

Submission to 'New Zealand firms: reaching for the frontier'

New Zealand Productivity Commission

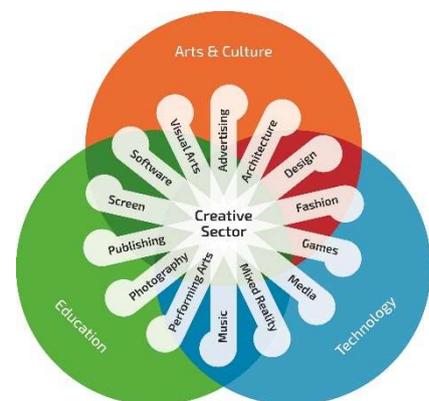
September 2020

Background

WeCreate is the alliance of New Zealand's creative industries with the mission to grow the creative sector's contribution to New Zealand's economy. WeCreate's member organisations represent creators and business owners across the spectrum of the creative industries ecosystem. In addition to our members, large businesses and government agencies in the New Zealand creative sector are Friends of WeCreate. Together our Members and Friends represent over 25,000 individual creators and creative businesses.

"The best way to create value in the 21st century is to connect creativity with technology."

– Steve Jobs



The New Zealand creative sector:

- Is at the forefront of **technological innovation**
- Drives **growth** in the digital age through **innovation and productivity, diversifying** our output and exports beyond traditional industries
- Generates **high value jobs and outputs** – not just in the creative industries, but **in every sector**
- Fosters the skills and talent we will need to confidently face the **Future of Work**
- Offers new opportunities for **small business and regional development**
- Is sustainable and **kind to the environment, helping to meet emissions targets**
- **Exports globally**, growing trade weightlessly and with few barriers
- **Enriches the lives of all New Zealanders** through our ideas, and our stories of people and place
- Brings fresh thinking and new solutions to **help Kiwis thrive**

In 2016 WeCreate commissioned NZIER to prepare *The Evolution of Kiwi Innovation*. This report demonstrated that kiwi creativity drives jobs and economic growth, not only in the creative industries, but increasingly as a key *enabler of other sectors*. The collation of the figures presented in the NZIER Report highlighted that **"existing definitions of the sector and methods of measuring it do not take full account of its dynamic, rapidly changing, nature"** and that **"data limitations also mean that traditional measures of productivity and exports do not fully reflect the role that creativity has in building and sustaining New Zealand's economic base."** NZIER reported that the creative sector contributed **\$17.5 billion** to the New Zealand economy, representing approximately 6.8% of total GDP, and that the fundamental question for Aotearoa in relation to the creative sector is:

How do we leverage the creative sector to create growth in New Zealand's economy, to take us beyond primary products and tourism, to weightless, green, low tariff, and service-heavy exports?

Responding to this challenge required a strategy to be created and in the past three years WeCreate has consulted widely in the development of an Action Plan to grow our creative sector for the benefit of all New Zealanders. The comments made here are informed by that process, which has involved over 200 creative industry leaders, regional economic development agencies and government officials from agencies including MBIE, MCH, MFAT, Callaghan Innovation, Treasury and NZTE.

Prior to the COVID-19 pandemic, the creative sector was one of 8 sectors and industries that the government had identified for growth through the implementation of an Industry Transformation Plan (ITP)¹. WeCreate's Action Plan, along with the Screen Sector Strategy², Interactive Aotearoa³ and the Copyright Act Review, all formed part of the ITP. The WeCreate Action Plan includes recommendations for:

MEASUREMENT	More accurately measure, research and track, the value and potential of our creative sector.
CAPABILITY	Enable accelerated growth in the capability and capacity of our creative people and businesses
CONNECTIONS	Better connect our creative industries for growth - with each other, with government, with Māori, with other industries, and with the world.
REGULATION	Support our creators' ability to derive value from their work.
EXPORT	Diversify and grow New Zealand's export earnings, via expanding trade in digital (weightless and intangible) products and services
EDUCATION	A STEAM (science, technology, engineering, ARTS, maths) approach to learning in our schools that prepares our children for the world in which they live and will work

Our Submission

We provide the following comments to draw the Commission's attention to two particular challenges our sector faces - with measurement of our industries, and with understanding the input/output model of intellectual property creation.

