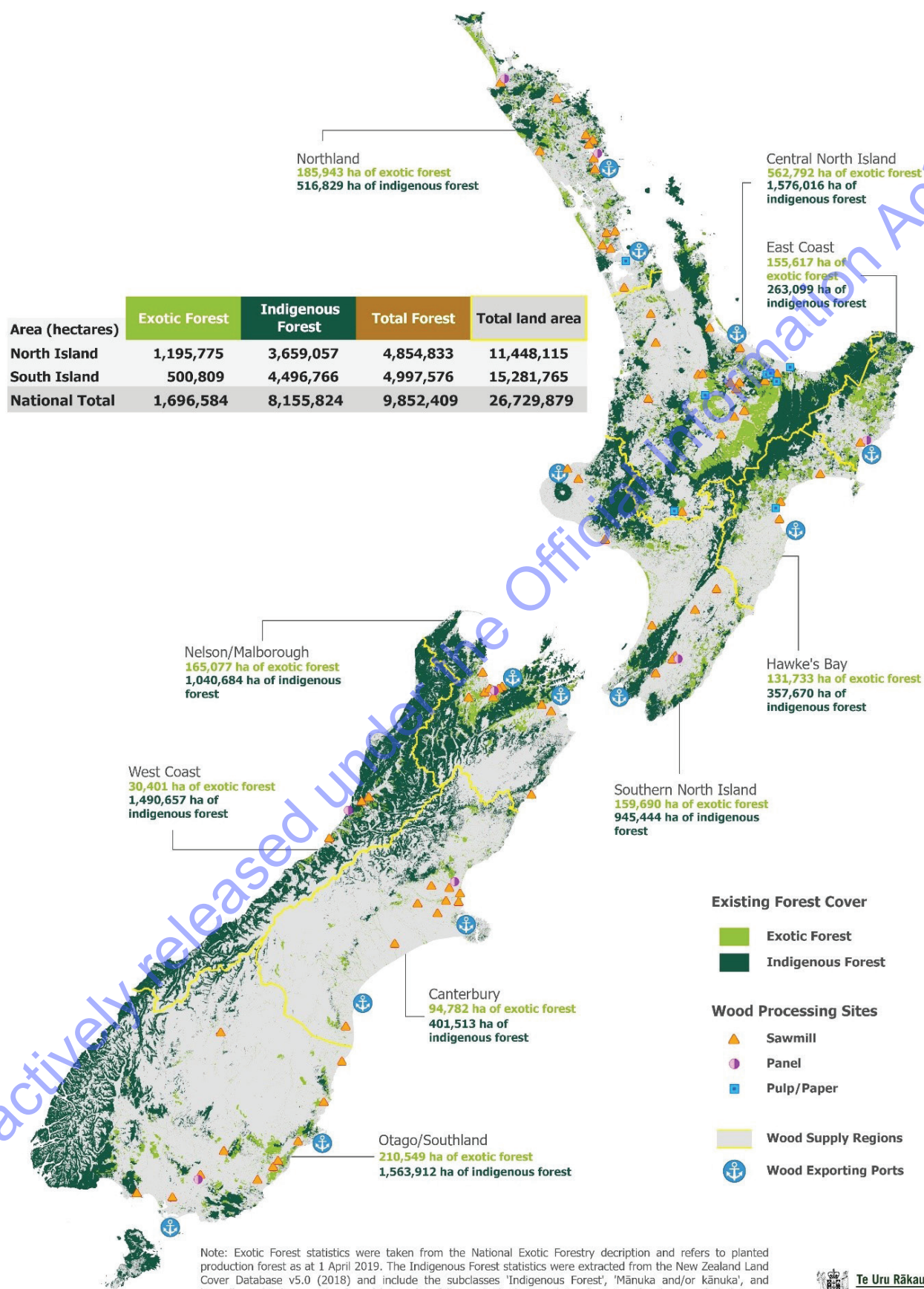


Forestry/Te Uru Rākau Portfolio Briefing 2020

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Existing forest cover and wood processing infrastructure



Purpose

This briefing provides an overview of:

- + The role of the Minister of Forestry, and the role of the Ministry for Primary Industries and Te Uru Rākau;
- + The forestry industry and how it is currently managed;
- + The key challenges and opportunities for the Forestry portfolio, and upcoming decisions.

