



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

**Submission of the  
New Zealand Council of Trade Unions  
Te Kauae Kaimahi**

to the

**Parliamentary Inquiry into the Future  
of Manufacturing**

**P O Box 6645  
Wellington  
30 November 2012**

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## **1. Principal recommendations**

- 1.1 The CTU believes that manufacturing is a vital part of a strong economy that can provide decent jobs and a living wage.
- 1.2 Manufacturing is in decline in New Zealand. The Government needs to take action to reverse this.
- 1.3 We advocate strongly for a set of policies that back our manufacturing sector. These policies include macroeconomic levers, industry policy and direct assistance.
- 1.4 This manufacturing strategy includes action that can impact on the exchange rate, promote investment in productive enterprise, government procurement that sensibly backs modern local industry, a higher commitment to skills development, active labour market measures and many other components.
- 1.5 The CTU has proposed a wide range of measures to support manufacturing. However it is clear that some interventions or policies will have a much greater impact than others (for instance measures that can impact on the exchange rate and promote long-term sustainable investment in manufacturing) and therefore it will be important for the Inquiry to calibrate actions on impact as well as ease of implementation.

## **2. Introduction**

- 2.1 This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 350,000 members, the CTU is the one of the largest democratic organisations in New Zealand.
- 2.2 The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 2.3 The CTU believes that manufacturing is a vital part of a strong economy that can provide decent jobs and a living wage.
- 2.4 But manufacturing is in decline.
- 2.5 We call on the Government, all political parties, business organisations and other stakeholders to develop and promote policies that will support manufacturing.
- 2.6 This submission looks at the state of the manufacturing sector, articulates why manufacturing is so important and then sets out policy options.

## **3. The state of the manufacturing sector**

- 3.1 There is a jobs crisis in the manufacturing sector. Some 40,000 manufacturing jobs have disappeared along with many businesses in recent years. In part this reflects the loss of jobs throughout the economy. With 175,000 people unemployed, 294,000 regarded as jobless and 113,000 people underemployed seeking more hours, it is no surprise that we have slipped down to 15<sup>th</sup> lowest unemployment in the OECD. We are not the worst but we used to be among the best. In addition, there has been the loss of 54,000 people to Australia in the last year.

- 3.2 Manufacturing has been in decline for some years. The latest figures from Statistics New Zealand show it has gone from 25.5 per cent of GDP in 1972 to 11.5 percent by 2010<sup>1</sup>. However the decline really started from 1985 with rapid tariff removals and other deregulation. In 1985 it was at 25.8 percent of GDP. Since then it has fallen with only brief breaks in the trend.
- 3.3 And OECD figures show that New Zealand, while having a lower manufacturing share in the economy than most other OECD countries in 2006 (12th lowest – latest comparison available), had a larger share than Australia, the U.K. or the US, and about the same as Denmark and Canada, but well below Sweden, Switzerland, Austria, Germany and Finland. New Zealand is closer to the middle in our share of employment – 15th out 33 – suggesting our manufacturing may have lower labour productivity than in countries in which manufacturing has a similar GDP share.
- 3.4 Local figures from Statistics New Zealand's Quarterly Employment Survey confirm the trend. Employment fell steeply from 249,000 in March 1989 to 207,300 in September 1992, and with some variation has largely fallen since then. It had a very steep fall at the onset of the Global Financial Crisis. Since September 2009 it has been on a falling trend, no doubt affected by the high exchange rate. However, manufacturing jobs as a proportion of all jobs have fallen for virtually that whole period with only a slight pause in the first half of the 1990s. Similarly, manufactured exports have fallen from 37 percent of goods exports in 2003 to 25 percent in 2012; though exports rose from 2003 until 2009 when they fell steeply before partially recovering in 2011 and falling again in the year to June 2012. In each of the last five years (since 2008) the number of manufacturing firms ceasing business has exceeded the creation of new ones, with a net loss of 1,640 enterprises.
- 3.5 Features of the New Zealand economy include isolation from some major markets, weak capital markets, concentration of activity in commodities and tourism, and a depleted skill base.

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<sup>1</sup> Note however the RBNZ says that in the June quarter of this year, the manufacturing industry made up 13.6 per cent of New Zealand's real gross domestic product. So the issue is that the percentage has slipped markedly in recent decades but the percentage varies somewhat at that lower level.

