



Wood Cluster/Centre of Excellence

Project overview

Name of the project	Wood Cluster/Centre of Excellence
Region	Tairāwhiti
Tier and type	Tier 2: Sector Investment
Applicant	Eastland Community Trust
Total project value	\$ <small>Commercial Information</small>
Amount of funding sought from the PGF	\$19.5 million
Financial instrument	Grant/Loan TBC
PDU recommendation	Approve in principle

60. Eastland Community Trust (ECT) are seeking a \$19.5 million in principle from the PGF towards a Wood Cluster/Centre of Excellence (WCCE). **While the package of funding is \$19.5 million, each component will require a business case to be assessed before payment and Commercial Information for each programme component.**
61. Tairāwhiti has an acknowledged 'Wall of Wood' requiring felling and processing across the next five to ten years. This will be followed by continued annual forestry activity going forward. As such, an opportunity exists to increase the processing value of timber windfall. To take advantage of this opportunity investment is required that is in excess of that available in the region.
62. The PDU contracted the Forest Economic Advisors (FEA) to conduct a 'Spotlight Paper' on the WCCE, who met with Commercial Information who are key partners in this application. FEA's report confirmed opportunities existed to increase processing in the region that would be enabled by what is being proposed in this application.
63. An 'in principle' decision will allow ECT to accelerate the WCCE, and begin to plan the roll out of the various components, with confidence they have a funding partner. The complete funding package is not known at this stage as each component of the programme will be dependent on the submission of a business case and match-funding. **The complete amount sought from the PGF will not be more than \$19.5 million.**
64. The funding is divided into tranches associated with various components of the programme. These include:
- WET Plant 1 Completion (cost estimate: \$ Commercial Information)
 - FESM Sawmill Enhancements (cost estimate: \$ Commercial Information)
 - New Drystore with Floor Space for Thermal Modification (cost estimate: \$ Com)



- Thermal Modification Plant (cost estimate: \$ ^{Commercial Information})
- Woodwaste Processing (cost estimate: \$ ^{Commercial Information})
- Container Shipping (cost estimate: \$ ^{Commercial Information})
- WET Plant 2 Building (cost estimate: \$ ^{Commercial Information})
- Combined Heat and Power Plant (cost estimate: \$ ^{Commercial Information}).

65. The first two projects to be undertaken via this programme are proposed to be **WET Plant 1 Completion** and **Sawmill Enhancements**. ^{Commercial Information}

PDU recommendation

66. The PDU recommends that you approve in principle \$19.5 million in funding towards the WCCE subject to:
- i. ECT confirmed as the counterparty
 - ii. Submission of a business case that has been assessed by the PDU as satisfactory
 - iii. Each tranche of funding sought for individual investment components of the WCCE be conditional on match-funding from the applicant
 - iv. The PDU assessing any third party investor if co-funding is not solely from ECT.

Local support

67. The project has strong regional support. ECT, independently established by Gisborne District Council (GDC), is also the co-funder of the \$19.5 million programme. The industry is a key economic driver in the region, as outlined in the Tairāwhiti Economic Action Plan.

Governance

68. ECT is an independent Trust established by GDC. GDC appoints all trustees to ECT. ECT own the land on which FESM and WET are situated.
69. Due diligence has been completed on both FESM and WET. ^{Privacy of natural persons}
70. While the counterparty is ECT, individual programme components may have different ownership models. Accordingly, the PDU would want to understand those and who the third party investors are. Discussions have been had with ECT about possible investor interest in building infrastructure on site. Equally, ^{Commercial Information} ^{Commercial Information}
- Options will be investigated as each component is developed.

Benefits

71. The public benefit of this programme comes in a variety of forms, including increased jobs, training, and value chain development not currently realised:



72. The WCCE will increase the value add proposition to the region via increased processing of logs from current levels of [redacted] per cent to [redacted] per cent, thus generating more economic returns for the region. The region has a well-established supply of raw material that has a well understood harvest profile, verified by Ministry for Primary Industries and FEA.
73. Each individual component will seek to generate jobs either directly or indirectly. The programme will generate direct FTEs with various components requiring staffing levels to construct, operate, maintain and manage assets. Examples of each are: direct increase in jobs through Saw Mill Enhancements, designed to take Far East Saw Mill from a single shift model (current status [redacted] FTEs) to double shifts, with an addition of [redacted] new FTEs. Exact figures will be developed with each programme component and be part of the business cases.

