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Speech notes for delivery to NZ Institute of Forestry

11.30AM Tuesday, 20 April 2004.

Soon after I first became Minister for Economic Development in late 1999, it was obvious to me that the forestry and wood industries would have a central place in New Zealand's economic development.

- The wood industry offered then as it does now the greatest potential of any industry for substantial returns.
- It was also the industry in greatest need of transformation, from exports of low value commodities to high-value, high skill, job rich products.

Around the same time I began grappling with these issues, I was also working with the Tairāwhiti Development Taskforce.

- I set it up in response to the economic performance of Tairāwhiti.
- It was obviously an acute region, in considerable need of attention, yet fortunate in its rich natural resource base.

Back then, Tairāwhiti's infrastructure was under-developed.

- Investors keen to establish processing facilities were looking elsewhere.
- I felt if we couldn't make a difference to the Tairāwhiti regional economy, there wouldn't be much hope of making a regional development impact in the wider New Zealand economy.

The openness of the industry to work closely with the coalition government enabled Government to develop effective policy solutions.

- The East Coast Forestry Industry Group came to the Taskforce and presented a picture of the economic potential of forestry to the region and to New Zealand.
- This presentation by Gisborne locals such as Sheldon Drummond and Julian Kohn led to a taskforce focussed on addressing the impediments to development.
- They included infrastructure, particularly roading and port development issues, labour and skills shortages and the Resource Management Act.

So the Wood Processing Strategy grew out of the Tairāwhiti Development Taskforce.

- I remember the first meeting of the WPS in January 2001, at Vogel House.
- The industry was used to being ignored.
- It wasn't sure the government cared about the industry and taskforces had a reputation of being all talk and little action.
- I made it clear that the Wood Processing Strategy was about action.

- I made a commitment to engage closely with the industry and to develop effective solutions.

The focus was not so much on the industry itself, but on removing impediments to development.

- We were, in my view, successful.
- It was not an easy process, but it successfully identified a series of issues and moved on them.
- We allocated \$30 million per year to roading (at a 100% subsidised rate) to the major forestry regions of Tairāwhiti and Northland.

Labour shortages and skills were an issue where we also made significant progress.

- We developed a centre of excellence in Rotorua for wood processing, as an investment in the future.
- The Resource Management Act was tackled.
- There is still work to do on the RMA and although progress has been made, I would like to see agreement from all parties on national standards of best practice for both the industry and regional and local authorities.

The Wood Processing Task Force was intended to end in July 2002.

- Industry representatives sent a clear message they wanted it to continue.
- It has evolved into a forum where Government and industry representatives meet to discuss issues.

There is a significant amount of work progressing at various levels, including:

- the Forest Industry Framework Agreement,
- market development,
- investment projects, and
- participation in other areas of Government policy including contribution to the major infrastructure review process.

The major challenge now is neither the impediments placed in the way of development by the government, nor the relationship between government and the industry.

The major issue today is the vision for the industry of the major players within it.

It's not the government: The government has been working closely with the industry since 2000.

I have personally invested a huge amount of time and energy and the government remains committed to the industry.

The industry itself faces challenges that only it can resolve if it is to realise its vision by 2025.

- As long as the industry is committed to development, the government will work alongside it ? certainly while I'm minister for economic development.
- But the tough times the industry has experienced recently demonstrate the urgency of the challenges facing you all.
- It highlights the importance of positive change.
- It emphasises more than ever the importance of pushing the industry up the value chain.

Forest owners have a crucial role in the viability of the processing industry.

- They will be a key factor in whether we will have major wood processing development projects in the future.
- Forestry owners obviously need to see business propositions that demonstrate how additional value can be created and benefit all parties -- including the forest owner -- and be maintained over time.
- There is an issue of who is going to take the responsibility for developing these propositions?
- Government agencies?
- Will it be the forestry owners themselves?
- The wood processors?
- In truth, leadership has to be shown by everybody.

I think it will be interesting to see whether the introduction of new forest owners will in time see the introduction of different commercial arrangements and business practices in the forestry industry.

The question that everyone is asking is: how do you increase the return to the forest owner, in a sustainable manner, over time?

The steps being taken at present to reduce the harvesting levels to improve the age profile of forests will improve the quality of the logs in future.

- But it may reduce the availability of resource for the domestic wood processing industry.
- This could potentially lead to an increase in log prices.
- Whether this is good, or bad, I think is dependant on whether one takes a short-term view or a medium to long-term view.

Improving the age profile of the forestry estate increases the quality of the forests.

- It must therefore mean that the resource contributes to a better quality product.
- On its own it may not necessarily increase prices in end-product.
- But in conjunction with design, technology, marketing and accessing end consumers, the price potential increases significantly.

Since 2000 I have often heard saw-millers complain about how difficult it is to get stable wood supply from forest owners.

