

COVERSHEET

Subject	Decline of New Zealand Future Forest Products application to the Provincial Growth Fund
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These documents were published individually on the Grow Regions website in January 2020 and transferred to the Ministry of Business, Innovation and Employment Document Library in June 2020.

The application made by NZFFP to the Provincial Growth Fund (PGF) was declined by decision makers.

The Provincial Development Unit (PDU) does not discuss declined projects to protect commercial information relating to the applicant and their ability to either re-apply to the PGF or apply for funding elsewhere.

However, because it is in the public interest, and following consultation with the applicant, we have proactively released some material which relates to information already available in the public sphere.

Further information is available in written questions [37868 \(2020\)](#), [37901 \(2020\)](#), [41610 \(2020\)](#) and [37838 \(2020\)](#) on the New Zealand Parliament website.

List of documents that have been proactively released	
Title	Summary
Conflict of Interest Transfer Letter	Letter from Shane Jones declaring a conflict with this project and transferring to Hon David Clark.
Regional Economic Development Ministers briefing for meeting held 11 September 2019	Briefing attaching the Wood Processing Position Paper which references NZFFP as a declined project.
Final RED Ministers meeting briefing for 7 November 2019	Briefing for the Regional Economic Development Ministers meeting held on 7 November 2019.
Draft PGF Proposals for Review – NZ Future Forest Products 7 November meeting of RED Ministers	Briefing for the Regional Economic Development Ministers meeting held on 7 November 2019.
Links between the Provincial Growth Fund and KiwiBuild	Briefing attaching the Wood Processing Position Paper which references NZFFP as a declined project.
Letter from IAP to Minister for Regional Economic Development	Letter of advice from the Independent Advisory Panel to the Minister of Economic Development regarding the NZFFP project.
Application for Funding Development Phase	Application for funding for the NZFFP project.
PGF Proposals for Review Draft	Briefing send as part of the draft Regional Economic Development Ministers meeting papers.
Briefing attaching an annex of projects where NZFFP appears as a line item.	Briefing attaching the Wood Processing Position Paper which references NZFFP as a declined project.
Independent Advisory Panel meeting papers for 19 June 2019	Agenda and coversheet for the NZFFP project for the 19 June 2019 meeting of the Independent Advisory Panel.

Information redacted

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld to protect the confidentiality of advice tendered by ministers and officials, to protect the commercial position of the person who supplied the information, and to maintain the effective conduct of public affairs through the free and frank expression of opinions.

Hon Shane Jones

Minister of Forestry

Associate Minister of Finance

Minister for Infrastructure

Associate Minister for State Owned Enterprises

Minister for Regional Economic Development

Associate Minister of Transport



14 October 2019

Michael Webster

Secretary of the Cabinet

Cabinet Office, Parliament Buildings

Wellington

CC Prime Minister Jacinda Ardern

Parliament Buildings

Wellington

Dear Michael –

The NZF Chief of Staff informed today that there is an application for PGF funding from New Zealand Future Forest Products Ltd being processed in the Provincial Development Unit. Brian Henry, the long-time lawyer of the NZF leader, and an acquaintance of mine, and his son David, are both directors of the company.

The Cabinet Office Manual (2.65) describes that when identifying conflicts of interests:

'A conflict may arise if people close to a Minister, such as Minister's family, whanau, or close associates, might derive, or be perceived as deriving, some personal, financial, or other benefit from a decision or action by the Minister or the government.'

Although I have the barest of relationships with Brian and David Henry it is prudent and appropriate for me to declare a conflict of interest in relation to the PGF application. I have had no visibility on the application, nor foreknowledge of its lodgement, until Chief of Staff, Jon Johansson, brought it to my attention this morning.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Shane Jones', written over the typed name.

Hon Shane Jones

Minister for Regional Economic Development

Parliament Buildings

Wellington

PGF PROPOSALS FOR REVIEW

Date:	16 October 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1120 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	21 October 2019
Hon Phil Twyford Minister of Transport Minister of Economic Development		21 October 2019
Hon David Parker Minister for Trade and Export Growth		21 October 2019
Hon Shane Jones Minister for Regional Economic Development		21 October 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	21 October 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of Natural	✓
Jessica Sandford	Policy Advisor	Privacy of Natural	
Isabella Radovanovic	Business Advisor	Privacy of Natural	

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
9.	Unrelated to NZFFP	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
10.	N.Z Future Forest Products	<p>Applicant: N.Z Future Forest Products Limited ('NZFFP')</p> <p>Region: Commercial (feasibility study to</p>	<p>The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF on the basis that:</p> <ul style="list-style-type: none"> Commercial Information 	<p>Commercial Stage 1 Feasibility Study: \$15 million</p>	\$15 million loan	Decline	Approve, details provided in IAP advice letter.

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Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
		<p>determine)</p> <p>NZFFP intends to establish New Zealand as the Comm for Commercial Information in the Commercial region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.</p> <p>NZFFP has requested PGF funding towards a feasibility study that will be undertaken by Commercial Information</p> <p>Following the completion of the feasibility study as stage 1, the applicant will then invest \$Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work.</p>	<ul style="list-style-type: none"> Free and Frank Opinions <p>Commercial Information</p> <p>Funding has been requested for Co % of the cost of the feasibility study. NZFFP has requested a loan – the maximum proposed term of which could potentially be up to Co mm</p> <p>Further discussions with the applicant has put forward the option for PGF funding of Commercial Information</p> <p>and the PDU does not support funding a share of the Commercial / other Commercial costs. NZFFP is a newly incorporated company; Free and Frank Opinions</p>	<p>Stage 2 Com merci</p>			

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N.Z Future Forest Products

10. **Agree** to decline N.Z Future Forest Products Limited's application for a \$15 million loan from the Provincial Growth Fund on the basis that:

a. Free and Frank Opinions

[Redacted content]

Agree / Disagree

David van der Zouwe
Head of Investment Management
Provincial Development Unit

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Shane Jones
Minister for Regional Economic Development

..... / /

Hon Phil Twyford
Minister of Transport
Minister of Economic Development

..... / /

Hon David Parker
Minister for Trade and Export Growth

..... / /

PROACTIVELY RELEASED

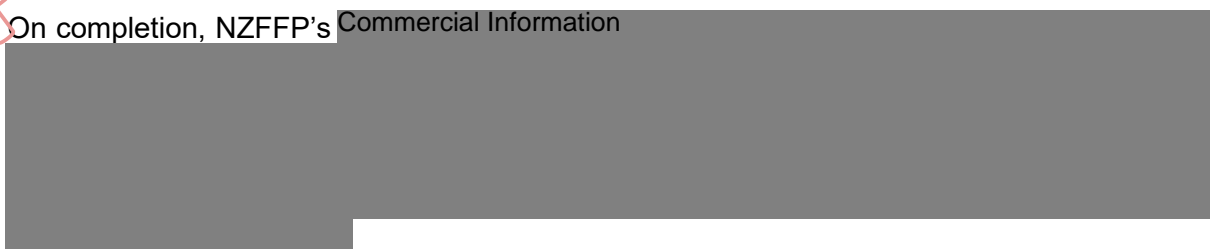
N.Z. FUTURE FOREST PRODUCTS

Projects overview

Name of the project	N.Z. Future Forest Products
Region	Commercial Information
Tier and type	Tier One: Regional
Applicant	N.Z. Future Forest Products Limited (NZFFP)
Estimated total project cost	\$Commercial Information Stage 1: Feasibility Study \$15 million Stage 2: Commercial Information
Amount of funding sought from the PGF	\$15 million
Financial instrument requested	Loan
PDU recommendation	Decline

217. NZFFP intends to establish New Zealand as the Commercial Information for Commercial Information solutions in the Commercial Information region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.

218. On completion, NZFFP's Commercial Information



219. NZFFP has requested \$15 million from the PGF to go towards a feasibility study that will be undertaken by Commercial Information to confirm the viability and bankability of NZFFP's proposed Commercial Information Commercial Information



220. A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commercial Information to complete.

221. Following the completion of the feasibility study as stage 1, the applicant will then invest Commercial [redacted] into stage 2 i Commercial [redacted] and completion of the balance of the Co [redacted] m m [redacted] erci [redacted] work. Information [redacted]

PDU recommendation

222. The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF.

223. The PDU does not support NZFFP's application for the following reasons:

a. Free and Frank Opinions [redacted]

Costs and funding

224. NZFFP is only recently incorporated and therefore they do not yet have annual accounts. The PDU has not been provided with financials or been advised of the level to which it will be capitalised. The applicant has advised that Free and Frank Opinions [redacted]

225. The PGF funding has been requested in two tranches as \$ Commercial [redacted] (tranche one) and \$ Co [redacted] (tranche two) once the PDU has cited successful completion and delivery of pre-feasibility reports. Commercial Information [redacted]

226. Commercial Information [redacted]

227. Free and Frank Opinions [redacted]

Furthermore, further PGF funding required for work post the feasibility study would be beyond the lifetime of the PGF, and this would also apply to cost overruns with the project.

PDU assessment of the project

228. 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
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓	As indicated by the applicant, NZFFP's proposed Commercial Information business would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.
Delivers benefit to the community	✓	Stage 2 has the potential to deliver benefits to the community. However, the feasibility study, to which this application relates, will not.
Increased utilisation and returns of Māori asset base	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Enhanced sustainability of natural assets	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Mitigation of climate change	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
<i>Additionality</i>		
Adding value by building on what is already there	✓	NZFFP intends to establish New Zealand Commercial Information <div style="background-color: #cccccc; height: 20px; width: 100%;"></div> However, significant work and research is still to be undertaken – much by the feasibility study. Commercial Information <div style="background-color: #cccccc; height: 100px; width: 100%;"></div>

Criteria	Rating (1✓ to 5✓)	Comment
		<p>Commercial Information</p> <p>However, this will not be realised through the feasibility study, to which this application relates.</p>
Acts as a catalyst for productivity potential in the region	✓	<p>This will not be realised through the feasibility study, to which this application relates. Furthermore, Commercial has a shortage of wood which is well known. Government support for a major project that proceeded in the region could have negative impacts on existing operations, which may or may not be a good thing.</p>
<i>Connected to regional stakeholders and framework</i>		
Alignment with regional priorities	✓✓✓	<p>If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information business does ultimately eventuate, it would be well-aligned.</p>
Support from local governance groups	✓✓✓	<p>Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming.</p>
<i>Governance, risk management and project execution</i>		
Robust project management and governance systems	✓✓✓	<p>The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to confirm its viability. Commercial appears capable, and the Commercial Information timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. Commercial Information would also require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much in relation to the feasibility project itself, but in relation to the funding for the overall Commercial Information on which Commercial Information would rely. Commercial Information appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.</p>
Risk management approach	✓✓✓	<p>Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand</p>

Criteria	Rating (1✓ to 5✓)	Comment
		engineering firm, Commercial Information This will include breaking down the project into distinct, sequential steps.
Future ownership / operational management	✓✓	Details to be confirmed.

Agency comments

Ministry of Foreign Affairs and Trade

229. Free and Frank Opinions

[REDACTED]

Ministry for Primary Industries

230. Free and Frank Opinions

[REDACTED]

Risk assessment

231. Due diligence has not been undertaken as the application has been recommended for decline.

232. The PDU has identified the following key risks and mitigations:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Outcome of the feasibility study	Commercial Information [REDACTED]	<ul style="list-style-type: none"> Commercial Information [REDACTED] 	Co mm
Procurement of Consulting Company	Commercial Information [REDACTED]	<ul style="list-style-type: none"> Commercial Information [REDACTED] 	Co mm

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
	Commercial Information	Commercial Information	

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AIDE MEMOIRE

Confidential Advice to Government

Date:	13 November 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	Confidential

Information for Minister(s)
Hon Shane Jones Minister for Regional Economic Development
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Staci Hare	Manager, Investment Management	Privacy of [redacted]	✓
Eleanor Green	Policy Advisor, Strategy and Policy	Privacy of [redacted]	

The following departments/agencies have been consulted

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments

AIDE MEMOIRE

Confidential Advice to Government

Date:	13 November 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	Confidential

Purpose

Confidential Advice to Government

Privacy of Natural Persons

Staci Hare
Manager, Investment Management
Provincial Development Unit, MBIE

13 / 11 / 2019

The Provincial Growth Fund and Confidential Advice to Government

1. Confidential Advice to Government
2. Confidential Advice to Government
3. Confidential Advice to Government
 - Confidential Advice to Government

Confidential Advice to Government

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-

4. Confidential Advice to Government

5. Confidential Advice to Government

6. Confidential Advice to Government

Annexes

Annex One: Confidential PGF Project List

Annex One: Confidential Advice to **PGF Project List**

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Region: Bay of Plenty	
Title	Sum of Funding Approved
Commercial Information	
Grand Total	Comme

Region: Canterbury	
Title	Sum of Funding Approved
Commercial Information	
Grand Total	Comm

Region: Hawke's Bay	
Title	Sum of Funding Approved
Commercial Information	
Grand Total	Comme

Region: Manawatū-Whanganui/Horowhenua	
Title	Sum of Funding Approved
Commercial Information	
Grand Total	Comme

Region: Otago	
Title	Sum of Funding Approved
Commercial Information	
Grand Total	Comme

Region: Southland	
Title	Sum of Funding Approved
Commercial Information	



Commercial Information		
Grand Total		Comme

Region: Tai Tokerau/Northland		
Title		Sum of Funding Approved
Commercial Information		
Grand Total		Comme

Region: Tairāwhiti/East Coast		
Title		Sum of Funding Approved
Commercial Information		
Grand Total		Comme

Region: Taranaki		
Title		Sum of Funding Approved
Commercial Information		
Grand Total		Comme

Region: Te Tau Ihu/Top of the South		
Title		Sum of Funding Approved
Commercial Information		
Grand Total		Comme

Region: Waikato		
Title		Sum of Funding Approved
Commercial Information		
Grand Total		Comm

Region: Wairarapa		
Title		Sum of Funding Approved

PROACTIVELY RELEASED

Commercial Information [Redacted]

Grand Total

Comm

Region: West Coast

Title

Sum of Funding Approved

Commercial Information [Redacted]
Commercial Information [Redacted]

Grand Total

Commer

Check

Commerci

Unapproved Projects Title

Region

Funding Sought

Commercial Information [Redacted]

[Redacted Table Content]

[Redacted Table Content]

[Redacted Table Content]

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AIDE MEMOIRE

Links between the Provincial Growth Fund and KiwiBuild

Date:	20 September 2019	Priority:	High
Security classification:	In Confidence	Tracking number:	0943 19-20

Information for Minister(s)
Hon Shane Jones Minister for Regional Economic Development
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
David van der Zouwe	Head of Investment, Provincial Development Unit	Privacy of [redacted]	Privacy of [redacted]	✓
Levi Rona	Senior Policy Advisor	Privacy of [redacted]	-	

The following departments/agencies have been consulted
KiwiBuild

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments

AIDE MEMOIRE

Links between the Provincial Growth Fund and KiwiBuild

Date:	20 September 2019	Priority:	High
Security classification:	In Confidence	Tracking number:	0943 19-20

Purpose

This aide memoire provides information on the links between the Provincial Growth Fund (PGF) and KiwiBuild to support your attendance at a meeting with Housing Ministers on 23 September 2019.

Privacy of Natural Persons

David van der Zouwe
Head of Investment
Provincial Development Unit, MBE

20 / 9 / 2019

Background

1. Confidential Advice to Government

2. Confidential Advice to Government

3. Confidential Advice to Government

Links between the PGF and KiwiBuild

- 4. Confidential Advice to Government
- 5. Confidential Advice to Government

Application	Funding Sought	Total Project Value
Unrelated to NZFFP	\$Unrelated	\$Unrelated to NZFFP
Unrelated to NZFFP	\$Unrelated	\$Unrelated to

- 6. Confidential Advice to Government
 - Confidential Advice to Government
 - Confidential Advice to Government
- 7. Unrelated to NZFFP
 - a. Unrelated to NZFFP
 - b. Unrelated to NZFFP



Unrelated to NZFFP

c. Unrelated to NZFFP

d. Unrelated to NZFFP

Next steps

8. Confidential Advice to Government

Annex

Annex One: Provincial Growth Fund Position Paper -- Wood processing investments



Annex One: Provincial Growth Fund Position Paper – Wood processing investments

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Provincial Growth Fund Position Paper

Wood processing investments

Purpose

This paper sets out the Provincial Growth Fund (PGF) approach to investing in wood processing to support regional economic development.

The position set out in this paper complements that which is set out in the PGF [Tier 2: Sector Investments](#) position paper.

Vision

The PGF's vision is to make targeted investments to enhance the productivity potential of, and capture greater value from, New Zealand's wood processing sector. New Zealand has a core competitive advantage in forestry but this has become dominated by the export of raw logs; principally to China. PGF investments will contribute to wider government activity, by enabling greater domestic value generation laying the seeds for sustainable, high-value, economic activity.

Objectives

Objectives of PGF investment in wood processing

Key to achieving the PGF's vision for the wood processing sector is to maximise value from New Zealand's forestry production. This can be done by focusing on moving its outputs up the value chain.

Therefore, the PGF will invest in a range of opportunities with three main objectives. Taken together, these objectives will help to foster domestic value chains that maximises the value able to be generated by the sector.

The most important objective of PGF investment in the wood processing sector is to increase the processing of logs into value-added products. This includes value added timber construction products, such as Cross-Laminated Timber (CLT), Optimised Engineered Lumber (OEL), Industrial Plywood, Orientated Strand Board (OSB), Remanufacturing and building componentry, and prefabricated buildings.

