

**Submission To:**

**Allan Witcombe  
The Commerce Select Committee  
Parliament Buildings  
WELLINGTON**

**ECONOMIC DEVELOPMENT (INDUSTRY NEW  
ZEALAND AND MINISTRY OF ECONOMIC  
DEVELOPMENT) BILL**

**Submission From:**

**NZ Manufacturers Federation Inc.  
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## **1. INTRODUCTION**

- 1.1 The New Zealand Manufacturers Federation Inc (ManFed) welcomes the opportunity to comment on the Economic Development (Industry New Zealand and Ministry of Economic Development) Bill.
- 1.2 This submission is made on behalf of ManFed members. ManFed represents both regional associations and sector groups of manufacturers and has a total membership of about 2600 companies.
- 1.3 The manufacturing sector is a significant contributor to the economy of New Zealand and represents approximately 18% of total GDP. Manufactured products comprise 87% of New Zealand exports (this includes primary products exported in processed form). Manufacturing sector sales on an annual basis are \$51 billion, and total sector employment is about 280,000.
- 1.4 The manufacturing sector is a major purchaser from the services sector, particularly in the areas of energy, transport, communications, business and the financial services sector. These sectors have a combined contribution of 29% of GDP.

## **2. PROMOTING AND ENCOURAGING SUSTAINABLE ECONOMIC DEVELOPMENT**

- 2.1 The Federation welcomes the proposed purpose of the Bill, which is to promote and encourage sustainable economic development in New Zealand. It also welcomes the recognition given in the Bill to the importance of industry, and regional, development.
- 2.2 The Federation, however, believes there is a significant gap between the desire to promote and encourage sustainable economic development and the narrow focus given to Industry New Zealand for implementing the programmes and activities for industry, and regional, development determined by the Government.
- 2.3 The proposed functions for Industry New Zealand set out in clause 8(1) of the Bill are so conservative and cautious as to suggest that the authors wish only to ensure that existing state agencies would retain oversight and influence over any substantive work undertaken by Industry New Zealand.
- 2.4 In our view the organisation is being established precisely because its purpose has not been, and is not currently being, fulfilled by any other public sector agency. The agency should not exist if it is merely to take its place in a queue of broadly similar public agencies awaiting opportunities to expend public money or to engage in turf wars. Industry New Zealand, we have assumed, is to drive policies and policy

co-ordination so that “\_ \_ \_ \_ Government policies ensure that New Zealand transforms the base of its economy much faster than has been the case in recent years. The future must be one of a high skills, high employment, high value added economy \_ \_ \_ \_”.<sup>1</sup>

- 2.5 This role takes on added importance if a major flaw in the process of government is taken into account. This process compartmentalises activities and funding into distinct votes and ministries, without recognising the degree of overlap which can occur. It is particularly true of economic development, which is so dependent on making the best use of the basic resources we have available for economic activity (summarised by economists as land, labour, capital and knowledge).
- 2.6 The planned industry and regional development programmes are likely to make only a small contribution to overall economic development, or may even be completely frustrated, if the actions of other Government agencies are not also based on the same goal of encouraging sustainable economic development. Since this is not a key policy component for each Ministry in delivering its own portfolio outputs there is no reason for them to take it into account, or to be responsible for reporting to the Minister on their contribution to sustainable economic development.
- 2.7 It is, therefore, important to more formally recognise that most Government portfolios and strategic priorities have implications for sustainable economic development. For example, the quality of primary and post primary education, and access to tertiary education and training, are key issues in regions where economic development has fallen behind growth in the major metropolitan areas. Similarly, the quality and supply of skilled labour force is an important issue in determining the level of growth in industry in New Zealand.
- 2.8 Infrastructure, particularly communications and transport, is an area where there has been substantial Government investment in the past and where there still remains major Government investment. Improving the effectiveness of investment in these sectors, and increasing the level of competition, will make an important contribution to the success of industry and regional development policies. It is, therefore, pointless to have a Government agency putting in place industry and regional development programmes, if the formal process does not exist for it to have input into Government portfolios that are contributing to, or failing to, respond to inequality in economic development.

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<sup>1</sup> Speech from the Throne, 21/12/99.

- 2.9 Against this background, we would submit that clause 8(1) be amended as follows:
- (a) advise the Government on policies and programmes that would implement its objectives for industry and regional development;
  - (b) initiate, promote and monitor co-operation and co-ordination among all Crown agencies and entities of policies and programmes that would implement the Government's objectives for industry and regional development;
  - (c) allocate funds or deliver services on an efficient and effective basis within programmes for industry and regional development for which appropriations have been made; and
  - (d) carry out any other functions or duties in relation to the purpose of this Act as the Minister may prescribe by notice to the Board of Industry New Zealand in writing and signed by the Minister.
- 2.10 It may be argued that the broader role of co-ordinating the delivery of Government business assistance and other industry and regional development objectives would be more appropriately a function of the Ministry of Economic Development.

However, there are several reasons why the delivery of such a co-ordinating role through Industry New Zealand is more appropriate:

- (a) the Ministry of Economic Development fulfils a number of portfolios, and reports to a number of Ministers, so it would be difficult to retain economic development as a paramount function over the portfolios; and
  - (b) the contribution of private sector representatives on the Board of Industry New Zealand to a co-ordinated and prioritised sustainable economic development strategy for the Government, which can disregard current artificial distinctions between policy portfolios.
- 2.11 Officials are unlikely to be comfortable with this approach because of the potential for conflicting streams of advice to the Minister, and concerns about interference by an outside agency with different objectives. Organisations of a similar nature in the past such as the New Zealand Planning Council and Economic Development Commission both faced opposition from officials. That is an inevitable consequence of forming an agency with a co-ordinated and prioritised sustainable economic development objective because it forces Government agencies to examine the broader economic consequences of the policies they are developing.

### **3. FUNDING POLICY**

- 3.1 The Federation welcomes the willingness to retain flexibility in the funding of business assistance programmes. The changes introduced last year to allow private sector organisations to tender for the delivery of business assistance programmes have already brought significant benefits for business and for the Government. We have not seen any assessment of the impact of the change in the programmes but the expected benefits include:
1. a smaller proportion of the funding would be absorbed in administration costs. Under the earlier business development programme the administration costs of the business development boards absorbed one third of the funding available. By delivering the programmes through existing private sector organisations in the regions, where assistance programmes were operating, the costs of establishing duplicate administration facilities could be avoided; and
  2. making use of the existing business contacts held by private sector organisations to more effectively educate business on the assistance programmes available.
- 3.2 The Bill does not determine the criteria why Industry New Zealand should consider whether to deliver industry and regional development programmes or to allocate funding to other organisations so they can deliver those programmes. While it is not necessarily appropriate to include those criteria in the legislation they should be included in a directive from the Minister to Industry New Zealand.

### **4. RECOMMENDATIONS**

- 4.1 That sub-clause 8(1) be amended as follows:
- (a) advise the Government on policies and programmes that would implement its objectives for industry and regional development;
  - (b) initiate, promote and monitor co-operation and co-ordination among all Crown agencies and entities of policies and programmes that would implement the Government's objectives for industry and regional development;
  - (c) allocate funds or deliver services on an efficient and effective basis within programmes for industry and regional development for which appropriations have been made; and
  - (d) carry out any other functions or duties in relation to the purpose of this Act as the Minister may prescribe by notice to the Board of Industry New Zealand in writing and signed by the Minister.

- 4.2 That the Committee recommend the Minister direct Industry New Zealand on the criteria to be considered in determining whether Industry New Zealand delivers services within programmes for industry and regional development, or allocates funding to other organisations to deliver those services.