Rod Oram

Panelists:
Hon Phil Goff, Leader of the Opposition, former Minister of Foreign Affairs and Trade
Theresa Gattung, Chair, Wool Partners International Limited
Russel Norman, Co-leader of the Green Party, Green spokesperson on the Environment
Brian Richards, International Brand Strategist, Brian R Richards Limited

Rod: Kia ora tātau, good afternoon and welcome back to this last session of the day. It’s my very great pleasure to have four terrific panelists up here with lots of experience and strong views on these issues. The central issue is what’s New Zealand’s opportunity out there in the world to earn a big and very sustainable living from our natural attributes, the extent to which we live up to that or not, and what we might need to do.

On my far right I’ve got the Right Honourable Phil Goff, Leader of the Opposition. Thank you very much for coming along today and of course Phil has great experience on the foreign trade circuit. I’ll be trying to get some stories out of him as to how New Zealand plays on the international circuit.

Second on my right is Theresa Gattung who is Chair of Wool Partners International. Theresa’s got a wonderful job of helping to shape up this new organisation that’s trying to bring much greater value to wool through a very strategic response to building a brand and building a part of that supply chain out into the international markets.

On my immediate left Russell Norman, Co-Leader of the Green Party. Russell has come to us fresh from handing out leaflets in Mt Albert and he should be excused and applauded if somehow he relates the world to Mt Albert and vice versa which is absolutely the right thing to do.

On the far left is Brian Richards. Brian has a wonderful record over the years of very insightful understanding of what New Zealand’s attributes are and how you play that to the world in terms of brands and the like. He’s done it with many great companies over the years and continues that today - companies like Icebreaker, Richmond Meats before it was taken over by PPCS now Silver Fern Farms (how fast things change), and other wonderful companies like Zespri.

So I’ll just start with Brian. Brian in all that international work you’ve done on brand in the very biggest sense of the word, not just a beautiful logo but all the attributes and the quality that lies behind that, what’s the good and the bad you see out there in terms of where New Zealand has a great opportunity but also where we might have fallen down on that in terms of delivery.

Brian: Okay first thing would be the good in the sense that what we’ve observed over about 25 years of international consultancy is the further you get away from nature the more people are prepared to pay for it. So you look at the price of an item of sushi in
New York or whatever and you think it’s just astronomical. We have such a natural legacy here of nature in an environmental sense so when we consider a project we often ask ourselves ‘who is it for?’ So when you begin to look at the price of environmentally sensitively produced products on the other side of the world, that’s the good news in terms of the opportunity for New Zealand. But when you consider the metrosexuals or the people that live in these cities that buy these products that have this great ability to pay a psychic premium, its more than a psychic premium they’re looking for, they are looking for integrity, they are looking for much more efficacy in terms of products. Certainly the work we’re doing means that any New Zealand company entering this sort of field in the international market place, wanting to retain this price point, it’s got to be more than just simply a beautiful logo.

ROD: Could you give an example or a rough sense of what the premium is on a product where that’s been done very well out of New Zealand?

BRIAN: I can give you an accurate figure in the sense that we’ve just launched, been involved very much with, apples for example. The Envy apple which is about to be launched internationally has a premium of between 19 and 30% depending on the supermarkets in Europe that we can place it in. Icebreaker as a garment also has a very similar premium in terms of its nearest competitors. So whenever you look at a product that has a value chain that is connected, and we don’t just mean a supply chain we mean a value chain that stretches all the way inside the farm gate with all the various good integrity practices involved, then those sorts of premiums are possible.

And my favourite example would also include kiwifruit where in the supermarkets, I love doing the test myself overseas, you can pick up a Zespri kiwifruit or a boring Chilean or Italian kiwifruit and the Zespri because of the brand, because of the quality of it and because of the precision of the supply chain the premium can actually be up to 100% over a no name kiwifruit.

ROD: That’s true.

What about the downside though. Have you got some terrible stories about how we over promise and under deliver?

BRIAN: I think the downside is the fact that the world is getting much better organised and things are much more transparent and so it’s very easy to do an audit on a company internationally. There are international accreditation agencies such as SGS and others that when you enter into a project with somebody like Tesco’s or Sainsbury’s or whatever, these people have got a very, very important role which is to protect their own brand. So once they’ve got the hoarding above their store like Marks and Spencer or whatever, they’re desperate to make sure that whatever goes through the store doorway doesn’t harm people or if its food or whatever. So the transparency and the ability of these international people who buy our products to observe us up close is much greater than it’s ever been. I think that microscope that we’re being put under now means that we have to watch very carefully exactly our behaviours and our practices all the way back inside the farm gate, they’re very important.

I sound as though I’m talking about food all the time but there’s also the tourism experience as well. We might promote the clean green country with the clean green
tourism experience, but international tourism agencies are looking more and more to place people at higher price points in more caring areas and the opportunity for New Zealand is certainly not mass tourism.

ROD: Yes indeed, I’ve always been a bit worried about international tourists arriving. It’s a lovely experience, the canned bird song as you come through Customs, absolutely exquisite and then you come out and get stuck in a traffic jam behind vehicles with no air quality regulations. Phil, on the international scene in terms of trade negotiations and the like, how would you rate New Zealand’s standing on the positive side but then again the negative side of that in terms of where we are vulnerable or where we have not performed adequately?

PHIL: I think overall from my experience I’d rate New Zealand very highly. The 100% pure clean green image is out there. It has worked for New Zealand. The challenge of that is that when you create a branding with that value you then have to live up to the standards that you’ve set for yourself because if you fail to meet those standards then that will be regarded as false advertising. When I’ve travelled round the world, I’ve got to say coming into the airport first of all it was great coming in because it was green. You still land in Mangere, you still land alongside the Manukau Harbour, it is still green around that area and it still feels good when you come through the terminal. The traffic is another issue.