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The Forestry portfolio

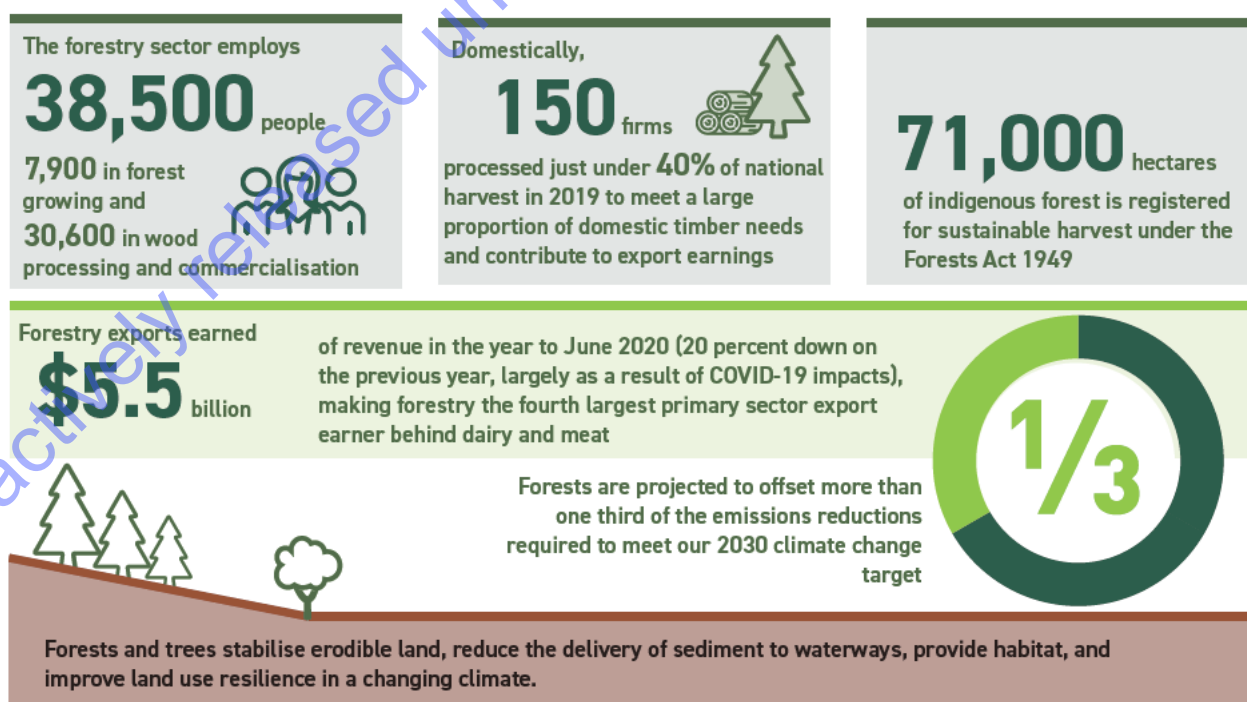
The Forestry portfolio covers the traditional forestry production systems and supply chains, as well as the sustainable management of forests and trees. Forests cover approximately one-third of Aotearoa New Zealand. This includes 1.7 million hectares of exotic plantation forest (around 6 percent of land area) and over 8 million hectares of indigenous forest, of which around 2.5 million hectares is on private land.

Māori have significant forestry interests, including ownership of more than one-third of land under plantation forestry and more than one quarter of indigenous forest on private land. These interests will increase as Treaty of Waitangi settlements conclude. The forestry sector is largely privately owned and forests can be separately owned from the land. There is a high degree of foreign ownership of the forest estate and to a lesser extent mills, and pulp and paper plants.

The Forestry portfolio shapes and is shaped by decisions made in the freshwater, climate change, trade, agriculture and biosecurity portfolios. Government goals in the Treaty, conservation, employment, immigration, education, skills and environment areas are particularly relevant to achieving forestry goals. Health and safety as well as construction and building standards also affect the performance and reputation of forestry.

Over the last three years, the government has actively invested in aligning forestry goals with regional economic development and improving environmental outcomes. However, tension has arisen over land use and afforestation. Forest fires, and floods containing forestry debris have been criticised, harming the sector's reputation.

