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How to keep technology firms in Hawaii

By David G. Watumull

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The tourism industry has helped fuel Hawaii's economic resurgence over the last few years. That's a good thing.

However, as economist Paul Brewbaker reminded us in a recent Star-Advertiser commentary, everything that goes up surely goes down ("A healthy state budget depends on continued private-sector growth," Island Voices, Feb. 16).

When tourism inevitably heads south, it won't be pretty. It certainly wasn't beginning in 2008 and we'd be kidding ourselves to assume it won't happen again. Clearly we need to diversify our economic portfolio. We can do this by encouraging the growth of "new economy" companies that are insulated from the cyclic nature of the hospitality industry. Technology companies, such as those in the life-science area, also offer better-paying jobs than those in service industries the kind that encourage skilled kamaaina to stick around instead of going to the mainland.

The good news is that local life-science companies are starting to come into their own. Cases in point: Hawaii Bio-tech was just award-ed a $7.4 million Anthrax anti-toxin research grant; TruTag Technologies was recently named a "Technology Pioneer" at the World Economic Forum; Tissue Genesis is making strides in cell therapy; and our own company, Cardax, Inc., recently completed a successful reverse merger IPO and now has a public market cap of approximately $150 million.

This core of life-science companies can be the genesis for creating a more diverse economy that could generate billions of dollars in sales, not to mention a boost in employment.

Hawaii can become a new economy hub, but we'll need to continue to work with the state to formulate sound public policy that will encourage local companies to stay put.

One of the best things that the state Legislature did last year was to resurrect the research and development tax credit. What it does is allow tech companies that do research and development in Hawaii to claim a 20 percent state income tax credit on certain R&D expenditures. This encourages companies to spend money locally instead of leaving the state where it's less expensive to do business. When R&D tax credits dried up back in 2010, companies stopped growing and hiring, or simply moved offshore.

The credit also provides a meaningful answer to the question, "Why are you in Hawaii?" asked by the investment bankers, investors and analysts who together provide the funding mechanisms for this capital-intensive industry.

In short, the tax credit is crucial, if we want to keep local life-science and other new economy technology companies here in Hawaii.

There's another reason why the R&D credit is so important.

Historically, many Hawaii research-oriented companies depended on federal grants for funding. Nowadays there's simply less federal monies to go around.

Ann Chung, an executive at Navatek, who was instrumental in getting last year's R&D tax credit passed, said she was grateful for the passage of the credit, but this year is hoping our legislators will make the necessary adjustments to improve it even more. I agree. Making the tax credit applicable to all R&D expenditures instead of just incremental increases in R&D expenditures, would be a huge step.

Hawaii's new-economy industry will not be built in a day, but with sound public policy in place, local companies will be on much firmer ground.

David G. Watumull is the chief executive officer of Cardax Inc., a Honolulu-based company that targes inflammation.