



BRIEFING

Regional Growth Initiatives (MYA): Tōtara Industry Pilot Proposal

Date:	4 January 2018	Priority:	High
Security classification:	In Confidence	Tracking number:	1625 17-18

Action sought		
	Action sought	Deadline
Hon Shane Jones Minister for Regional Economic Development	Agree to invest \$450,000 towards the Tōtara Industry Pilot from the Regional Growth Initiatives Multi-Year Appropriation: \$225,000 in FY 17/18 and \$225,000 in FY 18/19. Note that on 18 December 2017 Cabinet amended delegations for the Regional Growth Initiatives Multi-Year Appropriation proposals. Note this project is co-funded by Scion and Northland Inc/Northland Regional Council. s9(2)(b)(ii)	15 January 2017

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Stephanie Weller	Regional Economic Development Implementation Manager,	04 901 3898	s9(2)(a)	✓
Byron Elliot	Development Manager, MPI	04 894 0188		

The following departments/agencies have been consulted					
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input checked="" type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input checked="" type="checkbox"/> DOC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input checked="" type="checkbox"/> MPI	<input checked="" type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input checked="" type="checkbox"/> TPK	<input type="checkbox"/> MoH
		<input type="checkbox"/> Other:			

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 Withdrawn |



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Regional Growth Initiatives (MYA): Tōtara Industry Pilot Proposal

Date:	4 January 2018	Priority:	High
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Purpose

To seek your agreement for \$450,000 in funding from the Regional Growth Initiatives Multi-Year Appropriation to co-fund, with SCION and Northland Inc, a two-year pilot to test the validity of establishing an indigenous tōtara (*Podocarpus totara*) wood industry in Northland.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a. **Note** that this project is co-funded by Scion and Northland Inc/Northland Regional Council s9(2)(b)(ii) (Noted)
- b. **Note** that Senior Regional Officials have reviewed the proposal for the Tōtara Industry Pilot and recommend investment from the Regional Growth Initiatives Multi-Year Appropriation to the project. (Noted)
- c. **Note** that on 18 December 2017 Cabinet amended delegations for the Regional Growth Initiatives Multi-Year Appropriation proposals. Cabinet Minute [refer CAB-17-MIN-0554] authorises the Minister for Regional Economic Development to approve any projects that are:
 - i. investment ready;
 - ii. less than \$1 million in total; and
 - iii. fit the scope of the Regional Growth Initiatives appropriation. (Noted)
- d. **Agree** as delegated Ministers for Regional Economic Development funding of \$450,000 towards the Tōtara Industry Pilot from the Regional Growth Initiatives Multi-Year Appropriation: \$225,000 in FY17/18 and \$225,000 in FY 18/19. (Agree / Disagree)

Stephanie Weller
RED Implementation Manager
Labour, Science and Enterprise,

4.1.18
.....

Hon Shane Jones
**Minister for Regional Economic
Development**

30/01/18

Background

1. The Tōtara Industry Pilot (the Pilot) was identified as an opportunity in the 2015 Tai Tokerau Northland Growth Study which noted "there is opportunity to develop a new niche industry producing high value native wood products from tōtara".
2. Although the Pilot was not included in the Tai Tokerau Northland Economic Action Plan at its launch in February 2016, investigations into its feasibility resulted in it being added in April 2017 with the endorsement of the Advisory Group for the Action Plan.
3. Currently tōtara is an underutilised resource within the wood products industry. Despite its economic potential, and the presence of a large sustainable resource in Northland, the industry faces a number of barriers which have prevented its establishment to date.
4. The Pilot is intended to investigate whether these barriers are surmountable and, thereby, facilitate the development of an industry that has the potential to sustainably grow jobs, boost economic development, and diversify Northland's economy.
5. The business case (**attached as Annex one**) notes that it is difficult to quantify the economic benefits of the Pilot itself, as it is intended only to test assumptions about whether a viable industry can be successfully established. However, research indicates the industry has the potential to produce \$7.5 million of tōtara timber per year within three years, creating an estimated 20 direct jobs and an additional 78 indirect and induced jobs in the Northland region. If this timber was processed into higher value wood products, the potential value of the industry increases to \$40-60 million, a further 202 direct jobs and over 1,750 indirect/induced jobs.¹
6. This proposal was considered and endorsed by Senior Regional Officials (SROs) at their meeting on 7 December 2017.

Case for Regional Growth Initiatives Funding

7. This project will be regionally-led by the Tōtara Steering Group, as described below at paragraphs 40 - 41. MBIE will oversee the funding contract with Scion, with the assistance of MPI as the central government agency representative on the group. The full cost of the project is \$1.0 million over two years. The financial case for the Pilot is outlined on page 24 of the attached business case.

Co-funding from Scion and Northland Inc

8. ^{s9(2)(b)(i)}

9.

Private sector investment not realistic

10. ^{s9(2)(g)(i)}

11.

12.

¹ Locus Research, 2014, commissioned by the Northland Tōtara Working Group.

No other government sources of funding available

13. Ministry for Primary Industries has investigated whether this project could be funded through one of MPI's investment funds but cannot as:
 - a. the Primary Growth Partnership requires industry funding of 60 percent (Scion is a Government-funded entity);
 - b. the Sustainable Farming Fund does not fund projects for commercial purposes.
14. Consultation within government has not identified any other realistic sources of funding.

Ability to extend into other regions and wood sources

15. The Pilot will be focused on Northland and tōtara but if this pilot establishes a proof of concept then the model could be expanded to other regions where tōtara is naturally abundant and/or be applied to other native timbers with the potential to be sustainably harvested on private land.
16. As a condition of its funding, the Government should be able to access the intellectual property necessary to make an assessment as to the feasibility of extending the Pilot to other regions and products.

