

**OFFICE OF THE MINISTER
FOR INDUSTRY AND REGIONAL DEVELOPMENT**

The Chair
CABINET ECONOMIC DEVELOPMENT COMMITTEE

RESPONSE TO THE MANUFACTURING SECTOR STRATEGY REPORT

PROPOSAL

- 1 This paper seeks the agreement of Cabinet that this paper will constitute the formal response by government to the *Manufacturing Plus* report, a strategy for the manufacturing sector developed by key stakeholders.

EXECUTIVE SUMMARY

- 2 The *Manufacturing Plus* report is the product of a process convened by New Zealand Trade and Enterprise (NZTE), responding to concerns about pressure on the manufacturing sector from rapidly changing economic conditions, domestically and internationally. The report advances a *Vision Statement* and a *Value Creation Model* for the manufacturing sector. It sets out to raise the profile of the sector with government and across the economy generally. It contains sixteen recommendations for government.
- 3 This response signals the government's view of the importance of the sector. It endorses the *Vision Statement* and the twelve point *Value Creation Model*. It catalogues the programmes and initiatives already in place or about to be implemented that address the sixteen recommendations in whole or in part, and discusses issues that influence the manufacturing sector. The Ministry of Economic Development (MED), working with other agencies, will set up a Manufacturing Advisory Group to work with the sector and ensure that the views of the sector are kept before government.

BACKGROUND

- 4 In August 2005, NZTE convened the Manufacturing Vision Group, a group of industry leaders, manufacturers, unions and government representatives, to develop a clear vision and strategy for New Zealand manufacturing. This process was initiated in response to concerns over the ability of New Zealand's manufacturing sector to respond to trends in the global trading environment
- 5 The Manufacturing Vision Group launched their report *Manufacturing+ A Vision for World Leading New Zealand Manufacturers* on 21 November 2006. Attached as appendix one is a copy of the short form of this report.

KEY REPORT FINDINGS

- 6 The aim of the report is to raise the "profile and energy of the sector" and help the sector to understand the implications of globalisation. It sets out the importance of

manufacturing to the New Zealand economy, and highlights global trends that have an impact on manufacturing. The report suggests strategies for manufacturers to create value, and makes a number of recommendations for industry and government within this environment. It is also includes a vision for the future of New Zealand manufacturing:

“Manufacturing is recognised as a high performing sector, and a major and growing contributor to the New Zealand economy.”

- 7 It describes manufacturing as “an essential economic engine”, and a requirement to support New Zealand’s social, technical and political aspirations. It contends that a strong manufacturing sector is essential to sustaining New Zealand’s economic growth.
- 8 *Manufacturing Plus* acknowledges the changing global environment for manufacturing and suggests that New Zealand’s world leading manufacturers are responding and competing effectively in this environment. However, it also raises a major concern that while there will always be a base level of manufacturing in New Zealand, we are at risk of losing the ability to create high-value exports along with substantial employment, workforce skills and national capability.
- 9 It lays out a path for manufacturers to become more innovative and competitive – this is termed the *Value Creation Model*. This model is built around twelve underlying principles:
 - Creating, maintaining and evolving innovative business models;
 - Building sustainable and ethical values into our brand position and business operations;
 - Leveraging partnerships, franchises, joint ventures and alliances;
 - Innovating and co-creating solutions;
 - Creating relationships with a human face;
 - Creating world leading brands and designs;
 - Leveraging the global value chains by knowing how we can best fit;
 - Connecting with global networks and information access;
 - Understanding and using the unique qualities of the New Zealand business reputation and branding;
 - Integrating manufactured goods with service offerings – manufacturing plus add-on features, like service, support or training;
 - Demanding and delivering high standards of operational excellence in the design, the production and the management capabilities of our companies; and

- Incorporating the smart use of skilled labour with capital intensive manufacturing.

