



FORESTRY AND WOOD PRODUCTS

ECONOMIC UPGRADE

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FORESTRY AND WOOD PRODUCTS ECONOMIC UPGRADE

Introduction

Labour's vision is for a modern, value-added economy in which New Zealand's businesses grow by increasing the value of their products rather than by simply increasing how much they produce.

A package of measures to take the industry from 'volume to value'

By enhancing the value of our products prior to export, New Zealand will also keep a greater share of the wealth associated with these products in New Zealand as domestic profits and higher wages.

If we are to create well-paid, resilient jobs we need to build modern, resilient industries.

We cannot simply continue to rely on increasing the volume of raw exports. Over-reliance on undifferentiated commodities is not a sustainable medium or long-term economic plan for New Zealand if we are to maintain or improve our current living standards.

To move New Zealand to the status of a modern, high-value economy we need a government that will work with industries to develop their businesses in a way that allows all of New Zealand to benefit. The end result will be better jobs and higher incomes. We call it the Economic Upgrade.

This document outlines the first of several sector-based economic packages Labour has planned as examples of this transition to a higher value future: **The Forestry and Wood Products Economic Upgrade** - a package of policies that is designed to support New Zealand's forest and wood products industry.

Our Forestry and Wood Products Economic Upgrade will help the industry move from focusing on the export of raw logs to an increase in value-added production.

With this Economic Upgrade the forest and wood products industry will create more skilled, well-paid jobs and help underpin New Zealand's economy by capturing a greater share of our resource value and keeping it at home.

Why we are doing this

The New Zealand forestry and wood products industry has grown in volume over recent decades, but it has struggled to develop a true value-added industry. Nearly 55% of trees harvested in the June 2013 quarter were exported as logs¹.

Between 2000 and 2012, New Zealand witnessed a 112% increase in unprocessed forestry exports. Processed timber product exports only increased 7% over the same period². In 2013 New Zealand surpassed Russia as the largest softwood log supplier to China.³

The industry has already identified the systemic issues that need to be addressed.

Yet there continues to be a lack of engagement and leadership by the National government. This lack of vision for the sector can be seen in the low priority it has been given by the Ministry for Primary Industries. The Ministry, through the framework set for it by the National Government's 'Business Growth Agenda', primarily focuses on agriculture and sustainable land use. The fact that the Ministry's Statement of Corporate Intent makes little reference to forestry, not even rating a mention in the Minister's foreword, is indicative of this lack of care.

This has resulted in the diminishing of skilled value-added jobs through downsizing and mill closures. There have been an estimated 3,000 job losses in the New Zealand wood processing sector since 2008. This includes 120 forestry workers who recently lost their jobs at Rotorua's Tachikawa mill. Up to 400 positions are currently under threat at Southern Cross Forest Products Ltd. According to the New Zealand Forest Owners Association, some 40 sawmills have closed since 2003.

At the same time as these cuts are happening, New Zealand continues to import hundreds of millions of dollars worth of processed timber. Under current settings it is likely that much of the Christchurch rebuild will be done with imported timber. Some of it is likely to be timber milled from logs that were originally exported from New Zealand.

Business commentators have argued that a high proportion of the end value is captured in the distribution chain, and an increasing proportion of that end value is being lost to the New Zealand economy.

Because New Zealand's internal market is small, large-scale wood processors are more reliant upon exports than those based in large economies like the United States or China. Processors with a greater exposure to exports face higher risks than those which have large internal markets. Those higher risks include a concentrated exchange rate risk, cultural barriers and the added difficulties of maintaining trading relationships with more distant clients.

Unless those risks are ameliorated, the investments in the capital equipment needed to improve scale and productivity in forest processing based in New Zealand are unlikely to be made.

¹ Ministry for Primary Industries, *Primary Industries Production and Trade June Quarter 2013*, 27 September 2013, <http://www.mpi.govt.nz/news-resources/publications.aspx?title=Primary%20Industries%20production%20and%20trade>

² Scott Bowman and Patrick Conway, *China's Recent Growth and its Impact on the New Zealand Economy*, New Zealand Treasury Working Paper 13/15, July 2013, <http://www.treasury.govt.nz/publications/research-policy/wp/2013/13-15>.

³ *Primary Industries Production and Trade June Quarter 2013*, op. cit.

Without the improvements in scale and productivity needed to improve export competition and modernise the industry, it is unlikely that New Zealand's wood products will be able to link into the global value chain in a way that maximises New Zealand's economic opportunities. Adding further value to our wood exports also creates a supply of by-products which are needed in other parts of the wood processing industry.

