Advancing Manufacturing Aotearoa
The Future House c/o – Outset Ventures
24 Balfour Road
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Tēnā kōrua Ministers and MBIE

1. Thank you for the opportunity to share Advancing Manufacturing Aotearoa's (AMA) considered feedback on the 'Going for Growth' policy framework. AMA welcomes the Government's aspirational economic growth agenda.

An enabling policy environment is urgently required

2. In unlocking the manufacturing sector's full potential, an enabling policy environment with strategic alignment and proactive deployment of government tools - procurement, science & innovation investment, regulatory reform, and education - are essential.
3. The manufacturing sector is a willing agent of change in driving economic growth and, accordingly, the AMA's feedback focuses on the following areas of insight:
   - Adaptable and well-trained workforce
   - Competitive business environment
   - Boosting the export capabilities of local manufacturers
   - Public infrastructure projects that deliver essential services and growth opportunities.

4. Furthermore, we have submitted separately and attached as part of this submission responses to the:
    a. Procurement Rules
    b. Science Reforms

Adaptable and well-trained workforce

5. Current educational funding models inadvertently discourage schools from promoting vocational and apprenticeship pathways because funding and performance measures heavily prioritise University Entrance rates.

6. Secondary schools lose direct funding when students choose vocational education pathways after Year 12. Furthermore, students choosing apprenticeships and trades-based diploma level programmes do not contribute to a school 'university entrance' score.

7. These two factors create a financial and perceived performance penalty for secondary schools, actively discouraging them from recommending apprenticeship and polytechnic study options.

8. This structural bias has directly contributed to skill shortages in critical technical roles, exemplified by the sector's ongoing challenges in recruiting locally skilled machinists, engineers and skilled technicians.

9. The rapid evolution of technology and automation in the manufacturing sector highlights the need for a workforce that is adaptable and well-trained. Daily shortages persist in highly skilled technical roles such as automation, mechanical, production, design engineering, fabrication and advanced systems thinking.

10. The outdated education messaging that actively encourages high students to exclusively consider university study must be challenged. The manufacturing sector offers motivated STEM school leavers a rewarding and skills-based work & learn career.

11. As a result of discouraging vocational STEM pathways, we have missed a generation of manufacturing engineer recruits.

12. Our University engineering programmes have little focus on manufacturing. Therefore, there is a lack of domestic mechanical, robotics and automation graduates entering industry. Furthermore, new product development is often not fit for manufacturing

purposes. Programmes to encourage greater practical work experience for engineering students should be encouraged.

13. A quick look over the top 10 OECD countries by GDP per capita reveals economies driven by exports of advanced manufactured goods — pharmaceuticals, scientific and medical devices and instruments, machinery and high value food products. Switzerland, Ireland, Germany and Sweden, and the growing renaissance of manufacturing in Australia and America, realise technology and value creation doesn't start and finish at design — they're delivered on by commercialising through to production.

14. That production is delivered by trailblazing companies like Rocket Lab and their ecosystem of SME manufacturers hiring people — electronics and mechanical engineers, fitters, turners, fabricators, technicians, robotics and machine programmers, process engineers and production workers. High value jobs in our communities which keep our manufacturing wheels turning.

15. Global powerhouses in manufacturing Switzerland and Germany have this worked out, with engineering representing 18% and 26% respectively of their tertiary enrolments. New Zealand's is 9% — with the mechanical engineering and electronics engineering subsets each at 2%, and manufacturing engineering only 0.11%[1].

16. Therefore, strategic immigration settings are essential to serve as a bridge to domestic workforce development. If we get our education pathways right over the next 10 years and leverage skilled migrants to help develop the next generation of manufacturers, this will be a temporary problem.

<u>Recommendations</u>

17. Continue funding schools for students who pursue vocational education pathways at the conclusion of Year 12.

18. Elevate the status of vocational pathways and move away from the obsession with university. Let's redefine school success by the number of students who pursue tertiary education—whether that means enrolling in an apprenticeship or attending a polytechnic, it should all count toward tertiary entrance rates.

19. Educate schools about the manufacturing pathways and undertake targeted promotion of high-tech skills and career opportunities (incl. design, automation, digital

[1] OECD's Education at a Glance 2024 report

fabrication). Improving perceptions of the manufacturing sector and attracting talent early into rewarding manufacturing careers.

