

Te Uru Rakau Forward Work Programme & 1 Billion Trees



Te Uru Rākau
Forestry New Zealand



IUFRO Extension & Knowledge Exchange Conference
Christchurch, 10 September 2018

What We'll Cover

- Some context
- Government's goals
- How we'll get there
- The forward workplan (on one slide)
- More detail on:
 - Partnerships
 - Grants
 - Direct Crown investment
 - ETS – the big policy lever

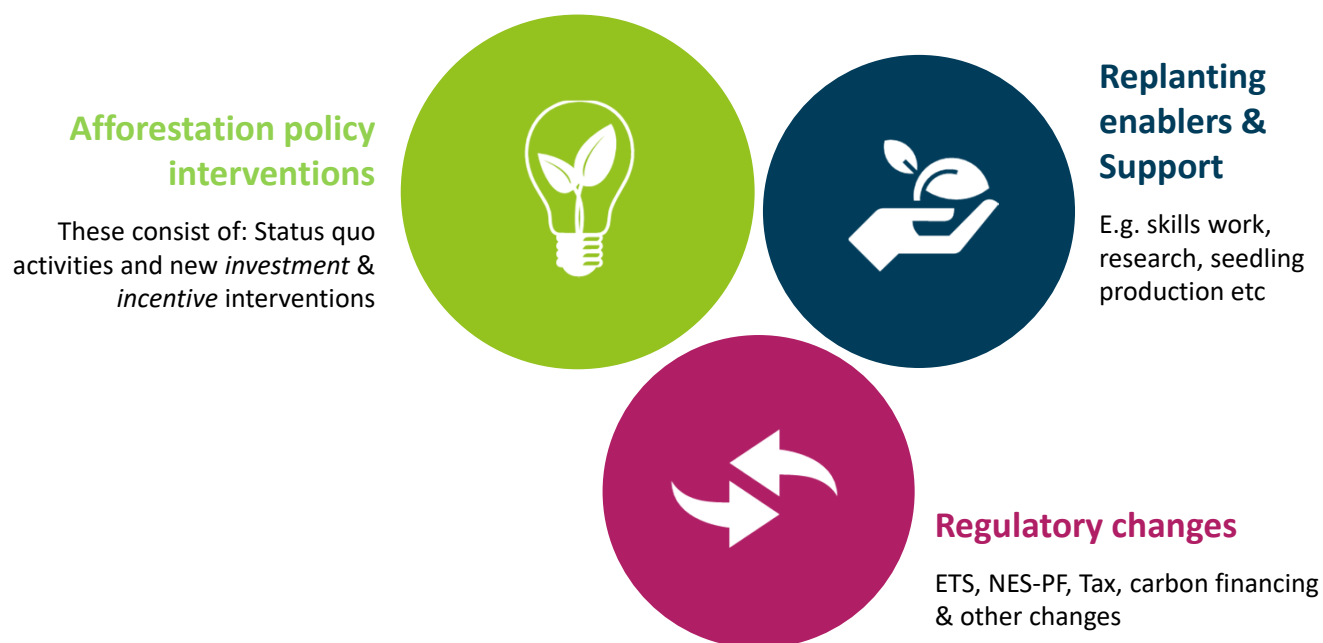
Government's Goals for Forestry

- Create one vision for all of New Zealand for forestry
 - Develop better environment and climate change outcomes for New Zealand
 - Support sector and regional productivity and value-added processing
 - Facilitate the transition to a low carbon economy.
- Support Māori cultural and economic aspirations in relation to forestry
- Maintain a stronger domestic market for wood products and security of supply for wood processors
- Build a strong, stable and reliable labour market
- Ensure a stable investment environment to provide greater investment confidence in the forestry sector

1BT Programme in a nutshell

Te Uru Rākau will work with other government entities, landowners, commercial foresters, conservation groups, regional councils, iwi, communities, and others to achieve the 1BT target.

