

Reforging paradise - earning a First World living from our natural environment

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Jump!.... how high?

If we are to earn a First World living we need to add value to what we produce. Fig. 1 clearly shows that New Zealand languishes behind many other OECD countries in terms of GDP per hour worked. It's not so much what you make as how you make it and sell it.

Our current poverty model is that we sell Second World exports to buy a First World living standard. Fig. 2 shows the ratio of the value of our meat exports against the cost of our drug imports. Certainly there has been an increase in drug import volume, but there has also been an increase in the volume of meat exports.

To change the model we need to increase GDP.

* Presentation given to 2004 NZIF Conference Dinner.

Fig. 1: GDP per hours worked plotted against GDP per capita. (Source: OECD Science, Technology and Industry Scorecard, 2001).

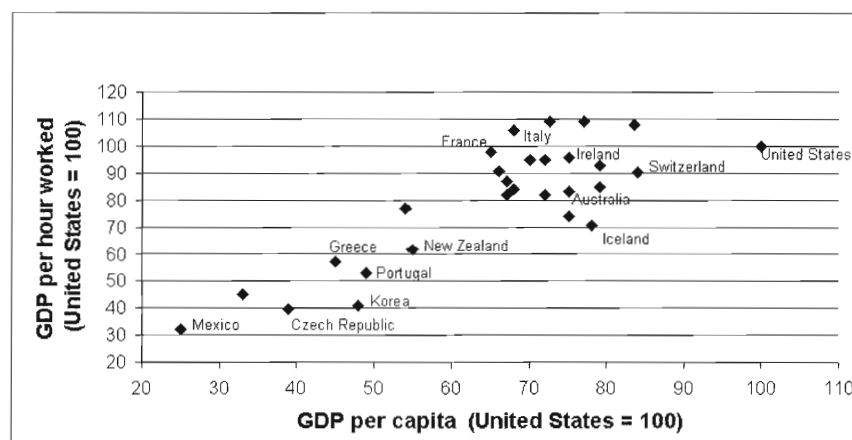
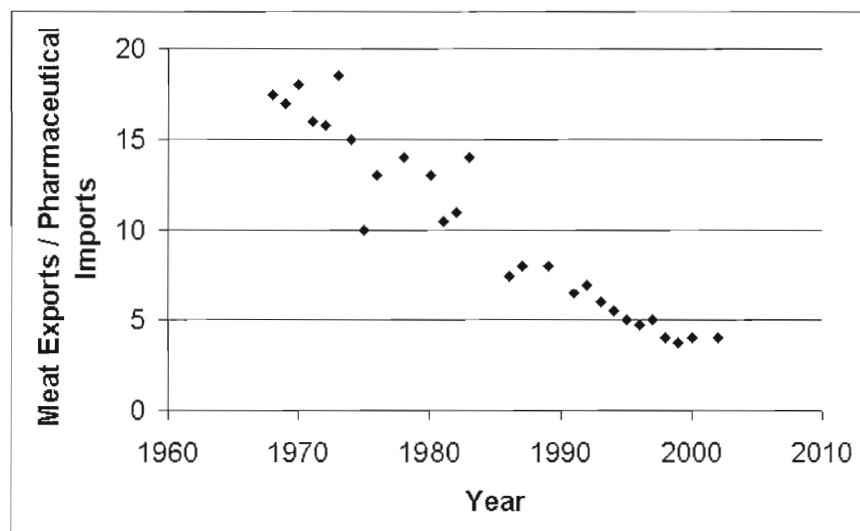


Fig. 2: Ratio of the value of New Zealand meat exports to pharmaceutical imports.



There is a limit to how much the domestic contribution to GDP can be increased - we need to focus on exports and try and double the export contribution to GDP over the next 10 years. But we can't double export volume - we have to double export value.

Vanguard exporters

Hallmarks of vanguard exporters are that they export market inspired products offering unique value; the products are based on originality born of New Zealand roots using science, innovation, creativity and team ethic; they have developed smart strategies for international markets; they show astute management skills to acquire and develop human and technology skills plus capital; and have the confidence and skills to collaborate with partners, suppliers and customers abroad.

The New Zealand lamb industry is a good example having moved from carcasses to cuts, frozen to chilled, and into packaging. This has paid off for farmers with average lamb payout (Fig. 3) increasing on average by 6.2% per annum between 1991 and 2002 - compared to increases of 3.3% for dairy and 1.9% for beef. Although export volumes have gone down, values have gone up (Fig. 4).

