From:	no-reply@mbie.govt.nz
To:	Research, Science and Innovation Strategy Secretariat
Subject:	Draft Research, Science and Innovation Strategy submission
Date:	Saturday, 9 November 2019 4:47:15 p.m.
Attachments:	Online-submission-form-uploadsdraft-research-science-and-innovation-strategy-submissionsNZHR-submission-re-MBIE-RSI-strategy-101119.pdf

Submission on Draft Research, Science and Innovation Strategy recevied:

Are you making your submission as an individual, or on behalf of an organisation?
Organisation

Name
Chris Higgins

Name of organisation or institutional affiliation
New Zealanders for Health Research

Role within organisation
Chief Executive

Email address (in case we would like to follow up with you further about your submission)
ceo@nz4healthresearch.org.nz

Which of the below areas do you feel represents your perspective as a submitter? (Please select all that apply)

If you selected other, please specify here:

Gender

Ethnicity

Name of organisation on whose behalf you are submitting, if different to the organisation named above

In which sector does your organisation operate: (Please select all that apply)
Other

If you selected other, please specify here:
health research advocacy

How large is your organisation (in number of full-time-equivalent employees)?
1

Please indicate if you would like some or all of the information you provide in your submission kept in confidence, and if so which information.

Please upload your submission document here
NZHR-submission-re-MBIE-RSI-strategy-101119.pdf - Download File

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"New Zealand's peak body representing the entire health and medical research pipeline"

Submission on MBIE's consultation paper: New Zealand's Research, Science & Innovation Strategy, September 2019

Introduction

New Zealanders for Health Research (NZHR) was established in November 2015 to bring about increased investment in health research from government, industry and philanthropy.

NZHR's submission is that

- The government's aspirational ten year 2% R&D investment target is too low, that the 15% R&D tax incentive is insufficient, and that the strategy should provide for both figures to be reviewed
- R&D investment allocated to health research needs at the very least to be associated with a commitment to triennially determined annual increases consistent with the overall 2% target (the 2019/20 budget specifically forecasts no increases for the next four years)
- The RSI strategy should include an intention to ensure that all government R&D funding tools are consistent in their approach to supporting the implementation of new start-up enterprises

Government R&D investment target

As previously argued in NZHR's submission[1] on the government's Research and Development Tax Incentive for New Zealand Discussion Paper April 2018, we continue to believe that the government's 10 year aspirational 2.0% of GDP R&D investment target is too low. Our submission continues to be that in order for New Zealand to increase its international competitiveness its R&D investment target should be established in the context of the R&D investment levels of both other small advanced economies and New Zealand's major trading partners (and not merely the OECD average). We proposed and continue to maintain that New Zealand's aspirational R&D target should be set at 3.3%.

NZHR supports the way in which the discussion paper links the paper's strategies with the achievement of the 2% target. However, given the paper's acknowledgment that other small advanced economies are already achieving R&D investment rates of more than 3% (implying that New Zealand could be more ambitious), NZHR recommends that the RSI strategy includes a commitment to:

- Reviewing the current and aspirational R&D targets of other small advanced economies and trading competitors and
- Reviewing the continuing appropriateness of the current 2% target
- Updating the RSI strategy if it is decided that New Zealand's 2% R&D target should me more ambitious

[1] NZHR. June 2018. A Research and Development Tax Incentive for New Zealand Discussion Paper April 2018. Submission by New Zealanders for Health Research (NZHR).

