

Submission from FIRST Union to the Manufacturing Inquiry



November 30, 2012

FIRST Union welcomes the Parliamentary inquiry into manufacturing initiated by the Labour, Green, NZ First and Mana parties.

An inquiry won't bring back the thousands of jobs already lost in the past three or four years, but it will draw attention to the jobs crisis facing our third largest employing industry, and what can be done about it.

FIRST Union is an amalgamation of the National Distribution Union and Finsec. It represents around 27,000 workers in the Finance, Industrial, Retail, Stores and Transport sectors. Our union's coverage in manufacturing is primarily through textiles and wood processing, although we also have some members in food manufacturing.

Workers in the sector have been paying the price for government inaction through job losses. In wood processing alone, we estimate that over 1,500 jobs have been lost in the past four years.

We welcome the focus on policy alternatives that this Inquiry will bring, to better support manufacturing.

In our view, this discussion should include:

Better use of government procurement settings to support local jobs

Despite being raised as one of the top 20 issues at the Prime Minister's Jobs Summit in 2009, the procurement agenda has been completely twisted away from jobs, and into saving a few dollars for the government. The Job Summit's procurement working group met only once over teleconference, and was never convened again.

Government has significant purchasing power with the potential to support local industry. Yet in September this year, the government published its 5 new principles for procurement, which contained only one line commenting on New Zealand suppliers, and only that they have a fair opportunity to compete. This approach totally fails local workers and manufacturers.

Hiding behind international trade commitment rules is a cop out. Our competitors do much better on procurement. The United States requires its soldiers to be kitted out in American made uniforms and Australian infrastructure projects often have a minimum local content provision.

One very current example of the failure of government procurement settings is the rebuild of Canterbury. Local sawn timber and engineered wood products (and locally manufactured textiles such as carpet) should be being required for the rebuild. It would be a travesty if Canterbury were to be rebuilt using Chilean and Canadian timber, while local sawmills lay off workers and downsize.

Temporary Job Support Schemes

Brought in at the peak of the recession, these schemes, such as the 9 Day Fortnight, should be brought back for sectors facing significant redundancies. There is the potential for some redundancies to be reduced by enabling companies to reduce hours with no or minimal loss of income to workers.

This worked successfully at, for example, Summit Wool Spinners in Oamaru, who utilised job support schemes for a period and were then able to increase hours worked again.

Better monetary policy settings

Manufacturers have been completely let down by successive governments' refusal to take any initiative in tackling our highly overvalued dollar. Every manufacturer and exporter that our union meets has identified the high and volatile NZ dollar as the cause of closures, layoffs or lack of growth.

While the New Zealand government has little control over international demand for our manufactured products, it certainly does have policy options available to them. Industry cannot stabilise and grow while the dollar is so high.

A high dollar is not a natural phenomenon over which we have no control, as it is often painted. A refusal to target speculative currency traders means that our manufacturing industries are being forced to play roulette with overseas currency traders overseas – and losing. A Financial Transactions Tax or other measures would slow speculative cash washing in and out of New Zealand. These need to be investigated.

Industry policy

Specific measures for certain industries are also warranted. In the wood sector for example, exporters of raw logs are making money, but many value-added wood processors are downsizing or being put out of business. We face the real risk that New Zealand will be unable to fully capitalise on the processing side of one of our largest industries – forestry.

Unless we take steps to better structure our economy to take full advantage of our resources, we risk seeing less value-added manufacturing in areas like wood processing, because the value we add can often be beaten by China or India's low wages and costs. We recommend that consideration be given to setting a lower domestic log price to enable wood processors to manufacture in New Zealand.

Worker stories

We would value the opportunity to arrange some manufacturing workers to meet with the committee members. Depending on where you travel to, we have members in a number of regional areas, and some cities, who could give a firsthand account of the challenges facing manufacturing. Please arrange this through Sam Huggard, on (04) 801 2003.

Appendix

Attached to this submission is a paper we presented (then as the National Distribution Union) to Forestry Minister David Carter last year. In it, we estimated 1,129 jobs had been lost in wood processing since 2008. We estimate this figure is now over 1,500 – per attached excel sheet.

