In Confidence

Office of the Minister of Forestry
Chair, Cabinet Environment Committee.

Preparing the forest system for the future

Proposal

1. This paper outlines proposals to prepare New Zealand's forest system to contribute to a low emissions economy. It provides:
   - **Part A:** a progress update on the One Billion Trees programme for your information;
   - **Part B:** an update on development of a Forest Strategy for New Zealand, for your feedback on the proposed areas of focus;
   - **Part C:** a package of measures which aim to create a more productive, integrated and efficient supply chain, for discussion and to direct officials.

Executive Summary

2. Forestry is back on the map. After decades of under-investment and deforestation, we are back in tree planting mode. Forestry can lead our early efforts to transition to a low emissions economy and support regional economic development.

Progress to date – driving tree planting and reinvigorating the sector

3. Over the past 18 months the Government has invested heavily to revitalise the forestry sector. We have formed Te Uru Rākau, developed the One Billion Trees Programme (the Programme) and changed the Emissions Trading Scheme and Overseas Investment Act to encourage investment in forestry. These measures are seeing results, with significant new planting well underway and growing confidence in the wider forestry sector.

4. We are on track to plant one billion trees by 2028 and reach 100 million trees per year by 2020. Since the Programme was announced nearly 150 million trees have been planted. 80 million trees (71 million exotic and 9 million native) are going in the ground this planting season.

5. Direct government investment to date has delivered:
   - $14.6 million in landowner grants to plant over 7,000 hectares in trees
   - Partnership projects worth $37 million, supporting large native restoration projects and building capacity and capability to plant more trees
   - Up to 24 million trees through Crown Forestry joint ventures signed with landowners by June 2020.

6. The Programme will continue to ramp up over the coming years, driving native and exotic tree planting to contribute to critical Government outcomes, including emissions mitigation, improved soil, water and biodiversity, jobs, regional development and lifting Māori participation in forestry.

Setting the long-term vision

7. The key challenges and opportunities are not just about growing more trees, but about how we value and use them.

8. Wood fibre has potential to replace fossil fuels. Conceptually, everything that can be made from carbon-based non-renewable resources (coal, oil) can be made from trees. We need to provide our builders, manufacturers, industries and consumers with alternatives to concrete, steel and plastics. These changes could significantly reduce New Zealand's greenhouse gas emissions. Encouraging further development of innovative wood-based products and technologies will also support a more bio-circular economy[1] complementing other primary sectors, and creating more value for communities.

9. To achieve this transformation, New Zealand needs investment in innovative bio-circular technologies, modern infrastructure, and a diverse forest landscape, but to succeed we need 'buy-in' to this change from forestry participants and wider communities.

10. I have asked officials to develop a Forest Strategy (the Strategy) to set the direction for the role our forest system can play in New Zealand's transition to a low emissions economy with thriving and sustainable regions. It will set the vision for our forest landscape and commercial supply chain to 2050 and beyond.

11. The Strategy will be completed by July 2020 and will include pragmatic actions for government and the sector to enable transformational change in the forest system to support a low emissions, bio-circular economy.

12. I am seeking Cabinet feedback on the Strategy's priorities and areas of focus, which will then be further developed in collaboration with a wide range of stakeholders and partners, for Cabinet agreement in 2020. The Strategy links closely with the development of an Industry Transformation Plan for the forestry and wood processing sector, and officials from Te Uru Rākau and the Ministry of Business, Innovation and Employment are working closely together on this.

Short-term measures for the commercial forestry sector

13. The commercial forestry and wood processing sector faces significant challenges in making the shift required, including industry fragmentation, a volume over value model and high export market exposure. In addition, this sector is not supported by a culture of 'industry good' activities.

[1] A bio-circular economy is a sustainable economy reliant on renewable resources to produce food/energy/products/services, where we keep resources in use for as long as possible, extracting the maximum value and minimising waste streams.

14. Long-term under-investment in domestic processing and infrastructure has stymied the sector. Through the Provincial Growth Fund this Government is investing in wood processing, and officials from Te Uru Rākau, New Zealand Trade and Enterprise and the Provincial Development Unit are continuing to identify new opportunities for high value investment.

15. To maintain momentum and action while the Forest Strategy is being developed, I have asked my officials to come up with some immediate measures for the commercial forestry sector to be more productive, integrated and efficient and better able to transition to a low emissions economy. These measures include:

- publishing a harvest and sales information series for small forest owners, exploring a public database for sales information and updating the National Exotic Forest Description and wood availability forecast to improve grower and processor decision making;
- introducing compulsory professional registration of log buyers and a standardised sales and purchase contract to raise professional standards and advice in the supply chain;
- supporting small forest grower aggregation, through better information about forming collectives which will enable growers to get economies of scale Under active consideration [redacted] and
- developing a wood legality definition for New Zealand to continue to have confidence our products will be accepted by export markets.

16. If implemented these measures will support a stronger supply chain for local processors to do business and invest, more job certainty and more logs processed on shore.

17. Free and frank advice [redacted] Subject to your feedback, I intend to bring back implementation detail on the compulsory professional registration of log buyers and a wood legality definition for Cabinet approval by early 2020.

18. In the meantime officials will continue to progress work on measures [redacted] Under active consideration [redacted] such as improved information for small growers.

Background

The Government has ambitious goals for the forest system

19. Te Uru Rākau was established in 2018 to provide visible leadership and enhanced focus, resource and structure to help realise Government's eight goals for forestry:
    - achieving one vision for all New Zealanders in the One Billion Trees planting programme through comprehensive economic and civic engagement;
    - enabling Māori to achieve their forestry-related economic and cultural development aspirations;
    - supporting sector and regional productivity increases to capture full market value;
    - a strong, stable and reliable labour market which enables safe and rewarding lifetime careers in forestry;
    - better environmental and climate change outcomes for New Zealand;
    - a stable investment environment enabling greater investment confidence in the forestry sector;
    - a stronger domestic market for wood products and security of supply for wood processors; and
    - facilitating the transition to a low emissions economy through the replacement of petroleum-based products with wood-based products and the enablement of carbon farming.