International Obligations

74. MFAT understands that the PGF funding for this project is to be provided on comparable commercial terms (i.e. no concessional elements). If PGF funding is provided on comparable commercial terms, then no subsidy arises under the World Trade Organisation (WTO) Subsidies and Countervailing Measures Agreement. However, MFAT cannot rule out the possibility of a WTO Member disputing this commerciality analysis. It is critical to ensure therefore the robustness of this commerciality analysis provided particularly should New Zealand be challenged on this basis.
75. Should it be determined that this PGF funding is not provided on comparable commercial terms, then there is a high risk that other WTO members may perceive this funding to be a prohibited export subsidy. This is based on MFAT's assumption that the majority of the processed wood products would be exported.

Costs and funding sources

76. The PDU has discussed possible funding models with the counterparty ECT and has agreed that any funding will be provided on the same terms and conditions as the co-funder ([redacted]). It is envisaged that programme components will usually attract a loan, unless specifically not revenue generating.
77. Co-funding will be a mix of new capital from [redacted] and possible investor capital as project components are developed in the future. [redacted] has provided \$ [redacted] to [redacted] over the last six months to ensure operating expenses were covered (accepted by the PDU as part of [redacted]'s co-funding).
78. Investment has been secured for the recommissioning of [redacted] by its parent company [redacted], and by [redacted] and [redacted]'s investors.

PDU assessment of the project

79. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.



Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
Sustainable regional economic development	✓✓✓	The wider industry is a significant driver of economic activity in the region. At present, only 3 per cent of logs are processed in Tairāwhiti. This is a missed opportunity for growth.
Productivity and innovation	✓✓✓✓	The goal of increasing the processing percentage of logs felled in Tairāwhiti, and as a result, climbing the value chain, will act as a catalyst by increasing economic activity. The establishment of new processing components at the WCCE site will further act as a catalyst and help in the development of an integrated end to end process, all of which will help to increase the productivity potential of the WCCE.
Increased employment, training or work readiness for the sectors workforce	✓✓✓✓	Each individual component will seek to generate jobs either directly or indirectly. Examples of each are: Direct increase in jobs through Saw Mill Enhancements, designed to take Far East Saw Mill from a single shift model (current status <small>Comme</small> FTEs) to double shifts, with an addition of <small>Comme</small> new FTEs. The establishment of the New Drystore with Floor Space for Thermal Modification will be an enabler via the creation of a facility that will in part, house the upgraded Thermal Modification which will require new FTEs to operate.
NZ's ability to meet climate change commitments	N/A	
Māori aspirations for utilising land and other resources and achieving	✓	Māori are significant owners of forestry in Tairāwhiti. However,



Criteria	Rating (1✓ to 5✓)	Comment
cultural objectives		increased returns are not guaranteed as feedstock prices are likely to be controlled by market forces.
Additionality	✓✓✓	The WCCE is being established on a hub and spoke model with <small>Privacy of natural</small> and <small>Privacy of natu</small> at the Hub. Both of these operations are currently in place. Their scale up and enhancement will build on existing assets.
Connections and alignment with regional priorities	✓✓✓✓	Forestry and related services are well-established regionally and have been identified in the Tairāwhiti Economic Action Plan as a priority. The fact that the project partner and <small>Commercial Information</small> for this programme is ECT provides additional evidence of regional support.
Environmental sustainability and/or productivity of natural assets	✓✓	An argument can be made that sustainable felling and planting of forestry blocks addresses this criteria, but the WCCE is only one aspect of this wider model.

Agency comments

Te Puni Kōkiri

80. This project will make a positive contribution to regional economic development. It needs to show evidence of its contribution to Māori development, including through workforce development (skill development to employment), mana whenua aspirations and iwi economic alignment. This project sits in the heart of Turanganui a Kiwa, involving the iwi interests of Ngai Tamanuhiri, Rongowhakaata and Te Aitanga a Mahaki, but that is not reflected in the proposal. Engagement with iwi Interests on this development should occur to optimise Māori economic development opportunities with Mana whenua, including through workforce development and other economic opportunities.
81. TPK notes that this project presents significant environmental and social impact consequences for this region. Anecdotally, impacts have presented as industry related deaths in Forestry, on the roads and at the Port since 2017. TPK recommends developing concurrent mitigating health and safety and other related strategies through this project that counteract the impacts of growth and development already occurring in this region, in this sector in particular.