Forests provide economic, environmental, cultural and social benefits for New Zealand:



COVID-19 has significantly disrupted forestry activities. The domestic Level 4 lockdown highlighted forestry's contributions to primary industries (e.g. packaging) and communities (e.g. paper and chlorination). In Auckland's recent Alert Level 3, regional boundaries cut across workplace catchments and affected some processing and tree planting. Forestry has an active role in long-term recovery with work in industry transformation, workforce, skills, regional economic development and sustainable land management.

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The role of the Minister of Forestry

The Minister of Forestry shapes the overall policy direction for the forestry system, in partnership with ministerial colleagues, Treaty partners and industry stakeholders. The portfolio has regulatory, investment, oversight and leadership aspects.

This role has obligations under the Treaty of Waitangi/ Te Tiriti o Waitangi on behalf of the Crown. These include a duty to actively protect Māori interests in the use of their whenua (land) and ngahere (forest) and their exercise of kaitiakitanga including over taonga species and mātauranga Māori.

The Minister of Forestry is directly responsible for the following Acts, which primarily relate to the commercial forestry sector:

- + Forests Act 1949;
- + Commodities Levy (Harvested Wood Materials) Order 2019;
- + Forests (West Coast Accord) Act 2000;
- + Forestry Encouragement Act 1962; and
- + Forestry Rights Registration Act 1983.

The Minister has authority for forestry policy and administration in the Emissions Trading Scheme under the Climate Change Response Act 2002, working closely with the Minister for Climate Change. Another important relationship involves the Minister for the Environment on the Resource Management Act (RMA) 1991 and, in particular, the National Environmental Standards for Plantation Forestry (NES-PF) which set rules to control the environmental effects of plantation forestry.

Key investment programmes include the development of the Forestry and Wood Processing Industry

Transformation Plan (ITP) and the One Billion Trees Programme. Through the Jobs for Nature Programme, the One Billion Trees Fund is linked with other COVID-19 recovery work, including catchment protection, biosecurity (wilding pines) and riparian projects.

The Minister has oversight of Crown Forestry. This is a commercial entity that manages the Crown's 30,580 hectares of forest assets, including 21,020 ha of new joint ventures with landowners under the One Billion Trees Programme. Crown Forestry manages these assets to their best commercial advantage, and last year collected \$102 million in revenue and generated an \$18 million trading surplus for the Crown.

The Minister of Forestry plays a key leadership role on forestry matters both domestically and internationally, including in promoting the forestry sector's contribution to our economic recovery and transitioning to a more environmentally sustainable economy.

The Forestry Ministerial Advisory Group (FMAG) was set up in 2018 to provide the Minister of Forestry with advice from a wider perspective. FMAG can also provide a detailed briefing on its priorities. Current members are appointed to 30 June 2021.

The role of the Ministry for Primary Industries and Te Uru Rākau

The Ministry for Primary Industries and Te Uru Rākau New Zealand are the government's principal advisor on forestry and lead delivery of the government's forestry programmes.

We ensure the regulatory environment is supportive and aligned with the government's objectives and that customers understand and comply with their regulatory obligations. This includes:

- + administering the regulation of the sustainable harvest of indigenous timber on private land under the Forests Act;
- + co-regulating the Emissions Trading Scheme (ETS) for forestry with the Environmental Protection Authority. This year MPI will allocate New Zealand Units worth approximately \$270 million to ETS forestry participants; and¹
- + supporting MfE in their regulatory responsibility under the RMA, by leading policy and regulatory development of the National Environmental Standards for Plantation Forestry.

Our non-regulatory functions include:

- + programme delivery and fund administration, including the One Billion Trees Fund, the Erosion Control Funding Programme, and the Hill Country Erosion Programme in partnership with regional councils;
- + administration of the Crown's commercial forest assets;
- + enhancing information and understanding about sustainable land use, for example through the development of the Forestry Knowledge Hub which will provide sector sourced content, on a new website, providing a central source to information on forestry related subjects that assists landowners and organisations to make forestry related investment decisions; and
- + strategic partnerships and outreach with the sector, Māori partners and industry stakeholders on issues including workforce development, science and innovation, health and safety, and fire risk management.

Internationally, MPI negotiates Free Trade Agreements, removes barriers to trade and market access, and seeks international recognition of the sustainability and legality of New Zealand's forest products.

¹ At the NZU price of \$35, as at 18 September 2020.

