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# Summary:

## New Zealand Fast Forward

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**New Zealand Fast Forward** is a government-industry investment collaboration that responds to emerging threats and opportunities facing New Zealand's largest sector.

Pastoral and food industries (horticulture, dairy, meat and seafood) dominate the New Zealand economy. Directly or indirectly, one in five New Zealanders work in these industries.

These power-house industries are fundamental to the economic prosperity of all New Zealanders, and are central to the Government's goals of economic transformation.

But to encourage innovation in these industries, we need to respond to the threats and opportunities of the changing global markets and significantly lift our long term capability.

We have a long history of using our natural resources to earn our way in the world. But continuing to produce the same products in the same ways will put pressure on our natural resources and can damage our environment.

At the same time, emerging low-cost producers are eroding the advantage we have had in international markets. More consumers are looking for sustainability, and demanding higher quality, healthy food.

We have to respond to these challenges by finding new ways of building our largest sector sustainably, identifying new processes and diversifying into innovative products and new markets.

The Primary Industries 20/20 Summit in 2007 identified the urgent need to put public and private resources into lifting economic and environmental performance in New Zealand's most important and competitive industries.

New Zealand Fast Forward will significantly increase New Zealand's investment in initiatives that lift the global competitiveness, dynamism, value and sustainability of New Zealand's pastoral and food industries.

The Government will make a capital investment of \$700 million to be spent over 10-15 years. The sectors will also substantially increase their spending on innovation (beyond 'business-as-usual' investments) aiming overall to match the level of Government's investment.

This is the largest single boost to NZ innovation funding ever.

This boost in funding will increase research and development, increase productivity, make our economy more sustainable and help us to develop new, high value products that appeal to global consumers.

Investments will support existing firms to innovate; new innovative firms to develop; and international firms to locate research activities in New Zealand.

New Zealand Fast Forward is an ambitious and comprehensive response to transform the pastoral and food industries, so they can respond to emerging threats and opportunities.

The Government and industries will work together to identify investments and other changes that can substantially lift our comparative advantage – both in the pastoral and food industries and in industries that support and flow from these sectors, such as agribusiness, electronics, IT, and engineering.

This initiative is a unique collaboration with the private sector. The industry is committing to substantial investments and the Government recognises and is prepared to match this.

Government and industries will jointly make strategic investment decisions that enable New Zealand to build on our strengths in the food and pastoral industries, improve our processes and technology uptake and diversify into new markets and highly differentiated new products.

The initiative will improve links between our producers and manufacturers and the demands of global markets from ‘farm to fork’; ensure we build a highly skilled workforce; and ensure more rapid uptake by farmers and growers of new technology and processes.

This initiative will help to position New Zealand as a world class economy, known for our excellence in a sector where we already enjoy a competitive advantage.

This is about much more than farming. World class pastoral and food science and innovation will make our economy stronger for the benefit of all New Zealanders and contribute to the global base of fundamental new knowledge.

Over the long-term, the investments will contribute to:

- stronger applied science and education capability
- a more skilled workforce and technologically-savvy workforce
- innovative new products – and a greater ability to commercialise those products
- new and innovative services
- new markets
- new companies

These developments will lead to significant gains in productivity and sustainability, spill-overs to other sectors or industries, and overall greater wealth and better environmental outcomes for New Zealand.

The announcement by the Government about its commitment to innovation has been made possible by the support of key industry players. We are inviting others to support this initiative.

This new way of working will involve Government collaborating with industry to develop a shared vision of transformational change in the pastoral and food sectors, set investment criteria and make targeted investments.

The process is focused on bringing together public and private resources in the most effective manner.

An Establishment Group of government and industry members is working to develop the framework for this collaboration. The Establishment Group will report to Ministers and Industry by the end of May 2008.

The partnership will be in place by 1 July 2008.

