

# Coversheet: Strengthening the Integrity of the Forestry Supply Chain: Licensing and Registration

Advising agencies	Ministry for Primary Industries
Decision sought	Approval to progress the development of new legislation to strengthen the integrity of the forestry supply chain through licensing and registration.
Proposing Ministers	Minister of Forestry

## Summary: Problem and Proposed Approach

### Problem Definition

#### Overview

A suite of regulatory and non-regulatory measures have been proposed by Cabinet to strengthen the integrity and resilience of New Zealand's forestry supply chain, by increasing the connections between those who own the land and trees, undertake timber processing and market the resource to domestic and overseas customers.

Industry engagement over the past two years has identified critical areas in the supply chain where additional information and improved professional standards and market assurance measures are needed to support a more integrated system.

The regulatory elements of this programme will implement a compulsory registration system for individual forest practitioners, and a related licensing system for the log buying companies and trading entities that they work for. The objectives of the regulatory initiatives are:

- i. To raise professional standards across the supply chain;
- ii. Address concerns that there are no industry safeguards on the quality of the advice being given to smaller owners - leaving them vulnerable to exploitation;
- iii. Supporting a more open market place for the large number of 'first-time' forest owners who will be bringing their timber to the market in the 2020s; and
- iv. Increase investor confidence in commercial forestry, to support long term investment, and meet the Government's broader objectives for land management and climate change.

These initiatives are intended to future proof the log supply chain (particularly for first time entrants to the market), provide greater transparency in the system, and improve line of sight between forest growers, wood processors and exporters.

The introduction of registration and licensing has parallels with recent developments in other service industries, such as the real estate profession. The Real Estate Agents Act (2008) has the purpose of promoting and protecting the interests of consumers in respect of transactions, and promoting public confidence in the performance of the profession.

Where a small forest owner contracts a practitioner to provide advice on harvesting, sales and valuation, they will have confidence that the advice is from a qualified professional, and that there is recourse in the event of a dispute. They will also have confidence that the log purchasing companies (and their representatives) are working to industry accepted standards, as occurs in the finance and real estate industries in New Zealand.

This system will not preclude forest owners from undertaking the management of the harvesting and sale arrangements themselves, if they feel confident in undertaking the work. There will still be an increased level of professional assurance, as the log purchaser or trader will be licensed and their representatives registered.

### ***Licensing & Registration***

New Zealand's log supply market is in transition, with smaller owners playing an increasingly important role in the annual harvest. Forecasts indicate that smaller owners will be providing 40 percent of the annual harvest during the 2020s, up from 25.5 percent in 2015 and just 14 percent in 2007.

The majority of these smaller owners (estimated at 14 - 15,000) have limited experience in the marketing and sale of forestry blocks. This can place them at a significant disadvantage when they come to plan, and negotiate, the sale of their forest. For an informed, and transparent market, these owners need to know who to seek impartial professional management advice from; the state of the market; their sale options; and how to seek redress. At present there are no checks on those providing advice, to ensure they are experienced in the areas they are offering services and seeking remuneration for. Nor is their sufficient transparency, or minimum assurance standards, associated with log buying and trading entities.

The quality of the advice owners receive from forestry practitioners and their interactions with log buying and trading entities is critical to the final return they receive, and to the operation of the broader log market. A poor financial or environmental outcome for owners has flow on effects to market confidence for current and new investors, the reputation and public image of the industry (which has implications for the social licence to operate) and New Zealand's ability to achieve its long term land management and climate change objectives.

The industry engagement, and research MPI has undertaken, has drawn out individual cases of sale agreements where growers have been disadvantaged, and instances where owners have paid for advice from inexperienced or unqualified advisers. There is also one longitudinal study of small forest sales, which indicates a proportion of sales have not reached their expected pricing levels. MPI has relied on this qualitative evidence, given the time constraints for the policy development process. A detailed, longitudinal study would have been preferable to define the magnitude of the problem for growers.

MPI is progressing these measures on the current evidence base as raising professional standards, and improving industry confidence will benefit the financial and environmental performance of all growers, and support a more integrated supply chain.

## Preferred Approach

### ***Licensing & Registration***

Primary legislation will be enacted enabling:

- Compulsory registration of individual forestry practitioners providing one or more specified services related to the management, harvesting or sale of forest resources or forest land; and
- Compulsory licensing of log buying companies and trading entities.

The legislation will establish a registration and licensing body (either a professional association or MPI), which will have by-law or regulatory powers. This body would administer the registration and licensing requirements, including the assessment of applications, auditing, compliance and promotion of the system. The body will monitor that log buying companies and trading entities are meeting industry operating standards, and that forest practitioners are operating in their specialist operational and technical areas in accord with agreed standards. The Ministry for Primary Industries would also perform a regulatory stewardship function overseeing the empowering legislation and regulatory system.

Ensuring that log buying companies and trading entities meet established industry standards, and that forestry practitioners are operating in their specialist areas, with on-going training, will:

- Create greater transparency and line of sight in the market, encouraging greater communication between growers, processors and exporters;
- Improve grower confidence in the integrity of the log supply market, and the quality of the advice from forestry advisers and intermediaries in the market;
- Create greater investor certainty in current and future investment;
- Improve the environmental performance including attention to sustainable land use, biodiversity protection and ecosystem practices;
- Strengthen the sector's social licence to operate; and
- Support less experienced and new growers (including iwi), to ensure that owners have a greater appreciation of the value, composition and opportunities for their crop.

## Section B: Summary Impacts: Benefits and costs

### Who are the main expected beneficiaries and what is the nature of the expected benefit?

#### Overview:

The nature, and scale, of the costs and benefits of this proposal have been assessed by Dr Robert Radics, forest economist with MPI. Section 6.2.1 provides the detailed analysis prepared by Dr Radics, and the sensitivity analysis he has undertaken around the costs and benefits. The analysis indicates that registration and licensing has significant benefits for forest growers through better forest and wood management (\$20 million per annum). The additional benefits to growers, through improved performance and wood quality represent an increased benefit for New Zealand as a whole. The Net Present Value (NPV) of these benefits to forest growers, over five years, is \$73million.

Other stakeholder groups, despite registration and licensing costs, have a net benefit. The annual net benefit to New Zealand was calculated at \$23 million. This figure is an average over time, and it does not incorporate the upfront costs of investment in the new system, nor the expected increase in benefits over time.

The total NPV for the New Zealand economy is \$103 million in five years and \$179 million in ten years. The assessment is based on the Treasury Cost Benefit Analysis guidelines, and applied a 6% real discount rate.

The tables below outline the principal beneficiaries associated with each of the initiatives, along with a description of the benefits they will receive:

Principal Beneficiaries	Benefits
Small forest owners	<ul style="list-style-type: none"><li>▪ The potential for inexperienced or unqualified advisers to seek payment for services will be minimised.</li><li>▪ New and inexperienced small growers will have additional protection from exploitation.</li><li>▪ Small growers will not be obliged to use a registered advisor when arranging the sale of forest lots, and may sell directly to a licensed log buyer or trader. There will still be an increased level of professional assurance, as the log purchaser or trader will be licensed and their representatives registered.</li><li>▪ Practitioner advice will reflect industry best practice standards and developments within the profession.</li><li>▪ Returns will reflect the improved quality of professional advice, should they choose to access these services</li><li>▪ Owners will have recourse to a complaints system, in the event of poor advice.</li><li>▪ Improved decision making on crop management (during the rotation) and at the time of harvest should minimise site costs (and environmental damage), and ensure that the grade outcome is maximised.</li><li>▪ Environmental and operational performance improvement over time.</li><li>▪ Investor confidence will increase, which will support the market for standing forests and new plantings.</li><li>▪ Owners will have increased certainty in the quality (and consistency) of the advice being provided by forest practitioners.</li><li>▪ Bond and licensing requirements for companies and trading entities provide greater assurance on the management and operational experience of companies.</li></ul>

	<ul style="list-style-type: none"> <li>Improved investor confidence will support increased liquidity in the forest sales market.</li> </ul>
Individual forestry practitioners	<ul style="list-style-type: none"> <li>Strengthens the public and professional reputation of forestry practitioners.</li> <li>Removes unfair competition from inexperienced and unqualified advisers.</li> <li>Ensures that all forestry practitioners are working to industry best standards (i.e. builds technical and operational capacity).</li> <li>Provides clients with an assurance that their advice is audited by a professional body.</li> <li>Builds the profession's social licence to operate.</li> </ul>
Log buying companies & trading entities, including timber processors and log exporters	<ul style="list-style-type: none"> <li>Strengthens the public and professional reputation of log buying companies, trading entities and the industry as a whole.</li> <li>Greater transparency and line of sight in the forestry supply chain between growers, processors and exporters.</li> <li>Increased opportunities for processors to engage with growers, and build longer term relationships.</li> <li>In a more informed market place, smaller owners will be more aware of their marketing options (and the grade distribution of their crop).</li> <li>With greater integration between growers and processors, it is anticipated that mills will have more access to the log grades they are seeking, and are able to more fully utilise their capacity, through additional supply.</li> </ul>

### Where do the costs fall?

The costs directly associated with administering the registration and licensing scheme (including dispute resolution services) would be managed on a cost recovery basis. Forestry practitioners would meet the registration, training and compliance costs of the system, **Commercial sensitivity**

Log buying companies and trading entities (including timber processors and exporters) would need to meet the licensing costs, including the annual administrative costs of licensing and the licensing bond requirements.

The primary legislation would establish a principles-based framework to enable cost-recovery, using a range of methods, including levies and direct charges for services. Approaches taken by professional associations in New Zealand, and forestry bodies in other jurisdictions, will be explored in shaping the design of the cost recovery system.