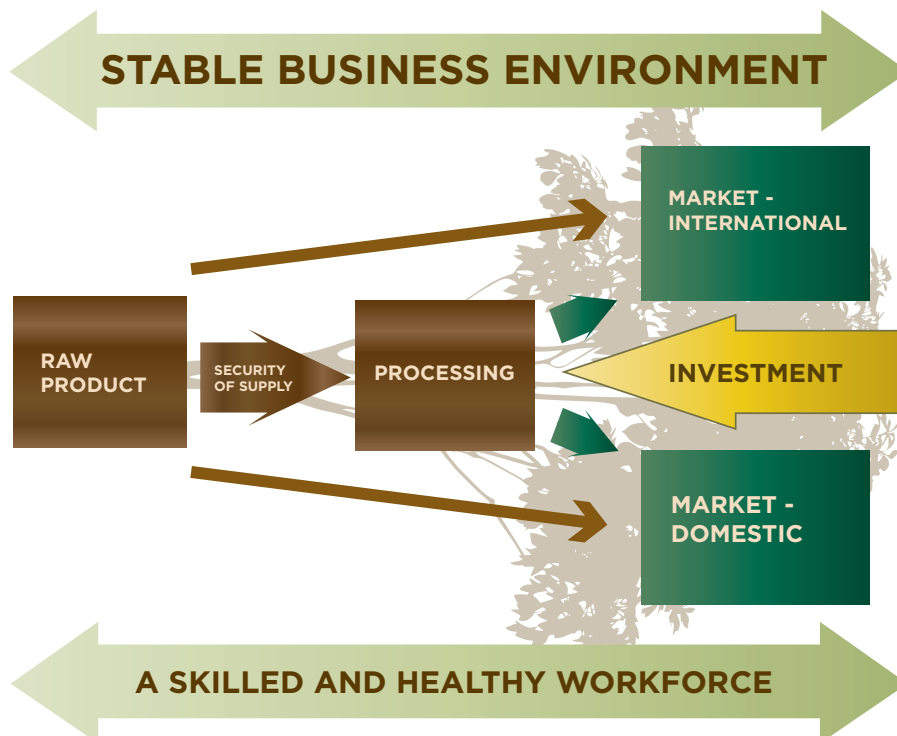
For these structural reasons, the New Zealand economy does not provide a business environment that optimises the new capital investment needed for on-shore value-added development. It is a challenge for New Zealand to link into the global value chain. Smart and targeted use of investment can help to achieve this. Labour is willing to work with domestic and international capital on New Zealand's terms to make this work. This requires a supportive and responsive government and businesses willing to take up the challenge.

To overcome the higher risks associated with higher value processing in a small economy, a targeted tax incentive is needed to encourage the substantial capital investment needed. Without that incentive, the proportion of New Zealand's logs to which value is added through further processing will not increase, and the job and economic opportunities arising from our wood industry will not be maximised.

Labour's policy will assist in attracting the New Zealand and foreign capital needed to migrate from 'volume' to 'value'. We want an increasing amount of the output of industries such as forestry to move up the value chain - from raw product to light processing; from light processing to elaborate processing; and from elaborate processing to high-technology and product innovation.

This is not a simple process, however. It requires an awareness of the full process chain for the industry, and the feedback loops between different elements of that chain.

*Figure 1 'Intervention logic'
The forestry and wood products industry process chain*






Figure 1 is a very simplified depiction of the process chain for the forestry and wood products industry. In order to foster migration ‘from volume to value’ we want to see an increase in the processing of raw product. This in turn means we want to encourage investment in the processing component of the industry and promote leading-edge innovation through research and development (R&D).

As outlined on the following pages the initiatives in our Forestry and Wood Products Economic Upgrade are designed to address each of these elements.

In addition to the incentive provided through accelerated depreciation, other initiatives will increase the size of the domestic market for processed product which also reduces risks for investors. Measures to improve the future supply of trees will also give long-term confidence to invest in processing. Regulatory certainty is improved through clear and predictable rules. The sector is also strengthened through suitable infrastructure and a skilled and safe workforce. These factors, along with the direct issue of incentives to invest in processing and R&D will assist the forestry and wood processing industry.

This policy package is an example of how the Economic Upgrade framework can be applied to a specific industry sector to create value for all. We plan to apply this intervention logic to other industry sectors so as to link into the global value chain.

The Forestry and Wood Products Economic Upgrade

With Labour's Economic Upgrade the forest and wood products industry will create skilled, well-paid jobs, and help grow New Zealand's economy by capturing a greater share of our resource value and keeping it at home.

Encourage investment in the processing component of the industry to move the focus from logs to higher-value products

- A 'tax deferral' for investment in plant and equipment in the forest and wood products industry, by means of an accelerated depreciation provision.

Promote leading-edge innovation through research and development (R&D)

- Reintroduce an R&D tax credit to encourage stronger private investment in high-quality R&D.
- Ensure that public science works to further develop wood-plastic composites.
- Work with the industry and BRANZ to develop building standards for wood construction to accommodate advanced wood construction technologies.

Develop a stronger domestic market for wood products

- Adopt a Pro Wood government procurement strategy for government-funded project proposals for new buildings up to four storeys high.

Provide greater security of raw product supply to give long-term confidence to processing investment

- Stabilise the price of carbon in New Zealand by requiring 50 per cent of all emissions surrendered to be New Zealand units rather than international units.
- Make suspensory loans available (repayable on harvest) to cover the costs for planting new forests, with the option of joint planting ventures with iwi.
- Introduce a legacy forests status to protect and renew our indigenous forests.
- Establish Forestry Taskforces for the long-term unemployed.
- Support iwi forestry clusters to analyse options for their land.

Provide business stability for the forest and wood products industry

- Complete the National Environmental Standard for Plantation Forestry.
- Formalise the government's approach to the forestry sector in a 'New Zealand Forestry Policy' document.

Ensure the sector is underpinned by suitable infrastructure and a skilled and safe workforce

- Support universities, polytechnics and wānanga, and the forestry ITO to further contribute to the industries and communities they serve.
- Introduce new regulations to protect forestry workers, support the Independent Forestry Safety Review, and introduce a corporate manslaughter law.
- Finish relevant roading development in forestry regions in order to make it easier to get wood from forest to plant.