Measurement:

- The codes in ANZSIC and ANZSOC are not representative of many of our sector's industries and occupations. The more digital a creative industry, the less likely it is that either the industry or the businesses and people working in it will be accurately captured and counted in analysis of the economy that rely on the ANZ coding structure.
- Equally, we are cautious of data used in relation to New Zealand's exports. There are two "buckets" for export data – goods and services. If what you're selling isn't goods the export value will be fitted into the services bucket. Where then, for example, do digital book exports or music streams get counted?
- Both the industry and occupation codes and the goods and services buckets are international frameworks that New Zealand follows. WeCreate appreciates that agencies must use the data that is available but we urge caution in decision-making regarding any sector of the economy, including creative, where digital is either a part or the whole of the industry. It is encouraging to see this Issues Paper using reference points such as the Deloitte Top 200 and the TIN100 or 200 in addition to traditional data.

¹ <https://www.mbie.govt.nz/business-and-employment/economic-development/industry-policy/>

² <https://screensectorstrategy.nz/>

³ <https://nzgda.com/news/interactiveaotearoa/>

- The Commission’s aim as an agency includes reference to contributing to “the wellbeing of New Zealander’s”. Contribution to wellbeing is an aspect of creative sector value that WeCreate believes merits further research. Some discussion with the Ministry of Culture and Heritage has already taken place and we would encourage the Commission to engage with the Ministry on its Research and Measurement programme.

Intellectual Property (IP)

In contrast to the input/output model of product development in other industries, the production of creative IP often takes place when a creator (an individual or a small group) develops a piece of IP (the product) once, but it is able to be digitally replicated and sold and/or licensed infinitely (to audiences/customers globally) in addition to forming the basis for other outputs such as live performance or merchandising, with few further inputs required.

In addition to the above we submit:

1. We draw your attention to our 2019 submission on *Technological Change and the Future of Work*.
2. Our creative industries are at the forefront of technological innovation. Most are highly digital in the way they produce content, market, distribute and earn. New Zealand has the potential to be a world-leader at the interface of creativity and technology.
3. The fusion of creativity and technology – Createch – is transforming the way we learn, live and work. If harnessed well, it has vast potential to improve New Zealand’s economic, social, and cultural wellbeing.
4. Createch is also revolutionizing and revitalizing many other sectors e.g. healthcare, aged care, education, and tourism.
5. The creative sector is an ecosystem (see diagram on page 1). It has twice the number of freelancers than any other sector in the NZ economy⁴. How “goods” are produced in an ecosystem differs to, for example, manufacturing. In the creative sector individuals and firms often come together on a project basis to create and innovate, generating new products and, increasingly, new technologies.
6. During the three years of developing the WeCreate Action Plan, we have found the UK market to provide many useful reference points. In 2018 the UK creative sector achieved growth more than five times larger than that across the UK economy. This has come about through an industry-led, government partnered plan, commenced in 2014.⁵

⁴ Infometrics report for Ministry of Culture and Heritage 2018

⁵ <https://www.gov.uk/government/news/uks-creative-industries-contributes-almost-13-million-to-the-uk-economy-every-hour>