The impacts of COVID-19 are creating headwinds for the forestry sector

The impacts of COVID-19 have caused significant disruption to the sector and highlighted existing challenges. From late January 2020, New Zealand forest owners and their contracted suppliers began to feel the impact of disruptions in the Chinese market (the destination of 51 percent of forestry exports in the year to June 2020), as log movements stopped. Domestic harvesting and processing were affected soon after.

During the domestic Level 4 lockdown in March and April, forestry and wood processing were not categorised as an essential service, except for several operations that were deemed as critical.² A very high proportion of forestry and wood processing firms are estimated to have either received or applied for wage support.³

As a result of COVID-19 impacts and low log prices, log export revenue fell 38 percent in February, 47 percent in March and 69 percent in April, compared to the same months in 2019. By June, log export revenue had rebounded to levels above June 2019. Total forestry export revenues for the year ended June were down \$1.3 billion (20 percent) compared to the previous year.

The period of disruption to the sector, and recent log price volatility, is straining the financial resources of contractors, processors and support services. This will impact upon the sector's recovery and future make up. We are likely to see increased business closures and consolidation, especially among small to medium operators with high levels of debt. As many larger forestry businesses are overseas-owned, parent companies will have to consider further investment in New Zealand compared to other options in the global supply chain.

The sector is vulnerable to further disruption and increased competition in international markets, a downturn in the domestic construction sector, or renewed restrictions if COVID-19 spreads within New Zealand. Other global market trends are also impacting our exports, such as the growing supply into China of low-cost insect-damaged timber from Europe.

The sector has largely managed the impact of COVID-19 border closures on the availability of seasonal workers by recruiting people from other areas of the economy. The forestry sector will need to continue to find adaptive workplace solutions to New Zealand's changing immigration and domestic workforce profile.

² These forestry operations were part of supply chains relating to chlorine for water treatment, heat energy, horticultural industries, animal welfare, packaging and tissue production.

³ Over 90 percent of 188 firms that responded to a survey in May. These firms represent 25 percent of the forestry workforce.

Opportunities and challenges

Officials have identified three key challenges and opportunities facing the forestry portfolio: the economic realities for the commercial forestry sector; making sure people are skilled and are part of the sector's transformation; and the role of trees and forests in transitioning to a just and zero carbon economy.

Increasing the sector's economic performance

Harvest from exotic plantation forest has increased strongly over the last decade. Although harvest will be lower this year as a result of COVID-19 impacts, it is expected to stay at a high level until the early 2030s. This is due to the high levels of planting, particularly by small forest growers, during the 1990s. Around 40 percent of harvest over this decade is expected to come from small growers (those with fewer than 1000 hectares).

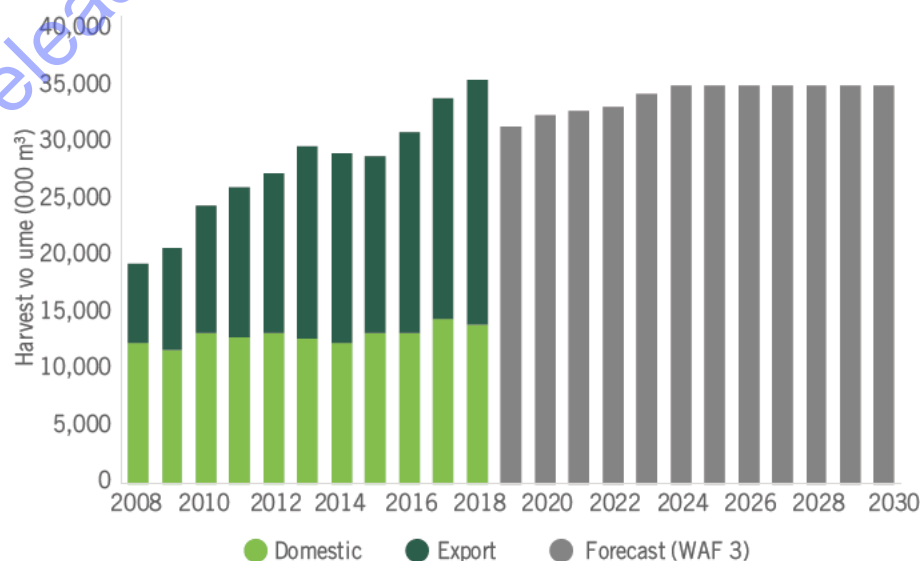
The volume of forestry exports has increased significantly over recent decades. Most of the growth