- 3.6 Weaker global demand and an adverse exchange rate have impacted negatively in recent years. The annual trade deficit has widened to \$1.36 billion, its worst level since September 2009. The ANZ noted that the high New Zealand dollar is undermining export earnings and encouraging more imports.
- 3.7 A report by the Reserve Bank indicates that production in manufacturing remains 9 per cent below its pre-recession peak, whereas the rest of the economy surpassed pre-recession output by the end of last year. Local demand was very weak as the recovery in the construction sector was delayed, and the strength of the kiwi dollar against the euro and United States dollar made imports more competitive. A more positive outlook is based mainly on the Canterbury rebuild.
- 3.8 But the concern is that the overall trend is for on-going weakness in manufacturing.
- 3.9 As Professor Nigel Haworth has said<sup>2</sup>:
- The cumulative effect of manufacturing's decline should worry us all. This decline contributes to our economy's fragile dependence on primary production and processing, the loss of high-paying skilled jobs, and the flight of skill overseas, to countries where manufacturing is nurtured.
- 3.10 It is true that manufacturing as a proportion of GDP has been declining across the developed world since the 1970s and that we have had periods of low unemployment despite this decline (for instance we saw unemployment below 4 percent in 2008).
- 3.11 Haworth says that there is a risk of "a tipping point, a point at which benign neglect fosters a sector so weakened by poor R&D, skills loss and the impact of adverse exchange rates, that it loses its edge in export markets, and becomes introverted, domestically-orientated and a pale shadow of its

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<sup>2</sup> Speech to NZ Labour Party Conference 16 November 2012.

potential”. This is echoed by the IMF<sup>3</sup> which has also warned that the consequences of job losses are amplified if there are interactions between international trade and technological innovation. This hollowing out could damage an advanced economy in the longer term.

- 3.12 The Government does have an economic strategy. It is framed purely as a ‘Business Growth Agenda’. It has six elements: export markets; capital markets; natural resources; skilled and safe workplaces; innovation and; infrastructure. But the government is clearly drawing a boundary around what Governments can and cannot do. They can invest in infrastructure. They can aggregate and modernise resources in innovation around the Advanced Technology Institute, now called Callaghan Innovation. But they cannot step in to support NZ made wagons at Hillside even though the economic spillovers are demonstrable.
- 3.13 It was bad enough that those workers did not get a fair chance over the Electric Multiple Units for Auckland even when economics consultancy BERL estimated that building these trains at home would add between 770 to 1270 additional jobs and \$232 to \$250 million to GDP. But to miss out on the wagons defies logic and appears to be a deliberate policy to exclude local content.
- 3.14 In recent months we have seen redundancies at Dynamic Controls, Rakon, Solid Energy's Spring Creek and Huntly East mines, Norske Skog's paper mill in Kawerau, the Tiwai Point aluminum smelter, Axiam Metals, Nuplex Industries, Aquaheat, Flotech, Summit Wool Spinners, Norman Ellison Carpets, Goulds Fine Foods, KiwiRail (including Hillside), O'Brien Group, Fisher & Paykel Appliances, CHH, and the Christchurch Engine Centre.
- 3.15 In this submission, we have focused more on solutions rather than restating the problem. The fact that this Inquiry is being held is a demonstration that there is widespread concern among many political parties over the state of the manufacturing sector. But we also have argued that the concern is well-

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<sup>3</sup> Supply Chains, Falling Productivity and Rising Inequality in IMF WEO, September 2011, page 45.

founded. The manufacturing base is eroding. Firms are closing or scaling back. Jobs are being lost. Confidence is eroding. And there is a deepening resentment that manufacturing is being edited out of the script of the so-called 'brighter future' for New Zealand. This must change.

#### **4. Why manufacturing is important**

4.1 For decades it has been asserted that we need to add value to our exports. Consistent with this is the recognition that reliance on commodity exports creates an economic vulnerability. To be successful a modern economy needs a strong, vibrant manufacturing sector. The need to add value is therefore not a new insight. There are some positive examples. But a framework for implementation of a consistent programme to support value-added potential has been hard to establish despite best intentions.

