



Proactive Release

This proactive release includes the report by the Secretary of the Cabinet following the review of Hon Stuart Nash's ministerial communications with donors and the communications and documentation considered as part of the review.

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant section of the Act that would apply has been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

- section 9(2)(a), to protect the privacy of individuals; and
- section 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

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Communications with Marty Verry

Date	Relevant communication (text messages in full)	Source
13 November 2017	Marty Verry (MV) texts Hon Nash (SN): "Minister Nash I believe? Been waiting for the dust to settle, but please give me a call when free. Cheers mate and well done!"	Texts
24 November 2017	SN texts MV: "Hi there can't talk right now, if possible please txt me and I will call when free." MV responds: "Hi Stu. How did you go with Shane Jones initiating this ministerial panel to work up your wood encouragement policy. Hoping that Monday the 18 th works? MV"	Texts
4 December 2017	MV texts SN: "Spoke with Shane Jones and afternoon of Mon 18 th of Dec is good for an hour to kick off a Working Party on wood encouragement policy. He said we should also get MPIs Ben Dalton along, David Parker too if he is available. Is this something your secretary can pull together and a location?. I can get the industry representation. Marty"	Texts
7 December 2017	MV texts SN: "Stu. Any luck confirming that meeting on 18 th in wgmt to work up your wood first policy? Shane said ok but someone needs to pull it together and book a room. Can your secretary assist? Holding fire on booking flights pending confirmation. Mv"	Texts
8 December 2017	MV texts SN: "Stu. Any word? Lots of people pencilled and awaiting someone to pull this meeting together...Cheers, MV" SN responds: "I know. Trying to sort. Sorry it has taken time."	Texts
11 December 2017	MV texts: "No worries. Success today?" SN responds and says: "Yes. Finally confirmed. Shane is going to be here now. Please call Adrian in Shane's Office and book a time. Suspect the morning best as he has cabinet in the afternoon. Will send through number for PS" He then attaches contact for Parliamentary Services. "Adrian Frew [a woman] is the contact in Jones office. Say that he has said he's keen to catch up and told you to call her to arrange." MV responds: "OK. Thanks. Have left message with her. Cheers. Marty."	Texts

Date	Relevant communication (text messages in full)	Source
	SN responds: “Keep trying as sometimes these people won’t return messages. No risk of being to be seen as ‘pushy’. S”	
14 December 2017	MV texts SN: “Spoke to Adrian Monday and she said she would arrange. Now Thursday and no word. MV” SN responds: “Will follow up now” SN later texts: “Jones said he will sort tomorrow”	Texts
15 October 2019	MV to SN	Parliamentary
16 October 2019	MV texts SN: “Hey Stu. Good work on the radio this morning. Check...did you get that follow up email on Wood First next steps?” SN responds: “Yes I did. Much appreciated. Stu” MV replies: “Excellent. Were you able to establish if it’s in Parker or Twyford’s jurisdiction?”	Texts
22 October 2019	MV texts SN: “Morning Stu. Any luck lining up Shane, Twyford and Parker for that meeting on 18, 19 or 20 Nov? Thank you. Marty” SN responds: “Working on it!” Marty Verry responds and says: “Good stuff Stu. Let’s finally bring this home - thanks”	Texts
29 October 2019	MV texts SN: “Stu. Any luck lining up Shane, Twyford and Parker for that meeting on 18, 19 or 20 Nov? Thank you, Marty” SN replies: “Yep. Twyford doesn’t want to meet. He is seeking policy guidance and is clear on labour’s policy. He said that he is well aware of your views. Will call later today. S” MV responds (twice): “Ok. Talk when youre free. Cheers”	Texts
4 November 2019	MV to SN, Shane Jones, Julie Collins (MPI), Phil Twyford and another individual	Parliamentary
8 November 2019	SN texts MV: “Hi there, can’t talk right now. If possible, please txt me and I will call when free” MV responds:	Texts

Date	Relevant communication (text messages in full)	Source
	<p>“Cheers Stu. Please call when free”</p> <p>SN replies: “Just about to speak at a conference. Will call later. Bottom line is Twyford is responsible for any word-first policy implementation. Spoke to Jones and he is a fan but not his area. Talk soon”</p>	
11 November 2019	MV to Phil Twyford, copying in SN, Shane Jones, and Julie Collins (MPI)	Parliamentary
22 January 2020	<p>MV texts SN: “Stu HNY! Heard u on the radio mentioning 4 day caucus. Can I give u a 5 minute update this morning on wood processing sector developments (incl announced and future mill closures) to help u get commitment to implement the Wood Procurement policy this year. Also re the Open Letter from 50+ CEOs that’s about to be sent. Thanks in advance.”</p> <p>SN responds: “Hey, happy new year to you!! Sorry mate, was in a mtg and now about to head into Physio but really keen to hear what’s going on. How about we talk later this arvo. Cheers Stu”</p> <p>MV responds: “Sure what time suits? Too much [<i>Out of Scope</i>]”</p>	Texts
22 January 2020	MV to a number of Ministers, including SN	Parliamentary
24 January 2020	MV to a group of Ministers including SN	Parliamentary
24 January 2020	<p>MV texts SN: “Stu, it’s Waipa Mill’s 80th this year (March). Would it be worth inviting Jacinda, Parker and Twyford? I get the feeling you and Shane get wood processing and its role in climate change, but the others, no.”</p> <p>SN responds: “Yes yes and yes” “Twyford is a challenge but invite him as well.”</p> <p>[<i>Out of Scope</i>]</p>	Texts
9 February 2020	MV to SN	Parliamentary
10 February 2020	MV to SN	Parliamentary
25 February 2020	MV to SN	Parliamentary
2 April 2020	<p>SN texts MV: “Will do. On conference call. I have spoken to jones about this. Stu”</p> <p>MV texts SN:</p>	Texts

Date	Relevant communication (text messages in full)	Source
	"Talk when free."	
7 April 2020	<p>MV texts SN: "Can we talk re log supply/price control please. Industry's running off on a tangent and lack of comms from govt isn't helping. Is Labour or Shane running the process?"</p> <p>SN replies: "Sure. Can I call a later but I do have this time this afternoon. Just been really flat out."</p> <p>MV responds: "Prefect"</p> <p>SN responds: "On caucus call. This evening mate."</p>	Texts
16 June 2020	<p>MV texts SN: "I see on Google there was an incident in 2012 too. I'll axe him if it's a choice btw him and Jacinda, but keen to explore options. There is a replacement I could get. Talk soon"</p> <p>SN replies: "Mate, if not inviting David is going to be a massive shit fight, then he can still come but it's just about managing risk 😊"</p> <p>MV responds: "I think it's a long bow for the media to stretch and connect and the company has been reprimanded by Worksafe. Its actually a very progressive employer, and the voice of Kowarau. Fletchers has had accidents too, but I imagine no issue with meeting the CEO. My Plan B can't make it to wgmt. I'll bring him, but tell me if it becomes a show stopper"</p> <p>SN replies: "Okay. All good mate. We will make it work 😊"</p> <p>MV responds: "Cool. Thanks. See u at noon."</p>	Texts
24 June 2020	<p>MV texts SN: "Hey Stu. MPI tell me the wood first cabinet paper is before Cabinet today. Is that the plan? Cheers. Marty"</p> <p>MV texts: "Red stag, chamber, FOA, WPMA all teed up to issue press releases in support, when time comes"</p>	Texts
27 July 2020	<p>MV texts SN: "Big week last week mate, and some dirt to come by the sounds of it. Did Phil T tell u when the wood policy will be announced?"</p>	Texts
3 November 2020	<p>MV texts SN: "Stu, well done on the new roles! Good for the sector; let's get</p>	Texts

Date	Relevant communication (text messages in full)	Source
	<p>what Phil T finally started fully implemented this term! Congrats!”</p> <p>SN responds: “Much appreciated. Implemented this year mate!!”</p> <p>MV responds: “That’s the spirit!”</p>	
17 November 2020	MV to SN	Parliamentary
24 November 2020	MV to SN	Parliamentary
25 November 2020	MV to SN	Parliamentary
16 December 2020	MV to SN	Parliamentary
16 December 2020	<p>MV texts SN: “Mate, please see email to SAN address. Facing a big MIQ issue we need help on please. Much thanks”</p>	Texts
17 December 2020	<p>MV texts SN: “Mate just flying now myself, landing at 10. Would 1015 suit to talk?”</p> <p>MV then follows up and says: “Hi Stu, in the next week I need to try to get Essential Technical Skill Worker space from the reserved MIQ pool; and fast track visa exemptions. The Europeans will then book a flight in early Jan. With housing and construction crisis, and this being a PDU invested project, I’m hoping as MED Minister you can bang some heads to make it happen please? Thanks. Marty”</p>	Texts
18 December 2020	<p>MV texts SN: “Stu thanks for pushing this. Would it be easier from here if I coordinated with Chris F directly. If so please send his mobile. Thanks again. Marty”</p>	Texts
24 December 2020	MV blind copies SN in an email to MPI	Parliamentary
6 - 11 January 2021	Email chain: MV copies SN in an email to Hon Chris Hipkins. Hon Hipkins’ office responds, MV to Hon Hipkins’ office.	Parliamentary
6 January 2021	<p>MV texts SN: “Did RocketLab find a way to get its technicians into MIQ?”</p> <p>SN responds: “Still working on it. Theirs is slightly more difficult as it’s the wives of the technicians, not the technicians themselves!!”</p> <p>MV responds: “Ok. Good luck Have! Have just copied u on an email to Chris Hipkins, outlining the national interest in the CLT factory and suggesting a simple MIQ solution. Would appreciate it if you</p>	Texts

Date	Relevant communication (text messages in full)	Source
	could give him a call to support the rationale for the request please. (Hopefully I won't have to write a media article about MIQ being broken and deterring investment in productivity and resilience if plant can't get commissioned.) Thanks Stu." Marty	
21 January 2021	MV to SN and Hon Hipkins	Parliamentary
21 January 2021	MV to Hon Dr Megan Woods and copies SN	Parliamentary
28 January 2021	MV to SN	Parliamentary
18 February 2021	MV to SN	Parliamentary
29 March 2021	MV to SN	Parliamentary
23 April 2021	MV to SN	Parliamentary
29 April 2021	SN to 300+ recipients, including MV	Parliamentary
1 June 2021	<p>MV texts SN: “Hi Stu. I see you're on the Forest/Wood zoom tomorrow. A few in the industry have asked when-how u will implement the Wood First policy. I promised to ask u when we next spoke, but perhaps that's something u can cover off proactively tomorrow? All the best mate. Talk soon. Marty. PS. CLT is up and running so we'll have to start planning the official opening. Could time that for the Wood First/Low Carbon construction announcement”</p> <p>SN replies: “Sure. Very happy to answer that one. Also ask me for my vision for the Forest service. That will put the cat amongst the proverbial pigeons!!”</p> <p>MV replies: “Will try, but Henry Weston is giving each part of the sector 1 question, so u may need to stir that one up yourself up front. I guess with 4,000ha now I could ask the forestry question [hmmm face emoji]”</p> <p>SN replies: “Yip everyone's keen to see things <i>[Out of Scope]</i></p>	Texts
2 June 2021	<p>MV responds to an irrelevant text from SN: “I think it was him just reacting to your challenge for farm foresters to do a better job telling the story, with him saying ‘hey, we're just volunteers’. But as u correctly said, it's govt and the sector's role to set the record straight in community level discussions.”</p> <p>“I think the farmers will chill if we can find a means of them claiming Ets credits for smaller lots of trees, shade trees and shelter belts they plan from now. It would them in the text. And probably just fair enough too. Could be a job for the NZ Forest</p>	Texts

Date	Relevant communication (text messages in full)	Source
	Service. M PS. Be good to get to the bottom of if there is a way to get natives emerging from radiata eventually, and what regime is required. We're planting 574ha in redwood, native and permanent radiata on the steep stuff, but I'd love to think the radiata could give way to natives in a hundred years."	
3 June 2021	MV texts SN: "The overall impression of the zoom yesterday was of a minister fired up and getting things done, yet prepared to listen and learn. So keep it up mate"	Texts
2 August 2021	MV to SN	Parliamentary
2 August 2021	MV texts SN: "Stu. I passed on last week's heads up thanks, on a no names basis. Looks like we do need an MPI-Forestry letter of support from you though. Have emailed you the details. Thank you. Marty"	Texts
25 August 2021	MV texts SN: "This time of year logs are good for 3 weeks. We're a week and a half in now, so would need to be cutting late next week, or 6 September at the latest. Temps of 17 or 18 degrees could bring this forward a bit, especially for pruned logs. Talk soon re procurement. Cheers."	Texts
27 August 2021	MV to SN	Parliamentary
1 September 2021	MV to SN	Parliamentary
20 October 2021	MV texts SN: "Stu, I'm sure you've read the mood of the nation. Whatever u do on Friday, make sure 2x vaxers can travel around NZ and go to restaurants from 1 Dec, or Jacinda will be labeled the PM that stole people's summer. Itll be a free hit for National-ACT. I'm in the electorate middle ground, and it's going to be very frustrated if govt spends too long chasing sub-groups that refuse to Vax and hold the rest of the country in L3. Put a date on it and watch rhem rush the Vax stations. We could lose the election in the next month or 2 if things go into Dec. Marty. PS. My [section 9(2)(a)] has had covid twice this year. She's holidaying in [section 9(2)(a)] now. Be brave!"	Texts
31 October 2021	MV texts SN: "Good ambitious climate target. Concern is that NZ is going to achieve its NDR by funding reduction programmes in other countries. Would using less Asian steel and cement qualify toward our reducing in other countries?" SN replies: "Absolutely mate. Don't get me started..."	Texts
24 November 2021	MV to SN	Parliamentary
10 May 2022	MV to SN	Parliamentary
20 May 2022	MV to SN	Parliamentary
20 May 2022	MV texts SN:	Texts

Date	Relevant communication (text messages in full)	Source
	<p>“Evening Stu, I have copied you in on a couple of emails to TUR out of frustration that the ITP Advisory Group process has proven to be just a rubber stamping exercise for what TUR/Govt wants, and has hardly incorporated any industry advice. Practically everything is ignored in subsequent versions. Have the problem is that Jason W is not involved. Could we please arrange a time to discuss this either on the phone or in person? Marty”</p> <p>SN replies: “Happy to talk.”</p> <p>MV responds: “Cool. Are u due in akl or Rotorua any time soon?” <i>[Out of Scope]</i></p>	
28 May 2022	<p>MV texts SN: “Mate from my Linkedin feed I can see you have had a massive week – well done. Do you have time from that preliminary chat today, or can we schedule a meeting in that w/c 13th?”</p> <p>SN replies: “This arvo if that’s okay mate”</p> <p>MV replies: “Sounds good.”</p> <p>SN responds later: “Sorry mate, just fell asleep on the couch for a couple of hours! [section 9(2)(a)] and so will call around 5:30pm if this works. S”</p>	Texts
29 May 2022	MV to SN	Parliamentary
13 June 2022	<p>SN texts MV: “Can’t talk right now mate.”</p> <p>MV responds: “No worries, I’ll try you later. Need to talk”</p> <p>SN replies: “I’m a meeting until 6:30pm, What’s the issue?”</p> <p>MV responds: “HWP”</p> <p>MV later responds again: “Mate, appreciate the call. Just for your interest, we are planting a lot of permanent redwoods, with pruning: why? Biodiversity, stable fauna habitat, silverculture & harvesting jobs, more carbon per ha (happy farmers as less land conversion) better erosion control, diversify off radiata, higher value timber for export, and more likely to get processed in NZ</p>	Texts

Date	Relevant communication (text messages in full)	Source
	<p>so more HWP value & less ETS supply-side pressure (they surpass radiata on a carbon/ha basis only after 30 years apparently)”</p> <p>SN replies: “More carbon? Really? Than radiata? Interesting!” “Oh – after 30 years...still. Awesome value, I have no problem with long lived exotics in the permanent forest category!”</p>	
30 August 2022	MV to SN	Parliamentary
10 September 2022	<p>MV texts SN: “Morning Stu. I see we are both down to talk at the Forestry Institute do on Tuesday. Do you have time before or after for a catch up?”</p> <p>SN responds: “Should be able to find a few moments for a cuppa mate. Keep in touch!!”</p>	Texts
10 November 2022	MV to SN, the Director-General of MPI and an MPI official	Parliamentary
9 January 2023	MV to SN and MPI officials	Parliamentary
18 January 2023	<p>MV texts SN: “Stu, not sure when youre back and operational but we need to meet. Let’s catch up at the earliest convenience. Are u in Akl or Wgtn and free in the next 2 weeks?...It’s rare to have a Minister and a DDG in Jason, both with forestry experience is rare. It would make sense to liaise closely with the biggest \$ investor in new wood processing in NW history, yet 5 years into your tenure, you and I have never had a meeting!! My fear is after 6 years all you are going to accomplish is to have an ITP plan, but no really Transformational initiatives. I’d like to talk you through the rationale outlined in my 2 letters, and why we need urgently to deploy HWP value, and related to that, why deploying Budget 22 funding as debt/equity (as proposed) is wrong in every way. Election year so it may be the 11th hour for you to have any real impact on this sector. HWP distribution and unencumbered funding of capex from the Budget 22 allocation (funded by auction of undistributed wood processing NZU value) are the 2 things in your control to get done if you want to go out with a reputation as the minister that did the most to transform the sector. A few CEOs from the sector gave me a ribbing for publicly backing Labour in the 17 election. I said “wait and see, Stu could transform the sector finally”. Having an ITP Plan and launching the TDC won’t. The above 2 initiatives (HWP & Budget 22 grants) will, but you are not on that path as far as I can see. Hopefully catch u soon.”</p> <p>SN replies: “Yeah and I wasn’t the minister in the first term. Forestry has received substantial investment over the past five years and a</p>	Texts

Date	Relevant communication (text messages in full)	Source
	<p>massive focus over the past two. But very happy to catch up. Will be in touch mate!!! PS you know that Jason has resigned”</p> <p>MV responds: “‘Yes, a pity. If he does and u don’t get re-elected, we could be left with nothing Transformational actually done if we don’t get massive commitments by people like me to investment. We’re gunna miss the window. I keep trying to explain in letters on what govt support is required and why to trigger that, but honestly it’s like pushing rope. Today I got an email from TUR effectively proposing the undistributed HWP NZU value that contributed to the Climate Emergency Response Fund and thereby the Budget 22 \$65m allocation, be nationalised by govt and loaned-equity invested back to those prepared to invest in a recession. Bloody great... it’s the undistributed HWP value govt is pocketing and trying to loan back. We need to get on the same page on this mate if you want to have a impact. I’m genuinely trying to help mate, but running out of time and energy to keep pushing”</p> <p>SN responds: “I hear you...” “... and I am listening.”</p>	
18 January 2023	MV blind copies SN in an email to MPI officials	Parliamentary
19 January 2023	MV to SN	Parliamentary
23 January 2023	MV to SN	Parliamentary
25 January 2023	MV texts SN: “Let’s find out”	Texts
30 January 2023	MV to MPI officials (blind copying SN)	Parliamentary
10 February 2023	MV to SN	Parliamentary
9 March 2023	MV to SN	Parliamentary
23 March 2023	MV to SN	Parliamentary
23 March 2023	SN to MV	Parliamentary

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: Wood First / Wood Encouragement Policy - next steps
Date: Tuesday, 15 October 2019 9:28:51 am
Attachments: [image001.png](#)
[Think Timber - MPI MBIE KiwiBuild HNZC & Industry meeting background paper - updated.pdf](#)
[Wood First - Cabinet Policy Development Paper draft.pdf](#)

Morning Stu,

Good to catch up last night – thanks.

So having also spoken with Ministers Sage yesterday and Mitchell last night, there is very strong coalition support to now implement this policy. Clayton also confirmed the policy is listed in the Coalition Agreement addendum. The industry has the capacity and expertise, and is now ready for roll-out. The electorate is also looking to the government to roll out such tangible climate change initiatives and take its lead on the world stage.

If you could please establish whether it is Minister Twyford or Parker that is responsible for government procurement policy, then the next step will be to arrange a meeting with that minister but preferably both. We would suggest attendees also include:

- Yourself, as Labour Forestry spokesperson and sponsor of the policy into the 2017 Labour Election Manifesto
- Minister Jones
- Minister Shaw
- Forestry representation: David Rhodes - CEO, Forest Owners Assn
- Wood Processing representation: Myself as the spokesperson for the industry on this area, and potentially WPMA CEO, Jon Tanner.

The objective of the meeting would be to agree:

1. To instruct MBIE/MPI/industry to finalise the Cabinet Paper on the policy
2. The Minister to sponsor the paper/policy at Cabinet
3. Adoption and implementation, targeting February/March next year.

In terms of MBIE, I have briefed CEO Carolyn Tremain on the policy and she has confirmed the department will follow ministerial directive. MBIE's Head of government procurement John Ivil confirmed at the last meeting that he has no technical concerns with government adopting the policy, and awaits ministerial notification that it is to be a priority.

Could we target a time for that meeting on either **18, 19, or 20 November** please?

Best regards,

Marty

PS. The 2 papers I gave you covering the policy are attached as PDFs



Background to Think Timber (Wood First) Meeting – Wednesday 3 March 2019

- From the industry's perspective, the purpose of calling the meeting is to progress the government's Wood First (Think Timber) policy to implementation.
- The purpose of such a policy is to use public procurement/commissioning strategically to bring about economic, environmental, employment and regional development outcomes for New Zealand.
- The Policy – alongside Design Guides, 2x Mid-Rise Showcase Buildings, and an Advisory Service – is a key component of New Zealand's regional, economic and environmental programme.
- This 4-pronged strategy replicates the path British Columbia successfully took to implement its Wood First Policy during the last 15 years (proven).
- Both parties to the government coalition agreement took the promise of implementing a Wood First policy into the 2017 Election. (see Labour's Manifesto and the resulting media coverage below)
- The industry is now calling on the government to honour this commitment.
- The industry is investing based on this commitment and the Election outcome, and is ready to go.
- In early 2018 Hon Shane Jones commissioned MPI with industry research contribution to develop a Cabinet Paper to adopt and implement the Policy.
- This was done, with the results summarised below, demonstrating the strong outcomes for adopting the Policy, but has not yet been implemented.
- The purpose of the meeting is to map out the implementation.

(Updated) Outcome of meeting:

John Iivil, head of MBIE All-of-Government Procurement confirmed:

1. He has no technical concerns about using wood in the way proposed by the policy
2. Minister Parker has yet to notify MBIE to make the Wood First/Think Timber policy a priority.

Labour Party Manifesto:

Forestry

New Zealand Labour Party
Manifesto 2017

HIGHLIGHTS

Labour will:

-
- **Implement a 'wood first' procurement strategy for any government building.**

Pro-wood government procurement strategy

Labour will shift government procurement to a much stronger orientation towards building in wood. Given the scale of government building activity (particularly with the implementation of KiwiBuild), this will represent a substantial increase in the domestic demand for processed wood, especially at the more sophisticated and innovative end, such as engineered wood products.

The flow-on effects from this should not be underestimated.

It will also help to encourage a broader cultural shift toward viewing wood as the first choice for construction, interior design and daily living.

Labour will restore the requirement instituted by Forestry Minister Jim Anderton in the previous Labour-led government that "all government-funded project proposals for new buildings up to four storeys high shall require a build-in-wood option at the initial concept / request-for-proposals stage (with indicative sketches and price estimates)." Due to advances in engineering and wood processing technologies, we will increase the four story requirement to 10 stories.

However, we intend to go somewhat further than this so that where a build-in-wood option is as cost-effective as alternative options, a procuring department that chose not to select the build-in-wood option would be required to document the reasons for this decision.

https://www.newshub.co.nz/home/election/2017/09/labour-goes-wood-first-nz-timber-would-be-used-in-all-government-builds.html

TV RADIO VIDEO NEWS SPORT RECIPES WIN

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26 February 2019

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Labour goes wood first: NZ timber would be used in all Government builds

07/09/2017 Anna Bracewell-Worrall Jenna Lynch

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Summary of Outcomes From Research into Cabinet Paper

- Supporting and encouraging the 1 Billion tree planting policy (to avoid a potential \$30+ billion carbon liability by 2030) by creating local demand for wood products.
- Between 10% and 13% of global CO2 emissions are caused in the production of concrete and steel.
- If 2 in 3 buildings are built in wood, they will sequester the emissions of the 3rd built in steel/concrete.
- NZ could achieve net zero emissions in buildings if this ratio was targeted via this policy.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.)
- Sequestration of 258,289 tonnes of CO2 annually.
- Additional demand for 355,429 m3 of wood products – expanding the market by 51 per cent.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health, including:
 - Office design: productivity can be increased by 8% and rates of well-being increased by 13%
 - Education spaces: increased rates of learning, improved test results, concentration levels & attendance
 - Healthcare spaces: post-operative rates of recovery reduced by 8.5%, reduced pain medication by 22%
- Local demand for logs will support forestry, which faces an uncertain future with China's own afforestation plans. See analysis below demonstrating that China may only need a quarter of the logs/wood New Zealand currently exports there.
- Strong demand for timber ensures forests are tended and harvested, instead of left to stand which creates fire and disease risk and lowers the overall CO2 sequestration per ha of forest.

Will China need our trees analysis

NZ Plantation Estate (ha)	1,730,000		MPI - 2018
NZ Plantation - standing volume - m3	491,000,000		MPI - 2019
NZ Standing Volume per ha - m3	284		calc
NZ Recovered volume annual- 2019 - m3	32,000,000		https://www.teururakau.govt.nz/dmsdocument/14221-wood-availa
Ratio: NZ Standing Volume : NZ Recovered annual volume in 2019 - m3	15		calc
NZ Exports to China (logs + lumber) m3	16,200,000		MPI - to June 2018
Russia Exports to China (logs + lumber) m3	23,000,000		MBIE - FEA Spotlight Oct 2017
Total Chinese wood imports - m3	55,000,000		MBIE - FEA Spotlight Oct 2018
China's PLANTATION increase - 2020-2035 - ha		4,400,000	MBIE - FEA Spotlight
China's 2035 Standing Volume from 2020-2035 plantings, using 1/2 NZ standing vol./ha		624,393,064	calc. (so assumes China growth rate per ha 50% of NZ)
Ratio: NZ Standing Volume : NZ Recovered annual volume in 2019 - m3		15	From NZ above
China's annual harvest of its 2020-2035 Plantation estate increase - m3		40,693,642	calc, using same ratio as NZ.
% of China wood imports covered by own plantation increase		73.99%	
Deficit to be imported - m3		14,306,358	
Defecit to be imported from NZ, IF NZ can hold current market share		4,213,873	
NZ Wood going to China now, that won't be needed		11,986,127	

Assumptions:

- Demand in China in 2050 same as now. Economic growth could add, but end of urbanisation for decrease
- No allowance for impact of extra trees from 1BT
- China's plantations grow at 50% rate per ha as NZ.
- NZ can hold import market share. Maybe not as China owns many of the Russian mills so may prefer.
- Russia maintains log quota to China at current level. Increase in quota could surplant NZ's top-up volume.

Cabinet Policy Development Paper for the Economic Development Sub-Committee

Version 3

June 2018

DRAFT



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Introduction

Recognition of the reality of climate change has triggered responses by government worldwide to both restrict and sequester greenhouse gasses.

Under the Paris Climate Agreement New Zealand committed to reducing its greenhouse gas emissions to 50 per cent of 1990 levels by 2050, and 30 per cent below 2005 emission levels by 2030. The government also plans to introduce the Zero-Carbon Act that would set the target of net-zero emissions by 2050. New Zealand's per-person emissions are the fifth-highest in the OECD and it has been estimated that moving early on climate change initiatives could save the country \$30 billion (Westpac commissioned report, 2018).⁽¹⁾

According to the Productivity Commission 2018 report, ⁽²⁾ the primary and most cost-effective means of sequestering carbon dioxide is through the growth and use of wood.

Wood sequesters in excess of 800kg of CO₂ per cubic metre. ⁽³⁾

When used in buildings, wood not only locks away CO₂ but also replaces steel and concrete which have very high emissions profiles and are each estimated to contribute approximately 5 per cent of the world's greenhouse gasses. ^{(4) (8) (9)}

As a result, central and local governments worldwide have begun adopting policies and legislation to support the growing of trees and the usage of wood in construction.

In New Zealand, the 1 billion trees policy target has been adopted, and the government has been elected on a manifesto of adopting a Wood First Policy for government buildings.

Enabling these policies has been the development during the last 20 years of 'mass timber' products such as Cross Laminated Timber (CLT) and Glue Laminated Timber (Glulam) which have opened up the mid-high rise building market for construction in wood, meaning almost any type of government building can now be built in wood, and cost-effectively.

This paper develops the policy detail, rationale, and cost-benefits, and considers how similar policies have been adopted by dozens of central, state and local governments worldwide, with particular focus on the successful British Columbia model.

Based on the research behind this paper, the following advantages can be expected from the adoption of the Wood First Policy:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.)
- Sequestration of 258,289 tonnes of CO₂ annually.
- Additional demand for 355,429 m³ of wood products – expanding the market by 51 per cent.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health, including:

- Office design: productivity can be increased by 8% and rates of well-being increased by 13%
- Education spaces: increased rates of learning, improved test results, concentration levels & attendance
- Healthcare spaces: post-operative rates of recovery reduced by 8.5%, reduced pain medication by 22%

Wood First Policy Rationale:

The Wood First Policy is designed to serve the political mandate of the elected government as a key enabler of nine of the government’s key objectives, as summarised below:

KiwiBuild

NZ timber is the fastest & most cost-effective means of building and achieving the 10,000 houses/year target. (typically 30% faster)

Transport

De-congestion is achieved through off-site manufacture, & reducing worker and material traffic to/from building sites.

Productivity/Pre-fab

Wood use facilitates off-site factory construction, which boosts worker productivity and wages.

Climate Change/1b Trees

Wood stores CO₂, w. whilst concrete & steel emit. Policy encourages planting and assists 1 billion tree target which helps avoid potential \$34b Paris Accord liability.



Balance of Payment

Policy supports development of scale CLT, glulam etc plants for export, whilst reducing imports of steel and cement.

Employment

Policy will support new manufacturing jobs, as well as planting and Silva culture jobs – mainly regional and many Maori.

Regional Development

Policy supports off-site manufacturing and forestry investment, jobs & growth in regions such as Northland, Central North Island, Gisborne/HB, Nelson, West Coast & Otago.

Iwi Economy

Policy supports making iwi land productive through planting many of the 1 billion trees. Also a major iwi employer in regions through wood processing and forestry.

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- **Environmental/Climate Change**

The primary reason countries around the world are adopting Wood First policies is climate change. Wood not only sequesters CO₂, but its use displaces high emission materials such as steel, concrete and aluminium. New Zealand’s climate change policy framework with regards to forestry is twofold; sequester CO₂ through the expansion of the forest estate (1 billion trees in 10 years), and support the demand for forest products through government’s own procurement.

The two policies go hand-in-hand, as the Wood First policy sends a clear message to those the government needs to convert land to forestry that there will be a market for the wood at the time of harvest.

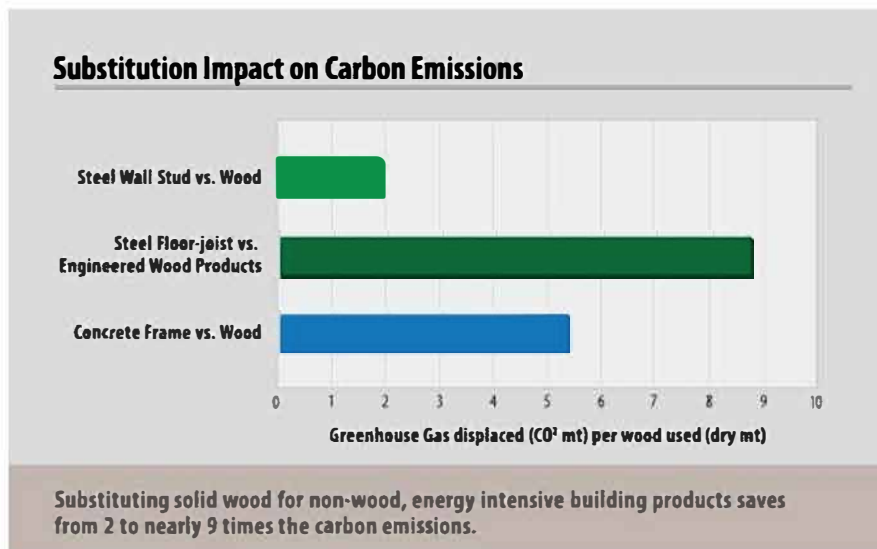
And whilst government procurement alone won’t create the required demand for the wood that is to be grown, it sends a message to the private sector and design professionals that this is the sustainable direction New Zealand needs to head, and that the professionals should skill up on wood design and construction in order to be able to fulfil government procurement requirements. This skilling-up will encourage professionals to obtain the experience to then design in wood for their private sector projects. As such, a lead taken by government has the potential for a ripple effect on the rest of the industry.

Steel and concrete account for approximately 5 per cent of CO₂ emissions worldwide each. (4) (8) (9) NZ Steel emits an average of 2 million tonnes of CO₂ per year. (5) Worldwide steel production currently totals about 1.5 billion tons per year. CO₂ emissions of each building material vary depending on the energy source used to manufacture the material and the transport distances, but as a general rule emissions are as follows:

- Steel tonne - 1.9 tonnes of CO₂ emissions (4) (6) (7)
- Concrete tonne - .45 tonnes of CO₂ emissions (8) (9) (10)
- Wood tonne – 1.7 tonnes of CO₂ sequestered (11)

The construction industry is a large contributor to CO2 emissions, with buildings responsible for 40% of the total European energy consumption and a third of CO2 emissions (12). The Intergovernmental Panel on Climate Change (IPCC) synthesis report (13) lists buildings as having the largest estimated economic mitigation potential among the sector solutions investigated. This confirms and completes an earlier statement by the United Nations Environment Programme (UNEP) Sustainable Building and Construction Initiative (SBCI) which suggests that European buildings account for roughly 40% of the energy consumption in society, contributing to significant amounts of greenhouse gas (GHG) emissions (14). UNEP concludes that the building sector offers the single largest potential for energy efficiency in Europe.

When displacing concrete and steel with wood, the net CO2 benefit compounds because one is both preventing emissions as well as creating sequestration. This compounded benefit can be seen in the following graphic (15)



However, to understand the benefits of substituting steel and concrete with wood, one must look at actual buildings and the relative tonnes of each material used to make that building under the different structural material options. The most comprehensive such study was conducted for the New Zealand government by University of Canterbury, in conjunction with Victoria University of Wellington and Scion, in 2008. (16) The study used a six story 4,200m² building and made the following conclusions.

Table 1: Tonnes of CO2 Emitted by Building Materials for Differing Structures

	Steel Multi-Storey Bldg	Timber Multi-Storey Bldg	Concrete Multi-Storey Bldg
Steel	665	26	132
Timber	-27	-688	-28
Concrete	366	213	895
Total Structure CO2	1,004	-449	999
Diff to Timber	1,453 tonnes		1,448 tonnes

Looking at the potential substitution gains above on a per m² of floor space basis for this building, the CO2 emissions saved from using wood instead of steel and concrete is .34 tonnes (340 kg) of CO2 per m² of floor area.

- **Regional Development, Investment & Employment**

This is the second main reason countries have adopted Wood First Policies, especially in countries such as New Zealand with significant forestry and wood processing sectors.

The ‘Billion Tree’/‘Wood First’ policies to produce and use more wood can have a significant effect on regional economies and employment. It is estimated the Wood First policy will lead to an additional 25% of mid-rise residential buildings being built from wood, and an additional 15% of New Zealand’s commercial buildings being built in wood by 2023. This is estimated to create demand for 355,429 m3 of additional high-value wood products, or 51% growth in the wood processing industry. (17)

To put this in perspective, 355,429 m3 of additional high-value wood products is twenty times the volume of the current XLAM CLT factory in Nelson, which employs approximately 30 staff. Extrapolating this out means the opportunity exists to create 600 additional direct jobs in the regions. Assuming a 2:1 ratio (18) (19), an additional 1,200 indirect/support industry jobs will also be generated, bringing the total to 1,800 additional regional jobs.

Because use of wood lends itself to regional pre-fabrication, additional jobs will also be created adding prefabrication value to walls and floors. Assuming one third of the additional 355,429 m3 requires additional off-site fabrication then 118,000 m3 will need prefabrication. Frame and truss plant experience is that annually an employee produces 200m2 of product annually. [20] Prefabrication would therefore add a further 590 direct jobs and 1,180 indirect jobs assuming the same 1:2 multiplier.

Table 2: Additional Wood Processing & Prefabrication Jobs

	Regional Wood processing FTEs	Prefabrication FTEs	TOTAL FTEs
Direct	600	590	1,190
In-direct	1,200	1,180	2,380
Total	1,800	1,770	3,570

Typically these are well-paying sophisticated plant operating jobs, primarily in forestry regions in need of employment opportunities and economic stimulus such as Northland, Gisborne, Kawarau, Rotorua, Putaruru, and Nelson.

Typically in the wood processing sector, for each FTE created \$1m is invested in plant and buildings.[21] In this case where the policy creates demand for potentially 1,800 additional direct jobs, the potential investment in the regions is \$1,8 billion. Some companies have already begun investment in anticipation of the policy adoption. The assurance by then Labour leader David Cunliffe to Red Stag Timber that a Labour-led government would adopt a wood first policy when next elected was the trigger for the company’s \$120 million supermill investment at Rotorua, whilst the 2017 election of the Labour-led government on the promise of a Wood First Policy led to the announcement in April by Red Stag that it would build a \$20 million CLT plant to create 40,000 m3 of CLT annually.

- **Construction Costs**

Construction cost escalation is a major issue for New Zealand and its ability to provide affordable building and housing. Costs escalate whenever the building sector picks up, as shown by the following extract from a 2017 ANZ Bank report. (22)



Source: ANZ, Statistics NZ

On a three-month average basis, the value of residential consents per square metre rose 12% y/y in June. This proxy for construction costs had shown surprising weakness in earlier months, which we felt was likely due to the composition of issuance more than anything. The sharp bounce-back corroborates this view.

Costs per square metre in Auckland (especially in the multi-dwelling space) have lifted especially strongly over the past year or so, and our internal anecdotes continue to highlight that capacity pressures in the construction sector are intense, with a severe shortage of labour.

Use of wood facilitates off-site manufacture and prefabrication, which means production of components can be automated in a controlled factory environment and then transported to site for rapid assembly.

Based on the following examples, the government can expect procurement savings in the range of 6 – 14 per cent, depending on the building type. Strategic use of government procurement can help ripple these savings through all New Zealand construction projects.

Housing Corporation New Zealand reports that it has been able to reduce the cost of three storey apartment buildings from \$3,800 / m² to \$3,000 / m², by using CLT. This 21 per cent saving is reportedly being realised as a result of CLT's ease and speed of construction, design standardisation and repetition that allows main contractors to price accurately and without the need for contingencies, and through the time value of money from faster build times. These savings are expected to improve further once more competition emerges in the supply of CLT, and this is a key outcome from this policy. [23]

In Australia, where the mass timber market is a few years ahead of New Zealand, savings are being reported by construction companies and quantity surveyors specialising in costing wood buildings compared to concrete and steel. Leading mass timber constructor Strongbuild in 2017 reported a 1.5 - 3 per cent overall saving on the large Macarthur Gardens apartment complex they built. This was one of their first in CLT, and costs are expected to reduce further as experience is gained. [24]. In 2018 Strongbuild reported a 4 per cent saving by converting the Phoenix apartment project from concrete/steel to wood, saving the client \$1.5m. Strongbuild reported the saving would have been more had the builder been engaged at the concept development stage. [25]

At the Frame Australia conference in 2018 Andrew Dunn updated the conference on the cost comparisons being experienced in Canada, where timber is 11 percent and where in Vancouver the wood frame construction market has 90 percent market share in apartment buildings up to 4 storeys and 70 percent market share in the 5 and 6 storey segment, with 300+ projects to date. [26]

Two leading quantity surveyors in Australia have also presented their comparative cost findings recently. These consistently demonstrate the cost savings from using wood solutions over a range of building types. [27]

These savings are summarised in Table 3 below.

Table 3: Quantity Surveyor Comparative Costings by Building Material and Building Type

	Perrie & RS of construction consultancy MBM (2017)*	Forsythe (2015-18) **
Apartment (Timber framing) vs concrete	9% saving	13% saving
Apartment (CLT) vs concrete		6% saving
Office vs concrete	8% saving	14% saving
Aged Care complex vs steel		14% saving
Industrial building vs steel		7% saving

Based on the foregoing therefore, the government could expect procurement savings in the range of 6 – 14 per cent, depending on the building type.

Importantly too, the strategic use of government procurement through a Wood First policy is expected to lead to similar savings for the private sector, as capacity and competition develops on the materials supply side, prefabrication plants become more efficient and more building contractors and design professionals become more experienced and comfortable with designing, building and pricing in wood.

- **Speed - 30 per cent faster construction**

Housing New Zealand (HNZ) reports that it has reduced the time it take to build its 3 storey apartment buildings from 12-18 months down to 4.5 months using CLT (23) At the Frame Australia Conference in 2017 CLT construction firm Strongbuild stated the Macarthur Gardens CLT project took 14 months instead of the expected 18 months, whilst development giant Lendlease stated their large footprint C2 building in Sydney required just 10 days per floor to erect using CLT and glulam. Lendlease also reported 30 per cent less construction time on its first CLT building, the 10 storey apartment block in Melbourne named Forte. Thirty per cent faster construction time is often reported as the rule of thumb with mass timber buildings. [28]

- **75 per cent less staff on site – Less pressure on NZ builder shortage**

Strongbuild reported needing just 5 staff on Macarthur, instead of an estimated 80 had the building been constructed in steel/concrete. Lendlease reported they required just 8 staff instead of 20 on C2, and that it was the only project the building giant had ever had that did not have any injuries. It is estimated that on average prefabricated wooden structure buildings require 75 per cent less on-site staff compared to traditional alternatives. [28]

Systems that leverage less qualified staff on site, and instead use factory trained staff outside Auckland, result in greater rates of construction with less builders (productivity). This also puts less pressure on the skills shortage in this sector. This in turn reduces pressure on builder rates and reduces construction costs for the whole economy. Builder rates have increased from \$35-45 to \$50-60 per hour in the last five years – a 37 per cent increase. [29]

- **Transport/Traffic**

Bringing completed wall and floor components to site instead of bringing materials to site for construction significantly reduces traffic, as does being able to build the structures with 75 per cent less people. [28] This has

significant advantages for traffic congestion, especially in metropolitan areas such as Auckland where the road network is under severe pressure, with resulting productivity losses. Removing traffic also has an environmental benefit in terms of diesel emissions reductions.

- **Noise**

With many government mid-rise buildings required in high-density areas or as additions to offices, schools and hospitals, wood solutions have a significant advantage as the components arrive at site prefabricated and are connected together with large screws and bolts.

- **Waste**

Off-site fabrication allows precision cutting to minimise waste. Waste can then be captured easily for recycling. The analysis conducted by senior quantity surveyor Kelvin Perrie found an 80 per cent reduction in waste was achievable, with 90 per cent of the building waste being able to be recycled. (Perrie & RS, 2017). (27) Strongbuild reported 50 per cent less waste on the Macarthur Gardens CLT project in Sydney. [24]

- **Productivity/Employee Wellbeing**

Recent studies, along with evidence emerging from Australia, North America, Europe and Asia, suggest that the use of wood indoors lowers stress reactivity of the sympathetic nervous system. This is associated with lower blood pressure, lower heart-rate, lower psychological stress, lower susceptibility to illness, and a better ability to focus attention. The reason for this effect is biophilia, the innate attraction of humans to life and life-like processes. Simply being in the built environment produces a low level of stress since urban living is relatively new on an evolutionary scale. Several studies have been completed recently in UK, USA, Australia and Canada finding wood has this calming effect, with resulting employee health/wellbeing and productivity gains.

From a recent survey, 79% of U.S. building owners believed that healthier architecture and operations would boost employee satisfaction and engagement. As well as the positives here, there's a downside as well. Poor-performing buildings can also contribute to reduced productivity due to poor health. How much? For the US workforce, they're estimating this to be a staggering US\$570 billion a year. It's in this "wellness" space that wood is really shining. Connecting buildings with the natural world and using wood to provide a healthier, happier environment was the focus for an Australian report produced in 2017, the Wood - Nature Inspired Design report.

The 2018 Workplaces: Wellness + Wood = Productivity report [30] produced in Australia identified improved employee productivity, well-being and health, including:

- **Office design:** productivity can be increased by 8% and rates of well-being increased by 13%
- **Education spaces:** increased rates of learning, improved test results, concentration levels & attendance
- **Healthcare spaces:** post-operative rates of recovery reduced by 8.5%, reduced pain medication by 22%

- **Earthquakes**

Heavy structures on poor soil types were a major contributor to the loss of buildings and life in the Christchurch earthquakes. As a result architects and engineers turned to steel and to a lesser degree wood. Steel has been the dominate solution due to familiarity with designing and constructing in steel compared to wood, known costs, and greater competition among suppliers of steel (there is only one CLT factory in New Zealand for example, although Red Stag is now building a North Island plant).

With the government’s procurement lead from the Wood First policy, more designers and engineers will gain knowledge and experience in wood, whilst wood solution suppliers will invest in capacity to provide more competition and certainty of delivery timeframes, and construction companies will also be able to price buildings more accurately and less cautiously as they become familiar with wood.

Where wood has been used to date, it has been found to be a superior performing material in earthquakes due to its lightness (20 per cent the weight of concrete), ductility, and the strength of mass timber products. Housing Corporation New Zealand is using CLT extensively with its projects and reports that timber performs “incredibly seismically”, such that the agency is able to self-insure for earthquake damage, knowing the structure will perform.

[23]

Mass timber buildings that were constructed following the Canterbury earthquakes performed exceptionally well subsequently. The 3 storey Kaikoura civic building made from CLT was unscathed by the Kaikoura earthquake and immediately became the region’s civil defence headquarters.

The advantages above are also being recognised in Canada, one of the early adopters of a Wood First Act in British Columbia. The table below presents the range of advantages when compared with concrete. (31)

MASS TIMBER vs CONCRETE COMPARISON CHART

Feature	Reinforced Concrete	Mass Timber
Scope and Performance		
Description	Cast-in-place slab and beams. Concrete Shear walls at perimeter. Concrete core walls at stair and elevator	175mm CLT Panels on glulam or steel beams w glulam columns. Steel or timber bracing at perimeter with locations flexible. Concrete core walls at stair and elevator.
Design Flexibility	Grid Pattern Required	Grid Pattern Design
Spans	Approximately 7.5m for assembly shown, but can be greater	Approximately 6m max for efficient panel usage
Height Limitations	30 Stories +	30 Stories +
Weight	2400kg per m3	450kg per m3
Acoustics	Reflects and transfers sound	Absorbs sound
Fire Performance	Fire Proof	Fire Resistant
Thermal Resistance	R 0.20 per inch	R 1.25 inch
Seismic	Brittle	Ductile
Thickness	Thick	1/3 Thinner than Concrete
Air Tightness	Air Tight	Air Tight
Durability	Excellent	Excellent
Timeline and Resources		
Precision	Contractor Dependent (poured onsite)	Highly Accurate Computer Fabricated in a Controlled Environment via CNC Machine
Install Time	Up to 500 m3 per day	Up to 1400 m3 per day
Logistics	Shipping distance limited by cure time	Easily Shipped Long Distances
Cure Times	Cure Times Required	N/A
Spoilage	Must be installed within 2 hours +/- of batching	N/A

Labour	Large Installation Crew Required (25-30)	Small Installation Crew Required (8-10)
Transport Burden	600% More Trucks Traffic to Site	Less Truck Traffic to Site (1/6 of concrete)
Install Noise Level	High	Low
Costs and Environmental		
Low Rise Cost	\$35-40 psf	\$30-35 psf
Mid/High Rise Cost	\$35-40 psf	\$35-40 psf
Construction Waste	Increased material and waste	Waste reduction, including other structural components as a results of decreased weight
Future Use	Partially recyclable	Fully recyclable
Carbon Footprint	300kg CO2 emitted per m3 +/- depending on location	824kg CO2 sequestered per m3
Aesthetic	Concrete feel, cold and hard	Natural materials have measurable positive effects on cognitive performance, stress reduction and mood

- **Affected Competing Industries**

As has been the case around the world, the adoption of Wood First policies have an effect on competing industries such as steel and concrete. This is to be expected as economies transition to a clean green construction future. In the New Zealand case this effect is less apparent because the majority of cement is imported from Indonesia and the heavy steel likely to be displaced by the policy comes from Asia, and not NZ Steel. There will be some fabricators affected by the change, but these skills can easily transition to off-site fabrication of wood solutions and to the fabrication of the steel connections required for wood panels and beams.

In New Zealand the cost-benefit equation of adoption of the policy is considered to be materially beneficial bearing in mind the limited impact on competing sectors and the advantages to be gained through:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.
- Sequestration of 258,289 tonnes of CO2 annually.
- Additional demand for 355,429 m3 of wood products – expanding the market by 51 per cent over time.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health

Wood First Policies Worldwide (32)

1990 – Germany: Timber Sales Promotion Act 1990

This program works much like a check off program in the U.S., with provisions for promotion of wood products, but differs in that the government mandates participation.

2004 – Finland: Land Use Planning Incentives for Wood in Construction

Encourages increased use of wood in small house construction.

2009 – British Columbia Canada: BC Wood First Initiative Wood First Act

The purpose of the Act is to facilitate a culture of wood by requiring the use of wood as the primary building material in all new provincially funded buildings, in a manner consistent with the building regulations within the meaning of the Building Act.

2009 – Quebec, Canada: Wood Use Strategy for Construction in Québec

This measure specifically aims to increase the use of wood products in the non-residential sector in Québec and in the construction of multifamily homes as well as to intensify the use of appearance wood products. The initiative encourages environmental performance as well as use of wood. Under this policy, construction project proposals that use wood instead of other materials and fall within 5% of the cost of other proposals will be considered the same.

2010 – France: Threshold of wood use in construction.

Required new public buildings to have at least 0.2 m3 of wood building materials for every 1 m2 of occupancy. Since replaced by European regulations.

2011 – Japan: Wood First Law

The Law obligates the national and local governments to utilize wood materials for public buildings that have three stories or less ("Japan: Law to Promote More Use of Natural Wood Materials for Public Buildings | Global Legal Monitor," 2010).

2012 – Hackney Borough Council, London, UK: Timber First

Encourages use of timber as a first choice building material for construction projects.

2014 – United States: US Department of Agriculture Tall Wood Building Competition

This initiative is designed to encourage and promote greater use of wood in building construction with the objectives of helping to mitigate climate change, facilitate forest health, and support jobs in rural America.

2015 – Rotorua, New Zealand: Wood First Policy

Use of wood compulsory on all council funded buildings.

2018 – Gisborne, New Zealand: Wood First Policy

Gisborne followed Rotorua, adopting the same policy of use of wood compulsory on all council funded buildings.

2015 – City Councils of Latrobe, Wellington Shire and Wattle Range, Australia: Wood Encouragement Policy

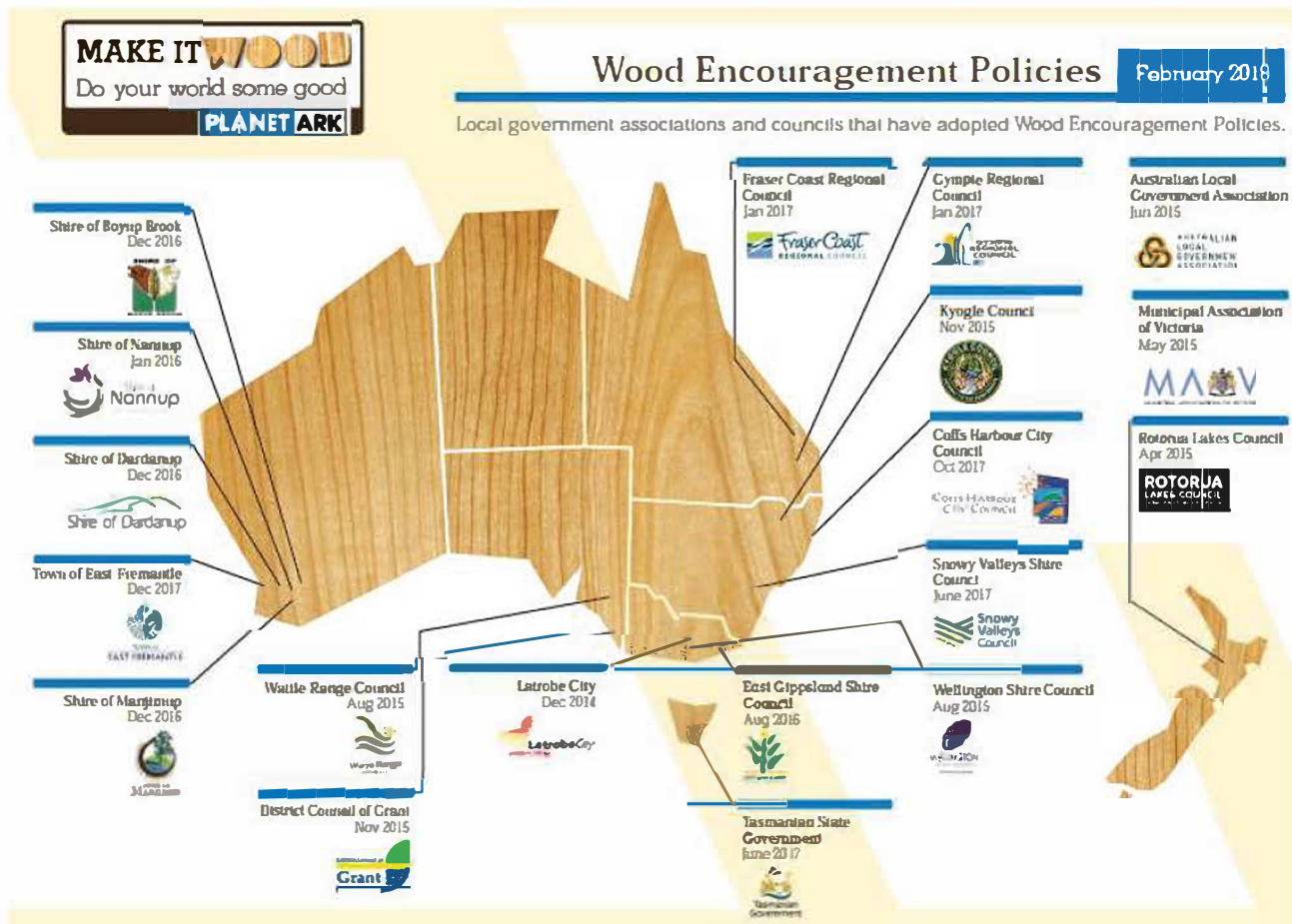
Ensures that all new Council projects are required to use timber as the preferred material for both construction and interior finishing, where wood is deemed a suitable material for the proposed application, and ensures that all comparisons to the cost of building with other materials take into account all long-term and life cycle benefits of using wood products.

2017 – Tasmania, Australia

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Tasmania has announced it will be the first state in Australia to adopt a wood encouragement policy (WEP). The focus of WEPs is to ensure wood is considered for the initial stages of public building projects.

The following map shows the regions of Australia adopting wood encouragement policies.



British Columbia - Wood First Act

The British Columbian approach has been the most comprehensive and successful means of rolling out a Wood First policy in the world. As such, we investigate it further here with a view to modelling the New Zealand approach based on the lessons learned from the BC experience.

The BC state legislature in 2009 adopted an Act with the purpose of facilitating a culture of wood by requiring the use of wood as the primary building material in all new provincially funded buildings, in a manner consistent with the building regulations within the meaning of the Building Act.

As of December 2014, 53 communities across B.C. had also passed or endorsed resolutions or policies indicating their intent to adopt wood in public buildings. The BC Wood First Act looks set to be adopted nationally in 2018 by the federal Canadian government. Currently a Bill is in the Select Committee stage and has recently passed its second reading in the House of Commons 217-75.

Whilst the BC Wood First Act requires the use of wood in all government funded buildings where it complied with the building Act and regulations, the State also supported the Act with funding initiatives to help showcase wood

systems and encourage the uptake with local reference sites and case studies. The roll-out of the Act was also supported by design guides and an advisory service.

This four-pronged approach has been successful, as shown in the publication 'BC - Wood First - 5 years of accomplishments 2009-2014'.(33)

A similar approach is proposed for the adoption of the New Zealand Wood First Policy as follows:

1. **Wood First Policy** – it is recommended a 'Policy' be adopted, rather than legislation. A comprehensive policy, with clear wording and rationale, backed by enforcement of the policy, is considered to be sufficient to achieve the objective of changing government department procurement behaviour.
2. **Case Studies** – MPI's Primary Growth Partnership (PGP) Fund has recently signed off co-funding for two open-source R&D showcase mid-rise wood buildings; the first a 5 storey apartment building in Christchurch to be built during 2018-19 and the second a 6+ storey commercial building in Auckland to be built during 2019-20. These projects will have open sourced designs and costings, and will facilitate site visits by New Zealand's design and construction professionals, Councils, building contractors, quantity surveyors and investors/owners, so as to provide a platform for knowledge transfer.
3. **Design Guides** – The forestry and wood processing industry is working with MPI on design guides covering mass timber design, engineering, off-site manufacture, assembly and costing. These will be complete for 2019 to support this policy.
4. **Advisory service** – It is recommended as part of this service the government fund an advisory service to both support public and private sector projects and the roll-out of the Wood First Policy by government agencies. A budget of \$1 million annually is recommended, with the industry funding any expenses in excess of this. Australia has adopted a similar service named 'Wood Solutions' with a staff of four; 2 engineers, a programme general manager and an executive assistant. A New Zealand equivalent service would be expected to maintain close ties to the Australian, Canadian and other such services, taking an adopt and adapt strategy to utilising material for the New Zealand context. The investment in this advisory service will be recouped many times over in the savings expected from the policy, as detailed above. It is recommended the Advisory service be established to begin in early 2019, and may be based at the new Forestry Ministry offices at Rotorua.

Wording of Policy, Phasing In and Associated Rules

The Policy's proposed key requirement is:

'All new buildings funded or commissioned for government tenancing shall be built with wood as the primary structural material, unless there is a compelling business case otherwise.'

It is proposed that the policy be rolled out over 3 years to allow time for the private sector to invest in capacity and to put in place the support structures to facilitate roll-out by government departments as follows:

Building Type/Department	Year *
Housing	2018
Tourism, Educational (including libraries/pools)	2019
Health, Office/Commercial buildings	2020
Service depots, fire, ambulance, police	2021

* Any buildings commencing construction in this year to be subject to the policy.

Unlike some countries that have policies/laws that reflect their building codes height limits, this is not necessary in New Zealand as there is no stipulated restriction on the height of wooden structures in the New Zealand building code.

The proposed wording also captures buildings where they are being built for government tenancing, but where the government is not the owner.

Exceptions - 'Compelling Business Case': The Policy would not apply where:

- A design suitable for wood is completed and costed by QS, yet found to be not economic bearing in mind construction cost, and speed of construction.
- Technical – where the design requirements prevent the best suited wood design.

Exceptions would be expected to apply to buildings such as prisons and large-scale sports stadiums. For other exemptions to apply the Business case must be credible, bona fide and in good faith, and must be made to [MPI? MBIE's Procurement Division?] for sign-off. All exception business cases will be available as unredacted Official Information.

Options and Recommendation

Adopt the Wood First Policy as proposed here (Recommended)

Adoption of the Wood First Policy is expected to generate the positive policy outcomes first anticipated by the coalition parties in the lead up to the 2017 election, and as detailed further in this paper.

These include:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.
- Sequestration of 258,289 tonnes of CO2 annually.
- Additional demand for 355,429 m3 of wood products – expanding the market by 51 per cent over time.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health

The policy is consistent with and central to the political mandate of the elected government as shown below.

KiwiBuild

NZ timber is the fastest & most cost-effective means of building and achieving the 10,000 houses/year target. (typically 30% faster)

Transport

De-congestion is achieved through off-site manufacture, & reducing worker and material traffic to/from building sites.

Productivity/Pre-fab

Wood use facilitates off-site factory construction, which boosts worker productivity and wages.

Climate Change/1b Trees

Wood stores CO2, whilst concrete & steel emit. Policy encourages planting and assists 1 billion tree target which helps avoid potential \$34b Paris Accord liability.



Balance of Payment

Policy supports development of scale CLT, glulam etc plants for export, whilst reducing imports of steel and cement.

Employment

Policy will support new manufacturing jobs, as well as planting and Silva culture jobs – mainly regional and many Maori.

Regional Development

Policy supports off-site manufacturing and forestry investment, jobs & growth in regions such as Northland, Central North Island, Gisborne/HB, Nelson, West Coast & Otago.

Iwi Economy

Policy supports making iwi land productive through planting many of the 1 billion trees. Also a major iwi employer in regions through wood processing and forestry.

Do Nothing

- The forestry and wood processing industry will continue to expand marginally without the policy, but this is behind the growth curve needed to provide the environmental, economic and social outcomes sought by the government.
- The outcomes listed above will not be achieved.
- The government may lose the confidence and support of the wood processing sector, some of which has invested against the Wood First policy manifesto in the 2017 election and against undertakings by the Labour Party (via leader David Cunliffe) in 2014 to introduce a Wood First Policy when next elected.

From: Marty Verry
To: Hon Shane Jones; MPI; Julie Collins; Hon Phil Twyford; Hon Stuart Nash
Subject: FW: HWP
Date: Monday, 4 November 2019 6:07 04 pm
Attachments: image006.png
RE HWP.mso
Mid-Rise Wood Building Model v.2.1.xlsx
Wood First - Cabinet Policy Development Paper draft.pdf

Ministers, Julie and Warren, good afternoon.

We have been engaging with MPI staff on the Harvest Wood Products (HWP) carbon accounting programme, and how to use it to encourage more wood processing. Please see the feedback below and attached.

Coupled with the design guides, Mid-rise demonstration projects and Wood First policy, the potential is for an additional 4.2 million tonnes per annum of wood processing (and corresponding HWP credits and climate change advantage).

We will continue to liaise with MPI, but wanted to keep you in the loop.

Regards,
Marty

From: Marty Verry

Sent: Thursday, 24 October 2019 11:40 PM

To: 'Ivan Luketina' <Ivan.Luketina@mpi.govt.nz>; 'Oliver Hendrickson' <Oliver.Hendrickson@mpi.govt.nz>; James Johnson <James.Johnson@mpi.govt.nz>

Cc: s9(2)(a)

Subject: FW: HWP

Ivan/Oliver,

Following up on our meeting on 25 September I have shared the attached email feedback on the HWP scheme allocation that I sent you with CarterHoltHarvey Wood Products Ltd (CHHWP) and Wood Processors and Manufacturers Association (WPMA). We are also met to discuss it. I can confirm there is general agreement between Red Stag and CHHWP with the rationale in the attached email, and the recommended 80:20 split of carbon accounting value between the wood processors creating the credits (80%) and an industry fund applying the 20% balance to the types of initiatives in the excel file. WPMA's feedback is that it is "not far off" its own thinking and looks forward to its members having a chance to consult.

In broadening this consultation out I believe we are capturing the position of the sector on this issue. This is because:

CHHWP operates:

- 3 sawmills with between 40-45% market share in the structural timber market
- A large LVL plant making mass LVL beams/posts, as well as framing LVL
- The largest plywood mill in New Zealand producing approximately 100,000m3 annually.
- One of the largest manufacturers of Frame & Truss / prefabricated panels in New Zealand, with 9 plants nationwide.

Red Stag Timber operates:

- 1 sawmill with approximately 25-28% market share in the structural framing market
- 3,500ha of forestry, a remanufacturing operation, a frame and truss/prefabrication plant, and the only CLT plant in New Zealand (set to expand to 40,000m3 in due course)

WPMA:

- Represents a range of other sawmills making up some of the 20-30% market share not supplied by Red Stag and CHHWP, as well as a range of pulp/paper/card mills, appearance timber mills, panel mills and secondary/tertiary wood processors.
- See membership here: <http://www.wpma.org.nz/members/>.

So across the 3 organisations we capture the breadth of the sector, particularly in the longer mid-life HWPs. Red Stag and CHHWP are also the main companies that have been heavily investing in the growth of HWP and have the potential to invest further with the help of HWP accounting credits (see below)

Likely Increase in NZ-earned HWP credits from the recommended 80:20 allocation

Last meeting I promised to put some thought into how HWP credits being distributed direct to wood processor would lead to more long mid-life HWP being produced. The feedback below **builds** on the earlier feedback (attached) about why it makes economic and equitable sense to allocate most credits to wood processors directly.

In short, we think the 80:20 split, when combined with the other growth initiatives underway for the sector, have the potential to significantly increase the long mid-life HWPs produced in New Zealand.

The best way to look at the opportunity is market-led. By that I mean by analysing the opportunities to produce more long-life HWPs where there is both a market segment demand and where wood processing in New Zealand has a viable competitive cost base.

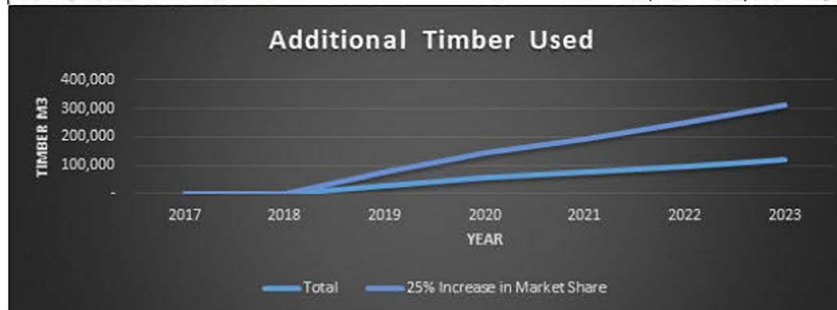
Looking at market segment opportunities for long mid-life HWPs:

- **1-3 level residential Australasia structural timber** – long-life HWPs have a strong market share here already, with over 90% share in New Zealand. Limited HWP growth opportunity. Driven by building consents
- **Structural timber for Asia** – NZ cost base and radiata conversion struggles to compete with Asian, North American, and now European supply. Limited HWP growth opportunity.
- **Appearance products from pruned logs** – constrained by pruned log availability. Opportunity here is not to grow long-life HWPs but rather use credits to help keep mills open. Any that close though will have their allocation of pruned logs readily processed by others. Limited HWP growth opportunity.
- **Panels, including ply, OSB, MDF** – Ply is driven by building consents. HWP growth opportunity in mid-rise.
- **Mid-rise structural in New Zealand - all building types** (framing timber, panels, and mass-timber like CLT, LVL and glulam) - wood has low market penetration, so this is a significant growth area for long life HWP which I discuss below.

Mid-rise HWP Opportunity

If New Zealand targeted a 25% increase in the market share of wood products in this sector, there will be an estimated 313,977 m3 increase in demand for structural wood products such as framing timber, panels, and mass-timber like CLT, LVL and glulam. The following are extracts from analysis compiled by Deloitte for the Mid-Rise Demonstration Building PGP programme. (See also the attached excel file) .

Additional timber used m3 - 25% Increase	2017	2018	2019	2020	2021	2022	2023
Residential	-	-	14,300	29,834	43,641	58,681	73,352
Non-Residential	-	-	60,000	112,500	148,125	192,500	240,625
25% Increase in Market Share	-	-	74,300	142,334	191,766	251,181	313,977



The 313,977m3 is only part of the opportunity. The economies of scale and automation from the strong domestic baseload demand means these wood processing plants will be well suited to supply these higher value wood products into the Asia-Pacific region competitively. Applying the same NZ v export split that Red Stag currently has for its structural products (60% v 40%) to the 313,977m3 domestic demand forecast, and the total additional demand for NZ structural HWP could be 523,295 m3 when factoring in exports.

If the 80% is distributed by way of ETS credits, then these New Zealand processing plants will be able to claim carbon neutrality. This accreditation will be increasingly valuable with climate conscious consumers in the years to come, and will further increase the wood processors' ability to develop international and domestic markets.

The opportunity is larger than the 523,295 m3 above though. As a general rule for each 100 m3 of structural product, sawmills produce 100m3 of lower grade timber products and 100 tonnes of chips. Factoring these in, and an increase in mid-rise market share of 25% could therefore produce an estimated:

- 1,046,590 m3 of long mid-life HWPs
- 523,295 tonne of chip for short mid-live HWPs
- 1,569,885 m3/tonne Total additional HWP opportunity**

Role of HWP credits

The proposed 80:20 allocation of HWP accounting credits will incentivise and facilitate the development of the market above as follows:

1. The 80% direct allocation provides the capital to make the investment in the plants required to drive the above target
2. The 80% direct allocation provides the increased margin profit incentive to drive the above target
3. The 20% industry fund component facilitates the growth into the mid-rise market, via the following proposed components of the 20%:

Industry Fund from HWP

s9(2)(b)(ii)

The role of government procurement policy in HWP

Government has a key role in achieving the HWP growth targets above by taking a lead with its own procurement in the mid-rise market. That lead will then help architects, engineers, quantity surveyors and builders to gain experience with mass timber that can then be applied to non-government projects.

This 'Wood First' policy is common to all 3 coalition parties and is in the addendum to the Coalition Agreement. The Labour Party committed in its 2017 Election Manifesto that if elected it would implement a 'Wood First' procurement policy, preferring wood for all government owned or commissioned buildings up to 10 storeys. (See below). Moves are afoot now to push through the implementation of this policy in 2020.

It will be important to point out to politicians the role the Wood First policy has on achieving HWP growth and the growth of significant additional HWP international accounting credits for NZ.

It may be useful to review the research contained in the attached 'Wood First – Cabinet Policy Development Paper draft', to see the benefits of the policy. Of particular relevance to HWP and the Carbon Zero Bill is the research mentioned on page 4 of the paper. Canterbury University, Vic University and Scion conducted research on the relative carbon footprint of a mid-rise building in mainly concrete, mainly wood and mainly steel. The research found that for every 2 wooden buildings made in wood, they sequestered the CO2 emitted by the 3rd made in steel or concrete. This 2:1 ratio (67%) if adopted as New Zealand's long term policy target would result in our building industry being net zero emitters of embodied carbon.

The 67% wood market share referred to above, if targeted instead of 25%, would increase the 1,569,885 m3/tonne from the analysis above to an additional 4,207,211 m3/tonnes of HWPs.