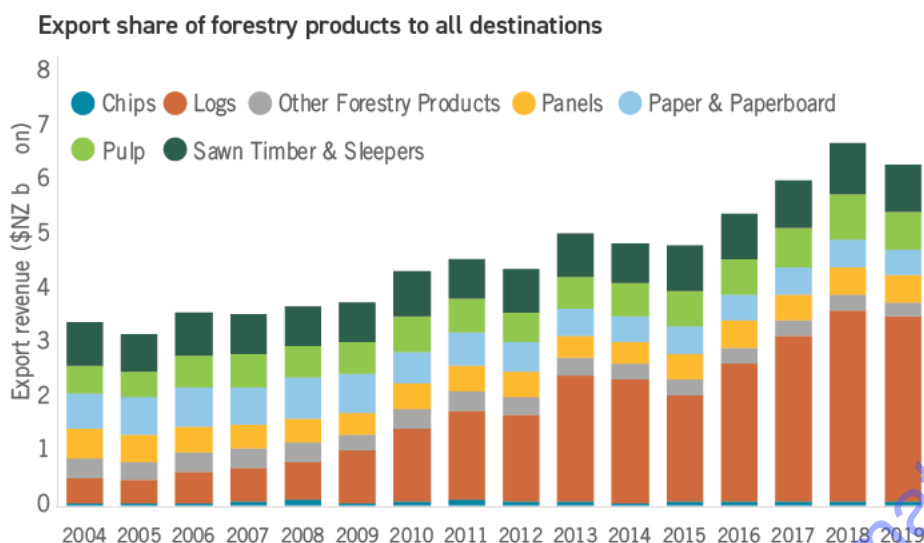
has been in the form of log exports as a result of high demand and correspondingly high international prices. In 2019, logs were 55 percent of New Zealand's forestry exports by value compared to 25 percent in 2009. In 2019, 80 percent of log exports were to China, due to favourable market conditions, high prices and a clear preference from within China to source logs from New Zealand.

In contrast, domestic wood processing output remained relatively flat over the same period, as the sector has struggled to compete in a changing global market. Rising costs and falling prices for wood products have driven a shift towards automation and scale. This has led to the restructure and closure of many medium-sized mills in New Zealand. The number of mills has decreased from 252 in 2006 to 150 in 2019.

New Zealand has high levels of foreign ownership of plantation forests and, to a lesser extent, the wood processing sector. The Overseas Investment Act 2005 provides for the approval of the purchase, subject to

Actual and forecast harvest volume (WAF 3)





criteria and conditions, of sensitive assets by overseas buyers. The Act was amended in 2018 to streamline the screening of overseas investments in forestry. Treasury is reviewing the operation and effectiveness of these changes.

There is an opportunity for the sector to increase its export value and economic resilience by increasing domestic processing, developing new products and diversifying into new markets. The forestry and wood processing sector also has the potential to play a leading role in New Zealand's transition to a circular bio-economy⁴ and net zero carbon emissions economy by 2050.

Internationally available and investable technologies exist that use wood fibre to make bio-based products that reduce carbon emissions. While investment in these opportunities is well advanced internationally, New Zealand is yet to see large scale investment in these technologies.

For New Zealand's wood processing sector to be competitive in the global market and deliver value domestically, significant sector investment and government assistance will be required.

There are also opportunities to improve the sustainable management of our indigenous forests and to derive greater domestic value from the products and services we obtain from them. This could be done through both operational programmes and changes to the Forests Act.

Increasing the sector's economic performance: work underway

Working with industry to develop a strategic approach to generating greater value

The Forestry and Wood Processing Industry Transformation Plan (ITP) work programme, which Te Uru Rākau is leading in partnership with industry stakeholders, is a key vehicle to respond to the above opportunities and challenges. It is part of an overall Transformation Strategy lead by MBIE and is one of six industry plans.

The ITP will identify ways to increase the sector's productivity and the value of forest products, and to support the transition to a low-emissions economy. The ITP work programme received an \$11.6 million investment over 3 years as part of the government's *Fit for a Better World* roadmap, which was released in July 2020 and aims to accelerate the economic potential of the primary sector. The ITP is on track for completion in the second half of 2021.