- I have also had new investors talk about an inability to get agreement on long-term supply arrangements.
- When I have raised these issues, the response I get from some forest owners has been that there are no issues and that it is merely market forces at play.

I am watching how the relationship between forest owners of today and the domestic wood processing industry develops.

The log export market will continue to act in a cyclical manner.

- As long as we export raw logs, we will be price takers.
- Returns to growers vary greatly because of forces beyond their control.
- We will never achieve the potential returns to the economy that the industry offers.
- Processing a log in New Zealand produces up to thirty times ?and sometimes more - the economic benefit to the country as a whole.
- That's why I'm interested in it.

It is my view that the greatest potential for increasing returns to forest owners lies in the growth of the domestic wood processing industry.

- If wood processing companies can develop business propositions that are achievable and sustainable, they will need to access stable resource supply over time.
- In some cases they will need to have a forest owner as a partner. Business arrangements will need to be negotiated and agreed so that the forest owner shares in the rewards.

It will take leadership and vision to achieve these results.

- It will take a commitment to partnership.
- It will take highly skilful management.
- I remain to be convinced that our industry is over-endowed with these characteristics, though there are some outstanding examples.

All of these solutions are within the province of the industry to solve.

- The government is committed to playing its role in helping the industry rise to the challenge.
- The question is whether the industry is equally committed.

I have been a strong advocate for the growth of the domestic wood processing industry.

- I want to make it clear to you all that I see all wood processing as value added.

Value added industries require a cost effective and competitive primary based industry.

- I know the industry has struggled in recent times to deal with the eroding cost competitive position of the primary processing industry, when compared to competitors.
- The Government is also committed to finding ways to improve cost competitiveness in NZ.
- This agenda is well covered and I won't necessarily go into it today.

But it is worth re-stating that we will never succeed by simply being a low or lowest cost-exporter alone.

- That solution does not produce enough results for the New Zealand economy.
- It's a race to the bottom that is almost impossible to win on a sustainable basis (and we wouldn't want to even if we could).

We need to combine cost competitiveness with excellence in our products.

We need to produce and export more products that depend on the unique skills and creativity of New Zealanders.

Other nations also focus on finding ways of generating additional value, constantly asking the question of how they can extract more value from what they manufacture.

We need to do better at this as well.

I would like to champion the focus on manufacturing and accelerating the development of our value-added based industries in NZ.

It will not displace the primary based industries -- it is actually dependant on primary industries.

I want to see value-added industry development speeded up.

The agenda for cost competitiveness has been a strong focus of the wood processing strategy ? through its work in improving infrastructure, and the regulatory framework, for example).

Now I would to see greater focus on the key drivers of value-added industries as the way to a better future. This includes topics such as:

- Product development
- Technology and innovation
- Design
- Access to end consumers
- Consumer trends and behaviours
- Leading edge manufacturing

I have been fortunate to meet with many different international companies engaged in manufacturing of finished products.

- They range from furniture manufacturers to building systems and interior fit-outs.
- There are some characteristics they have in common: They focus on the consumer - the things the end-consumer is looking for now, as well as how they can influence consumer behaviour in the future - marketing to create demand for their products, for example.
- They focus on capturing the channels to the end consumer -- retailers, wholesalers, developers and so on.
- They focus on market development.
- They focus on Research and Development.
- The work at their long-term business partnerships, innovation and productivity.

When you combine all of this together, you get products that generate value that benefit all parts of the value chain.

I am advocating for a vision of the industry full of companies like this.

- It is a vision complementary to and crucial for our primary industries.
- It is a vision that will not come about if we do not actively pursue it.
- It won't happen if primary-based industries do not see the value in pursuing it, but instead languish on small scale development.

It is a vision that requires leadership within the industry.

It also carries a message of hope for the opportunities which New Zealand and New Zealanders have in front of us if we meet the challenges which face us in a positive and constructive way.

As a nation we are standing at the threshold of possibilities.

- In the future we will have to compete very hard against other countries - not just for our incomes, but to maintain and attract skilled staff.
- So we have urgent challenges if we want to provide opportunities for our best and brightest, jobs for all our young people and a secure economy to meet the needs of our population.

We can only do it by working constructively together to maximise our resources.

- We need to compete by developing and selling products the rest of the world wants to buy and which depend on our unique New Zealand qualities.
- No other approach can produce sustainable high-value returns.

I believe the wood industry is better placed than any industry in New Zealand to achieve these outcomes.

- Of course there needs to be policy development to follow the vision.
- But the vision - and the leadership of individuals in the industry to achieve it - is the crucial first step.
- Quite simply, we must hang together or we will hang separately!

We have an immense resource, one which we are only beginning to exploit to its best potential.

Let's now commit to doing more together in the future, for the benefit not only of the forestry industry itself but for New Zealand.