



New Zealand Farm Forestry Association
Oranga Rākau Aotearoa

Levy referendum process and suggested improvements.

Executive Committee advisory paper to membership: 26 March 2024

Executive summary

We provide this material to inform you prior to the forth-coming referendum for the renewal of the “Harvested wood material” commodity levy. This paper gives NZ FFA members and associated small scale growers background information on the levy, key issues to consider, and suggested improvements.

A major theme for this advisory paper is the desire to improve the functioning of the Levy that would result in better outcomes and ensure fairness in the benefits that accrue. From the initial establishment of the levy in 2014, it was formally agreed that a partnership between NZFOA and NZFFA would manage and foster the levy. This was documented in a 2014 Agreement (structured as a MOU) and a Services Agreement signed in the same year.

The Executive believes that despite NZFFA’s role as a partner, with a membership of 1,300 and representing approximately 15,000 non-affiliated small-scale growers, this constituency has not received suitable benefits commensurate with its contributions and role within the Levy.

Nine improvements to the Levy are suggested. A major issue is representation. The specific needs of small-scale growers are not being met by the current representation model. They are a minority in all funding decisions. This often results in less value being returned to them and a series of changes is proposed to address this.

Other suggestions include support for an increase in levy revenue, improvements to structure, and an update to the research strategy to meet recent challenges.

An early procedural issue that needs to be addressed is the timing of general consultation. We suggest the timetable is further pushed back to give NZFFA adequate time for nationwide consultation with its members and non-affiliated small-scale growers.

We request you become familiar with the timing and issues associated with the referendum process and ensure your opinions are raised at the National Council meeting on 10th April at the Conference, or on one of the many video seminars we plan.

Background

NZ FFA have been advised by the FGLT Secretariat that the timetable for the renewal of Levy requested by MPI is 6-8 months ahead of the timetable used previously. The sector has been requested to complete the referendum process by Oct 2024. This is to provide 15 months for the redrafting of the Order in Council and approval by the Minister of Forests.

A “Harvested Wood Material” levy is collected on logs, posts, poles, forest waste, binwood, hog fuel and woodchips produced in New Zealand sourced from a plantation forest. The levy does not apply to bark sold separately, Christmas trees or domestic firewood. Production from planted native forests will be levied. Production from natural native forests will not be levied. Under the Commodities Levies Act 1990, an Order in Council is used to reset the Levy every 6 years. The Levy started in Nov 2013 and was renewed by referendum in Sept 2019, it is now due for renewal by 17 Sept 2025.

Approximately \$10m per year is collected by the levy process. Appendix 1 gives a summary of the recent levy spend by categories for 2022, 2023, 2024.

Administration costs (also called Programme Management) cover the running costs and salaries of the Secretariat. NZ Forest Owners (NZFOA) also use the services of the Secretariat (particularly the CEO and Communications) and pay about 11.5% of the Secretariate costs.

In the Work Programme, the largest budget item is the Research Committee (about \$5m/yr) and is approximately 50% of total. About \$4m of this (40% of total) is committed to long term programmes that are co-funded by MPI or MBIE plus some large forest companies. These long-term programmes are set up as consortiums and are run by separate Boards. These Boards are dominated by large forest companies and Government because they have provided considerable contributions to the budget. However, small scale growers have contributed about 40% of the \$4m levy contribution. NZ FFA have provided letters of support to encourage the Government investment.

Programmes for several committees with big budgets are clearly in the common good for all the sector, such as – Biosecurity, H & S, Environment and Promotion. These make up about 30% of the total.

The Forest Growers Levy Trust (FGLT) Board primarily forecasts the next year’s Levy income, sets the total annual budget, and considers “portfolio allocations” of funds to each committee. In our experience these are rarely altered as it’s hard to get consensus to cut allocations or move funds.

To communicate the renewal process and its merits, the FGLT Secretariat are planning a series of consultation meetings around the country open to all forest growers, NB only those with more than 4 ha of forest that is within 6 years of harvest may vote, this includes production thinning’s. There will be a registration process to monitor suitability to vote.

Before this consultation starts the Executive committee wish to hear from the members and get feedback on what they support or not support. To complete this quickly we may need to consult with Council Members and Branch Committees by Zoom or Webinar. As complete consensus is unlikely, we hope to achieve agreement of the majority at the Conference Council Meeting.

Additional consultation will occur during the Conference in Napier (9 – 13 April). In addition, the proposed open consultation meetings organised by the Secretariat are expected to start in late April and will be open to all.

Concurrently the Levy Working Group will need to discuss these suggestions with NZ FOA remembering “politics is the art of the possible”.

Once we have some agreement, we will need to formalise it with NZ FOA, possibly via a signed MOU.

Things to consider.