The ITP will develop a roadmap and identify key actions for both the sector and government. This will require decisions about the role for government in supporting the sector to generate greater value and assist the transition to a low carbon economy.

⁴ Circular bioeconomies focus on sustainable production, the use of renewable resources and using waste products as resources.

Strengthening the integrity and transparency of the forestry supply chain

Two work programmes are underway to improve sector settings and assurance:

- + The Forests (Regulation of Log Traders and Forestry Advisors) Amendment Act 2020 provides for the establishment of registration systems for log traders and forestry advisors. These systems will help to lift professional standards, provide greater certainty for investors across the supply chain, and ensure a more efficient market. In early 2021, we will seek ministerial direction on the design of the registration systems and consultation options.
- + While New Zealand is recognised as a low-risk source of illegally harvested wood, we do not have a formal assurance system. A National Wood Legality Assurance System will strengthen market access certainty for wood exports and demonstrate our commitment to reducing global trade in illegally harvested wood. Cabinet has agreed to amend the Forests Act to establish a system for both locally-grown and imported wood products. In early 2021, we will brief the Minister on options to undertake targeted consultation on establishing the assurance system.

Investing in science and innovation

Science and innovation are critical to transforming the forestry sector. We work closely with organisations including Scion, Manaaki Whenua and Callaghan Innovation. The Ministry of Business, Innovation and Employment (MBIE) is currently reviewing Scion's science and capability to inform future investment decisions and ensure their scientific capability is of enduring value and relevance. The review will conclude in November 2020 and we will brief the Minister on MBIE's recommendations.

Investing in people to improve skills and transform the forestry sector

With large areas of forest ready to harvest, increased afforestation and the focus on shifting from volume to value, there are more opportunities for more employment in the sector, including in higher paying,

higher value roles. However, alongside the wider primary sector, forestry faces challenges in meeting immediate workforce needs whilst planning for a changing and uncertain future. In 2018, 89 percent of forest owners experienced either major or some difficulty in engaging skilled and qualified contractors.

Overcoming its reputation for poor work conditions is a key challenge for the sector. Piece rates, safety concerns, long hours and the physical nature of roles, as well as a lack of career pathways act as barriers to people working and staying in the sector. Employment in forestry has also become more seasonal, as firms have largely moved away from pruning trees.

COVID-19 has required the industry to implement fast and adaptive workforce solutions. Impacts of border closure have largely been managed through recruitment of people from other areas of the economy. The sector was also well organised for the return to work with new health and safety practices. Preparedness for any future labour disruptions will be critical.

Investing in people to improve skills and transform the forestry sector: work underway

Growing the skills and numbers of New Zealand's forestry workforce requires commitment from both government and industry. The Forestry and Wood Processing Workforce Action Plan for 2020-2024, which was developed by MPI and a pan-industry working group, sets out a way to address workforce issues. The plan is governed by a Council and has four areas of focus:

- + **Knowledge** – having the information and enabling systems required to develop and evaluate forestry and wood processing development initiatives;
- + **Attraction** – strengthen support for initiatives that attract a diverse workforce;
- + **Education and Training** – help shape the education and training system to produce sufficient learners and workers with the skills to succeed; and
- + **Employment** – encourage improvements in workplace employment practices that attract,

develop and retain a skilled, safe and productive workforce.

We will brief the Minister as the Council progresses initiatives to support the roll out of the plan.

There are close connections and shared challenges across the food and fibre sectors. As a result, we work closely with the implementation of the Food and Fibre Workforce Action Plan, which is focussed on the agriculture and horticulture sectors. The Primary Sector Workforce Programme, which addresses workforce issues exacerbated by COVID-19, includes forestry. This received \$19.3 million in Budget 2020 to develop and deliver a range of solutions. This includes the *Opportunity Grows Here* website, and taster and familiarisation courses to help people get into primary sector jobs.

The Minister of Forestry can play a crucial role in working with other Ministers on issues including:

- + ensuring education and immigration settings support the sector's productivity and sustainability;
- + supporting the Reform of Vocational Education, in particular ensuring that the Primary Industries Workforce Development Council supports and provides vocational training to grow capability in the forestry sector; and
- + supporting sector coordination and cooperation to address critical challenges, such as investing in workplace conditions to improve staff satisfaction and reduce turnover.

