

# The minerals industry and its contribution to New Zealand's economic development

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While the new Minister of Economic Development sends his apologies at being unable to speak at this Conference, I am delighted to present on his behalf. The Ministry of Economic Development is not only responsible for managing the Crown mineral estate, but also for developing initiatives and policies to promote regional economic development and for managing the Government's broader economic development strategy. I'd like to talk to you today about the critical links that need to exist between these three areas.

I am going to start with a question for all of you. What do these towns have in common?

- Waiuku
- Thames
- New Plymouth
- Nelson
- Greymouth
- Arrowtown
- Reefton
- Palmerston
- Dunedin

The answer is minerals. These towns were nearly all founded on the back of minerals and mining. In the case of Greymouth it was gold that brought the people to the mouth of the Grey River and it is coal that sustains the town.

In 1870 the town of Shortland had 20,000 people, 90 hotels and was twice the size of Auckland. We now know Shortland as Thames, and of course Auckland is considerably larger. One wonders whether the good folk of Shortland suffered from "traffic jams" with 90 pubs to navigate between.

Gold mining in the Aorere river near Collingwood led early entrepreneurs to develop the land surrounding Nelson as a food basket to sustain the mining population. Nelson is still thriving on this legacy today.

The town of Palmerston was founded in 1862 as a stopping point for gold miners heading into central Otago

The gold rush made Dunedin New Zealand's first highly industrialised city.

Reefton on the West Coast was the first town in New Zealand to have electric lights And in the recent past we were wondering who'd be left to turn them off.

New Plymouth, and Waiuku are still known as energy and mining centres.

By contrast once thriving towns like Caplestone, Canvastown and Blackball are just names on a map now, and at the extreme you have places like Waiuta which has been reclaimed by the West Coast forest.

Queenstown was built off the back of the gold rush, but by 1900 with the gold gone, only 190 people lived there yet Queenstown has managed to rebuild itself thanks to some other stunning natural assets.

These examples help illustrate three key points that I am sure will each be extensively linked with our minerals and mining industries.

First, NZ's development and that of its regions has been, and continues to be, inextricably linked with our minerals and mining industries.

Second, things change. Sectors, regions and countries must continually adapt and improve if they are to avoid the fate of the Waiutas of this world.

And third, the development challenges faced by NZ and its mining industry in the 21<sup>st</sup> century are vastly more complex than in the past. Governments and industry alike must balance and respond to a range of domestic and international environmental, cultural, economic and other interests and considerations.

If you thought of your industry as "just digging holes in the ground" then you may as well simply stick your head in one!

## **Growth and Innovation Framework**

Suspect everyone here knows more about this industry than do I, so won't try and compete. What I will do is attempt to set out the government's overarching vision for economic and regional development and link this to some of the issues facing the minerals sector.

For a prolonged period, New Zealand slipped below the rate of growth of the countries we like to compare ourselves to. This is not merely a vanity thing, economic growth means that we can sustain the standard of life that New Zealanders value. Things like, social opportunities and environmental protection can only come through economic performance. Our 30% income gap with Australia should not be seen just as some kind of sports contests to be offset against the netball. The problem with slipping behind other countries is that suddenly wages and conditions start to look a lot better elsewhere, and as the current debate on skills-shortages has shown labour operates in an increasingly global market.

In response to this the government developed the Growth and Innovation Framework, or the GIF as it is abbreviated to.

The GIF builds on work that has identified that the reason for New Zealand's relatively low rate of economic growth is our relatively low levels of productivity. The issue of productivity is a complex one, however in essence it boils down to the fact that we aren't producing enough value for each hour worked.

The GIF outlined key areas where we needed to see improvement.

The key areas are:

- Strengthening the innovation system
- Developing skills and talents
- Increasing international connections

I'll look briefly at each of these areas in turn, starting with strengthening the innovation system.

Innovation is really the key to lifting New Zealand's wealth. We've the lowest unemployment in the OECD. We already work longer hours than most countries so we need to work smarter rather than more. This means new business processes and new products. We need to find out what the market wants and then provide better, faster solutions for these wants.