I trusts this assists for policy consideration, and look forward to further engagement.

Regards, Marty

HIGHLIGHTS

Labour will:

-
- Implement a 'wood first' procurement strategy for any government building.

Pro-wood government procurement strategy

Labour will shift government procurement to a much stronger orientation towards building in wood. Given the scale of government building activity (particularly with the implementation of KiwiBuild), this will represent a substantial increase in the domestic demand for processed wood, especially at the more sophisticated and innovative end, such as engineered wood products.

The flow-on effects from this should not be underestimated.

It will also help to encourage a broader cultural shift toward viewing wood as the first choice for construction, interior design and daily living.

Labour will restore the requirement instituted by Forestry Minister Jim Anderton in the previous Labour-led government that "all government-funded project proposals for new buildings up to four storeys high shall require a build-in-wood option at the initial concept / request-for-proposals stage (with indicative sketches and price estimates)." Due to advances in engineering and wood processing technologies, we will increase the four story requirement to 10 stories.

However, we intend to go somewhat further than this so that where a build-in-wood option is as cost-effective as alternative options, a procuring department that chose not to select the build-in-wood option would be required to document the reasons for this decision.

From: [Marty Verry](#)
To: [Oliver Hendrickson](#); [Ivan Luketina](#)
Cc: [James Johnson](#)
Subject: RE: HWP
Attachments: [image002.png](#)
[HWP - Wood Processing Allocation & Industry Fund.xlsx](#)
[NZ Herald - July 2019 - Why 1BT will fail.pdf](#)
[NBR - Opinion - Who will buy our Billion Trees.pdf](#)

Thanks for confirming that Oliver. It helps refine the scope of feedback.

As you know, we favour a high ratio of direct allocation of HWP credits to wood processors, but allowing for an appropriate allocation to an Industry Fund to support core pan-industry initiative and HWP expansion opportunities. Our suggested HWP direct allocation is summarised in the attached file, with a breakdown of the Industry Fund on the second sheet.

Here are a few thoughts not already captured in the attached file:

HWP Accounting Value:

There seems to be a discrepancy between the indicative MPI annual value of \$20m per annum, and the \$55.2m Scion used (\$552m between 2021-2030, see page 21, table 1.2.7.)

Rationale for 80% Direct Wood Processor Allocation:

1. Wood processors are the ultimate creators of HWP, so best point of influence.
2. Just like post-1990 foresters receiving NZU allocations for sequestering CO2 into trees during their life, wood processors have invested to convert those trees to long-life HWPs.
3. Some - including Red Stag - have invested on long life HWP specifically with eventual carbon recognition in mind.
4. It is natural justice to pass value to those that create the value.
5. If incentivised through direct allocation, the increased profitability will both incentivise and fund wood processors to produce more HWPs, and more long-live HWPs.
6. Wood processors are best positioned to make the commercial decisions about market-lead expansion opportunities and they will respond to such incentivisation.
7. For incremental growth of current mills, the higher margin by passing on HWP credits would result in improved feasibility for expansion and thereby the activation of latent capacity within current sites (See Scion p 62 "A study on latent capacity in the CNI found about 1 millionm3 of unused capacity.")
8. Improving the viability and scale of wood processors secures regional jobs and creates additional employment.
9. The positive flow-on effects of wood processors scaling up existing sites are:
 - a. Securing the viability and future of existing operations
 - b. Economies of scale
 - c. Investment in technology to convert logs to more timber, and longer-life HWPs
 - d. Allocating HWP credits, conversion technology, and economies of scale will all result in more gross margin and result in savings that will be passed onto the rest of NZ through lower timber prices. (Alleviating somewhat the cost of housing)
10. Direct allocation of HWP credits to NZ wood processors would go some way to balancing to playing field they face, including such imbalances as:
 - a. Asian processing competitors paying lower tariffs on NZ logs than NZ processors pay on wood products sent to those markets. (Scion p63)
 - b. Asian competitors also benefitting from lower value added tax rates on logs than is applied to NZ exported timber. (Scion p63)
 - c. Transport cost differentials, especially with the Belt & Road back-loading opportunity afforded to European competitors.
 - d. NZ logs are the highest cost, yet unlike many species, have a core that cannot be used for long life HWPs. This increases the effective NZ raw material cost compared to international competitors.
 - e. Subsidisation of power, rates and cost of capital of Asian processing competitors allows

them to pay more for NZ logs, to the benefit of NZ log producers and the detriment to NZ wood processors.

- f. Differing labour costs between NZ and Asian processors, more so now with higher minimum wages.
 - g. Grant subsidies given to most expansions of Australian mills by federal and state governments, despite CER.
11. A stronger domestic processing sector will also have afforestation benefits that will further increase HWP value to New Zealand. Domestic log demand is more stable and reliable than the export log markets. A strong processing sector will therefore support greater afforestation. Further, there is strong evidence that NZ's main log export market will not need New Zealand's logs in future as a result of other country's Kyoto planting targeting China, and China's own plantation plans which will make it self-sufficient. (See attached news articles)

Rationale for 20% Allocation to Industry Funding:

1. A well-funded industry fund is a sensible use for a component of the HWP value.
2. The suggestion is to allocate 20% of the \$20m annual fund to Industry Funding, so \$4m annually.
3. The suggested allocation of this fund to sub-categories, and how it could be administered, are noted in the 'Industry Fund' sheet of the attached file.
4. The balance of 80% would be allocated directly for the reasons above. An industry fund allocation greater than this risks funding consulting industries more than those that can make the economic decisions to produce more HWPs.
5. It is also important that an industry fund not be used to excessively fund/subsidise competition against existing processors who are the very companies currently creating the HWP value.
6. Focus for marketing, tours, demonstration buildings etc should be on areas that support all processors, and do not subsidise competition with existing processors. Such opportunities include encouraging mid-rise projects, OSB and export opportunities.

Incentivising long-life HWPs through demand-creation policies:

1. If the objective is to increase the production of HWPs and particularly long-life products, then the logical means to do this is to grow the use of wood in New Zealand.
2. The biggest opportunity is in the mid-rise building area (4-10 storeys).
3. Government procurement has a crucial leadership role here, and this was part of the Labour Party 2017 Election Manifesto, as well as that of NZ First.
4. NZ government leadership would also result in other countries following suit.
5. The proposed Industry Fund will support this through design guides, international site visits by key decision makers, demonstration buildings and a Wood Solutions advisory service.

Tracking of HWP and their eventual use by Wood processors:

1. We differ from Scion here, in that tracking logs to timber pieces through a site is very costly, difficult, bleeding edge and not required.
2. HWP end use can be done more easily than Scion's report, through a combination of annual reporting of HWP production by the main wood processors in the scheme, and periodic surveying of ultimate usage and wastage of those HWPs. (as has been done already in NZ log export markets. Scion report, Evison 2016)

Gents, that's a starter and hopefully assists Wednesday's meeting.

Regards,

Marty

 **Marty Verry**
Group CEO - Chair
s9(2)(a)

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Box 213, Kumeu, Auckland 0841, NZ



From: Oliver Hendrickson <Oliver.Hendrickson@mpi.govt.nz>

Sent: Friday, 20 September 2019 12:04 PM

To: Marty Verry [s9\(2\)\(a\)](#) Ivan Luketina <Ivan.Luketina@mpi.govt.nz>

Cc: James Johnson <James.Johnson@mpi.govt.nz>

Subject: RE: HWP

Hi Marty. I can answer your last question, yes, the decision has been made to target the wood processing sector for HWP so you don't need to weigh in the pros and cons of that.

Ivan can respond to the rest of your questions.

Have a good weekend.

Oliver

Oliver Hendrickson | Director | Forestry & Land Management | Te Uru Rākau - Forestry New Zealand | Ministry for Primary Industries - Manatū Ahu Matua | Level 1 The Terrace | PO Box 2526 | Wellington | New Zealand | Mobile: [s9\(2\)\(a\)](#) | Web: www.mpi.govt.nz



Te Uru Rākau

Forestry New Zealand

From: Marty Verry [[mailto:s9\(2\)\(a\)](mailto:s9(2)(a)@redstag.co.nz)]

Sent: Friday, 20 September 2019 12:02 PM

To: Ivan Luketina <Ivan.Luketina@mpi.govt.nz>

Cc: Oliver Hendrickson <Oliver.Hendrickson@mpi.govt.nz>; James Johnson <James.Johnson@mpi.govt.nz>

Subject: RE: HWP

Ivan,

I plan to get you feedback on the draft Scion report before our meeting, to make the meeting more productive. A couple of things you could assist with in the meantime please:

Could you please send me the discussion document from last year that you refer to below?

I see the Scion paper is dated April 2019. It addresses whether to use HWP accounting benefit for either afforestation or wood processing incentivisation. Since then several sources have informed us that the government has elected to use HWP accounting credits to the benefit of wood processing. In presenting feedback to you from the wood processing perspective, can we assume the decision has been made to target wood processing? Or do we still need to address the relative merits of targeting afforestation v wood processing?

Many thanks,



Marty Verry

Group CEO - Chair

[s9\(2\)\(a\)](#)

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Box 213, Kumeu, Auckland 0841, NZ



From: Ivan Luketina <Ivan.Luketina@mpi.govt.nz>

Sent: Wednesday, 18 September 2019 1:16 PM

To: Marty Verry [s9\(2\)\(a\)](#)

Cc: Oliver Hendrickson <Oliver.Hendrickson@mpi.govt.nz>; James Johnson <James.Johnson@mpi.govt.nz>

Subject: RE: HWP

Hi Marty,

Jon has said to me that he won't be there next Wednesday. I think at this point it is hard to pull together a full workshop, so how about yourself and CarterHoltHarvey come in for a 1.5 – 2 hour conversation with us Wednesday next week and I'll organise a more complete workshop later on that we can get a larger group to.

We don't have a set calculation model for HWP, and are still confirming how the international rules will apply from 2021. It does get complex so I would prefer to try to run through the details in person next

week.

Basically though, when we have talked about the HWP benefit before, we count the additional storage we get from afforestation and we add an increment for HWP. This means the HWP benefit is variable and depends on afforestation levels 18-22 years ago. It is likely that we will include some ability to go back and recalibrate if the make-up of the processing sector changes (and this would also be applied forward to new afforestation). In our discussion document last year we said this was around \$16 million a year, based on a \$21 NZU price, that should scale up to about \$20 million a year at current NZU prices.

I've attached the draft Scion report we discussed. There is a bit more information about how benefits are calculated in there, and about the potential to add to it through processing changes. This is draft, so please don't share it any more widely at the moment, we are just sharing this version to help our conversation next week. It would be great to get your feedback on it though.

Thanks,

Ivan

From: Marty Verry [mailto:s9(2)(a)]
Sent: Tuesday, 17 September 2019 2:34 PM
To: Ivan Luketina <Ivan.Luketina@mpi.govt.nz>
Cc: Oliver Hendrickson <Oliver.Hendrickson@mpi.govt.nz>
Subject: HWP

Ivan,

Agenda looks good, thanks. Have confirmed Jon Tanner/WPMA can make it, and have invited CarterHoltHarvey also to provide breadth of HWP sawn/panel input.

Rather than me spending hours researching how HWP is accounted for and applied to NZ, are you able please to share your calculation model?

Learning this and which processors/products are helping earn the HWP credits will also provide a useful starting point for how any direct distribution of value could work.

It would also be good to know in advance of meeting the total amount of the HWP credits (did you say \$220m?) and if that's one-off or annual. I know you have this to talk to on the agenda, but it would be also useful going into the workshop knowing roughly what we are talking about so we can consider models in advance.

Thank you. Regards,

 **Marty Verry**
Group CEO - Chair
s9(2)(a)

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The Ministry for Primary Industries accepts no responsibility for changes made to this email or to any attachments after transmission from the office.

From: [Marty Verry](#)
To: [Hon Phil Twyford](#) Hon Stuart Nash
Cc: [Hon Shane Jones](#); [MPI: Julie Collins](#)
Subject: Wood First policy - background research with MPI & industry, and invitation
Date: Monday, 11 November 2019 1:45:25 pm
Attachments: [image001.png](#)
[New Reference List.docx](#)
[Cabinet Policy Development Paper - source highlighting v3.docx](#)

Phil,

Stu Nash said you had officials advising on the Wood First policy. That's great news, thanks. We would like to assist that, starting with the attached which is the Wood First background research conducted with MPI last year for Shane Jones.

As the spokesperson for this area for the wood processing sector, I would like to meet with you and the officials to discuss this please.

Could we arrange to meet between 2-4 December – either in Wellington or Rotorua where we would be happy to show you through the supermill, as well as the site for the new \$35m CLT factory we are building to support the Wood First policy.

Thanks ad regards,

 **Marty Verry**
Group CEO - Chair
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Box 213, Kumeu, Auckland 0841, NZ



Wood First Policy Cabinet Paper References

1. **Parker, L. (2018). \$30 billion benefit for faster climate change action** | REDnews. Retrieved from Westpac website: <https://www.westpac.co.nz/rednews/business/30-billion-benefit-for-faster-climate-change-action/>

In text citation: (Parker, 2018)

2. **Low-Emissions Economy | Productivity Commission of New Zealand** (April 2018). https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Draft%20report_FINAL%20WEB%20VERSION.pdf

3. **Planning for Plantation Forestry** | Ministry for the Environment. (2010). Appendix 2:

<http://www.mfe.govt.nz/publications/rma/proposed-national-environmental-standard-plantation-forestry-discussion-document-8>

4. **Steel worldwide is responsible for emitting around 4% - 5% of total manmade greenhouse gasses.**

CO2 Emissions in the Steel Industry. (2008, January 10). Retrieved from

https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwi22pXl8q7aAhUCmpQKHU3yDqIQFggsMAE&url=https%3A%2F%2Fhrcaak.srce.hr%2Ffile%2F56088&usq=AOvVaw0bBMZY3F6I_XeD_4ZTE5-r

In text citation: ("CO2 Emissions in the Steel Industry," 2008)

4. **One order of steel; hold the greenhouse gases**

"Worldwide steel production currently totals about 1.5 billion tons per year. The prevailing process makes steel from iron ore — which is mostly iron oxide — by heating it with carbon; the process forms carbon dioxide as a byproduct. Production of a ton of steel generates almost two tons of CO2 emissions, according to steel industry figures, accounting for as much as 5 percent of the world's total greenhouse-gas emissions."

<http://news.mit.edu/2013/steel-without-greenhouse-gas-emissions-0508>

5. **NZ Steel emits an average of 2 million tonnes of CO2 per year**

Submission to the Finance and Expenditure Select Committee in respect of the Climate Change (Emissions Trading and Renewable Preference) Bill. (2008, February 29). Retrieved from <https://www.parliament.nz/resource/0000077156>

In text citation: (Emissions Trading and Renewable Preference) Bill," 2008).

6. CCS for iron and steel production

<https://www.globalccsinstitute.com/insights/authors/dennisvanpuyvelde/2013/08/23/ccs-iron-and-steel-production>

“However, the emissions varies significantly between countries and the Fourth Assessment Report by the IPCC reports the following average emissions:

- Brazil: 1.25 t CO₂/t steel
- US: 2.9 t CO₂/t steel
- Korea and Mexico: 1.6t CO₂/t steel
- China and India: 3.1 to 3.8 t CO₂/t steel”

7. University of Leeds: The carbon footprint of reinforced concrete.

“For steel, while the energy and process emissions associated with production of virgin material (,35 MJ/kg and 2.8 kg CO₂/kg) are relatively well established (e.g. Hammond and Jones, 2008)”

<http://eprints.whiterose.ac.uk/78456/1/adcr25-0362.pdf>

8. Emissions from the Cement Industry

“The production of cement, the primary component of concrete, accounts for about 5% of CO₂ emissions each year globally. Producing one tonne of cement emits almost one tonne of CO₂ emission”

Emissions from the Cement Industry. (2012, May 9). Retrieved from

<http://blogs.ei.columbia.edu/2012/05/09/emissions-from-the-cement-industry/>

("Emissions from the Cement Industry," 2012).

9. “The concrete industry is one of two largest producers of carbon dioxide (CO₂), creating up to 5% of worldwide man-made emissions of this gas”...” The carbon dioxide CO₂ produced for the manufacture of structural concrete (using ~14% cement) is estimated at 410 kg/m³”

https://en.wikipedia.org/wiki/Environmental_impact_of_concrete

9a. NZ Herald Nanogirl Michelle Dickinson: Concrete solutions to cut carbon dioxide emissions

https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12257267

10. University of Leeds: The carbon footprint of reinforced concrete.

“Findings are expressed both in terms of ECraw (kgCO₂/kg reinforced concrete) and ECf (kgCO₂ per unit of structural performance). They suggest that there is a wide range of ECraw (0.06 to 0.47)”....

“The ECraw of reinforced concrete varies over a wide range (0.07–0.52) depending on mix design, compressive strength grade, structural form and load capacity, and thus any notion that there is a single EC value for reinforced concrete is fallacious.”

<http://eprints.whiterose.ac.uk/78456/1/adcr25-0362.pdf>

11. Carbon footprint for building products

Antti Ruuska (ed.). Espoo 2013. VTT Technology, Finland

<https://www.vtt.fi/inf/pdf/technology/2013/T115.pdf>

“The emissions in the following tables are given in g/kg. The CO₂e is a sum of fossil based emissions calculated with help of IPCC weighting factors (for 100 years). The CO₂e figure excludes the biogenic

carbon dioxide emissions and sequestered carbon. However, the amount of sequestered carbon is also given as a separate figure, named as CO2uptake.” *

	Plywood	CLT	Framing	Glulam
CO2e (emissions)	229	362	108	44
CO2 uptake	1,731	1,611	1,639	1,835
Net CO2 uptake	1,502	1,249	1,531	1,791
Page in report	50	60	68	73

* For this paper a 1.7t of CO2 per 1t of wood used has been adopted to reflect the lower CO2e profile of New Zealand wood processing due to electricity being either from on-site turbines fuelled by biomass energy or from the grid which is 80% renewable energy.

12 Energy Efficient Buildings European Initiative.

http://www.ectp.org/cws/params/ectp/download_files/36D928v2_E2BA_Brochure.pdf

13 Climate Change 2007: Syntesis report, IPCC, 2007. (IPCC 2007)

http://www.ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr.pdf

14 Buildings and climate change: Status, challenges and opportunities, UNEP, 2007.

<http://www.unep.org/sbci/pdfs/BuildingsandClimateChange.pdf>

15. <http://www.themostnaturalresource.com/green-building/>

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John, S., Nebel, B., Perez, N., & Buchanan, A. (2009). http://www.nzwood.co.nz/wp-content/uploads/2013/07/Multi-storey_Building_report.pdf. Retrieved from New Zealand Ministry of Agriculture and Forestry website: http://www.nzwood.co.nz/wp-content/uploads/2013/07/Multi-storey_Building_report.pdf

In text citation: (John, Nebel, Perez, & Buchanan, 2009)

Found on www.nzwood.co.nz, search multi storey building report, top storey “Multi-Storey Wooden Building Research”, down load pdf (link).

17 Refer to **Wood First – Demand increase for wood products** - excel sheet.

18 Local Employment Multipliers for the Pulp and paper Industry in New Zealand (1976)

“Income and employment multipliers for forest products industries ranging between 1.5 and 2.0 have been estimated from regional input-output studies in Australia (Ferguson, 1972), and in the United States employment multipliers ranged from 1.6 for sawmills to 3.7 for pulpmills (Kaiser and Durrow, 1971)” and “

https://www.scionresearch.com/_data/assets/pdf_file/0006/58929/NZJFS611976GRANT122-130.pdf

19 The Economic Contribution of the Forest Industry to the Marlborough Region (BERL, 2008)

This paper found that 456 FTE were employed directly in the forestry/wood processing sector, and after the multiplier, the industry created a total of 1,100 FTEs. This is a 1.41 multiplier.

[https://www.marlboroughforestry.org.nz/mfia/docs/Marlborough Wood Report Final Report.pdf](https://www.marlboroughforestry.org.nz/mfia/docs/Marlborough_Wood_Report_Final_Report.pdf)

20 The 200m2 is Red Stag Investments' frame and truss plant productivity. Source: Red Stag Investments Ltd

21 Sourced from Red Stag group experience in investing in New Zealand's super-mill and CLT factory.

22. ANZ Reference:

Bargie, C., Borkin, P., & Croy, D. (2017). *Low Down on the Slow Down*. Retrieved from ANZ website:

<https://www.anz.co.nz/resources/9/6/9662097c-735d-427b-87f5-d0c94cdedd89/ANZ-PropertyFocus-20170824.pdf?MOD=AJPERES>

In text citation: (Bargie, Borkin, & Croy, 2017, p8)

23. Interview with Housing New Zealand Corporation's Tim Campbell Reference:

Campbell, T. (2018). Discussion Memo. Interview by New Zealand Housing Corporation.

In text citation: (Campbell, 2018)

24. Presentation to Frame Australia 2017 conference – MV notes

25 Presentation to Frame Australia 2018 conference by Shane Strong, BDM, Strongbuild

26 Presentation to Frame Australia 2018 conference by Andrew Dunn. Slide quote in reference to construction costs in Canada:

“A six-storey concrete building will typically cost an additional \$60 to \$70 extra per square foot when compared to an equivalent suite in a wood frame building – which can add up very quickly.”

Al Poettcker, CEO and president of UBC Properties Trust.

and

[Timber option was] “11% less expensive than six storey residential concrete or light steel frame”

27. 'QS Australia Comparative Analysis' excel file, which summarises:

Forsythe, P. (2015). *Rethinking Aged Care Construction - Consider Timber, (28)*. Retrieved from Wood First website: <https://opus.lib.uts.edu.au/bitstream/10453/41463/1/%2328-Aged%20Care-23%20Nov.pdf>

In text citation: (Forsythe, 2015)

Forsythe, P. (2018). *Rethinking Apartment Building Construction - Consider Timber, (27)*. Retrieved from Wood First website: <https://opus.lib.uts.edu.au/bitstream/10453/41466/1/%2327-%20Apartment%20Building-2%20Dec.pdf>

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In text citation: (Forsythe, 2017)

Perrie, K., & R S. (2017). *Traditional Concrete Construction vs. Timber Construction - Which is Cheaper? [PowerPoint]*

In text citation: (Perrie & R S., 2017)

28 Frame Australia Conference - M Verry notes

29 Amounts are based on Red Stag Investments own experience on projects

30. Productivity/Employee Wellness:

Knox, A., & Parry-Husbands, H. (2018). *Workplaces: Wellness+Wood=Productivity*. Retrieved from Pollinate website: <http://makeitwood.org/documents/doc-1624-pollinate-health-report---february-2018.pdf>

In text citation: (Knox & Parry-Husbands, 2018)

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In text citation: (Seagate Structures Ltd, 2018)

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In text citation: (Bowyer et al., 2016)

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Wat, T. (2018). *BC - Wood First - 5 Years of Accomplishments 2009-2014*. Retrieved from Wood First website: <https://www.bcfii.ca/sites/default/files/Wood%20First%20Highlighting%20Five%20Years%20of%20Accomplishments%202009-2014.pdf>

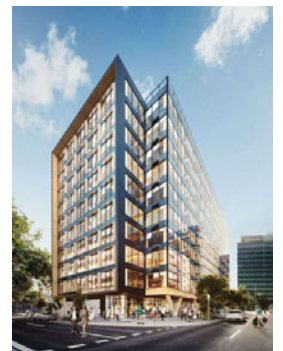
In text citation: (Wat, 2018)

***Research for Wood First policy Cabinet Paper for the
Economic Development Sub-Committee***

Version 4

Nov 2019

DRAFT



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Introduction

Recognition of the reality of climate change has triggered responses by government worldwide to both restrict and sequester greenhouse gasses.

Under the Paris Climate Agreement New Zealand committed to reducing its greenhouse gas emissions to 50 per cent of 1990 levels by 2050, and 30 per cent below 2005 emission levels by 2030. The government also plans to introduce the Zero-Carbon Act that would set the target of net-zero emissions by 2050. New Zealand's per-person emissions are the fifth-highest in the OECD and it has been estimated that moving early on climate change initiatives could save the country \$30 billion (Westpac commissioned report, 2018).⁽¹⁾

According to the Productivity Commission 2018 report, ⁽²⁾ the primary and most cost-effective means of sequestering carbondioxide is through the growth and use of wood.

Wood sequesters in excess of 800kg of CO₂ per cubic metre. ⁽³⁾

When used in buildings, wood not only locks away CO₂ but also replaces steel and concrete which have very high emissions profiles and are each estimated to contribute approximately 5 per cent of the world's greenhouse gasses. ^{(4) (8) (9)}

As a result, central and local governments worldwide have begun adopting policies and legislation to support the growing of trees and the usage of wood in construction.

In New Zealand, the 1 billion trees policy target has been adopted, and the government has been elected on a manifesto of adopting a Wood First Policy for government buildings.

Enabling these policies has been the development during the last 20 years of 'mass timber' products such as Cross Laminated Timber (CLT) and Glue Laminated Timber (Glulam) which have opened up the mid-high rise building market for construction in wood, meaning almost any type of government building can now be built in wood, and cost-effectively.

This paper develops the policy detail, rationale, and cost-benefits, and considers how similar policies have been adopted by dozens of central, state and local governments worldwide, with particular focus on the successful British Columbia model.

Based on the research behind this paper, the following advantages can be expected from the adoption of the Wood First Policy:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- Wood First has a key role in generating an additional 4.2 million m³-tonnes of Harvested Wood Products annually, which now generate international carbon credits. Value \$105m annually at \$25/t CO₂.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.)
- Sequestration of 258,289 tonnes of CO₂ annually.
- Additional demand for 355,429 m³ of wood products – expanding the market by 51 per cent.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders

- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health, including:
 - Office design: productivity can be increased by 8% and rates of well-being increased by 13%
 - Education spaces: increased rates of learning, improved test results, concentration levels & attendance
 - Healthcare spaces: post-operative rates of recovery reduced by 8.5%, reduced pain medication by 22%

Wood First Policy Rationale:

The Wood First Policy is designed to serve the political mandate of the elected government as a key enabler of nine of the government’s key objectives, as summarised below:

KiwiBuild

NZ timber is the fastest & most cost-effective means of building and achieving the 10,000 houses/year target. (typically 30% faster)

Transport

De-congestion is achieved through off-site manufacture, & reducing worker and material traffic to/from building sites.

Productivity/Pre-fab

Wood use facilitates off-site factory construction, which boosts worker productivity and wages.

Climate Change/1b Trees

Wood stores CO₂, whilst concrete & steel emit. Policy encourages planting and assists 1 billion tree target which helps avoid potential \$34b Paris Accord liability.



Employment

Policy will support new manufacturing jobs, as well as planting and Silva culture jobs – mainly regional and many Maori.

Regional Development

Policy supports off-site manufacturing and forestry investment, jobs & growth in regions such as Northland, Central North Island, Gisborne/HB, Nelson, West Coast & Otago.

Iwi Economy

Policy supports making iwi land productive through planting many of the 1 billion trees. Also a major iwi employer in regions through wood processing and forestry.

Balance of Payment

Policy supports development of scale CLT, glulam etc plants for export, whilst reducing imports of steel and cement.

- Environmental/Climate Change

The primary reason countries around the world are adopting Wood First policies is climate change. Wood not only sequesters CO₂, but its use displaces high emission materials such as steel, concrete and aluminium. New Zealand’s climate change policy framework with regards to forestry is twofold; sequester CO₂ through the expansion of the forest estate (1 billion trees in 10 years), and support the demand for forest products through government’s own procurement.

The two policies go hand-in-hand, as the Wood First policy sends a clear message to those the government needs to convert land to forestry that there will be a market for the wood at the time of harvest. The policy is expected to result in additional annual sequestration of 258,279 tonnes CO₂ (17)

And whilst government procurement alone won’t create the required demand for the wood that is to be grown, it sends a message to the private sector and design professionals that this is the sustainable direction New Zealand needs to head, and that the professionals should skill up on wood design and construction in order to be able to fulfil government procurement requirements. This skilling-up will encourage professionals to obtain the experience to then design in wood for their private sector projects. As such, a lead taken by government has the potential for a ripple effect on the rest of the industry.

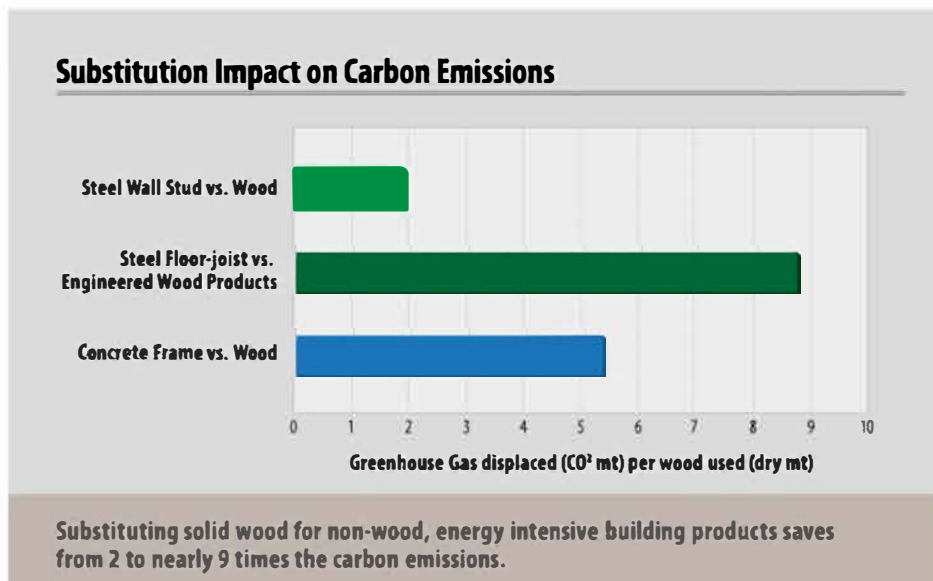
Steel accounts for 5 per cent of CO₂ emissions worldwide each, and concrete 8%. (4) (8) (9) (9a) NZ Steel emits an average of 2 million tonnes of CO₂ per year. [5] Worldwide steel production currently totals about 1.5 billion tons

per year. CO2 emissions of each building material vary depending on the energy source used to manufacture the material and the transport distances, but as a general rule emissions are as follows:

- Steel tonne - 1.9 tonnes of CO2 emissions (4) (6) (7)
- Concrete tonne - .45 tonnes of CO2 emissions (8) (9) (10)
- Wood tonne – 1.7 tonnes of CO2 sequestered (11)

The construction industry is a large contributor to CO2 emissions, with buildings responsible for 40% of the total European energy consumption and a third of CO2 emissions (12). The Intergovernmental Panel on Climate Change (IPCC) synthesis report (13) lists buildings as having the largest estimated economic mitigation potential among the sector solutions investigated. This confirms and completes an earlier statement by the United Nations Environment Programme (UNEP) Sustainable Building and Construction Initiative (SBCI) which suggests that European buildings account for roughly 40% of the energy consumption in society, contributing to significant amounts of greenhouse gas (GHG) emissions (14). UNEP concludes that the building sector offers the single largest potential for energy efficiency in Europe.

When displacing concrete and steel with wood, the net CO2 benefit compounds because one is both preventing emissions as well as creating sequestration. This compounded benefit can be seen in the following graphic (15)



However, to understand the benefits of substituting steel and concrete with wood, one must look at actual buildings and the relative tonnes of each material used to make that building under the different structural material options.

The most comprehensive such study was conducted for the New Zealand government by University of Canterbury, in conjunction with Victoria University of Wellington and Scion, in 2008. (16) The study used a six story 4,200m² building and made the following conclusions.

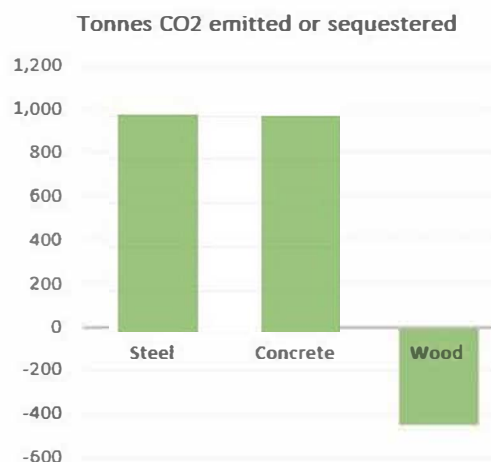


Table 1: Tonnes of CO2 Emitted by Building Materials for Differing Structures

	Steel Multi-Storey Bldg	Timber Multi-Storey Bldg	Concrete Multi-Storey Bldg
Steel	665	26	132
Timber	-27	-688	-28
Concrete	366	213	895
Total Structure CO2	1,004		999
Diff to Timber	1,453 tonnes	-449	1,448 tonnes

Looking at the potential substitution gains above on a per m2 of floor space basis for this building, the CO2 emissions saved from using wood instead of steel and concrete is .34 tonnes (340 kg) of CO2 per m2 of floor area.

- **International accounting credits through Harvested Wood products**

Wood First also has a role generating an additional 4.2 million m3-tonnes of Harvested Wood Products annually, which now generate international carbon credits. Value \$105m annually at \$25/t CO2. (Appendix 1)

- **Regional Development, Investment & Employment**

This is the second main reason countries have adopted Wood First Policies, especially in countries such as New Zealand with significant forestry and wood processing sectors.

The ‘Billion Tree’/‘Wood First’ policies to produce and use more wood can have a significant effect on regional economies and employment. It is estimated the Wood First policy will lead to an additional 25% of mid-rise residential buildings being built from wood, and an additional 15% of New Zealand’s commercial buildings being built in wood by 2023. This is estimated to create demand for 355,429 m3 of additional high-value wood products, or 51% growth in the wood processing industry. (17)

To put this in perspective, 355,429 m3 of additional high-value wood products is twenty times the volume of the current XLAM CLT factory in Nelson, which employs approximately 30 staff. Extrapolating this out means the opportunity exists to create 600 additional direct jobs in the regions. Assuming a 2:1 ratio (18) (19), an additional 1,200 indirect/support industry jobs will also be generated, bringing the total to 1,800 additional regional jobs.

Because use of wood lends itself to regional pre-fabrication, additional jobs will also be created adding prefabrication value to walls and floors. Assuming one third of the additional 355,429 m3 requires additional off-site fabrication then 118,000 m3 will need prefabrication. Frame and truss plant experience is that annually an employee produces 200m2 of product annually. [20] Prefabrication would therefore add a further 590 direct jobs and 1,180 indirect jobs assuming the same 1:2 multiplier.

Table 2: Additional Wood Processing & Prefabrication Jobs

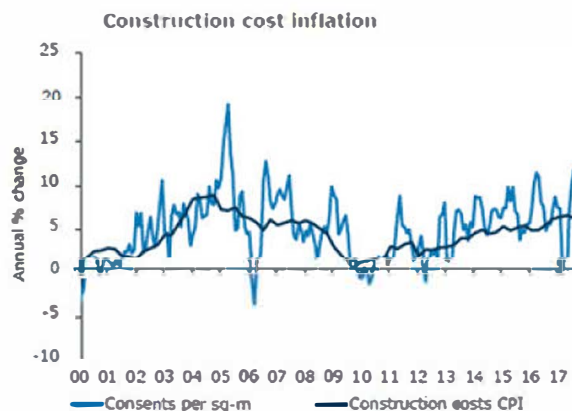
	Regional Wood processing FTEs	Prefabrication FTEs	TOTAL FTEs
Direct	600	590	1,190
In-direct	1,200	1,180	2,380
Total	1,800	1,770	3,570

Typically these are well-paying sophisticated plant operating jobs, primarily in forestry regions in need of employment opportunities and economic stimulus such as Northland, Gisborne, Kawarau, Rotorua, Putaruru, and Nelson.

Typically in the wood processing sector, for each FTE created \$1m is invested in plant and buildings.^[21] In this case where the policy creates demand for potentially 1,800 additional direct jobs, the potential investment in the regions is \$1,8 billion. Some companies have already begun investment in anticipation of the policy adoption. The assurance by then Labour leader David Cunliffe to Red Stag Timber that a Labour-led government would adopt a wood first policy when next elected was the trigger for the company's \$120 million supermill investment at Rotorua, whilst the 2017 election of the Labour-led government on the promise of a Wood First Policy led to the announcement in April by Red Stag that it would build a \$20 million CLT plant to create 40,000 m³ of CLT annually.

- **Construction Costs**

Construction cost escalation is a major issue for New Zealand and its ability to provide affordable building and housing. Costs escalate whenever the building sector picks up, as shown by the following extract from a 2017 ANZ Bank report. (22)



Source: ANZ, Statistics NZ

On a three-month average basis, the value of residential consents per square metre rose 12% y/y in June. This proxy for construction costs had shown surprising weakness in earlier months, which we felt was likely due to the composition of issuance more than anything. The sharp bounce-back corroborates this view.

Costs per square metre in Auckland (especially in the multi-dwelling space) have lifted especially strongly over the past year or so, and our internal anecdotes continue to highlight that capacity pressures in the construction sector are intense, with a severe shortage of labour.

Use of wood facilitates off-site manufacture and prefabrication, which means production of components can be automated in a controlled factory environment and then transported to site for rapid assembly.

Based on the following examples, the government can expect procurement savings in the range of 6 – 14 per cent, depending on the building type. Strategic use of government procurement can help ripple these savings through all New Zealand construction projects.

Housing Corporation New Zealand reports that it has been able to reduce the cost of three storey apartment buildings from \$3,800 / m² to \$3,000 / m², by using CLT. This 21 per cent saving is reportedly being realised as a result of CLT's ease and speed of construction, design standardisation and repetition that allows main contractors to price accurately and without the need for contingencies, and through the time value of money from faster build times. These savings are expected to improve further once more competition emerges in the supply of CLT, and this is a key outcome from this policy. (23)

In Australia, where the mass timber market is a few years ahead of New Zealand, savings are being reported by construction companies and quantity surveyors specialising in costing wood buildings compared to concrete and steel. Leading mass timber constructor Strongbuild in 2017 reported a 1.5 - 3 per cent overall saving on the large Macarthur Gardens apartment complex they built. This was one of their first in CLT, and costs are expected to reduce further as experience is gained. (24). In 2018 Strongbuild reported a 4 per cent saving by converting the Phoenix

apartment project from concrete/steel to wood, saving the client \$1.5m. Strongbuild reported the saving would have been more had the builder been engaged at the concept development stage. [25]

At the Frame Australia conference in 2018 Andrew Dunn updated the conference on the cost comparisons being experienced in Canada, where timber is 11 percent and where in Vancouver the wood frame construction market has 90 percent market share in apartment buildings up to 4 storeys and 70 percent market share in the 5 and 6 storey segment, with 300+ projects to date. [26]

Two leading quantity surveyors in Australia have also presented their comparative cost findings recently. These consistently demonstrate the cost savings from using wood solutions over a range of building types. [27]

These savings are summarised in Table 3 below.

Table 3: Quantity Surveyor Comparative Costings by Building Material and Building Type

	Perrie & RS of construction consultancy MBM (2017)*	Forsythe (2015-18) **
Apartment (Timber framing) vs concrete	9% saving	13% saving
Apartment (CLT) vs concrete		6% saving
Office vs concrete	8% saving	14% saving
Aged Care complex vs steel		14% saving
Industrial building vs steel		7% saving

Based on the foregoing therefore, the government could expect procurement savings in the range of 6 – 14 per cent, depending on the building type.

Importantly too, the strategic use of government procurement through a Wood First policy is expected to lead to similar savings for the private sector, as capacity and competition develops on the materials supply side, prefabrication plants become more efficient and more building contractors and design professionals become more experienced and comfortable with designing, building and pricing in wood.

- **Speed - 30 per cent faster construction**

Housing New Zealand (HNZ) reports that it has reduced the time it take to build its 3 storey apartment buildings from 12-18 months down to 4.5 months using CLT [23] At the Frame Australia Conference in 2017 CLT construction firm Strongbuild stated the Macarthur Gardens CLT project took 14 months instead of the expected 18 months, whilst development giant Lendlease stated their large footprint C2 building in Sydney required just 10 days per floor to erect using CLT and glulam. Lendlease also reported 30 per cent less construction time on its first CLT building, the 10 storey apartment block in Melbourne named Forte. Thirty per cent faster construction time is often reported as the rule of thumb with mass timber buildings. [28]

- **75 per cent less staff on site – Less pressure on NZ builder shortage**

Strongbuild reported needing just 5 staff on Macarthur, instead of an estimated 80 had the building been constructed in steel/concrete. Lendlease reported they required just 8 staff instead of 20 on C2, and that it was the only project the building giant had ever had that did not have any injuries. It is estimated that on average prefabricated wooden structure buildings require 75 per cent less on-site staff compared to traditional alternatives. [28]

Systems that leverage less qualified staff on site, and instead use factory trained staff outside Auckland, result in greater rates of construction with less builders (productivity). This also puts less pressure on the skills shortage in this sector. This in turn reduces pressure on builder rates and reduces construction costs for the whole economy. Builder rates have increased from \$35-45 to \$50-60 per hour in the last five years – a 37 per cent increase. [29]

- **Transport/Traffic**

Bringing completed wall and floor components to site instead of bringing materials to site for construction significantly reduces traffic, as does being able to build the structures with 75 per cent less people. [28] This has significant advantages for traffic congestion, especially in metropolitan areas such as Auckland where the road network is under severe pressure, with resulting productivity losses. Removing traffic also has an environmental benefit in terms of diesel emissions reductions.

- **Noise**

With many government mid-rise buildings required in high-density areas or as additions to offices, schools and hospitals, wood solutions have a significant advantage as the components arrive at site prefabricated and are connected together with large screws and bolts.

- **Waste**

Off-site fabrication allows precision cutting to minimise waste. Waste can then be captured easily for recycling. The analysis conducted by senior quantity surveyor Kelvin Perrie found an 80 per cent reduction in waste was achievable, with 90 per cent of the building waste being able to be recycled. (Perrie & RS, 2017). [27] Strongbuild reported 50 per cent less waste on the Macarthur Gardens CLT project in Sydney. [24]

- **Productivity/Employee Wellbeing**

Recent studies, along with evidence emerging from Australia, North America, Europe and Asia, suggest that the use of wood indoors lowers stress reactivity of the sympathetic nervous system. This is associated with lower blood pressure, lower heart-rate, lower psychological stress, lower susceptibility to illness, and a better ability to focus attention. The reason for this effect is biophilia, the innate attraction of humans to life and life-like processes. Simply being in the built environment produces a low level of stress since urban living is relatively new on an evolutionary scale. Several studies have been completed recently in UK, USA, Australia and Canada finding wood has this calming effect, with resulting employee health/wellbeing and productivity gains.

From a recent survey, 79% of U.S. building owners believed that healthier architecture and operations would boost employee satisfaction and engagement. As well as the positives here, there's a downside as well. Poor-performing buildings can also contribute to reduced productivity due to poor health. How much? For the US workforce, they're estimating this to be a staggering US\$570 billion a year. It's in this "wellness" space that wood is really shining.

Connecting buildings with the natural world and using wood to provide a healthier, happier environment was the focus for an Australian report produced in 2017, the Wood - Nature Inspired Design report.

The 2018 Workplaces: Wellness + Wood = Productivity report [30] produced in Australia identified improved employee productivity, well-being and health, including:

- Office design: productivity can be increased by 8% and rates of well-being increased by 13%
- Education spaces: increased rates of learning, improved test results, concentration levels & attendance
- Healthcare spaces: post-operative rates of recovery reduced by 8.5%, reduced pain medication by 22%

- Earthquakes

Heavy structures on poor soil types were a major contributor to the loss of buildings and life in the Christchurch earthquakes. As a result architects and engineers turned to steel and to a lesser degree wood. Steel has been the dominate solution due to familiarity with designing and constructing in steel compared to wood, known costs, and greater competition among suppliers of steel (there is only one CLT factory in New Zealand for example, although Red Stag is now building a North Island plant).

With the government’s procurement lead from the Wood First policy, more designers and engineers will gain knowledge and experience in wood, whilst wood solution suppliers will invest in capacity to provide more competition and certainly of delivery timeframes, and construction companies will also be able to price buildings more accurately and less cautiously as they become familiar with wood.

Where wood has been used to date, it has been found to be a superior performing material in earthquakes due to its lightness (20 per cent the weight of concrete), ductility, and the strength of mass timber products. Housing Corporation New Zealand is using CLT extensively with its projects and reports that timber performs “incredibly seismically”, such that the agency is able to self-insure for earthquake damage, knowing the structure will perform. [23]

Mass timber buildings that were constructed following the Canterbury earthquakes performed exceptionally well subsequently. The 3 storey Kaikoura civic building made from CLT was unscathed by the Kaikoura earthquake and immediately became the region’s civil defence headquarters.

The advantages above are also being recognised in Canada, one of the early adopters of a Wood First Act in British Columbia. The table below presents the range of advantages when compared with concrete. (31)

MASS TIMBER vs CONCRETE COMPARISON CHART

Feature	Reinforced Concrete	Mass Timber
Scope and Performance		
Description	Cast-in-place slab and beams. Concrete Shear walls at perimeter. Concrete core walls at stair and elevator	175mm CLT Panels on glulam or steel beams w glulam columns. Steel or timber bracing at perimeter with locations flexible. Concrete core walls at stair and elevator.
Design Flexibility	Grid Pattern Required	Grid Pattern Design
Spans	Approximately 7.5m for assembly shown, but can be greater	Approximately 6m max for efficient panel usage
Height Limitations	30 Stories +	30 Stories +
Weight	2400kg per m3	450kg per m3

Acoustics	Reflects and transfers sound	Absorbs sound
Fire Performance	Fire Proof	Fire Resistant
Thermal Resistance	R 0.20 per inch	R 1.25 inch
Seismic	Brittle	Ductile
Thickness	Thick	1/3 Thinner than Concrete
Air Tightness	Air Tight	Air Tight
Durability	Excellent	Excellent
Timeline and Resources		
Precision	Contractor Dependent (poured onsite)	Highly Accurate Computer Fabricated in a Controlled Environment via CNC Machine
Install Time	Up to 500 m3 per day	Up to 1400 m3 per day
Logistics	Shipping distance limited by cure time	Easily Shipped Long Distances
Cure Times	Cure Times Required	N/A
Spoilage	Must be installed within 2 hours +/- of batching	N/A
Labour	Large Installation Crew Required (25-30)	Small Installation Crew Required (8-10)
Transport Burden	600% More Trucks Traffic to Site	Less Truck Traffic to Site (1/6 of concrete)
Install Noise Level	High	Low
Costs and Environment		
Low Rise Cost	\$35-40 psf	\$30-35 psf
Mid/High Rise Cost	\$35-40 psf	\$35-40 psf
Construction Waste	Increased material and waste	Waste reduction, including other structural components as a results of decreased weight
Future Use	Partially recyclable	Fully recyclable
Carbon Footprint	300kg CO2 emitted per m3 +/- depending on location	824kg CO2 sequestered per m3
Aesthetic	Concrete feel, cold and hard	Natural materials have measurable positive effects on cognitive performance, stress reduction and mood

- **Affected Competing Industries**

As has been the case around the world, the adoption of Wood First policies have an effect on competing industries such as steel and concrete. This is to be expected as economies transition to a clean green construction future. In the New Zealand case this effect is less apparent because the majority of cement is imported from Indonesia and the heavy steel likely to be displaced by the policy comes from Asia, and not NZ Steel. There will be some fabricators affected by the change, but these skills can easily transition to off-site fabrication of wood solutions and to the fabrication of the steel connections required for wood panels and beams.

It is important to note that there will always be roles for wood and steel. They will still be used extensively even where the main structural component is wood. This is particularly the case for thermal mass ground floors in concrete, and connections and beams for steel. Hybrid wood + steel/concrete structures are also popular.

Whilst there is research and efforts internationally to improve the environmental performance of concrete and steel, the climate change issue can't wait.

In New Zealand the cost-benefit equation of adoption of the policy is considered to be materially beneficial bearing in mind the limited impact on competing sectors and the advantages to be gained through:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.
- Sequestration of 258,289 tonnes of CO2 annually.
- Additional demand for 355,429 m3 of wood products – expanding the market by 51 per cent over time.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health

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Wood First Policies Worldwide (32)

1990 – Germany: Timber Sales Promotion Act 1990

This program works much like a check off program in the U.S., with provisions for promotion of wood products, but differs in that the government mandates participation.

2004 – Finland: Land Use Planning Incentives for Wood in Construction

Encourages increased use of wood in small house construction.

2009 – British Columbia Canada: BC Wood First Initiative Wood First Act

The purpose of the Act is to facilitate a culture of wood by requiring the use of wood as the primary building material in all new provincially funded buildings, in a manner consistent with the building regulations within the meaning of the Building Act.

2009 – Quebec, Canada: Wood Use Strategy for Construction in Québec

This measure specifically aims to increase the use of wood products in the non-residential sector in Québec and in the construction of multifamily homes as well as to intensify the use of appearance wood products. The initiative encourages environmental performance as well as use of wood. Under this policy, construction project proposals that use wood instead of other materials and fall within 5% of the cost of other proposals will be considered the same.

2010 – France: Threshold of wood use in construction.

Required new public buildings to have at least 0.2 m³ of wood building materials for every 1 m² of occupancy. Since replaced by European regulations.

2011 – Japan: Wood First Law

The Law obligates the national and local governments to utilize wood materials for public buildings that have three stories or less ("Japan: Law to Promote More Use of Natural Wood Materials for Public Buildings | Global Legal Monitor," 2010).

2012 – Hackney Borough Council, London, UK: Timber First

Encourages use of timber as a first choice building material for construction projects.

2014 – United States: US Department of Agriculture Tall Wood Building Competition

This initiative is designed to encourage and promote greater use of wood in building construction with the objectives of helping to mitigate climate change, facilitate forest health, and support jobs in rural America.

2015 – Rotorua, New Zealand: Wood First Policy

Use of wood compulsory on all council funded buildings.

2018 – Gisborne, New Zealand: Wood First Policy

Gisborne followed Rotorua, adopting the same policy of use of wood compulsory on all council funded buildings.

2015 – City Councils of Latrobe, Wellington Shire and Wattle Range, Australia: Wood Encouragement Policy

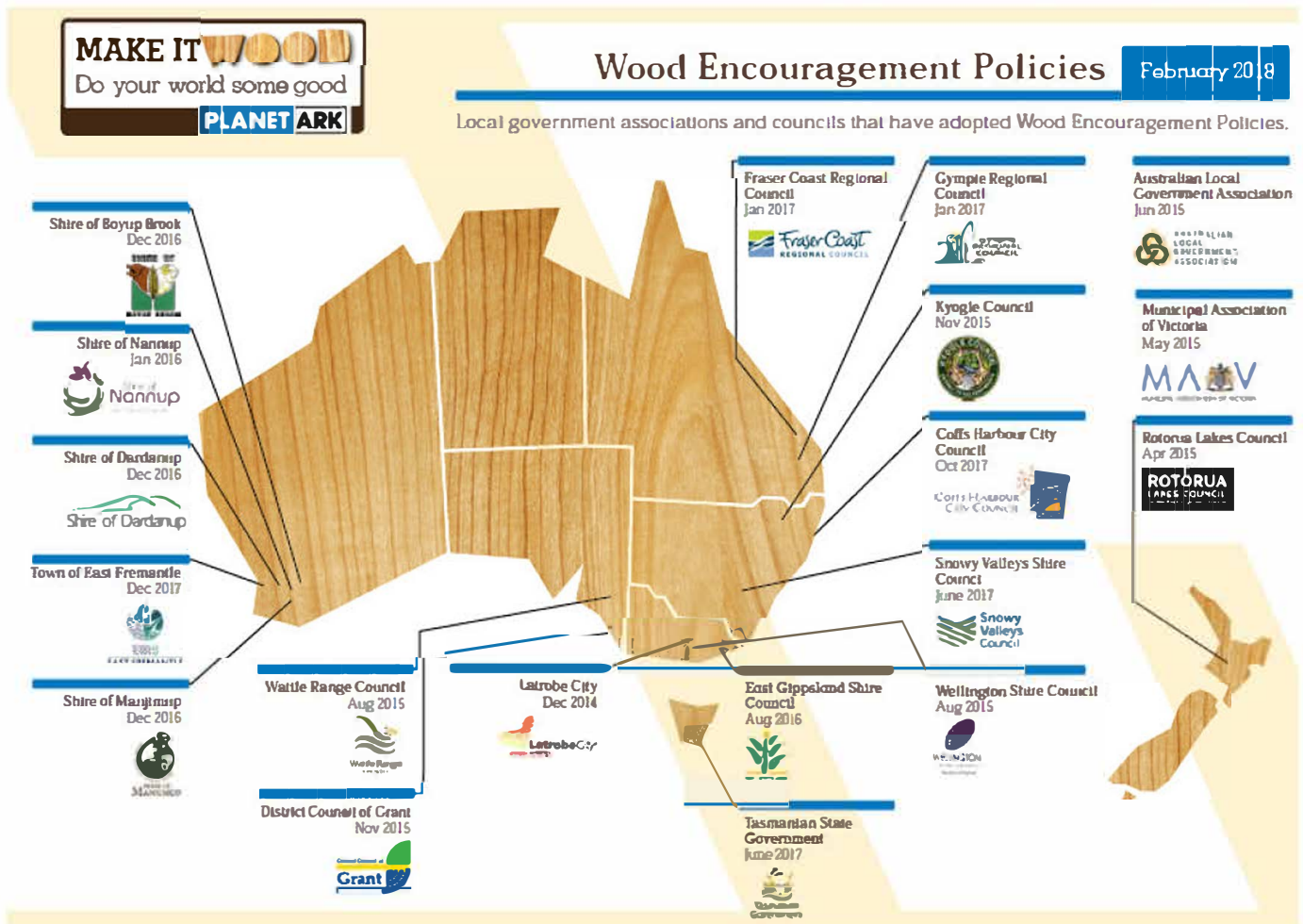
Ensures that all new Council projects are required to use timber as the preferred material for both construction and interior finishing, where wood is deemed a suitable material for the proposed application, and ensures that all comparisons to the cost of building with other materials take into account all long-term and life cycle benefits of using wood products.

2017 – Tasmania, Australia

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Tasmania has announced it will be the first state in Australia to adopt a wood encouragement policy (WEP). The focus of WEPs is to ensure wood is considered for the initial stages of public building projects.

The following map shows the regions of Australia adopting wood encouragement policies.



British Columbia - Wood First Act

The British Columbian approach has been the most comprehensive and successful means of rolling out a Wood First policy in the world. As such, we investigate it further here with a view to modelling the New Zealand approach based on the lessons learned from the BC experience.

The BC state legislature in 2009 adopted an Act with the purpose of facilitating a culture of wood by requiring the use of wood as the primary building material in all new provincially funded buildings, in a manner consistent with the building regulations within the meaning of the Building Act.

As of December 2014, 53 communities across B.C. had also passed or endorsed resolutions or policies indicating their intent to adopt wood in public buildings. The BC Wood First Act looks set to be adopted nationally in 2018 by the federal Canadian government. Currently a Bill is in the Select Committee stage and has recently passed its second reading in the House of Commons 217-75.

Whilst the BC Wood First Act requires the use of wood in all government funded buildings where it complied with the building Act and regulations, the State also supported the Act with funding initiatives to help showcase wood

systems and encourage the uptake with local reference sites and case studies. The roll-out of the Act was also supported by design guides and an advisory service.

This four-pronged approach has been successful, as shown in the publication 'BC - Wood First - 5 years of accomplishments 2009-2014'.(33)

A similar approach is proposed for the adoption of the New Zealand Wood First Policy as follows:

1. **Wood First Policy** – it is recommended a 'Policy' be adopted, rather than legislation. A comprehensive policy, with clear wording and rationale, backed by enforcement of the policy, is considered to be sufficient to achieve the objective of changing government department procurement behaviour.
2. **Case Studies** – MPI's Primary Growth Partnership (PGP) Fund has recently signed off co-funding for two open-source R&D showcase mid-rise wood buildings; the first a 5 storey apartment building in Christchurch to be built during 2018-19 and the second a 6+ storey commercial building in Auckland to be built during 2019-20. These projects will have open sourced designs and costings, and will facilitate site visits by New Zealand's design and construction professionals, Councils, building contractors, quantity surveyors and investors/owners, so as to provide a platform for knowledge transfer.
3. **Design Guides** – The forestry and wood processing industry is working with MPI on design guides covering mass timber design, engineering, off-site manufacture, assembly and costing. These will be complete for 2019 to support this policy.
4. **Advisory service** – It is recommended as part of this service the government fund an advisory service to both support public and private sector projects and the roll-out of the Wood First Policy by government agencies. A budget of \$1 million annually is recommended, with the industry funding any expenses in excess of this. Australia has adopted a similar service named 'Wood Solutions' with a staff of four; 2 engineers, a programme general manager and an executive assistant. A New Zealand equivalent service would be expected to maintain close ties to the Australian, Canadian and other such services, taking an adopt and adapt strategy to utilising material for the New Zealand context. The investment in this advisory service will be recouped many times over in the savings expected from the policy, as detailed above. It is recommended the Advisory service be established to begin in early 2019, and may be based at the new Forestry Ministry offices at Rotorua.

Wording of Policy, Phasing In and Associated Rules

The Policy's proposed key requirement is:

'All new buildings funded or commissioned for government tenancing shall be built with wood as the primary structural material, unless there is a compelling business case otherwise.'

It is proposed that the policy be rolled out over 3 years to allow time for the private sector to invest in capacity and to put in place the support structures to facilitate roll-out by government departments as follows:

Building Type/Department	Year *
Housing	2020
Tourism, Educational (including libraries/pools)	2021
Health, Office/Commercial buildings	2022
Service depots, fire, ambulance, police	2023

* Any buildings commencing construction in this year to be subject to the policy.

Unlike some countries that have policies/laws that reflect their building codes height limits, this is not necessary in New Zealand as there is no stipulated restriction on the height of wooden structures in the New Zealand building code.

The proposed wording also captures buildings where they are being built for government tenancing, but where the government is not the owner.

Exceptions - 'Compelling Business Case': The Policy would not apply where:

- A design suitable for wood is completed and costed by QS, yet found to be not economic bearing in mind construction cost, and speed of construction.
- Technical – where the design requirements prevent the best suited wood design.

Exceptions would be expected to apply to buildings such as prisons and large-scale sports stadiums. For other exemptions to apply the Business case must be credible, bona fide and in good faith, and must be made to [MPI? MBIE's Procurement Division?] for sign-off. All exception business cases will be available as unredacted Official Information.

Options and Recommendation

Adopt the Wood First Policy as proposed here (Recommended)

Adoption of the Wood First Policy is expected to generate the positive policy outcomes first anticipated by the coalition parties in the lead up to the 2017 election, and as detailed further in this paper.

These include:

- Supporting and encouraging the 1 Billion tree planting policy, to avoid a potential \$30+ billion carbon liability by 2030.
- The positive impact on New Zealand's clean green image globally and the value of that to all New Zealand exporters (This policy announcement will generate worldwide media coverage, and position New Zealand as a leader in adopting environmental and climate change policies.
- Sequestration of 258,289 tonnes of CO2 annually.
- Additional demand for 355,429 m3 of wood products – expanding the market by 51 per cent over time.
- 3,570 additional (mainly regional) jobs.
- Potential for \$1.8 billion investment in wood processing and fabrication.
- 6 - 14 per cent construction cost saving
- 30 per cent faster construction times
- 50 per cent less wastage
- 75 per cent less on-site builders
- Significantly less noise and traffic
- Earthquake resilient government building stock
- Improved employee well-being and health

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The policy is consistent with and central to the political mandate of the elected government as shown below.

KiwiBuild

NZ timber is the fastest & most cost-effective means of building and achieving the 10,000 houses/year target. (typically 30% faster)

Transport

De-congestion is achieved through off-site manufacture, & reducing worker and material traffic to-from building sites.

Productivity/Pre-fab

Wood use facilitates off-site factory construction, which boosts worker productivity and wages.

Climate Change/1b Trees

Wood stores CO2, whilst concrete & steel emit. Policy encourages planting and assists 1 billion tree target which helps avoid potential \$34b Paris Accord liability.



Balance of Payment

Policy supports development of scale CLT, glulam etc plants for export, whilst reducing imports of steel and cement.

Employment

Policy will support new manufacturing jobs, as well as planting and Silva culture jobs – mainly regional and many Maori.

Regional Development

Policy supports off-site manufacturing and forestry investment, jobs & growth in regions such as Northland, Central North Island, Gisborne/HB, Nelson, West Coast & Otago.

Iwi Economy

Policy supports making iwi land productive through planting many of the 1 billion trees. Also a major iwi employer in regions through wood processing and forestry.

Do Nothing

- The forestry and wood processing industry will continue to expand marginally without the policy, but this is behind the growth curve needed to provide the environmental, economic and social outcomes sought by the government.
- The outcomes listed above will not be achieved.
- The government may lose the confidence and support of the wood processing sector, some of which has invested against the Wood First policy manifesto in the 2017 election and against undertakings by the Labour Party (via leader David Cunliffe) in 2014 to introduce a Wood First Policy when next elected.

Appendix 1 – Wood First’s role in generating an additional 4.2 million m³-tonnes of Harvested Wood Products annually, which now generate international carbon credits. Value \$105m annually at \$25/t CO₂.

From: Marty Verry

Sent: Thursday, 24 October 2019 11:40 PM

To: 'Ivan Luketina' <Ivan.Luketina@mpi.govt.nz>; 'Oliver Hendrickson' <Oliver.Hendrickson@mpi.govt.nz>; James Johnson <James.Johnson@mpi.govt.nz>

Cc: s9(2)(a)

Subject: FW: HWP

Ivan/Oliver,

Following up on our meeting on 25 September I have shared the attached email feedback on the HWP scheme allocation that I sent you with CarterHoltHarvey Wood Products Ltd (CHHWP) and Wood Processors and Manufacturers Association (WPMA). We are also met to discuss it.

I can confirm there is general agreement between Red Stag and CHHWP with the rationale in the attached email, and the recommended 80:20 split of carbon accounting value between the wood processors creating the credits (80%) and an industry fund applying the 20% balance to the types of initiatives in the excel file. WPMA’s feedback is that it is “not far off” its own thinking and looks forward to its members having a chance to consult.

In broadening this consultation out I believe we are capturing the position of the sector on this issue. This is because:

CHHWP operates:

- 3 sawmills with between 40-45% market share in the structural timber market
- A large LVL plant making mass LVL beams/posts, as well as framing LVL
- The largest plywood mill in New Zealand producing approximately 100,000m³ annually.
- One of the largest manufacturers of Frame & Truss / prefabricated panels in New Zealand, with 9 plants nationwide.

Red Stag Timber operates:

- 1 sawmill with approximately 25-28% market share in the structural framing market
- 3,500ha of forestry, a remanufacturing operation, a frame and truss/prefabrication plant, and the only CLT plant in New Zealand (set to expand to 40,000m³ in due course)

WPMA:

- Represents a range of other sawmills making up some of the 20-30% market share not supplied by Red Stag and CHHWP, as well as a range of pulp/paper/card mills, appearance timber mills, panel mills and secondary/tertiary wood processors.
- See membership here: [http://www.wpma.org.nz/members/..](http://www.wpma.org.nz/members/)

So across the 3 organisations we capture the breadth of the sector, particularly in the longer mid-live HWPs. Red Stag and CHHWP are also the main companies that have been heavily investing in the growth of HWP and have the potential to invest further with the help of HWP accounting credits (see below)

Likely Increase in NZ-earned HWP credits from the recommended 80:20 allocation

Last meeting I promised to put some thought into how HWP credits being distributed direct to wood processor would lead to more long mid-life HWP being produced. The feedback below **builds on** the earlier feedback (attached) about why it makes economic and equitable sense to allocate most credits to wood processors directly.

In short, we think the 80:20 split, when combined with the other growth initiatives underway for the sector, have the potential to significantly increase the long mid-life HWPs produced in New Zealand.

The best way to look at the opportunity is market-led. By that I mean by analysing the opportunities to produce more long-life HWPs where there is both a market segment demand and where wood processing in New Zealand has a viable competitive cost base.

Looking at market segment opportunities for long mid-live HWPs:

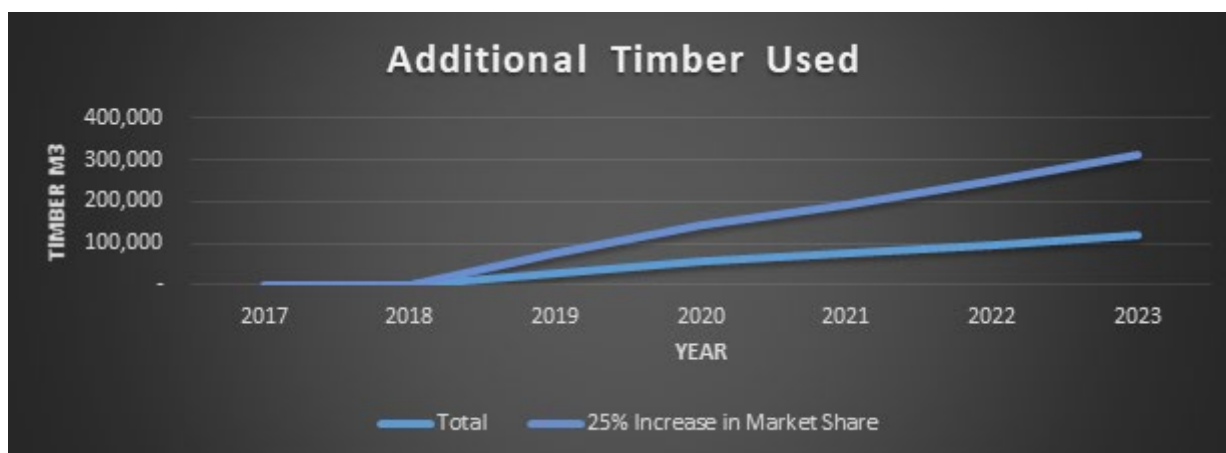
- **1-3 level residential Australasia structural timber** – long-life HWPs have a strong market share here already, with over 90% share in New Zealand. Limited HWP growth opportunity. Driven by building consents
- **Structural timber for Asia** – NZ cost base and radiata conversion struggles to compete with Asian, North American, and now European supply. Limited HWP growth opportunity.
- **Appearance products from pruned logs** – constrained by pruned log availability. Opportunity here is not to grow long-life HWPs but rather use credits to help keep mills open. Any that close though will have their allocation of pruned logs readily processed by others. Limited HWP growth opportunity.
- **Panels**, including ply, OSB, MDF – Ply is driven by building consents. HWP growth opportunity in mid-rise.
- **Mid-rise structural in New Zealand - all building types** (framing timber, panels, and mass-timber like CLT, LVL and glulam) - wood has low market penetration, so this is a significant growth area for long life HWP which I discuss below.

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Mid-rise HWP Opportunity

If New Zealand targeted a 25% increase in the market share of wood products in this sector, there will be an estimated 313,977 m3 increase in demand for structural wood products such as framing timber, panels, and mass-timber like CLT, LVL and glulam. The following are extracts from analysis compiled by Deloitte for the Mid-Rise Demonstration Building PGP programme. (See also the attached excel file) .

Additional timber used m3 - 25% Increase	2017	2018	2019	2020	2021	2022	2023
Residential	-	-	14,300	29,834	43,641	58,681	73,352
Non-Residential	-	-	60,000	112,500	148,125	192,500	240,625
25% Increase in Market Share	-	-	74,300	142,334	191,766	251,181	313,977



The 313,997m³ is only part of the opportunity. The economies of scale and automation from the strong domestic baseload demand means these wood processing plants will be well suited to supply these higher value wood products into the Asia-Pacific region competitively. Applying the same NZ v export split that Red Stag currently has for its structural products (60% v 40%) to the 313,977m³ domestic demand forecast, and the total additional demand for NZ structural HWP could be 523,295 m³ when factoring in exports.

If the 80% is distributed by way of ETS credits, then these New Zealand processing plants will be able to claim carbon neutrality. This accreditation will be increasingly valuable with climate conscious consumers in the years to come, and will further increase the wood processors' ability to develop international and domestic markets.

The opportunity is larger than the 523,295 m³ above though. As a general rule for each 100 m³ of structural product, sawmills produce 100m³ of lower grade timber products and 100 tonnes of chips. Factoring these in, and an increase in mid-rise market share of 25% could therefore produce an estimated:

1,046,590 m³ of long mid-life HWPs

523,295 tonne of chip for short mid-live HWPs

1,569,885 m³/tonne Total additional HWP opportunity

Role of HWP credits

The proposed 80:20 allocation of HWP accounting credits will incentivise and facilitate the development of the market above as follows:

1. The 80% direct allocation provides the capital to make the investment in the plants required to drive the above target
2. The 80% direct allocation provides the increased margin profit incentive to drive the above target
3. The 20% industry fund component facilitates the growth into the mid-rise market, via the following proposed components of the 20%:

s9(2)(b)(ii)

The role of government procurement policy in HWP

Government has a key role in achieving the HWP growth targets above by taking a lead with its own procurement in the mid-rise market. That lead will then help architects, engineers, quantity surveyors and builders to gain experience with mass timber that can then be applied to non-government projects.

This 'Wood First' policy is common to all 3 coalition parties and is in the addendum to the Coalition Agreement. The Labour Party committed in its 2017 Election Manifesto that if elected it would implement a 'Wood First' procurement policy, preferring wood for all government owned or commissioned buildings up to 10 storeys. (See below). Moves are afoot now to push through the implementation of this policy in 2020.

It will be important to point out to politicians the role the Wood First policy has on achieving HWP growth and the growth of significant additional HWP international accounting credits for NZ.

It may be useful to review the research contained in the attached 'Wood First – Cabinet Policy Development Paper draft', to see the benefits of the policy. Of particular relevance to HWP and the Carbon Zero Bill is the research mentioned on page 4 of the paper. Canterbury University, Vic University and Scion conducted research on the relative carbon foot print of a mid-rise building in mainly concrete, mainly wood and mainly steel. The research found that for every 2 wooden buildings made in wood, they sequestered the CO2 emitted by the 3rd made in steel or concrete. This 2:1 ratio (67%) if adopted as New Zealand's long term policy target would result in our building industry being net zero emitters of embodied carbon.

The 67% wood market share referred to above, if targeted instead of 25%, would increase the 1,569,885 m3/tonne from the analysis above to an additional 4,207,211 m3/tonnes of HWPs.

I trust this assists for policy consideration, and look forward to further engagement.

Regards, Marty

Forestry

New Zealand Labour Party
Manifesto 2017

HIGHLIGHTS

Labour will:

-
- Implement a 'wood first' procurement strategy for any government building.