Affected Parties	Costs
Individual forestry practitioners	<ul style="list-style-type: none"> <li>Maintaining professional standards will involve an on-going commitment of time and personal investment (approximately 20 hours of CPD per annum).</li> <li>Registered member status has a higher fee structure, and a periodic review process.</li> <li>Costs associated with dispute resolution and any formal complaints.</li> </ul> <p><i>(Where practitioners are currently registered under the voluntary scheme, there should be minimal change in costs)</i></p>
Forest growers	<ul style="list-style-type: none"> <li>Professional development costs and registration fees will be passed on through consultancy charges (for newly registered practitioners).</li> </ul> <p><i>(Where growers are already using registered practitioners under the voluntary scheme, there should be minimal change in costs)</i></p>

Log buying companies & trading entities, including timber processors and exporters	<ul style="list-style-type: none"> <li>An annual licensing fee, to cover administrative costs, system monitoring and promotion.</li> <li>Cost associated with meeting the assurance bond requirements.</li> <li>Professional development, and registration costs, for staff members.</li> <li>Training support, to enable staff members to be eligible for registration.</li> <li>Note some individual forestry practitioners may no longer be able to deliver some or all of their current service offerings if they do not meet the registration standards.</li> </ul> <p><i>(Where members of their purchasing teams are currently registered under the voluntary scheme, there should be minimal change in costs. This would apply to those employed directly or as a contractor)</i></p>
New Zealand Institute of Forestry Commercial sensitivity	<ul style="list-style-type: none"> <li>Commercial sensitivity</li> <li></li> <li></li> <li></li> <li></li> <li></li> </ul>
System Regulator (MPI)	<ul style="list-style-type: none"> <li>The costs associated with introducing the regulatory framework for compulsory licensing and registration.</li> <li>An on-going performance monitoring and regulatory stewardship role.</li> </ul>

### What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?

Moving from a voluntary registration system (covering approximately 10 to 15% of the workforce), to a mandatory scheme for forestry practitioners and log trading entities has a series of implementation risks. These risks and MPI's proposed mitigation measures are set out in the following points:

- Commercial sensitivity
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- At present, only a proportion of small forest owners regularly call on the services of professionals to advise on crop management, and the initial steps in harvest planning and management. For mandatory registration to achieve its anticipated aims, educational and promotional efforts will be required to demonstrate the tangible benefits of calling on advice at critical stages in the forest rotation. MPI will work with key sector groups, such as the New Zealand Farm Forestry Association, and use direct communications to raise stakeholder understanding.
- Moving to a mandatory system, over a relatively short space of time, will require careful design and project management. Commercial sensitivity
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#### Commercial sensitivity

- With the shift to compulsory registration there is the potential for practitioners with extensive industry experience, but few formal qualifications to be disadvantaged. The assessment standards developed by the registration body will need to cater for these grand-parenting situations, while the continuing education programme may need to provide targeted training to ensure key skill areas are maintained and enhanced. A further proposal is that these practitioners are able to offer a specific set of services, reflecting their experience. This will minimise the risk of losing experienced professionals from the industry.
- Less experienced practitioners could also be caught by the move to compulsory registration. In overseas jurisdictions there are pathways to registration for new graduates and those working towards qualifications. This mainly involves operating under the supervision of a registered practitioner. A similar pathway would be envisaged for the New Zealand system. There will however, be a small number of individuals who are not prepared to work towards registration. The registration body (and MPI) will have a role in identifying these individuals, and seeing if there are opportunities in other parts of the industry, where their skills could be applied.

In developing the licensing and registration proposal, a number of longer term risks were also identified:

- Forest management is an evolving profession. The registration system will need to have the flexibility to accommodate new skills and services in areas such as carbon forestry and whole farm environment planning, so it remains relevant and is not a closed shop. Entry requirements will also have to be designed to provide a clear pathway for new entrants, and those from overseas jurisdictions with comparable qualifications or experience. MPI (as the regulatory steward) will work with the registration body to maintain flexibility in the system.
- To maintain the integrity of the system, the supporting legislation will need to have powers enabling an agency, such as the Commerce Commission, to take a case of misrepresentation to court. The Commission already brings criminal prosecutions under the Fair Trading Act (1986), Credit Contracts and Consumer Finance Act (2003) and the Commerce Act (1986).
- A proportion of complaints about the quality of advice will relate to changing market conditions, the specific conditions of a property, or unrealistic expectations. Rather than these issues progressing through a lengthy compliance process, a straightforward dispute resolution mechanism will be explored (i.e. an independent arbitrator with authority to settle minor cases).

MPI will monitor both the implementation risks, and longer term issues, as part of its regulatory oversight role. Where necessary, it will work with the licensing and registration body to work through solutions.

## Section C: Evidence certainty and quality assurance

### Agency rating of evidence certainty

MPI considers there is an adequate evidence base for the proposed compulsory licensing of log buying and trading entities and the registration of forestry practitioners.

MPI has been examining how a more integrated domestic forestry supply chain can be created over the past two years. MPI has drawn on key industry representatives to provide advice, commissioned research from Scion and Forme Consulting Ltd, examined good practice internationally, and undertaken regional workshops with sector representatives.

Through this work, MPI has identified a need to raise professional standards in the advice being provided to smaller growers in crop management, and in the sale and purchase process. The evidence for this has been drawn primarily from cases raised in industry engagement and in the research commissioned by MPI. This evidence is discussed in the next section.

MPI accepts that a detailed, longitudinal study would have been preferable to define the magnitude of the problem for growers, and to explore the nature of the issue. The time constraints on the policy development process however, has meant that this was not feasible. The qualitative evidence MPI has received (through respected industry stakeholders across the country), is that strengthening professional standards is necessary to address cases of poor management and sale advice, and that raising professional standards will have benefits for all growers, the reputation of the industry, and long term investor confidence.

### **Licensing & Registration:**

MPI commissioned Forme Consulting Group and Scion in early 2019 to examine the log supply constraints that are emerging in Northland, and the outlook during the 2020s. The role of small owners, and their access to professional advice, was discussed in both reports; and a number of specific points were made:

- *“Small growers do not see themselves as part of the timber supply chain, but simply as growers. There is also a lack of knowledge and awareness around the value of the trees, and how to best harvest and market the resource. This lack of knowledge can be exploited by buyers”. (Scion, 2019:5)*
- **Registered traders** – *this was well supported by all parties. It could bring greater transparency to the sales process and introduce fairer trading. Rather than create a whole new registration system, we recommend acknowledging those who already hold registered membership of NZIF in the first instance”. (Scion, 2019: 38)*
- *Some small forest owners are well organised, whilst many tend to make harvesting decisions based on more opportunistic factors, poor market or management advice, the coincidental ‘availability of a harvest crew nearby, imminent retirement pressures, matrimonial or partnership dispute pressures or land management decisions”. (Forme Forest Industry Consultants, 2019: 20).*

The situation observed by Forme and Scion reflected concerns with the current level of small grower involvement in the log market. This situation will become more pronounced as small growers move from 25 to 40 percent of the annual harvest.

MPI has not been able to undertake a full formal public consultation process on a range of regulatory and non-regulatory options, which places some limitations on our understanding of the full implications of our proposed approach. There will be an opportunity for wider public engagement during the development of associated regulations. Moreover, our assessment and development of the preferred approach has benefited from strong engagement with the industry.

Regional workshops and targeted industry discussions provided qualitative evidence of situations where poor advice had been given by under-qualified practitioners, or the returns from harvesting did not reflect the nature of the property. Normalising forestry returns (for roading, terrain and distance), to build a quantitative database is a difficult exercise, and there are limited examples of this work. MPI has discussed this situation with the author of two surveys on forestry returns, and his results indicate that there are a proportion of sales where the lower returns cannot be explained by site or logistical issues.

In moving from voluntary to mandatory legislation and registration, New Zealand would be following the example of the Canadian provinces and a number of other jurisdictions. The international experience has been reviewed, and key drivers for making this move have been to improve confidence in professional advice, raise operational standards and ensure that there are opportunities for recourse, in the event of a breach in professional behaviour.

#### Quality Assurance Reviewing Agency:

Ministry for Primary Industries

#### Quality Assurance Assessment:

The MPI Regulatory Impact Analysis Panel has reviewed the Regulatory Impact Assessment “*Strengthening the integrity of the forestry supply chain: licensing and registration*” produced by the Ministry of Primary Industries and dated February 2020. The review team considers that it **partially meets** the Quality Assurance criteria.

The analysis is clear and concise, despite the limitations in a number of key areas. Overall, we are convinced that the problem should be addressed by the preferred option.

The RIA notes that consultation was constrained by the timeframe for MPI to report back and the impacts on key groups affected such as forestry practitioners and Māori are not fully known. Nor have the impacts on sectors beyond the forestry system (e.g. the building industry) been identified. Those gaps could have been addressed by a Select Committee consultation process. However, this is not currently proposed as the Bill will be introduced under urgency, and therefore will not be referred to Select Committee. We note, nevertheless, the efforts made by the Ministry of Primary Industries to consult with industry stakeholders and some Māori through workshops and other meetings.

The RIA provides an honest assessment of its evidence base relating to the scale and magnitude of the problem. For example, the RIA notes that a detailed, longitudinal study would have been preferable to define the magnitude of the problem for growers, and to explore the nature of the issue.

# Impact Statement: Strengthening the Integrity of the Forestry Supply Chain: Licensing and Registration

## Section 1: General information

### 1.1 Purpose

The Ministry for Primary Industries is solely responsible for the analysis and advice set out in this Regulatory Impact Assessment, except as otherwise explicitly indicated.

This analysis and advice has been produced for the purpose of informing key policy decisions to be taken by Cabinet.

- This RIA provides an analysis of options to strengthen the integrity of the forestry supply chain by introducing mandatory licensing of log buying and trading entities together with registration of designated log buyers, traders and other forestry practitioners.

Key stakeholders who have contributed to the analysis include the Forest Industry Contractors Association, New Zealand Farm Forestry Association, New Zealand Forest Owners' Association, New Zealand Imported Tropical Timber Group, New Zealand Institute of Forestry, New Zealand Timber Industry Federation and the Wood Processors & Manufacturers Association of New Zealand.

### 1.2 Key Limitations or Constraints on Analysis

#### **Overview:**

MPI undertook targeted engagement on options for raising professional standards among log buyers, traders and other forestry practitioners between November 2019 and January 2020. To support the engagement process, MPI prepared an Information Paper and held two further workshops at the end of the consultation period to discuss the preferred options. Time constraints precluded a full public consultation process at this stage of the policy development process.

#### **Licensing & Registration:**

The proposal for mandatory licensing and registration has been informed by research commissioned by MPI, an assessment of the approaches in other professional sectors, a review of the international forestry experience with compulsory licensing and registration schemes, and qualitative evidence on the incidence of poor performance by forestry advisers and log buyers. With the restricted timeframe, MPI has not been in a position to undertake a detailed assessment of small grower harvesting to assess the proportion of sales with returns substantially below the industry average, or where land management practices did not meet industry best practices.

In moving to registration and licensing, the forestry sector would be following other professional service sectors in New Zealand. The Financial Service Providers (Registration and Dispute Resolution) Act 2008 requires financial service providers to be

registered to promote and facilitate the development of fair, efficient and transparent financial markets; while the Real Estate Agents Act (2008) has the purpose of promoting and protecting the interests of consumers in respect of transactions, and promoting public confidence in the performance of the profession. MPI has drawn on the experience of other regulated professions in New Zealand, to inform the recommended approach to forestry sector registration and licensing.