20. Significant progress is being made towards these goals through the following government initiatives:
    - the One Billion Trees Fund;
    - Crown Forestry Joint Ventures;
    - Te Uru Rākau's labour and skills work programme;
    - Provincial Growth Fund investments in forestry and wood processing to support regional development;
    - changes to the Emissions Trading Scheme (ETS) for forestry; and
    - Overseas Investment Act amendments to enable a streamlined pathway for forestry investment.

21. Appendix One provides a high level summary of the work programmes across Government that are directly or indirectly contributing to our forestry goals.

22. In this paper I provide an update and seek discussion on three areas that contribute more broadly towards the Government's goals:
    - a progress update on the One Billion Trees programme (Part A);
    - an update on the development of a Forest Strategy (Part B); and
    - a package of measures to create a more productive, integrated and efficient supply chain to transition to a low emissions economy (Part C).

Part A: One Billion Trees Programme

23. I am pleased to report that the One Billion Trees Programme is delivering on immediate goals by doubling New Zealand's overall planting rate and supporting replanting of existing forest land over the next decade. An estimated 80 million trees have been planted this winter (71 million exotic and 9 million native). This is up from 68 million trees planted in 2018 and in line with the planned increase over the initial years of the programme, putting the programme on track to reach one billion trees by 2028.

24. New afforestation is a result of both direct government investment through the One Billion Trees Fund, and market drivers, particularly the high log price and high carbon price, and the anticipated entry of agriculture into the ETS. This is likely to include a mix of commercial forestry and increased planting of permanent exotic and native trees for carbon income.

25. Crown Forestry is on track to sign joint ventures with landowners by June 2020 to plant 24 million trees. Previously I had updated you on the contracted supply of seedlings for the 2019 planting season. Crown Forestry has an operational plan in place to plant all contracted seedlings by the second week of October. Between 12 and 12.5 million seedlings will be planted during the 2019 planting season through Crown Forestry joint ventures.

26. Appendix Two provides a progress summary for the key components of the Programme.

There are emerging concerns as a result of increasing afforestation

27. Over recent months there have been concerns raised by rural communities about the pace and level of afforestation, and the impacts this will have on local employment and services.

28. The scale of land-use change to date has been relatively low across New Zealand (the provisional estimate of 9,100 hectares of new radiata pine planting in 2018 represents approximately 0.1% of sheep and beef land). In addition, 2019 data from real estate sales to date does not suggest a significant increase in land sales or whole-sale farm conversions[2].

29. The level of concern about afforestation varies regionally. Concerns have been focussed on Wairoa and on the Wairarapa, where there are large areas of steep and lower productivity sheep and beef land, and where forestry may be a more profitable land use.

[2] Existing data does not identify the intended land use of properties sold, and there is also likely a lag between anecdotal information and completed sales transactions.

30. However, the concerns raised about the One Billion Trees Programme (and afforestation more generally) reflect:

- broader challenges and pressures that are being faced by farming communities (e.g. economic returns from dairy, impacts of M. Bovis, anticipated pressures from other government regulation such as ETS and freshwater);
- longer term trends within rural communities (e.g. ageing populations, increased mechanisation and farm consolidation) which have led to de-population; and
- existing concerns relating to forestry's social licence to operate (e.g. the impacts of logging trucks on roads, health and safety within the sector, impacts from forestry slash and debris).

31. As rates of afforestation and land use change are likely to continue to increase, it is important that the Government fully understands these concerns and is able to address them. I expect that the Forest Strategy, as outlined in Part B, will contribute to this, by identifying a long term vision for a more sustainable sector, along with immediate actions to address social license to operate concerns.

32. I have asked officials to keep monitoring forestry conversion trends and to identify ways to get better data. I have also confirmed with Te Uru Rākau that the One Billion Trees Fund is not subsidising whole farm conversions to forestry, but is working to support landowners, particularly farmers and Māori landowners, to integrate trees into existing land-uses.

33. In early 2020, Treasury, Te Uru Rākau and LINZ will undertake a statutory review of the Overseas Investment Act forestry changes. Free and frank advice [redacted]

Next Steps for the One Billion Trees Fund

34. Under active consideration [redacted] MPI will provide a report to Forestry Ministers about the implementation of the Fund, twelve months following its launch. This report will give Ministers an overview of the progress that has been made towards meeting the outcomes of the Fund, such as jobs created, Māori participation in the Fund, and catchment projects funded. It will also provide advice on whether any adjustments to policy settings are needed.

Part B: A Forest Strategy for New Zealand

The Forest Strategy will set long-term direction

35. In August 2018 Te Uru Rākau signalled its intent to develop a forest strategy for New Zealand (CAB-18-MIN-0379.01). The Terms of Reference for the Strategy were agreed by Forestry Ministers in February 2019.

36. The Strategy will provide a unified vision for the future role that forests and trees can play in New Zealand's transition to a more sustainable, low-emissions economy. It will identify what types of trees we want, where we want them, and the roles they will play.

37. As Appendix Three illustrates, the scope of the forest system extends well beyond production forestry, into native forests, the conservation estate, urban trees and trees on farms and the wide range of benefits and values they provide.

38. The Strategy will identify key themes and aspirations for the system, and will map out priorities for action in the short, medium, and longer term. One action is likely to be a review of the Forests Act 1949 and other supporting legislation to ensure it enables our desired future state.