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Discussion paper for meeting with David Carter, Minister of Forestry, January 25 2010

Background

The National Distribution Union and the Engineering, Printing and Manufacturing Union represent workers in the wood processing industries in New Zealand.

Following several recent closures or “downsizing” exercises in the industry, the NDU called for this meeting to discuss what we are calling a crisis in the wood processing industry.

Wood processing companies are telling us that it is now uneconomic to stay in business or produce at previous volumes, due to a combination of the high NZ dollar, the high price of logs, the low price for processed timber and the high cost of capital. Some of these companies are also using the word “crisis” to describe the current situation. We have already conveyed to you the views of a major New Zealand wood processor on the global issues that are having such a negative impact on the New Zealand wood processing industry from the beginning of the recession in 2008 until today.

We remind you that soon after you were appointed Minister of Forestry in November 2008, the NDU made a statement alerting you to the impending crisis in the industry. Your response to our call was quoted as being:

New Forestry Minister David Carter said there were no immediate plans to address the job losses but the government needed to give some policy certainty back to the sector, particularly around the Resource Management Act and climate change issues.

"The industry needs certainty around the emissions trading scheme as quickly as possible," he said.

The NDU and EPMU also re-established relations with the Wood Processors Association at that time in order to build a united front of concern at short and medium term sustainability of the industry.

It is interesting that none of the wood processing companies that the NDU is dealing with at the moment is placing the RMA or climate change (or indeed industrial relations issues such as 90 day trial, holidays and breaks, minimum wage) as contributors to or assistance in dealing with the crisis that they are in at the moment.

Job losses from 2008

Our understanding of job losses in major wood processing mills from 2008 is set out below.

Site and Date	Town	Estimated redundancies
Fletcher Laminex Papakura, March 2008	Papakura	60
Carter Holt Harvey Kopu sawmill, May 2008	Thames	145
Carter Holt Harvey Kinleith Kilns and Planer Mill, September 2008	Tokoroa	22
Carter Holt Harvey Putaruru sawmill, December 2008	Putaruru	212
Carter Holt Harvey Mount Maunganui Plywood Mill, December 2008	Mt Maunganui	104
Fletcher Building-owned Plyco Select, December 2008	Penrose	80
Nelson Pine, March 2009	Richmond	60
Bright Wood New Zealand Otautau sawmill, June 2009	Otautau, Southland	60
Fletcher Laminex Kumeu, July 2009	Kumeu	45
Norske Skog Tasman pulp and paper mill, October 2009	Kawerau	60 sought (Oct 09)
WPI's Blue Mountain Lumber, October 2009	Gore	110 in two

		stages
WPI's Prime Sawmill, December 2010 (and earlier)	Gisborne	65
Carter Holt Harvey Woodproducts Kawerau Sawmill, December 2010	Kawerau	26
WPI's Tangiwai Sawmill, December 2010	Tangiwai	80

We estimate that this total of **1,129** job losses could be well under half of the actual figure when attrition and unreported job losses are taken into account.

The tragedy is that these job losses are happening at a time when there is a global shortage of wood and high unemployment (especially Maori and youth) in areas where much of the wood processing industry is located.

Analysis

The current crisis in the wood processing industry is not caused by internal problems in the industry but by the policy settings of New Zealand and other Governments, and decisions taken in other parts of the world that New Zealand either has no control over, or has consciously abrogated control or influence over.

So, it is the dentists in Belgium, the housewives in Tokyo and the global currency traders in Singapore, London and New York that keep the price of the New Zealand dollar high.

It is the demand for wood from China and increasingly India that is keeping the global log price high.

It is the continuing depression of the US house market and the ability of Canadian and Russian wood processors to access logs for well under the global market price that is keeping the global lumber price low. Russia by applying export tariffs on logs, and Canada achieving its version of a lower internal price for logs by allowing its provincial governments to sell cut price logs to local processors that have been infected by the mountain pine beetle (see appendix).