The PGF will invest in projects that convert forestry and wood processing residues and by-products into value-add products. This will complement the PGF's investment strategy in the waste-to-energy space.

The PGF will consider investing in projects that increase the volume of logs that are processed into high quality sawn timber such as for CLT. Without sufficient globally competitive sawmilling capacity there is no foundation on which New Zealand can produce higher value products. The PGF is particularly interested in processing investments where it is done in a way that integrates production into whole-of-log processing, e.g. by processing wood waste into other products or energy.

Contribution of wood processing objectives to wider PGF objectives

Wood processing is a strategic priority for PGF because of its strong potential to contribute to all of the PGF's main objectives:

- **jobs and sustainable economic development:** maximising value from New Zealand's forestry sector, by increasing its value-added output through wood processing investments, will increase the number of better paid jobs in an environmentally and economically sustainable sector;
- **Māori development:** given the existing Māori asset base in the forestry sector, PGF investment presents a clear opportunity to increase the participation of Māori in the wood processing sector, in particular, as owners;
- **climate change and environmental sustainability:** increased economic development based off the forestry sector is inherently sustainable, and will support continued investment in afforestation which is a key climate change mitigation;
- **social inclusion and participation:** increased economic development through the wood processing sector will primarily benefit the PGF's surge region, creating more training and employment opportunities;
- **resilience (infrastructure and economic):** successful investment in value-added processing capacity, and waste-to-energy opportunities, will support the development of domestic value chains that will diversify the sector, including destination markets, helping to ensure regional economies are better placed to withstand economic shocks.

Context

Forestry products are New Zealand's third largest export commodity following dairy and red meat, with the sector reaching \$6.7 billion in export earnings for the year ending June 2018.¹

New Zealand forestry (logging and downstream) contributed approximately \$3.55 billion to the New Zealand economy in 2017,² and is responsible for employing around 18,000 full and part-time workers.³ The main products produced by the industry are sawn timber, pulp, paper products and panels.

New Zealand's wood processing sector has been undergoing a process of consolidation, with the number of smaller, less efficient mills decreasing over the past 15 years. However, the domestic wood processing industry remains a particularly important source of employment and economic

¹ Situation and Outlook for Primary Industries 2018, Ministry for Primary Industries

² Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

³ Industry Insight 2018: Forestry and wood processing, Westpac

growth in the regions, especially in the Bay of Plenty, Waikato, Northland, Hawke's Bay/Tairāwhiti and Tasman/Nelson areas.⁴

New Zealand exports a high proportion of unprocessed logs compared to value-added products such as sawn timber, wood panels and paper products.⁵ There has been rapid growth of both the value and volume of log exports, driven by strong Chinese demand. Nearly 60 percent of harvested logs are exported overseas, with the remaining 40 percent being processed in New Zealand into a range of higher-value wood products.

Processed wood exports have remained relatively static over the past 10 to 20 years, in terms of both volume and average price. This means that while New Zealand's wood supply has been increasing in recent years, all the additional wood is being exported, rather than processed domestically into value added products.

Annually, New Zealand exports 40 percent of our sawn timber and wood panel products, 60 percent of our wood pulp, and 50 percent of our paper products. Key markets include: the United States, China, and Australia for sawn timber, Japan for wood panels, Indonesia and South Korea for pulp products, and Australia for paper products. In comparison, New Zealand has only four major export markets for logs.

Increased planting in the 1980s and 1990s has resulted in a significant increase in harvest volume in recent years, from around 20 million cubic metres (m³) in 2010, to nearly 35 million m³ in 2018. This level of harvesting will continue, and potentially increase to an additional 10-15 million m³ per year from the mid-2020s, with this increase coming mainly from small forest growers.

Targeted investment in the wood processing sector can support the conversion of more of New Zealand's raw log harvests into value-added goods. In the near term, if demand from China starts to slow as forecast, forestry owners may redirect more logs to local saw mills at lower prices. This increase, if it occurs⁶, should be able to be absorbed by domestic market demand driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, including Wellington and Otago.

The medium to long-term outlook for wood processors is more challenging, but there are still investment opportunities – not least because the One Billion Trees programme and increasing afforestation will support long-term wood supply. While New Zealand's competitive advantage is in the production of logs; North American demand is constrained and limited to sawn products with Russian softwood exports shifting from logs to sawn timber following tariff increases on log exports. New Zealand loses its competitive edge in downstream processing where the sector lacks economies of scale to be able to be internationally competitive, which is aggravated by New Zealand's distance

⁴ Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

⁵ Industry Insight 2018: Forestry and wood processing, Westpac

⁶ If china log prices decrease many small forest owners (who make up 40 percent of the total harvest) may choose not to harvest – unless domestic prices increase significantly. Also, processors can only take some parts of logs, so it's not necessarily straightforward direct logs that were intended for export to domestic processing.

from key markets.⁷ However, Red Stag's super mill in Rotorua demonstrates that when operating at scale, wood processing operations in New Zealand can compete on the global market.

As per the Tier 2: Sector Investments position paper, the PGF is willing to invest to overcome some of these challenges. Given the strategic importance of the sector, the PGF is also willing to exercise its broader risk appetite to do so.

Gaps and opportunities

New Zealand's forecast growth in forestry harvests supported by a relatively benign climate and good biosecurity, present opportunities for wood processing sector investments. More so when emerging global climate change will adversely affect large producing countries. This has potential to generate significant long term benefits for regions where forestry is a competitive advantage.

Increasing the volume of New Zealand grown logs and sawn timber processed into value-added products

Domestic market demand, driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, has created a market for materials to support homebuilding.

Domestic housing (and urban land) shortages, coupled with environmental concerns, are also driving a market for midrise construction using wood. There is a particular opportunity for wood processing investments to mesh with established and emerging eco-systems like established clusters of Off-Site Manufacturing of housing components or complete houses. Existing opportunities for regional alignment are in Bay of Plenty, Waikato, and Northland.

Increasing the value generated by the wood processing sector by making commercial use of forestry and wood processing residues for value-add products

The forestry and wood processing sectors produce a significant amount of residues from harvest and processing which represent lost value. New technologies, and a growing recognition of the lost value this represents, have contributed to emerging investment opportunities. For example, a range of products can now be produced using wood processing residue, and bioenergy applications can viably convert forestry or wood processing waste to energy for commercial use.

There is also a potential opportunity for investment in value-added production to help address transport issues. Modular mobile solutions, for example, could be funded in remote regions, near or co-located with log supply, to enable shipment of value-added rather than raw products.

Priority regions for wood waste processing investments are Tairāwhiti and Te Tai Tokerau. Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions.

⁷ Industry Insight 2018: Forestry and wood processing, Westpac

Increasing the volume of New Zealand grown logs processed in New Zealand

Given the percentage of New Zealand grown logs that are processed offshore, the PGF will consider investments that result in a greater volume being processed locally. Given sawmilling is a fundamental pre-requisite to other high-value operations, the PGF will prioritise wood processing that supports the production of higher value products such as CLT, OEL, remanufacturing etc.

However, the PGF's investment priority is in value-added wood products. Therefore, proposals for sawn timber production should be for high quality sawn timber, or for components of higher value products, that incorporate a whole-of-log processing approach.

For example, there is an opportunity for investment is to ensure existing and planned high-value product mills in the central North Island are adequately supplied with chip. Surplus chip from new sawmill capacity could be used to develop further particle-board and Medium-Density Fibreboard (MDF) plants.

Projects that have a lesser value-add proposition should also demonstrate how they would create wider social benefits, such as training and employment opportunities to support people into work or into higher paid work.

Priority areas for potential processing projects are the Bay of Plenty, Manawatū-Whanganui and, in particular, Tairāwhiti, due to the high volume of forestry in these regions.

Priorities

To best contribute to the PGF's objectives, proposals that align with the following will be prioritised.

Projects that help to move the sector, and regional economies, up the value chain and create better paid sustainable employment opportunities

While one of the objectives of PGF investment is to increase the volume of New Zealand grown logs processed in New Zealand into high quality sawn timber, priority will be given to projects that will produce value-added products. These investments are more in line with the objective of Tier 2: Sector Investments, which is to increase the number of quality jobs in a region and contribute to an enduring step change in regional economies.

The PGF is interested in investment partnerships in innovative and new timber products. However, in line with the PGF Tier 2: Sector Investments position paper, the PGF would expect these opportunities to be explored with well-established firms. Applications of this sort would also need to fully align with the principles set out at the end of this paper.

Clearwood production

An area of strategic importance to the future sustainability of New Zealand's production of high value wood products concerns the production of 'clearwood'. Clearwood is wood that is milled from trees that are pruned to ensure the timber does not contain knots, and is used for the production of high quality sawn timber.

Clearwood is necessary for the production of hardened wood, which allows New Zealand's soft wood to compete with natural hardwoods, such as teak. It is also necessary for the production of high-value Laminated Veneer Lumber products.

Due to the cost involved, and high unpruned log prices relative to pruned prices, a significant portion of forests are not currently being pruned. This has the potential to have a high negative impact on the wood processing industry long-term. If the reduction in pruned log availability continues, there will be more mill capacity required that can manage structural and industrial grade logs and smaller "clearwood only" mills are likely to continue to close.

To help ensure the sustainability of high-value clearwood milling, the PGF is interested in supporting projects that would *produce clearwood products*, where such projects address issues with the supply of clearwood logs. The PGF will not fund tree pruning itself.

Projects that benefit Māori

Māori connections to forestry and forest land are strongly cultural and spiritual, as well as commercial. Māori own over 400,000 ha of indigenous forests (6 percent of total indigenous forest) and some 238 000 ha of planted exotic forests (13 percent of total exotic forests). These forests contribute significantly to Māori socio-economic development.

Māori participation in forestry is moving from being principally a source of labour to stronger commercial involvement. Currently, forestry comprises 10 percent of Maori's total asset base. This will grow as Māori take increasing ownership and control of their land and forests.

Ngati Porou Forestry Ltd, for example, has entered into a joint venture with Hansol NZ, a South Korean conglomerate. 38 landowner blocks provided land, while Hansol provided funds to establish and manage forests. This joint venture consists of 38 forests, which cover 10,000 hectares.

Given the existing involvement of Māori in the forestry sector, the PGF's investment appetite presents a clear opportunity to increase the participation of Māori in the wood processing sector, as owners in particular, therefore putting Māori on a stronger economic base that is sustainable into the future.

Projects that benefit surge regions

Wood processing is also a strategic priority because the opportunities it presents complement the PGF's wider investment strategy. This is especially the case in relation to the PGF's focus on surge regions. Given their location primarily in surge regions, existing forestry and wood processing assets provide a strong foundation for PGF investment to achieve its goal of maximising the productivity potential of those regions.

Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions. However, forest ownership structures in Tairāwhiti means there are a limited number of corporate operations that could commit to long term wood supply agreements. The volume of wood in Tairāwhiti available for large scale wood processing is approximately two million m³ per annum.

Projects that include plans for extracting value from by-products

Where the primary component of a proposal is to produce wood products, priority will be given to integrated wood processing operations or clusters that include plans to extract value from by-products of the production process. This is especially important for projects with a low value-add proposition, such as proposals where the primary output is sawn timber.

Projects that involve well-established firms

The PGF will prioritise projects that involve mature or well-established firms with commercial experience in the sector. Firms with proven experience are more likely to be able to operate at the scale the PGF is interested in, especially through the uptake of new technologies or into new products.

The PGF welcomes applications from New Zealand as well as international investors with experience in wood processing.

Projects that benefit multiple sector participants

Projects that have the potential to benefit multiple businesses, for example, processing capabilities that are too expensive for individual firms to invest in on their own, are a priority for investment due to the wider benefits such investment is likely to produce.

Principles

- applications must demonstrate how they are aligned with the PGF's objectives and priorities for investment in the wood processing sector, as set out in this paper;
- projects will begin within the timeframes of the PGF;
- projects will be considered in the context of regions' comparative advantages, challenges and opportunities;
- projects may be considered from firms that do not require PGF project support but support to resolve infrastructure deficit(s) holding a project back;
 - applications will be supported by:
 - a clear and compelling proposal, confirming long-term viability, including understanding and management of risks, evidence of market demand, market accessibility, and how the operation intends to remain competitive;
 - wood supply analysis, including long term (20-30 year) analysis of where the wood will come from, how the proposal will impact wood supply within region(s), and whether co-location is viable;
 - infrastructure analysis, including energy, emission mitigation and transport requirements, and the existing eco-system of wood processing;
 - if the proposal relates to building componentry or prefabrication, demand and pricing analysis, forward orders as well as sales projections by region; and
 - appropriate labour market analysis;
- firms will have already sought private sector funding, and provided a clear explanation as to why it was not approved;

- projects will not be funded where other appropriate sources of government support are available with the exception of projects that were declined KiwiBuild support);
- the project will include clearly identified public benefits relating to, in particular, Jobs and Sustainable Economic Development, Māori development; Social Inclusion and Participation; Climate Change and Environmental Sustainability; or Resilience (infrastructure and economic);
- projects should generally have a minimum 50 percent co-contribution (applications with potential to generate significant public benefit may be exempt from this requirement);
- investments will be consistent with New Zealand’s international obligations.

Relationship to other agencies and areas of investment

PGF investment in the wood processing sector is part of wider government initiative to foster a productive and sustainable wood processing sector that increasingly contributes to prosperous regional economies. Key agencies in this work are Te Uru Rākau, the Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, and The Ministry of Housing and Urban Development, and Kāinga Ora.

PGF investments in the wood processing sector will contribute to, and inform, this wider work, including:

- supporting Kāinga Ora objectives;
- Te Uru Rākau’s forestry strategy; and
- the development of an Industry Transformation Plan for the wood processing and forestry sector, that:
 - induces at-scale investment in primary and secondary forestry production focused on market ready products;
 - maximises regional, economic, environmental and health and safety benefits;
 - identifies opportunities to develop the forestry sector at the heart of a circular, bio-based, carbon neutral economy through the completion of the long-term, sector-led development of a forest strategy for Aotearoa New Zealand.

Appendix

Approved and potential PGF wood processing investments

Approved projects	
Project	\$ Million approved
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr

Unrelated to NZFFP	Unre
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unrel
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unrelat
Total funding approved	\$Unrelated
Applications received	
Project	\$ Million requested
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unrel t d
Unrelated to NZFFP	Un
Unrelated to NZFFP	Unrel
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Un
Unrelated to NZFFP	Unre

PROACTIVELY RELEASED

N.Z. Future Forest Products Ltd. (NZFFP) The completion of a feasibility study to unlock the commercial capital necessary to Commercial Information Commercial Information	15.0
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Un
Total funding requested	\$ Unrelated to NZFFP
Additional Opportunities in the Sector (TBC)	
Project	\$ Million Indicative Funding
Unrelated to NZFFP	Unrel
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unr
Unrelated to NZFFP	Unrel
Total indicative funding	\$ Unrelated to

REGIONAL ECONOMIC DEVELOPMENT MINISTERS

RED Ministers' meeting pack 07 November 2019

Contents

Item	Subject
1.	Unrelated to NZFFP
2.	Unrelated to NZFFP
3.	Unrelated to NZFFP
4.	PGF proposals for review <ul style="list-style-type: none"> a. Unrelated to NZFFP h. New Zealand Future Forest Product
5.	Unrelated to NZFFP
6.	Unrelated to NZFFP
7.	Unrelated to NZFFP
8.	Unrelated to NZFFP
9.	Unrelated to NZFFP
10.	Unrelated to NZFFP

PGF PROPOSALS FOR REVIEW - N.Z Future Forest Products

Date:	04 November 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1328 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	07 November 2019
Hon Phil Twyford Minister of Transport Minister of Economic Development		07 November 2019
Hon David Parker Minister for Trade and Export Growth		07 November 2019
Hon David Clark Minister for Health Associate Minister of Finance		07 November 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	07 November 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of Natural	✓
Jessica Sandford	Policy Advisor	Privacy of Natural	
Isabella Radovanovic	Business Advisor	Privacy of Natural	

Recommendations

Projects seeking decision from Regional Economic Development Ministers

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
Minister Jones has declared a conflict of interest and will recuse himself for this item.							
8.	N.Z Future Forest Products	<p>Applicant: N.Z Future Forest Products Limited ('NZFFP')</p> <p>Region: Commercial (feasibility study to determine) f ti</p> <p>NZFFP intends to establish New Zealand as the Commercial Inform, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.</p> <p>NZFFP has requested PGF funding towards a feasibility study that will be undertaken by Commercial Information</p> <p>Following the completion of the feasibility study as stage 1, the applicant will then invest \$Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work. I f ti</p>	<p>The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF on the basis that:</p> <ul style="list-style-type: none"> Commercial Information <p>Commercial Information</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but, notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully. The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PGF funding support.</p> <p>The original funding has been requested for Co % of the cost of the feasibility study. NZFFP has requested a loan – the maximum proposed term of which could potentially be up to F ability. Further discussions with the applicant has put forward the option for PGF funding of \$Commercial Information and the PDU does not support funding a share of the Commercial Information costs. NZFFP is a newly incorporated company; Free and Frank Opinions ; and although the benefits that could potentially flow if it all proceeded, there are no direct employment or regional</p>	\$Commercial Stage 1 Feasibility Study: \$15 million Commercial Information	\$15 million loan	Decline	Approve, details provided in IAP advice letter.