20. Development of more agile education pathways, such as integrating vocational and academic elements through intern and cadetships, and an industry-tailored micro credential system addressing emerging technological needs.

21. Under the former Callaghan Innovation oversight, companies engaged in R&D were eligible for Summer and PhD graduate internships. However, manufacturing process innovation projects—such as automation, digitisation, or new systems development—did not currently qualify. Therefore, we recommend expanding these student grants to include manufacturing process engineering and advanced technologies.

22. Immigration settings – green list roles with critical shortages such as CNC Machinists, Manufacturing Process Engineers (encompassing ai, robotics, design) and Fabricators. Whilst also reviewing settings to Green List specific shortages in regional areas – recognising that talent shortages vary massively in regional areas to major Cities such as Auckland, Wellington and Christchurch.

Competitive business environment

23. New Zealand's weighted average cost of capital (WACC) is relatively high compared to other OECD countries[2].

24. One significant factor is the risk weighting applied by the Reserve Bank of New Zealand (RBNZ) for commercial lending. Currently, commercial loans, including those for capital equipment or that have majority intangible assets have higher risk weightings compared to residential loans (for example). This results in higher capital requirements for banks, which in turn increases the weighted average cost of capital (WACC) for businesses.

25. Alongside the incentive (economically) for where capital is directed, there is the opportunity for both lenders and New Zealand businesses to better understand Research & Development and contract negotiations for businesses, to help shift the actual or perceived risk in investing in growth and financing growth.

26. Additionally, the opportunity to implement accelerated depreciation can further reduce the WACC and stimulate investment, by improving the economics of investment in

[2] OECD Economic Surveys: New Zealand 2024

capital equipment and Research & Development (by reducing the effective cost of doing so).

27. By front-loading the depreciation expense, businesses can reduce their taxable income in the short term, thereby improving cash flow. This enhanced cash flow makes it more attractive and less risky for businesses to invest in new machinery, technology, and other productive assets. As they have sufficient time and cashflow to support onboarding new capability, training and pipeline development. Implementing accelerated depreciation can lower the effective cost of capital, stimulate investment, and ultimately drive productivity growth.

28. Capital incentives, combined with a government system that favours risk aversion, can act as barriers to expansion for many manufacturers. And the upside in terms of productivity from investment in new machinery, technology and other productive assets can often better suit a lenders (or combined equity investor and debt mix) needs for growth and cash flow uplift more so than an equity investor's requirements for growth as a sole source of capital.

29. Furthermore, productivity opportunities remain unrealised due to restrictive research and development (R&D) tax settings. Process Innovation such as Industry 4.0 projects to automate through use of robotics and AI carry elements of high risk and unknown outcomes. Process innovation does not currently meet the criteria of the RDTI scheme. It is the firm opinion of the AMA that its inclusion would significantly accelerate the adoption of new technology for process innovation across the manufacturing sector, leading to significant productivity gains.

<u>Recommendations:</u>

30. Immediate adoption of accelerated depreciation policies, complementing R&D tax incentives and directly supporting rapid technology adoption.

31. By way of example, in May 2024, the Australian Government announced it would extend the $20,000 instant asset write-off by a further 12 months until June 2025. The measure was previously announced as part of the 2023-2024 budget in relation to the 2023-24 income year. The announcement outlined those small businesses, with aggregated turnover of less than $10 million, will be able to immediately deduct the full cost of eligible assets costing less than $20,000.

    The $20,000 threshold applies on a per asset basis so businesses can instantly write off multiple assets. SMEs can continue to place assets valued at $20,000 or more into a

business simplified depreciation pool, meaning that these assets can be depreciated at 15 per cent in the first income year and 30 per cent each income year atter that.

32. The RBNZ's risk weights for commercial loans do factor into the overall cost of capital for banks. Higher risk weights lead to higher capital requirements, which can increase the cost of capital and affect lending conditions for commercial borrowers. Reviewing and lowering the RBNZ risk weighting for commercial lending is a strategic move that can significantly impact New Zealand's economic growth. By reducing the WACC for investments into capital equipment, we can stimulate investment, enhance productivity, and ensure that our businesses remain competitive on the global stage.

