



Submission

on

Overseas Investment (Forestry) Amendment
Bill

20 June 2022

Submitter

This is a submission on behalf of NZ Forest Owners Association Members

FOA

The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial scale plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and over 75% of the annual harvest. A number of our members are owned by overseas entities and are either active in obtaining additional NZ investment or have in the past.

Summary

The Government is proposing to move the Special Forestry test to the NZ Special Benefit test. We note the benefit to New Zealand test is a much more complex and time-consuming application and likely to be an impediment to investment.

The change appears to be driven by:

- a) a political move to appease the agricultural lobby
- b) a concern by officials that NZ is going to get too much afforestation and that will work against carbon emitters taking action because it will suppress the price of carbon.

Data supplied by the Overseas investment Office shows that under the Special Forestry Test, only approximately 31,400 ha will be, or has been afforested – over a period of 4 years – Oct 2018 – Apr 2022. (Figure two).

MPI – National Exotic Forest Description (NEFD) data shows that plantation forestry peaked in 2003 at 1.83 million hectares. It declined for the next 16 years to just under 1.69 million hectares. Over the last two years the area has increased by 43,000ha to 1.74 million hectares. (Figure one).

(The NEFD is a Tier 1 Statistic – these are the most important statistics in New Zealand, essential to understand how New Zealand is performing and to inform critical decisions).

Background

The special forestry test (sft) addressed an issue with the previous test, which had the requirement to demonstrate the benefits of the investment compared against investment from the vendor or a NZ investor. Where a resource was well managed to industry best practice, proving an improvement was often very difficult. The benefit to investors of the sft is the streamlined approach and the certainty it provides in terms of timeframes and contractual certainty. We are very concerned that the “Revised Benefit to NZ test”, although an improvement on the original test, will act as an impediment to overseas investment.

In a statement, Minister Nash said the Government wanted to encourage afforestation to help meet climate change targets, offset carbon emissions and help farmers, landowners and investors diversify their income streams.

The interest in forestry and carbon, including carbon farming, has been stimulated by the Climate Change Commission which drew the line, saying New Zealand needed 380,000 new hectares of plantation forestry and 300,000 hectares of new native forestry by 2035 to meet its international obligations to reduce carbon emissions.

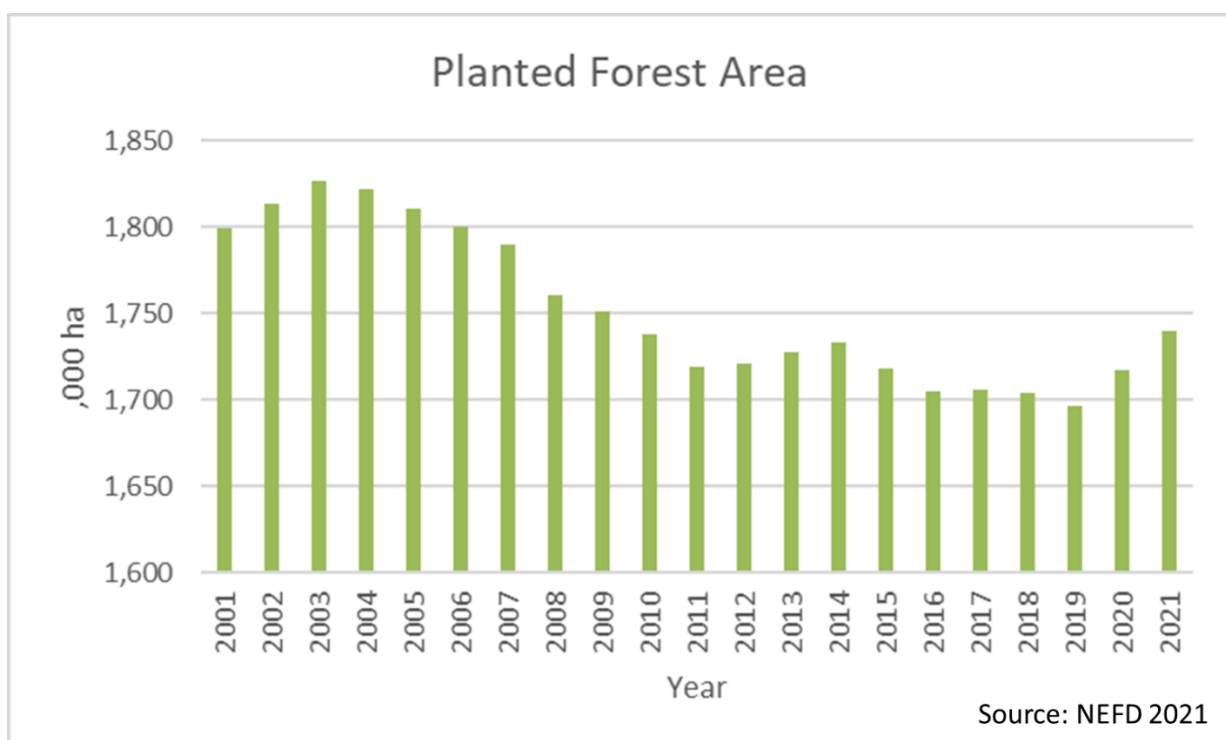
The Commission's level of new forestry is more conservative than what previous independent bodies suggested because the Commission wants more emphasis placed on emissions reduction rather than sequestration.