Unfortunately, when it comes to global trade, successive New Zealand Governments refuse to play the way the All Blacks do. The All Blacks, especially their current captain, Richie McCaw play to the edge of the rules and even over them in order to gain the greatest advantage. Even if he is sometimes penalised, this strategy pays off. New Zealand Inc on the other hand seems to believe that it will do the best by remaining pure free traders and not even testing the boundaries of the rules. Unfortunately, combined with the fact that, in trade terms NZ is to continue the rugby analogy about equal to the Russian rugby team the result is that we lose every trade game, our processors lose millions of dollars and our workers lose their jobs.

While in opposition, the current Prime Minister referred to the social dislocation of the restricting of the economy (including the forest sector) in the 1980s and the creation of a permanent underclass in New Zealand from this period. He was vocal in criticising these policies and vowed to both reverse the damage done and stated that never again should government policies impact in such a way in the future. More recently, the Prime Minister has asked Hone Harawira to look at what the National Government has done for Maori over its last term. Unfortunately, the answer in the wood processing industry has been that the government has presided over a similar dislocation to that which occurred in the 1980s and has been so roundly condemned by the Prime Minister.

Responses

We are hopeful that after our meeting today, the unions, the industry and the Government have at least a common understanding of what the issues and problems of the industry are at the moment. If there is still disagreement on this matter, the unions are committed to continuing the debate so that a common view can be reached.

The main point however is the step beyond obtaining a consensus on the problems of the industry. It is being able to address the question of: “what is to be done?”

The unions present today put forward the following as measures the Government could immediately undertake to address the crisis in the industry:

1. The government review its exchange rate and monetary policy and require the Reserve Bank to actively intervene in the currency market to ensure that New Zealand has an exchange rate that is conducive to the manufacturing and processing side of the economy.
2. The government investigate the introduction of a (lower) domestic log price to enable wood processors to manufacture in New Zealand.
3. The government re-introduce the Job Support Scheme through Work and Income targeted at the wood processing industry during this period of economic difficulty for the sector. This would reduce redundancies by enabling companies to reduce hours with no or minimal loss of income to workers.
4. The government insist on the specification of New Zealand lumber for Canterbury earthquake reconstruction work and other major construction work in New Zealand.
5. The government ensure that MFAT and NZTE officials urgently work with the industry and unions to facilitate the export of processed New Zealand wood products into (especially) China.
6. The government fund the fast tracking of any research and development projects that may provide the wood processing industry with new and innovative products to market.

Robert Reid,
General Secretary
National Distribution Union

Appendices:

Concerns raised over wood industry job losses

Fairfax Business, 19/11/2008. <http://www.stuff.co.nz/business/724372>

The National Distribution Union is calling on the incoming National-led government to urgently address job losses in the wood industry.

"Just a few hours before the new cabinet was announced, over 80 workers at the Fletcher Building-owned Plyco Select plant in Penrose were told the company was closing its plant and ceasing production in December," NDU president Robert Reid said.

"This follows hard on the heels of last week's announcement that 30 workers will lose their jobs when Fletcher Building drops two shifts at its NZ Laminex plant in John Key's Helensville electorate.

This brings the number of workers laid off by Fletcher Building this year to over 700.

On top of this, Carter Holt Harvey will be making over 300 workers redundant when it closes mills at Putaruru and Mt Maunganui in December."

New Forestry Minister David Carter said there were no immediate plans to address the job losses but the government needed to give some policy certainty back to the sector, particularly around the Resource Management Act and climate change issues.

"The industry needs certainty around the emissions trading scheme as quickly as possible," he said.

U.S. legal challenge called threat to B.C. forest sector

Latest dispute centres on price that the province has been charging for pine beetle-damaged timber

BY GORDON HAMILTON, VANCOUVER SUN JANUARY 19, 2011

<http://www.vancouversun.com/business/legal+challenge+called+threat+forest+sector/4130206/story.html>

The United States reignited the softwood lumber dispute Tuesday by launching a legal challenge that targets British Columbia's lumber industry.

The U.S. claims B.C. has been subsidizing lumber companies here by charging minimal stumpage rates for timber damaged by the mountain pine beetle.

The challenge was officially filed Tuesday at the London Court of International Arbitration, the body chosen by both Canada and the U.S. as the final appeal in any dispute over the 2006 Softwood Lumber Agreement.

