



## COVERSHEET

<b>Minister</b>	Hon Stuart Nash	<b>Portfolio</b>	Economic and Regional Development
<b>Title of Cabinet paper</b>	Government Response to the Productivity Commission's Frontier Firms Inquiry	<b>Date to be published</b>	14 April 2022

<b>List of documents that have been proactively released</b>		
<b>Date</b>	<b>Title</b>	<b>Author</b>
December 2021	Government Response to the Productivity Commission's Frontier Firms Inquiry	Office of the Minister of Economic and Regional Development
20 December 2021	Government Response to the Productivity Commission's Frontier Firms Inquiry CAB-21-Min-0547	Cabinet Office

### **Information redacted**

**YES / NO** [select one]

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Some information has been withheld for the reason of Confidential advice to Government.

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Office of the Minister for Economic and Regional Development  
Chair, Cabinet Economic Development Committee

**GOVERNMENT RESPONSE TO THE PRODUCTIVITY COMMISSION'S FRONTIER FIRMS INQUIRY**

**Proposal**

- 1 This paper seeks agreement to a proposed Government response to the Productivity Commission's Frontier Firms inquiry and the public release of the Government response.

**Relation to Government priorities**

- 2 This paper supports the Government's goal to improve the wellbeing and living standards of New Zealanders by building a productive, sustainable and inclusive economy [CAB-18-MIN-0111 and DEV-18-MIN-0222 refers].
- 3 Frontier firms have been identified as strong economic performers with the capability of lifting national productivity and exporting high-value innovative products at scale. As such, supporting the development of frontier firms contributes to the goals of the Government's Economic Plan [DEV-19-MIN-0244 refers].

**Background**

- 4 In December 2019, the Minister of Finance directed the Productivity Commission to undertake an inquiry into maximising the economic contribution of New Zealand's frontier firms (Frontier Firms inquiry). The referring Ministers were the Ministers of Finance, of Economic Development and for Trade and Export Growth.
- 5 The purpose of the Frontier Firms inquiry, as outlined by its terms of reference, was to identify policies and interventions that could maximise the performance, and contribution to the economy, of New Zealand's frontier firms. This includes improving the performance of the frontier firms themselves, and helping innovations diffuse more effectively from frontier firms to other New Zealand firms.
- 6 The Productivity Commission presented a final report to the referring Ministers in early April 2021 and subsequently publicly released their findings later that month.

### The Frontier Firms inquiry

- 7 The key finding from the Frontier Firms inquiry is that exporting specialised and distinctive products at scale can help New Zealand to overcome its traditional challenges of small size and geographic isolation, and significantly lift national productivity. These benefits occur both for those individual frontier firms and the broader economy through knowledge diffusion.
- 8 The Frontier Firms inquiry highlights optimising internationalisation and innovation policies as key to supporting companies to export innovative products at scale. It further identified a need for improvement in both areas, including improving alignment and coordination across existing support.
- 9 The Frontier Firms inquiry made a number of recommendations, particularly seeking to focus New Zealand's innovation system to build areas of unique niche advantage in which frontier firms could then compete in international markets.

### Proposed Government response to the Frontier Firms inquiry

- 10 A proposed response from Government to the Productivity Commission's Frontier Firms inquiry has been prepared and is attached as **Annex One**.
- 11 In developing the response, the referring Ministers propose that Government:
  - 11.1 Highlight the value of the Frontier Firms inquiry and key new insights raised in its final report.
  - 11.2 Agree with the Productivity Commission that strong internationalisation and innovation policies are key to supporting the development and performance of our highest productivity firms.
  - 11.3 Highlight the Government's ambitious and comprehensive reform programme underway that will improve New Zealand's national productivity performance. This includes reforms of the Resource Management Act, vocational education, immigration, research, science and innovation, industry policy, procurement and more. These wide-ranging reforms will play a significant role in addressing our productivity challenges and addressing the issues raised by the Frontier Firms inquiry. Government needs to ensure that these reforms are successful to support the development of the high-performing businesses exemplified by the Frontier Firms inquiry that are key to building a productive, sustainable and inclusive economy.
  - 11.4 Acknowledge the Frontier Firms inquiry's findings have emphasised a need to consider and coordinate our internationalisation and innovation policies and support settings.
  - 11.5 Publicly signal a review of government internationalisation support, and of our investment attraction strategy, as an important new response to address the findings of the inquiry. Alongside the Minister for Trade and Export Growth, I have directed the Ministry of Business, Innovation

and Employment, with relevant agencies, to undertake a review of internationalisation support.

