

Briefing to the
Incoming Ministers of Finance and Economic
Development

MANUFACTURING MATTERS

The New Zealand Manufacturing Alliance

October 2020

Dear Minister,

We would like to congratulate you on your positions as Minister of Finance and Economic Development, respectively, and take this opportunity to introduce you to the New Zealand Manufacturing Alliance.

We are a group of significant industry associations representing a large part of New Zealand's manufacturing sector outside of primary processing and food and beverage - The Manufacturers Network, Metals New Zealand, Plastics NZ, Wood Processors & Manufacturers Association (WPMA), the Maintenance Engineering Society of New Zealand (MESNZ) and the Employers and Manufacturers Association (EMA).

Our mission is to partner with government to enable domestic manufacturing to thrive and contribute to a modern, efficient, low-carbon and resilient New Zealand. Our recent [Manufacturing Matters](#) report¹, building on the work of MBIE's 2018 Beyond Commodities sector report, presents a detailed and accurate description of the sector and a constructive set of proposals to work with government to help the sector successfully transform, addressing the challenges and associated opportunities of:

- Climate change and the transition to a low carbon and circular economy
- Industry 4.0
- Current/future skill shortages
- Growth in trade protectionism
- The significant pipeline of infrastructure and construction work.

New Zealand has the opportunity to grasp the fourth industrial revolution, address critical skills issues, transition our exports from volume to value, maintain and grow jobs in the regions and address the challenges of climate change while delivering improvements in wellbeing. With the right policy settings, domestic manufacturing is well poised to be a long-term, high-productivity and low-carbon engine to drive change. This briefing outlines our policy recommendations to support the sector, which we see as priorities for you to address during your time in office.

Yours sincerely



Nick Collins, Chief Executive, Metals NZ

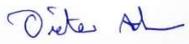


Dr Jon Tanner, Chief Executive, Wood Processors and Manufacturers Association

¹ <https://www.metals.org.nz/wp-content/uploads/2020/04/Manufacturing-Matters-Final-Report-March-2020.pdf>



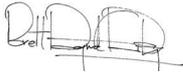
Dr James Neale, Chair, Maintenance Engineering Society of NZ



Dieter Adam, Executive Director, The Manufacturers Network



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Why Manufacturing Matters

- 12% of the economy (\$23 billion of GDP)
- Over 50% of exports
- 11% of jobs – a majority in the regions
- Diverse workforce, employs more Maori and Pacifica than any other sector
- 42% of total business R & D

BUT it's bigger than that...

As outlined in our Manufacturing Matters report, these official statistics dramatically understate the sector's true contribution to the success of New Zealand through its strong interdependence with every other sector of our economy.

While directly contributing around \$23 billion of our GDP, manufacturing enables much of the \$199 billion total, through providing the equipment, products, packaging and services that are vital for the operational success of other sectors.

Manufacturing also purchases significant shares of output from the primary, wholesale, transport and warehousing sectors.

These strong links were highlighted throughout the COVID-19 Level 4 and 3 lockdowns as the depth of the supply chains within our essential sectors were revealed.

Effectively, no business can operate without the buildings, furniture, technology and equipment, tools, packaging and processed raw materials provided by domestic manufacturing.

Challenges and opportunities for manufacturing

Challenges

- Low productivity, relative to competitors
- Transitioning to a resource and carbon constrained future
- Skills shortages
- Unfair trade practices/rising global protectionism
- Sub-standard imports

Opportunities

- Innovation through leveraging Industry 4.0 technologies to increase efficiency, productivity
- Accelerating low-emissions, circular economy
- High value services
- Supporting the construction pipeline
- High value jobs in the regions

Ultimately, with government support, manufacturing businesses can drive the investment and innovation required to adapt to the challenges and take up the opportunities.

Our proposals

1. Manufacturing Representation/Advocacy

Every other major sector of the New Zealand economy has an advocate (Minister) at the highest level of government (Cabinet), including agriculture, forestry, fishing, tourism, energy and arts & culture. A lack of representation was highlighted by what happened during COVID-19 Alert Levels 4 and 3, when food and beverage manufacturers received much better support and freedom to operate from MPI than their peers in other sectors of manufacturing.