1BT comprises 3 core elements



Roll-out of 1BT will be supported by:

-  Research (e.g. matching trees to places and purposes)
-  Science
-  Data and information
-  Labour, workforce & skills initiatives
-  Supporting Nurseries & Seedling production
-  Infrastructure
-  Investment in processing and end-use products

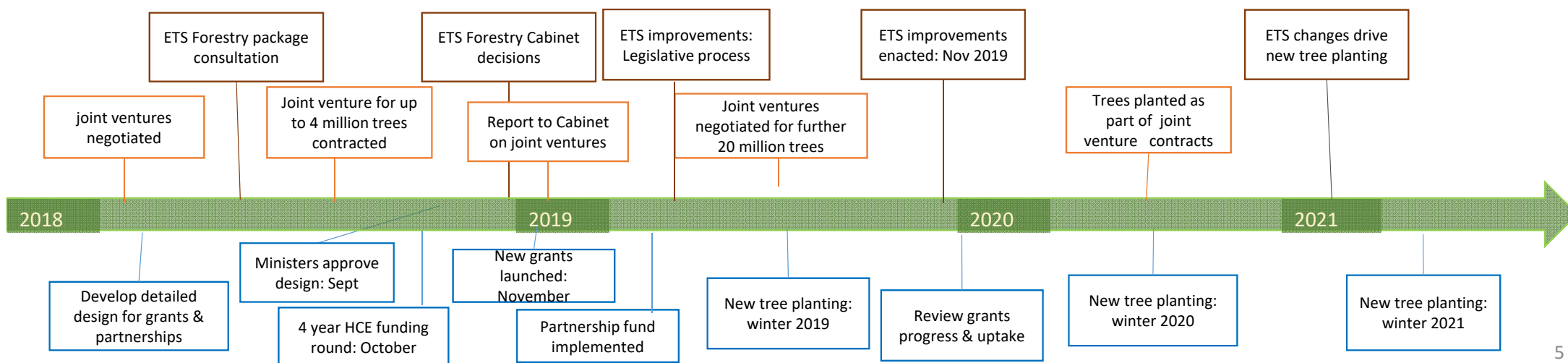
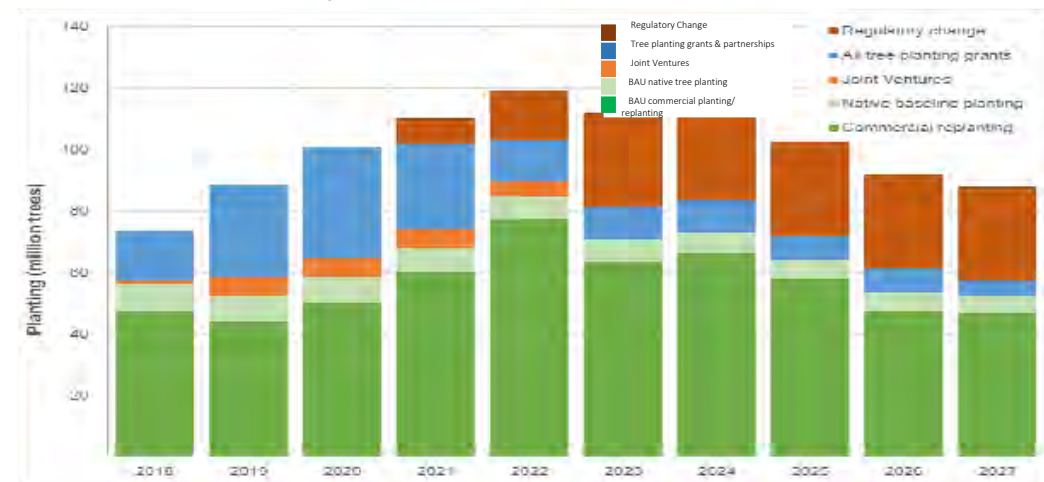


ONE BILLION TREES

One Billion Trees Programme:

