

The Treasury

Overseas Investment Act Submissions Information Release

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Submission on the reform of the overseas investment rules – second phase

Introduction

The New Zealand Timber Industry Federation Inc is an organisation representing the interests of the New Zealand sawmilling industry. Our membership comprises sawmilling companies throughout the country. These companies saw timber from logs, predominantly Radiata Pine but also other species such as Douglas Fir, sourced from commercial plantations, the majority of which are owned/managed by foreign entities.

Log supply is absolutely critical to the sawmilling industry and in recent years sawmills have faced log supply shortages despite the overall log harvest increasing. The main change has been the increase in log exports, predominantly to China.

It is the view of the Federation and its members that the regulatory environment surrounding forestry in New Zealand should include a requirement for foreign owners/managers of forest assets to commit to engaging with and supplying local sawmillers as a part of their log sales market mix. The Federation recognises the right of forest owners to export logs and the value those exports bring to the nation's economy, but equally our view is that it is in the **national interest** for sawmillers to have certainty of access to a reasonable volume of NZ's total log harvest rather than the logs being exported

Sawmilling operations vary largely in size and therefore log requirement. These may range from an annual log input of around 10,000 tonnes to 200,000 tonnes or more. All however value add significantly but are totally reliant on a reliable long term supply of logs. Without a long term and stable raw material log supply, sawmill businesses are not sustainable and are unlikely to be able to invest in necessary capital plant and equipment

Deciding who can invest in what

The current review of the Overseas Investment rules (second phase) focuses on three issues;

- **What** should we screen, with a particular emphasis on sensitive land and land next to sensitive land
- **Who** should we screen, with a focus on a definition of an “overseas person”
- **How** can we improve the screening process, assessing an investors' character and capabilities and the potential impacts of the investment

Our interest in respect of the current review is about **How we screen**.

Ministerial Directive

The Ministerial Directive letter dated 28 November 2017 expresses the government's wish to "encourage an increase in the value-added processing of raw products and the advancement of its forestry-related strategies". The Minister further directed the regulator that factors that would generally be of high relative importance for overseas investments in forest land are;

- 1 increased processing of primary products (section 17(2)(a)(vi)) of the Act
- 2 advance significant Government policy or strategy (regulation 28(f))

The letter goes on to outline the Minister's expectation that the regulator would, in imposing conditions of consent on investments that involve domestic processing, include where appropriate a condition requiring the investor to enter in to a supply arrangement with a local processor.

Bearing the Minister's Directive in mind, we consider that in the OIO's screening of forestry investment proposals, New Zealand's **national interest** should be the primary consideration taken into account by the regulator and that within this consideration, the factor of "increased processing of primary products" should be of paramount importance. All overseas investment proposals in forest land should include a plan that includes a commitment to offer and supply logs to the local wood processing industry.

It is the Federation's view that "increased processing of primary products" brings with it economic, employment and regional development benefits where the sawmilling industry is concerned.

We trust that an important outcome of this review is that the regulator's protocols for considering applications for overseas investment on forest land will include a requirement to enter into arrangements to offer and supply logs to domestic wood processors.

Screening threshold

The matter of the level of investment covered by the rules has also been identified as an issue and comment invited in respect of potential risk to New Zealand's national security and/or public order. The Federation requests that consideration needs to be given to this threshold in respect of forest land as well.

The New Zealand Wood Availability Forecast (published by Ministry for Primary Industries) indicates that from 2025 small forest owners (less than 1,000ha) will account for about 40% of our commercial log supply annually. The current screening threshold is 1,000ha and greater, meaning a significant 40% of NZ forests (that are less than 1,000ha) will not be subject to overseas investment screening. The local owners of these smaller forests are likely to be open to approaches by overseas investors wanting to purchase forested land and it is alarming that potentially 40% of our log supply could fall into overseas ownership without being screened under overseas investment rules. It is the Federation's view that the screening threshold for forest land should be decreased from 1,000ha to 100ha. For context, 1ha of radiata pine forest would be expected to produce about 600 to 650 tonnes of log volume. The log volume in a 1,000ha forest would therefore be around 600,000 to 650,000 tonnes. The annual log intake for a medium sized mill employing about 30-40 staff would be around 60,000 tonnes annually. The log volume from a 1,000ha forest would

therefore sustain a medium sized mill for 10 or more years. We regard this as too large a volume of logs to be permissible below the OIO screening threshold.

In summary

- 1 In New Zealand's **National Interest** and in line with the Ministerial Directive letter of 28 November 2017, all overseas investment proposals in forest land should include a plan that includes a commitment from foreign purchasers of forests to offer and supply logs to the local wood processing industry.
- 2 The screening threshold for overseas investment in forest land should be decreased from 1,000ha to 100ha in light of the potential for 40% of New Zealand's commercial forestry to be passed into foreign ownership without screening under current overseas investment rules

We hope that these comments and observations are helpful to the review and trust the concerns that have been expressed here will be recognised and acted upon.

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