39. A skilled workforce is needed to implement the Strategy. To help achieve this, Te Uru Rākau has established a Forestry and Wood Processing Workforce Action Plan Working Group, made up of government and industry organisations. This group will develop a draft Workforce Action Plan, which will form part of public consultation on the Strategy. The Working Group is also developing a framework for forecasting workforce requirements to inform an in-depth study into workforce labour demand.

Shared Development of the Strategy

40. The success of the Strategy depends on having a shared vision of the future and commitment to implementation. I have asked my officials to use a collaborative approach to achieve this. Engagement to date has been positive, with discussions focussed on the future ahead for forests and forest related activities. Further targeted engagement is planned over the coming months.

41. The Strategy also links to a number of agencies and work programmes, including climate change mitigation and adaptation, natural resources and industry transformation. I am bringing this early update to ensure that work relating to forests is well connected to broader Government goals.

42. I propose to come back to Cabinet in early 2020 to seek agreement to public consultation on a draft Strategy, and following Cabinet approval, to launch the Strategy in July 2020. More detailed planning to implement the Strategy will follow.

The forest system is key to a low emissions future

43. We have set a goal of transitioning to a low emissions economy by 2050. New Zealand has joined many other nations in planting millions of trees as an early action to mitigate climate change. Scientists have endorsed restoration of trees as the most effective short-term climate change mitigation.

44. As noted above, direct tree-planting incentives, together with a stable carbon price and strong demand for timber, are having results. There is now net afforestation in New Zealand, where between 2008 and 2012 there had been net deforestation[3]. Tree planting is likely to accelerate as new policies such as those relating to freshwater come into effect.

45. The key opportunities for forestry to contribute to a low emissions future go beyond new afforestation and short-term emissions reduction. Wood fibre has the potential to replace fossil fuels for a wide range of uses, including heat energy and fuels, and to provide alternatives to concrete, steel and plastics. These would reduce New Zealand's emissions and address other environmental challenges (such as plastic pollution). Innovative wood-based technologies can help New Zealand move towards a more bio-circular economy where integrated production systems create end-to-end use of materials, and reduce waste, using complementary ecosystem and production loops.

The case for Government intervention

46. Achieving this transition to a low emissions economy relies on a number of factors, including:
    - investment in innovative bio-circular technologies to a scale where they can compete with current products;
    - improvements to infrastructure to make more efficient use of wood fibre. This includes the road, rail, shipping and port networks, processing capacity, energy supply, and supporting structures, systems and information;
    - shifting to develop more diversified end products through a more diversified forest landscape with a broader range of trees being grown, a broader range of management regimes, and innovative processing of wood from current tree species;
    - leveraging critical research, science and innovation to develop the new ways of working that will deliver transformational change in the forest system; and
    - addressing some of the systemic issues within current operating models to lift sector performance, and community support for the sector.

[3] https://www.mfe.govt.nz/sites/default/files/media/Environmental%20reporting/environment-aotearoa-2019.pdf

47. However, the private sector alone is unlikely to deliver sufficient change at the pace that the Government wants to see. The commercial forestry and wood processing industry is not well positioned to maximise the value of renewable fibre production and transition to processing suitable for a low emissions economy, as it is focused on short term profitability and lacks the access to capital to invest in expansion for longer term gains.

48. Current commercial drivers support the existing model of large-scale clear fell rotational radiata pine plantation (which has scale and a known economic return and risk profile) while changing to alternative models involve taking on more risk. New Zealand's infrastructure also requires long term investment and national level co-ordination, which only government can provide.

49. Forestry will be critical to the shifts identified in the Governments Economic Plan, including moving from volume to value, implementing sustainable energy systems and using our resources to deliver value and improved environmental outcomes.

50. The forestry sector has many examples of how strong Government leadership and direct intervention accelerated the development of all aspects of the sector we have today, including, for example, the pulp and paper processing industry. If we are interested in transformational change now to support a low emissions economy we need to consider more direct intervention and investment in this sector than that seen over recent decades.

51. Government intervention is also used to manage the potentially harmful impacts of forestry. The National Environment Standards for Plantation Forestry were developed to manage the environmental effects of plantation forests, and include provisions for the management of forestry slash and debris. The Standards had only been in place for 6 weeks when a severe rainfall event in Gisborne caused significant downstream slash damage in Tolaga Bay. Government has included a review of the slash management provisions in the Standards in the Year One Review to assess whether any changes are needed to reduce the risk of similar events in future.

Potential areas of focus for the Forest Strategy

52. The table below outlines possible area of focus for the Forest Strategy along with indicative actions for the Government to drive change. These have been identified through engagement and stakeholder workshops to date and will be further refined based on your feedback.

Themes	*Description*	*Possible actions*
Bio-circular economy	Maximising the role trees can play in our transition to a bio-circular economy through: • Engineered timber as a replacement for concrete and steel • Bio-energy as an alternative to fossil fuels • Wood fibre as a replacement for plastics and industrial petro-chemicals	▪ Developing a set of bio-circular economy principles in collaboration with other government agencies and industry ▪ Investment in small-scale and large-scale pilot projects ▪ Bridging the gap in investment to achieve commercialisation/ scale up of bio-products ▪ Understanding and addressing barriers to alternative uses of wood (e.g. in order for processors to convert to wood pellets for bio-energy there needs to be better co-ordination or aggregation of supply) ▪ Supporting research, science and innovation to deliver new products needed in a bio-circular economy
Increasing value	Ensuring that forestry provides more value to more New Zealanders through: ▪ Creating a safe and sustainable forestry workforce ▪ Increasing high value products, ▪ maximising opportunities for Māori land and forests.	▪ Address issues with current contractor business model (Health & Safety, sustainable employment) ▪ Workforce action plan to identify and plan for skills needs ▪ Ongoing funding for Māori forestry partnerships – addressing capital barriers to forestry, improving information and advice ▪ Regional/local level approaches for communities where transition is to forestry ▪ Increasing investment opportunities to modernise operating models ▪ Market research on wood/fibre products
Diversification	Diversification of species, management regimes, products and business models to: ▪ promote resilience (eg to protect against biosecurity risks and over-reliance on a single product and market) ▪ provide a broader range of environmental and social benefits ▪ address current social licence to operate issues.	▪ Increased investment in science, research, technology into diversified forest models ▪ Support for alternative species planting/ processing to achieve scale ▪ Working with industry to better understand future global wood/ wood products demand and actively develop new market opportunities ▪ New Forests Act to create up-to-date legislative framework