- \$481 million funding, through the Provincial Growth Fund to kick start the programme, and drive tree planting over the next three years ahead of regulatory changes/ market drivers
- New flexible afforestation grants toolbox ~ 60 million trees, 2/3 natives - \$118 million over 3 years
- Partnership fund – addressing barriers to tree planting (labour, information & outreach, research, seedlings) and supporting large-scale landscape restoration - \$140 million over 3 years (includes \$21 million already allocated to PGF one billion trees projects)
- Budget 2018 funding for Hill Country Erosion scheme, commercial joint ventures for Crown Forestry to plant 24 million trees

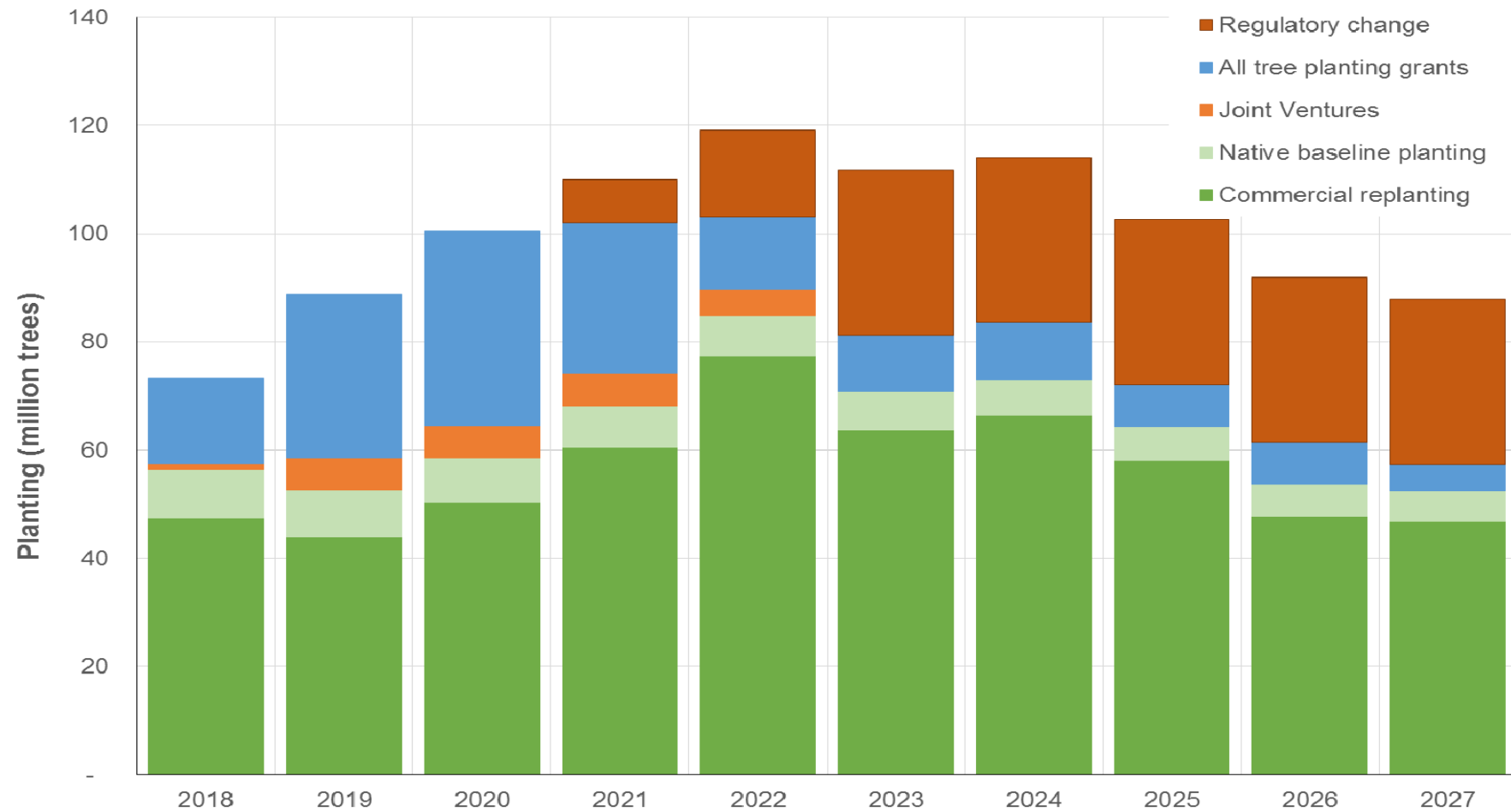
Pathway to One Billion Trees



Getting there

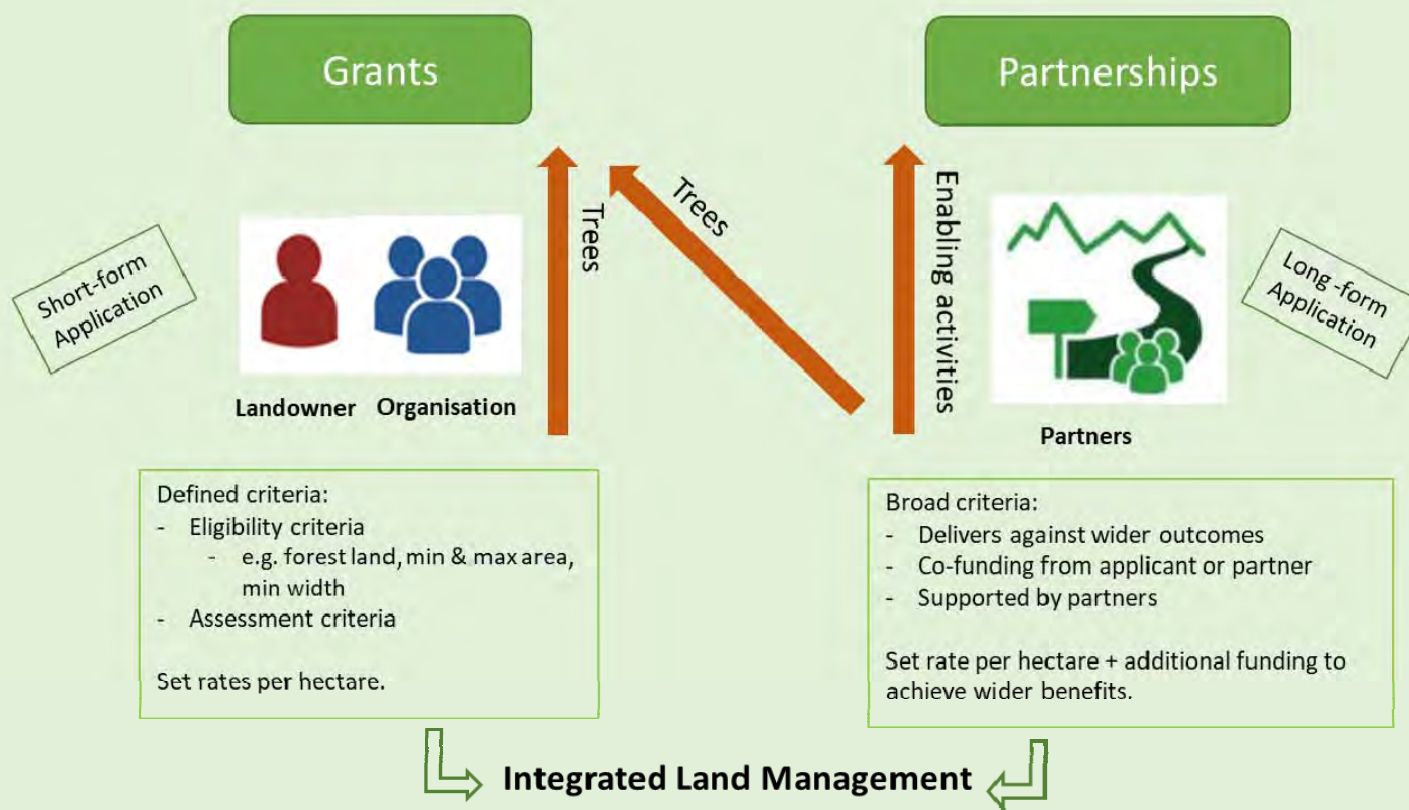


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1BT Funding Framework





1BT flexible fund

Partnership fund

Partnership fund

- Cabinet approved partnership fund of \$140 million over 3 years
- Flexible and integrated with grants - focus on areas that support 1BT
- Te Uru Rākau will administer the 1BT partnership fund
- Partners

regional councils	non-government organisations	researchers
training organisations	Māori landowners	community groups
businesses	key government agencies (e.g. DOC and MfE)	sector organisations

- Provincial Growth Fund has approved projects in the interim
 - \$21 million to date with numerous 1BT project applications in the pipeline
 - Significant investment with iwi, indigenous trees and training

Partnership fund – key outcomes for 1BT

1. Regional development
2. Climate change
3. Māori aspirations
4. Environmental sustainability
5. Employment and training
6. Productivity and innovation