4.2 As NZTE<sup>4</sup> has noted “manufacturing has long been and remains at the core of New Zealand’s economic wellbeing. And yet so much more is possible. Only a minority of products exported from New Zealand have significant value added to them beyond their raw material content.”

4.3 The form of manufacturing is changing over time. Modern manufacturing may involve transformation across converging technologies. It can involve nanotechnology, biotechnology, as well as ICT. Services can be a value-add driven directly off a manufacturing product. The NZTE report referred to above adopted the term 'manufacturing plus' to describe this extended model. But the major factors that underlie the value of manufacturing not only remain important but are becoming increasingly more so.

4.4 We have seen some combine the notions of a weightless economy and the modern connectivity of a globalised trading environment to argue that manufacturing is outdated. This was short-sighted and wrong.

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<sup>4</sup> <http://www.nzte.govt.nz/develop-knowledge-expertise/create-more-value-in-your-business/Documents/Creating-value-in-your-business.pdf>

- 4.5 In 2009, manufacturing contributed \$23.8 billion to New Zealand's GDP. The average wage in manufacturing is a little below the economy average: its average ordinary time hourly wage has been between 90 percent and 95 percent of the overall average since 1989 and is currently about 94 percent of the overall average at \$25.27 compared to \$26.96.
- 4.6 Many countries ensure that manufacturing is supported. They include the US, Sweden, Germany, Denmark, Australia, Japan, Brazil and many more.
- 4.7 Dani Rodrik, Professor of International Political Economy, Harvard University expressed it well<sup>5</sup>: "Manufacturing may ultimately be central to the vigour of a nation's democracy."
- 4.8 There are many other positive features:
- Manufacturing is the biggest investor in research and innovation in modern economies
  - Manufacturing drives productivity improvement, innovations in work organisation and the application of technology, ahead of any other sector
  - R&D and productivity advantages in manufacturing spill over into the wider economy
  - Manufacturing is the biggest share of world trade and is crucial for export earnings
  - Manufacturing creates jobs. A job in manufacturing creates between 2 and 5 jobs in the wider economy. These tend to be good jobs – skilled, relatively well-paid and stable
  - Each dollar of turnover in manufacturing generates \$1.74 turnover in the rest of the economy
  - Manufacturing drives the creation of high-end service jobs in particular, contributing to the upgrading of the service sector.

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<sup>5</sup> <http://www.project-syndicate.org/commentary/the-manufacturing-imperative>

- 4.9 In New Zealand, we estimate that the multiplier for output is 1.4 (that is for every dollar of manufacturing output, a further 1.4 dollars is produced elsewhere in the economy), and the multiplier for jobs is 1.7 (that is, a further 1.7 jobs created elsewhere for every manufacturing job).
- 4.10 A small economy like New Zealand is perfectly able to generate more of these benefits by adopting a high-value, low volume, niche-based manufacturing model that capitalises on the manufacturing-services relationship.
- 4.11 If we wish to break out of the cycle of low wages, low capital investment and low productivity that has dogged the New Zealand economy for a generation or more, then a dynamic manufacturing sector with powerful worker voice is a fundamental dimension of the solution.
- 4.12 In the OECD Observer No 292 Q3 2012 (page 6) it was noted that:
- Bringing manufacturing back is an appealing proposition to policymakers for several reasons. Manufacturing in OECD countries boasts faster productivity growth than services, for instance, and generates well-paid jobs in a range of skills and professions and not just on the production side; in fact, many large manufacturing companies are also services companies in sales, design and so on. Factories plug into local businesses and drive services too. Crucially for any leading economy, manufacturing also drives technological change.... and can bolster export revenues.
- 4.13 It is sometimes argued that in order to support manufacturing we somehow have to lower environmental standards. It is also argued that if we support manufacturing we should support all applications for mining and exploration. But as Treasury notes, New Zealand's main exports to Australia include light crude oil, gold, wine, cheese and timber, as well as a wide range of manufactured items. But in the recent past oil and gold have been the highest value exports to Australia, our biggest market. A high dependence on raw material production could further exacerbate the high exchange rate ("Dutch disease") making it even more difficult for manufacturers to survive. We already have this problem from our high dependency on low value agricultural exports, and Australian manufacturers have similar complaints about the effects of mining exports there. So the issue is not whether we have mines

and oil drilling but about how much, where and how safely and with what environmental protections.