With pressing challenges of rising global protectionism and climate change related emissions constraints it is imperative that the manufacturing sector is represented at the highest level. We would like to see:

- 1.1 **A dedicated Minister for Manufacturing** to provide representation at the highest levels of government
- 1.2 **Increased capability within MBIE** to provide a suitable pathway to provide meaningful representation for the Manufacturing Sector. Immediate priorities would include the following:
 - I. Work out plans to keep as much of manufacturing as is safely possible in operation during future COVID-19 control measures – this is critical! This MUST include cross-border travel for essential skilled personnel.
 - II. Work with MBIE to develop the Advanced Manufacturing ITP
 - III. Provide Government leadership in the drive to convert Volume to Value and to work with the sector on the policy issues and proposals suggested below.

Policies

The Manufacturing Matters report details the rationales for action across the following range of policy issues.

2. Innovation Policy

Manufacturers will need to adopt continuous and agile innovation to be best placed to recover from COVID-19 and to take up longer-term environmental, Industry 4.0 and construction opportunities. Other countries are supplementing R&D tax credits and business grant support with accelerated depreciation measures to support the required change.

- 2.1. **Accelerated Depreciation** This would enable all capital investment in digital manufacturing technologies, Industry 4.0 and other similar capital investments to be fully depreciated in year 1 (100%), while progressively bigger, longer term capital investments have a 2-3 year depreciation cycle which is more in keeping with the estimated life cycle and scale of the investment. This would provide a clear incentive to industry while also maintaining a degree of relativity and no capital investment from government.

Accelerated Depreciation rates should be targeted to deliver specific outcomes and we propose the following criteria:

- i. Digital manufacturing machinery and equipment (Industry 4.0 technologies) to deliver a step-change in manufacturing capability, increased productivity, process efficiency etc.

- ii. Investment in equipment and processes to support a transition to a circular economy, e.g. resource re-use, recycling and re-purposing
- iii. Energy Efficiency and Carbon Emissions Reduction technologies.

3. Trade Policy

We need to see effective domestic measures to support local manufacturing being impacted by the anticompetitive activities of trading partners. Our response to unfair trade practices needs to be much bolder, particularly in the way that government assesses a wider range of policies to remedy market distortions and the rapidly growing, non-tariff barriers imposed upon our value-added exports.

- 3.1 Deliver review of trade remedies location and process** (as indicated by the previous Minister of Commerce), and a more efficient, independent case review process (along the lines of Australian trade review processes).
- 3.2 Introduce mechanisms to ensure strong enforcement of standards** and conformance for imports, e.g., electronic traceability, improved due diligence and enforcement at the border. More sustainable funding mechanisms are needed for maintenance of the NZ public standards' portfolio to help reduce technical barriers to trade.
- 3.3 Prevent Carbon leakage** at the border by imposing a carbon tax on all imported products, like those manufactured in New Zealand – based on CO₂ embodied in the product, or New Zealand manufactured equivalent domestic cost of carbon (tax) – whichever is higher and for these values to be reviewed on a five yearly cycle.

4. Environmental/climate change policy

The manufacturing sector recognises the need to reduce its carbon footprint and environmental impacts and the opportunities that the growing demand for environmental solutions brings. However, the sector needs support to enable the required transition.

- 4.1 Work with industry to develop clear roadmaps** for how manufacturing industries will transition to meet Zero Carbon Act requirements, including identifying the role that different policy levers will play (e.g., Emissions Trading Scheme, R&D support, trade policy) and options for reducing or eliminating carbon leakage.
- 4.2 Support high energy / high emission** production processors through the transition to a low emission economy, including facilitating the development of hydrogen and other low / zero emission technologies.
- 4.3 Partner with key stake stakeholders** across the sector to facilitate the transition to the 'Circular economy – Ōhanga āmiomio' (as under per the Government's Waste Minimisation programme).

