



**Hon Jim Anderton**  
**Minister for Industry and Regional Development**

**Hon Jim Sutton**  
**Minister of Forestry**

**Hon Pete Hodgson**  
**Convenor, Ministerial Group on Climate Change**

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**Media Statement**

## **Budget 2004**

### **Government – Forest Industry Partnership**

The government has agreed to a package of new forestry sector initiatives that recognise forestry's value in addressing climate change.

"A strong and profitable forest industry plays a key role in reducing greenhouse gas emissions, as growing trees absorb significant amounts of carbon dioxide," says the Convenor of the Ministerial Group on Climate Change, Pete Hodgson. "The industry is also a major regional employer and driver of future economic growth. This package recognises the industry's economic and environmental value for New Zealand."

The Forest Industry Framework Agreement has been developed as intended in government climate change policies announced in October 2002.

The 5-year package includes a \$12 million regional and industry market development programme; a \$2.8 million bio energy programme; a \$5 million investment in industry labour and skills; \$1.4 million to assist international market access and, in a related boost to the industry, regional development transport funding of \$23 million per year.

"This is a milestone in the discussions between the government and the forestry sector on the industry's role in New Zealand's response to climate change," Mr Hodgson said. "Forestry is central to the success of climate change policies and the New Zealand industry is making a significant contribution."

Forestry Minister Jim Sutton said the government and the forest industry had been working jointly for some time towards the Forest Industry Framework Agreement (FIFA).

"To ensure new forests are established and new sink credits can be generated, forestry investment needs to remain profitable, and that means maintaining an innovative and internationally competitive sector throughout the forestry value chain," Mr Sutton said.

As part of the FIFA discussions, the forest industry put forward a number of new initiatives, some proposing new government funding and others seeking changes or more clarity in government policies. These proposals were considered during the 2004 Budget process and funding is contingent on industry signing the FIFA Memorandum of Understanding.

"These are exciting new initiatives that will support the Wood Processing Strategy in removing impediments to processing investment in New Zealand," said Economic Development Minister Jim Anderton.

"New Zealand has been missing out on opportunities and economic growth by exporting large volumes of unprocessed logs. With harvest volumes set to rise by around 40% over the next decade, attracting wood processing investment in New Zealand will become even more important.

"Moreover, without domestic processing it is virtually impossible for New Zealand's timber to move up into high value uses like mouldings, doors, windows, panels, engineered products and high quality furniture. By encouraging wood processing on-shore the whole sector benefits, including forest growers," Mr Anderton said.

Mr Hodgson said further consideration of funding for some additional proposals under the FIFA is contingent on the Kyoto Protocol coming into force. These include additional government contributions to forest health and biosecurity research, research on alternative species to radiata pine and forest and wood processing training.

As part of the package, the government has added more detail to its policy on forest sink credits, which New Zealand receives under the Kyoto Protocol for forests planted since 1990. Current policy is that the government will retain sink credits and associated liabilities at least for the Protocol's first commitment period (2008-12). The government has expanded this to specify that for those forests where the Crown has retained sink credits, forest owners will not face corresponding deforestation or harvesting liabilities at any stage. If sink credits are devolved to Kyoto forest owners in future, liabilities will be devolved in proportion to the credits received.

For non-Kyoto forests (planted before 1990), the government is maintaining its current cap on the deforestation liability it will accept. This issue will be considered again in scheduled reviews of climate change policy and as international negotiations proceed on the rules for forests and deforestation after 2012.

*A summary of the FIFA package is attached.*

**For more information:**

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## **The Forestry Industry Framework Agreement: Initiatives for 2004/05**

### **AGREED FIFA INITIATIVES**

#### **(Funding contingent on signing of FIFA MOU)**

#### **Generic Market Development Programme: \$12 million over 5 years, Economic, Industry and Regional Development**

Funding set aside as a specific fiscal risk against the contingency. Access to these funds is dependent on:

- a sound industry funding base that is sustainable over time is available or is likely to soon be available to meet the industry contribution (at least 25% of the funding);
- the market development programme having the broad support of the forestry sector;
- the programme being based on a robust business case.

#### **Market Access: \$1.4 million over 5 years, Foreign Affairs and Trade**

Continuation of existing market access programme under the Wood Processing Strategy and funding for industry involvement in WTO Doha round negotiations. In addition, \$100K per year for 5 years to fund New Zealand participation in ISO processes developing wood related standards. Industry contribution (at least 25% of funding) required.

