

In Confidence

Office of the Minister of Forestry
Chair, Economic Development Committee

Reprioritisation of remaining 1 Billion Trees Fund

Proposal

1. This paper seeks agreement to reprioritise the at least \$23.5 million of the remaining funding in the One Billion Trees Fund (1BT Fund) towards strategic planning and advisory services. These services will help to address existing barriers to achieving the Government's aspirations for forestry, and delivery of the transformation of the forestry and wood processing sector, required to shift New Zealand to a low-emissions future.

Relation to government priorities

2. Climate change is a key challenge for present and future generations. New Zealand is committed to transitioning to a productive, sustainable, inclusive, and resilient low-emissions economy by 2050. As described in *Fit for a Better World*, the forestry and wood processing sector is uniquely positioned to contribute to this through:
 - 2.1. afforestation at scale – particularly on marginal land – and in a way that maximises the contribution of our forests to New Zealand's social, cultural, environmental, and economic wellbeing; and,
 - 2.2. the encouragement of a strong domestic processing sector to provide low carbon materials and bioenergy to decarbonise the economy, generate skilled employment in our regions, and grow the value of our exports.

Executive Summary

3. The 1BT Fund has been a cornerstone of the Government's broader One Billion Trees Programme (1BT Programme). It was initially set up as a three-year fund ending on 30 June 2021 and has delivered a range of positive outcomes.
4. I am now seeking Cabinet agreement in principle to reprioritise at least \$23.5 million of the remaining fund with the objective of setting up a more sustained and ambitious pathway for forestry and wood processing in New Zealand. I also seek approval for the Ministers of/for Finance, Conservation, Climate Change and Forestry to jointly approve the necessary appropriation changes subject to further work to develop the operational model for the services.
5. Climate change is the key challenge for present and future generations. In the context of climate change and the shift away from fossil fuels, I see the forestry and wood processing sector as a strategic asset for New Zealand, one that is uniquely placed to support the transition to a low-carbon economy through:
 - 5.1. leading initiatives to support afforestation at scale, through both the establishment of permanent forests on suitable marginal land and further expansion of the production forest estate;

- 5.2. unlocking the necessary investment in domestic wood processing through the Industry Transformation Plan to produce carbon neutral wood products and biofuel replacing solid and liquid fossil fuels across the economy; and,
 - 5.3. working with the public sector to support transformation with offsetting carbon emission (through trees) once all steps have been taken to reduce emissions.
6. However, there are a number of barriers to be addressed, and settings examined, if forestry is going to support this significant transition. This includes careful consideration to ensure that wider government objectives such as biodiversity and environmental outcomes are supported. The sector itself will also need to transform its mindset from a sector growing a commodity resource to one that generates high value jobs and low carbon products.
 7. To support the deeper change that will be critical to a credible climate change response, I am looking to apply the reprioritised investment from the 1BT Fund into specialist planning and advisory functions focused on driving the big shifts required including:
 - 7.1 bolstering capability and capacity in key areas of national forestry planning
 - 7.2 data insights and research
 - 7.3 contributing to work on policy and regulatory settings
 - 7.4 engagement and collaboration with key stakeholder and government agencies
 - 7.5 direct engagement and support to landowners; and
 - 7.6 assisting Māori landowners meet their aspirations for their land.
 8. The challenge and opportunity are not insignificant. Industry transformation and afforestation at scale, will require a different approach. Direct funding is not the only solution and to deliver a system response will require government, community, industry and the private sector to work together. The re-prioritised funding will allow for a collaborative approach with these stakeholders and ensure that the strategic planning and advisory services functions will be right sized and targeted to the critical gaps and market failures that industry and the private sector are unable to address alone.
 9. My plan for forestry involves more resource being used to strengthen connections with the sector, Māori, and landowners and a stronger service and support focus. I intend marking this shift with a change in name from Te Uru Rākau - Forestry New Zealand to Te Uru Rākau -New Zealand Forest Service and by confirming Rotorua as the operational headquarters in a new building currently being constructed that demonstrates the value of wood.