- 4.14 As far as the direct connection between environmental standards and manufacturing goes, there are now a number of studies showing areas of the economy that manufacturing could focus on to take advantage of the growing demand for both environmentally “clean” products and for products that help others in cleaning their own environments – green technology. New Zealand can build on its reputation by taking environmental safeguards seriously rather regarding them as a cost to be traded away.
- 4.15 Dani Rodrik says “structural change, like economic growth itself, is not an automatic process. It needs a nudge in the appropriate direction, especially when a country has a strong comparative advantage in natural resources. Globalisation does not alter this underlying reality, but it does increase the costs of getting the policies wrong, just as it increases the benefits of getting them right.”
- 4.16 Professor Göran Roos<sup>6</sup> warns that the high value services that increasingly accompany modern manufactured products (such as advice on their installation and effective use) “demand specialised skills and create few jobs, so their contribution to aggregate employment is bound to remain limited”. Nonetheless, manufacturing remains an important job creator both within its own sector and in the rest of the economy, and a driver of productivity improvements which should increase exports and – given a fair wage system – drive higher incomes for employees.
- 4.17 Roos quotes Rodrik as saying: “Without a vibrant manufacturing base, societies tend to divide between rich and poor – those who have access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious.” Even the OECD, which previously considered

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<sup>6</sup> Göran Roos has written extensively on manufacturing. See for instance <http://www.thinkers.sa.gov.au/roosreport/files/inc/194455830.pdf>

manufacturing a sunset sector, in the article quoted above from the 'OECD Observer' concluded: "Manufacturing remains central to OECD economies, in terms of productivity and income growth, and for innovation."

- 4.18 Roos says, "the role of government in a small economy is by necessity and justifiably more interventionist". He advocates using measures like government procurement to assist the growth of manufacturing – something the current government is turning its back on with plans announced to sign up to the Agreement on Government Procurement in the World Trade Organisation, and almost certainly even stricter provisions in the Trans Pacific Partnership Agreement (TPPA), currently under negotiation. Adding to existing agreements, these will make it difficult or impossible to use procurement to assist local industry in any significant way.
- 4.19 Roos also lists government support through venture capital funds, various kinds of assistance or incentives for Research and Development, training, public research, business incubators, assistance with accessing and sharing information, policies to support clustering, use of regulation and standards for technology development, subsidies and tax incentives. These are a much richer set than what the Government has in mind. Roos' views also contrast starkly with Government plans for employment relations. He says that while there will always be disputes between employees and employers over the share of the added value of firms (pay versus profits), high value manufacturing can only succeed if employees are knowledgeable, loyal, and there is low turnover.
- 4.20 In both Australia's and New Zealand's case, manufacturing is also important to diversify exports. Australia is highly dependent on mining exports and New Zealand on agricultural exports. There is concern in both countries that the volume of exports and the high prices being received from these sectors is a significant factor driving the longer term level of the exchange rates of the two countries, making it difficult for other sectors – such as manufacturing – to succeed. In addition, neither mining nor agriculture provides nearly enough jobs keep the population in work, and both are in highly volatile sectors where

prices are subject to shifts in demand. Diversification as well as expansion of exports is crucial for both countries. This will not happen without deliberate policies to assist it.

- 4.21 This was reinforced in economic modelling carried out by the two countries' Productivity Commissions in their recent study of closer economic integration between Australia and New Zealand. They modelled the effect 10 percent growth in Asia would have on the two economies. We are frequently told that high growth rates in Asia are our greatest hope for increased exports and growth in our own economies. In fact what it found was that 10 percent growth in Asia would lead to near-zero growth in Australia and New Zealand – around 0.1 percent. Why? Exports of mining and agricultural products to Asia would expand due to the growing Asian economies. But our exports to the rest of the world – and some of our exports to Asia – would be knocked out by increased competition from growing Asian production. Most of the exports knocked out would be manufactured goods.
- 4.22 While the assumptions of such models need careful examination, this indicates that, left to market forces, growth in Asia will leave us no better off and in fact even more reliant on predominantly low value-added agricultural commodities.
- 4.23 Is our manufacturing sector a basket case with no hope of resuscitation? Perhaps surprisingly, it is not; given it was rapidly opened to overseas competition with little support through the transition. Nor was there any policy to assist replacement high productivity industries. Dani Rodrik has shown more successful countries “nudged” their economies towards such industries when they removed tariffs and other protection. Instead one New Zealand study<sup>7</sup> showed that “the value-added content of New Zealand’s exports has been declining over the past 35 years”.