INCENTIVES TO INVEST IN PROCESSING

Brian Stanley, Chairman of the Wood Processors Association of New Zealand, recently told the industry:

The wood processing and manufacturing industry needs economies of scale investment to be globally competitive. We have a proliferation of small to medium size sawmills in New Zealand. All of these sawmills combined cut a similar volume of lumber as three or four large scale British Columbia sawmills combined. If we want to compete with the global sawmill industry then we need to seriously consider investment in large scale low cost sawmill operations.⁴

And similarly with pulp and paper:

For the pulp and paper industry to ultimately survive in New Zealand we need investment in a modern low cost large scale mill similar to those that are operating in Brazil and Chile.⁵

Forest economist David Evison identifies the same blockage:

We can identify profitable processing options. It seems that New Zealand's problem is a lack of commitment to implementing a strategic direction at a large enough scale, and lack of willingness to commit capital to this industry.⁶

⁴ Brian Stanley, *Forest Industry Leadership Challenge, Opening address to the WPA/PMA/FTMA conference, Rotorua, 31 October 2013*, <http://pine.net.nz/resources/conference/Presentations-2013/1%20-%20Brian%20Stanley%20-%20Wood%20Conference%20-%20Oct%202013.pdf>.

⁵ *Ibid.*

⁶ David Evison, "Some observations on the economics of commercial forestry in New Zealand", *NZ Journal of Forestry*, November 2013, Vol. 58, No. 3, p. 12.

The most obvious way to achieve 'volume to value' is to directly encourage greater levels of investment in the processing side of the industry. As the previous section makes clear, and the following sections elaborate, this should not be seen as the full solution. Nonetheless, it is an important component.

The industry has consistently told us that the high exchange rate is inhibiting domestic processing for export. The Reserve Bank has repeatedly stated that the New Zealand dollar is significantly overvalued.

A 'tax deferral' to businesses investing in plant and equipment

Given significant investment challenges, forestry and wood products is an industry where pro-investment tax changes could make a significant difference, with flow-on benefits for the wider economy.

Many other countries provide a tax deferral to businesses investing in plant and equipment. This is done through a mechanism called accelerated depreciation.

Effectively, companies are able to reduce their tax payments for the first few years after investing in these assets (by 'front-loading' their tax deductions for depreciation), offset by greater tax payments in the medium term (due to lower depreciation deductions in later years).⁷

Without such deferrals, the tax system can actually act to discourage long term investment, because:

- Long-term projects cannot utilise income tax deduction in the start-up years before projects produce income
- Long-term investments require higher before-tax rates of return than short-term investments because their pay-back periods are longer, which makes them more risky.⁸

In addition, because other countries offer these deferrals, multinational operations may prefer to undertake long-term investments in those countries rather than New Zealand.⁹ Arguably, this is part of the reason New Zealand logs are often processed off-shore.

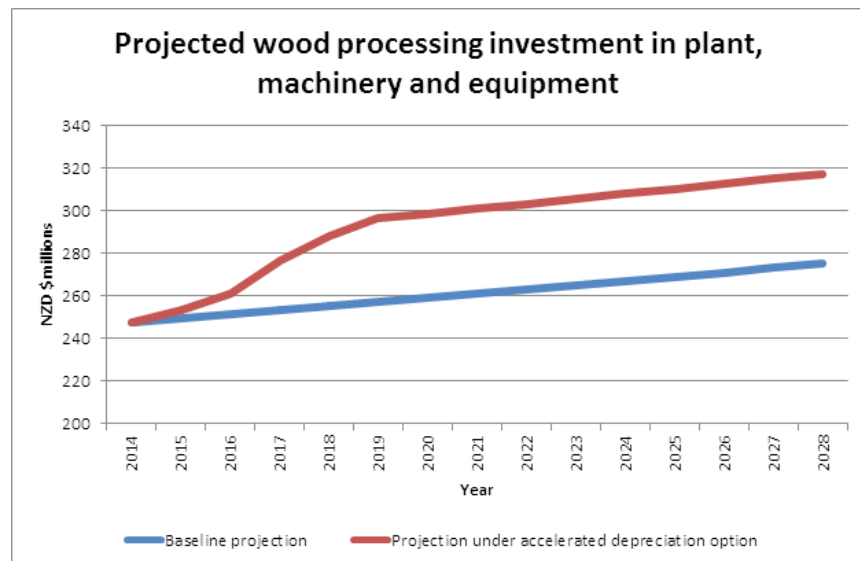
New Zealand did have a modest accelerated deferral regime in place ('depreciation loading'), but this was abolished by the current National government in 2010.

To stimulate forest processing Labour in government will provide a tax deferral for investment in plant and equipment to businesses in the wood processing industry.

Under Labour’s accelerated depreciation regime, current depreciation rates for the plant and equipment for the wood processing industry will be doubled using the declining value approach to calculating depreciation.

This approach is more extensive than the former 20% depreciation loading and would significantly lower the cost of investment in the wood processing sector. Wood processing has been targeted due to historic under-investment in the sector.

Over the longer term, accelerated depreciation could stimulate \$40 to \$80 million in additional annual capital investment in the wood processing industry.¹⁰



The implementation of accelerated depreciation was a core recommendation of the multi-party Manufacturing Inquiry.

We will be making further announcements about the extension of targeted accelerated depreciation outside of the wood processing industry in due course.

COST: Long-run annual fiscal cost of \$10 to \$25 million for wood processing industry.