- 11.6 welcome the final report's findings on the contribution Māori business models can make at the frontier and highlight that Government has developed the Māori Economic Resilience Strategy to improve the resilience of Māori against future economic shocks.
- 12 The Frontier Firms inquiry raises a number of challenging and interwoven issues. Its recommendation to establish a 'focused innovation system' is, in effect, suggesting a new economic strategy for New Zealand. We think we are on the right track through our existing reforms.
- 13 **Annex Two** outlines the government work underway that addresses each of the recommendations made by the Frontier Firms inquiry. This highlights the extensive work we have already underway through existing reforms and the strong alignment between the Productivity Commission's findings and our current work programmes.
- 14 Though we think we are on the right track, it is good to have a 'sense check' and so the Government response also indicates that we will be asking, in 12 months' time, for the Productivity Commission to undertake a 'helicopter level assessment' to determine whether our reform agenda is having the effect we intend.

### **Financial Implications**

- 15 The actions highlighted in the Government response to the Frontier Firms inquiry are largely already underway, reflecting the breadth and ambition of government's existing reforms and programmes. There are no further financial implications for these existing actions.
- 16 The review of government internationalisation support and the review of the Investment Attraction Strategy are new actions, but are funded through baselines and do not require additional funding. The findings of these reviews may include recommendations with financial implications, but acceptance of any recommendations will be subject to future Cabinet approval.

### **Legislative Implications**

- 17 There are no legislative implications arising from this paper.

### **Population Implications**

- 18 There are no population implications arising from this paper.

### **Human Rights**

- 19 There are no human rights implications arising from this paper.

## Consultation

- 20 The Treasury was consulted on this paper and on the overall Government response.
- 21 The following agencies were engaged in responses to individual recommendations made in the Frontier Firms inquiry: Ministry of Education, Ministry for the Environment, Ministry of Health, Ministry for Primary Industries, New Zealand Trade and Enterprise, Te Arawhiti and Te Puni Kōkiri.

## Communications

- 22 I intend to announce the Government's response to the Productivity Commission's Frontier Firms inquiry and make the response publicly available.
- 23 I will discuss the Government response to the Productivity Commission's Frontier Firms inquiry in advance of publicly releasing the final response.
- 24 The release of the Government response will attract media and public attention given previous interest in the release of the Productivity Commission's Frontier Firms inquiry in April 2021. I anticipate a mix of reactions with some commentary likely to question our economic strategy and ambition. Confidential advice to Government  
[REDACTED]  
[REDACTED]
- 25 Any media inquiries and subsequent reactive comments regarding the Government's response to the Productivity Commission's Frontier Firms inquiry should be coordinated with the office of the Minister for Economic and Regional Development.

## Proactive Release

- 26 I intend to proactively release this Cabinet paper on MBIE's website, subject to any appropriate withholding of information that would be justified under the Official Information Act 1982.

## Recommendations

The Minister for Economic and Regional Development recommends that the Committee:

- 1 **Note** that in April 2021, the Productivity Commission delivered the final report of its Frontier Firms inquiry.
- 2 **Note** that the Frontier Firms inquiry highlights larger and higher productivity firms close to the global frontier can be developed through government support for exporting innovative products at scale.

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- 3 **Note** that the broad range of existing reforms currently occurring across government will play a significant role in addressing our productivity challenges and addressing the issues raised by the Frontier Firms inquiry.
- 4 **Note** that in response to the findings of the Frontier Firms inquiry, I have directed officials to undertake a review of government support of internationalisation, including investment attraction.
- 5 **Agree** that the Government response to the Frontier Firms inquiry will:
  - 5.1 identify the value of the Frontier Firms inquiry and highlight key new insights raised in its final report;
  - 5.2 agree with the Productivity Commission that strong internationalisation and innovation policies are key to supporting the development and performance of our highest productivity firms;
  - 5.3 highlight the government's ambitious and comprehensive reform programme underway that will improve New Zealand's aggregate productivity performance;
  - 5.4 acknowledge the Frontier Firms inquiry's findings have emphasised a need to consider and coordinate our internationalisation and innovation policies and support settings;
  - 5.5 publicly signal a review of government internationalisation support, and of our investment attraction strategy, as an important new response to address the findings of the inquiry;
  - 5.6 welcome the final report's findings on the contribution Māori business models can make at the frontier and highlight that Government has developed the Māori Economic Resilience Strategy to improve the resilience of Māori against future economic shocks.
- 6 **Approve** the release of the Government response to the Frontier Firms inquiry.
- 7 **Authorise** the Minister for Economic and Regional Development to make minor and technical changes to the Government response document that may be required.
- 8 **Agree** that the public release of the Government response to the Frontier Firms inquiry and any subsequent media engagement will be coordinated through the office of the Minister for Economic and Regional Development.