7. Information, advice and support
8. Increased seedling supply

Priority enabling activities – early scale and speed

- 1 Labour and workforce** development – capacity and capability
 - 2 Advice and support for landowners** – hearts and minds
 - 3 Landscape scale **indigenous restoration projects** for biodiversity
 - 4 Other support areas** – technology/innovation and seedlings/nursery
- These priorities will change over time
 - Projects supporting a number of activities will have priority

Fund Principles

- Efficient and effective fund management - additionality
- Support integrated land management and landscape resilience
- Significant increase in indigenous biodiversity - e.g. Maunga Taranaki
- Strategic investment approach
- Build on successful models – e.g. Freshwater Improvement Fund
- Leverage partnerships and co-investment – e.g. Trees That Count
- Maintain strong linkages with the Provincial Growth Fund

1BT flexible fund

Grants



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Objectives of grant funding

- Cabinet decision that grants should increase tree planting to deliver:
 - Reduced erosion
 - Improved water quality
 - Regional development
 - Enhanced biodiversity through restoration of natural forest
 - Development of Māori owned land where there are barriers to privately-funded tree planting
 - Diversification of productive land uses, including continuous canopy forestry and indigenous forestry
- Target of two-thirds indigenous species
- Emphasis on integrated land management



Setting grant categories and criteria (under design)

- Different grant categories are planned with more targeted grant rates to drive specific plantings and outcomes:
 - Different species rates reflect different costs and benefits of planting, and programme objectives
 - Potential 'top-up' categories for erosion prone land and for land with high establishment costs
 - Criteria will align with objectives and encourage additionality, are simple, practical and consistent with good practice
 - Application form, eligibility criteria, and assessment process vary by:
 - Planting objective e.g. indigenous landscape restoration vs. timber plantation
 - Application type e.g. direct grant to landowner vs. scale partnership
- Need to support the right tree for the right purpose in the right place

More on setting rates

- Incentives impacted by grant rate + ETS participation + level of upfront funding
- Options around:
 - Value of ETS participation varies by species (exotic vs. indigenous)
 - (Lower rate + ETS) vs. (higher rate and no ETS for 10 years)
 - Split payment across milestones – %'s by stage

Milestone 1	Milestone 2	Milestone 3	Milestone 4
Contract signed, order placed	Planting complete	Planting established e.g. after 6 months	Maintenance complete e.g. after several years

Who is best placed to deliver grants?

- Principle: deliver in partnership or through third parties where this will achieve better outcomes.
- Likely some combination of:
 - Direct grants to landowners or organisations to undertake planting
 - Delivery through/in partnership with regional councils
 - Multi-stakeholder projects at a catchment or landscape scale e.g. with freshwater or biodiversity objectives
 - Co-investment with other third parties
 - Other options?
- Will be considering the preferred delivery models for advice and funding

An aerial photograph of a dense, lush green forest with various shades of green foliage.