7 Over time, therefore, the amount of tax paid is unchanged. But, because a dollar of tax saved today is worth more than an extra dollar of tax paid in five years time, investing businesses get a net benefit. In this sense, tax deferral is the equivalent of the government providing an interest free loan to the taxpayer.

8 Review of Business Taxation (Australia), A Platform for Consultation - Discussion Paper 2: Building on a strong foundation, “Chapter 2: The case for accelerated depreciation”, p. 120, <http://www.rbt.treasury.gov.au/publications/paper3/index.htm>.

9 Cf. the discussion in Review of Business Taxation (Australia), op. cit., pp. 120-121.

10 Labour Party estimates

Investment-related Economic Upgrade

Our warped tax and inadequate savings systems incentivise over-investment in real estate, and under-investment in innovation.

The New Zealand dollar is over-valued which is causing significant harm to the value-added manufacturing export sector.

- Labour's capital gains tax will ensure that investment is directed towards productive exporting businesses that will help boost our earnings overseas.
- The best way to grow our onshore investment capital is to make KiwiSaver universal. That will not only increase savings but it will also create a deeper investment pool for Kiwi businesses.
- Labour will reform monetary policy so the Reserve Bank is freed from its tunnel-vision mandate of the primacy of inflation and allowed to give stronger consideration to the exchange rate, jobs and external imbalances.
- Labour will introduce a Research & Development tax credit at the rate of 12.5%. It aims to lift New Zealand's lagging R&D expenditure by encouraging businesses to research and innovate. International evidence shows that well-designed R&D tax credits increase productivity and growth. The rate of return to society from R&D activities is typically in the order of 90 to 100%, well above the private return of 20 to 30%.¹¹

NZ Power

Labour's NZ Power policy will help to make domestic sawmilling and wood processing more competitive. Electricity is one of the largest costs for sawmills after logs and labour.

NZ Power is estimated to cut the cost of electricity to businesses by 5 to 7%. This will make investment in wood processing a more attractive option. Based on MED data from 2012 it is estimated that a 5 to 7% reduction in the cost of electricity will save New Zealand's existing wood, pulp, paper and printing industry between \$2million and \$2.8 million per annum.¹²

¹¹ Treasury, *Putting Productivity First*, New Zealand Treasury Productivity Paper 08/01, April 2008, p. 7, <http://www.treasury.govt.nz/publications/research-policy/tprp/08-01/tprp08-01.pdf>

¹² Labour Party estimate. For further information on NZ Power, see https://www.labour.org.nz/sites/default/files/issues/20130418_NZPower_Policy_Document.pdf

PROMOTING HIGH-TECHNOLOGY INNOVATION

Part of moving the wood industry from value to volume is developing and commercialising new, high value wood products. At present a number of exciting new technologies are being developed that have the potential to create high value products and greatly expand the end uses of wood. In particular wood-plastic composites and engineered wood have potentially huge markets and could position wood as a sustainable replacement for steel, concrete, plastics and fossil fuels.

A Labour government will work closely with the industry to support Scion (the forestry focused Crown Research Institute) and other public research institutes to ensure that funding for the underlying science behind this wood technology continues and to help commercialise new innovations. In doing so, we can seek to maximise the benefits of wood innovations to New Zealand.

Wood-Plastic Composites

A new, high-value market for wood products is emerging in the form of wood-plastic composites and New Zealand is uniquely placed to take advantage of this new market opportunity.

Wood-plastic composite technology blends wood fibre with plastic polymers to produce a material which displays the best characteristics of both. It is stronger, more flexible and more durable. Wood-plastic composites can be used in a wide variety of products from decking to furniture and computers.

Wood-plastic composites have a lower environmental footprint than conventional plastics as they use wood off-cuts and used plastic that would otherwise go to waste. Utilising waste materials also means that they are often lower cost, saving companies money and helping our environment.

New Zealand is uniquely placed to take advantage of new market opportunities in wood-composites thanks to the work of Scion. Scion has developed wood-plastic pellets which can easily be fed into existing plastic moulding machines. This makes wood-plastic material much easier to handle and efficient to use. Scion holds the intellectual property rights to this technology but has licenced it to global wood manufacturer Sonae Indústria Group (headquartered in Portugal).

Labour will work closely with Scion and other forestry industry groups and companies to help further develop wood-plastic composites and maximise the benefits of this new technology to New Zealand.

Engineered Wood

Developments with engineered wood are a potential game changer for wood's role in construction and offer a large new high value market for

wood. Engineered wood products are made by binding wood strands, fibres or particles together with adhesives. Engineered wood is not an entirely new technology – it has been on the market for several decades in the form of medium density fibreboard (MDF) and plywood.¹³ However the new generation of stronger, larger and thicker engineered wood products have a larger variety of uses, particularly in the construction of commercial office buildings.

New engineered wood products such as Laminated Veneer Lumber, Cross Laminated Timber and Optimised Engineered Lumber are strong enough and large enough to replace traditional steel and concrete materials as the structural core of a building.¹⁴ The layering of wood strands or fibres reinforces strength and prevents the timber from losing shape over time, without sacrificing the light weight of timber.

As well as being lighter than other construction materials, engineered wood has the advantage of wood's traditional ability to soak up the shock of earthquakes.¹⁵ This makes it particularly attractive for the Christchurch rebuild.