The NZFFA Executive Committee met on 7th February and discussed a range of major issues associated with the renewal of the Levy. Since then, a Working Group (Neil Cullen, Graham West, Howard Moore, Vaughan Kearns, Hamish Levack) has been developing this proposal and liaising with Elizabeth Heeg and Stephen Franks (FGLT). Communication has also occurred between Neil Cullen (President) and the President of NZ FOA (Grant Dodson). A discussion paper with the same issues raised here was sent to Grant and subsequently subgroups met from both Association. NZFOA resolved to prepare a similar discussion paper for their members.

Issues worked through by the Executive were:

- How to adequately inform the membership and encourage it to vote.
- How the current Levy rate and its expenditure aligns with the longer-term strategies of the NZFFA and the SME Committee.
- What benefits have the NZFFA organisation, and our members gained from the current Levy settings.
- What are the key elements of the initial agreements made when the levy was established between NZFOA and NZFFA.
- The FGLT Secretariat has suggested that the Levy could be increased if a convincing business case could be provided. We suggest areas in the business case to focus on for small-scale growers are:
 - The benefits to small-scale growers of past and continuing research in both multi-year programmes and annual projects.
 - Greater investment in the design of resilient forest systems, particularly to understand how species diversification might address climate change.
 - Improvements in biosecurity services currently rendered.
 - Planned investment to improve our future Social Licence to Operate.
 - Planned investment to reduce supply chain costs.

Suggested improvements to the Levy.

1. NZFOA / NZFFA partnership

We believe many of the following issues have arisen from our joint failure to act on the intentions documented in 2014. The original MOU clearly expected the two associations to act in partnership and communicate regularly, to jointly set high level policies, and to advise the Levy Board and Secretariat on options for the collective good of the industry. The NZFFA

believes it would be useful to re-establish this relationship and better define the role of NZFOA, NZFFA, Forest Growers Levy Board, and Secretariat.

Rationale

The eight levy Committees were established as joint NZFOA / NZFFA committees, with other members appointed for their special expertise. However, these are now largely industry committees with little influence forest grower associations. While the Levy Board monitors the outputs via the Secretariat, the NZFOA and NZFFA should maintain oversight on behalf of the levy payers and ensure political interests and membership issues are dealt with in a timely manner.

The FGLT Board only answers to the Membership of the Trust. This was set up in 2014 and again favours the large-scale growers. Under the FGLT rules a large forest grower (>1000ha) will count as three members. Also, the Board has absolute discretion as to whether it will allow a levy payer to be granted membership. The AGM is poorly attended and has become brief formality.

We suggest the relationship between the two Associations should be strengthened and their roles clarified. This could be done through updating the 2014 agreement to make it relevant to the present day. We suggest the Associations meet at least three times per year: i.e.,

- Before the Association AGMs to jointly agree what has been achieved with the levy over the year, before reporting to members.
- In the middle of the year, to review any changes that are starting to affect the industry (like ETS charges, freshwater legislation, storm events etc) which might influence our views on the direction of the Levy Board programmes.
- At the end of the year to review events to date, look ahead to the coming year, and offer suggestions as to the budget allocation of levy monies to Committees.

2. Increase Levy revenue.

We agree with a proposed increase in the Levy rate to operate within a band of 50 to 75 cents per tonne.

We agree an additional levy could be collected on seedlings and cuttings by nurseries at the point of sale.

We agree a percentage of carbon units earned by permanent forests could be transferred to FGLT and sold. This might require representation on the Board.

Rationale

The sector faces significant challenges and opportunities that require a quantum step in funding. It needs to attract significant co-funding from Government to achieve resilience to address climate change and market diversification. Another major issue requiring an increase in funds is to re-establish its social licence to operate. We face significant increases in compliance costs if we don't succeed.

We don't believe an increased levy rate is material for most forest growers and an increase will have little impact on profits. As an example, 66 cents / tonne is about 1% of net revenue.

To leverage the increase, we suggest the Levy Board approach MPI for a commitment of matching Government co-funding over the next 6 years. Alternatively, it could hold in reserve some of the increased revenue (over a certain threshold) to be used only for Government co-funding opportunities as they arose. This would be like the current consortia model for 6-year programmes. The current approach of having annual projects has led to a piecemeal of opportunistic initiatives that doesn't build a foundation of knowledge, experience, and financial improvement.

All forest investors and participants in the supply chain enjoy the benefits of Levy funding of research and risk mitigation. Accordingly, we suggest the Commodities Act is tested to accept a levy on seedling revenues and from Carbon earnings. When carbon credits are earned, these could be shared with FGLT as a Levy contribution.