Themes	*Description*	*Possible actions*
Integration	Ensuring trees are integrated into landscapes and are valued: ▪ As part of farm systems (including riparian margins, shelterbelts, woodlots to diversify income streams) ▪ Within rural and urban environments (recreation, wellbeing, urban settings)	▪ Provide more integrated advice to landowners ▪ Improved data and information about economics of different models of forest/ farming, and better planning tools ▪ Ongoing role for One Billion Trees programme/ support for farmers to plant trees and support for regional/ city councils for urban forests ▪ Increased support for existing small scale foresters (e.g. with management and harvest) ▪ Better understanding of the impacts of afforestation on communities
Working together	Build a forest system where businesses, government, Māori, farmers, communities, science and research are enabled to work together to maximise the opportunities to progress not only parts of the forest system but also the forest system as a whole.	▪ Set clear vision for the role forests and trees can play – help public better understand the benefits ▪ Facilitate greater industry co-ordination and leadership to address current social license issues ▪ Initiatives to encourage a more diverse sector, and support future leaders

Part C: Immediate Measures for the Commercial Supply Chain

53. While the Strategy sets the longer-term picture for action across the forest system, I am also interested in addressing immediate challenges for commercial forestry and wood processing.

The industry is fragmented, with a growing number of small forest growers

54. The forestry industry is fragmented, with very little integration between those who own the land, own the trees, process them, and export them. This fragmentation is likely to increase due to the growing portion of the estate coming from small-forest owners. The estimated 14,000 small forest owners (defined as owning under 1,000 hectares)[4], currently produce around 40%[5] of the total harvest.

55. Small growers are diverse, ranging from syndicate investors and professionally managed forests, to farmers. Many small forest growers do not see themselves as part of the forestry sector. They often have a single age-class forest, with only one opportunity to profit from it, and they are not connected in to the continuous cycle of planting, forest management, and harvesting of larger scale commercial foresters.

56. Industry feedback indicates that when small growers do harvest and sell, some miss out on receiving the full value of their forest due to:
    - limited information and resources available, meaning growers cannot always confidently engage in the harvesting and marketing of their blocks themselves;
    - a reliance on selling their resource to log buyers who do not always provide growers with the full range of sales options; and
    - difficulty in aggregating their resource with other small forests to achieve economies of scale and optimise collective returns, due to a lack of information and disincentives in the tax system.

New Zealand is largely reliant on the log export market

57. The commercial forestry sector is reliant on log export markets, with 60% of wood exported as logs. China is the largest importer of New Zealand wood, and following high prices in the last three years we have significantly increased our log export volume to China. This has left New Zealand vulnerable to supply and demand fluctuations in this market. In recent months our increased volume, increasing supply from Europe, the Belt and Road Initiative, and the US-China trade dispute have resulted in an oversupply to China, which led to a sudden drop in log prices.

[4] https://www.nzffa.org.nz/farm-forestry-model/resource-centre/tree-grower-articles/tree-grower-2017-may/survey-of-the-needs-of-small-scale-forest-owners-for-information-and-decision-support/
[5] https://www.mpi.govt.nz/dmsdocument/14221-wood-availability-forecasts-new-zealand-2014-2050

58. While large corporates are better able to spread risk through having long-term supply agreements with domestic processors, small growers are heavily reliant on the export market. Therefore small growers are vulnerable to the commodity cycle, as are down-stream contractors, including harvest crews.

59. As small growers do not signal their intentions much in advance of harvesting, and with limited aggregation of small forest resource, domestic processors cannot easily enter into supply agreements with multiple small forest owners. Greater integration between small growers and processors would lead to more consistent log prices, de-risk returns, reduce costs and provide more continuous work for contractors. This integration would stabilise the supply chain and provide greater log supply certainty for processors.

Under-investment in wood processing

60. Short-term economic drivers have favoured the current high-volume, low-value model for forestry, which has not supported longer term investment in the supply chain.

61. The wood processing industry supports a relatively narrow range of forestry derived products (sawn timber, pulp, paper and panels). Much of the wood processing sector is now struggling with out-dated technology and tight margins.

62. Although New Zealand's wood supply is increasing (from around 20 million m^3 in 2010, to 35 million m^3 in 2018), the additional wood is being exported to China, rather than processed domestically into value added products. This is partly due to some mills only being set up to process certain grades of log, or parts of a log. Export markets will take the whole log which is more appealing, especially for small growers. Without significant investment processors will be unable to upgrade their equipment to process new value added products.

63. Increased domestic processing provides an opportunity to reduce dependence on the commodity cycle associated with log exporting. The market for processed wood products is more diversified with over 14 major buyer countries, compared with only 4 major log buyer countries. This would stabilise the supply chain, reduce business risk and more certainty for jobs.

64. For domestic processing to be commercially successful in the future, we need to be internationally competitive with strong export market opportunities for our products[6]. We also need to be able to operate at scale, with efficient production utilising modern technologies to our advantage.