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<sup>7</sup> Ralph Lattimore, Przemyslaw Kowalski, and Gary Hawke, “New Zealand’s Patterns of Comparative Advantage”. NZ Trade Consortium Working Paper. New Zealand Institute of Economic Research, July 2009.

- 4.24 What is the impact of manufacturing on the rest of the economy? Dairy and meat manufacturing have been omitted because it is wrong to consider that manufacturing drives the huge farm production that lies behind them. But as noted above, we estimate that \$1 of manufacturing output creates a further \$1.40 output in the rest of the economy. It ranges from \$0.95 in motor vehicle and part manufacturing through to \$1.90 in prefabricated building manufacturing.
- 4.25 Every \$1 million output creates about 9.6 jobs in the economy including manufacturing itself, ranging from 6.9 in fertiliser, petroleum and other industrial chemical manufacturing to 17.3 in to clothing and footwear manufacturing. That is 1.7 jobs in the rest of the economy for every one actually employed in manufacturing, with a range from 0.6 in motor vehicle and part manufacturing to 5.0 in beverage, malt and tobacco manufacturing.
- 4.26 A manufacturing strategy would provide a basis for procurement decisions by Government. Clearly there is a perceived risk by a government that support for a particular sector sets a precedent (not that this was evident in the \$94 million given to the Hobbit films alone). But where it is articulated that the spillovers have a high multiple, that a platform for innovation is being created and that the jobs and exports have on-going benefits to the economy, then it is possible to justify intervention and support in some cases and not others. But this will always be a matter for debate and calibration.
- 4.27 The CTU believes that crucial measures to support manufacturing can be made at a macroeconomic level and therefore apply across the economy. But there would also be an industry strategy. That would set a platform for additional support. We recognise that in the context of economic development policy design and implementation, the relative mix between generic, industry and regional development policies and programmes is always contestable and that specific support for firms is also a key factor. However we believe that this debate should be based on support for a well-developed manufacturing strategy.

4.28 The South Australian manufacturing strategy (see below) argues that industry policy must be tailored and based on the prospects for global demand for the manufactures, and the trends in sales, profitability and market share.

## **5. What can be done to support the manufacturing sector?**

5.1 A set of policies that would support manufacturing includes:

- (a) Use of macroeconomic levers across monetary and fiscal policy
- (b) Development of industry policy
- (c) Direct support for firms

5.2 The macroeconomic levers are vital to set the foundations for a thriving manufacturing sector. If the 'settings' are favourable to manufacturing, then there will be a higher return on investment, and that will promote decent jobs and build strong communities.

5.3 An industry policy is important to ensure a focused effort and framework to support manufacturing. Haworth argues for "economic development strategy that understands what a high-value, low volume, niche-based manufacturing model for manufacturing is, and how it can be supported at industrial and regional levels".

5.4 There also needs to be greater assistance when firms are facing specific challenges. Obviously the government cannot rescue every failing business. But they can leave no stone unturned in the provision of reasonable assistance.

5.5 Macroeconomic levers include:

1. Widening the policy targets agreement (PTA) so RBNZ has to consider employment, living standards, exchange rate and growth issues.
2. Promotion of tools other than interest rates for monetary policy. There is some examination now of macro-prudential tools and although the

Reserve Bank Governor has apparently ruled them out for any purpose other than financial stability, they could be used for other purposes and the range could be broadened.