# An Overview

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## Boosting our Power-House Industries

**New Zealand Fast Forward** is a government-industry investment collaboration that will lift the long-term science base, capability, environmental performance and global competitiveness of New Zealand's pastoral and food industries. It brings together the Government's economic transformation and sustainability themes, and aims to boost the living standards of all New Zealanders.

The strength of these power-house industries (including horticulture, dairy, meat and seafood) and their connections with other key sectors is central to achieving economic transformation and the economic prosperity of all New Zealanders.

*This is not a short-term focus or business as usual.*

This is not a short-term focus or business as usual. The government is committed to making a significant financial contribution spent over the next 10-15 years, and the aim is for this to be matched by a similar level of additional investment from the pastoral and food industries.

## New Zealand's Challenges and Opportunities

*The pastoral and food industries are at the core of the New Zealand economy.*

We have a long history of using our natural resources to earn our way in the world. The pastoral and food industries are at the core of the New Zealand economy. In 2006 they generated 57 percent of our export earnings from merchandise trade and, directly or indirectly, employed one in five members of the working population.

The success of New Zealand's pastoral sector is based on decades of experience, investment and innovation around on-farm productivity and the ability to produce highly differentiated food ingredients and branded consumer products. New Zealand leads the world in farm management, production of a safe and plentiful milk and meat supply based on pastoral systems, forage species and bovine genetics, along with horticultural produce and seafood.

The world in which these industries operate is rapidly changing. There is rationalisation and concentration of existing players and emergence of new competitors across the whole value chain. New markets are developing, particularly in Asia. Sustainability has become an imperative and consumers are demanding higher quality, healthier food. Intensification of agricultural

*The dollar value of the pastoral and food sectors' outputs has been growing at a compound rate of around 5 per cent a year over the last decade. To maintain that growth on the existing productive base will require unrelenting, and environmentally sustainable, innovation and productivity improvement.*

*New Zealand needs to make a much stronger commitment to investing in innovation...*

production and the need to reduce greenhouse gas emissions places pressure on the natural capital upon which the industry depends. These changes contain a mix of threats and opportunities for the New Zealand industry.

The dollar value of the pastoral and food sectors' outputs has been growing at a compound rate of around 5 per cent a year over the last decade. To maintain that growth on the existing productive base will require unrelenting, and environmentally sustainable, innovation and productivity improvement.

A strong science and skills base is required to support innovation. In or near market production will become an increasingly important avenue for growth for New Zealand firms and will require strategic industry investment to sustain such production. To secure a higher growth dividend will require diversifying into sophisticated new products and markets, and into new investment and business models that are market-led.

Decades of investment have supported New Zealand in developing a comparative advantage in a modest range of pastorally-based commodities. Historically, such investment has served us well; however, this relatively limited strategy is now showing cracks. Commodity production has limited potential to deliver on the government's stated goals for long-term economic transformation. Fewer New Zealanders are choosing careers in the pastoral and food sectors in New Zealand (the dairy industry, for example, currently needs 3000 more employees<sup>1</sup>) and other countries are eroding New Zealand's long-held cost advantage in producing these commodities.

High-value ingredients, systems, processes and foods (for example, foods with marketable health and wellness benefits or "functional foods") represent a commercial opportunity for New Zealand's pastoral and food industries to seize. Furthermore, growing world demand for "sustainable" products is generating a specific market that our pastoral and food industries need to be able to access to remain competitive. Transforming the sustainability of our pastoral and food sectors will also safeguard New Zealand's '100% Pure' brand. New Zealand needs to work hard to ensure that we not only have the expertise to develop such products, but also to commercialise them and take them to the global market.

## Additional Investment is Needed

New Zealand needs to make a much stronger commitment to investing in innovation for the pastoral and food sectors to address these emerging challenges and opportunities. We need these sectors to mature into globally significant producers and marketers of high-value and sustainable products.