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[6] https://www.mbie.govt.nz/business-and-employment/economic-development/sector-reports-series/forestry-and-wood-processing-spotlight-report-series/

65. I am concerned that without immediate action the processing sector will continue to decline. This will make it harder for the sector to support New Zealand's transition to a low emissions economy, as it will result in further erosion of infrastructure and capability that will be hard to bring back in the future. Reduced confidence among existing large investors will also mean they are less willing to commit to upgrading aging facilities, or expanding their processing activities in New Zealand.

Increasing investment through the Provincial Growth Fund

66. Through the Provincial Growth Fund (PGF) we have started to actively invest in the wood processing sector. This includes expanding current production, innovating with new product lines and building capability.

67. With the uncommitted funding remaining in the PGF, officials from Te Uru Rākau, NZTE and the Provincial Development Unit are continuing to explore options for new wood processing opportunities. I have asked for a particular focus on regions such as Tairāwhiti (Gisborne) where there is a large forest estate, little wood processing and significant amounts of under-utilised wood residues and opportunities for integrated bio-technologies.

68. Free and frank advice [redacted]

69. Along with intervention to support investment in processing, we also need to promote wood products domestically. Work already underway includes promoting the benefits of wood in construction through Government procurement guidance, and co-funding of the mid-rise wood construction programme with Red Stag.

70. Under active consideration [redacted].

Under active consideration [redacted]

71. Under active consideration [redacted]

72. Free and frank advice [redacted]

Proposed immediate measures

73. My officials have identified measures the Government can implement to address some immediate issues facing the forestry sector. If we take these steps the commercial forestry sector will be more productive, integrated and efficient and better able to transition to a low emissions economy. These measures will see better returns for supply chain participants, reduced business risk for domestic processors and support increased investment. New Zealand's international trade obligations will need to be considered in the development of these measures.

74. These measures are:
- publishing a harvest and sales information series for small forest owners, exploring a public database for sales information and updating the National Exotic Forest Description and wood availability forecast to improve grower and processor decision making;
- introducing compulsory professional registration of log buyers and a standardised sales and purchase contract to raise professional standards and advice in the supply chain;
- supporting small forest grower aggregation, through better information about forming collectives which will enable growers to get economies of scale, Under active consideration [redacted]
- developing a wood legality definition for New Zealand to continue to have confidence our products will be accepted by export markets.

75. Subject to Cabinet agreement, I intend to announce these measures, including my intention to bring a paper to Cabinet in early 2020 seeking approval of the detailed design of compulsory professional log buyer registration and wood legality definition.

Improving grower and processor decision making

76. This measure would improve decision making by:
- publishing a harvest and sales information series for small growers;
- exploring and launching a public database (similar to the on-line real estate systems) to search forest sales information to improve the transparency of the log sale market. It is estimated a database would cost at a minimum around Under active [redacted]; and

- updating the National Exotic Forest Description (NEFD) and wood availability forecast, to support improved planning and decision making across the supply chain and improve forecasting of log supply and infrastructure requirements. Updating the NEFD will start in 2020. A full update of the national wood availability forecast could be completed by 2022, following piloting required which would provide a better time estimate. This would cost an estimated Under active [redacted]

Compulsory professional registration of log buyers

77. Compulsory professional registration would require all log buyers (and potentially other forestry advisers) to be registered to provide advice to forest growers about sales and purchases. This measure includes the development of a standardised sales and purchase contract. Registration would ensure that small growers are receiving impartial and comprehensive advice from log buyers, and provide for redress in the event of unprofessional behaviour. I propose that this is introduced initially as a voluntary scheme, with the intention to make it compulsory following legislative changes.

78. My officials estimates that a compulsory scheme of this nature would cover 500 to 600 individuals (sole operators and those working for companies). Options for this scheme have not yet been costed, but based on the current voluntary scheme owned by the New Zealand Institute of Forestry (NZIF) which has registration fees of Under active consideration [redacted], and estimating initial registration of an additional 400 consultants, we could expect to recover over Under active [redacted] for running costs.

Supporting small forest grower aggregation

79. Supporting aggregation would increase small grower bargaining power with harvesters and log buyers and enable more strategic participation in the forestry supply chain. Key initiatives within this measure include producing information to support small growers to form collectives and Under active consideration [redacted]

80. Free and frank advice [redacted]

81. The cost of resource development to help small growers aggregate is not high. Under active consideration [redacted]

Improving market access through a wood legality definition

82. New Zealand needs both export and domestic markets to spread risk effectively. International consumers are showing increasing interest in provenance of produce. Timber legality and certification are becoming increasingly important in the international forest products trade, and New Zealand is obligated to support the reduction of the illegal log trade.

83. New Zealand does not have a national legislative framework that sets the standard for legality in our commercial exotic forests, instead relying on our reputation of being ‘low-risk’ for production of illegally harvested and controversially sourced wood and wood products. International trading partners are increasingly requiring assurances that prove the legality of wood products that enter their markets, and our officials have historically provided these on a case-by-case basis.

84. Under active consideration [redacted]

85. I acknowledge there are a range of factors influencing our export markets, including tariffs and non-tariff barriers that may need to be explored further.

Next steps to implement these measures

86. These measures if implemented will collectively improve integration between growers and processors, support all players to make more informed decisions and improve returns, and increase certainly for domestic processors to encourage further investment.

87. The implementation of these measures will be staged. Initially Te Uru Rākau will progress work on the harvest and sales information series for small forest owners, and updating the National Exotic Forest Description and wood availability forecast. In addition a standardised sales and purchase contract will be developed, Under active consideration [redacted]

88. Secondly, based on Ministers feedback, I intend to bring back to Cabinet for approval implementation detail on compulsory professional registration of log buyers and a wood legality definition by early 2020, including outlining legislative requirements.

89. To inform this, officials will undertake a detailed cost benefit analysis, along with assessing how each of these measures will support Māori land owner productivity and capability and an in-depth risk assessment, including mitigation identification.