Pro-wood government procurement strategy

Labour will shift government procurement to a much stronger orientation towards building in wood. Given the scale of government building activity (particularly with the implementation of KiwiBuild), this will represent a substantial increase in the domestic demand for processed wood, especially at the more sophisticated and innovative end, such as engineered wood products.

The flow-on effects from this should not be underestimated.

It will also help to encourage a broader cultural shift toward viewing wood as the first choice for construction, interior design and daily living.

Labour will restore the requirement instituted by Forestry Minister Jim Anderton in the previous Labour-led government that "all government-funded project proposals for new buildings up to four storeys high shall require a build-in-wood option at the initial concept / request-for-proposals stage (with indicative sketches and price estimates)." Due to advances in engineering and wood processing technologies, we will increase the four story requirement to 10 stories.

However, we intend to go somewhat further than this so that where a build-in-wood option is as cost-effective as alternative options, a procuring department that chose not to select the build-in-wood option would be required to document the reasons for this decision.

DRAFT

From: [Marty Verry](#)
To: mwoods@ministers.govt.nz; [Hon Phil Twyford](#); [Hon Shane Jones](#); ptwyford@ministers.govt.nz; dparker@ministers.govt.nz; [Hon David Parker](#); jacinda.adern@parliament.govt.nz; [s9\(2\)\(a\)](#) [Phil Twyford](#); [s9\(2\)\(a\)](#) james.shaw@greens.org.nz; conner.sanderson@greens.org.nz; [Hon Winston Peters](#); wpeters@ministers.govt.nz; [Clayton Mitchell](#); [Clayton Mitchell](#); [Fletcher Tabuteau](#) [Hon Stuart Nash](#)
Subject: Forestry-Wood Processing Industry - Open Letter Calling on Government to Honour Election Promise
Date: Wednesday, 22 January 2020 8:14:32 pm
Attachments: [image001.png](#)
[Open Letter to Government - Wood Procurement promise.pdf](#)
[Press release - Open Letter to Government - Wood Procurement promise.pdf](#)

Dear Ministers,

Please find *attached* a letter from CEOs from 56 companies representing the forestry and wood processing sector.

The letter calls on the coalition government to honour its 2017 election promise to implement a policy requiring government buildings up to 10 storeys to be designed in wood.

The industry is ready and has invested against this policy pledge. Honouring this long term commitment can result in the positive outcomes for New Zealand outlined in the letter. It will also help stem to flow of sawmill closures announced and pending and lead to NZ buildings being carbon zero by 2030.

We look forward to supporting the implementation of this policy without delay.

On behalf of the sector, and personal regards,

 **Marty Verry**
Group CEO - Chair
[s9\(2\)\(a\)](#)
www.redstag.co.nz
Box 213, Kumeu, Auckland 0841, NZ



Forestry-Wood Processing Industry - Open Letter Calling on Government to Honour Election Promise

Dear Ministers,

We the under-signed call on the coalition government to honour its election pledge and prioritise the implementation of its promised Wood Procurement policy for government buildings, consistent with its Zero Carbon goal.

All three coalition parties support this policy, with the Labour Party's 2017 Manifesto stating that if elected the government would require that:

“all government-funded project proposals for new buildings up to four storeys high shall require a build-in-wood option at the initial concept / request-for-proposals stage. ... Due to advances in engineering and wood processing technologies, we will increase the four storey requirement to 10 stories.”

We, and the more than twenty-five thousand employees across the forestry and wood processing sector, applaud the policy for these reasons:

1. The manufacture of cement and steel contributes 10-13 percent of global CO2 emissions.
2. There will always be a place for these materials, but joint research by Scion, University of Canterbury and Victoria University found that for each steel or concrete building, we can absorb its emissions with two wooden buildings of the same size. If we make that 2:1 ratio our national target, New Zealand can achieve 'Carbon Zero' in building structures by 2030.
3. Mass timber solutions are now used in buildings up to 20 storeys globally, with recognised advantages of construction speed, prefabrication, safety, waste, fire, earthquake and cost savings.
4. Housing New Zealand has achieved significant speed and cost gains from mass wood solutions, which should give confidence for the wider government roll out.
5. New Zealand now has the forests, wood processors, manufacturers, design professionals and construction firms to facilitate the policy. We're ready!
6. Greater demand for wood products can have a vital role in regional growth and job creation – especially in areas targeted by the Provincial Growth Fund, including Northland, Bay of Plenty and Gisborne.
7. The policy supports 1 Billion Trees, by sending a message to foresters that there is a market for healthy rotation crops, negating the risk of fire and disease prone forests planted only for carbon, and requiring less farmland.
8. Instead of incurring imported steel and cement costs, your procurement of wood solutions will support the economies of scale required to generate export markets for wooden structures and components.

9. New international carbon accounting rules allow New Zealand to claim credits for converting logs into long life wood products (Harvested Wood Products). Analysis has shown that government procurement leadership could result in over 4.2 million tonnes or m3 of additional Harvested Wood Products annually.
10. Embodied carbon from steel and concrete would make the government NZ's single largest emitter.
11. Addressing this now would make New Zealand a global leader in embracing clean green construction, further enhancing our country's brand and credibility in climate forums.

New Zealand can be carbon zero for building structures by 2030. Achieving these outcomes will take partnership between government and the sector. We look forward to supporting your policy's roll-out from 2020.

Yours Sincerely,

The below signatories representing the New Zealand forestry and wood processing sector:

Jon Ryder	CEO	Oji Fibre Solutions
Bill McCallum	Managing Director	Hancock Natural Resource Group Australasia
Paul Nicholls	Interim Chief Executive Officer	Ernslaw One
Robert Green	CEO	Timberlands Limited
Mark Rogers	Managing Director Australia/NZ	New Forest Asset Management Pty Limited
Lees Seymour	Executive General Manager NZ	Nelson Forests/Kaituna
Marty Verry	CEO	Red Stag Group
Murray Sturgeon	Managing Director	Nelson Pine Industries
Linda Sewell	CEO	One Forty One Forests
Alan Hartley	General Manager	Niagara Sawmilling Company
Glenn Whiting	CFO	Winstone Pulp International
John O'Sullivan	Managing Director	Tumu Timbers Ltd
Adam Gresham	Managing Director	Kiwi Lumber Group
John Duncan	General Manager	McAlpines Rotorua Ltd/McAlpines Timber Ltd
Tom Boon	CEO	Taranaki Pine
Keith Robertson	Business Manager - Timber Sector	Windsor Engineering
Bryan McCorkindale	Managing Director	SRS New Zealand Ltd
Jeff Tanner	General Manager	PukePine Sawmills Ltd
Kevin Lewis	Managing Director	KLC Limited
Derek Dumbar	General Manager	TD Haulage
Rob Dumelow	General Manager	IPL
Tony Sargison	Managing Director	Rotorua Forest Haulage Ltd
Ian Piebenga	Manager	PermaPine
Darryn Adams	General Manager	South Pine
Jonathan Barrier	Site Manager	Eurocell Wood Products Ltd
Matthew Nant	General Manager	Pinepac
Andrew La Grouw	Managing Director	Lockwood Group
Bruce Larsen	General Manager	Northpine Ltd
Mark Hansen	Managing Director/Shareholder	Rosvall Sawmill Ltd
Adrian Hoogeveen	General Manager	Thode Knife and Saw Ltd

Alistair Dore	Director	Clelands Timber Products Ltd
Stuart Waite	Managing Director	Value Timber Supplies Ltd
Peter Oliver	Director	Pacific Sawmill Engineering Ltd
Brett Hamilton	General Manager	Techlam NZ
David Sandford	Operations Manager	PurePine Mouldings Ltd
Daniel Ludlam	Director	Papakura Timber Processors
Robert Drimmett	Managing Director	Topuni Timber Ltd
Daniel Gudsell	Director	Abodo Wood Ltd
Dale Dobson	Office Administrator	TimberLab Solutions Ltd
James Richardson	Managing Director	Eastown Timber Processors Ltd
John Reelick	Director	TTT Products Limited
Tony Mitchell	Company Director	Mitchell Bros Sawmillers Ltd
Mark Andrew	Director	Tunncliffe
Andrew Kelly	General Manager	LumberLink
Helen Pedersen	Director	Ruahine Timber 2017 Limited
Dave Gover	CEO	Engineered Wood Products Assn of Australasia
Paul Carpenter	Managing Director	Grade Right (NZ) Ltd
Tim McDonald	Sales Manager	Woodpsan PLT Panels
David Rhodes	CEO	Forest Owners Association
Alfred Duval	Executive	Future Forests
Grant Robertson	Director	Beryl Forest Ltd & Jagpak Ltd Forest Owners
Gareth Buchanan	Director and CEO	Ngahere Resources Ltd
David Evison	Associate Prof. Forest Economics	Uni of Canterbury - NZ School of Forestry

Press Release – 23 January 2020

Forestry-Wood Processing Industry Sends Open Letter Calling on Government to Honour Election Promise

Chief executives from over fifty companies representing over ten thousand employees have signed an open letter calling on the government to honour its commitment to implement its promised Wood Procurement policy for government buildings.

The letter from the forestry and wood processing sector leaders calls on the government to use its procurement weight to lead New Zealand into a clean green construction future, pointing out that New Zealand can be carbon zero in building structures by 2030. Concrete and steel emit between 10 and 13 percent of global climate change emissions.

The Wood Procurement policy is openly supported by all three coalition parties, with Zealand First confirming it is within the coalition agreement addendum.

The Labour Party's 2017 election manifesto stating that if elected the government would require that "all government-funded project proposals for new buildings up to four storeys high shall require a build-in-wood option at the initial concept / request-for-proposals stage. ... Due to advances in engineering and wood processing technologies, we will increase the four storey requirement to 10 stories."

Spokesperson for the industry, Red Stag group's CEO Marty Verry said the industry is now standing together to hold the government to account for fulfilling its election commitment.

According to the NZ Green Building Council's Zero Carbon Roadmap, emissions for the construction sector have leapt 66 percent in a decade. Meanwhile a recent report by Thinkstep found that the construction and operation of buildings is responsible for around 20 percent of our domestic emissions, with about half of that from the construction stage of building.

Emissions from the construction stage and particularly the choice of materials used are known as 'embodied carbon'. Red Stag's Verry says this ten percent of New Zealand's climate change emissions can be easily addressed by converting building structures from polluting steel and concrete to mass wood made from products such as glue laminated beams and cross laminated timber (CLT).

"This 10 percent is the low hanging fruit in terms of New Zealand addressing climate change", says Verry. "We can eliminate it to zero within a decade. No need to wait for 2050.

"The products are available, engineers and architects are using them, dozens of such mid-rise buildings have been constructed already, and the sector is ready, having invested against the promise of the policy's implementation."

Implementation of the policy is also urgently needed to support the sector in the short and long term, says Verry. "We're seeing a spate of mill closures with more to come. Hundreds of jobs are being lost in the regions, many of which are a result of the delay in implementing this policy.

"Meanwhile foresters want a stronger domestic market, given fears that long-term China will increasingly be self-sufficient or over-supplied by the plethora of billion tree programmes and cheap climate change affected forests worldwide."

"As the largest constructors in any country, and also the largest such polluters, governments have a unique and important leadership role in influencing green building adoption. The government's

implementation of its wood procurement policy is expected to have a ripple affect across the private sector that could lead to the elimination of embodied carbon emissions by 2030.

“In our sector, it is a core value to do what you commit to do”, adds Verry. “The coalition has made this promise, the planet needs it, the sector has invested on the back of it, and we expect the government to now do what it promised.”

“We’ll coordinate to act as a voter block at the next election if need be.”


The prioritisation hold-up reportedly sits with the Labour Party ministers responsible, being Ministers Parker and Twyford.

Ends.

Industry Contact:

Marty Verry – Group CEO, Red Stag

s9(2)(a)



From: [Marty Verry](#)
To: [s9\(2\)\(a\)](#); [M Woods \(MIN\)](#); [Hon Phil Twyford](#); [Hon Shane Jones](#); [P Twyford \(MIN\)](#); [D Parker \(MIN\)](#); [jacinda.adern@parliament.govt.nz](#); [s9\(2\)\(a\)](#)
[james.shaw@greens.org.nz](#); [eugenie.sage@greens.org.nz](#); [Kt. Hon. Winston Peters](#); [Hon Stuart Nash](#); [wpeters@ministers.govt.nz](#); [Clayton Mitchell](#); [s9\(2\)\(a\)](#); [Fletcher Tabuteau](#)
Subject: Another sawmill to close, 111 jobs lost (mainly Maori) - a victim of delayed Wood Procurement policy
Date: Friday, 24 January 2020 8:13:51 am
Attachments: [image001.png](#)

<https://www.stuff.co.nz/business/119004242/carter-holt-harvey-tells-staff-whangarei-sawmill-may-close>

Ministers,

This mill **will close** and is one of the biggest employers in Northland, especially of Maori. It would not have happened had the government already implemented its Wood Procurement election promise.

The company would have kept topping up log supply from the Auckland region.

It's time for the government to restore trust and either implement the policy as promised, or explain now your alternative plan to eliminate Embodied Carbon from buildings and create demand for NZ forest products instead of Indonesian cement producers and Chinese steel manufacturers.

A promise is a promise, and I trust Labour is considering this as part of its 'values' positioning this week.

Regards,

 **Marty Verry**
 **Group CEO - Chair**
 [s9\(2\)\(a\)](#)
 [www.redstag.co.nz](#)
 Box 213, Kumeu, Auckland 0841, NZ



From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: PGF - South Rotorua Engineered Wood Processing Hub
Date: Sunday, 9 February 2020 11:54:39 am
Attachments: [image001.png](#)
[PGF - South Rotorua Engineered Wood Processing Hub - summary.pdf](#)
[all-pgf-programmes-projects - Jan 2020 -grants to commercial entities.xlsx](#)
[Provincial Growth Fund Position Paper — Wood processing investments.pdf](#)

Stu, Confidential/Private

Great to catch up Friday - s9(2)(a)

Thanks for discussing the government Wood Procurement policy with Winston Peters this Monday. Hopefully between you, NZ First and Greens we can finally get this promise implemented.

Fantastic news that the French government has just announced a similar wood procurement policy. See “New French public buildings must be made 50% from wood”

<http://www.globalconstructionreview.com/news/new-french-public-buildings-must-be-made-50-wood/>

We also touched on the Red Stag CLT Provincial Growth Fund application. We need help in the face of grant funded Australian competition and a budget hike. It will be a positive forestry/processing story at a time when everything in the media is negative. Attached you'll find:

1. A 2-page summary that Clayton and Fletcher asked for on the Red Stag CLT project's Provincial Growth Funding.
2. A spreadsheet with 64 projects that were grant funded by the PGF and establish a precedent for our application.
3. The Provincial Growth Fund Positioning paper on wood processing. This specifically targets co-investment in CLT in regions such as Rotorua.

Kind regards,

Marty

From: Marty Verry

Sent: Friday, 7 February 2020 11:22 AM

To: Clayton Mitchell

'Fletcher.Tabuteau@parliament.govt.nz' <Fletcher.Tabuteau@parliament.govt.nz>

Cc: s9(2)(a)

Subject: PGF - South Rotorua Engineered Wood Processing Hub

Confidential/Private

Clayton/Fletcher,

Please find attached the summary, and the file with the precedent grants.

In the summary I didn't refer to the application process we went down last year whereby erroneously MBIE told us the only option was commercial loan (due to MFAT/CER). The PGF grant-funded precedents now publicly available demonstrate is not the only option. We asked MBIE not to put a commercial loan to the RED PGF ministers but they did and the ministers approved it, but for the reasons in the paper, we were not able to accept that PGF offer.

Thanks gents and all the best for processing this.

Regards,

 **Marty Verry**
Group CEO - Chair
s9(2)(a)
www.redstag.co.nz
Box 213, Kumeu, Auckland 0841, NZ

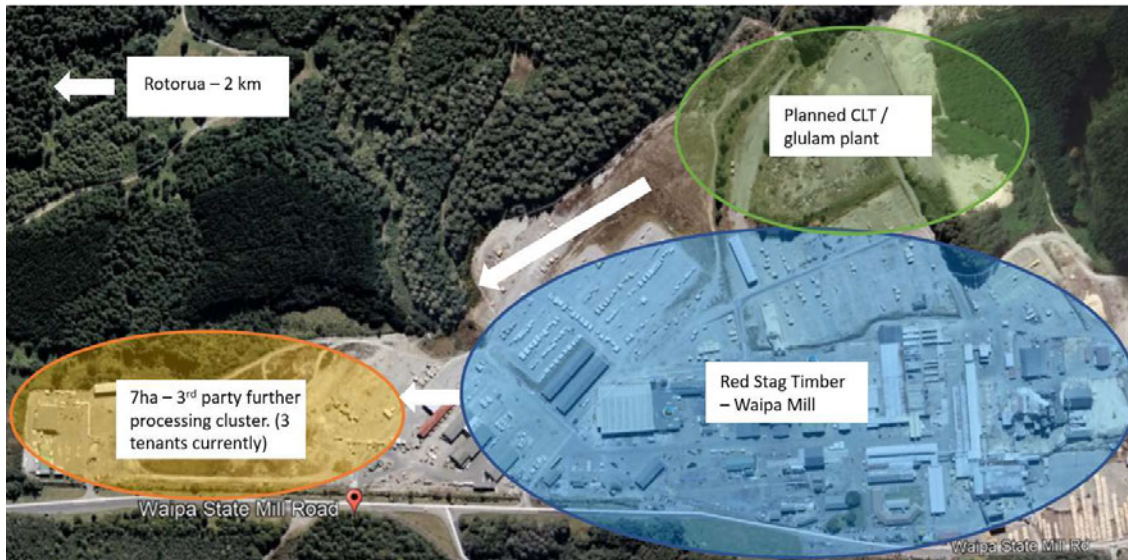


Provincial Growth Fund Application: South Rotorua Engineered Wood Processing Hub

Applicant: Red Stag Wood Solutions Ltd (a related company to Red Stag Timber, leasing land on the same Waipa Mill site)

Project:

To establish an NZ-based Cross Laminated Timber (CLT) plant, in the wake of the closure of the Xlam Nelson plant, which can compete with global competition to supply cheaper, faster, greener building solutions to the NZ building sector. To then provide the CLT and glulam feedstock to pre-fabricators establishing on the land available within the hub to form a value-added building components cluster.



Employment

CLT / Glulam Plant	50 direct + 100 indirect Rotorua jobs
3rd party value-add in cluster	60 direct + 120 indirect Rotorua jobs
Total:	110 direct + 220 indirect Rotorua jobs (Total: 330)

Target Opening - Q3, 2020

PGF Wood Processing Positioning Paper

The paper released in late 2019 specifically refers to the willingness to “invest” in CLT operations in such jobs priority regions regions, and *“The PGF will prioritise projects that involve mature or well-established firms with commercial experience in the sector. Firms with proven experience are more likely to be able to operate at the scale the PGF is interested in, especially through the uptake of new technologies or into new products.”*

Rationale for PGF grant support

- The project and applicant fits the criteria outlined in the PGF Wood Processing Positioning Paper. It targets the generation of 330 jobs in Rotorua, many of which will be high value. It will also result in more processing of NZ logs and therefore less dependence on the China market for forest suppliers, whilst also using some lower grade feedstock that would otherwise be vulnerable to the Chinese market. As a diversification for the Red Stag group, the plant – if done at scale – will diversify the group and protect the jobs of the 370 workers currently at the mill.
- NZ as a whole will benefit through cheaper, faster, greener construction, particularly as pre-fabrication partners add value within the hub through further processing of building components off-site. The project aligns with NZ’s

climate change and CarbonZero targets, and encourages 1BT planting by demonstrating commitment to growing the more stable domestic market for logs.

- The operation seeks to compete fairly with international competitors supplying into the NZ market, which are grant funded. As such they do not need to account for the cost of that capital when pricing. Grant funding was provided, despite of Closer Economic Relations (CER), to:
 - Xlam - AUD\$ 2.50m federal and \$450,000 of Victorian Government grant funding.
 - CLTP Tasmania – AUD\$ 13 million in Tasmanian Government grant funding

PGF Grant Precedents

The PGF precedents set for grant funding such applications to commercial entities include:

- The 64 such precedents in the attached spreadsheet
- Wood processors that have received grants (items 310, 315, 319 and 347 in the attached):
 - An OEL start-up in Gisborne (WET – privately owned) that competes directly with our company and received a \$19.5 million grant via PGF funding of a trust. <https://www.growregions.govt.nz/assets/funding-announcements/tairawhiti-announced-projects.pdf>
 - A sawmill in Gisborne (Far East Sawmill – privately owned) that competes with our company has also received a \$500,000 PGF grant for similar plant acquisition. <https://www.growregions.govt.nz/assets/funding-announcements/tairawhiti-announced-projects.pdf>
- Manufacturing companies that have received grants for plant expansion, and in one case exactly the same type of CNC equipment. (items 154-168 and 205-212). 164 is also a direct competitor to all NZ wood processors.
- 35 forest growing entities (most private and non-iwi) have received grants, despite the strong fortunes of foresters under the ETS pricing and widely recognised subsidised pricing of logs in China, contrasting with the closures in the wood processing sector.

Current Status of Project:

Red Stag announced plans for a \$20m CLT investment in 2018. It has begun the building, but has only purchased a single vacuum press to date. Capex required for the full scale plant has increased to \$35m as a result of additional ground preparation/engineering, FX weakening compared to 2018 and European plant cost escalation resulting from high demand from other start-ups (that are typically grant funded).

Red Stag group had planned to fund the \$20m with \$10m equity and \$10m debt. It is still paying down debt on the super-mill expansion and is reluctant to take on debt that could jeopardise the jobs of its 370 other employees. It is also weighing how to proceed in light of the delayed introduction of the government's wood procurement policy, upon which the plant's feasibility was based. The current CLT plant purchased would not be economical and competitive.

With PGF grant support, the applicant intends to fund the \$15m gap with an additional \$5m of debt, and seeks PGF support of \$10m – preferably in the form of a \$10m grant.

Alternatively in the form of a \$5m grant (to at least put it on a similar footing to competing grant-funded CLT operations), plus \$5m of PGF equity. This would be similar to the Whakatohea Mussels (Ōpōtiki) Limited PGF grant/equity of \$19.85m. (item 22)



**PROVINCIAL
GROWTH
FUND**
TUAWHENUA

Provincial Growth Fund Position Paper

Wood processing investments

Purpose

This paper sets out the Provincial Growth Fund (PGF) approach to investing in wood processing to support regional economic development.

The position set out in this paper complements that which is set out in the PGF [Tier 2: Sector Investments](#) position paper.

Vision

The PGF's vision is to make targeted investments to enhance the productivity potential of, and capture greater value from, New Zealand's wood processing sector. New Zealand has a core competitive advantage in forestry but this has become dominated by the export of raw logs; principally to China. PGF investments will contribute to wider government activity, by enabling greater domestic value generation laying the seeds for sustainable, high-value, economic activity.

Objectives

Objectives of PGF investment in wood processing

Key to achieving the PGF's vision for the wood processing sector is to maximise value from New Zealand's forestry production. This can be done by focusing on moving its outputs up the value chain.

Therefore, the PGF will invest in a range of opportunities with three main objectives. Taken together, these objectives will help to foster domestic value chains that maximises the value able to be generated by the sector.

The most important objective of PGF investment in the wood processing sector is to increase the processing of logs into value-added products. This includes value added timber construction products, such as Cross-Laminated Timber (CLT), Optimised Engineered Lumber (OEL), Industrial Plywood, Orientated Strand Board (OSB), Remanufacturing and building componentry, and prefabricated buildings.

The PGF will invest in projects that convert forestry and wood processing residues and by-products into value-add products. This will complement the PGF's investment strategy in the waste-to-energy space.

The PGF will consider investing in projects that increase the volume of logs that are processed into high quality sawn timber such as for CLT. Without sufficient globally competitive sawmilling capacity there is no foundation on which New Zealand can produce higher value products. The PGF is particularly interested in processing investments where it is done in a way that integrates production into whole-of-log processing, e.g. by processing wood waste into other products or energy.

Contribution of wood processing objectives to wider PGF objectives

Wood processing is a strategic priority for PGF because of its strong potential to contribute to all of the PGF's main objectives:

- **jobs and sustainable economic development:** maximising value from New Zealand's forestry sector, by increasing its value-added output through wood processing investments, will increase the number of better paid jobs in an environmentally and economically sustainable sector;
- **Māori development:** given the existing Māori asset base in the forestry sector, PGF investment presents a clear opportunity to increase the participation of Māori in the wood processing sector, in particular, as owners;
- **climate change and environmental sustainability:** increased economic development based off the forestry sector is inherently sustainable, and will support continued investment in afforestation which is a key climate change mitigation;
- **social inclusion and participation:** increased economic development through the wood processing sector will primarily benefit the PGF's surge region, creating more training and employment opportunities;
- **resilience (infrastructure and economic):** successful investment in value-added processing capacity, and waste-to-energy opportunities, will support the development of domestic value chains that will diversify the sector, including destination markets, helping to ensure regional economies are better placed to withstand economic shocks.

Context

Forestry products are New Zealand's third largest export commodity following dairy and, and meat and wool, with the sector reaching \$6.4 billion in export earnings for the year ending June 2018.¹

New Zealand forestry (logging and downstream) contributed approximately \$3.55 billion to the New Zealand economy in 2017,² and is responsible for employing around 18,000 full and part-time workers.³ The main products produced by the industry are sawn timber, pulp, paper products and panels.

New Zealand's wood processing sector has been undergoing a process of consolidation, with the number of smaller, less efficient mills decreasing over the past 15 years. However, the domestic wood processing industry remains a particularly important source of employment and economic

¹ Situation and Outlook for Primary Industries, June 2019, Ministry for Primary Industries

² Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

³ Industry Insight 2018: Forestry and wood processing, Westpac

growth in the regions, especially in the Bay of Plenty, Waikato, Northland, Hawke's Bay/Tairāwhiti and Tasman/Nelson areas.⁴

New Zealand exports a high proportion of unprocessed logs compared to value-added products such as sawn timber, wood panels and paper products.⁵ There has been rapid growth of both the value and volume of log exports, driven by strong Chinese demand. Nearly 60 percent of harvested logs are exported overseas, with the remaining 40 percent being processed in New Zealand into a range of higher-value wood products.

Processed wood exports have remained relatively static over the past 10 to 20 years, in terms of both volume and average price. This means that while New Zealand's wood supply has been increasing in recent years, all the additional wood is being exported, rather than processed domestically into value added products.

Annually, New Zealand exports 40 percent of our sawn timber and wood panel products, 60 percent of our wood pulp, and 50 percent of our paper products. Key markets include: the United States, China, and Australia for sawn timber, Japan for wood panels, Indonesia and South Korea for pulp products, and Australia for paper products. In comparison, New Zealand has only four major export markets for logs.

Increased planting in the 1980s and 1990s has resulted in a significant increase in harvest volume in recent years, from around 20 million cubic metres (m³) in 2010, to nearly 35 million m³ in 2018. This level of harvesting will continue, and potentially increase to an additional 10-15 million m³ per year from the mid-2020s, with this increase coming mainly from small forest growers.

Targeted investment in the wood processing sector can support the conversion of more of New Zealand's raw log harvests into value-added goods. In the near term, if demand from China starts to slow as forecast, forestry owners may redirect more logs to local saw mills at lower prices. This increase, if it occurs⁶, should be able to be absorbed by domestic market demand driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, including Wellington and Otago.

The medium to long-term outlook for wood processors is more challenging, but there are still investment opportunities – not least because the One Billion Trees programme and increasing afforestation will support long-term wood supply. While New Zealand's competitive advantage is in the production of logs; North American demand is constrained and limited to sawn products with Russian softwood exports shifting from logs to sawn timber following tariff increases on log exports.

New Zealand loses its competitive edge in downstream processing where the sector lacks economies of scale to be able to be internationally competitive, which is aggravated by New Zealand's distance from key markets. However, Red Stag's super mill in Rotorua demonstrates that when operating at scale, wood processing operations in New Zealand can compete on the global market.

⁴ Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

⁵ Industry Insight 2018: Forestry and wood processing, Westpac

⁶ If china log prices decrease many small forest owners (who make up 40 percent of the total harvest) may choose not to harvest – unless domestic prices increase significantly. Also, processors can only take some parts of logs, so it's not necessarily straightforward direct logs that were intended for export to domestic processing.

As per the Tier 2: Sector Investments position paper, the PGF is willing to invest to overcome some of these challenges. Given the strategic importance of the sector, the PGF is also willing to exercise its broader risk appetite to do so.

Gaps and opportunities

New Zealand's forecast growth in forestry harvests supported by a relatively benign climate and good biosecurity, present opportunities for wood processing sector investments. More so when emerging global climate change will adversely affect large producing countries. This has potential to generate significant long term benefits for regions where forestry is a competitive advantage.

Increasing the volume of New Zealand grown logs and sawn timber processed into value-added products

Domestic market demand, driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, has created a market for materials to support homebuilding.

Domestic housing (and urban land) shortages, coupled with environmental concerns, are also driving a market for midrise construction using wood. There is a particular opportunity for wood processing investments to mesh with established and emerging eco-systems like established clusters of Off-Site Manufacturing of housing components or complete houses. Existing opportunities for regional alignment are in Bay of Plenty, Waikato, and Northland.

Increasing the value generated by the wood processing sector by making commercial use of forestry and wood processing residues for value-add products

The forestry and wood processing sectors produce a significant amount of residues from harvest and processing which represent lost value. New technologies, and a growing recognition of the lost value this represents, have contributed to emerging investment opportunities. For example, a range of products can now be produced using wood processing residue, and bioenergy applications can viably convert forestry or wood processing waste to energy for commercial use.

There is also a potential opportunity for investment in value-added production to help address transport issues. Modular mobile solutions, for example, could be funded in remote regions, near or co-located with log supply, to enable shipment of value-added rather than raw products.

Priority regions for wood waste processing investments are Tairāwhiti and Te Tai Tokerau. Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions.

Increasing the volume of New Zealand grown logs processed in New Zealand

Given the percentage of New Zealand grown logs that are processed offshore, the PGF will consider investments that result in a greater volume being processed locally. Given sawmilling is a fundamental pre-requisite to other high-value operations, the PGF will prioritise wood processing that supports the production of higher value products such as CLT, OEL, remanufacturing etc.

However, the PGF's investment priority is in value-added wood products. Therefore, proposals for sawn timber production should be for high quality sawn timber, or for components of higher value products, that incorporate a whole-of-log processing approach.

For example, there is an opportunity for investment is to ensure existing and planned high-value product mills in the central North Island are adequately supplied with chip. Surplus chip from new sawmill capacity could be used to develop further particle-board and Medium-Density Fibreboard (MDF) plants.

Projects that have a lesser value-add proposition should also demonstrate how they would create wider social benefits, such as training and employment opportunities to support people into work or into higher paid work.

Priority areas for potential processing projects are the Bay of Plenty, Manawatū-Whanganui and, in particular, Tairāwhiti, due to the high volume of forestry in these regions.

Priorities

To best contribute to the PGF's objectives, proposals that align with the following will be prioritised.

Projects that help to move the sector, and regional economies, up the value chain and create better paid sustainable employment opportunities

While one of the objectives of PGF investment is to increase the volume of New Zealand grown logs processed in New Zealand into high quality sawn timber, priority will be given to projects that will produce value-added products. These investments are more in line with the objective of Tier 2: Sector Investments, which is to increase the number of quality jobs in a region and contribute to an enduring step change in regional economies.

The PGF is interested in investment partnerships in innovative and new timber products. However, in line with the PGF Tier 2: Sector Investments position paper, the PGF would expect these opportunities to be explored with well-established firms. Applications of this sort would also need to fully align with the principles set out at the end of this paper.

Clearwood production

An area of strategic importance to the future sustainability of New Zealand's production of high value wood products concerns the production of 'clearwood'. Clearwood is wood that is milled from trees that are pruned to ensure the timber does not contain knots, and is used for the production of high quality sawn timber.

Clearwood is necessary for the production of hardened wood, which allows New Zealand's soft wood to compete with natural hardwoods, such as teak. It is also necessary for the production of high-value Laminated Veneer Lumber products.

Due to the cost involved, and high unpruned log prices relative to pruned prices, a significant portion of forests are not currently being pruned. This has the potential to have a high negative impact on the wood processing industry long-term. If the reduction in pruned log availability continues, there will be more mill capacity required that can manage structural and industrial grade logs and smaller "clearwood only" mills are likely to continue to close.

To help ensure the sustainability of high-value clearwood milling, the PGF is interested in supporting projects that would *produce clearwood products*, where such projects address issues with the supply of clearwood logs. The PGF will not fund tree pruning itself.

Projects that benefit Māori

Māori connections to forestry and forest land are strongly cultural and spiritual, as well as commercial. Māori own over 400,000 ha of indigenous forests (6 percent of total indigenous forest) and some 238 000 ha of planted exotic forests (13 percent of total exotic forests). These forests contribute significantly to Māori socio-economic development.

Māori participation in forestry is moving from being principally a source of labour to stronger commercial involvement. Currently, forestry comprises 10 percent of Maori's total asset base. This will grow as Māori take increasing ownership and control of their land and forests.

Ngati Porou Forestry Ltd, for example, has entered into a joint venture with Hansol NZ, a South Korean conglomerate. 38 landowner blocks provided land, while Hansol provided funds to establish and manage forests. This joint venture consists of 38 forests, which cover 10,000 hectares.

Given the existing involvement of Māori in the forestry sector, the PGF's investment appetite presents a clear opportunity to increase the participation of Māori in the wood processing sector, as owners in particular, therefore putting Māori on a stronger economic base that is sustainable into the future.

Projects that benefit surge regions

Wood processing is also a strategic priority because the opportunities it presents complement the PGF's wider investment strategy. This is especially the case in relation to the PGF's focus on surge regions. Given their location primarily in surge regions, existing forestry and wood processing assets provide a strong foundation for PGF investment to achieve its goal of maximising the productivity potential of those regions.

Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions. However, forest ownership structures in Tairāwhiti means there are a limited number of corporate operations that could commit to long term wood supply agreements. The volume of wood in Tairāwhiti available for large scale wood processing is approximately two million m³ per annum.

Projects that include plans for extracting value from by-products

Where the primary component of a proposal is to produce wood products, priority will be given to integrated wood processing operations or clusters that include plans to extract value from by-products of the production process. This is especially important for projects with a low value-add proposition, such as proposals where the primary output is sawn timber.

Projects that involve well-established firms

The PGF will prioritise projects that involve mature or well-established firms with commercial experience in the sector. Firms with proven experience are more likely to be able to operate at the scale the PGF is interested in, especially through the uptake of new technologies or into new products.

The PGF welcomes applications from New Zealand as well as international investors with experience in wood processing.

Projects that benefit multiple sector participants

Projects that have the potential to benefit multiple businesses, for example, processing capabilities that are too expensive for individual firms to invest in on their own, are a priority for investment due to the wider benefits such investment is likely to produce.

Principles

- applications must demonstrate how they are aligned with the PGF's objectives and priorities for investment in the wood processing sector, as set out in this paper;
- projects will begin within the timeframes of the PGF;
- projects will be considered in the context of regions' comparative advantages, challenges and opportunities;
- projects may be considered from firms that do not require PGF project support but support to resolve infrastructure deficit(s) holding a project back;
- applications will be supported by:
 - a clear and compelling proposal, confirming long-term viability, including understanding and management of risks, evidence of market demand, market accessibility, and how the operation intends to remain competitive;
 - wood supply analysis, including long term (20-30 year) analysis of where the wood will come from, how the proposal will impact wood supply within region(s), and whether co-location is viable;
 - infrastructure analysis, including energy, emission mitigation and transport requirements, and the existing eco-system of wood processing;
 - if the proposal relates to building componentry or prefabrication, demand and pricing analysis, forward orders as well as sales projections by region; and
 - appropriate labour market analysis;
- firms will have already sought private sector funding, and provided a clear explanation as to why it was not approved;
- projects will not be funded where other appropriate sources of government support are available with the exception of projects that were declined KiwiBuild support);
- the project will include clearly identified public benefits relating to, in particular, Jobs and Sustainable Economic Development, Māori development; Social Inclusion and Participation; Climate Change and Environmental Sustainability; or Resilience (infrastructure and economic);
- projects should generally have a minimum 50 percent co-contribution (applications with potential to generate significant public benefit may be exempt from this requirement);
- investments will be consistent with New Zealand's international obligations.

Relationship to other agencies and areas of investment

PGF investment in the wood processing sector is part of wider government initiative to foster a productive and sustainable wood processing sector that increasingly contributes to prosperous regional economies. Key agencies in this work are Te Uru Rākau, the Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, and The Ministry of Housing and Urban Development, and Kāinga Ora.

PGF investments in the wood processing sector will contribute to, and inform, this wider work, including:

- supporting Kāinga Ora objectives;
- Te Uru Rākau's forestry strategy; and
- the development of an Industry Transformation Plan for the wood processing and forestry sector, that:
 - induces at-scale investment in primary and secondary forestry production focused on market ready products;
 - maximises regional, economic, environmental and health and safety benefits;
 - identifies opportunities to develop the forestry sector at the heart of a circular, bio-based, carbon neutral economy through the completion of the long-term, sector-led development of a forest strategy for Aotearoa New Zealand.

PROACTIVELY RELEASED

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Op-ed: Log jam another casualty of delayed government promise
Date: Monday, 10 February 2020 2:57:35 pm
Attachments: [image002.png](#)
[Opinion - Log jam another casualty of delayed government promise.docx](#)

Article attached, Awaiting Stuff (below) re timing.

From: s9(2)(a)

Sent: Tuesday, 4 February 2020 12:56 PM

To: Marty Verry

Cc: s9(2)(a)

Subject: Re: Op-ed: Log jam another casualty of delayed government promise

Hi Marty - I am keen on this thankyou for thinking of us in the first instance.

s9(2)(a)

On Tue, 4 Feb 2020 at 12:42, Marty Verry s9(2)(a) wrote:

s9(2)(a)

This log jam is going to be very very big for the regions and job losses. We're too reliant on China and not processing enough locally.

Would you like to use this Opinion Piece? Please let me know today, as I have prioritised the Dominion Post stable.

Thanks and regards, Marty

Marty Verry
Group CEO - Chair
s9(2)(a)
www.redstag.co.nz
Box 213, Kumeu, Auckland 0841, NZ



From: s9(2)(a)

Sent: Thursday, 7 November 2019 2:23 PM

To: Marty Verry s9(2)(a)

Cc: s9(2)(a)

Subject: Re: FW: Op-ed: Forget 2050 – Target Zero Carbon Buildings by 2030

Hi Marty we would be happy to run this.

Thanks,

s9(2)(a)

On Thu, 7 Nov 2019 at 14:10, Marty Verry s9(2)(a) wrote:

s9(2)(a) hi.

I got an out of office message when I sent this to s9(2)(a). Could you take a look please?

Regards, Marty

From: Marty Verry

Sent: Thursday, 7 November 2019 1:37 PM

To: s9(2)(a)

Cc: s9(2)(a)

s9(2)(a)

Subject: Op-ed: Forget 2050 – Target Zero Carbon Buildings by 2030

Hi s9(2)(a)

I have just written another op-ed Climate change article, to tie in with the current Zero Carbon legislation passing through parliament.

Please let me know if you would like to use it - I'll leave it open until end of day tomorrow for your consideration.

Thanks and regards,

Marty Verry

From: s9(2)(a)

Sent: Thursday, 27 June 2019 11:26 AM

To: Marty Verry s9(2)(a)

Subject: Re: FW: Opinion piece : But who will buy our Billion Trees?

Hi Marty, not at all. Stuff is a many tentacled beast.

I look after the day-to-day running of Stuff's business coverage across all our platforms.

Feel free to touch base any time.

Regards,

s9(2)(a)

Chief News Director - Business

E s9(2)(a) | **P** s9(2)(a) | **M** s9(2)(a)

Level 7, Spark Central, 42-52 Willis Street, Wellington, 6140, New Zealand

PO Box 3740, Wellington 6140, New Zealand

On Thu, 27 Jun 2019 at 10:47, Marty Verry s9(2)(a) wrote:

Okay, thanks s9(2)(a). I had approached s9(2)(a) thinking you were SST and he was weekly, so hope it didn't come across as trying to go around you.

Regards,

Marty

From: s9(2)(a)

Sent: Thursday, 27 June 2019 10:29 AM

To: Marty Verry s9(2)(a)

Subject: Re: FW: Opinion piece : But who will buy our Billion Trees?

Hi Marty,

Thanks for your email that s9(2)(a) has passed on to me.

As I mentioned previously, our preference is to use the points you make as a part of a wider story on the billion trees programme, rather than as a standalone opinion piece.

I understand that you have been in touch with s9(2)(a) regarding that.

I will leave to s9(2)(a) to progress this.

Regards,

s9(2)(a)

Chief News Director - Business

E s9(2)(a) | **P** s9(2)(a) | **M** s9(2)(a)

Level 7, Spark Central, 42-52 Willis Street, Wellington, 6140, New Zealand

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Log jam another casualty of delayed government promise

Opinion Piece

4 February 2020

Once again our reliance on the Chinese market for our logs has been exposed.

Last year log prices crashed in China as a result of climate affected trees being infested with beetles that would kill them if not harvested urgently.

This year it's coronavirus seizing up Chinese ports and industry.

In the future it will be the plethora of billion, and now trillion, tree policies around the world swamping the China market.

Over half New Zealand's logs are exported, and of those three-quarters go to China. It's a precarious situation we find ourselves in.

China can afford to pay top dollar for New Zealand logs due to the layers of subsidies their wood processors receive. They then export wood products back into the markets that New Zealand processors compete in, passing on those subsidies by way of prices that local processors can't compete with.

It's no surprise then that we see monthly headlines about sawmills closing, and hundreds of layoffs. That will continue. Thousands of regional jobs are being lost, mainly iwi.

But let's be realistic. There is not much little New Zealand can do to stop China subsidising its industries. But we can get smart about backing our wood processing sector by building with wood instead of imported steel and cement.

For years politicians have lamented the huge piles of logs going across our wharves and promised to do something about it if elected. At the last election the Labour Party promised to implement a wood procurement policy for government buildings up to ten storeys if elected. The New Zealand First and Green Parties both support the policy.

Its time has come.

Not only to support the industry and the regions and jobs affected, but also on climate change grounds.

A recent ThinkStep report estimated 10 percent of New Zealand's greenhouse gas emissions were the result of the 'embodied carbon' in building construction. Embodied carbon is primarily the carbon released in the manufacture of building materials. Steel and concrete are the main offenders, responsible for between 10 and 13 percent of global emissions.

Wood products have dual benefit. First they substitute steel and concrete, which has an immediate climate impact because the steel and concrete doesn't need to be manufactured. Second of course is that the products sequester CO2 as the trees grow.

Implementing the policy, or some sort of embodied carbon-neutral regulation, will place New Zealand with the world-leaders, enhancing our clean green reputation for all exporters. We can achieve carbon-neutrality in this area by 2030.

This 10 percent of emissions is the easiest climate change win New Zealand can target. The leadership needs to start with government's own procurement and the ministers responsible, Phil Twyford and his boss Jacinda Ardern.

Last month 56 industry leaders wrote an open letter calling on them to honour the wood procurement election promise.

We now have the engineers, architects and construction companies capable of constructing these mid-rise wooden buildings. MBIE's head of procurement has confirmed the department has no technical concerns with the wood procurement policy, whilst the costs, speed of construction and traffic decongestion also stack up.

So to sum up; we're over-exposed to China, the climate is burning, and we're losing thousands of regional jobs. It's inconceivable that in this situation the Ardern government continues to favour Indonesian cement and subsidised Chinese steel suppliers over local forestry and wood processing jobs. C'mon Ministers, let's get this done this year.

About: Marty Verry is the CEO of the Red Stag group which invests in forestry, wood processing, pre-fabrication, Cross Laminated Timber (CLT) and property development.

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: Log jam highlights precariousness of our dependence on China
Date: Tuesday, 25 February 2020 2:23:07 pm
Attachments: [image001.png](#)

Stu,

Stuff finally published that article about over-reliance on China I wrote 3 weeks ago. (they mis-keyed the embargo date)

<https://www.stuff.co.nz/business/119265830/log-jam-highlights-precariousness-of-our-dependence-on-china>

I trust Labour will now get serious about growing the domestic market and putting NZ forestry workers and wood processors ahead of Asian cement and steel producers.

Please forward this to your cabinet colleagues and get them to demand Twyford brings for the Wood Procurement policy promised.

Warm regards,

 **Marty Verry**
 **Group CEO - Chair**
 s9(2)(a)
 
 www.redstag.co.nz
 Box 213, Kumeu, Auckland 0841, NZ



From: Marty Verry
To: Hon Stuart Nash
Subject: Building for Climate Change / Govt Procurement - Wood processing/forestry
Date: Tuesday, 17 November 2020 3:24:28 pm
Attachments: Government - Industry summary of wood processing initiatives 2020-2023.pptx

Stu, giddy mate

If you re like me you ll appreciate visuals of how initiatives tie together, especially when picking up portfolios like Economic Development and Forestry from other ministers To that end I have pulled together an infographic showing the relationship between 1. **Building for Climate Change**, 2 **low carbon Govt procurement policy** announced (earlier known as your Wood First policy) and 3. **the education/facilitation** MPI and industry are doing to enable 1 and 2 Building for Climate Change consultation by MBIE is underway MBIE s All of Government Procurement team is also due to report back to you in February on implementing the Low Carbon Govt Procurement policy Cabinet adopted before the election This industry is looking for signs in the new year that government is pursuing these policies aggressively to achieve the climate change and Covid-recovery outcomes sought If the industry gets that demand signal from government/MBIE then it will invest in the scale factories to make the products needed for sustainable construction to achieve zero Embodied Carbon in buildings by 2030 There is a lot of latent investment and jobs creation potential ready if that demand signal coming from govt/MBIE is strong early next year Let me know if I can assist with any further background – no doubt the officials will be keeping you across it All the best - Marty



Summary of Government-Industry Initiatives Impacting The Wood Processing Sector (2020-23)

1. Building for Climate Change Programme	2. Government Low Carbon Procurement	3. Education – Facilitation
<p>MBIE is consulting industry now on its proposal to address the 10% of NZ's CO₂-e emissions resulting from the choice of construction materials & the process of construction ('Embodied Carbon'). The programme aligns with the Zero Carbon Act & global recognition that NZ's emissions must halve current levels by 2030 to achieve the 2050 goal. Steel & concrete contribute 16% of world CO₂-e - The Economist, 6 Nov 2020. Planned steps:</p> <ol style="list-style-type: none"> 1. MBIE will develop a tool to compare Embodied Carbon CO₂-e.* 2. New public sector builds to report CO₂-e per m² of floor area 3. All new builds to report CO₂-e /m² and new public builds to meet <i>initial</i> caps on CO₂-e/m². 4. All new builds to meet <i>initial</i> caps and all public builds to meet <i>intermediate</i> caps. 5. All new builds to meet <i>intermediate</i> caps. 6. All new builds to meet Embodied Carbon caps to achieve <i>net zero emissions</i> for NZ. <p>The schedule for steps 1 to 6 are yet to be decided. Steps 1 and 2 are likely to be in place by end of 2021 (see Government Procurement); step 3 is achievable in 2022 & step 4 is achievable in 2023. There is general consensus that step 6 can – must – be reached before 2030.</p> <p>Meeting the caps on CO₂-e/m² floor area will be a Building Code requirement for building consent. The initial & intermediate cap levels are to be decided, but must be set to phase in net zero net emissions.</p> <p>* Only the building's structure and envelope CO₂-e is measured.</p>	<p>Aligned with the <i>Building for Climate Change programme</i>, Cabinet has instructed MBIE to lead the way with government's own building procurement from 2021. Cabinet has:</p> <ol style="list-style-type: none"> 1. Strengthened the set of rules for departments and agencies to implement the government procurement strategy. 2. This includes directing agencies to use certain tools and templates. (See Step 1 of Building for Climate Change) 3. Strengthened MBIE's ability to monitor and require agency KPI reporting on compliance with the rules and priorities. 4. Set a procurement policy priority to measure upfront emissions at the design stage 5. Required agencies to choose the lowest upfront carbon option, all other things being equal, or report back on why the procurement policy has not been followed. <p><u>Effectively Cabinet has told MBIE to require procurement strategy to implement step 2 of the Building for Climate Change programme, with instruction to select the lowest CO₂-e option.</u> This can be in place by the end of 2021.</p> <p>Hand-in-hand will be the <u>need for a Procurement rule to require a suitable wood based concept design.</u></p> <p>This is in effect the 'Wood First' 2017 election promise being fulfilled.</p>	<p>Mid-Rise Wood Construction – Primary Growth Partnership programme (now 'Sustainable Food Fibre Futures') . MPI and Red Stag are partnering to develop/support a range of showcase demonstration buildings. The first is a 5 storey CLT/LVL/panelled apartment tower in Christchurch currently under construction. Others will follow in 2021-22. The PGP includes site visits, open sourced designs, market surveying and knowledge sharing via seminars etc.</p> <p>Wood Design Guides – WPMA has lead a programme engaging engineers and experts to develop a range of design guides covering many aspects of designing mass timber buildings. These include structure, acoustic, fire, cost, and designing for manufacture.</p> <p>Centre of Excellence – MPI will be developing a centre of excellence to assist professionals and building owners design and invest in wood buildings. This will involve an online resource hub, CO₂-e tools, and potentially a resourced advisory service akin to the mid-rise advisory services operating in Australia which guides early stage design and connects parties with experts in the field.</p> <p>Harvested Wood Products (HWP) – International accounting now allows credit for the locking up of carbon in wood products. In June 2019 Cabinet agreed to attribute these to wood processors. Once in place, the funds will incentivise additional wood processing and fund the investments required in plant to achieve NZ's climate change goals.</p>



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1. Building for Climate Change Programme

MBIE is consulting industry now on its proposal to address the 10% of NZ's CO₂-e emissions resulting from the choice of construction materials & the process of construction ('Embodied Carbon'). The programme aligns with the Zero Carbon Act & global recognition that NZ's emissions must halve current levels by 2030 to achieve the 2050 goal. Steel & concrete contribute 16% of world CO₂-e - The Economist, 6 Nov 2020. Planned steps:

1. MBIE will develop a tool to compare Embodied Carbon CO₂-e.*
2. New public sector builds to report CO₂-e per m² of floor area
3. All new builds to report CO₂-e /m² and new public builds to meet **initial** caps on CO₂-e/m².
4. All new builds to meet **initial** caps and all public builds to meet **intermediate** caps.
5. All new builds to meet **intermediate** caps.
6. All new builds to meet Embodied Carbon caps to achieve **net zero emissions** for NZ.

The schedule for steps 1 to 6 are yet to be decided. Steps 1 and 2 are likely to be in place by end of 2021 (see Government Procurement); step 3 is achievable in 2022 & step 4 is achievable in 2023. There is general consensus that step 6 can – must – be reached before 2030.

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Hand-in-hand will be the need for a Procurement rule to require a suitable wood based concept design.

This is in effect the 'Wood First' 2017 election promise being fulfilled.

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Mid-Rise Wood Construction – Primary Growth Partnership programme (now 'Sustainable Food Fibre Futures') . MPI and Red Stag are partnering to develop/support a range of showcase demonstration buildings. The first is a 5 storey CLT/LVL/panelled apartment tower in Christchurch currently under construction. Others will follow in 2021-22. The PGP includes site visits, open sourced designs, market surveying and knowledge sharing via seminars etc.

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Harvested Wood Products (HWP) – International accounting now allows credit for the locking up of carbon in wood products. In June 2019 Cabinet agreed to attribute these to wood processors. Once in place, the funds will incentivise additional wood processing and fund the investments required in plant to achieve NZ's climate change goals.

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Using PGF to fund pruning of Kaiangaroa Forest, CNI
Date: Tuesday, 24 November 2020 5:13:00 pm
Attachments: [image001.png](#)
[image001.png](#)
[Who will buy our one billion trees - NBR.pdf](#)

Stu

Below is what I sent to MPI and Shane Jones on the CNI pruning situation last year, and the feedback from MPI.

Only thing it didn't cover is the appeal of diversifying logs to pruned and away from relying on China for 80% of exports. China has turned off the tap of logs from Australia and left them scrambling. The impact will be worse for NZ. The NBR article I wrote last year covers it too – 'Who will buy our billion trees?' (attached).

In the past KT has quoted \$100 premium needed to justify pruning. The China risk and lower discount rates now may cause them to re-run the numbers.

Regards,

Marty

From: JulieR Collins (Julie) [s9\(2\)\(a\)](#)
Sent: Wednesday, 31 July 2019 6:14 PM
To: Marty Verry [s9\(2\)\(a\)](#) >
Cc: shane.jones@parliament.govt.nz; [s9\(2\)\(a\)](#)
Subject: Re: Using PGF to fund pruning of Kaiangaroa Forest, CNI

Thanks Marty,

I have seen those graphs before at the WPMA conference in Christchurch and at a Dana conference. My understanding was that Kiangaroa Timberlands were open for a discussion with processors on the issue as long as they could get a sufficient price differential for pruned logs.

I understand you are meeting with Forestry Ministerial Advisory Group in August. It would be a good topic to discuss with them.

The challenge for these sort of issues is that the industry needs sustained silviculture action over 30 years. The PGF only has a three year horizon.

I have flicked your note to Warren as Chair of the Advisory Group as it would be good to get their views.

Nga mihi

Julie

Sent from my iPhone

On 31/07/2019, at 11:29 AM, Marty Verry [s9\(2\)\(a\)](#) > wrote:

Minister/Julie,

There is a lot of consideration going into how to attract investment in wood processing. I believe a starting point should be to protect current investment. There are 11 CNI mills cutting the 1.2m tonnes per year of pruned logs available. That volume is set to drop to between 500-600,000 tonnes per year in the next decade unless Timberlands resumes pruning this summer. Due to this supply reduction, in the next decade we estimate 5 of the 11 mills will have to close, costing maybe 1,000 direct jobs spread across towns like PukePuke, Putaruru, Tokaroa, Rotorua, and Thames. The reduced fibre available will jeopardise the pulp and paper mills, and we would expect at least one of the 3 in CNI to close as a result. They are already less than world scale, and having to buy in sawlogs to top up their mills. Job losses could exceed therefore 1,500. The slides attach outline the situation.

Timberlands is probably the only forest owner that can make a decision to re-establish pruning on a large scale to address this shortage, but the window for action is closing if we want to avoid a Northland-style age class hole. Timberlands stopped pruning because

historically they have not achieved sufficient harvest profit per ha for pruned lots to cover the silviculture required to prune and to compensate for the lower overall volume per ha, compared to a structural regime. In talking with Rob Green, CEO at Timberlands, he is open to sawmills paying the cost of pruning and taking on the risk of getting a return on that. The issue for sawmills is they don't know if they will be around to re-coup the investment, whilst some back themselves to be the winners in the fall-out. It's a market failure. I can't speak for Timberlands or Rob, but they could be open to government assistance.

My suggestion is using the PGF to fund pruning/thinning, and for the government to take the stumping proceeds per ha in due course over the equivalent un-pruned stumping returns.

Other advantages – other than keeping mills running - include:

- Regional job creation (planting) and securing (existing mills)
- This could provide summer silviculture jobs for winter planters, making it easier for foresters to recruit and retain planters.
- This suggestion also aligns with the need to add value to logs - as appearance grade is a higher value timber, and a lot exported. Wide clear lite-coloured boards are a competitive advantage NZ has in the world timber market. (one of the few)
- The suggestion also aligns with the likely changes to carbon accounting, whereby converting logs into timber that locks away carbon for centuries will receive carbon credit recognition. Wood processors are expecting to receive the benefit of this credit, given they are the ones that make the investment and decision to convert logs into a long-term store of carbon in the way of framing and furniture. This change would help 'shore-up' the vulnerable mills, further.

This approach could stabilise supply volume at 800,000 tonnes per ha annually

Red Stag backs itself to get the 30,000 tonnes of pruned logs it needs based on relationships, but we thought this could be something you could consider for the broader sector.

<image006.jpg>

<image007.jpg>

Regards,

 **Marty Verry**
Group CEO - Chair
s9(2)(a)
www.redstag.co.nz
Box 213, Kumeu, Auckland 0841, NZ



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The Ministry for Primary Industries accepts no responsibility for changes made to this email or to any attachments after transmission from the office.

News article attached to this email is available at the following link: <https://www.nbr.co.nz/analysis/economics-of-climate-change-greatest-market-failure-ever/>

From: Marty Verry
To: Hon Stuart Nash
Subject: FW: Building for Climate Change / Govt Procurement - Wood processing/forestry
Date: Wednesday, 25 November 2020 9:06:06 am
Attachments: [Government - Industry summary of wood processing initiatives 2020-2023.pptx](#)
[Economics of climate change greatest market failure ever - NBR.pdf](#)

Stu, here s that 1-pager again pasted below and attached
 It ll help you get your head around what MBIE is doing with reducing Embodied Carbon in buildings with the **Building for Climate Change** programme, and the role of government procurement leading that
 Great to hear you will be tightening up on instructions to MBIE s all-of government procurement team The head of that area is John Ivil, backed up by Fleur D souza
 As discussed, an enforced **Procurement Policy** requirement to **A/ have a design optimised for wood construction and B/ Require Building in wood unless there is a very compelling reason not to** would be an effective directive to bring about change Be good to see the wording you settle on and how that instruction goes to MBIE when you do it as we will then push MBIE on the implementation
 All the best - Marty

From: Marty Verry
Sent: Tuesday, 17 November 2020 3:09 PM
To: s9(2)(a) 'stuart.nash@parliament.govt.nz' <stuart.nash@parliament.govt.nz>
Subject: Building for Climate Change / Govt Procurement - Wood processing/forestry
 Stu, giddyay mate

If you re like me you ll appreciate visuals of how initiatives tie together, especially when picking up portfolios like Economic Development and Forestry from other ministers
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 Let me know if I can assist with any further background – no doubt the officials will be keeping you across it
 All the best - Marty



Climate Change Caused by the Built Environment (20% of NZ GHG) Summary of Government-Industry initiatives to achieve net-zero Embodied Carbon emissions by 2030

1. Building for Climate Change Programme

MBIE is consulting industry now on its proposal to address the 10% of NZ's CO₂-e emissions resulting from the choice of construction materials & the process of construction ('Embodied Carbon'). The programme aligns with the Zero Carbon Act & global recognition that NZ's emissions must halve current levels by 2030 to achieve the 2050 goal. Steel & concrete contribute 16% of world CO₂-e - The Economist, 6 Nov 2020. Planned steps:

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From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Critical Worker Exemptions
Date: Wednesday, 16 December 2020 3:54:09 pm

Stu, could you help resolve this MIQ issue please. We'll be in breach of the first CLT projects if we can't get these guys back in to finish CLT commissioning.

Thank you in advance... Marty

----- Original message -----

From: Richard Jack [s9\(2\)\(a\)](#)
Date: 16/12/20 3:33 pm (GMT+12:00)
To: stuart.nashmp@parliament.govt.nz
Cc: Marty Verry [s9\(2\)\(a\)](#)
Subject: Critical Worker Exemptions

Dear Minister,

I am writing to you regarding critical worker exemptions for the timber processing industry, and specifically for a project for Red Stag Wood Solutions. Our business is the supply and support of capital equipment to this sector, which is mostly imported from Europe.

We have engineering resources based here in New Zealand, but have a need to bring in highly specialised engineers and programmers for the final commissioning of a new production line – Red Stag Wood Solutions' new timber processing plant in Waipa Rotorua.

The initial issue we have experienced is around multiple entries to NZ. We have already gone through the critical worker process twice, and currently have a team of European based engineers on site at Red Stag. We were due to be finished before Christmas, but a host of issues (mostly covid related) have meant the project is running behind schedule, and the team wish to go home for the Christmas break, then return. We do not have the right to insist that they remain, and neither do their employers in Germany. We have not been able to negotiate an outcome whereby they stay in NZ. According to immigration NZ, the critical worker exemption does not contemplate multiple entries, and we must wait until they leave, then we can start the application process over from scratch. It was very hard to get this information out of immigration NZ and it took many emails sent into the ether before we could actually discuss the issue with a person. Meanwhile, time has been ticking on.

Based on our previous experience with the critical worker process, it takes around about 4-6 weeks between initial application and the individual being able to book flights and quarantine places, as we must first complete the exemption, wait, then apply for visas, wait, then begin to search for a match between flights and MIQ availability, for a team of around 6 people who all need to be on site at the same time.

While a 4 to 6 week delay is very significant for Red Stag, this was not a "killer" problem until the recent movement in the lead time to achieve a slot in managed isolation. A week ago there were places in early January, currently the earliest is March 2, and we must expect it to continue to worsen over the month or so our exemption / visa applications will take to process. These two issues combined look like they may result in a 3-4 month delay for Red Stag to employ operators and start production, at a stage in the projects where they have largely paid most of their capital costs, creating significant cashflow issues and economic hardship.

We don't often engage with the government for support, but this is probably the biggest and most economically significant development in the timber processing industry in several years. Delays at Red Stag will also have significant downstream effects on construction projects that are already in the pipeline. I am hoping that with your portfolios of Forestry and Economic and Regional Development, you may be able to assist in either or both of two areas:

1. Streamlining our critical worker application process so that exemptions, visa, and a wait for MIQ allocation could be undertaken concurrently, and/or

2. Aiding with the allocation of MIQ spaces that may be outside the publicly accessible pool.

Anything you can do to expedite the process would be greatly appreciated, and significant for the local industry. If you have any questions about the situation, my phone is always on. Our team would be ready and willing to travel back in early January if we could cut through the red tape and find an MIQ allocation.

I am copying in Marty Verry and s9(2)(a) from Red Stag, who will be facing similar challenges elsewhere in the project and may wish to add their own comments.

Best Regards,

Richard Jack | Head of Projects

W & R Jack Ltd | 19 Allens Road, Auckland | 159 Ferry Road, Christchurch | Mobile: s9(2)(a) |
www.jacks.co.nz<<http://www.jacks.co.nz/>>

From: [Marty Verry](#)
To: [Fleur D'souza](#); [Coreen Adamson](#)
Cc: [Jason Wilson](#); [s9\(2\)\(a\)](#); katie.symons@mbie.govt.nz; [Dave Robson](#) bcc Hon Stuart Nash
Subject: Sustainable building procurement
Date: Thursday, 24 December 2020 1:12:06 pm
Attachments: [image001.png](#)
[Engineered wood a vital construction sector tool for sustainability - NBR.pdf](#)
[NZ Herald - Marty Verry. Beehive a symbol of NZ's polluting past.pdf](#)

Fleur/Coreen/Jason, thanks for the meeting and update last week.

Please find attached the NZ Herald article I referred to '**Marty Verry: Beehive a symbol of New Zealand's polluting past**', as well as one that a Naylor Love director just published in the NBR. '**Engineered wood a vital construction sector tool for sustainability**' (see my comment on cost at the end of his article)

The 30/11/20 cabinet minute requiring departments and agencies to report on why they are not selecting the lowest CO2-e option before signing any construction contract is a welcome improvement.

As we discussed however, for sustainable materials to have a fair opportunity to compare, it is important that the initial structural concept design used for Resource Consenting is optimised for mass-timber or other sustainable material use.

(We find that projects 'work' when designed from the outset for sustainable materials such as wood, but struggle if project teams have already gone to the expense of a Resource Consent using a non-optimised design.)

We suggest this underlined wording be a key component of your Sustainable Building Procurement roll-out in 2021, and look forward to collaborating to address climate change caused by Embodied Carbon.

Kind regards and happy holidays.

(Please pass this to Chris and Abbey, as I don't have their email addresses)

Marty

 **Marty Verry**
 **Group CEO - Chair**
 [s9\(2\)\(a\)](#)
 www.redstag.co.nz
 Box 213, Kumeu, Auckland 0841, NZ



From: [Marty Verry](#)
To: [MIQ Enquiries](#); [Hon Chris Hipkins](#); [C Hipkins \(MIN\)](#)
Cc: [s9\(2\)\(a\)](#) Hon Stuart Nash
Subject: RE: MIQ broken for this commercial project of critical national interest
Date: Monday, 11 January 2021 5:07:16 pm
Attachments: [image001.png](#)
[HNZC letter of support.pdf](#)

Dear Ms Cossar and Minister Hipkins,

Thank you for your reply and suggestion to apply for emergency assistance on national interest grounds. We will do so, and include below further information on the justification for the request on national interest grounds.

What we are asking is for the Minister to refine the exemption criteria to allow for critical, large scale, high-capital, high-productivity investments to be facilitated. As this is an adjustment to the system, it goes beyond being an operational matter, and sits squarely within the domain of the minister responsible for MIQ.

Effectively we are seeking 8 spaces of the 6,000 spaces (0.13 of 1% of the spaces, or around one space per thousand available.) The national interest is high, but equally the minister needs to balance the rights of New Zealanders urgently needing space to keep large operations going by bringing in technicians, against those who left NZ and have now decided it's better living here. Our loyalty, investment and risk-taking deserves prioritisation over spaces also. The jobs of dozens of people await the opening of this plant.

So MIQ can expect the application shortly. In the meantime though we would appreciate the Minister confirming adjustment to the programme (or a special exception) this week based on the following national interest circumstances:

Red Stag Factory Commissioning in National Interest:

Housing Crisis:

The Red Stag factory will provide a low-risk local CLT and glulam supply option that will lower the cost of construction and speed up construction to address the housing crisis. Kainga Ora, City Missions and many others rely on CLT extensively, and NZ's ability to supply cost-effective housing will be impacted by the inability of the factory to open. The Provincial Growth Fund \$15m loan (see below) specifically targets this facility to be able produce an additional 3,000 houses per year.

The enclosed letter by Kainga Ora Director of Business Innovation, Research and Design, Tim Campbell states: *"Our current planning is targeting around 400 housing units per annum being delivered using CLT for the foreseeable future."* That letter was written in support of the PDU loan referred to below, and was before the government 'Low Carbon Construction Procurement' and 'Building for Climate Change' initiatives announced in 2020, so the demand requirement is likely to be far higher now.

Further, the \$40 million capital investment by the Red Stag group is largely funded by debt, and is an important and risky diversification initiative. Red Stag supplies approximately 25-30% of the framing timber for NZ houses, and is therefore of strategic national interest should it fail. (The whole NZ building eco-system is based around timber as the most cost-effective easy option) Should the new factory incur significant delays it could jeopardise the factory and group's viability which may in turn result in foreclosure by lenders. This would reduce New Zealand's ability to build approximately 12,000 houses annually which would severely worsen the housing crisis.

The Red Stag factory is therefore of national interest to the housing crisis.

Climate Emergency:

CLT and glulam are direct substitutes for steel and concrete (which each equate to 8% of global GHG emissions) and therefore is a key tool in the government's low carbon construction policy to address climate change.

MBIE is consulting on its 'Embodied Carbon Emissions Reduction Framework' which will cap and

then reduce the emissions caused by the materials selected and the construction process. The consultation document* states: “New Zealand has committed to net zero carbon emissions by 2050. The Building and Construction Sector needs to play its part in meeting this goal as the Sector currently accounts for around 20% of New Zealand’s carbon emissions”. The regulatory objective is to drive change to sustainable low carbon materials and efficient off-site manufacturing. The Red Stag factory will be the prime NZ producer of the key materials this policy seeks to use to address the climate emergency. * <https://www.mbie.govt.nz/dmsdocument/11794-whole-of-life-embodied-carbon-emissions-reduction-framework>

The Climate Emergency is of national interest, and as a key solution to 20% of the crisis, the Red Stag factory of national interest.

Provincial Growth Fund:

The Red Stag CLT project has had loan investment by the Provincial Development Unit (PDU) of \$15 million due to the impact of the project on climate change, regional jobs (60 – many Māori), Covid-19 economic recovery, and the housing shortage and construction cost crisis’s. A 3-4+ month delay in the commissioning of the factory will jeopardise the feasibility of the investment and the ability to service the PDU loan. As outlined above, if the factory fails, it could jeopardise the ability of Red Stag to produce framing for 12,000 houses. The Provincial Growth Fund stated in its Position Paper on Wood Processing**:

*The PGF will consider investing in projects that increase the volume of logs that are processed into high quality sawn timber **such as for CLT.** Without sufficient globally competitive sawmilling capacity there is no foundation on which New Zealand can produce higher value products. Contribution of wood processing objectives to wider PGF objectives
Wood processing is a strategic priority for PGF because of its strong potential to contribute to all of the PGF’s main objectives:*

- **jobs and sustainable economic development:** maximising value from New Zealand’s forestry sector, by increasing its value-added output through wood processing investments, will increase the number of better paid jobs in an environmentally and economically sustainable sector;
- **Māori development:** given the existing Māori asset base in the forestry sector, PGF investment presents a clear opportunity to increase the participation of Māori in the wood processing sector, in particular, as owners;
- **climate change and environmental sustainability:** increased economic development based off the forestry sector is inherently sustainable, and will support continued investment in afforestation which is a key climate change mitigation;
- **social inclusion and participation:** increased economic development through the wood processing sector will primarily benefit the PGF’s surge region, creating more training and employment opportunities;
- **resilience (infrastructure and economic):** successful investment in value-added processing capacity, and waste-to-energy opportunities, will support the development of domestic value chains that will diversify the sector, including destination markets, helping to ensure regional economies are better placed to withstand economic shocks

**<https://www.mbie.govt.nz/dmsdocument/11491-pgf-position-paper-wood-processing-investments-pdf>

Investment in Productivity and World Scale Manufacturing:

New Zealand has a productivity problem. It is in the national interest to lift New Zealand’s productivity rate through deploying world scale plant and technology. Such highly sophisticated and automated technology needs commissioning by international experts employed by the plant manufacturers. There is only so much that can be done remotely and the commissioning process now needs the technicians in New Zealand. New Zealand needs to encourage such productivity investments. To deny, or significantly delay, access to New Zealand sends a message to the New

Zealand business community not to bother with such investment. There is no purpose investing in world-scale productivity if it cannot be commissioned in a reasonably timely matter. If that is the message the government sends then capital will continue to flow to safer investments such as the property market. It also sends a message to the business community that the government does not understand and support business.

There is also a fiduciary aspect to the issue here. The decision was made to push on with this factory construction in the heart of the level 4 lockdown when the government was calling for shovel-ready projects to support economic activity and Covid-recovery. This \$40 million investment by a private family-owned company was unprecedented and risky at the time. We took the risk to help the country in the national interest. The least the government can do for its small part is to facilitate its timely commissioning.