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82. This project also presents interesting consequences for the validity of rail in Gisborne, which would circumnavigate some of the scale indicated in this phased development. TPK recommends you consider the impact of rail on this proposal and the phased developments, which in itself would affect the phased proposal and what is being resourced and approved.

New Zealand Trade and Enterprise

83. There are two important items included in the application that will assist New Zealand Trade and Enterprise (NZTE) to promote investment into Gisborne:

i. an upgrade of Gisborne port for containerisation, and

ii. **Commercial Information**

84. At the moment power supply and shipping capabilities are limited, hence unlocking some of the potential in the region is likely to provide additional infrastructure in the region which should encourage new investment into value add processing areas. From NZTE's understanding, limited capacity at both the local port and power generation have been the major hurdles in the past for potential investors setting up operations in Gisborne.

85. Although NZTE Investment has not had a direct involvement in the PGF application process, one of their projects is directly dependent on the outcomes of the two areas covered by the application, specifically Container shipping development and the Commercial Information. In the last couple of months, NZTE Investment has been supporting a potential investor from China interested in establishing value add wood processing operation in Gisborne. This potential investor is likely to become one of the first and significant customers / users of the proposed container operations and Commercial Information.

86. There is an immediate impact from the two initiatives mentioned above on their project. Likelihood of the potential investor establishing their operations in Gisborne is highly depended on the three key areas outlined below:

i. **Commercial Information**

ii. Port shipping capacity: end products produced by our potential investor must be transported in containers. Coastal container shipping option is preferred due to the following:

- o More cost efficient in comparison to road transport
- o Resilience of transport mode (de-risking freight delivery)
- o It's an alternative option to the current scenario where road transport is the only option.

87. Some of the other benefits to New Zealand include a more environmentally sustainable type of transport and no depreciation or maintenance of infrastructure.

88. NZTE's high-level assessment currently suggests that the two initiatives covered by this application are likely to result in new wood processor coming into the Gisborne region. The proposed containerisation and Commercial Information have potential to boost growth in the value add wood processing industry in Gisborne. These projects are essential to provide for further growth in Gisborne's wood processing industry. NZTE will continue



to support our potential investor and NZTE are considering getting involved in projects related to the development of additional shipping and energy capacity in the region. Potential spill-over benefits from other initiatives outlined in the application may include better access to a trained workforce for their potential investor in the region.

89. Although the two initiatives may provide a solution to NZTE's potential investor in the short term, there are longer term constraints that exist for bigger operations being introduced into the region. In order to attract more investment and further value add processing into Gisborne, further work will need to be undertaken in the region to provide for a greater port capacity and power supply in addition to the ones proposed in this PGF application.

Ministry of Primary Industries

90. MPI are in support of this application. MPI's Tairāwhiti team have been involved in this application and have considerable knowledge of programme components, including Far East Saw Mill and Wood Engineering Technology. They will continue to be strong programme assessment team members.

Risk assessment

91. The programme will be overseen by ECT and the PDU. On the ground, MPI will undertake periodic site visits to monitor component progress.
92. In addition, the following risks and mitigations have been identified:

Risk description	Mitigations	Risk Rating L/M/H
<p>Commercial Information</p>	<p>Commercial Information</p>	<p>Commercial Information</p>
<p>Market: Placing WET product into the market.</p>	<p>WET has indicated strong market demand. This needs to be verified.</p>	<p>Medium</p>
<p>Expansion: Plant upgrades are</p>	<p>Pricing for components is well</p>	<p>Medium</p>



<p>required to extend the operation and undertake double shifts. Operational expansion always carries risk. Commissioning a scale up will come with a loss of productivity, as will training of new staff.</p>	<p>understood and demand for the service is well established. Management has trained staff in the last twelve months and has experience in running the facility.</p>	
<p>Programme: Additional risk is acknowledged in relation to the various programme components. The type of risk and level will be better understood as the business cases are developed.</p>	<p>Mitigation of the risks associated with programme components will be addressed in the development of the business cases.</p>	<p>Unknown at present</p>

Recommendations and next steps

93. The PDU recommends that you approve in principle \$19.5 million in funding towards the WCCE subject to:
- i. ECT being confirmed as the counterparty
 - ii. For each individual investment component, submission of a business case that has been assessed by the Provincial Development Unit as satisfactory
 - iii. Each tranche of funding sought for individual investment components of the 'Wood Cluster/Centre of Excellence' project be conditional on match-funding from the applicant
 - iv. The PDU assessing any third party investor if co-funding is not solely from ECT.