But what did people say, how did they know New Zealand? Well I was in Brazil at the time of the Lord of the Rings and the Oscars and that was just a fantastic place to be. I watched it in Portuguese, didn’t understand a word of it, but New Zealand came up a lot. People know us by Lord of the Rings and they kept saying ‘is that really your scenery or is it digitally enhanced?’ And you’d say ‘yes it is our scenery, but by the way our digital techniques at Weta Workshop are also very good’. We’re not just clean and green, we’re also smart.

I think we have a reputation for high quality food. That was the thing that frightened the hell out of me with Fonterra and San Lu last year. There was a potential for us to be hugely damaged by that when you consider I think it’s more than half of our exports, merchandise exports of food. Food safety, food quality and sustainability of production are all important increasingly in the European market. You’ve got other people with a vested interest that are trying to drag our country down. We love the Irish and we kind of love the French sometimes but the farmers in both countries are our mortal enemies.

The whole of the food miles issue was a huge effort by the British farming industry to discredit us and it could still discredit us except I think it can also work in our favour. Our huge advantage is that we’re pasture fed. They’re grain fed, therefore our carbon footprint is much lower even though they come out with ‘if it’s travelled 18,000 kilometres to get to the United Kingdom it can’t be good for the environment’. The sort of work that Caroline Saunders and Lincoln University has done is really valuable to us. If we meet the tests that the Oxford University team are working on, Tesco are working on, that can work to our advantage. A great brand but then you have to live up to it. If somebody wanted to come into New Zealand and look at nutrient pollution in our waterways from dairying they could really start to damage the brand so we have to address the factors that put the brand at risk.
Any particular sticky moments in trade negotiations or stories you’d like to share now its history about somebody trying to twist the knife on a particular environmental point?

PHIL:
I mean the Europeans drive you absolutely crazy in terms of their accusation that Fonterra is a state owned enterprise and we must be subsidising it. When I was in the United States in Washington last year, at the time we were signing up to the Transpacific Free Trade Agreement which included the United States, the dairy lobby there were absolute bandits. I can say that now I’m not trade minister. They were saying that the government paid for all the processing facilities for dairy, that we were heavily subsidising it. These are people who produce at twice the cost of New Zealand and they’re constantly undermining the fact that New Zealand agriculture actually is unsubsidised today so they attack it on dishonest grounds. But if we give them half the chance they would try to undermine the branding that we have in terms of the quality of our environment and how that might reflect on the value of our food.

Can I go back to my original point. If there are things that create the reputation for New Zealand it's the sort of scenery that is shown on the 100% pure New Zealand. I mean those photos are genuine. Our natural areas are fantastic. We should not in any way apologise for that. It is around the quality of our wine, everyone knows Cloudy Bay, that branding doubles the price. You’d be amazed at what the Poms pay for Cloudy Bay. But the image that we have is a good image. The challenge to us is to have a reality that matches the image.

ROD:
Theresa I’m sure that’s very much on your mind in the wool value chain. What’s your sense of the potential for establishing a really powerful premium brand for wool? What are some of the challenges are about bringing real integrity to that through the whole production process, from farm on out?

THERESA:
Well we have a huge opportunity. In fact Phil, it’s the opposite in the sense of the example you just gave, because with wool we’ve got the reality of it but we don’t have the image of it out there. Some Americans think the sheep are killed to get the wool off them. That is the gap. You would either cry or laugh wouldn’t you. If you’re a sheep farmer you’d cry, that is the gap in reality. Wool is a billion dollar export business today for this country. In the mid 1970s it was over half all our exports. Growers today get $3/kilo for wool, which barely covers the cost of shearing. Twenty years ago they were paid $6/kilo for wool.

Now in dairy we’ve got an example of an industry where we have got world scale and world quality advantages as both speakers have noted. We’ve made something of it as a country for farmers and for ourselves. We have the same opportunity in wool but we haven’t capitalised on it. New Zealand produces 30% of the world’s wool used for carpets. Its called strong wool and manufacturers tell us it is the best wool in the world, it’s better than British wool, it’s better than South American wool and they will pay more for it but they don’t have to. They don’t have to because there’s too much competition with the exporters getting it out of New Zealand.

No-one today has put the whole value chain together, worked with the manufacturers and told the whole story in the way that can build brand value. So there is a huge opportunity there, that’s what we’re working on at the moment. The reason that’s important is because we don’t want New Zealand to be one big dairy farm. It is important to have agricultural diversity and biodiversity. So I could talk about this at
length, and I’m sure we’ll talk about it more, but it’s something that we’re
tremendously excited by. We all have a part to play because there’s no evidence of
any small country in the world being able to become a global champion of something
that they don’t celebrate at home. So it’s really important that we all have a part to
play in this, it’s not just something that’s about what the rural sector does.

ROD:
Indeed, so no more pink batts, it’s wool insulation. If we did that there wouldn’t be
enough left for the carpets.

THERESA:
Well look it’s a great opportunity. Wool is a great product for insulation. There are
several approved suppliers, approved in the new government programme. Its natural,
it absorbs moisture from the air better than synthetics, better than fibreglass, you
don’t need to wear protective gear to put it in, and it’s much more fire resistant. It’s a
fantastic opportunity to embrace something where the properties are so amazing and
it’s sustainable.

ROD:
Thank you. Russell in the international environment movement and Green parties
how do you reckon New Zealand stands?

