

**Office of Hon David Carter
Member of Parliament
Minister of Agriculture
Minister of Forestry
Minister for Biosecurity**

4:45pm for 5:00pm, Thursday 8 October 2009

Forest Owners Association and Wood Processors Association

Thank you for inviting me to address your conference, and thank you Peter Berg for your introduction. It's great to be here in Nelson.

I'd like to acknowledge all the delegates, and extend a warm to welcome to those who have travelled from around New Zealand – and from overseas – to be here.

This joint-conference is a good sign of co-ordination across the forest sector. After all, growers and processors face many common challenges.

You have asked me to review the Government's contribution to the sector.

Firstly, I want to categorically state that this Government recognises the critical role forestry plays in New Zealand's economy. As the Minister of Forestry, it is a huge priority for me.

You'll be well aware the Government is committed to driving productivity gains in New Zealand.

This is the only way that we, as a nation, will close the wage gap between Australia and New Zealand.

We must deliver an environment for business that lifts our potential and, importantly, boosts the growth and profitability of our tradeable sector.

It is our primary sector that is the growth engine of the New Zealand economy – and forest and wood processing are a crucial component of this machine.

Indeed, it will come as no surprise to you when I say commercial forestry is currently New Zealand's third largest export earner, at \$3.1 billion, and contributes 3.8% to GDP.

By way of comparison, the dairy sector is our largest export earner representing \$11.3 billion and the meat sector is our second largest earner at \$5.6 billion.

That's why I have delivered a strong message to Fonterra that as New Zealand's largest company, it has to lift its aspiration for growth.

It's also why I delivered a similar message to the Meat Industry Association a couple of weeks ago.

Just like the dairy and meat sectors, the forestry sector has enormous potential for economic growth and innovation. Potential wood availability in 2025 is a little over 35 million cubic metres.

Given current harvest is around 20 million cubic metres, this gives a potential increase in volume of 75%.

Domestic use will absorb only a small proportion of this projected growth – which is why the industry, together with Government, must have an even stronger focus on export markets.

Emissions Trading Scheme (ETS) update

As part of developing an environment conducive to business productivity, we initiated a review of the Emissions Trading Scheme.

The need to review the existing policy settings became more critical with the significant turnaround in the global economy, and for New Zealand in particular.

Let me explain where we're up to. The Bill that will amend the ETS has been introduced to the House and is now before the Finance and Expenditure Select Committee.

Features of the revised scheme include:

- **Intensity allocation to emissions intensive, trade exposed industry**
- **A capped price of NZ\$25 per tonne for all sectors (including forestry) until 2013**
- **A 50% obligation (1 emissions unit for every 2 tonnes of emissions) for the transport, energy and industrial sectors until 2013**
- **Fixing the allocation of units to pre-1990 forest land owners who purchased forest land before 1 November 2002 at 60 units per hectare**
- **Continued ability for forest owners to sell units internationally, thereby maximising the price they receive for carbon.**

We will continue to work with other political parties to build a broad consensus on the Bill, to try and ensure long-term stability in the ETS arrangements.

A stable ETS structure is crucial to meet our environmental responsibilities and to maintain investor confidence in the economy.

It is certainly our intention to deliver the finalised ETS legislation by December.

Wood Supplies

I understand that some of you may be concerned about the effects an ETS may have on the supply of raw material into your plants.

This, I believe, stems from fears that some forest owners may “lock up” their trees in “carbon forests”, while others may delay harvesting as they seek to maximize the carbon storage in older trees.

Wood flows from the 1.2 million hectare pre-1990 forest estate will be largely unaffected by an ETS. Most pre-1990 forest owners are expected to continue to harvest and replant their forests regardless.

Any possible effect on wood flows will result from the harvesting decisions of those post-1989 forest owners who choose to participate in the ETS.

At this stage it’s unclear what proportion of eligible post-1989 forest will participate, and what harvest decisions these forest owners will make. In the end it will be market returns driving harvest decisions.