Keta Kosman, publisher of the trade journal Madison's Lumber Reporter, said the U.S. challenge poses a serious threat to the B.C. forest sector.

"This is aimed at B.C. now; this is the big dog. This is the one they have wanted since signing the softwood agreement in 2006," she said.

In a statement, U.S. trade representative Ron Kirk accused Canada of selling softwood timber from public lands to Canadian lumber exporters for prices below those agreed in the 2006 Softwood Lumber Agreement.

"Canada is in breach of its commitments," said Kirk. "When we believe our trading partners are not living up to their obligations, we will not hesitate to enforce our rights under our trade agreements." Talks to solve the dispute without arbitration have failed, Kirk said in the release.

However, John Allan, president of the B.C. Council of Forest Industries, said the Americans appeared to have made up their minds to take action long before the last set of talks. Consultations requested by the U.S. last fall lasted no more than one hour, he said.

Allan said the issue is over the price the government has been charging for beetle-damaged timber. The rate charged by the government for salvage wood is 25 cents a cubic metre. Those logs are either useless for lumber or have been difficult to saw into lumber as they crack and split during manufacturing.

The B.C. industry has invested in new technology to resolve problems of splitting and has engaged in the controversial practice of kiln drying sample logs to reveal the presence of hidden cracks. A stumpage rate for all logs in the a particular load is then applied based on the condition of the sample.

The U.S. has alleged that B.C. producers "cook" the logs to create splits in an otherwise sound sample log. That notion is false, Allan said.

"We reject any allegations of subsidy," he said, noting that the mechanism for setting such rates had been grandfathered into the softwood agreement. B.C. has lived up to its obligations under the agreement, he said.

The powerful U.S. lumber lobby Coalition for Fair Lumber Imports applauded the Obama administration for targeting B.C. Coalition chairman Steve Swanson said in a release there has been an enormous increase in salvage timber being sold in B.C. for 25 cents a cubic metre. That price, he said, "has saved B.C. Interior lumber producers hundreds of millions of dollars in fibre costs, compared to what they would have paid under the agreement.

Although the USTR petition does not contain a dollar figure, Allan said the U.S. lumber lobby is claiming the subsidy has given B.C. companies a \$400-million benefit.

The U.S. move to take B.C. stumpage rates to arbitration comes as no surprise, said Pat Bell, minister of forests, mines and lands.

"We have been hearing rumblings, not particularly good ones," he said hours before the U.S. filed the petition. "It reinforces the importance of (lumber shipments to) Asia, in China in particular," he said. Since last October, lumber sales to China and Japan have exceeded the value of lumber sales into the U.S.

In a later statement, Bell said, "British Columbia has always honoured and continues to honour its commitments under the softwood lumber agreement. I am confident the arbitrators will find the same."

Tuesday's challenge marks the third time the U.S. has appealed to the London court for a ruling. The Americans were successful in an earlier challenge aimed at Quebec's lumber shipments to the U.S. Canada was ordered to pay \$68 million in duties. A second challenge has yet to be resolved.

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KEY ELEMENTS OF THE 2006 SOFTWOOD LUMBER AGREEMENT

- The federal government is responsible for the administration and operation of the 2006 Softwood Lumber Agreement (SLA).
- The agreement has a seven-year term ending in October 2013, with an option to renew for an additional two years.

- The agreement ended costly litigation and provides some certainty for softwood lumber trade in the future. It also secured a return of over \$4 billion US in duties collected by the United States since 2002 and \$2 billion US were returned to B.C. companies.

- Disputes relating to the SLA are resolved through a dispute settlement process outlined in the agreement. Arbitrations are handled by the London Court of International Arbitration.

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India accepting Canadian SPF

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<http://www.vancouversun.com/health/India+accepting+Canadian/4089529/story.html>

India has reached an agreement with Canada permitting imports of Canadian spruce, pine and fir (SPF), the staple product of British Columbia's Interior sawmills.

The Indian market is small, but it's a quality market, providing sawmillers here with one more alternative to the United States, where Canadian softwood lumber prices are always under scrutiny by duty-happy American bureaucrats.

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