RUSSELL:
I think probably the key areas of weaknesses are around climate change
negotiations. New Zealand’s stand out position on climate change negotiations has
been noted in the Green movement over and over. I think it’s only a matter of time
before that spreads more generally amongst the public, particularly in Europe.
Obviously New Zealand, and I think it’s Russia, are still keeping it to a target in the
current round of negotiations and that’s of course why New Zealand got Fossil of the
Day in the negotiations. It got Fossil of the Day last year in negotiations as well and I
think that kind of positioning is very damaging to the clean and green reputation and
brand of New Zealand.

ROD:
And that’s a persistent problem, not just now because we’ve yet to announce an offer
for Copenhagen in December, but the much longer term picture is that we signed up
17 years ago and we’ve actually got nothing much in place and we’ve had no
particular impact on our emissions so far, in fact quite the opposite, they’ve grown
significantly.

RUSSELL:
Yeah, as I’m sure everyone here knows, 25% over 1990 levels growth in emissions
so we are obviously in an extremely vulnerable position in terms of our international
reputation on climate change. The experience in the past has been that what started
in the environment movement spread to a broader perception and I think the risk is
that that will happen again around climate change negotiations.

ROD:
The recurring theme through the course of the day so far, an element that keeps
coming up, is that we don’t know quite what we’re trying to measure in terms of
environmental performance and where we do try and measure it, its lacking
consistency in national standards. Therefore there’s a lot of work to do around that to
make sure we actually set some good long term goals and measure our progress
towards it. So what’s your sense on how big that gap is between our ability to set
those goals and measure them now versus where we need to be?
BRIAN:
Well I think you probably need to be specific about different areas. So obviously in climate change we’ve got pretty good measures and so we kind of know where we are and what we’re doing. When it comes to water we’re a long way from where we need to be in terms of measurement. We’ve got some measurement but there’s a lack of consistency. The last state of the environment report was very poor and the water chapter in that was very poor. We need to do a heap more work around measuring water and water quality issues. In terms of how it impacts on our international brand it’s very hard to figure. So you talk to tourists and when tourists visit New Zealand they’re not just surprised by the traffic but they’re also surprised by some of the issues around water. If they have any experience with lowland streams they discover that there’s signs that says you can’t swim in these apparently pristine environments. So how that impacts in terms of our brand I’m really a bit unsure. Presumably it’s been taken away by those tourists, word of mouth is spreading that New Zealand isn’t as clean and green as you might think.

But if we’re having a debate about regional councils versus an EPA or other ways of if you like of managing our environment, well one of the questions has to be ‘will an EPA be any better at managing water quality than the regional councils would be?’ Now obviously some regional councils have done better than others, and I’m sure you’ve had a lively debate about regional councils here today, but I think that has to be the question, ‘will they actually do a better job in terms of environmental governance and hence in the long run will they protect brand New Zealand?’

ROD:
Can I come back to that question in a moment, about how we structure governments here in New Zealand, which is a tremendously important subject. I’m keen to keep the issue out there a bit in terms of our international presence and to pursue a couple more thoughts on that. Going back to you Phil, how would rate the general risk of the likes of environmental barriers to trade and the risk that they will become a growing part of the trade arsenal from other countries?

PHIL:
I think there’s a real risk there because it’s quite appropriate that people look at the sustainability of a country’s production. That’s a valid judgement about that country and your desire to buy its products. But there’s a real risk that it will be misused and food miles was a classic example. The British dairy industry made it very clear, and also with apples and other goods, that if a good had to travel further it was by definition less environmentally friendly. The Saunders research showed in fact that the amount of emissions created per kilo of butter or per leg of lamb in New Zealand was considerably lower than the equivalent product produced in the United Kingdom. But there is a real risk that that will be misused in that way.

I think the second risk will be that at one point we were seen to be at the forefront of emissions trading and concern about climate change. I think Russell is right, we’re now getting the Fossil Award. People are raising questions about it and there is a real risk, particularly in the European market and amongst the French, that they’ll say ‘if our producers have to meet the standards set to diminish climate change then its unfair that they should have to compete against others that don’t have to meet those standards therefore there should be a border tax in place taking into account the emissions, the global emissions coming from that particular country’. Now that hasn’t happened yet, but I think there is a real risk that that will happen and for good reasons and for bad reasons we could face those sort of barriers to our trade in our key products.
ROD:
But potentially agriculture products wouldn’t be caught up directly in that, in that agriculture is yet to end up in international protocols, but you still think there would be quite a lot of noise around that?

PHIL:
Yeah, there are people already in Europe starting to talk about the concept. When I was at the Bali conference, was it two years ago, people were starting to talk about that, it was on the agenda. People like Pascal Lamy were opposing it because they said that this was simply being misused as a way of stopping barriers to trade. But there was definitely talk around the margins that that is the direction the Europeans could well go.

ROD:
You’re touching on a really important issue there. It’s about our ability to be able to understand, study, analyse and offer all the robust evidence about carbon life cycle analysis here so we can make the case very clear to consumers. It’s a counter intuitive one to them that, in fact, the food that’s come the greatest distance is actually environmentally the most responsible. We’ve been quite slow on that, although we now have, as of two weeks ago, the start of that carbon life cycle analysis from Fonterra, a short while before that from Zespri. But it would seem to me there’s still a long way to go yet in terms of building those sorts of disciplines deeply into our whole productive setting.

PHIL:
I think one of the concerns, I know it might be a question later on in the session, was what wasn’t in the 2009 Budget. We’d deliberately created the Fast Forward Fund which was a $700m investment, matched dollar for dollar by the primary sector building up to a fund of $2b. We had made changes on the R and D tax credits. The fact that what is in the budget for R and D now is only a shadow of what had previously been there, which means we won’t make the advance as quickly as we need to in the area of methane emissions, I think is a real concern.