Encouraging an appropriate role for forests in our landscapes

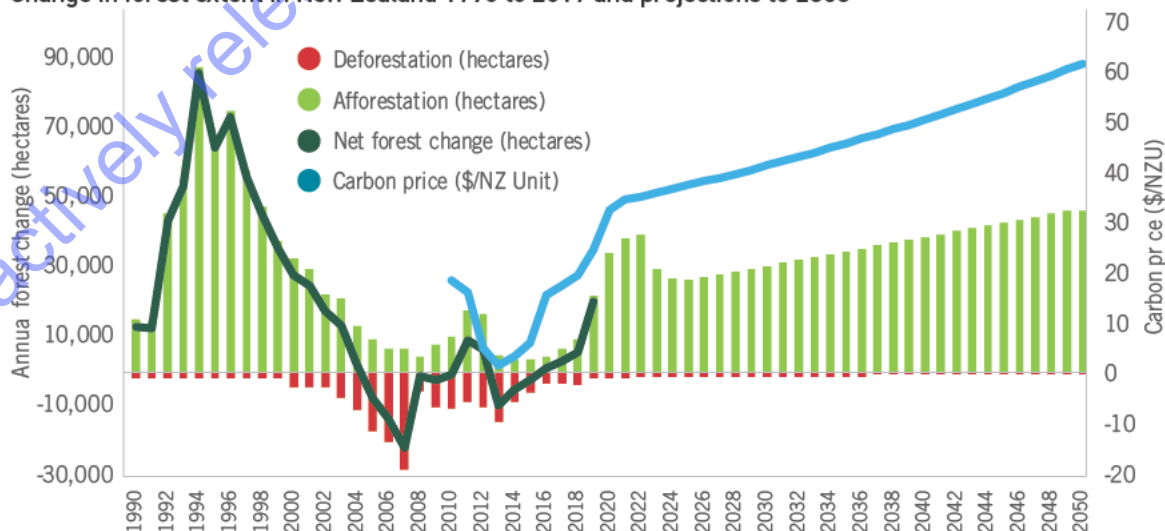
Government policy supports afforestation for multiple objectives. The Emissions Trading Scheme, resource management policy, and investment and partnerships to support sustainable land management are the government's main levers to influence afforestation and forest management.

Climate change policy is an increasingly significant driver of afforestation. Forestry is a large and cheap source of carbon to offset other emissions in the economy, but emissions reductions are still needed. Climate change policies will influence the sector, and the role and extent of trees and forests in our landscape, economy and communities.

Forests can provide important erosion control, freshwater and biodiversity benefits, though active planning and management are required to manage environmental effects of plantation forestry, particularly following harvest. As our climate changes, we can expect larger and more frequent storms and droughts, increased fire risk and changing biosecurity risks. Forests and trees can improve the resilience of production systems and communities, for example, by reducing erosion, landslips, and peak flooding, and offering shade for stock.

Policies to increase afforestation are working. In 2019, new planting of exotic plantation forestry increased markedly to 22,000 hectares (equivalent to

Change in forest extent in New Zealand 1990 to 2019 and projections to 2050



approximately 0.3 percent of sheep and beef land). This is concentrated in several districts with a lot of cheaper and less productive pastoral hill country, which is the most cost-effective land to afforest.

At a national level, afforestation is projected to continue. Under current policy settings, MPI projects between 0.74 and 1.46 million hectares of additional afforestation out to 2050.⁵ This could offset between 26 percent and 51 percent of projected gross emissions in 2050.⁶

Some rural communities and primary sector groups are opposed to recent and projected trends in afforestation. Conversion of whole properties to forestry and the increasing economic viability of permanent pine plantations ('carbon forestry') are their main concern. Where large-scale afforestation displaces pastoral farming, it changes local employment and population patterns, and exacerbates the ongoing impacts of farm amalgamation and increased mechanisation in farming.

The Minister of Forestry and ministerial colleagues will face decisions about how to optimise the contribution of forests to our climate change response (in terms of both carbon sequestration and low-emissions fibre), while supporting a just land use transition, wider environmental benefits and the economic sustainability of the forestry sector.

Encouraging an appropriate role for forests in our landscape: work underway

Clarifying the role of forests in meeting our climate change targets

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires an Emissions Reduction Plan to be in place by the end of 2021. The plan will set out how NZ will meet emissions budgets and progress towards our 2050 target.