3. Preparing policy options for greater intervention or influence on exchange rates. We realise that there is some scepticism that anything a small country like New Zealand can do would actually weigh against a low US dollar affected by Government actions, quantitative easing, and economic factors in that country. However that is by no means the only factor that has led to a high New Zealand dollar as we saw during the mid to late 2000s. The “carry trade” – investments, often short term and volatile, flowing into New Zealand to take advantage of New Zealand’s higher interest rates – has been a frequent influence which can be addressed. A variety of policy tools is needed to match the circumstances, including tools for the management of international capital flows, and monetary tools to provide alternatives to interest rate rises.
4. Capital gains tax. We support a capital gains tax except on a primary home.
5. International Financial Transactions Taxes are among the possible tools to manage capital flows. We recognise that it is less effective for a single country to unilaterally impose such taxes but they are in use in countries such as Brazil and there is growing momentum in Europe and elsewhere on forms of a financial transactions tax. The IMF notes that the effectiveness of such tools would be considerably enhanced by international cooperation but that even without that, they can still be effective enough to be a useful policy option.
6. International cooperation should be actively sought over matters such as financial transaction taxes and capital flow management, and constraints to the use of such measures in agreements such as the TPPA should be actively resisted.

7. Greater support for R&D such as via tax credits, government equity contributions, and from public research institutions.
8. Accelerated depreciation. This would encourage firms to modernise and invest in new technology and renew plant and equipment.
9. Review export assistance measures. The suite of NZTE tools is useful but there could also be a case for a more broad-based export credit scheme. There would be fiscal issues as well as consideration of WTO boundaries.

#### 5.6 Industry policy could include:

1. Government procurement supporting New Zealand manufacturing. Industry participation clauses that have teeth. No-one is arguing that government procurement should ignore price. To some extent a whole-of-life approach can narrow cost differences between New Zealand and offshore bids. In many cases some of the costs associated with offshore bids are not included (many trips to check out facilities and so forth) but they would be marginal. What is required is a careful examination of how the Australian government (federally and at state level) apply industry participation clauses and thresholds. This would ensure that local suppliers have a much better chance of a successful bid. "Responsible contractor" quality requirements, such as employment conditions and environmental standards should also be part of the mix. These would be beneficial for New Zealand's international reputation as well as having direct positive effects. In some circumstances, it may also be appropriate to commission products in sufficient numbers in order to give firms the experience and scale to bid for future work or diversify into related markets, particularly export markets.
2. Encouragement should be given to regional and local government to use similar policies.

3. New Zealand should not sign any further international agreements on government procurement without strong safeguards that preserve the policy options discussed here.
4. Review planned tariff phase-downs, rules of origin and countervailing measures to ensure manufacturers with future potential will not be harmed.
5. The Government through various grant programmes assists business and there is room for more conditions around job creation in some instances. While this is included in multiplier or DEI (direct economic impact) modelling, a more precise standalone measure around jobs would have a significant impact.
6. Provide greater financial support for the role of the Industry Capability Network. The Industry Capability Network (ICN) connects businesses with major projects in New Zealand and Australia. It helps local suppliers who want to get involved in major projects or a buyer seeking competitive products and services. It could be scaled up to give even greater support to local firms.
7. There needs to be a more comprehensive industry support framework. The relative mix of regional and industry support is an issue. Both are required. But in recent years we have had a mix of initiatives – some which were horizontal (or intended to be) across biotechnology, design and ICT. Green technology and productivity development could be other general criteria for support. There have also been specific initiatives in wood and food and beverage. A layered approach is required. At a basic level there should be a willingness of government to work with any industry that meets certain criteria on export collaboration, competitiveness, and workforce co-operation including with unions where present. But above that, there needs to be a small number of major industry initiatives including one for manufacturing

broadly defined. It is recognised that the many different sectors of manufacturing does imply some complexity.

8. A higher level of commitment to training and up-skilling the workforce and a higher subsidy for apprentices and other work-based training. It is vital that all the threads of science, innovation, technology, investment and skills, better skill utilisation and work organisation are brought together to boost productivity and wages. Industry training is a crucial part of this mix. Conditions should include a requirement for recognition of skill levels in pay rates to address the low returns Labour Department research shows workers receive for skills.
9. Boosting renewable energy use including a CleanTech Start-Up Fund. The OECD has highlighted renewable energy use as a factor to underpin a modern and efficient manufacturing sector and also Pure Advantage<sup>8</sup> has argued 'developing critical waste-to-energy infrastructure, biomass thermal plants and other locally sourced energy alternatives, New Zealand will make massive efficiency gains'.
10. Promotion of a Green Manufacturing Jobs Initiative that can model examples such as upstream effects of home insulation, green refits of commercial buildings, and as the Pure Advantage report cited above has suggested provide detailed insights on how New Zealand's comparative advantage in green products could evolve, and could inform detailed policy recommendations.
11. Consideration of a new investment fund that levers off KiwiSaver and NZSF to ensure a greater availability of funding for productive investment at to raise the level of New Zealand equity and greater availability of venture capital funding. Further capitalisation of the New Zealand Venture Investment Fund should be part of these considerations.