Federated Farmers I’ve got to say don’t help. I went to a Federated Farmers meeting that was totally preoccupied with that area but it was around ‘we should be trying to avoid agriculture being covered’, not that we should be trying to address the problems that are related to agriculture. Mind you I have to say that when I spoke at the OECD conference this time last year on this very topic, it did create a degree of mirth amongst those present when you talked about the flatulence of ruminant animals as being the major problem that we’ve got with climate change. I think that 49% of our global emissions are agricultural, that’s not a profile that you see in Europe and I don’t know that they understand that particular situation very well there yet.

ROD:
Well this is a very difficult issue to get across because we do need to get it right and its hard to talk about. Actually the cows are wonderfully well behaved. They just kind of breathe this stuff out but unfortunately Federated Farmers have nailed the issue around the fart tax which anatomically wasn’t correct.

PHIL:
Well both ends of the animal I think. This is a real challenge for New Zealand. We are at the forefront of research. We are trying to work with other countries on it but if you take agriculture out of emissions trading then the whole pressure on the agricultural
sector to find a solution there will go. You will not get forward progress. You need that pressure. You need fairly to give agriculture time, and I think we gave them until 2013, but without the pressure that you have to do something about that, without the price attaching to emissions, then you’re not going to get the progress in addressing the problem.

ROD: There’s a very important concept here which I’m going to bring back to Brian and Theresa. We’re increasingly seeing the development very rapidly of new management disciplines where rather than just the traditional measure of identifying, measuring and monitoring the flow of money through a business, that basic accountancy function which is terribly important, businesses are now starting to develop managerial disciplines around measuring and monitoring environmental flows through the business. That becomes a very powerful management discipline which builds much more profitable companies. It’s about much more efficient resource use and the like and trying to shift the debate away from emissions and pollution being a liability, which it is, to an opportunity to build a more robust economy. It is a very powerful one. It’s a message that we need to get across. Now Brian you’d be dealing with companies that already think in those terms. Have you got some examples of how that superior environmental performance is not just a way to earn a premium in the international market but is actually a way to reduce your costs and build a much more effective business?

BRIAN: I think certainly the clients, the big clients that you referred to in terms of major primary sector clients, have a great deal of difficulty in this whole argument. It’s the smaller clients that see the opportunities that are in the niche areas of food or pet food or fruit or whatever. But the bigger ones is where the impact could really make a significant difference. I always talk about selling less for more in the sense that I do believe New Zealand has been process driven over a long, long period of its history. We have become absolutely obsessed with producing more and more as opposed to producing different products or products that have more added-value to them. Strangely enough, when you get into the bigger boardrooms of the country, the difficulty is getting that understanding.

There are niche markets around the world. There are people prepared to pay different price points. You only find that energy generally in the smaller companies who are fighting on a much more tortuous road through trade shows and various things like that. They’ve come up with a clever product and they can see the efficacy of the product is such an important part of selling it to certain kinds of niche markets. So I think we’ve got a divide in our commercial community where, if you’ve got this huge machine that produces meat or does things like this, it’s very hard to stop and actually think about how you might position. So for example, in the meat industry, we don’t have a total beef strategy. We have a lamb leg strategy. We don’t have a total beef strategy in terms of the hides, the skins, the wool, the whole thing. So these sorts of strategies are so important in terms of adding value and earning, as I say, more for less. It’s the whole paradigm shift in our board room structures that are so important these days. You see it with young energetic companies but you are not seeing it with the bigger ones generally in my view.

ROD: Theresa in the sheep sector we’ve already got the likes of major overseas customers like Marks and Spencer on the meat side of the business driving down by working with farmers in New Zealand that carbon profile. Do you think that you’ll also see that
come through on the wool side or do you think it would be less a factor, people will be looking for other environmental attributes?

THERESA:
No I think it’s a huge opportunity. I see it as a continuum. Down one end, if we don’t get this right we’re going to lose access, we’re going to lose market access for our product. Look at what merino has done. It’s a little bit of a 10 year overnight success story. It didn’t happen between breakfast and morning tea, but they have basically taken merino fibre, worked with the likes of Smart Wool a big US company, Laura Piana, a big Italian company which makes lovely wool suits and of course Icebreaker, and have driven the price of merino from $4/kilo to $10/kilo over a period of years by basically linking through to the customer at the other end, telling that story and getting a premium for it.

Now that opportunity exists in wool. Its even a bigger opportunity because we produce 120 million kilos a year of it and have 30% of the world’s strong wool but only 1% of the world’s merino production where the Australians are a major competitor for fine wool. So we’ve got a huge opportunity and at the moment we’re scoring our own goals. Unless you knit, most people don’t buy wool. Manufacturers generally buy yarn or they buy tops or some work with a dye house. So how it works at the moment is that wool goes off sheep, gets carted off to the auction, gets bought by an exporter, it could be sent anywhere for spinning, anywhere in the world for spinning, anywhere in the world for dying, anywhere in the world for manufacturing, anywhere in the world for consuming. It’s impossible to think about how many air miles are used in that. There’s no integrity in that system.

I went to put carpet down in my business in the US. I was asked by a US business partner to go and get some New Zealand wool carpet. She went down to the distributor who first of all tried to talk her out of wool carpet, then when she said ‘no it must be wool carpet, it must be New Zealand wool carpet’ and the distributor said ‘can’t we just pretend it’s New Zealand wool carpet. There is no integrity in the system.

