

## COVER SHEET

1. Far East Saw Mill Project PGF Application	For: Approval
Background & context:	Recommendation:
<p><b>Applicant Organisation:</b></p> <ul style="list-style-type: none"> <li>Eastland Community Trust (ECT)</li> <li>Far East Saw Mills (FESM)</li> </ul> <p><b>Location:</b></p> <ul style="list-style-type: none"> <li>East Coast/ Tairāwhiti</li> </ul> <p><b>Proposal:</b></p> <ul style="list-style-type: none"> <li>Recommissioning and improvements to a mill site by FESM.</li> </ul> <p><b>Funding Sought:</b></p> <ul style="list-style-type: none"> <li>Total project value: \$ <small>Commercial Information</small></li> <li>PGF Funding: \$500,000</li> </ul> <p><b>Background:</b></p> <p>The forestry industry is one of the main contributors to Gisborne's local economy. It contributes 14 per cent to New Zealand's total wood exports. An identified industry issue is that only 4 per cent of the total exported wood is processed in New Zealand.</p> <p>In February 2018, Minister Jones announced \$200,000 of funding for the ECT from the Provincial Growth Fund for a business case to support the development of the Wood Processing Centre of Excellence (CoE).</p> <p>The reason this \$ <small>Commercial Information</small> investment request from the FESM and comes ahead of the, to be completed wood CoE business case, <small>Commercial Information</small> <b>Commercial Information</b></p> <p>The funding will enable FESM to move towards full capacity, and in doing so, will require more staff to support wood processing at the mill, thus providing an opportunity for <small>Commercial Information</small> to be</p>	<p><b>We recommend that SROs:</b></p> <p>a) <b>Discuss</b> Far East Saw Mill's PGF application</p> <p>b) <b>Note</b> The application has been assessed by the PDU and MPI</p> <p>c) <b>Note</b> Concerns were earlier noted during due diligence about the ownership structure of FESM. PDU staff have now undertaken further due diligence to understand the corporate structure</p> <p>d) <b>Note</b> that while this application is not directly related to the Centre of Excellence (CoE) it will help in its development by providing valuable infrastructure to the site. FESM's viability is not contingent on the CoE establishment; however demand for FESM's product will be augmented if the CoE is established.</p> <p>e) <b>Note:</b> The CoE business case expected at the end of the 2018 year will outline options for the 'shared services' of the CoE.</p> <p>f) <b>Approve</b> \$500,000 funding through either a grant or a loan (or a mix thereof) to support the FESM Activation project.</p>

reemployed. The two parties, ECT and FESM are contributing \$ <sup>Commercial Information</sup> to this proposal. PFG funding, alongside the applicant's investment, will be used for:

1. Commercial Information <sup>Commercial Information</sup>, and
2. Commercial Information <sup>Commercial Information</sup>

Commercial Information <sup>Commercial Information</sup>

An immediate upgrade to FESM processing equipment will provide raw material to support <sup>Commercial Inform</sup> established domestic demand.

An upgraded kiln operation will allow FESM to maximise sales value by supplying value added dry lumber, which is lighter and more cost efficient to transport.

The purpose of this briefing is to consider recommending PGF funds to Far East Saw Mill

