

One Billion Trees, Crown Forestry commercial joint ventures report back

Proposal

1. As part of the One Billion Trees programme Cabinet enabled Crown Forestry to enter into new commercial forestry joint ventures to plant up to 24 million trees. I propose Cabinet allow Crown Forestry a further year to finish signing up its pipeline of joint ventures.

Executive Summary


2. Crown Forestry manages the Crown's commercial forestry assets to achieve the best return for the Government while meeting the Crown's legal and contractual obligations. It operates on a commercial basis and is governed by Cabinet policy directive [CAB (97) M 38/2C refers].
3. In December 2017, Cabinet agreed to Crown Forestry entering into new commercial forestry joint ventures to build the forestry sector, boost the One Billion Trees programme, and contribute to Māori and regional development. Forestry joint ventures are a common commercial practice which allows a forest owner to grow a tree crop on a second party's land, with returns to both parties.
4. Cabinet agreed to fund the planting of up to four million trees in 2018 and up to 20 million trees in 2019. To achieve this would require signing joint ventures covering 24,000 hectares by 30 June 2019. Total 30 year funding for the 24 million trees is \$256.6 million.

Crown Forestry's One Billion Trees joint venture delivery and pipeline

5. As at 26 March 2019, Crown Forestry have executed 19 joint ventures covering 9,400 hectares which entail planting 8.3 million trees between 2018 and 2024. Based on its pipeline of potential joint ventures, by 30 June 2019 Crown Forestry expects signed joint ventures to cover:

Measure	Projection to 30 June 2019
Tree planting (2018 to 2024)	17 million to 20 million trees 70% to 85% of up to 24 million target
Forestry hectares	19,000 ha to 22,000 hectares 80% to 90% of up to 24,000 hectares target
Funding committed	\$208 million to \$237 million 80% to 90% of funding

Note: Tree planting is proportionally less than forestry hectares as some areas under joint ventures do not require planting e.g. advanced radiata pine regeneration on previously harvested areas now being managed into productive forestry.

6. Crown Forestry joint ventures completed to date have:
 - boosted tree planting and driven the expansion of forestry nurseries through seedling orders;
 - developed local labour pilots providing forestry training and qualifications;
 - contributed to regional development by bringing land into more productive use via forestry; and
 - built pathways with Māori Trusts to build capability for forestry self-management and forestry ownership (one third of joint ventures to date).
7. Crown Forestry has a pipeline of a further 60 potential joint venture partners which is sufficient to fulfil their targets. However, it is taking longer than anticipated to complete the legal process once an offer has been made. This is particularly the case for multiply-owned Māori land where the Trust needs to consult or work through issues.
8. s 9(2)(b)(ii)

9. Alternatively, the remaining joint venture funding could be reallocated to the One Billion Trees fund grants and partnerships fund. However, in my view the One Billion Trees objectives are best advanced by continuing to sign up joint ventures alongside grants and partnerships, because they have different roles and unlock different parts of the forestry sector.
10. Joint ventures deliver social and economic outcomes, Māori and regional development, via commercial forestry. They are particularly effective for land that faces barriers to development e.g. Māori title where private lending is constrained and trusts or owners do not have the capital or expertise to invest in forestry themselves. Joint ventures also provide a rapid boost to planting and build the forestry sector and workforce.
11. One Billion Trees grants and partnerships focus on the broader public benefits of integrating trees into farms and communities (soil, water, biodiversity, and climate). A two thirds indigenous species target and the focus on integrating trees onto farm means they will mainly boost the indigenous tree sector and alternative exotic species. Economic and social outcomes flow from these actions but the barriers above are not as effectively addressed.
12. I propose that Cabinet agree to Crown Forestry continuing to sign up joint ventures for a further year, to 30 June 2020. This will allow Crown Forestry sufficient time to work through its pipeline of potential joint ventures, reach its targets, and allow joint ventures to continue to support the early success of the One Billion Trees programme. No additional funding is required.

Background

13. Crown Forestry is a business unit of Te Uru Rākau and the Ministry for Primary Industries (MPI). It manages the Crown's commercial forestry assets. Crown Forestry's role is to prudently administer the Crown's forestry portfolio to achieve the best return for the Government while meeting the Crown's legal and contractual obligations. It operates on a commercial basis and is governed by a Cabinet policy directive [CAB (97) M 38/2C refers].