Because this investment is so critical the Government is taking a strong leadership role. It has developed **New Zealand Fast Forward** as an initiative that will significantly increase both public and industry investment in lifting the

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<sup>1</sup>'Dairy Industry 3000 Short'. Dominion Post; 21 January 2008.

innovation, dynamism, value and sustainability of New Zealand’s pastoral and food industries.

The Government will make a capital investment of \$700 million, to be spent over 10-15 years. Industries and businesses in the pastoral and food sectors will also substantially increase their spending on innovation (beyond ‘business-as-usual’ investments), aiming overall to match the level of Government’s investment.

Partners investing in this collaborative approach are expected to design investment solutions that will allow parties to focus on areas within their interests but which provide complementary and mutual benefits.

Government investment will focus on public good, especially in terms of science, research and skills development. This is the largest single boost to New Zealand science, research and innovation capability-building funding ever.

The underpinning science at the very foundation of the pastoral and food industries will see relevant programmes in target areas—“the right science and the right scientists”—with institutions working cooperatively and scientists working across disciplines. Above this is the base of human capability; New Zealanders will have better skills in areas of comparative advantage and critical needs in the overall innovation system will be filled. This means that New Zealand will have strengthened its basic and applied science, education capability and ability to commercialise new products and processes and cultivate new markets.

**New Zealand Fast Forward** provides the opportunity to marshal complementary public and private investment to leverage the comparative advantage of New Zealand’s largest sector and our natural resource base. At the same time it will generate spillover benefits that will enhance the growth of many of our other sectors.

The collaborative nature of this initiative will also provide a mechanism and incentive to move away from short-term, fragmented and disjointed investment approaches. It will enable more integrated and phased investment that will strengthen our knowledge and skills base, facilitate the transfer of research and capability into developing and commercialising high value goods and services, and stimulating the growth of global businesses.

Investments will support existing firms to innovate; new innovative firms to develop; and international firms to locate research activities in New Zealand.

*Fast Forward will significantly increase investment in the innovation, dynamism, value and sustainability of New Zealand’s pastoral and food industries.*

*The Government will make available \$700 million, to be spent over 10-15 years. Industries and businesses in the pastoral and food sectors will also substantially increase their spending on innovation.*

*New Zealand will strengthen basic and applied science, education and ability to commercialise new products and processes and cultivate new markets.*

*Government and industries will work together.*

## New Zealand Fast Forward – Our Path to Solutions

### **Government and Industry–collaborating for success**

**New Zealand Fast Forward** is an ambitious and comprehensive response to transforming the pastoral and food industries. This initiative is a unique collaboration with the private sector and industry to substantially lift our comparative advantage – both in the pastoral and food industries and in industries that support and flow from these sectors, such as agribusiness, IT, electronics, and engineering.

Government and industries will work together through a jointly configured body and supporting secretariat, to agree strategic priorities and together make strategic investment decisions that enable New Zealand to improve our processes and technology take-up and diversify into new markets and highly differentiated new products. The detailed organisational nature of this joint body is still being worked through by an Establishment Group of government and industry members. The new body is expected to be established by July this year.

Investments will be targeted at critical points. It is envisaged that these critical points will focus around strategic themes such as sustainable pastoral systems, research and education capability, food innovation clusters and internationalisation. Refining these themes and priorities will be done jointly.

We are not starting from a blank sheet with joint development and refinement of investment priorities. Much collaborative thinking has already been done through the development of industry strategies, the Food and Beverage Taskforce, work on Pastoral 21 and research consortia. The funding available under this initiative provides a strong incentive to also take a pan-industry look at investment to achieve transformational change.