3. Representation

Over the next 6 years, a significant proportion of the levy will be paid by the <1000ha membership category (see MPI 2021-2060 Wood availability forecast that suggests this is approximately 40%, this is under revision). This contribution should be reflected in the representation of these Levy payers on the FGLT Board. In addition, there has been for some time a lack of Māori representation on the Board. We suggest the representation for the coming 6 years should be:

- a. 4 members representing >1000ha.
- b. 3 members representing <1000ha.
- c. 1 member from Nga Pou a Tane
- d. 1 independent chairperson

Representation within the Committees also needs to be addressed. We want the membership and voting rights of the nine Programme Committees made more formal to determine who are acceptable as members, how they are accepted and dismissed, who may vote and when, and how the Chair is appointed.

Rationale

Due to the current model of representation, the NZFFA Executive believes that despite our role as a partner, with a membership of 1,300 and representing approximately 15,000 non-affiliated small-scale growers, this constituency has not received suitable benefits commensurate with its contributions and role within the Levy.

At present small-scale growers (<1000ha) have a one-third representation on the Levy Board and about 10–15 % in most Committees. The SME Committee is an exception but with a token budget of \$100,000 a year (1% of total) it is almost irrelevant. Because small-scale growers are a minority in essentially all funding decisions, their priorities are usually undervalued. There is also lack of Māori representation on the Board now that Geoff Thorpe has left, which raises the issue that perhaps there should be one dedicated seat for Māori. Representation could be made more flexible to allow groups

that are paying significant Levy funds for a defined period, get equitable representation. In terms of procedure, Clause 5.1(e) of the Constitution allows the Board to make such a change on the recommendation of the Levy Members. They of course would want to see that it was the wish of the Levy payers.

Approximately 80% of the Research Committee portfolio allocation is committed to long term programmes that are governed by independent Boards. Other than through the Levy contribution (and except for the Speciality Wood Programme which has ended), Small Scale Growers do not contribute funds to the consortium that is formed to manage the programme. They therefore have no influence on the priorities for expenditure. However, NZFFA usually provide a letter of support and provide voluntary outreach to transfer research results.

4. Secretariat

From January 2025 we suggest the Secretariat is no longer employed by NZFOA but directly employed by the FGLT. That would improve transparency and correct the tendency of the Secretariat to represent the NZFOA when they should represent the interests of all Levy payers.

Rationale

Currently NZFOA pays 11.5% of Secretariat costs for the use of their services. A recent short review of the actual time Secretariat staff spent on NZFOA activities indicated it should possibly be twice that. A longer study with time sheets will give a more reliable figure, but for now it suggests that there may have been a significant under payment by the NZFOA for several years. Greater transparency around this contractual relationship is needed, lest it conceals conflicts of interest.

We would like to address the intention of the initial agreements between the two Associations to work together and both manage the Secretariat. This seems to be lost and while the Secretariat is contracted to NZFOA and appears to report to the FGLT, we suggest the lack of transparency does not build trust. In order to be reassured of the relationship we request a copy of the contract between the NZFOA and FGLT for provision of Secretariat services.

It is a common perception that the Levy Committees are part of the NZFOA, although they are in fact part of the Levy structure. The NZFOA seems to encourage this perception and indeed, many of the Committees issue communications that are branded as NZFOA documents. NZFOA web site [Welcome to the Forest Owners Association \(nzfoa.org.nz\)](http://www.nzfoa.org.nz), head banner has "Committees" and the drop down lists all the FGLT Committees.

This is misleading, as the Committees act - on paper at least - for all forest owners. By generalising its constituency, the NZFOA implies that what is good for its members must be good for all forest owners. This is not true, and the NZFFA wants the Levy Board to take more responsibility for its branding, and for clear communications to both small and large forest owners.

5. Funding for Representation

In recognition of the role the NZFFA provides in representing small-scale forest owners, and as the Levy Partner, the NZFFA requests a grant of a \$250,000 (inclusive of the current \$75k) a year to assist with the costs of providing levy representation and running industry-good activities, i.e. activities that deliver benefits beyond the membership.

Rationale

The role that industry associations provide is undervalued in the Levy Board. Associations generally put in significant time to represent the benefit of the Levy to their constituencies, and while volunteers are accustomed to giving their time to help members, they are not paid to represent the wider interests of non-members. In contrast, businesses have professional representation on Boards and Committees with paid staff to ensure they give and receive value.

To date, the costs of this representation have been deemed ineligible for Levy funding. This does not seem to be agreed when the Levy was formed nor documented in the constitution. The 2019 Order in Council, section 17, says “Purposes for which levy money may be spent” item (l) “representing the interests of forest owners and the industry.” This clearly allows for such funding support.

The NZFFA requests a non-contestable and inflation-adjusted annual grant of \$250,000 (inclusive of the current \$75k) towards the costs of its industry good activities. This grant could be part of, and audited with, the Programme Management budget, not passed through a Levy Committee.