So how it could work is we could take wool straight from the farms say at Bank’s Peninsula, down the road to a world class spinner, send it off directly to a manufacturer who’s our brand partner. There’s plenty of extra capacity in America and straight to the US market which is the biggest market in the world. We can do that in a way that has traceability and that links it back to that farm on Bank’s Peninsula. People will pay for that. The world is crying out for that. We can do that. That is an opportunity that we have and in that situation we’re just not going to get wool dumped on the market and pay the lowest auction price on the day. So for wool I think that’s a huge opportunity with traceability and brand integrity.

ROD:
A similar logic must apply to tourism as well. Two million short stay tourism visitors has to be a strategic liability for a country where energy prices are bound to increase over time and awareness of carbon emissions is going to increase over time. It seems to me we have to be looking at how we can have longer stay, more valuable tourism in New Zealand. That has to be critical to us.

That’s quite a radically different view of tourism because at the moment the average stay of tourists is falling because our main traditional long haul markets are down the best part of 20% and we’re making it up with short stay Australians who typically not only don’t spend very much money, they usually stay with relatives. So all those key statistics in the tourism sector keep coming back and we keep forgetting it is actually
our number one foreign exchange earner with all due respect to the primary sector. If they were to stay a lot longer and do a lot more than kind of just hurtle round the country in camper vans or throw themselves off bridges, if we were to start to re-imagine what that sort of tourism might look like, well what might it look like? What should we do for longer term more environmentally conscious visitors? Brian?

BRIAN:
Just before I answer that question, just one little question that I think is interesting particularly in terms of Theresa’s Bank’s Peninsula example. One of the things that I believe has been a great shame in New Zealand is that we’ve tried to homogenise New Zealand as one place and I don’t think the French try to do that. I think the regionality of France just the same as the regionality of New Zealand is a really important part of a backdrop of a brand or a product or a service or experience, tourism or whatever. There are a lot of regional council people here and I do think that regional identities, the communities at large that you live in and work within, the whole holistic offering from a place is becoming increasingly important in terms of the originality of a product that can be traced right back to an item of wool, to a farm within a region or a collaboration of farmers and so on.

So one of the things that I find disappointing is that centralism has been this all pervasive argument for a hell of a long time and its taken away a lot of these lovely regional qualities. Central Otago’s fruit or whatever, the tastes and flavours of Central Otago, are worth at least 10-15% in the market place on the other side of the world if the story is told well and the efficacy of the fruit is there and all the rest of it. So you look around New Zealand at all these wonderful little enclaves and places that can give the tourist experience at a higher price point, or a better offering of some kind, and the regionality and the regional premium of a place is often overlooked. That’s one part of the question.

ROD:
Well in fact the great challenge that I keep quoting to the tourism industry is, and I think this is completely possible to do, to market 100% pure urban New Zealand and market that to northern hemisphere travellers who come here for two weeks to Auckland in July and only have very brief day trips over the Bombay Hills or north of Rodney. We might allow them to Waiheke. I actually think you could market that because I think our urban lifestyle is different here and the vast majority of us live in cities anyway. Sorry I’ve got a particular thing about that. That might keep you awake at night that advertising challenge.

BRIAN:
Well the second part of the question is about what kind of tourism can we really sustain here in the years ahead? I think there are a number of different price points that we should consider without considering volume in terms of the backpacker market. It is a fantastic market if you look at the volumes and earnings from it, in terms of the amount of time stayed. One of the things that we don’t offer yet is a decent backpacker network - of really building the right structures in the right places. We don’t have hotel management skills. We don’t know how to run these places that can service people and how to really build the infrastructure correctly at various price points from the luxury lodge to a campervan to whatever. Whether it’s a really decent string of sustainable camping grounds that regional governments can run successfully or operate, there are revenue streams potentially possible at various price points. But we haven’t got ourselves organised because our vision is too confused with these different offerings. We need to create these offerings at various price points, to have niche tourists come through this country at various times of the
year and seasons etc. There’s an overlay between food and experience and place and architecture and to me its all connected.

But when you look at the tourism strategy or the national food strategies or whatever there isn’t sufficient collaboration to be able to crystallise this thinking in these different places and see them as different offerings. So I do think that greater collaboration in understanding the tourism package is important. Otherwise we’re going to wreck Central Otago. So you look at the economic model of the rail trail, which is a terrific business, but there needs to be more farm stays. You’re really trying to attract the New York dentist that’s been everywhere but doesn’t want to lie on a hard bed half way round that bike track and freeze to death. So you need the right kind of infrastructure and he’ll spend the money if you get that right. But its understanding those equations, that these people are coming from metropolitan cities all over the world, and that they want to experience this thing. It has to be at various price points and the offering is all possible. We’ve got all the skills to put it together, but many of us can’t crystallise it in the right way, and see these products.

PHIL:
I think the two longest stay categories of visitors that we can look at further promoting are firstly those that are doing the working holiday schemes. I was a huge supporter of that and we did expand that greatly. The people that come here for working holidays, they come, they spend some of their time working so they’re doing productive things, they’re paying taxes. Then they spend the money within New Zealand on their holiday or they add to it an English language course or whatever. I think that that’s been a brilliant scheme. But there was a lot of initial opposition too, because we’d be flooded with people that would be taking money out of the country. Actually they don’t.

The second category that was opposed bitterly when I introduced it back in 1989 was international students. All of my public sector teaching friends said this was going to bastardise education in New Zealand. Its’ now a $2b industry. It’s one that creates enormous goodwill for New Zealand. The people not only stay here for a long period of time, but mum and dad and the family come down and visit them while they’re here. Then a lot of the best of those students say this place New Zealand is not a bad sort of place, I’ll apply to be a permanent resident here. They are the best of the new migrants because they already know the country, they have the networks and they fit in very well. They know what they want.