Imminent log supply shortages for Te Tai Tokerau wood processors

90. Over and above the challenges being faced across the wood processing sector, processors in Te Tai Tokerau (Northland) are facing imminent log supply shortages. Recent research reports[7] commissioned by Te Uru Rākau have identified a significant log supply shortage of between 100,000 and 332,000 cubic metres per year between 2021 and 2035, based on a range of modelling assumptions. Specifically[8] there is projected shortfall of:

- 100,000 cubic metres per year from 2021 to 2024 (a 6 % shortfall)
- 200,000 cubic metres per year from 2025 to 2029 (a 11% shortfall)
- 332,000 cubic metres per year from 2030 to 2034 (a 18% shortfall).

91. Appendix Four illustrates that as well as the decline in available logs, Te Tai Tokerau wood processors are increasingly reliant on small growers for the bulk of their supply. Access to log supply is further impacted by:

- fragmentation of the small grower resource
- sharply rising international demand for logs leading many small growers to harvest at a young age (20 to 23 years), and
- small growers choosing to export their logs over selling to processors because of high export prices and the ease of export contracts.

92. This region's 23 wood processing plants contribute approximately $142 million in GDP annually. It is estimated that if no action is taken and current harvesting trends continue about 30% of existing processing capacity will be affected by downsizing or closure. This could result in an estimated 500 job losses, additional to any impacts on jobs from processor consolidation which may occur over time.

93. The measures outlined in this paper will assist, but not fully address the wood supply issues in Te Tai Tokerau. Processors in this region will need to buy a greater proportion of the logs that are currently exported, as well as identify appropriate logs from neighbouring regions and transport them if they are to maintain current levels of processing.

94. KiwiRail is undertaking work to improve rail infrastructure to Te Tai Tokerau, which may support processors to transport logs.

95. Under active consideration [redacted]

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[7] March 2019, Scion: Managing a steady base flow of log supply to Northland mills and other supply constrained regions, through warehousing models
July 2019, Forme: An Analysis of the Logistical Options for Improving Log Supply Conditions for Processors in Northland and Other Regions Facing Supply Constraints

[8] Te Uru Rākau propose to release these research reports on log supply shortages following Cabinet decision in early 2020.

Outcomes

96. The combined outcomes from these programmes of work will be:
    - One billion trees planted over the decade to 2028, contributing to our low emissions economy, improved Māori development and better environmental performance;
    - A Forest Strategy that provides a clear vision and identifies concrete actions for the future and unites a wide sector of New Zealand to contribute to the development of our forest system;
    - A more productive, integrated and efficient supply chain which is better able to transition to a low emissions economy, and which provides better returns for supply chain participants, reduced business risk for domestic processors and supports increased investment.

Consultation

97. The Department of Prime Minister and Cabinet, Te Puni Kōkiri, Department of Conservation, Treasury, Ministry for the Environment, Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade, New Zealand Transport Agency, Ministry of Transport, KiwiRail, Inland Revenue, Statistics New Zealand and Land Information New Zealand were consulted on this paper.

Financial Implications

98. There are no financial implications for this paper but depending on the forestry sector measures progressed, there could be future financial implications, and additional funding required in 2021.

99. While we have some initial costings of measures outlined, detailed costings will be provided in the Cabinet paper (if agreed to) by early 2020.

Legislative Implications

100. There are no legislative implications for this paper but depending on the forestry sector measures progressed, there will be future legislative implications.

Impact Analysis

101. A regulatory impact analysis is not required for this discussion paper. A regulatory impact analysis will be completed to inform the Cabinet report back by early 2020 on the forestry sector measures which require legislation or regulatory change.

Human Rights

102. The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Proactive Release

103. I will need to delay the consideration of the proactive release of this paper beyond the 30 business days following Cabinet's consideration. This is because both proposals are in early stages of development. Release at this stage would compromise the development of the Forest Strategy and further work on the forestry sector measures.

Recommendations

The Minister of Forestry recommends that the Committee:

Recommendations on the One Billion Trees Programme:

1. **Note** that the One Billion Trees Programme is on track, with an estimated 80 million trees planted over the 2019 season, driven by grants to landowners and broader market drivers.

2. **Note** that in December 2019, Te Uru Rākau will provide a one-year report to Forestry Ministers about the implementation of the One Billion Trees Fund, and whether any adjustments to policy settings are needed.

Recommendations on the Forest Strategy:

3. **Note** that forestry is critical to New Zealand's transformation to a low emissions economy

4. **Note** that the One Billion Trees programme is helping to ramp up tree planting to support environmental and regional development objectives

5. **Note** that Te Uru Rākau is developing a Forest Strategy for 2050 and beyond and I intend to bring a draft of the Forest Strategy to Cabinet in early 2020 prior to public consultation

6. **Note** that key themes emerging include: bio-circular economy, increasing value, diversification, integration and working together

7. **Note** that officials will continue to collaborate with forest system participants to refine these themes and identify and analyse actions to support them

Recommendations on the short-term forestry sector measures:

8. **Note** that Government is investing in wood processing through the PGF, and officials from Te Uru Rākau, New Zealand Trade and Enterprise and the Provincial Development Unit are continuing to identify new opportunities to increase investment in wood processing.

9. **Agree to** MPI progressing the following immediate measures to improve small grower and processor decision making:
   - publishing a harvest and sales information series for small growers;
   - exploring the establishment of a public database;
   - updating the National Exotic Forest Description and wood availability forecast

10. **Direct** MPI to confirm the case and requirements for introducing compulsory professional registration for log buyers (and options to consider wider forestry advisers), and work with potential providers on a registration scheme

11. Under active consideration

12. **Direct** MPI to develop a national definition for wood legality and test it with affected parties

13. **Direct** MPI to report back by early 2020 on compulsory professional registration for log buyers and a wood legality definition

14. Under active consideration

15. **Note** my intention to announce these measures, including my intention to bring a paper to Cabinet in early 2020 seeking approval of the detailed design of compulsory professional log buyer registration and wood legality definition.