**Alignment to PGF criteria:**

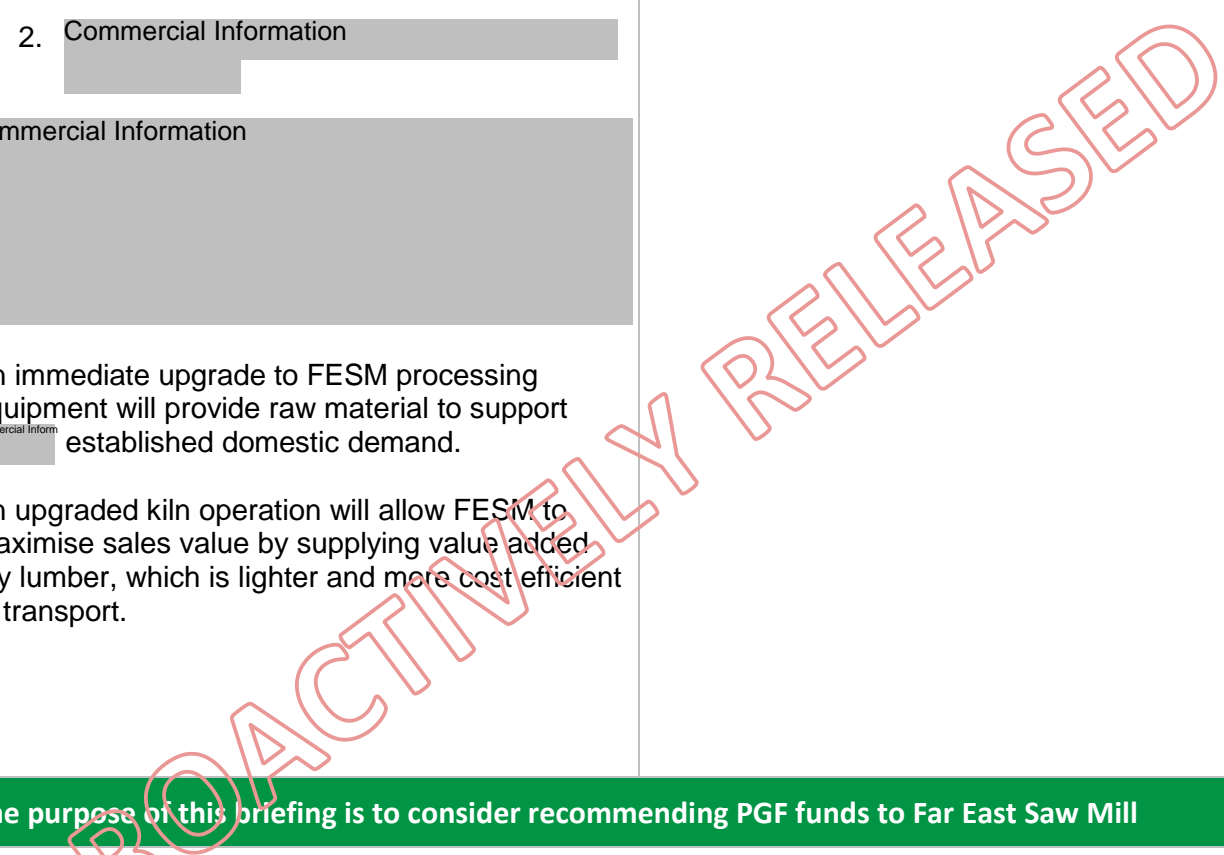
*Increased Economic Benefit*

As part of the election the Labour party pledged to invest up to \$20 million in local development of a prefabricated housing factory and associated infrastructure in Gisborne. An expedited re-activation of the FESM will enable this facility to be part of the solution. The employment proposition from maximising FESM's output will result in the retention and upskilling of the local workforce (many of whom were adversely affected by <sup>Commercial Information</sup>).

**Note:** The CoE application (currently at business case stage) suggests other processors might be co-located with FESM's operations. The demand from this proposed initiative will augment the demand for FESM's potential output. The success of the CoE establishment will support further job creation for the region.

*Additionality*

The FESM activation provides critical enabling infrastructure for the CoE and builds on work ECT have completed to date (ECT purchased the decommissioned prime site <sup>Commercial Information</sup>). <sup>Commercial Information</sup> invested \$ <sup>Commercial Information</sup> in the development of the optimised <sup>Commercial Information</sup> technology with <sup>Commercial In</sup>.



PGF funding would support FESM to get to full scale production faster and to employ <sup>Commercial Information</sup> staff <sup>Commercial Information</sup> of whom will <sup>Commercial Information</sup>. The FESM will also supply <sup>Commercial Information</sup> with feedstock and has an agreement to supply to a potential investor in a fibre board plant. A future CoE participant (for a thermal modification plant) also has a <sup>Commercial Information</sup>.

*Alignment with regional plans/ Stakeholder support*

Timber processing has been identified as a key opportunity in the Tairawhiti Economic Action Plan (TEAP) and is supported locally by the TEAP Governance Group, Activate Tairawhiti and ECT. The region is currently developing a ‘wood first’ policy to support the local forestry and wood processing industry.

*Management and Governance*

The project will be governed by FESM with oversight by ECT’s Commercial Manager. There will be monthly reporting to the Activate Tairawhiti Board and ECT trustees with quarterly updates to the TEAP Governance Group.