Today New Zealand commands 55% of world trade in lamb. But farmers are only a New Zealand business that exports; they are not an international industry. In the future much more lamb will be grown and eaten. As New Zealand can't meet the rising demand others will. Consequently New Zealand's share of international trade will decline, as will our pricing power and leadership - unless we focus on value generation and capture as Zespri have done.

Zespri's achievements are impressive. They have built marketing and established a brand. They have shown innovation such as adopting Zespri Gold created by Hort Research, the improvement of orchard technology, and the generation of intellectual property. They have de-

Fig. 3: Weighted average lamb payout (real 2001/02 \$NZ).

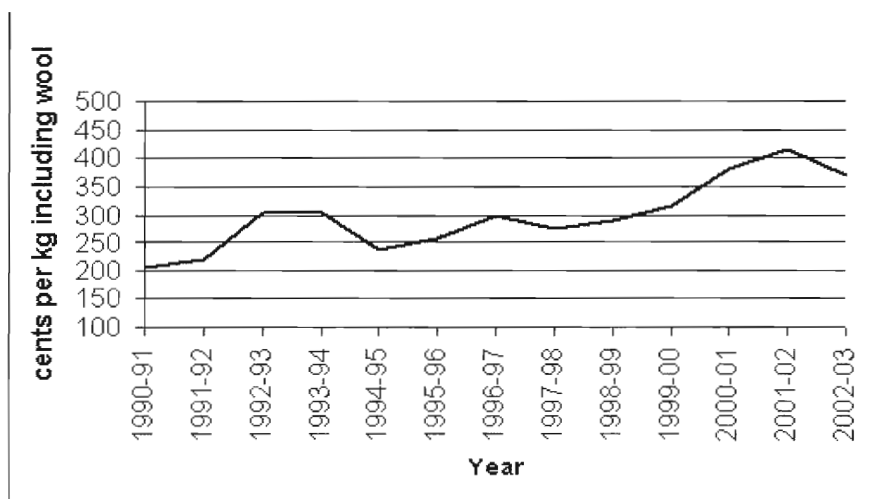
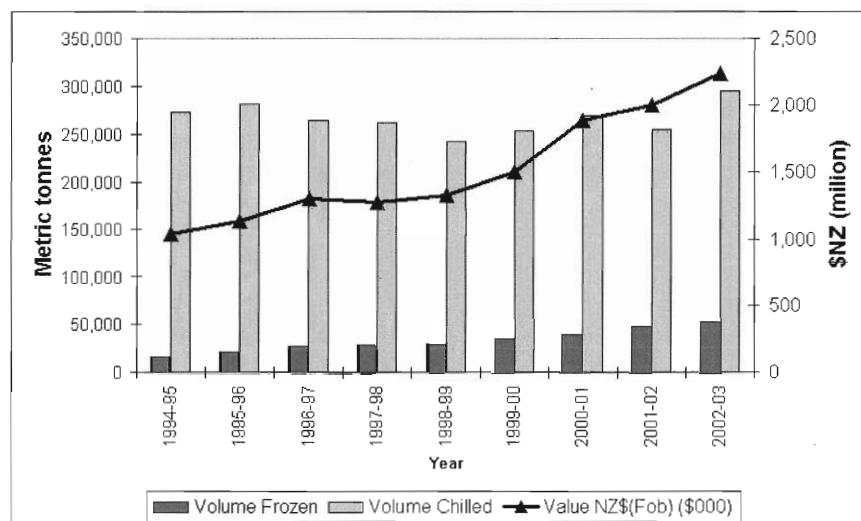


Fig. 4: Trend in volume and value of NZ lamb exports (year ended May 2003). (Source: Statistics NZ)



veloped a clever 12-month supply chain in which fruit is grown overseas as well as in New Zealand. The result is that a 30% premium is achieved in the EU market. And there is lots more science yet to come.

Sunk without a trace

Is the Americas Cup a sport? No it is about science and technology, high tech manufacturing, ultimate edge testing, international alliances, international marketing, and team building. These should be New Zealand's core competencies. But Team New Zealand in 2001-03 failed in all these areas. It was not world scale, world class and world speed.