The overseas experience of mandatory registration systems for forestry practitioners has provided important insights for the design of the New Zealand system. In particular, registration should apply to forestry practitioners delivering one or more specified services, related to the management, harvesting or sale of forest resources or forest land. A services approach to registration is straightforward, allows for practitioners to be registered to perform one or more activity, and provides the flexibility needed to manage what is an evolving workforce (with the development of areas such as carbon forestry).

The licensing system for log buying companies and trading entities, also draws on overseas best practice. Licensing systems generally incorporate 'good character' and financial checks on the companies, bond arrangements, and compliance procedures, in the event that companies are not meeting industry standards.

#### Commercial sensitivity

[Redacted content]

### 1.3 Responsible Manager:

Antonia Reid  
Acting Director, Data Insights & Forestry Policy  
Policy & Trade Branch  
Ministry for Primary Industries

27 February 2020

## Section 2: Problem definition and objectives

### 2.1 What is the context within which action is proposed?

#### ***Policy Decisions to Date***

In September 2019 the Cabinet Environment Committee directed MPI to progress the following measures to strengthen the forestry supply chain:

- Support grower and processor decision making by:
  - a. publishing a harvest and sales information series for small forest owners;
  - b. exploring the establishment of a public database; and
  - c. updating the National Exotic Forest Description and wood availability forecasts;
- Confirm the case and requirements for introducing compulsory professional registration for log buyers (and options to consider wider forestry advisers); and
- Develop a national definition for wood legality and test it with affected parties.

The detailed design of the wood legality framework and the compulsory registration system are to be brought back to Cabinet in early 2020. The Minister of Forestry will seek approval to proceed with the recommended options and to commence the drafting of an enabling Bills.

#### ***Licensing & Registration:***

Approximately 30 percent of New Zealand's plantation estate (over 520 000 hectares) is owned by smaller growers (defined as owning under 1,000 hectares)<sup>1</sup>. The number of small owners is estimated at 14-15,000, and is comprised of farmers, small block holders, private partnerships, syndicates and smaller corporates. Few of these owners are full time foresters or have the scale to build experience in the marketing and sale of their blocks, which can range from a few hectares to several hundred. Knowledge of the sale process is built up through repeated transactions, but smaller owners generally have only one, or a small number, of blocks to sell over the next ten to fifteen years.

A lack of knowledge in managing the harvesting and sale process, and who to engage for advice, can leave forest owners vulnerable to exploitation by poorly qualified advisers or buyers. Iwi stakeholders at the Northland workshop emphasised the need for owners and trustees to have ready access to databases of qualified professionals for each stage of crop management and harvesting. This need for clear direction on who owners should be consulting for impartial advice came through in each of meetings, irrespective of whether they wanted a mandatory or enhanced voluntary registration scheme. Cases of poor practice, and sale information, were raised in each of the meetings.

The extent of the qualitative evidence (in terms of the regional spread and the delivery by respected industry leaders) indicates that there is an underlying issue that needs to be addressed, particularly as these cases can affect broader industry attitudes and confidence.

<sup>1</sup> <https://www.nzffa.org.nz/farm-forestry-model/resource-centre/tree-grower-articles/tree-grower-2017-may/survey-of-the-needs-of-small-scale-forest-owners-for-information-and-decision-support/>

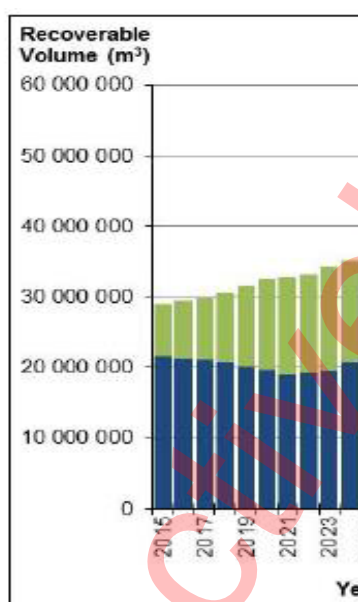
The potential for exploitation has grown as the small grower harvest has increased from 7.4 million cubic metres (m<sup>3</sup>) in 2015 to a forecasted 13 and 14 million m<sup>3</sup> p.a. during the 2020s, as shown in the table below. With an expanding market, and increasing demand for service providers, there are opportunities for less experienced operators to enter the market. The high returns in recent years have also encouraged new, and more transitory log traders to enter the market.

The increase in small grower supply means that these growers will be contributing approximately 40 percent of the annual harvest in the 2020s. This makes small growers a vital part of the supply chain for both domestic processing and log exports. The growth in supply reflects the maturing of the plantings established during the peak planting years in 1990s and early 2000s. A significant proportion of these owners are first time sellers, and have not previously being involved in forestry sales and marketing.

Scion's 2019 study on warehousing models to coordinate log supply concluded that:

*"Small growers do not see themselves as part of the timber supply chain, but simply as growers. There is also a lack of knowledge and awareness around the value of trees, and how to best harvest and market the resource. This lack of knowledge can be exploited by buyers."*

New Zealand Radiata Pine Availability under Scenario 3 – All Owners



Working through the sale and marketing process is a complicated process, and owners are not always aware of the local and overseas marketing options, pricing conditions, forestry contractor arrangements and from whom they should be seeking advice. This situation can lead to poor decisions on the timing and marketing of the harvest, or on insurance cover. The implications are that the owner does not receive full value for their investment, their confidence in forestry is reduced (impacting upon replanting), and neighbours and friends maybe discouraged from investing.

A further dimension to the supply situation is the disconnect that exists in some districts and regions between smaller growers and wood processors. While processors are looking to draw more of their supply from smaller growers, a number of operators have been slow to adapt their purchasing models, and learn from those with experience in this area (i.e. employing dedicated buyers and surveying the resource). This has meant that a proportion of processors have continued to depend upon corporate supply

arrangements, or third parties to co-ordinate supply. For these processors, the transition to an increasing reliance on small-grower supply will be a major challenge. Scion's 2019 research on warehousing models in Northland identified the following issues:

- The domestic forest sector (including mills) are used to a largely corporate model of transacting and have failed to adapt to a changing business model that needs to incorporate a growing wood supply from small growers;
- A movement from a small number of medium to large forest estates to a more diverse ownership and management structure (even in larger forests) has seen grades sold before mills are aware they were available;
- The mills and small growers lack information about each other's needs;
- Mills do not proactively identify sources of logs and buy them, while wood traders actively search and contract for logs they can export;
- Where mills rely on harvesting crews and well-known forest managers to identify and supply suitable logs to mill, newer and agile export trade operators are circumventing this process by diverting the bulk of the cut to export; and
- Growers are not necessarily harvesting when expected. The small growers do not follow the same sustained yield models of the corporate large growers, and the motivations for harvesting can be due to a multitude of factors.

While New Zealand's production and trade statistics are not broken down by source of supply (corporate or small grower), industry feedback and Scion's research indicates that a significant proportion of the smaller blocks sold in recent years have gone directly to the wharf, rather than being sold on a grade basis and marketed to New Zealand processors. The additional effort to market small blocks on a grade basis, or for a processor to purchase a block and sale-on the grades they do not require, is seen as significant compared to a direct sale. A further consideration when considering an export sale or domestic marketing is the economics of distributing small volumes of logs to multiple processing facilities over a region.

## 2.2 What regulatory system(s) are already in place?

New Zealand currently has a voluntary system of registration for forestry professionals, who are involved in forest management and harvesting, the valuation of crops, or the sale and purchase of cutting rights. The system is administered by the industry's professional body, the New Zealand Institute of Forestry (NZIF) and has approximately 90 registered members. Internationally, voluntary registration systems cover approximately ten to fifteen percent of those providing professional advice and services. The figure for New Zealand is likely to be comparable, meaning that a mandatory scheme would cover between 600 and 900 members.

The registration scheme is administered by a Board of experienced Institute members who assess those seeking registration or the renewal of their registered status. To become registered, applicants are required to:

- Have passed a formal course recognised by the Board in some branch of forestry or an allied discipline unless otherwise agreed by the Board;
- Have completed at least five years' experience in forestry since graduation or certification, of which at least two must have been in New Zealand, and have reached a level of expertise recognised by the Board, and such other conditions as Council from time to time determines;

- Display to the satisfaction of the Board an understanding of the basic principles underlying the forestry process involved in the applicant's particular area of qualification and expertise, to an extent that allows interpretation and application to different situations that may reasonably be expected to be encountered in the course of the member's endeavours;
- Have undertaken continuing professional development (CPD), prior to application, to the standard prescribed by the Board; and
- Affirms an intention to abide by the New Zealand Institute of Forestry's Code of Ethics.

A review of the Institute, and the registration system, in 2006-7 saw the Articles of Association amended to shift the focus from the registration of consultants to the registration of all members who regard themselves as forestry professionals. The Institute is currently in the process of promoting registration to its broader membership base, to encourage members to think of registration as a natural step in their career path.

In 2017, the Institute was successful in an application for registered members to be exempted from the Real Estate Agents Act (2008). The Real Estate Agents (Exemptions) Regulations (2017) enables registered members to undertake transactions involving forestry, provided that certain conditions are met. These include meeting the requirements of registered members. The Institute reports annually to the Ministry of Justice on compliance with the terms and conditions of the exemption.

While log buyers, traders and other forestry practitioners are not currently covered by a professional regulatory system (apart from those operating under the Real Estate Agents (Exemptions) Regulations), their conduct in managing forestry operations, and their charging for services, comes under a series of legislation, ranging from the Resource Management Act through to consumer protection legislation.

Growers also have the ability to take legal redress, in the event of a breach in contract provisions, through dispute resolution, arbitration or the court system.

#### *The Broader Picture of Regulation for Professional Services*

The move to registration and licensing would be consistent with other professional services in New Zealand. As outlined previously, financial service providers and real estate agents have moved to registration in the past 15 years, and this builds on longer established regulatory systems for accountants, lawyers, teachers, nurses and many trade occupations.

In each case, the objectives are to maintain and improve competencies, ensure that individuals are working to high ethical standards, raise public confidence, and provide avenues for redress.

### **2.3 What is the policy problem or opportunity?**

New Zealand's log supply market is in transition, with smaller owners playing an increasingly important role in the annual harvest. The forecasts indicate that smaller owners will be providing 40 percent of the annual harvest during the 2020s, up from 25.5 percent in 2015 and just 14 percent in 2007. With an increasing number of smaller owners entering the market, there is a growing need for a professional assurance system, around the quality of advice and technical experience.