Background

10. The Government launched the 1BT Programme in 2019 to double the rate of tree planting to deliver a billion trees in the ten years leading up to 2028.
11. In addition to increasing tree planting, the programme has delivered wider benefits to the environment, communities, and economy. Outcomes being delivered by the 1BT Programme include:

- 11.1 protection and improvement of our soil, water quality, and other natural resources;
 - 11.2 helping New Zealand to meet its international climate change commitments;
 - 11.3 increased biodiversity and enhanced natural landscapes;
 - 11.4 opportunities for Māori to maximise the potential of their land and to exercise their kaitiaki obligations;
 - 11.5 employment and training opportunities within the forestry industry; and
 - 11.6 sustainable regional economic growth.
12. The Government invested \$480.1 million from the Provincial Growth Fund in the programme:
 - 12.1 \$201.6 million via the 1BT Fund, a three-year fund to support grants for tree planting and partnership projects to address barriers to afforestation, of which at least \$23.5 million will remain after current commitments are met;
 - 12.2 \$161 million for Crown Forestry Joint Ventures for commercial forestry (with a lifetime value of the appropriation of \$256 million); and
 - 12.3 other programmes, including the Hill Country Erosion Programme and other legacy forestry funds.
 13. To date, the 1BT Fund has delivered the following outcomes:
 - 13.1 approved 582 landowner grants to plant approximately 25,600 hectares, or 30 million trees (as of 31 December 2020);
 - 13.2 supported 115 partnership projects to address barriers to tree planting through science and innovation projects, workforce training initiatives and large-scale restoration projects, the planting of 13.5 million trees and
 - 13.3 supported commemorative community tree planting through Mātariki Tu Rākau to plant 545,600 native trees by community groups through 101 applications.
 14. Crown Forestry Joint Ventures completed to date have:
 - 14.1 planted 16.6 million trees between 2018-2020
 - 14.2 driven the expansion of forest nursery capacity
 - 14.3 supported local labour pilots providing forestry training and qualifications
 - 14.4 contributed to regional development by bringing land into more productive use via forestry and
 - 14.5 created pathways with various Māori Trusts to build their capability for forestry self-management and forest ownership (over half of the joint ventures are with Maori landowners).

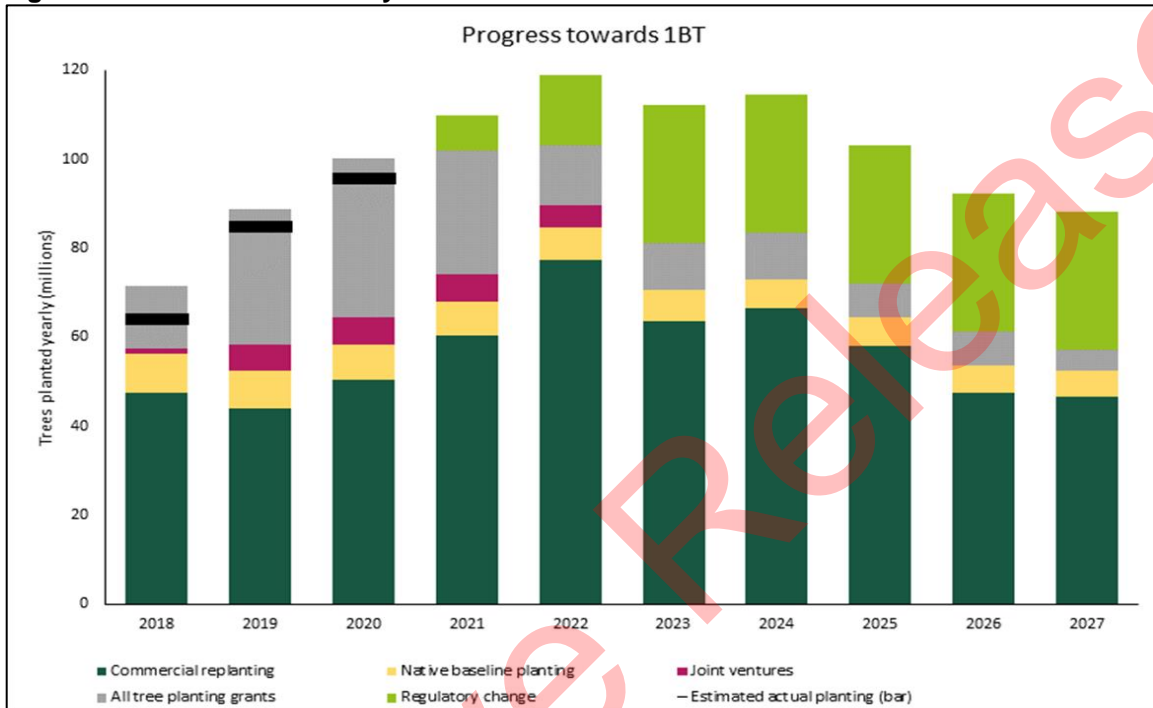
The One Billion Trees Programme is on track to achieve its goals