THE GOVERNMENT'S KEY MESSAGES

- 10 I recommend that the government endorse the vision for the future of New Manufacturing in paragraph six, and the *Value Creation Model* in paragraph nine. They complement government objectives in the context of the economic transformation agenda, in particular improving the productivity and competitiveness of all firms in New Zealand and supporting those firms that are, or have the potential to be, directly involved in internationalising their business [CBC Min (06) 213 refers].
- 11 I am aware of the challenges facing many manufacturers in a world of rapid change and intense global competition, particularly those exporting at a time when the exchange rate is historically high. These challenges, however, are not unique to New Zealand. Manufacturers around the developed world are feeling the effects of increased global competition. Responses include the shift of production to lower wage countries (such as China, East Asia, India and the Eastern bloc) and increasing imperatives for production to be closer to key global supply chains. Singapore is the only developed country that experienced an increase in the share of manufacturing in nominal GDP over the two decades from 1978, while the importance of manufacturing increased in eight of eighteen developing countries¹.
- 12 It is clear that New Zealand will not be able to compete in all areas of manufacturing – nor should we try. Modern manufacturing is changing rapidly and can no longer be considered solely as the making of products. The modern manufacturing product cycle now includes functions such as market research, design, branding, service activities and end-of-life disposal. New Zealand manufacturers now have the option to compete across the entire manufacturing value chain or parts of that value chain depending on where they believe they can create value and increase returns. A key challenge for the sector is to continue to develop its responses to evolving global competition, while at the same time, evaluating which manufacturing processes are best anchored in New Zealand.
- 13 Withheld under section 9 (2) b (ii) of the Official Information Act.
- 14 Complicating the debate about the real state of New Zealand manufacturing is a lack of clarity and consistency about the measures used to report on the sector's performance. Manufacturing statistics are often reported as a percentage of GDP and an initial examination of manufacturing income as a share of GDP gives the impression of a decline; for example, manufacturing contributed over 17.2% of GDP in 1996, while by the June quarter of 2006 it only contributed 14.6%.
- 15 What this actually shows is a decline relative to other sectors, such as the services sector. A better reflection of the current state of manufacturing in New Zealand is outlined below:

¹ *Trends in Australian Manufacturing*: Productivity Commission, 2003.

- The sector as a whole appears to be healthy with some sub-industries (in particular the food and beverage industry) experiencing good growth. Manufacturing's contribution to GDP still grew by 12% between 2000 and 2006 while GDP as a whole grew by 22% (Statistics New Zealand GDP data series);
 - The number of manufacturing firms has increased 7% from 2000 to 2006 (Statistics New Zealand Business Demography Statistics); and
 - Employment in the manufacturing sector has remained remarkably steady over the last ten years. In December 1996, 286,000 people were employed in the sector, with 274,000 employed in December 2006. The total number of people in employment has grown steadily over this period from around 1,768,000 to 2,135,000, so manufacturing's share of employment has declined only in relative terms (Statistics New Zealand Household Survey).
- 16 I am confident there is a strong future for New Zealand manufacturers who take advantage of rapid advances in technology and access to world markets. New Zealand's manufacturing future is in the high skilled, high value end of the market where we can compete more on quality and less on price, and where we can play to our strengths. I am also confident that the government's economic transformation agenda and supporting initiatives (outlined in the next section) will help manufacturers in a world of rapid change and intense global competition.

RESPONDING TO THE *MANUFACTURING PLUS* REPORT

- 17 The government's ongoing engagement with the sector will need to address the perception that the manufacturing sector is not a priority for government, and raise awareness of the wide range of government sponsored initiatives (direct and indirect) that help to support and grow this sector. These are acknowledged in the appendix to the *Manufacturing Plus* report.
- 18 This response includes;
- actions responding to the specific recommendations for government contained in the report. Many of the recommendations are being largely addressed through existing initiatives or initiatives already proposed; and
 - a summary of other government initiatives that have the potential for a positive impact on manufacturing, but go beyond the specific recommendations to government.