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
			benefits from this initial feasibility study stage. Free and Frank Opinions [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]				

PROACTIVELY RELEASED

The Provincial Development Unit (PDU) recommends that you:

N.Z Future Forest Products

1. **Agree** to decline N.Z Future Forest Products Limited's application for a \$15 million loan from the Provincial Growth Fund on the basis that:

a. Commercial Information

[REDACTED]

Agree/Disagree

David van der Zouwe
Head of the Investment Management
Provincial Development Unit

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Phil Twyford
Minister of Transport
Minister of Economic Development

..... / /

Hon David Parker
Minister for Trade and Export Growth

..... / /

Hon David Clark
Minister for Health
Associate Minister of Finance

..... / /

PROACTIVELY RELEASED

N.Z. FUTURE FOREST PRODUCTS

Projects overview

Name of the project	N.Z. Future Forest Products
Region	Northland and Gisborne
Tier and type	Tier One: Regional
Applicant	N.Z. Future Forest Products Limited (NZFFP)
Estimated total project cost	Commercial Information Stage 1: Feasibility Study \$15 million Stage 2: Commercial Information
Amount of funding sought from the PGF	\$15 million
Financial instrument requested	Loan
PDU recommendation	Decline

1. NZFFP intends to establish New Zealand as the Commercial Information for Commercial Information in the Commercial Information region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.
2. On completion, NZFFP's Commercial Information
[Redacted]
3. NZFFP has requested \$15 million from the PGF to go towards a feasibility study that will be undertaken by Commercial Information to confirm the viability and bankability of NZFFP's proposed Commercial Information
[Redacted]

4. A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commercial to complete.
5. Following the completion of the feasibility study as stage 1, the applicant will then invest \$Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work.

PDU recommendation

6. The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF.
7. The PDU does not support NZFFP's application for the following reasons:
 - a. Commercial Information
[Redacted]

Costs and funding

8. NZFFP is only recently incorporated and therefore they do not yet have annual accounts. The PDU has not been provided with financials or been advised of the level to which it will be capitalised. The applicant has advised that Free and Frank Opinions [Redacted]
9. The PGF funding has been requested in two tranches as \$Commercial (tranche one) and \$Commercial (tranche two) once the PDU has cited successful completion and delivery of pre-feasibility reports. Commercial Information [Redacted]
10. Commercial Information [Redacted]
11. Commercial Information [Redacted]
Furthermore, further PGF funding required for work post the feasibility study would be beyond the lifetime of the PGF, and this would also apply to cost overruns with the project.

PDU assessment of the project

12. 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
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓	As indicated by the applicant, NZFFP's proposed Commercial Information business would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.
Delivers benefit to the community	✓	Stage 2 has the potential to deliver benefits to the community. However, the feasibility study, to which this application relates, will not.
Increased utilisation and returns of Māori asset base	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Enhanced sustainability of natural assets	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Mitigation of climate change	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
<i>Additionality</i>		
Adding value by building on what is already there	✓	NZFFP intends to establish New Zealand as the Commercial Information However, significant work and research is still to be undertaken – much by the feasibility study. Commercial Information

Criteria	Rating (1✓ to 5✓)	Comment
		<p>Commercial Information</p> <p>However, this will not be realised through the feasibility study, to which this application relates.</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but, notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully.</p> <p>The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PCF funding support.</p>
Acts as a catalyst for productivity potential in the region	✓	<p>This will not be realised through the feasibility study, to which this application relates. From what the applicant has noted, and assuming the feasibility study is successful, the project has the potential to</p> <p>Commercial Information</p> <p>PDU notes that Commercial has a shortage of wood, and that Government support for a major project that proceeded in that region could have negative impacts on existing operations, which may or may not be a good thing.</p>
<i>Connected to regional stakeholders and framework</i>		
Alignment with regional priorities	✓✓✓	<p>If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information business does ultimately eventuate, it would be well-aligned.</p>
Support from local governance groups	✓✓✓	<p>Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming.</p>
<i>Governance, risk management and project execution</i>		
Robust project management and	✓✓✓	<p>The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to</p>

Criteria	Rating (1✓ to 5✓)	Comment
governance systems		confirm its viability. Commercial appears capable, and the C timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. Commercial Information, would also require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much in relation to the feasibility project itself, but in relation to the funding for the overall Commercial on which Commercial would rely. Information Information Commercial appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.
Risk management approach	✓✓✓	Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand engineering firm, Commercial. This will include breaking down the project into distinct, sequential steps. Information
Future ownership / operational management	✓✓	Details to be confirmed.

Agency comments

Ministry of Foreign Affairs and Trade

13. Free and Frank Opinions

[Redacted]

Ministry for Primary Industries

14. Free and Frank Opinions

[Redacted]

Risk assessment

15. Due diligence has not been undertaken as the application has been recommended for decline.

16. Minister Jones has declared a conflict of interest and will recuse himself for the discussion and decision-making for this proposal.

17. The PDU has identified the following key risks and mitigations:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Outcome of the feasibility study	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>C o m m e r c i</p> <p>[REDACTED]</p>	<p>[REDACTED]</p>
Procurement of Consulting Company	<p>Commercial Information</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>[REDACTED]</p>

PROACTIVELY RELEASED

Letter from IAP to Regional Economic Development Ministers

The Honourable David Parker, The Honourable David Clark, The Honourable Grant Robertson and The Honourable Phil Twyford

Regional Economic Development Ministers

4 November 2019

Tēnā koe e te Minitas,

Project: New Zealand Future Forest Products

Applicant: New Zealand Future Forest Products Limited

Panel Recommendation: Conditional Support

The Independent Advisory Panel (**IAP**) for the Provincial Growth Fund (**PGF**) considered the New Zealand Future Forest Products Project at its meeting on 19 June 2019, including advice from the Provincial Development Unit (**PDU**).

New Zealand Future Forest Products Limited (**NZFFP**) is seeking a \$15m loan for Stage 1 of the Future Forest Products Project. Confidential Advice to Government

Confidential Advice to Government

The IAP are supportive of the overall objectives of the Future Forest Products Project to maximise our natural competitive advantage in forestry and wood processing. The project has the potential to deliver substantial productivity gains in these sectors and generate significant sustainable jobs throughout the supply chain. Confidential Advice to Government

Notwithstanding these reservations, the IAP are supportive of the Future Forest Products Project in principle given its potentially significant productivity and employment benefits. We therefore recommend that Stage 1 is supported by the PGF subject to the following:

- Confidential Advice to Government

-
-
-
-
-

We recommend that the PDU work with NZFFP to obtain the further assurance sought and, if appropriate, negotiate a loan agreement that incorporates these conditions and such further commercial terms as recommended by the PDU.

Nga Manaakitanga

On behalf of the Independent Advisory Panel

Nāku noa, nā Rodger Finlay

IAP Chairperson

Letter from IAP to Minister for Regional Economic Development

The Honourable Shane Jones
Minister for Regional Economic Development

10 July 2019

Tēnā koe e te Minita,

Project: New Zealand Future Forest Products

Applicant: New Zealand Future Forest Products Limited

Panel Recommendation: Conditional Support

The Independent Advisory Panel (**IAP**) for the Provincial Growth Fund (**PGF**) considered the New Zealand Future Forest Products Project at its meeting on 19 June 2019, including advice from the Provincial Development Unit (**PDU**).

New Zealand Future Forest Products Limited (**NZFFP**) is seeking a \$15m loan for Stage 1 of the Future Forest Products Project. Commercial Information

Commercial Information

The IAP are supportive of the overall objectives of the Future Forest Products Project to maximise our natural competitive advantage in forestry and wood processing. The project has the potential to deliver substantial productivity gains in these sectors and generate significant sustainable jobs throughout the supply chain. Commercial Information

Commercial Information

Notwithstanding these reservations, the IAP are supportive of the Future Forest Products Project in principle given its potentially significant productivity and employment benefits. We therefore recommend that Stage 1 is supported by the PGF subject to the following:

- Commercial Information

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

We recommend that the PDU work with NZFFP to obtain the further assurance sought and, if appropriate, negotiate a loan agreement that incorporates these conditions and such further commercial terms as recommended by the PDU.

Nga Manaakitanga

On behalf of the Independent Advisory Panel

Nāku noa, nā Rodger Finlay

IAP Chairperson

Application for Funding Development Phase



About this form

This form enables you to make an application for funding over \$100,000 from the Provincial Growth Fund for activities in the Development Phase of a project.

You will need to use the Express Form if your application is for an activity under \$100,000 or the Standard Form if your application is for an actual Project (i.e. delivery of an asset).

These forms are available on the [Provincial Growth Fund website](#)

Purpose of the Provincial Growth Fund

The Provincial Growth Fund aims to lift productivity potential in the provinces. Its priorities are to enhance economic development opportunities, create sustainable jobs, enable Māori to reach their full potential, boost social inclusion and participation, build resilient communities, and help meet New Zealand's climate change targets.

Completing this form

Please complete all sections fully and accurately. Square brackets and italics indicate guides.

Please see the PGF website, or contact your regional relationship manager, for further support.

Submitting your application

All completed forms must be emailed to PGF@mbie.govt.nz with a clear subject heading.

If you are a Trust (or applying on behalf of a Trust), then you must provide a copy of your Trust Deed.

Next Steps

Applications will be assessed for eligibility, as well as how well they will deliver on the aims of the Provincial Growth Fund. One of our team will be in contact regarding your application.

Funding Agreement

The template funding agreements can be found on the [Provincial Growth Fund website](#)

Public disclosure

The Provincial Development Unit is responsible for leading the Provincial Growth Fund's design, administration and monitoring its operation in consultation with other government agencies. In the interests of public transparency, successful applications may be published by the Provincial Development Unit (PDU). Commercially sensitive and personal information will be redacted by reference to the provisions of the Official Information Act 1982. Please identify by highlighting any information in your application that you regard as commercially sensitive or as personal information for the purposes of the Privacy Act 1993.

Part A: Key Details

Please note that if the funding agreement will not be with the applicant (i.e. applying on behalf of another organisation), then please complete this application from the perspective of that organisation.

1. Proposal Title:

2. Please provide a very brief description of the project/activity:

The completion of a feasibility study to unlock the commercial capital necessary to build an **Commercial** **Commercial** at scale, with the objective of supplying the **Com** region construction industry with **Com** **Commercial** NZFFP intends to sustainably substitute carbon-intensive **Commercial** in multi-rise buildings using New Zealand forest products, with a specific focus on social and affordable housing in **Commercial Information**

Commercial Information

Commercial Information

Commercial Information

Commercial Information

Commercial Information

3. Please provide the details of the applicant organisation/entity for which funding is being requested:

Legal Name:	N.Z. Future Forest Products Ltd. (NZFFP)
Entity Type:	Company
Registered Offices / Place of Business:	Auckland
Identifying Number:	7329538
Organisation's Website:	TBC

4. Please provide the contact details for a person as a key point of contact):

Contact Name and Role:	David Henry – Director of NZFFP and Partner of Kinleith Continuation LLP (the majority shareholder of NZFFP) Brian Henry – Director of NZFFP and representative of the minority shareholder of NZFFP		
Email Address:	Privacy of Commercial Natural Persons Privacy of Commercial	Telephone:	Privacy of Commercial Privacy of Commercial

5. Please describe the principal role or activity of the applicant organisation.

The primary activity of NZFFP is wood processing and manufacturing to deliver **Commercial** **Commercial** **Information**

6. This project will be based in the region of:

7. What type of funding is this application for:

[Note: the most appropriate funding type will be determined by the PDU in consultation with the applicant]

8. What is the activity / funding start and end date?

Start Date:	31/03/2019	Completion Date:	TBC
--------------------	------------	-------------------------	-----

9. Has this project / activity been previously discussed with any part of Government? Yes: No:

- If Yes, please describe which part of government, and what the outcome of the discussions were.

The project has been presented to several New Zealand government departments including:

- Minister of Forestry & Regional Economic Development** – presentation to Minister of integrated forestry and wood processing concept including descriptions of the Applicant and the Commercial Information. This includes description of the Commercial Information being created by Commer as part of the Applicant's Commercial "value added" approach to wood exports. Following this presentation, the Applicant was referred to Crown Forestry and Commercial to continue detailed discussions with respect to various aspects of its strategies.
- Ministry of Business, Innovation and Employment (MBIE)** – telephonic presentation of the projects and business strategy to Mr Robert Pigou and Mr Ben Dalton.
- Ministry of Primary Industry (MPI)** – telephonic presentation of the forestry and wood supply chain aspects of the projects and business strategy to Ms. Julie Collins in the context of the New Zealand government's announced One Billion Trees programme.
- Crown Forestry** – presentation to Privacy of to introduce the Applicant and explore wider synergies given the Applicant's thesis for Commercial of forestry and wood processing supply chains. The Applicant and Crown Forestry agreed to co-ordinate in the Commer region where it might make sense in the future – this could take the form of an off-taker relationship or funding support co-ordination where the Applicant encourages afforestation initiatives and/or Commercial.
- Commercial** – presentation of project to Commer's regional development agency and application for funding to measure the economic impact of the project on the regional economy. Continuing co-ordination with other Commercial initiatives surrounding Iwi participation in the project.
- Overseas Investment Office** – a general summary of what the Applicant and Commercial are to do and, in later phases of the project, the need for international project finance to fund construction of different stages of the project. The Applicant and the Office agreed to co-operate as they have done on previous transactions where OIO applications were necessary and the Applicant promised to give significant advanced notice to the OIO ahead of any transaction that might qualify under the Overseas Investment Act being applied for approval.

10. Have you previously received any Government funding for this Project/Activity? Yes: No:

- If Yes, please list which part of the Government, when the funding was received, and how much under Q11.

11. Please set out the proposed sources of funding for the Project:

Source of Funding: <i>[please indicate where all other funding is sourced from, noting who the funder is]</i>	\$ (excluding GST)	Status / Commentary <i>[i.e. received / confirmed / in principle]</i>
Provincial Growth Fund Loan (through this application)	\$15,000,000	Representing c. C% of the total initial risk capital needed to unlock the equity and debt project finance required for Commercial (and C% of c.USD Commer project capital)
Commercial (existing shareholders and new shareholders)	\$Commer	
Total:	\$Commer	

Part B: Project Description

12. This application is: "a stand-alone activity" or "in support of a wider project/programme"

13. Will additional funding likely be applied for in the future? Yes: No:

- If Yes, please describe at a high level, what this may include, and when this is likely to be applied for.

[Insert your commentary here]

14. What type of activity is this application for?

- Feasibility study
- Business case
- Report
- Creation of an action plan
- Research or surveys
- Workshops or consultation
- Capability building (Education / training)
- Other (please specify)

[If other, please describe here]

15. Please provide a detailed description of this activity for which funding is being applied:

The PGF loan being applied for is to complete a bankable feasibility study for NZFFP's proposed Commercial Information

Additionally, the study will map proposed beachhead markets Commercial Information to Commercial Information), technical options, optimal scales of production, level of integration across the value chain and precise budget requirements ahead of packaging the USD Commercial finance for Com. For the avoidance of doubt, the PGF loan will not be required for the Commercial of the Commercial Information.

For example, technical decisions that still need to be made on the recommendation of the feasibility study include:

- the exact staging of Commercial and hence staged capacity of the Commercial production line;
- Commercial Information
- Commercial Information; and
- Commercial Information

Furthermore, raw material, energy, and logistics requirements need to be evaluated at each step in order to determine the optimal combination.

NZFFP will engage Commercial, the leading New Zealand-headquartered engineering group, to complete the

feasibility study. A summary of NZFFP's feasibility approach is set-out below:

APPROACH



Commercial Information

This project is economically or physically linked to the following other projects:

- Commercial Information
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
 - [Redacted]
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 - [Redacted]
 - [Redacted]
 - [Redacted]

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16. How does this project demonstrate additionality within the region?

NZFFP intends to establish New Zealand as the **Commercial Information** in the **Commerc** region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.

In terms of direct additionality:

- NZFFP recognises that **Co** and **Com** are new but well-established structural **Commercial** products, which have significant and under-exploited market potential within the **Commercial** market;
 - The Applicant believes that **Co** and **Com** can be combined in a **Commercial Information** and the resulting intellectual property will be highly commercial and exportable from New Zealand (the focus of the Applicant's research project with **Commercial Information**);
 - Most existing wood processors in New Zealand currently operate at a small scale, produce conventional products for domestic consumption and, consequently, enjoy limited exports sales. There are a limited number of exceptions such as **Commercial** producing high value (albeit still conventional) wood export products;
 - **Commercial Information**
 - **Commercial Information**
 - **Commercial Information**
 - **Commercial Information**
- The Applicant's feasibility study will also include these complementary options for the use of its wood residues.
- NZFFP's plans also include operating **Commercial** with other regional stakeholders e.g. **Commercial**, and these collaborations should expand and improve our partners own exportability of **Commercial Information** suite of products.