Forestry joint ventures, how they work, and Crown Forestry experience

14. In New Zealand many commercial forests are grown on land not owned by the forester via leases or forestry rights (forestry joint ventures). The forester owns the trees and meets the costs associated with the forest including land rental. The forestry right sets out the forester's and the landowner's shares of the net revenue at harvest and carbon income if applicable. Joint ventures are a productive and profitable model of commercial forestry.
15. Crown Forestry has more than 25 years' experience managing commercial joint venture forests. The joint ventures are primarily on Māori freehold land afforested by the State, or State forests where the land, but not the forest, has been returned to Māori via treaty settlements. Over the last five years Crown Forestry harvested 4.6 million cubic metres of logs, turning over \$532 million, and remitting a \$155 million trading surplus to the Crown.
16. This experience has shown that commercial forestry joint ventures have:
 - been a successful commercial investment for the Crown;
 - provided Māori landowners with an income from their land, either as an annual rental and/or a lump sum share of net revenue at harvest;
 - built the financial and technical capability to allow Māori landowners to transition from passive lessors to become commercial forest owners in their own right; and
 - in the case of larger Māori entities such as Lake Taupo and Lake Rotoaira Forest Trusts, provided significant employment benefits to the Trusts' beneficial owners.
17. The forestry joint ventures under the One Billion Trees programme aim to achieve similar outcomes, but also to build the capacity of the forestry sector and provide an early boost to the One Billion Trees programme.

Crown Forestry joint ventures established under One Billion Trees (December 2017)

18. In October 2017, the Government committed to planting 100 million trees per year in the One Billion Trees programme (Coalition Agreement refers). This scale of planting is almost double the existing rate, and requires a significant scale-up of seedling production and the silvicultural workforce. Seedling production's 18 month lead time made it the most immediate constraint to increased planting rates.

19. In December 2017, Cabinet provided funding to Crown Forestry to enter commercial joint ventures to [CBC-17-MIN-0061 (Revised) and Budget 2018]:
 - plant up to 24 million trees (24,000 hectares), to provide an initial boost to the One Billion Trees programme before other planting drivers took over;
 - provide confidence to the forestry nursery sector to increase seedling production; and
 - contribute to Government's objectives for regional economic growth, the environment, and Māori development.
20. It was envisaged that joint ventures to achieve these objectives could be signed up by 30 June 2019.

Report back on joint ventures agreed (August 2018)

21. In August 2018, Cabinet directed officials to provide advice on the role of Crown Forestry joint ventures beyond 2019 [CAB-18-MIN-0379.01 refers]. Crown Forestry requires a decision on the cut-off date for joint ventures as soon as possible so it can manage negotiations with their pipeline of interest. This report back is provided now for Cabinet's consideration.

Crown Forestry joint venture progress and projections

Crown Forestry joint venture delivery to date

22. Since the programme began, Crown Forestry has received over 250 enquiries from parties interested in a forestry joint venture. Around 150 of these enquiries have been assessed as either not suitable or have withdrawn from the process. Table 1 below shows the current pipeline of interest.

Table. 1 Pipeline of forestry joint ventures as at 13 February 2019

Forestry joint ventures	Number of joint ventures	Total forest hectares	2018 tree planting (000s)	2019 tree planting (000s)	2020 tree planting (000s)	Out-years tree planting (000s)	Standing forest [†] hectares
1. Signed	19	9,400	600	4,600	1,800	1,300	1,100
2. Drafted	15	7,200	300*	2,000	2,900	1,000	1,000
3. In negotiation	4	1,700	-	900	800	-	-
4. Active discussion	18	5,500	-	600	4,800	100	-
5. Expression of interest	23	8,000	-	-	7,500	500	-
Total	79	31,800	900	8,100	17,800	2,900	2,100

* Two Māori land owners chose to undertake planting in 2018 ahead of a Crown Forestry joint venture being signed. When these agreements are completed they will cover the 2018 plantings.

[†] There are areas of existing plantation forest in some joint ventures which do not require planting. The reasons for this are explained in the 'Standing trees' section later in the paper.

23. As at 26 March 2019, Crown Forestry have executed 19 joint ventures (listed in appendix one) covering 9,400 hectares which entail planting 8.3 million trees over 2018, 2019, and out to 2024. s 9(2)(b)(ii)

24. Crown Forestry has a further 60 potential joint ventures under consideration covering 22,300 hectares with associated tree planting of up to 21 million trees. The total potential in this pipeline exceeds available funding.

Performance projected to 30 June 2019 – output measures

25. Crown Forestry expect to sign a further 25 to 33 joint ventures by 30 June 2019. Table 2 shows the additional number of trees and hectares that would be contracted and the funding that would be committed.