We appreciate that Kiwis returning from holiday or living abroad have the right to return, and it is clear that the vast majority of MIQ space will continue to be used for this purpose. However, there needs to be economic activity for them to return to, and the business interests of Kiwis who didn't go on holiday or live overseas (us) must also be considered. The proposed solution weighs these rights to provide for limited criteria where New Zealanders with business interests here get priority over a fraction of the MIQ space available. We believe the 3 criteria in the proposed solution will limit such emergency applications and be a timely and equitable refinement to the MIQ system.

Proposed Solution

The MIQ system has an emergency allocation with one option being as follows: **"2d)** New Zealand and non-New Zealand citizens, where urgent travel to New Zealand is required for national security, ***national interest*** or law enforcement reasons." However, the website also states that no commercial activity is facilitated. This needs refinement, for the obvious reasons above. There are commercial projects of national interest which need to be facilitated.

We propose this Emergency Allocation option be extended to allow key technical personnel where the project meets these criteria:

1. The technicians are employed by international equipment manufacturers to commission plant, and
2. The project is one of significant scale and investment (We suggest a minimum \$10 million capex threshold) and
3. The project ties in with addressing a key strategic government focus such as the climate, housing supply, productivity, or health crisis's.

MIQ officials would then case manage these requests by allocating them spaces from a reserved allocation for such purposes. That reserved allocation in the short term would come from MIQ bookings that are released by those that had double-booked.

Regards,



From: Liz Cossar <Elizabeth.Cossar@parliament.govt.nz> **On Behalf Of** MIQ Enquiries

Sent: Friday, 8 January 2021 2:24 PM

To: Marty Verry s9(2)(a)

Subject: RE: MIQ broken for this commercial project of critical national interest

Tēnā koe Marty

I write on behalf of Hon Chris Hipkins, Minister for COVID-19 Response.

Thank you for your email regarding spaces in managed isolation for critical workers to assist in

commissioning a new factory to produce engineered timber products. I am writing on behalf of Chris Hipkins, Minister for COVID-19 Response. Minister Hipkins is taking responsibility for the important work overseeing New Zealand's managed isolation and quarantine facilities.

I appreciate the urgent need many businesses and organisations have for critical workers to enter New Zealand from overseas. However, we need to balance these requests with our work to ensure the safety of all New Zealanders, the legal right of New Zealanders to enter, and the limited available capacity in our managed isolation facilities.

Space in managed isolation is extremely limited over the summer months as there is high demand from New Zealanders wanting to come home. There is an emergency allocation process if there is no space in managed isolation but urgent travel is required. This is a last resort option and there is a high threshold.

As you note in your email, the emergency allocation criteria include a category for New Zealand and non-New Zealand citizens, where urgent travel to New Zealand is required for national security, ***national interest*** or law enforcement reasons or for the maintenance of essential infrastructure whose failure would result in significant harm or disruption to a large number of New Zealanders.

The MIQ Emergency Allocations team within the Ministry of Business, Innovation and Employment have confirmed that they have not received an application from Red Stag for an emergency allocation under this criteria. Please visit <https://www.miq.govt.nz/travel-to-new-zealand/secure-your-place-in-managed-isolation/emergency-allocation-requests/> to apply for an emergency allocation. The team assess these applications on a case by case basis.

Minister Hipkins is unable to intervene in applications for emergency allocation spaces as these are operational matters that depend on the individual circumstances of the applicants and the capacity of our managed isolation facilities.

The criteria for emergency allocation are reviewed regularly and your proposed changes have been passed on to the team for consideration.

I hope this information assists you. Thank you for taking the time to write.

Ngā mihi
Elizabeth

Office of Chris Hipkins

Minister for COVID-19 Response | Minister of Education | Minister for the Public Service

Office Phone: +64 4 817 8706 Email: c.hipkins@ministers.govt.nz

From: Marty Verry [[mailto:s9\(2\)\(a\)](mailto:s9(2)(a)@ministers.govt.nz)]
Sent: Wednesday, 6 January 2021 2:32 PM
To: C Hipkins (MIN) <c.hipkins@ministers.govt.nz>; Hon Chris Hipkins <Chris.Hipkins@parliament.govt.nz>
cc: Hon Stuart Nash; Jason Cordes s9(2)(a)
Subject: MIQ broken for this commercial project of critical national interest

Dear Minister Hipkins,

Red Stag operates the Southern Hemisphere's largest sawmill, and needs to bring in 8 European technicians to complete commissioning a new \$40 million factory to produce engineered timber products relied upon by Kainga Ora and other key public and private sector construction projects from March 2020. Because this is the only New Zealand producer of Cross Laminated Timber (CLT), and due to shipping disruptions to importing CLT from Australia, this project is of national strategic interest.

Commissioning of this factory is scheduled for February 2021, to hit critical housing project delivery time-frames. However, the general population pool of MIQ spaces is now booked out until the end of March. Even if Red Stag can obtain space in April or May, it would push commissioning

to May or June – a delay of some 3-4 months, maybe longer.

It simply makes no sense for major capital investments of critical national importance to sit idle because the small number of technical experts required to commission the plant are lumped into the general population travelling to New Zealand and taking up MIQ spaces. What business in New Zealand will invest capital in the very plant and technology that the government wants businesses to invest in to lift productivity and economic resilience if they cannot bring in the technical resources required to commission the factories?

The MIQ system you have in place is broken for critical New Zealand businesses and needs to evolve as weaknesses come to light. We are at that point now. It is also clearly subject to abuse, with some people reserving up to ten places and then not notifying Immigration NZ that they do not need the other nine. For strategic projects where a small handful of technical experts can have a very significant scale impact on key industries, the MIQ system needs officials to be able to set aside MIQ spaces for such experts. To refine the MIQ system to facilitate such strategic projects in this way would demonstrate that the government understands business needs.

This Red Stag CLT project is also of critical importance to New Zealand for these reasons:

Housing Crisis:

Red Stag will provide a low-risk local CLT supply option that will lower the cost of construction and speed up construction to address the housing crisis. Kainga Ora, City Missions and many others rely on CLT extensively, and NZ's ability to supply cost-effective housing will be impacted by the inability of the factory to open.

Climate Emergency:

CLT is a direct substitute for steel and concrete (which each equate to 8% of global GHG emissions) and therefore is a key tool in the government's low carbon construction policy to address climate change.

Provincial Growth Fund:

The Red Stag CLT project has had loan investment by the Provincial Development Unit (PDU) of \$15 million due to the impact of the project on climate change, regional jobs (60), Covid-19 economic recovery, and the housing shortage and construction cost crisis's. A 3+ month delay in the commissioning of the factory will jeopardise the feasibility of the investment and the ability to service the PDU loan.

Proposed Solution

The MIQ system has an emergency allocation with one option being as follows: **"2d)** New Zealand and non-New Zealand citizens, where urgent travel to New Zealand is required for national security, **national interest** or law enforcement reasons." However, the website also states that no commercial activity is facilitated. This needs refinement, for the obvious reasons above. There are commercial projects of national interest which need to be facilitated.

We propose this Emergency Allocation option be extended to allow key technical personnel where the project meets these criteria:

1. The technicians are employed by international equipment manufacturers to commission plant, and
2. The project is one of significant scale and investment (We suggest a minimum \$10 million capex threshold) and
3. The project ties in with addressing a key strategic government focus such as the climate, housing supply, productivity, or health crisis's.

MIQ officials would then case manage these requests by allocating them spaces from a reserved allocation for such purposes. That reserved allocation in the short term would come from MIQ bookings that are released by those that had double-booked.

We appreciate your urgent personnel attention to this matter, and look forward to hearing of positive consideration of this proposal as soon as possible. Ideally we would like to secure flights in the next week or two.

Sincerely and with kind regards,

Marty Verry

Red Stag group CEO

s9(2)(a)



Marty Verry

Group CEO - Chair

s9(2)(a)

www.redstag.co.nz

Box 213, Kumeu, Auckland 0841, NZ



From: [Marty Verry](#)
To: s9(2)(a) [Hon Chris Hipkins](#); [Hon Stuart Nash](#)
Subject: Kainga Ora letter re Red Stag CLT factory - MIQ spaces required in Feb
Date: Thursday, 21 January 2021 8:07:57 am
Attachments: [Kāinga Ora_Red Stag managed isolation application.pdf](#)

20 January 2021

Dear Sir/Madam,

I am writing regarding Red Stag Timber's application for the emergency allocation of spaces in managed isolation for eight critical workers required to support the commissioning of a new engineered timber factory in Rotorua. The Red Stag Timber factory will produce Cross Laminated Timber (CLT).

CLT panels are manufactured off-site and are cost effective, fast to install and 100% renewable. It is a product we have been using in medium density developments for several years and we expect to continue to deliver around 400 state homes using CLT each year for the foreseeable future.

We believe a new, NZ based factory producing CLT panels meets the criteria for the emergency allocation as it is in the national interest. We currently import CLT panels from XLam's factory in Wodonga, New South Wales, which is the only CLT factory operating in Australasia.

While Kāinga Ora has no formal contract with Red Stag, we believe that the establishment of locally-based production of CLT will increase our accessible supply chain and help grow the New Zealand off-site manufacturing industry. As the agency tasked with delivering more than 1800 new public homes in 2021, we see innovative construction materials, such as CLT, as critical to improving productivity, capacity and capability of the wider construction sector.

For the past few years, Kāinga Ora has been working to leverage the size and scale of our build programme to encourage domestic firms, including off-site manufacturing firms, to create and sustain business investment in the areas of plant and machinery, as well as staff and training. This is also in line with the goals of the Construction Sector Accord to create greater resilience in the industry.

In summary, the Red Stag factory has the potential to support the Kāinga Ora state housing build programme and Government priorities around housing affordability and sustainability, whilst boosting the local economy. This is more important than ever at a time when house prices are increasing rapidly and demand is outstripping supply.

Kind regards,



Kāinga Ora
Homes and Communities

Matthew Hulett

General Manager (Acting)
Construction and Innovation

Mobile: s9(2)(a) [REDACTED]
Email: matthew.hulett@kaingaora.govt.nz

From: [Marty Verry](#)
To: [Hon Dr Megan Woods](#)
Cc: [Hon Stuart Nash](#)
Subject: \$40m factory to build 3,000 houses sits idle
Date: Thursday, 21 January 2021 6:42:08 pm
Attachments: [image001.png](#)
[Kainga Ora Red Stag managed isolation application.pdf](#)
Importance: High

Dear Minister Woods,

We request your urgent personal attention to a matter of national interest relating to your housing portfolio.

I refer to the letter attached from the GM Construction and Innovation at Kainga Ora (KO) regarding the new \$40 million CLT factory in Rotorua that is due to commissioning in February. Currently it sits idle (see attached)

KO is an extensive user of CLT (Cross Laminated Timber), for its speed of construction, lower building cost and environmental sustainability. CLT panels produced in factory require less builders to construct and therefore mean more houses can be built to alleviate New Zealand's housing shortage.

There is no CLT factory in New Zealand, so the government, through the Provincial Growth Fund, encouraged the construction of this factory and provided a \$15m loan. The specific objective on the loan document is to be able to construct 3,000 houses annually. The current CLT supplier is 300km from Melbourne and severely susceptible to the international shipping disruptions. This is jeopardising the KO's potential to achieve its housing unit construction targets. It also means KO is paying too much for CLT structures.

The Red Stag CLT factory represents:

- the largest factory investment into house construction in New Zealand
- the largest such investment in the forestry sector
- a major employer of iwi in Rotorua – an area severely impacted by the foreign tourist decline
- the largest investment in low carbon building materials to support the government's Building for Climate Change programme, and low-carbon government building procurement policy.

These are all matters of serious national interest.

The factory is now ready for commissioning by 8 technical experts from Italy and Germany.

However, because these large strategic investments of national interest have to try to book MIQ space through the same system as the public, it has been impossible to secure spaces. A block of 8 is required, and have been impossible to secure.

We have been reliably informed that the government holds a Contingency Allocation of MIQ spaces. We request your assistance to secure 8 of these spaces in February please.

If New Zealand's economy is to recover and not rely on monetary stimulus, and if we are to address crisis such as housing supply and affordability, iwi employment and climate change, then MIQ needs to be used strategically to support these scale investments. To date our requests of MIQ for space from the Contingency Allocation have been rejected. Yet students, actors, and sports teams are being prioritised.

I look forward to hearing from and working with your officials on this urgent matter.

Thank you in advance – regards,

Marty Verry



Marty Verry

Group CEO - Chair

s9(2)(a)

www.redstag.co.nz

Box 213, Kumeu, Auckland 0841, NZ





From: Marty Verry
To: Hon Stuart Nash
Subject: FW: \$40m factory to build 3,000 houses sits idle
Date: Thursday, 28 January 2021 7:38:23 pm
Attachments: [MIQ-EAR-002242-B0L4 - Emergency Allocation Application outcome.msg](#)
[MIQ-EAR-002324-H4R7.msg](#)
[Red Stag Wood Solutions Request for Specially MIQ Space Under Criteria 2d \(refer to attached\).msg](#)
[Red Stag Wood Solutions Request for Emergency MIQ Space Under Criteria 2d \(refer to attached\).msg](#)
Importance: High

----- Original message -----

From: s9(2)(a)
Date: 28/01/21 6:08 pm (GMT+12:00)
To: Iain Duncan <Iain.Duncan@parliament.govt.nz>, Don Badman <Don.Badman@parliament.govt.nz>
Cc: Marty Verry s9(2)(a)
Subject: RE: \$40m factory to build 3,000 houses sits idle

Dear Iain, Don,

After Marty approached Minister Hipkins in early January, we were directed to apply for the MIQ emergency exemption, and we did so.

As we had to source supporting information from the critical workers to support the submission, we lodged two separate requests (four resources in one tranche and five in the other).

Both requests were rejected (rejection emails attached).

To assist, attached are the two submission emails with supporting information.

As of Friday, 29 January 2021, we will have to stand down our project team until such time that we have a definitive position on when we can have the eight (we have reduced the number as much as practically possible to disburden the MIQ system) critical European specialists in the country.

As such we effectively have \$40 million dollars of plant and equipment sitting idle and unable to run, with growing customer demand due to the housing shortage. This combined with the employees that have been recruited to run the operation are generating an unsustainable burn rate for our company, therefore I must mirror Marty's position is stressing just how dire the situation is.

Any support that can be provided in having our emergency requests (2) revisited, would be greatly appreciated so we can target people entering New Zealand as early as practically possible in February 2021.

With kind regards,

s9(2)(a)

MANAGING DIRECTOR

P

s9(2)(a)

M

s9(2)(a)

F

s9(2)(a)

E

s9(2)(a)

W

www.redstag.co.nz<<http://www.redstag.co.nz>>

RED STAG INVESTMENTS LTD, Waipa State Mill Road, Rotorua | Postal: 53 Ingram Road, Rukuhia,
Hamilton 3282, New Zealand

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-----Original Message-----

From: Iain Duncan <Iain.Duncan@parliament.govt.nz>
Sent: Thursday, 28 January 2021 5:24 pm
To: Marty Verry s9(2)(a)
Cc: s9(2)(a) Don Badman <Don.Badman@parliament.govt.nz>
Subject: RE: \$40m factory to build 3,000 houses sits idle

Good afternoon Marty.

I've been in touch with Minister Hipkins office and they have suggested that you explore the Emergency Allocation Application process for MIQ. The process etc can be found at <https://www.miq.govt.nz/travel-to-new-zealand/secure-your-place-in-managed-isolation/emergency-allocation-requests/>

The advice I have received is that it is Category 2 (b) that you should look to apply under:

2b) A person whose entry to New Zealand is time-critical for the purpose of delivering a critical public or health service, such as the provision of specialist health services required to prevent serious illness, injury or death; or the maintenance of essential infrastructure whose failure would result in significant harm or disruption to a large number of New Zealanders.

s9(2)(a), but my colleague from Kāinga Ora, Don Badman, will be stepping into my role in Minister Woods's office. If you have any further queries, please do not hesitate to contact Don at don.badman@parliament.govt.nz

Kind regards

Iain

-----Original Message-----

From: Marty Verry [mailto:s9(2)(a)]
Sent: Thursday, 28 January 2021 9:52 AM
To: Iain Duncan <Iain.Duncan@parliament.govt.nz>
Cc: s9(2)(a)
Subject: RE: \$40m factory to build 3,000 houses sits idle

Kia Ora Iain,

Yes they have visas. Target time to arrive is the first half of Feb. Yes, there can be some slight staggering over a week or two.

Many thanks.
Marty

----- Original message -----

From: Iain Duncan <Iain.Duncan@parliament.govt.nz>
Date: 28/01/21 9:15 am (GMT+12:00)
To: Marty Verry s9(2)(a)
Subject: RE: \$40m factory to build 3,000 houses sits idle

Kia ora Marty.

Thank you for the email you have sent to Minister Woods.

We totally understand your frustration. Officials are looking into this matter and will be speaking to the office of Minister Hipkins to seek some guidance around how this request can be processed and to find out if there are any short term solutions.

In the meantime, are you able to confirm the following:

- What is the visa position for all 8 technical experts
- What dates are you looking at for the team to arrive in New Zealand
- Do all 8 have to travel/arrive at the same time

If you can give us a little more detail, then this will help us in dealing with Minister Hipkins office and to try and look at ways to facilitate this.

We look forward to hearing from you.

Kind regards

Iain

From: Marty Verry [mailto:s9(2)(a)]
Sent: Thursday, 21 January 2021 6:42 PM
To: Hon Dr Megan Woods <Megan.Woods@parliament.govt.nz>
Cc: **Hon Stuart Nash**
Subject: \$40m factory to build 3,000 houses sits idle
Importance: High

Dear Minister Woods,

We request your urgent personal attention to a matter of national interest relating to your housing portfolio.

I refer to the letter attached from the GM Construction and Innovation at Kainga Ora (KO) regarding the new \$40 million CLT factory in Rotorua that is due to commissioning in February. Currently it sits idle (see attached)

KO is an extensive user of CLT (Cross Laminated Timber), for its speed of construction, lower building cost and environmental sustainability. CLT panels produced in factory require less builders to construct and therefore mean more houses can be built to alleviate New Zealand's housing shortage.

There is no CLT factory in New Zealand, so the government, through the Provincial Growth Fund, encouraged the construction of this factory and provided a \$15m loan. The specific objective on the loan document is to be able to construct 3,000 houses annually. The current CLT supplier is 300km from Melbourne and severely susceptible to the international shipping disruptions. This is jeopardising the KO's potential to achieve its housing unit construction targets. It also means KO is paying too much for CLT structures.

The Red Stag CLT factory represents:

- * the largest factory investment into house construction in New Zealand
- * the largest such investment in the forestry sector
- * a major employer of iwi in Rotorua – an area severely impacted by the foreign tourist decline
- * the largest investment in low carbon building materials to support the government's Building for Climate Change programme, and low-carbon government building procurement policy.

These are all matters of serious national interest.

The factory is now ready for commissioning by 8 technical experts from Italy and Germany. However, because these large strategic investments of national interest have to try to book MIQ space through the same system as the public, it has been impossible to secure spaces. A block of 8 is required, and have been impossible to secure.

We have been reliably informed that the government holds a Contingency Allocation of MIQ spaces. We request your assistance to secure 8 of these spaces in February please.

If New Zealand's economy is to recover and not rely on monetary stimulus, and if we are to address crisis such as housing supply and affordability, iwi employment and climate change, then MIQ needs to be used strategically to support these scale investments. To date our requests of MIQ for space from the Contingency Allocation have been rejected. Yet students, actors, and sports teams are being prioritised.

I look forward to hearing from and working with your officials on this urgent matter.

Thank you in advance – regards,

Marty Verry

[cid:image001.png@01D6F555.F9D21B90]

From: [Special Allocation Requests](#)
To: s9(2)(a)
Subject: MIQ-EAR-002242-BOL4 - Emergency Allocation Application outcome
Date: Sunday, 17 January 2021 7:01:54 pm

Kia ora

We have considered your emergency allocation application and we regret to advise you that we have not been able to grant your application for the date you have specified.

From the information provided, we are not satisfied that urgent travel to New Zealand is required for national security, national interest or law enforcement reasons.

If you still want to travel, your account in the Managed Isolation Allocation System (MIAS) is still valid. Flights and travel plans are frequently changing, and we recommend that you either continue checking the MIAS for your preferred date or select an available arrival date.

If you are dissatisfied with this decision, please find more information on how to contact us to submit a complaint at <https://www.miq.govt.nz/about/contact-us/>.

Ngā mihi
Emergency Allocation Team

MANAGED ISOLATION & QUARANTINE

<file:///C:/Users/gillr2/AppData/Local/Temp/msohtmlclip1/01/clip_image001.png>
www.govt.nz<<http://www.govt.nz/>> - your guide to finding and using New Zealand government services

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----- Original Message -----

From: s9(2)(a) ;
Received: Fri Jan 15 2021 23:40:16 GMT+1300 (New Zealand Daylight Time)
To: Special Allocation Requests; MIQ EAR;
Cc s9(2)(a)
Subject: Red Stag Wood Solutions Request for Specially MIQ Space Under Criteria 2d (refer to attached)

To whom it may concern:

Please find four of nine special MIQ quarantine space requests for the essential applications associated with the Essetre/Esse2 components of the Red Stag Wood Solutions Limited (RSWS) critical project of national significance in Rotorua.

The attached applications have supporting information combined in each pdf at the rear (applications are effectively the same outside of each individual critical resources specific personal details).

If you have any questions or concerns, or require additional information, please do not hesitate to contact me directly anytime.

A second email package for applicants five to nine associated with the Weinig component of the project will be sent in a second email (I am just waiting on each applicants mobile number, email address and flight details that they intend to arrive on from Germany [details expected no later than 19 January 2021])

With kind regards,

s9(2)(a)

Managing Director

P

s9(2)(a)

M

s9(2)(a)

F

s9(2)(a)

E

s9(2)(a)

W

www.redstag.co.nz<[http://www redstag.co.nz/](http://www.redstag.co.nz/)>

RED STAG INVESTMENTS LTD, Waipa State Mill Road, Rotorua | Postal: 53 Ingram Road, Rukuhia, Hamilton 3282, New Zealand

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From: [Special Allocation Requests](#)
To: s9(2)(a)
Subject: MIQ-EAR-002324-H4R7
Date: Friday, 22 January 2021 11:57:31 pm
Attachments: [image.png](#)

Kia ora

We have considered your emergency allocation application and we regret to advise you that we have not been able to grant your application for the date you have specified.

From the information provided, we are not satisfied that urgent travel to New Zealand is required for national security, national interest or law enforcement reasons.

If you still want to travel, your account in the Managed Isolation Allocation System (MIAS) is still valid. Flights and travel plans are frequently changing, and we recommend that you either continue checking the MIAS for your preferred date or select an available arrival date.

If you are dissatisfied with this decision, please find more information on how to contact us to submit a complaint at <https://www.miq.govt.nz/about/contact-us/>.

Ngā mihi
Emergency Allocation Team

MANAGED ISOLATION & QUARANTINE

----- Original Message -----

From: s9(2)(a) ;
Received: Mon Jan 18 2021 16:38:34 GMT+1300 (New Zealand Daylight Time)
To: Special Allocation Requests; MIQ EAR;
Subject: Red Stag Wood Solutions Request for Emergency MIQ Space Under Criteria 2d (refer to attached)

To whom it may concern:

Please find five of nine special MIQ quarantine space requests for the essential applications associated with the Weinig components of the Red Stag Wood Solutions Limited (RSWS) critical project of national significance in Rotorua.

The attached applications have supporting information combined in each pdf at the rear (applications are effectively the same outside of each individual critical resources specific personal details).

If you have any questions or concerns, or require additional information, please do not hesitate to contact me directly anytime.

Applications 1 -4 were made on Friday, 15 January for the Essetre/Esse 2 component of the project.

With kind regards,

s9(2)(a)

Managing Director

P

s9(2)(a)

M

s9(2)(a)

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s9(2)(a)

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From: s9(2)(a)
To: specialallocation@miq.govt.nz
Cc: s9(2)(a)
Subject: Red Stag Wood Solutions Request for Specially MIQ Space Under Criteria 2d (refer to attached)
Attachments: s9(2)(a)

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With kind regards,

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From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Reducing Carbon Emissions in Building and Construction - draft procurement guidance for feedback [UNCLASSIFIED]
Date: Thursday, 18 February 2021 8:27:19 am
Attachments: [image002.png](#)
[Reducing Carbon Emissions Second Consult Draft.docx](#)

Stu, not sure if I'm meant to send this to you, but just as a heads up...

The below and attached is a good signal that the government is serious about Building for Climate Change and government's procurement role. One inconsistency with what you want is highlighted below in yellow, whereby "MBIE is currently reviewing with Ministers the potential for agencies' to confirm through a Notice of Procurement on GETS (where required under the Government Procurement Rules), whether the design option selected to go to market is the lowest carbon option."

That seems set up the system such that the default is the status quo, and agencies can use GETS to signal when the lowest carbon option is sought (opt-in)? To achieve the policy and climate objectives, surely the status quo (default) should be the lowest carbon option, with the potential to opt-out (prisons, harbour crossings, horizontal construction...)

Regards,
Marty

From: Chris May <Christopher.May@mbie.govt.nz> **On Behalf Of** Construction Advisory
Sent: Monday, 15 February 2021 5:03 PM
To: Construction Advisory <ConstructionAdvisory@mbie.govt.nz>
Subject: Reducing Carbon Emissions in Building and Construction - draft procurement guidance for feedback [UNCLASSIFIED]

Good afternoon,

There is an expectation that government will be leading the way in reducing carbon emissions through the Building for Climate Change Programme. To this end we have prepared guidance (to be published on the web) on enabling those involved in government projects steer a project towards the goals of the Building for Climate Change Programme, while influencing the sector along the way.

The guidance is titled:

Procurement Guide to Reducing Carbon Emissions in Building and Construction

A practical guide to understanding upcoming changes in the building and construction sector and the steps you can take in procuring new building and construction projects.

We are seeking feedback from a number of government agencies and representative industry bodies on the latest draft of this guidance. We appreciate that some of you may be much more advanced in this area and we would welcome your feedback on how we might include further practical guidance and tips for those less experienced.

In the context of reviewing the document it should be emphasised that the latest draft guidance is not a technical document. It does not attempt to set out a methodology or standard for carbon measurements, and is not intended to provide guidance on product selection.

MBIE is currently reviewing with Ministers the potential for agencies' to confirm through a Notice of Procurement on GETS (where required under the Government Procurement Rules),

whether the design option selected to go to market is the lowest carbon option. Your views on this would be appreciated.

The target for receiving feedback on this revised draft is **by close of business Monday 1 March**. We thank you in advance for your contribution and look forward to hearing from you.

Kind regards

Construction Procurement Advisory Team

New Zealand Government Procurement and Property

Ministry of Business, Innovation & Employment

ConstructionAdvisory@mbie.govt.nz

25 The Terrace, Wellington 6011

www.procurement.govt.nz | www.constructionaccord.nz



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Procurement Guide to Reducing Carbon Emissions in Building and Construction

A practical guide to understanding upcoming changes in the building and construction sector and the steps you can take in procuring new building and construction projects.

What this guide is for

This guide is intended to help people involved in the procurement of building and construction projects understand how they can influence change in reducing carbon emissions.

It is intended to complement MBIE's construction procurement guidelines for improving sustainability, and aligns with the construction procurement guidelines Construction Project Governance, Project Brief and Whole-of-life.

NOTE: This is not a technical document. It does not attempt to set out a methodology or standard for carbon measurements, and is not intended to provide guidance on product selection.

[Construction Procurement Guidelines](#)

Who can use this guide

As a major procurer of building and construction projects, government agencies have a significant influence in effecting change within the sector to reduce carbon emissions. From defining project objectives through the development of the Project Brief, through to specifying the requirements of suppliers, and assessing capabilities of suppliers through tender selection processes.

This guide is not limited to government agencies. Organisations in the private sector new to this area may find this guide useful as the forthcoming changes within MBIE's Building for Climate Change Programme will apply to all new building and construction projects. The supplier market may also find this guide useful in positioning themselves to respond to future tender opportunities. E.g. design consultants bidding into projects for design services.

A number of government agencies, interested organisations within the sector, and industry representatives of the Construction Accord have contributed to the content and have provided feedback in the development of this guide.

[Construction Sector Accord](#)

Background

Government has signaled a clear commitment to reduce carbon emissions, with proposed changes to the regulatory framework in the building and construction sector.

The building and construction sector is a large contributor to greenhouse gas emissions from producing materials, constructing buildings and the energy used in buildings. It is estimated that construction contributes around 20% of New Zealand's greenhouse gas emissions (Thinkstep, 2018). The building and construction sector must play a major part if New Zealand is to reach its climate change goals, including net zero carbon by 2050.

MBIE's Building for Climate Change Programme

The Building for Climate Change Programme will deliver targets to drive transformation, provide the tools the sector needs to meet new challenges, and establish a system that delivers lasting change. This will be done through two frameworks that work together to:

- Improve the operational efficiency of buildings which will reduce energy and water use, and improve ventilation and indoor environmental qualities of buildings. Improved efficiency will lead to lower operational emissions, also known as operational carbon, from buildings.
- Reduce the whole of life embodied carbon of buildings which includes greenhouse gas emissions generated from:
 - production of construction materials;
 - construction process;
 - construction waste disposal; and
 - disposal at the end of a building's life.

These frameworks will set out a series of caps the sector will have to remain under for new building and construction projects, and will tighten up over time. These caps are envisaged to initially require reports to be prepared as part of applications for a building consent, and then be introduced as mandatory caps that a building or construction project must not exceed to secure a consent or code compliance certificate.

[Building for Climate Change Programme](#)

Carbon Neutral Government Programme

The Carbon Neutral Government Programme will require public sector agencies to measure and publicly report on their emissions, and to offset any they cannot cut by 2025. Crown agencies will have to measure, verify, and report emissions annually.

[Carbon Neutral Government Programme](#)

Transitioning to a net zero emissions economy

The Government Procurement Rules also support the Government's goal of transitioning to a net zero emissions economy by 2050, and significantly reducing waste by 2020.

Agencies are encouraged to support the achievement of positive environmental outcomes through sustainable procurement by buying low emissions and low waste goods, services and works. It is a mandatory requirement for some contracts (known as designated contracts) to report performance in this area.

Broader Outcomes

Whole of life embodied carbon and operational carbon

You have the greatest opportunities to reduce whole of life embodied carbon and operational carbon at the planning and design phases of a project (see figure 1).

At the beginning of identifying a business need, you can significantly reduce carbon by considering other options that do not result in a new building. For example, consider other options at the business case stage, such as:

- improving how an existing space is used;
- changing ways of working;
- refurbishing an existing building to enhance its usability;
- or leasing instead of building.

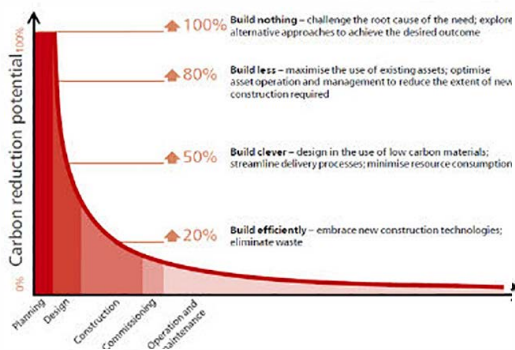


Figure 1 - carbon reduction potential over time and illustrative relative savings of decisions to build
(Green construction Board after HM Treasury, *Infrastructure Carbon Review*, (Nov 2013))

According to the American Institute of Architects, renovation and reuse projects can save between 50 and 75 percent of the whole of life embodied carbon when compared to commissioning a new build,

especially when the existing foundations and structure are re-used (where most of the whole of life embodied carbon is fixed).

The relationship between whole of life embodied carbon and operational carbon over time

The focus on reducing the environmental impact of buildings has been mainly focused on increasing operational efficiency. However, there is a growing interest in reducing whole of life embodied carbon, both in New Zealand and globally. This is due to the increasing scrutiny on the carbon emissions generated from building materials and products, not just the operation of buildings, and the realisation that when buildings are operated more efficiently, the significance of whole of life embodied carbon increases (Figure 2).

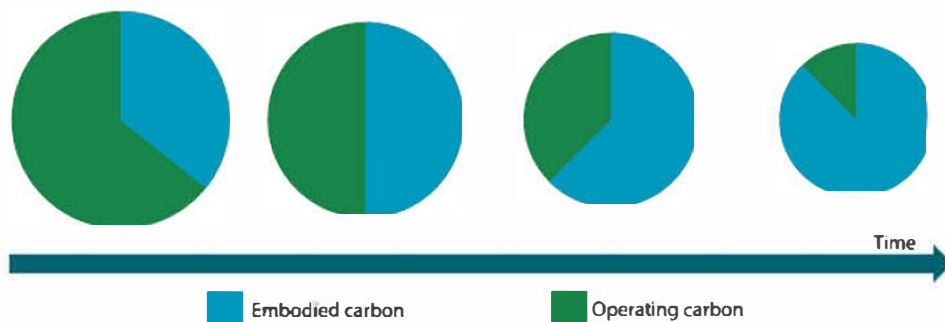


Figure 2 - As operational carbon reduces over time, whole of life embodied carbon becomes more significant over the life of a building.

Where carbon emissions relate to the building lifecycle

Whole of life embodied carbon is largely fixed by the time a building or construction project arrives at the construction stage through key design decisions made on the systems and materials to be used. Whole of life embodied carbon includes embodied carbon generated through life cycle replacement of materials like windows or doors, as well as the disposal of a building at the end of its life (e.g. demolition). The opportunity to significantly reduce embodied carbon over the useful life of a building or construction project will be influenced by the choices made during the initial design stages.

Operational carbon relates to emissions occurring when the building is in use. These emissions are ongoing because of their energy and water usage. Good design is necessary for efficient energy and water usage, as well as effective management and monitoring when the building is in use.

Whole of life embodied carbon is not subject to how the building is used so it is possible to more accurately predict these emissions.

Figure 3 illustrates how whole of life embodied carbon and operational carbon relate across the building lifecycle.

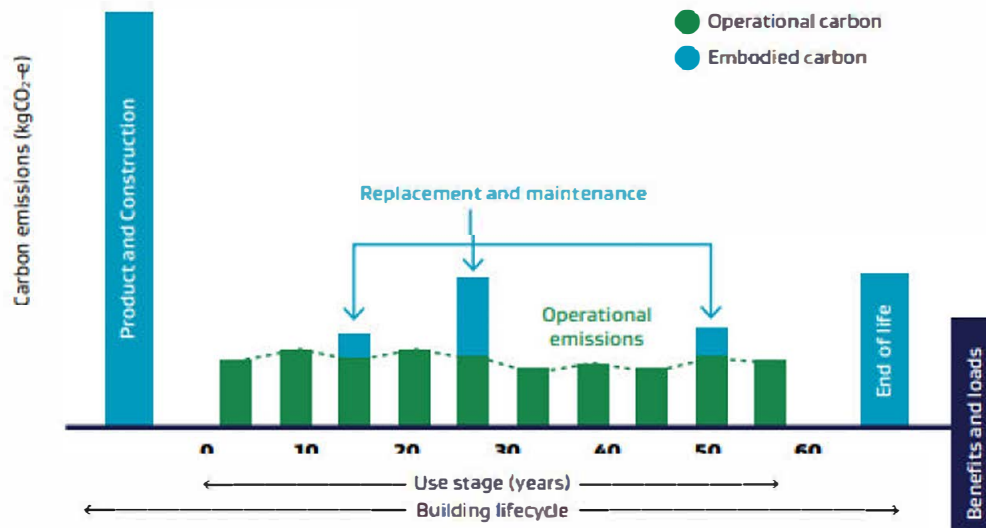


Figure 3 – how embodied carbon and operational carbon relate over the building lifecycle

Where to begin

Prioritise the key areas that will require the least effort to deliver the biggest savings:

- For whole of life embodied carbon, focus on the components of a building that will deliver the biggest savings in the planning and design stages (see example below).
- For operational carbon, adopt the initial targets set within MBIE's Building for Climate Change Programme.
- Develop a Carbon Brief as part of the Project Brief. This will identify key priority areas for you and your project team, and set out the agreed approach and targets for reducing whole of life embodied carbon and operational carbon.

Focus areas for whole of life embodied carbon reduction

A large part of the whole of life embodied carbon from a building project is captured in the structural frame, floors and foundations. Figure 4 shows where most of the whole of life embodied carbon typically sits within a building project and may be useful to support targeted areas for consideration.

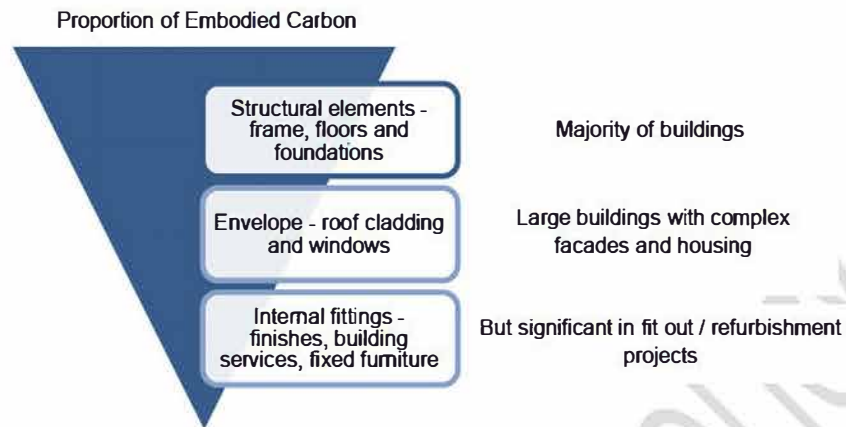


Figure 4 - relative impact of different components of a building on reducing whole of life embodied carbon for a new build project.

Reducing whole of life embodied Carbon through on site activity

You can lower the whole of life embodied carbon from on-site construction activities through:

- good waste management;
- efficient transport of materials; and
- efficient on-site energy usage.

Some studies indicate that the contribution of on-site activity to the total whole of life embodied carbon emissions for a building project is relatively small ([see for example, the UK Green Building Council's Embodied Carbon: developing a Client Brief, 2017](#)). While the biggest opportunities for savings lie in the design, best practice approaches by construction companies are important aspects to consider in the tender selection process.

Green Star and NABERSNZ

Green Star and NABERSNZ are points based rating systems that consider a wide range of factors to assess the overall environmental impact of a building. The difference between the two is that Green Star rates the design of the building (both at the conceptual and at the 'as built' stages) and NABERSNZ rates the effectiveness of the operation of the building (after it is built and is operational).

NOTE: Carbon emissions calculations prepared to support a future building consent application or code compliance certificate have a much more targeted focus. This is likely to complement rather than replace wider evaluation tools such as Green Star and NABERSNZ.

[Green Star](#)

[NABERSNZ](#)

How to develop a Carbon Brief

A Carbon Brief describes how you will develop an effective approach to reducing whole of life embodied carbon and operational carbon through planning and design. It is a part of the Project Brief, therefore it should be approved by the project sponsor(s) and SRO to ensure commitment from the top.

TIP: Think about the points of intervention available, and where the points of influence will be in terms of planning and design before a project goes out to tender.

Why you should use a Carbon Brief

The Carbon Brief should be used when going to market for consultant services. It gives consultants the opportunity to respond with innovate proposals to meet or go beyond the requirements. It can also be used as a key focus for evaluating proposals.

Once you have chosen external consultants, you can finalise the Carbon Brief to reflect accepted proposals and on-board the team with a focus on reducing carbon emissions during the design process.

[NZCIC design guidelines](#)

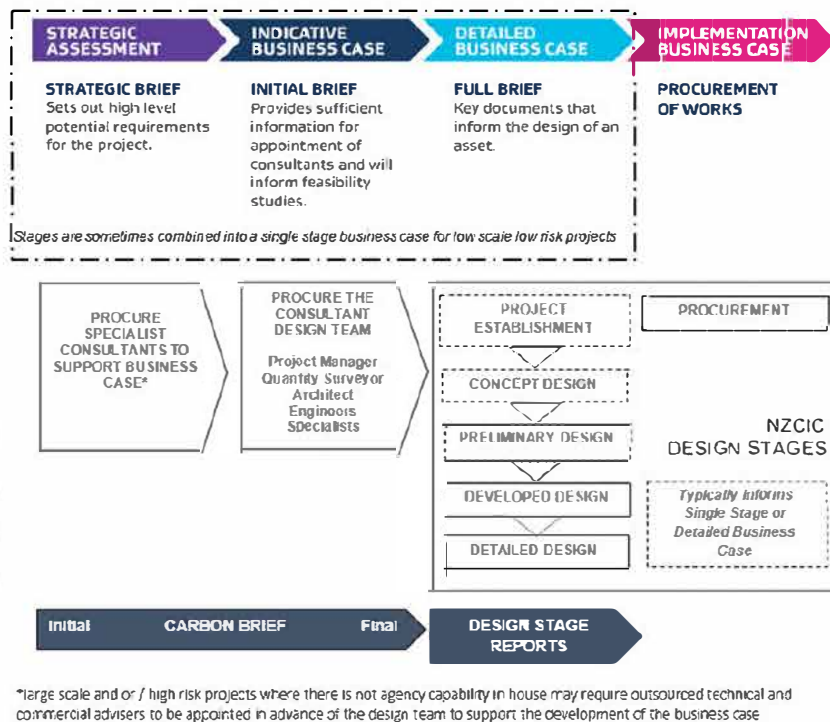


Figure 5 - illustrative model of relationship between Project Brief, Treasury's Better Business Case process, procurement of the consultant team, NZCIC design stages, and Carbon Brief.

What to include in the Carbon Brief

Objectives

- Spell out the drivers for change in the brief, e.g. Building for Climate Change, Government Carbon Neutral Programme, Government Procurement Rules Broader Outcomes, and strategic objectives of the organisation.
- Clarify your specific requirements. E.g. “We want to understand the carbon emissions generated for the design at each stage of the design process, and we want to achieve initial caps set through MBIE’s Building for Climate Change Programme as a minimum while achieving cost effective design.”
- State that initial caps set through MBIE’s Building for Climate Change Programme are a minimum standard, and seek proposals from the market when procuring consultancy services to improve on this.
- Include bold performance outcomes in the brief rather than small incremental changes. Bold changes require fresh thinking and solutions.
- Identify the main areas that will drive the biggest savings and consider where you are in terms of your capabilities, for example if you are new to this and do not have much experience, you could focus as a first step on targeting the main components of a building.

People

- Define who within the agency will be accountable for ensuring that carbon reporting is applied throughout the planning and design phase.
- Define who will be responsible for carbon reporting and make sure they have appropriate authority to be involved in key design decisions so that carbon reporting drives early decision making rather than becoming an auditing tool.
- For larger or complex projects, identify a requirement for bringing in specialist expertise to provide a dedicated focus and drive to supporting the design team in driving carbon reductions through the design process.
- Identify who has the largest influence in driving down carbon emissions. E.g. a traditional delivery model will result in agency influence, while a design and build model may result in greater influence from a building or construction contractor.
- Set out the project team’s responsibilities in reporting on carbon emissions and who will act as lead. E.g. if you are targeting the foundations and structure you may want to appoint the Engineer as the lead for reporting.

Reporting

- Align calculations and reporting to the Building for Climate Change Programme's framework for consistency and to develop familiarity.
- Define how the requirements for carbon measurement and reporting will be communicated to the project team, for example, in Requirements documents, Scopes of Services, Requests for Proposals, Contract documents etc.
- Set out when the measurements will commence and how many check points will be required for reporting, and for engaging with the agency for key design decisions. The NZCIC design stages are a useful basis for this requirement.

Considerations for procuring the consultant team

- Include evaluation criteria in requests for proposals that focuses on a consultant's expertise in reducing whole of life embodied carbon and operational carbon through innovation in design.
- Include the Carbon Brief in Request for Proposals and ask consultants to respond with their proposed methodology and approach to meeting and exceeding requirements.
- Select consultants that have a track record in reducing whole of life embodied carbon and operational carbon through good design, and request previous examples from previous design and construction projects.
- Use the Carbon Brief to build effective relationships with your project team including project manager, quantity surveyor, architects, engineers, designers, contractors, and sub-contractors and suppliers to build and align a common understanding of your vision and goals.
- Allow your design team the freedom to innovate to meet the objectives of the Carbon Brief.

From: [Marty Verry](#)
To: [Hon Stuart Nash](#), [s9\(2\)\(a\)](#)
Subject: FW: Timber shortage
Date: Monday, 29 March 2021 10:33:19 am
Attachments: [image001.png](#)
[Press release - Timber shortage.docx](#)

Stu - this explains. M

From: Marty Verry [s9\(2\)\(a\)](#)
Sent: Monday, 29 March 2021 10:09 AM
To: [s9\(2\)\(a\)](#)
Cc: Marty Verry [s9\(2\)\(a\)](#)
Subject: Timber shortage
[s9\(2\)](#) her you are. Talk soon.
(
Regards,
Marty

 **Marty Verry**
Group CEO - Chair
[s9\(2\)\(a\)](#)
[www.redstag.co.nz](#)
Box 213, Kumeu, Auckland 0841, NZ



Opinion - 29 March 2021

Four causes of timber shortage and what can be done

By Marty Verry, Red Stag group CEO

The current shortage of framing timber in New Zealand is a result of a global phenomenon compounded by unfortunate timing missteps by New Zealand's largest supplier Carter Holt Harvey (CHH).

A year ago, the construction industry was at the top of the cycle. Sawmillers, like any manufacturers, invest in capacity based on forecast demand. Then Covid arrived, interest rates were slashed, borders were closed, and people around the world decided that was a great time to build the bach, extend the house, or catch up on the global housing shortage. A further building boom ensued, pushing demand beyond what was already the top of the natural market cycle.

There are now similar shortages in Australia, UK, Europe and the USA. This also explains why New Zealand cannot readily turn to imported framing timber to solve this short-term problem.

Missteps

The global shortage might not have affected New Zealand had it not been for two events at CHH in the last 18 months.

To put this in context one needs to understand the structure and trends in the framing supply market in New Zealand. There is a long term global trend toward very large scale sawmilling operations, and consolidation of the sector as a result. Red Stag has led this with the construction of the Southern Hemisphere's largest sawmill in Rotorua. It produces over 600,000 cubic meters of timber annually and supplies 25 percent of the New Zealand framing market.

CHH owned the second, third and fourth largest sawmills based in Kawarau, Whangarei and Nelson respectively, with around 45 percent market share. In response to a shortage of high density 'structural' sawlogs in Northland – created due to the overcutting on young forests for export a decade ago – CHH elected to close the Whangarei mill and scale up the Kawarau mill. That was an entirely rationale things to do and something the industry expected would happen for many years.

It would have been fine had the Kawarau upgrade worked as planned. Unfortunately, the upgrade required an extra long Christmas shut this year and the site has struggled to produce the capacity expected since then. I expect it will in due course; these things can take some time.

With the benefit of hindsight, it would have been better to await the successful Kawarau upgrade before closing the Whangarei mill this time last year.

Shortage

All this has created a shortage of timber over the traditionally busy summer and autumn period. CHH was struggling to supply its sister company Carters and its supply contract to PlaceMakers, whilst also supporting customers from other merchant chains, some of which the mills had supplied for decades. Something had to give. The surprising move came on Tuesday last week when ITM, Mitre10 and other independents were informed that their supply would be stopped forthwith.

It is important to note that not all stores in these chains are affected. Red Stag supplies many of the larger stores in these chains as well as PlaceMakers so its customers will be largely unaffected. Others have good relationships with other sawmills, of which there are around two dozen.

What tends to happen in these circumstances is suppliers look after their most loyal historic customers. Merchants will do the same. Those that miss out are likely to be the customers that have shopped around too much, haggled too hard on price, paid late, or been difficult to deal with. The point is, it will be business as usual for much of the industry.

Options from here

My estimate is that there is a shortage of 5-10 percent currently in New Zealand. Others may say more, but what typically happens is the short-supplied stores or customers search around the market for supply giving the impression that there is more shortage than there really is. However, even at 5-10 percent this is a problem at a time when the government is trying to scale up construction.

Red Stag and the other sawmills will flex to try to supply more in the short term, but capacity is already stretched. It takes several years of planning, plant manufacture, ordering and installation to bring on meaningful capacity in sawmilling. In Red Stag's case it has increased capacity from 200,000 to over 600,000 cubic meters in the last 15 years, and will likely push on to 1 million capacity in the coming decade.

One of the issues in the short term is that customers are committed to three months in advance, meaning it is hard to divert volume from export customers already committed to. Once CHH gets comfortable with its Kawarau output and stocking levels I expect it will make volume available again to spurned customers. That might take until June, when things start to slow down a bit in the market anyway due to winter. The proviso here is whether this is a market share play by CHH's owners Rank Group to sell its sawmills – something it has been trying to do for over a decade.

Government's role

The main volume of new material coming into the New Zealand market will be from the new Cross Laminated Timber (CLT) factory in Rotorua, which will open in May. The Red Stag factory has the capacity to supply 2,000 apartment units annually, so around 5 percent of New Zealand's housing needs, and much of the current timber shortage if the market adjusts to use that product.

CLT is ideal for mid-floors of terraced houses, so will also help alleviate the market shortage of 'wide' boards.

Kaianga Ora is the most experienced user of CLT in its apartment blocks of 3 storeys and above. It forecasts building hundreds of dwelling units annually with the product, yet it makes up only a portion of its build programme.

If the government wanted to act strategically to alleviate the timber shortage, it would focus Kaianga Ora on using a lot more CLT, and in doing so free up framing timber for the general market to use.

Across the foregoing factors, I expect the timber supply could be back in balance in six months.

Marty Verry

s9(2)(a)



From: Hon Stuart Nash
To: Hon Stuart Nash
Subject: FW: Mid-Rise timber demonstration building in Christchurch - your invitation
Date: Friday, 23 April 2021 1:31:59 pm
Attachments: [image001.jpg](#)
[Clearwater Quay Open Day Invitation Final.pdf](#)

Hi Minister
Will log as correspondence for Forestry forwarding as FYI.
Anna

From: Marty Verry (mailto:s9(2)(a))
Sent: Friday, 23 April 2021 12:59 PM
To: Hon Stuart Nash <Stuart.Nash@parliament.govt.nz>
Subject: Mid-Rise timber demonstration building in Christchurch - your invitation

Dear Minister Nash
Christchurch is the site of the first showcase construction project demonstrating mass-timber construction to 5 storeys.
The build is part of the 'Mid-Rise Wood - Primary Growth Partnership' programme, which is a partnership between MPI and Red Stag. <https://www.mpi.govt.nz/funding-rural-support/primary-growth-partnerships-ppgs/current-ppg-programmes/mid-rise-wood-construction/>
The building under construction leverages the latest in mass timber solutions: CLT (Cross Laminated Timber), LVL and pre-fabrication. These solutions are key to New Zealand's low carbon economy in the years ahead.
The site visit is an opportunity for design professionals, regulators, BCAs and project owners to understand these solutions first hand and hear from the project team. This invitation is to attend one of the 2 structured site visits on either 13 or 14 May. (see attached). You can register on this link, or by return email <https://www.eventbrite.co.nz/e/clearwater-quays-industry-open-day-registration-146678255611>. We look forward to the opportunity to host you and/or key members of your team.

Regards
Marty

Marty Verry
Group CEO - Chair
s9(2)(a)
www.redstag.co.nz
Box 233, Kumeroa, Auckland 0841, NZ



CLEARWATER QUAYS INDUSTRY OPEN DAYS

1:00pm - 4:00pm

Thursday 13th May 2021

Friday 14th May 2021

TO REGISTER,
[CLICK HERE](#)



WHAT?

Three Hour Site Visit & Design Seminar on Engineered Wood in Mid-Rise Construction

You are invited to register to attend an industry-only open day and site visit to an innovative new engineered wood apartment building under construction. The project, part of a Ministry for Primary Industries (MPI) / industry partnership is a 5-storey (10 apartment) demonstration building combining cross laminated timber floors and stairs, a novel moment-resisting laminated veneer lumber portal frame system and prefabricated walls. Choose from either of the two site tour dates. Limited spaces available.

Programme Presentation Content:

- Overview of the Mid-Rise Wood Construction programme
- Overview of the build, structural design, acoustic, fire, challenges overcome, cost-comparisons and Embodied Carbon calculation and comparisons.

WHERE & WHEN?

Choose either 13th or 14th May

Both dates will be running the same workshop.

1:00pm Site Visit: Clearwater Quays building site, Rotoiti Lane, Clearwater Resort, Christchurch

2:15pm Presentation + Q&A: Peppers Clearwater Conference Rooms, Clearwater Avenue, Christchurch

WHO?

Future Focused Industry Professionals

Architects & architectural designers, property developers, quantity surveyors, estimators and engineers. Please note that numbers are limited so register early to ensure your place.

This is a FREE event for developers, investors and practicing building and construction professionals.

Proudly Hosted By:



Ministry for Primary Industries
Manatū Ahu Matua



SPEAKERS:

MARTY VERRY, RED STAG INVESTMENTS

Marty is Group CEO of Red Stag Timber & Investments and the driver of the government-industry partnership to showcase engineered wood in commercial and multi-residential building - the Ministry for Primary Industries Primary Growth Partnership (PGP) for Mid-Rise Wood Construction. The programme aims to encourage the use of New Zealand grown timber, mainly in the form of engineered timber products particularly cross laminated timber (CLT) panels, in the construction of mid-rise buildings using pre-fabrication. Red Stag runs the country's largest sawmill and CLT factory.

Marty has conceived and brought this vision to reality by working in partnership with industry 'Collectives of Excellence' to design and build Clearwater Quays - the 5-level apartment development at Clearwater Resort Christchurch.

MIKE NEWCOMBE, DIRECTOR & ENGINEER, ENOVATE

Mike has a masters from the European School for Earthquake Engineering and a Doctorate in the design of multi-storey timber buildings. His recent professional experience includes over two years as general manager of an Auckland-based structural engineering office, designing and reviewing numerous residential, industrial and commercial structures.

Mike is sought after as a timber technology expert by a broad range of clients and teaches timber engineering at professional seminars. Mike's roles within Enovate are business development, structural design and review of new residential, commercial and educational projects, and the design and development of alternative structural systems.

BARRY LYNCH, DIRECTOR / CHARTERED QUANTITY SURVEYOR, LOGIC GROUP

Barry is a Chartered Quantity Surveyor with 20+ years' experience in commercial, pharmaceutical and residential construction. Barry led the design stage cost estimation and budgets for this project and supervises the QS team delivering the construction stage financial controls.

Barry's team used innovative Building Information Modeling (BIM) / Virtual Design Construction to develop a parametric digital twin BIM model for Clearwater. This quantity surveying (QS) cost model is a new innovative approach to cost estimation adding value through clash detection, design audit and methodology development. It is scalable to all project sizes and provided at no additional cost to the project. The QS team also use other technological approaches to track the project, including AI financial control software, drone and cloud point surveys.

SAM CADDEN, DIRECTOR, LOGIC GROUP

From his strong technical background, Sam approaches projects in a disciplined, systematic and considered manner. He and his teams work from project conception to ensure the correct systems, procedures and overall governance is adopted. He is always focused on the delivery of exceptional project results for his clients.

PHIL TOMKINS, SITE PROJECT MANAGER & LICENSED BUILDING PRACTITIONER, CONSTRUCTION SOLUTIONS CENTRAL

Phil is a self-employed Project Manager. He is regularly engaged by a wide range of project management and building construction companies for working on anything from asset management plans right through to maintenance on existing dwellings.

FOR FURTHER PROJECT DETAILS SEE:

[Photo Gallery](#)

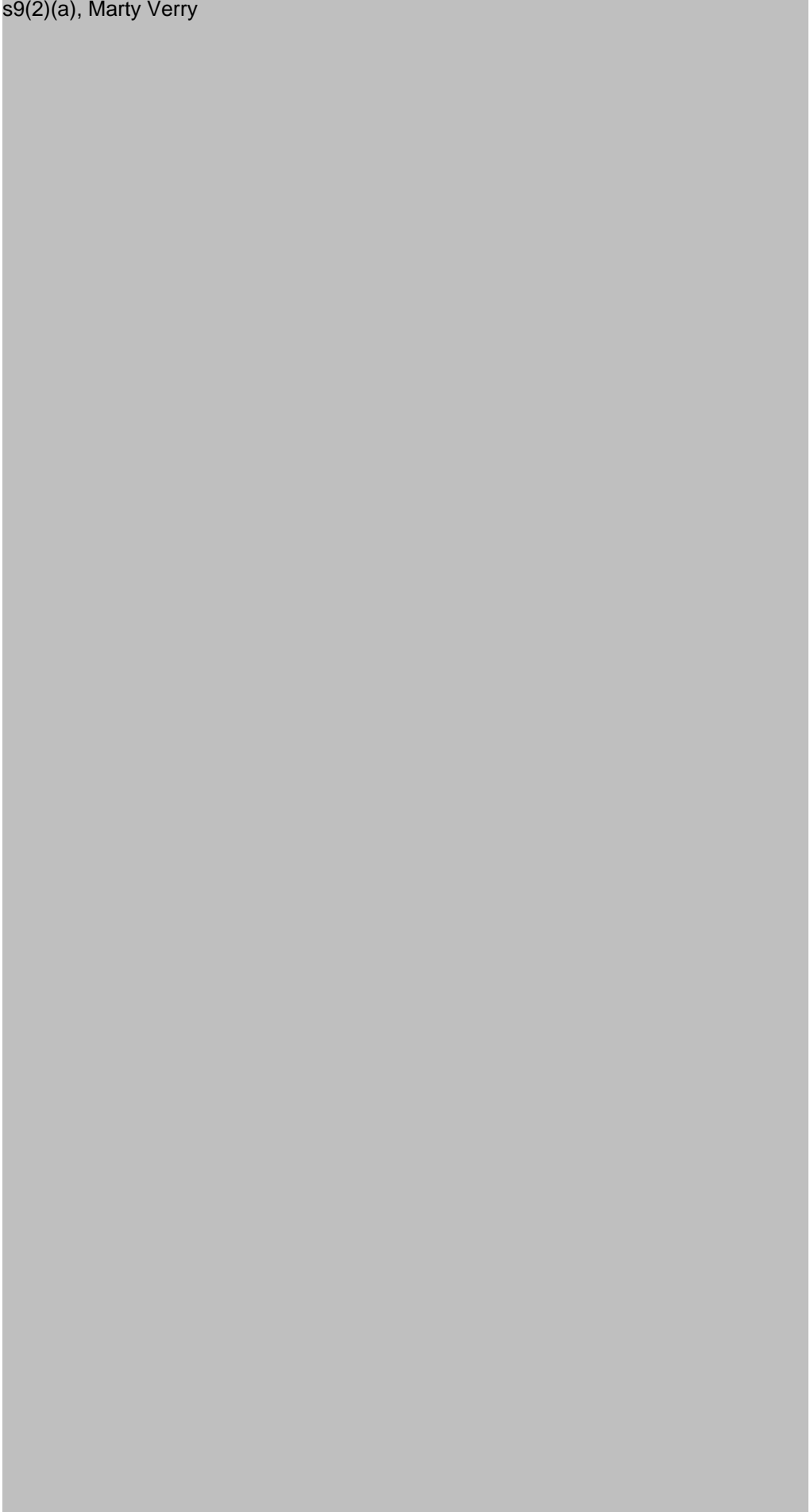
[About Clearwater Quays](#)

[Ministry for Primary Industries Media Release](#)

[TO REGISTER FOR THE OPEN DAY, CLICK HERE](#)

From:
Bcc:

[S.Nash \(MIN\)](#)
s9(2)(a), Marty Verry



s9(2)(a)

Subject: Announcement by Minister of Forestry
Date: Thursday, 29 April 2021 11:33:00 am
Attachments: [image001.png](#)

Good morning

On behalf of the Minister of Forestry Stuart Nash I wish to inform you of a significant announcement for the sector this morning.

Mr Nash has today given a speech in Rotorua where he outlined a new role for a public forestry service.

Stuart Nash announced *Te Uru Rākau (Forestry New Zealand)* will be renamed *Te Uru Rākau - New Zealand Forest Service*, and will shift its operational headquarters from Wellington to Rotorua.

You can find a copy of his announcement, and a document outlining his vision for forestry, at the following link: <https://www.beehive.govt.nz/release/greater-role-public-forestry-service>

Kind regards, on behalf of Hon Stuart Nash

Anna Weir

Private Secretary (Executive Support) to Hon Stuart Nash

Minister For Economic and Regional Development, Forestry, Small Business and Tourism

MP for Napier

5.3L Parliament Buildings

Private Bag 18041 | Parliament Buildings | Wellington

anna.weir@parliament.govt.nz



From: [Marty Verry](#)
To: ^{s9(2)(a)} [Hon Stuart Nash](#)
Cc: [Henry Weston](#); [Jason Wilson](#)
Subject: Letter of support for time-sensitive MIQ space to address the timber/housing shortage
Date: Monday, 2 August 2021 1:30:57 pm
Attachments: [image001.png](#)
[image002.png](#)

Dear Minister,

This may be related to the application you rang me about last week....?

We are trying to bring in 2 technicians to commission the new Red Stag Timber planer mill. This is a bottleneck for production. As you will be aware, the housing boom globally has resulted in excess demand for structural framing timber in all markets. The constraint is the sawmilling capacity globally and locally. The inability of supply to meet demand is resulting in a shortage of housing, homelessness, construction cost escalation and inflation. As New Zealand's largest sawmill, Red Stag is in a position to alleviate this pressure. A key piece of plant to do this has arrived, but requires international expertise to commission it. We are seeking a letter of support please from your office to expedite MIQ space for the following two technicians, both of which have border exemptions and flights booked:

Aug 30th for ^{s9(2)(a)}

Sept 6th for ^{s9(2)(a)}

We would appreciate your teams urgent assistance here.

Thanks in advance, and regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood
Solutions

www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

^{s9(2)(a)} - P O Box 213,
Kumeu 0841



Out of scope

From: Marty Verry s9(2)(a)
Sent: Friday, 27 August 2021 9:40 AM
To: s9(2)(a)
s9(2)(a)

'guy.tapley@mpi.govt.nz' <guy.tapley@mpi.govt.nz>; Oliver
Hendrickson <oliver.hendrickson@mpi.govt.nz>; s9(2)(a)

Stuart.Nash@parliament.govt.nz; s9(2)(a)

Subject: NZ Herald: Marty Verry: Building green - Stuart Nash on right side of climate history
Last weekend's article.

Regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood
Solutions

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s9(2)(a) - P O Box 213,
Kumeu 0841



From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Low carbon procurement guidelines [UNCLASSIFIED]
Date: Wednesday, 1 September 2021 11:22:08 am
Attachments: [image003.png](#)
[image004.png](#)

Hi Stu,

MBIE below confirms that the Low Carbon procurement rule only applies to construction projects over \$9m in value.

My understanding was that the 'Wood First' / Low Carbon building procurement policy was intended to apply to all building values and was mainly scale based. The \$9m threshold provides a significant loophole for many projects, including additional school classroom blocks and most KaingaOra projects – these are the large-volume areas to reduce emissions.

The Green Building Council Greenstar/Homestar rules are light on Embodied Carbon, as evidenced by their awards nights which are dominated by concrete and steel structures that are fundamentally destructive to the climate. Basically you can get sufficient star points for things like energy saving, bike parks and water collection and use. I have been having this debate with Green Buildings' CEO Andrew Eagles and they are re-calibrating next year, but even then it will not be a proxy for the Low Carbon procurement guidelines you published in June.

I assume the \$9m is more around WTO rules about local vs foreign procurement and tendering, and has no relationship to climate change per se.

I assume therefore Cabinet could make an exemption to the \$9m rule to close this loophole?

Regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood Solutions

www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

s9(2)(a) - P O Box 213,
Kumeu 0841



From: Coreen Adamson <Coreen.Adamson@mbie.govt.nz>

Sent: Tuesday, 31 August 2021 11:30 AM

To: Marty Verry s9(2)(a)

Cc: Richard Lee <Richard.Lee@mbie.govt.nz>

Subject: RE: Low carbon procurement guidelines [UNCLASSIFIED]

Kia ora Marty,

Your questions relate to the application of the Government Procurement Rules (Rules), which set the framework within which government procurement operates. Hopefully the following information provides clarification.

Anyone can use the Rules to help drive good procurement practice, but around 140 agencies must apply the Rules if a procurement is worth more than \$100,000 or \$9 million for new construction works, including:

- government departments
- New Zealand Police
- the New Zealand Defence Force, or
- most Crown entities

You can find out more about:

1. How the Rules apply to new construction works on the New Zealand Government Procurement website - [When the Rules apply - new construction works | New Zealand Government Procurement and Property](#)
2. The agencies that must apply the Rules, as well as those that are expected to and encouraged to follow the Rules, on the New Zealand Government Procurement website - [Mandated agencies - government procurement | New Zealand Government Procurement and Property](#). These lists do change over time as different types of agencies are established and disestablished.

I am staying safely locked-down here in Auckland, hope all is well with you.

Kind regards

Coreen

From: Marty Verry [s9\(2\)\(a\)](#)
Sent: Friday, 27 August 2021 5:06 PM
To: Coreen Adamson <Coreen.Adamson@mbie.govt.nz>
Subject: Low carbon procurement guidelines

Hi Coreen,

Been a while - I hope you're well.

Could you please help me with a couple of clarifications that I reckon you're the best person to know the answers:

1. Is there a \$9m threshold for inclusion of projects in the policy, and how exactly does the threshold rule work? Is it related to exemptions from having to select the lowest carbon option?
2. Which government departments and agencies are in (or out) of the requirements?

Many thanks - regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood Solutions

www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

[s9\(2\)\(a\)](#) - P O Box 213,
Kumeu 0841



www.govt.nz - your guide to finding and using New Zealand government services

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From: [Marty Verry](#)
To: [s9\(2\)](#); [Hon Poto Williams](#); [Hon James Shaw](#); [Hon Dr Megan Woods](#); Hon Stuart Nash
Subject: Green Star 5 - no market signal to wood sector
Date: Wednesday, 24 November 2021 9:43:24 am
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)

Hi Stu,

As the minister for MBIE, procurement and forestry-wood, I need to bring you up to speed on the market signals government thinks it is sending the building materials supply industry, but which are not having the effect you expect.

Having reviewed the following I am sure you will understand why Red Stag decided to put away the chequebook until we see some genuine commitment and consistency to reducing Embodied Carbon in policies and regulation.

Green Star 5

I read this press announcement about requiring Green Star 5 in government projects over \$9m:

<https://www.scoop.co.nz/stories/PA2111/S00142/climate-standards-for-new-govt-buildings.htm> and the following comment: "More sustainable building systems will help government agencies plan to reduce carbon emissions. The decision also sends an important signal to the construction, design and building supplies sector to **expand capacity and capability to meet demand**," said Stuart Nash.

Green star 5 requires 60-74 points out of the 100 potential. Using Structural timber gets just **3 points***, (and does not require any particular volume of structural timber.) Incredibly, **concrete gets 3 points also**, and steel gets 1 point. (* there is 1 more star for EWP under the Indoor Pollutants category and another point for using wood somewhere.) So designers can get Green Star rating 5 without the 3 points for structural wood, or can use minimal structural wood to get those ratings. This is by no means a market signal to expand capacity. Indeed, it is quite the opposite. It tells me there is no market demand for sustainable materials compared to steel/concrete, and no government requirement to use them. Equally, and ironically, it signals to the concrete and steel sector that there is no need to de-carbonise.

It has become very clear that the Green Star system has very little to do with 'climate change', despite the public expectation nowadays that 'green' means 'Climate Change' in these tools. Consequently, we see Green Star ratings and industry awards given to buildings made of steel and concrete that are massive emitters of Embodied Carbon and therefore highly and unnecessarily destructive to the environment. When it comes to 'climate change', Green Star has become an outdated tool inadvertently being used to green-wash high Embodied Carbon polluting projects. Now to be fair, the Green Star system is up for review. But it needs a very major overhaul to re-align with Climate Change and the biggest impact buildings can make this decade – Embodied Carbon. It may have been prudent for government to await the outcome of that review before stipulating Green Star 5. However, having done so, perhaps your plan is instead to influence NZGBC to ensure the Green Star system does start to reflect its role in addressing climate change? I would hope so. Red Stag will back the launch of an alternative rating system based on Climate Change, if need be.

Procurement Policy

We are starting to hear of developers targeting Embodied Carbon to attract government clients. However, the policy only applies to projects over \$9m value, and there is also a carve out for projects over \$9m where the CEO signs off a traditional build. This policy needs teeth to work. The \$9m threshold has no logical place here. It should apply to all. Department CEO exceptions need transparency and strict guidelines to ensure that carve out is not abused and the policy is implemented. As things stand, this policy is not bankable for the sector to invest against.

Building For Climate Change

The Green Star press release also refers to Building for Climate Change: "The programme **may** lead to specific reporting requirements and carbon caps which new building projects must meet as part of securing a building consent or code of compliance certificate." **This again does not send a market signal to the sector to invest, be it the sustainable sector or the hard to abate materials. If the government intends to address Embodied Carbon in materials, it should say so, not say it "may."**

Kainga Ora mixed messages

There are some encouraging signs coming from the department, however recently I was discussing the 5-Systems programme on LinkedIn with KaingaOra and got the following (also pasted graphic below): "**The project will show the MBIE Building for Climate Change's proposed Final Cap can be achieved by all common structural systems used in 3 Level walk-up apartment buildings**." We want to show we already have the technology, systems and processes available in the market for all parts of the industry to decarbonise their lifecycle emissions and play their part in transforming the sector."

The concern here is that MBIE does not have a Final Cap yet. It appears Kainga Ora may have predetermined that all materials already achieve the Building For Climate Change caps. The department of course has this wrong also, because buildings need to target a 50% drop in emissions by 2030 to be on track to play its part in climate change. But of concern is the message this sends the sector; that NZ's biggest developer does not see the need for investment in sustainable building materials because they are all fine already.



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Marty Verry · You
Group CEO - Red Stag Timber - CLT - Forests

1w

It will be interesting to see the results of the 3 sustainable options, but why the steel and concrete if climate change is the joint objective?

Like | Reply · 2 Replies

Lead the conversation by turning your comment into a post.
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Kāinga Ora - Homes and Communities **Author**

4d

22,094 followers

Kia ora Marty, we take a 'whole building/whole of life' approach and consider not just an individual material level, but how all materials function as a system related to durability, structure, fire, acoustics, lifecycle cost, construction and demolition waste, the indoor environmental quality, and energy use. We believe concrete and steel will always be part of New Zealand's construction industry, and we're really excited by the innovation ConcreteNZ is doing to decarbonise concrete.