17. How is the project connected to regional (and sector) stakeholders and frameworks?

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NZFFP believes in a culture of collaboration with mission-aligned local partners. These local partners currently include:

Iwi

- Commercial Information [Redacted]
- [Redacted]

Existing Operators

- Commercial Information [Redacted]
- [Redacted]

Infrastructure Operators

- Commercial Information [Redacted]
- [Redacted]

Education

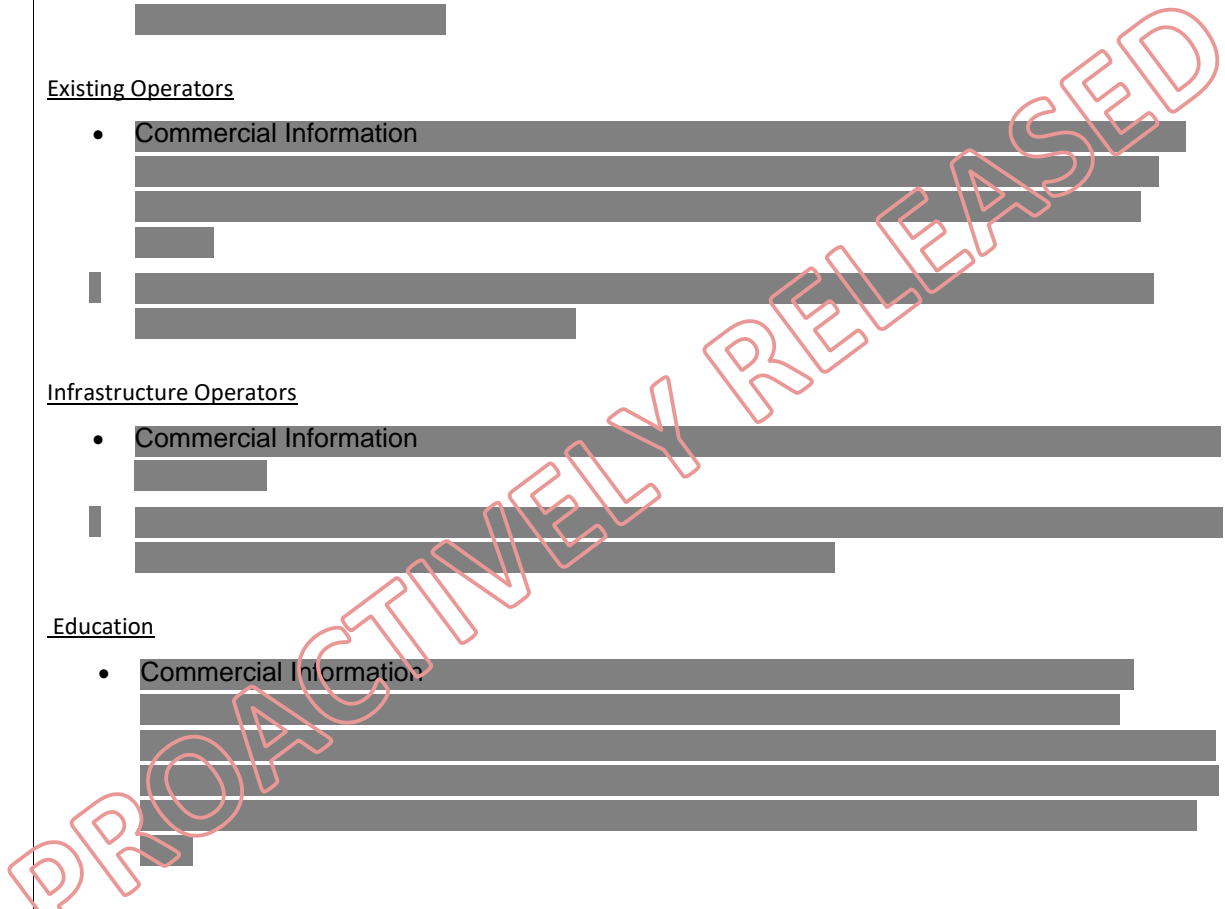
- Commercial Information [Redacted]

Regional Framework

The project aligns well with regional priorities given that this type of investment has been identified as an opportunity in both the Commercial Information [Redacted] and the Commercial Information [Redacted]

Commercial Information [Redacted]

Commercial Information [Redacted]



18. How will your project lift productivity potential in the regions?

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PGF Outcome	✓	How will the project positively or negatively impact this outcome in the region(s) identified?
1. Increase economic output	✓	<p>The development of the proposed engineered timber complex in Commercial [redacted] will lift the productivity potential of these regions by:</p> <ul style="list-style-type: none"> Increasing the volume of Commercial [redacted] manufactured in New Zealand, Commercial [redacted] Information Designing patent protected modular solutions specifically for high growth Commercial [redacted] export markets; Replacing a volume-based raw log commodity with a Commercial Information [redacted] that is sold as a unitised solution to replace Commercial [redacted] in mid-rise building construction; Collaborating with local stakeholders to expand their existing capacity e.g. Commercial Information [redacted]
2. Enhance utilisation of and/or returns for Māori assets	✓	<p>Long-term mutually beneficial partnerships with Iwi are an essential characteristic of NZFFP's approach. These include:</p> <ul style="list-style-type: none"> Location of complex on Commercial [redacted] Information [redacted]; Location of Commercial Information [redacted]; Proposed equity participation within NZFFP of C [redacted] (and the use of this model to incentivise iwi in other regions where NZFFP builds processing facilities).
3. Increase productivity and growth	✓	<p>NZFFP will increase economic productivity by increasing both the volume and value of economic goods produced in the region and underwriting the expansion of local C [redacted] operations. NZFFP's work with Commer [redacted] O [redacted] has the potential to significantly increase the productivity of New Zealand's Commercial [redacted] Information [redacted]</p>
4. Increase local employment and wages (in general and for Maori)	✓	<p>NZFFP's Commercial [redacted] wood processing business will generate significant sustainable jobs throughout the supply chain, in general and for Māori.</p> <p>These include direct jobs within the Commercial [redacted] itself (for which this PGF application has been submitted), as well as jobs created along the entire NZFFP value chain e.g. Commercial Information [redacted]</p> <p>[redacted]</p> <p>jobs generated by headquartering a large-scale export company in the region.</p>

		<p>Based on peer comparative plants put together with the assistance of the Applicant’s engineers, direct FTE employment at NZFFP’s Commercial site is expected to be Comm for the Stage 1 Project, rising to Comm by the time Com is implemented.</p> <p>Since the Comm is planned to be in either or both of the Commercial regions, the demographics of these regions and our iwi partnership model, NZFFP expects to fill many of its employment vacancies with local Māori workers.</p>
<p>5. Increase local employment, education and/or training opportunities for youth (in general and for Māori)</p>	<p>✓</p>	<p>NZFFP anticipates that Commercial will become a critical resource for the global low carbon economy of the future and those who are knowledgeable and skilled in the sector will enjoy significant job dem and growth for many decades to come (leading to enhanced economic development opportunities relative to the forestry and wood processing status quo).</p> <p>There is an opportunity, therefore – especially given NZFFP’s research partnerships with Commercial to introduce a training programme for young people (in general and Māori) interested in building careers in this new and innovative sustainable industry, throughout the value chain.</p> <p>Since NZFFP is Commercial Information products to customers, there will be significant international training opportunities available for young people (in general and Māori).</p>
<p>6. Improve digital communications, within and/or between regions</p>	<p>□</p>	<p>Digital communications are an essential aspect of operating complex supply chains involving forest planting, silviculture, harvesting, log transport, processing and port exports, however, as a primary extractive industry operator, telecommunications are not a core business activity of NZFFP.</p>
<p>7. Improve resilience and sustainability of transport infrastructure, within and/or between regions</p>	<p>✓</p>	<p>The development of an Commercial products business of the scale that NZFFP proposes will require substantial transport infrastructure investment to ensure that the business units operate efficiently.</p> <p>This will include optimising road, regional bridges, and rail interconnections between various facilities and regions, including forestry estates, wood processing facilities, and container ports.</p> <p>The increased and constant use of this infrastructure will encourage dedicated maintenance, building resilience and sustainability that should drive positive externalities in terms of efficiency and productivity for local communities and businesses.</p>

<p>8. Contribute to mitigating or adapting to climate change</p>	<p>✓</p>	<ul style="list-style-type: none"> • According to the independent research group, Chatham House, concrete is the source of approx. 8% of global CO₂ emissions, while steel is responsible for approx. 7-9%; • NZFFP's Commercial Information [REDACTED] • Commercial Information [REDACTED] • The most recent Intergovernmental Panel on Climate Change (IPCC) Report stated that forestry has a critical role to play in keeping the world temperature under 1.5°C, • Commercial [REDACTED] estimates that for each dwelling constructed from engineered wood rather than concrete and steel, approximately 16 tonnes of CO₂ is avoided. • The UK's Royal Society and Royal Academy of Engineering believe the potential greenhouse gas reduction potential of building with biomass is in the range 0.5 to 1 GtCO₂ pa. It has been claimed that this could save 14-31% of global CO₂ emissions and 12% to 19% of global fossil fuel consumption • Therefore, by designing a mass-market Commercial [REDACTED] and producing it at scale, NZFFP's Commercial Information [REDACTED]
<p>9. Increase the sustainable use of and benefit from natural assets</p>	<p>✓</p>	<ul style="list-style-type: none"> • The CO₂ absorption rate of <i>Pinus Radiata</i> trees is highest during its early growth years and plateaus as the tree reaches maturity; • From a carbon mitigation perspective, it makes most sense to harvest the tree near maturity, to process it into a value-added wood product to lock-in the carbon, and to replant with new saplings; • The increased use of Commercial [REDACTED] as a mid-rise construction material will drive an increase in the demand for <i>pinus radiata</i> trees and encourage both afforestation and reforestation; • Increased demand for certified Commercial [REDACTED] should also drive adoption of sustainable forestry management practices, such as efficient

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		<p>rotations.</p> <ul style="list-style-type: none"> • Sustainable forest management will ensure the local region and wider country / community maximise their natural resource for truly sustainable economic benefits.
10. Enhance wellbeing, within and/or between regions	✓	<p>NZFFP will enhance the wellbeing of those both directly and indirectly involved in the business.</p> <p>Increased economic output and productivity coupled with increased local employment opportunities and NZFFP's positive impact on climate change (reinforcing New Zealand's central role in combating it globally) should all contribute to an increased sense of regional and national wellbeing.</p>
Total number of outcomes project contributes to	9/10	

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Part C: Project Delivery

19. Please provide an overview of the project management approach / plan for this activity.

The Board of NZFFP will oversee a 'phased approach' to project management, implemented by the very experienced New Zealand engineering firm, **Commerci**. This will include breaking down the project into distinct, sequential steps as illustrated by the diagram below.

Project Development Process Overview

Commercial Information

- **What involvement is required by the Provincial Development Unit?**

In addition to loan funding, NZFFP would welcome any input on how to best align the project plan with the goals and objectives of the Provincial Development Unit.

- **What other partners are required for successful delivery?**

Refer to question 17 above for a full list of partners and stakeholders.

- **What project management practices will be in place?**

Commerci as the chosen engineering firm for this project, has put in place project management practices described in the diagram above. The board of NZFFP will oversee that these practices are adhered to throughout the project.

- **Who are the key personnel within the organisation relating to this project? Please include bio's and provide an organisational/project structure where possible.**

Please refer to NZFFP business plan attached with this application for a full organisational chart.

- **David Henry – Director, NZFFP and Partner, Kinleith Continuation LLP (London-based)**

David is a New Zealand national and previously founded Medea Capital, a natural resources investment manager with offices in London and Singapore. He has over 15 years' experience in natural resources investments and finance across several institutions, specialising in mining and forestry. Prior to founding Medea, he established the Mining Capital & Consultancy business at Oriel Securities and before that was Vice President in the Mining Finance division of Société Générale in London and Sydney. He was analyst for the bank's principal investments book and sat on its Investment Committee from 2008. Before joining Société Générale, David worked for the Forestry & Primary Industries team at Bank of New Zealand and,

before that, at Goldman Sachs JBWere.

- **Brian Henry – Director, NZFFP (Auckland-based)**

Brian is a New Zealand national and was admitted to practice as a Barrister & Solicitor in the High Court of New Zealand in 1975, working initially for the law firm of Wilson Henry (now Hesketh Henry), before entering private practice as a Barrister Sole, specialising in commercial litigation. He has been involved in the New Zealand funds management industry for the past 15 years and has a strong background in legal compliance and corporate governance. Brian was a director of the local holdings' companies of Medea Future Forest Products Fund No.1 and is responsible for corporate governance, OSH and ESG.

- **John Hepburn – Partner, Kinleith Continuation LLP (Auckland-based)**

John is a New Zealand national and, prior to joining Kinleith Continuation, was an Associate Director at Medea Capital, focused on its New Zealand forestry strategy. Prior to this, he was an investment analyst at Stamford Associates in London, focusing on investment due diligence and fundamental portfolio analysis on behalf of institutional investors. Before that, he worked as a natural resources equity analyst for a London-based boutique investment bank and, prior to this, was at the ANZ Bank in their Auckland wealth management business. John is a CFA Charterholder.

- **Jay Barrymore – Partner, Kinleith Continuation LLP (London-based)**

Jay is a British national and, prior to joining Kinleith Continuation, was Head of Special Projects at Medea Capital. He led Medea's sustainability work responsible for driving social and environmental value creation across the portfolio. Jay has 13 years of investment experience, most recently as Managing Partner at Impact Investment Partners, an impact investment and advisory firm with offices in London and Mumbai. Prior to Impact Investment Partners, Jay worked at Acumen Fund in Hyderabad and managed a cleantech and alternative energy portfolio within a \$1.4bn award-winning hedge fund at RWC Partners. Jay is a CFA Charterholder, and a graduate of University College London (UCL).

- **Dennis Gates – Head of Stakeholder & Land Management, NZFFP (New Zealand based)**

Dennis worked for Medea's New Zealand forestry portfolio companies since 2016. He was admitted to practice as a Solicitor in the High Court of New Zealand in 1981. He has been in private practice as a solicitor since 1986 and is qualified as a Licenced REAA. Dennis has been responsible for the "on-ground" roll-up operations liaising with local land owners, district council, iwi and other community stakeholders. He is a New Zealand national and graduated from the University of Canterbury with an LLB and the University of Waikato with a Bachelor of Social Science.

- **Hon Michael Rann AC CNZM – Director, NZFFP**

Mr Rann served as Premier of South Australia from 2002–2011 where his significant achievements included job creation, investment in health & education, the expansion of the mining industry, and the growth of Australia's renewable energy industry – making South Australia the leader of wind and solar power in the country.

Post his parliamentary career, Mr Rann was appointed Australian High Commissioner to London from 2012-2014. He was also Co-Chair of the Australia-Canada Economic Leadership Forum and a member of the Australian Government's Urban Policy Forum until his appointment as Australian High Commissioner to London. In addition to roles as Australian Ambassador to Italy, San Marino, Albania and Libya, he was Australia's Permanent Representative to the UN World Food Programme, the UN Food and Agricultural Organisation and the UN's International Maritime Organisation. In 2012, Mr Rann was appointed Chair of Low Carbon Australia and then Australia's 'green bank' by the Federal Government, providing finance to companies to reduce carbon emissions.

Mr Rann is also a member of the UK, US and Global boards of The Climate Group which operates on six continents. In 2012, Mr Rann was Professorial Fellow in Social and Policy studies at Flinders University and was Visiting Senior Research Fellow in Political Studies at the University of Auckland.

He is adjunct Professor in Public Policy at Carnegie Mellon University and was a Senior Fellow for Democracy and Development at the Centre for National Policy, Washington DC. Mr Rann is also a Visiting Professor at the Policy Institute of King's College London and a member of the King's Commission for London chaired by Lord Adonis.

Mr Rann was previously a Commonwealth War Graves Commissioner and Trustee of the Imperial War

Museum, London. Mr Rann is now the CEO of Rann Strategy Group, a private consulting business, and Chair of the international charity Power of Nutrition. He has been awarded honours by the governments of Australia, Greece, Poland and New Zealand.

- **Health and safety**

NZFFP and Kinleith Continuation strongly believe that meeting its objective of responsible stakeholder engagement begins with keeping its workers safe.

According to Statistics NZ and MBIE, the forestry industry is the most dangerous sector in which to work in New Zealand. The injury rate is double that of other sectors and the fatality rate is 15 times the overall rate for all sectors.

This is an appalling track record which we believe correlates directly to lack of uptake of technology as well as infrastructure and equipment investment over the past 30 years. The directors of NZFFP and Kinleith Continuation are committed to a Zero LTI (Lost Time Injury) across all their natural resources businesses globally.

Internationally, the current track record of the New Zealand forestry industry is also unacceptable and a core objective of our firm is to set a “best practice” example for other New Zealand forest operators to follow by implementing international standards and applying technology that keep workers safely “at distance” from stump.

20. Please provide us with a project plan, where possible please attach a schedule (i.e. Gantt chart):

#	Project Activity	Responsible:	Date / Period:
1	Initial Bridging Study	Commer	Comme
2	Pre-feasibility Study	Commer	Commerci
3	Feasibility Study	Commer	Commerci
4	Completion of Research Project	Commer cial Informati	Commer
5	Financial Model suitable for project financing	NZFFP management	Comme
6	Indicative Commitments from Commercial Lenders	Commercial banks	Comme
7	Long Lead Items ordered (C % Deposit Payment)	NZFFP management	Comme
8	Strategic Options Paper	NZFFP management	Comme
9	Credit-approved commitments from Commercial Lenders	Commercial banks	Commer
10	Decision to proceed with Stage 1 construction	NZFFP board	Commer
11	Completion of legal documentation with Commercial Lenders		Commer
12	Completion of Commercial from Institutional Investors		Commer
13	Repayment / Conversion of PGF Feasibility Loan (senior security released to Commercial Lenders)		Commercial
14	Drawdown of Commercial (CPs to first drawdown fully satisfied)		Commer

21. Please provide a complete breakdown of the costs of the project:

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The project capital expenditure is expected to be US\$**Commerc**. The Applicant expects this **Commercial** amount to be financed by international capital markets through a combination of equity and project finance debt from international institutional investors.

