

## 2017 NZ political outcome and implications for the forest sector

### D Rhodes, October 2017

The election result that few predicted has fundamentally changed the engagement between the forest sector and government, and has potentially significant implications for the operating environment for forestry and forest investors. We now have a coalition government that will be much more interventionist, less constrained with spending, and will set more challenging environmental targets. NZ First and Labour had sufficient common objectives to allow the conclusion of an agreement that sets some quite specific priorities - [http://www.nzfirst.org.nz/new\\_zealand\\_first\\_and\\_labour\\_coalition\\_agreement](http://www.nzfirst.org.nz/new_zealand_first_and_labour_coalition_agreement)

The Ministers in charge of the portfolios of most relevance to forest owners are quite different to their predecessors but, fortunately, FOA already has a good working relationship with most of them and will certainly forge one with those who are new on the scene.

The big picture is that forestry has a profile and level of recognition that it has not had for some time and this is going to increase as some of the changes are implemented. However, the new regime also brings mixed messages and potentially mixed fortunes depending on individual forest owner circumstances. Potential domestic investors with land available to plant will be the primary forestry group that the government will be looking to partner with, and provide support to, for tree planting. There will not be the same direct benefit for foreign-based investors or those who already own forests. Nonetheless, the reinstatement of a ministerial position for forestry and a dedicated Ministry and/or Forest Service both provide for a much closer level of engagement between industry and government on both opportunities and threats.

The coalition agreement spells the end of MPI as a super ministry with agriculture, forestry and fisheries all destined to regain their own individual focus. Word on the street is that MBIE may well follow suit. This will mean the usual turmoil while the MPI restructuring is carried out, but the industry can look forward to an improvement in the co-ordination and representation of forestry.

While the priority announcements agreed have been publicised, there are other areas where clarity is yet to be provided and may take some time. This means there will be time for engagement through the usual mechanisms with the government especially as some changes may require regulatory or legislative change. Some of the areas yet to be clarified relate directly to forestry and some are wider macro-economic influences. They include:

- *A review and reform of the Reserve Bank Act*
- *A progressive increase in the minimum wage to \$20 per hour by 2020*
- *A review and potential reform of the Overseas Investment Act and development of a comprehensive register of foreign-owned land and housing*
- *A review of the drivers of local government costs and revenue base.*

Obviously, the overall management of the economy will be closely monitored by business and may well have more influence on trading conditions than any specific forestry policies. Some additional detail was provided by the Governor General in her Speech from the Throne on 8 November. With respect to fiscal responsibility, there was reassurance that the government will work within the Budget Responsibility Rules that include running sustainable operating surpluses across the economic cycle, reducing net debt to 20% of GDP within five years and keeping government expenditure as a percentage of GDP in line with historic trends.

Beyond the priorities thrashed out between the coalition partners there are also those policies that did not get collective agreement, but which each of the parties has the ability to continue to prosecute if they can garner sufficient support. The most likely will be those that Labour held going in to the election as part of its manifesto (<http://www.labour.org.nz/policy>) and that it will want to make some progress on. Some examples of areas that could easily reemerge are:

#### **Water improvement:**

- o Restoring rivers and lakes to a swimmable state
- o Assisting farmers to fence waterways and establish riparian plantings

#### **Transport development:**

- o Creating a passenger rail service linking Auckland, Hamilton, and Tauranga
- o Re-opening moth-balled railway lines where community and business support exists and there is evidence that the service would be sustainable, notably the Napier to Gisborne rail line
- o Investigating a rail line to Marsden Point and Northport and upgrading the North Auckland Line to take pressure off the roads in Northland
- o Making more funding available for transport projects of regional importance by doubling the funding range of \$70-\$140m to \$140-\$280m
- o Revitalising coastal shipping

#### **Tax**

- o Taking action to ensure that multi-national companies pay their fair share of tax, including consulting on the introduction of a Diverted Profits Tax

- Introducing an R&D tax credit at the rate of 12.5%, to encourage businesses to research and innovate

## Employment

- Encouraging employers to take on unemployed young people as apprentices by giving them a wage subsidy equivalent to the unemployment benefit
- Replacing the current 'fire at will' law with trial periods
- Introducing fair pay agreements that set basic employment conditions across an industry based on the employment standards that apply in that industry

## Education

- Investing an additional \$6 billion over four years in education, including \$1.8 billion to deliver more teachers, professional development and learning resources
- Replacing national standards with new forms of achievement assessment

National are likely to oppose much of the above and thus there will need to be collective agreement by Labour, NZ First and the Greens to achieve progress. NZ First will again be key in determining whether this is possible.