This kind of innovation doesn't happen in a bubble, so we need to develop skills across all levels of the economy from senior executive to more basic. A high-wage economy will not happen without people holding the skills to create that high value. That's why the second key GIF area, developing skills and talents, is vital.

The third area where we need to lift our game is in strengthening international connections. For a country like New Zealand the domestic market is so small that to create real value we need to be exporting. At present relatively few New Zealand firms export. Partially this can be explained by the small size of many New Zealand firms and partially by the distance to and unfamiliarity with offshore markets. But whatever the reason, it's critical for New Zealand that we are able to attract offshore investment, together with the skills and technology that will help boost New Zealanders' incomes and general wellbeing.

## **Regional economic development**

Of course, all economic activity happens somewhere. I would now like to turn now to regional economic development, and the opportunities and challenges this offers for the New Zealand minerals industry.

There are a range of reasons why the government is concerned with regional economic development. Regions obviously make a contribution to national growth but we've been very focussed in government on the reality that if Hamilton takes a business from Auckland then that's great for the Waikato but unlikely to create national benefit.

The government's approach therefore has been to encourage regions to recognise that they have different strengths and to focus on these strengths. The West Coast for instance has an appropriate focus on the mining industry, whereas Wellington has more reason to focus on the creative industries.

In an increasingly globalised economic environment this focus on regional comparative advantage is vital. Gone are the days when investment capital and skilled labour automatically stayed put – we live in a world where regions' firms within them need to make the most of the training, science, natural and other resources available to them if they are to prosper and grow.

Central to the government's regional development strategy has been the Regional Partnerships Programme - a three stage programme which part-funds regional economic partnerships:

The programme provides assistance for the development of regional economic development strategies, capability building and up to \$2 million per three year cycle for a major regional initiative (MRI)

The RPP has now been in operation for nearly five years. Twenty-six regional partnerships have been established, all of which have developed regional economic development strategies, and many of which have developed MRIs.

The underlying assumption is that the RPP partnership approach will help create an institutional environment more conducive to co-and that this will in turn foster more innovation activity, particularly in those areas where regions have identifiable strengths.

So, you may well ask what does this mean to me?

These words should not be meaningless policy-speak. I would encourage you, as the mining industry, to seek to be part of this partnership approach and to look to work with those regions where you have a strong stake. Indeed, for reasons I'll outline, I believe the RPP and the approach it embodies is especially critical for this industry.

There are some good examples of the benefits that flow when industry and the region can come together around a strategic direction and projects.

Take Taranaki for example. As the energy capital of New Zealand, the region has a history and strength in heavy engineering. However, one of the issues that has constrained the industry has been the irregular nature of the work and the difficulty in getting new skilled staff.

The Taranaki Engineering MRI therefore combined Taranaki's significant capability in engineering with a skills strategy, an export office and a branding campaign to establish the region as a leading centre of excellence in applied engineering.

The project is driven by Venture Taranaki working with the Western Institute of Technology Taranaki and the Engineering Taranaki Consortium, made up of 11 of the region's leading engineering companies.

The initiative includes training graduates for the industry and investing in new technology to provide sophisticated plant and equipment for student training.

Engineering Taranaki concentrates on several areas: new product development, pursuing new business opportunities, and enhancing the industry's competitiveness and efficiency. Additionally, a procurement and export office within the new Centre co-ordinates the collective purchasing power of the engineering sector and link companies to offshore export opportunities.

Another example of a MRI is in the Eastern Bay of Plenty. In Kawarau the big companies like Fonterra and Norske-Skog Tasman have collaborated with the region to develop a training facility to help bring on the next generation of maintenance engineers.

It's not all engineering though, we now have 17 MRIs in a range of sectors in 15 regions. We have CRIs involved as well as universities and other training and research providers. The only thing in common with each of the MRIs are that the region has a strength in that area and that business has partnered with the region.

Regional economic development is not all about MRIs. As you all know the West Coast is one of the largest minerals producing regions in New Zealand, with output expanding significantly. In 2004 a Minerals West Coast Cluster was established and a strategic plan prepared.