15. As well as the direct Government investment, which comes to an end in June 2021, the path to reach the one billion trees goal includes:
 - 15.1 replanting of most commercial forests harvested over the decade (2018-2028);
 - 15.2 new afforestation driven by commercial factors (carbon price, timber);
 - 15.3 Government policies (changes to the Overseas Investment Act, improving accessibility of the Emission Trading Scheme (ETS); and

15.4 other funding programmes, such as Jobs for Nature.

16. Figure One illustrates the pathway to reaching one billion trees. While tree planting grants are contracted in the three years to 2021, the bulk of planting occurs in subsequent years as it takes time to plan and undertake planting. Contracts can run for up to ten years so planting is forecast to occur across this timeframe.

Figure One: Predicted Pathway to One Billion Trees



17. Market drivers, especially the carbon price, are taking effect more quickly than expected, with an estimated 222 million of the 258 million trees planted to date by commercial investors, without funding support. Because of this, I am confident that the goal of planting one billion trees by 2028 will be achieved.
18. In light of my intention to reprioritise the remaining 1BT Funds, Te Uru Rākau stopped accepting new applications in December 2020. Te Uru Rākau is continuing to work through those applications that were sufficiently progressed to be considered to have inferred some degree of moral obligation to proceed. There remains a subset of applications received that will not be progressed. These applications remain 'on hold' and once reprioritisation of the remaining Fund is confirmed, applicants will be advised accordingly.
19. I considered the option of continuing to use the remaining at least \$23.5 million for direct funding of tree planting between now and 30 June 2021. This would likely have delivered between 4000 and 5000 hectares of new planting. My alternative option proposed will deliver more sustained outcomes for forestry. My view, at this stage of the funding cycle, the creation of a more sustained pathway to support forestry and wood processing over the next three to four years will help position the sector to respond to the COVID-19 recovery and climate change challenges the Government needs to address. That is why I consider the funding will achieve better value by being reprioritised.

This year will be a landmark year in the transition to a low emissions future

20. New Zealand has committed to decarbonising its economic activity over the next three decades. The Climate Change Response (Zero Carbon) Amendment Act 2019 commits New Zealand to reaching net zero emissions of long-lived gases by 2050 and reducing gross biogenic methane emissions by between 22 and 47 percent below 2017 levels by the same date.
21. This year will be a landmark year in New Zealand's climate change transition. In late January, the Climate Change Commission released its draft emissions budgets for the 2021–2035 period and policy recommendations on how to achieve the necessary emissions reductions. By the end of the year, the Government is required to publish a comprehensive Emissions Reduction Plan (ERP) detailing policies and strategies to reduce emissions across all sectors of the economy out to 2035. The ERP will have implications for the forestry and wood processing sector and it will require information and advice to deliver the changes required. The strategic planning and advisory services I propose in this paper will support this.