Authorised for lodgement

Hon Stuart Nash

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Minister for Economic and Regional Development

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**Annex One: Government response to the Productivity Commission's Frontier Firms inquiry**

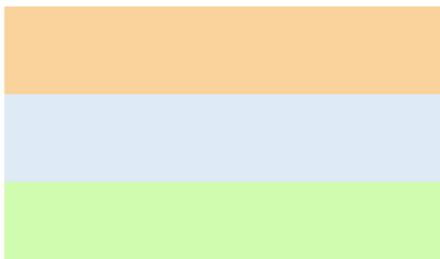
**Annex Two: Frontier Firms inquiry recommendations and Government action**

**Government work underway across each recommendation**

No work underway

Some work underway

Significant work underway



<b>Insights from Māori firms</b>	
<p><b>R4.1</b> The Government, led by Te Puni Kōkiri, should take an all-of-government approach to address the recommendations of the Wai 262 report, and prioritise and accelerate action to protect mātauranga Māori and intellectual property.</p>	<p>Te Pae Tawhiti is the Government’s approach to issues raised through Wai 262. It is a priority for the Government and a manifesto commitment. Cabinet is considering a work programme and pathway for this kaupapa. Te tumu mō te Pae Tawhiti outlines the key immediate foundational elements of the all-of-government approach to mātauranga Māori and other taonga.</p>
<p><b>R4.2</b> Government should provide support and resourcing for a Hui Taumata (national Māori business summit) of iwi and Māori business stakeholder organisations. The Hui Taumata would:</p> <ul style="list-style-type: none"> <li>• enable a national discussion by Māori for Māori on ways to support productivity, growth, innovation and resilience in the Māori economy;</li> <li>• formulate actions to improve the Māori business ecosystem; and</li> <li>• Develop ideas for how government and Māori business networks can better work together.</li> </ul> <p>The Government should invite the Iwi Chairs Forum, the Federation of Māori Authorities, the Māori Economic Development Advisory Board, and other key iwi and Māori business stakeholder organisations to establish a clear kaupapa/purpose, format, location and date for the Hui Taumata.</p> <p>Te Puni Kōkiri would lead government support for the Hui Taumata, working closely with the Ministry for Business, Innovation and Employment, the Treasury, the Ministry for Primary Industries, New Zealand Trade and Enterprise, and Callaghan Innovation.</p>	<p>Te Puni Kōkiri are exploring scope and preparing information and options to convene a Māori Development Summit/Conference (Hui Taumata). Convening needs to be led by Māori and may take place in 2023.</p> <p>Prior Hui Taumata have brought forward opportunities to bring monumental change that builds on Māori ambitions to thrive and take charge in leading the future. This next summit will need to build on this momentum. That said, government acknowledges that there may be interest and value in more targeted conferences at earlier dates around specific kaupapa e.g. enterprise/Māori SME.</p>
<p><b>R4.3</b> The Government, led by Te Puni Kōkiri, should provide culturally appropriate supports to build the capability of Māori businesses to participate in government procurement processes. Supports should include help to meet prequalification standards, participate in tendering processes and establish joint ventures/consortia. Any additional supports for Māori business must be easy to navigate, and not exacerbate the current confusing clutter of programmes.</p>	<p>Awareness of progressive procurement opportunities is growing across the rohe, alongside the capability and interest across Māori enterprise.</p> <p>Te Kupenga Hao Pāuaua project team engaged with 139 government agencies, and delivered nine regional hui, which connected over 200 Māori enterprises.</p> <p>All mandated agencies now have a target of awarding 5% target of their total annual procurement contracts to Māori businesses and are required to report on their progress towards this target. There are growing connections between procurement and prospective Māori enterprise development and growth.</p>
<p><b>R4.4</b> The Government should undertake further work to explore how the Māori–Crown relationship can be better utilised and enhanced, to unlock the potential of actual and</p>	<p>TPK and MBIE continue to work with the Māori Economic Development Advisory Board and Ministers to review and refresh the role of He kai Kei aku ringa – the Crown–Māori Economic Development Strategy.</p>

