



MAKE|NZ



The Manufacturing Alliance

The Manufacturing Alliance is a collaboration of industry associations representing a large part of the New Zealand's manufacturing sectors

VISION

Manufacturing is a career of choice and recognised as a primary contributor to growing New Zealand's wealth.

To support New Zealand manufacturing in its quest to sustain and enhance its global competitive positioning, the Manufacturing Alliance regards these policy goals as its top priority

Policies

- *Policy Goal 1 – Removal of Labour Constraints:*
 - A strategic approach to workforce planning in the manufacturing sector. A recent study by Deloitte, commissioned by Hanga-Aro-Rau¹, has found a workforce capability and capacity gap of 17,000 workers, expected to grow to 23,300 workers in 2028, unless changes are made
 - An integrated policy approach to filling the workforce gap. This will require aligning immigration settings with changes and investment in Vocational Education and Training [VET]
 - Immigration policies and regulatory settings that are designed to meet industry needs as defined above, rather than using extraneous criteria such as *pay rates* or *membership in a professional organisation*
 - Acknowledge the increasingly competitive global market for skilled migrants and make New Zealand an attractive destination for migrants with the requisite technical skills by providing a clear pathway to residence for migrants and their families
 - Resourcing Immigration New Zealand [INZ] to process applications correctly, and without delay. The policy of throttling immigration by stealth by a deliberate under-resourcing of INZ must end

¹ *Post COVID-19 workforce development needs in New Zealand's manufacturing and engineering sectors;*
Deloitte, October 2022

- Adjusting the government’s Reform of Vocational Education [RoVE] policy initiative:
 - Re-instate the original intent to make Workforce Development Councils [WDCs] the ultimate arbiter of what VET training will be funded. That means WDCs decide what training will be funded, and by how much. The role of the Tertiary Education Commission [TEC] will be restricted to allocating funds to the different WDCs
 - Revoke the decision to dissolve the Te Pūkenga subsidiary *Te Pūkenga Work Based Learning* and re-instate the latter
 - Ensure that funding for Private Training Establishments [PTEs] is not further reduced just to strengthen the position of Te Pukenga in the market
 - The new *Education (Pastoral Care of Tertiary and International Learners) Code of Practice 2021* does not contain any specific provisions for supporting apprentices. There is a clear need for the latter, as high rates of non-completion of apprenticeships show. Under pressure from RoVE, most existing Group Training Schemes had to transform into PTEs. If that cannot be reversed, it must be ensured that the Group Training Scheme PTEs are protected and supported in their important work to guide apprentices to the completion of their training
 - An integrated approach to VET, allowing apprentices to progress seamlessly from NZQF L2 all the way up to a Bachelor’s or Master’s degree (NZQF L7 and beyond). This could be modeled after the UK apprenticeship [system](#) and would remove the current split in educational pathways where the academic (University) pathway is the only (straightforward) option for learners aiming for a university-level qualification.

- *Policy Goal 2 – Access to Capital for Growth and Productivity Improvement:*
 - A change to IRD’s Depreciation rules is of the highest priority. That change must allow manufacturers to
 - expense investment (up to \$xxx) directly linked to productivity improvements, circular economy transition and the reduction in GHG emissions
 - reduce the depreciation period for items above that level (see the paper attached by James Neale)
 - Direct government support in the form of specific co-funding of investment in manufacturing targeting economically and environmentally desirable outcomes, such as improving productivity, creating jobs with attractive career prospects, reducing greenhouse gas emissions and/or moving to a Circular Economy. Such support will be essential to protect the global competitive positioning of New Zealand manufacturers in the face of massive support programmes for their competitors, e.g. in Australia² and the USA³.