1BT

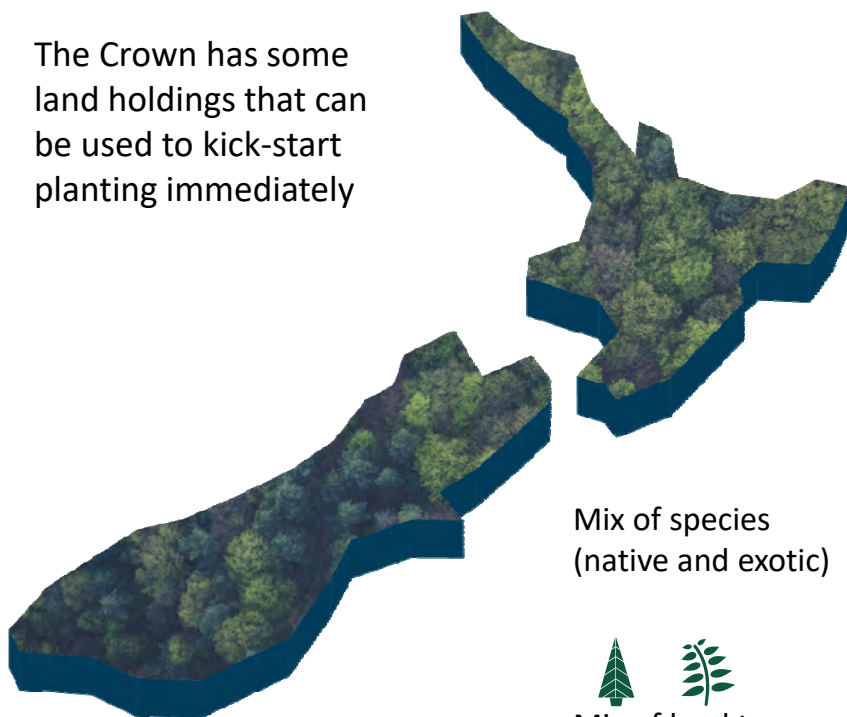
Direct Crown Investment

Crown Land
Joint ventures



Crown Land

The Crown has some land holdings that can be used to kick-start planting immediately

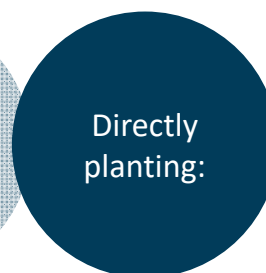


Mix of species
(native and exotic)



Mix of land types
to be used

Current Crown Land 1BT initiatives



DOC Estate



NZTA



LINZ

Potential future Crown Land 1BT



*Exotic and
native seedlings
available for
planting in 2018
and 2019*

Crown Forestry

who are we?



Forestry rights



Forestry leases



Other commercial arrangements

Under 1BT we have a new mandate to enter NEW commercial arrangements –

to develop plantation forests on privately owned land

A business unit within MPI that manages commercial forestry assets

Mostly Crown forests on Māori land

Commercial business with \$100m turnover p/a

Was reducing presence in sector until recently

► **2018 Planting:**
Budget for 4,000 hectares allocated

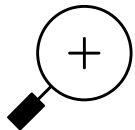
► **2019 Planting:**
Budget for 20,000 hectares allocated

► **2020 + Planting ?**
Part of 1BT policy considerations

How it all works



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Appropriate commercial arrangement Identified

Forestry rights

E.g. registered forestry rights with the Crown as equity partner

Forestry leases

Normal commercial leases

Other commercial arrangements



Critical terms of arrangement

30 Year term

Crown right to assign

To another Crown interest or suitable party

But first right of refusal for landowner party



Rent: negotiated to reflect suitability + location

Rent set as either:

- (a) Annual land rental payments
- (b) share of net profit at time of harvest
- (c) Mix of both



Other matters

Crown covers establishment and management costs

Will consider landowner employment options

Carbon options left for landowner

Key Land Considerations



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Plantable area: min property size of 200 ha

Preference for sites and districts where multiple properties in reasonable proximity may be acquired.