<p>potential Māori frontier firms, and help meet the Crown's Treaty obligations.</p>	
<p><b>R4.5</b> The Government, led by Te Puni Kōkiri, should explore and consider practical steps it could take to reform Te Ture Whenua Māori Act 1993, alongside improved coordination of government services and support to Māori landowners for land development purposes. The overarching goal should be to rebalance the legislation to allow for more land utilisation and development, while recognising the importance of retaining Māori land in the hands of its owners and their whānau and hapū. The approach to change needs to be more ambitious than before, and properly informed by all reviews carried out in the last decade.</p>	<p>TPK recommends that the best way to achieve the desired outcome in this area is through the resource management reforms and not through the Te Ture Whenua Māori act.</p>
<p><b>R4.6</b> The Government, and the Productivity Commission, should invest in further qualitative and quantitative research on Māori firm performance and productivity. This work should be coordinated with the work on the Government's Māori Economic Resilience Strategy.</p>	<p>TPK is proceeding with Te Matapaeroa 2020, which will provide a qualitative and quantitative analysis of Māori SMEs and sole traders. TPK is continuing to scope other opportunities with their data and insights team. TPK provides regular updates on Māori Economic Resilience to the Economic Chief Executives.</p>
<p><b>Exporting and Innovation</b></p>	
<p><b>R5.1</b> The Government should take a more proactive and deliberate approach to attracting foreign direct investment (FDI) that is innovative, oriented to exporting, likely to stay long term and a source of spillover benefits. It should integrate FDI attraction with a focused innovation policy. The measures that can be used to upgrade an innovation ecosystem can also be part of a negotiated package to attract high-quality FDI. Such a programme requires careful monitoring, evaluation and adaptation to New Zealand circumstances to ensure it produces net benefits.</p>	<p>The Government signalled its intention to develop an Investment Attraction strategy in its election manifesto. This strategy is now being developed and will address this recommendation by:</p> <ul style="list-style-type: none"> <li>• providing a clear direction/signal about the type of investment the government wants to attract</li> <li>• creating stronger alignment between our investment attraction efforts and Government's broader economic transformation goals</li> <li>• improving coordination and cooperation between agencies</li> <li>• considering how a joined-up sector play for investment attraction might work (involving elements of the various levers listed above).</li> </ul> <p>The Innovative Partnerships programme already seeks to attract FDI by identifying foreign businesses that stand to obtain a competitive advantage by conducting R&amp;D in New Zealand. This makes those businesses 'sticky' to New Zealand, as well as helping to create a platform on which New Zealand businesses can take advantage. Expanding the Innovative Partnerships programme was identified as a priority for the Government in their election manifesto and the Speech from the Throne.</p>
<p><b>R5.2</b> New Zealand Trade and Enterprise (NZTE) should regularly commission independent evaluations of their services. These evaluations should use a variety of</p>	<p>As part of the government's Internationalisation Support Review, MBIE and NZTE will develop options for evidence-based and independent evaluation of NZTE's services. This will include considering NZTE's bespoke</p>

<p>approaches and methods to assess the effectiveness of their services, and to inform improvements and choices about the future mix, design and delivery of services. To facilitate quantitative evaluation of impact, businesses receiving NZTE support should be identified in the Longitudinal Business Database (including the type of support they receive) to allow for more robust, long-term assessment of NZTE's performance.</p>	<p>approach to its Focus portfolio customers, and the capability of providers for independent review. We will also work with Stats NZ to identify businesses receiving NZTE support so that the LBD can be better utilised for assessing the impact of NZTE's services.</p>
<p><b>Innovation ecosystems and firms</b></p>	
<p><b>R6.1</b> The Government should adequately resource and support public sector procurement professionals and local firms to build innovation specific capacities. This will help both parties make the most of mutually beneficial opportunities to support innovation, and to achieve wider benefits from public sector procurement budgets.</p>	<p>Cabinet recently agreed to proceed with a reset of the procurement system. The reset is designed to encourage and support New Zealand firms in coming up with innovative solutions when tendering for government contracts. Key measures include:</p> <ul style="list-style-type: none"> <li>• improving collection and availability of detailed procurement data and information that will enable firms to identify, in various contexts, both what has been done before and the results achieved</li> <li>• harnessing professional procurement expertise across government to build capability, including establishing strong procurement leadership at sector level</li> <li>• streamlining procurement processes so it will be easier for firms with non-standard solutions to engage with the system</li> <li>• considering the relevance to New Zealand's context of initiatives used in other jurisdictions to support innovative responses by suppliers (e.g. funding schemes).</li> </ul>
<p><b>R6.2</b> By the end of 2021, Inland Revenue, the Ministry for Business, Innovation and Employment, and Callaghan Innovation should carry out a stocktake of the operation of the Research and Development Tax Incentive (RDTI) from its start to the end of the 2020–21 tax year. The stocktake should:</p> <ul style="list-style-type: none"> <li>• Assess the causes of difficulties that some firms have found in establishing the eligibility of their R&amp;D activities for the RDTI;</li> <li>• Assess whether the RDTI is on track to meet its policy objectives;</li> <li>• Identify and implement amendments to statutory eligibility criteria, guidelines and administrative procedures that will best resolve identified problems; and</li> <li>• Consider supplementing the RDTI with the use of grants to fill eligibility gaps, to help the RDTI better meet its policy intentions.</li> </ul>	<p>MBIE, Inland Revenue and Callaghan Innovation continue to work together to improve the operation of the RDTI and an evaluation is planned.</p>