Can I just come back to Theresa’s area because I came across a great environmentally sound example of wool. It’s a place called Manawatu Knitting Mills. I went to it a couple of weeks ago thinking it was the oldest knitting mill in New Zealand, this must be on the way out, what sad stories are they telling me. They actually told me they’re using high grade merino together with possum fur. I’m sorry they do kill their possums first Theresa, to get the fur. They’re selling a product that they get an absolute premium for. It is a fantastic product. It deals with the problem of the 80 million possums. But they can beat China because China might be able to produce cheaper but they can’t produce at that quality. That’s I think a really good example of creative innovative thinking where you can find a niche. If you really want to find the best possible jersey get a possum fur merino cross. They are absolutely fantastic. They get a premium price around the world.

ROD:
If you want to start heading for the microphones, if you have an interest, that would be great.
QUESTION FROM AUDIENCE:
Michelle Rush from the Ministry for the Environment. I’d just be interested to explore with the speakers whether they've heard of the cradle to cradle approach, and those in particular of you who are involved in agriculture, what opportunities you see of that concept of business for dealing with perhaps water and energy issues in New Zealand agriculture in particular?

RUSSELL:
This is the ‘better by design’ stuff that you’re talking about. Obviously the better by design stuff is essential, although as I understand it, it has been applied largely to manufacturing and manufactured products more than agricultural products. So it’s harder to conceptualise it being applied to milk protein for example. But I think that we can certainly approach it in the same way, in the sense of saying ‘how do we, at the end of the production of milk protein, leave the environment which produced it in better shape as a result of that activity than when it started?’ and I guess that there is a series of initiatives around that. Obviously we’re not making a lot of progress. Agricultural intensification has had a huge impact. I’d be interested in other people’s thoughts about how you apply, what is essentially in my understanding a manufacturing concept cradle to cradle, how you apply it to agricultural production. You might have ideas about that.

ROD:
I should perhaps just explain to the others what it is, if that helps. This is a design concept and it’s really around having a technosphere and a biosphere if you like. Products are either fully recyclable to the point where they can break down and be totally returned to the soil with no ill effects and quickly, unlike the 80,000 years for plastic in a landfill, or there’s a technosphere whereby things like precious metals are 100% recycled from all products. You opt into one or both of those systems with your product. But basically it’s called cradle to cradle because unlike cradle to landfill, as we have at the moment, this is like the opposite. I guess I saw the opportunity with agriculture, firstly because our product does return to the soil. But if we could easily line up the externalities of agriculture using this concept, I suppose I see there’s enormous potential for New Zealand to very quickly to add real value to its products and services.

I can give an example of that. I was working on some cradle stuff with some people in a programme in Christchurch last week. It’s very challenging because, if for example, you take Fonterra’s carbon life cycle analysis, for every litre of milk that’s produced 940gm of CO₂ or its equivalent is produced. It’s almost a litre to a kilogram. So that means that if we’re producing about 16 billion litres of milk a year, that’s about 15 million tons of CO₂. Now at the moment the dairy industry sees that as a liability and an expensive one if there’s an emissions trading scheme. But if you start to rethink the farming process, you see methane and other greenhouse gases that come off not as a waste or a liability but the feed stock for something else to complete that cycle. Then you look at that and say ‘wow what an amazing feedstock that is, 15 million tons of greenhouse gas emissions, let me get stuck into this’.

I’ll give an example of this. Down at the Glenbrook Steel Mill the flue gases coming off there are a greenhouse gas liability. But scientists here in Auckland now have a pilot plant down there which grows bacteria in that waste stream and they’re producing ethanol out of it for bio fuels. So all of a sudden that waste stream actually becomes an asset. So that’s how we need to reconceive technology and how we use it. So that’s the essence of cradle to cradle. I did the calculations on tourism, that’s about 15 million tons of CO₂ just from aeroplanes, just to get them there. Well how
do we turn that around? Air New Zealand is trying, making a start with bio fuels but that’s the opportunity.

We’re talking about wool for carpets, but of course wool can be used for all sorts of things. There is a new product on the New Zealand market called blossom wool which is basically dag wool. It helps you grow your grass faster. It’s basically shit wool, right, but it takes the bellies, the pieces, the bit that’s not worthy anything in the market because its not good enough quality for carpets and turns it into a product which actually makes our environment better because its using a natural product to re-fertilise a natural environment.

The bio digester is, I think, quite an interesting example I guess as well, getting the effluent out of the milking sheds and putting it through a methane digester and then using the methane as an energy source.

QUESTION FROM AUDIENCE:
Raewyn Peart, Environmental Defence Society. Yes I’d just like to go back to, I suppose, the debate about the brand overseas and the risk to that brand. I think Phil talked about the fact that we needed to live up to it. I’ve always seen this very big disjunct between the international market context where we’re exporting to and regional councils, local councils with their heads down managing environmental issues. There’s always been a very big disjunct between the two, because in a sense to live up to that environmental brand, we’ve got to lift our performance at a local and regional level in terms of environmental management. I always remember two or three years ago I went to the Ministry of Tourism. We were doing some work on landscape protection, and we were arguing that we’re actually selling our tourism industry on the basis of these natural landscapes, we need better protection for them. We got the response ‘well yes sure but that’s not our business you know’. And you’d go to the Ministry for the Environment and you’d say ‘well actually we need to protect our landscapes because its part of our tourism industry’ and they’ll say ‘yes but that’s not our sort of problem’. So there’s this disjunct. How do we link the managers and the markets and the exporters?

ROD:
What would you like to see, Russell, from a policy point of view to try to bring those elements together?