*As an example, priorities could include an investment to deliver major gains in nutrient retention and recycling, which would reduce the loss of nitrogen into the air and into waterways. This would reduce greenhouse gas emissions from pastoral farming, enhancing New Zealand’s ability to meet our climate change obligations such as the Kyoto Protocol, and improve water quality in the surrounding waterways; and it would also reduce costs to farmers, who would effectively only need to pay for fertiliser once, yet be able to use it again and again.*

*In this scenario, the knowledge required would be created through a multidisciplinary, collaborative research programme linking academic research into soil microbiology and pasture and animal genetics to a network at farms on-call to carry out intensive on-farm trials. The wide range of organisations involved (including, for example, universities, Crown Research Institutes and seed and livestock companies) and the large number and geographic range of farms involved could require a “virtual institute”, similar to a very large Centre of Research Excellence, which may in turn require more effective uses of New Zealand’s information and communications technology infrastructure.*

*This is a purely illustrative example. The **New Zealand Fast Forward** collaboration will develop and refine its strategic priorities and criteria for investment.*

### **Managing the funds available for investment**

This government-industry body will be working jointly to identify and agree investment solutions that will then be implemented as far as possible through existing institutions and organisations. For instance on the government side this will include the Foundation for Research, Science and Technology and the Tertiary Education Commission, where appropriate.

The government funding available for investment through this initiative (to be known as the **New Zealand Fast Forward** Fund) will have separate stewardship that will ensure that the capital is protected and available for release in accordance with agreed criteria and procedures over a 10-15 year period.

On the industry side a number of principal supporters (including Meat and Wool NZ, Fonterra, Dairy NZ, Meat Industry Association, Zespri and PGG Wrightson) have already expressed commitment to investing as part of this initiative. As with the government funding, these organisations will separately retain and manage their own funds until such time as they are released to implement the agreed investment solutions.

### **Learning more, getting involved**

We are at the beginning of a new pathway that will improve links between our producers and manufacturers and the demands of global markets from ‘farm to fork’; ensure we build a highly skilled workforce; and ensure more rapid uptake by farmers and growers of new technology and processes.

*Fast Forward will help to position New Zealand as a world class economy, known for our excellence in a sector where we already enjoy a competitive advantage.*

*This is about much more than farming. World class agricultural and food science and innovation will make our economy stronger for the benefit of all New Zealanders.*

**New Zealand Fast Forward** will help to position New Zealand as a world class economy, known for our excellence in a sector where we already enjoy a competitive advantage.

This is about much more than farming. World class agricultural and food science and innovation will make our economy stronger for the benefit of all New Zealanders.

Watch the Ministry of Agriculture's website, [www.maf.govt.nz](http://www.maf.govt.nz) for updates and progress with this initiative. If you wish to be involved as an active investor contact the New Zealand Fast Forward secretariat at [fastforward@maf.govt.nz](mailto:fastforward@maf.govt.nz)

# NZ Fast Forward

## Questions and Answers:

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### What is New Zealand Fast Forward?

“The **New Zealand Fast Forward** initiative will establish a unique partnership between Government and industry to make collaborative, targeted investments in pastoral and food innovation to drive transformational change.

The Government is making significant funding available for investment over the next 10-15 years through this collaborative approach. The government funding will be secured in a special purpose fund, to be known as the New Zealand Fast Forward Fund, which will have separate stewardship that will ensure that the capital is protected and available for release in accordance with agreed criteria and procedures over a 10-15 year period.

It brings together the Government’s sustainability and economic transformation agendas, including work already started through the Food and Beverage Taskforce and the Pastoral 21 initiative.

It will help to connect producers and manufacturers with both the demands of global markets and the scientists and researchers who can help develop solutions, to give New Zealand the best chance of using our strengths and resources to be world class and globally successful.”

### How will partners/projects be chosen to take part in this initiative? And who decides?

As a first step, an Establishment Group including senior key industry supporters has been formed to help work through the governance issues. This group will make recommendations back to the Government and industry on implementation in the next few months, including how joint decision-making processes for the investment of government and private sector contributions will operate.

### Who is on the establishment group?

The committee is chaired by Ministry of Agriculture and Forestry Deputy Director-General (Policy) Paul Reynolds and is made up of: Mark Steel (Ministry of Economic Development), George Slim (Ministry of Research Science and Technology), Todd Kriebel (Ministry for the Environment), Alex Duncan (Fonterra), Mark Jeffries (Meat and Wool New Zealand), Murray Denyer (Zespri), Tim Mackle (DairyNZ), Paul Tocker (PGG Wrightson), and Tim Ritchie (Meat Industry Association).