<p><b>R6.3</b> In implementing its research, science and innovation (RSI) strategy, the Government should allocate a significant part of its RSI budget to invest in supporting linkages within innovation ecosystems by:</p> <ul style="list-style-type: none"> <li>• Building business-oriented research capabilities in public research institutions (Crown Research Institutes and universities);</li> <li>• Incentivising more and better links between businesses and public research institutions (Crown Research Institutes and universities); and</li> <li>• Strengthening international connections.</li> </ul>	<p>Government recently released a discussion document that seeks to engage with participants in, and users of, the RSI system on the nature and direction of any reforms.</p> <p>The government is continuing to explore new ways to strengthen the interaction between the research and business sectors. The Future Pathways work programme, developed in response to the CRI Review, has succeeded the RSI Strategy as the primary means for this process.</p> <p>This Future Pathways programme seeks to configure our RSI system to meet the challenges and opportunities of the future. This includes addressing fragmentation between research institutions and businesses, the difficulties our system faces in adapting to changing national need and building the capabilities necessary for future transformation and resilience. Areas of focus for this programme of work will include:</p> <ul style="list-style-type: none"> <li>• giving the RSI system priorities that focus effort across the system and ensures complex challenges have a clear locus of activity and dedicated resourcing</li> <li>• reshaping the RSI funding system to be able to deliver those priorities, as well as build our capability needs now and into the future</li> <li>• shaping our institutions in a way to be able to deliver those priorities and be adaptable in a fast-changing world.</li> </ul>
<p><b>R6.4</b> The Government should review the suite of programmes designed to assist firms with innovation and exporting. The review should identify and implement ways to:</p> <ul style="list-style-type: none"> <li>• Reduce and consolidate the number of programmes;</li> <li>• Simplify the process for firms to apply for assistance; and</li> <li>• Make it easier for firms to identify and access relevant programmes, including by providing a common platform and “front door” across programmes.</li> </ul> <p>This review should consider ways to improve the connectivity between Māori businesses and the government supports for innovation and exporting.</p>	<p>In light of this recommendation, government have begun an Internationalisation Support Review. The terms of reference for this review is being finalised.</p> <p>The review will consider the changing domestic and international environment and Government priorities and institutional settings to support the development of internationally competitive business. It will explore how to position responsible agencies’ roles and capabilities within those settings</p> <p>The review will consider the suite of government support, including those provided by NZTE, MBIE, MFAT, MPI, Te Puni Kōkiri, Treasury and New Zealand Growth Capital Partners.</p>
<p><b>Focused Innovation Policy</b></p>	
<p><b>R7.1</b> As part of its industry strategy, the Government has identified areas with “high potential” in which to develop industry transformation plans. As a complement to broad innovation policy, the Government take these areas as a starting point and should partner with stakeholders to:</p>	<p>Government has focused resources in specific and promising sectors through the Industry Transformation Plans (ITPs) and the Innovative Partnerships programme.</p> <p>ITPs are a central mechanism to deliver the government’s Industry Strategy, with a focus on working</p>

<ul style="list-style-type: none"> <li>• Confirm the choice of a small number of areas of the economy to focus innovation effort, for the purposes of raising firm productivity and export success (while ensuring other wellbeing objectives are met); and</li> <li>• Support these focus areas with a substantial and enduring commitment of public resources, conditional on the private sector at least matching these resources.</li> </ul> <p>Other small advanced economies provide examples of the required level and duration of public funding – in the order of \$20 to \$40 million each year for each broad area of focus, for periods of five to ten years.</p>	<p>in partnership between government, industry (both businesses and workers) and Māori to transform key industries for New Zealand’s future economy. The key industries are construction, agritech, digital technologies, advanced manufacturing, food and beverage, forestry and word processing, and tourism.</p> <p>The RSI portfolio has been leading industry transformations through the Innovative Partnerships programme, which helps raise firm productivity by focusing innovation effort through specified areas of the economy. The current focus areas are space, advanced aviation and clean energy technologies.</p>
<p><b>R7.2</b> The Government should partner with stakeholders to develop and put in place transparent arrangements for the governance, implementation, monitoring and evaluation of its focused innovation areas. Overall governance and oversight of the focused innovation areas should include senior representation from Government, Māori, industry (firms and workers), researchers and educators. This governing body should be responsible for setting strategic directions, recommending areas of focus and overseeing the strategy as it proceeds. Governance in each chosen area of focus should be devolved to independent multistakeholder bodies. Each devolved body will make decisions on resourcing, implementation, monitoring and evaluation of initiatives within its area of focus</p>	<p>Various government and partnership oversight bodies already exist, and are engaging in governance, implementation, monitoring and evaluation of focused innovation and industry strategy areas. Interdependencies between these groups are being carefully managed.</p>
<p><b>R7.3</b> The Government should partner with other stakeholders to develop and implement a strategy to build the skills and capabilities within the public sector and more widely to successfully implement its focused innovation policies. The strategy should draw on experience already available in New Zealand and internationally in the devolved governance and operation of multi-stakeholder economic development programmes.</p>	<p>The government partners with stakeholders across research institutes and industry to gain expertise, which helps develop skills and capabilities within the policy sector.</p>
<p><b>R7.4</b> The Government should:</p> <ul style="list-style-type: none"> <li>• Review its funding channelled through Callaghan Innovation and New Zealand Trade and Enterprise, including funding targeted at individual firms to support innovation and exporting; and</li> <li>• Design and implement policies and mechanisms to give greater weight to strengthening the innovation</li> </ul>	<p>As part of the Internationalisation Support Review, government will be reviewing funding provided by NZTE and other organisations to support firms’ exporting</p> <p>The government’s Future Pathways work programme will align government’s visions for the future of the innovation system.</p>