Table 2. Projected range of progress at 30 June 2019

Measure	Projection to 30 June 2019
Tree planting (2018 to 2024)	17 million to 20 million trees 70% to 85% of up to 24 million target
Forestry hectares	19,000 ha to 22,000 hectares 80% to 90% of up to 24,000 hectares target
Funding committed	\$208 million to \$237 million 80% to 90% of funding

26. It is taking longer to complete sign-up of the joint ventures than originally anticipated due to:
- the need to familiarise landowners, and their legal agents, with forestry clauses and contracts;
 - the need to allow landowners time to carefully consider a 30 year change in land-use; and
 - the broader objectives of the joint ventures requiring Crown Forestry to sign up relatively small land parcels which mean greater administrative time and effort per hectare.

Standing trees, forest hectares, and tree planting

27. The divergence between the tree target and the hectare target is due to the inclusion of areas of standing forest within joint ventures. The largest areas relate to existing or regenerating radiata pine forest on Māori land blocks.
28. Regeneration occurs when areas are left unmanaged for some years after harvest and pines self-seed creating a dense and weedy regrowth. If left unmanaged the blocks are likely to become economically marginal as the low value crop barely exceeds harvest costs. Joint ventures provide a means to manage these blocks back into productive forestry and substantially improve the overall quality and economic return from regenerating blocks. This in turn will generate greater employment (from thinning), improved options for end use of the timber, and better economic returns for the landowners.
29. Some smaller areas of existing plantation forestry have been included in joint ventures for pragmatic reasons. For example an area of existing forest enclosed by the new planting is included, as providing shared access through the new forest would introduce unnecessary risks and complicate forest management.

30. There are 2,100 hectares of such standing forest in the current joint ventures. These hectares still require funding for management and will reduce the achievable tree planting target by around 2 million trees, but will still see improved economic returns for the land.

Performance projected to 30 June 2019 – outcomes and wellbeing impacts

31. Many of the longer-term outcomes sought by joint ventures will accrue over a 30 year period rather than at the time of signing the contract. Based on the evidence from previous Crown Forestry joint ventures, and those agreed to date, I anticipate a broad range of benefits as outlined below.
32. The commercial forests planted through joint ventures will contribute to Māori wellbeing and development. Restrictions on the alienation of title under the Te Ture Whenua Act 1993 reduce the willingness of financial institutions to lend on land in Māori title. Joint ventures provide access to capital overcoming a significant barrier to Māori land development. Crown Forestry expects that around 40% of the joint ventures signed by 30 June 2019, by number and area, will be on Māori title. These are expected to account for around \$90 to \$100 million of committed funding.
33. Joint ventures with Māori have several wellbeing impacts. The capital provided creates more productive assets for Māori, increasing income and employment. Te Uru Rākau and the Department of Corrections are jointly developing a pilot which will provide eligible prisoners with forestry qualifications and work experience on joint ventures in Northland. This builds on successful Crown Forestry experiences providing training to prisoners in the jointly managed Lake Taupo and Lake Rotoaira forests. The joint venture with Ngāti Hine is designed to work alongside their mānuka training pilot¹ and together provide extended opportunities for training and employment of local people.
34. Crown Forestry also involve Māori owners in the forestry management in order to build the knowledge and skills required for Māori to manage their own forestry assets, overcoming another barrier to Māori land development. Over the past 20 years, trusts working with Crown Forestry at Lake Rotoaira and Lake Taupō have developed the necessary skills from working alongside Crown Forestry to take over management of their forests. s 9(2)(b)(ii)
35. Together these impacts can allow communities to remain active on their tūrangawaewae and in their rohe, important aspects of cultural identity.

¹ The Provincial Growth Fund is providing \$1.89 million for a mānuka plantation, training, and work experience programme on Ngāti Hine land. 40 trainees will work towards forestry qualifications over the next two years.