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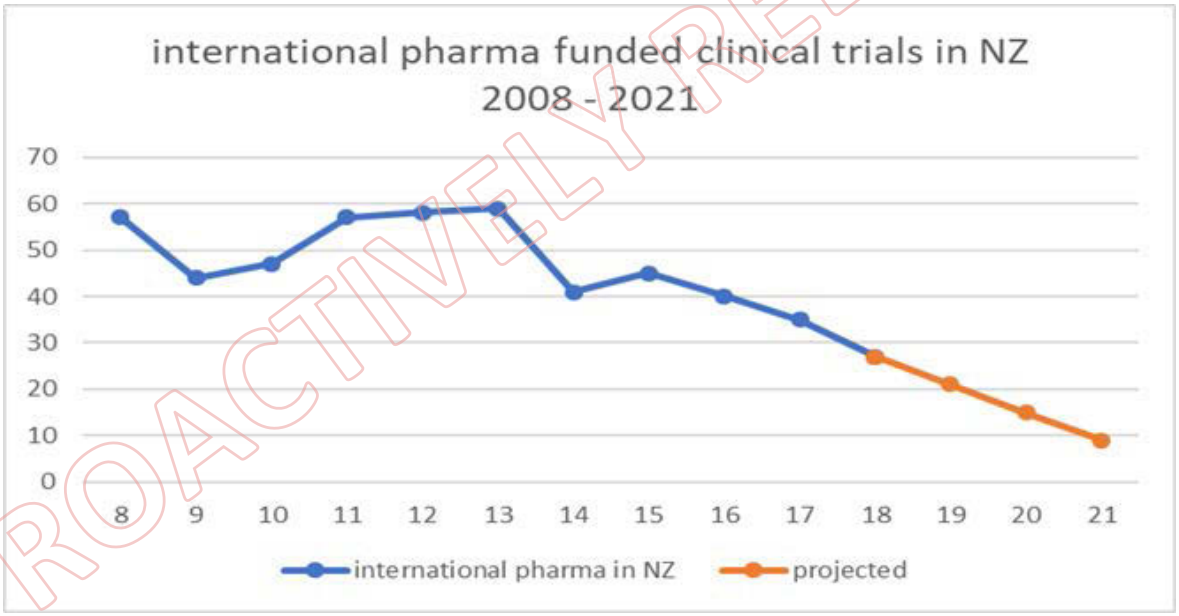
Government R&D tax incentive

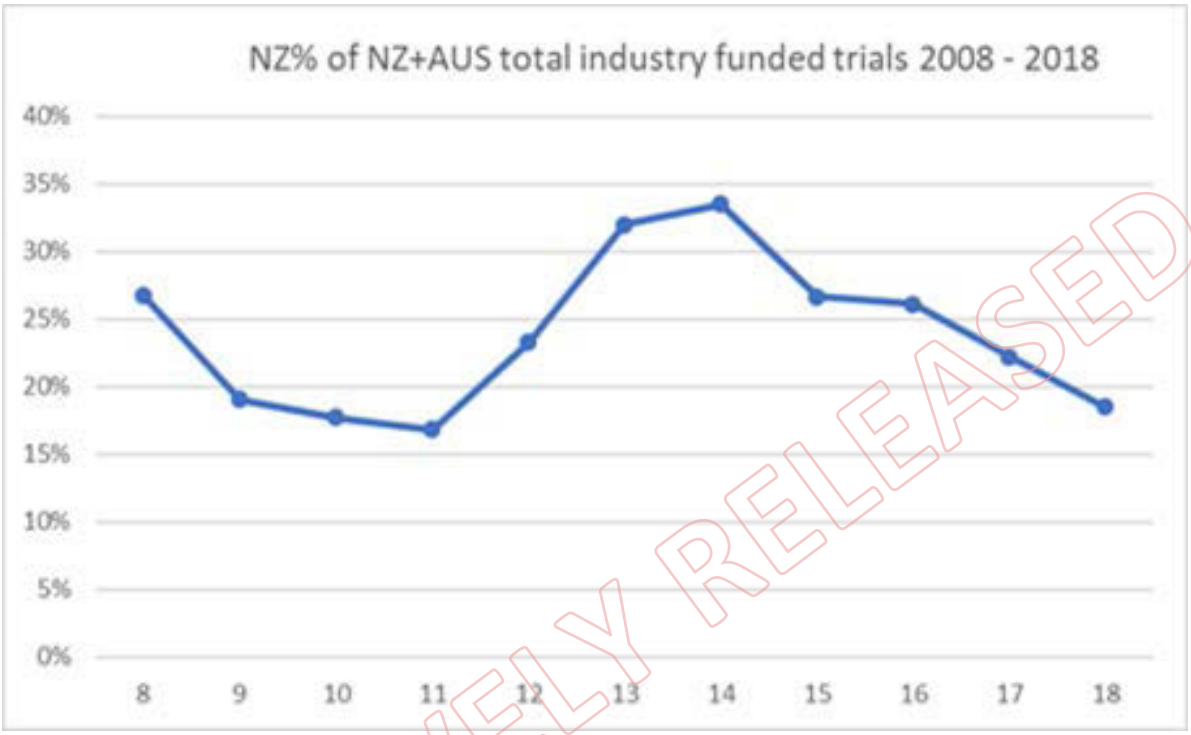
Again, as argued in NZHR's 2018 submission[2], we believe that the 15% R&D tax incentive is too low, and is highly unlikely to make a significant difference to commercial operators' appetite to invest more in health and medical research. We submitted, and continue to submit, that the tax incentive needs to be set at 35% at least of eligible expenditure to be sufficient to overcome current systemic disincentives to investment.