- *Policy Goal 3 – Innovation Support that is Fit for Purpose:*
 - In the experience of the (vast) majority of New Zealand’s manufacturers, policies, systems and processes intended to support innovation in their businesses are not working. That applies to indirect financial support (*R&D Tax Credits*), direct financial support (*Callaghan Innovation R&D Grants*), and technical support through *Callaghan Innovation’s Research and Development (R&D) Solutions division*

² <https://www.industry.gov.au/news/national-reconstruction-fund-diversifying-and-transforming-australias-industry-and-economy>

³ <https://www.economist.com/briefing/2023/02/02/americas-government-is-spending-lavishly-to-revive-manufacturing>

- A root cause of this malfunction is the fact that the concept of manufacturing upon which the service and support offer has been modelled is far from reality in New Zealand. It is based on a Northern-hemisphere industrialised economy where the focus is on supporting product development in large companies with clearly defined and dedicated R&D resources. That is not the New Zealand situation, except for a small number of companies like F&P Healthcare, for example
 - For the vast majority of New Zealand’s manufacturers across subsectors, innovation
 - is an integral part of business activities, conducted by workers engaged in regular production and often led by the business owner / founder
 - isn’t accounted for as a separate activity in their financial accounts
 - is highly customer-driven and benefits from a close and direct relationship between customer and manufacturer
 - more often than not consists of frequent small changes and adjustments in product and process, rather than big R&D projects. This, in turn, makes it difficult for manufacturers to engage with a government research organisation
 - often requires (small) changes and adjustments in manufacturing processes once product changes have been made
 - happens in a sector predominantly occupied by SMEs that are highly diversified in what they make and sell into global markets. That means particular innovation challenges will usually be faced by one or a few companies only, which makes it difficult for a centralised research organisation for manufacturing to operate effectively and efficiently – unlike, for example, the dairy sector, where *AgResearch* services a large number of farming SMEs all facing a common problem.
 - We propose an industry-led expert review of current government policies, systems and processes intended to support innovation in manufacturing, leading to suggestions for how these can be improved to become actually relevant across New Zealand’s manufacturing sector.
- *Policy Goal 4 – Empowering New Zealand’s manufacturers to succeed in a world where domestic subsidies and other measures increasingly threaten their global competitive position:*
 - Better systems and processes are required to identify and assess trade-distorting practices that inhibit New Zealand manufacturers’ ability to fairly compete in export markets and in those of our domestic markets subject to subsidised imports. This requires a fundamental and specific refocus within MFAT and MBIE, where a combination of strict adherence to the principles of free trade as prescribed by the WTO and an apparent belief that NZ’s only natural advantage sits within the dairy sector appears to be the dominant determinant of New Zealand’s international trade policy. A shift to a more pragmatic approach is urgently required, recognising and reflecting the growing disregard of WTO principles in international trade practices, including by ‘friendly’ trading partners, including Australia and the USA. This shift must be based on a broader understanding of New Zealand’s interests including resilience, adaptations to a lower-emissions economy and greater internalisation of the environmental costs of production.

Specifically, the future Minister for Manufacturing will need to establish a policy expectation that MFAT and MBIE include recognition of New Zealand’s right under WTO rules to take countervailing and antidumping action in the event of tariff and non-tariff measures by the counterparty or counterparties. A related clarification will be negotiated with Australia in respect of updated CER arrangements.