Specific Recommendations and Responses

- 19 The report included sixteen specific recommendations to government. Because many of these recommendations are already being addressed by various government initiatives, three issues could be on the agenda for the planned 'Manufacturing Action Group':
- The extent to which the sector is aware and is making best use of the support currently available from government;

- Whether government initiatives are configured to best meet the needs of the sector going forward, and
- Links to the ongoing work around sustainability issues.

Response to Recommendation 1: Investigate how the manufacturing sector can better connect with the CRIs (Crown Research Institutes) and university researchers to create value

20 Enabling better linkages between firms, CRIs and Tertiary Education Institutes (TEIs) is a key theme of the Economic Transformation Agenda [CAB Min 06(213) refers]. The manufacturing sector is likely to benefit from three actions focused on giving effect to this theme:

- The Ministry of Research, Science and Technology (MoRST), the Tertiary Education Commission (TEC) and MED are working on a range of measures (to be presented to Cabinet at the end of May 2007) such as:
 - new CRI and new TEI performance indicators to encourage researcher mobility;
 - increased TechLink² funding to provide greater assistance for industry groupings to identify industry-wide research questions and facilitate stronger links with research organisations;
 - workshops with existing industry networks, Economic Development Agencies and Industry Training Organisations (ITOs); and
 - changes to the research consortia programmes to enable more flexible eligibility thresholds and improved governance arrangements;
- The establishment of the 'Capitalising on R&D Action Group' (CRAG) by the Minister of Research, Science and Technology. CRAG is a joint business and government action group tasked with providing advice to the Minister on the key actions resulting from the Capitalising on Research Summit³ (held late 2006) and perspectives on major science and technology issues that have an impact on business innovation and on workplace participation in R&D; and
- NZTE, TEC and the Foundation for Research, Science and Technology (FRST) are improving their ability to coordinate activities in areas of joint interest. To date all joint projects have been in the manufacturing area. For example, all three agencies are investigating opportunities to work together to support the plastics industry. I will also shortly be presenting a paper on

² TechLink assists groups to evaluate and unlock the potential of their collective resources, assets and other unique opportunities through the application of research and development (R&D). These R&D services are provided in most primary sector industries by the Crown Research Institutes (CRIs). There are also private research agencies whose services in specialised non-primary sectors are accessible by collectives groups.

³ Key tasks arising from the summit included access to venture capital, the form and content of sector/region workshops (as a follow-up to the Summit), bringing a more systems approach to business related R&D, scoping clustering models for the science community, investigating easier pathways for small business into research institutions, investigating IP models for commercialisation, and the form and content of proposed new business R&D training.

work being undertaken by MED and other departments and agencies on alignment of activity across government around economic transformation priorities.

Response to Recommendation 2: Develop education and training tailored for Manufacturing Plus for everyone involved in manufacturing enterprise

- 21 Cabinet has made a number of decisions over the past year on reforming the tertiary education sector, and has set strategic priorities through the *Tertiary Education Strategy and Statement of Tertiary Education Priorities*. Under the reforms TEC has a greater ability to ensure that tertiary education provision reflects national and local stakeholder needs, including those of industry sectors. Budget 2007 includes significant funding to give effect to these changes. For instance, ITOs will receive an additional \$15.8 million of operating funding to help them identify current and future industry skill and training needs, and to work alongside other Tertiary Education Organisations (TEOs) to help them respond to those needs.
- 22 One of the priority areas in the *Tertiary Education Strategy 2007-12: Statement of Tertiary Education Priorities 2008-10* is “Increasing the achievement of advanced trade, technical and professional qualifications to meet regional and national industry needs”. TEC’s Investment Guidance signals that TEOs will be asked to identify and respond to those areas that have the greatest skill needs. Institutes of Technology, Polytechs and ITOs have particular responsibility for meeting industry needs.
- 23 In November 2006, eight ITOs launched the Competitive Manufacturing Initiative (CMI). This is a new training and qualifications initiative aimed at encouraging best practice manufacturing processes and improved productivity levels in the sector. The Department of Labour (DoL) and TEC will continue to work with the CMI Consortium to support the CMI.