6. Research Strategy

Before the 2025 Programme of Work is set in December a new Research Strategy or Road Map should be developed with greater input from small-scale forest growers.

Rationale

The research strategy was last revised 5 years ago, in 2019. The sector now faces challenges to develop new markets for a large volume of wood currently exported as logs, and there are significant future risks from climate change. We propose a reset is required and greater research effort is placed on gaining a better understanding of the problems and data collection for designing resilient markets and forests. This will require a new approach with multidisciplinary teams and broader group of research providers.

Before setting the 2025 funding allocation, a strategy workshop is needed to determine a revised set of priorities and weightings to guide Committees.

7. Litigation fund

To discourage fraudulent behaviour by forestry contractors, a fund of \$200,000 could be set up under the Secretariat as a “litigation safety net” to help small-scale Levy payers meet the

initial costs of legal action where there is a clear dispute over harvesting or other forestry operations.

Rationale

The key role of this fund is to act as a deterrent. It is often reported to NZFFA that small-scale forest growers are financially mistreated at harvest time, due to their inexperience in forestry operations and business dealings. Small growers may only ever harvest once or twice in their lifetimes, and they generally lack the skills and experience to compete with seasoned harvest management companies that can effectively steal profits if they choose. This can mean a substantial loss to the grower, which discourages replanting.

The TUR/NZFS Forest Advisor's registration and complaint procedure was meant to help with this, but it is about to be repealed. We propose a "litigation safety net" be established that will support small-scale growers who need legal assistance. Its very presence and availability should discourage forestry contractors from unethical behaviour. There may be better ways to structure this deterrent.

8. Documentation

It would add value to the Levy to have NZFFA named in the Order in Council document. As noted earlier, the Levy Board and its Committees act - on paper at least - for all forest owners, not just the NZFOA.

Rationale

Although the NZFFA partnered with the NZFOA to establish the Levy, it is not named in the 2019 Order in Council. We believe the Levy partnership should have ongoing public recognition, and request that the NZFFA is named in the next Order in Council. If it is not, it reinforces the perception that the Levy is a tool of the NZFOA.

9. Consultation timing

We suggest the proposed 3rd April start of the regional consultation meetings is too early. The NZFFA would like to discuss and gain some consensus the proposed changes in this paper before we encourage our members to vote.

Rationale

We represent 10 Action groups, 24 Branches and 1,300 members as well as a wide constituency of small-scale growers. MPI must understand that we cannot consult with our large constituency in the time allowed and don't have the funds to run mass direct personal mail. Based on membership alone the reach of the NZFFA must be an order of magnitude greater than that of the NZFOA with its corporate forest owners. In addition, we don't accept that the Secretariat has the necessary empathy to brief small-scale owners who have one or two blocks of trees, not full-scale production forests.

The consultation for the 2019 referendum was held in October/November of the previous year. We appreciate there has been some recent adjustment to the timetable, but we suggest further push back on the MPI's timetable is warranted.

Appendix 1

Forest Growers Levy Trust Budget - draft as at 5 Dec 2023					
		Actual	Forecast	Budget	%
		2022	2023	2024	of 2024
					allocation
	Income				
	Commodity Levies	10,855,200	10,200,000	9,500,000	
	Interest Income	20,116	54,000	35,000	
	Total Income	10,875,316	10,254,000	9,535,000	
	Expenses				
	Operational	353,770	408,000	370,000	3.6%
	Secretariat	95,000	95,000	95,000	0.9%
	Programme management fees	1,491,278	1,750,000	1,847,000	18.0%
	Work Programme				
	Environment	209,734	379,500	208,000	2.0%
	Fire	20,000	25,700	24,000	0.2%
	Biosecurity	913,424	1,042,800	856,000	8.3%
	Health & Safety	687,461	810,000	728,000	7.1%
	Promotions	690,252	709,000	717,750	7.0%
	Research*	5,424,441	5,361,000	4,668,000	45.4%
	Transport	168,989	154,700	114,000	1.1%
	SME	91,330	131,500	104,000	1.0%
	Training & Careers	499,796	567,000	290,000	2.8%
	Total Work Programme	8,705,427	9,181,200	7,709,750	75.0%
	Total Expenses	10,645,475	11,434,200	10,282,000	
	Unallocated Funding			100,000	
	Net Surplus/(Deficit)	229,841	-1,180,200	-849,000	
Current year:Term	* Long term Industry/Govt consortium Projects				
4:7	Automation and Robotics in Harvesting and Logistics			735,000	7.1%
4:6	21st Century Tissue Culture			600,000	5.8%
3:5	Tree Microbiome			300,000	2.9%
3:7	Precision Silviculture Programme			1,400,000	13.6%
?	Resilient Forests			1,000,000	9.7%
?	Diversifying Forestry for a Resilient Future			100,000	1.0%