It appears we are currently tracking about right and the planting level will be up next year if we can get enough labour. But to maintain that level and reach 380,000 new hectares by 2035 it will take a sustained effort.

New Zealand currently has 1.7 million hectares in plantation forestry, of which around 1.2 million is in large-scale corporate forestry (10,000 ha and over) and another 500,000 hectares in smaller forests and woodlots. (see Figure one).

Maori are increasingly significant owners.

Figure One:



Plantation forestry peaked in 2003 at 1.83 million hectares. It declined for the next 16 years to just under 1.69 million hectares. Over the last two years the area has increased by 43,000ha to 1.74 million hectares.

Overseas Investment Data

See Figure Two: This information is to 30 April 2022 and was supplied by the Overseas Investment Office. (Note this is an update on the information presented in the Regulatory Impact Statement).

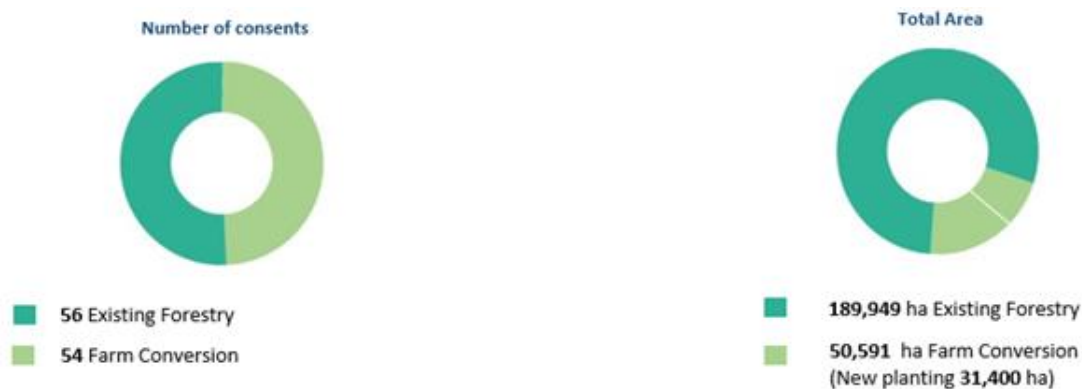
In total, there have been 110 one-off consents granted under Overseas Investment Act, using the Special Forestry Test, since October 2018 (when the test was introduced) through to 30 Apr 2022.

The total area consented is 240,539 hectares, which includes sales from one overseas owner to another overseas owner. 90,667 hectares was transferred from a New Zealand owner to an overseas owner.

54 of the 110 consents granted relate to conversion from farmland into forestry (as shown in the graph below).

Also shown in the graphs is the area of land consented for conversion-related applications under the Special Forestry Test (50,591 hectares). **Approximately 31,400 hectares** will be the subject of new planting, with the remainder of the land including land that is unsuitable for production forestry, indigenous vegetation, existing forestry land, or land that is being subdivided and sold.

Figure Two:



It is important to note, that under the Special Forestry Test, only approximately 31,400 ha will be, or has been afforested – over a period of 4 years – Oct 2018 – Apr 2022.

The bulk of the land falls under the more marginal class 6 or 7 country, with steep contour and poor soil type.

The concern raised regarding the area planted under the SFT (31,400 ha – 4yr total), is akin to a storm in a teacup when compared to the total land area either in forestry (1.74 million ha) or pastoral land (7.7 million ha). Agricultural land makes up at least 50% of the area of almost all regions. Consequently, New Zealand uses a little over half of its entire land area for agricultural purposes – Source Statistics NZ.

This clearly shows the Special Forestry Test is not being abused, or causing a distortion in the market place. There is no proof that it is driving the conversion of farmland to forest land.

The SFT is operating as designed / expected and should not be amended. There has been no evidence presented that these overseas investments have not benefited New Zealand. Some farming interests have claimed the test facilitated the planting of carbon forests. We note that permanent forests are prohibited under this test.

We note the Regulatory Impact Statement (RIS) prepared May 2022 states that there is “very limited information on which to make a meaningful assessment”, and the RIS also notes “limited evidence of the effectiveness of the size and scale of the problem, and the potential impact of proposed legislative changes”. Although the QA panel assessed the RIS as meeting Quality Assurance criteria, it doesn’t change the facts that as stated in the RIS, this is policy change being made with limited evidence of the problem it is addressing, or the impact of the solution.