We also have to balance supply and demand, and consider that for our sector to meet the considerable demand for new homes, we are going to need all structural systems/solutions available. Ngā Kāinga Anamata was developed to address both of these facets.

Additionally, the project will show the MBIE Building for Climate Change's proposed Final Cap can be achieved by all common structural systems used in 3 Level walk-up apartment buildings. We want to show we already have the technology, systems and processes available in the market for all parts of the industry to decarbonise their lifecycle emissions and play their part in transforming the sector. ^Alexa

Like | Reply

With regards,

Marty Verry
Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood Solutions
www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

s9(2)(a) - P O Box 213, Kumeu 0841



From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: The 3 most Transformational initiatives for wood processors
Date: Tuesday, 10 May 2022 1:26:34 pm
Attachments: [image001.png](#)
[image002.png](#)
[HWP - NZ Credit-based scheme structure.pdf](#)

Stu,

By now you will have the ITP from the advisory group. As with any committee process, there is a lot in there, much of it not Transformational. Eg. 'clusters' happen anyway, but seem to be a major focus for TUR, with the advisory being less enthusiastic.

When the wood processing sub-group of the ITP met last year the 3 items that were considered most Transformational were:

- **Building For Climate Change** – setting aggressive Building Code targets to reduce Embodied Carbon, and ensuring MBIE's caps include use of biogenic carbon (sequestered) in the calculation to meet the cap.
- **Harvested Wood Products** – just like trees earning NZUs the sector seeks distribution of the HWP value of the wood products produced to lock away carbon. Scion have established that this is measurable. It will help fund massive investment in plant this decade (possibly \$1b) and lower the cost of construction. Currently NZ's accounting counts these to comply with the Paris Accord, but does not yet pass them on, despite Cabinet apparently agreeing to use them for wood processors in 2019. The EU is looking to pass them on to wood processors (TUR has the paper) on the other hand, nationalising them and using the funds to invest debt/equity into wood processors will not go down well as tree growers have no such govt involvement for their NZUs. There is a massive need for investment in processing that will not happen without either grants (as per Aust) or distribution of HWP credits. Please see the attached for the HWP scheme structure possible.
- **Government lowest carbon procurement** – this needs rigorous enforcement on all agencies/depts, and the '\$9m or above' project cost rule needs to be set at \$1m or wiped.

These are the things that will truly make a difference. Happy to discuss.

All the best,

Marty

Marty Verry

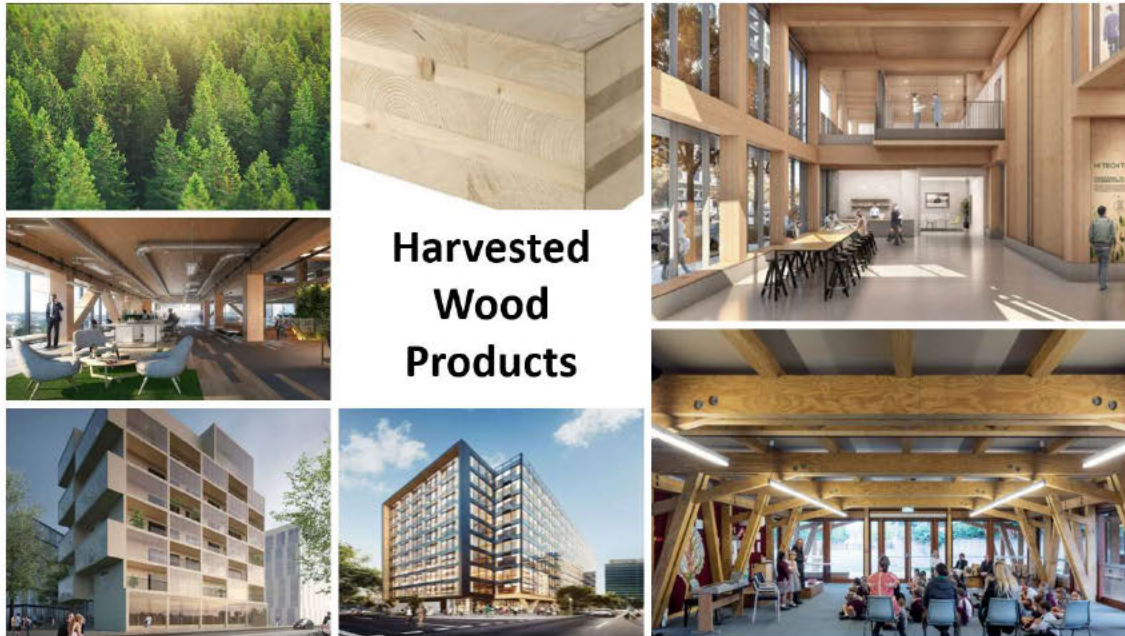
Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood Solutions

www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

s9(2)(a) - P O Box 213,
Kumeu 0841





Harvested Wood Products

A tradable NZU credit-based mechanism to reward and incentivise wood processors for locking up carbon in 'Harvested Wood Products' to address New Zealand's climate change commitments.

Introduction

An estimated 10 percent of New Zealand's GHG emissions are due to the Embodied Carbon within building materials, with steel, aluminium and concrete being the major contributors. ⁽¹⁾

The 2021 'Carbon Budget of New Zealand Buildings' study by BRANZ and Massey University concluded that residential and commercial construction is set to significantly exceed their respective CO₂ emission budgets that would be consistent with limiting climate change to 1.5 degrees. In the case of residential, medium density housing will exceed its budget by 6.2 times and apartments will exceed their budget by 10.9 times. In the case of office buildings, the carbon budget is forecast to be exceeded by 5.3 times. ⁽²⁾

To address this, the government is developing a range of policy, investment and regulatory responses including:

- Building for Climate Change regulation ⁽³⁾, which will cap and reduce Operational and Embodied Carbon per m² of floor area from 2024.
- Low carbon government procurement guidelines ⁽⁴⁾
- Mid-Rise Wood Construction PGP programme to showcase mass timber construction
- Timber Design Service

These initiatives look set to expand the demand potentially significantly for mass timber solutions compared with the current low base of manufacture of such products in New Zealand. The forecast though is NZ simply won't have the supply-side capacity to match this demand if it eventuates. Three-year lead times for investment in significant facilities increases the shortage risk.

It would be a risk for New Zealand to wait and hope that high-emitting material suppliers can de-carbonise in time. Steel for instance, relies on the development of green hydrogen – a technology which in turn relied on surplus green energy which is expensive. Concrete has the option to use fly ash to reduce high-emission cement usage, but supply is limited and such concrete commands a significant cost premium. Under the best-case scenarios, even if technological advanced could eventually reduce both products emissions by half, that does not achieve the 5 to 11-fold reduction required by the BRANZ report, and relies on international supply chains, mainly in Asia, to actually make significant investments in new plants that supply the New Zealand market.

A report by PTL Engineers ⁽⁵⁾, commissioned by MPI in 2021, established that if 50 percent of non-residential dwelling buildings were to be built in wood, an additional 600,000m³ of mass timber would be required annually. This is estimated to be a ten-fold increase in the scale of the sector. That capacity will require investment of between \$600 million and \$1 billion.

In theory this demand potential would be a trigger for the investment required to satisfy the demand. However, that the demand will crystallise is not certain; the government procurement guideline is not a mandate and it has exceptions where the department or agency's CEO allows opt-out or where projects are under \$9m in value; the Building for Climate Change caps and reductions have not yet been published and may not drive the demand for wood products if they are not ambitious; and the Mid-Rise Wood and Timber Design Service are only funded short term.

Very low immigration levels also undermine the confidence to invest in wood processing further at this stage of the building cycle, as does the fact that mass timber prices are suppressed by government grant subsidised competitors from Australia. ⁽⁶⁾

Allocating the benefit New Zealand gains from HWP accounting to wood processors has the potential to fund the required capital investments; mitigate some of the risks associated with the investment and help compete with grant subsidised foreign competitors.

This paper seeks to outline the business case and structure for such as a scheme.

HWP Background

The Climate Change Response Act 2002 sets the purpose of the NZ ETS.

Initially atmospheric carbon sequestered by trees was treated as being released to the atmosphere upon harvest. Changes to international climate change accounting conventions now recognise that wood products store carbon for decades/centuries, and as such these 'Harvested Wood Products' (HWP) now accrue carbon credits in international accords.

Since the United Nations' International Panel for Climate Change (IPCC) published its Harvested Wood Products good practice guidance in 2003⁽⁷⁾, there has been general recognition that HWP would eventually be introduced into international carbon accounting. New Zealand wood processors have invested in capacity since this time, in the expectation that those investments to store carbon through HWPs would accrue carbon credits and be tradable in due course, in much the same way foresters' sequestration has earned tradable NZUs since 2008.

In the same way foresters invested ahead of the ETS establishment, knowing eventually such a scheme would be in place for their contribution, so too have wood processors since HWP were recognised by the IPCC in 2003.

In 2019 MPI commissioned Scion to research options for utilisation of HWP for foresters or wood processors. ⁽⁸⁾ The report established:

- The benefit of HWP accounting over the 2021-2050 period is large – up to 110 Mt CO₂, worth \$2.7 billion at \$25/tonne CO₂. This represents a 40% increase over forest-only sequestration.
- Incorporating HWP into the New Zealand forestry 'averaging' regime is the equivalent of increasing the forest LTA from 16.3 years to 22.4 years.
- HWP credits are generated by two groups:
 - Foreign wood processors - NZ logs exported and processed overseas (The HWPs were based on main log market utilisation surveys by Manley and Everson, 2016, 2017)
 - Foreign wood processors - Logs processed domestically, calculated by applying IPCC default half-lives.
- "It is feasible and not necessarily expensive to track logs to mills and products used in New Zealand, but not overseas."
- "Incentives for greater on-shore processing are likely to lead to a significant HWP accounting benefit because of the large volume of logs currently exported and their overall shorter expected lifespans."
- It is possible to establish the amount of processing NZUs earned by each wood processor each year from the products they produce.

In mid-2019, faced with mill closures and the highest priced logs in the world, the New Zealand government Cabinet made the decision to apply the benefit of HWPs to wood processors. Exactly how that would be done was to be prioritised under the Industry Transformation Plan (ITP) process.



In late 2021 the European Union commissioned an extensive piece of research ⁽⁹⁾ into how best to incentivise wood product utilisation using the value of carbon in the materials (HWP), and to propose a scheme for adoption by the EU. The 300-plus page research looked at incentivising building developers, but instead proposed a tradeable credit-based remuneration scheme for the 'producers of the wood products'.

The proposed NZ scheme would therefore be consistent with the thinking of the most advanced global region addressing climate change.

Summary of Expected Outcomes from a wood processors HWP credit-based mechanism

HWPs will lead to more investment in wood processing, which is the forest/wood Industry Transformation Plan's priority one goal. This in turn is expected to lead to:

- a. Having the materials available to support the BfCC regulation
- b. Domestic processing of logs generates more HWP credits (due to longer product half-lives) than processing logs off-shore – thereby creating even further HWP accounting credits for New Zealand.
- c. Substituting high-emission materials (this aligns well with the government objective of reducing emissions at source)
- d. Increasing supply of materials for the housing market, and thereby reducing construction costs, housing costs and inflation.
- e. Increasing the supply of bio-mass for bio-energy and bio-fuels (again, supporting the substitution focus of ministers)
- f. Employment, export earnings, tax, and iwi economy improvement
- g. Diversified markets for foresters (away from China reliance)
- h. Creating demand for 'rotation' forestry, instead of the contentious 'permanent exotics' regime.

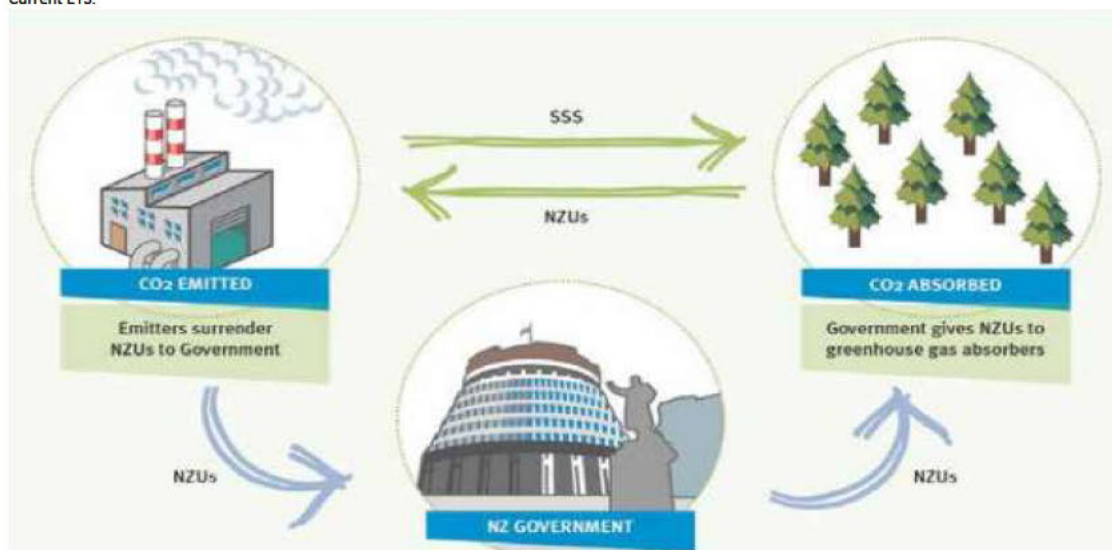
The 600,000m³ of additional demand for mass timber products forecast by the PLT engineers report is consistent with analysis from 2021 that Red Stag provided the Climate Commission, MBIE and PLT.⁽⁷⁾ That analysis built on research by Deloitte for the Mid-Rise Wood PGP programme and found that targeting a 50% market share change to wood could result in a 628,000m³ increase in annual demand for those target products. This in turn would drive the following spin-off impacts:

- Additional total sawn wood products: 2,090,000 m³ annually (half exported)
- Additional chip production: 1,045,000 tonnes annually
- Additional biomass for energy: 350,000 tonnes annually
- Additional logs processed: 3.5 million tonnes
- Additional forest and wood processing jobs: 3,500
- Additional 1.8 million tonnes CO₂ annually sequestered by trees or avoided due to substitution.

Design of the NZ HWP scheme

The HWP credit-based scheme would be incorporated into the ETS for ease of administration, with the following specific features.

Current ETS:



Domestic or Domestic+Export-generated HWPs?

It is envisaged that only the domestically processed HWP would be part of the scheme. It would be inappropriate to credit value to domestic wood processors from foreign processing of NZ logs. The government would retain the benefit of the foreign wood processing HWP on NZ export logs. Excluding HWPs from export logs also greatly simplifies the scheme.

Grandfather date for HWP creation?

IPCC recognised Harvested Wood Products from 2003, and this was publicised at the time.

The question then is whether to issue NZUs for all domestic wood processing volumes, or to grandfather any plant's volumes as at 2003 (when IPCC recognised HWP) on the basis that the 2003 level of production was already being produced and cannot possibly have been influenced by the future value of HWP announced in 2003.

The argument against this grandfathering is that for forest investors, 1990 was the date after which forests could join the ETS and claim units, and it is unlikely foresters contemplated the ETS in the early 1990s either. This may therefore be seen as a precedent for HWP treatment also.

It is also pertinent that even if processors were already producing at grandfathered levels as at the recommended 2003 grandfather date, that baseline level of production is still earning NZ carbon accounting credits as at now.

Grandfathering also requires a one-off process of establishing plant volume of each plant that existed at that time. It is expected that sufficient records exist.

Our thinking is that if 2003 grandfathering is adopted then the HWP production rate value at 2003 (the grandfathered portion) should be allocated as a set-rate nominal pool for industry good

initiatives and promotions. A pool value of \$10 million annually would be well invested in industry good programmes by the sector. Government could either issue and sell more NZUs itself to fund this, or to use the NZU it currently auctions annually.

Growth in production at plants since 2003 must however be incorporated into any HWP credit earning scheme because wood processors have invested on that basis, having seen what transpired with forestry NZUs (they applied to forests planted well before the ETS establishment in 2008).

To do otherwise would be seen as nationalisation of that earned value and would be entirely inconsistent with the treatment of ETS forests.

Under all scenarios through, we suggest the NZUs earned only apply to annual production from the 2022 year and are not backdated to earlier periods.

Company or Plant-based Annual Calculation?

A question also becomes, should the HWPs be calculated at the company level or the plant level. We consider that the only feasible option is to measure it at the plant level, and whichever company owns the plant can claim the NZUs.

Administration

To claim NZUs, each year the qualifying wood processors would need to provide records demonstrating the wood product types (solid wood, panels, pulp... aligned with the IPCC half-life defaults) and volumes of each that have been sold and to which country.

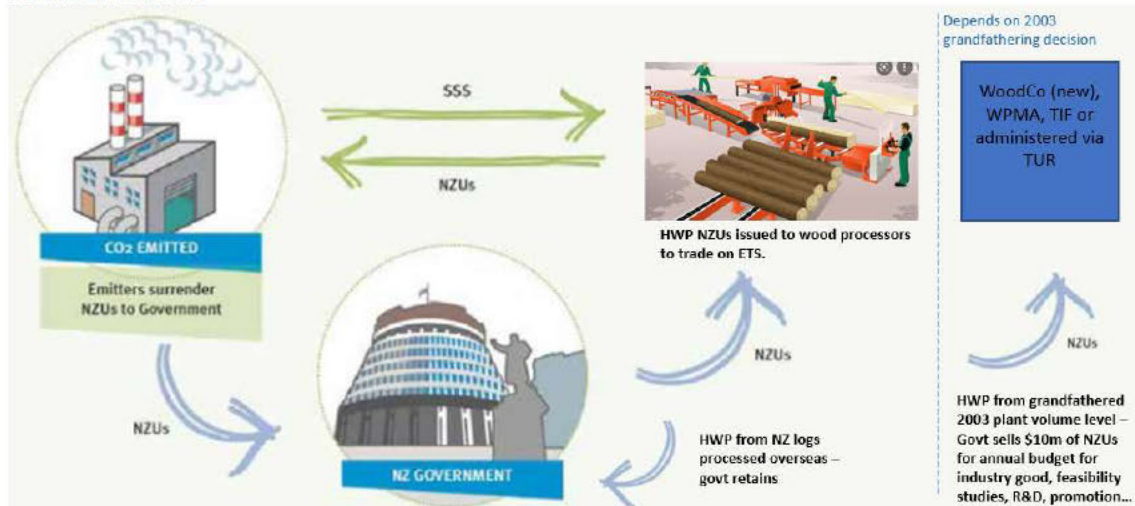
The process could be a simple survey, backed up by documentation.

Entities such as Toitu, Ekos or Thinkstep are well established to certify this type of scheme.

There will need to be significant consequences of fraudulent claims against the scheme, backed up by the prospects of audit.

The Scion Harvested Wood Products paper demonstrates the ability to calculate the NZUs associated with any given product mix and volume from NZ wood processors.

Potential ETS with HWPs



WTO Considerations

Development of a tradable credit-based system for HWP is no different to the current ETS for forest generated NZUs. No WTO considerations were noted in the European Union report on incentivising wood product usage via a similar tradable credit-based scheme as this.

References:

- 1 <https://www.nzgbc.org.nz/zerocarbon/roadmap>
- 2 https://d39d3mj7qio96p.cloudfront.net/media/documents/ER63_Carbon_budget_sensitivities_LR12977.pdf
- 3 <https://www.mbie.govt.nz/dmsdocument/11794-whole-of-life-embodied-carbon-emissions-reduction-framework>
- 4 <https://www.procurement.govt.nz/assets/procurement-property/documents/procurement-guide-to-reducing-carbon-emissions-in-building-and-construction.pdf>
- 5 PLT Engineers Report – MPI holds
- 6 Xlam (A\$2.95m) <https://builtoffsite.com.au/emag/issue-03/xlam-plant-support-regional-jobs-innovation/>
Tasmania CLT (A\$15m) <http://www.panelworldmag.com/hermal-announces-hardwood-clt-mill/>
TimberLink CLT-GLT (A\$2m) <https://www.timberbiz.com.au/timberlink-chooses-sa-for-new-clt-and-glt-plant/>
- 7 <https://unfccc.int/topics/land-use/workstreams/land-use-land-use-change-and-forestry-lulucf/harvested-wood-products-1>
- 8 Scion 'Feasibility and benefits of methods to incentivise production of longer-lived harvested wood products from New Zealand's forest harvest' – held by MPI
- 9 European Union - Evaluation of the climate benefits of the use of harvested wood products in the construction sector and assessment of remuneration schemes <https://op.europa.eu/en/publication-detail/-/publication/eb9de1f4-2c93-11ec-bd8e-01aa75ed71a1>
- 10 Red Stag analysis – attached as excel

Red Stag
18 April 2022

From: [Marty Verry](#)
To: [Jason Wilson](#); Hon Stuart Nash
Cc: [Marty Verry](#)
Subject: Aust Federal grant to sawmill that exports to NZ
Date: Friday, 20 May 2022 8:03:07 pm

Hi Jason and Stu.

Please see attached, just for the record. Just 1 example.

Marty

Sent from my Galaxy



Timberlink unveils new technology at Bell Bay

Timberlink's EGM Sales, Marketing & Corporate Affairs David Oliver was pleased to welcome Federal Member for Bass Bridget Archer to the Timberlink manufacturing facility at Bell Bay on Monday for the unveiling of a new world-class Green Mill Vision Scanning System.



The AU\$5.5m co-investment in the continuing upgrade and modernisation of Tasmania's largest softwood timber manufacturing plant is supported by AU\$3.5 million from the Federal Government's Department of Infrastructure, Transport, Cities and Regional Development Community Development Grants Programme.

The Bell Bay Softwood Mill employs 200 people and provides a value-add of AU\$150 million to the George Town economy" Timberlink's David Oliver said. "The upgrade will increase the volume of high-grade timber sourced from renewable pine plantation and creating a workplace of the future, with high tech machinery improved accuracy, safety, and job security"

Federal Liberal Member for Bass Bridget Archer said that growing manufacturing capability and securing jobs in the region was all part of her plan for northern Tasmania. "I was a strong advocate

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: RE: Harvest Wood Products
Date: Sunday, 29 May 2022 5:52:17 pm
Attachments: [image001.png](#)
[image002.png](#)
[HWP - NZ Credit-based scheme structure.pdf](#)

Stu, here is the HWP paper. Marty

From: Marty Verry
Sent: Sunday, 29 May 2022 5:24 PM
To: Hon Stuart Nash
Subject: Harvest Wood Products

Stu,

Good talking last night - thanks.

I have spent the day updating this for you. Worth it, given the transformational potential of HWPs for the sector ITP, and the MPI/MfE advice that inclusion into the ETS is viable.

I attached also to 2 relevant Ministerial papers from where Ministers Jones and Shaw got to with this in instructing officials to draft a way to get HWPs tradable on the ETS..

Please read and let's meet in that week commencing 13 June.

Best regards,

Marty Verry
Group CEO

Red Stag Timber, Red Stag Forests, Red Stag Wood
Solutions

www.redstag.co.nz (CLT) – www.redstagtimber.co.nz

s9(2)(a) - P O Box 213,
Kumeu 0841





7 June 2019

MPI Document Number: B19-0249

MfE Document Number: 2019-B-05648

Encouraging carbon storage in harvested wood products

Purpose:

To seek direction from Ministers on developing policy options to encourage increased carbon storage in Harvested Wood Products.

Forestry Ministers will be discussing this topic at a meeting on 13 June 2019.

Minister	Action Required:	Minister's Deadline
Minister of Forestry	Note and agree to the recommendations contained in this briefing".	By 13 June 2019, ahead of your upcoming meeting with forestry Ministers.
Minister for Climate Change	Agree to forward this briefing to the Forestry Ministers' Group ahead of the 13 June meeting.	

Contact for telephone discussion (if required)

MPI Officials	Name	Position	Work	After Hours
Responsible Manager	Philip Wiles	Team Leader, Domestic Climate Change	9(2)(a)	
Principal Author	Elizabeth Cameron	Senior Policy Analyst	9(2)(a)	
MPI Officials	Name	Position	Work	Mobile
Responsible Manager	Matt Cowie	Manager, Climate Directorate	9(2)(a)	
Responsible Analyst	Daniel Rimmer	Policy Analyst, Climate Directorate		

Key Messages

1. There is an opportunity to increase the amount of long-lived wood products made in New Zealand. The resulting increased carbon stored in Harvested Wood Products (HWP) would contribute progress towards our international climate change targets.
2. The opportunity for harvested wood products aligns with the ETS forestry package objective of increasing carbon storage in forests and forest products, and supports the Government's wider programme to increase the productivity and competitiveness of New Zealand's wood processing sector.
3. The main opportunity to increase the carbon stored in HWP is in high value, new technology in the wood processing sector. This relates to the manufacturing of engineered wood products such as Cross Laminated Timber (CLT), Oriented Strand Board (OSB) and GluLam (Glued Laminated Timber). There may also be some opportunities in the production of sawn timber, and consideration of alternative overseas markets.
4. Scion research indicates that access to capital is not necessarily the main barrier to investment in higher value processing rather it is investor nervousness around the profitability of producing new products and entering new markets.
5. Exporters of processed products have not remained competitive with international processors with lower operating costs, and face tariffs and non-tariff barriers in key export markets
6. An approach that makes payments based on the HWP output from mills could help wood processors to reduce operating costs. This would help with the ongoing profitability of a mill but still places the onus on investors to take on the risk of investing in new high value processing technologies and supply chains.
7. Officials have identified two options to overcome barriers and incentivise increased production of these types of products;
 - a. giving New Zealand Units (NZUs) to processors who create long-lived products; and
 - b. a fund targeted at supporting production of long-lived products.A third option of providing NZUs to forest owners was consulted on, but officials do not recommend this option is progressed.
8. Providing NZUs to processors could help improve ongoing high operational costs for investors (e.g. labour and electricity), while a targeted fund could help address investment uncertainties and capital costs.

9. There are key design details that would need to be resolved for both of these options. Officials could provide advice for decisions on a fund in mid-2019. However, further research and analysis would be required to ensure design details are appropriate for issuing NZUs to wood processors. This latter option would require a future amendment bill to the CCRA.
10. Forestry Ministers are meeting on 13 June 2019 to discuss this topic. Officials are seeking high level direction from you on which policy option(s) you would like further advice. Officials do not have a recommended option, both are viable.

Released under the Official Information Act 1982

Recommendations

11. The Ministry for Primary Industries recommends that you:

- a) **Note** that incentives for harvested wood products can be used to encourage increased carbon storage and increase the productivity and competitiveness of the wood processing sector

Noted

- b) **Note** that exporters of processed products have not remained competitive with international processors with lower operating costs, and face tariffs and non-tariff barriers in key export markets

Noted

- c) **Note** officials are seeking high level direction from you on which policy option(s) you would like further advice

Noted

- d) **Note** a fund could be targeted at reducing the risk of investing in new long-lived HWP and supply chains, which is a key barrier for New Zealand to increase its carbon storage in HWP

Noted

- e) **Note** providing NZUs to wood processors could also incentivise greater long-term investment in processing facilities in New Zealand by helping to overcome high operating costs, but that there are high level design details that need to be resolved before decisions could be made

Noted

- f) **Note** that providing NZUs to wood processors would require legislation change that could give investors more certainty of longevity than a fund would

Noted

INDICATE YOUR PREFERRED OPTION:

- g) **Agree** for officials to progress work on a fund to encourage more development of long lived HWP to help New Zealand reach its climate change targets, and report back to Forestry Ministers in late 2019

Agreed / Not Agreed

OR

- h) **Agree** officials progress work on how NZUs could be issued to wood processors in an efficient manner with environmental integrity, and report back to Forestry Ministers in late 2019

Agreed/ Not Agreed

Charlotte Denny
Director Environment and Communities
Ministry for Primary Industries

Hon Shane Jones
Minister of Forestry

/ / 2019

Roger Lincoln
Director Climate Change
Ministry for the Environment

Hon James Shaw
Minister for Climate Change

/ / 2019

Released under the Official Information Act 1982

Background

There is an opportunity for HWPs to contribute further to New Zealand achieving climate change targets

12. New Zealand reports and accounts for carbon stored in HWP internationally. Manufacturing more long-lived wood products will increase the carbon stored and contribute progress towards our international climate change targets
13. There is currently no domestic incentive for New Zealand processors to produce more long-lived HWPs. As such, there is an opportunity for the Government to encourage both carbon storage in HWPs that contribute to New Zealand's climate change targets, and investment in high value processed products that support our transition to a low carbon economy.
14. The HWP opportunity aligns with the ETS forestry objective of increasing carbon storage in forests and forest products, and could support the Government's wider programme to increase the productivity and competitiveness of New Zealand's wood processing sector

New Zealand calculates differences to its harvested wood products 'pool' for international reporting and accounting purposes

15. Accounting for the carbon stored in harvested wood products can be thought of as a 'pool' of stored carbon. Harvesting brings more carbon into the pool, wood products decaying or reaching their 'end of life in use' reduce carbon in the pool. If the stored carbon going into the pool (through harvesting) and the carbon exiting the pool (through product decay) are equal, the pool will reach a steady state.
16. New Zealand's progress towards our international climate change obligations will include changes in the size of the HWP pool. The pool can be increased through either processing more wood (i.e. increased afforestation, which will lead to increased harvest), or making longer-lived products.
17. As a result of this New Zealand only gets credited or debited for permanent changes to production which change the volume of carbon in the HWP pool. Maintaining steady production will eventually keep the pool in a steady state.
18. New Zealand's carbon storage is calculated from New Zealand grown wood that is processed either in New Zealand or overseas. A substantial proportion of New Zealand grown logs are shipped offshore and processed internationally, and most of New Zealand's processed products are also exported.
19. Scion research estimates that projected carbon dioxide storage in the HWP pool from 2021-2050 could be increased from 61 million tonnes up to 92 million tonnes of carbon dioxide, if there were sufficient investment in processing facilities. The extra 31 million tonnes of carbon dioxide have an undiscounted value of \$775 million at a carbon price of \$25 per NZU (see Appendix One).

There is an opportunity to increase the size of the HWP pool

20. Most of the low grade logs from forests in New Zealand are exported and processed into low grade products which are typically short-lived and do not store carbon for a long period of time. There has not been significant investment in producing high-value long-lived wood products from the low grade timber that is exported, despite a projected future availability of logs.
21. Scion research indicates that a significant proportion of the current export volume of low grade logs could be further processed into high value products for export. The regions where supply makes this most viable are Central North Island, Gisborne, Hawkes Bay, Nelson/Marlborough, Southern North Island and Otago/Southland.
22. The Scion report noted “potential investors do not have overwhelming confidence that New Zealand has and will continue to have a competitive advantage in wood processing, whether for short or long lived products”. While longer-lived products tend to have a higher value, they are not necessarily more profitable to produce. Potential investors face barriers in the form of tariffs and non-tariff barriers, operational costs, and confidence in markets for new products.
23. Forestry and Wood Processing is a focus sector under the Government’s proposed Industry Policy.¹ Among other things, this aims to move the wood processing sector away from a reliance on low grade exported logs, towards value-add products and technologies such as engineered timber.
24. Te Uru Rakau is also developing a Forest Strategy to be delivered in 2020, which will likely include an approach to increasing long-lived HWPs.
25. Scion also identified that there could be some opportunities to increase HWP carbon storage in the production of sawn timber, and by considering end uses of wood in overseas markets. This is because different countries use HWP for different products and purposes, with associated differences in the expected life-spans.

Officials have considered a range of options to encourage the forestry sector to develop long lived HWP.

26. In September 2018 the Government consulted on two options for recognising the forestry sector’s contribution to storing carbon in HWP:
 - provide an increased amount of New Zealand Units (NZUs) to forest owners in the ETS using averaging; or
 - create an HWP fund to encourage processors to develop long-lived HWP.
27. Submitter feedback was mixed, but there was general support to reward those in the sector who influence the amount of carbon stored in HWP and make significant contributions to climate change targets.

¹ Minister Parker is leading this work as part of Cabinet’s request to refocus MBIE’s Industry Policy

28. The option of providing NZUs to ETS forestry participants using averaging could increase afforestation incentives without large administrative or compliance costs. The increased afforestation would increase the volume of wood produced post 2050 (i.e. after harvest) and therefore the volume of HWP, if processing continued at its current level.
29. However, officials do not support the first option of rewarding forest owners through the ETS. This is largely because Scion's research has shown that forestry owners' choices (e.g. pruning) will not significantly alter the proportion of long-lived HWP New Zealand produces [B19-0042 refers]. Officials consider it inappropriate to use the HWP value to incentivise afforestation that does not have an influence on the end use of the resulting wood. This option would not be consistent with the Government's wider programme to move the forestry sector towards value added products and technologies.
30. Officials have also assessed an option of providing NZUs to wood processors, based on the amount and lifetime of carbon stored in their products.

This briefing compares two options:

- a. giving NZUs to processors who create long-lived products (ETS option), and
- b. a fund targeted at creating long-lived products (Fund option).

Common issues

New Zealand's domestic wood processing sector has stagnated in the face of increasing log exports

31. The Woodco Strategic Action Plan 2012 highlighted the need for more domestic processing of wood, rather than relying on raw log exports, if the sector were to maximise the value of New Zealand's forests. Since then there has been very little increase in processing capacity, but significant increases in raw log exports.
32. Exporters of processed products have not remained competitive with international processors with lower operating costs, and face tariffs and non-tariff barriers in key export markets.
33. Scion research indicates that access to capital is not necessarily the main barrier to investment in higher value processing, rather it is investor nervousness around the profitability of entering new markets, and operating costs.

Output based payments place incentives on production

34. Capital funding options could help new mills be established, but would not provide an incentive for mills to increase production levels once built. This means they would not provide an additional incentive for an existing mill to continue producing more, and doesn't change the market value of any new products.
35. A payment based on the output of long-lived HWP, whether NZUs or through a fund, would place the incentive on the volume of product created by mills. This could encourage increased production from existing mills, and investment in new high value wood processing.
36. The objective of both options is to increase the proportion of New Zealand's forestry production that goes into longer-lived products processed in New Zealand, by placing a value on the carbon that they store

HWP ETS option

37. Providing NZUs directly to wood processors via New Zealand's Emissions trading Scheme (the ETS) may incentivise investment in mills that produce long-lived products, such as engineered wood (Cross Laminated Timber (CLT), Laminated Veneer Lumber (LVL) and other panel products). The NZU amount would depend on the volume and expected rate of decay of the HWP they produce.
38. If a mill was able to claim the carbon value of the products it produced, it would make it more profitable to produce those products. This may create an incentive to invest in new products, where investor nervousness around the value of the product and operating costs had been barriers.
39. For example, building a large plywood mill that produced around 500,000 tonnes of plywood per annum could contribute 1.2 million tonnes of carbon dioxide sequestration to New Zealand's targets over 2021-2030, which would equate to a value of \$30 million (at an NZU price of \$25) if units could be claimed in the ETS.

The ETS option can provide greater investor certainty, and address ongoing costs

40. Ensuring there is legislation to set up the market and having it sit within the ETS framework that has existed for more than 10 years could give investors more certainty of longevity than a fund would.
41. An ETS approach that made payments for the output from mills could help mills to overcome operating costs. This could help with the ongoing profitability of a mill, given that capital is not the main barrier, but still places the onus on investors to take on the risk of investing in new high value processing technologies and supply chains.

42. An ETS approach that paid variable amounts of NZUs based on the product that is produced, would help to focus investment into the longer lived wood products, including technologies such as CLT, OSB, and Glulam. This would give investors more certainty that investments in new technologies will be profitable.

Careful consideration would be needed for ETS design details

43. The wood processing sector is multi-faceted, and allocation of NZUs via the ETS would need further analysis, along with industry consultation.
44. There would need to be clear guidelines on which processors would receive NZUs. Giving units to existing mills could be seen as rewarding activity that is not additional. If production from existing mills declined, however, New Zealand would have to record the resulting decrease in carbon storage against international targets (in a similar way to how deforestation is treated).
45. The scheme would need to be designed carefully to not raise any World Trade Organisation (WTO) subsidy or equity concerns. For example, the rules would need to be clear who is liable if a particular mill becomes insolvent, stops producing, and the carbon they've contributed to the HWP pool becomes an emission.
46. Issuing NZUs for carbon that is temporarily stored could undermine the environmental integrity of the ETS. There is also complexity within the wood processing sector, with output from one mill often being further processed by another mill before a product goes to market.
47. The EPA administer the ETS, and note sufficient funding would be required to operationalise this, along with the Government's wider package of proposed ETS changes.

HWP Fund option

48. A fund could directly address the uncertainty and risk factors investors see in developing longer lived HWPs. For example, grants could be awarded to help fund feasibility studies (as outlined in Appendix 2), develop offshore markets or support demonstration plants. However, this would not impact the ongoing operating profits, or market value of the products being produced, unless it were targeted at a mills output.

Design details of the fund are important, and need to be developed

49. The grants would be provided to participants who are able to meet certain criteria. Criteria would need to be developed, and could include:
- Providing sufficient proof the grant will increase long-lived HWPs
 - Showing that carbon sequestration would be delivered below an agreed price per tonne threshold – ensuring that this is a more cost effective way of reducing carbon compared to other options

50. 6(e)(vi) [REDACTED]
51. The fund could be scalable depending on the opportunities available. Administration costs would scale with the fund and could be minimised by linking the fund to existing funds. However the fund could overlap existing mechanisms such as the Provincial Growth Fund and the Sustainable Food and Fibre Future Fund which can already invest in these type of activities.
52. Current projections are for New Zealand to receive \$260 million² of benefit over the next ten years due to HWP. This could be considered as an initial upper limit for the fund, noting that the benefit could be increased with successful projects. A new appropriation would likely be required via a future budget bid.
53. Further in-depth analysis would be required to develop options. Officials could return to Ministers with advice in early 2020.

Comparing the two HWP options

54. Giving units to processors who increase the carbon going into New Zealand's HWP pool could help contribute to the viability of value added processing in New Zealand, and may incentivise investment in new mills that produce long-lived wood products. It could also help investors overcome the relatively high operating costs that processors face.
55. A targeted fund could be effective at incentivising investment in new mills, or investment in upgrading existing mills to change their product mix or increase production. This option would not, however, help support mills continue with their current production, nor help with their operating costs.
56. There are issues with both options. The ETS option would need to be carefully designed to maintain the environmental integrity of the NZUs allocated, and to ensure that providing NZUs does increase stored carbon. Any fund would need careful criteria developed to ensure that the actual barriers to investment are addressed and only cost-effective options are funded.

Next steps

57. Forestry Ministers are meeting to discuss this issue on 13 June 2019.
58. It is recommended you provide officials with an indication of the preferred option to encourage long lived HWP development in June 2019.

² 10.4 million tonnes of carbon at an NZU price of \$25.

59. If you agree to progress work on an HWP fund, officials can provide you with options for fund design and timeframes for progressing that option by mid-2019. This will include consideration of an appropriate size for the fund and ways to ensure the fund design aligns with other forestry programmes government.
60. If you agree to progress work on providing NZUs to wood processors, officials can provide you with options for design and timeframes for progressing that option. This option would take more time to progress than a fund as it would require a future amendment bill to the CCRA, and supporting regulations.

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Appendix One: New regional processing scenarios

Below is X from Scion report

Region	Plant type	Volume in*, 000's m ³ p.a.	Product out, 000's m ³ p.a.	Secondary (chip)	Fuel	Capital cost; NZ \$M	Export revenue \$ million	Regional Scenario Half-life	HWP accounting benefit 2021-2050 (Mt CO ₂)
Northland	Plywood	350	132	0	168	119	89.5	16.5	2.2
Northland	CLT	50	45	0	5	53	55.3		
Northland	OEL™	100	55	25	20	19	29.9		
Northland	OSB	350	310	0	39	74	133.9		
CNI	Sawmilling	4000	1080	1120	520	150	462.2	17.2	16.5
CNI	CLT	1000	900	0	100	1060	1,105.2		
CNI	Plywood	1000	520	0	480	297	352.6		
CNI	OEL™	1000	550	250	20	190	298.7		
CNI	Remanufacture	200	180	0	20	90	288.9		
Gisborne	Plywood	600	312	0	288	178	211.5	16.7	2.4
Gisborne	OEL™	100	55	25	20	19	29.9		
Gisborne	OSB	350	310	0	40	74	133.9		
Hawkes Bay	Sawmill	200	14	56	26	23	6.0	18.1	1.0
Hawkes Bay	CLT	70	63	0	7	65	77.4		
Hawkes Bay	Remanufacture	30	27	0	3	18	43.3		
Hawkes Bay	OEL™	300	165	75	60	57	89.6		
Hawkes Bay	OSB	100	89	0	11	26	38.4		
SNI East	Sawmill	200	114	56	26	23	48.8	17.8	3.9
SNI East	OEL™	100	55	25	20	19	29.9		
SNI East	OSB	200	178	0	22	28	76.9		
SNI West	Plywood	600	312	0	288	178	211.5		
SNI West	OSB	200	178	0	22	28	76.9		
SNI West	OEL™	200	110	50	40	38	59.7		
Tasman / Nelson	Sawmill	400	28	112	39	38	12.0	17.6	3.8

Region	Plant type	Volume in*, 000's m ³ p.a.	Product out, 000's m ³ p.a.	Secondary (chip)	Fuel	Capital cost; NZ \$M	Export revenue \$ million	Regional Scenario Half-life	HWP accounting benefit 2021-2050 (Mt CO ₂)
Tasman / Nelson	Plywood	300	156	0	126	110	105.8		
Tasman / Nelson	CLT	100	90	0	10	84	110.5		
Tasman / Nelson	Remanufacture	100	90	0	10	45	144.5		
Tasman / Nelson	OEL™	300	165	75	60	57	202.6		
Marlborough	Sawmill	400	28	112	52	44	12.0		
Marlborough	CLT	100	90	0	10	84	110.5		
Marlborough	Remanufacture	100	90	0	10	45	144.5		
Otago / Southland	Sawmill	400	88	112	52	44	37.7	19.2	1.5
Otago / Southland	CLT	70	63	0	7	65	77.4		
Otago / Southland	Remanufacture	70	63	0	7	35	101.1		
Otago / Southland	OEL™	100	55	25	20	19	29.9		
Totals		13,740	6,760	2,118	2,648	3,496	5,038	17.4	31.3

Scion have estimated it would be possible to increase New Zealand's contribution to climate change targets by 31 million tonnes of carbon by 2050 (which equates to a benefit of around \$780 million at a carbon price of \$25) if large quantities of New Zealand's low grade logs were converted to engineered wood products before export. This assumes that 35 new mills are built to further process low grade logs into longer-lived HWP prior to export, Woodco's sector strategy suggests there is capacity in the New Zealand economy for 35 new mills.

However, to achieve these benefits the industry would need to have enough of an incentive to change their current investment strategies and overcome a number of barriers to investment. For instance, they would need to develop new viable supply chains and markets to sell products to, rearrange current long term log supply arrangements, and successfully navigate RMA requirements. In addition, the public and private cost of achieving these benefits, and therefore whether any Crown investment would provide value for money, is not clear. Officials view these estimates as optimistic and unlikely to be fully realised.

- Plant types: CLT (Cross Laminated Timber) = mill that laminates kiln-dried timber into larger structural elements; OEL (Optimised Engineered Lumber) = mill that saws K grade logs into small dimension timber pieces and glues them together to make larger structural members; OSB (Oriented Strand Board) = mill that makes a structural panel similar to particleboard from log input; Remanufacture = mill that produces components from sawn timber e.g. architraves, mouldings.
- Each row may represent a single mill (e.g. 1 large plywood mill in Gisborne) or several mills (e.g. 10-12 CLT plants in CNI)
- Capital cost: cost of building the capacity indicated (NZ\$ millions)

Appendix Two: HWP fund application example

Below in is an example of an HWP fund application. It does not guarantee that a particular application that resembles the description below, would be accepted.

A group of wood processing industry representatives submit an application for HWP funding. Their application seeks \$2 million to undertake a feasibility study on developing processing facilities in Gisborne that would increase the region's contribution to New Zealand's internationally recognised HWP value.

They prove, with detailed analysis, that they could increase the amount of carbon stored in New Zealand's harvested wood products by 2.4 million tonnes of CO₂ over 2021-2050, if they had the capability to set up three new mills in the region.

Regional scenario example (from Scion research):

- 3 new mills in Gisborne (a new Glulam product, OSB, Plywood)
- \$271 million capital cost
- 1.05 million m³ of current export logs diverted (about 40% of the total region export logs).
- \$375 million worth of annual export product sales.
- Overall weighted half-life for the diverted export logs is 16.7
- HWP accounting benefit 2.4 million Mt CO₂ (worth \$105 million @ \$25/NZU)

They intend to use the \$2 million dollars to set up an innovation hub that allows them to test techniques to develop OSB and OEL, and plywood from low grade logs that would have otherwise been exported, and also techniques to convert plywood residues into particle board (rather than just using it for fuel). They would also use a portion of the funding to ensure they had suitable markets to sell their products to, and that their activities would not result in negative downstream impacts (i.e. would not require replacing use of wood for fuel with coal).

The intellectual property they develop on the long lived wood product processing techniques and market viability testing would be released to the general public.

AM19-0486
2019-B-05721



Ministry for the
Environment
Manatū Mō Te Taiao

Ministry for Primary Industries
Manatū Ahu Matua



Aide-memoire:

From: Charlotte Denny
Director, Environment & Communities, Ministry for Primary Industries
Roger Lincoln
Director, Climate Change, Ministry for the Environment

Contact: Ivan Luketina, Team Leader, Climate Change Forestry ^{9(2)(a)}

To: Hon Shane Jones
Minister of Forestry
Hon James Shaw
Minister for Climate Change

Date: 21 June 2019

Harvested Wood Products Decision Update

Key Messages

- On June 13, you both met with Ministers Parker and Sage to discuss options to better incentivise the production of harvested wood products (HWPs) in New Zealand. This decision is part of recent changes to the Emissions Trading Scheme (ETS) intended to increase carbon storage to help New Zealand meet its international climate change targets.
- Officials recommended two options (B19-0249;19-B-5648) that would best incentivise increased production of HWP:
 - giving New Zealand Units (NZUs) to processors who create long-lived wood products, through adding them to the ETS; and
 - a fund targeted at supporting the production of long-lived wood products.
- At the meeting you decided to instruct officials to investigate incorporating processors in the ETS. You also decided that an interim fund would be established to encourage production of HWP while officials develop options for these changes to the ETS.
- Officials have begun work on determining the size of the fund and how the interim fund will operate. We will provide a briefing by the end of August with more information for you to make a high-level decision on the functioning of the fund.

Background

1. There is an opportunity to further increase carbon storage in New Zealand by increasing the production of long-lived HWPs. The increased carbon stored in HWPs would contribute progress towards our international climate change targets.
2. Increasing the production of HWPs aligns with the ETS forestry package objective of increasing carbon storage in forests and forest products, and supports the Government's wider programme to increase the productivity and competitiveness of New Zealand's wood processing sector.
3. Scion research indicates that a significant proportion of our current export volume of low-grade logs could be further processed into high-value products. This includes engineered wood products such as Cross Laminated Timber (CLT), Oriented Strand Board (OSB) and GluLam (Glued Laminated Timber). There may also be some opportunities in the production of sawn timber, and consideration of alternative overseas markets.
4. The two options that officials have proposed to increase the production of long-lived HWPs (B19-0249; 19-B-5648) are:
 - a. giving New Zealand Units (NZUs) to processors who create long-lived wood products, through adding them to the ETS; and
 - b. a fund targeted at supporting the production of long-lived wood products.
5. Adding processors who create long lived products into the ETS could help contribute to the viability of value added processing in New Zealand, and may incentivise investment in new mills that produce long-lived wood products. It could also help investors overcome the relatively high operating costs that processors face.
6. The process of adding processors into the ETS will need to be carefully designed to maintain the environmental integrity of the NZUs allocated, and to ensure that providing NZUs effectively incentivises an increase in stored carbon.
7. In the meeting you decided that officials should develop policy options for providing processors with credits. If this were to go ahead, this would require a subsequent bill to amend the Climate Change Response Act (2002) during the next term of Government. A fund could be established in the interim to begin incentivising further production of HWP.
8. A targeted fund could be effective at encouraging investment in new mills, or investment in upgrading existing mills to change their product mix or increase production.

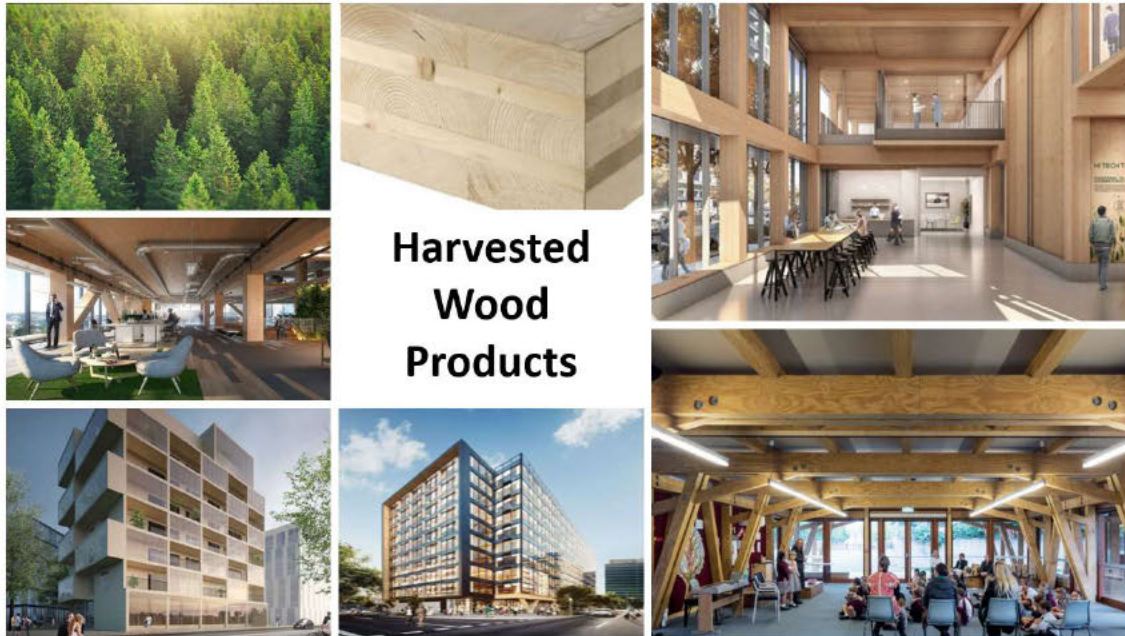
Security Level – In-Confidence

9. Officials are currently working to determine the criteria and functioning of the interim fund and the scale of funding needed, and intend to provide a briefing to you with more information by the end of August. At that time we will seek a high-level decision on how the fund will operate.
10. We will also continue to update you on progress made on the policy development of incorporating processors into the ETS.

Minister / Minister's Office

Seen / Referred

/ / 2019



Harvested Wood Products

A tradable NZU credit-based mechanism to reward and incentivise wood processors for locking up carbon in 'Harvested Wood Products' to address New Zealand's climate change commitments.

At a Glance

- Foresters receive NZUs for their post-1990 forest carbon storage. As a result, they have significantly increased forest investment in recent years.
- Wood processors do not yet receive NZUs for their Harvested Wood Product carbon storage.
- As a result, wood processing growth in New Zealand is mainly stagnant.
- Wood processors seek fair and equitable treatment with foresters for their contribution to New Zealand's emissions accounting reductions.
- As with forest NZUs, HWP carbon accounting is now calculated as part of New Zealand's annual Greenhouse Gas Inventory under the United Nations Framework Convention on Climate Change (UNFCCC).
- UNFCCC recognised the long-term carbon storage value of wood (HWPs) in principle in 2003 and subsequently adopted rules around its inclusion in countries' carbon accounting.
- NZ wood processors supported MFAT through 2006-10 to secure this HWP adoption and calculation.
- This was done on the understanding that HWP would be divested to wood processors in the same way NZUs were to foresters, to trade on the ETS which launched in 2008.
- NZ wood processors have invested in incremental wood processing since 2003 on this basis.
- Between 2016 and 2019 research was conducted (including by Scion) on measuring the HWP value from domestic processing and from NZ logs processed offshore.

- Scion’s 2019 report for MPI estimated the 2021-2050 contribution by HWPs to emissions reduction at 110 million tonnes of CO₂. (To put this in perspective, NZ’s 2031-35 emissions budget has been set at 48 million tonnes per year)
- Scion’s 2019 report estimate the value of HWP from 2021-50 to be up to \$2.7 billion @ \$25/t CO₂.
- At \$75/t CO₂, Scion’s estimate equates to \$275 million HWP value annually.
- An estimated half of this (potentially \$130 million) is attributable to HWP value generated by NZ processors annually.
- The Scion report concluded the best means of encouraging more HWP earning for NZ was to remunerate and incentivise ‘wood processing’, as opposed to forestry.
- A recent study commissioned by the European Union in how to incentivise more wood processing reached the same conclusion.
- In 2019 MPI and MfE officials recommended⁽¹⁾ two initiatives to Forestry Minister Jones and Climate Change Minister Shaw:
 - Develop a scheme to incorporate HWPs into the ETS.
 - Develop a fund to provide interim support for new wood processing investment
- The Ministers instructed the officials to pursue both measures. ⁽²⁾
- Urgent ETS priorities and Covid 19 resulted in TUR informing the sector that the HWP work would be picked up as part of the Industry Transformational Plan.
- Industry sector representatives on the ITP advisory group have instructed TUR officials that HWP dissemination is a crucial ingredient to the recipe-set of initiatives for the ITP to transform the sector and achieve its forecast outcomes.
- HWP credits will:
 - Provide capital toward the estimated \$1-5 - 2 billion of investment required to transform the sector.
 - Provide capital and margin per m³ of production to invest in processing to target:
 - Australian structural market (where there is a 20% shortfall, filled mainly by European and Russian supply).
 - NZ commercial and mid/high rise residential building markets with mass timber. (Crucial to support the Building for Climate Change (BfCC) regulation)
 - Asian, Middle-Eastern and Pacific markets for all sawmill products and mass timber.
 - Global appearance timber markets.
 - Investment in residues to support the bio-energy economy.
 - HWP NZUs will also assist appearance mills to pay more toward the cost of pruning logs so that major forest estates resume pruning. More such mills will close without re-starting pruning.
- Having a larger domestic processing base has spill-over benefits to NZ, including:
 - Eliminating the risk of future timber shortages, as volume will be able to be re-allocated to the domestic market during peak times.
 - Reduce structural timber pricing by supporting competition and scale automation. (This has cost-of-housing and inflation advantages)
 - Earning additional HWP accounting credits for NZ’s Greenhouse Gas Inventory.
 - Store more carbon from each ha of forestry, so that not as much farmland needs to be converted to new forestry - to the angst of rural communities and government.
 - Reducing the risk to NZ foresters and Māori landowners and foresters of the current over-reliance on the Chinese market for logs.
 - Creating high-value rural employment, including in regions with a high Māori population.
- The ‘fund’ component of the Ministers’ 2019 instruction has effectively been announced in the 2022 budget.
- The industry now calls on the government to finally implement the ‘HWP/ETS’ component, as part of the ITP.

2019 Advice from MPI and MfE officials to Ministers

MPI Doc #: B19-0249

MfE Doc #: 2019-B-05648

Date: 7 June 2019. ⁽¹⁾ Excerpt:

“Key Messages

1. There is an opportunity to increase the amount of long-lived wood products made in New Zealand. The resulting increased carbon stored in Harvested Wood Products (HWPs) would contribute progress towards our international climate change targets.

2. The opportunity for harvested wood products aligns with the ETS forestry package objective of increasing carbon storage in forests and forest products, and supports the Government’s wider programme to increase the productivity and competitiveness of New Zealand’s wood processing sector.

3. The main opportunity to increase the carbon stored in HWP is in high value, new technology in the wood processing sector. This relates to the manufacturing of engineered wood products such as Cross Laminated Timber (CLT), Oriented Strand Board (OSB) and GluLam (Glued Laminated Timber). There may also be some opportunities in the production of sawn timber, and consideration of alternative overseas markets.

4. Scion research indicates that access to capital is not necessarily the main barrier to investment in higher value processing, rather it is investor nervousness around the profitability of producing new products and entering new markets.

5. Exporters of processed products have not remained competitive with international processors with lower operating costs, and face tariffs and nontariff barriers in key export markets.

6. An approach that makes payments based on the HWP output from mills could help wood processors to reduce operating costs. This would help with the ongoing profitability of a mill, but still places the onus on investors to take on the risk of investing in new high value processing technologies and supply chains.

7. Officials have identified two options to overcome barriers and incentivise increased production of these types of products;

- a. giving New Zealand Units (NZUs) to processors who create long-lived products; and
- b. a fund targeted at supporting production of long-lived products.

A third option of providing NZUs to forest owners was consulted on, but officials do not recommend this option is progressed.

8. Providing NZUs to processors could help improve ongoing high operational costs for investors (e.g. labour and electricity), while a targeted fund could help address investment uncertainties and capital costs.

9. There are key design details that would need to be resolved for both of these options. Officials could provide advice for decisions on a fund in mid-2019. However, further research and analysis would be required to ensure design details are appropriate for issuing NZUs to wood processors. This latter option would require a future amendment bill to the CCRA.

10. Forestry Ministers are meeting on 13 June 2019 to discuss this topic. Officials are seeking high level direction from you on which policy option(s) you would like further advice. Officials do not have a recommended option, **both are viable.**"

MPI Doc #: AM19-0486

MfE Doc #: 2019-B-05721

Date: 21 June 2019. (2) Excerpt:

"Key Messages

- On June 13, you both met with Ministers Parker and Sage to discuss options to better incentivise the production of harvested wood products (HWPs) in New Zealand. This decision is part of recent changes to the Emissions Trading Scheme (ETS) intended to increase carbon storage to help New Zealand meet its international climate change targets.
- Officials recommended two options (B19-0249;19-B-5648) that would best incentivise increased production of HWP: o giving New Zealand Units (NZUs) to processors who create long-lived wood products, through adding them to the ETS; and o a fund targeted at supporting the production of long-lived wood products.
- At the meeting you decided to instruct officials to investigate incorporating processors in the ETS. You also decided that an interim fund would be established to encourage production of HWP while officials develop options for these changes to the ETS."

MPI Doc #: B19-0518 (3)

MPI officials proposed two work streams:

1. Using the SFF Futures fund as the interim fund to encourage wood processing
2. Conducting further research and development into using HWP to incentivise wood processing via inclusion into the ETS.

It is notable that two and a half years on, the SFFF has not been effective at triggering significant new wood processing, as officials hoped.

It should also be noted that the officials did not follow through with the June instructions by the Ministers to develop a scheme to distribute HWP to wood processors.

It appears from this paper that officials unilaterally decided HWP needed to be utilised to incentivise only *future HWP creation*, as opposed to distributing the benefit of *prior investments to create HWPs* as well as *incentivising future HWP creation*. This was not what the ministers instructed, nor what the industry assumed would happen once HWPs were recognised by international carbon accounting.

Harvested Wood Products and NZ's Climate Change Response

An estimated 10 percent of New Zealand's GHG emissions are due to the Embodied Carbon within building materials, with steel, aluminium and concrete being the major contributors. ⁽⁴⁾

The 2021 'Carbon Budget of New Zealand Buildings' study by BRANZ and Massey University ⁽⁵⁾ established that the residential and commercial construction sectors are set to significantly exceed the theoretical CO2 emission budget allocations that would be consistent with limiting climate change to 1.5 degrees.

In the case of residential, medium density housing will exceed its budget by 6.2 times and apartments will exceed their budget by 10.9 times. In the case of office buildings, the carbon budget is forecast to be exceeded by 5.3 times.

To address this, the government is developing a range of policy, investment and regulatory responses including:

- Building for Climate Change regulation ⁽⁶⁾, which will cap and reduce Operational and Embodied Carbon per m2 of floor area from 2024.
- Low carbon government procurement guidelines ⁽⁷⁾
- Mid-Rise Wood Construction PGP programme to showcase mass timber construction
- Timber Design Service

These initiatives have the potential to expand the demand - potentially significantly - for mass timber solutions compared with their current low base of manufacture in New Zealand. The forecast is that NZ will potentially not have the supply-side capacity to match this demand if it eventuates. Three-year lead times for investment in significant facilities increases the shortage likelihood. Much depends on whether MBIE/government seeks to make meaningful progress on cutting Embodied Carbon this decade through its policies and BfCC. It would be a risk for New Zealand to wait and hope that high-emitting material suppliers can de-carbonise in time. Steel for instance, relies on the development of green hydrogen – a technology which in turn relied on *surplus* green energy, which is also expensive. Concrete has the option to use fly ash to reduce high-emission cement usage, but supply is limited and such concrete commands a significant cost premium.

Under the best-case scenarios, even if technological advancement could eventually reduce the emissions of both products by half, that does not achieve the 5 to 11-fold reduction required by the BRANZ report. It also relies on international supply chains, mainly in Asia, to indeed make the significant investments in plants that supply the New Zealand market.

A report by PTL Engineers ⁽⁸⁾, commissioned by MPI in 2021, established that if 50 percent of non-residential dwelling buildings were to be built in wood, an additional 600,000m3 of mass timber would be required annually. This is estimated to be a ten-fold increase in the scale of the mass timber sector. That capacity will require investment of between \$600 million and \$1 billion directly in these products, and an estimated \$1.5 - \$2 billion in total.

In theory this demand potential could be a trigger for the investment required to satisfy the demand. However, that the demand will crystallise is not certain;

- The government procurement guideline is not a mandate, and it has exceptions where the department or agency's CEO allows opt-out or where projects are under \$9m in value;
- the Building for Climate Change caps and reductions have not yet been published and may not drive the demand for wood products if they are not ambitious.

Very low immigration levels also undermine the confidence to invest in wood processing further at this stage of the building cycle, as does the fact that mass timber prices are suppressed by government grant-subsidised competitors from Australia. (9)

Allocating the benefit that New Zealand gains from HWP accounting to wood processors has the potential to fund the required capital investments; mitigate some of the risks associated with the investment, and help compete with grant-subsidised foreign competitors. The 2019 advice by Scion and the MfE/MPI officials is consistent with this view.

HWP Background

The Climate Change Response Act 2002 sets the purpose of the NZ ETS.

Initially atmospheric carbon sequestered by trees was treated as being released to the atmosphere upon harvest. Changes to international climate change accounting conventions now recognise that wood products store carbon for decades/centuries, and as such these 'Harvested Wood Products' (HWP) now accrue carbon credits in international accords.

Since the United Nations' International Panel for Climate Change (IPCC) published its Harvested Wood Products good practice guidance in 2003 (10), there has been general recognition that HWP would eventually be introduced into international carbon accounting. New Zealand wood processors have invested in capacity since this time, in the expectation that those investments to store carbon through HWPs would accrue carbon credits and be tradable in due course, in much the same way foresters' sequestration has earned tradable NZUs since 2008.

In the same way foresters invested ahead of the ETS establishment, knowing eventually such a scheme would be in place for their contribution, so too have wood processors since HWP were recognised by the IPCC in 2003.

In 2019 MPI commissioned Scion to research options for utilisation of HWP for foresters or wood processors. (11) The report established:

- The benefit of HWP accounting over the 2021-2050 period is large – up to 110 Mt CO₂, worth \$2.7 billion at \$25/tonne CO₂. This represents a 40% increase over forest-only sequestration.
- Incorporating HWP into the New Zealand forestry 'averaging' regime is the equivalent of increasing the forest LTA from 16.3 years to 22.4 years.
- HWP credits are generated by two groups:
 - Foreign wood processors - NZ logs exported and processed overseas (The HWPs were based on main log market utilisation surveys by Manley and Everson, 2016, 2017)
 - Foreign wood processors - Logs processed domestically, calculated by applying IPCC default half-lives.
- "It is feasible and not necessarily expensive to track logs to mills and products used in New Zealand, but not overseas."
- "Incentives for greater on-shore processing are likely to lead to a significant HWP accounting benefit because of the large volume of logs currently exported and their overall shorter expected lifespans."
- It is possible to establish the amount of processing NZUs earned by each wood processor each year from the products they produce.



In late 2021 the European Union commissioned an extensive piece of research⁽¹²⁾ into how best to incentivise wood product utilisation using the value of carbon in the materials (HWP), and to propose a scheme for adoption by the EU. The 300-plus page research looked at incentivising building developers, but instead proposed a tradeable credit-based remuneration scheme for the ‘producers of the wood products’.

The proposed NZ scheme would therefore be consistent with the thinking of the most advanced global region addressing climate change.

Summary of Expected Outcomes from a wood processors HWP credit-based mechanism

HWPs will lead to more investment in wood processing, which is the forest/wood Industry Transformation Plan’s priority one goal. The potential for investment is expected to be between \$1.5 - \$2 billion.

This in turn is expected to lead to:

- a. Having the materials available to support the BfCC regulation
- b. Domestic processing of logs generates more HWP credits (due to longer product half-lives) than processing logs off-shore – thereby creating even further HWP accounting credits for New Zealand.
- c. Substituting high-emission materials (this aligns well with the government objective of reducing emissions *at source*)
- d. Increasing supply of materials for the housing market, and thereby reducing construction costs, housing costs and inflation.
- e. Increasing the supply of bio-mass for bio-energy and bio-fuels (again, supporting the substitution focus of Ministers)
- f. Employment, export earnings, tax, and iwi economy improvement
- g. Diversified markets for foresters (away from China reliance)
- h. Creating demand for ‘rotation’ forestry, instead of the contentious ‘permanent exotics’ regime, and generating more carbon storage from each hectare of land in forestry.

The 600,000m³ of additional demand for mass timber products forecast by the PLT engineers report is consistent with analysis from 2021 that Red Stag provided the Climate Commission, MBIE and PLT.⁽¹³⁾

That analysis built on research by Deloitte for the Mid-Rise Wood PGP programme and found that targeting a 50% market share change to wood could result in a 628,000m³ increase in annual demand for those target products. This in turn would drive the following spin-off impacts:

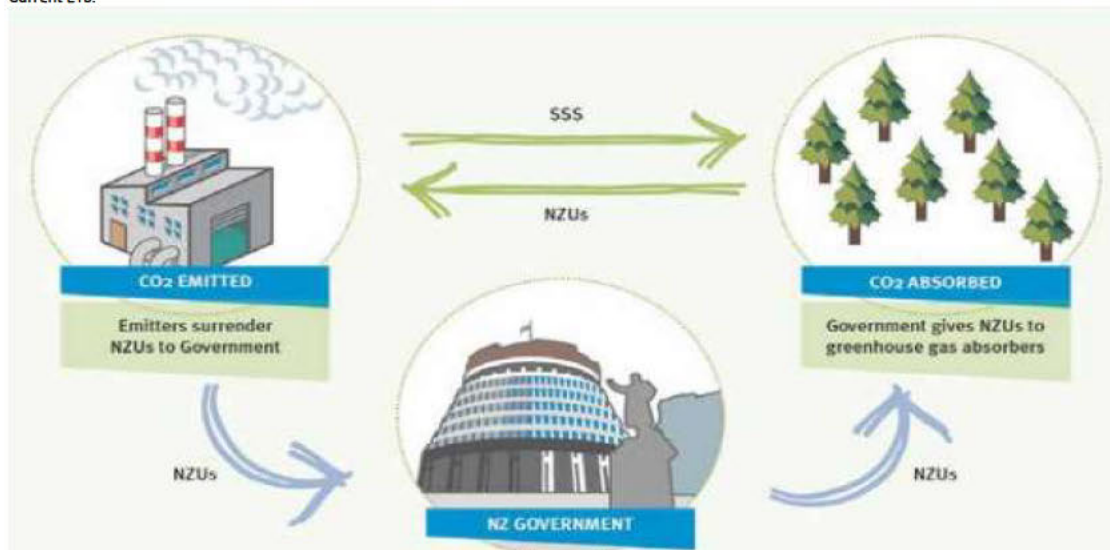
- Additional total sawn wood products: 2,090,000 m³ annually (half exported)
- Additional chip production: 1,045,000 tonnes annually
- Additional biomass for energy: 350,000 tonnes annually
- Additional logs processed: 3.5 million tonnes
- Additional forest and wood processing jobs: 3,500
- Additional 1.8 million tonnes CO₂ annually sequestered by trees or avoided due to substitution.

Some sawmills receiving HWP NZUs will likely forfeit them back to government to become certified by Ekos/Toitu as carbon neutral for marketing purposes. This will mean these NZUs will not affect the price of carbon on the ETS.

Design of the NZ HWP-ETS scheme

The HWP credit-based scheme would be incorporated into the ETS for ease of administration, with the specific features discussed below.

Current ETS:



Domestic or Domestic+Export-generated HWPs?

It is envisaged that only the domestically processed HWP would be part of the scheme. It would be inappropriate to credit value to domestic wood processors from foreign processing of NZ logs. The government would retain the carbon accounting benefit of the foreign wood processing HWP on NZ export logs. Excluding HWPs from export logs also greatly simplifies the scheme.

Grandfather date for HWP creation?

IPCC recognised Harvested Wood Products from 2003, and this was publicised at the time.

The question then is whether to issue NZUs for all domestic wood processing volumes, or to grandfather any plant's volumes as at 2003 (when IPCC recognised HWP) on the basis that the 2003 level of production was already being produced and cannot possibly have been influenced by the future value of HWP carbon accounting announced in 2003.

The argument against this grandfathering is that for forest investors, 1990 was the date after which forests could join the ETS and claim units, and it is unlikely foresters contemplated the ETS in the early 1990s either. This may therefore be seen as a precedent for HWP treatment also.

Grandfathering requires a one-off process of establishing plant volume of each plant that existed as at 2003. It is expected that sufficient records exist, and the onus of proof would be on the plant owner.

Our thinking is that if 2003 grandfathering is adopted then the HWP production rate HWP value as at 2003 (i.e. the grandfathered portion) should be partially applied to a pool for industry good initiatives and promotions. A pool value of say \$10 million annually would be well invested in industry good programmes by the sector. Government could either issue and sell more NZUs itself to fund this, or to use the NZU it currently auctions annually, or as announced in the 2022 budget.

Growth in production at plants since 2003 must however be incorporated into any HWP credit earning scheme because wood processors have invested on that basis, having seen what transpired with forestry NZUs (they applied to forests planted well before the ETS establishment in 2008).