Note: indigenous forest including regenerating indigenous forest will be left and planted around.



Land that wasn't forest in 1990

Is preferred otherwise the Crown cannot rely on the planting to help meet the country's climate change obligations under the Paris Climate Accord.



Suitability as defined by RMA restrictions in regional or district plans

No significant Regional or District Plan barriers to afforestation.



Projected Volume yield (altitude, soil fertility and rainfall)

The site should be able to achieve a minimum harvestable volume for radiata pine at age 28 of at least 450m³ per hectare.



Underlying geology

Should be sufficiently stable to not compromise

- within-forest road access and
- future forest harvesting operations.

Key Land Considerations cont.



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Terrain

Areas that can be harvested using mechanised ground-based systems are preferred

This is predominantly because it impacts harvest cost.



Within property access

Good existing access

or

the ability to build access for future harvesting at a reasonable cost (depending on the plantable area).



Proximity to port/probable market

Transport distance of less than 160km is preferred

This is because it impacts on transport cost and hence net return.



Access to State highway

A high-quality district road network providing access to the forest gate is preferred.

This avoids the risk of road use restrictions of additional cost at the time of harvest.

The Process we Follow



Determining feasibility – two options:

Where independent forestry evaluation is required (e.g. when landowner has approached Forestry NZ), a consultant will be selected and paid on a “time and materials” basis to prepare the evaluation

Crown Forestry may instead pay a ‘success fee’ on execution of a Forestry Right or Lease where land and feasibility studies are brought to us – In these cases Crown Forestry will conduct due diligence on the evaluation.

What are we achieving

4,645 ha signed Forestry Rights
6,400 ha under negotiation or
close to contracting
14,700 ha under
investigation/evaluation

Northland
Waikato
Bay of Plenty
Manwatu-Whanganui
Hawkes bay
Wellington
Marlborough
Canterbury
Otago
Southland



Evaluation and negotiation for a number of whole property proposals (part of NZ investment entity deal)



Multiple detailed evaluations underway – mix of General Title and Māori land



More than 100 desktop evaluations completed



Targeting a 6% Crown IRR and, thus far, achieving this



What have we learnt?

1.

Landowners' objectives differ. For some it's purely commercial; for others it's about forestry being the only realistic option

2.

Modelling suggests it is possible for the carbon return to allow landowners to purchase the Crown's interest by age 10-12

3.

Some landowners & potential land investors are "testing the waters" (a number with unrealistic rent expectations)

4.

Cost of the land is the key issue. But it's possible for a reasonably located and productive property to yield circa 4% return on (a reasonable) land value + meet the Crown IRR threshold

5.

If carbon is added – and assuming averaging comes in - it is possible to more than double landowner ROI. This is driving interest from investors / developers



An aerial photograph of a dense, lush green forest. The trees are tightly packed, creating a textured canopy of various shades of green. The lighting suggests a bright day, with some areas appearing slightly brighter than others.