The Applicant's shareholder has already undertaken extensive engagement with such investors (including three non-deal roadshows in mid/late 2018 and January 2019) to assess market capacity for the project – this engagement process resulted in significant positive indications of interest for funding construction of the project. It has also guided the Applicant as to what international capital markets will require/consider “bankable” in terms of feasibility study completion. This is important to ensure that **Commercial** workstreams, including the feasibility study, deliver the necessary detail to satisfy the conditions precedent of international institutional investors who fund construction of the project.

In keeping with the scale of a project such as this, the pre-construction budget is expected to amount to between **C**-% of the project capital expenditure.

In addition to expenditure already incurred at the date of this application (c.US\$**Comme**), on various aspects of the project, the Applicant's **Comme** forward looking budget is as follows, broken down into PGF Loan Use of Proceeds (Tranches 1 and 2) and the Applicant's directly funded items:

Cost Description:	TOTAL PGF LOAN NZ\$ (excl. GST)	Tranche 1 PGF LOAN NZ\$ (excl. GST)	Tranche 2 PGF LOAN NZ\$ (excl. GST)	Commercial Balance of Project Costs NZ\$ (excl. GST)
Initial Bridging Study Workstream Comm	\$ Comm	\$ Comm	-	-
Pre-feasibility Study Workstream Comm	\$ Comme	\$ Comme	-	-
Feasibility Study Workstream Comm	\$ Comme	-	\$ Comme	-
Environmental Baseline Studies	-	-	-	\$ Comme
Environmental & Social Impact Assessment	-	-	-	\$ Comme
Modular Building Solution research workstream Commercial	\$ Comme	\$ Comme	\$ Comme	-
Information Customer Contract Origination Commercial	-	-	-	\$ Comme
Customer Contract Execution Commercial	-	-	-	\$ Comme
Joint Venture Contributions	-	-	-	\$ Comme
Long-lead items deposit payments (C % of Stage 1 Capex) Commercial	-	-	-	\$ Comme
Preparation (consultant reports, C upfront fees, legal	-	-	-	\$ Comme

structuring costs &c.)				
Working Capital	\$Comme	\$Comm	\$Comm	\$Comme
Sub Totals	\$15,000,000	\$Comme	\$Comme	\$Commer
			TOTAL BUDGET	Commerci

22. Please provide a description of why Government funding is required to deliver this project?

- New Zealand's capital markets are not set-up to fund the feasibility of large industrial projects like NZFFP's **Commercial**, since market participants only have appetite for construction-ready/operating assets
- Meanwhile, the international capital markets are not focused on New Zealand national interest projects, such as the one proposed by NZFFP. In fact, international capital markets have actively sponsored/incentivised the current low margin, low prosperity log export model currently operating in New Zealand – including both foreign forest owners and foreign institutions supporting foreign log traders to export these low-value exports.
- The requested loan, alongside the Applicant and its shareholders' forestry and capital markets expertise, will sufficiently de-risk the project to attract the foreign direct investment necessary to finance its construction.
- **Commercial Information**
[Redacted]
[Redacted]
[Redacted]
[Redacted]
- The advent of current New Zealand Government policy has created a supportive environment in which the Applicant's business case **Commercial Information**
[Redacted]
[Redacted] to revitalise the New Zealand forestry and wood processing industries can be undertaken with commercial confidence and, once construction-ready, presented to international institutional investors for construction funding
- Without current New Zealand Government policy creating this environment, the Applicant's shareholder would be unable to proceed with anything other than its previous business model, which focused on existing New Zealand forestry only.

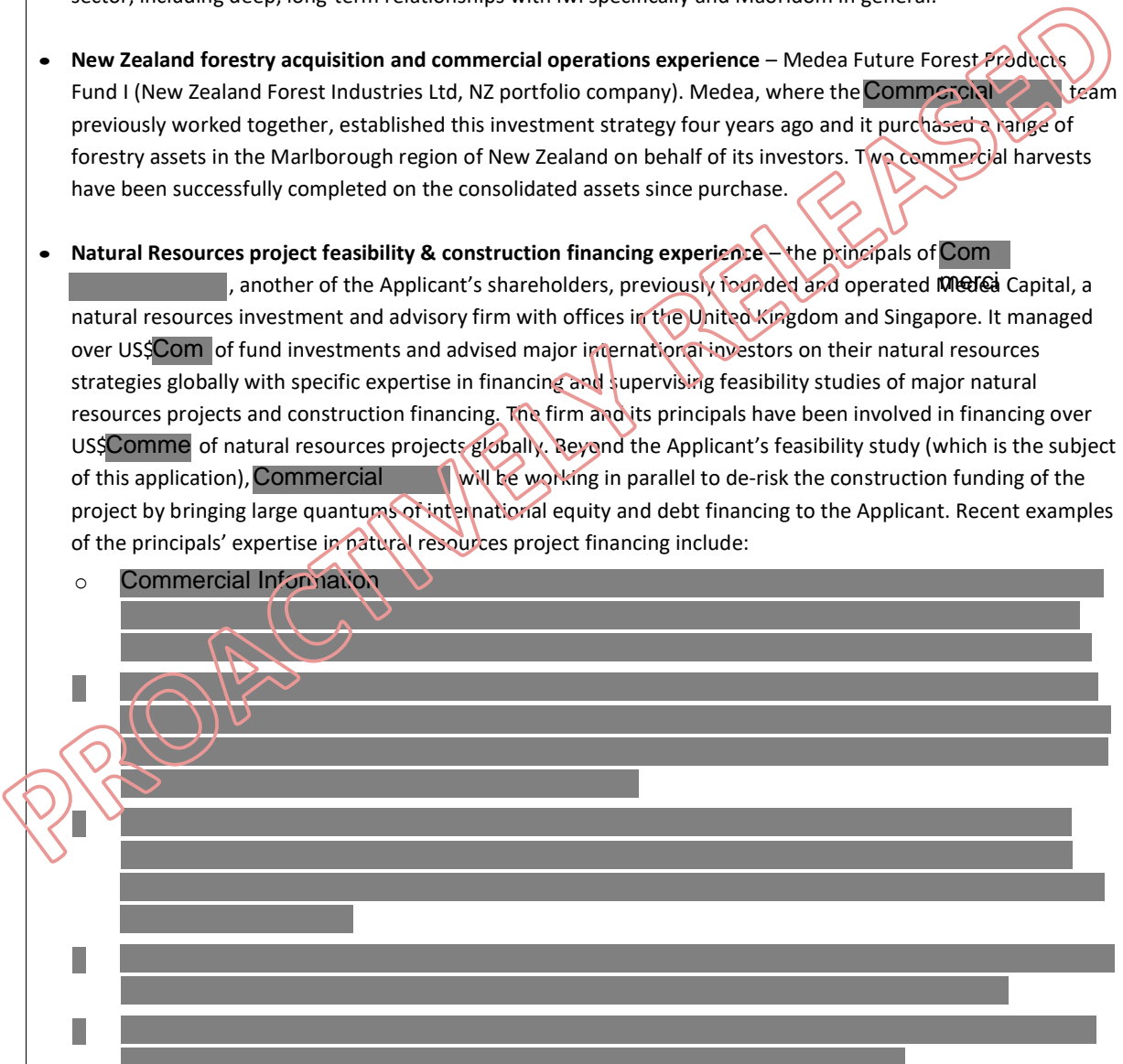
23. What are the proposed deliverables if funding is approved?

#	Description	Payment criteria:	Invoice Value \$ (Exc. GST)	%	Invoice Date:
1	Pre-Feasibility Workstreams	On signature of the loan agreement	\$Comme	Co %	Comme rcial Informat
2	Feasibility Study Workstreams	Successful completion and delivery of Pre-feasibility Reports	\$Comme	Co %	Comme rcial Informat ion

24. Please provide an overview of the applicant's relevant skills and experience for delivering a project of this nature:

The Applicant via its shareholders have the following relevant experience:

- **Commercial [redacted] forestry and wood processing in New Zealand experience** – specifically, NZ Forest Products Ltd – one of the Applicant's shareholders has been involved in the New Zealand forestry and wood processing industry for over 150 years. That involvement was the founding and operation of NZ Forest Products Ltd, which the Applicant's minority shareholder was involved with in senior executive, board and shareholder positions until NZFP's 1986 takeover by Elders Resources of Australia. NZFP's wood processing assets continue to operate to this day as the predominant assets of Carter Holt Harvey, while its Central North Island forestry assets are now in ownership by major foreign institutional investors. The Applicant's shareholder retains significant links with this industry and has a well-known and collaborative approach in the New Zealand rural sector, including deep, long-term relationships with iwi specifically and Maoridom in general.
- **New Zealand forestry acquisition and commercial operations experience** – Medea Future Forest Products Fund I (New Zealand Forest Industries Ltd, NZ portfolio company). Medea, where the Commercial [redacted] team previously worked together, established this investment strategy four years ago and it purchased a range of forestry assets in the Marlborough region of New Zealand on behalf of its investors. Two commercial harvests have been successfully completed on the consolidated assets since purchase.
- **Natural Resources project feasibility & construction financing experience** – the principals of Com [redacted], another of the Applicant's shareholders, previously founded and operated Mercia Capital, a natural resources investment and advisory firm with offices in the United Kingdom and Singapore. It managed over US\$Com [redacted] of fund investments and advised major international investors on their natural resources strategies globally with specific expertise in financing and supervising feasibility studies of major natural resources projects and construction financing. The firm and its principals have been involved in financing over US\$Comme [redacted] of natural resources projects globally. Beyond the Applicant's feasibility study (which is the subject of this application), Commercial [redacted] will be working in parallel to de-risk the construction funding of the project by bringing large quantum of international equity and debt financing to the Applicant. Recent examples of the principals' expertise in natural resources project financing include:
 - Commercial Information [redacted]
 - [redacted]
 - [redacted]
 - [redacted]
 - [redacted]
 - [redacted]
- **Global wood process engineering & project management experience** – the Applicant's engineering consultants, Commerci [redacted] have completed the following relevant projects:
 - Commercial Information [redacted]



Commercial Information
[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

Commercial Information

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

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25. Please explain the Governance arrangements for this project:

NZFFP Board of Directors (upon incorporation/election):

- 1. Brian Henry
- 2. David Henry
- 3. Hon Michael Rann AC CNZM

The members of the board have significant corporate experience as company directors, are members of relevant professional bodies and, in one case, have had significant careers in public service.

The shareholders of the Applicant have strict systems, controls and compliance functions in place to meet their obligations to regulators and the Applicant will similarly abide by these systems and controls.

26. What procurement process has been undertaken (i.e. selection of a provider), or will be undertaken, and how will that be managed?

- **Competitive processes** – the Applicant believes that competitive processes should be run with respect to the appointment of key suppliers. The Applicant has also pre-sounded these key suppliers with future project finance investors to further de-risk the project for construction financing. Competitive processes have been run for the following roles:

- o **Feasibility Engineering Partner:** the Applicant issued a Request for Proposal for the role of Lead Engineer for the project and asked for proposals from:

- **Com** – is an international consulting and engineering company, dedicated to serving clients across the world’s energy and industrial sectors;

- **Commercial Information**
[Redacted]

Commercial have a **Commercial**, **Commer**, which has operated in the region for more than 30 years. The focus of the **Commercial Information** in New Zealand and Australia. Over the last 30 years we have developed a close working relationship within both companies, and regularly explore opportunities to work together outside of the joint venture.

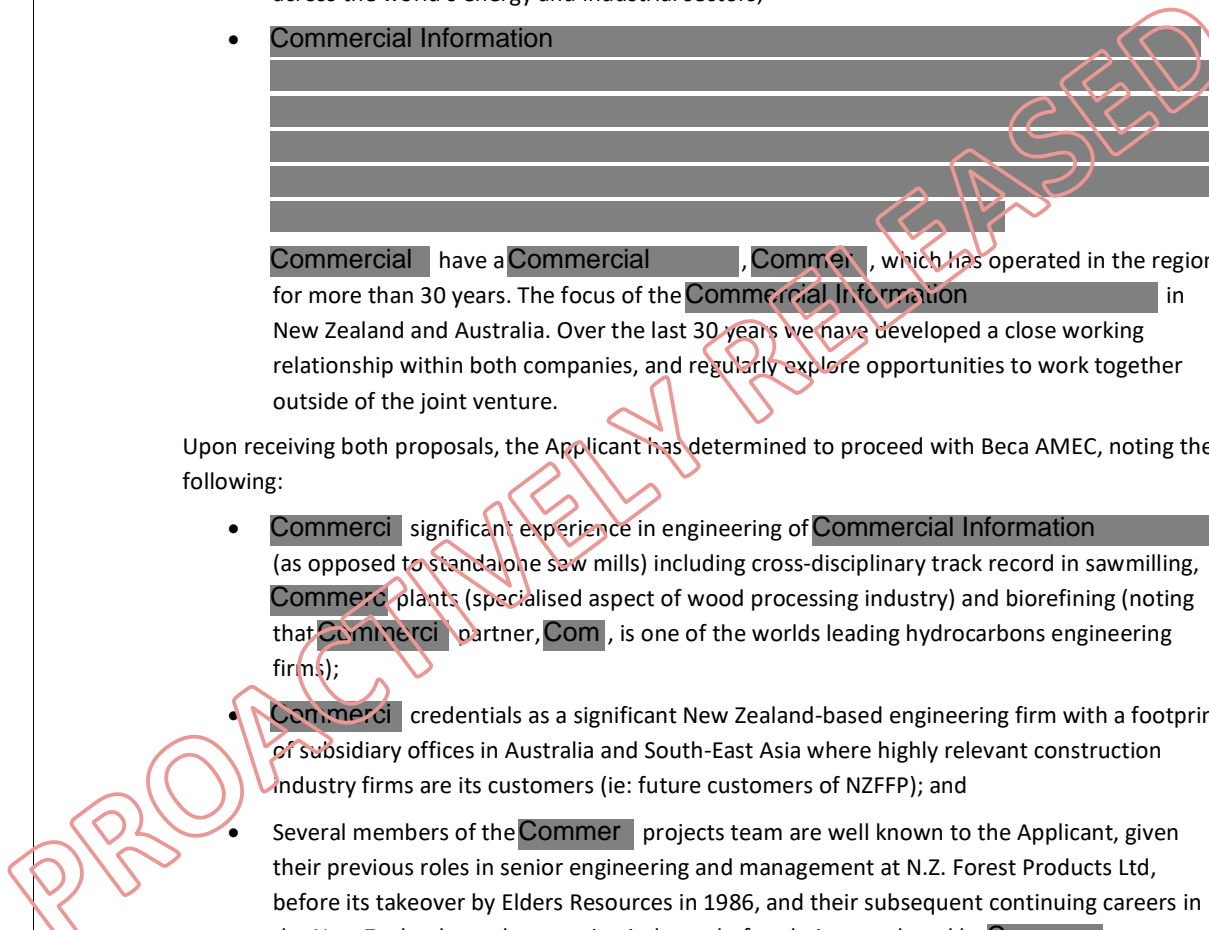
Upon receiving both proposals, the Applicant has determined to proceed with Beca AMEC, noting the following:

- **Commerci** significant experience in engineering of **Commercial Information** (as opposed to standalone saw mills) including cross-disciplinary track record in sawmilling, **Commerci** plants (specialised aspect of wood processing industry) and biorefining (noting that **Commerci** partner, **Com**, is one of the worlds leading hydrocarbons engineering firms);

- **Commerci** credentials as a significant New Zealand-based engineering firm with a footprint of subsidiary offices in Australia and South-East Asia where highly relevant construction industry firms are its customers (ie: future customers of NZFFP); and

- Several members of the **Commer** projects team are well known to the Applicant, given their previous roles in senior engineering and management at N.Z. Forest Products Ltd, before its takeover by Elders Resources in 1986, and their subsequent continuing careers in the New Zealand wood processing industry before being employed by **Commerc**.

- o **Research & Development Partners:** the Applicant has appointed the **Commercial Information** as its lead R&D partner, noting that **Commercial Information**’s leading position and cross-disciplinary team structure, with broad expertise from plant science to construction engineering to architecture. The Applicant has invited **Commercial Information** to join this Research & Development group as **Commercial Information** with significant wood process engineering expertise. The Applicant maintains strict cost control systems with respect to research & development partnerships including framework agreements of overarching commercial terms and detailed work orders that define core deliverables with commercial effect that are regularly measured before funds for future work deliverables are released.



		Commercial Information [Redacted]	
4	Raw Material Risk – Commercial Information [Redacted]	- Commercial Information [Redacted]	Medium
5	Technical Risk – Commercial Information [Redacted]	- Commercial Information [Redacted]	Medium
6	Calamity Risk (Natural Disasters) – Commercial Information [Redacted]	- Commercial Information [Redacted]	Medium
7	Environmental Risk – Commercial Information [Redacted]	- Commercial Information [Redacted]	Low

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	<p>Commercial Information</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>	
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28. What is the future intent (at this stage) relating to the project? Has there been any assessment of future viability of the project undertaken?

Please refer to attached NZFFP business plan for more detail. In summary, once the loan has been used to complete a full feasibility study and design of Commercial Information [Redacted]

[Redacted] This is a central aspect to the multi-decades expertise of the Applicant's shareholders in funding the feasibility and then construction of major natural resources projects globally.

