



FORESTRY AND WOOD PRODUCTS ECONOMIC UPGRADE

19 March 2014, ForestWood 2014 Conference

Introduction

Thank you for having me here at ForestWood 2014. I want to acknowledge Dr James Buwalda, my parliamentary colleagues, and the organisations that have come together to make this event possible:

- Woodco
- The Wood Processors' Association,
- The New Zealand Forest Owners' Association,
- The Farm Forestry Association,
- The Pine Manufacturers' Association
- and the Forest Industry Contractors' Association

Forestry and wood products are a critical industry for New Zealand. It is important you are all here to discuss your ideas for developing this crucial sector.

You have seen some tough times recently. But there is an exciting future for forestry in New Zealand.

Today I am laying out Labour's plan to make New Zealand's forests more valuable to New Zealanders and recharge our regions.

This is an urgent priority, because every day millions of dollars in lost value leaves our ports in the form of raw logs.

Like the logs I saw a lot of, when I worked at a Kawerau mill as a consultant.

I led a crew of 20-odd mill workers and an accountant, who were asked to find ways to cut waste and add value to the wood.

I guess it's the guys close to the action who know their jobs the best. These guys saved the mill millions of dollars and helped secure jobs by working together and thinking smarter:

Smarter scheduling, better machine uptime, less waste, more value.

In other words, shifting thinking from just being about log volume, to focusing on the value the logs created.

The lesson stuck with me.

Labour's economic vision

Labour's blueprint for forestry and wood products mirrors our plan for the economy as a whole.

Our economy needs an upgrade, because while New Zealand is the best country in the world to live in, it's not the best place to make a living.

I have a vision of a New Zealand that harnesses the potential of all our people.

A vision of a country with the most productive and competitive businesses in the world. A vision of a country with better jobs and higher wages.

Right now New Zealand is not on a path to achieve that vision. Our economy today is driven by land banking and speculation, not by innovation and productivity.

We have poorly-structured investment in infrastructure, macro settings geared towards the interests of a small number of speculators, a hands-off approach to innovation, and a deficit of government-industry partnerships.

As a result, a disproportionate and growing share of the value of the New Zealand economy is accruing to the top few percent.

National keeps doing what it has always done, in spite of the evidence from vibrant economies overseas. Norway, Singapore, and Sweden show us that an intelligent hands-on approach plays an essential part in securing long-term sustainable growth.

Labour will help retool our economy so that it works for all New Zealanders.

With Labour, business will have a government wanting to partner with them to refocus our efforts on value, not volume. And nowhere is this new partnership more necessary than in the regional economies National has left behind.

Labour's broader economic upgrade has three main parts:

- Generating **investment**, so that our firms have the capital with which to grow;
- Encouraging **innovation**, through both incentives and partnerships, so that our firms can be on the cutting edge of global competition;
- And backing **industry**, giving it the infrastructure it needs to succeed.

Each strand of Labour's economic upgrade for New Zealand has a clear application in the wood products sector.

Forestry and wood products today

As you know, forestry matters to New Zealand. It's a \$4.5 billion per annum export industry, contributing around 10% of all New Zealand's export earnings and 3.3% of our GDP (2012/13 data).

Raw logs now make up around half the export volume, but less than a third of the dollar value.

In other words, those logs sail away from our ports, and so does much of the value of the final products they will become.

Unprocessed forestry exports have doubled since 2000. But processed forestry products have risen less than 10% over the same period.

This stall is due in large part to offshore owners not having an incentive to add value to logs domestically.

That may help shave a few percent off those firms' input costs, but it is bad for New Zealand.

The wood products industry here in New Zealand knows this, and has realised there are industry-wide issues that we have to address if we are to harvest the full value of our land and its trees.

Labour's blueprint for wood products

Labour has a plan to partner with the industry to turn logs into finished products right here in New Zealand, keeping more value here, employing more

people, and helping some of our most vulnerable communities stand tall once more.

Moving New Zealand industry further up the global value chain isn't easy. Smart and targeted foreign direct investment can help. But attracting this investment in the right areas requires awareness of the full range of interactions between firms up and down the chain.

It needs a supportive and responsive government, and businesses willing to take up the challenge.

Investment

All this starts with investment.

Our firms need more capital in order to compete internationally further up the value chain.

And to get capital, first you need the right incentives. Part of that is shifting capital from speculative to productive investment, which is why we would implement a capital gains tax, but there also needs to be sector-targeted incentives.

That's why Labour will introduce tax deferrals for many capital investments in the wood products industry by way of an accelerated depreciation facility. In a short-sighted decision, National removed this facility in 2010, making it harder for New Zealand businesses to invest in new capacity.

Labour's new tax deferrals will go beyond the 20% accelerated depreciation that firms could access before 2010.

Our policy will increase capital expenditure in our wood processing sector by an estimated \$40m to \$80m a year, with further flow-on effects across the economy.

These tax deferrals will give New Zealand businesses the incentives they need to invest in growing our local wood products capacity.