The majority of the estimated at 14-15,000 smaller owners<sup>2</sup> have limited experience in the marketing and sale of forestry blocks. This can place them at a significant disadvantage when they come to plan, and negotiate, the sale of their forest (from valuation and marketing through to the steps in managing the actual harvest). For an informed, and transparent market, these owners need to know who to seek impartial professional management advice from; the state of the market; their sale options; and how to seek redress. At present there are no formal checks on those providing forestry advice, to ensure they are experienced in the areas they are offering services in and seeking remuneration for (apart from those with voluntary registration). In addition there is insufficient transparency and no industry standards that apply to log buying and trading entities that offer basic protections in the log harvest sales and purchasing process. This can leave inexperienced growers vulnerable to exploitation by poorly qualified advisers or log buyers.

Owners gain experience through repeated sales, but this cannot occur when an owner has a single stand. For many of the 14-15,000 forest owners, the 2020s will be the first, and only time that they enter the market. Even larger owners take time to build confidence in the sales process. This barrier is addressed in a number of overseas jurisdictions through co-operative and association arrangements, which can provide support and professional direction when managing and harvesting blocks. New Zealand does not, however, have a tradition of forestry co-operatives for aggregating and marketing supply.

In the absence of these collective structures, owners depend heavily upon advice from consultants, and other intermediaries in the sales process. This can include the consultants that growers contract to provide valuation, harvest and marketing advice, forest managers who advise on the sale process, log buyers for processors, log traders and agents who arrange third party sales.

The quality of the advice owners receive from individual forest practitioners and their interactions with log buying and trading entities is critical to the final return they receive, and to the operation of the broader log market (e.g. enabling an open bidding system for stands). A poor financial or environmental outcome for owners has flow on effects to market confidence for current and new investors, the reputation and public image of the industry (which has implications for the social licence to operate) and New Zealand's ability to achieve its long term land management and climate change objectives.

The scale of this issue can be seen in the national wood availability forecasts for the 2020s. The forecasts (prepared for MPI by Indufor Asia Pacific Limited), indicate that small owner supply will be in a range of 13 to 14 million m<sup>3</sup> per annum (p.a.) between 2021 and the early 2030s (under Scenario 3). At this level, every additional dollar of value (per m<sup>3</sup>) would add \$13-14 million p.a. to the bottom line of small owners. This can be through a better understanding (and management) of their cost structure, having a more detailed knowledge of the crop they have to sell, and knowing the marketing options for their trees and timber grades.

The small owners who are most vulnerable in the harvesting and sale process are those who have not previously sought professional advice, or built up their knowledge of management and market conditions. Drawing on previous work for the wood availability forecasting rounds, in the region of 30 to 35 percent of growers draw on professional

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<sup>2</sup> Small forest owners are classed as those owning less than 999 hectares. The bulk of these owners manage less than 40 hectares.

advice during the rotation of the crop, and another 25 to 30 percent manage their blocks to a professional standard (drawing on periodic advice and building up their own knowledge). This potentially leaves around a third of smaller owners who have had limited engagement with the forestry supply chain, when they come to harvesting and marketing.

As discussed in Section 1.2, the proposal for mandatory licensing and registration has been informed by research commissioned by MPI, a review of the international experience with compulsory licensing and registration schemes, and anecdotal evidence on the incidence of poor performance by forestry advisers and log buyers. With the restricted timeframe, MPI has not been in a position to undertake a detailed assessment of small grower sales, to assess the proportion of growers affected on an annual basis.

## **2.4 What do stakeholders think about the problem?**

### ***Stakeholder Engagement to Date***

Following Cabinet agreement in late 2020 to examine the case for introducing compulsory professional registration, MPI undertook targeted engagement on the proposal (between November 2019 and January 2020). To support the engagement process, MPI prepared a comprehensive Information Paper which set out the problem, and proposed a wide range of regulatory and non-regulatory options, identified the costs/risks and benefits of these options, and highlighted the approach to cost recovery as a basis for discussion and subsequent written submissions. It held two workshops at the end of the consultation period to discuss the preferred options. Time constraints precluded a full consultation and submission process.

The four regional workshops attracted in excess of seventy stakeholder representatives, from small owners through to large corporate entities and log traders. The major stakeholders involved in the regional workshops and in subsequent meetings included:

- The Forest Industry Contractors Association (representing the majority of harvest contracting crews);
- New Zealand Farm Forestry Association (representing a membership of almost 2 000 small owners);
- New Zealand Forest Owners' Association (representing New Zealand's major forest owners);
- New Zealand Imported Tropical Timber Group (representing key timber importers);
- New Zealand Institute of Forestry (representing the professional forestry workforce);
- New Zealand Timber Industry Federation (representing timber processors); and
- The Wood Processors & Manufacturers Association of New Zealand (representing timber processors and manufacturers).

### ***Industry Feedback on Licensing and Registration***

Stakeholders expressed a range of opinions on the options that were presented at the regional workshops, and on the preferred delivery mechanism:

### *Nature of the Problem*

- The majority of attendees knew of cases where growers had received poor advice, or been disadvantaged in transactions, and there was general support for raising professional standards, to iron out these situations.
- Raising professional standards would support the reputation of the industry generally, and the sector's social licence to operate.
- A strong message was received that any regulatory proposals needed to recognise that the majority of the value within the industry sits with the plantation sector. Initiatives need to support this investment (by integrating smaller growers into the supply chain and supporting their access to professional advice), otherwise confidence in replanting and new planting will wane.
- The central issue is around the quality of advice and services, and how they affect the management and returns from the harvest. Any changes to the policy framework need to be focused on these points, and should not cover property rights.
- Smaller growers, and less experienced trusts and associations, need to know who to draw advice from, who are reputable contractors and operators and what the market conditions, and options are. Improved information and resources are a critical part of this. The information also needs to be through channels that all parties can access.
- Greater co-ordination and planning of supply is required amongst smaller growers to build capacity in the grades required by the market. This is particularly an issue if future production is geared towards more specialist grades (e.g. one of the corporates discussed how they had invested in developing peeler logs for the Chinese market in the early 1990s).

### *Preferred Response to the Problem*

- Of the options considered, the preference of stakeholders was for either an enhanced voluntary system or a stepped introduction of a mandatory system for forestry practitioners. There was little enthusiasm for a voluntary certification scheme for forest practitioners, and a licencing system for log buying companies and traders was not seen as a solution in itself.
- Encouraging more practitioners to join the existing, voluntary registration scheme for practitioners was seen as good for the reputation of the industry, but it would not provide the level of assurance that a mandatory system would provide.
- To effectively grow the voluntary scheme there would need to be coordinated and sustained promotion. An enhanced voluntary registration system could be an end in itself, or a component of a transitional phase.
- Forestry consultants, managers and advisers perform a variety of roles. Blanket registration would not provide confidence that advisers and log buyers would have expertise in each area. Consideration will need to be given to defining the different roles – through prescribed criteria and standards.
- There was a strong call for improved system monitoring and auditing, under all of the options. Without coordinated monitoring, breaches of trust, and poor practice are still likely to occur. Auditing will be particularly important in the initial years, to ensure that operators are complying.
- Any changes need to be industry led, as stakeholders are concerned about government agencies imposing ill-informed initiatives.
- The New Zealand Institute of Forestry was seen as the appropriate body to promote an enhanced voluntary system, or to manage a mandatory system, with extension support from organisations such as NZFFA.
- Potential costs were a consideration raised at all of the workshops, and the extent to which they would fall on growers.

## 2.5 What are the objectives sought in relation to the identified problem?

### **Overall Outcome(s):**

The introduction of mandatory licensing and registration is part of a broader suite of initiatives designed to strengthen the integrity of the forestry supply chain by supporting a more transparent market for log trading; ensuring smaller growers have access to current market information; and that all intermediaries in the sales process are meeting industry best standards.

### **Licensing & Registration Objectives:**

The objectives for the mandatory licensing and registration system includes:

- A more transparent market, encouraging greater communication between growers, processors and exporters;
- Improved grower confidence in the integrity of the log supply market, and the quality of the advice from forestry advisers and intermediaries in the market;
- Greater investor certainty in current and future investment;
- Increased confidence to undertake new forestry planting and replanting;
- Improved environmental performance including attention to sustainable land use, biodiversity protection and ecosystem services;
- Strengthening the sector's social licence to operate (with practitioners working to best practice standards, and being able to demonstrate how practices are responding to societal expectations); and
- Supporting less experienced and new growers (including iwi), to ensure that owners have a greater appreciation of the value, composition and opportunities for their crop.

When tested with stakeholders, the objectives for mandatory licensing and registration were seen as a package, which would benefit not only small growers, but the reputation and connectedness of the industry. There was also a recognition that improving investor confidence would support the Government's long term objectives for improved environmental outcomes in land and water management, and in meeting New Zealand's climate change objectives.

## Section 3: Option identification

### 3.1 What options are available to address the problem?

MPI has been examining the issue of licensing and registration since mid-2018, and has identified seven elements that should underpin a successful system:

- An enduring system to provide investor certainty;
- Provides a high level of professional accountability;
- Improves the quality of advice and support to growers;
- Has transparent and open processes;
- Is cost effective;
- Provides broader environmental and community benefits; and
- Provides a ready entry process for trainees and qualified professionals from other jurisdictions.

From this work, five options (in addition to the status quo), were identified, as potential pathways for raising professional standards and creating a more transparent market for log sales.

The consultation workshops helped to sharpen the design of these options and the preferred registration and licensing options. For example, rather than attempting to define a series of occupations that would be covered by registration, a strong message was received that registration should be based on the services and activities delivered by forestry practitioners. With a services approach, registration would apply forestry practitioners delivering one or more specified services related to the management, harvesting or sale of forest resources or forest land.

In working through the design options, MPI emphasised that the proposed system would not impinge on the rights of individual forest owners, syndicate managers or iwi trust boards to undertake the management of the harvesting and sale arrangements themselves, if they feel confident in undertaking the work. There will still be an increased level of professional assurance, as the log purchaser or trader will be licensed and their representatives registered.

The options presented at the workshops (with their modifications included) are set out in the following table, and are described more fully below. The options included two voluntary mechanisms, one which builds on the status quo, and one which draws on the industry experience of contractor certification of health and safety systems.