Authorised for lodgement

Hon Shane Jones
Minister of Forestry

Appendix One: Other government work programmes that intersect with forests

Cross- government work that relates to forests and trees

These initiatives may help drive increased afforestation, influence broader forestry sector investment decisions, or introduce new regulatory requirements that impact on social, environmental and economic outcomes.

- Sustainable Land Use initiatives (MPI)
- Essential freshwater package (MFE)
- Zero Carbon Bill, Agriculture in ETS (MFE)
- Biodiversity Strategy, Biodiversity NPS (DoC)
- ETS Forestry changes
- Overseas Investment Act (Treasury)
- Provincial Growth Fund (MBIE)
- Just Transitions (MBIE)
- Industry Transformation Plans: Forestry Action Plan (MBIE)

Forestry Workforce Action Plan

With sector, identify goals and needs for forest workforce and develop draft action plan by Dec 2019. Action plan will form part of forest strategy

Forest Strategy

We are seeking early Cabinet direction on the key themes and focus areas for the strategy.

2020: Cabinet agree final strategy
2021: Budget Bid if funding required for future initiatives

Immediate actions to strengthening the supply chain for wood processing

We are presenting policy options for Cabinet discussion.

2020: Implement any immediate actions for wood supply, subject to Cabinet agreement

Longer term work on wood processing and strengthening the supply chain

Feeds into forest strategy, and is linked with broader government work (eg MBIE industry transformation plan for forestry, PGF, bio-circular economy, MFE)

Key government forestry initiatives to date

Te Uru Rākau established

- Core functions: Crown Forestry, ETS administration, sustainable forest management, spatial assessment
- Budget 2019 scale-up: investment services, outreach, expanded regional footprint, labour/ workforce

One Billion Trees Programme

- Grants & partnerships
- Joint Ventures
- ETS Forestry Changes

Forest Ministerial Advisory Group

- Independent advice to Minister
- Focus areas – biofuels, wood processing, social license

National Environmental Standard for Plantation Forestry

- Implemented in 2018, 1 year review underway

Appendix Two: Progress Summary on One Billion Trees Programme

Te Uru Rākau is increasing tree planting through incentives to landowners

The One Billion Trees Fund (the Fund) is designed to encourage planting of native trees, trees for erosion control, and environment-focused planting. Since its launch in November 2018, and as at 3 September 2019, the Fund has received more than 300 applications from landowners and approved $14.6 million in direct landowner grants, expected to result in the planting of over 7,137 hectares of land. There is a broad geographic spread of landowner grants across New Zealand. Grants approved to date reflect the Fund's target of two thirds of trees funded being natives.

Te Uru Rākau is growing its regional presence to enable it to provide better information and outreach to landowners. Eleven two-day regional workshops for Regional Councils and rural professionals and 20 hui for Māori landowners and iwi have been well received, with feedback used to improve operation of the Fund.

Te Uru Rākau is enabling a range of activities through partnership funding

As at 20 August 2019, 33 partnership projects worth $37.7 million have been approved. These projects aim to reduce the barriers to tree planting, particularly for native trees and involve Te Uru Rākau working closely with regional councils, sector organisations, non-government organisations (NGOs), researchers, training organisations, Māori landowners, and community groups.

Projects approved for funding to date include science and innovation projects, training and workforce development, advice and support for landowners, large-scale tree planting, restoration and seedling production. Projects approved to date are expected to provide 171 new jobs with 79 of these being trainee roles.

Crown Forestry Joint Ventures are on track

Crown Forestry is on track to achieve its target of signing Joint Venture agreements with private landowners by July 2020 to plant up to 24 million trees to achieve regional economic development and environmental outcomes [Cab-19- Min-0142 refers].

Crown Forestry Joint Ventures are an effective way for Māori entities to achieve their aspirations for their whenua. They allow Māori landowners to access capital for development and build capability in commercial forestry management. Of the 35 Joint Ventures signed to date, 13 agreements or around 40%, are either on Māori title or on General Title land owned by a Post Settlement Governance Entity. These agreements also account for just over 10,000 hectares, or 55% of the area under forestry joint ventures to date.