36. Joint ventures have contributed to more productive regional economies and will have positive impacts in the wellbeing domains of income and jobs. For example a joint venture with Ngāti Tuwharetoa ki Kawerau, in the Bay of Plenty, will move 292 hectares of unproductive land, on a soil type not well suited to grazing, into productive forestry, optimising and diversifying land-use across their property. s 9(2)(b)(ii)
37. Around 60% of joint ventures are expected to be within the 'surge' regions. In addition the location is assessed to ensure a resource is established for economic harvesting and processing options. Proposals that are not within economic distance of ports or processing have not been progressed. Te Uru Rākau estimates that Crown Forestry joint ventures created the full time equivalent of 15 tree planting jobs in 2018, and will create 100 to 120 planting jobs over the 2019 planting season².
38. Te Uru Rākau estimates new forest planting³ under joint ventures signed by 30 June 2019 will remove around 3.6 million tonnes of carbon dioxide from the atmosphere by 2030. This carbon removal assists New Zealand's transition to a low-emissions economy, supporting our clean-green cultural identity, and reducing New Zealand's potential 2030 carbon liability by around \$200 million dollars. s 9(2)(b)(ii)
39. The forestry nursery sector has expanded seedling production from around 51 million seedlings in 2017, to 60 million in 2018, and is expected to produce close to 90 million seedlings in 2019. The sector industry body has cited Crown Forestry seedling orders for joint ventures, alongside higher commercial replanting rates, as key factors in the latest increase.

Joint ventures fit with other One Billion Tree initiatives

40. I have considered whether The One Billion Trees objectives are best addressed by continuing joint ventures or through the grants and partnerships funds. The One Billion Trees programme aims to:
- create employment and workforce development
 - promote integrated land management and optimise land use
 - mitigate climate change
 - support Māori values and aspirations
 - protect our environment and improve our soils, water, and biodiversity
 - support New Zealand's transition to a low emissions economy.
41. In my view the One Billion Trees objectives are best advanced by continuing to sign up joint ventures alongside the grants and partnerships. This is because

² Based on the tree planting requirements for joint ventures and employment for a four month planting season.

³ 'New forest planting' excludes areas of standing trees and also harvested areas that are being replanted, as these are not 'new' forests removing additional carbon. Most of these areas are in joint ventures with strong Māori development outcomes.

they have different but complementary roles in the forestry system, and the whole system needs to be progressed to achieve the objectives.

42. The key features of grants and partnerships are that they:
- focus on delivering wider public benefits (soil, water, biodiversity, carbon) by integrating plantings into our productive landscapes;
 - aim to plant two thirds indigenous trees and, supported by partnerships, build the capacity of the indigenous tree sector and the capability of land managers to integrate trees;
 - will also fund community, amenity, and landscape projects; and
 - are not likely to cover the full costs of establishment. Some funding and all management is required from the applicants. Grants therefore will not address the most capital and capability constrained landowners, such as some multiply-owned Māori land.
43. The key features of joint ventures are that they:
- focus on the commercial forestry sector (radiata pine) and deliver economic and social benefits;
 - have shown themselves to be a successful commercial investment for the Crown. s 9(2)(b)(ii)
 - require a commercial rate of return and therefore do not primarily focus on the environmental benefits, indigenous or alternative exotic species; and
 - provide capital and capability building which caters to the particular needs of some landowners unlikely to be as effectively addressed by grants;
44. Reallocating unspent funding to grants and partnerships could potentially fund 9 to 23 million trees (two thirds indigenous). However, the grants programme is already seeking a significant increase in indigenous planting rates. It is too early to be able to tell if additional funding would be taken up within the three year Provincial Growth Fund period.
45. Cabinet could choose to pause joint ventures at 30 June 2019 and make the allocation choice later. However, joint ventures have an established pipeline of demand. Landowners in the pipeline would not appreciate a lengthy and uncertain delay of several years until uptake of grants is better known. Such a course of action would likely cause significant reputational damage.

Providing another year for Crown Forestry to sign up joint ventures

46. My preferred approach is to provide another year for Crown Forestry to sign up joint ventures. There is more than sufficient interest in their pipeline to meet their targets, and allow joint ventures to continue to support the early success of the One Billion Trees Programme. No additional funding is required.
47. On a pro rata basis, the likely uncommitted funding at 30 June 2019 could fund a further 2,000-4,500 hectares (with around 40% being Māori land) and see planting of 1.6-4.0 million more trees between 2020 and 2024. This would see

the 24,000 hectares target achieved and bring total tree planting under joint ventures to 21 million trees. This total joint venture planting represents 10% of the One Billion Trees programme's targeted increase in annual planting rates for 2020 to 2024.