The global market for engineered wood is expected to grow thanks to the increasing desire of companies to reduce their environmental footprint and lower greenhouse gas emissions. Engineered wood is far more sustainable than traditional concrete and steel materials and doesn't have the same carbon footprint.¹⁶ The WoodScape study undertaken for the Wood Council of New Zealand estimated that some engineered wood products could have a return on investment of over 10 per cent.¹⁷

Many of these new engineered wood products are now moving from the development stage to commercialisation. Already building projects here in New Zealand, such as NMIT in Nelson and Expan Timber Solutions' own head office, have successfully used new generation engineered wood.¹⁸ Architects and engineers in Canada are working on an even more ambitious building project, constructing a 30 storey sky scraper out of engineered wood.¹⁹

Engineered wood has huge potential for adding value to New Zealand's timber industry. It is important the government works alongside industry to help the market establish. Labour's pro-wood government procurement policy (see below) will help create a domestic market for engineered wood products that will give timber companies the security they need to invest in this technology.

We will also work with the industry and BRANZ²⁰ to look at developing building standards for wood construction so that building standards support the use of engineered wood as a viable economic option. This could involve updating earthquake codes, wood treatment standards, fire safety and environmental standards.

¹³ Scion and FPInnovations, *WoodScape Study – Technologies and Markets*, March 2013: http://www.woodco.org.nz/images/stories/pdfs/woodscape/woodscapetechreportfinal3_web.pdf

¹⁴ *Ibid.*

¹⁵ Andy Buchanan 'Building in Engineered Wood Post-Christchurch' University of Canterbury

¹⁶ 08/03/2014 'Engineered Wood Product Market - Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2013 - 2019' Digital Journal <http://www.digitaljournal.com/pr/1780010>

¹⁷ 02/2013 'WoodScape Study – Technologies and Markets' Scion

¹⁸ Prof. Andy Buchanan, *Building in Engineered Wood Post-Christchurch*, University of Canterbury, 2012, <http://www.pine.net.nz/resources/conference/Presentations%202012/Speaker%205%20-%20Andy%20Buchanan%20PMA-WPA%20conf%20Rotorua%20October.pdf>.

¹⁹ "The Future Is The Past: A Skyscraper Made Totally From Wood", *Fast Company*, March 2012, <http://www.fastcodesign.com/1669322/the-future-is-the-past-a-skyscraper-made-totally-from-wood>.

²⁰ BRANZ is an independent and impartial research, testing, consulting and information company, funded in part by the Building Research Levy. It provides services and resources for the building industry.

DOMESTIC MARKET FOR PROCESSED PRODUCT

To gain full value-added potential from our growing wood harvests New Zealand will need to export processed wood. Even with a boosted housing programme (KiwiBuild), the domestic market is very small in comparison to the tonnes we produce. A world leading export market is always tough.

A strong domestic footing reduces business risk in respect of fluctuations in the international market. The domestic market is also crucially important for those parts of the industry sourced as byproduct from primary processing sources.

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 (see above).

The flow-on effects from this should not be underestimated. Martin Verry, owner of Red Stag Timber, which operates a big timber mill in Waipa, said the industry was seeking to end the cyclical nature of the sector by focusing Government procurement on wood construction.

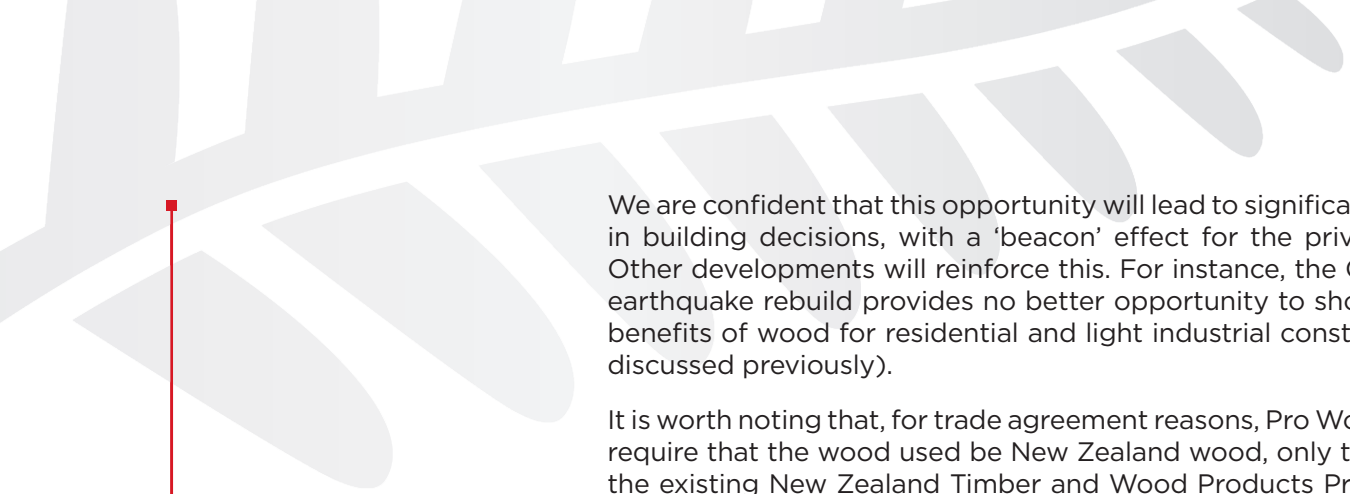
“If the Government adopted that policy, then we [Red Stag] would build a world-scale mill in New Zealand. It is as simple as that”.²¹

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).”*

However, we intend to go somewhat further than this so that where a build-in-wood option was 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.