<p>ecosystems in areas of focused innovation policy.</p>	
<p><b>Strategic direction in innovation policy</b></p>	
<p><b>R8.1</b> The Government should update and confirm its research, science and innovation (RSI) strategy to signal its intended innovation effort and direction over the next five to ten years. The RSI strategy (and a significant quantum of associated funding) should be clearly aligned with the Government’s industry strategy. The Government should develop and put in place transparent arrangements for the governance, implementation and monitoring of its RSI strategy. Governance and oversight of the implementation of the Government’s RSI strategy should include high-level representation from Government, Māori, industry (firms and workers), researchers and educators</p>	<p>Finalisation of the RSI Strategy was put on hold in response to the pandemic. The themes developed in the RSI Strategy are now being addressed through the Future Pathways work programme, which seeks to configure our RSI system to meet the challenges and opportunities of the future.  Cabinet recently agreed to align a range of related programmes, including the Future Pathways, Innovative Partnerships, and the Industry Strategy, around the Government’s primary goals, namely raising wages and lowering emissions.</p>
<p><b>R8.2</b> The Government should engage with other stakeholders (researchers, educators, industry (firms and workers) and Māori) to develop a transparent implementation plan for its research, science and innovation (RSI) strategy. After initial engagement, the Government should publish a consultation draft and invite submissions from stakeholders. The implementation plan should cover (among other things):</p> <ul style="list-style-type: none"> <li>• how the areas for action under the RSI strategy will be resourced and over what timeline;</li> <li>• how a significant quantum of resource under the RSI strategy will be aligned with the Government’s industry strategy;</li> <li>• proposed changes to policies and practices (including funding criteria) that will better achieve the objectives of the RSI strategy;</li> <li>• which agencies will take the lead on the actions; and</li> <li>• arrangements to monitor and evaluate initiatives and the overall success of the RSI strategy</li> </ul>	<p>The themes developed in the RSI Strategy are now being addressed through the Future Pathways work programme, which seeks to configure our RSI system to meet the challenges and opportunities of the future. The RSI Ministers recently released a discussion document that seeks to engage with participants in, and users of, the RSI system on the nature and direction of any reforms.</p>
<p><b>R8.3</b> The Government should commission a comprehensive independent review of New Zealand’s innovation policies. The review should consider:</p> <ul style="list-style-type: none"> <li>• the Government’s full range of objectives for its innovation policy, but pay particular attention to the objective of increasing the success of frontier</li> </ul>	<p>MBIE believes an independent review of New Zealand’s innovation policy is unnecessary at this time. It is unclear what such a review could tell us, and the time and effort required would likely delay taking meaningful policy actions to support innovation. MBIE considers it would be more useful to investigate how to select areas of the economy to focus innovation effort as per R7.1.</p>

<p>firms in exporting in areas of sustained competitive advantage;</p> <ul style="list-style-type: none"> <li>• New Zealand’s circumstances as a small advanced economy and how this shapes a preferred approach to innovation policy;</li> <li>• the role of mātauranga Māori in New Zealand’s innovation ecosystem; and</li> <li>• the broad range of policies that impact export success.</li> </ul> <p>A review panel should have expertise in assessing the scope, shape and resourcing of innovation policy and the governance of innovation institutions and processes, as well as a thorough knowledge of New Zealand’s existing institutions and innovation policies. It should have experience in assessing the effectiveness of innovation policies in small advanced economies. It should draw on expertise in mātauranga Māori and on te ao Māori.</p>	
<p><b>Talent and Leadership</b></p>	
<p><b>R9.1</b> Collaboration between research institutions and industry for the purpose of developing skills should be improved and scaled up as part of a focused innovation policy process.</p>	<p>Work is underway in the Reform of Vocational Education to support the development of skill standards, which will be designed with input from industry through engagement with the newly established Workforce Development Councils. Skills standards aim to align training provision with industry’s skills needs. Over time, skill standards will become the core components of vocational programmes of learning.</p>
<p><b>R9.2</b> A range of government-funded supports for building firm-level management and leadership skills are already in place. Existing and pilot programmes should be evaluated for their effectiveness before additional schemes are developed or rolled out.</p> <p>The Government should identify opportunities for improving its supports for building firm-level ordinary and dynamic management capabilities. It should do this through a collaborative process involving industry, central and local government, iwi and Māori business interests, and private-sector providers.</p>	<p>There is no current plan to undertake additional evaluation of government-funded supports for firm-level management and leadership skills. Agencies responsible for programmes are expected to evaluate them as part of normal monitoring and evaluation.</p> <p>The government agrees that there is potential to identify opportunities for improving supports for building firm-level ordinary and dynamic management capabilities.</p>