**Risks Issues:**

- The sector has higher than average work related health and safety incidents. There is no risk register supplied as part of the application.
- Exchange rate fluctuations can significantly affect the attractiveness of New Zealand wood in international markets. The previous saw mill operator closed the operations in 2010 because of this reason.
- Delay and cost overrun in procuring electronics and repairs could affect the financial viability of the project.

MPI and PDU will work with the applicant to ensure these risk issues are addressed.

**Eligibility points of note:**

- *Due diligence*:- Completed
- *Conflict(s) of interest*:- Based on the information provided no conflict of interest is evident.
- *Illegal Activity*:- Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- *Alignment with Regional development plans*:- Forestry is noted in the TEAP as a priority for regional economic growth.

**Questions asked by SROs in the previous meeting have been answered in Annex One.**

**Consultation undertaken or implications:**

Legal	N/A	HR	N/A	Finance	N/A	MBIE policy	N/A	Other	MPI
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**Supporting proposal:**

Yes

<b>Appendices:</b>	Yes – Annex 1, Previous SRO questions and answers. Annex 2, Application.
<b>Sponsor(s):</b>	N/A
<b>Manager/Author of paper:</b>	DG/ ELH Investment Team. <small>Privacy of natural persons</small> MPI. Cameron Osmond PDU.

PROACTIVELY RELEASED

## **Annex One: Questions asked by SROs in the previous meeting**

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### **Is this a commercial operation the PGF is asked to support?**

Commercial Information

### **Is there an alternative funding option other than a grant?**

PGF support was initially requested as a grant. As this is clearly a commercial investment, in light of the developing investment statement to be confirmed in July) support by way of a debt instrument (as opposed to as grant) may be a consideration by the SROs.

### **What upgrades is the PGF being asked to support?**

FESM is in need of financial resources to expedite upgrades in three areas:

- Commercial Information  
[Redacted]  
In this competitive industry saw mills need to have technology to optimise conversion to compete and be viable
- Commercial Information  
[Redacted]  
It is expected that this will be exacerbated as more participants establish on site (via the proposed Centre of Excellence (CoE)).
- Commercial Information  
[Redacted]

### **Who will complete these upgrades? (Procurement Process)**

FESM has supplied a breakdown budget of the upgrades which are based on similar upgrades undertaken on the Commercial saw mill. They have indicated a US supplier will perform these upgrades, which requires a technician to be brought in from the United States.

A procurement process has not been offered however this may be a condition of approval if this is an area of concern.

### **Viability – There is a trend of saw mills closing. Is this an investment in a viable venture?**

#### *Upgrades and Viability*

The upgrades will support viability by ensuring FESM can optimise conversion of inputs to valuable outputs. At present the volumes and productivity risk its viability. Optimisation through upgraded technology means more of the log converted into valuable products. To be able to produce better (and more) dry product on site (Commercial Information) means more supply to customers (i.e. Commercial Information, domestic, international, and future CoE downstream users).

For FESM being able to produce more kiln dried product means higher value products to market, and importantly lighter, which is advantageous because of logistical cost advantages – another key contributor to viability.

#### *Demand and viability*

No 'forward orders' have been supplied with the application. Commercial Information

Importantly, FESM has established domestic and international supply channels through its sister sawmill. FESM outlines the

opportunities to combine volume with Commercial to supply established Commercial Information customers.

It is important to note that these export markets differ from that of Commercial Information.

### **What the social outcomes of this investment?**

Commercial Information

The mill is only producing trial output volumes. In producing these volumes, staff have undergone training and development required to adjust to the operations of FESM.

The timely funding support for the upgrades will expedite the increase in volume and operational requirements and in doing so elevate staff requirements to an estimated C FTEs. In addition, the technology upgrades will require staff to develop skills and proficiency which will support their future participation in the wood processing industry. It is expected that ramping up of production will be an enabler for the overall site, including Com and future participants in the proposed CoE.

### **How does the CoE fit into this? Shouldn't this be part of the CoE proposal?**

This saw mill upgrade application can be seen in isolation to the CoE proposal. The CoE (which a business case is being prepared for currently) will, if realised, support the establishment of value added wood processors co-located with FESM. (Commercial Information).

If the CoE goes ahead, the demand case for FESM is in fact augmented. As previous comments regarding viability suggest, FESM's viability is reported to be not contingent on the realisation of the CoE.