The end objective is to create a Commercial Information [Redacted] in New Zealand, deploying Commercial Information [Redacted]

[Redacted]

[Redacted]

Commercial Information [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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Part D: Declarations

- 29. Has this activity ever been declined Crown Funding in the past? Yes: No:
- 30. Is the applicant or the contracting entity insolvent or subject to any insolvency action, administration or other legal proceedings? Yes: No:
- 31. The contracting entity is compliant and will continue to comply with all applicable laws, regulations, rules and professional codes of conduct or practice including but not limited to health and safety and employment practices Yes: No:
- 32. Is any individual involved in the application, the proposed contracting entity or the project, an undischarged bankrupt? Yes: No:
- 33. Is any individual under investigation for, or has any individual been convicted of, any offence that has a bearing on the operation of the project? Yes: No:
- 34. Are there any actual, potential or perceived conflicts of interest that the applicant or any of the key personnel have in relation to this project. Yes: No:
 "In a small country like ours, conflicts of interest in our working lives are natural and unavoidable. The existence of a conflict of interest does not necessarily mean that someone has done something wrong, and it need not cause problems. It just needs to be identified and managed carefully..."
<https://www.oag.govt.nz/2007/conflicts-public-entities>

If you answered "Yes" to any of the above, please provide a description below:

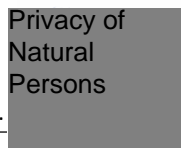
By completing the details below, the applicant makes the following declaration about its application for Provincial Growth Fund funding for the project ("application"):

- I have read, understand and agree to the Terms and Conditions of applying for Provincial Growth Fund funding which are attached as Appendix 1;
- The statements in the application are true and the information provided is complete and correct, and there have been no misleading statements or omissions of any relevant facts nor any misrepresentations made;
- I have secured all appropriate authorisations to submit the application, to make the statements and to provide the information in the application;
- I consent to this application being publically released if funding is approved. I have identified the commercially sensitive and personal information.
- The applicant warrants that it has no actual, potential or perceived conflict of interest (except any already declared in the application) in submitting the application, or entering into a contract to carry out the project. Where a conflict of interest arises during the application or assessment process, the applicant will report it immediately to the Provincial Development Unit by emailing PGF@mbie.govt.nz; and
- I understand that the falsification of information, supplying misleading information, or the suppression of material information in this application, may result in the application being eliminated from the assessment process and may be grounds for termination of any contract awarded as a result of this application process.

Full name: David Henry

Title / position: Director, NZ Future Forest Products Ltd

Signature:



Date:

Appendix 1 – Terms and Conditions of this Application

General

The terms and conditions are non-negotiable and do not require a response. Each applicant that submits a request for Provincial Growth Fund (“PGF”) funding (each an “application”) has confirmed by their signature on the application that these terms and conditions are accepted without reservation or variation.

The Provincial Growth Fund is a government initiative which is administered by the Provincial Development Unit, a unit within the Ministry of Business, Innovation and Employment. Any reference to the Provincial Development Unit in these terms and conditions, is a reference to MBIE on behalf of the Crown.

Reliance by Provincial Development Unit

The Provincial Development Unit may rely upon all statements made by any applicant in an application and in correspondence or negotiations with the Provincial Development Unit or its representatives. If an application is approved for funding, any such statements may be included in the contract.

Each applicant must ensure all information provided to the Provincial Development Unit is complete and accurate. The Provincial Development Unit is under no obligation to check any application for errors, omissions, or inaccuracies. Each applicant will notify the Provincial Development Unit promptly upon becoming aware of any errors, omissions, or inaccuracies in its application or in any additional information provided by the applicant.

Ownership and intellectual property

Ownership of the intellectual property rights in an application does not pass to the Provincial Development Unit. However, in submitting an application, each applicant grants the Provincial Development Unit a non-exclusive, transferable, perpetual licence to use and disclose its application for the purpose of assessing and decision making related to the PGF application process. Any hard copy application or documentation supplied by you to the Provincial Development Unit may not be returned to you.

By submitting an application, each applicant warrants that the provision of that information to the Provincial Development Unit, and the use of it by the Provincial Development Unit for the evaluation of the application and for any resulting negotiation, will not breach any third-party intellectual property rights.

Confidentiality

The Provincial Development Unit is bound by the Official Information Act 1982 (“OIA”), the Privacy Act 1993, parliamentary and constitutional convention, and any other obligations imposed by law. While the Provincial Development Unit intends to treat information in applications as confidential to ensure fairness for applicants during the assessment and decision making process, the information can be requested by third parties and the Provincial Development Unit must provide that information if required by law. If the Provincial Development Unit receives an OIA request that relates to information in this application, where possible, the Provincial Development Unit will consult with you and may ask you to confirm whether the information is considered by you to be confidential or still commercially sensitive, and if so, to explain why.

The Provincial Development Unit may disclose any application and any related documents or information provided by the applicant, to any person who is directly involved in the PGF application and assessment process on its behalf including the Independent Advisory Panel (“IAP”), officers, employees, consultants, contractors and professional advisors of the Provincial Development Unit or of any government agency. The disclosed information will only be used for the purpose of participating in the PGF application and assessment process, which will include carrying out due diligence. If an application is approved for funding, information provided in the application and any related documents may be used for the purpose of contracting.

In the interests of public transparency, if an application is approved for funding, the application (and any related documents) may be published by the Provincial Development Unit. Commercially sensitive and personal information will be redacted by reference to the provisions of the Official Information Act 1982.

Limitation of Advice

Any advice given by the Provincial Development Unit, any other government agency, their officers, employees, advisers, other representatives, or the IAP about the content of your application does not commit the decision maker (it may be Senior Regional Officials, Ministers or Cabinet depending on the level of funding requested and the nature of the project) to make a decision about your application.

This limitation includes individual members of the IAP. The IAP’s recommendations and advice are made by the IAP in its formal sessions and any views expressed by individual members of the IAP outside of these do not commit the IAP to make any

recommendation.

No contractual obligations created

No contract or other legal obligations arise between the Provincial Development Unit and any applicant out of, or in relation to, the application and assessment process, until a formal written contract (if any) is signed by both the Provincial Development Unit and a successful applicant.

No process contract

The PGF application and assessment process does not legally oblige or otherwise commit the Provincial Development Unit to proceed with that process or to assess any particular applicant's application or enter into any negotiations or contractual arrangements with any applicant. For the avoidance of doubt, this application and assessment process does not give rise to a process contract.

Costs and expenses

The Provincial Development Unit is not responsible for any costs or expenses incurred by you in the preparation of an application.

Exclusion of liability

Neither the Provincial Development Unit or any other government agency, nor their officers, employees, advisers or other representatives, nor the IAP or its members will be liable (in contract or tort, including negligence, or otherwise) for any direct or indirect damage, expense, loss or cost (including legal costs) incurred or suffered by any applicant, its affiliates or other person in connection with this application and assessment process, including without limitation:

- a) the assessment process
- b) the preparation of any application
- c) any investigations of or by any applicant
- d) concluding any contract
- e) the acceptance or rejection of any application, or
- f) any information given or not given to any applicant(s).

By participating in this application and assessment process, each applicant waives any rights that it may have to make any claim against the Provincial Development Unit. To the extent that legal relations between the Provincial Development Unit and any applicant cannot be excluded as a matter of law, the liability of the Provincial Development Unit is limited to \$1.

Nothing contained or implied in or arising out of the PGF documentation or any other communications to any applicant shall be construed as legal, financial, or other advice of any kind.

Inducements

You must not directly or indirectly provide any form of inducement or reward to any IAP member, officer, employee, advisor, or other representative of the Provincial Development Unit or any other government agency in connection with this application and assessment process.

Governing law and jurisdiction

The PGF application and assessment process will be construed according to, and governed by, New Zealand law and you agree to submit to the exclusive jurisdiction of New Zealand courts in any dispute concerning your application.

Public statements

The Provincial Development Unit and any other government agency, or any relevant Minister, may make public in whole or in part this application form including the following information:

- the name of the applicant(s)
- the application title
- a high-level description of the proposed project/activity
- the total amount of funding and the period of time for which funding has been approved
- the region and/or sector to which the project relates

The Provincial Development Unit asks applicants not to release any media statement or other information relating to the submission or approval of any application to any public medium without prior agreement of the Provincial Development Unit.

Appendix 2 - Operational criteria for all tiers of the Fund

Link to Fund and government outcomes

- Demonstrate the ways in which the project will contribute to lifting the productivity potential of the region
- Demonstrate how the project contributes to the Fund's objectives of:
 - more permanent jobs
 - benefits to the community and different groups in the community
 - increased utilisation and returns for Māori from their asset base (where applicable)
 - sustainability of natural assets (e.g. water, soil integrity, the health and ecological functioning of natural habitats)
 - mitigating or adapting to climate change effects, including transitioning to a low emissions economy
- Clear evidence of public benefits (i.e. benefits other than increased profitability for the applicant)
- Are in a Government priority region or sector

Additionality

- Project is not already underway, does not involve maintenance of core infrastructure or assets (except for rail and transport resilience initiatives), and does not cover activities the applicant is already funded for (funding could be considered to increase the scale of existing projects or re-start stalled projects)
- Demonstrated benefit of central Government investment or support
- Detail of any supporting third party funding (and any funding sought unsuccessfully)
- Acts as a catalyst to unlock a region's productivity potential
- Demonstrated links to other tiers of the Fund and related projects, to maximise value of Government investment

Connected to regional stakeholders and frameworks

- Evidence of relevant regional and local support, either through existing regional development mechanisms, or through another relevant body such as a council, iwi or other representative group (or reasons for any lack of local support)
- Has been raised and discussed with the region's economic development governance group
- Alignment with, or support for the outcomes of, any relevant regional development plan, Māori development strategy or similar document (whether regional or national)
- Demonstrated improvement in regional connectedness (within and between regions)
- Leverage credible local and community input, funding, commercial and non-commercial partners
- Utilise existing local, regional or iwi/Māori governance mechanisms

Governance, risk management and project execution

- Evidence of robust project governance, risk identification/management and decision-making systems and an implementation plan appropriate to the size, scale and nature of the project
- Future ownership options for capital projects, including responsibility for maintenance, further development, and other relevant matters
- Benefits and risks clearly identified and quantified, depending on the scale of the initiative
- Evidence of potential exit gates and stop/go points, and a clear exit strategy
- Clearly identifies whole of life costs (capital and operating)
- Dependencies with other related projects are identified
- Evidence of sustainability after conclusion of PGF funding
- Adequacy of asset management capability (for capital projects)
- Compliance with international obligations (where relevant)

PGF PROPOSALS FOR REVIEW - N.Z Future Forest Products

Date:	04 November 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1328 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	07 November 2019
Hon Phil Twyford Minister of Transport Minister of Economic Development		07 November 2019
Hon David Parker Minister for Trade and Export Growth		07 November 2019
Hon David Clark Minister for Health Associate Minister of Finance		07 November 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	07 November 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of [REDACTED]	✓
Jessica Sandford	Policy Advisor	Privacy of [REDACTED]	
Isabella Radovanovic	Business Advisor	Privacy of [REDACTED]	

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Recommendations

Projects seeking decision from Regional Economic Development Ministers

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
Minister Jones has declared a conflict of interest and will recuse himself for this item.							
8.	N.Z Future Forest Products	<p>Applicant: N.Z Future Forest Products Limited ('NZFFP')</p> <p>Region: Commercial (feasibility study to determine)</p> <p>NZFFP intends to establish New Zealand as the Commercial Inform maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.</p> <p>NZFFP has requested PGF funding towards a feasibility study that will be undertaken by Commercial to confirm the viability and bankability of NZFFP's proposed Commercial Information</p> <p>Information</p> <p>Following the completion of the feasibility study as stage 1, the applicant will then invest Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work.</p>	<p>The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF on the basis that:</p> <ul style="list-style-type: none"> Free and Frank Opinions <p>Commercial Information</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but, notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully. The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PGF funding support.</p> <p>Funding has been requested for Co % of the cost of the feasibility study. NZFFP has requested a loan – Commercial Information</p> <p>Further discussions with the applicant has put forward the option for PGF funding of Commercial Information</p> <p>and the PDU does not support funding a share of the Com / other Commercial costs. NZFFP is a newly incorporated company; Free and Frank Opinions</p>	Commercial Stage 1 Feasibility Study: \$15 million Com cial Informa	\$15 million loan	Decline	Approve, details provided in IAP advice letter.

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
			<p>Free and Frank Opinions</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <ul style="list-style-type: none"> ▪ [REDACTED] ▪ [REDACTED] ▪ [REDACTED] 				

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The Provincial Development Unit recommends that you:

N.Z Future Forest Products

1. **Agree** to decline N.Z Future Forest Products Limited's application for a \$15 million loan from the Provincial Growth Fund on the basis that:
 - a. Free and Frank Opinions

[Redacted content]

David van der Zouwe
Head of the Investment Management
Provincial Development Unit
..... / /

Hon Grant Robertson
Minister of Finance
..... / /

Hon Phil Twyford
Minister of Transport
Minister of Economic Development
..... / /

Hon David Parker
Minister for Trade and Export Growth
..... / /

Hon David Clark
Minister for Health
Associate Minister of Finance



..... / /

e. Free and Frank Opinions

[Redacted text block]

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Agree/Disagree

N.Z. FUTURE FOREST PRODUCTS

Projects overview

Name of the project	N.Z. Future Forest Products
Region	Commercial Information
Tier and type	Tier One: Regional
Applicant	N.Z. Future Forest Products Limited (NZFFP)
Estimated total project cost	\$Commercial Stage 1: Feasibility Study \$15 million Commercial Information
Amount of funding sought from the PGF	\$15 million
Financial instrument requested	Loan
PDU recommendation	Decline

- NZFFP intends to establish New Zealand as the Commercial for Commercial Information in the Commercial region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.
- On completion, NZFFP's Commercial Information

- NZFFP has requested \$15 million from the PGF to go towards a feasibility study that will be undertaken by Commercial to confirm the viability and bankability of NZFFP's proposed Commercial Information. Commercial Information

- A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commercial to complete.

5. Following the completion of the feasibility study as stage 1, the applicant will then invest \$Com [REDACTED] into Commercial Information [REDACTED] and completion of the balance of the Commercial [REDACTED] work.

PDU recommendation

6. The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF.
7. The PDU does not support NZFFP's application for the following reasons:
 - a. Free and Frank Opinions [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Costs and funding

8. NZFFP is only recently incorporated and therefore they do not yet have annual accounts. The PDU has not been provided with financials or been advised of the level to which it will be capitalised. The applicant has advised that "Free and Frank Opinions [REDACTED]
[REDACTED]
[REDACTED]"
9. The PGF funding has been requested in two tranches as \$Commerci [REDACTED] (tranche one) and \$Co [REDACTED] (tranche two) once the PDU has cited successful completion and delivery of pre-feasibility reports. Commercial Information [REDACTED]
[REDACTED]
10. Commercial Information [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
11. Free and Frank Opinions [REDACTED] Furthermore, further PGF funding required for work post the feasibility study would be beyond the lifetime of the PGF, and this would also apply to cost overruns with the project.

PDU assessment of the project

12. 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
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓	As indicated by the applicant, NZFFP’s proposed Commer Information would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.
Delivers benefit to the community	✓	Stage 2 has the potential to deliver benefits to the community. However, the feasibility study, to which this application relates, will not.
Increased utilisation and returns of Māori asset base	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Enhanced sustainability of natural assets	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Mitigation of climate change	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
<i>Additionality</i>		
Adding value by building on what is already there	✓	<p>NZFFP intends to establish New Zealand as the Commercial Information</p> <p>However, significant work and research is still to be undertaken – much by the feasibility study.</p> <p>Commercial Information</p>

Criteria	Rating (1✓ to 5✓)	Comment
		<p>Commercial Information [REDACTED] [REDACTED] [REDACTED]</p> <p>However, this will not be realised through the feasibility study, to which this application relates.</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully.</p> <p>The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PGF funding support.</p>
Acts as a catalyst for productivity potential in the region	✓	<p>This will not be realised through the feasibility study, to which this application relates. Furthermore, Commercial [REDACTED] has a shortage of wood which is well known. Government support for a major project that proceeded in the region could have negative impacts on existing operations, which may or may not be a good thing.</p>
<i>Connected to regional stakeholders and framework</i>		
Alignment with regional priorities	✓✓✓	<p>If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information [REDACTED] business does ultimately eventuate, it would be well-aligned.</p>
Support from local governance groups	✓✓✓	<p>Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming.</p>
<i>Governance, risk management and project execution</i>		
Robust project management and governance systems	✓✓✓	<p>The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to confirm its viability. Commercial [REDACTED] appears capable, and the C [REDACTED] timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. Commercial Information [REDACTED], would also require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much</p>

Criteria	Rating (1✓ to 5✓)	Comment
		in relation to the feasibility project itself, but in relation to the funding for the overall Commercial on which Commercial Information would rely. Commercial appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.
Risk management approach	✓✓✓	Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand engineering firm, Commercial. This will include breaking down the project into distinct, sequential steps.
Future ownership / operational management	✓✓	Details to be confirmed.