48. Continuing joint ventures, rather than reallocating to grants and partnerships, would see greater impacts for the Government's Māori development and regional economic growth objectives.
49. The forestry nurseries sector has demonstrated their ability to increase capacity. MPI and Te Uru Rākau are working with the forestry sector to identify other constraints to capacity. Growing the silvicultural workforce is now a more critical limitation. In this situation a more steady and sustained planting programme will provide better support to build the forestry sector capacity rather than peaking in 2019. Recruitment and retention are more likely to occur when there is stable, or steadily increasing, demand over multiple years.
50. This outcome has already been partly achieved by allowing joint ventures to respond to landowner practicalities and plant over multiple years. However, it can be further supported by providing an additional year to complete signing up joint ventures. This will allow the existing funding to cover more joint ventures and sustain higher planting rates over a greater number of years.
51. Over the medium to long-term it is expected that other factors such as changes to the Emissions Trading Scheme and stronger market, social and regulatory pressure for sustainable land-use will increasingly drive planting rates, from 2021 onwards.
52. A decision on extending the timeframe for joint ventures is required now to provide timely information to the parties currently in negotiation with Crown Forestry.
53. Crown Forestry is negotiating 30 to 40 potential joint ventures concurrently. If 30 June 2019 remains a hard deadline for concluding contracts it will need to cease negotiations as soon as possible, with the parties least likely to conclude before that date. This is to avoid a situation where a number of joint ventures are in advanced stages of negotiations creating a moral obligation to conclude, but Crown Forestry's timeframe has expired. This could affect 4 to 9 joint ventures with potential commitments of \$20 to \$50 million.
54. It is more often the case that Māori trusts require longer to conclude as they require more time to consult with their multiple beneficiaries before accepting an offer made by Crown Forestry.

Consultation

55. This paper has been drafted in consultation with Te Puni Kōkiri, the Ministry for the Environment, Treasury, the Department of Conservation, and the Ministry for Business, Innovation and Employment. The Department of Prime Minister and Cabinet has been informed.

Financial Implications

56. Cabinet agreed to provide \$256.6 million for Crown Forestry to enter joint ventures for planting 24 million trees [CBC-17-MIN-0061 (Revised) and Budget 2018]. This funding covers the establishment cost and the lifetime management costs of the forests. The forests are expected to provide a commercial return to the Crown at harvest.
57. Providing an extension of time to the Crown Forestry joint ventures will allow further joint ventures to be signed to achieve the full benefits of the programme from within the \$256.6 million of existing funding. Not providing an extension to Crown Forestry to enter into joint ventures will see Crown Forestry turn away the remaining land in its pipeline with potential commitments of \$20-\$50 million.
58. If an extension is agreed, unspent funding can be moved between years via an expense transfer as part of Te Uru Rākau's routine financial management.

Human Rights

59. There are no human rights implications to this paper.

Legislative Implications

60. There are no legislative implications to this paper.

Regulatory Impact Analysis

61. A Regulatory Impact Analysis is not required.

Gender Implications

62. There are no specific gender implications to this paper.

Disability Perspective

63. There are no specific disability implications to this paper.

Publicity

64. Until the launch of the One Billion Trees fund in November 2018, the Crown Forestry joint ventures were the most visible part of the One Billion Trees

programme, and has generated significant media interest. It is likely that media will remain interested in the delivery of this programme.

65. I intend to make announcements about Crown Forestry joint ventures as joint ventures of note are signed.

Proactive release

66. There are no specific proactive release considerations and the standard approach is appropriate.

PROACTIVE RELEASE

Recommendations

The Minister of Forestry recommends that the Committee:

1. **Note** Cabinet has previously agreed to fund the planting of up to 24 million trees through joint ventures [CBC-17-MIN-0061 (Revised) and Budget 2018].
2. **Note** 19 joint ventures have been signed to 26 March 2019 and a further 25-33 are expected to be signed by 30 June 2019.
3. **Note** that Crown Forestry joint ventures are achieving their objectives of:
 - 3.1. building the forestry sector's capacity, particularly forestry nurseries,
 - 3.2. providing an initial boost for the One Billion Trees programme; and
 - 3.3. contributing to Māori development, regional economic growth, and the environment.
4. **Note** that it has taken longer than expected to conclude joint venture contracts and an extension of time will allow Crown Forestry to sign up joint ventures in its pipeline to achieve the intended benefits of the programme.
5. **Note** that the joint ventures and grants and partnership have different but complementary roles in achieving the One Billion Trees objectives.
6. **Note** that an extension of time for the joint ventures is likely to produce better overall outcomes than reallocating unspent funding to grants and partnerships.
7. **Agree** to extend the timeframe for Crown Forestry to use existing funding to sign up new joint ventures to 30 June 2020.
8. **Authorise** the Minister of Finance and the Minister of Forestry to jointly approve any transfers of underspends necessary to implement the joint ventures programme.

Authorised for Lodgement

Hon Shane Jones
Minister of Forestry