7. In researching this submission, we looked to the UK and found the Frontier Economics report – *Absorptive Capacity, Boosting Productivity in the Creative Industries*⁶, to be informative.
8. As with the NZIER report, Frontier identifies the value of creativity to the economy in addition to the value created within the creative sector. “The Creative Industries are highly engaged in innovation, with most sectors being at or above the UK average for product and process innovations and R&D activity. They are highly skilled with 61% of staff in managerial and professional roles – versus 36% in the rest of the economy”
9. The report goes on to identify barriers to firm growth in the creative sector that are paralleled in Aotearoa – commercial mindsets, skills, investment and talent diversity – and that these “may be a direct read-across to similar challenges and opportunities in other sectors”.
10. Productivity in the UK creative sector is found to be high. “When disaggregated by firm size, the Creative Industries are more productive than the rest of the economy.” This is in spite of the fact that, as the report finds, the sector has a “long-tailed” distribution with a large population of very small firms.
11. This comprehensive assessment of another, equivalent, country’s creative sector supports WeCreate’s view that the notion of a frontier firm in the creative sector is likely to be different to that in traditional industries. The Issues Paper suggestion that other measures, beyond productivity, are used to define frontier firms is one we would support. The OECD paper – *The Productivity-Wage Premium: Does size still matter in a service economy*⁷ concludes that models and policy design that have worked for manufacturing do not always transition well to service sectors and that new approaches are needed.
12. The need for a new approach and suggestions as to what this may look like, is outlined in David Skilling’s *Frontier Firms : An international small advanced economy perspective*⁸ We Create supports a shift to a “disproportionate focus on internationally oriented sectors”. In the creative sector, this focus should not be solely on individual firms, but also on clusters or, for example, an adapted version of the NZTE coalitions model. The UK has done this through its CITIB – Creative Industries Trade and Investment Board.⁹ The Board has a 4-year target to increase creative goods and services exports 50% by 2023.
13. Use of the internet for B2B and, increasingly, B2C business provides an opportunity for New Zealand to diversify its economy. Creative people and businesses are rarely focussed on only the local market. They have the products with which to “go global” from day one, and channels to market to get them there that are very different to those for physical products.

⁶ <https://www.frontier-economics.com/media/2447/boosting-productivity-in-the-creative-industries.pdf>

⁷ <https://www.oecd-ilibrary.org/docserver/04e36c29-en.pdf?expires=1598489870&id=id&accname=guest&checksum=56BA470A72C2E677D0605A258485BFAA>

⁸ https://www.productivity.govt.nz/assets/Documents/frontier-firms/2580acf490/Frontier-firms_David-Skilling.pdf

⁹ https://www.thecreativeindustries.co.uk/media/529975/cic_3yr_export_strategy_v3_singles.pdf

14. While these channels exist, they can also control parts of the value chain and determine the market price for digital goods. Amazon is one example of a globally dominant player. Amazon established, and continues to control, the eBook market that sets the price and, through metadata, controls the discoverability of eBooks. The cost to use the channel is also fixed with 30% of the RRP taken as a commission on each sale. In physical goods trade, governments negotiate trade agreements that set terms of trade. In the digital world, many of the markets are privately owned, global companies that set their own terms. As the Issues Paper infers, these firms not only constrain innovation, they also employ other business practices that are not in line with the values of New Zealand firms.
15. Challenges in sourcing investment for creative innovation are identified as a barrier to creative sector growth in WeCreate's Action Plan. Current R&D funding in New Zealand is, mostly, not open to creative businesses. The NZ Interactive Media industry has recommended to government that a Creative Technology Incubator programme be established to attract sustainable private-sector investment into New Zealand creative businesses of all kinds. This could include film, music, creative technologies, digital publishing, EdTech as well as games and XR. It is modelled on MBIE and Callaghan Innovation's Technology Incubator Programme to commercialise university and CRI research which was reviewed and renewed in 2019. It combines private investment and expertise with repayable government loans.
16. As stated in Conway, 2018 "services industries that invest in and use ICT intensively have relatively high productivity, skills intensity and wages". We submit that further investigation of New Zealand's digital sector, including the intersection with the creative sector, is warranted to determine the appropriateness of the frontier firm approach. We encourage the Commission to approach this with a cross-agency mindset and to work with MBIE, Callaghan Innovation, MCH and MFAT, all of which have investment programmes and policy development underway with the digital and creative sectors.

Submission prepared by Paula Browning
Chair, We Create Inc
paula@wecreate.org.nz