LICENSING AND REGISTRATION OPTIONS	
Non-Regulatory Approaches	
Option 1	<b>Status Quo:</b> Continuation of the voluntary system administered by the New Zealand Institute of Forestry (NZIF), where ten to fifteen percent of the workforce are committed to on-going training and have signed up to a professional standard of ethics.
Option 2	<b>Enhanced Status-Quo:</b> The Government partners with the NZIF to provide additional training, promotion and support services, to encourage a greater percentage of log buyers and advisors to become registered members of the voluntary scheme.
Option 3	<b>Industry led certification of competency and skill attainment:</b> A workplace certification scheme for log buyers, traders and forestry advisors, which would codify best practice operating standards, and support on-going training and skill development. Certification would support on-going training and skill development, but would not provide assurances around professional standards.

Regulatory Approaches	
Option 4	<b>Compulsory licensing of log buying and trading organisations:</b> A government regulatory authority would undertake background checks on log buying and trading organisations, and manage a licensing system (which would include censure procedures). Bond or insurance requirements would provide increased assurance to growers. This option would provide an assurance that buying and trading organisations are bona fide operators, and that they are meeting industry operating standards.
Option 5	<b>Compulsory registration of log buyers and traders:</b> A professional association (or MPI) would manage the registration, auditing and continuing training of log buyers and traders. The association (or MPI) would have bylaw and censure powers. Professional standards would be raised for one section of the industry. Those operating as advisers on forestry sales, and agents for third parties would not necessarily be covered.
Option 6	<b>Compulsory registration of log buyers, traders and other forestry practitioners:</b> A broader form of Option 5, covering forestry professionals who are delivering one or more specified services related to the management, harvesting or sale of forest resources or forest land. The preference would be for a professional association to act as the registrar, as the industry would have ownership of the on-going management of the system (from training through to bylaw functions and the management of compliance issues). The alternative would be for MPI to act as the registrar. The Government would also look to partner with the professional association in developing supporting tools and standards (such as standard contract provisions and updated sale and valuation guidance).

### Non-Regulatory Options

#### Option One: Status Quo

- A continuation of the voluntary system administered by the NZIF, where ten to fifteen percent of the workforce are committed to on-going training and have signed up to a professional standard of ethics.
- Growers have no third-party assurance over the skills, neutrality and market knowledge of the majority of advisers and log buyers.
- For the majority of advisers and log buyers there is no mechanism to progressively improve the skills and training of the workforce.
- Recourse (in the event of a dispute) is through the courts, and which can be protracted and expensive.

#### Option Two: Enhanced Status-Quo

- The Government partners with the NZIF to provide additional training, promotion and support services, to encourage a greater percentage of log buyers and advisors to become registered members of the voluntary scheme.
- On-going promotion will be required to build public and grower recognition of the scheme, and the benefits that contracting a registered forestry consultant provides.

- Registration rates will rise, but it is likely that the majority of the workforce will remain outside of the scheme. This means that professional standards will only be raised for a proportion of the workforce.
- Partnering with the NZIF provides an efficient and straightforward delivery mechanism.
- Negotiations with NZIF (and its members) would be required to progress this option.

*Option Three: Industry led certification of competency and skill attainment*

- A workplace certification scheme for log buyers, traders and forestry advisors, which would codify best practice operating standards, and support on-going training and skill development.
- The New Zealand forest industry has been moving to greater workplace certification for contractors and drivers (motivated largely by health and safety concerns). A similar certification system for competency and skill attainment could be modelled for advisers and buyers (drawing on national training standards).
- Certification would codify best practice operating standards (for management and marketing), and support on-going training and skill improvement.
- As with the existing certification schemes there would be industry momentum to ensure widespread participation.
- Certification would not provide a compliance (censure) measure in the event of a dispute or immediate financial recourse.
- Government would need to work with a professional body, or industry association, to build recognition of the scheme and ensure that it is effectively delivered to the workforce.
- The development of the certification scheme would need to be in association with Competenz (the industry ITO), to ensure appropriate standard setting procedures are followed.

**Regulatory Options**

*Option Four: Compulsory licensing of log buying and trading organisations*

- A government regulatory authority would undertake background / good character checks on log buying and trading organisations and manage a licensing system (which would include censure procedures). Bond or insurance requirements would provide increased assurance to growers.
- The licensing system would be supported through legislation and regulation, and would be run on a cost recovery basis.
- A new unit would be established to deliver the scheme and promotional work would be needed to build public and industry recognition.
- The regulatory authority would audit and monitor log buying and trading organisations, and have the ability to suspend or cancel licences in the event of poor practice.
- Bond or insurance arrangements would be monitored by the authority.
- Likely to be the least expensive of the regulatory schemes, and can be supported by an information hub (with standard contracts and sale and purchase information).

#### *Option Five: Compulsory registration of log buyers and traders*

- A professional association (or MPI) would manage the registration, auditing and continuing education of log buyers and traders.
- Log buyers and traders would be registered under industry specific legislation and the bylaws developed by the professional association (or the regulations of MPI).
- The association (or MPI) would oversee the continuing professional education of its members, and maintain a record of performance for each member.
- The association (or MPI) would have compliance powers for breaches of its standards and code of ethics.
- The registration of log buyers and traders would not necessarily cover all those practitioners engaged in the marketing and sale process (i.e. third party agents who do not physically purchase logs).
- The preference would be to partner with an established industry association (NZIF), but this will be dependent on the final form of any proposal, and the agreement of its membership. Incorporating an existing industry association will assist with building public and industry recognition.

#### *Option Six: Compulsory registration of log buyers, traders and other forestry practitioners*

- A broader form of Option 5, covering forestry professionals who are delivering one or more specified services related to the management, harvesting or sale of forest resources or forest land.
- Log buyers, traders and other forestry practitioners would be registered under industry specific legislation and the bylaws developed by the professional association (or the regulations of MPI).
- The association (or MPI) would oversee the continuing professional education of its members, and maintain a record of performance for each member. Training will be tailored to the different services and activities covered by the scheme.
- The association (or MPI) would have compliance powers for breaches of its standards and code of ethics.
- The preference would be to partner with an established industry association (NZIF), but this will be dependent on the final form of any proposal, and the agreement of its membership. Incorporating an existing industry association will assist with building public and industry recognition.
- The Government would look to partner with the professional association in developing supporting tools and standards (such as standard contract provisions and updated sale and valuation guidance).

### **3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?**

MPI's assessment has used the following criteria:

- Effectiveness;
- Proportionality;
- Certainty;
- Durability; and
- Practicality/Risk.

More detailed descriptions of the criteria are outlined below. The criteria have been given equal weighting in the assessment process.

**Effectiveness:**

Meets the intended policy outcomes and objectives, including

- a. Raising the professional standards of those involved in log purchasing (as a direct purchaser, adviser or agent);
- b. Creates a more transparent market for the sale of logs; and
- c. Provides increased grower confidence in the operation of the market and supports New Zealand's reputation as a source of high quality, sustainable logs and timber products.

**Proportionality:**

- a. The regulatory burden (cost) is proportional to the benefits that the proposed change is expected to deliver.

**Certainty (including accountability):**

- a. Regulated parties have certainty about their legal obligations and the regulatory system provides predictability over time;
- b. Legislative requirements are sufficiently clear and able to be applied consistently and fairly;
- c. Regulators can justify their decisions and are subject to public scrutiny; and
- d. All participants in the regulatory system understand their roles, responsibilities and legal obligations.

**Durability:**

- a. The regulatory system can evolve in response to changing circumstances or new information on system performance;
- b. The regulator is able to adapt its approach to the attitudes and needs of different regulated parties; and
- c. Regulated parties have scope to adopt cost-effective and innovative approaches to meeting their legal obligations.

**Practicality/ Risk:**

- a. Meeting legislative requirements is feasible;
- b. The implementation risks are low or within acceptable parameters;
- c. Implementation can be achieved within reasonable timeframes; and
- d. The risk of perverse incentives and unintended consequences is low.

### 3.3 What other options have been ruled out of scope, or not considered, and why?

**Extension & Information Services:**

A number of participants in the engagement meetings recommended extension and information services as an alternative way of reaching smaller growers and raising professional standards and market knowledge. This has not been progressed as a separate option as improved information and technology transfer is part of the broader suite of initiatives that are being progressed to strengthen the forestry supply chain.

### **Export Tax:**

The introduction of an export tax was considered as part of the wider policy work, but eventually ruled out. While a number of other countries have imposed a range of export taxes and restrictions, these have primarily been for conservation purposes to protect indigenous forests.

A number of associated risks were also identified when scoping this option, including:

- Economic sensitivity [REDACTED]
- [REDACTED]
- [REDACTED]
- A lack of overall effectiveness, as exporters could seek to have logs transit through to countries exempt from the tariff (log ships already typically transit through South-East Asia on their way to China).

### **Sales Preferences for Domestic Processors:**

The Minister of Forestry sought advice on whether the Ministerial Directive letter for overseas investment, could be amended to require officials to only consider applications for forestry investment where the applicant commits to investing in wood processing, or entering into long-term supply agreements with processing facilities. It was determined, however, that Directive Letters cannot alter the criteria for consent set out in the Overseas Investment Act 2005; they can only give weight to existing criteria. At present, the special forestry test criteria simply requires investors to commit to maintaining existing supply agreements, and lacks the necessary criteria to commit to supplying domestic processors. Economic sensitivity [REDACTED]

#### **Legal privilege**

#### **International obligations**

## Section 4: Impact Analysis

### 4.1 Licensing & Registration

**Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2?**

The table below analyses the six options against the criteria listed in section 3.2. The two highest ranked options that would go furthest in transforming the market place and providing certainty to current and future growers are:

- Option 4 – A compulsory licensing system for log buying companies and trading entities; and
- Option 6 – A compulsory registration system for individual forestry practitioners (including those charged with buying or trading logs).

On balance we consider the optimum net benefit can be derived from progressing both these options through an integrated licensing and registration package. The benefits would be significant and include:

- This pathway would help to ensure that smaller growers have access to high quality and impartial professional advice;
- The log trading system would be more transparent, with sellers more aware of their marketing options (both domestically and internationally);
- Improved professional standards will feed through to environmental and community outcomes; and
- Grower / investor confidence would be improved with the greater assurance associated with the licensing of log buying and trading entities meeting established standards including Bond and insurance requirements that provide certainty of payment.

As noted previously, this proposal would not impinge on the rights of individual forest owners, syndicate managers or iwi trust boards to undertake the management of the harvesting and sale arrangements themselves, if they feel confident in undertaking the work.

Moving to a mandatory licensing and registration system would be a step change for the New Zealand industry. Those practitioners already registered under the voluntary scheme would essentially operate as they do today. A number of forest practitioners are already familiar with operating in a fully registered system, having practised in Canada, and other jurisdictions with compulsory systems.