RUSSELL:
Well wild rivers is another example. We sell wild rivers as part of ‘clean and green’, yet we’ve actually dammed most of our wild rivers, and there’s still applications to dam more. So where is the thinking when we’re dealing with applications to dam wild rivers, that these are a key part of what we sell to the world. And the same with landscape values. How do we incorporate that into an RMA process for goodness sake. Part of it could be, for example, we’ve talked about the use of more national policy statements like actually saying ‘actually let’s use more national instruments to protect those landscape values’.

We can use it around renewable, with wind projects as well. We’ve thought about using wind projects to say ‘these are areas where you can have wind projects and these are areas where you’ll find it really hard to get wind projects’ to protect landscape values. So I do think within the RMA there is the existing capacity to use more national instruments to get the kind of protection that we want. But it does require central government to have the will to do it and obviously so far we haven’t had that.
THERESA:
I think we need to move away from a false dichotomy of economic growth versus environmental governance. Part of the capital of New Zealand is our natural environment with impacts on our two biggest industries, tourism and the agriculture productive sector. I totally agree with Russell, water quality is a huge issue. I'm from Rotorua. You don't want to swim in most of the lakes in Rotorua right? It's a serious, serious problem. So water quality is a huge issue and I'm a great believer in getting a national conversation going. New Zealand is a very porous society. Ideas can take hold quite quickly. We do actually, for a country build consensus quite quickly and have basically quite an action orientation. We don't stay in theoretical dialogue for years and years and years. So I like the idea of building, trying to put a national consensus around the importance of actually preserving this natural capital.

I do also agree with Russell that there is room for a national approach to this. But it's a tricky balance, because as Brian said before, regional interests, communities have their own particular concerns, they have their own particular special characteristics. But I think the first thing to do is to get a national conversation going because these issues have now moved from the periphery to centre stage. I have great trust in us as a country, that if we can do that, we'll collectively come up with a way forward.

QUESTION FROM AUDIENCE:
Eugene Rees, Ministry of Fisheries. I was intrigued by this notion of the price premium and I guess my question is to Theresa and Brian and its around the idea of these goods. Nineteen to 35% sounds fantastic, but I'm kind of interested to see who's capturing the price premium? Is it our producers or is it the end seller? Is it the Walmart’s, the Tesco’s, the Marks and Sparks. Are we actually seeing some benefit from the environmental efforts we're going to?

THERESA:
Well in wool, the people today who have the profits are the manufacturers. That's where the profits are centred. Spinners aren't making any money, growers are going broke, so that's where the profits are. The real opportunity is to actually enlarge the demand. Only 3% of the market in the US is wool carpets. The rest is synthetics. We drive around Atlanta, there's a big billboard, there's a baby on the carpet, big sign Staymaster which is a brand of acrylic carpet and there's a lamb under the baby's arm. I mean they've out marketed us in the last 20 years. Now they're appropriating our imagery. So nobody need suffer. We can create a bigger profit pool. That's the real vision. We can create a bigger profit pool but what we must do is we must link that back to the grower. Otherwise people on the middle of the value chain, whether they're in New Zealand or off shore and nearly all the manufacturers are off shore, they'll grab those economic rents.

BRIAN:
Just coming back to your question about food again, because you're in the fisheries industries, just let me give an example. If you take the green lipped mussel industry it has been undersold as a price point since it began. Now I can tell you its one of the best protein offerings in the supermarket and it should be in our opinion worth 30% more at retail than it is now. Why? If you look closely at how the industry is run and managed, the lack of collaboration and the lack of generic marketing and promotion internationally, you've got a set of divisive interests within that industry. So collaboration is a very important part of positioning a brand internationally, or a group of brands internationally. I've been involved with the wine industry since it turned its corner in the early 80s, which has now grown significantly. So we've got a strategy by 2012 to become totally sustainable and all these sorts of commitments. So
collaboration is a very important part of regionality and regional industries. We think in terms of getting people to sing off the same hymn sheet when they go to market internationally. That’s an example of a wonderful, wonderful product and yet when you see it in the supermarket or a restaurant on the other side of the world we should be getting more for it.

QUESTION FROM AUDIENCE
I am Bill Brownell and I’m with the Firth of Thames Eco System Project. I also run a small organic homestay business and we have a lot of overseas tourists who are doing that sort of small scale back country kind of experience. I think we need to recognise the fact that our people are just as important an asset as our environment. In fact the two go hand in hand. I think one of the failures of our marketing for international tourism, and our whole overall image, is the fact that we tend to focus on the larger scale things that bring in lots of money. But the fact of the matter is that, Brian mentioned the Otago Rail Trail, that is a local industry very small scale. But there are a huge amount of people that are involved in that, and not only are they generating income at the local level and improving the local economy, they’re also looking after that environment because its in their interest to be kaitiaki of that environment, to take responsibility for the quality of that environment.

We’ve now got a website called Organic Explorer which is promoting that kind of thing, the organic experience, what people are doing out there on the farm, guiding people in getting to know that environment. I actually think we can do a lot more in that regard. One of the things I wanted to put to you is, we’ve been debating for years about an incoming arrivals tax. We’re struggling, the Department of Conservation is always under resourced. We’ve got fantastic national parks that are not being looked after properly. We’ve got huge problems with pests and that’s getting worse because there’s less allocation for pest eradication. Why can we not introduce again the idea of an arrivals tax. I’ve talked to so many international tourists about that and asked them how they would feel if they were charged $25 for using our national parks. The most common response is ‘oh it should be at least $50’. So do you have any comments on that particular idea or has it just been completely thrown out?