To do otherwise would be seen as nationalisation of the value of HWP created by wood processors; would be entirely inconsistent with the treatment of ETS forestry; and be unfair, inequitable and discriminatory.

Under all scenarios through, we suggest the HWP NZUs earned only apply to annual production from the 2022 year and are not backdated to earlier periods.

Company or Plant-based Annual Calculation?

A question also becomes, should the HWPs be calculated at the company level or the plant level.

We consider that the only feasible option is to measure it at the plant level, and whichever company owns the plant in any given year can claim the HWP NZUs.

Administration

To claim NZUs, each year the qualifying wood processors would need to provide records demonstrating the wood product types (solid wood, panels, pulp... aligned with the IPCC half-life defaults) and volumes of each that have been sold and to which country.

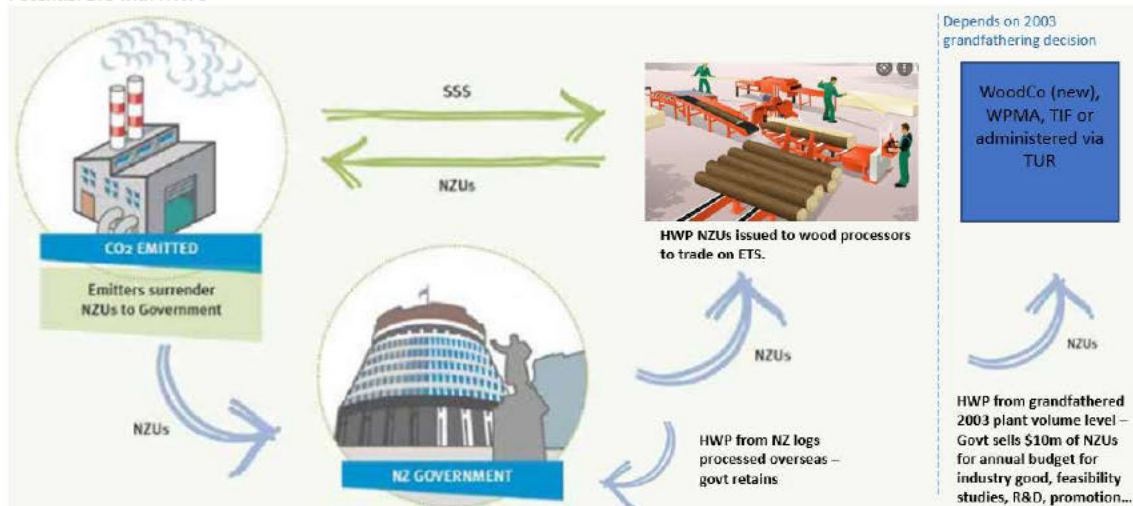
The process could be a simple survey, backed up by documentation.

Entities such as Toitu, Ekos or Thinkstep are well established to certify this type of scheme.

There will need to be significant consequences of fraudulent claims against the scheme, backed up by the prospects of audit.

The Scion's 2019 Harvested Wood Products paper demonstrates the ability to calculate the NZUs associated with any given product mix and volume from NZ wood processors.

Potential ETS with HWPs



TUR would also need budget to administer the HWP component of the ETS. The wood processing sector will see this as the best using of TUR funding, given the scale of the benefit to transform the

sector. There are a finite number of wood processors in New Zealand, so the process once established is not expected to be difficult.

It is recommended that TUR and MfE commission Scion's Stephen J Wakelin to research and propose the mechanism to measure and document annual HWP generation by wood processors. Mr Wakelin is Wellington-based. He is also the co-author of the 2019 report commissioned by TUR, and the 2020 research paper: 'Estimating New Zealand's harvested wood products carbon stocks and stock changes' ⁽¹⁴⁾ funded by MfE. Contacts: steve.wakelin@scionresearch.com

WTO Considerations

Development of a tradable credit-based system for HWP is no different to the current ETS for forest generated NZUs.

No WTO considerations were noted in the European Union report on incentivising wood product usage via a similar tradable credit-based scheme as this.

Treasury Implications

The carbon accounting benefit from current HWP production is not held on the Treasury financial books. They are on the New Zealand government's Emissions accounting ledger.

Distributing HWP NZUs to wood processors to then sell therefore has no financial impact on the government's books.

Distributing them to wood processors does mean there is less HWP carbon accounting for government to *potentially* sell itself though.

If the government fell short of its Paris commitments AND it decided to fund the shortfall by buying international credits, then the distribution of HWP NZUs to wood processors would increase this funding requirement. The Paris Accord does not legally bind the government to fund any shortfall.

Mitigating this:

- The government has a robust plan to ensure its Paris Accord commitments are met, and is forecasting to exceed its reduction commitments.
- The HWPs are earned by wood processors for New Zealand, and they deserve equitable treatment to foresters NZUs.
- HWPs from foreign processing of NZ logs is proposed to be retained by government.
- HWPs from pre-2003 NZ wood processing volumes may also be held by government if grandfathering is adopted.
- The dissemination of HWP NZUs to wood processors will support wood processing to target additional markets and this will generate increased HWP carbon accounting for New Zealand.

Next Steps:

With a 3-year planning horizon for new processing and the need for ETS legislation adjustment, it is now urgent that the HWP-ETS scheme be accelerated. The recommendation is that this be commenced ahead of formal ITP sign off. A working group of MfE, TUR, industry, and Scion to develop the scheme is highly recommended.

References:

- 1 MPI Doc #: B19-0249 / MfE Doc #: 2019-B-05648 – ‘Encouraging carbon stored in harvested wood products’, joint MPI/MfE paper to the Forestry and Climate Change ministers. 7 June 2019.
- 2 MPI Doc #: AM19-0486 / MfE Doc #: 2019-B-05721 – ‘Aide Memoire – ‘Harvested Wood Products Decision Update’ to ministers. 21 June 2019.
- 3 MPI Doc #: B19-0518 – ‘Interim option to encourage carbon storage in harvested wood products’. 30 October 2019.
- 4 <https://www.nzgbc.org.nz/zerocarbon/roadmap>
- 5 https://d39d3mj7qio96p.cloudfront.net/media/documents/ER63_Carbon_budget_sensitivities_LR12977.pdf
- 6 <https://www.mbie.govt.nz/dmsdocument/11794-whole-of-life-embodied-carbon-emissions-reduction-framework>
- 7 <https://www.procurement.govt.nz/assets/procurement-property/documents/procurement-guide-to-reducing-carbon-emissions-in-building-and-construction.pdf>
- 8 PTL paper for TUR – ‘Professional Engineering Services – Embodied carbon footprint of New Zealand buildings’ Andy Buchanan PhD MS BE(Hons)(Civil) CPEng and Tobias Smith PhD ME BE(Hons)(Civil) CPEng (19 July 2021)
- 9 Examples:
 - Xlam (A\$2.95m) <https://builtoffsite.com.au/emag/issue-03/xlam-plant-support-regional-jobs-innovation/>
 - Tasmania CLT (A\$15m) <http://www.panelworldmag.com/hermal-announces-hardwood-clt-mill/>
 - TimberLink CLT-GLT (A\$2m) <https://www.timberbiz.com.au/timberlink-chooses-sa-for-new-clt-and-glt-plant/>
 - TimberLink Bell Bay sawmill federal grant (A\$3.5m) https://fridayoffcuts.com/dsp_article.cfm?id=966&date=%7Bts%20%272022-05-20%2000:00:00%27%7D&aid=12434
- 10 <https://unfccc.int/topics/land-use/workstreams/land-use-land-use-change-and-forestry-lulucf/harvested-wood-products-1>
- 11 Scion ‘Feasibility and benefits of methods to incentivise production of longer-lived harvested wood products from New Zealand’s forest harvest’ – held by MPI
- 12 European Union - Evaluation of the climate benefits of the use of harvested wood products in the construction sector and assessment of remuneration schemes <https://op.europa.eu/en/publication-detail/-/publication/eb9de1f4-2c93-11ec-bd8e-01aa75ed71a1>

29 May 2022

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Immigration – why we're left in the starting blocks
Date: Tuesday, 30 August 2022 10:54:07 am

Hi Stu,

This article nails it.

The OECD birth rate is 1.6, and the world is in a global long term fight for immigrants - they are NOT just waiting to flood into New Zealand. That's old thinking. We have make residency easy and go promote NZ to the world's talent, semi-skilled and trainable pool.

This restrictive policy is causing inflation, high interest rates and recession. Businesses can't grow or churn out production. Plus, the construction industry (therefore forest-wood) will grind to a halt during next year. Group home builder enquiries are down 80 percent this year!

Politically and economically this is a no-brainer, and we need ministers like you who understand business and the economy pressuring Michael Wood and the PM to change tack.

Regards.
Marty

Sent from my Galaxy

----- Original message -----

From: BusinessDesk <no-reply@businessdesk.co.nz>
Date: 30/08/22 05:02 (GMT+12:00)
To: Marty Verry [s9\(2\)\(a\)](#)
Subject: Immigration – why we're left in the starting blocks

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From: [Marty Verry](#)
To: [Hon Stuart Nash](#); ray.smith@mpi.govt.nz; [Jason Wilson](#)
Subject: Red Stag letter to Forestry Minister & MPI/TUR -- Market Opportunities and Tangible Transformation Projects Proposal
Date: Thursday, 10 November 2022 2:41:42 am
Attachments: [image001.png](#)
[Red Stag Letter to Ministry Min of Forestry and MPI-TUR.pdf](#)

Gentlemen,
Please find our letter attached for your consideration.
Best regards,

Marty Verry
Group CEO

Red Stag Timber, Red Stag Forests, Red Stag TimberLab
www.redstag.co.nz s9(2)(a)
PO Box 213, Kumeu 0841





To:

Hon Stuart Nash, Minister of Forestry and Minister of Economic Development
Ray Smith, Director General, Ministry of Primary Industries
Jason Wilson, Deputy Director General, TeUru Rakau

11 November 2022

Re: Market Opportunities and Tangible Transformation Projects Proposal

Dear gentlemen,

The transformation of the Forestry/Wood Processing sector is in your capable hands now. The Independent Advisory Group has done its bit and Industry Transformation Plan consultation is complete.

Investment Climate

The economic climate in the coming years will undoubtedly become a headwind to industry Transformation and the stated key measure of ITP focus; wood processing investment.

ITP success should be recognised in the number of substantial processing investments that the ITP triggers. By this we mean economic scale investments in the \$30 - \$300 million range in the next 2-4 years. Here, I want to share some thoughts on the challenges and potential opportunities of achieving such success, from one that has invested more than \$300 million in this sector to date.

There is no economic business case for such sawmilling and Engineered Wood Processing (EWP) investment based on targeting the medium/long-term domestic *residential* construction market. Current sawmilling capacity has that covered. We expect building consent and construction rates to halve in the next 2 years.

If anything, this decade a number of mills will close due to lack of demand and/or a shortage of logs – most notably in the Canterbury region for structural logs and the CNI region for pruned logs.

Red Stag has been held up as an example of successful investment, but this analysis is simplistic and risks misleading anyone expecting it could be repeated. Red Stag's growth has been a response to the 2006-08 sawmill buying spree of independent sawmills by CarterHoltHarvey. It amassed a dominant position (Estimated 60% market share) in structural supply – to the angst of merchants that compete with Carters. As a result, they diverted their purchases to Red Stag to re-balance their strategic supply options.

Our battle has been for market share of a market whose finite size has been driven by the NZ residential consent cycle. We are heading into a period of supply glut and closures now. Transformation will have to come from elsewhere.

Opportunity Markets

If the objective of the ITP is to process more logs, store more carbon from wood, create biomass for clean energy, capture more value onshore and diversify log producers' reliance on China, then the opportunities for meaningful wood processing investment are to target A/ the NZ mid-rise residential market for apartments, retirement homes and student hostels, B/ all types of commercial/industrial buildings, and C/ export markets, especially 'structural' into Australia, and mixed grades globally.

The question for the three of you is how do we use the ITP and Budget 2022 to trigger \$30-\$300 million investments targeting these sectors?

Looking at **A/ (mid-rise residential)** and **B/ (commercial)**, these markets will be affected by the construction downturn over the coming years. But the opportunity for wood is by converting these projects from high-emission steel and concrete. This has been a slow process. Red Stag's CLT plant is still on a single shift and carrying \$45 million of debt, including the \$15m million from the PDU.

The opportunity here is for more rigorous enforcement of government procurement policy (including bringing Kainga Ora into the lowest carbon policy requirement), and – just as importantly – ambitious roll out of the 'Building for Climate Change' regulation (BfCC).

These are primarily in MBIE's hands. We have pushed MBIE for the BfCC rules and timelines, but they have been reluctant to commit. This is also an area of risk of political change. These factors and uncertainties mean further wood processing investment targeting mid-rise residential and commercial markets is not currently bankable.

MBIE will also be reluctant to drive the BfCC carbon caps ambitiously due to the lack of supply-side capacity for engineered wood products. We are in a chicken and egg situation whereby the only escape from this standoff is for investors to build capacity in the *hope* that MBIE then regulates embodied carbon hard. If MBIE does not, or the political appetite changes, then investments targeting these markets could become stranded assets and effectively unrequired. Wood processors will require significant incentive to make such investment under this risk scenario.

Looking at the **C/ Export opportunities**, these too are perilous in the current global environment. Firstly, the currency swings 30 percent and can wipe out the 10 percent margins theoretically achievable offshore. MPI also has the Sense Partners report detailing the subsidies, grants and favourable market incentives provided by the governments of the countries New Zealand wood processors must go head-to-head with in export markets.

Foreign governments tend to treat wood processing like New Zealand treats the film industry. This includes Australia, where the budget just announced was reporting as follows in Friday Offcuts industry newsletter:

"Australia's Federal Budget this week reinforced the Government's recognition and support for the sector. In summary, within the Budget, AU\$100 million has been confirmed for a new National Institute for Forest Products Innovation, AU\$8.6 million allocated for an extension of the Regional Forestry Hubs from 2024 25, AU\$10 million for skills and training, **AU\$86.2 million has been recommitted for plantation establishment grants** and **another AU\$112.9 million for wood processing innovation grants**. **Forest industries are also expected to benefit from the AU\$15 billion National Reconstruction Fund targeting grants to stimulate regional manufacturing.**" (highlighting added)

In Australia, grants for "jobs" and "innovation" basically end up funding plant and buildings.

This is just the federal budget. We have collated numerous media announcements of similar grants and subsidies given out by State governments also. As a result, New Zealand wood processors are at a distinct disadvantage abroad as well as domestically. For instance, Red Stag CLT faces stiff competition in our own market from Xlam CLT from Australia. Xlam and its Hynd sawmill has been heavily grant funded in Australia.

Most Australian forests are publicly owned also and sell logs cheaper than prices faced by NZ wood processors.

Lastly, NZ structural logs have lower stiffness, so a lower portion of the log makes the Australian framing grade, meaning more downfall needs to be sent to Asia at lower prices.

All these factors make wood processing targeting Australia very difficult to make work.

The good news is that Australia does face a long-term shortage of logs. It will be heavily dependent on imports. Currently these come primarily from Europe. If New Zealand can level the playing field, it has a chance to compete and invest to target export markets.

Triggering Investments

The transformational success of the tree growing part of the NZ forestry sector in the last few years demonstrates the investment potential of an industry where a dual-income stream is generated – logs plus carbon. Foresters receive the benefit of their carbon sequestration contribution to NZ, and the sector has boomed as a direct result.

Wood processors do not get the benefit of their carbon storage contribution to NZ, and the sector has flatlined.

Based on Scion's 2019 research for MPI, and adjusting for the current price of carbon, this Harvested Wood Products value from NZ processing is worth in excess of \$100 million annually on NZ's emissions accounting.

If wood processors can be treated fairly and equitably with foresters and this Harvested Wood Products (HWP) value is somehow distributed to create a dual income stream (timber + carbon) for wood processors, it is our strong conviction that it will underpin the Transformation of the sector.

Effectively it will break the chicken and egg standoff domestically in the mid-rise residential and commercial markets referred to above, and it will mean export markets become viable.

On the carbon side, fresh investment targeting markets A/ - C/ above also will result in significantly more carbon storage in HWPs, as well as emission avoidance from displacing steel and concrete. It will also mean fewer farms need to be converted to forestry to achieve any given level of CO2 offset.

And the good news, in terms of WTO/CER, is that – just like forestry NZUs - these are not 'subsidies' as they are simply passing on the value of carbon generated by converting wood into long life products.

Using Harvested Wood Products for this purpose was "strongly supported" by the advisory group to the ITP. We also note the following ITP Joint Statement submission by the industry groups listed after:

“The inclusion of recognizing carbon in harvested wood products is well supported. In whatever form, this represents appropriate recognition and could make a substantial difference to the wood processing and manufacturing sectors ability to partner in the ITP. Issues of liability and half-lives need factoring in, but the topic is resolvable and has the potential to transform wood processing in the same way that it has for forest growing. “

- Ngā Pou ā Tāne, the National Māori forestry lobby
- Forest Owners Association
- Forest Growers Levy Trust Inc
- NZ Farm Forestry Association
- Forest Industry Contractors Association
- NZ TIF – Timber Industry Association
- WPMA - Wood Processors & Manufacturers Association
- NZ Institute of Forestry

We note it was also supported by Red Stag, Pukepine and OneFortyOne, which were the submissions we received. Indeed, we would suggest support was unanimous.

Currently TUR has worded the ITP to “shortlist” options for HWP use for wood processors. That is not what the industry wants in the ITP; it wants selection and “implementation”. ‘Plans’ and ‘short-lists’ don’t transform sectors. Implementation and the resulting \$30 million - \$300 million investments in wood processing do.

Now that the Submissions process is complete, we look forward to Cabinet confirming the ITP and urgent implementation of an HWP scheme to reward wood processing and stimulate further processing. Red Stag and the sector leadership are ready to work with government agencies and researchers to design and support such a scheme.

Budget 2022

The HWP scheme will take some time to implement. There is a 4-5 year lead time to consent, design, order, install and commission greenfield factories. Waiting for the HWP scheme could mean a 5-6 year delay in opening any meaningful greenfield wood processing capacity. This assumes investors can secure land, feedstock and staffing.

To leapfrog this timeline, and in lieu of HWP implementation, there are more immediate options.

Existing wood processors typically have excess zoned land. They know their markets, so feasibility is shorter, have staff, and typically have the relationships to source feedstock for new facilities or have the feedstock themselves in lower value form.

The Budget 2022 allocations have the purpose of stimulating these types of investments, particularly 14060, 14062 and to a degree 14057. <https://budget.govt.nz/information-release/2022/pdf/b22-frs-forest-sig-4638452.pdf>

These allocations have been funded by the Climate Change Response Fund. That Fund in turn has been funded through the sale of millions of NZUs in the auctions during 2021 and 2022. As we point out above, wood processors have not yet earned NZUs for their HWP value generated, despite them being accounted for in NZ’s carbon accounting. It is appropriate therefore that the budget appropriations be A/ prioritised to projects by **existing wood processors (as they have effectively contributed to the fund)**, and B/ **in the form of ‘grants’, for the same reason.**

It would be unjust and unfair to use this funding to fund projects that were not driven by the existing wood processors that helped generate the fund with their HWP contribution. This is particularly so where newcomers could be backed by government in competition to existing wood processors. WPMA’s ITP submission highlights this concern.

The importance of a policy to prioritise existing wood processors should apply even if newcomers are prepared to take funding by way of equity or debt, which may improve the government’s financial position if repaid in later years but would still be unjust to the sector that generated the Climate Change Response Fund through the value of HWP accounting in 2021 and 2022.

We discuss the imperative for ‘grants’ to compete with grant and other quasi-subsidised competitors above. Further to that, loans and equity investment is not attractive. Red Stag, and no doubt others in the sector, receives requests from local and foreign corporations, investment funds and institutions to co-invest in value-added processing very regularly. It is not of interest. One must understand that it is not about access to capital that triggers investment; **it is about long-term viability of the enterprise.** This can be achieved in two ways. A/ adding the HWP income stream to create a dual income stream, akin to forestry (longer term), and B/ by being

more price competitive in the market by **not having to earn sufficient profitability to provide ROI and capital repayment for loan/equity investments.**

Red Stag Partnering with MPI

As you know, Red Stag has been partnering with MPI on the Mid-Rise Wood SFFF programme, which is starting to show very good results.

It often falls on Red Stag to take a leadership position in the sawmilling sector given the hands-off approach of Rank Group and, until recently, underwhelming representation at Chair/CEO level of WPMA. We too want to see the sector transform and are a natural partner of government to help lead the transformation ahead.

There are several areas of potential investment by the Red Stag group that we could look at which fit with the funding criteria established in the Budget 2022 initiatives to increase carbon storage/HWPs and generate biomass for energy.

Possible areas to investigate include:

Red Stag Timber:

- New sawmill, kilns, planer and treatment operations to target export markets (see above) – would also generate significant surplus biomass for third parties.
- New boiler and power turbine – to generate energy and electricity from biomass

Red Stag TimberLab:

- Extension of the Red Stag CLT factory to incorporate a mechanical pressing line and additional CNC capacity
- A new world-scale automated glulam factory

Red Stag could be in a position to research then announce a number of these by mid next year and implement them in the 2023-25 year periods should sufficient grant or HWP scheme funding support be available.

We look forward to engaging with MPI/TUR on this further.

Yours sincerely,



Marty Verry

Red Stag Group CEO

From: [Marty Verry](#)
To: Hon Stuart Nash
Cc: [Marty Verry](#)
Subject: FW: Red Stag - MPI/TUR letter 2
Date: Monday, 9 January 2023 11:16:29 am
Attachments: [image001.png](#)
[Red Stag Letter to Ministry Min of Forestry and MPI-TUR - Jan 22.pdf](#)

Stu – in case this is the best email to ensure you receive this. Regards,
Marty

From: Marty Verry

Sent: Monday, 9 January 2023 11:13 AM

To: 'stuart.nash@parliament.govt.nz' <stuart.nash@parliament.govt.nz>;
ray.smith@mpi.govt.nz; Jason Wilson <Jason.Wilson@mpi.govt.nz>

Cc: Jessica Tramoundanas-Can <Jessica.Tramoundanas-Can2@mpi.govt.nz>; Forestry & Wood
Processing Industry Transformation Plan <ForestryWoodProcessingITP@mpi.govt.nz>; Elizabeth
Heeg [s9\(2\)\(a\)](#); Chris Baylis <Chris.Baylis@mpi.govt.nz>; [s9\(2\)\(a\)](#)
[s9\(2\)\(a\)](#)

Subject: Red Stag - MPI/TUR letter 2

Dear Minister Nash and Messrs Smith and Wilson,

Further to our letter of 11 November, please find attached our follow-up letter with specific
Transformational investment opportunities and suggestions.

We look forward to engaging with you and your officials on this.

All the best,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag TimberLab

www.redstag.co.nz [s9\(2\)\(a\)](#)

PO Box 213, Kumeu 0841





To:

Hon Stuart Nash, Minister of Forestry and Minister of Economic Development
Ray Smith, Director General, Ministry of Primary Industries
Jason Wilson, Deputy Director General, TeUru Rakau

9 January 2023

Re: Budget 22 \$65 million fund criteria & Red Stag Funding Request

Dear gentlemen,

Happy new year!

With the possibility of a change of government in ten months we may have just six months to put in place the structures to Transform the wood processing sector under your stewardship Minister.

Since my letter to you dated 11 November 2022, the Red Stag teams have conducted strategic reviews of potential incremental investment options targeting non-traditional markets, bearing in mind that the traditional domestic residential market is at saturation-point now in terms of wood processing capacity. I detail the options and funding request further below.

Level playing field in non-traditional markets

In my earlier letter I outlined why further Transformation of the wood processing sector would need to come from non-traditional incremental markets; namely, export markets, and domestic/export mid-rise large-format projects. I highlighted how these international competitors (including those supplying NZ) are highly subsidised, and note this has been openly recognised by government now.

However, it is important to the Transformation of the industry that ministers and officials understand what this international subsidisation means in commercial practice. If a competitor receives subsidies or capital grants then **they do not need to price their products to account for; A, the cost of money (interest or equity ROI) and B, the ultimate return of that money to a funder. This lower cost base means they typically have a 10-20 percent cost and pricing advantage.**

In practice, this cost advantage means they can lower prices and win in markets. As I noted in November, this dynamic makes it very risky for New Zealand companies to compete and is the reason why so little investment in wood processing has occurred to target these markets, despite an abundance of export logs.

Understanding and addressing this unlevel playing field is the key to unlocking the sector's Transformation. New Zealand needs to find a means for wood processors to match this level of support and compete equally. **In other words, we need a means of reducing the cost base so that pricing does not need to factor in the return on/of external debt/equity. This can be done through either funding the capital cost of factory establishment (Budget 22) or having a compensatory second income stream (HWP).**

Fortunately, taxpayer support is not required for this. The carbon value of wood products is now incorporated into our country's Nationally Determined Contributions (NDCs) for Paris Accord accounting. It will provide the dual income stream needed to compete in these new markets once a 'Harvested Wood Products' distribution scheme is developed. We look forward to working on that with officials and consultants in the coming weeks.

To trigger investment in the meantime in lieu of the HWP distribution scheme, Budget 22 allocated \$65 million.

Thank you, Minister, for your letter of reply of 14 December 2022 where you outline the commendable initiatives that you are pursuing to support Transformation, including working on detailed implementation settings for deployment of the Budget 22 allocation.

Debt/equity vs Unencumbered funds – Budget 22

Although I addressed this in my last letter, there is still some talk of deploying the Budget 22 fund as equity or debt, and even surprising talk of government investing in a new CNI sawmill alongside iwi.

It seems there is a misconception that this fund originates from the government tax base or from core Crown debt. It does not. Budget Initiative No. 14560 clearly states that both the Operating Expenditure and the Capital Expenditure aspects of this allocation are charged to the **Climate Emergency Response Fund**.

The Climate Emergency Response Fund was in turn funded by the auction of NZUs on the ETS.

The government has a higher number on NZUs to auction because wood processors have not yet been distributed the value of Harvested Wood Products.

The value of Harvested Wood Products to New Zealand is very real, and has been incorporated into NZ's Nationally Determined Contributions calculation for 2021 and 2022. As Budget Initiative No. 14560 states *"these initiatives will directly increase recorded carbon storage and contribute to the first three emission budgets by more than 27 million tonnes over 2022-2035, reducing Crown's liability by up to \$1.8 billion..."*

When other industry leaders and I first worked with the then Minister for Forestry Jim Anderton, MAF and MFAT to secure UN recognition of HWP, the deal was that eventually wood processors' HWP value would be treated the same way as post-90 foresters – by issuing NZUs or by the development of some quasi scheme of distribution. Ministers Jones and Shaw tried to pursue this in 2019, but that was interrupted by Covid and deferred to the ITP and Budget 22.

Given that the \$65 million Budget 22 fund to generate more long-life HWP value was created **in lieu of** the pending HWP scheme, and given it was funded by the non-distribution of HWP carbon value earned for NZ in 2021 and 2022, it follows that the fund be distributed akin to post-90 forests, **and not as debt or equity**.

It also follows that the government should not nationalise to its books this Fund by investing it in a new CNI sawmill that it owns. Quite apart from the rationale above such a mill would inevitably compete with other mills for staff, logs and markets. Politically, any such initiative would go down very badly with the industry.

'Debt/equity' would also not address the level playing field competitive cost-base issue I detail above. Indeed, it would worsen it.

Afforestation Grant Precedent

Having said that, 'Debt' could work if the 'Afforestation Grant' model was followed, whereby the debt is not repayable and is instead written off by the value of HWP/carbon value over the initial period of the processing facility.

Under this model, the wood processing plant would not benefit by the HWP distribution scheme until the nominal debt is repaid by the HWP carbon value of the products produced.

Budget 22 – Criteria and Settings

In summary, we feel very strongly that it is appropriate, fair, equitable and commercially necessary that the \$65 million Budget 22 appropriation be invested unencumbered.

We would like also to assist your modelling of the settings for such a scheme with the following suggestions:

1. **Priority be given to existing wood processors** who have contributed to the Climate Emergency Response Fund/Budget by not receiving HWP value to date.
2. Projects are of **significant scale** – To have meaningful impact, minimum project capital value of \$15m is recommended.
3. Projects are credibly **scheduled to proceed with investment within the Budget allocation's 2023/24 and 2024/25 years.**
4. Projects need to be in a position to **enter funding agreements by 30 June 2023, bearing in mind the election is due.** This would require applications to be lodged by 31 March 2023 and selection of projects to take forward to contracting to be made by 30 April 2023, to allow 2 months for contract finalisation (and replacement of any projects that fall over due to criteria not being met during that period).
5. Recipients need to demonstrate **a track record of delivering such capital projects** (to avoid government embarrassment of failed projects).
6. Committed **Zoned or Resource Consent land** needs to be a demonstrable pre-condition, as this is a threat to project timelines and the allocated Budget years.
7. **Recipients need to fund at least 60 percent of the capital cost** and demonstrate access to such committed funds.
8. **Funding contributions of Operating costs should be available** at a rate of up to \$1 for each \$3 Capex distributed by the fund (Initiative No 14560 has \$45m Capital Expenditure and ~\$20m Operating Expenditure, so this suggestion sits comfortably within the allocation). Authorised Operating Costs could be R&D and product testing.

Red Stag Group – Fund Applications

Following our November letter Red Stag has conducted strategic planning sessions to establish potential investment opportunities that would proceed should sufficient funding support as outlined above be available.

The following is confidential information that needs to be retained by MPI/TUR and shared only on a need-to-know basis please.

We appreciate that MPI will want to seek funding applications from a range of parties that fit the criteria and timing. The following 3 projects across two companies account for a large portion of the \$65 million fund, but we are entering a recession by most accounts and we figure it is better for MPI to have options to choose from or scale off, rather than be short of credible long-life wood processing projects during Q2 this year, when investment decisions will no doubt need to be made.

Red Stag Timber (RST)

Background and opportunity: RST operates NZ's largest sawmill, processing over 1 million tonnes of structural logs, employing approximately 400 staff including contractors (50% Māori) and producing over 600,000m³ of timber, 300,000 tonnes of chip for Oji and sufficient biomass to produce all drying heat and 7.5MW of electricity (self-sufficient). It is the lowest carbon producer of building materials in New Zealand, based on published EPDs, meaning further scaling up will be the most carbon-efficient in NZ. The mill targets domestic structural markets, which are at supply-side saturation-point now.

Any new production will need to focus on non-traditional markets which are highly subsidised and therefore risky to enter. There are also inherent challenges with matching the NZ radiata log resource to international structural standards such as Australia's. Although standard in NZ, MOE 8 is not used for framing in Australia, where MOE 10 is specified. It is possible that over time NZ could lobby Australia for change, but our experience is that it takes years to change Standards, and that is in our own country! Australian regulators and industry participants have little incentive to change. One valid technical reason is the widespread use of 35mm framing in Australia which requires MPG10 grading to make up for the thinness.

NZ has an emerging lack of structural logs for processing expansion, including in the CNI, as MPI survey data demonstrates. Only a small proportion of structural timber currently makes MOE 10 level. Any increase in RST capacity will inevitably need to process A-grade logs which are currently exported. These produce less timber (conversion) and less MOE 10 timber (grade recovery). In other words, more logs need to be cut to produce any given amount of MOE 10 timber. This results in a higher cost base.

This, combined with NZ logs being the highest priced in the world, and subsidisation of foreign mills (including Australian) is why it is imperative for investment support as described above.

Capex Required for Expansion: The current RST sawmill is at capacity, so a new sawmill line on the same site built in parallel is required. Such a line could be built in two stages to take annual site production from 600,000m³ to 750,000m³ in stage one and from 750,000m³ to 1 million m³ in stage two. Stage one would leverage off the existing front-end log breakdown line, whereas Stage two would add a new front-end sawmilling line and connect to the Stage One back-end line.

Stage one alone would take the mill to being within the top 10 mills globally.


Stage one would be the equivalent to a new medium sized mill in the CNI, whilst Stage two would be the equivalent of a new large-scale mill in the CNI.

Stage one requires an additional 250,000 tonnes of logs annually. With stage two, an additional 667,000 tonnes of logs will be processed annually. Logs processed would be predominantly A-grade logs that are currently

exported, with approximately 80% to China. This project would significantly reduce NZ's (risky) reliance on China as an export market.

Approximately 180-200 additional employment roles will be created and based on current ratios 100 will be Māori and 24 will be Pacific Islander. These jobs are in a region that was earmarked for priority support by the Provincial Growth Fund.

s9(2)(b)(ii)




No funding support is requested as part of Stage two as it is assumed the HWP scheme will be in place by then to help overcome the market risks already outlined.

Stage two depends on Stage one as a prerequisite and will be subject to market conditions.


Should Stage two proceed with the assistance of the Stage one funding support, then the funding support of \$23 million will have triggered a total investment of \$207 million toward a new large-scale mill in the CNI cutting export A-grade logs.

Carbon analysis and Carbon/Fund Payback:

s9(2)(b)(ii)



s9(2)(b)(ii)



Red Stag TimberLab (RSTL)


RSTL operates the current CLT factory at Rotorua and the TimberLab Glulam/LVL factory at Auckland. Staffing across both sites exceeds 100, or which the majority are Māori and Pacific Islander. Upgrades to CLT capacity and a new automated Glulam line would occur at the Rotorua site, adding approximately 50-60 jobs.

RSTL CLT Plant Capacity with new Mechanical Press line

CLT demand has the potential to surpass current RSTL supply in 2024. Subsidised imports from Australia have suppressed pricing. Unencumbered funding support will allow for increased supply to the New Zealand mid-rise building market, moving RSTL supply capacity from 15,600 m³ capacity to 36,000 m³.

The funding will support a new Mechanical pressing line, which is far more automated than the current RSTL plant and which is standard internationally.

s9(2)(b)(ii)



s9(2)(b)(ii)

RSTL - New Automated Glulam Plant

The New Zealand mass timber glulam market is made up of a small number of fairly manual facilities. These include Red Stag TimberLab, Techlam and Prolam. We estimate total mass-glulam capacity to be approximately 10,000 m³ annually.

As a consequence, glulam in New Zealand is expensive. High pricing and capacity constraint has restrained the market's development. A new 20,000 m³ production facility would triple the supply of mass glulam available.

The planned 'Building for Climate Change' regulation of Embodied Carbon and government's procurement policy will require significantly more glulam supply in coming years if they are fully implemented. This funding support is therefore consistent with two of the government's key climate change policies.

A new automated glulam facility will be able to supply the bulk 'straight' glulam market, whilst the existing manual facilities will likely end up focussed and prospering on the more complex custom projects that require that sort of flexible plant that can produce products such as curved glulam, cambered beams and arches. In other words, a new glulam plant would be complimentary to, and not a threat to, existing plants.

s9(2)(b)(ii)

s9(2)(b)(ii)

The HWP/carbon calculation is below. As with the CLT carbon analysis, this is simplified and would need correlation to the adopted HWP scheme. Notably though, this also only includes the HWP value from the use of wood. The 2019 HWP report by Scion for MPI identifies that the substitution effect of displacing steel and concrete should also be factored into such considerations. The pay-back would increase significantly with this included.

s9(2)(b)(ii)

Time being of the essence given it is an election year we would appreciate early feedback and engagement on the next steps and whether this proposal aligns with government thinking.

Please advise if there is more information that we can provide at this juncture.

We look forward to engaging on these opportunities.

Yours sincerely,



Marty Verry - Red Stag Group CEO

CC:

Elizabeth Heeg, Joseph Murray-Cullen, Chris Baylis, Jessica Tramoundanas-Can – TeUru Rakau

From: [Marty Verry](#)
To: [Joseph Murray-Cullen \(Joe\)](#); [Sam Blackburn \(Sam\)](#)
Cc: [Rose Stainer](#); [Jason Wilson](#); [Elizabeth Heeg](#); [Stephen Macaulay](#) bcc Hon Stuart Nash
Subject: RE: In confidence - seeking engagement on establishment of a government investment fund
Date: Wednesday, 18 January 2023 7:06:04 pm
Attachments: [image005.png](#)
[image001.png](#)

Joe,

Re this "*revisiting the fundamental debt/equity and opex split for this fund is out of scope of this work.*", **sorry but you need to get it in scope**. I was told by Jason and Stu that the investment form was not yet decided and that the Budget allocation did not prescribe that they had to be debt or equity.

If grants or non-repayable debt is not on the table, then I'd like to know please who made that decision to nationalise that Budget 22 round. MPI/TUR and the industry need to know who made the decision for the govt to keep that capital on its books and thereby knee-cap any prospects of the industry transformation. Time for accountability.

I don't write those letters for fun; I am trying to bring you guys up to speed on how wood processors think; where possible market opportunities may lie; the importance of a dual income stream to level the competitive playing field; and how/why HWP and Budget 22 funds can be used to trigger investments in a severe downturn.

Instead we get "out of scope" and Wellington knows best, despite no one there ever having made a wood processing investment decision of the type required now. It'll give me no pleasure if we get to the end of the year and say 'I told you so', but that is where it's heading if you guys are not going to start listening and taking urgent action.

Bottom line; the \$65m Budget22 allocation was funded by the CERF, which was funded by the auction of NZUs, the value of which would have been distributed to wood processors had government treated them fairly and consistently with post-90 foresters. If treated fairly/consistently it's the sector's money and you want to loan it back to us!!!! HWP value now contributes to NZ's NDC calculation and the ITP submissions were unanimous in calling for its distribution. Nationalisation is unacceptable. We are in the 11th hours of Jason and Stu's involvement in the sector, so I will be being very vocal and forthright this last few months to try to get Transformation.

With regards to HWP modelling, I suggest getting hold on Stephen Wakelin of Scion without delay and getting him and the team working on measuring HWP value per product per processor per year, and modelling a scheme to get that out to wood processors to invest and be the dual-income stream that has transformed post-90 forestry so well. I pushed Jason for action on this in June last year and it should have been done then. Time is now if the essence.

Regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag TimberLab

www.redstag.co.nz s9(2)(a)

PO Box 213, Kumeu 0841



From: Joseph Murray-Cullen (Joe) <Joseph.Murray-Cullen@mpi.govt.nz>

Sent: Wednesday, 18 January 2023 2:03 PM

To: Marty Verry s9(2)(a) Sam Blackburn (Sam) <Sam.Blackburn@mpi.govt.nz>

Cc: Rose Stainer <Rose.Stainer@mpi.govt.nz>; Jason Wilson <Jason.Wilson@mpi.govt.nz>; Elizabeth Heeg s9(2)(a)

Subject: RE: In confidence - seeking engagement on establishment of a government investment

fund

Thanks Marty. I'm back this week – I saw your letter. Your investment prospects sound interesting and agree very transformative. Keen to discuss more. I can confirm we'll keep in confidence. Looking forward to having a chat on Wednesday.

I note your comments on the fund, utility of debt/equity and interesting proposals in relation to HWP credits. I agree that there is a transformative opportunity there esp given the operating environment but revisiting the fundamental debt/equity and opex split for this fund is out of scope of this work. We're largely looking for feedback on the eligibility and assessment criteria of the funds.

I do however think there is real scope to explore the debt write-off option as part of the HWP modelling, alongside other regulatory and non-regulatory options. We had a preferred supplier with the requisite expertise on board late last year to kick this work off but they pulled out before Xmas. We're re-calibrating our procurement tactics and will come back to you and the sector with an update once we've got a steer internally.

Catch you next week.

Cheers

Joe

Joe Murray-Cullen | Manager Sector and Bioeconomy
Forestry Systems | Te Uru Rākau | New Zealand Forest Service
Phone: s9(2)(a) | Email: joseph.murray-cullen@mpi.govt.nz
Ministry for Primary Industries - Manatū Ahu Matua
Level 1, 1 The Terrace | PO Box 2526 | Wellington | New Zealand

LLB (VUW) | BCOM (UC) | Enrolled Barrister and Solicitor of the High Court of New Zealand



From: Marty Verry s9(2)(a)

Sent: Wednesday, 18 January 2023 11:49 AM

To: Sam Blackburn (Sam) <Sam.Blackburn@mpi.govt.nz>

Cc: Joseph Murray-Cullen (Joe) <Joseph.Murray-Cullen@mpi.govt.nz>; Rose Stainer <Rose.Stainer@mpi.govt.nz>; Jason Wilson <Jason.Wilson@mpi.govt.nz>; 'stuart.nash@parliament.govt.nz' <stuart.nash@parliament.govt.nz>

Subject: RE: In confidence - seeking engagement on establishment of a government investment fund

Morning Sam,

Thanks you for the opportunity to provide input into the proposed criteria and general approach. To advance the discussion, please review the attached 2 letters which address the fund and the criteria.

Red Stag could bring on projects, but **not under a debt/equity investment approach**. (Debt which is written down over the years using the value of HWP - akin to the Afforestation Scheme – may be acceptable)

Debt/equity will equate to '**Nationalisation**' of the last 2 years of HWP value that wood processors have earned NZ yet have been un-distributed. Forest growers have had their NZU/carbon distributed without such strings and **wood processors expect fair and equitable treatment**.

I cover this off in the attached 2 letters, pointing out that the Budget22 fund was funded by the CERF, not tax, so should be deployed to those that earned the NZUs sold to generate the CERF.

In April last year Jason encouraged me to not push for HWP in the ITP because Budget22 would deliver a fund in lieu of that. 'In lieu of' means instead of, but debt/equity is not equivalent to unencumbered NZUs or whatever mechanism is established to distribute HWP value.

The market is coming off historical demand peaks and NZ is going into recession, so to attract investment the industry needs un-encumbered support to level the cost-base playing field with other countries, NOT more debt and equity. I don't think you will get credible applicants for debt/equity too - there are other sources of that.

We also need to deploy Harvested Wood Products value ASAP.

I have discussed all this with your colleagues, as well as Jason and the Minister a lot. We need to avoid what seems to be a continuous loggerheads situation whereby you have the largest investor on new wood processing in the history of New Zealand explaining that the industry needs X from this government in terms of Budget 22 and HWP, and the government doesn't listen and offers Y instead.

Hopefully by sending you the analysis in these letters and discussing it next week we can finally get on the same page with what is required to attract transformational investment going into a recession, starting with the Budget 22 fund.

Regards,

Marty Verry

Group CEO

Red Stag Timber, Red Stag Forests, Red Stag TimberLab

www.redstag.co.nz s9(2)(a)

PO Box 213, Kumeu 0841



From: Sam Blackburn (Sam) <Sam.Blackburn@mpi.govt.nz>

Sent: Wednesday, 18 January 2023 10:37 AM

To: Marty Verry s9(2)(a)

Cc: Joseph Murray-Cullen (Joe) <Joseph.Murray-Cullen@mpi.govt.nz>; Rose Stainer <Rose.Stainer@mpi.govt.nz>

Subject: In confidence - seeking engagement on establishment of a government investment fund
Tēnā koe Marty,

Happy New Year, hope you managed to take a well-earned break.

I'm hoping you would be willing to have a 30 minute chat with us next week to support implementation of a Budget 2022 initiative.

In Budget 2022, the Government committed (subject to further Cabinet approvals) to establishing a fund that provides investment support to long-lived wood products wood processors in New Zealand.

We want to engage with you on the current proposed fund settings, including criteria and processes, to ensure the fund is delivered in a manner that is fit for purpose and best enables long-term success for the sector.

Key points:

- The fund would consist of two contestable components running until end of FY 2025/26:
 - An 'Accelerator' - \$45m of debt/equity finance to support capital projects; and
 - A 'Catalyst' - \$3-4m/year of grant funding to support pre-capital activities (feasibility studies, business cases etc).
- The fund would:
 - open to applications in May 2023; and
 - be subject to certain eligibility criteria and application requirements.

Please let me know if you would be available to meet next week, preferably **Tuesday 24 or Wednesday 25 Jan**. We will provide further detail, and will want to discuss whether the criteria and processes would be workable for you.

Please treat this information as confidential.

Many thanks

Sam

Sam Blackburn | Senior Analyst – Sector and Bioeconomy, Sector Investment

Te Uru Rākau # New Zealand Forest Service

Ministry for Primary Industries - Manatū Ahu Matua

Level 1, 1 The Terrace | PO Box 2526 | Wellington | New Zealand

Web: www.mpi.govt.nz



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From: [Marty Verry](#)
To: [Hon Stuart Nash](#); [Jason Wilson](#); ray.smith@mpi.govt.nz
Subject: Example of wood processors competing with subsidised international competitors & what it means for govt funding
Date: Thursday, 19 January 2023 6:09:08 pm
Attachments: [image001.png](#)
[Red Stag Letter to Minister of Forestry and MPI - 19 Jan 2023.pdf](#)

Dear Minister, Jason and Ray,

I want to leave no stone un-turned in helping MPI understand the predicament in trying to compete with subsidised international competitors. To this end I have prepared this attached letter which explains the dilemma in CLT for example, and why debt/equity does not help. Obviously is contains highly confidential and sensitive information.

I trust MPI will start listening to industry and urgently tailoring solutions to our needs.

Marty Verry

Group CEO

Red Stag Timber & Red Stag TimberLab (NZ's CLT & Glulam supplier)

www.redstag.co.nz s9(2)(a)

PO Box 213, Kumeu 0841, Auckland





To:

Hon Stuart Nash, Minister of Forestry and Minister of Economic Development
Ray Smith, Director General, Ministry of Primary Industries
Jason Wilson, Deputy Director General, TeUru Rakau

19 January 2023

Re: Example of what we are up against and why debt/equity is not useful to wood processing investors competing with grant-funded international suppliers [Confidential]

Dear gentlemen,

As I have pointed out in earlier letters, the industry needs to use its contributed wood-storage carbon value (HWP and Budget 22 \$65m allocation from sale of un-distributed HWP/carbon value) to level the cost-base playing field with international competitors if we are going to attract investment. Here I want to provide you with an example of this in action right here in New Zealand.

As you know, Red Stag's CLT plant competes with Xlam out of Australia. When Red Stag entered the NZ CLT market, Xlam was able to drop price by 30% to shut Red Stag out and squeeze margins so low as to make it very difficult to make a profit. s9(2)(b)(ii)

s9(2)(b)(ii)

s9(2)(b)(ii)

s9(2)(b)(ii)

- The log price in Australia is 22.6% lower than NZ-NI according to FEA research. (see item A)
- Xlam's supply sawmill Tumberumba – also owned by Hyne - received **A\$ 2.99m** of grants in 2021 (Item B)
- Xlam's factory received an estimated **A\$1m** Federal Government grant in February 2021 (Item C)
- Xlam's factory received **A\$2.95m** of grants to establish (Item D) Note also that Xlam is open about supplying the "greater Asia Pacific region".

There are two other CLT factories opening in Australia which will ultimately target New Zealand:

- Hermal Group has built a hardwood sawmill and CLT facility in Tasmania with help of an A\$13m State grant. (Item E)
- TimberLink is also opening a CLT facility in 2023 and has benefitted from a grant to its sawmill of \$3.5m (Item F) and a grant to its CLT factory of A\$2m.

In my November letter to you I also provided the following media extract:

Foreign governments tend to treat wood processing like New Zealand treats the film industry. This includes Australia, where the budget just announced was reporting as follows in Friday Offcuts industry newsletter:

“Australia’s Federal Budget this week reinforced the Government’s recognition and support for the sector. In summary, within the Budget, AU\$100 million has been confirmed for a new National Institute for Forest Products Innovation, AU\$8.6 million allocated for an extension of the Regional Forestry Hubs from 2024 25, AU\$10 million for skills and training, **AU\$86.2 million has been recommitted for plantation establishment grants** and **another AU\$112.9 million for wood processing innovation grants**. **Forest industries are also expected to benefit from the AU\$15 billion National Reconstruction Fund targeting grants to stimulate regional manufacturing.**” (highlighting added)

In Australia, grants for “jobs” and “innovation” basically end up funding plant and buildings.

I am providing these insights so you have a better appreciation of the operating environment within which NZ wood processors operate if they are to invest to target outside the NZ residential building consent market.

We do not need your debt, which will only make matters worse. We do not want your equity, as it will only get messy and won’t facilitate competitive pricing explained. We want and need the value of our Harvested Wood Products contribution.

In the meantime, we want to be able to deploy the Budget 22 \$65m allocation as grant funding. After all, it was funded by the Climate Emergency Response Fund, which was funded by auction of NZU value, which have not been distributed to wood processors who have earned that value for NZ in the same way post-90 foresters have.

Despite all my efforts to bring you up to speed on this I was surprised to learn yesterday that MPI proposed to distribute the \$45m capital allocation in the budget as Debt or Equity. By this letter I hope you can now appreciate why that is not going to work and why it is essential that it be distributed unencumbered and along the criteria outlined in my 9 January 2023 letter. We can’t expect the bureaucracy to understand wood processing investment cases, but what we do expect officials and electees to do is listen to industry, trust it when it tells you what it needs from government, and develop programmes accordingly – and not to come up with ill-informed alternatives.

We have patiently contributed immense time and resources to the two-year ITP engagement and consultation process, but it will all be for nothing if the government is not now going to do its part. That starts with getting the HWP scheme modelled and operational and deploying the Budget 22 fund without nationalising it as though it was taxpayer funded.

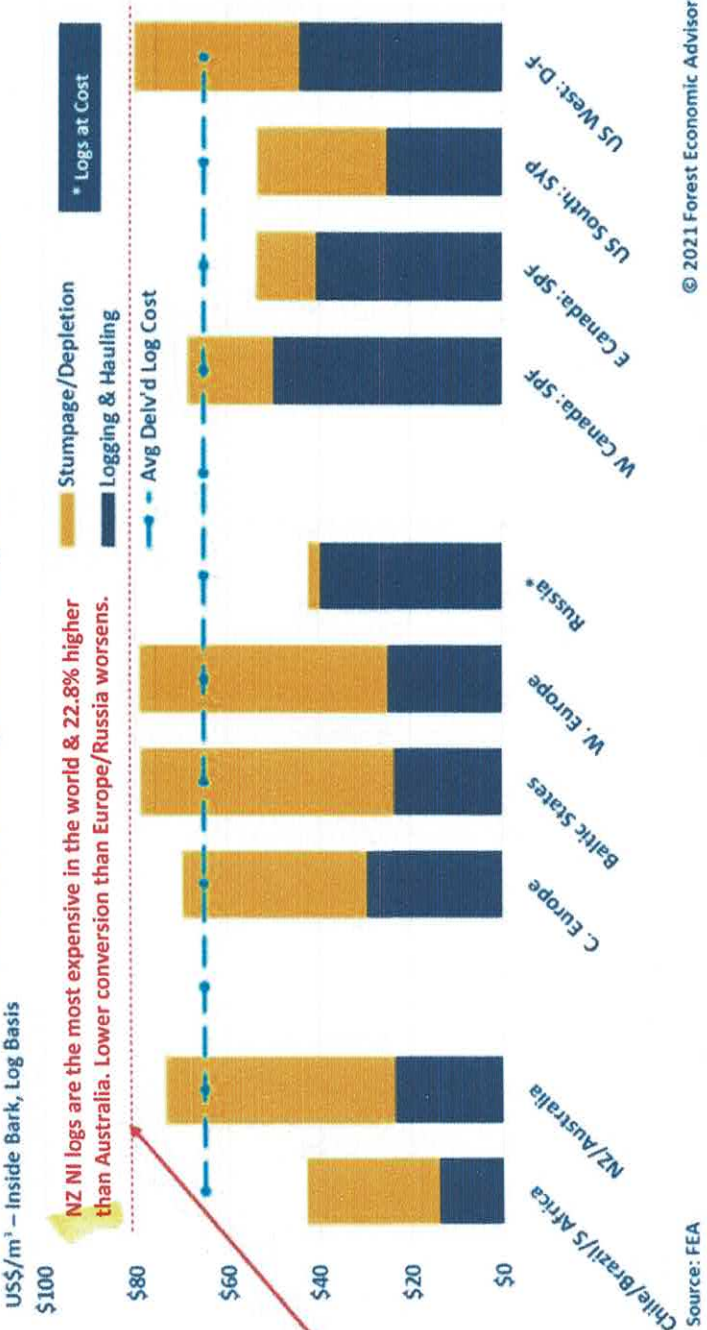
Yours sincerely,



Marty Verry - Red Stag Group CEO

Top-Quartile MILLS -2020		NZ		Australia	
Time Period	2020	2020	2020	Top Quartile Structural	Top Quartile Structural
US\$ Exchange Rate	0.650	0.657			
Nominal to Net (Lumber)	88.0%	84.0%			
1 Cubic Meter Lumber to MBf - net	0.424	0.424			
WOOD COSTS (\$/m3 - log basis)					
Logging to Roadside	14.40	7.51			
Hauling to Mill	15.40	8.38			
Logging/Transport	29.80	15.89			
Stumpage/Depletion	49.64	49.85			
Woodlands Overhead	1.48	0.27			
Total Delivered Log Costs	80.91	66.01			
Inventory Change/Logistics & VAT (China)					
Cost of Logs Transferred to Mill	80.91	66.01			
Cost of Logs at Market Price					
SAWMILL COSTS (\$/m3 - lumber basis)					
Log Cost In - Log Basis	80.91	66.01			
Lumber Recovery - Finished Size	51.1%	47.1%			
Log Costs - Lbr Basis	158.48	140.33			
Chip Revenue	20.30	20.59			
Sawdust, Shavings, Bark Revenue	0.72	7.86			
Total By-Product Revenue (Credit)	21.02	28.45			
Net Wood Costs	137.45	111.88			

Global Delivered Log Costs – Top-Quartile Mill 2020



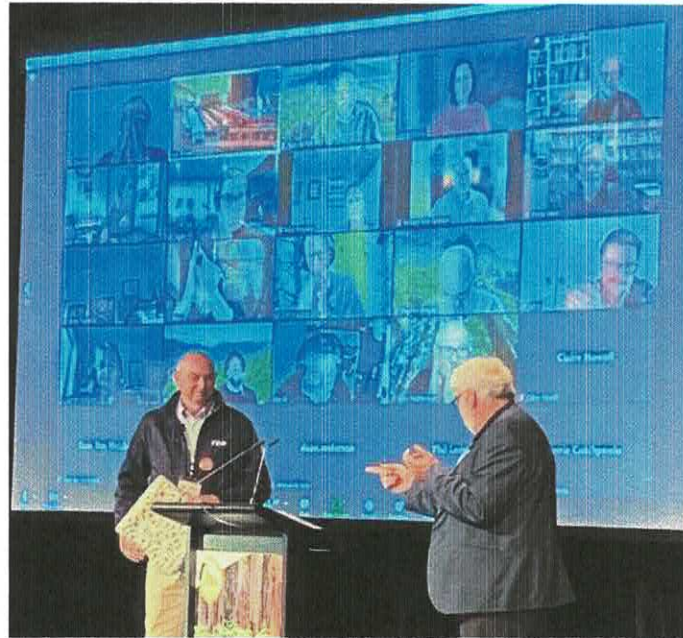
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Item A

From P 5

“Over a period of more than 40 years, Gary Morgan has made many significant contributions to the management of forests and forest fires at the state, national and international levels, through his distinguished and outstanding work as a forester, fire manager and fire science leader.

Mr Gordon also congratulated Tegan Brown, co-chair of the Future Foresters Initiative and a PhD candidate at the University of Melbourne, who was awarded the Prince of Wales Award for Sustainable Forestry.



Forestry Australia president Bob Gordon pays tribute to Dr Peter Volker who has retired as a director after 10 years on the board over the past two decades, including serving as president between 2005 and 2011.

accredited general firefighter and has been involved in numerous planned burns and bushfire responses.

In 2019, Tegan received an Endeavour Leadership Award from the Australian government to undertake an international research exchange. Tegan worked with forest fire researchers from the US Forest Service's Rocky Mountain Research Station (Fire Lab) in Missoula, Montana, to understand seasonal dynamics in live fuel moisture content.

“This work will inform my PhD thesis into nonlinear drying trends in forest flammability in response to climate change,” Tegan said.

“ DRYING TRENDS IN FOREST FLAMMABILITY RESPONSE TO CLIMATE CHANGE

Tegan, who has a PhD Philosophy from the University of Melbourne was a policy officer with the Department of Environment, Land, Water and Planning where she

worked for almost eight years. She has excelled in forest science at both the Bachelors and Masters level and is now pursuing a doctorate in forest hydrology. She is also an

On the cover: Tegan Brown, who was presented with the Prince of Wales Award for Sustainable Forestry, has excelled in forest science and is now pursuing a doctorate in forest hydrology.

Hyne bushfire recovery optimisation in full swing

HYNE'S Tumbarumba optimisation project will provide the mill with a long future of sourcing logs from further afield with high freight costs – essential for efficiencies at the site.

Site manager Gary Evans recently hosted Justin Clancy MP Albury for an update on the project at Tumbarumba which is co-funded by the NSW government as part of the state's Bushfire Industry Recovery Package and includes various upgrades, new technology and efficiency gains throughout the mill.

“Most recently, as part of the site improvements with the support of the NSW government, we have installed and commissioned a new and upgraded quad roll log turner,” Mr Evans said.

“In short, trees are natural

and usually not dead straight. This machine is the latest, high-speed, high precision log scan and log rotation system to help us process those logs in the most efficient way to get the highest recovery.”

The unique equipment was purchased from USNR in Canada to complement the rest of the sawline and presents a unique opportunity to engage local suppliers to assist with the installation as opposed to flying in the Canadian suppliers with the current Covid overseas travel restrictions.

“Using local skills and trades saw about \$50,000 diverted to local suppliers



Quad roll log turner being craned in through the roof at Hyne's Tumbarumba mill.

including electrical, civil, hydraulics and fabrication from communities such as Gundagai, Albury, Wagga Wagga and Tumbarumba,” Mr Evans said.

“We had to remove part of the mill roof to crane in the log turner which was also no mean feat, requiring two cranes, lots of planning and careful mid-air transfer to avoid a sprinkler main line,

work which was successfully undertaken by local crane suppliers and operators.

“The equipment was up and running immediately, fully functional and we are already seeing the performance improvements.”

Hyne Timber is committed to its Tumbarumba operations and is pleased to be partnering with the NSW Government to accelerate investment to remain at the forefront of sawmilling technology.

Installation of the quad roll log turner sees Hyne Timber ahead of schedule in delivering its milestones for the NSW Bushfire Industry Recovery Package.

The total Tumbarumba optimisation project cost \$5,979,043 with \$2,989,522 support committed from the state government.

Item C

11:09 ↗



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Last week, prior to the Victorian Stage 4 Lockdown, Our Group CEO Jon Kleinschmidt welcomed Federal Independent MP, DR Helen Haines to our manufacturing facility in Wodonga.

XLam was recently announced a successful recipient of a **Federal Government grant** to install an automated billet sander and associated crane so DR Haines MP was keen to visit and learn more about what we do, our solutions for social housing, and also the potential for energy efficiency such as co-gen.





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XLam's growth into Australia brings jobs, innovative technology and customer solutions

3 MARCH 2017

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As Cross Laminated Timber (CLT) increasingly excites town planners, designers, architects, builders and environmentalists alike, XLam's growth strategy into Australia brings regional jobs, innovative technology and comprehensive customer solutions.

In consultation with Government officials at all levels and in consideration of commercial efficiency, XLam determined its new state-of-the-art CLT manufacturing plant is to be built in the City of Wodonga, Victoria.

The support from all levels of Government continues in the form of establishment grants as part of a concerted, regional development focus.

XLam CEO, Gary Caulfield said the support from Government further enhances the establishment of the plant, getting people into this new area of work and supporting the region and assisting with the purchase of high-tech manufacturing equipment.

"We have been fortunate to secure a grant from the Commonwealth Government Next Generation Australian Industry grants of \$2.5 million, an initiative driven by Innovation Minister, Greg Hunt." Mr Caulfield said.

Mr Caulfield also confirmed today that a further grant of \$450,000 has been offered, and accepted, by the Victorian Regional Development authority to support the required job development processes. The establishment of the plant is expected to create 54 local jobs across several years of operation.



“The new plant will not only provide direct employment opportunities, however will have a knock on effect to suppliers and service providers throughout the region, such as transport.”

“A commercial builder in the region, Joss Group, has also been awarded the construction contract of the high-tech sustainable timber facility, construction which has already commenced and is due to be completed in early 2017,” said Mr Caulfield.

The manufacturing plant represents a \$25 million investment at a private development by AP Delaney within the Logic industrial estate, a location choice supported by the City of Wodonga local council.

The plant is located 290 kilometres from Melbourne, 580 kilometres from Sydney and 1020 kilometres from Adelaide. Providing access to 80% of the country in approximately 24 hours.

“The location of the site means XLam will be ideally positioned to deliver to its customers throughout most of Australia via road or rail very quickly. This is important as XLam seeks to supply the greater Asia Pacific region”.

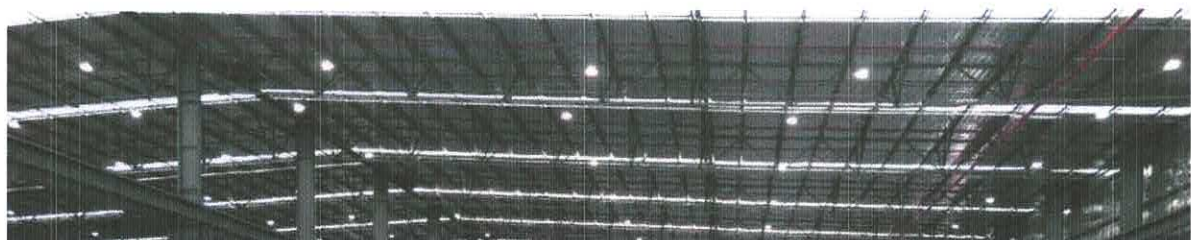
Once construction is complete, the installation of manufacturing equipment is scheduled for April, 2017. This will officially make XLam the largest CLT manufacturer in Australia with one of the most technologically advanced CLT plants in the world. XLam are leading the way for innovation in sustainable construction throughout the southern hemisphere.

XLam’s business model includes design, manufacture and installation capacity to deliver comprehensive construction solutions for customers.

Timber used in the manufacture of CLT stores carbon, representing one of the technologies many environmental credentials. CLT is also light and can be quick to install, is prefabricated reducing on-site construction waste and improving site safety, is durable, strong, cost effective, and far and away, a superior solution.

Gary Caulfield will be delivering at PrefabNZ’s CoLab conference. Find out more [here](#)

All inquiries to communications@xlam.com.au



Forest Industries Assn. of Tasmania (FIAT) and Australian Forest Products Assn. (AFPA) announced that Hermal Group is building a \$190 million hardwood sawmill and hardwood cross-laminated timber complex in Burnie in northwest Tasmania, Australia. It will be called Tasmanian Amalgamated Renewable Timbers.

The Tasmanian Government has committed \$13 million in grant and training support funding for the project. Once complete, the facility will employ 200. The facility will process more than 300,000 m3 of sustainable plantation hardwood logs each year.



The Hermal Group is a long-established, private family group run by the Goldschlager family in Melbourne, Australia. The family has been continuously involved in the timber industry for more than seven generations. The Hermal Group is also experienced in Property Development, Project Management and Property Investment. Until recently The Hermal Group was the owner of an ash sawmilling and value-added business, Australian Sustainable Hardwoods (ASH), which was sold to the Victorian government.

For three years the Hermal Group has invested in research and development on developing methods to use juvenile plantation hardwood timbers, specifically the species eucalyptus nitens, as a kiln dried lumber in value-add products manufacturing. The Hermal Group is proposing the conversion of juvenile eucalyptus into high value structural timber to take advantage of multi-story mass timber construction.

“There is an opportunity to create a new vibrant and viable hardwood plantation based, high-value industry in Tasmania which is why we are building this new facility,” the company states.

Timberlink's EGM Sales, Marketing & Corporate Affairs David Oliver was pleased to welcome Federal Member for Bass Bridget Archer to the Timberlink manufacturing facility at Bell Bay on Monday for the unveiling of a new world-class Green Mill Vision Scanning System.



The AU\$5.5m co-investment in the continuing upgrade and modernisation of Tasmania's largest softwood timber manufacturing plant is supported by AU\$3.5 million from the Federal Government's Department of Infrastructure, Transport, Cities and Regional Development Community Development Grants Programme.

The Bell Bay Softwood Mill employs 200 people and provides a value-add of AU\$150 million to the George Town economy" Timberlink's David Oliver said. "The upgrade will increase the volume of high-grade timber sourced from renewable pine plantation and creating a workplace of the future, with high tech machinery improved accuracy, safety, and job security"

FORESTRY NOW 2022 State of the Industry is now LIVE - Click to read in full

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Timberlink chooses SA for new CLT and GLT plant

09 December 2020



Timberlink's existing Tarpeena Mill site

Timberlink's new \$59m CLT and GLT plant will be built in Tarpeena, South Australia. The Tarpeena sawmill site will be Australia's first softwood, state-of-the-art Cross Laminated Timber and GLT manufacturing facility. A site in Victoria was also considered for the project. Source: Timberbiz

The project is backed by a \$2 million grant from the South Australian Government's Regional Growth Fund.

Barker MP and Federal Parliament Friends of Forestry and Forest Products chair Tony Pasin said the decision to build the facility at Tarpeena was a fantastic outcome for the Limestone Coast.

"Now more than ever we know the importance of local processing to secure our domestic supply chains," he said.

"I look forward to the realisation of this project at Tarpeena which is a win for South Australia against tough interstate competition from the Victorians."

Construction is due to begin next year with a completion date of 2023.

Danis-based Kallesoe Machinery A/S has been selected as the manufacturing equipment supplier for the plant. Kallesoe will supply and commission a turnkey solution providing plant design, manufacturing equipment and installation, supported by a fully integrated manufacturing software platform.

"CLT and GLT is the building material of the 21st century, the product is being embraced by leading architects, builders and designers and replacing concrete and steel in our cities with timber that stores carbon



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Select Month

From: [Marty Verry](#)
To: [Elizabeth Heeg](#); [Joseph Murray-Cullen \(Joe\)](#); [Peter Clark](#) s9(2)(a); [Warren Parker](#); s9(2)(a); [David Turner](#); [David Rhodes](#); [WPMA Chairman](#); s9(2)(a); [Hon James Shaw](#); [Hon Stuart Nash](#); [Andrew.McConnell@mpi.govt.nz](#); s9(2)(a); [ray.smitn@mpi.govt.nz](#); "Lees Seymour"
Subject: What yesterday's Cabinet paper release means for HWP and therefore forest/wood transformation
Date: Thursday, 23 March 2023 10:13:18 am
Attachments: [image001.png](#)
[Announcement on the Emissions Trading Scheme \(ETS\) from MFE.msg](#)

Good morning,

As you know, additional wood processing is at the heart of the Forest-Wood sector's ITP transformation & bioeconomy, and the sector considers distributing the carbon value of Harvested Wood Products to be the key to additional wood processing.

This announcement is therefore good news for the forestry and wood processing sector – but only if we are prepared to seize the opportunity it opens. (See attached and summarised in the BusinessDesk article below)

In effect, what the Minister is saying is that there is so much supply-side volume on the ETS (due to forestry) compared to the demand-side that the carbon price will not go up enough to stop emissions at source. Therefore the plan needs changing to incentivise cutting gross emissions at source. Things like regulation will no doubt be considered, or requiring emitters to buy 2x the NZUs for each tonne of emissions.(my speculation) This means extra NZUs due to HWP are not of concern because new forest supply is practically unlimited anyway.

Paragraph 76.1 is key for Harvested Wood Products:

*"In addition to these questions, I propose the following issues to be in-scope of the review:
76.1 how to include additional sources of emissions removals in the NZ ETS and what the impacts would be"*

This, combined with Min. Shaw's feedback to me 2 weeks ago that he was frustrated that the Cabinet decision to use the HWP value to reward/incentivise more wood processing had not been implemented, shows a desire by government to have the HWP distribution scheme modelled. (I'm not saying here that HWP must be in the ETS necessarily, only that it is time for the detailed modelling so we can find out.)

Elizabeth, at this stage you are engaging resource on the "policy dialogue" stage of the HWP project. Can you elaborate on MPI's overall plan and timeline to address that Cabinet instruction re HWP please?

What is involved in the 'policy dialogue' stage, and what follows the policy dialogue stage? Who is being lined up to do each stage? What are the timelines, especially given the cabinet paper talks of completing this ETS review work this half-year? Please lay it all out for us.

Outlining these now would comfort the industry that it can **trust** MPI-TUR to capitalise on this opportunity in a timely manner, and that there is a plan. I'm sure MPI/TUR will want to do what Cabinet asked of it 4 years ago too.

Thank you.

Marty Verry

Group CEO

Red Stag Timber & Red Stag TimberLab (NZ's CLT & Glulam supplier)

www.redstag.co.nz s9(2)(a) z

PO Box 213, Kumeu 0841, Auckland



From: no-reply=businessdesk.co.nz@mail.businessdesk.co.nz <no-reply=businessdesk.co.nz@mail.businessdesk.co.nz> **On Behalf Of** BusinessDesk

Sent: Thursday, 23 March 2023 8:04 AM

To: Marty Verry s9(2)(a)

Subject: Fear of ETS failure spurs review

From: [NZ Environmental Protection Authority](#)
To: [Marty Verry](#)
Subject: Announcement on the Emissions Trading Scheme (ETS) from MfE
Date: Wednesday, 22 March 2023 5:35:17 pm



22 March 2023

This email is being sent on behalf of the Ministry for the Environment Manatū Mō Te Taiao.

Tēnā koe,

As recommended by the Climate Change Commission and outlined in the emissions reduction plan, the Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess whether additional changes are needed to balance gross and net emission reductions.

Public consultation is expected to begin in the second quarter of 2023.

[Read the announcement here](#)

Reminder: The Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill is open for submissions until Thursday 6 April. More information is available [here](#), along with updates on the progress of the Bill.

Ngā mihi nui,

NZ ETS Policy team
Manatū Mō Te Taiao | Ministry for the Environment



0800 CLIMATE (0800 254 628, Option 2)
emissionstrading@epa.govt.nz

Environmental Protection Authority
Level 10, 215 Lambton Quay
Wellington 6011
New Zealand

Phone: +64 4 916 2426
Fax: +64 4 914 0433

Edited by: emmisionstrading@epa.govt.nz

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From: [Marty Verry](#)
To: [Elizabeth Heeg](#); [Joseph Murray-Cullen \(Joe\)](#); [Sam Blackburn \(Sam\)](#)
Cc: [Rose Stainer](#); [Jason Wilson](#); [Chris Baylis](#); s9(2)(a) [WPMA Chairman](#)
Subject: Budget 22 Fund - use to convert Pruned mills to Structural mills
Date: Monday, 30 January 2023 12:52:50 pm
Attachments: [image001.png](#)
[NZ Structural Timber Supply-Demand Forecast 2022-27 - v2.pdf](#)

Good afternoon all,

Thank you for the meeting last week to discuss the Budget 22 Fund. We look forward to the OIA material to verify if its application requires distribution as debt/equity, over grants.