FOA Submission

FOA considers that the proposed changes to the Act, particularly the removal of the special forestry test for farmland to forestry conversion are a reaction to a perceived rather than actual issue, and the result of lobbying from parties representing competing primary sector land users.

Thus far we have one year of planting that is at about the level needed to meet the Climate Change Commissions targets for exotic plantations and an indication of higher levels this year. Whether that can be sustained for the following 12 years, especially with some of the rules government contemplating, is highly questionable.

New Zealand will need more afforestation to meet our climate targets. To achieve desired levels of afforestation, policy needs to both enhance social licence and provide investment certainty. The key drivers to carbon sequestration are the NZ ETS price estimates and investor confidence in response to the Government signals on the direction for forestry policy.

Figure One shows that planted forest area has **reduced** over the last twenty years.

Critically, it is important to note, that under the Special Forestry Test, only approximately 31,400 ha will be, or has been afforested – over a period of 4 years – Oct 2018 – Apr 2022. (Source: **Overseas Investment Office**).

The changes to the Act could prevent New Zealand meeting its future afforestation targets deemed necessary by the Climate Change Commission to meet our international obligations.

If changes are made to the Act, we recommend the criteria in the Special Forestry Test or NZ Benefit can be retained for those forestry investors that have a history in NZ as longstanding low risk investors with a history of good compliance and industry support.

Explanatory Note to the Bill - Corrections

We consider there is a need to clarify the situation discussed in the Explanatory Note to the Bill. A number of the points raised are incorrect or overstated.

Explanatory Note: 134-1 Paragraph 4 “economics of investing in forestry have changed and it has become more attractive. This change has been primarily driven by the increasing price of carbon credits ...”.

In relation to this point we note:

As reported in the Price Waterhouse Coopers (PWC) Report – Commissioned by Te Uru Rakau – May 2020. “In hard hill country, **forestry generally offers greater returns**, which are enhanced by carbon unit revenue”. It is overstating the situation to state that change has been primarily driven by increasing price of carbon. Forestry generally is more profitable before considering carbon revenue.

Explanatory Note: 134-1 Paragraph 5.

“This includes increasing conversions of productive farm land to forest”.

In relation to this point it would be more accurate to note: conversion from “productive farm land to **more highly productive forest land**.”.

Total planted forest area (2021) is approximately 1.7m ha yielding \$5,907,000 in export receipts or \$3,697 export dollars per ha. This compares to Meat and Wool managing 8.9 million ha (2019) yielding \$10,220,000 in export receipts or \$1,148 per ha/yr. These are export receipts and have NO carbon contribution. (Source: MfE “Our Land” 2021, MPI and PWC – Economic Impacts of Forestry in NZ 2020).

Explanatory Note: 134-1 Para 5.

“New Zealand has consequently seen an increase in forestry investment”.

Assuming the “Forestry Investment” referred to is purchase of land for conversion to forestry, this statement although technically correct (the area has increased over the last two years), needs to be looked at as to its significance. Figure One shows the plantation forest area in NZ and how it has changed over the last 21 years. The area increased over the last two years by 43,000 ha. However, the current area is still 82,000 ha less than the area in the early 2000,s. (Source: National Exotic Forest Description – 2021).

Impact:

Already, two FOA members have reported their parent companies have ceased plans to further invest in New Zealand due to perceived uncertainty in the investment rules. This is a direct response to the Amendment Bill.

As noted in the Amendment Bill, the benefit to New Zealand test is a more complex test than the special forestry test – requiring in-depth consideration of the benefits relative to the current use of the land and involves greater discretion for decision-makers. This increases uncertainty and will reduce interest in investing in New Zealand.

Conclusion:

1. FOA submits that production forestry should retain the ability to use the Special forestry test noting the need to give investors stability and a degree of certainty. The case against the Special forestry test was overstated and incorrect.
2. Alternatively, the Special Forestry test should be retained for those forestry investors that have a history in NZ as longstanding low risk investors with a history of good compliance and industry support.
3. Government Climate Change initiatives and imperatives are heavily reliant upon additional afforestation. This change in policy will have a negative impact, lowering the probability of NZ meeting its carbon targets.

We thank the Committee for the opportunity to submit on this matter. We would welcome the opportunity to appear before the Select Committee to discuss this matter further.

For further information please contact:

A handwritten signature in blue ink, appearing to read 'Glen Mackie', with a long, sweeping flourish extending upwards and to the right.

Glen Mackie
Technical Manager
NZ Forest Owners Association

027 445 0116

Glen.mackie@nzfoa.org.nz