPI, MFAT		<p>New Zealand has participated in international meetings under the UNFCCC, including meetings of the UNFCCC subsidiary bodies, the Durban Platform (negotiating the new 2015 agreement), and the Lima Conference of the Parties (in December 2014), as well as a number of informal meetings including the Japan-Brazil Dialogue, Cartagena Dialogue, and Major Economies Forum.</p> <p>In July 2015 New Zealand lodged its post-2020 target, NZ's "intended nationally determined contribution" as part of the new Durban Platform Agreement. Cabinet's decision followed a period of public consultation from 7 May – 3 June 2015.</p> <p>New Zealand organised and hosted the four 'Blue Skies Dialogue' Ambassadors meetings on the future global climate change agreement in August 2012, September 2013, September 2014 and July 2015.</p>



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Project	Lead agencies	Status	Comment
Conduct the scheduled review of the ETS	MfE, MPI, MBIE, TSY		In 2012 Cabinet agreed that the first discretionary review of the NZ ETS would take place in 2015. MfE is now developing advice for Ministers' consideration on scope for the review. The review is intended to ensure the ETS is fit for purpose to 2020 and beyond.
Ensure well-functioning markets, and identify and remove regulatory barriers to support renewable energy and reduce carbon emissions	MBIE, MfE, EECA, MPI, MOT		<p>The Government is continuing with work on policies to support emissions reductions. MPI is completing the review of the Permanent Forest Sink Initiative, and introducing an afforestation grant scheme. MOT is developing a package of possible policy options to encourage the uptake of electric vehicles. These measures will help reduce greenhouse gas emissions in the long term.</p> <p>EECA and Venture Southland have developed a delivery model and signed up programme partners to work with local businesses on fuel switching. As of October 2015, four sites in Southland have switched to wood energy and a further three have committed to switch, which will result in combined carbon saving of about 500 tonnes each year. A number of large energy-using businesses in Southland are also investigating switching opportunities.</p>
Improve housing quality through increasing insulation	MBIE, EECA		<p>The Government has progressed insulation for all Housing New Zealand homes and for private home owners through the Warm Up New Zealand: Heat Smart programme. The Government is now also progressing:</p> <ul style="list-style-type: none"> <li>• Insulating 46,000 homes through Warm Up New Zealand: Healthy Homes. This programme is targeted at households that have a Community Services Card, children or elderly, and are at high health risk. As of July 2015, over 40,000 homes had been insulated under the programme.</li> <li>• Legislation to require smoke alarms and insulation in rental properties to come into force by 1 July 2019. This will be accompanied by an information campaign to inform tenants of their rights and responsibilities and to promote the new standards.</li> </ul>
Explore and address barriers to the supply and uptake of new technology and innovation in energy and transport	MBIE, MOT		<p>The Smart Grid Forum, a joint initiative of the Government and the Electricity Networks Association, has just completed its first year of operation.</p> <p>The Forum has endorsed how the electricity market is regulated in New Zealand. This year the views of the forum are being sought on how New Zealand is progressing relative to other countries and how smart grid developments might help New Zealand meet its emissions target.</p> <p>The Government is working with the Sustainable Business Council, local government and other stakeholders to develop a package of possible policy options to encourage the uptake of electric vehicles.</p>
Increase productivity and reduce carbon emissions through new energy efficiency projects	MBIE, EECA		<p>EECA is implementing a new \$5.35 million package of energy efficiency projects to improve business productivity, save money and reduce carbon emissions. The package includes programmes to:</p> <ul style="list-style-type: none"> <li>• Increase the market share of fuel efficient tyres and promote correct tyre inflation.</li> <li>• Promote the switch from fossil fuel to wood energy as a heat source in Southland.</li> <li>• Reduce fuel use in heavy vehicle fleets of a medium size.</li> <li>• Reduce the use of carbon-intensive fuels in New Zealand's meat and dairy sectors.</li> </ul>

The list of completed BGA actions can be viewed online in the following location  
[www.mbie.govt.nz/info-services/business/business-growth-agenda](http://www.mbie.govt.nz/info-services/business/business-growth-agenda)

## Building Natural Resources

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