The West Coast has recognised the importance of coal in their regional development strategy and is now looking at future transport needs for the coal industry.

The West Coast Economic Development Agency, the West Coast Development Trust has continued to support Minerals West Coast. In the 2004-05 financial year it provided \$165,000 to Minerals West Coast.

At the start of my presentation I suggested that one of the key issues for the Minerals Sector is the need to balance a range of interest and perspectives. This is particularly relevant in the regional context.

The minerals industry is not alone in struggling to be better understood as a business and to develop a more effective relationship with central and local government and with other regional interests. But I guess you're all keenly familiar with the "Not In My Backyard" phenomenon. To secure support for exploration and production, it is necessary to build alliances, understand opposing views and, inevitably, compromise.

I understand that there has recently been an initiative by the Otago Regional Council to work with territorial authorities, the Ministry of Economic Development, local iwi, the Minerals Association, Federated Farmers and others to develop a local policy for developing the regions' mineral resources.

This is exactly the kind of relationship development which will need to happen at a local level if the industry is to establish the confidence and trust required to shift the perceptions of some regarding exploration and mining

Planning is another key part of the government's approach.

As you will be aware, the Local Government Act requires councils to develop long term community plans. It is critical that both central government and the minerals industry are involved in this process to ensure that council planning reflects all local interest, as well as having regard to wider national development strategies.

Generally this process works well. However, as was the case with the recent Thames-Coromandel District Plan, where this fails to occur the Ministry of Economic Development will work with industry to ensure there is balanced and fair regional planning.

The Minerals Investment Strategy highlights the role for central government in properly emphasising issues of economic benefits in regional planning and resource allocation matters.

## **Improving information**

As with any decision making process, good planning and good decisions require good information. A review of the Regional Partnerships Programme I mentioned earlier recognised the need for improving regional data sets to strengthen existing regional development strategies.

Similarly, enhancing prospectivity knowledge is a key theme of the Minerals Investment Strategy.

In the past year the Ministry has embarked on two major information technology projects to digitally capture and make available on-line historic permitting and geo-technical data.

These projects will enable a critical economic value component to be factored in future regional planning decisions. Given that many of New Zealand's less densely populated regions do not have the capability or capacity to undertake in depth economic analysis or interpretation of material relating to the key sectors and trends in their region, it is in your interests that you use this information effectively and constructively in working with local government and related interests.

The minerals industry must recognise that it is only one of many legitimate interests in regional economic planning. The High Court decision on the Thames/Coromandel plan rightly set out the constraints on a council in terms of how it may and may not manage local resources. However the reality is that the region is one which has obvious environmental and tourism values which will compete with and constrain minerals activities.

In contrast, regions such as Southland, Otago, West Coast and Northland not only have mining histories and face challenges in terms of economic growth, they are also prospective regions with lower barriers to mineral recovery.

In this regard the Ministry has, through the Investment Strategy, deliberately targeted "easier" opportunities by commissioning technical reports to assess the prospectivity and economic value of particular minerals in Southland and Otago. Details of this will be discussed later at the conference.

## Conclusion

As with other economic development partnership programmes, early results from the government's regional policy necessarily need to be focused on changing attitudes and behaviours of other regional partners. It is an evolutionary process, and change is incremental. Given the experiences of the minerals industry over the past 30 years, I am sure that you are well aware of this; pragmatic and realistic in your expectations.

However, as you discuss some of the more detailed geo-technical issues over the next three days, I invite you to bear in mind some questions – the answers to which may help determine your prospects of success in the future:

- Is there more that industry can do to establish relationships of genuine trust and understanding with all key local government, iwi, and other regional stakeholders?
- Conversely, is there effective, and strongly coordinated internal leadership across the industry to enable effective dialogue with other stakeholders?
- Has there been a strategic focus on the “right” regions where the opportunity for economic growth is high and consistent with the history and strengths of that region?

I would like to thank you for your time today and, on behalf of the Minister, I would like to recognise that yours is an industry as well suited and relevant to regional economic development planning as any other industry. I hope that my talk has provided some central government context for the lively debates that will no doubt occur in the next three days. Thank you.