PHIL:
Well I suppose it’s seen as something relatively easy for the government to do because its not hitting the taxpayers at all. I think there’s an argument. Whether it’s an arrival or a departure tax it doesn’t really matter. I’d much rather have that sort of contribution to the facilities that are available to tourists than a particular charge for going into a national park or for using a museum or whatever. I think it’s more efficient to collect it, and given the fact that people are paying thousands of dollars in their airfares because New Zealand is a long haul destination, the cost of the arrival or departure tax is not going to be a large percentage of the cost of their holiday here. I think people need to get the sense that it’s set at a reasonable level and that it’s not simply a way of ripping off the tourists. So I think there is some potential in that as a way of funding some of the things that we need to do in our conservation estate for example.

RUSSELL:
I think I’d give someone a book at the same time and call it a conservation levy or whatever kind of levy and only pay it once a year. If you enter multiple times you only pay it once. You get a book and it says this is what your money has been given to. These are the projects that it’s funded in conservation and people feel like they’re making a contribution. I personally would be a supporter of it.
BRIAN: This gentleman down here was talking about community and the rail trail as an example. But I do think with regional councils present in the room, regional tourism groups, economic reform groups within those regions, that developing a holistic approach to wealth creation region by region means that the blueprints are different depending on the environment. The opportunity to reinvent a region in a sensitive way through its food offerings, through its tourism experiences and natural history, all those kinds of things, is something that when you go into a region and you look at the lack of collaboration within those regions, the fragmentation of entities within them, there doesn’t seem to be sufficient initiatives certainly from what we observe where people do come together.

So you look at Marlborough and obviously it’s dominated by the wine industry. But there’s lots of things there other than wine that need to be developed and encouraged. The young people between 25 and 35 are leaving Marlborough because the employment levels aren’t strong enough there for them. I’m always a great believer in the concept of twin citizenship. You are a citizen of a place and you’re a citizen of a country, and those two things are connected, but in a way they are different. So you have this New Zealand story which is something that we’re all proud of. But we also have this very strong regional base and bias which is unique. I think that’s why people come to see us, because we are so different from North Cape to the Bluff. I think that’s what’s so magical about the place. Just a view about how to productise something we’ve got in a sensitive way is important.

QUESTION: So we should have provincial tourism taxes as well?

BRIAN: Well whatever. When you arrive in Singapore you do get charged a bed tax don’t you. It’s not dissimilar to what Russell is talking about.

QUESTION FROM AUDIENCE: Neil Dean, Fish and Game. Just as an aside on the topic we’ve just been talking about, the highest paying tourists to New Zealand are people who come here specifically to fish our back country rivers and streams. Unfortunately we’re not doing a very good job for them at the moment because they come here and find things like dam proposals or that dairying has moved into an area that used to be a high quality fishery and it isn’t. We’re not able to support that. One of the reasons we’re not able to is that we’ve been told we can’t have a non resident license as happens everywhere else in the world for going fishing. So if I want to go to Alaska I pay six times what the locals do if I want to go fishing. We’re not allowed to do that here, it’s discriminatory.

Leaving that aside, the question I wanted to ask which does relate to quite a lot of what has been happening is that the elephant in our room is agriculture when it comes to this question of subsidies. Because at the moment there’s an externality that delivers a subsidy to agricultural New Zealand but we are very vulnerable in the international trading sense too. At some stage someone is going to cotton on to that and we’re vulnerable to it. The question I have is there are many parties who are trying to trade on and trade up to a higher quality of environment and use that as an asset and get a premium from it but they are vulnerable to the absence of that from other parts, particularly the agricultural sector. Now how are we going to get one side to respond to the other? How can we get the tourism industry to actually engage with let’s say the dairy sector to say ‘you guys are damaging ourselves as well as
potentially yourselves’? What suggestions do you have to deal with that issue because it’s a big issue in New Zealand at the moment?

RUSSELL:
As many have signalled pretty widely, there is the collaborative governance approach that’s on the table and has been discussed. I do think we need to experiment more with that and I think there’s going to be more of that further down the track. I do think from my point of view, and this is very much a Green Party point of view and an activist point of view, that I’ve been very focused on building the environment movement and the strength of the voice of the environment movement because I think that’s been critically important. Obviously Fish and Game have been critical to that as well. It has been a political issue to build up the political voice of the environment movement, so that when we have the collaborative governance process we have it from a position of strength, from the representatives of the environment.

Now there is no promise out of a collaborative governance process and I think it will be very interesting to see what comes of all that. But I think we probably do need to engage in it. I’d just like to say just very briefly, I think it’s worth acknowledging the role of activists. It’s why we got the conservation estate, it’s because of the environment movement fighting tooth and nail over many years. Why are we still relatively GE free? It’s part of our brand now the GE free stuff, because of activists. So I’d just like to put a bit of a plug in for your everyday kind of environmental activist, and organisations like Fish and Game as well, that have played a key role in actually making sure that that’s a strong voice in any of these negotiations.

PHIL:
I think you’ve got to deal with the externalities by having a pricing mechanism which is based on polluter pays. Those who are creating the pollution should meet the real cost of dealing with that problem. That’s the obvious way of dealing with it.

THERESA:
I think the best way of dealing with it, is people to believe that their interests are aligned as opposed to against each other, because then you’re just going to have conflict, all the different lobby groups for agriculture or conservation or whatever. I think the best way to align those interests, because everyone agrees that we live or die by exports, is to get our customers of those products, tourism customers and customers who buy agricultural products, to actually have a conversation with us that makes it clear to all of us that these two things must be aligned or ultimately performance is going to suffer because they’re not going to buy our products. That’s the fastest way to get everybody marching to the beat of the same drummer in my opinion.

ROD:
Thank you. I’m going to leave it at that regrettably. It’s been a very enjoyable discussion.

END