### **How will the fund work?**

Acting in partnership is critical to delivering the bold transformational changes required to the pastoral and food innovation system.

The partnership will develop a shared vision of transformational change in the pastoral and food sectors, set investment criteria, and make targeted investments to align New Zealand's innovation resources with market trends and opportunities.

The partnership will develop its strategic priorities informed by and building on industry strategies together with relevant public sector strategic themes.

### **Who will decide how the fund money is spent?**

This is about industries investing in long-term priorities — alongside each other and with Government. This means co-ordinating and phasing investments, with the private sector signalling their future investments so that there is greater confidence underpinning public sector spend and a focus on step change in key identified areas.

The process will be focused on key outcomes and bringing together public and private resources in the most effective manner. The exact details will be developed over the coming months

### **Which primary sector industries can be involved?**

This initiative involves all the pastoral and food sectors, including horticulture dairy, meat, wool, and seafood.

### **If an industry puts in funding will it have a say about how it is spent?**

Yes.

This is about industries investing in long-term priorities — alongside each other and with Government. The process is focused on key outcomes and bringing together public and private resources in the most effective manner. This is not about creating a large pool of money for entities to bid for; rather it is about focusing on the key outcomes and working together.

A pan-industry approach is essential. For example, if a company wants to develop a particular technology or functional food, it will need to ensure that the underlying research capability exists; that world-class plant and equipment are available; and that there is the potential to transfer and commercialise this knowledge. By working together and with the Government such steps are possible.

## What will the criteria for investment be?

The Government -industry partnership will determine the investment strategy and priorities and determine exactly where investment is needed.

At this stage, four broad areas where major challenges and opportunities are apparent have been identified:

- Sustainable pastoral systems;
- Research and education capability;
- Food innovation clusters;
- Internationalisation.

Some key principles have already been identified within government in discussion with industry partners, including:

- Investments will be additional to current spending;
- Partners will generally focus their investments on areas within their own interests;
- Investments must have serious environmental intent and drive transformational change;
- Medium to long term transformation activities will be a priority;
- Investments should build on our existing comparative advantage and grow new activity from core capabilities;
- Transaction costs will be minimised by using existing investment and institutional structures as far as possible;
- Priorities will be jointly developed by government and industry;
- Transformational activities will have priority, keeping in mind this often requires a medium to long-term view;
- Priority will be placed on building existing strong comparative advantages and catalysing new activities growing from New Zealand's core capabilities;
- Sustainability, whether of land, water, energy, or other resource use or embodied in product development, commercialisation or overall business model, will be a priority.

## Why has the Government decided to do this?

The pastoral and food sectors dominate the NZ economy and we enjoy a competitive advantage in these sectors – but we need to invest substantially more in innovation to remain both competitive and sustainable and to better align the food and pastoral sectors with trends and opportunities in global markets

The Primary Industries 2020 Summit identified an urgent need for New Zealand to collaboratively marshal public and private resources to lift economic and environmental performance in our most important and competitive industries –from research right through to the demands of our end consumers.

This initiative is a new way of working to ensure we build a highly skilled work force and an innovation system that supports sustainable economic transformation.

It's about industry investing in long-term priorities – alongside each other and with Government – and bringing together private and public resources in the most effective manner.

Through a comprehensive programme of innovation spanning the entire value chain we can help our primary producers connect with the demands of international consumers and deliver the high value, innovative and sustainable goods and services that will ensure New Zealand's prosperity well into the 21st century.

### **What makes this different from any other pool of money the Government makes available for R&D?**

This is not business as usual. This proposal will create a partnership between Government and industry to invest in key initiatives that will transform New Zealand into an international hub for pastoral and food innovation.