Overview of Tōtara Industry Pilot

17. Tōtara forest is abundant in Northland, with an estimated 200,000 ha of tōtara-dominant regenerating forest on private land across the region. It naturally regenerates prolifically and has the potential to be managed as a sustainable resource to complement existing pastoral land use.
18. Previous investigations have shown tōtara responds extremely well to silviculture practices, with average tree growth boosted by 2.5 times and overall stand productivity around five-fold.
19. Previous studies indicate tōtara is well-suited to a range of high-value products such as interior linings, flooring, furniture and architectural features. ^{s9(2)(b)(ii)}
^{s9(2)(b)(ii)} This compares to around \$300 per m³ for radiata pine.
20. The potential scale and value of the resource is not widely recognised by landowners and the forest products industry due to the spread of the resource in small stands over many properties, yet collectively it is likely to have significant commercial scale.
21. It appears that private investment has been discouraged due to the need to co-ordinate supply to have commercial volume, the need to demonstrate that efficient economies of scale are possible given exotic plantation harvest methods are not applicable, and a lack of a proven value chain due to a supply/demand dysfunction, i.e. a reinforcing cycle of no supply – no demand – no supply.
22. The purpose of the two year pilot project is to test whether the creation of a tōtara wood products industry in Northland is viable in practice and if so, the size of the opportunity and how it can be realised. The Pilot involves the harvesting and processing of 500m³ of tōtara (log volume) and the market testing of farm-tōtara timber products at a commercial scale.
23. The key objectives of the pilot are to:
 - a. quantify the availability and characteristics of the resource in order to test security around supply continuity;
 - b. determine where costs are incurred throughout the supply chain and develop processes to reduce these;
 - c. create an enabling environment for a future industry by developing an appropriate business/industry model and establishing a social and legal licence to operate; and
 - d. develop the product mix, brand story and associated channels to market the tōtara timber products.

24. Upon completion of the Pilot, a functional supply-chain will have been established, products sold, markets 'seeded', a brand story started, and some continuity of timber supply arranged to enable a continuation following the successful completion of the project.
25. The Pilot is a proof of concept to help de-risk the private sector investment necessary to establish an industry. If the Pilot supports the assumption the industry is viable then modelling to refine the business plan will be undertaken and private investment sought to commercialise the opportunity.

Studies undertaken into the industry viability

s9(2)(b)(ii)

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s9(2)(g)(i)

Project structure and support

40. The project will be led by the Tōtara Industry Pilot Steering Group, whose membership provides the required skills and expertise to successfully implement the pilot.
41. The organisations currently on the Steering Group are:
- a. **Independent Chair** – s9(2)(a)
s9(2)(a)
 - b. **Scion:** Crown Research Institute specialising in research, science and technology development for the forestry, wood product and wood-derived materials sectors. Scion's purpose is to drive innovation and growth from the above sectors to build economic value and contribute to beneficial environmental and social outcomes for New Zealand.
 - c. **MPI:** Responsible for the forestry industry and supports the industry in sustainably managing forestry resources while contributing to New Zealand's economic growth. MPI also administers the Forests Act 1949, which regulates the sustainable harvest and milling of indigenous timber on private land. MPI also plays an active role in the Northland region as a participating agency in the Tai Tokerau Northland Economic Action Plan. MPI's Deputy Director General Ben Dalton is also the Senior Regional Official for the Northland region.
 - d. **Northland Tōtara Working Group:** Established in 2005 to promote the management and support the research of naturally-regenerating tōtara trees on farms for multiple purposes including sustainable timber-production and a wide-range of environmental benefits. The group is represented by a wide-range of stakeholders in Northland and is coordinated by Tane's Tree Trust.
 - e. **Tai Tokerau Māori Forests Inc:** This collective is made up of Northland Māori Freehold Land Trusts and strategic partners that include industry, iwi, central government, banks, training partners and the private sector. Tai Tokerau Māori Forests Inc has formally supported this project. Outcomes for this group include:
 - the sustainable use of Māori land,
 - moving away from the 'norm' for the forestry industry and Māori land management, and
 - demonstrating that working together can produce much better results for its community.

- f. **Northland Inc:** Northland region's economic development agency. Northland Inc is a Council Controlled Organisation of Northland Regional Council and is a company registered under the Companies Act 1993. Northland Inc also administers and is a partner of the Tai Tokerau Northland Economic Action Plan.
- g. **Industry Representative – s9(2)(a)**
s9(2)(a)

- 42. The Project Implementation Team is made up of individuals/organisations that are representative of each link along the supply chain.

Next steps

- 43. If approved, MBIE will formalise a funding agreement with Scion (as administrators and project managers on the Tōtara Industry Pilot Steering Group's behalf) for the approved funding from the Regional Growth Initiatives appropriation, outlining the relevant terms and conditions along with project details and milestones.
- 44. The project team and governance group will be formalised to initiate the project.
- 45. The project team (in consultation with agencies) will develop relevant project documentation, including stakeholder engagement and communication plans.
- 46. This project is a trial/proof of concept to test the market and gain information, which will be used to de-risk the industry for potential investors. From that, investors will be sought by the parties involved.
- 47. If you approve investment for the Centre, MBIE will work with your office and the applicant to create a communications plan and any announcements Ministers may wish to make.
- 48. The project team will continue to coordinate implementation and will fulfil reporting requirements as per normal processes.

Annexes

s9(2)(b)(ii)

Annex one: Business Case: Tōtara Industry Pilot – Establishing an Indigenous Wood Products (Tōtara) Industry in Northland

s9(2)(b)(ii)

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