Response to Recommendation 3: Facilitate the adoption of best practice manufacturing processes and process manufacturing management

- 24 A number of existing programmes can assist with improving manufacturing processes. The bulk of these programmes (such as Enterprise Training, the Regional Partnerships Programme⁴, Better by Design and lean manufacturing undertaken under the Aichi programme) are administered by NZTE. TEC also plays an important role through its support of the manufacturing ITOs, and FRST programmes including its Global Technology Partnerships are relevant.
- 25 NZTE is also playing an active role in disseminating the application of the *Manufacturing Plus Value Creation Model* to manufacturing firms. This includes the creation of a series of tools for New Zealand firms to apply the model, and support for regional workshops to roll out the model.

⁴ In recent times, the Regional Partnership Programme has supported the *Greater Wellington Industry Development Centre* and the textile industry in Kapiti and Horowhenua. This programme will be replaced by two new programmes on 01 July 2007; the Regional Strategy Fund and the Enterprising Partnerships Fund.

- 26 The CMI has begun to promulgate best practice manufacturing processes, which includes addressing management capability.

Response to Recommendation 4: Write a Manufacturing Plus book/website and disseminate to New Zealand manufacturers

- 27 Websites or books alone are unlikely to be a very persuasive mechanism for diffusing ideas to the manufacturing sector. The recommended approach, outlined above, is for NZTE to work with the authors of the report to disseminate the key findings via a series of regional workshops with additional support mechanisms to follow the workshops. NZTE can do this within its existing funding baseline.

Response to Recommendation 5: Ensure the importance of manufacturing to New Zealand is widely understood

- 28 Government's response to the *Manufacturing Plus* report is a clear signal that manufacturing is important to New Zealand. The comments included in the *Government's Key Messages* reinforce this.

Response to Recommendation 6: NZTE to focus on enhancing connectivity

- 29 The Ministry of Foreign Affairs and Trade (MFAT) works to improve market access for manufacturers through NAMA (Non-Agricultural Market Access) negotiations at the WTO, various free trade agreements, and the Forestry Trade Access Group, as well as defending existing access to overseas markets. Sixty percent of NZTE's current operational budget is already spent in overseas markets.
- 30 Export Year 2007 has provided a co-ordinating focus for NZTE and private sector activities aimed at improving New Zealand firms' international connectedness. It includes a number of new initiatives, including a one-off funding boost for the Market Development Assistance Scheme (MDAS) of \$33.75 million for the period 1 January 2007 to 31 March 2008.
- 31 Budget 2007 contains a range of measures to expand existing NZTE schemes that assist New Zealand firms to develop new markets, and deepen others. It includes:
- Increased ongoing annual MDAS funding (based on advice that this is more effective in supporting market development than a tax credit);
 - An increase in the funding for Beachheads;
 - A four year funding package to increase the profile of New Zealand food and beverage firms internationally through expanded in-market assistance;
 - Extending NZTE's footprint in key Asian markets; and
 - Supporting New Zealand's participation at the Shanghai Expo.
- 32 Given the annual ongoing funding increase to MDAS, I propose that firms benefiting from the one-off Export Year funding boost be eligible for the grant for up to five years based on existing criteria, rather than one year as currently

implemented. This will ensure that firms that benefit from the funding boost are treated in the same way as firms that receive support from ongoing annual funding.

Response to Recommendation 7: Improve the attractiveness of manufacturing as a career for New Zealanders

33 MED advises that this issue is frequently raised by manufacturers. The sector identifies it as a significant constraint on their ability to innovate and expand their operations. Of particular concern is the shortage of engineers and machine operators.