## Assessment of Voluntary and Regulatory Options for Improving Transparency and Professional Standards

Form of Registration		Assessment Criterion								
		Key: 0 – No change / Status Quo; + Moderate Improvement; ++ Significant Improvement; - Worse than the Status Quo								
		Criterion: Effectiveness	Criterion: Proportionality	Criterion: Certainty	Criterion: Durability	Criterion: Practicality / Risk	Overall Assessment			
Non-Regulatory Systems	Option One: Status Quo	0	0	0	0	0	0			
	Option Two: Enhanced Status-Quo	+	0  Registration numbers will rise but the majority of the workforce will remain outside of the scheme.	0  As with the status quo, the costs will fall on those who undertake voluntary registration (such as the additional training).	+	0  The increased coverage of the voluntary scheme will raise overall standards (training and professionalism) and have a moderate impact on grower confidence.	0  On-going promotion will be required to build public and grower recognition of the scheme	+	0  Partnering with the NZIF provides an efficient and straightforward delivery mechanism.	0 / +  While a viable option, the improvement in professional standards will be incremental, and will require on-going promotion and effort to maintain.
	Option Three: Industry Led Certification of Competency and Skill Attainment	+	0  Workplace certification would support on-going training and skill attainment, but would not provide assurances around professional standards.	0  As with the status quo, the costs of certification and training would fall on those who undertake this voluntary initiative. Overtime, there should be industry acceptance of the practice.	+	+	0  As log buyers and advisers adopt workplace certification there should be greater certainty around technical skills and capacity.	+	0  Industry initiatives build their own momentum, as schemes start to be seen as a part of operating practice.	+
Regulatory Systems	Option Four: Compulsory Licencing of Log Buying and Trading organisations	+	++  Licencing would provide growers with greater confidence that the log buying and trading organisations they are engaging are reputable operators, and that there are safeguards in the event of market disruptions.	++  The regulatory burden will be relatively low and the costs associated with licencing and insurance are borne by those directly engaged in log purchasing and trading.	++  The regulated organisations under a licencing arrangement will have a clear understanding of their obligations and the powers that the regulating authority will have to censure poor behaviour.	+	++  Licencing systems tend to be in place for extended periods, and have limited flexibility for change, without legislative reform.	++  Likely to be the least expensive of the regulatory systems, and the regulatory authority can operate under a cost recovery regime.	++  ++	++  Licencing would be a practical medium term option, or could be considered as a transitional measure, if compulsory registration is introduced over an extended (5 to 10 year horizon). It would not be a short term measure as its introduction could take two to three years.
	Option Five Compulsory Registration of Log Buyers and Traders	+	++  Professional standards would be raised for one section of the industry. Those operating as advisers on forestry sales, or as agents / managers for third parties would not necessarily be covered.	++  As noted under effectiveness, the system would apply to one section of the industry, potentially creating some anomalies. The regulatory burden would fall disproportionately on log buyers and traders, and potentially exclude those who act as advisers and agents.	++  The system would be an improvement over the status quo, with greater professionalism, training and assurance provisions, but there could be some uncertainty around the boundaries of a buyer / trader and those providing advice or acting as an agent.	+	++  The professional association (or Crown entity) will be able to respond to changing market and technical conditions in its training and assurance systems, but there could be uncertainty over the boundaries of their coverage.	++  There are established international models on which the New Zealand system could be based, and depending upon the provider, the system could build on the existing voluntary system.	++  ++	++  A compulsory registration system that focuses on one segment of the log market trading system has limitations for improving professional standards and grower confidence.
	Option Six  Mandatory Registration of Log Buyers, Traders and other Forestry Practitioners	++	++  Professional standards would be raised across the sector, and growers would have greater certainty in the technical advice they are given.	++  The regulatory burden would be apportioned across all forestry practitioners. The benefits of regulation substantially outweigh the costs, and include broader public (ecosystem) services – including land use and climate change benefits.	++  The obligations of all parties would be clearly defined and growers would have greater certainty around insurance and the ability to seek redress.	++  The professional association (or Crown entity) will be able to respond to changing market and technical conditions in its training and assurance systems.	++  There are established international and domestic models on which the New Zealand system could be based, and depending upon the provider, the system could build on the existing voluntary system.	++  ++	++  Mandatory registration, coupled with supporting tools and standards would provide a significant improvement over the status quo. It would also provide greater transparency and line of sight in the market between forest growers, processors and exporters.	

## Section 5: Cost Recovery

### 5.1 What is the policy rationale for cost recovery?

#### Overview:

There are four key principles that are used to guide the application of cost-recovery and underpin MPI's approach. These are:

- **Equity:** Funding for a particular function, power, or service, or a particular class of functions, powers, or services, should generally, and to the extent practicable, be sourced from the users or beneficiaries of the relevant function, power, or service at a level commensurate with their use or benefit from the function, power, or service;
- **Efficiency:** Costs should generally be allocated and recovered in order to ensure that maximum benefits are delivered at minimum cost;
- **Justifiability:** Costs should be collected only to meet the reasonable costs (including indirect costs) for the provision or exercise of the relevant function, power, or service; and
- **Transparency:** Costs should be identified and allocated as closely as practicable in relation to tangible service provision for the recovery period in which the service is provided.

#### Licensing & Registration:

It is proposed that the on-going costs of maintaining a mandatory licensing and registration scheme be managed on a cost recovery basis, as the benefits accrue primarily to the individual practitioners, log buying and trading companies and their clients. Forest practitioners would meet the registration, training and compliance costs associated with the system. Log buying and trading entities would meet the costs associated with administering licensing.

#### Under active consideration

The costs associated with the proposed arbitration and dispute resolution service would be recovered from the individual parties.

The primary legislation would establish a principles-based framework to enable cost-recovery, using a range of methods, including fees and direct charges for services. The details of cost recovery would be set out in **Under active consideration** by-laws or in regulations. These by-laws / regulations would be subject to public consultation prior to being finalised and gazetted. MPI will examine the approaches taken by other professional associations and forestry bodies in other jurisdictions in shaping the design of the cost recovery system.

The actual quantum of any proposed fees and direct charges will be established during the regulatory service design phase and will be subject to consultation.

Looking at the international experience, annual registration fees in British Columbia for individuals are \$580 Canadian and in Alberta the fee is between \$460 and \$680 (for a dual CAPF and CAPFT membership). In California the application and registration fees are based on the number of certificates of specialization. The application fee for each certificate of specialization shall be not less than \$50 USD and no more than \$200 USD. On top of this, there is a fee to register each certificate of specialization (and a renewal fee).

These professional registration fees are in line with the existing registration costs for the New Zealand Institute of Forestry. Registered members currently face an annual fee of \$460 and a five yearly review period. **Under active consideration** has approximately 90 registered members, which is estimated to be 10 to 15 percent of the workforce. It is estimated that between 600 and 900 forest practitioners would need to be registered when a mandatory scheme comes into effect. There should be little change to the costs incurred by those who are currently registered under the voluntary scheme.

In addition to registration, direct charges would be used to cover the costs of continuing professional development (both course cost and delivery). The current courses provided by the institute are delivered to both registered and non-registered members, meaning that a proportion of those who would need to register, are already meeting the training requirements and costs.

The international experience with bond regimes, recommends a graduated charging scale, based on sales activity. This would be the preferred approach for New Zealand, as the scheme would cover sawmilling operations handling a few thousand cubic metres per annum, through to large-scale mills, processing companies and log exporters.

In the case of the compliance regime, **Under active** will have fixed costs in maintaining a compliance panel and in responding to complaints. These costs will be part of the annual registration fee. The costs associated with taking a case to arbitration or dispute resolution would be recovered, while the costs and penalties resulting from formal complaints will be determined by the compliance panel.

#### Initial Establishment Costs

Establishing the registration system will incur initial establishment costs, through industry training, scheme promotion and support to the registration body (during the transitional period). These costs will be determined during the design phase, and MPI will look to **Under active consideration** to support the 'public good' elements of this work.

#### Regulatory System Costs

The Ministry for Primary Industries will provide regulatory oversight of the registration system, on behalf of the Minister of Forestry. This will entail:

- Monitoring and reporting on the registration system, and the performance of the registration body;
- Supporting the registration board in the preparation of regulations or by-laws;
- Conducting periodic audits; and
- Undertaking a five yearly review of the system.

This oversight role is expected to require resourcing of less than 0.5 FTE per annum. The majority of this work relates to system reporting for the Minister, and is seen as part of baseline Ministry work. In the event that these costs are higher than anticipated, or the workload to support the registration body is greater than envisaged, provision will be made in the Bill for the cost recovery of specific Ministry costs.

## 5.2 High level cost recovery model

The principal elements of the scheme that will require cost recovery are:

- A full time registrar, and administrative support, to oversee the application, assessment and review process for the Licensing and Registration Board (including property leasing);
- The additional costs incurred by the licensing and registration body, and any Board members, with a 6 to 10 fold increase in registered member workload (i.e. moving from a largely voluntary structure (with 90 members), to a fully funded assessment and review process for 600 to 900 members) as well as the cost of 'licensing' an estimated 300 log buying companies and trading entities operating in New Zealand;
- The cost of on-going professional development. This includes:
  - i. Course preparation and delivery (e.g. fully costed short course development); and
  - ii. Maintaining a qualifications database.
- Sub-committee costs in developing new and updated practice standards;
- On-going promotional costs to maintain public recognition of the scheme;
- Developing an enlarged compliance system, with a dispute resolution system and a formal complaints and review panel (there will be some fixed costs, plus service costs, depending upon the number of complaints); and
- System costs (website maintenance and updates, periodic auditing, consultation on bylaw and rule changes, responding to information requests).

There are also a series of initial costs. These include:

- Developing the governance, training and compliance structures needed to move from a largely voluntary system to a full time, permanent structure (including property leasing);
- Promoting the system, and working with forest practitioners and log buying and trading entities to build engagement, and ensure compliance for the commencement of a compulsory scheme; and
- Funding the initial assessment of forest practitioners seeking registration and long buying and trading entities wanting to meet licensing requirements (due to the high numbers coming through the system).

### Under active consideration

Those establishment costs that have a direct industry benefit will be carried forward and repaid through annual levy contributions.

The cost structure of the current voluntary registration scheme provides a starting point for the proposal. Registered members currently face an annual fee of \$460 and a five yearly review period. Moving to a permanent registration board, with increased auditing and promotion is expected to increase operating costs, and would bring up this figure.

Overseas examples of compulsory registration schemes (for forestry practitioners) have a moderately higher fee structure. New Zealand examples of registered professions have a range in their fee scales, but the costs would suggest a modest increase over the current annual fee.

Overseas examples of bond regimes (mainly from the United States), show a range of \$5 to \$50 000, based on sales and purchasing activity.