Forestry: today...and tomorrow

You are the survivors of 20 years of turmoil. There has been massive restructuring in the forestry sector as well as changes in forest owner-

ship. The focus of forest-owners has gone from the long-term (government-owned) through short-term (corporate-owned) back to long-term (institution-owned). There has also been a wild currency ride. You have invested in new skills, technology and plant. You have tried to collaborate but it doesn't come easy.

The current reality is that you are still very low on the value chain and are whacked by commodity and currency cycles. You are not at all sure there is a way out of here but you have ambition. FIC's Vision 2025 targets include:

- Revenues of \$20 billion - a 4-times increase.
- Exports of \$18 billion - a 5-times increase.
- GDP contribution of 14% - a 3-times increase.
- Employment of 60,000 - a 2.5-times increase.

These are challenging goals by any standard - harder than for any other primary sector. You will need at least \$3 billion of investment to achieve them. To win this you have to move up the value chain - not in incremental steps but in big leaps.

Issues for moving up the value chain

1. Forest ownership

The trend in ownership to long-term holders is potentially good news but will the new institutional owners simply ride the log cycle?

There is a looming fibre shortage in Asia-Pacific and it would be easy to make some money from logs by being ruthless with costs. Will the new owners follow this path or will they build long-term supply relationships downstream and help build value?

The increasing fragmentation of ownership changes the dynamics of the sector. This is not a problem as long as you build new relationships and networks to replace the monoliths.

2. Industry collaboration

There have been a number of recent initiatives to increase collaboration both within the sector and with government. My assessment of progress:

- Wood Processing Strategy - slow.
- Forest Industry Framework Agreement - slow.
- Trade issues - glacial.
- Marketing & Commodity Levy - controversial.

- New industry structures are needed for better collaboration between companies and industry bodies - controversial.

3. Kyoto

Despite the attention being paid to it, this is a second order issue for the sector as a whole. It may have an impact on costs - either positive or negative - and some of the financial benefits of carbon credits will be recycled into forestry by the government through FIFA. However, the first order issue is creating value from trees.

4. New business models

These are required along the entire value chain. The key is in understanding value and how to build it together. There are some good examples - the recent deal between Tenon and Zenia House looks like a marriage made in heaven although Tenon will need a radical culture change to make it last. The intriguing aspect of the deal is that it was facilitated by Industry New Zealand - they went where New Zealand industry dared not go.

5. New business skills

You need better collaboration, both at home and abroad.

6. New products

Radiata pine is indeed a versatile species - you need to utilise this to redefine radiata pine and the products you produce.

7. Robust infrastructure

You need to stop trashing and cannibalising key players in the sector. Contractors, managers and scientists are vital components for the industry but have been battered by 20 years of restructuring and cost minimisation.

You can't live off the Forest Service forever. Where are the future training and career opportunities going to come from?

8. Commercialising science

There is a huge disjoint between scientists and industry. Commercialisation models are very weak - we put a lot of science in at one end but get very little commercial benefit out of the other - and industry is slow at adopting the results of research. It is hard to see who Forest Research and Horizon 2 will collaborate with. For example, Forest Research is focusing on Biomaterials, a strategy that appears to be out of step with industry. It is certainly not evident that industry has the ability to apply this technology.

9. Trans-Tasman forestry

This has started at the end-user level but has

a long way to go upstream. There are big scale benefits from it; for example, into China.

10. Judder bars

Russell Judd's presentation to the NZIF Conference was a wake up call to an industry that has lost sight of value maximisation and focused on cost minimisation. In purging costs there have been many casualties. Your challenge now is to harness the passion and ambition of your young graduates and the ideas and technologies that they can add.

Our challenge, our genius

Our challenge is to get real and get ambitious. The reality is that opportunities are exceptional. The challenges are tough but doable. We need to be ambitious and work to be world speed, world scale and world class. We must build value - not cut costs.

Our genius is our creativity and originality. Not believing in them is our biggest, most-repeated mistake. When we forget originality we fail. For example, we have imposed unmodified foreign models in macroeconomic reform and many corporate strategies rather than devising uniquely right solutions for New Zealand.

But when we are true to our genius:

- We produce inspired products offering unique value.
- We utilise the originality born of New Zealand roots and integrate science, innovation, creativity and team ethic.
- We develop smart strategies for international markets.
- We use astute management skills to acquire and develop human and technology skills plus capital.
- We have the confidence and skills to collaborate with partners, suppliers and customers abroad.

When originality informs, enlivens all we do...we're brilliant...we're world class.