In the discussion you mentioned the possible use of funding to support conversion of Pruned mills to become Structural mills. We would like to point out that this would be contrary to the intention and requirements of the Budget Initiative (No. 14560) that established the fund. The initiative states that it will “drive increased carbon storage in long-lived wood products”

The market for Structural product in New Zealand is supplied by approximately 28 mills of greater than 10,000m³ annual production already. There is surplus supply now, following a brief shortage during the last 1-2 years, and that excess supply looks set to widen in future years. This is forecast in the attached analysis we prepared last year for the Commerce Commission. Supply exceeds demand by 100,000 to 200,000m³ capacity throughout that future period. Additional supply is a zero sum game capped by market demand. Pruned mills producing Structural framing will therefore not deliver additionality in the supply of long-lived wood products.

Supply to Australia is a potential. However, this market is now also fully supplied from their mills, European supply and a small amount of structural from NZ (mainly Red Stag which has remained in the market as others have withdrawn). The prospect of getting Australian standards changed for New Zealand sawmills is fairly remote (worth a try though, but could take years if ever). The probability of such sawmills confining their production to the Australian market is remote given the ease of meeting NZ grading standards compared to Australia. (Only the cream of production meets AU standards) Combined, the probability of additionality is too remote to justify funding. A credit-based HWP scheme would be the market-based mechanism for such operators to make that investment decision and fund it. We look forward to progressing its design.

Regards,

Marty Verry
Group CEO

Red Stag Timber & Red Stag TimberLab (NZ's CLT & Glulam supplier)

www.redstag.co.nz s9(2)(a)

PO Box 213, Kumeu 0841, Auckland



NZ Structural Timber Supply-Demand Forecast – 2022-27

Sector capacity is around 36,000 dwellings annually....

Consents have peaked 30% above sector capacity....

Estimated new dwellings completed, by quarter code compliance certificate issued, March 2009–March 2022

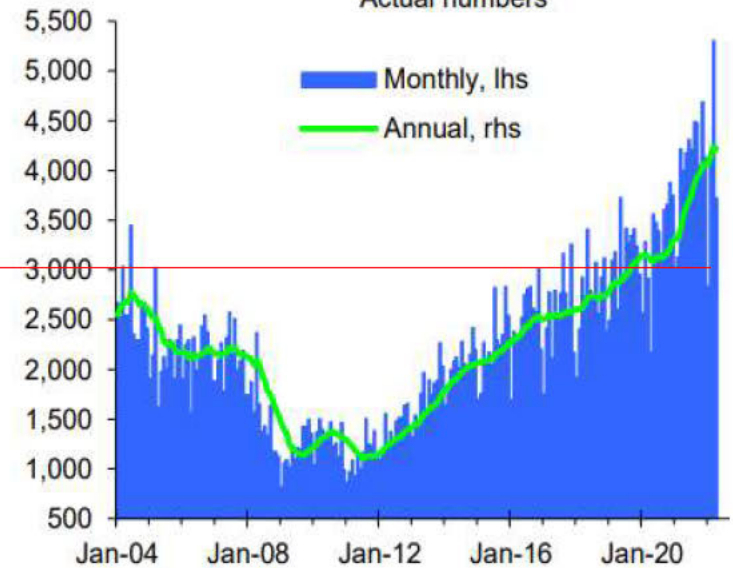


Some data is imputed. The proportion imputed decreases over time (from 80 percent to 39 percent).

Stats NZ

New Zealand New Dwelling Consents

Actual numbers



(Source: Strategic Risk Analysis)

Housing shortage nearly addressed ... or will have been in the next 2 years....

Intentions survey off 30+% ...

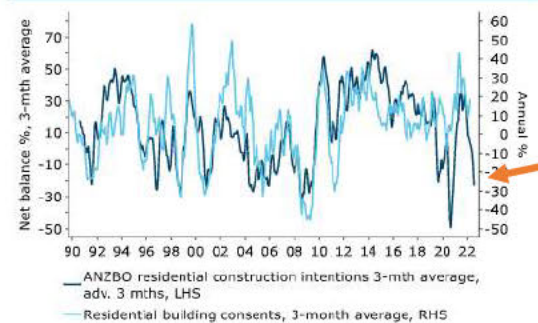
Consent overhang will maintain completions for next year, then drop ~20% ...

Figure 4. Housing supply vs demand



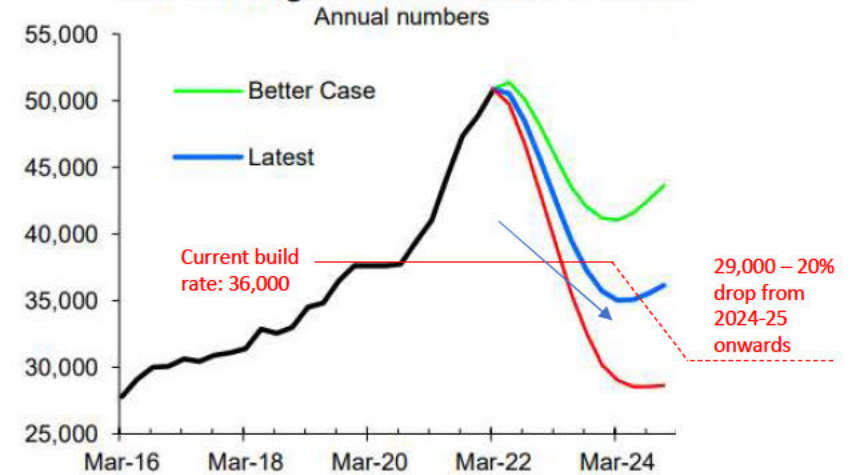
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Residential construction intentions vs building consents



Source: ANZ, Stats NZ, Bloomberg, Macrobond, ANZ Research

New Dwelling Consents & SRA Forecasts



(Source: Strategic Risk Analysis)

From: [Marty Verry](#)
To: jason.wilson@mpi.govt.nz; Hon Stuart Nash
Subject: FW: Axing the biofuels mandate was "no surprise"
Date: Friday, 10 February 2023 7:33:33 am

"If they were really serious about it, they would have put some better programmes in to actually encourage us to manufacture it here."

We risk not having wood products to supply Building for Climate Change for the same reason.

Need our carbon value.

Regards.
Marty

Sent from my Galaxy

----- Original message -----

From: BusinessDesk <no-reply@businessdesk.co.nz>
Date: 10/02/23 05:07 (GMT+12:00)
To: Marty Verry [s9\(2\)\(a\)](#)
Subject: Axing the biofuels mandate was 'no surprise'

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BusinessDesk.



News Alert

Fri, 10 Feb 2023

From: [Marty Verry](#)
To: Hon Stuart Nash
Subject: FW: Consultant modelling of HWP scheme
Date: Thursday, 9 March 2023 1:21:52 pm

Stu – the below refers to a conversation with James Shaw you should be aware of. It debunks the TUR officials’ position that ‘HWP won’t get past MfE as it would depress carbon price’, and the 2019 cabinet was “different” so its decision does not stand. With Scion estimating the HWP value from domestic processing at up to \$100m annually, this is the most transformational initiative in the sector’s history. If TUR cant implement such a clear Cabinet instruction in 4 YEARS, it will represent the biggest fumble of an open goal in the history of the sector. I urge you to see this through. Regards - Marty

From: Marty Verry [s9\(2\)\(a\)](#)
Sent: Monday, 6 March 2023 2:23 pm
To: Jason Wilson <Jason.Wilson@mpi.govt.nz>; Joseph Murray-Cullen (Joe) <Joseph.Murray-Cullen@mpi.govt.nz>; Elizabeth Heeg [s9\(2\)\(a\)](#)
Cc: Peter Clark [s9\(2\)\(a\)](#) Warren Parker [s9\(2\)\(a\)](#); David Rhodes [s9\(2\)\(a\)](#)
Subject: Consultant modelling of HWP scheme

Jason/Joe/Elizabeth,

How are you going with engaging consultant/s on this?

I met with James Shaw at a function last week and he was frustrated to hear that the Cabinet instructions from 2019 to develop an HWP scheme for wood processors had not yet been implemented. He asked me to write him so he could follow it up, so it would be good if I can update please.

I ran TUR previous rationale for delay past him, to no avail:

- *‘MfE are not supportive as they don’t want to increase the supply of NZUs as it would suppress the carbon price’* – his reply ‘Not so. NZ will need a lot more off-sets than current pathway to achieve 2030 targets, including from wood’s storage.’ ... And ‘To maintain international credibility NZ will have to pay for foreign off-sets if Paris Accord targets are not met in 2030, and cabinet wants everything possible done to offset locally.’
- *‘There is a different government make up since 2019’s election’* – his reply: “The labour-led Cabinet’s make-up has refined, but this was a Cabinet directive to officials in 2019 and Cabinet decisions stand until specifically revoked.” (ie the instruction to officials stands)

I look forward to hearing progress and how we may assist. Thanks.

Just a reminder that we have \$260m of potential capital investment pending a means of incorporating HWP value to make the feasibility of projects work. (refer my letter of 9 January 2023) An Afforestation-type scheme would likely suffice in the meantime, and would not need the full HWP consultant modelling. It would just need the ability to measure HWP generated at the few plants involved, which Scion’s Steven Wakelin can do.

PS. we are hearing new home sales by group home builders are down to around 30% of 2020-22 levels. Builders are looking for jobs. Frame and truss plant timber orders are heading to about 50% of 2022 levels. The market decline is yet to hit the media.

Marty Verry

Group CEO

Red Stag Timber & Red Stag TimberLab (NZ’s CLT & Glulam supplier)

www.redstag.co.nz [s9\(2\)\(a\)](#)

PO Box 213, Kumeu 0841, Auckland



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The Ministry for Primary Industries accepts no responsibility for changes made to this email or to any attachments after transmission from the office.

From: [Marty Verry](#)
To: [Elizabeth Heeg](#); [Joseph Murray-Cullen \(Joe\)](#); [Peter Clark](#) s9(2)(a); [Warren Parker](#); s9(2)(a) [David Turner](#); [David Rhodes](#); [WPMA Chairman](#); s9(2)(a) [Hon James Shaw](#); [Hon Stuart Nash](#); [Andrew.McConnell@mpi.govt.nz](#); s9(2)(a) [ray.smitn@mpi.govt.nz](#); "Lees Seymour"
Subject: What yesterday's Cabinet paper release means for HWP and therefore forest/wood transformation
Date: Thursday, 23 March 2023 10:13:18 am
Attachments: [image001.png](#)
[Announcement on the Emissions Trading Scheme \(ETS\) from MfE.msg](#)

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This announcement is therefore good news for the forestry and wood processing sector – but only if we are prepared to seize the opportunity it opens. (See attached and summarised in the BusinessDesk article below)

In effect, what the Minister is saying is that there is so much supply-side volume on the ETS (due to forestry) compared to the demand-side that the carbon price will not go up enough to stop emissions at source. Therefore the plan needs changing to incentivise cutting gross emissions at source. Things like regulation will no doubt be considered, or requiring emitters to buy 2x the NZUs for each tonne of emissions.(my speculation) This means extra NZUs due to HWP are not of concern because new forest supply is practically unlimited anyway.

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Thank you.

Marty Verry

Group CEO

Red Stag Timber & Red Stag TimberLab (NZ's CLT & Glulam supplier)

www.redstag.co.nz s9(2)(a)

PO Box 213, Kumeu 0841, Auckland



From: no-reply=businessdesk.co.nz@mail.businessdesk.co.nz <no-reply=businessdesk.co.nz@mail.businessdesk.co.nz> **On Behalf Of** BusinessDesk

Sent: Thursday, 23 March 2023 8:04 AM

To: Marty Verry s9(2)(a)

Subject: Fear of ETS failure spurs review

From: [Bhavika Jeram](#)
To: Marty Verry
Cc: [S Nash \(MIN\)](#)
Subject: OIA response from Hon Stuart Nash
Date: Thursday, 23 March 2023 12:22:25 pm
Attachments: [OIA letter from Hon Stuart Nash to Marty Verry.pdf](#)
[REDACTED OIA23-011 Appendix One.pdf](#)

Kia ora Marty

Please find attached a response to your OIA request of 23rd January 2023.

Kind regards



Bhavika Jeram | Private Secretary (Forestry)

Office of Hon Stuart Nash

Minister for Economic Development | Minister of Forestry | Minister for Oceans and Fisheries

Private Bag 18041 | Parliament Buildings | Wellington 6160

Bhavika.Jeram@parliament.govt.nz



OIA23-011

Marty Verry
Marty@redstag.co.nz

Dear Marty

Thank you for your email of 23 January 2023 requesting information relating to Budget 2022 advice received by my Office. Your request was transferred to my Office on 3 February 2023 for response under the Official Information Act 1982 (OIA).

The following documents you requested are provided in Appendix One:

- *Briefing Budget 2022: Response to Minister of Finance regarding initiatives for Climate Emergency Response Fund*, dated 22 September 2021, reference B21-0562.
- *Aide-memoire Update on Budget 2022 dated 22 November 2021*, reference AM21-0855.
- *Aide-memoire Advice for Industry Policy Ministers' Group meeting dated 24 November 2021*, reference AM21-0868.
- *Aide-memoire Budget 2022: Update on process*, dated 3 December 2021, reference AM21-0868.

Please note that the document: *Advice for Industry Policy Ministers' Group meeting dated 24 November 2021*, appears to have been referenced as AM21-0868 in error. I am providing the document of the same title but referenced as AM21-0831.

Further, the figures provided throughout the four documents do not reflect the actual funding received by the Ministry for Primary Industries (MPI) for Vote Forestry, this is because these briefings were prepared early in the assessment of the budget requests.

For final funding numbers under Vote Forestry please refer to pages 121 and 164 of the Crown budget for the 2021/2022 financial year:

<https://budget.govt.nz/budget/pdfs/wellbeing-budget/b22-wellbeing-budget.pdf>.

Some information has been withheld in Appendix One pursuant to the following section(s) of the OIA:

- Section 9(2)(a) – *to protect the privacy of natural persons.*
- Section 9(2)(g)(i) – *to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty.*
- Section 9(2)(f)(iv) – *to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.*

I am satisfied that in the circumstances of this case, the withholding of the information is not outweighed by other considerations which render it desirable in the public interest to make the information available.

I trust the information provided is of assistance. Should you have any concerns with this response, I would encourage you to raise these with the Ministry for Primary Industries at Official.InformationAct@mpi.govt.nz. Alternatively, you are advised of your right to also raise any concerns with the Office of the Ombudsman. Contact details are: Office of the Ombudsman, PO Box 10152, Wellington 6143 or at info@ombudsman.parliament.nz.

Yours sincerely



Hon Stuart Nash
Minister of Forestry



To: Hon Stuart Nash, Minister of Forestry

From: Jason Wilson, Deputy Director-General Te Uru Rākau – New Zealand Forest Service

Budget 2022: Response to Minister of Finance regarding initiatives for Climate Emergency Response Fund

Date	17 September 2021	Reference	B21-0562
-------------	-------------------	------------------	----------

Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	22 September 2021

Recommendations
<p>Note that the Minister of Finance wrote to you on 31 August 2021 outlining the process for Budget 2022 and inviting you to identify any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.</p>
<p>Note that we have identified a number of forestry initiatives that support the commitments that may be made as part of the Emissions Reduction Plan, and likely funding required, for you to consider.</p>
<p>Note that we have provided suggested wording relating to Vote Forestry initiatives for your response to the Minister of Finance request, which is required to be sent by 23 September.</p>
<p>Note that other Vote Forestry initiatives for Budget 2022 are being progressed through a separate stream as part of the Natural Resources Cluster.</p>
<p>Note that formal submission of initiatives for Budget 2022 will be made on invitation only by Minister of Finance, expected to be received in October.</p>
<p>Agree to include the five Vote Forestry initiatives outlined in this paper in your response to the Minister of Finance on candidates for the Climate Emergency Response Fund.</p>

Contacts for telephone discussion (if required)			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input checked="" type="checkbox"/>

Debbie Ward	Director Business and Spatial Intelligence	9(2)(a)	<input type="checkbox"/>
-------------	--------------------------------------------	---------	--------------------------

Key messages

We have developed five initiatives for Vote Forestry which meet the criteria for consideration for the Climate Emergency Response Fund as part of Budget 2022.

These initiatives cover the many ways in which forestry and wood products will contribute to the transition to a low emissions economy, and the longer-term wellbeing of New Zealanders. They relate to: increasing the rate of native afforestation; supporting production of biofuels and biomaterials, and ensuring adequate supply of woody biomass; and changes to accurately account for carbon stored in forests and wood products which will incentivise increased sequestration.

We would welcome the opportunity to discuss these initiatives with you before you finalise your response to the Minister of Finance (due by 23 September).

Background

1. Budget 2022 strategy has been agreed and will have a particular focus on addressing future issues such as climate change. The Minister of Finance has strong ambitions for what can be achieved in this fourth Wellbeing Budget, and has signalled the opportunity to implement reforms to address long-term challenges facing New Zealanders.
2. Vote Forestry initiatives will be submitted via two streams:
 - a) Climate-related initiatives will be put forward to be considered for the Climate Emergency Response Fund (CERF), within the **Addressing long-term challenges through multi-year funding** stream.
 - b) Other initiatives, including new policy initiatives and cost pressures, will be put forward as part of the Natural Resources Cluster within the **Public Finance System Modernisation** stream.
3. The Minister of Finance has requested you to advise him of climate-related initiatives you wish to be considered as potential candidates to the CERF, by 23 September. This briefing outlines the Vote Forestry initiatives proposed to be considered and suggests wording to be included in your response (we understand you intend to submit a single letter including initiatives from all your portfolios).

Criteria for consideration for CERF

4. An initiative is eligible to be considered for CERF if it:
 - a) is included in the Emissions Reduction Plan;
 - b) will directly reduce emissions;
 - c) has as a primary objective to support, remove barriers to, or accelerate emissions reductions;
 - d) will support an ao Maori approach to climate response;
 - e) will facilitate the development of such proposals in the future (such as feasibility studies or business cases for such initiatives); or
 - f) addresses the distributional impacts of emissions reduction policy.

Initiatives proposed for inclusion in your response

5. This Budget presents an opportunity for New Zealand to unlock the full potential of our forests to support both the Government's climate change response and the longer-term wellbeing of New Zealanders. In the future forests will not only capture carbon (in both the medium and longer term), but will also provide ecosystem services and produce high-value timber products, novel bio-products, and bioenergy as part of a low emissions economy.
6. We have developed five initiatives for you to consider proposing for inclusion in the CERF. Together they aim to maximise the climate change contribution from across the forest estate – existing and new forests, both exotic and indigenous – and across the value chain from planting through to harvest, processing and export.
7. The initiatives are:

Title	Includes:	Current indicative costs over 4 years
Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials	<i>Measures to directly increase the supply of woody biomass, including through increasing usable residue from wood harvesting, and investing with landowners (including Māori) to support short rotation energy crops.</i>	Opex: \$60m Capex: \$68m
Increasing domestic processing to grow the supply of woody biomass, replacing carbon intensive fuels and materials	9(2)(f)(iv)	
Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies		

Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity	<i>The first stage of a long-term programme to significantly expand the establishment of native forests through planting and regeneration. This initiative focuses on addressing immediate barriers to supply and laying the foundations for future measures to address demand</i>	Opex: \$154m
Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts	<i>Initiatives to accurately account for and potentially increase the carbon stored in existing forests and wood products – this will ensure their full contribution towards New Zealand's climate change targets can be recognised in the National Greenhouse Gas Inventory.</i>	Opex: \$115m Capex: 4m

Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials

8. Woody biomass is a critical component to decarbonisation. The substitution of coal with woody biomass in boilers and increased demand for other biofuels and biomaterials derived from wood are highlighted in the Emissions Reduction Plan (ERP). Current projections show New Zealand will face shortages of woody biomass by 2030 unless action is taken now to stimulate further supply. This will hinder the ongoing growth and innovation in the bioeconomy, slowing the transition to lower emissions.
9. This initiative includes:
 - a) funding or investment (e.g. asset ownership) for supporting the establishment of short rotation energy crops, with a particular focus on working with Māori landowners;
 - b) research and advisory services to support decision-making on appropriate new crop types, including developing a forecasting model for supply and demand; and
 - c) measures to drive increased utilisation of harvesting by-products to support decarbonisation, including research on forest slash recovery methods and technologies.
10. This bid is for \$60 million opex, \$68 million capex over four years. Of this amount, \$45 million opex and all the capital relates to non-departmental costs associated with direct investment options for planting short rotation energy crops (for costing purposes, currently assumed through a Crown Forestry joint venture, at 5,000 hectares per annum from 2023/24).

Increasing domestic processing residues to grow woody biomass supply, replacing carbon intensive fuels and materials

11. Increasing domestic wood processing increases the availability of woody biomass and residues to support substitution of fossil fuels and carbon intensive materials. It also increases the availability of wood-based materials for replacing carbon intensive materials (e.g. steel and concrete). This funding will provide incentives and mechanisms to attract increased investment in assets that reduce emissions or enable emissions reduction. This will increase the added value from wood processing in New Zealand in terms of both product and emissions reduction, and reduce the extent to which logs (and the residues within) are exported.

12. This initiative includes:

9(2)(f)(iv)

- b) pruning incentives (assumed at \$3 million per annum from 2023/24) to increase future supply of clear timber so that high value wood products continue to be made in New Zealand; and
- c) funding to develop better market transparency and other instruments to reduce barriers to investment in value-add wood products.

9(2)(f)(iv)

Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies

14. Demonstrating the feasibility of delivering or scaling up technologies will de-risk further investment and spur ongoing innovation in New Zealand's bioeconomy, contributing to the reduction in gross emissions.

9(2)(g)(i), 9(2)(f)(iv)

9(2)(f)(iv)

- b) Establishing an investment fund to support industry to prove or scale up infrastructure/processing to deliver wood-derived biofuels and/or biomaterials. This fund would build to a level of \$100 million per annum, providing sufficient scale to support private investors to accept the risks involved in scaling up these new technologies.
16. This bid is for \$15 million opex, \$210 million capex over four years. We are engaging with other agencies to assess whether funding proposed for the (co)investment fund could be sourced through existing established investment initiatives such as the Green Investment Fund; however, equally this fund could be managed by the Te Uru Rākau - New Zealand Forest Service through the Grants and Partnerships team.

Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity

17. The Climate Change Commission recommended the government establish a long-term carbon sink to offset emissions from hard-to-abate sectors, through a comprehensive national programme to incentivise the reversion and planting of new native forests to maintain net zero long-lived greenhouse gas emissions beyond 2050. Approximately 8,000 hectares of native afforestation occurred in the year to June 2021, with around 4,000 hectares estimated for 2022, and a projection for around 2,500 hectares annually going forward once all One Billion Trees-funded forests have been established. The Climate Change Commission advice provides a number of pathways to meeting our targets; their demonstration pathway requires increasing native afforestation to 16,000 hectares by 2025 and to 25,000 hectares by 2031.
18. Government investment can support this significant scale-up by reducing costs of establishing and managing native forests to better encourage private sector investment.
19. This Budget initiative sets out initial investments to kick start a work programme to drive significant, sustainable growth in the rate of native forest establishment. It responds directly to the Climate Change Commission's recommendation and reflects proposals in the draft ERP.

20. The focus for Budget 2022 is:
- Addressing immediate barriers to increased afforestation – primarily working with nurseries on ways to innovate to reduce cost and increase future supply of native seedlings, currently a significant limiting factor to increased planting. Given the two to three years it takes native seedlings to be ready for planting, without increasing nursery capacity in the short term increased planting in future years will not be possible.
 - Piloting innovative models to sustainably fund and deliver native afforestation in partnership with third parties.
 - Establishing the longer-term programme, working in partnership with the sector, iwi/Māori, councils, and communities, including research and advisory work with landowners. Some of this could be delivered through the Planning and Advisory Service (see below).
21. This bid is for \$154 million opex over four years. Of this amount \$119 million is to develop, fund and deliver innovative solutions, including to increase supply of seedlings and lower the costs of native afforestation. Examples could include projects and new technologies that increase native seedling production, improve survival rates for native trees and lower the costs of planting and management.
22. We propose to develop a further initiative for Budget 2023 to address the remaining supply issues (including workforce) as well as the demand side incentives which will be necessary to scale up afforestation at the scale required. This could include direct incentives such as co-funding the costs of establishing native forests, or increasing incentives through changes to regulatory settings (such as Emissions Trading Scheme (ETS) changes¹). Further work is required to determine the most effective scale and scope of these future components of the national programme. This initiative and the ongoing work are being developed in consultation with the Ministry for the Environment and the Department of Conservation.

Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts

23. This initiative will support the ERP by ensuring the contribution of existing forests and wood products are fully and accurately recognised. This will ensure the full recognition of progress towards realising carbon sequestration goals, and provide appropriate incentives to foresters, wood processors and ETS participants to realise maximum end-to-end sequestration.

¹ Note that work on carbon look-up tables, for which funding is being sought in a separate initiative, is expected to also contribute to realising the objective of increasing native afforestation.

24. The initiative includes:

- a) Updating and expanding the coverage of the carbon look-up tables used to calculate carbon stored in different forest types within the ETS.
- b) Investigating options for maximising the carbon stored in forests planted before 1990. These include more than one million hectares of exotic forests, and millions more hectares of reverting land which is unproductive for animals. Advances in forest genetics since the 1990s, plus better forest management practices, have likely increased sequestration of pre-1990 forests; research suggests such exotic forests may now be sequestering up to 30 percent more carbon than they did at 1990. We currently lack the methodologies and knowledge to fully recognise this contribution in our national inventory and report it internationally against our targets. Exploring this opportunity could also take pressure off afforesting 'green field' areas and have co-benefits such as increased biodiversity through pest management.

c) 9(2)(f)(iv) [Redacted text block]

25. This bid is for \$115 million opex and \$4 million capex over four years. Of this, \$90 million opex (\$30 million per annum from 2023/24) is to establish a fund which will support incentivising the increased sequestration of carbon in harvested wood products by wood processors investing in increased domestic capacity. The remaining \$25 million opex over four years is to undertake the research necessary to update the sequestration rates in both native and exotic forests, in order to ensure we are fully recognising the carbon currently being stored in New Zealand's forest estates.

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Initiatives being progressed through the cluster process

26. A number of other Forestry initiatives are cost pressures, which are required to be considered through the Natural Resource Cluster process. These potential cluster initiatives include:
- a) **Plantation forestry advice to deliver environmental standards** – working with Councils to deliver their functions under the new legislation.
 - b) **Forest Market Assurance Programme** – implementing the new legislative requirements relating to log trader registration and legality assurance.
 - c) **Planning and Advisory Service baseline funding** – addressing the issue of time-limited funding for the new service being established, which currently ends in 2025/26.
27. Note that the native afforestation initiative being proposed for consideration as part of CERF includes provision for increasing advisory support to stakeholders, including landowners, councils and nurseries. If this initiative is successful it would result in expansion of the operations of the Planning and Advisory Service. (The amount being requested across CERF bids for additional advisory activity is \$2 million in 2022/23 increasing to \$3.5 million per annum ongoing once fully scaled up. Some of this funding may be used to train advisors, as well as increase FTEs.)

Next Steps

28. The Minister of Finance has indicated the following process:
- a) Your response to the Minister of Finance regarding potential climate-related initiatives is due by 23 September.
 - b) Formal submission of initiatives for consideration as candidates for the Climate Emergency Response Fund will be by invitation from the Minister of Finance, which is expected to be received in October.
 - c) Other Vote Forestry initiatives, including cost pressures, will be considered through the cluster process as part of the Natural Resources Cluster. Cluster Ministers are due to meet on 21 October to consider potential packages and initiatives.
 - d) Final submission of initiatives agreed to be considered as part of Budget 2022 will be required by 10 December.

Advice to Minister of Finance

29. Suggested wording for you to respond to the Minister of Finance is provided in Appendix One.

Recommendations

1. It is recommended that you:

- a) **Note** that the Minister of Finance wrote to you on 31 August 2021 outlining the process for Budget 2022 and inviting you to identify any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.

NOTED

- b) **Note** that we have identified a number of forestry initiatives that support the commitments that may be made as part of the Emissions Reduction Plan, and likely funding required, for you to consider.

NOTED

- c) **Note** that we have provided suggested wording relating to Vote Forestry initiatives for your response to the Minister of Finance request, which is required to be sent by 23 September.

NOTED

- d) **Note** that other Vote Forestry initiatives for Budget 2022 are being progressed through a separate stream as part of the Natural Resources Cluster.

NOTED

- e) **Note** that formal submission of initiatives for Budget 2022 will be made on invitation only by Minister of Finance, expected to be received in October.

NOTED

- f) **Agree** to include the five Vote Forestry initiatives outlined in this paper in your response to the Minister of Finance on candidates for the Climate Emergency Response Fund.

YES / NO



Jason Wilson
Deputy Director-General
Te Uru Rākau – New Zealand Forest Service

Hon Stuart Nash
Minister of Forestry

/ / 2020

Minister's comments

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Appendix One: Suggested Vote Forestry content for letter to Minister of Finance

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B21-0562

Hon Grant Robertson
Minister of Finance
WELLINGTON, 6160

Dear Grant

Thank you for your letter of 31 August, outlining the process for Budget 2022. You have asked that I respond with detail on:

- any manifesto commitments and cost pressures that need to be funded as part of Budget 22 in my non-cluster portfolio(s), and
- any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.

Vote Forestry: climate-related initiatives

This Budget presents an opportunity for us to unlock the full potential of our forests to support both our climate change response and the longer-term wellbeing of New Zealanders. Forests are key to the future response to reducing emissions, our forests will not only capture carbon (in both the medium and longer term), but will also provide ecosystem services and produce high-value timber products, novel bio-products and bioenergy as part of a low emissions economy. Forests are a significant part of the Māori economy, and play an important role in te ao Māori.

The initiatives I am putting forward for consideration in Budget 2022 represent an integrated package aiming to maximise the climate change contribution from across the forest estate – existing and new forests, both exotic and indigenous – and across the value chain from planting through to harvest, processing and export. These initiatives all link to initiatives within the Emission Reduction Plan and directly deliver or facilitate emission reductions or increased carbon sequestration. Increasing the carbon stored in our forest will be vital to reach our targets, while increased the supply of woody biomass is a critical component to decarbonisation of the economy by replacing high-emitting fuels like coal.

The table below sets out the initiatives I am proposing to be considered as part of the **Addressing long-term challenges through multi-year funding: Climate Emergency Response Fund** stream:

Title	Current estimated costs over 4 years
<p>Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials</p> <p><i>Projections show there is insufficient supply of woody biomass in 10 to 15 years to meet the recommendations in the ERP. This bid includes measures to directly increase the supply of woody biomass, including through investing with landowners (including Māori) to support short rotation energy crops.</i></p>	<p>Opex: \$60m Capex: \$68m</p>

<p>Increasing domestic processing to grow woody biomass supply, replacing carbon intensive fuels and materials</p> <p>9(2)(f)(iv)</p>	<p>9(2)(f)(iv)</p>
<p>Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies</p> <p>9(2)(f)(iv)</p>	
<p>Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity</p> <p><i>The first stage of a long-term programme to significantly expand the establishment of native forests through planting and regeneration. This initiative focuses on addressing immediate barriers to supply and laying the foundations for future measures to address demand</i></p>	<p>Opex: \$154m</p>
<p>Maximising and incentivising the contribution from existing forests and wood products to New Zealand’s carbon accounts</p> <p><i>Initiatives to accurately account for and potentially increase the carbon stored in existing forests and wood products – this will ensure their full contribution towards New Zealand’s climate change targets can be recognised in the National Greenhouse Gas Inventory.</i></p>	<p>Opex: \$115m Capex: 4m</p>

I am confident that these initiatives will make a significant contribution to both the Government’s climate change and broader wellbeing goals and help address the long-term challenges facing New Zealanders.

Yours sincerely

Hon Stuart Nash
Minister of Forestry



To: Hon Stuart Nash, Minister of Forestry

From: Jason Wilson, Deputy Director-General Te Uru Rākau – New Zealand Forest Service

Update on Budget 2022

Date	26 November 2021	Reference	Update on Budget 2022
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Contacts			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input type="checkbox"/>
Debbie Ward	Director, Business and Spatial Intelligence		<input checked="" type="checkbox"/>

Purpose

- This aide memoire updates you on the Budget 2022 initiatives being prepared by Te Uru Rākau – New Zealand Forest Service, ahead of discussion at your meeting with officials on Monday 29 November.

Background

- Te Uru Rākau – New Zealand Forest Service is preparing five initiatives relating to forestry and wood processing for submission to the Budget 2022 process, through both the Climate Emergency Response Fund (CERF) and the Natural Resource Cluster (NRC) streams:

Budget stream	Initiative
CERF	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials
CERF	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity
CERF	Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts
NRC	Forestry Advisory Services (within broader Integrated Primary Sector Advisory Services bid)
NRC	Forestry and Wood Processing Industry Transformation Plan (ITP) Contingency (within broader 'Catalysing Industry Transformation' bid)

2. The attached A3 sets out the current scale and scope of these initiatives, for both the preferred level of funding being sought, and the scaled options we propose to include within the initiatives as per Treasury requirements.
3. Please note the initiatives are still being finalised and the figures may change over the next few days. We expect to be able to provide you with the final funding requests by the end of next week. The bids are due to be submitted to Treasury on Friday 10 December.
4. Next Friday we will provide you with the final proposed titles and descriptions for approval (these are the proposed 'public facing' elements of the template to be included in Budget communication material¹). We will also provide you with a draft letter of submission which is required to accompany the bids.
5. At our meeting on Monday we would welcome the opportunity to discuss the initiatives and your level of comfort with both the content and proposed scaled options. We would also like your guidance on the relative prioritisation of these bids to support engagement with other agencies as the CERF and NRC processes progress over the next two weeks. Below are key relevant points relating to each bid, which you may wish to discuss.

Initiative-specific points to note

Initiative (short title)	Notes
Woody biomass supply	<ul style="list-style-type: none"> • This bid includes a number of components intended to address the projected shortfall in woody biomass supply to meet the growing demand as New Zealand moves to a low emissions economy. • These components contribute both directly (through the Crown planting additional trees) and indirectly (through exploring and incentivising the cost effective use of by-products from commercial harvesting and wood processing)
Native afforestation	<ul style="list-style-type: none"> • A significant component of this bid is a proposal to establish a Crown-owned propagation facility using modern automated technology to generate low-cost native seedlings at scale. This proposal has not yet been tested with the nursery sector or iwi/Māori. Our intention would be to engage with these stakeholders as we prepare a detailed business case for the facility in 2022/23. • Given the scale of the increased planting required to deliver the Climate Change Commission's demonstration pathway, we believe this facility will not crowd out private nurseries and they will also need to scale up to meet increasing demand in out-years. Further, we propose that in time the facility should move into sector ownership. The optimal pathway for this will also be explored in the business case.

¹ They are also subject to strict length requirements.

Initiative (short title)	Notes
Maximising carbon sequestration	<ul style="list-style-type: none"> • This bid includes updating and extending carbon look-up tables as well as a significant proposal to incentivise increased sequestration through increasing processing of logs into longer-lived, high value wood products. • We are working with the Ministry for the Environment (MfE) and the Department of Conservation (DOC) to expand the scope of this bid to a joined-up overarching “Maximising Natural Carbon Sequestration” initiative. This will amalgamate two CERF bids and one from NRC, responding to the Minister of Finance’s request to reduce the overall number of bids. • Officials are working urgently to clarify the final shape of the bid. Currently the DOC and MfE preferred options total \$35m and \$22m respectively, making the total bid \$115.3m opex, \$94m capex. We expect the opex requirement to reduce as overlaps and duplication is removed, and we jointly prioritise the research programme. • You will be the lead Minister on the joint bid and submit the initiative. We are working through the process for ensuring all three Ministers have appropriate oversight as the bid is finalised.
Forestry Advisory Services	<ul style="list-style-type: none"> • You have previously been briefed on this initiative. We understand there is increasing pressure to reduce the “low” option, which is currently little more than meeting the funding cliff pressure for the new service.
Forestry & Wood Processing ITP contingency	<ul style="list-style-type: none"> • You have recently been briefed on the proposal to include the F&WP ITP contingency in MPI’s broader NRC initiative, alongside contingencies for the Fisheries and Food and Beverage ITPs. • We have not had definitive guidance regarding this approach, but are proceeding on the assumption that this will occur and incorporating funding for F&WP on the same scale as that being sought for the other two ITPs.

Minister / Minister’s Office

Seen / Referred

/ / 2021

Minister's comments

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Budget 2022: TUR-NZFS Budget package

Updated: 25 November 2021

Initiative	As invited	Preferred	Funding sought:			Comment
			High	Med	Low	
Initiatives						
CERF: Woody biomass supply	OPEX (\$m) CAPEX (\$m)	\$35.365 \$44.865				Bid includes Crown planting forests to ensure biomass supply, research into cost effective slash recovery, developing a pruning incentive, and a number of other related components
CERF: Native Afforestation	OPEX (\$m) CAPEX (\$m)	\$76.898 \$93.850				Includes proposal to establish a Crown-owned propagation facility to deliver lower cost native seedlings at scale, and research/other work to deliver long term programme (and B23 bid)
CERF: Maximising carbon sequestration*	OPEX (\$m) CAPEX (\$m)	\$58.303 \$94.000				Bid includes lookup tables work and 9(2)(iv). Bid now joint with DOC and MFE - these costings for TUR-NZFS components only
TOTAL CERF	OPEX (\$m) CAPEX (\$m) Total (\$m)	\$170.567 \$232.715 \$403.282				
NRC: Forest Advisory Service*	OPEX (\$m) CAPEX (\$m)	\$27.640 \$0.325				Costings unchanged since briefing earlier this week
NRC: F&WP ITP contingency**	OPEX (\$m) CAPEX (\$m)	\$50.000 \$0.000				Costings prepared on basis that this contingency will be included within NRC combined bid, at same amount as (currently) the other two MPI contingencies
TOTAL ALL BIDS	OPEX (\$m) CAPEX (\$m)	\$418.774 \$465.755				

CERF bids required to provide preferred and "minimum viable" scaled options; NRC bids to provide high - medium - low

*TUR component of larger bid

**Not yet confirmed for inclusion in NRC as part of Combined contingency with Fisheries and Food & Beverage

Detailed commentary for initiatives

Increasing supply of woody biomass		"MVP" Option	
Preferred option		Funding difference/impact	
Total funding	9(2)(iv)		
Operating \$m			
Capital \$m			
Te Urū Rākau - CERF Bids			

BUDGET SENSITIVE



Forestry Advisory Services

Total funding	High				Medium				Low			
	\$27.6m – OPEX 4 Yr Total \$0.3m – CAPEX 4 Yr Total				\$20.7m – OPEX 4 Yr Total \$0.2m – CAPEX 4 Yr Total				\$16.9m – OPEX 4 Yr Total \$0.1m – CAPEX 4 Yr Total			
Operating \$m	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
Capital \$m	\$2.639	\$5.409	\$5.904	\$13.688	\$2.689	\$3.529	\$3.936	\$10.562	\$2.688	\$3.240	\$1.889	\$9.091
	\$0.130	\$0.065	\$0.065	\$0.065	\$0.130	\$0.000	\$0.065	\$0.000	\$0.065	\$0.000	\$0.000	\$0.000

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services. Service will complement and work through existing/other advisory services to achieve reach, while delivering more specialised/targeted support where required, so landowners receive integrated, well-informed advice.
- Targeted extension into three new areas to support climate-related work: nursery capability and capacity to deliver ambitious native afforestation goals; improve knowledge base to deliver increased woody biomass to address gaps in future supply; and deliver advice and support to ensure regional councils can meet their regulatory obligations and undertake effective risk management, and landowners are supported to make land-use decisions relating to forestry (native and exotic) that maximise public and private benefit.
- Provides ongoing 22 regionally-based advisory staff and specialist support in addition to core services (38 FTE).

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services
- More limited targeted extension into new areas
- Provides ongoing 12 regionally-based advisory staff and specialist support in addition to core 38 FTEs.

Key risks:

- Regional councils will be less supported to provide consistent and effective advice to landowners
- Less comprehensive planning and research to support woody biomass supply initiative (being progressed through CERF)
- Reduced reach of landowner and nursery advice and support will slow achievement of objectives in other initiatives (in particular, native afforestation)

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services
- No additional advisory support for nursery sector
- Woody biomass FTEs limited to initial mapping exercise, with no ongoing dedicated support and reduced ongoing research
- Landowner and regional council support restricted to include 2 FTEs working with councils and 2 working directly with Māori advisory organisations
- Ongoing, provides a total of 4 regionally-based advisory staff in addition to core.

Key risks:

- Reduced capacity to develop new evidence-based insights to share with stakeholders
- Significant reduction in reach to landowners and regional councils, and no extension of support to nursery sector, may compromise delivery of climate change initiatives including native afforestation.

Forestry and Wood Processing ITP contingency

Total funding	High				Medium				Low			
	\$50.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total				\$30.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total				\$20.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total			
Operating \$m	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
Capital \$m	\$5.000	\$10.000	\$10.000	\$25.000	\$5.000	\$7.500	\$7.500	\$10.000	\$5.000	\$7.500	\$5.000	\$2.500

Includes funding for:

9(2)(g)(i)

Includes funding for:





To: Hon David Parker, Minister for Oceans and Fisheries
Hon Damien O'Connor, Minister of Agriculture
Hon Stuart Nash, Minister of Forestry
From: Chris Kerr, Director Strategy & Insights

Advice for Industry Policy Ministers' Group meeting

Date	24 November 2021	Reference	AM21-0831
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Contacts			
Name	Position	Contact number	First contact
Chris Kerr	Director, Strategy & Insights, Policy and Trade	9(2)(a)	<input checked="" type="checkbox"/>
Debbie Ward	Director, Business & Spatial Intelligence, Te Uru Rākau		<input type="checkbox"/>
Emma Taylor	Director, Fisheries Management, Fisheries New Zealand		<input type="checkbox"/>

Purpose

- This aide memoire provides advice for the Industry Policy Ministers' Group (IPMG) meeting you will be attending on Thursday 25 November. Chris Kerr (Director, Strategy & Insights, Policy & Trade) and Jennie Marks (Director, Sector Investment, Te Uru Rākau) will attend from the Ministry for Primary Industries (MPI).

Key Points

- There are two agenda items for discussion at the meeting:
 - the Industry Transformation Plan (ITP) Budget package; and
 - 9(2)(f)(iv)
- The IPMG meeting agenda (**Appendix One**), ITP Budget Package paper (**Appendix Two**), 9(2)(f)(iv) are provided.

- The ITP Budget Package paper sets out the proposed budget package comprising the ITP-related initiatives that have been invited across portfolios and Budget streams, as well as their key risks and issues. It seeks Ministers' agreement to the overall ITP Budget package; and to a unified narrative to be incorporated into Budget letters.
- The paper also invites lead Ministers to consider the funding amounts sought through the Natural Resources Cluster (NRC) or Climate Emergency Response Fund (CERF) processes for the Food and Beverage, Fisheries and Forestry and Wood Processing ITPs.

• 9(2)(g)(i)

[Redacted]

[Redacted]

[Redacted]

9(2)(f)(iv)

[Redacted]

Agreeing the ITP Budget Package

Overview of ITP Budget Package and suggested Budget 22 narrative

1. The total sought across the ITP Budget 22 package is \$506.8 million ^{9(2)(f)(iv)} [Redacted]. The total amounts, and phasing, of funding sought across the ITPs vary due to the differing scales, and stages of the ITPs.

2. The suggested aligned budget narrative notes that:
 - a) the ITP programme will support New Zealand to grow and diversify its economic base, supporting uptake of technology and capital that can lift productivity, improve sustainability, increase wages, and provide meaningful employment to New Zealanders in industries with a lower emissions profile; and
 - b) significant investment is required now under Budget 22 to demonstrate the Government's commitment to the ITP Programme.

Funding for Food and Beverage, Fisheries and Forestry and Wood Processing ITPs

3. The Food and Beverage and Fisheries ITPs will strengthen the performance of our food and beverage and fisheries sectors, transforming them into sustainable high-value exporters and domestic value creators, aligning with the Government's Economic Plan. They will investigate new technologies, and opportunities to increase capability, update regulation, and improve environmental performance to fuel economic growth and position New Zealand as the most sustainable provider of high-value food and primary products.
4. The Forestry and Wood Processing ITP aligns with the objectives of the CERF as well as the Government's economic development objectives. Transforming the forestry and wood processing sector will be central to delivering a successful bioeconomy and decarbonising key industrial sectors. Increasing wood processing will generate increased woody biomass for use in biofuels and biomaterials, and result in higher carbon sequestration compared with the export of raw logs (thereby improving the country's carbon accounts).
5. On 11 November IPMG Ministers agreed that MBIE officials should further develop a contingency funding proposal for a Core Budget submission for the less advanced ITPs (including Food and Beverage and Fisheries) to ensure actions under these ITPs could be progressed as they were finalised and to minimise the risk of the Food and Beverage, Fisheries, and Forestry and Wood Processing ITPs will be underfunded in comparison to those ITPs going through Core Budget.
6. Treasury subsequently advised (based on the NRC Budget Cluster Guidance that, where initiatives qualify for the NRC or CERF processes, they must seek funding through these processes rather than Core Budget. This means the Food & Beverage, Fisheries, and Forestry and Wood Processing ITP initiatives cannot be included in the proposed ITP contingency bid being developed by MBIE.
7. The paper invites lead Ministers to consider the funding amounts sought through the NRC and/or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.
8. Budget initiatives for the NRC and CERF processes are currently under development and no decisions have yet been made on overall funding packages within the NRC or CERF processes.

9. The below table sets out an indication of the funding that may be requested for the Food and Beverage and Fisheries ITPs through the NRC, and for the Forestry and Wood Processing ITP through the CERF. No funding is currently being proposed for the Food and Beverage and Fisheries ITPs in 22/23 as most of their initiatives are expected to require funding from 2023/24. However, if funding is required earlier, it may be possible to bring that funding forward.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	NRC	0.000	15.000	17.500	17.500	50.00
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.00
Forestry and Wood Processing	CERF	5.000	56.000	55.000	53.000	169.000

10. The table above differs from that in the briefing provided for the meeting, which included incorrect figures for one of the Forestry and Wood Processing ITP initiatives. These figures exclude capital funding, which is sourced from another Budget track. Bid costings are being finalised.
11. As you know, the NRC envelope is constrained and likely to be heavily absorbed by funding to address agency structural funding gaps, and existing cost pressures. If new initiatives, including the ITPs are to be funded, the 'high' funding envelope is imperative.
12. If adequate funding to resource the implementation of the Food & Beverage, Fisheries, and Forestry and Wood Processing ITPs is not obtained through the NRC and/or CERF processes, they will not be able to be implemented and will fail to deliver the transformational outcomes the Government is seeking. The next opportunity for NRC portfolios to seek funding for these ITPs won't present until Budget 2025.

The Forestry and Wood Processing ITP aligns well with the objectives of the CERF

13. Two CERF bids have been invited to seek funding for specific initiatives developed as part of the Forestry and Wood Processing ITP process, which align with this year's CERF criteria. However currently there is no funding allocated for non-emissions related initiatives within either NRC or CERF budget streams, which may slow implementation of the ITP when it is finalised early next year.

14. We understand that the Minister of Forestry may seek additional funding from within the NRC for Forestry and Wood Processing ITP initiatives that do not meet the criteria for CERF. Doing so would ensure all initiatives, including those not climate change specific, have funding avenues. This would better enable the ITP to deliver on the Government's Economic Plan. The table below sets out the full funding that would be sought for the ITP under this approach:

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Forestry and Wood Processing	CERF	5.000	56.000	55.000	53.000	169.000
	NRC	5.000	10.000	10.000	25.000	50.000

15. A third CERF bid is being prepared jointly with the Department of Conservation (DOC) and the Ministry for the Environment (MfE) relating to carbon sequestration, which includes funding for updating and expanding the scope of carbon look-up tables for Forestry ETS. (This will combine two separate CERF bids invited by the Minister of Finance, and a bid from within the NRC cluster.)

Advice for the discussion

16. We suggest that, in the meeting, you:
- discuss how best to manage the risk of including ITP packages within the NRC envelope;
 - agree to incorporate a contingency for the Forestry and Wood Processing ITP within MPI's combined ITP contingency package, of the same amount as is being sought for Fisheries and Food and Beverage; and
 - agree to incorporate the aligned ITP Budget narrative into MPI's combined ITP Budget bid.
17. Potential talking points for the discussion are set out below:
- having separate Budget processes for the Food and Beverage, Fisheries and Forestry and Wood Processing ITPs from the other ITPs creates a risk of inadequate funding being set aside for the Fisheries, Food and Beverage and Forestry and Wood Processing ITPs. Ensuring that this split does not result in these ITPs failing to be delivered is imperative;
 - it will also be important that the centralised secretariat provides support to all ITPs, and similarly that the Enabling Māori Framework provides support for Māori enterprises across all relevant sectors, including the primary industries. Not doing this risks cross-ITP cohesion and equity across sectors; and
 - maintaining a coherent narrative across all ITPs, regardless of funding process, will support the development of a cohesive package of interventions across these key areas of the economy.

9(2)(f)(iv)

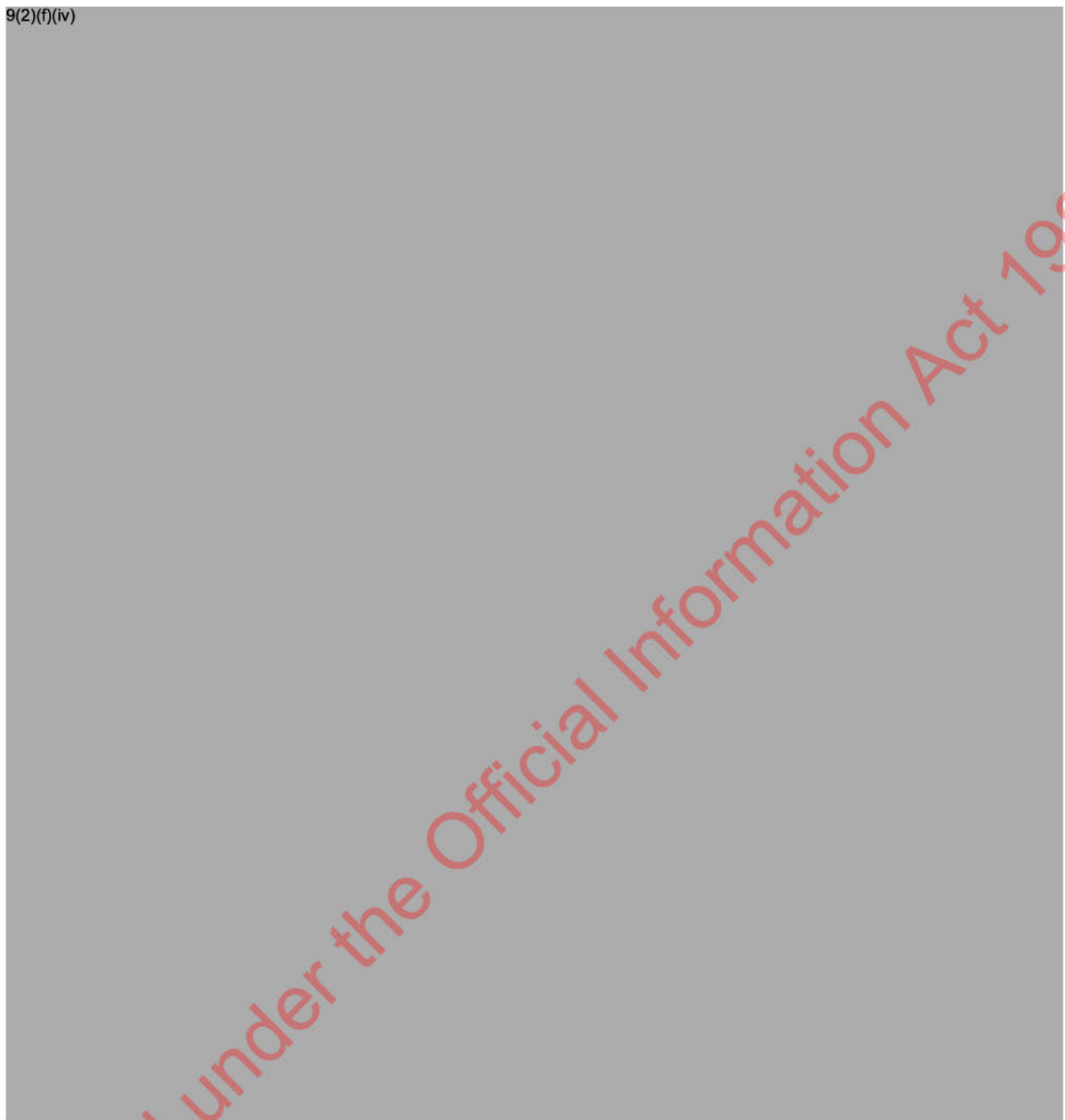
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9(2)(f)(iv)



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9(2)(f)(iv)



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Agenda and Papers for the IPMG Meeting

Agenda Industry Policy Ministers Group

Date:	Thursday 25 November 2021
Time:	12:15pm-12:45pm
Location:	Zoom
Members:	Hon Stuart Nash, Minister for Economic and Regional Development (Chair), Minister of Forestry, Minister of Tourism Hon Damien O'Connor, Minister of Agriculture Hon David Clark, Minister for the Digital Economy and Communications Hon Poto Williams, Minister for Building and Construction Hon David Parker, Minister of Oceans and Fisheries
Apologies:	
Secretariat:	Industry Policy, MBIE

Agenda

Time	Item	Lead	Papers	Action sought
<i>Operational matters</i>				
5 mins	1. Welcome and apologies	Chair	None	Nil
<i>Strategic and policy matters</i>				
15 min	2. Progressing ITP initiatives in Budget 22	Chair	<i>Agreeing the ITP Budget Package</i>	<p>Note the attached paper and key risks highlighted;</p> <p>Agree to the ITP Budget Package;</p> <p>Invite Lead Ministers to consider the funding amounts sought through the NRC or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.</p> <p>Agree to the aligned narrative for the ITP Budget Package, which will be incorporated as appropriate in each Minister's Budget</p>

				letter.
9(2)(f)(iv)				
<i>Close</i>				
5 mins	Next meeting: early 2022 (date TBC)	Chair	None	Agree to reconvene in the New Year. Raise any future agenda items.

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Agenda item 2: Agreeing the ITP Budget Package

Purpose

1. The Minister of Finance sent letters to portfolio Ministers on 22 October 2022 inviting bids for a range of ITP initiatives to be considered through the Budget 22 process. Final bids for the Core Budget process are due on Friday 10 December.
2. This paper:
 - a. Provides the proposed ITP Budget package comprising all initiatives that have been invited across your portfolios and across Budget streams and seeks agreement to:
 - i. the overall package; and
 - ii. a unified narrative to be incorporated into Budget letters.
 - b. Outlines the key risks and issues that are being managed through this package.

Recommendations

3. The Ministry of Business Innovation and Employment, with support from ITP lead agencies, recommends that you:
 - a. **Note** the ITP Budget package and overarching narrative which reflects all initiatives that have been invited across your portfolios and across Budget streams;
 - b. **Agree** to the overall ITP Budget Package subject to any further technical amendments which may be required;
 - c. **Agree** to the aligned narrative for the ITP Budget Package, which will be incorporated by officials in each Minister's Budget letter;
 - d. **Note** some ITP initiatives qualify to seek funding through the Natural Resources Cluster (NRC) or Climate Emergency Relief Fund (CERF) processes of Budget 22;
 - e. **Note** that Treasury has advised that where initiatives qualify to seek funding through the NRC or CERF processes, these initiatives must seek funding through these processes rather than the Core Budget process;
 - f. **Note** that the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs all qualify to seek funding through the NRC, with the Forestry and Wood Processing ITP also qualifying to seek funding through the CERF;
 - g. **Note** that if funding to resource implementation of ITPs that qualify for the NRC or CERF processes is not obtained through these tracks, then this may present delivery risks and could require reprioritisation within agency baseline funding;
 - h. **Invite** Lead Ministers to consider the funding amounts sought through the NRC or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.

Background

4. IPMG met on 11 November 2021 and discussed the B22 Strategy and approach. This followed invitation by the Minister of Finance for a range of ITP initiatives to be considered across portfolios and Budget streams. In this meeting Ministers agreed:

- a. that officials should develop a contingency funding proposal for Budget submission that will enable progress on ITP actions as they are finalised;
 - b. 9(2)(f)(iv)
 - c.
 - d. to reconvene in late November to discuss the ITP complete package and approach for Budget 22 to ensure alignment of messaging across all ITP bids.
5. On 22 October 2021, the Minister of Finance wrote to Ministers inviting bids for ITPs across your portfolios for consideration as part of Budget 22. In his letters of invitation, the Minister of Finance highlighted the importance of investment readiness, management of delivery risk and alignment and sequencing of initiatives across ITPs. Final bids for the initiatives to be progressed through Core Budget (and cover letters from Ministers) are due on 10 December 2021.

Overview of the ITP Budget Package

6. The total sought across the ITP Budget 22 package is 506.800 million 9(2)(f)(iv)
7. This funding is set out below apportioned by ITP. A line item is included for the ITP Secretariat, which includes funding for sector engagement and the Enabling Māori Framework which are critical to the partnership approach under the ITP Programme.
8. The below table includes all funding across Budget streams (Natural Resources Cluster, Core budget and the Climate Emergency Response Fund). For further detail on the components of this package and the split across Budget streams refer to Appendix One.
9. No additional funding is being sought for the Tourism ITP as existing Budget 21 funding (\$10 million through the Tourism Communities: Support, Recovery and Re-set Plan) is currently adequate to support its development.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals	New FTEs
ITP Secretariat	Core	5.900	5.800	5.800	5.800	23.300	2
Advanced Manufacturing	Core	15.000	15.000	0.000	0.000	30.000	1
		9(2)(f)(iv)					
Construction	Core	18.84	21.741	26.419		67.000	10
Digital Technologies	Core	17.23	17.03	13.43	10.23	57.920	9
Agritech	Core	8.022	10.683	6.037	6.838	32.28 ¹	0
Fisheries	NRC	0.000	15.000	17.500	17.500	50.00	4
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.00	4
	CERF	34.200	42.500	57.800	61.800	196.300	10

¹ Includes 140 capex per outyear until 30/31

Forestry and Wood Processing	NRC	0.000	0.000	0.000	0.000	0.000	0
Total 9(2)(f)(iv)		99.192	142.754	144.486	119.668	506.800	40

10. Specific initiatives are being advanced wherever possible across the package. Reflecting the varied stages of development of each ITP, and the range of interventions proposed, including regulatory change through to larger scale investments, the total amounts of funding sought across ITPs vary significantly. 9(2)(f)(iv)

Funding for Vote Agriculture, Biosecurity, Fisheries and Food Safety ITPs

11. The Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs all qualify to seek funding through the NRC. A set of Forestry and Wood Processing initiatives have also been invited for the Climate Emergency Response Fund (CERF).
12. Treasury has advised that, where initiatives qualify for the NRC or CERF processes, they must use these funding processes rather than the Core Budget process. This means the only option to fund these ITPs is through the NRC or CERF processes. Funding for these ITPs cannot be included in the proposed ITP Contingency bid being prepared by MBIE.
13. No decisions have yet been made on overall funding packages within the NRC and CERF processes. The below tables set out an indication of the levels of funding that may be requested through the NRC and CERF processes for these ITPs.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	NRC	0.000	15.000	17.500	17.500	50.000
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.000
Forestry and Wood Processing	CERF	34.200	42.500	57.800	61.800	196.300
	NRC	0.000	0.000	0.000	0.000	0.000

14. The ITP Programme is a significant government priority, supporting the transformation of the economy to a high productivity, high wage, low emissions future state. We consider it is important to ensure sufficient programme implementation funding for successful delivery of each ITP within the programme. Doing so helps to demonstrate the Government's commitment to industry partners, building momentum for transformation aligned with the ambition of the programme.

15. We note that across these current funding requests:

- The Forestry and Wood Processing ITP is not seeking programme implementation funding through the NRC;
- Fisheries and Food and Beverage ITPs are not seeking funding currently under NRC for 2022/23 due to competing pressures within the NRC. These ITPs are currently at an

early-mid stage of development and most initiatives are expected to require funding from 2023/24.

16. Where implementation funding is not sought, there may be risks to delivery, or a need to reprioritise existing baseline funding to deliver against the ambition of the ITP Programme.
17. We therefore invite Lead Ministers to consider the funding requests for these ITPs through the NRC and CERF processes.

Design of the ITP tagged contingency for Vote Business, Science and Innovation ITPs

18. Vote Business, Science and Innovation ITPs which are still under development are seeking contingency funding in 2022/23 and 2023/24 to enable commitment to industry partners as ITPs are launched (Advanced Manufacturing and Agritech). This recognises the need for government to invest alongside its partners to build momentum for transformation. A failure to invest sufficiently at this early stage of the ITP Programme could undermine confidence in the government as an investment partner.
19. At the same time this contingency does not see funding beyond 2023/24. This recognises that further significant investments under these ITPs should be supported by robust standalone cases through Budget 2023.
20. The proposed ITP tagged contingency is intended to be drawn down as each ITP is launched by Cabinet, enabling implementation of agreed action plans.
21. Treasury has confirmed that if a tagged contingency is part of the final Budget package that the final design and draw down requirements of the ITP tagged contingency will be outlined in Budget recommendations by the Minister of Finance in early 2022. MBIE will continue to engage with Treasury on these recommendations as the bid is developed.

Programme FTE requirements

22. Across the package there are requests for an additional 40 FTEs, reflecting the shift from design to implementation. These resources are critical to ensure delivery against an ambitious transformation programme. Primarily they comprise programme management and commercial expertise and standing up of new substantive initiatives. The majority of the ITP Programme continues to be delivered within baseline policy resource.
23. Funding is also sought across a number of bids to retain existing fixed term FTEs, which have not been baselined².

Scaling of ITP initiatives

24. The funding sought across the ITP Budget Package is already set at a realistic level and in some instances scaling for particular outputs is not viable without significant programme implications. Within each initiative scaled options will be considered, as appropriate responding to relevant Budget guidance.
25. Scaling within the NRC package may be set at 100 / 60 / 40, while greater flexibility may be available to initiatives within the Core Budget process.

Aligned Budget 22 narrative

26. Key areas of shared narrative on the ITP Budget package are set out below:

² These existing FTEs are not included in the 40 FTE summarised in the above table.

- a. This initiative supports the transition of New Zealand towards a more productive sustainable and inclusive economy, through active investment to shift industries towards high wage, high productivity and globally competitive future states.
- b. The ITP programme will support New Zealand to grow and diversify its economic base, supporting uptake of technology and capital that can lift productivity, improve sustainability, increase wages and provide meaningful employment to New Zealanders in industries with a lower emissions profile.
- c. Significant investment is required now under Budget 22 to demonstrate the Government's commitment to the ITP Programme. This is critical to secure buy-in and co-investment from ITP partners as the ITP are launched in 2022, setting the foundations for change and for growing co-investment by industry partners overtime.
- d. This package includes significant investments including decarbonisation initiatives ^{9(2)(f)(iv)} [REDACTED]. These investments provide a strong foundation and set the tone of the government's strategic approach to investment in the economy under ITPs.
- e. The package includes resourcing which is required for delivery against an ambitious transformation programme. While the majority of the programme continues to be resourced within baseline policy resource, investment is required in programme capability and commercial expertise as the programme shifts into implementation.

Appendixes

Appendix One: Detailed ITP Budget Package

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Appendix One: Detailed ITP Budget Package

Core Budget Stream

Specific Initiatives under Core Budget

Bid title	Description	2022/23	2023/24	2024/25	2025/26	Totals
13892 – Industry Transformation Plans – Advanced Manufacturing ITP	<i>Now incorporated into 13890 –Contingency across ITPs.</i>	0.000	0.000	0.000	0.000	0.000
13894- Agritech Industry Transformation Plan- Horticulture Technology Catalyst	<i>Implementation of the Horticulture Technology Catalyst, supporting greater connection and collaboration in the horticulture technology ecosystem.</i>	3.022	5.683	6.037	6.838	22.280 ³
9(2)(f)(iv)						
13792- Implementing actions in the Digital Technologies Industry Transformation Plan	<i>Implementation of the agreed actions under the Digital Technologies ITP including the NZ tech innovation story, digital skills fund, interactive media innovation fund and ICT procurement leadership.</i>	17.23	17.03	13.43	10.23	57.920
13635 – Next Generation Transformation Plan for the Construction Sector Accord	<i>Implementation of the next generation of the Construction Sector Accord.</i>	18.84	21.741	26.419	0.000	67.000
Total specific initiatives		39.092	44.454	45.886	17.068	147.200

³ includes 0.140 capex per outyear until 30/31

Vote Business Science Innovation ITP Contingency Bid

ITP Programme Contingency	Description	2022/23	2023/24	2024/25	2025/26	Totals
Agritech	<i>To support the launch of the Agritech ITP in 2022.</i>	5.000	5.000	0.000	0.000	10.000
Advanced Manufacturing	<i>To support the launch of the Advanced Manufacturing ITP</i>	15.000	15.000	0.000	0.000	30.000
Enabling Maori Framework	<i>The Enabling Māori Framework (delivered through the Maori Innovation Fund) allows for meaningful “industry transformations” to be realised by Māori Enterprises through enabling business and Iwi to participate and create opportunities.</i>	2.500	2.500	2.500	2.500	10.000
Sector engagement and programme monitoring and evaluation	<i>Centralised funding within the ITP Secretariat for continued engagement with industry partners across the ITP Programme.</i> <i>Funding for monitoring and evaluation of the ITP Programme.</i>	2.000	2.000	2.000	2.000	8.000
MBIE ITP Programme Capability	<i>Funding for existing 4 FTEs (including 2 roles within EMF and 2 roles to support the Agritech ITP).</i> <i>Funding for an additional 3 programme management FTEs across the ITP Secretariat, and to support the Advanced Manufacturing ITP. The remainder of the ITP Secretariat and MBIE led ITPs is resourced from policy baseline.</i>	1.400	1.300	1.300	1.300	5.300
Total		25.900	25.800	5.800	5.800	63.300

Climate Emergency Response Fund

Initiative	Description	2022/23	2023/24	2024/25	2025/26	Totals
CERF Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials	<i>Costs relate to the whole bid (which may include some non-ITP related activity)</i>	4.200	12.500	27.800	31.800	76.300
CERF Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts	<i>Costs listed herein are the ITP related component only</i>	30.000	30.000	30.000	30.000	120.000
Total specific initiatives		34.200	42.500	57.800	61.800	196.300

Natural Resources Cluster

Initiative	Description	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	<i>To support the launch of the Fisheries ITP</i>	0.000	15.000	17.500	17.500	50.000
Food and Beverage	<i>To support the launch of Food and Beverage ITP</i>	0.000	15.000	17.500	17.500	50.000
Forestry and Wood Processing	<i>To support the launch of Forestry and Wood Processing ITP</i>	0.000	0.000	0.000	0.000	0.000
Total		0.000	30.000	35.000	35.000	100.000

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Appendix Three: 9(2)(f)(iv)

Appendix Three has been withheld in full pursuant to section 9(2)(f)(iv)

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To: Hon Stuart Nash, Minister of Forestry
From: Jason Wilson, Deputy Director-General, Te Uru Rākau – New Zealand Forest Service

Budget 2022: Update on process

Date	3 December 2021	Reference	AM21-0868
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Contacts			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input type="checkbox"/>
Debbie Ward	Director Business and Spatial Intelligence		<input checked="" type="checkbox"/>

Purpose

- This aide memoire updates you on the submission of final Budget 2022 initiative information on Friday 10 December.
- As indicated last week it also includes:
 - a. the proposed wording of Forestry initiative titles and descriptions
 - b. a draft submission letter to the Minister of Finance, which must accompany the CERF bids on submission.

Update

1. Budget initiatives are due to be submitted to the Treasury over the next two weeks:
 - a) Friday 10 December – Climate Emergency Response Fund (CERF) initiatives in full, and title, description and costings for initiatives within the Natural Resource Cluster (NRC) process
 - b) Friday 17 December – NRC budget templates (ie other supporting information for initiatives in the NRC).
2. We have previously briefed you on the proposed content of the initiatives being prepared for Vote Forestry.

3. Since that time the following changes have been made (exceptions only):

Initiative (short title)	Notes
Woody biomass supply	<ul style="list-style-type: none"> <li data-bbox="544 331 1417 405">9(2)(g)(i) [redacted] <li data-bbox="544 416 1385 526">Additional research has been included, with a specific focus on assessing the potential of new energy crops and approaches to silviculture
Native afforestation	<ul style="list-style-type: none"> <li data-bbox="544 548 1433 658">9(2)(g)(i) [redacted] <li data-bbox="544 669 1422 996">An additional research element has been added, specifically to support up to three pilot programmes at catchment or landscape level to adopt a comprehensive approach to native afforestation at scale. These programmes will involve working with and include co-funding from regional councils and private sector and community stakeholders. This programme will inform future work on the strategy and action plan to drive native afforestation in the long term.
Maximising carbon sequestration	<ul style="list-style-type: none"> <li data-bbox="544 1019 1433 1352">As noted previously, we have been working with the Ministry for the Environment (MfE) and the Department of Conservation (DOC) to expand the scope of this bid to a joined-up overarching “Maximising Natural Carbon Sequestration” initiative. This amalgamates two CERF bids and one from NRC, responding to the Minister of Finance’s request to reduce the overall number of bids. You will be the lead Minister on the joint bid and submit the initiative. <li data-bbox="544 1364 1437 1503">This initial joining-up has now been completed and we are jointly preparing submission information. The bid total is now \$105.3m opex (of which \$29.5m is sought for other agencies), and \$94m capex.
Forestry Advisory Services	<ul style="list-style-type: none"> <li data-bbox="544 1525 1235 1559">No significant change to content or amount
Forestry & Wood Processing ITP contingency	<ul style="list-style-type: none"> <li data-bbox="544 1615 1235 1648">No significant change to content or amount

Proposed wording of initiative titles and descriptions

4. There is explicit Treasury guidance regarding the approach to initiative titles and descriptions, including a strict length requirement. Attached as Appendix 1 are the current proposed titles and descriptions for the three CERF and two NRC bids. We would welcome your feedback on these.