Agency comments

Ministry of Foreign Affairs and Trade

13. Free and Frank Opinions

[Redacted]

Ministry for Primary Industries

14. Free and Frank Opinions

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Risk assessment

15. Due diligence has not been undertaken as the application has been recommended for decline.
16. Minister Jones has declared a conflict of interest and will recuse himself for the discussion and decision-making for this proposal.
17. The PDU has identified the following key risks and mitigations:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Outcome of the feasibility study	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<ul style="list-style-type: none"> ■ Commercial Information [REDACTED] [REDACTED] [REDACTED] 	<p>[REDACTED]</p>
Procurement of Consulting Company	<p>Commercial Information [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<ul style="list-style-type: none"> ■ [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] 	<p>[REDACTED]</p>

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REGIONAL ECONOMIC DEVELOPMENT MINISTERS

11 September 2019 BRIEFING PACK

Contents

Item	Subject
1.	Position paper: Wood Processing
2.	Unrelated to [REDACTED] NZFFP [REDACTED]
3.	Unrelated to NZFFP [REDACTED]
4.	Unrelated to [REDACTED] NZFFP [REDACTED]
5.	Unrelated to NZFFP [REDACTED]
6.	Unrelated to [REDACTED] NZFFP [REDACTED]
7.	Unrelated to NZFFP [REDACTED]
8.	Unrelated to NZFFP [REDACTED]
9.	Unrelated to [REDACTED] NZFFP [REDACTED]
10.	Unrelated to NZFFP [REDACTED]
11.	Unrelated to NZFFP [REDACTED]

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Provincial Growth Fund Position Paper

Wood processing investments

Purpose

This paper sets out the Provincial Growth Fund (PGF) approach to investing in wood processing to support regional economic development.

The position set out in this paper complements that which is set out in the PGF [Tier 2: Sector Investments](#) position paper.

Vision

The PGF's vision is to make targeted investments to enhance the productivity potential of, and capture greater value from, New Zealand's wood processing sector. New Zealand has a core competitive advantage in forestry but this has become dominated by the export of raw logs; principally to China. PGF investments will contribute to wider government activity, by enabling greater domestic value generation laying the seeds for sustainable, high-value, economic activity.

Objectives

Objectives of PGF investment in wood processing

Key to achieving the PGF's vision for the wood processing sector is to maximise value from New Zealand's forestry production. This can be done by focusing on moving its outputs up the value chain.

Therefore, the PGF will invest in a range of opportunities with three main objectives. Taken together, these objectives will help to foster domestic value chains that maximises the value able to be generated by the sector.

The most important objective of PGF investment in the wood processing sector is to increase the processing of logs into value-added products. This includes value added timber construction products, such as Cross-Laminated Timber (CLT), Optimised Engineered Lumber (OEL), Industrial Plywood, Orientated Strand Board (OSB), Remanufacturing and building componentry, and prefabricated buildings.

The PGF will invest in projects that convert forestry and wood processing residues and by-products into value-add products. This will complement the PGF's investment strategy in the waste-to-energy space.

The PGF will consider investing in projects that increase the volume of logs that are processed into high quality sawn timber such as for CLT. Without sufficient globally competitive sawmilling capacity there is no foundation on which New Zealand can produce higher value products. The PGF is particularly interested in processing investments where it is done in a way that integrates production into whole-of-log processing, e.g. by processing wood waste into other products or energy.

Contribution of wood processing objectives to wider PGF objectives

Wood processing is a strategic priority for PGF because of its strong potential to contribute to all of the PGF's main objectives:

- **jobs and sustainable economic development:** maximising value from New Zealand's forestry sector, by increasing its value-added output through wood processing investments, will increase the number of better paid jobs in an environmentally and economically sustainable sector;
- **Māori development:** given the existing Māori asset base in the forestry sector, PGF investment presents a clear opportunity to increase the participation of Māori in the wood processing sector, in particular, as owners;
- **climate change and environmental sustainability:** increased economic development based off the forestry sector is inherently sustainable, and will support continued investment in afforestation which is a key climate change mitigation;
- **social inclusion and participation:** increased economic development through the wood processing sector will primarily benefit the PGF's surge region, creating more training and employment opportunities;
- **resilience (infrastructure and economic):** successful investment in value-added processing capacity, and waste-to-energy opportunities, will support the development of domestic value chains that will diversify the sector, including destination markets, helping to ensure regional economies are better placed to withstand economic shocks.

Context

Forestry products are New Zealand's third largest export commodity following dairy and red meat, with the sector reaching \$6.7 billion in export earnings for the year ending June 2018.¹

New Zealand forestry (logging and downstream) contributed approximately \$3.55 billion to the New Zealand economy in 2017,² and is responsible for employing around 18,000 full and part-time workers.³ The main products produced by the industry are sawn timber, pulp, paper products and panels.

New Zealand's wood processing sector has been undergoing a process of consolidation, with the number of smaller, less efficient mills decreasing over the past 15 years. However, the domestic wood processing industry remains a particularly important source of employment and economic

¹ Situation and Outlook for Primary Industries 2018, Ministry for Primary Industries

² Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

³ Industry Insight 2018: Forestry and wood processing, Westpac

growth in the regions, especially in the Bay of Plenty, Waikato, Northland, Hawke's Bay/Tairāwhiti and Tasman/Nelson areas.⁴

New Zealand exports a high proportion of unprocessed logs compared to value-added products such as sawn timber, wood panels and paper products.⁵ There has been rapid growth of both the value and volume of log exports, driven by strong Chinese demand. Nearly 60 percent of harvested logs are exported overseas, with the remaining 40 percent being processed in New Zealand into a range of higher-value wood products.

Processed wood exports have remained relatively static over the past 10 to 20 years, in terms of both volume and average price. This means that while New Zealand's wood supply has been increasing in recent years, all the additional wood is being exported, rather than processed domestically into value added products.

Annually, New Zealand exports 40 percent of our sawn timber and wood panel products, 60 percent of our wood pulp, and 50 percent of our paper products. Key markets include: the United States, China, and Australia for sawn timber, Japan for wood panels, Indonesia and South Korea for pulp products, and Australia for paper products. In comparison, New Zealand has only four major export markets for logs.

Increased planting in the 1980s and 1990s has resulted in a significant increase in harvest volume in recent years, from around 20 million cubic metres (m³) in 2010, to nearly 35 million m³ in 2018. This level of harvesting will continue, and potentially increase to an additional 10-15 million m³ per year from the mid-2020s, with this increase coming mainly from small forest growers.

Targeted investment in the wood processing sector can support the conversion of more of New Zealand's raw log harvests into value-added goods. In the near term, if demand from China starts to slow as forecast, forestry owners may redirect more logs to local saw mills at lower prices. This increase, if it occurs⁶, should be able to be absorbed by domestic market demand driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, including Wellington and Otago.

The medium to long-term outlook for wood processors is more challenging, but there are still investment opportunities – not least because the One Billion Trees programme and increasing afforestation will support long-term wood supply. While New Zealand's competitive advantage is in the production of logs; North American demand is constrained and limited to sawn products with Russian softwood exports shifting from logs to sawn timber following tariff increases on log exports. New Zealand loses its competitive edge in downstream processing where the sector lacks economies of scale to be able to be internationally competitive, which is aggravated by New Zealand's distance

⁴ Plantation Forestry Statistics Report 2017, New Zealand Institute of Economic Research

⁵ Industry Insight 2018: Forestry and wood processing, Westpac

⁶ If china log prices decrease many small forest owners (who make up 40 percent of the total harvest) may choose not to harvest – unless domestic prices increase significantly. Also, processors can only take some parts of logs, so it's not necessarily straightforward direct logs that were intended for export to domestic processing.

from key markets.⁷ However, Red Stag's super mill in Rotorua demonstrates that when operating at scale, wood processing operations in New Zealand can compete on the global market.

As per the Tier 2: Sector Investments position paper, the PGF is willing to invest to overcome some of these challenges. Given the strategic importance of the sector, the PGF is also willing to exercise its broader risk appetite to do so.

Gaps and opportunities

New Zealand's forecast growth in forestry harvests supported by a relatively benign climate and good biosecurity, present opportunities for wood processing sector investments. More so when emerging global climate change will adversely affect large producing countries. This has potential to generate significant long term benefits for regions where forestry is a competitive advantage.

Increasing the volume of New Zealand grown logs and sawn timber processed into value-added products

Domestic market demand, driven by acute housing shortages in Auckland and a lift in homebuilding in other parts of the country, has created a market for materials to support homebuilding.

Domestic housing (and urban land) shortages, coupled with environmental concerns, are also driving a market for midrise construction using wood. There is a particular opportunity for wood processing investments to mesh with established and emerging eco-systems like established clusters of Off-Site Manufacturing of housing components or complete houses. Existing opportunities for regional alignment are in Bay of Plenty, Waikato, and Northland.

Increasing the value generated by the wood processing sector by making commercial use of forestry and wood processing residues for value-add products

The forestry and wood processing sectors produce a significant amount of residues from harvest and processing which represent lost value. New technologies, and a growing recognition of the lost value this represents, have contributed to emerging investment opportunities. For example, a range of products can now be produced using wood processing residue, and bioenergy applications can viably convert forestry or wood processing waste to energy for commercial use.

There is also a potential opportunity for investment in value-added production to help address transport issues. Modular mobile solutions, for example, could be funded in remote regions, near or co-located with log supply, to enable shipment of value-added rather than raw products.

Priority regions for wood waste processing investments are Tairāwhiti and Te Tai Tokerau. Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions.

⁷ Industry Insight 2018: Forestry and wood processing, Westpac

Increasing the volume of New Zealand grown logs processed in New Zealand

Given the percentage of New Zealand grown logs that are processed offshore, the PGF will consider investments that result in a greater volume being processed locally. Given sawmilling is a fundamental pre-requisite to other high-value operations, the PGF will prioritise wood processing that supports the production of higher value products such as CLT, OEL, remanufacturing etc.

However, the PGF's investment priority is in value-added wood products. Therefore, proposals for sawn timber production should be for high quality sawn timber, or for components of higher value products, that incorporate a whole-of-log processing approach.

For example, there is an opportunity for investment is to ensure existing and planned high-value product mills in the central North Island are adequately supplied with chip. Surplus chip from new sawmill capacity could be used to develop further particle-board and Medium-Density Fibreboard (MDF) plants.

Projects that have a lesser value-add proposition should also demonstrate how they would create wider social benefits, such as training and employment opportunities to support people into work or into higher paid work.

Priority areas for potential processing projects are the Bay of Plenty, Manawatū-Whanganui and, in particular, Tairāwhiti, due to the high volume of forestry in these regions.

Priorities

To best contribute to the PGF's objectives, proposals that align with the following will be prioritised.

Projects that help to move the sector, and regional economies, up the value chain and create better paid sustainable employment opportunities

While one of the objectives of PGF investment is to increase the volume of New Zealand grown logs processed in New Zealand into high quality sawn timber, priority will be given to projects that will produce value-added products. These investments are more in line with the objective of Tier 2: Sector Investments, which is to increase the number of quality jobs in a region and contribute to an enduring step change in regional economies.

The PGF is interested in investment partnerships in innovative and new timber products. However, in line with the PGF Tier 2: Sector Investments position paper, the PGF would expect these opportunities to be explored with well-established firms. Applications of this sort would also need to fully align with the principles set out at the end of this paper.

Clearwood production

An area of strategic importance to the future sustainability of New Zealand's production of high value wood products concerns the production of 'clearwood'. Clearwood is wood that is milled from trees that are pruned to ensure the timber does not contain knots, and is used for the production of high quality sawn timber.

Clearwood is necessary for the production of hardened wood, which allows New Zealand's soft wood to compete with natural hardwoods, such as teak. It is also necessary for the production of high-value Laminated Veneer Lumber products.

Due to the cost involved, and high unpruned log prices relative to pruned prices, a significant portion of forests are not currently being pruned. This has the potential to have a high negative impact on the wood processing industry long-term. If the reduction in pruned log availability continues, there will be more mill capacity required that can manage structural and industrial grade logs and smaller "clearwood only" mills are likely to continue to close.

To help ensure the sustainability of high-value clearwood milling, the PGF is interested in supporting projects that would *produce clearwood products*, where such projects address issues with the supply of clearwood logs. The PGF will not fund tree pruning itself.

Projects that benefit Māori

Māori connections to forestry and forest land are strongly cultural and spiritual, as well as commercial. Māori own over 400,000 ha of indigenous forests (6 percent of total indigenous forest) and some 238 000 ha of planted exotic forests (13 percent of total exotic forests). These forests contribute significantly to Māori socio-economic development.

Māori participation in forestry is moving from being principally a source of labour to stronger commercial involvement. Currently, forestry comprises 10 percent of Maori's total asset base. This will grow as Māori take increasing ownership and control of their land and forests.

Ngati Porou Forestry Ltd, for example, has entered into a joint venture with Hansol NZ, a South Korean conglomerate. 38 landowner blocks provided land, while Hansol provided funds to establish and manage forests. This joint venture consists of 38 forests, which cover 10,000 hectares.

Given the existing involvement of Māori in the forestry sector, the PGF's investment appetite presents a clear opportunity to increase the participation of Māori in the wood processing sector, as owners in particular, therefore putting Māori on a stronger economic base that is sustainable into the future.

Projects that benefit surge regions

Wood processing is also a strategic priority because the opportunities it presents complement the PGF's wider investment strategy. This is especially the case in relation to the PGF's focus on surge regions. Given their location primarily in surge regions, existing forestry and wood processing assets provide a strong foundation for PGF investment to achieve its goal of maximising the productivity potential of those regions.

Tairāwhiti is a particular priority for investment, because of its large forecast supply of logs, and its underdeveloped wood processing sector relative to other regions. However, forest ownership structures in Tairāwhiti means there are a limited number of corporate operations that could commit to long term wood supply agreements. The volume of wood in Tairāwhiti available for large scale wood processing is approximately two million m³ per annum.

Projects that include plans for extracting value from by-products

Where the primary component of a proposal is to produce wood products, priority will be given to integrated wood processing operations or clusters that include plans to extract value from by-products of the production process. This is especially important for projects with a low value-add proposition, such as proposals where the primary output is sawn timber.

Projects that involve well-established firms

The PGF will prioritise projects that involve mature or well-established firms with commercial experience in the sector. Firms with proven experience are more likely to be able to operate at the scale the PGF is interested in, especially through the uptake of new technologies or into new products.

The PGF welcomes applications from New Zealand as well as international investors with experience in wood processing.

Projects that benefit multiple sector participants

Projects that have the potential to benefit multiple businesses, for example, processing capabilities that are too expensive for individual firms to invest in on their own, are a priority for investment due to the wider benefits such investment is likely to produce.

Principles

- applications must demonstrate how they are aligned with the PGF's objectives and priorities for investment in the wood processing sector, as set out in this paper;
- projects will begin within the timeframes of the PGF;
- projects will be considered in the context of regions' comparative advantages, challenges and opportunities;
- projects may be considered from firms that do not require PGF project support but support to resolve infrastructure deficit(s) holding a project back;
- applications will be supported by:
 - a clear and compelling proposal, confirming long-term viability, including understanding and management of risks, evidence of market demand, market accessibility, and how the operation intends to remain competitive;
 - wood supply analysis, including long term (20-30 year) analysis of where the wood will come from, how the proposal will impact wood supply within region(s), and whether co-location is viable;
 - infrastructure analysis, including energy, emission mitigation and transport requirements, and the existing eco-system of wood processing;
 - if the proposal relates to building componentry or prefabrication, demand and pricing analysis, forward orders as well as sales projections by region; and
 - appropriate labour market analysis;
- firms will have already sought private sector funding, and provided a clear explanation as to why it was not approved;

- projects will not be funded where other appropriate sources of government support are available with the exception of projects that were declined KiwiBuild support);
- the project will include clearly identified public benefits relating to, in particular, Jobs and Sustainable Economic Development, Māori development; Social Inclusion and Participation; Climate Change and Environmental Sustainability; or Resilience (infrastructure and economic);
- projects should generally have a minimum 50 percent co-contribution (applications with potential to generate significant public benefit may be exempt from this requirement);
- investments will be consistent with New Zealand’s international obligations.

Relationship to other agencies and areas of investment

PGF investment in the wood processing sector is part of wider government initiative to foster a productive and sustainable wood processing sector that increasingly contributes to prosperous regional economies. Key agencies in this work are Te Uru Rākau, the Ministry of Business, Innovation and Employment, New Zealand Trade and Enterprise, and The Ministry of Housing and Urban Development, and Kāinga Ora.

PGF investments in the wood processing sector will contribute to, and inform, this wider work, including:

- supporting Kāinga Ora objectives;
- Te Uru Rākau’s forestry strategy; and
- the development of an Industry Transformation Plan for the wood processing and forestry sector, that:
 - induces at-scale investment in primary and secondary forestry production focused on market ready products;
 - maximises regional, economic, environmental and health and safety benefits;
 - identifies opportunities to develop the forestry sector at the heart of a circular, bio-based, carbon neutral economy through the completion of the long-term, sector-led development of a forest strategy for Aotearoa New Zealand.