On the upside, it’s also worth remembering that radiata pine’s wood properties improve with age, so there could be a silver lining if owners do delay some harvesting.

Government support for important initiatives in wood design

Moving now on to the subject of innovation, I’d like to acknowledge the excellent work being done at Canterbury University developing systems for multi-storey buildings using laminated veneer lumber.

I’ve visited the seismic lab at the University, where a two-thirds scale building has been constructed using columns and beams made from laminated veneer lumber. Vigorous testing for seismic stability and strength is now underway.

This work is not only technically interesting but is also very valuable for the future of commercial design and construction in New Zealand.

The research is being carried out under the auspices of the Structural Timber Innovation Company (or STIC), a collective of major participants in the Australian and New Zealand timber industries and leading research organisations.

The Government is the largest investor in this venture, through the Foundation for Research, Science and Technology, which provides dollar-for-dollar funding with industry.

Along with other initiatives, it should lead to a much wider use of wood in multi-storey construction. Professor Andy Buchanan and his team are to be congratulated on their work.

MAF has also recently released a report on research into Life Cycle Analysis of different construction materials used in constructing a six-storey commercial building. The report demonstrates the clear environmental benefits of building in timber.

Investment

There are a couple of inter-related issues that the forestry and wood processing industries are grappling with – how to lift productivity and how to attract new investment.

An important way to improve productivity is by capital investment. But such investments need the driver of profitability. One way to increase profitability is to improve productivity. And so we are faced with a classic Catch-22 situation.

Key components of profitability are the strength or weakness of markets; exchange rate volatility; country competitiveness; infrastructure barriers and the ease of resource planning under the RMA.

All these need to be addressed as part of breaking the Catch-22 cycle, though at any given time some will assume more importance than others.

I'd like to comment on one component – the Resource Management Act.

Resource Management Act

The RMA has long been a bone of contention, and much criticised for causing unnecessary delays and compliance costs.

RMA reform is a major initiative of this Government. Phase one amendments have been passed into law and are intended to reduce costs, speed up the process, address excessive bureaucracy and better manage anti-competitive behaviour under the RMA.

Phase two of the review is now underway, and looks at greater central government direction on resource management.

For forestry, this could involve a National Environmental Standard that improves the consistency in the application of the RMA across districts and regions. At present a company operating in a number of districts can be faced with varying standards to do similar activities, which can add costs and create uncertainty.

Many regional and district plans are coming up to their 10-year review. I know it can be a costly and time-consuming exercise but I encourage you to become involved in the review process and make sure your voices are heard.

When the plans were first written, the forest growing part of the sector put a lot of effort into ensuring its needs were catered for, but the wood processing industry was less involved. Now is a time to rectify that and put your stake in the ground.

Primary Growth Partnership

The final topic I want to touch on is the funding of research.

Last month the Prime Minister officially launched the Primary Growth Partnership. Unlike the previous administration's Fast Forward Fund, PGP includes the forest and wood products sectors.

PGP is an ambitious initiative that will invest in significant programmes of research and innovation across the primary and food sectors.

The launch of PGP signals a new direction in research and innovation funding for New Zealand – a direction that's based on industry-driven partnerships.

Programmes will be co-funded between Government and industry with \$30 million in Crown funding available in the 2009/10 financial year growing to \$70 million by 2012/13 – and ongoing.

This is an enduring commitment from central Government.

Investment will focus on initiatives that deliver significant economic growth and sustainability across the primary sectors from producer to consumer.

This partnership is not about 'business-as-usual' – it's clearly focused on ambitious projects that offer real benefits.

I believe it has the potential to transform the primary sectors in New Zealand. Growth in the primary sector equals growth for New Zealand and failure to grow is simply not an option.

In closing, this Government is highly ambitious about raising the standard of living for all New Zealanders.

I'd like to reiterate that the forest industry is a key strength for New Zealand and it has huge potential to grow.

All of you here today are crucial agents in making innovative change and I have no doubt that you will step up to the plate.

I wish you all the best for the remainder of your conference and for your field trip tomorrow, and thank you for inviting me.