The extent of the problem is illustrated in the following graph[3] which tracks the number of clinical trials conducted in New Zealand by international pharmaceutical companies which operate in New Zealand. These companies are currently being disincentivised to invest in New Zealand, partly, we are told, because of difficulties in engaging with public hospital trial sites, and partly because of challenges in having new medicines being funded, or being funded within a reasonable time frame prior to becoming off-patent.



Additionally, NZHR health research/clinical trials stakeholders are anecdotally reporting that Australia's R&D tax incentive regime is more favourable than New Zealand's. Although NZHR is yet to verify this either way, we are concerned that New Zealand is becoming less competitive than Australia as illustrated in the following graph which indicates a loss of market share over the last five years.[4]

[2] Ibid.
[3] NZHR. Clinical Trials in New Zealand: a discussion paper. March 2019. https://www.nz4healthresearch.org.nz/wp-content/uploads/2019/02/Clinical-trials-in-New-Zealand-NZHR-op-ed-130319-V2.pdf
[4] Ibid.



In the light of these trends and concerns NZHR recommends that the RSI strategy includes a commitment to:

- Investigating the equivalence of the Australian and New Zealand tax incentive regimes
- Reviewing the adequacy of the 15% R&D tax incentive to achieve the government's R&D aspirational target, to counteract systemic disincentives to R&D investment, and to improve New Zealand's share of the Australasian market

Indexing and reviewing health R&D expenditure

NZHR was pleased to see that the RSI strategy includes specific health R&D expenditure. We were however dismayed to note that the 2019/20 is overtly forecasting no further increases over the next four years, which we believe significantly detracts from the RSI strategy's ability to achieve the 2% R&D target.

NZHR's position is that the specific health R&D component of the RSI strategy should be increased by 18.6% per year in order to achieve NZHR's recommended target of 2.4% of health care costs by 2027, which is the time frame for implementing the government's Health Research Strategy. While we recognise that this will be beyond the parameters of the current RSI strategy, we would nevertheless expect that increases in R&D expenditure would be indexed to achieve 2% of health of health care costs by 2027. This would require annual increases of 15.9%. Our position is summarised in the following graph[5].

[5] NZHR. Government health research investment trajectories 2007 – 2031. June 2019. https://www.nz4healthresearch.org.nz/wp-content/uploads/2019/06/government-health-research-investment-trajectories-090619.pdf