Forestry and wood processing is well placed to deliver on the objectives for Fit for a Better World, climate change, and wider government objectives

22. The forestry and wood processing sector has two key areas central to the transition to a low emissions future responding to the climate change challenge:
 - 22.1 afforestation at scale to sequester carbon; and
 - 22.2 increased domestic wood processing to provide alternatives to high carbon products.
23. Sustained large-scale afforestation, with roles for diverse native and exotic forestry models, will be needed to smooth the transition by offsetting emissions while New Zealand works towards bringing our gross emissions down to zero before 2050 and for establishing a sustained long-term carbon sink. Forests and trees are also integral to New Zealand's resilience to the droughts and floods expected to become more extreme as the climate continues to warm.
24. The *Fit for a Better World* roadmap for the primary sector identifies supporting increased afforestation on highly erodible and unproductive land and making better use of wood products to generate energy and develop sustainable products as the two key priorities for the forestry sector. Government will need to address current market failures to ensure the sector delivers on these priorities.
25. My officials are working on a range of initiatives to support the changes we need, including examining legislative, regulatory and non-regulatory settings (such as incentives and information), supporting the growth of workforce capacity and capability, and positioning Government investment to promote the behaviours and decisions needed to deliver the results we are seeking. This will include how to support the development of the skills and workforce necessary and the acceleration of the *Forestry and Wood Processing Workforce Action Plan*.

Maximising the contribution of forestry and wood processing will require barriers to be addressed

Being more strategic about the transition to a more forested landscape

26. Both the *Fit for a Better World* roadmap and the Climate Change Commission's draft advice describe the important role trees play and set out an expectation that we will require more afforestation to achieve a range of objectives, including environmental and carbon sequestration.
27. As context, the ETS is expected to drive the planting of between 740,000 and 1.46 million hectares of new forest land between now and 2050. Forestry is estimated to contribute between 62 and 79 million tonnes of CO₂ removals towards our 2030 NDC target. NZ ETS driven afforestation over 2020–2050 could contribute around 20 to 23 percent (14 to 16 Mt CO₂) of this total. The majority of this is expected to be planted on less productive land (Land Use Capability classes six to eight), based on what is currently registered in the ETS.
28. A more orchestrated approach will be required to maximise the social, environmental and economic benefits of the large-scale afforestation that is expected to occur over the decades. For example, approximately 40% of wood for harvesting comes from small woodlots and this situation is expected to continue for at least a decade. Ensuring these woodlots can coordinate will increase efficiency of harvest and provide greater certainty about wood supply, infrastructure, and workforce needs.
29. This will help ensure that afforestation enjoys public support, and meets future regional wood processing and bioenergy needs. This will require Te Uru Rākau to bolster its forestry and land-use planning capability. Careful thought needs to be given to the full suite of policy and regulatory settings, such as the National Environmental Standard for Plantation Forestry, as well as financial incentives. More work is still needed to explore diversification of species and management regimes to improve climate resilience, promote biodiversity, and reduce vulnerability to disease, fire, storms, and market changes. This work will include consideration of the ways to drive indigenous afforestation, including policy settings and science needs.
30. In addition, access to high quality advice for Māori and other landowners is a critical gap and I want to see a sustained and systematic reduction of barriers to planting trees delivered. In my view, this delivers greater benefit to New Zealand over a longer period than using the final at least \$23.5 million of the 1BT fund for direct funds.

Encouraging investment in wood processing and wood bioenergy – Wood as a Strategic Resource

31. As a naturally renewable and carbon-neutral resource, our forest estate is a strategic asset that can underpin a productive, sustainable, and inclusive future economy. Wood products can support decarbonisation while creating wealth by providing low emissions materials and fuels to power the economy:

32. However, over the last decade the domestic wood processing sector has struggled to compete in a changing global market. The value of wood product exports rose 11 percent between 2008 and 2018, while the value of log exports increased by 180 percent over the same period.
33. Considerable Government support will be required to deliver the large-scale investment in domestic wood processing required to help decarbonise the economy, grow export revenues and position New Zealand as a global leader in high-value wood products. Specific initiatives requiring financial support would need to be designed in consideration of New Zealand's international trade obligations.
34. In addition, if we are going to see large-scale increases of wood processing, there will need to be a stronger emphasis on planning and coordination to ensure the right future forest estate and supporting infrastructure (roads, rail, power, ports) are at the right scale and in the right places to meet future demand for wood fibre and support regional wood processing clusters.
35. The Industry Transformation Plan that is underway as part of the *Fit for a Better World* is already working on this. In the meantime, developing planning and advisory capability will improve Te Uru Rākau's understanding of the potential of the current forest resource to meet anticipated needs over the next decades and align the growing and processing sector so that ongoing resource availability supports investment opportunities for wood processing and bioenergy investment.
36. Bolstering Te Uru Rākau's planning and advisory capabilities will also enable it to work with existing wood processing businesses to identify pathways to maintain and improve competitiveness through opportunities to lift productivity or pivot towards new opportunities presented by the domestic and global shift towards low emissions biomaterials and bioenergy. This includes improving understanding and providing insights to the sector of emerging technologies and new markets that are developing domestically and internationally.