## Forestry (and the billion dollar man)

The appointment of a Minister of Forestry inside Cabinet restores forestry to a position it last held nearly ten years ago prior to the previous government creating an associate portfolio outside Cabinet. The position is strengthened further by Minister Jones also having responsibility for infrastructure and regional development. Furthermore, the Minister is assured of wider Cabinet support notably from the PM, the Deputy PM, Stuart Nash, Phil Twyford and, because environmental goals have been formally linked with forestry, David Parker.

The areas of forest specific policy that have received most media attention are the re-establishment of the New Zealand Forest Service, a planting programme goal of 1000 million trees over ten years (or 100,000 ha per annum) and the establishment of a \$1 billion per annum contestable Regional Development (Provincial Growth) Fund which will be used to fund projects like investment in regional rail and also the tree planting.

The FOA and Minister Jones have engaged regularly both pre and post-election. Indeed, FOA previously engaged with Shane Jones when Labour developed their forest policy that was

launched at a previous ForestWood conference and has been very open to receiving advice on the sector, and potential government strategies. The billion dollar trees target, for example, was discussed with us before it was announced. I expect this close co-operation to continue. Tree planting and regional and Maori development in Northland are his top priorities. He is very keen to make progress with planting and does not want to be tied to the timetable required to disassemble MPI and create the Forest Service. We have advised that as long as the billion tree target includes replanting it is ambitious, but feasible, and that there is expertise within MPI that could be brought to bear immediately. Two existing elements within MPI that are well-suited to assist with forestry expansion, and the Minister's focus on Northland, are:

1. The Sector Partnerships and Programmes directorate of MPI headed by Ben Dalton which has been actively involved with Maori. Ben has previously operated a portable sawmill, been an Executive trustee for Ngāpuhi (Northland iwi), the Maori Economic Development Commission and the Crown Forestry Rental Trust. He clearly has strong links with Northland.
2. The Crown Forestry Unit headed by Warwick Foran which also has experience in negotiating with Maori interests, establishing and managing joint ventures and managing, valuing and harvesting forests.

Achieving the billion trees goal, which equates to maintaining existing replanting and adding a further 45 to 50,000 ha of new planting, has many challenges and the detail has not yet been determined. It is healthy that the Minister is seeking advice and FOA has responded on the challenges related to nursery production, labour and the need for criteria to identify what is planted and where. It is important though that the challenges do not dominate the public conversation. The industry needs the Minister to succeed.

The agreement between NZ First and Labour includes a commitment to “*relocate government functions in to the regions*”. The establishment of the Forest Service will take time but, once established, will clearly provide an additional important opportunity for engagement with the Crown, particularly in Rotorua. It is also worth noting that Fletcher Tabuteau (a founding NZ First member for Rotorua and third ranked after Ron Mark) has been appointed Under-Secretary to the Minister of Foreign Affairs (Peters) and also to the Minister for Regional Economic Development (Jones). This presents another opportunity at the regional level for a close relationship.

How much like the old Forest Service the new one will be is not clear, but it will clearly have a facilitation role in establishing the billion trees and be based in Rotorua and replace functions currently carried out in Wellington. “*It be will be responsible for implementing a*

*National Forestry Strategy, growing its own commercial forests as appropriate for the strategy, and helping other land owners who want to convert to forestry*". This presents a good opportunity for those who have put the hard yards in to the NZIF-led NZ Forest Policy.

As noted in my pre-election report to the FOA Executive, all potential political outcomes entailed opportunities and concerns. The forest policy concerns with the current government lie in two areas – controls on overseas investors and what measures will be introduced to ensure domestic log supply.

NZ First and Labour wish to "strengthen" the Overseas Investment Act and create a register of foreign-owned land. Restrictions on existing homes was the first manifestation of a tightening on foreign ownership. There is also a concern that restrictions on foreign ownership of cutting rights might be extended. Against that Labour has previously stated that they are not against foreign ownership per se and Minister Jones recognises that New Zealand needs foreign investment.

The other issue which has gained political traction and media publicity is log supply. Shane Jones and Winston Peters have made a number of public statements that they will do something to ensure local sawmills are not starved of wood.