33. Extending RDTI eligibility explicitly to include expert consultancy and implementation costs for advanced manufacturing process innovations would be of particular benefit for many SMEs.

    The policy, if enacted, would help drive the rapid adoption of AI and robotic automation. There is a high element of the unknown and risk associated with these projects and a lack of internal capability, particularly in the SME space. Being able to claim expert consultancy / contractor costs for these projects against RDTI would help encourage faster adoption.

Boosting the export capabilities of local manufacturers

34. The manufacturing sector is a cornerstone of New Zealand's economy: 60% of exports are manufactured; it employs 250,000 Kiwis; and contributes c.10% to gross domestic product.

<u>Recommendations:</u>

35. An increased allocation of NZTE's International Growth Fund (IGF) funding to the manufacturing sector, with industry-led education initiatives delivered by AMA in collaboration with NZTE to enable more New Zealand SME manufacturers into sustainable exporters.

36. Alignment of national government procurement practices with export promotion. The government must demonstrate a commitment to New Zealand-made innovation to help leverage international opportunities. It is widely accepted that New Zealand manufacturers who have contracted government revenue are able to use this as a platform to more effectively launch into international markets, in addition to potentially encouraging multinational suppliers to partner with New Zealand-based firms.

37. Enhanced support for advanced manufacturers' participation in ministerial-led trade missions and international growth initiatives.

38. A targeted approach from Invest New Zealand aligning investor profiles (long-term, dividend-oriented capital providers) with the investment needs of owner-operated manufacturing enterprises. The majority of New Zealand manufacturers are owner - operated business focused on securing long-term capital to facilitate growth and an enduring legacy. Parties need to canvas investors looking for long-term dividend returns and those that can add value through global network or capability knowledge.

39. Leveraging and tapping into domestic capital pools, notably KiwiSaver innovative private equity funds, to drive manufacturing sector growth. For example, Simplicity's Private Equity Fund is a development that could potentially have an enormous impact for the sector.

Public infrastructure projects delivering essential services and growth opportunities

40. There is an opportunity for well-signalled public infrastructure projects to deliver both essential services and growth opportunities for New Zealand manufacturers.

<u>Recommendation:</u>

41. Deliver political consensus in providing for greater public infrastructure certainty. This is certainly the case with companies looking to invest in green energy projects and innovations.

42. Setting clear local content procurement targets in major infrastructure projects.

43. Strategic supplier development programmes linked directly to significant infrastructure investments.

44. Early-stage engagement with local manufacturers during project design phases to ensure maximum local content integration.

45. Alignment of New Zealand's regulatory and standards framework with rapidly evolving global benchmarks, particularly vital for sectors handling hazardous materials and medical products.

46. Regulatory reform addressing consent and compliance barriers that delay critical infrastructure and facility upgrades.

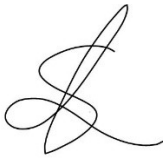
Urgent call to action

47. 'Going for Growth' is an urgent call to action for the public and private sectors to work more closely together in delivering mutually beneficial outcomes.

48. We believe that to achieve genuine economic transformation, Manufacturing Process Innovation is critical for delivering productivity growth – maximising return on capital invested through making higher value goods using advanced manufacturing processes.

49. An advanced manufacturing sector is uniquely positioned to deliver measurable economic gains for New Zealand.

Yours sincerely,



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About Advancing Manufacturing Aotearoa & The Minister's Manufacturing Productivity Advisory Group
Advancing Manufacturing Aotearoa (AMA) is a cross-sector industry body established in 2023 to champion New Zealand's manufacturing and accelerate productivity innovation. AMA does this through information sharing, promoting collaboration, and taking practical steps to connect stakeholders across the industry. By delivering initiatives that strengthen the sector and support sustainable growth, AMA aims to drive meaningful progress and innovation that benefits all New Zealanders.

Hon. Chris Penk's Manufacturing Productivity Advisory Group (MPAG) is a 'think tank' comprised of over 30 manufacturing business owners and executives from across New Zealand. We meet with Minister Penk at least three times per year with the mandate of defining New Zealand's vision for the manufacturing sector and developing strategies to facilitate greater investment, process innovation, talent and global perceptions of the sector.

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