#### **Bio Energy Programme: \$2.75 million over 5 years, Climate Change and Energy Efficiency**

Funding for a suite of bioenergy initiatives potentially including a knowledge centre, machinery development, demonstration projects, and feasibility studies.

#### **Labour and Skills: \$5 million over 5 years, Education**

Funding for capital purchases to develop the wood processing training 'centre of excellence' at Waiariki Institute of Technology. Subject to normal business case requirements. Funding may be adjusted depending on the outcome of a bid through the Tertiary Education Commission's Partnerships for Excellence initiative.

#### **Deforestation & Harvest Liabilities – Kyoto (post-1990) Forest Owners:**

Value of initiative is unquantified.

Kyoto forest owners will not face any deforestation or harvesting liabilities at any stage where the Crown has retained the forest sink credit asset.

Should the government devolve forest sink credits after CP1, then associated deforestation and harvesting liabilities would only be devolved in proportion to the credits received by the Kyoto forest owner.

### **Deforestation Liabilities – Non-Kyoto (pre-1990) Forest Owners**

The government will cover deforestation up to 21 million tonnes of emission units over CP1 (2008-2012). Valued at \$525 million @ \$25 per tonne CO<sub>2</sub>.

The government will give further consideration to deforestation policies for non-Kyoto forests in the period after CP1 as part of the scheduled review of Climate Change policies (in 2005, 2007 and 2010), once more clarity is available about future international rules on forests in the Kyoto Protocol.

It is possible that post-CP1 policies may have implications for policies during CP1, but the government remains committed to retaining deforestation liabilities up to 21 million tonnes CO<sub>2</sub> equivalent during CP1.

### **Transport: Regional Development Transport Funding: \$23 million per year (forecast) expected to continue to 2007/08 at least.**

Government confirms that meeting the key transport needs of the forest industry in Northland and Tairāwhiti through the regional development output remains a high priority, and that current funding levels are expected to continue through until 2007/08 at least, consistent with Transfund's ten year forecast.

In early 2006/07 there will be a full review of regional development transport funding.

## **FIFA INITIATIVES THAT ARE A CALL UPON THE GENERAL CONTINGENCY IN THE EVENT THAT RUSSIA RATIFIES THE KYOTO PROTOCOL**

### **Biological Risk Factor Research and Forest Health Monitoring, Agriculture and Forestry**

Additional contribution to a programme of research into forest health, biosecurity and other forest risk factors in New Zealand.

Contribution to the design and trialling of a forest condition monitoring system for New Zealand.

### **Alternative Species Research and Information Dissemination, Agriculture and Forestry**

Additional government contribution into research and information dissemination on alternative species to radiata pine. Programme would include breeding & silviculture, wood properties, market information, indigenous forest health, and mixed species/age management.

## **Labour and Skills, Education**

Operating funding for:

- forest and wood processing training programme development and improvement
- implementation of Forest Ranger training programme
- establishment of innovation think-tank on wood products, design, architecture & construction.

Capital funding to complete development of facilities at Waiariki Institute of Technology (teaching facilities, machine centre, laboratory). Actual funding would be subject to business case and the outcome of a capital bid through the Tertiary Education Commission's Partnerships for Excellence initiative.

## **OTHER FORESTRY / FIFA RELATED NEW INITIATIVES**

### **Permanent Forest Sink Mechanism**

The government has previously announced policy whereby landowners can receive returns in proportion to the carbon sequestered in a regenerating forest where the landowner covenants that forest for permanent protection (non-harvest).

Landowners wishing to use mechanism will now have the option of limited timber harvesting after 35 years and on a continuous canopy basis.

The mechanism will operate as contracts between the Crown and landowners that are registered against land titles. Under these contracts the Crown would agree to provide an amount of tradable carbon emission units equal to the amount of carbon sequestered by new forests on a given block of land over the first commitment period of the Kyoto Protocol (CP1, 2008 - 2012). Landowners would also be assured of access to credits post 2012 to the extent that the future rules of the Kyoto Protocol allow for this.

In return, landowners would contract with the Crown to only harvest trees from the newly established forests in accordance with the continuous canopy requirement and not before 35 years. Landowners would be responsible for all costs and carbon emission liabilities that may arise under the mechanism.

### **Projects Mechanism – Increased Pool of Units for Next Tender Round**

The government will make an increased pool of six million emission units available for the next tender round of Projects to Reduce Emissions. This will increase the opportunities for bioenergy Projects to successfully tender for emission units.