²¹ Rob Stock, “Forestry ‘at the crossroads’”, Stuff, 26 January 2014, <http://www.stuff.co.nz/business/industries/9650498/Forestry-at-the-crossroads>



We are confident that this opportunity will lead to significant changes in building decisions, with a ‘beacon’ effect for the private sector. Other developments will reinforce this. For instance, the Canterbury earthquake rebuild provides no better opportunity to showcase the benefits of wood for residential and light industrial construction (as discussed previously).

It is worth noting that, for trade agreement reasons, Pro Wood will not require that the wood used be New Zealand wood, only that (as per the existing New Zealand Timber and Wood Products Procurement Policy) departments are required to seek legally sourced timber and wood products, and that all reasonable steps have been taken to ensure products are from sustainably managed sources. In practice, however, it is likely that build-in-wood options put forward will largely involve New Zealand wood.

COST: This will be funded from within existing procurement baselines.

SECURITY OF SUPPLY AT THE RAW PRODUCT STAGE

It may seem counter-intuitive for a package aimed at moving from 'volume to value' to be concerned with the amount of raw product being planted, grown and harvested. But this is actually a vital factor for upstream investors as Brian Stanley has made clear:

A recent survey of WPA membership highlighted that a major concern of the sawmilling group is the threat to log supply continuity as forest growers court the growing and seductive export markets. Sawmillers made it very clear that they are having difficulty securing logs on a consistent basis and while this situation exists they will not be making new investment.²²

Establishing confidence to undertake new planting is an important prerequisite for moving away from reliance on raw log exports – wood processing requires investment which in turn requires a continuing high level sustainable cut. Currently this cut, of up to 30 million tonnes (mt) per annum, is set to fall away sharply after 2032.²³

There can be confidence in replacement planting by the Timber Investment Management Organisations (TIMOs) which account for 80% of production. However, this still leaves an estimated 20-25,000 hectares per annum of new planting that needs to be established.

The following initiatives are designed to address this security of supply challenge.

Financial support for planting

As a very long term and uncertain investment, it can be argued that a form of incentive is necessary to activate investors to plant new forests.

Labour in government will initiate a two-pronged approach to this:

- (a) a suspensory loan scheme for planting; and
- (b) planting joint ventures with iwi.

Suspensory loans will be made broadly available for the planting of new forests (though not for re-planting). They will be set at a rate intended to cover the cost of planting only (capped around \$1,250 per hectare) and provided as a loan repayable on harvest, secured by a charge on the trees and/or land title.

Interest will be charged at a modest rate (probably around the Crown cost of borrowing plus 1 percent). This will accrue on the loan balance until harvest.

²² Stanley, *op. cit.*

²³ Ministry for Primary Industries forecasts

No repayments on either principal or interest will be required prior to harvest.

All other expenses (such as release, thinning, fertilising, inventory, land and harvesting costs) will be borne by the owner.

The suspensory loan scheme would only be available to small-scale land owners with limits on the capitalisation of the applicant.

Assistance will be available to iwi, recognising that iwi land is under-utilised for planting.

There is an estimated 1.2 million hectares of underdeveloped Maori land suitable for planting. These owners have a long-term interest in the land and regional economic development, and are therefore ideal partners for the Crown. Iwi will also have the option of receiving planting assistance via a joint venture arrangement, rather than as a suspensory loan.

This will draw on the successful model for the management of afforestation on Maori land in Te Tai Tokerau. Taitokerau Forests Limited commenced in 1986 and developed forestry on 4,300 hectares of Maori Land. The remaining 4,000 hectares of forest is to be harvested over the next five or six years repaying the Crown debt advance used to grow the forest.

The iwi forestry cluster model below will complement this initiative by supporting local iwi in consolidating potential forestry holdings.

Between these two forms of financial support for planting, we would expect to boost planting rates by around 12,000 hectares a year, a significant portion of the shortfall.

COST: The estimated capital cost of the initiatives (as loan or equity) is around \$16-\$20 million a year.

Addressing Emissions Trading Scheme prices

A second component of ensuring security of raw product into the supply chain is addressing New Zealand Unit prices in the Emissions Trading Scheme.

Forestry has a unique role to play in relation to climate change. Trees 'feed' on carbon and therefore New Zealand's stock of forests can absorb some of our carbon emissions. This is reflected in our Emissions Trading Scheme (ETS) where forestry owners are able to receive carbon credits, rather than having to pay them as other industries do.

However, at the moment carbon prices are very low and their future trajectory is difficult to predict. This undercuts incentives to planters, especially as planting a thirty-year forest is a very long-term business decision.

The forestry sector would therefore like to see much higher and more stable carbon prices. More broadly, this would also make the ETS more effective in driving behaviours that curb New Zealand's emissions growth.

Labour in government will take climate change seriously and ensure that New Zealand does its fair share with a comprehensive climate change response including committing to the Kyoto framework and ensuring an effective price on carbon.

As an important first step, we will restrict the use of cheap international Emission Reduction Units and stabilise the price of carbon in New Zealand by requiring 50 per cent of all emissions surrendered to be New Zealand Units. (This is accordance with Moana Mackey's bill currently in the member's bill ballot.)

At present New Zealand is the only country that does not place quantitative restrictions on international units. Most other countries place significant restrictions on international units or do not allow trade in international units at all. Therefore, in many cases international units have nowhere to go but New Zealand. This means millions of surplus credits are flooding the New Zealand emissions trading scheme and consequently lowering its carbon trading price.