The costs associated with the dispute resolution service would be directly recovered, and the compliance panel would allocate costs as part of any decision.

### 5.3 Cost recovery consultation

#### **Consultation to date:**

Official external consultation commenced with a hui in Northland on 22 November 2019, where Minister Jones announced a suite of initiatives that Te Uru Rākau was undertaking, which included proposals to register log buyers, traders and other forestry practitioners and address wood legality.

Officials undertook a series of regional workshops in Kerikeri, Rotorua and Balclutha in December. Participants received a comprehensive Information Pack which set out the problem, a wide range of regulatory and non-regulatory options, the costs/risks and benefits of these options, and the approach to cost recovery as a basis for discussion and subsequent written submissions. The workshops were well attended, and provided feedback from a range of key stakeholders. Over this time, discussions were also held with industry representatives, to gain their insights on key aspects of the proposals.

Over January 2020, officials sought to undertake further engagement with the forestry sector, which included:

- Talking with representatives from the Eastland Wood Council;
- Holding a workshop with industry technical experts to gain feedback on, and develop and operating models; and
- Stakeholder engagement with leaders from industry associations to test the emerging preferred approach based on stakeholder feedback to date.

Opportunities have also been taken to engage with smaller owners, and farming sector representatives, to work through the proposals and test thinking on the underlying problems, and the preferred options.

During the first regional workshop held on 5 December 2019, and at all engagements since, officials have welcomed written feedback on the proposals. A dedicated email address was established for this purpose, and the cut-off date for submissions was 31 January 2020.

Overall, the industry actively engaged on the policy proposals that officials have developed, and this was reflected in the conversations during the workshops. There was mixed support for some of the initial policy options, and officials have drawn on the discussions to develop the preferred approaches. Key feedback included:

- Mixed support for a compulsory registration system to strengthen professional standards, but a strong view that a phased transition would be required to successfully introduce any new system;
- Strong support for better information and extension services to assist small forest growers to build their knowledge of market conditions, the steps in harvesting and marketing, and to know who qualified forest practitioners are; and
- A strong view that any new costs need to be well justified, and that these must be kept at a minimum as they will inevitably be passed down to the forest owner.

#### **Consultation – Next Steps:**

Officials will continue to work closely with the sector through their representative organisations in the drafting of the primary legislation and the associated regulations. The regulations will go through a public consultation process prior to being finalised.

## Section 6: Conclusions

### 6.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

The preferred option for strengthening professional standards and supporting a more transparent and informed log sales market is the introduction of:

- mandatory licensing of log buying companies and trading entities; and
- mandatory registration for forestry practitioners.

With a mandatory registration scheme there is a strong imperative for practitioners to maintain and improve their technical competencies, through on-going professional development. Practitioners will also be working to a code of professional ethics that will be recognised by the entities that employ them, and is backed by a dispute resolution and compliance system, which can sanction forest practitioners, and in cases of serious misconduct suspend or revoke their registration. This sanction power will send a strong message to practitioners and to the industry as a whole.

With this structure, growers will have greater assurance around the competency of the advisers they contract. There will also be greater transparency around the entities that buy and trade their logs, and growers will receive a more complete picture of market conditions. In the event of a contract or technical dispute (with their adviser or a log buying company) there will be avenues for recourse, starting with mediation and dispute resolution, through to a compliance panel assessing formal complaints. An independent dispute resolution mechanism will provide a low cost option for initially addressing complaints, rather than the prospect of extended civil action.

With a more transparent and informed market operating to agreed industry standards, smaller growers are likely to have:

- Greater certainty in current and future investments;
- Increased confidence to undertake new forestry planting and replanting;
- More clarity around the value, composition and market opportunities for their crop; and
- Greater communication between growers, processors and exporters.

With a greater understanding of their crop, and market conditions, MPI anticipates that there should be more interaction with wood processors, and that growers will be looking to a broader range of markets to sell their crops (such as marketing by grade, rather than grouping a crop simply to meet an export order).

While the focus of this proposal is on the sale process, improving the quality of professional advice and providing greater transparency and assurance around log buying and trading entities will have wider implications for forest management and new planting. Land owners and investors will be better supported in their planting plans, whether it is for carbon forestry, integrated land management or environmental rehabilitation. This will:

- Improve the environmental performance of properties;
- Strengthen the sector's social licence to operate (with practitioners working to best practice standards, and being able to demonstrate how practices are responding to societal expectations); and
- Provide support to less experienced and new growers (including iwi).

While licensing and registration have a number of identifiable benefits, it is important to recognise it is just one tool in improving market transparency and improving the quality of advice. To strengthen the log supply chain, registration and licensing will need to be closely integrated with the broader suite of information and support initiatives that Cabinet has been examining.

### **Stakeholder Engagement & Feedback**

Overall, the industry actively engaged on the policy proposals that officials have developed, and this was reflected in the conversations during the workshops. There was mixed support for some of the initial policy options, and officials have drawn on the discussions to develop the preferred approaches. Key feedback included:

- Mixed support for a compulsory licensing or registration system to strengthen professional standards, but a strong view that a phased transition would be required to successfully introduce any new system;
- Strong support for better information and extension services to assist small forest growers to build their knowledge of market conditions, the steps in harvesting and marketing, and to know who qualified forest practitioners are; and
- A strong view that any new costs need to be well justified, and that these must be kept at a minimum as they will inevitably be passed down to the forest owner.

The consultation process was constrained by the Cabinet report back period, which necessitated a more targeted approach to stakeholder engagement. Despite this constraint, MPI staff undertook a series of regional workshops (either directly or through video-conferencing), engaged with the major industry associations, consulted industry experts, and sought on-line feedback.

Within the time constraints, officials have actively sought Māori input into the policy formation and assessment process. Officials held a hui in Kerikeri with industry, including Māori. This provided an opportunity to engage directly with landowners and representatives from Taitokerau Māori Forests Inc, and there have been direct meetings with key industry leaders representing Māori interests. Ngati Hine has offered to convene a group comprising up to 9 iwi to enable further engagement with MPI. We will use this group and others to undertake further engagement with Māori/iwi during the regulatory development process.

### **6.2.1 Licensing & Registration - Summary costs and benefits of the preferred approach**

The nature, and scale, of the costs and benefits of this proposal have been assessed by Dr Robert Radics, forest economist with MPI. The analysis indicates that registration and licensing has significant benefits for forest growers through improved decision making on crop management (during the rotation) and in the operational management of the harvest, which will minimise site costs, improve environmental performance, and ensure that the grade outcome is maximised. The annual benefit to forest growers was calculated to be \$20 million (all of which represents increased returns to New Zealand), and the Net Present Value (NPV) over five years for forest growers is \$73 million.

Other stakeholder groups, despite registration and licensing costs, all have a net benefit. The annual net benefit to New Zealand was calculated at \$23 million. This figure is an average

over time, and it does not incorporate the upfront costs of investment in the new system, nor the expected increase in benefits over time.

The total NPV for the New Zealand economy is \$1103 million in five years and \$179 million in ten years. The assessment is based on the Treasury Cost Benefit Analysis guidelines, and applied a 6% real discount rate.

Affected parties (identify)	Comment: nature of cost or benefit (e.g., ongoing, one-off), evidence and assumption (e.g., compliance rates), risks	Impact \$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts	Evidence certainty (High, medium or low)
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Additional costs of proposed approach compared to taking no action			
Small Forest Owners	<p>Forest practitioner (and company) charging rates will incorporate licensing, registration, bond and training costs.</p> <p>The costs for those already using registered practitioners should only increase marginally.</p> <p>The, existing registered members will keep price pressure on rates.</p>	<p>Initial estimates show a marginal increase in costs, as forest practitioners, logging companies and trading entities interact with a large client base. The charging by practitioners will also be spread across all the services they provide.</p> <p>The national cost is estimated at \$.3.66 million p.a. The calculation assumes a 100% cost-shifting of fees, bond holding charges and training costs.</p>	Medium
<p>Log buying companies and trading entities, including wood processors and log exporters</p> <p>(Note: these costs include individual practitioner costs, as the companies employ registered practitioners –</p>	<p>Forest practitioners (directly, or through their employer) will have the cost of registration (other than those who are already registered). Practitioners will also have the upfront, and opportunity cost, of attending 20 hours of professional development training each year (although a sizeable number of non-registered members attend CPD training).</p> <p>Log buying companies and trading entities will have an annual licensing fee (estimated at \$1 000 per entity), plus the payment of a</p>	<p>The cost of practitioner registration and training, plus the bond and annual licensing fee for log buying companies and trading entities is put at \$3.66 million p.a.</p> <p>This cost will be passed to forest growers through consultancy fees, commission rates, or the pricing of logs.</p>	Medium

directly or indirectly)	bond, based upon log purchasing levels. For an estimated 300 mills, wood processors, log buying and trading companies, the bond is expected to average \$20 000, and total \$6 million. The holding cost of the \$6 million for the companies has been calculated using a 6% cost of capital.		
Under active identification	<p>The registration board will incur baseline annual costs, covering the administration of the scheme, professional training, auditing, license renewals, promotion and fixed costs associated with the compliance system.</p> <p>The board will also incur transitional costs with moving to a permanent registration scheme, (covering 600 to 900 forestry practitioners and 300 mills and other log buying entities). The Registrar will need to undertake promotion of the scheme.</p>	<p>The annual cost of operating the registration system is estimated at \$500 000 per annum. The final costs will be dependent upon the operating model that is decided on.</p>	Low-Medium
Regulators (MPI)	<p>Performance monitoring and auditing of the system, along with five yearly reviews.</p> <p>There will also be transitional costs associated with introducing the regulatory framework for compulsory registration.</p>	\$50 000 annually	Medium
<b>Expected benefits of proposed approach compared to taking no action</b>			
Smaller Forest Owners	<p>Growers will benefit through improved certainty in the quality (and consistency) of the advice being provided by forest practitioners.</p> <ul style="list-style-type: none"> <li>Practitioner advice will reflect industry best standards and developments within the profession.</li> <li>Improved decision making on crop</li> </ul>	<p>The monetarised benefit was based on 40% of small growers (by volume), benefiting from improved management and sales advice (\$5/m<sup>3</sup> of additional value on 40% of an estimated 10 million m<sup>3</sup> harvest) is calculated to generate \$20 million per annum.</p>	Medium