As recently as 8 November the Governor General reiterated the need for improved productivity and that *"this means ... reducing the export of raw commodities and adding more value in New Zealand. For example, by securing the supply for forestry processing ..."*

From numerous meetings with Shane Jones, particularly post-election, and due to his background and training, it is clear he is aware of the perverse outcomes that can result from putting controls in the market, but the Minister needs an industry developed solution.

And it will be important that these messages get beyond the Minister of Forestry. Jacinda Adhern grew up in Murupara and has made statements about the new forestry service providing stability for investment in wood processing and manufacturing onshore, rather than exporting raw logs. The Prime Minister has also lamented the loss of 3000 jobs in wood processing since 2008 while raw logs have tripled, implying that one has caused the other.

David Parker, as Minister for Trade and Export Growth, is another who will need to understand the importance of a log export trade for the lower grade logs and a reminder that ten years ago the concern was a wall of wood that had no obvious home.

## Environment

The fact that Labour has one of their most experienced politicians (David Parker) in this role and the portfolio has not been given to the Greens is significant. This suggests that while an accord could be found to offer Climate Change to James Shaw and Conservation to Eugenie Sage (but both outside Cabinet) Labour and NZ First will want to carefully consider their positions on the development of any wider environmental policy, such as water.

Minister Parker has previously held the Climate Change portfolio and FOA was closely involved with him domestically and internationally at that time.

The Environmental Protection Agency (which is reviewing the alternate fumigant EDN) reports to the same Minister and thus FOA will also be looking to engage with him on the M Br issue.

As noted above, higher environmental standards and goals can be expected. The following statement points to where forestry is recognised but also where it can expect greater scrutiny. *“Support will be given to regional councils to better monitor and control nutrients and sediments in waterways. The agriculture sector will also be assisted to improve water quality and to shift to more sustainable land uses, such as forestry.”* The National Environmental Standard for Plantation Forestry is timely in that regard.

## Conservation

Minister Sage is also well known to FOA and, in particular, the Environment Committee. Generally, she is supportive of forestry but she still holds some concerns e.g. around the National Environmental Standard which now falls under Minister Parker’s jurisdiction especially with the pending disaggregation of MPI. She also has a Director-General in Lou Sanson who understands plantation forestry very well.

With a “significant” increase in budget the Department of Conservation should be better positioned to partner on common issues with the private forest sector such as pest management, fire management and wilding control.

## Climate Change

The Prime Minister has made this a key goal for the coalition and although outside Cabinet, Minister Shaw will be the key person to engage with on the ETS, international climate change policies and the changes that are needed to encourage greater forestry (and agriculture)

participation. James Shaw is well known to FOA including through engagement within the NZ delegation at previous Climate Change talks. Expect this topic to also be linked to the Productivity Commission's work.

Action on NZ's emissions has gone up at least a couple of gears with the immediate announcements that there is agreement on:

- A zero by 2050 greenhouse gas emissions goal
- The introduction of a climate change commission as recommended by Jan Wright
- Agriculture being brought into the ETS if the Climate Change Commission recommends such (which seems likely). Labour was wanting agriculture to face 10% and we have been advised that the trade-off with NZ First has been the agreement that if it is deemed appropriate to bring it in then it will face 5% of its emissions (95% free) and with any revenue *“recycled back into agriculture in order to encourage agricultural innovation, mitigation and additional planting of forestry”*

These developments taken with changes that can be expected as part of the Stage 2 review of the ETS are all positive for the price of carbon and only further increase the need for expanding the forest estate. Already the price of carbon has lifted from its pre-election level by round 5%.

This remains an important topic for forestry and getting the policy right here is one of the important tools to achieve the new planting goal even though it is insufficient on its own. It is surprising that Shane Jones was under the impression that forest owners were not supportive of the ETS, but that misunderstanding has been rectified. An area where there remains room for further discussion is the position of pre-1990 forestry. Despite this being raised numerous times with the previous government, and via the Wood Council submission to the ETS Review, it does not appear to be a priority. The government should be interested in this for two reasons:

- It potentially provides the government with a costless way of reducing the New Zealand emissions deficit
- It improves the chances of both replanting and possibly higher stocking – both contribute to the Minister's billion trees goal

Shaw is also Minister for Statistics which could be helpful in trying to advance the case for forestry having its own satellite account which arose out of the study that FOA/FFA commissioned NZIER to complete.

## Housing

There has already been some engagement with Phil Twyford, Minister for Housing and Urban Development (committed to using wood and developing our industry). The Minister is very supportive of forestry and believes we should be using NZ plantation timber in the new houses that the government wants to get built.