The present price of carbon in New Zealand is around a third of what it is in Europe due to our different regulatory settings.

Not only does this mean that ETS participants have a much lower incentive to reduce emissions, but also foresters are getting a much lower price for their carbon than they should. This discourages new planting and causes deforestation at a faster rate.

COST: This measure will be revenue-creating rather than a net expenditure.

Legacy Forest status

Indigenous forests cover approximately 6.5 million hectares. However, conversion and biosecurity risks threaten that cover.

Indigenous forests supply valuable timber products, native habitat, soil and watershed protection, greenhouse gas reductions and recreational opportunities. Loss of indigenous forests has led to increased erosion, increased flooding in deforested catchments and a decrease in biodiversity.

For example, there is deep concern regarding Kauri dieback, a new disease to science. This disease is spread via spores in the soil and can kill kauri trees of all ages. Little is known about the disease and management of it has been directed toward minimising the spread of soil in an effort to prevent the spread of the disease. In 2008, kauri dieback disease was pronounced an unwanted organism by MAF, prompting the formation of a joint agency response and the Kauri Dieback Management team.

The Legacy Forest scheme is intended to protect, improve and increase indigenous forest cover. Indigenous forests under biosecurity threat, harvested exotic forests replanted with native trees or marginal agricultural and horticultural land could be conferred "legacy forest" status.

Landowners applying for and qualifying for legacy forest status will qualify for a government grant to contribute a share towards the cost

of planting and maintaining the forest. In return the government will retain a right to restrict harvesting in favour of conservation on land with legacy forest status. It is anticipated that iwi landowners will have a pronounced interest in this scheme.

This policy would be trialled using up to 5,000 hectares of indigenous forest over four years.

COST: \$2.5 million over a four year period.

Forestry Taskforces

Labour will establish Forestry Taskforces as a voluntary work-based skills development programme intended for long-term unemployed.

The Forestry Taskforces will be a forestry-specific version of 'Taskforce Green'. This scheme will focus on:

- Planting on marginal Crown land (500 places a year) and,
- Private sector incentives (500 places a year), which may include support for activities to implement the new National Environmental Standard (see below).

It will run in areas with high employment needs and capacity for forestry. Likely regions would include Northland, East Coast and the Central Plateau.

The Forestry Taskforces will include 'wrap-around' training, health and safety, engagement and education functions enabling clients to develop work habits and create connections to the local forestry industry.

The ultimate aim for participants in the Forestry Taskforces is full-time employment, ideally in forestry and related activities.

This programme is expected to make a significant difference to pockets of entrenched unemployment in rural areas and increase labour market participation.

COST: An estimated \$5.2 million, which would be partly offset by existing benefit entitlements.

Iwi forestry cluster model

Māori participation in the primary sector is increasing as Māori land ownership has grown with increasing amounts of land returned under Treaty of Waitangi settlements.

An estimated 460,000 hectares of Māori land is in plantation forestry. Of this land, 346,000 hectares are leased to forestry companies (and have existing planted forest estates).

A key issue for these Māori iwi and trusts is understanding the options they have for different land uses on their land, and secondly, estimating the value that those options represent.

The Te Tai Tokerau Forestry Cluster project identifies new Maori based forestry systems for Northland that meet the aspirations of local Maori groups, and undertakes economic analysis to estimate

likely returns over various medium and long term scenarios. This project supports and underpins the development of an investment case for a new forest industry in Northland.

Labour will extend the benefits of this model to other regions and iwi that could benefit from it, such as select regions on the East Coast and the Central Plateau.

COST: Up to \$2 million per successful project over two years.

STABLE BUSINESS ENVIRONMENT

A National Environmental Standard for Plantation Forestry

National environment standards are regulations issued under sections 43 and 44 of the Resource Management Act and apply nationally. They can prescribe technical standards, methods or other requirements. Each regional, city or district council must enforce the same standard.

The National Government proposed a National Environmental Standard (NES) for Plantation Forestry in September 2010. It was the subject of consultations during 2010 and 2012, including written submissions, working group discussions and cost-benefit analyses. But in March 2013, National deferred further work on the proposed NES.

Labour will complete the National Environmental Standard for Plantation Forestry, to bring about a more consistent and appropriate plantation forestry management framework while facilitating the sustainable management of natural and physical resources.

The current draft of the NES proposes setting regulations for the main stages of the forestry cycle (afforestation, harvesting, replanting and earthworks) and for two key associated activities; quarries and river crossings (culverts, bridges and fords). These regulations primarily address the effects of forestry on soil erosion and water quality.

Labour considers that clear and well thought through sustainability and environmental policies can go hand in hand with an industry strategy increasingly focused on creating value.

COST: Within departmental baselines.

A New Zealand Forestry Policy

Labour will formalise the government's collaborative approach to the forestry and wood processing industry in a 'New Zealand Forestry Policy' document.

The 'New Zealand Forestry Policy' would seek to complement the *2012-2022 New Zealand Forest and Wood Products Industry Strategic Action Plan* developed by the Wood Council of New Zealand²¹. A NZ Forest Policy will emphasise issues of common interest to the sector and the public of New Zealand. The NZ Forest Policy will serve as a guiding document against which specific policies that impact on land use and wood processing can be tested and modified.

COST: Within departmental baselines.