	<p>management (during the rotation) and in the operational management of the harvest, will minimise site costs, improve environmental performance, and ensure that the grade outcome is maximised.</p> <p>Growers will have a better appreciation of their costs and market opportunities.</p> <p>A sensitivity analysis was undertaken, based on the proportion of growers who are most likely to benefit from the change (40% of growers by volume are expected to benefit in a monetary sense).</p>	<p>Additional benefits were not monetarised (improved environmental performance and investment certainty), but they could improve the value of forest assets by 5 to 10%.</p>	
<p>Log buying companies and trading entities, including wood processors and log exporters (Note: these benefits include individual practitioner costs, as the companies employ registered practitioners – directly or indirectly)</p>	<p><i>Practitioners –</i></p> <p>The benefit is primarily from practitioners having an improved reputation (with being registered), and increased demand for their services. Unfair competition from unregistered and potentially unprofessional providers would be eliminated.</p> <p>Provides clients with an assurance that their advice is audited by a professional body.</p> <p>Builds the profession's social licence to operate.</p> <p><i>Companies/Trading Entities -</i></p> <p>Greater integration of the forestry supply chain between growers, processors and exporters. Increased opportunities for processors to engage with growers, and build longer term relationships.</p> <ul style="list-style-type: none"> <li>With greater integration between growers and processors, it is anticipated that mills will</li> </ul>	<p>A forest practitioner benefit of \$10,000 annually, per person was calculated.</p> <p>The benefit of greater integration within the forestry supply chain, and mills being able to access increased supply and higher grade logs is conservatively estimated at \$3 million per annum.</p> <p>The total annual benefit is calculated to be \$9.66 million.</p>	Medium

	have more access to the log grades they are seeking, and are able to more fully utilise their capacity, through additional supply.		
Under active identification	<p>The registration board will play a more central role in the promotion of the industry, and in supporting the social licence to operate of the forestry supply chain.</p> <p>The board will receive a direct benefit through the annual fees and the management of the disputes and compliance system.</p>	The benefit has been calculated at \$760 000 annually.	Medium
Regulators (MPI)	<p>Support a more transparent market for forestry transactions.</p> <p>Strengthens the forestry supply chain.</p> <p>Promote confidence in forestry planting, which supports the government's priorities to reduce the effects of climate change.</p>	<p>Medium</p> <p>The benefits are still to be finalised.</p>	Low
Wider government	Additional taxation collected on the improved returns from smaller growers.	\$3.0 million p.a.	Medium
Investment Certainty	Improvements in the quality of professional advice and in market certainty feed directly into investment confidence and certainty. This supports new investment and the realisation of the full market value for mature and in-mature crops.	<p>Medium</p> <p>The value of increased investment certainty has not been quantified but drawing on overseas examples it would add to the liquidity of the market for forest sales (particularly immature stands).</p>	Medium (drawing on international experience)
Improved Environmental Management	Improving the quality of professional advice during critical periods of the crop rotation (e.g. infrastructure development, harvesting, and crop re-establishment), will have a tangible	The value of improved environmental performance has not been quantified but drawing on overseas experience, improved environmental	High (drawing on domestic and international experience)

	environmental benefit, through reduced sedimentation and the risk of slash movement in extreme events.	performance (coupled with greater investment certainty) could improve the value of forest assets by 5 to 10%.	
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<b>Summary Assessment of Monetised Costs and Benefits (Net Present Value – Million \$)</b>	<p>Growers - \$73 million (5 years) and \$127 million (10 years)</p> <p>Forestry Practitioners / Companies and Trading Entities - \$43 million (5 years) and \$75 million (10 years)</p> <p>Total (all affected parties) - \$128 million (5 years) and \$224 million (10 years).</p> <p>Net Benefit for the New Zealand economy - \$103 million (5 years) and \$179 million (10 years)</p>	Medium
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### 6.3 What other impacts is this approach likely to have?

With the shift to a mandatory licensing and registration system, there is the potential for forestry practitioners with extensive industry experience, but few formal qualifications to be disadvantaged. The assessment standards developed by the registration body will need to cater for these grand-parenting situations, while the continuing education programme may need to provide targeted training to ensure key skill areas are met and maintained.

## Section 7: Implementation and operation

### 7.1 How will the new arrangements work in practice?

#### Overview

New primary legislation will be required to enable the establishment of a compulsory licensing and registration. This will be incorporated by amendment to the Forests Act 1949 to establish flexible, durable regulatory regimes that will achieve the policy objectives.

The amended Act will provide the mandate to establish a national licensing system for log buying and trading entities and national registration for individual log buyers, traders and other forestry practitioners. The legislation will provide the licensing and registration body with regulation or by-law making authority to establish and enforce licensing and registration standards.

The Minister of Forestry proposes seeking Cabinet approval for the legislation to be passed through all stages and enacted under urgency in conjunction with Budget 2020.

#### Implementation Timeframes

The high-level timeframes for the Bill and associated regulations is outlined in the following table:

<b>Milestones</b>	<b>Target Date</b>
Final policy approvals to draft legislation obtained from Cabinet.	9 March 2020
Drafting instructions sent to the Parliamentary Counsel Office.	9 March 2020
Bill provided to the Ministry of Justice for an assessment of consistency with the New Zealand Bill of Rights Act 1990.	14 April 2020
Cabinet approves introduction of the Bill.	11 May 2020
Cabinet agrees policy decisions for associated regulations	Late 2020
Introduction and enactment of the Bill under urgency	May 2020
Drafting instructions for associated regulations will be sent to the Parliamentary Counsel Office.	TBC
Public consultation on regulations	TBC
Regulations gazetted	Mid-2021
Date of commencement <sup>3</sup> .	Late 2021

### **Key Agencies' Roles & Responsibilities**

MPI, as the regulating agency, will lead the development of the Bill and associated regulations. Agencies with a substantive interest will be invited to provide comments on the Cabinet paper prior to March 2020. MPI will also consult with external agencies in the development of the regulations.

<sup>3</sup> Subject to transitional arrangements.

## 7.2 What are the implementation risks?

Risks	Mitigation
<p>There are a number of risks associated with the passage of enabling legislation under urgency. These risks include;</p> <ul style="list-style-type: none"> <li>- The legislation may be unintentionally framed in a manner that risks errors in the law and does not enable the achievement of its intended objectives. This could result in unintended consequences and pose a risk to the credibility of the scheme</li> <li>- Reduced stakeholder support and buy-in for licensing and registration as a result of no opportunity to engage on the draft Bill through the Select Committee process.</li> </ul>	<p>An alternative approach includes having a truncated Select Committee process which enables a public submission process (as occurred with the 2019 arms legislation and Kaikoura Earthquake Recovery Bill)</p> <p>In the event Cabinet agrees to enact legislation under urgency these risks will be partially mitigated through ensuring the Bill provides a broad enabling framework with regulations establishing the substance of the scheme. These regulations would be subject to full public consultation.</p>
<p>Regulated systems provide practitioners with an exclusive 'right-to-practice', and the ability to charge for services. With an increasingly mobile workforce, it is critical that trained practitioners can transfer between jurisdictions with the minimum of disruption to their career.</p> <p>It is also important that regulated structures provide clear pathways for newly qualified entrants.</p>	<p>The licensing and registration body will need to develop procedures to assess the equivalence of professional qualifications from overseas jurisdictions, and to verify previous work experience. For example, the College of Alberta Professional Forest Technologists lists the Canadian institutions with equivalent forest technology diploma programmes (of 2 or 3 years).</p> <p>The mutual recognition of qualifications with other jurisdictions will enable the short term movement of skilled labour into the New Zealand industry.</p> <p>The licensing and registration body will need to consider local registration requirements, if migrants are operating in New Zealand for extended periods (e.g. more than 12 to 18 months). Drawing on overseas experience, there is sometimes a requirement for migrating foresters to work under the supervision of a qualified operator until they can sit local examinations, and meet other registration requirements.</p> <p>The licensing and registration body will also need to put in place clear pathways for new graduates and trainees to gain the experience required to meet the requirements for registration. As with</p>

	<p>migrating workers, there would be an opportunity to work under the supervision of a qualified operator until they meet the registration requirements.</p> <p>Mutual recognition is proposed for those voluntarily registered under the professional scheme administered by the Institute of Foresters of Australia. The scheme has close parallels to the New Zealand voluntary scheme, and mutual recognition would assist in encouraging closer collaboration in forestry management between the two countries.</p>
With the shift to compulsory registration there is the potential for practitioners with extensive industry experience, but few formal qualifications to be disadvantaged.	The assessment standards developed by the registration body will need to cater for these grand-parenting situations, while the continuing education programme may need to provide targeted training to ensure key skill areas are maintained and enhanced. A further proposal is that these members are able to offer a specific set of services, reflecting their experience.
The scope of professional development training will need to expand, if practitioners are to actively engage with the full range of growers investing in forestry.	The feedback on the proposals identified a need for practitioners to better understand the operating environment of farmers and smaller land holders. With a better understanding of the operating environment for these investors, forestry practitioners will be better equipped to provide advice that directly meets their needs.
In providing the licensing and registration board with an enlarged training role, it is critical that the content is keeping pace with national and international developments, and that the assessment practices are fully audited.	Part of the auditing process of the licensing and registration body's functions will be to assess the quality and relevance of the professional training being provided to the industry. The audit process will need to be conducted by specialists in forest management, to understand the requirements of an evolving industry.
Building public recognition of the profession, and of the value of consultancy services is seen by stakeholders as a critical risk.	The licensing and registration body will have a mandate to enhance public awareness of the role performed by licensed log buying and trading entities and registered forestry practitioners and the benefits that accrue to land owners in drawing on professional advice, in improving property management and financial returns.

## Section 8: Monitoring, evaluation and review

### 8.1 How will the impact of the new arrangements be monitored?

The new legislation will provide the Minister of Forestry with oversight of the practice rules for registered practitioners (including ethical responsibilities). The Minister will have the ability to approve or amend proposed changes, or additions, to the practice rules.

The Ministry for Primary Industries will have authority under the Act to:

- Monitor and report on the performance of the professional registration body and the registration and licensing system to the Minister of Forestry;
- Support the registration board in drafting, and consulting on, by-laws or regulations; and
- Conduct periodic audits of the licensing and registration body and the compliance framework.

In areas such as training development, MPI is likely to contract specialist support to evaluate the performance of training delivery and the relevance of the content in a rapidly changing operating environment.

### 8.2 When and how will the new arrangements be reviewed?

MPI has recommended that it review the effectiveness of the compulsory licensing and registration scheme five years after the regulations come into effect, to ascertain that:

- The governance and compliance structures are operating efficiently;
- The measures are adding value to the forestry supply chain; and
- The structures provide the flexibility that is needed to meet changing market and operating conditions.

The review process will include seeking and assessing input from industry stakeholders on the performance of the system.