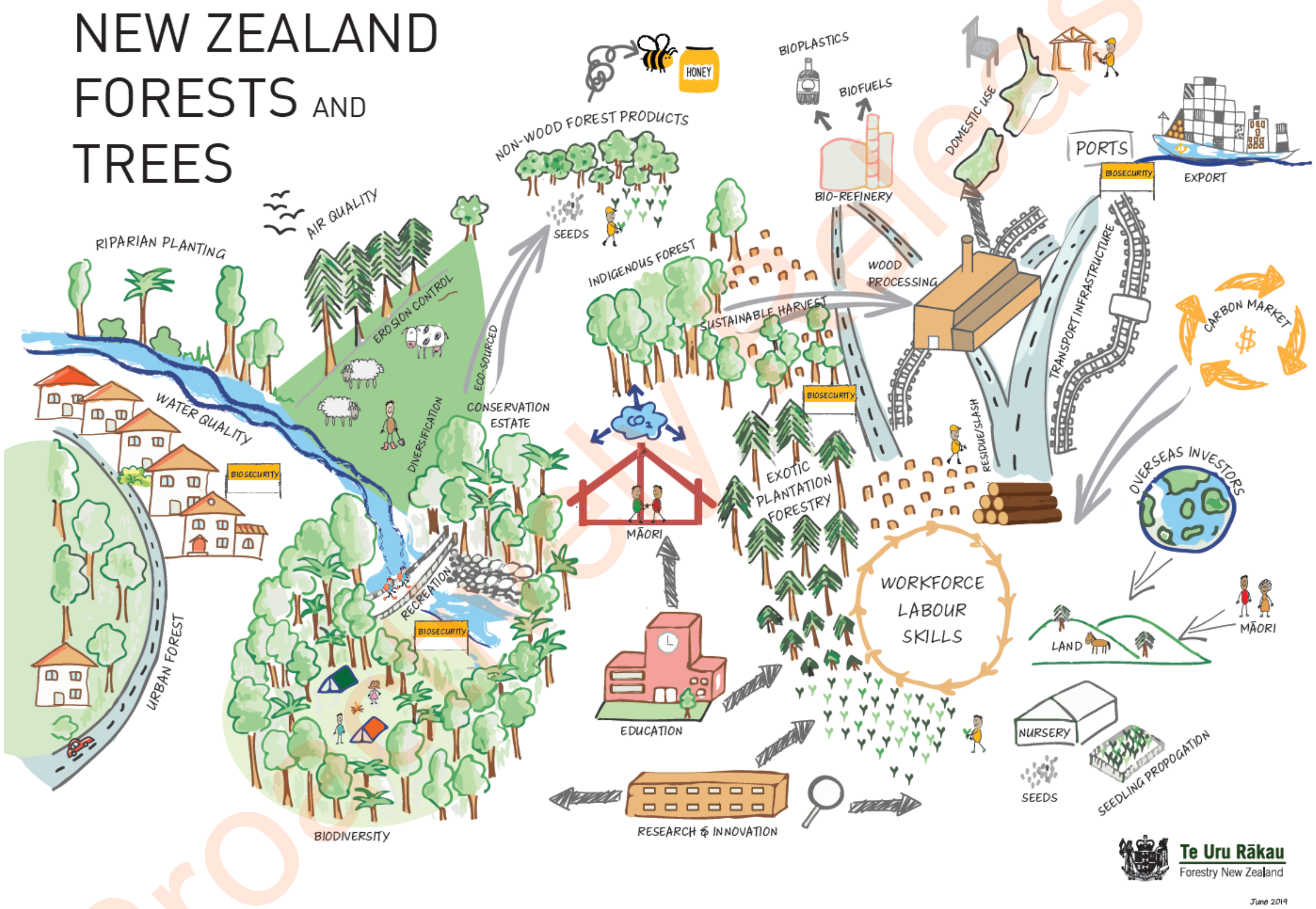
Regulatory changes and broader economic factors are driving increased private-sector investment in forestry

Cabinet approved a package of improvements to the Emissions Trading Scheme (ETS) between December 2018 and July 2019 [CAB-19-MIN-0019 refers]. The agreed changes will provide greater market certainty which is expected to increase returns, along with improvements to the operational management. Following the Bill to enact these changes, and subject to Cabinet agreement, there will be consultation on proposed regulations before the end of the year.

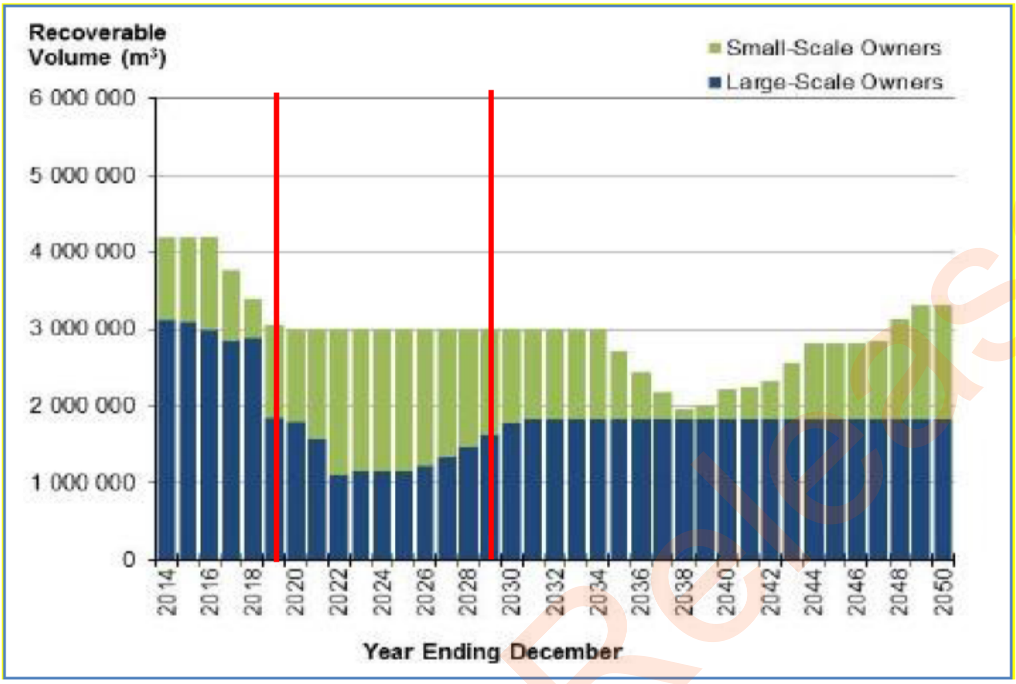
The changes to the Overseas Investment Act 2005 in late 2018, provided a streamlined pathway for overseas investment in existing forest land or to convert land to forestry. As at the end of July 16 applications had been approved under the new forestry test, of which:

- 10 involved an overseas investor purchasing an existing forest (approximately 48,000 hectares in total)
- 6 involved the purchase of farmland for conversion to forestry (an estimated 6,000 hectares of new forest planting).

Appendix Three: Graphic illustration of the breadth of the forest system



Appendix Four: Forecast Wood availability by small and large growers in Northland Progress



Source: MPI Wood Availability Forecasts – Northland 2014