This is reinforced by a statement made by Prime Minister Adhern pre-election when she said that *"A Labour government will have first preference for using wood in new building projects, including KiwiBuild."*

This also opens up the opportunity to advance a Wood First policy. This was part of the Labour Forest Policy when Shane Jones was with Labour and is thus very consistent with their previous position. It should also be supported by NZ First particularly given statements made by their leader.

## Agriculture

Agriculture is now with a different Minister (Damien O'Connor) to Forestry but effectively it was under the previous government anyway and this is not seen as creating any issues given the coalition agreement. O'Connor also holds Biosecurity, Food Safety and Rural Communications which are all currently handled within MPI.

This Minister will be committed to the coalition goals for forestry and climate change and thus there should be an opportunity to work more closely with farming and farmers to achieve integrated land use solutions and to build a better relationship. This is reinforced by a number of post-election statements by Federated Farmers which recognise the role of trees (an example is provided below).

The government has signalled a wind-down on subsidisation of irrigation schemes, but at the same time signalled financial support for agriculture to adjust. Extension advisory activities are an obvious candidate in this area and there could be a role for the Forest Service. The government has stated that it *"will support a just transition for workers in industries that need to reduce emissions, and it will support the creation of jobs in sectors that are carbon-free or carbon sinks, such as forestry. Farmers operating at best practice will be credited for emissions reductions."*

## Biosecurity

As noted, the Minister of Agriculture also holds this portfolio. By the end of the year it is expected that all the key primary industries, including the meat sector, will have joined the Government Industry Agreement (GIA) table that forestry already sits at. This will be helpful for cross-sectoral alignment as there are many common positions amongst the industry participants.

A funding increase to Biosecurity NZ and a Select Committee inquiry into biosecurity are likely to see the government commitment increased which will be helpful with the expansion of the GIA and Operational Agreements between industry and Crown. More support will also be given for National Science Challenges, including piloting alternatives to 1080 and countering myrtle rust and kauri dieback.

## Transport

Housing Minister Twyford also has transport but will be preoccupied with rail, Auckland infrastructure, cycleways and the feasibility of moving the Ports of Auckland to Whangarei. Forestry's key rural roading issue is better discussed with Minister Jones via his infrastructure portfolio.

## Revenue

The on-going tax issue that has been pursued by Farm Forestry will now be a consideration for Stuart Nash. As well as Police and Fisheries he is also Minister for Small Business which could also be relevant. With a strong background in forestry he will likely be receptive to this issue.

## Workplace Relations and Safety, Immigration, ACC

These responsibilities all lie with Iain Lees-Galloway and this will be an important relationship for the Forest Industry Safety Council (FISC). The FOA has already had a preliminary discussion with the Minister.

The issue of migrant workers and the government's commitment to "Ensure work visas issued reflect genuine skills shortages" may need to be tempered with the challenge for forestry and other primary industries in getting sufficient workers willing and able to do the job. Until sufficient New Zealanders have been adequately trained and supported the new planting goal could be difficult without the option of utilising foreigners.

## National in Opposition

The new coalition government will be facing a formidable opposition. National has a line-up of very experienced ministers with no mass retirements from the ranks and with sufficient numbers to more than have their say both in terms of questions in the house and through their representatives on Select Committees (even more so after the first day of Parliament). Both questions and representatives are broadly in line with the party membership in the House, excluding Ministers and Parliamentary Under-Secretaries. National will be asking by far the most questions and will dominate some of the Select Committee hearings.

### *Extract from federated Farmers Press release*

#### **Transport, trees key factors in climate change response**

*New Zealand's most effective actions on global warming in the short to medium term would be to focus on energy and transport, and improve current policies to better reward those who want to plant trees, Federated Farmer says.*

*The Federation's climate change spokesperson, Andrew Hoggard, said the new report "Our Atmosphere and Climate 2017" provides a useful update on the nation's greenhouse gas emissions.*

*"It confirms a lot of what we already know, including that agriculture is a significant contributor to emissions.*

*The report echoes earlier recommendations of Net Zero and former Parliamentary Commissioner for the Environment Jan Wright that planting more trees can offset emissions to meet Paris Agreement deadlines and while we await science advances.*

*"Farmers are very open to discussions about policies, including reducing red tape and current complexity, that could increase the rate at which trees are planted."*

***ENDS***