To achieve this, the scale and reach of investments must be significant, which is why the Government has made a substantial, long-term commitment over 10-15 years. This initiative focuses right across the value chain and provides the opportunity for our embedded industries such as IT, engineering, and agribusiness to also achieve global status.

However, despite the pastoral and food sectors increasing their share of GDP and outperforming the rest of the economy in recent years, it has become increasingly apparent that “business as usual” may not be sufficient for New Zealand to match the innovation of our competitors or meet the new challenges of climate change and other environmental objectives.

The aim is to invest in initiatives that will significantly lift the capability, performance, sustainability and global competitiveness of the pastoral and food sectors.

Investments will be additional to, and not displace, current public and private spending on R&D, education and industry development initiatives in the food and pastoral sectors.

This Government-industry partnership will provide guidance as to the areas requiring investment through this initiative, and investments will be targeted at building depth and specialisation.

## **Why isn't the Government making similar scale investment into other vital industries such as ICT and the high-tech industry in general?**

The Initiative focuses on the pastoral and food sectors because these sectors already have global reach and scale and are integral to our economic prosperity.

In 2006, the pastoral and food sectors generated 57% of our export earnings from merchandise trade and, directly or indirectly, employed one in five of New Zealand's working population.

However, despite the pastoral and food sectors increasing their share of GDP and outperforming the rest of the economy in recent years, it has become increasingly apparent that "business as usual" is not sufficient for New Zealand to match the innovation of our competitors or meet the environmental performance standards our markets demand.

Making significant cooperative investments in the sector now can turn these threats into opportunities that will ensure future prosperity.

## **How is pastoral and food innovation relevant to Economic Transformation?**

Economic transformation is fundamentally concerned with migrating a country's product and export mix of goods and services towards those that provide higher value and returns – typically products which differentiate on the basis of innovation and integrity rather than price.

This transformation must be based on the industrial structure that New Zealand actually has. Evidence from overseas shows that countries grow by upgrading within and building out of their current successful industries, by using the unique capabilities that have led to the success of those industries.

New Zealand's characteristics are shared in a general way with some of the richest countries, such as Finland, Sweden, Norway, Denmark, Iceland, the Netherlands, Canada, and Australia. The prosperity of many of these countries is relatively recent. The development trajectories of these countries can therefore provide useful evidence on how economic transformation is likely to occur.

Without exception, these countries are continuing to develop by leveraging their natural resource bases. Even in Sweden, Finland and the Netherlands, which have developed significant high tech sectors, these sectors have supplemented the low and medium tech specializations, but have not replaced them. They have grown mainly by the persistent upgrading of low tech and resource based industries. One of the basic mechanisms in this has been the sustained development of both upstream and downstream linkages from the resource based industries, leading to major cluster development. The heart of this upgrading and the spawning of related industries is knowledge based. Low tech sectors develop by drawing heavily on science and other knowledge created outside the industry and through innovation within it.

The lesson for New Zealand is that our pastoral and food industries are and will continue to be an ongoing foundation for development in New Zealand. The capabilities that New Zealand has developed in all parts of the value chain provide a foundation on which New Zealand can use the ongoing development of knowledge, skills and infrastructure within these industries to build future competitiveness.

### **What does the Government expect the outcome of this partnership to be? How will we know if it's working?**

The aim of this initiative is to create a world-class innovation system that supports the transformation of New Zealand's pastoral and food industries by building on our competitive advantage.

Success will mean that we have sustainable food and pastoral industries that are growing economically. Food and pastoral industries will be delivering innovative products, processes and services and we will have a world class technology transfer and innovation system.

Our brightest and best young people will be attracted into professional careers at the very core of New Zealand's future prosperity and environmental performance. Engineers, food technologists, environmental scientists, systems technologists, and many more will all be needed.

New Zealand will have strengthened its basic and applied science and education capability as well as our ability to commercialise new products and processes and cultivate new markets.

Ultimately this will lead to greater wealth and better environmental outcomes for New Zealand.