Appendix

Approved and potential PGF wood processing investments

Approved projects	
Project	\$ Million approved
Unrelated to NZFFP [Redacted]	
Unrelated to NZFFP [Redacted]	Unrelat
Unrelated to NZFFP [Redacted]	Un

Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Total funding approved	\$Unrelate d t
Applications received	
Project	\$ Million requested
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelate d to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]
Unrelated to NZFFP [Redacted]	[Redacted]

PROACTIVELY RELEASED

N.Z. Future Forest Products Ltd. (NZFFP)	
The completion of a feasibility study to unlock the commercial capital necessary to	Commercial Information
	15.0
Unrelated to NZFFP	
Unrelated to NZFFP	Un
Unrelated to NZFFP	
Unrelated to NZFFP	
Unrelated to NZFFP	
Unrelated to NZFFP	
Unrelated to NZFFP	
Unrelated to NZFFP	
Total funding requested	\$Unrelated to NZFFP
Additional Opportunities in the Sector (TBC)	
Project	\$ Million Indicative Funding
Unrelated to NZFFP	
Total indicative funding	\$Unrelated to NZFFP



Agenda – Independent Advisory Panel

Date, Time & Location:	Wednesday 19 June 2019, 9:00am – 3:00pm, Monarch Room, Level 11, Willeston Conference Centre, 15 Willeston Street, Wellington
Panel members:	Rodger Finlay (Chair), Rosie Mercer, John Sproat, David Wilson, Sarah Brown, Neville Harris, Charlotte Severne
In attendance:	Robert Pigou, David van der Zouwe, Glynis Mussen, Jane Frances, Jerome Wyeth, Karyn Stillwell, Nerissa Wallace
Attendees via telephone conference:	Richard Westbury, Dipankar Ganguly, Eliot Linforth-Hall, Eleanor Green, Nick Hough, Joan Ng, Murray Beatson, Yen-Ting Liu, Jared Humm, Jason Hall, Aaron Hape, Paul Swallow, Isabella Radovanovic
Apologies:	John Rae

AGENDA ITEM		PRESENTING AND/OR ATTENDING	ACTION
1. MEETING ADMINISTRATION			
1.1.	Unrelated to [REDACTED]	[REDACTED]	[REDACTED]
1.2.	Unrelat [REDACTED]	[REDACTED]	[REDACTED]
1.3.	Unrelated to [REDACTED]	[REDACTED]	[REDACTED]
1.4.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
1.5.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
2. HEAD OF PDU UPDATE			
3. PROPOSALS FOR PGF FUNDING			
3.0.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.2.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.3.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.4.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.5.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.6.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.7.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.8.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.9.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.10.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.11.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]

ACTION KEY: R = RESOLUTION N = NOTE D = DISCUSS C = COMPLETE I = INFORMATION

	Unrelated to [REDACTED]		
3.12.	N.Z. Future Forests Products Ltd	Murray Beatson	D
3.13.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
3.14.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
3.15.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
4. VERBAL UPDATES			
4.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
4.2.	Unrelated [REDACTED]	[REDACTED]	■
5. GENERAL BUSINESS			
5.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
The next IAP meeting will be held on Tuesday, 16 July in Kaikoura The next RED Minister meeting will be held on Wednesday, 26 June in Wellington			

PROACTIVELY RELEASED



3.12 N.Z. FUTURE FOREST PRODUCTS LTD

PGF Application		For: Review (Decline recommended)	
Applicant:	N.Z Future Forest Products Limited ('NZFFP')	Pipedrive ID #	#Co
Entity Type:	Company	PGF Funding Sought:	\$15,000,000
Region	Unrelated to NZFFP (ultimately, if the Unrelated to NZFFP – post a positive feasibility study, and Unrel – proceeds) at	Total Project Value:	\$Commerci total. Σ Stage 1 Feasibility Study \$15,000,000 Σ Stage 2 Commercial \$Commerc ti
Tier:	1 - Regional	Co-contribution rate:	0% for Stage 1, Feasibility Study (but 0% if Stage 2, Commercial is included)
Sector:	Wood Processing	Funding Structure:	Loan
<p>We recommend that the IAP:</p> <p>a) Review the application for a loan of \$15,000,000 from the PGF in relation to the completion of a feasibility study, to be undertaken by Commercial (an international consultancy), to confirm the viability and bankability of NZFFP's proposed Commercial Information</p> <p>b) Note PGF has been requested to fund Co % of the cost of the feasibility study (with NZFFP investing \$Com into Stage 2, relating to the required Commercial).</p> <p>c) Note NZFFP has requested a loan – Free and Frank Opinions</p> <p>d) Note NZFFP is a newly incorporated company; Free and Frank Opinions</p> <p>e) Note Free and Frank Opinions</p>			

Free and Frank Opinions

Proposal:

NZFFP intends to establish New Zealand as the Commercial Information in the Asia-Pacific region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.

Commercial Information

However, the PDU notes that significant work and research is still to be undertaken – much by the feasibility study.

The application requests Co % funding for a 'bankable' feasibility study (to be undertaken by Commercial) for the proposed Commercial Information; to include the commercial, technical and financial elements of the Comm with two site options in Commercial Commercial Information. It will map proposed markets Commercial Information

PGF funding of \$15m for a \$15m feasibility study cost (Stage 1) has been requested, and following stage 1 the applicant will then invest \$Com into Stage 2, effectively being the Commercial, and completion of the balance of the Commercial work.

Free and Frank Opinions

The PDU has since sought further clarification from the applicant on this point, to confirm that their position is now that, of the \$15m cost for the feasibility study, they are proposing that they would fund C % (\$Com) – with the request of the PGF to now fund the balance of \$Com; and, in relation to the Commercial other pre-Commercial of \$Com, they would now also fund C % (\$Co) – with the PGF being asked to consider funding C % of those costs (ie. \$Comm). Their confirmation on this point is awaited. Free and Frank Opinions

Assessment against the PGF criteria:		
Eligibility Criteria		
As noted, the request relates to a feasibility study to confirm the viability (or otherwise) of the proposed project Free and Frank Opinions		
Productivity Potential		
<p>As indicated by the applicant, NZFFP's proposed Commercial Information will increase economic productivity by increasing both the volume and value of economic goods produced in the region and underwriting the expansion of Commercial operations. They also note that NZFFP's work with Commercial Information has the potential to significantly increase the productivity of New Zealand's national forest estates over time as it reverses the trend of raw log sales in favour of industries that require different log grade specifications to produce Commercial Information.</p> <p>It is also noted that NZFFP's Commercial will produce Commercial Information solutions aimed at Commercial Information in the construction industry and thereby minimising global CO2 emissions.</p> <p>However, the feasibility study, to which this application relates, will not provide direct benefits in line with PGF criteria.</p>		
Policy objectives and regional priorities		
No clear evidence of regional support and provided. However, this could be available dependant on the outcome of the feasibility study.		
PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	∑ As indicated by the applicant, NZFFP's proposed Commercial Information business would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.	✓
Delivers benefit to the community	∑ As above ... but the feasibility study, to which this application relates, will not.	✓
Increased utilisation and returns of Maori asset base	∑ Potentially, yes ... but the feasibility study, to which this application relates, will not.	✓
Enhanced sustainability of natural assets	∑ Potentially, yes ... but the feasibility study, to which this application relates, will not.	✓
Mitigation of climate change effects	∑ Potentially, yes ... but the feasibility study, to which this application relates, will not.	✓

Additionality		
<p>Adding value by building on what is already there</p>	<ul style="list-style-type: none"> Σ Potentially, yes ... but the feasibility study, to which this application relates, will not. Σ NZFFP intends to establish New Zealand as the Commercial Information [redacted] solutions in the Commercial region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future. However, significant work and research is still to be undertaken – much by the feasibility study. Σ The applicant believes that what they propose can be combined in a Commercial Information [redacted] and the resulting Commercial [redacted] will be Commercial Information [redacted]. As well as core supply from Commercial [redacted], NZFFP will also buy logs from Commercial forest owners, support Iwi in planting and managing long-term afforestation to supply the Comm and Commercial [redacted] from Commercial calling at Commercial [redacted] from elsewhere in New Zealand, thereby reducing New Zealand's low margin log exports in favour of high margin Commercial Information [redacted]. 	<p>✓</p>
<p>Acts as a catalyst for productivity potential in the region</p>	<ul style="list-style-type: none"> Σ Potentially, yes ... but the feasibility study, to which this application relates, will not. Σ Input was sought by the PDU from Privacy of [redacted] (currently contracted to the PDU regional branch and with extensive knowledge of the wood processing sector in MBIE and NZTE), who provided comment, including the following: “Free and Frank Opinions [redacted]” 	<p>✓</p>
Connected to regional stakeholders and frameworks		
<p>Alignment with regional priorities</p>	<ul style="list-style-type: none"> Σ If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information [redacted] does ultimately eventuate, it would be well-aligned. 	<p>✓✓✓</p>
<p>Support from local governance groups (inc. Councils, Iwi/Hapu)</p>	<ul style="list-style-type: none"> Σ Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming. 	<p>✓✓✓</p>

Governance, risk management and project execution		
<p>Robust project management and governance systems</p>	<p>Σ The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to confirm its viability.</p> <p>Σ Commerci appears capable, and the Commer timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. However it is also noted that such Commercial Information require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much in relation to the feasibility project itself, but in relation to the funding for the overall processing plant on which Commercial Information would rely.</p> <p>Σ Commerci appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.</p>	<p>✓✓✓</p>
<p>Risk management approach</p>	<p>Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand engineering firm, Commerci. This will include breaking down the project into distinct, sequential steps.</p>	<p>✓✓✓</p>
<p>Future ownership / operational management</p>	<p>Σ Detail to be confirmed.</p>	<p>✓✓</p>
Analysis of the benefits and costs		
<p>The proposed feasibility study will include Commercial Information</p> <p>Additionally, the study will map proposed beachhead markets (Commercial Information), technical options, optimal scales of production, level of integration across the value chain and precise budget requirements ahead of packaging the Commercial finance for Com.</p> <p>A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commerci to complete.</p> <p>The request relates only to this initial phase, involving the completion of a feasibility study, to confirm the viability, and bankability, of the overall project. Free and Frank Opinions</p> <p>The beneficiaries are primarily NZFFP, and its shareholders.</p> <p>The applicant has subsequently advised (in answer to the PDU's question as to why Crown Funding was required?) <i>... "Given our backgrounds in feasibility & project finance, we have undertaken extensive engagement with</i></p>		

Commercial Information regarding the project. This was a requirement of the NZFFP board before considering the PGF loan approach, given it will involve the company taking on debt obligations.

Three roadshows have been undertaken in September 2018, November 2018 and January 2019, which have given us a very accurate picture of **Commercial** for the project and what conditions will need to be satisfied in order to execute the **Commercial** (hence the pre-construction workstreams that we are currently undertaking and seeking assistance from the PGF for part of).”

The view of the PDU is that, approving this application would not be the best use of the PGF Fund.

Financial Analysis

NZFFP is only recently incorporated and the company therefore does not yet have annual accounts. **Free and Frank Opinions**

There are no forecasts to be able to assess likely repayment ability, nor evidence to support a refinancing of the proposed **Commercial**.

Limited financial information has been provided in support of the \$15m cost (and PGF loan requested) for the feasibility study.

Commercial Information

The applicant has provided a draft term sheet, which provides an outline of the terms of the requested loan, with the PGF to be ‘secured’ by way of **Commercial**.

The loan of NZD15m would be split into two tranches as follows:

1. Tranche 1 – NZ\$ **Commer**
2. Tranche 2 – NZ\$ **Commer**

Bullet repayment of principal outstanding (including accrued interest) will be on the Final Repayment Date by conversion of the **Commercial** into **Commercial** in accordance with the **Commercial Information**

Without any financial detail provided, it is impossible to assess the value of the **Commercial**, and the security of a loan.

Free and Frank Opinions

Funding Arrangements

As noted by the applicant, the **Commercial** budget is expected to amount to between **Co** % of the project **Commercial**; and that, in addition to expenditure already incurred at the date of this application (c.USD **Co**, according to the applicant) on various aspects of the project, the **Commer** forward looking budget is as follows, broken down into PGF Loan Use of Proceeds (Tranches 1 and 2) and the Applicant’s directly funded items:

Cost Description:	TOTAL PGF LOAN NZ\$ (excl. GST)	Tranche 1 PGF LOAN NZ\$ (excl. GST)	Tranche 2 PGF LOAN NZ\$ (excl. GST)	Commercial Balance of Project Costs NZ\$ (excl. GST)
Initial Bridging Study Workstream Comme	Commer	Comme	-	-
Pre-feasibility Study Workstream Comm	Commerc	Commer	-	-
Feasibility Study Workstream Comm	Commer	-	Commer	-
Environmental Baseline Studies	-	-	-	Commer
Environmental & Social Impact Assessment	-	-	-	Commer
Modular Building Solution research workstream Commercial Information	Commerc	Commer	Commer	-
Customer Contract Origination Commerci	-	-	-	Commer
Customer Contract Execution Commerci	-	-	-	Commer
Joint Venture Contributions	-	-	-	Commer
Long-lead items deposit payments Commercial	-	-	-	Commer
Project Finance Preparation (consultant reports, upfront fees, legal structuring costs &c.)	-	-	-	Commer
Working Capital	\$Commer	Commer	Comme	Commer
Sub Totals	\$15,000,000	Commerc	Commer	Commerc
			TOTAL BUDGET	Commerci

The application indicates the following loan drawdowns:

#	Description	Payment criteria:	Invoice Value \$ (Exc. GST)	%	Invoice Date:
1	Pre-Feasibility Workstreams	On signature of the loan agreement	\$Commer	Co %	Commercial Information
2	Feasibility Study Workstreams	Successful completion and delivery of Pre-feasibility Reports	\$Commer	Co %	Commercial Information

Free and Frank Opinions

[Redacted content]

Due Diligence and Ownership

In view of the PDU recommendation to decline this application, due diligence has not been undertaken. However, as noted previously, NZFFP is a newly incorporated company.

The application notes that NZFFP, and its sister companies NZFFP Carbon Ltd and NZFFP Forests Ltd, are being established as a Commercial business in New Zealand, focused on:

1. Commercial Information

[Redacted content]

Shareholders:

Shareholder	%
Kinleith Continuation LP	60%
Henry Family	40%

The applicant has advised that Kinleith Continuation LP is a New Zealand-domiciled partnership with significant natural resources project development expertise with offices in London and Auckland; and that the Henry family have been involved in the New Zealand forestry and wood processing industries for over a century.

David and Brian Henry, of the Henry Family, have as their father, David Henry, who was the founder of the Kinleith Pulp & Paper Mill.

The PDU also notes that Brian Henry is well known to Minister Jones (and Deputy Prime Minister, Winston Peters) via the NZ First Party.

The current leadership team overseeing the establishment and initial operations of NZFFP, as advised in the

application, are:

David Henry, Director (NZFFP) and Partner (Kinleith Continuation):

David is a New Zealand national and previously founded Medea Capital, a natural resources investment manager with offices in London and Singapore. He has over 15 years' experience in natural resources investments and finance across several institutions, specialising in mining and forestry. Prior to founding Medea, he established the Mining Capital & Consultancy business at Oriel Securities and before that was Vice President in the Mining Finance division of Société Générale in London and Sydney. He was analyst for the bank's principal investments book and sat on its Investment Committee from 2008. Before joining Société Générale, David worked for the Forestry & Primary Industries team at Bank of New Zealand and, before that, at Goldman Sachs IBWere.

Brian Henry, Director (NZFFP):

Brian is a New Zealand national and was admitted to practice as a Barrister & Solicitor in the High Court of New Zealand in 1975, working initially for the law firm of Wilson Henry (now Hesketh Henry), before entering private practice as a Barrister Sole, specialising in commercial litigation. He has been involved in the New Zealand funds management industry for the past 15 years and has a strong background in legal compliance and corporate governance. Brian was a director of the local holdings' companies of Medea Future Forest Products Fund No.1 and is responsible for corporate governance, OSH and ESG.

Hon. Mike Rann AC CNZM, Director (NZFFP):

Mr Rann served as Premier of South Australia from 2002–2011 where his significant achievements included job creation, investment in health & education, the expansion of the mining industry, and the growth of Australia's renewable energy industry.

John Hepburn, CFA – Head of NZ Operations (NZFFP) and Partner (Kinleith Continuation):

John is a New Zealand national and, prior to joining Kinleith Continuation, was an Associate Director at Medea Capital, focused on its New Zealand forestry strategy. Prior to this, he was an investment analyst at Stamford Associates in London, focusing on investment due diligence and fundamental portfolio analysis on behalf of institutional investors. Before that, he worked as a natural resources equity analyst for a London-based boutique investment bank and, prior to this, was at the ANZ Bank in their Auckland wealth management business.

Jay Barrymore, CFA – Head of Sustainability (NZFFP) and Partner (Kinleith Continuation):

Jay is a British national and, prior to joining Kinleith Continuation, was Head of Special Projects at Medea Capital. He led Medea's sustainability work responsible for driving social and environmental value creation across the portfolio. Jay has 13 years of investment experience, most recently as Managing Partner at Impact Investment Partners, an impact investment and advisory firm with offices in London and Mumbai. Jay is a CFA charterholder, and a graduate of University College London (UCL).

Piers Hugh-Smith – Head of Research & Development (NZFFP) and Partner (Kinleith Continuation):

Prior to joining Kinleith Continuation, Piers was an Analyst in the Special Projects team at Medea Capital and was involved in the firm's intellectual property investments and technology partnerships, where he sat on the advisory board of Argo Applied Technologies. Piers is a British and Australian national, and has studied a degree in Behavioural & Financial Economics. He comes from a background in professional sport.

Dennis Gates, Head of Stakeholder and Land Management (NZFFP):

Dennis is a New Zealand national and was admitted to practice as a Solicitor in the High Court of New Zealand in 1981. He has been in private practice as a solicitor since 1986 and is qualified as a Licenced REAA. Dennis has been responsible for the "on-ground" roll-up operations liaising with local landowners, district council, iwi and other community stakeholders. He graduated from the University of Canterbury with an LLB and the University of Waikato with a Bachelor of Social Science. The PDU searched for further information on Medea Capital and

Free and Frank Opinions

"The comments above reinforce a decline recommendation but it could be reviewed in the event a substantive and authoritative study provided evidence of demand that potentially could be economically meet from NZ."

Supporting proposal:	No
Appendices:	MPI Triage attached
Author of paper:	Murray Beatson, Investment Director, PDU Investment Team

PROACTIVELY RELEASED