Decisions need to be made across the Agriculture,

Forestry and Climate Change portfolios on the mix of policies required. Government options include supporting a just land use transition in areas where afforestation is concentrated (e.g. by investing to build alternative skills or industries) and easing the trade-offs between objectives (e.g. by encouraging forest sequestration that delivers wider outcomes such as erosion control).

Implementing legislated changes to the Emissions Trading Scheme for forestry

The Emissions Trading Scheme (ETS) is New Zealand's primary policy to drive net emissions reductions and achieve our international climate change commitments. Significant changes to the ETS for forestry, which will largely take effect on 1 January 2023, will drive increased afforestation and make it simpler to participate in the ETS.

Regulations to provide the detailed rules and settings are under development. These will be consulted on from December 2020, if the Minister agrees. New IT infrastructure and business processes are critical to implement the new legislation and regulations; this work received \$79.6 million in funding over four years in Budget 2020. The timeframe for completing the regulatory process and the new IT infrastructure is tight. This will be managed carefully to ensure it doesn't impact on the overall function and integrity of the ETS.

Driving the next stage of the One Billion Trees Programme

The One Billion Trees programme aims to plant one billion trees by 2028. This target can be reached by replanting most commercial forest that is harvested over the decade, together with annual average afforestation of 23,000 to 43,000ha⁷ driven by both commercial factors (carbon price and timber) and government investment.

Since 2018, 258 million trees have been planted. Government investment helped kickstart planting

⁵ This range is based on the lower (\$20 NZU) and upper (\$50 NZU) carbon prices, with a 2 percent annual inflation adjustment. These projections assume that landowners choose the most economic land use. Many other factors also influence afforestation decisions.

⁶ This is based on MfE December 2019 gross emissions projections out to 2050.

⁷ The range reflects uncertainty around the proportion of the one billion trees goal that will come from the replant of existing exotic plantation forestry.

and is supporting activities to enable longer-term sector and environmental transformation, such as science and research, increased native tree planting, support for catchment groups and partnerships with iwi. It is supporting wider MPI programmes, related to workforce development, sustainable land use, freshwater improvements and on-farm sequestration, as well as contributing to the Jobs for Nature recovery initiative.

The Minister of Forestry will face decisions about the programme's future direction and the ongoing role of government, particularly as the One Billion Trees Fund and mandate for Crown Forestry Joint Ventures end on 30 June 2021. The *Fit for a Better World* roadmap identifies the potential to focus investment on the diversification and strategic location of commercial species (both native and indigenous), improved forest management to deliver higher value timber, afforestation of erosion prone land, and lifting Māori participation in the sector.

Managing the environmental effects of forestry activities

The National Environmental Standards for Plantation Forestry (NES-PF) are a national direction that came into force in 2018 under the Resource Management Act 1991 (RMA). The NES-PF sets rules to control the environmental effects of plantation forestry for harvest but does not direct where afforestation can occur as long as effects are managed.

A one-year review of the NES-PF was recently completed. The review focussed on the effectiveness of existing regulations in achieving their intended purposes. 9(2)(f)(iv)

[REDACTED]

Appendix 1: Upcoming decisions

Before the end of the year, we will seek the Minister of Forestry's direction on the following:

- + **The Climate Change (Forestry Sector) Regulations 2008** – regulations are required to implement the new forestry policies in the Climate Change Response Act 2002. In November 2020, we will seek ministerial approval to consult on these changes before policy decisions are considered in April/May 2021.
- + **The National Environmental Standards for Plantation Forestry** – we will advise on options to improve the standards and seek ministerial approval to consult on these options in early 2021.
- + **The One Billion Trees programme** – The 1BT Fund and Crown Forestry Joint Ventures mandate end on 30 June 2021. In November, we will advise on options for the future direction of the One Billion Trees programme.
- + **Resource Management Reform** – an independent review panel has recommended significant changes to the resource management system, including repealing the Resource Management Act. The incoming government will need to respond to the report. We will provide advice on portfolio implications, which may be significant.

In early 2021, we will also seek the Minister's direction on:

- + **Forestry Advisors and Log Traders registration systems** – we will advise on the design of the registration systems and consultation options.
- + **A National Wood Legality Assurance System** – we will provide advice on establishing an assurance system and seek ministerial approval to undertake targeted consultation.
- + **Emissions Reduction Plan** – we will provide initial advice on the key trade-offs around the role of forests in our climate change response.

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