I propose using the reprioritised 1BT funding to begin to address these barriers

37. I consider that in order for forestry and wood processing to be the strategic asset needed, there must be a more deliberate and sustainable approach to the planning of our national forestry landscape estate. The estate must also be matched with manufacturing infrastructure to unlock the potential to decarbonise New Zealand's economy through increased use of wood products and bioenergy. I don't believe the necessary planning and coordination will occur under the current settings.
38. I therefore propose that at least \$23.5 million remaining in the 1BT Fund be reprioritised to provide strategic planning and advisory services. These services will provide a national forestry estate perspective to ensure we make better use of our resources and provide direct advice to landowners and regional councils.

39. While strategic planning and advisory services are not a panacea, they are a useful first step to creating the shift we need to see. It takes decades for a seedling to reach maturity. This means that we need to be making decisions today about what we want to see in 30 years. Without good planning and advisory services, it is really challenging to make the best decision.
40. The need for such support has been highlighted in:
- 40.1 Discussions with industry as part of the Industry Transformation Plan that show that a strategic planning function is necessary to deliver the materials we need for a low-carbon future;
 - 40.2 The review of the National Environmental Standard – Plantation Forestry that identified greater support for councils and the forestry sector as a way to deliver better environmental outcomes; and
 - 40.3 The Te Ohanga Māori Report 2018 that notes that access to information is a key barrier to developing Māori land.
41. The exact shape/scope of the strategic planning and advisory services is being worked on by Te Uru Rākau. Te Uru Rākau will work with key stakeholders and partners, including others working in the advisory space such as Maori Agribusiness, Primary Industry Advisory Service, He Waka Eke Noa and others, to define the appropriate functions, including the role of government and industry. This will ensure alignment of work in the advisory space so that the services are complementary.
42. I also expect that the services will grow and evolve over time, as required. There will also be some phasing required as the services are ramped up. There are activities that will be able to happen very quickly, others will take longer to develop. For example, advice and support to landowners that have engaged in MPI's forestry schemes, will be able to begin very quickly. This would support them to enhance and protect the planting completed to date, ensuring the investment is protected and delivers the intended outcomes.
43. What is known already is what the planning and advisory services need to deliver. This includes:
- 43.1 A national picture of the forestry landscape to understand the current supply situation that can be used to forecast future demand, identify gaps between supply and demand and respond to them
 - 43.2 Advisory capacity and capability to ensure that the forestry and wood processing sector can make decisions based on the best information available, for the best result.
 - 43.3 Support to landowners that have, or intend to plant trees. Supporting them with access to information and methods that will ensure their planting achieves the best outcomes possible.
44. I expect a range of regulatory and policy advice and information to be provided, including working closely with sector groups, councils, and landowners. There are important changes coming to the forestry and wood processing sector, including the Industry Transformation Plan, the Climate Change Commission's report, and the Emissions Reduction Plan. I believe that strategic planning and advisory services will help the sector respond to these.

45. While reducing carbon emissions is an important consideration, the strategic planning and advisory services will also contribute to wider government goals such as biodiversity, and will not be limited to the commercial sector. For example, it could support an increased interest in planting indigenous trees by working more closely with the nursery sector to increase supply, providing specialist planting advice and commissioning applied research to address knowledge gaps. Additional capacity would enable greater collaboration with stakeholders and agencies ensure work in this important area is joined up.

46. I believe lifting the strategic planning and advisory capability and capacity is an important start to driving the deeper changes required to support the shift from growing a commodity resource to one that generates high value jobs and carbon-neutral products, as well as supporting more permanent planting on marginal land.