- For the Minister of Commerce to oversee a review of the functions and responsibilities of the *Trade Remedies* team at MBIE as signalled earlier by then-Minister Faafoi. This review is to reflect the points made below in its Terms of Reference and include in those undertaking the review manufacturing sector representatives
 - The current location of the *Trade Remedies* team within MBIE carries the risk of potentially being subjected to influence by the broader policy agenda of that agency in terms of the provision of comprehensive and independent policy advice to The Minister
 - The need to design a cost-/ time-effective review process to trade remedy decisions. Currently there is no time period in which MBIE needs to accept a trade case, which can and has caused delays for months. A case brought by Potatoes NZ recently, for example, was delayed for three months before MBIE accepted the need for an investigation. The reason(s) for the delay in case initiation are unknown but could be motivated by the statutory requirement that a case be finalised in a 180 day period once started. Undue delay in initiating an investigation ignores the domestic commercial damage associated with distorted trade and circumvents Parliament’s recognition of the need for urgency inherent in the statutory stipulation of a 180-day limit. The Minister must then make a decision, after which the matter proceeds to *Public Interest* test. The reality for most businesses is of damage and ultimately bankruptcy well before MBIE makes its decisions, let alone finalisation of the *Public Interest* test.
- Introducing a process for an independent review of trade remedies decisions as there is for New Zealand Customs, or as in the ACCC process in Australia. Currently the only option open to domestic manufacturers where a trade case is declined is to request a judicial review. Such reviews are very expensive and time-consuming, with MBIE known to be willing to challenge the outcome of Judicial Reviews at taxpayers’ expense. New Zealand’s current arrangements do not reflect the fact that challenges are only possible where breach of accepted WTO rules is occurring and that countervailing and anti-dumping protections provided in the Trade Act only ‘restore’ a situation of free trade. Greater direction from central government to ensure that impositions on manufacturers in the pursuit of the *Public Interest* outcomes apply to all those participating in the New Zealand economy, including importers. New Zealand needs to ‘level the playing field’ through greater application of countervailing and anti-dumping protection to ensure the true cost of goods and services is reflected in the retail price charged by all market participants. New Zealand manufacturers will not invest, for example, where obligations to serve the *Public Interest* in a more circular, lower-emissions economy drive up their cost if and they then have to compete with imports exempted from similar obligations and costs. The resulting depression of margins will, at least in the long run, discourage manufacturers from investing in a business exposed to such market distortions. As such, current trade settings detract from (if not negate) the many efforts of successive New Zealand governments to address significant *Public Interest* issues including climate change and waste minimisation through improved recycling.
- Fairness with respect to technology, environmental and labour standards. New Zealand manufacturers are rightfully required to meet modern day health and safety standards and the Carbon Zero / ETS legislation places a carbon charge on local manufacturers of high energy / high emission products while imports may originate from plants lacking comparable health and safety standards and incurring no such local tariffs on their carbon component.
- *The enabler to achieve the above policy interventions will have to be a dedicated resource to facilitate manufacturing reaching its potential*

- A Cabinet Minister with Manufacturing portfolio
- Re-allocation of resources within MBIE to establish dedicated unit to support the Cabinet Minister to deliver above policies for the sector.

APPENDIX 1: James Neale's Paper on Accelerated Depreciation of July 2022

Rationale for Accelerated Depreciation Incentives to support Industry in a post Covid-19 economic recovery and to kick start a transition to a high growth, high value add, low carbon manufacturing sector.

1. Current (45k) and proposed (\$150k) limits are excessively low for serious investment that will “move the needle” to deliver meaningful step change in productivity, efficiency, emissions reduction etc.
2. Accelerated Depreciation rates should be targeted to deliver specific outcomes and we would propose the following criteria.
 - a. Machinery, equipment and computer automation - i.e. to deliver a step change in manufacturing capability, increased productivity, process efficiency etc. (IIOT, Industry 4.0 and so on).
 - b. Environmental – investment in equipment and processes to support a transition to a circular economy, e.g. resource re-use, recycling and repurposing.
 - c. Energy Efficiency and Carbon Emissions Reduction technology.
3. Our recommended preferred option is a scaled multiplier applied to existing depreciation rates currently applied by Inland Revenue. Historically this has been used in the past, albeit with very modest increases of 20% or so. Our proposal is for a multiplier of between 3.33 and 6.0 to be used as demonstrated by our three case studies outlined below. (See attached spreadsheet provided).
 - a. Investment in new automated manufacturing systems for an existing, i.e. a computer controlled manufacturing or IOT/Industry 4.0 application
 - i. Current estimated useful life is 8 years
 - ii. Current SL depreciation rate of 17.5%
 - iii. Fully depreciated in 5.7 (6) years.
 - iv. Scale of investment typically \$100k - \$1million
 - v. At a multiplier of 3.33, new SL rate of 58%, depreciated in 1.7 (2) years
 - vi. At a multiplier of 5, new SL rate of 87.5%, depreciated in 1.1 (2) years
 - vii. At a multiplier of 6, new SL rate of 100%, depreciated in 1 year.
 - b. Investment in a new manufacturing machine, say an injection moulding machine or similar advanced manufacturing piece of equipment
 - i. Current estimated useful life is 8 years
 - ii. Current SL depreciation rate of 8.5%
 - iii. Fully depreciated in 11.8 (12) years.
 - iv. Scale of investment typically \$1-2million
 - v. At a multiplier of 3.33, new SL rate of 28%, depreciated in 3.5 (4) years
 - vi. At a multiplier of 5, new SL rate of 42.5%, depreciated in 2.35 (3) years
 - vii. At a multiplier of 6, new SL rate of 51%, depreciated in 1.96 (2) years.
 - c. Investment in a new biomass boiler (instead of a coal boiler)
 - i. Current estimated useful life is 25 years
 - ii. Current SL depreciation rate of 6%
 - iii. Fully depreciated in 16.7 (17) years.
 - iv. Scale of investment typically \$1.5million per MW (new), conversion of existing boiler at \$200k per MW.
 - v. At a multiplier of 3.33, new SL rate of 20%, depreciated in 5 years.
 - vi. At a multiplier of 5, new SL rate of 30%, depreciated in 3.3 (4) years
 - vii. At a multiplier of 6, new SL rate of 36%, depreciated in 2.8 (3) 1 years.
4. To minimise the gaming of the scheme possible limits could include any or a combination of the following:
 - a. A cap based on a percentage of revenue.
 - b. A cap based on operating profit, or possible “ring fencing” the depreciated costs.
 - c. A cap based on the number of employees?