### **Given the way that intensified land use is affecting our environment, why is the Government putting so much money into the pastoral and food sectors?**

Our economic transformation and sustainability goals cannot be addressed in isolation from each other.

This initiative provides an integrated approach to industry development that will ensure that we can meet the challenge of becoming truly sustainable while ensuring our economic objectives are achieved.

Sustainability and environmental themes are integral to this initiative – sustainable pastoral systems are one of the key areas of focus.

Sustainability has become an imperative and consumers are demanding higher quality, healthier food. This poses both a threat and an opportunity for the New Zealand industry. To maintain our position as a market leader, we must invest in continuous, environmentally sustainable improvement.

### **Won't industry organisations just be pushing their own agendas?**

We expect that industry organisations will be working in their areas of specialised interest – but by working in partnership with Government and other industries, opportunities for complementary and mutually beneficial investments can be identified.

### **Does this sort of investment in food and pastoral industries have trade implications for New Zealand?**

The **New Zealand Fast Forward** investment is designed to promote innovation in the pastoral and food sectors and will not involve direct payments to producers or processors.

The government investment in the programme will be focussed on research, education and other pre-competitive innovation initiatives that are consistent with New Zealand's agreed commitments under international trade rules.

The initiative is potentially open to international firms wanting to undertake innovation activities in the pastoral and food sectors in New Zealand

### **How will a transformed economy look different to one we have now?**

Some key features of an innovative and creative New Zealand economy would be:

- New Zealand firms benefiting more from the country's focus on enhancing its natural environment and effective management of the resource base, both through market positioning and new technologies;
- More New Zealanders employed in high-paid goods and services sectors, both in those sectors in which New Zealand has core strengths and in new areas that develop, directly and indirectly, from them;
- New Zealand exhibiting higher productivity and being a more active participant in the global economy through having an increased number of innovative NZ firms participating in the global economy, while remaining anchored here;
- The emergence of other new areas of strength as we have seen occur in tourism, film production and international education.

### **Aren't we picking winners?**

No. It is about working with existing winners and enhancing and building on their success. International experience shows that successful countries build on those areas where they already have a competitive advantage and aim to develop those sectors in higher value ways.

This is all about targeting significant areas of the economy where we are already strong and where we have a good international reputation The

Government is interested in focusing its investment in areas that will make substantial gains across a number of firms and institutions—it is not about the Government picking individual firms to succeed.

Nor is it about subsidising firms. Rather it is about the Government working with firms in these significant areas of the economy to coordinate the investments that Governments typically make (both traditional government activities, such as education, as well as less traditional ones) with the investments that firms typically make (e.g., commercial R&D and marketing) to ensure that they support each other and yield greater benefits than either would if each party acted alone.

We have a small economy and limited resources, we therefore need to be selective about where we focus our efforts and our funding. That requires some tough decisions. We simply can't engage with all firms and not all firms are capable of delivering the outcomes required. There will be a strong element of market leadership – we will follow where the opportunities arise and support innovative high impact companies that are doing well if that means we can bring substantial benefit to the New Zealand economy.

Any allocation of limited government resources will always involve making decisions about priorities – implicitly or explicitly. It is better that such decisions are made in a deliberate, thinking way.

### **Why not leave it up to the market to determine which firms will succeed?**

Doing business from New Zealand presents significant challenges for firms.

The Government has a clear role to play in assisting firms to achieve greater international success as an enabler, not a bystander. It will take an active role to ensure New Zealand succeeds, although ultimately success rests on businesses which can step up and become globally competitive firms. Collaboration between Government and industry will deliver benefits to the New Zealand economy that each party couldn't deliver alone.

When we look at the barriers to the development of globally competitive firms, we need to determine whether government can most effectively address the problem and whether it will generate economy-wide benefits. The rationale for government to become involved where these conditions are met is accepted in other jurisdictions providing similar assistance to businesses, and has proved beneficial.