47. There are two key reasons I am seeking a decision from Cabinet at this time, rather than waiting until all the design work has been completed:

47.1 As noted in paragraph 18 above, there are grant applicants whose proposals remain on hold until a formal decision is made about the remaining funds. These proposals have been on hold since December 2020. Trees are planted in winter and delaying the decision will impact planting due to take place in the 2021 and 2022 planting seasons. Plant orders are typically placed in October and planted the following winter, however indications from some nurseries is that demand for 2022 planting might see a deadline of planting orders as early as July 2021 (due to the growing capacity of nurseries). A delayed decision to re-prioritise, even for a few months, could potentially see two planting seasons impacted, which would see fewer trees planted as a result. A decision to re-prioritise now, while impacting an applicant's funding from One Billion Trees, should still allow applicants to source alternative funding, or cancel nursery orders allowing seedlings to be sold to other buyers and for these trees to still be planted, rather than mulched.

47.2 Funding for strategic planning and advisory services cannot be delivered within baseline funding. Re-prioritised funding will allow for 12 months of careful planning and consultation to fully form the full opportunity of the strategic planning and advisory function, but also to commence delivery of a national picture of the forest estate and to support landowners to plant and grow trees while the full function is developed, which would support Budget Bids for 2022/23.

48. I therefore propose the remaining \$23.5million in the 1BT Fund be reprioritised to provide strategic planning and advisory services. These services will provide a national forestry estate perspective to ensure we make better use of our resources.

I propose to signal the shift in direction with a name change and confirmation of the operational headquarters of Te Uru Rākau

49. To support my vision for the future of forestry and wood processing, and signal a change in direction, I have asked my officials to begin work on a name change, from Te Uru Rākau, Forestry New Zealand to Te Uru Rākau, The New Zealand Forest Service.

50. I also intend to formally recognise Rotorua as the operational headquarters for Te Uru Rākau, The New Zealand Forest Service. Currently, approximately 43% of Te Uru Rākau's staff are based in the regions throughout New Zealand, with about 17% located in Rotorua. While this geographic profile might not change significantly, my officials will continue to promote Rotorua as an option for current and future staff. At the end of March 2021, I plan to attend the sod-turning for the new building that will soon be constructed in Rotorua which will house Ministry for Primary Industries and Department of Conservation staff. This building will serve as an example of the possibility of utilising wood in commercial buildings and will be used as a venue for events and announcements.

Financial Implications

51. This is a transfer of funding between appropriations within Vote Forestry.

Legislative Implications

52. There are no legislative implications associated with the reprioritisation of this funding.

Consultation

53. The following agencies have been consulted, The Treasury, Te Puni Kokiri, Department of Conservation, Ministry for the Environment, Ministry of Business, Innovation and Employment, and Ministry of Foreign Affairs and Trade. The Department of Prime Minister and Cabinet has been informed.

Proactive Release

54. I intend to release this paper, and associated documents within the required 30 days of decision.

Recommendations

I recommend that the Cabinet Economic Development Committee:

1. **Note** that forestry and wood processing is a strategic asset for New Zealand and has the potential to be a significant contributor to the response to climate change;
2. **Note** my intention to establish new forestry strategic planning and advisory services;
3. **Note** my intention to signal my vision for the forestry and wood processing sector by changing the name of Te Uru Rākau, Forestry New Zealand to Te Uru Rākau, The New Zealand Forest Service;
4. **Note** my intention to formally recognise Rotorua as the operational headquarters for Te Uru Rākau, The New Zealand Forest Service;
5. **Agree** in principle to reprioritise at least \$23.5 million from the One Billion Trees Fund to establish a new forestry specialist planning and advisory function, subject to further work on the operational design and timing of implementation of the new services;
6. **Note** that key stakeholders and government agencies will be consulted as this work continues;
7. **Authorise** the Minister of Forestry, Minister of Climate Change, Minister for Conservation, and the Minister of Finance to jointly approve any necessary changes to appropriations, including the establishment of new appropriations or categories, subject to the further work described in recommendation 5 above being satisfactorily completed.

Authorised for lodgement

Hon Stuart Nash
Minister of Forestry