34 This needs to be seen in the context of an historically low level of unemployment, creating unprecedented competition for highly skilled workers, within New Zealand and internationally. The government has implemented a number of initiatives that will help improve the attractiveness of manufacturing as a career. These include:

- The 'Future in Tech' programme aimed at promoting careers in technology, engineering and science;
- The 'Gateway' programme offering senior secondary school students structured workplace learning across more than 50 industries and hundreds of businesses around New Zealand;
- Support for the 'Skills New Zealand' tripartite forum (Government, Business New Zealand and the New Zealand Council of Trade Unions (CTU)) aimed at promoting workplace learning;
- An Export Year initiative focused on the teaching of global trade-related concepts in the social sciences curriculum. It aims to develop students' awareness of the place of New Zealand in the global economy and the importance of this for our successful economic performance;
- The 'Modern Apprenticeship Scheme' established in 2000 to improve participation of young New Zealanders in trades training. More than 3000 Modern Apprentices have completed the scheme to date and the government has supported a target of 14,000 participants by December 2008; and
- Officials are preparing a report to Cabinet Policy Committee for June 2007, that will report on "means for education, immigration and other approaches to support the top talent that firms need".

35 In addition, two immigration programmes are aimed at mitigating immediate skill shortages; the 'Talent Visa' and the 'Immigration Skills Shortage List'.⁵

⁵ This list facilitates immigration processing for temporary workers for occupations in shortage, and provides a route to residence for skilled occupations in absolute and worldwide shortage.

Response to Recommendation 8: Ensure that the capabilities of New Zealand manufacturers are widely understood and what is needed to create scale

- 36 The Industry Capability Network (ICN) programme promotes New Zealand and Australian industry by assisting firms to participate in local and international supply chains. It provides project owners, managers and purchasers of major projects in New Zealand and Australia with a free service to identify New Zealand and Australian manufacturers capable of supplying products and services that might otherwise be imported.
- 37 NZTE is also facilitating the establishment of a national project office to develop improved processes to encourage and enable engineering firms to collaborate on offshore project opportunities.

Response to Recommendation 9: Develop/review incentives to invest in innovation, technology and productivity [exchange rates, depreciation, R&D, fiscal], and

Recommendation 12: Develop a different mix of policy initiatives to achieve greater exchange rate stability, while also reducing compliance costs

- 38 Innovation and continuous improvement is required if New Zealand manufacturers are to move to the high value end of the market. The government is committed to supporting this through a number of initiatives.
- 39 It is important to acknowledge that this also requires significant investment from industry.
- 40 I am aware that the exporting sector, including a large proportion of manufacturing firms, is under significant pressure from the high exchange rate, and is asking the government to look at alternative ways of reducing inflationary pressures. The Treasury and the Reserve Bank have been working for some time on alternatives or 'supplementary stabilisation instruments', but to date there are no simple answers. The Finance and Expenditure Select Committee is holding an inquiry into the Monetary Policy.
- 41 The recently announced Budget package will help to improve competitiveness, encourage investment and increase productivity. Two initiatives that will assist manufacturers are the reduction in the base rate of company tax and the introduction of an R&D tax credit. Support for R&D (in particular business R&D) tends to disproportionately favour the manufacturing sector, because traditionally R&D is an integral part of that sector.
- 42 The issue of compliance costs is being progressed through the Quality Regulation Review. Good progress has been made to date, with a final report due by 31 July, 2007.

Response to Recommendation 10: Establish a Research Centre for Manufacturing Enterprise so that issues related to value creation through manufacturing in New Zealand are well researched and disseminated on an ongoing basis

- 43 Officials understand that the *Manufacturing Plus* Vision Group intended the proposed Research Centre for Manufacturing Enterprise to cover both research and development and strategic research on business issues.
- 44 The value of a pan-manufacturing sector centre for research and development will depend on the demand from industry. This level of demand and the strength of the case for such investment should be tested through applications to competitive funds through FRST, and through the proposals from TEOs responding to the needs of industry under the Investing in a Plan approach.
- 45 The Centre for Plastics Innovation and Technology, based at the University of Auckland, is an example of a centre that allows the research and development needs of a manufacturing sub-sector to be considered. The government has committed \$5 million to this centre through 'Partnerships for Excellence', and industry partners have committed to providing \$6.5 million in matching funds.
- 46 The manufacturing sector is very diverse, so centres focused on specific industries may provide the most meaningful information and strategic advice. FRST funding supports light alloys and composite materials research at Auckland University and CAMTECH at the Auckland University of Technology.