<p><b>R9.3</b> The Government should commission a review of migration policy. The review should:</p> <ul style="list-style-type: none"> <li>• Consider the optimal level and mix of permanent and temporary migrants to support innovation and productivity, in the context of a broader population strategy; and</li> <li>• Assess the role and objectives of migration policy, together with New Zealand’s education and training system, in meeting firms’ demand for labour.</li> </ul> <p>The review should consider how migration policies can best contribute to attracting and retaining the right skilled migrants to grow New Zealand’s current and future frontier firms. This would include migrants with needed expert research and technical skills, as well as entrepreneurs, investors and experienced business leaders.</p> <p>The review should also look at how to reduce inflows of low-skilled and temporary migrant workers over time. As part of this, the review should consider the aspirations of New Zealanders to attain higher skills and education, and jobs commensurate with their skills.</p>	<p>In May 2021, the government announced a rebalance of immigration settings to reduce reliance on migrants to fill lower-skilled, lower-paid roles and support a shift to a more highly skilled migrant workforce. There are already a number of work programmes underway in this space, with a focus on temporary migrant labour and international students work rights. Government will consider the recommendations as this work progresses.</p> <p>The Productivity Commission have also been commissioned to explore what working-age immigration policy settings would best facilitate New Zealand’s long-term economic growth and promote the wellbeing of New Zealanders. The findings of this inquiry will inform the rebalance.</p>
<p><b>R9.4</b> The Government should work collaboratively with industries that currently rely on seasonal migrant labour, to develop a planned transition away from such reliance, and determine the role of government in supporting that transition.</p> <p>This may include:</p> <ul style="list-style-type: none"> <li>• supporting industries to accelerate the development of automation and other labour-saving technologies;</li> <li>• building the necessary skill base for higher-tech production practices; and</li> <li>• Helping to make jobs more attractive to local workers (e.g. in horticulture, by coordinating work across multiple crop types to provide work for all or most of the year, with associated training).</li> </ul>	<p>A review of the Recognised Seasonal Employer scheme is underway, which supports the wider rebalancing of immigration settings. This review will consider the impacts on industries that rely on seasonal migrant labour and ways to ease that transition.</p>
<p><b>R9.5</b> Any review of migration policy must be based on New Zealand’s particular circumstances. More evidence on the economic impacts of temporary migration in New Zealand will be needed to support such a review. The Government should commission empirical studies to assess the impacts of working holidaymakers, international students, and workers in the Recognised Seasonal Employer scheme on local labour markets, automation and productivity.</p>	<p>The government is considering the economic impacts of temporary migration in New Zealand as part of the immigration rebalance. The Productivity Commission’s inquiry into migration settings will provide additional evidence. As the review progresses, government will consider whether empirical studies are needed to further inform policy.</p>

<b>Innovation-enabling regulation</b>	
<p><b>R10.1</b> The Government should prioritise keeping regulations up to date with technological and other changes, where not doing so would curb innovations that have potentially high payoffs in wellbeing. This action should apply especially in areas of focus for innovation. Where such changes require new or updated regulations, their design and operation should allow flexibility in achieving the desired regulatory outcomes, without compromising adequate monitoring and enforcement.</p>	<p>Under the Innovative Partnerships Programme, government has adopted an adaptive regulatory system as part of the ecosystem-building activities, for example the Airspace Integration Trials Programme and working with the Civil Aviation Authority and Te Manatū Waka on aligning the Trials Programme with regulation and policy development.</p>
<p><b>R10.2</b> The next review of the Dairy Industry Restructuring Act 2001 in 2024 or 2025 should include an assessment of the effects on Fonterra and the wider dairy sector of the removal of Fonterra’s obligation to accept the re-entry of its farmer supplier-shareholders who have left the cooperative to supply another processor and then wish to return. If the review finds the net effects of removing the obligation are negative, then the Government should reimpose it. Subsequent reviews should make similar assessments as needed and depending on Fonterra’s future market share of farmgate milk.</p>	<p>There is no work underway.</p> <p>Government agrees that open entry imposes strong performance incentives on Fonterra that also benefit New Zealand consumers (for example, through lower prices and higher innovation) and farmers (by enhancing competition at the farm gate). While the current legislative provisions that allow Fonterra to decline to collect and process milk from farmers yield some moderate cost and efficiency savings for Fonterra, they make it harder for smaller independent processors to compete, resulting in losses in efficiency and competition in the dairy market. We consider the productivity and competition benefits associated with reintroduction of the open entry regime would outweigh any costs to Fonterra.</p>
<p><b>R10.3</b> The Government should introduce a consumer data right consistent with Australia’s sectoral-designation regime. Banking or the wider finance sector should be one of the early designated sectors, to facilitate the development of efficient and effective open banking and open finance in New Zealand.</p>	<p>On 5 July 2021, the government decided to implement a legislative framework for a consumer data right to allow consumers to securely share data held about them with trusted third parties. The framework will be rolled out on a sector-by-sector basis with the government applying the consumer data right to sectors via secondary legislation. Further decisions regarding the implementation will be sought in early-2021. A Bill implementing the consumer data right will be introduced in 2022.</p>
<p><b>R10.4</b> The Government should undertake a full review of the regulation of genetic modification (GM), to ensure it is fit for purpose and supports domestic innovation. The review should:</p> <ul style="list-style-type: none"> <li>• Consider the emerging regulatory approaches in other jurisdictions, particularly New Zealand’s key product destination and competitor markets;</li> <li>• Consider the trade and regulatory enforcement impacts from different treatment of GM technologies in different markets;</li> <li>• Assess consumer attitudes in New Zealand and internationally;</li> </ul>	<p>There is no current review on the use of genetic modification underway.</p> <p>Since the early 2000s government’s approach to genetic modification (GM) in New Zealand has been one of ‘proceed with caution’. However, within the wider context of challenges New Zealand faces across a number of areas (climate change, biodiversity loss, remaining economically competitive) as well as recognising the significant technological advances of the last 20 years, it could be timely for an informed conversation about our use of GM technologies.</p>