5. Government Procurement Policy

Ensure current government procurement rules are applied fully, especially fully accounting for domestic benefits and underlying risks of offshore supply to benefit New Zealand and New Zealand businesses. The latest revision of procurement rules (4th edition; 2019) provide useful instructions for government procurement, yet we still see regular evidence of Crown agencies making procurement decisions that are hard to align with these rules.

Procurement is also critical in supporting local manufacturing to supply the post COVID economic recovery at a time when overseas supply chains are vulnerable and not perform as expected.

- 5.1 Ensure that Government agencies adhere** (Public Service departments and State Services agencies covered by the Whole of Government Direction) to the Government Procurement Charter (p13 of Rules)
- 5.2 Extend Rule 50** by setting up a (virtual) central register of procurement decisions and undertake spot checks on compliance by an independent agency.
- 5.3. Proactively work to create opportunities** for local businesses and small-to-medium enterprises to participate in procurement processes. Rule 9 (Number of contracts) sets an example for this.
- 5.4 Increase MBIE resourcing** to enable them to directly support agencies on major procurement decisions.
- 5.5. Maximise effectiveness of Rules** by amending rule 25 - subcontractors MUST be bound to primary contractor commitments
- 5.6 The proper adoption of outcome-based procurement**, design contests and/or pre-commercial procurement to enable the Government's significant buying power to solve environmental and technological challenges and, at the same time, support domestic manufacturing opportunities.
- 5.7 Ensure whole of project evaluation of government procurement** upon project completion, looking at key outcomes such as delivery to objectives, DIFOTIS (delivery on time in full to specification), what can we learn from project delivery.
- 5.8 Support local manufacturing to supply post COVID economic recovery by**
 - I. aligning construction/infrastructure pipeline needs with local manufacturing capacity/capability; and
 - II. use government procurement as a strategic instrument to grow/provide certainty to local manufacturing for future investment; and
 - III. to incentivise growth in capacity by providing future certainty re trade, investment and employment settings.

6. Skills Training Policy

The skills systems in New Zealand – education, training and immigration – has not been able to supply sufficient specialist or generalist skills to meet manufacturing demands for close to three decades. In addition to the immediate need for facilitated access to essential skills from overseas, manufacturers need a system that meets their different skill needs, from management to operational staff, across all skill levels, and that includes formal and informal skill development.

- 6.1 Establish skills demand** by asking employers what skills they will be needing in the short to medium term (e.g. in two, five, 10 years' time).
- 6.2 Ensure the ROVE process results in increased support for on-the job skills training**
- 6.3 Employers better incentivised to train** (consider a levy on those who do not train that is used to help those who do, along the lines of the UK model).

- 6.4 **Risk assessment competency** to be included in school and tertiary training curriculum.
- 6.5 **Balanced careers advice and support for secondary schools** that fairly represents trades and vocational training pathways.
- 6.6 **Modernised primary/intermediate school curriculum** to include exposure to technology, computing and engineering learning modules at younger ages.

7. Regulatory Reform

Aspects of New Zealand's regulatory environment are stifling business innovation, growth and productivity. Reform is needed in key areas to ensure the regulatory environment is as business-friendly as possible, removing unnecessary complexity and non-productive costs, allowing businesses to create jobs, hire and train people and invest in innovation.

- 7.1 **The Health and Safety Work Act** must be correctly implemented to ensure personal responsibility for unsafe actions, and sound logic and risk based decision-making at the coal-face - less clerical safety and more real safety.

WorkSafe must educate before prosecution. Fines must be used by the company paying them to invest in their safety outcomes, rather than stripping the company of its ability to invest in its safety performance.

Prohibit the proceeds of crime act from being used against owners of companies prosecuted for safety incidents.

- 7.2 **Support a repeal of the Resource Management Act** and proposals to simplify and improve the efficiency of the resource management system to ensure it provides both the necessary protections for the environment while enabling growth and economic development.