Response to Recommendation 11: All manufacturing sectors should develop a sector strategy

- 47 The *Manufacturing Plus* report is intended to be used as an overarching framework for manufacturing sub-sectors to build their own strategies going forward. NZTE will facilitate this process as part of its ongoing engagement with the manufacturing sector. It is currently assisting the Marine Industry Association, Plastics New Zealand, and The Aviation Industry Association to implement their strategic plans.

Response to Recommendation 13: Government to appoint a Cabinet Minister of Manufacturing so that the perspectives of the manufacturing sector are well represented [takes guidance from manufacturers], and

Response to Recommendation 14: Support Manufacturing Plus as an ongoing forum to ensure a collaborative approach to addressing future issues affecting the manufacturing sector

- 48 As the Minister for Industry and Regional Development, I am responsible for ensuring the perspectives of the manufacturing sector are represented at Cabinet. The key issue is to ensure that there is a mechanism for ongoing engagement with the sector.
- 49 I have asked the MED to work with NZTE, Business New Zealand and the CTU to establish a 'Manufacturing Action Group' to support the implementation of the

Manufacturing Plus report and provide advice to me on manufacturing. This will be a joint business and government action group. The agenda may include;

- coordinating the implementation of the *Manufacturing Plus* report across industry and government;
- providing advice on major issues that influence the manufacturing sector;
- providing linkages with and informing the government's policy development process from a manufacturing perspective;
- the extent to which the sector is aware of and making best use of the support currently available from government, and whether government initiatives are configured to best meet the needs of the sector going forward;
- how the manufacturing sector can adopt sustainable business practises to improve overall sustainability in the economy and capture significant commercial opportunities; and
- how to promote greater awareness of the successes and potential of the New Zealand manufacturing sector.

50 It is proposed that the 'Manufacturing Action Group' meet on a quarterly basis and include members from Business New Zealand, Unions, manufacturing firms and key government agencies (such as MED, NZTE, FRST and TEC). Ideally the group would have a maximum of ten members.

51 MED, working with other agencies, will develop a detailed terms of reference, key tasks, deliverables, membership and reporting requirements for the 'Manufacturing Action Group' by the end of June 2007.

Response to Recommendation 15: Collaboratively celebrate manufacturing success – politicians, press, trade associations, unions etc [patriotism not protectionism]

52 The Export Year 2007 media campaign is providing opportunities to celebrate manufacturing success. The planned Buy Kiwi Made media campaign (to be launched mid July 2007) will do likewise. It is also something the proposed 'Manufacturing Action Group' may wish to consider.

Response to Recommendation 16: Support for Manufacturing Plus ongoing programme of work

53 Support for the ongoing implementation of the report will come from NZTE and the proposed 'Manufacturing Action Group'. NZTE is already making good progress – to date it has developed a series of tools for firms to apply the concepts of *Manufacturing Plus* to their business and conducted a pilot workshop for manufacturers in Hamilton.

54 NZTE is planning the following additional actions for the remainder of 2007:

- A series of *Manufacturing Plus* workshops in regions with a strong manufacturing presence, in partnership with Business New Zealand and its affiliate organisations. Two workshops will be run each month, commencing in July 2007; and
- The establishment of a dedicated NZTE team, with significant manufacturing knowledge, to assist firms to map their business models against the *Value Creation Model* and identify areas for improvement. This team will also be able to link firms with the range of NZTE support programmes available.

Other Government Initiatives

55 The response to the *Manufacturing Plus* report also includes a summary of other government initiatives that have the potential for a positive impact on manufacturing, but go beyond the specific recommendations for government.