Draft submission letter to the Minister of Finance

5. The initiatives are required to be accompanied by a letter of submission, one letter for each portfolio. While the template is brief, there is an opportunity to outline the integrated nature of the bids and their joint contribution to achieving New Zealand's climate change objectives.
6. A draft letter is attached at Appendix 2 for your review.

Next steps

7. We will incorporate your feedback on the attached tables and letter for finalisation of the bids early next week.
8. There is still some discussion with other agencies to confirm and finalise content and wording of the detailed bid templates, with possibly further (expected minor) changes to the total amounts sought. We will provide an updated version of the A3 previously provided on Monday afternoon.

Minister / Minister's Office

Seen / Referred

/ / 2021

Minister's comments

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Appendix One: Proposed titles and descriptions for bids relating to Vote Forestry

Stream	Initiative title <i>(120 characters maximum)</i>	Initiative description <i>(800 characters maximum)</i>
CERF	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials	Projections show New Zealand faces woody biomass shortages by 2030, while demand is expected to rise sharply as efforts to reduce carbon emissions from fossil fuels pick up pace. Woody biomass offers the best alternative to coal and sufficient supply is critical to decarbonisation. This initiative will increase biomass supply and stimulate private sector investment to alleviate projected shortages, through Crown planting 10,000ha of short rotation energy forest, and targeted research and development. The initiative will help transform forestry and wood processing to a high-value, high wage sector. Action is needed now to close the supply gap in the 2030s and provide certainty to a developing industry which will play a critical role in the just transition to a low emissions economy.
CERF	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity	This initiative responds to the Climate Change Commission's recommendation to increase native afforestation at scale to create permanent carbon sinks to offset emissions from hard-to-abate sectors. It removes some key barriers for native afforestation by: using automated technology to increase propagation capacity and reduce costs; facilitating ongoing innovation in seed collection, propagation and forest establishment including restoration, through focused research; and establishing a long term programme by developing a national strategy and action plan in partnership with the forestry sector, iwi/Māori and communities. In addition to carbon benefits, increasing native afforestation improves biodiversity and supports wider environmental outcomes, and te ao Māori.
CERF (joint bid with MfE and DOC)	Maximising carbon storage: increasing natural sequestration to achieve New Zealand's future carbon goals	This initiative will maximise emissions benefit from forestry and other land uses, drive increased carbon storage in long-lived wood products, and quantify the mitigation potential of coastal ecosystems. It will: fund nationwide field research to link forest carbon storage to management (inside and outside the ETS); quantify the carbon impact of management in non-forest land use, soil, and coastal ecosystems; and stimulate investment in wood processing to maximise carbon stored in wood products. Together these initiatives will directly increase recorded carbon storage by more than 31 million tonnes over the period to 2030 (reducing the Crown's liability by up to \$2.1 billion), and provide the evidence base to support further increases in sequestration across the land sector and seabed.

Stream	Initiative title <i>(120 characters maximum)</i>	Initiative description <i>(800 characters maximum)</i>
NRC (joint bid with farm and Māori agribusiness)	Integrated advisory services to support more sustainable and productive land-use practices	This initiative provides funding for a permanent integrated network of support for rural land-users including establishing a permanent network of regionally-based farm advisors, expanding Māori agribusiness services, and sustaining and expanding the forestry advisory service into new parts of the sector to accelerate the adoption of more sustainable land use practices in our land based sectors that deliver improved environmental and productivity outcomes.
NRC (joint bid with other MPI ITPs)	Catalysing Transformation in the Fisheries, Food and Beverage and Forestry and Wood Processing industries	This initiative will enable the timely delivery of the key actions in the Industry Transformation Plans for the food and beverage, fisheries, and forestry and wood processing industries to bring about Government objectives under the Economic Plan. These plans are being developed in partnership with industry and Māori and will identify, and provide a plan to deliver, high impact actions to strengthen sector performance. Actions will deliver new technologies, diversification, emissions reductions, fit-for-purpose regulation, development of high-value jobs, and improved environmental performance. These will in turn fuel economic growth, including the Māori economy, and strengthen New Zealand's position as a provider of sustainable high-value food and fibre products.

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Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Grant

Forestry Portfolio Submission Letter for Budget 2022

I am submitting the initiatives outlined below for the Forestry portfolio for consideration as part of the Budget 2022 process.

[paragraph to be added setting out integrated approach and how much of a contribution forestry will make to realising climate change objectives through these bids]

Total amount of funding sought for this portfolio

Operating Funding Sought (\$m)	2021/22		2022/23		2023/24		2024/25		2025/26		Total
			28.257		60.118		65.479		65.832		219.686
Capital Funding Sought (\$m)	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	14.188	85.055	111.813	21.277	3.941	2.203	0.133	1.807	3.636	5.846	

I confirm that you have invited me to submit the following initiatives.

Climate Emergency Response Fund

Initiative #	Title
14061	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity
14062	Maximising carbon storage: increasing natural sequestration to achieve New Zealand's future carbon goals
14057	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials

Note that Initiative 14062 includes a joint component with the Ministry for the Environment and Department of Conservation. The Minister for the Environment and Minister of Conservation have confirmed their support for this initiative.

Natural Resources Cluster – new initiatives

The total above excludes funding being sought for Vote Forestry as part of the Natural Resources Cluster (NRC) process. The submission of NRC new initiatives next week will include two further initiatives for which I am seeking funding for the Forestry portfolio, within broader initiatives:

- Integrated advisory services to support more sustainable and productive land-use practices
- Catalysing Primary Industry Transformation: delivering industry transformation plans in partnership with primary sectors

Other Budget 2022 streams

I confirm that I am not seeking any funding specifically for manifesto commitments or cost pressures related to Te Uru Rākau – New Zealand Forest Service. Cost pressures have been included within broader cost pressure initiatives being submitted for the Ministry of Primary Industries, through the Minister for Agriculture, as part of the Natural Resources Cluster process.

Yours sincerely

Hon Stuart Nash
Minister of Forestry

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From: [Bhavika Jeram](#)
To: Marty Verry
Cc: [S Nash \(MIN\)](#)
Subject: OIA response from Hon Stuart Nash
Date: Thursday, 23 March 2023 12:22:25 pm
Attachments: [OIA letter from Hon Stuart Nash to Marty Verry.pdf](#)
[REDACTED OIA23-011 Appendix One.pdf](#)

Kia ora Marty

Please find attached a response to your OIA request of 23rd January 2023.

Kind regards



Bhavika Jeram | Private Secretary (Forestry)

Office of Hon Stuart Nash

Minister for Economic Development | Minister of Forestry | Minister for Oceans and Fisheries

Private Bag 18041 | Parliament Buildings | Wellington 6160

Bhavika.Jeram@parliament.govt.nz



To: Hon Stuart Nash, Minister of Forestry

From: Jason Wilson, Deputy Director-General Te Uru Rākau – New Zealand Forest Service

Budget 2022: Response to Minister of Finance regarding initiatives for Climate Emergency Response Fund

Date	17 September 2021	Reference	B21-0562
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Decision required	Date decision required by
YES <input checked="" type="checkbox"/> / NO <input type="checkbox"/>	22 September 2021

Recommendations
<p>Note that the Minister of Finance wrote to you on 31 August 2021 outlining the process for Budget 2022 and inviting you to identify any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.</p>
<p>Note that we have identified a number of forestry initiatives that support the commitments that may be made as part of the Emissions Reduction Plan, and likely funding required, for you to consider.</p>
<p>Note that we have provided suggested wording relating to Vote Forestry initiatives for your response to the Minister of Finance request, which is required to be sent by 23 September.</p>
<p>Note that other Vote Forestry initiatives for Budget 2022 are being progressed through a separate stream as part of the Natural Resources Cluster.</p>
<p>Note that formal submission of initiatives for Budget 2022 will be made on invitation only by Minister of Finance, expected to be received in October.</p>
<p>Agree to include the five Vote Forestry initiatives outlined in this paper in your response to the Minister of Finance on candidates for the Climate Emergency Response Fund.</p>

Contacts for telephone discussion (if required)			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input checked="" type="checkbox"/>

Debbie Ward	Director Business and Spatial Intelligence	9(2)(a)	<input type="checkbox"/>
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Key messages

We have developed five initiatives for Vote Forestry which meet the criteria for consideration for the Climate Emergency Response Fund as part of Budget 2022.

These initiatives cover the many ways in which forestry and wood products will contribute to the transition to a low emissions economy, and the longer-term wellbeing of New Zealanders. They relate to: increasing the rate of native afforestation; supporting production of biofuels and biomaterials, and ensuring adequate supply of woody biomass; and changes to accurately account for carbon stored in forests and wood products which will incentivise increased sequestration.

We would welcome the opportunity to discuss these initiatives with you before you finalise your response to the Minister of Finance (due by 23 September).

Background

1. Budget 2022 strategy has been agreed and will have a particular focus on addressing future issues such as climate change. The Minister of Finance has strong ambitions for what can be achieved in this fourth Wellbeing Budget, and has signalled the opportunity to implement reforms to address long-term challenges facing New Zealanders.
2. Vote Forestry initiatives will be submitted via two streams:
 - a) Climate-related initiatives will be put forward to be considered for the Climate Emergency Response Fund (CERF), within the **Addressing long-term challenges through multi-year funding** stream.
 - b) Other initiatives, including new policy initiatives and cost pressures, will be put forward as part of the Natural Resources Cluster within the **Public Finance System Modernisation** stream.
3. The Minister of Finance has requested you to advise him of climate-related initiatives you wish to be considered as potential candidates to the CERF, by 23 September. This briefing outlines the Vote Forestry initiatives proposed to be considered and suggests wording to be included in your response (we understand you intend to submit a single letter including initiatives from all your portfolios).

Criteria for consideration for CERF

4. An initiative is eligible to be considered for CERF if it:
 - a) is included in the Emissions Reduction Plan;
 - b) will directly reduce emissions;
 - c) has as a primary objective to support, remove barriers to, or accelerate emissions reductions;
 - d) will support an ao Maori approach to climate response;
 - e) will facilitate the development of such proposals in the future (such as feasibility studies or business cases for such initiatives); or
 - f) addresses the distributional impacts of emissions reduction policy.

Initiatives proposed for inclusion in your response

5. This Budget presents an opportunity for New Zealand to unlock the full potential of our forests to support both the Government's climate change response and the longer-term wellbeing of New Zealanders. In the future forests will not only capture carbon (in both the medium and longer term), but will also provide ecosystem services and produce high-value timber products, novel bio-products, and bioenergy as part of a low emissions economy.
6. We have developed five initiatives for you to consider proposing for inclusion in the CERF. Together they aim to maximise the climate change contribution from across the forest estate – existing and new forests, both exotic and indigenous – and across the value chain from planting through to harvest, processing and export.
7. The initiatives are:

Title	Includes:	Current indicative costs over 4 years
Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials	<i>Measures to directly increase the supply of woody biomass, including through increasing usable residue from wood harvesting, and investing with landowners (including Māori) to support short rotation energy crops.</i>	Opex: \$60m Capex: \$68m
Increasing domestic processing to grow the supply of woody biomass, replacing carbon intensive fuels and materials	9(2)(f)(iv)	
Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies		

Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity	<i>The first stage of a long-term programme to significantly expand the establishment of native forests through planting and regeneration. This initiative focuses on addressing immediate barriers to supply and laying the foundations for future measures to address demand</i>	Opex: \$154m
Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts	<i>Initiatives to accurately account for and potentially increase the carbon stored in existing forests and wood products – this will ensure their full contribution towards New Zealand's climate change targets can be recognised in the National Greenhouse Gas Inventory.</i>	Opex: \$115m Capex: 4m

Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials

8. Woody biomass is a critical component to decarbonisation. The substitution of coal with woody biomass in boilers and increased demand for other biofuels and biomaterials derived from wood are highlighted in the Emissions Reduction Plan (ERP). Current projections show New Zealand will face shortages of woody biomass by 2030 unless action is taken now to stimulate further supply. This will hinder the ongoing growth and innovation in the bioeconomy, slowing the transition to lower emissions.
9. This initiative includes:
 - a) funding or investment (e.g. asset ownership) for supporting the establishment of short rotation energy crops, with a particular focus on working with Māori landowners;
 - b) research and advisory services to support decision-making on appropriate new crop types, including developing a forecasting model for supply and demand; and
 - c) measures to drive increased utilisation of harvesting by-products to support decarbonisation, including research on forest slash recovery methods and technologies.
10. This bid is for \$60 million opex, \$68 million capex over four years. Of this amount, \$45 million opex and all the capital relates to non-departmental costs associated with direct investment options for planting short rotation energy crops (for costing purposes, currently assumed through a Crown Forestry joint venture, at 5,000 hectares per annum from 2023/24).

Increasing domestic processing residues to grow woody biomass supply, replacing carbon intensive fuels and materials

11. Increasing domestic wood processing increases the availability of woody biomass and residues to support substitution of fossil fuels and carbon intensive materials. It also increases the availability of wood-based materials for replacing carbon intensive materials (e.g. steel and concrete). This funding will provide incentives and mechanisms to attract increased investment in assets that reduce emissions or enable emissions reduction. This will increase the added value from wood processing in New Zealand in terms of both product and emissions reduction, and reduce the extent to which logs (and the residues within) are exported.

12. This initiative includes:

9(2)(f)(iv)

- b) pruning incentives (assumed at \$3 million per annum from 2023/24) to increase future supply of clear timber so that high value wood products continue to be made in New Zealand; and
- c) funding to develop better market transparency and other instruments to reduce barriers to investment in value-add wood products.

9(2)(f)(iv)

Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies

14. Demonstrating the feasibility of delivering or scaling up technologies will de-risk further investment and spur ongoing innovation in New Zealand's bioeconomy, contributing to the reduction in gross emissions.

9(2)(g)(i), 9(2)(f)(iv)

9(2)(f)(iv)

- b) Establishing an investment fund to support industry to prove or scale up infrastructure/processing to deliver wood-derived biofuels and/or biomaterials. This fund would build to a level of \$100 million per annum, providing sufficient scale to support private investors to accept the risks involved in scaling up these new technologies.
16. This bid is for \$15 million opex, \$210 million capex over four years. We are engaging with other agencies to assess whether funding proposed for the (co)investment fund could be sourced through existing established investment initiatives such as the Green Investment Fund; however, equally this fund could be managed by the Te Uru Rākau - New Zealand Forest Service through the Grants and Partnerships team.

Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity

17. The Climate Change Commission recommended the government establish a long-term carbon sink to offset emissions from hard-to-abate sectors, through a comprehensive national programme to incentivise the reversion and planting of new native forests to maintain net zero long-lived greenhouse gas emissions beyond 2050. Approximately 8,000 hectares of native afforestation occurred in the year to June 2021, with around 4,000 hectares estimated for 2022, and a projection for around 2,500 hectares annually going forward once all One Billion Trees-funded forests have been established. The Climate Change Commission advice provides a number of pathways to meeting our targets; their demonstration pathway requires increasing native afforestation to 16,000 hectares by 2025 and to 25,000 hectares by 2031.
18. Government investment can support this significant scale-up by reducing costs of establishing and managing native forests to better encourage private sector investment.
19. This Budget initiative sets out initial investments to kick start a work programme to drive significant, sustainable growth in the rate of native forest establishment. It responds directly to the Climate Change Commission's recommendation and reflects proposals in the draft ERP.

20. The focus for Budget 2022 is:
- a) Addressing immediate barriers to increased afforestation – primarily working with nurseries on ways to innovate to reduce cost and increase future supply of native seedlings, currently a significant limiting factor to increased planting. Given the two to three years it takes native seedlings to be ready for planting, without increasing nursery capacity in the short term increased planting in future years will not be possible.
 - b) Piloting innovative models to sustainably fund and deliver native afforestation in partnership with third parties.
 - c) Establishing the longer-term programme, working in partnership with the sector, iwi/Māori, councils, and communities, including research and advisory work with landowners. Some of this could be delivered through the Planning and Advisory Service (see below).
21. This bid is for \$154 million opex over four years. Of this amount \$119 million is to develop, fund and deliver innovative solutions, including to increase supply of seedlings and lower the costs of native afforestation. Examples could include projects and new technologies that increase native seedling production, improve survival rates for native trees and lower the costs of planting and management.
22. We propose to develop a further initiative for Budget 2023 to address the remaining supply issues (including workforce) as well as the demand side incentives which will be necessary to scale up afforestation at the scale required. This could include direct incentives such as co-funding the costs of establishing native forests, or increasing incentives through changes to regulatory settings (such as Emissions Trading Scheme (ETS) changes¹). Further work is required to determine the most effective scale and scope of these future components of the national programme. This initiative and the ongoing work are being developed in consultation with the Ministry for the Environment and the Department of Conservation.

Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts

23. This initiative will support the ERP by ensuring the contribution of existing forests and wood products are fully and accurately recognised. This will ensure the full recognition of progress towards realising carbon sequestration goals, and provide appropriate incentives to foresters, wood processors and ETS participants to realise maximum end-to-end sequestration.

¹ Note that work on carbon look-up tables, for which funding is being sought in a separate initiative, is expected to also contribute to realising the objective of increasing native afforestation.

24. The initiative includes:

- a) Updating and expanding the coverage of the carbon look-up tables used to calculate carbon stored in different forest types within the ETS.
- b) Investigating options for maximising the carbon stored in forests planted before 1990. These include more than one million hectares of exotic forests, and millions more hectares of reverting land which is unproductive for animals. Advances in forest genetics since the 1990s, plus better forest management practices, have likely increased sequestration of pre-1990 forests; research suggests such exotic forests may now be sequestering up to 30 percent more carbon than they did at 1990. We currently lack the methodologies and knowledge to fully recognise this contribution in our national inventory and report it internationally against our targets. Exploring this opportunity could also take pressure off afforesting 'green field' areas and have co-benefits such as increased biodiversity through pest management.

c) 9(2)(f)(iv) [Redacted text block]

25. This bid is for \$115 million opex and \$4 million capex over four years. Of this, \$90 million opex (\$30 million per annum from 2023/24) is to establish a fund which will support incentivising the increased sequestration of carbon in harvested wood products by wood processors investing in increased domestic capacity. The remaining \$25 million opex over four years is to undertake the research necessary to update the sequestration rates in both native and exotic forests, in order to ensure we are fully recognising the carbon currently being stored in New Zealand's forest estates.

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Initiatives being progressed through the cluster process

26. A number of other Forestry initiatives are cost pressures, which are required to be considered through the Natural Resource Cluster process. These potential cluster initiatives include:
- a) **Plantation forestry advice to deliver environmental standards** – working with Councils to deliver their functions under the new legislation.
 - b) **Forest Market Assurance Programme** – implementing the new legislative requirements relating to log trader registration and legality assurance.
 - c) **Planning and Advisory Service baseline funding** – addressing the issue of time-limited funding for the new service being established, which currently ends in 2025/26.
27. Note that the native afforestation initiative being proposed for consideration as part of CERF includes provision for increasing advisory support to stakeholders, including landowners, councils and nurseries. If this initiative is successful it would result in expansion of the operations of the Planning and Advisory Service. (The amount being requested across CERF bids for additional advisory activity is \$2 million in 2022/23 increasing to \$3.5 million per annum ongoing once fully scaled up. Some of this funding may be used to train advisors, as well as increase FTEs.)

Next Steps

28. The Minister of Finance has indicated the following process:
- a) Your response to the Minister of Finance regarding potential climate-related initiatives is due by 23 September.
 - b) Formal submission of initiatives for consideration as candidates for the Climate Emergency Response Fund will be by invitation from the Minister of Finance, which is expected to be received in October.
 - c) Other Vote Forestry initiatives, including cost pressures, will be considered through the cluster process as part of the Natural Resources Cluster. Cluster Ministers are due to meet on 21 October to consider potential packages and initiatives.
 - d) Final submission of initiatives agreed to be considered as part of Budget 2022 will be required by 10 December.

Advice to Minister of Finance

29. Suggested wording for you to respond to the Minister of Finance is provided in Appendix One.

Recommendations

1. It is recommended that you:

- a) **Note** that the Minister of Finance wrote to you on 31 August 2021 outlining the process for Budget 2022 and inviting you to identify any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.

NOTED

- b) **Note** that we have identified a number of forestry initiatives that support the commitments that may be made as part of the Emissions Reduction Plan, and likely funding required, for you to consider.

NOTED

- c) **Note** that we have provided suggested wording relating to Vote Forestry initiatives for your response to the Minister of Finance request, which is required to be sent by 23 September.

NOTED

- d) **Note** that other Vote Forestry initiatives for Budget 2022 are being progressed through a separate stream as part of the Natural Resources Cluster.

NOTED

- e) **Note** that formal submission of initiatives for Budget 2022 will be made on invitation only by Minister of Finance, expected to be received in October.

NOTED

- f) **Agree** to include the five Vote Forestry initiatives outlined in this paper in your response to the Minister of Finance on candidates for the Climate Emergency Response Fund.

YES / NO



Jason Wilson
Deputy Director-General
Te Uru Rākau – New Zealand Forest Service

Hon Stuart Nash
Minister of Forestry

/ / 2020

Minister's comments

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Appendix One: Suggested Vote Forestry content for letter to Minister of Finance

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B21-0562

Hon Grant Robertson
Minister of Finance
WELLINGTON, 6160

Dear Grant

Thank you for your letter of 31 August, outlining the process for Budget 2022. You have asked that I respond with detail on:

- any manifesto commitments and cost pressures that need to be funded as part of Budget 22 in my non-cluster portfolio(s), and
- any climate-related initiatives that may be considered as candidates for the Climate Emergency Response Fund.

Vote Forestry: climate-related initiatives

This Budget presents an opportunity for us to unlock the full potential of our forests to support both our climate change response and the longer-term wellbeing of New Zealanders. Forests are key to the future response to reducing emissions, our forests will not only capture carbon (in both the medium and longer term), but will also provide ecosystem services and produce high-value timber products, novel bio-products and bioenergy as part of a low emissions economy. Forests are a significant part of the Māori economy, and play an important role in te ao Māori.

The initiatives I am putting forward for consideration in Budget 2022 represent an integrated package aiming to maximise the climate change contribution from across the forest estate – existing and new forests, both exotic and indigenous – and across the value chain from planting through to harvest, processing and export. These initiatives all link to initiatives within the Emission Reduction Plan and directly deliver or facilitate emission reductions or increased carbon sequestration. Increasing the carbon stored in our forest will be vital to reach our targets, while increased the supply of woody biomass is a critical component to decarbonisation of the economy by replacing high-emitting fuels like coal.

The table below sets out the initiatives I am proposing to be considered as part of the **Addressing long-term challenges through multi-year funding: Climate Emergency Response Fund** stream:

Title	Current estimated costs over 4 years
<p>Filling future gaps in forest-based woody biomass supply, to replace coal and other carbon intensive fuels and materials</p> <p><i>Projections show there is insufficient supply of woody biomass in 10 to 15 years to meet the recommendations in the ERP. This bid includes measures to directly increase the supply of woody biomass, including through investing with landowners (including Māori) to support short rotation energy crops.</i></p>	<p>Opex: \$60m Capex: \$68m</p>

<p>Increasing domestic processing to grow woody biomass supply, replacing carbon intensive fuels and materials</p> <p>9(2)(f)(iv)</p>	<p>9(2)(f)(iv)</p>
<p>Accelerating the transition to the bioeconomy through commercialisation and adoption of new technologies</p> <p>9(2)(f)(iv)</p>	
<p>Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity</p> <p><i>The first stage of a long-term programme to significantly expand the establishment of native forests through planting and regeneration. This initiative focuses on addressing immediate barriers to supply and laying the foundations for future measures to address demand</i></p>	<p>Opex: \$154m</p>
<p>Maximising and incentivising the contribution from existing forests and wood products to New Zealand’s carbon accounts</p> <p><i>Initiatives to accurately account for and potentially increase the carbon stored in existing forests and wood products – this will ensure their full contribution towards New Zealand’s climate change targets can be recognised in the National Greenhouse Gas Inventory.</i></p>	<p>Opex: \$115m Capex: 4m</p>

I am confident that these initiatives will make a significant contribution to both the Government’s climate change and broader wellbeing goals and help address the long-term challenges facing New Zealanders.

Yours sincerely

Hon Stuart Nash
Minister of Forestry



To: Hon Stuart Nash, Minister of Forestry

From: Jason Wilson, Deputy Director-General Te Uru Rākau – New Zealand Forest Service

Update on Budget 2022

Date	26 November 2021	Reference	Update on Budget 2022
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Contacts			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input type="checkbox"/>
Debbie Ward	Director, Business and Spatial Intelligence		<input checked="" type="checkbox"/>

Purpose

- This aide memoire updates you on the Budget 2022 initiatives being prepared by Te Uru Rākau – New Zealand Forest Service, ahead of discussion at your meeting with officials on Monday 29 November.

Background

- Te Uru Rākau – New Zealand Forest Service is preparing five initiatives relating to forestry and wood processing for submission to the Budget 2022 process, through both the Climate Emergency Response Fund (CERF) and the Natural Resource Cluster (NRC) streams:

Budget stream	Initiative
CERF	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials
CERF	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity
CERF	Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts
NRC	Forestry Advisory Services (within broader Integrated Primary Sector Advisory Services bid)
NRC	Forestry and Wood Processing Industry Transformation Plan (ITP) Contingency (within broader 'Catalysing Industry Transformation' bid)

2. The attached A3 sets out the current scale and scope of these initiatives, for both the preferred level of funding being sought, and the scaled options we propose to include within the initiatives as per Treasury requirements.
3. Please note the initiatives are still being finalised and the figures may change over the next few days. We expect to be able to provide you with the final funding requests by the end of next week. The bids are due to be submitted to Treasury on Friday 10 December.
4. Next Friday we will provide you with the final proposed titles and descriptions for approval (these are the proposed 'public facing' elements of the template to be included in Budget communication material¹). We will also provide you with a draft letter of submission which is required to accompany the bids.
5. At our meeting on Monday we would welcome the opportunity to discuss the initiatives and your level of comfort with both the content and proposed scaled options. We would also like your guidance on the relative prioritisation of these bids to support engagement with other agencies as the CERF and NRC processes progress over the next two weeks. Below are key relevant points relating to each bid, which you may wish to discuss.

Initiative-specific points to note

Initiative (short title)	Notes
Woody biomass supply	<ul style="list-style-type: none"> • This bid includes a number of components intended to address the projected shortfall in woody biomass supply to meet the growing demand as New Zealand moves to a low emissions economy. • These components contribute both directly (through the Crown planting additional trees) and indirectly (through exploring and incentivising the cost effective use of by-products from commercial harvesting and wood processing)
Native afforestation	<ul style="list-style-type: none"> • A significant component of this bid is a proposal to establish a Crown-owned propagation facility using modern automated technology to generate low-cost native seedlings at scale. This proposal has not yet been tested with the nursery sector or iwi/Māori. Our intention would be to engage with these stakeholders as we prepare a detailed business case for the facility in 2022/23. • Given the scale of the increased planting required to deliver the Climate Change Commission's demonstration pathway, we believe this facility will not crowd out private nurseries and they will also need to scale up to meet increasing demand in out-years. Further, we propose that in time the facility should move into sector ownership. The optimal pathway for this will also be explored in the business case.

¹ They are also subject to strict length requirements.

Initiative (short title)	Notes
Maximising carbon sequestration	<ul style="list-style-type: none"> • This bid includes updating and extending carbon look-up tables as well as a significant proposal to incentivise increased sequestration through increasing processing of logs into longer-lived, high value wood products. • We are working with the Ministry for the Environment (MfE) and the Department of Conservation (DOC) to expand the scope of this bid to a joined-up overarching “Maximising Natural Carbon Sequestration” initiative. This will amalgamate two CERF bids and one from NRC, responding to the Minister of Finance’s request to reduce the overall number of bids. • Officials are working urgently to clarify the final shape of the bid. Currently the DOC and MfE preferred options total \$35m and \$22m respectively, making the total bid \$115.3m opex, \$94m capex. We expect the opex requirement to reduce as overlaps and duplication is removed, and we jointly prioritise the research programme. • You will be the lead Minister on the joint bid and submit the initiative. We are working through the process for ensuring all three Ministers have appropriate oversight as the bid is finalised.
Forestry Advisory Services	<ul style="list-style-type: none"> • You have previously been briefed on this initiative. We understand there is increasing pressure to reduce the “low” option, which is currently little more than meeting the funding cliff pressure for the new service.
Forestry & Wood Processing ITP contingency	<ul style="list-style-type: none"> • You have recently been briefed on the proposal to include the F&WP ITP contingency in MPI’s broader NRC initiative, alongside contingencies for the Fisheries and Food and Beverage ITPs. • We have not had definitive guidance regarding this approach, but are proceeding on the assumption that this will occur and incorporating funding for F&WP on the same scale as that being sought for the other two ITPs.

Minister / Minister’s Office

Seen / Referred

/ / 2021

Minister's comments

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Budget 2022: TUR-NZFS Budget package

Updated: 25 November 2021

Initiative	As invited	Preferred	Funding sought:			Comment
			High	Med	Low	
Initiatives						
CERF: Woody biomass supply	OPEX (\$m) CAPEX (\$m)	\$35.365 \$44.865				Bid includes Crown planting forests to ensure biomass supply, research into cost effective slash recovery, developing a pruning incentive, and a number of other related components
CERF: Native Afforestation	OPEX (\$m) CAPEX (\$m)	\$76.898 \$93.850				Includes proposal to establish a Crown-owned propagation facility to deliver lower cost native seedlings at scale, and research/other work to deliver long term programme (and B23 bid)
CERF: Maximising carbon sequestration*	OPEX (\$m) CAPEX (\$m)	\$58.303 \$94.000				Bid includes lookup tables work and 9(2)(iv). Bid now joint with DOC and MFE - these costings for TUR-NZFS components only
TOTAL CERF	OPEX (\$m) CAPEX (\$m) Total (\$m)	\$170.567 \$232.715 \$403.282				
NRC: Forest Advisory Service*	OPEX (\$m) CAPEX (\$m)	\$27.640 \$0.325				Costings unchanged since briefing earlier this week
NRC: F&WP ITP contingency**	OPEX (\$m) CAPEX (\$m)	\$50.000 \$0.000				Costings prepared on basis that this contingency will be included within NRC combined bid, at same amount as (currently) the other two MPI contingencies
TOTAL ALL BIDS	OPEX (\$m) CAPEX (\$m)	\$418.774 \$465.755				

CERF bids required to provide preferred and "minimum viable" scaled options; NRC bids to provide high - medium - low

*TUR component of larger bid

**Not yet confirmed for inclusion in NRC as part of Combined contingency with Fisheries and Food & Beverage

Detailed commentary for initiatives

Increasing supply of woody biomass		"MVP" Option	
9(2)(iv)		Preferred option	Funding difference/impact
Total funding			
Operating \$m			
Capital \$m			
Te Urū Rākau - CERF Bids			

BUDGET SENSITIVE



Native Afforestation - addressing immediate supply barriers

Total funding	Preferred option					"MVP" Option				
	2022/23	2023/24	2024/25	2025/26	2026/27	2022/23	2023/24	2024/25	2025/26	2026/27
Operating \$m	\$9.641	\$18.922	\$22.402	\$25.934	\$20.235	\$9.127	\$14.813	\$16.723	\$20.235	\$15.680
Capital \$m	\$11.050	\$35.400	\$42.400	\$5.000	\$0.000	\$10.750	\$32.200	\$37.400	\$0.000	-\$5.000
	Funding difference/Impact -\$16.0m - OPEX 4 Yr Total -\$13.5m - CAPEX 4 Yr Total					Funding difference/Impact -\$16.0m - OPEX 4 Yr Total -\$13.5m - CAPEX 4 Yr Total				

Includes funding for:

- A Crown-owned propagation facility using modern automated technology to produce lower cost native seedlings at scale to supply the nursery sector. In time would look to devolve ownership in part or full to nursery sector. (\$28.4m opex, \$78.9m capex).
- Engagement with the nursery sector and iwi to identify and address barriers to successful low-cost native plant propagation, including through direct support as well as leveraging propagation facility (\$5.5m opex, \$12.5m capex)
- Operational and scientific research to support innovation in all aspects of native plant propagation, planting and supporting reversion, including testing extension of learnings from production forestry to native afforestation; with a specific component focusing on supporting landowners and regional councils (total \$29.9m opex)
- Developing a long term work programme and supporting business case, informed by engagement with broad range of stakeholders and using a co-design approach with iwi/Māori - to inform future Budget bid on incentives to drive increased native afforestation rates. (\$7.8m opex)
- Some funding for infrastructure and tools to support extension of advisory services to landowners, councils, iwi/Māori and nurseries; and for workforce development (\$5.3m opex, \$2.5m capex)

Impact and Risk:

- Once operating at full capacity, the propagation facility is expected to deliver up to 25 million seedlings per year, equivalent to planting 12,000 ha. This compares with just 8,000 ha of native trees being planted at the peak of 1BT - and still represents just 50% of the 25,000ha annual afforestation required to meet the CCC target.
- The work to deliver the longer term programme is also a priority and largely unscaled. This will be a long-term, complex programme requiring the engagement and support of multiple stakeholders including communities, NGOs, iwi/Māori, councils and rural landowners if it is to succeed; which requires engagement and co-design of the programme. Reducing the level of funding further will risk losing support from these key stakeholders, with potential severe risk to successful long term delivery.
- Given the relatively low level of research into native forests compared with production forests, and the scale of the afforestation challenge, reducing research funding risks slowing the innovation needed to successfully lift afforestation rates
- Given the focus on supply in this bid, further investment in future Budget(s) on incentives to lift afforestation rates will be needed - within the next year or two - to maximise impact and prevent a 'boom-bust' cycle for the native plant industry.

Maximising carbon sequestration (Joint bid with DOC and MfE) - THIS TABLE SHOWS TUR-NZFS COMPONENTS ONLY

Total funding	Preferred option					"MVP" Option				
	2022/23	2023/24	2024/25	2025/26	2026/27	2022/23	2023/24	2024/25	2025/26	2026/27
Operating \$m	\$4.074	\$20.996	\$18.671	\$14.562	\$8.112	\$3.467	\$15.466	\$12.171	\$8.112	-\$6.450
Capital \$m	\$0.000	\$40.000	\$52.000	\$2.000	\$2.000	\$0.000	\$20.000	\$27.000	\$2.000	-\$25.000
	Funding difference/Impact \$58.3m - OPEX 4 Yr Total \$94.0m - CAPEX 4 Yr Total					Funding difference/Impact -\$19.1m - OPEX 4 Yr Total -\$45.0m - CAPEX 4 Yr Total				

Includes funding for:

- 4 year programme to update and expand scope of ETS lookup tables, from research through to regulatory implementation, across a range of tree species and different silviculture/management regimes (\$18.4m opex, \$4m capex)
- Co-investment and provision of loans and equity finance to stimulate and accelerate investment in additional wood processing capacity to recognise carbon stored in wood products (\$38.7m opex, \$90m capex (loans/equity)). Estimated to save 15.5MT CO2-e by 2050, avoids \$231m in carbon liability between 2025 and 2050 and \$1bn by 2080. Generates significant business investment, employment and value add benefits that compound over time.
- Explore options to recognise improved sequestration in P90 forests through bespoke lookup tables (drawing data from ETS look up table data) and interventions (\$1.2m opex over 2 years; once methodology established, operation would be funded by the private sector).

Impact and Risk:

- There is no impact for the lookup table work as this is maintained.
- Wood processing scaling reduces output by 1m cubic metres of logs. This could increase future Crown carbon liability and correspondingly reduce benefits associated with increased investment, employment and value add.
- Lookup tables work remains unchanged (for the TUR elements - as the bid evolves, this research may become more scalable if it expands to include non-ETS components)
- Wood processing scaled to stimulate and accelerate processing of 1m cubic metres of logs. This is the minimum level of incentives likely to have some impact on investment decisions and achieve the Government's objectives for industry transformation.
- Work on sequestration in P90 forests is reduced to initial work to confirm the feasibility and cost effectiveness of developing a mechanism

NB DOC and MfE preferred options currently total \$35m and \$22m respectively, making the total bid \$115.3m opex, \$94m capex.



Forestry Advisory Services

Total funding	High				Medium				Low			
	\$27.6m – OPEX 4 Yr Total \$0.3m – CAPEX 4 Yr Total				\$20.7m – OPEX 4 Yr Total \$0.2m – CAPEX 4 Yr Total				\$16.9m – OPEX 4 Yr Total \$0.1m – CAPEX 4 Yr Total			
Operating \$m	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
Capital \$m	\$2.639	\$5.409	\$5.904	\$13.688	\$2.689	\$3.529	\$3.936	\$10.562	\$2.688	\$3.240	\$1.889	\$9.091
	\$0.130	\$0.065	\$0.065	\$0.065	\$0.130	\$0.000	\$0.065	\$0.000	\$0.065	\$0.000	\$0.000	\$0.000

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services. Service will complement and work through existing/other advisory services to achieve reach, while delivering more specialised/targeted support where required, so landowners receive integrated, well-informed advice.
- Targeted extension into three new areas to support climate-related work: nursery capability and capacity to deliver ambitious native afforestation goals; improve knowledge base to deliver increased woody biomass to address gaps in future supply; and deliver advice and support to ensure regional councils can meet their regulatory obligations and undertake effective risk management, and landowners are supported to make land-use decisions relating to forestry (native and exotic) that maximise public and private benefit.
- Provides ongoing 22 regionally-based advisory staff and specialist support in addition to core services (38 FTE).

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services
- More limited targeted extension into new areas
- Provides ongoing 12 regionally-based advisory staff and specialist support in addition to core 38 FTEs.

Key risks:

- Regional councils will be less supported to provide consistent and effective advice to landowners
- Less comprehensive planning and research to support woody biomass supply initiative (being progressed through CERF)
- Reduced reach of landowner and nursery advice and support will slow achievement of objectives in other initiatives (in particular, native afforestation)

Includes funding for:

- Establishes a sustainable baseline of funding for specialist forestry planning and advisory services
- No additional advisory support for nursery sector
- Woody biomass FTEs limited to initial mapping exercise, with no ongoing dedicated support and reduced ongoing research
- Landowner and regional council support restricted to include 2 FTEs working with councils and 2 working directly with Māori advisory organisations
- Ongoing, provides a total of 4 regionally-based advisory staff in addition to core.

Key risks:

- Reduced capacity to develop new evidence-based insights to share with stakeholders
- Significant reduction in reach to landowners and regional councils, and no extension of support to nursery sector, may compromise delivery of climate change initiatives including native afforestation.

Forestry and Wood Processing ITP contingency

Total funding	High				Medium				Low			
	\$50.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total				\$30.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total				\$20.0m – OPEX 4 Yr Total \$0.0m – CAPEX 4 Yr Total			
Operating \$m	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
Capital \$m	\$5.000	\$10.000	\$10.000	\$25.000	\$5.000	\$7.500	\$7.500	\$10.000	\$5.000	\$7.500	\$5.000	\$2.500

Includes funding for:

9(2)(g)(i)

Includes funding for:





To: Hon David Parker, Minister for Oceans and Fisheries
Hon Damien O'Connor, Minister of Agriculture
Hon Stuart Nash, Minister of Forestry
From: Chris Kerr, Director Strategy & Insights

Advice for Industry Policy Ministers' Group meeting

Date	24 November 2021	Reference	AM21-0831
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Contacts			
Name	Position	Contact number	First contact
Chris Kerr	Director, Strategy & Insights, Policy and Trade	9(2)(a)	<input checked="" type="checkbox"/>
Debbie Ward	Director, Business & Spatial Intelligence, Te Uru Rākau		<input type="checkbox"/>
Emma Taylor	Director, Fisheries Management, Fisheries New Zealand		<input type="checkbox"/>

Purpose


- This aide memoire provides advice for the Industry Policy Ministers' Group (IPMG) meeting you will be attending on Thursday 25 November. Chris Kerr (Director, Strategy & Insights, Policy & Trade) and Jennie Marks (Director, Sector Investment, Te Uru Rākau) will attend from the Ministry for Primary Industries (MPI).

Key Points

- There are two agenda items for discussion at the meeting:
 - the Industry Transformation Plan (ITP) Budget package; and
 - 9(2)(f)(iv)
- The IPMG meeting agenda (**Appendix One**), ITP Budget Package paper (**Appendix Two**), 9(2)(f)(iv) are provided.

- The ITP Budget Package paper sets out the proposed budget package comprising the ITP-related initiatives that have been invited across portfolios and Budget streams, as well as their key risks and issues. It seeks Ministers' agreement to the overall ITP Budget package; and to a unified narrative to be incorporated into Budget letters.
- The paper also invites lead Ministers to consider the funding amounts sought through the Natural Resources Cluster (NRC) or Climate Emergency Response Fund (CERF) processes for the Food and Beverage, Fisheries and Forestry and Wood Processing ITPs.

- 9(2)(g)(i)

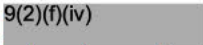


9(2)(f)(iv)



Agreeing the ITP Budget Package

Overview of ITP Budget Package and suggested Budget 22 narrative

1. The total sought across the ITP Budget 22 package is \$506.8 million ^{9(2)(f)(iv)} . The total amounts, and phasing, of funding sought across the ITPs vary due to the differing scales, and stages of the ITPs.

2. The suggested aligned budget narrative notes that:
 - a) the ITP programme will support New Zealand to grow and diversify its economic base, supporting uptake of technology and capital that can lift productivity, improve sustainability, increase wages, and provide meaningful employment to New Zealanders in industries with a lower emissions profile; and
 - b) significant investment is required now under Budget 22 to demonstrate the Government's commitment to the ITP Programme.

Funding for Food and Beverage, Fisheries and Forestry and Wood Processing ITPs

3. The Food and Beverage and Fisheries ITPs will strengthen the performance of our food and beverage and fisheries sectors, transforming them into sustainable high-value exporters and domestic value creators, aligning with the Government's Economic Plan. They will investigate new technologies, and opportunities to increase capability, update regulation, and improve environmental performance to fuel economic growth and position New Zealand as the most sustainable provider of high-value food and primary products.
4. The Forestry and Wood Processing ITP aligns with the objectives of the CERF as well as the Government's economic development objectives. Transforming the forestry and wood processing sector will be central to delivering a successful bioeconomy and decarbonising key industrial sectors. Increasing wood processing will generate increased woody biomass for use in biofuels and biomaterials, and result in higher carbon sequestration compared with the export of raw logs (thereby improving the country's carbon accounts).
5. On 11 November IPMG Ministers agreed that MBIE officials should further develop a contingency funding proposal for a Core Budget submission for the less advanced ITPs (including Food and Beverage and Fisheries) to ensure actions under these ITPs could be progressed as they were finalised and to minimise the risk of the Food and Beverage, Fisheries, and Forestry and Wood Processing ITPs will be underfunded in comparison to those ITPs going through Core Budget.
6. Treasury subsequently advised (based on the NRC Budget Cluster Guidance that, where initiatives qualify for the NRC or CERF processes, they must seek funding through these processes rather than Core Budget. This means the Food & Beverage, Fisheries, and Forestry and Wood Processing ITP initiatives cannot be included in the proposed ITP contingency bid being developed by MBIE.
7. The paper invites lead Ministers to consider the funding amounts sought through the NRC and/or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.
8. Budget initiatives for the NRC and CERF processes are currently under development and no decisions have yet been made on overall funding packages within the NRC or CERF processes.

9. The below table sets out an indication of the funding that may be requested for the Food and Beverage and Fisheries ITPs through the NRC, and for the Forestry and Wood Processing ITP through the CERF. No funding is currently being proposed for the Food and Beverage and Fisheries ITPs in 22/23 as most of their initiatives are expected to require funding from 2023/24. However, if funding is required earlier, it may be possible to bring that funding forward.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	NRC	0.000	15.000	17.500	17.500	50.00
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.00
Forestry and Wood Processing	CERF	5.000	56.000	55.000	53.000	169.000

10. The table above differs from that in the briefing provided for the meeting, which included incorrect figures for one of the Forestry and Wood Processing ITP initiatives. These figures exclude capital funding, which is sourced from another Budget track. Bid costings are being finalised.
11. As you know, the NRC envelope is constrained and likely to be heavily absorbed by funding to address agency structural funding gaps, and existing cost pressures. If new initiatives, including the ITPs are to be funded, the 'high' funding envelope is imperative.
12. If adequate funding to resource the implementation of the Food & Beverage, Fisheries, and Forestry and Wood Processing ITPs is not obtained through the NRC and/or CERF processes, they will not be able to be implemented and will fail to deliver the transformational outcomes the Government is seeking. The next opportunity for NRC portfolios to seek funding for these ITPs won't present until Budget 2025.

The Forestry and Wood Processing ITP aligns well with the objectives of the CERF

13. Two CERF bids have been invited to seek funding for specific initiatives developed as part of the Forestry and Wood Processing ITP process, which align with this year's CERF criteria. However currently there is no funding allocated for non-emissions related initiatives within either NRC or CERF budget streams, which may slow implementation of the ITP when it is finalised early next year.

14. We understand that the Minister of Forestry may seek additional funding from within the NRC for Forestry and Wood Processing ITP initiatives that do not meet the criteria for CERF. Doing so would ensure all initiatives, including those not climate change specific, have funding avenues. This would better enable the ITP to deliver on the Government's Economic Plan. The table below sets out the full funding that would be sought for the ITP under this approach:

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Forestry and Wood Processing	CERF	5.000	56.000	55.000	53.000	169.000
	NRC	5.000	10.000	10.000	25.000	50.000

15. A third CERF bid is being prepared jointly with the Department of Conservation (DOC) and the Ministry for the Environment (MfE) relating to carbon sequestration, which includes funding for updating and expanding the scope of carbon look-up tables for Forestry ETS. (This will combine two separate CERF bids invited by the Minister of Finance, and a bid from within the NRC cluster.)

Advice for the discussion

16. We suggest that, in the meeting, you:
- discuss how best to manage the risk of including ITP packages within the NRC envelope;
 - agree to incorporate a contingency for the Forestry and Wood Processing ITP within MPI's combined ITP contingency package, of the same amount as is being sought for Fisheries and Food and Beverage; and
 - agree to incorporate the aligned ITP Budget narrative into MPI's combined ITP Budget bid.
17. Potential talking points for the discussion are set out below:
- having separate Budget processes for the Food and Beverage, Fisheries and Forestry and Wood Processing ITPs from the other ITPs creates a risk of inadequate funding being set aside for the Fisheries, Food and Beverage and Forestry and Wood Processing ITPs. Ensuring that this split does not result in these ITPs failing to be delivered is imperative;
 - it will also be important that the centralised secretariat provides support to all ITPs, and similarly that the Enabling Māori Framework provides support for Māori enterprises across all relevant sectors, including the primary industries. Not doing this risks cross-ITP cohesion and equity across sectors; and
 - maintaining a coherent narrative across all ITPs, regardless of funding process, will support the development of a cohesive package of interventions across these key areas of the economy.

9(2)(f)(iv)

Released under the Official Information Act 1982

9(2)(f)(iv)

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9(2)(f)(iv)



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Minister / Minister's Office

Seen / Referred

/ / 2021

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Agenda and Papers for the IPMG Meeting

Agenda Industry Policy Ministers Group

Date:	Thursday 25 November 2021
Time:	12:15pm-12:45pm
Location:	Zoom
Members:	Hon Stuart Nash, Minister for Economic and Regional Development (Chair), Minister of Forestry, Minister of Tourism Hon Damien O'Connor, Minister of Agriculture Hon David Clark, Minister for the Digital Economy and Communications Hon Poto Williams, Minister for Building and Construction Hon David Parker, Minister of Oceans and Fisheries
Apologies:	
Secretariat:	Industry Policy, MBIE

Agenda

Time	Item	Lead	Papers	Action sought
<i>Operational matters</i>				
5 mins	1. Welcome and apologies	Chair	None	Nil
<i>Strategic and policy matters</i>				
15 min	2. Progressing ITP initiatives in Budget 22	Chair	<i>Agreeing the ITP Budget Package</i>	<p>Note the attached paper and key risks highlighted;</p> <p>Agree to the ITP Budget Package;</p> <p>Invite Lead Ministers to consider the funding amounts sought through the NRC or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.</p> <p>Agree to the aligned narrative for the ITP Budget Package, which will be incorporated as appropriate in each Minister's Budget</p>

				letter.
9(2)(f)(iv)				
<i>Close</i>				
5 mins	Next meeting: early 2022 (date TBC)	Chair	None	Agree to reconvene in the New Year. Raise any future agenda items.

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Agenda item 2: Agreeing the ITP Budget Package

Purpose

1. The Minister of Finance sent letters to portfolio Ministers on 22 October 2022 inviting bids for a range of ITP initiatives to be considered through the Budget 22 process. Final bids for the Core Budget process are due on Friday 10 December.
2. This paper:
 - a. Provides the proposed ITP Budget package comprising all initiatives that have been invited across your portfolios and across Budget streams and seeks agreement to:
 - i. the overall package; and
 - ii. a unified narrative to be incorporated into Budget letters.
 - b. Outlines the key risks and issues that are being managed through this package.

Recommendations

3. The Ministry of Business Innovation and Employment, with support from ITP lead agencies, recommends that you:
 - a. **Note** the ITP Budget package and overarching narrative which reflects all initiatives that have been invited across your portfolios and across Budget streams;
 - b. **Agree** to the overall ITP Budget Package subject to any further technical amendments which may be required;
 - c. **Agree** to the aligned narrative for the ITP Budget Package, which will be incorporated by officials in each Minister's Budget letter;
 - d. **Note** some ITP initiatives qualify to seek funding through the Natural Resources Cluster (NRC) or Climate Emergency Relief Fund (CERF) processes of Budget 22;
 - e. **Note** that Treasury has advised that where initiatives qualify to seek funding through the NRC or CERF processes, these initiatives must seek funding through these processes rather than the Core Budget process;
 - f. **Note** that the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs all qualify to seek funding through the NRC, with the Forestry and Wood Processing ITP also qualifying to seek funding through the CERF;
 - g. **Note** that if funding to resource implementation of ITPs that qualify for the NRC or CERF processes is not obtained through these tracks, then this may present delivery risks and could require reprioritisation within agency baseline funding;
 - h. **Invite** Lead Ministers to consider the funding amounts sought through the NRC or CERF processes for the Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs.

Background

4. IPMG met on 11 November 2021 and discussed the B22 Strategy and approach. This followed invitation by the Minister of Finance for a range of ITP initiatives to be considered across portfolios and Budget streams. In this meeting Ministers agreed:

- a. that officials should develop a contingency funding proposal for Budget submission that will enable progress on ITP actions as they are finalised;
 - b. 9(2)(f)(iv)
 - c.
 - d. to reconvene in late November to discuss the ITP complete package and approach for Budget 22 to ensure alignment of messaging across all ITP bids.
5. On 22 October 2021, the Minister of Finance wrote to Ministers inviting bids for ITPs across your portfolios for consideration as part of Budget 22. In his letters of invitation, the Minister of Finance highlighted the importance of investment readiness, management of delivery risk and alignment and sequencing of initiatives across ITPs. Final bids for the initiatives to be progressed through Core Budget (and cover letters from Ministers) are due on 10 December 2021.

Overview of the ITP Budget Package

6. The total sought across the ITP Budget 22 package is 506.800 million 9(2)(f)(iv)
7. This funding is set out below apportioned by ITP. A line item is included for the ITP Secretariat, which includes funding for sector engagement and the Enabling Māori Framework which are critical to the partnership approach under the ITP Programme.
8. The below table includes all funding across Budget streams (Natural Resources Cluster, Core budget and the Climate Emergency Response Fund). For further detail on the components of this package and the split across Budget streams refer to Appendix One.
9. No additional funding is being sought for the Tourism ITP as existing Budget 21 funding (\$10 million through the Tourism Communities: Support, Recovery and Re-set Plan) is currently adequate to support its development.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals	New FTEs
ITP Secretariat	Core	5.900	5.800	5.800	5.800	23.300	2
Advanced Manufacturing	Core	15.000	15.000	0.000	0.000	30.000	1
		9(2)(f)(iv)					
Construction	Core	18.84	21.741	26.419		67.000	10
Digital Technologies	Core	17.23	17.03	13.43	10.23	57.920	9
Agritech	Core	8.022	10.683	6.037	6.838	32.28 ¹	0
Fisheries	NRC	0.000	15.000	17.500	17.500	50.00	4
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.00	4
	CERF	34.200	42.500	57.800	61.800	196.300	10

¹ Includes 140 capex per outyear until 30/31

Forestry and Wood Processing	NRC	0.000	0.000	0.000	0.000	0.000	0
Total 9(2)(f)(iv)		99.192	142.754	144.486	119.668	506.800	40

10. Specific initiatives are being advanced wherever possible across the package. Reflecting the varied stages of development of each ITP, and the range of interventions proposed, including regulatory change through to larger scale investments, the total amounts of funding sought across ITPs vary significantly. 9(2)(f)(iv)

Funding for Vote Agriculture, Biosecurity, Fisheries and Food Safety ITPs

11. The Forestry and Wood Processing, Fisheries, and Food and Beverage ITPs all qualify to seek funding through the NRC. A set of Forestry and Wood Processing initiatives have also been invited for the Climate Emergency Response Fund (CERF).
12. Treasury has advised that, where initiatives qualify for the NRC or CERF processes, they must use these funding processes rather than the Core Budget process. This means the only option to fund these ITPs is through the NRC or CERF processes. Funding for these ITPs cannot be included in the proposed ITP Contingency bid being prepared by MBIE.
13. No decisions have yet been made on overall funding packages within the NRC and CERF processes. The below tables set out an indication of the levels of funding that may be requested through the NRC and CERF processes for these ITPs.

ITP	Budget Stream	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	NRC	0.000	15.000	17.500	17.500	50.000
Food and Beverage	NRC	0.000	15.000	17.500	17.500	50.000
Forestry and Wood Processing	CERF	34.200	42.500	57.800	61.800	196.300
	NRC	0.000	0.000	0.000	0.000	0.000

14. The ITP Programme is a significant government priority, supporting the transformation of the economy to a high productivity, high wage, low emissions future state. We consider it is important to ensure sufficient programme implementation funding for successful delivery of each ITP within the programme. Doing so helps to demonstrate the Government's commitment to industry partners, building momentum for transformation aligned with the ambition of the programme.

15. We note that across these current funding requests:

- The Forestry and Wood Processing ITP is not seeking programme implementation funding through the NRC;
- Fisheries and Food and Beverage ITPs are not seeking funding currently under NRC for 2022/23 due to competing pressures within the NRC. These ITPs are currently at an

early-mid stage of development and most initiatives are expected to require funding from 2023/24.

16. Where implementation funding is not sought, there may be risks to delivery, or a need to reprioritise existing baseline funding to deliver against the ambition of the ITP Programme.
17. We therefore invite Lead Ministers to consider the funding requests for these ITPs through the NRC and CERF processes.

Design of the ITP tagged contingency for Vote Business, Science and Innovation ITPs

18. Vote Business, Science and Innovation ITPs which are still under development are seeking contingency funding in 2022/23 and 2023/24 to enable commitment to industry partners as ITPs are launched (Advanced Manufacturing and Agritech). This recognises the need for government to invest alongside its partners to build momentum for transformation. A failure to invest sufficiently at this early stage of the ITP Programme could undermine confidence in the government as an investment partner.
19. At the same time this contingency does not see funding beyond 2023/24. This recognises that further significant investments under these ITPs should be supported by robust standalone cases through Budget 2023.
20. The proposed ITP tagged contingency is intended to be drawn down as each ITP is launched by Cabinet, enabling implementation of agreed action plans.
21. Treasury has confirmed that if a tagged contingency is part of the final Budget package then the final design and draw down requirements of the ITP tagged contingency will be outlined in Budget recommendations by the Minister of Finance in early 2022. MBIE will continue to engage with Treasury on these recommendations as the bid is developed.

Programme FTE requirements

22. Across the package there are requests for an additional 40 FTEs, reflecting the shift from design to implementation. These resources are critical to ensure delivery against an ambitious transformation programme. Primarily they comprise programme management and commercial expertise and standing up of new substantive initiatives. The majority of the ITP Programme continues to be delivered within baseline policy resource.
23. Funding is also sought across a number of bids to retain existing fixed term FTEs, which have not been baselined².

Scaling of ITP initiatives

24. The funding sought across the ITP Budget Package is already set at a realistic level and in some instances scaling for particular outputs is not viable without significant programme implications. Within each initiative scaled options will be considered, as appropriate responding to relevant Budget guidance.
25. Scaling within the NRC package may be set at 100 / 60 / 40, while greater flexibility may be available to initiatives within the Core Budget process.

Aligned Budget 22 narrative

26. Key areas of shared narrative on the ITP Budget package are set out below:

² These existing FTEs are not included in the 40 FTE summarised in the above table.

- a. This initiative supports the transition of New Zealand towards a more productive sustainable and inclusive economy, through active investment to shift industries towards high wage, high productivity and globally competitive future states.
- b. The ITP programme will support New Zealand to grow and diversify its economic base, supporting uptake of technology and capital that can lift productivity, improve sustainability, increase wages and provide meaningful employment to New Zealanders in industries with a lower emissions profile.
- c. Significant investment is required now under Budget 22 to demonstrate the Government's commitment to the ITP Programme. This is critical to secure buy-in and co-investment from ITP partners as the ITP are launched in 2022, setting the foundations for change and for growing co-investment by industry partners overtime.
- d. This package includes significant investments including decarbonisation initiatives ^{9(2)(f)(iv)} [REDACTED]. These investments provide a strong foundation and set the tone of the government's strategic approach to investment in the economy under ITPs.
- e. The package includes resourcing which is required for delivery against an ambitious transformation programme. While the majority of the programme continues to be resourced within baseline policy resource, investment is required in programme capability and commercial expertise as the programme shifts into implementation.

Appendixes

Appendix One: Detailed ITP Budget Package

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Appendix One: Detailed ITP Budget Package

Core Budget Stream

Specific Initiatives under Core Budget

Bid title	Description	2022/23	2023/24	2024/25	2025/26	Totals
13892 – Industry Transformation Plans – Advanced Manufacturing ITP	<i>Now incorporated into 13890 –Contingency across ITPs.</i>	0.000	0.000	0.000	0.000	0.000
13894- Agritech Industry Transformation Plan- Horticulture Technology Catalyst	<i>Implementation of the Horticulture Technology Catalyst, supporting greater connection and collaboration in the horticulture technology ecosystem.</i>	3.022	5.683	6.037	6.838	22.280 ³
9(2)(f)(iv)						
13792- Implementing actions in the Digital Technologies Industry Transformation Plan	<i>Implementation of the agreed actions under the Digital Technologies ITP including the NZ tech innovation story, digital skills fund, interactive media innovation fund and ICT procurement leadership.</i>	17.23	17.03	13.43	10.23	57.920
13635 – Next Generation Transformation Plan for the Construction Sector Accord	<i>Implementation of the next generation of the Construction Sector Accord.</i>	18.84	21.741	26.419	0.000	67.000
Total specific initiatives		39.092	44.454	45.886	17.068	147.200

³ includes 0.140 capex per outyear until 30/31

Vote Business Science Innovation ITP Contingency Bid

ITP Programme Contingency	Description	2022/23	2023/24	2024/25	2025/26	Totals
Agritech	<i>To support the launch of the Agritech ITP in 2022.</i>	5.000	5.000	0.000	0.000	10.000
Advanced Manufacturing	<i>To support the launch of the Advanced Manufacturing ITP</i>	15.000	15.000	0.000	0.000	30.000
Enabling Maori Framework	<i>The Enabling Māori Framework (delivered through the Maori Innovation Fund) allows for meaningful “industry transformations” to be realised by Māori Enterprises through enabling business and Iwi to participate and create opportunities.</i>	2.500	2.500	2.500	2.500	10.000
Sector engagement and programme monitoring and evaluation	<i>Centralised funding within the ITP Secretariat for continued engagement with industry partners across the ITP Programme.</i> <i>Funding for monitoring and evaluation of the ITP Programme.</i>	2.000	2.000	2.000	2.000	8.000
MBIE ITP Programme Capability	<i>Funding for existing 4 FTEs (including 2 roles within EMF and 2 roles to support the Agritech ITP).</i> <i>Funding for an additional 3 programme management FTEs across the ITP Secretariat, and to support the Advanced Manufacturing ITP. The remainder of the ITP Secretariat and MBIE led ITPs is resourced from policy baseline.</i>	1.400	1.300	1.300	1.300	5.300
Total		25.900	25.800	5.800	5.800	63.300

Climate Emergency Response Fund

Initiative	Description	2022/23	2023/24	2024/25	2025/26	Totals
CERF Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials	<i>Costs relate to the whole bid (which may include some non-ITP related activity)</i>	4.200	12.500	27.800	31.800	76.300
CERF Maximising and incentivising the contribution from existing forests and wood products to New Zealand's carbon accounts	<i>Costs listed herein are the ITP related component only</i>	30.000	30.000	30.000	30.000	120.000
Total specific initiatives		34.200	42.500	57.800	61.800	196.300

Natural Resources Cluster

Initiative	Description	2022/23	2023/24	2024/25	2025/26	Totals
Fisheries	<i>To support the launch of the Fisheries ITP</i>	0.000	15.000	17.500	17.500	50.000
Food and Beverage	<i>To support the launch of Food and Beverage ITP</i>	0.000	15.000	17.500	17.500	50.000
Forestry and Wood Processing	<i>To support the launch of Forestry and Wood Processing ITP</i>	0.000	0.000	0.000	0.000	0.000
Total		0.000	30.000	35.000	35.000	100.000

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Appendix Three: 9(2)(f)(iv)

Appendix Three has been withheld in full pursuant to section 9(2)(f)(iv)

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To: Hon Stuart Nash, Minister of Forestry
From: Jason Wilson, Deputy Director-General, Te Uru Rākau – New Zealand Forest Service

Budget 2022: Update on process

Date	3 December 2021	Reference	AM21-0868
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Contacts			
Name	Position	Contact number	First contact
Jason Wilson	Deputy Director-General	9(2)(a)	<input type="checkbox"/>
Debbie Ward	Director Business and Spatial Intelligence		<input checked="" type="checkbox"/>

Purpose

- This aide memoire updates you on the submission of final Budget 2022 initiative information on Friday 10 December.
- As indicated last week it also includes:
 - a. the proposed wording of Forestry initiative titles and descriptions
 - b. a draft submission letter to the Minister of Finance, which must accompany the CERF bids on submission.

Update

1. Budget initiatives are due to be submitted to the Treasury over the next two weeks:
 - a) Friday 10 December – Climate Emergency Response Fund (CERF) initiatives in full, and title, description and costings for initiatives within the Natural Resource Cluster (NRC) process
 - b) Friday 17 December – NRC budget templates (ie other supporting information for initiatives in the NRC).
2. We have previously briefed you on the proposed content of the initiatives being prepared for Vote Forestry.

3. Since that time the following changes have been made (exceptions only):

Initiative (short title)	Notes
Woody biomass supply	<ul style="list-style-type: none"> 9(2)(g)(i) Additional research has been included, with a specific focus on assessing the potential of new energy crops and approaches to silviculture
Native afforestation	<ul style="list-style-type: none"> 9(2)(g)(i) An additional research element has been added, specifically to support up to three pilot programmes at catchment or landscape level to adopt a comprehensive approach to native afforestation at scale. These programmes will involve working with and include co-funding from regional councils and private sector and community stakeholders. This programme will inform future work on the strategy and action plan to drive native afforestation in the long term.
Maximising carbon sequestration	<ul style="list-style-type: none"> As noted previously, we have been working with the Ministry for the Environment (MfE) and the Department of Conservation (DOC) to expand the scope of this bid to a joined-up overarching “Maximising Natural Carbon Sequestration” initiative. This amalgamates two CERF bids and one from NRC, responding to the Minister of Finance’s request to reduce the overall number of bids. You will be the lead Minister on the joint bid and submit the initiative. This initial joining-up has now been completed and we are jointly preparing submission information. The bid total is now \$105.3m opex (of which \$29.5m is sought for other agencies), and \$94m capex.
Forestry Advisory Services	<ul style="list-style-type: none"> No significant change to content or amount
Forestry & Wood Processing ITP contingency	<ul style="list-style-type: none"> No significant change to content or amount

Proposed wording of initiative titles and descriptions

4. There is explicit Treasury guidance regarding the approach to initiative titles and descriptions, including a strict length requirement. Attached as Appendix 1 are the current proposed titles and descriptions for the three CERF and two NRC bids. We would welcome your feedback on these.

Draft submission letter to the Minister of Finance

5. The initiatives are required to be accompanied by a letter of submission, one letter for each portfolio. While the template is brief, there is an opportunity to outline the integrated nature of the bids and their joint contribution to achieving New Zealand's climate change objectives.
6. A draft letter is attached at Appendix 2 for your review.

Next steps

7. We will incorporate your feedback on the attached tables and letter for finalisation of the bids early next week.
8. There is still some discussion with other agencies to confirm and finalise content and wording of the detailed bid templates, with possibly further (expected minor) changes to the total amounts sought. We will provide an updated version of the A3 previously provided on Monday afternoon.

Minister / Minister's Office

Seen / Referred

/ / 2021

Minister's comments

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Appendix One: Proposed titles and descriptions for bids relating to Vote Forestry

Stream	Initiative title <i>(120 characters maximum)</i>	Initiative description <i>(800 characters maximum)</i>
CERF	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials	Projections show New Zealand faces woody biomass shortages by 2030, while demand is expected to rise sharply as efforts to reduce carbon emissions from fossil fuels pick up pace. Woody biomass offers the best alternative to coal and sufficient supply is critical to decarbonisation. This initiative will increase biomass supply and stimulate private sector investment to alleviate projected shortages, through Crown planting 10,000ha of short rotation energy forest, and targeted research and development. The initiative will help transform forestry and wood processing to a high-value, high wage sector. Action is needed now to close the supply gap in the 2030s and provide certainty to a developing industry which will play a critical role in the just transition to a low emissions economy.
CERF	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity	This initiative responds to the Climate Change Commission's recommendation to increase native afforestation at scale to create permanent carbon sinks to offset emissions from hard-to-abate sectors. It removes some key barriers for native afforestation by: using automated technology to increase propagation capacity and reduce costs; facilitating ongoing innovation in seed collection, propagation and forest establishment including restoration, through focused research; and establishing a long term programme by developing a national strategy and action plan in partnership with the forestry sector, iwi/Māori and communities. In addition to carbon benefits, increasing native afforestation improves biodiversity and supports wider environmental outcomes, and te ao Māori.
CERF (joint bid with MfE and DOC)	Maximising carbon storage: increasing natural sequestration to achieve New Zealand's future carbon goals	This initiative will maximise emissions benefit from forestry and other land uses, drive increased carbon storage in long-lived wood products, and quantify the mitigation potential of coastal ecosystems. It will: fund nationwide field research to link forest carbon storage to management (inside and outside the ETS); quantify the carbon impact of management in non-forest land use, soil, and coastal ecosystems; and stimulate investment in wood processing to maximise carbon stored in wood products. Together these initiatives will directly increase recorded carbon storage by more than 31 million tonnes over the period to 2030 (reducing the Crown's liability by up to \$2.1 billion), and provide the evidence base to support further increases in sequestration across the land sector and seabed.

Stream	Initiative title <i>(120 characters maximum)</i>	Initiative description <i>(800 characters maximum)</i>
NRC (joint bid with farm and Māori agribusiness)	Integrated advisory services to support more sustainable and productive land-use practices	This initiative provides funding for a permanent integrated network of support for rural land-users including establishing a permanent network of regionally-based farm advisors, expanding Māori agribusiness services, and sustaining and expanding the forestry advisory service into new parts of the sector to accelerate the adoption of more sustainable land use practices in our land based sectors that deliver improved environmental and productivity outcomes.
NRC (joint bid with other MPI ITPs)	Catalysing Transformation in the Fisheries, Food and Beverage and Forestry and Wood Processing industries	This initiative will enable the timely delivery of the key actions in the Industry Transformation Plans for the food and beverage, fisheries, and forestry and wood processing industries to bring about Government objectives under the Economic Plan. These plans are being developed in partnership with industry and Māori and will identify, and provide a plan to deliver, high impact actions to strengthen sector performance. Actions will deliver new technologies, diversification, emissions reductions, fit-for-purpose regulation, development of high-value jobs, and improved environmental performance. These will in turn fuel economic growth, including the Māori economy, and strengthen New Zealand's position as a provider of sustainable high-value food and fibre products.

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Hon Grant Robertson
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Grant

Forestry Portfolio Submission Letter for Budget 2022

I am submitting the initiatives outlined below for the Forestry portfolio for consideration as part of the Budget 2022 process.

[paragraph to be added setting out integrated approach and how much of a contribution forestry will make to realising climate change objectives through these bids]

Total amount of funding sought for this portfolio

Operating Funding Sought (\$m)	2021/22		2022/23		2023/24		2024/25		2025/26		Total
			28.257		60.118		65.479		65.832		219.686
Capital Funding Sought (\$m)	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	14.188	85.055	111.813	21.277	3.941	2.203	0.133	1.807	3.636	5.846	249.900

I confirm that you have invited me to submit the following initiatives.

Climate Emergency Response Fund

Initiative #	Title
14061	Establishing native forests at scale to develop long-term carbon sinks and improve biodiversity
14062	Maximising carbon storage: increasing natural sequestration to achieve New Zealand's future carbon goals
14057	Increasing woody biomass supply to replace coal and other carbon intensive fuels and materials

Note that Initiative 14062 includes a joint component with the Ministry for the Environment and Department of Conservation. The Minister for the Environment and Minister of Conservation have confirmed their support for this initiative.

Natural Resources Cluster – new initiatives

The total above excludes funding being sought for Vote Forestry as part of the Natural Resources Cluster (NRC) process. The submission of NRC new initiatives next week will include two further initiatives for which I am seeking funding for the Forestry portfolio, within broader initiatives:

- Integrated advisory services to support more sustainable and productive land-use practices
- Catalysing Primary Industry Transformation: delivering industry transformation plans in partnership with primary sectors

Other Budget 2022 streams

I confirm that I am not seeking any funding specifically for manifesto commitments or cost pressures related to Te Uru Rākau – New Zealand Forest Service. Cost pressures have been included within broader cost pressure initiatives being submitted for the Ministry of Primary Industries, through the Minister for Agriculture, as part of the Natural Resources Cluster process.

Yours sincerely

Hon Stuart Nash
Minister of Forestry

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