<ul style="list-style-type: none"> <li>• Consider the potential impacts on New Zealand firms that wish to retain GM-free status, and on New Zealand's reputation and brand more generally;</li> <li>• Recognise Māori views on GM and the rights and interests of iwi in taonga species (indigenous flora and fauna);</li> <li>• Coordinate with the whole-of-government work that is considering the recommendations of the Wai 262 report, in particular those relating to GM legislation;</li> <li>• Look beyond the Hazardous Substances and New Organisms Act 1996, across all relevant acts and regulations, to ensure consistency of definitions and approach;</li> <li>• Assess the fitness for purpose of the current regulatory oversight and enforcement arrangements;</li> <li>• Consider the merits of separate legislation and/or a standalone regulator for genetic technologies; and</li> <li>• Undertake wide public engagement, including with Māori and industry, and backed by information resources to support public understanding of modern GM technologies.</li> </ul>	<p>In May this year the Minister for the Environment requested advice on whether options existed to reduce the regulatory restrictions on biomedical R&amp;D that uses genetically modified organisms. The Ministry for the Environment has started engaging with the biomedical community, including University researchers, research institutions and biotech companies, to identify unnecessary regulatory restrictions on biomedical R&amp;D, particularly for contained fundamental biomedical research. A summary of feedback from these stakeholders will be provided in December and will inform any policy decisions.</p>
<p><b>R10.5</b> The Ministry for Primary Industries' work on designing new post-entry quarantine facilities for new plant varieties and breeding material, and improving the capacity and efficiency of the import health standards processes, is welcome investment. This work should consider:</p> <ul style="list-style-type: none"> <li>• How to scale up existing processes and facilities to relieve the backlog of applications and increase future capacity;</li> <li>• Ways to make the system more efficient, while managing risks appropriately; and</li> <li>• How costs are shared across applicants, wider industry and government, to develop a sustainable pricing model that incentivises innovation</li> </ul>	<p>MPI secured funding in Budget 2020 to invest in an Interim Post-Entry Quarantine facility, which will be operational in 2022. This will increase capacity, from 30 cultivars per year to 75, while a long-term permanent solution is progressed. MPI is exploring opportunities to reduce PEQ quarantine times by rapidly aging plants. MPI is also working with Australian counterparts on the feasibility of reciprocal quarantine arrangements. MPI is revising the process for delivering a new or amending an existing Import Health Standards with the objective to deliver more standards and amendments quicker. This supports the New Zealand horticulture sector's market access ambitions and improves access to new imported plant varieties for growth and innovation. The current priority Import Health Standards are fresh citrus, fresh pineapple, citrus germplasm, and avocado germplasm. As part of a new Plant Germplasm Import Council, MPI is contributing to developing an industry/government co-owned strategy for the plant germplasm import pathway. The strategy will identify both short and longer-term pathway enhancements. This will ensure that germplasm imports are safe and deliver economic growth to New Zealand. MPI is working on cost-recovery options that fairly reflect the split between public and private benefits. We will continue to work alongside industry to ensure that our pricing models create the right incentives, including</p>

	enabling private provision of services where appropriate.
<p><b>R10.6</b> The Government should use its intended major health system reform to improve the mandate, funding and incentives for DHBs to participate in the healthtech innovation ecosystem, for the mutual benefit of the healthtech sector, and the efficiency, effectiveness and accessibility of New Zealand's health and disability system</p>	<p>There are already reforms made in this space through the establishment of Health NZ and the Māori Health Authority. government should use its establishment of Health NZ and the Māori Health Authority to build the mandate, funding and capability that will grow the healthtech innovation ecosystem, for the mutual benefit of Māori as partners in Te Tiriti, New Zealand's health and disability system and the healthtech sector.</p>