Sustainability

56 The report acknowledged an increased awareness of the need to protect the environment and adopt sustainable business practices. New Zealand manufacturers can make a big contribution to improving our overall sustainability performance and have the potential to capture significant commercial opportunities. The government will support the sector in this endeavour through the three business-related sustainability themes of 'Business Partnerships', 'Eco-Verification' and 'Government Procurement'.

Research, Science and Technology (RS&T)

57 MoRST has identified opportunities to strengthen the RS&T investment in 'high-tech platforms'. These are enabling platforms (of advanced knowledge) focused around a technology, like that which underpins technology companies including Fisher and Paykel Healthcare, and others such as Navman, Rakon and Right Hemisphere. These platforms are applicable to a wide range of sectors, and will be key to moving more New Zealand firms towards high value manufacturing.

Infrastructure Investment

58 The report noted that market channels are becoming more internationalised, and that transport and energy costs are increasing because of supply constraints.

59 The government is addressing infrastructure constraints by increasing investment in roads, rail and the energy sector. Currently over \$2.1 billion worth of highway projects are under construction or being completed in New Zealand. On 11 December 2006, the government released *Powering Our Future: Towards a Sustainable Low Emissions Energy System - Draft New Zealand Energy Strategy to 2050*, as the basis for stakeholder and public engagement on the medium and long-term decisions that will shape New Zealand's energy future. The final version of the *New Zealand Energy Strategy* is due to be presented to the Cabinet Policy Committee by 30 June 2007.

Trade Agreements

- 60 The report raised a concern about the impact of trade agreements and technical regulations being used as non-tariff barriers to trade. The government's trade negotiating agenda includes the current multilateral round of trade talks in the World Trade Organisation (WTO), as well as free trade agreement negotiations with China, ASEAN and Malaysia. In all of these negotiations, the government is seeking to advance manufacturers' interests, both through reducing tariffs and non-tariff barriers, and by efforts to open up new opportunities for the expansion of New Zealand firms' global supply chains (e.g. through investment, services and intellectual property provisions in FTAs). In trade negotiations, the government has always sought suitable transitions to allow manufacturing companies to adjust to competition. For example, the New Zealand/Thailand Closer Economic Partnership retains protection on whiteware goods being imported into New Zealand until 2010. This is a longer timeframe than Australia negotiated with Thailand for its domestic whiteware industry.
- 61 Government agencies, including MFAT and NZTE, also stand ready to pursue any legitimate complaints about non-tariff barriers that are impeding New Zealand exporters' access to markets. To prevent imports of products that compete unfairly with and injure our own manufacturing industry, MED operates a trade remedies regime based on World Trade Organisation (WTO) rules.

Food and Beverage Taskforce: The Government Response

- 62 On 30 April 2007, Cabinet agreed to the government response to the Food and Beverage Taskforce [CAB Min 0714/3 refers]. These initiatives will have significant benefit to the manufacturing sector, because the food and beverage sector employs 25% of manufacturing employees, and accounts for 33% of manufacturing output (Statistics New Zealand). Of particular importance is the *Food and Beverage Product Development Infrastructure Project* to identify possible gaps in food and beverage innovation and commercialisation infrastructure and identify if there is a case for government investment.
- 63 The Skills Action Plan will also help the food and beverage sector attract and develop its workforce by promoting better labour market information about the sector, more strategic investment in training and attractive careers.

Investment New Zealand: Amended Policy and Implementation Frameworks

- 64 Inward and outward investment policies and programmes are internationally recognised as important economic development tools. The recently concluded Expenditure Review of Business Assistance and the Evaluation Review of Investment New Zealand have both suggested the need for more strategically oriented inward and outward investment policies and programmes. These should focus on higher quality investments that improve the productivity of New Zealand firms and sectors, including facilitating access to international supply chains, markets, skills, technologies and research and development capabilities. Recommendations for a government response are expected to be with Ministers by the end of June 2007.