²¹ The Wood Council of New Zealand (Woodco) was established in 2006 as a pan-industry body which represents the common interests of the forestry and wood processing sectors. Woodco's members are the following associations: Forest Owners; Wood Processors; Pine Manufacturers; Farm Forestry; and Forest Industry Contractors

MATERIAL INFRASTRUCTURE, SKILLS AND SAFETY

Labour will take the infrastructure needs of the forestry and wood processing industry seriously. This includes not only material infrastructure needs, but human resources including strategic training along with health and safety.

Local roading development

Labour is committed to putting suitable infrastructure in place to support the forestry and wood processing industry.

Inadequate roading can place restrictions on forest harvesting activity which in turn can discourage investment in wood processing. We will build on the work of the previous Labour government in improving key wood transport routes in Northland, Tairāwhiti (East Coast/Hawke's Bay), Nelson-Marlborough, Otago-Southland and Bay of Plenty.

Labour established Regional Development Transport Funding in 2002 as part of its regional transformation agenda. Around \$100 million of funding was provided and around 500km of roading in Northland and Tairāwhiti (East Coast/Hawke's Bay) was upgraded.

However there remains an estimated 500 km of roads and track on the East Coast that still require upgrading to ensure viable woodlots can be extracted, and a similar amount in Northland. It is estimated that logging in the East Coast region contributed more than \$200m to the national economy in 2012 and this is expected to double to over \$400m by 2020.²²

Labour in government will restore Regional Development Transport Funding to complete this work, and also extend its coverage to Nelson-Marlborough, Otago-Southland and Bay of Plenty to benefit the forestry and wood processing industry in these areas as well.

Funding will be awarded by the NZ Transport Agency for robust business cases that aid the processing of wood in the region.

Although Nelson-Marlborough, Otago-Southland and Bay of Plenty may not have roading requirements as pressing as those in Northland and Tairāwhiti, funding for forestry roading projects from those areas will be considered where a suitable business case is provided.

COST: \$40 million in contestable capital funding spread over 10 years, on average \$4 million a year.

²² Opus, Report on Proposed Rural Roads Upgrade: Future Logging Demand on Roading Network - Gisborne District, November 8 2013

Education, training and tertiary-based research for the forestry and wood products industry

Labour intends to be more strategic about ensuring that our tertiary education sector capability matches the needs of our economy and society, including industries and regions. National has let things slip back towards the old competitive market model of the 1990s.

We will support forestry ITOs, polytechnics and wānanga, and universities such as the School of Forestry at Canterbury to build on their strengths in order to make the most effective contribution possible to the industries that they serve.

In the case of forestry, we will do this in a way that leverages the investment Labour made in this area when last in government. In particular:

- *The Waiariki National Centre of Excellence for the Forest and Wood Industry:* a partnership between Waiariki institute of Technology in Rotorua; the industry training organisation for forestry; and the University of Auckland, which has been custom designed and outfitted with a specialist computer suite used to run state-of-the-art computer simulation software relating to forest mapping, forest operations, saw doctoring, machining and other related timber applications.
- *The establishment of two key professorships in wood design at the engineering schools in the Universities of Canterbury and Auckland:* these positions are currently held by Professor Pierre Quenneville at Auckland and Professor Andy Buchanan at Canterbury. Professor Quenneville is from Canada where he received the Canadian Wood Council's 2007 Wood Champion Award, and his research into efficient bolted connections has helped to set international building standards. Professor Buchanan researches new methods of constructing commercial multi-story buildings with timber, and is a past-president of the New Zealand Timber Design Society.

COST: Within existing or proposed tertiary initiatives.

Health and safety

Labour considers the current injury and death rate in the forestry sector to be unacceptable. Labour supports improving health and safety practices in the forestry and wood products industry. In particular, we intend to introduce new regulations that protect forestry workers. We must make sure they work regulation hours and require the appropriate use of forestry workers' personal protective equipment (PPE), including, where possible, PPE incorporating new technology.

Worksafe has identified severe and systemic issues in forestry. Worksafe needs to take the initiative, follow the money and start holding the forestry owners to account; as much attention should be given to the forest owner in any investigation as is given to those closer to the accident scene.

No forest owners have been investigated for the supervision they exercise over their contractors, and none have been considered

for prosecution. It is the forest owners who select the contractor and who are in the best position to ensure their contractors are properly equipped to do the job and have adequate management and supervision to protect frontline workers.

We have also signalled an intention to introduce a corporate manslaughter law. The Government's decision to dump a proposal to introduce an offence of corporate manslaughter will let negligent forestry bosses off the hook and do nothing to stop needless tragedies in the sector

A corporate manslaughter law would enable corporations to be held accountable for their worst failures including deaths of forestry workers because of unsafe practices. It could also be used against those responsible for badly constructed buildings.

We also support the Independent Forestry Safety Review, which was announced on 29th January 2014. Three Panel members were appointed; businessman George Adams, health and safety lawyer Hazel Armstrong and safety expert Mike Cosman. The purpose of the Review is to identify the likely causes and contributing factors to the high rate of serious injuries and fatalities in the New Zealand forestry sector.

In undertaking the Review, the Panel will examine the health and safety structure and culture of the forestry sector. This will include reviewing health and safety education and training. It also intends to consult widely, including with those affected by serious injuries and fatalities in the forestry sector. At the Review's conclusion, the Panel will recommend a package of practical measures that would be expected to result in a significant reduction in the rate of serious injuries and fatalities in the forestry sector over the next five years.

If the report and its outcomes are not satisfactory, Labour will initiate a government review of Forestry Safety.

COST: No direct costs at present, unless government review initiated.