- d. A fixed dollar limit, but this would need to be significantly higher than currently signalled.

Our preferred option would be using an **accelerated depreciation multiplier of 6 applied to the standard base rate of depreciation for the relevant asset class**. This would enable all computerised manufacturing, industry 4.0 and other similar capital investments to be fully depreciated in year 1 (100%), while progressively bigger, longer term capital investments have a 2-3 year depreciation cycle which is more in keeping with the estimated life cycle and scale of the investment. This would provide a clear incentive to the market while also maintaining a degree of relativity.

Summary of Accelerated depreciation rates for different multipliers

Multiplier	Estimated useful Life	1.0	3.33	5	6
Automation	8 years	5.7 y	1.7 y	1.1y	1 y
Moulding Machine	15.5 years	11.8 y	3.5 y	2.35 y	2 y
Boiler	25 years	16.7 y	5 y	3.3 y	2.8 y

Additional considerations:

- (1) Tax revenue foregone in year 1 will progressively be caught up in subsequent years as only 100% of the capital can be claimed in total.
- (2) Assuming that the investments are largely successful the profitability of each business will improve, resulting in increased tax revenue over time.
- (3) With low to negative interest rates the time value of money effect is minimal in the short term, meaning the overall impact on the crown accounts over multiple years will be minimised in the short term, as less tax in year one is offset by more tax in subsequent years, or alternately the tax revenue in year 2 can offset the loss of tax revenue in subsequent years for ongoing accelerated depreciation on further business investment.
- (4) Increased investment activity as a direct result of the scheme will have a certain percentage of local expenditure of which a percentage will circulate back to the crown in the form of income tax (employment) and business tax receipts from the service sector completing the work. It is not unreasonable to assume an installation cost of 40-50% of the overall project costs, which depending on your assumptions would result in an extra 10-15% of this amount in tax revenue for the government. We get a conservative number of around 6-8% of the initial capital investment circulating back as additional crown revenue (tax receipts) in year one.
- (5) The GIDI fund has recently been expanded to in excess of \$600m to support emission reduction projects with Capital Expenditure levels over \$300k, with a "subsidy/support payment" of up to 50% of the project costs available. This requires a fairly rigorous process on the part of the end user and comes at a hefty cost to the taxpayer.
 - a) In comparison accelerated depreciation if applied to these same projects could significantly simplify the administration costs, while also reducing the full life cycle cost of the project on NZ taxpayers.
 - b) Business tax receipts in years 1-3 of the project will be reduced (limited to 28% in the form of the deferred tax liability), yet in the long run the tax revenue will be increased in later years.
 - c) There are the added benefits of increased productivity of the business and one would assume an improvement in the profitability of the business in the longer term.
 - d) Accelerated depreciation also presents a pathway that can unlock and move forward critical investment that can deliver meaningful GHG emission reductions across the manufacturing sector.
 - e) We would support targeted application of the accelerated depreciation rates to ensure the intended outcomes are realised, while appropriate auditing processes are

instituted to prevent gaming of the system and minimise the inevitable “revenue leakage” that would otherwise ensue.

For further comment of feedback please contact Dr James Neale, MESNZ Chair and member of Manufacturing Alliance. 0272555659 or jamesn@energysm.com