CONSULTATION

65 The following agencies have been consulted and agree with the recommendations in this paper: the Department of Labour; the Ministry of Research, Science and Technology; the Ministry of Foreign Affairs and Trade; New Zealand Trade and Enterprise; the Tertiary Education Commission; the Foundation for Research, Science and Technology; the Treasury; the Department of Prime Minister and Cabinet; and the Ministry of Education.

FISCAL IMPLICATIONS

66 There are no fiscal implications in this paper.

HUMAN RIGHTS

67 There are no inconsistencies between the proposals in this paper and the Bill of Rights Act 1990 or the Human Rights Act 1993.

LEGISLATIVE IMPLICATIONS

68 The recommendations in this paper have no legislative implications.

REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

69 The recommendations in this paper have no regulatory impact and impose no compliance costs.

PUBLICITY

70 Publicity for the announcement of government's response to the *Manufacturing Plus* report will follow immediately after the government's response to the Food and Beverage Sector Taskforce, scheduled for 10 July 2007.

RECOMMENDATIONS

71 It is recommended that the Committee:

- 1 **Agree** that this Cabinet Paper constitutes the government's response to *Manufacturing +, A Vision for World Leading New Zealand Manufacturers* (the Manufacturing Plus Report);
- 2 **Agree** to endorse the Manufacturing Plus Report's vision for the future of New Zealand manufacturing:

"Manufacturing is recognised as a high performing sector, and a major and growing contributor to the New Zealand economy"

and the Manufacturing Plus Report's *Value Creation Model*, which is built around the following twelve underlying principles:

- Creating, maintaining and evolving innovative business models;

- Building sustainable and ethical values into our brand position and business operations;
 - Leveraging partnerships, franchises, joint ventures and alliances;
 - Innovating and co-creating solutions;
 - Creating relationships with a human face;
 - Creating world leading brands and designs;
 - Leveraging the global value chains by knowing how we can best fit;
 - Connecting with global networks and information access;
 - Understanding and using the unique qualities of the New Zealand business reputation and branding;
 - Integrating manufactured goods with service offerings – manufacturing plus add-on features, like service, support or training;
 - Demanding and delivering high standards of operational excellence in the design, the production and the management capabilities of our companies; and
 - Incorporating the smart use of skilled labour with capital intensive manufacturing;
- 3 **Agree** that an important element of the *Manufacturing Plus* report is to enable an understanding by the sector of the rapidly evolving global competitive environment and encourage those manufacturing activities that can be successfully anchored in New Zealand;
- 4 **Note** the summary of existing government initiatives and their application to the manufacturing sector, set out in this paper;
- 5 **Agree** that firms benefiting from the one-off Export Year funding boost to MDAS be eligible for the grant for up to five years based on existing criteria, rather than one year as implemented;
- 6 **Note** that this change will ensure that firms benefiting from the MDAS funding boost for Export Year will be treated in the same way as firms that receive support from ongoing annual MDAS funding;
- 7 **Note** that MED will work with NZTE, Business New Zealand and the CTU to convene a 'Manufacturing Action Group', to oversee the ongoing implementation of the recommendations of the *Manufacturing Plus* report, and will develop detailed terms of reference, key tasks, deliverables and reporting requirements; and
- 8 **Note** that the 'Manufacturing Action Group' agenda may include issues such as;

- 8.1 the coordination of the implementation of the *Manufacturing Plus* report across industry and government;
 - 8.2 providing advice on major issues that influence the manufacturing sector;
 - 8.3 providing linkages with and informing the government's policy development process from a manufacturing perspective;
 - 8.4 the extent to which the sector is aware and making best use of the support currently available from government, and whether government initiatives are configured to best meet the needs of the sector going forward;
 - 8.5 how the manufacturing sector can adopt sustainable business practises to improve overall sustainability in the economy and capture significant commercial opportunities; and
 - 8.6 how to promote greater awareness of the successes and potential of the New Zealand manufacturing sector;
- 9 **Note** that the Minister for Industry and Regional Development indicates that the government caucuses will be consulted, and that consultation is not required with other parties represented in Parliament.

Hon Trevor Mallard
Minister for Industry and Regional Development