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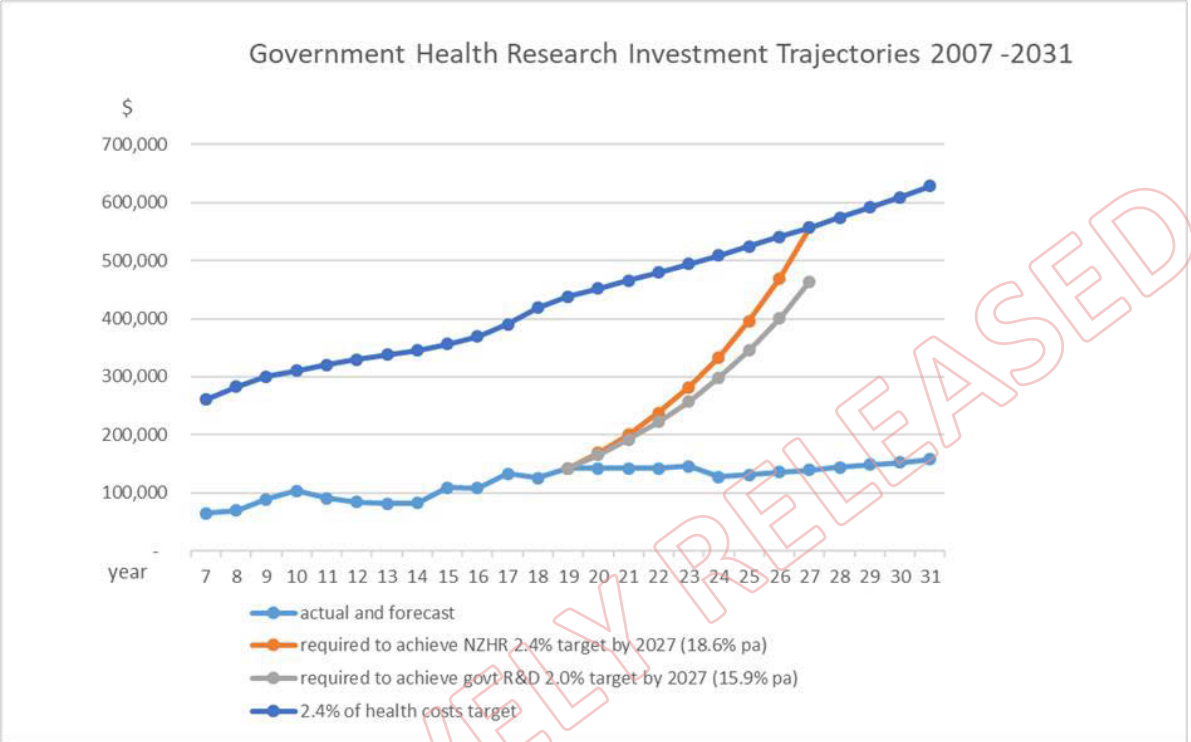

The health R&D allocation to the Health Research Council was last reviewed four years ago, with has resulted in annual increases reflected in subsequent budgets through to and terminating with the 2019/20 budget. We note recommendation 17 of the Health Research Council Strategic Refresh "that the first round of the triennial funding process take place following the development of the health research strategy….", and we further note that triennial funding is mandated by the HRC Act and that the second round is now overdue.[6]

To put into context the increases that occurred as a result of the first round of the triennial funding process we note that in 2011 direct government investment in health research stood at 0.8% of health care costs. By 2015 the figure had fallen to 0.57%. Funding for the health related national science challenges and increased Health Research Council funding over four years through to 2019/20 has restored the figure to 0.78% of health care costs. Without any further increases NZHR is forecasting that the rate of investment will by 2025 fall back to 0.6%, similar to the earlier 2015 nadir.

NZHR recommends that:

- the RSI strategy includes a commitment to increasing at least triennially health (and all other) R&D expenditure to ensure that budget allocation decisions are consistent with achievement of at least the government's aspirational R&D target

Start Ups

In the health research space, a lot of business expenditure on R&D (BERD) will be contained within start-up biotech ventures. These companies are going to be pre-profit and, in many

[6] MBIE and Ministry of Health. Strategic Refresh of the Health Research Council. Circa 2015. http://www.hrc.govt.nz/sites/default/files/HRC%20refresh%20report_1_0.pdf

cases, will not carry an expectation of generating revenue prior to exit so tax credits carried forward are not useful. NZHR therefore supports the RSI strategy's intention to continue to ensure the R&D Tax Incentive supports start-ups by introducing broader refundability for pre-profit businesses and reviewing the R&D Tax Loss Cash-Out.

However NZHR also submits that other government funding tools are compatible with a start-up economy. For example, it has been explicitly advised that Callaghan Project grants will only be awarded if the applicant companies employ their own R&D staff. This is clearly not feasible for a fledgling start-up (which won't own facilities and will likely sub-contract the lab work). Ensuring policy supports IP from public research organisations into new start-ups without throwing up arbitrary barriers like this is critical to successful implementation of the start-up economy the RSI Strategy envisages.

NZHR recommends that:

- The RSI strategy includes an intention to ensure that all government R&D funding tools are consistent in their approach to supporting the implementation of new start-up enterprises

In developing this submission we have consulted with our partners and members as set out on the following page (and from whom we derive 100% of our funding).

9th November 2019

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