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<sup>8</sup> Pure Advantage, November 2012. <http://www.pureadvantage.org/the-race-plan.pdf>

12. An active labour market process that places workers displaced on to a firm track of retraining, income support and facilitation into new jobs.
13. A wages policy that encourages unions and employers to enter collective agreements that underpin cooperation and productivity improvement. These also can include some industry agreements so that basic wages and conditions are set for large numbers of workers on that basis. This will create greater certainty for workers, reduce the drain of workers offshore and ensure that productivity gains are more likely to be shared.
14. Greater promotion of lean and other productivity tools with an emphasis on engagement of workers and distribution of benefits. There is real value in high performance work systems. The 'lean' approach has a proven track record. So the issue for a government is how to encourage diffusion of best practice. There are already some initiatives but these should be scaled up. There is also a strong role for unions in this context.
15. Establish a Manufacturing Industry Advisory Group.
16. Promotion of active regional and local government support for manufacturing. This would need to be part of an overall manufacturing strategy.
17. Create a manufacturing industry support unit within MBIE.
18. The role of Callaghan Innovation to specifically support high value elaborately transformed manufactures needs to be factored in from the beginning. Open forms of intellectual property ownership which allow its development in a number of local firms may be effective in making best use of new developments.

19. There is room for SOE lead user innovation to give local suppliers with innovative products a start. This cannot be done in high risk situations but there are ways that major state owned firms can be early adopters to assist firms to get to scale. SOEs and other public entities can also be encouraged to commercialise innovation in their own right.
20. Government support for “buy kiwi made” campaigns.
21. Support for manufacturers in the context of the Canterbury rebuild. This could go beyond procurement and include assistance for manufacturers to establish and scale up to meet demand. There are likely to be a range of building innovations either new or in which local manufacturers (and the construction industry) gain considerable experience in and which could be the basis of further development and exports. Some of that may occur without assistance, but it may benefit from some coordination of such industries, joint marketing, perhaps some assistance to build scale and help with R&D. We also note that “Specialised Manufacturing” was ranked the sector with fourth greatest potential in Canterbury in their post-earthquake study, so there is a good basis to build from in Canterbury – though some of these products will be manufactured elsewhere in New Zealand (and the world).

5.7 On 25<sup>th</sup> October 2012, the South Australian Government launched a Manufacturing Strategy, *Manufacturing Works: A strategy for driving high-value manufacturing in South Australia*. The strategy<sup>9</sup> advances four pillars:

- Enhance the capacity of manufacturers to innovate
- Upgrade the leadership, knowledge and skills of the workforce
- Capture future markets and opportunities
- Address infrastructure and policy gaps.

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<sup>9</sup> See [www.dmitre.sa.gov.au/manufacturing](http://www.dmitre.sa.gov.au/manufacturing)

- 5.8 The South Australia strategy includes stronger industry participation requirements in government procurement, promotion of high performance work involving unions, employers and government, and tailored industry support.
- 5.9 Tailored industry intervention would occur in different circumstances and depend on the potential for transformation, the number of workers involved, the extent of comparative and competitive advantages, and numerous other factors.
- 5.10 Direct firm assistance is justified in certain circumstances. This includes:
1. A much stronger response by all relevant agencies, institutions, and business organisations when a major firm with viable future prospects is facing closure or significant staff reductions.
  2. Government support measures of a transitional nature such as the 9-day fortnight (Job Support Scheme) which applied from 2009 following the global financial crisis and the Jobs Summit.
  3. Detailed support for workers on retraining, relocation and direct coordination with prospective employers.

## **6. Conclusion**

- 6.1 The CTU welcomes this Inquiry and anticipates an agreed set of recommendations that will conclusively demonstrate the importance of manufacturing to decent jobs and strong communities and will set out a set of policies and actions that can support the manufacturing sector.