The Emissions Trading Scheme

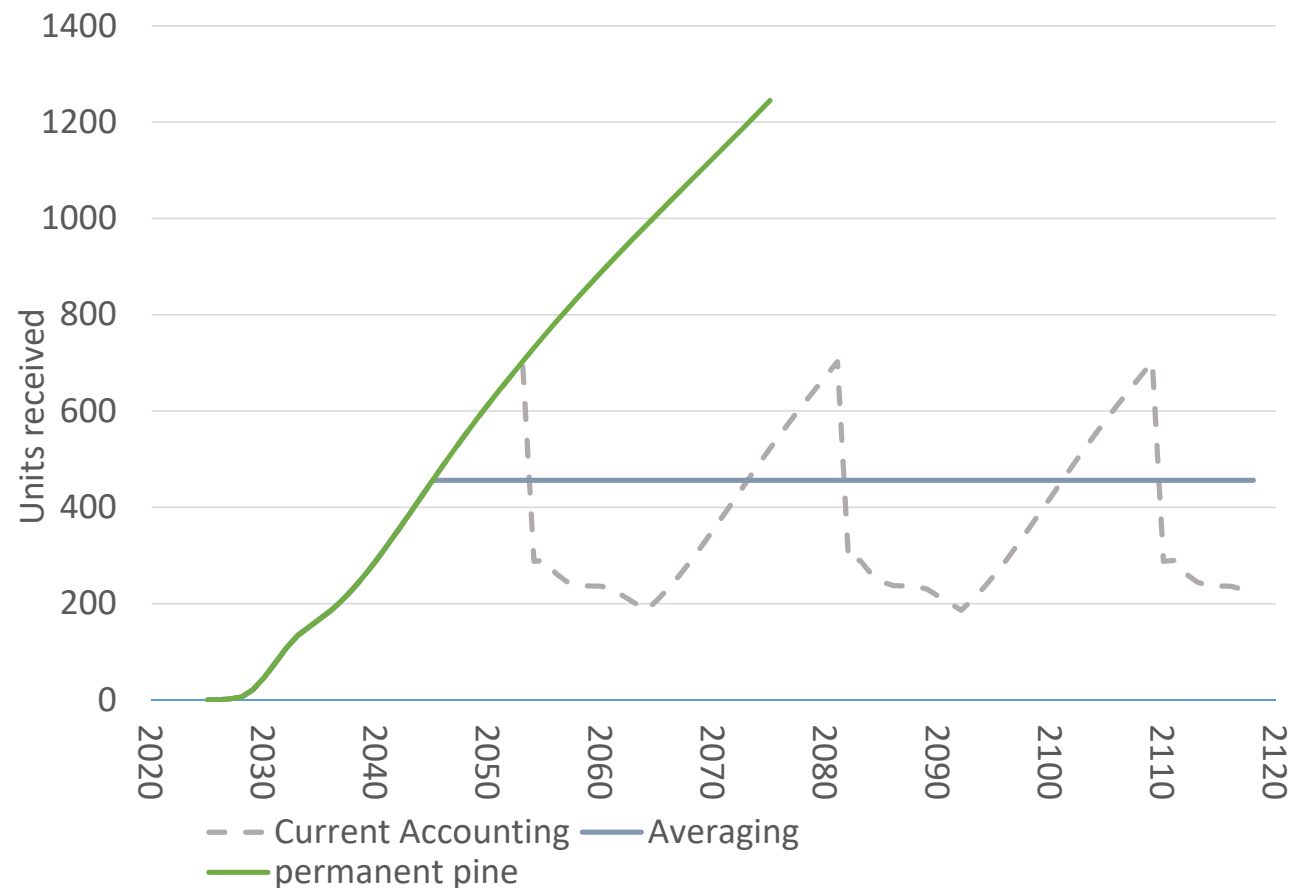
Improvements to the ETS

- There is a wider policy programme to set long term (2050) targets and establish an independent Climate Change Commission
- The ETS has not delivered the mitigation New Zealand needs to meet our targets: this has been a result of historic design decisions.
- The framework of the ETS is being changed to
 - Better align the ETS to meeting international targets.
 - Provide better market certainty over medium (15 year) and near term (5 year) efforts.
 - Introduce new mechanisms to better manage unit supply and demand



Improving forestry in the ETS

- Two key changes:
 - Increase the incentive to afforestation of rotational forest by introducing averaging
 - Better recognising permanent forests
- We are also working to improve the operations of the ETS to make it simpler for forests to access carbon income from carbon.



An aerial photograph of a dense, lush green forest. The canopy is thick and textured, with various shades of green. The word "Questions?" is centered in the middle of the image in a large, white, sans-serif font.

Questions?