In addition to giving firms a better tax environment for investing in new plant, Labour will introduce a pro-wood government procurement strategy that will increase public demand for timber products in low-rise buildings.

We will kick-start this programme through the rebuild of multiple low-rise government buildings in Christchurch, and through our KiwiBuild policy to build 100,000 new affordable homes over the next ten years.

Labour's procurement strategy will generate substantial growth in the industry, starting a virtuous cycle of new capacity and new employment.

While many of the KiwiBuild homes will be in our large cities, the growth in demand for construction materials mainly benefits our regions.

Third, Labour will provide suspensory loans to encourage new planting of production forests.

The industry needs confidence in a continued, long-term supply of wood. That security of supply is what gives firms confidence to invest in long-life assets like fixed plant and sophisticated machinery.

Labour knows that there are current issues with securing log supply for domestic production, and that without intervention these will only get worse.

These suspensory loans to smaller forestry firms, repayable only at harvest time, will create better incentives for a continued supply of new production forests in New Zealand.

Labour also knows that exporters need a stable and realistic exchange rate which is why we're reviewing monetary policy.

Innovation

Countries with a vibrant forestry sector also stand to grow well as the world embraces recent innovations in the use of wood.

First, a new, high-value market for wood products is emerging in the form of **wood-plastic composites**. New Zealand is uniquely placed to take advantage of this.

Labour's reintroduction of tax credits for research and development, and our partnership approach to innovation, will give industry the tools it needs to take full advantage of this global opportunity.

Second, new generations of **engineered wood**, building on the technology that brought us MDF and plywood, promise to broaden the use of wood products in the construction industry.

Third, recent innovations in wood processing, such as a "whole tree approach" to creating value from wood processing, not only add economic value but also make the industry more sustainable. I know the Pure Advantage group of sustainable business leaders is doing great work in this area.

Pure Advantage urges us to consider smart new clean-tech solutions, using wood-based inputs for clean energy co-generation, boutique fibre production, and waste reduction.

Labour's approach provides firms with the incentive to innovate. Innovation is fundamental to both improving the value of our exports and lightening the environmental footprint of the sector.

Industry

There has been a lot of discussion about worker safety in the forestry industry. We should all be grateful to the Council of Trade Unions and FIRST Union for bringing to public attention the appalling accident and death rate in the forest industry in New Zealand.

We are determined to better protect the workers in this industry. Eleven deaths in a little over a year is utterly unacceptable in modern New Zealand.

Labour has already announced that we will introduce a corporate manslaughter law aimed at fly-by-night firms that recklessly endanger their workers.

I do, however, want to congratulate the industry on establishing the Independent Forestry Safety Review.

Health and safety works best when the industry - owners, employers, unions, and workers - willingly come up with their own solutions. As the industry focuses more on products higher up the value chain, it will be easier for the industry to afford the safety protections that all our workers deserve.

But the government must also be ready to act with good rules and effective enforcement. That's our commitment.

Labour also understands that for the industry to grow, it needs easy access to logs.

We established Regional Development Transport Funding in 2002, providing \$100 million of funding to upgrade around 500km of local council access roads in Northland and Tairāwhiti (East Coast/Hawke's Bay).

But around 500km of other strategic forestry roads remain left to build, mainly in the East Coast and Northland.

As part of our plan to jump-start regions, Labour will restore Regional Development Transport Funding to complete this work, and also extend its coverage as needed to Nelson, Southland, and the Bay of Plenty.

Labour has a range of policies to help this sector thrive and help us keep more of the final value of products using New Zealand wood right here in New Zealand. Our blueprint goes well beyond the ideas I have outlined today, including working with Iwi land owners, both to protect existing Legacy Forests and plant new production forests.

We have laid them out for you in a booklet that is available right here at ForestWood, and on our website labour.org.nz.

Conclusion

I want to leave you with an idea of how important you are for New Zealand, and for our regions especially.

Every time a firm takes a New Zealand primary product further up the value chain – turning logs into boards and boards into homes – the benefits to New Zealand Inc. run to millions.

And every time you discover a way to manufacture a new wood product, you make so much more than money. You save towns. You give families new hope. You give New Zealanders a future.

Throughout New Zealand, Labour will partner with the industry to create more value so more New Zealanders can earn enough to finally get ahead of the rising cost of living.

We stand, as we have always stood, for better jobs.

And we stand, as we have always stood, for higher wages.

That is why I'm so determined to stand with this industry. Towns like Murupara, Kawerau, Waipa, and Kaitaia absolutely need vibrant forestry and wood products companies.

We will give this industry, and the people who work in it, the support you need to grow. This is a long-term project, and Labour is committed to working hand-in-hand with this sector for many years to come.

Because the value of a vibrant wood processing sector is not just measured in dollars and tonnes of product. It is measured in opportunities for our children, and in better, higher paying, more secure, and safer jobs.

With your innovation and your investment, working together alongside a Labour-led government, that is exactly what we will build.

Thank you.