



Cabinet Economic Development Committee

Minute of Decision

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Establishing the Wood Processing Growth Fund to Deliver the Budget 2022 Maximising Carbon Storage Initiative

Portfolio Forestry

On 29 March 2023, the Cabinet Economic Development Committee:

1 **noted** that on 11 April 2022, Cabinet:

- 1.1 agreed to Initiative 14560: *Maximising Carbon Storage: Increasing Natural Sequestration to Achieve New Zealand's Future Carbon Goals* (the Initiative), subject to completion of a detailed business case to be agreed by Cabinet;
- 1.2 agreed to establish tagged operating and capital contingencies with an expiry date of 30 June 2023 associated with Vote Forestry up to the following amounts to provide for the Initiative, as follows:

<i>Initiative 14560</i>	\$m – increase/(decrease)						
Vote Forestry	2022/23	2023/24	2024/25	2025/26	Total Budget 2022	2026/27 & outyears	Total
Tagged Operating Contingency	-	5.963	7.009	7.209	20.181	7.209	27.390
Tagged Capital Contingency	-	20.000	25.000	-	45.000	-	45.000
Total	-	25.963	32.009	7.209	65.181	7.209	72.390

[CAB-22-MIN-0129]

2 **noted** that, while Budget 2022 appropriated funding from 2022/23 to 2025/26 plus outyears, the split between the two categories of operating funding does not become constant until 2026/27, and that the funding tables in the paper under DEV-23-SUB-0040 have been revised to show funding until 2026/27;

3 **agreed** to establish the \$64.64 million Wood Processing Growth Fund (the Fund), as set out in the table below, focused on supporting the forestry and wood processing industry to transform for the future by catalysing and accelerating increased investment from the private sector into new long-lived wood product processing, resulting in greater capacity, improved business viability of wood processors, and supporting the transition to a low-carbon future, with \$4.959 million provisioned for outyears:

<i>Initiative 14560</i>	\$m – increase/(decrease)					
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears	Total
Wood Processing Growth Fund						
Operating	-	4.963	4.859	4.859	4.959	19.640
Capital	-	20.000	25.000	-	-	45.000
Total	-	24.963	29.859	4.859	4.959	64.640

4 **agreed** that the Fund be composed of two programmes:

- 4.1 a \$12.369 million Catalyst providing grants for a mix of contestable and targeted co-investment in business cases, research, pilots, feasibility studies, entrepreneurship capability building, technical and consenting assistance, skills development associated with productivity improvements and/or innovations and small-scale initiatives to stimulate and de-risk increased investment in high value long-lived wood production opportunities to the end of 2026/27 plus outyears, of \$3.005 million per annum;
- 4.2 a \$45.000 million Accelerator providing debt and equity finance for contestable co-investment in additional long-lived wood processing capacity infrastructure to the end of 2024/25;

5 **agreed** that the Fund’s co-investments must meet the following eligibility criteria:

- 5.1 the proposal is based in New Zealand;
- 5.2 the applicant passes suitable character and due diligence checks;
- 5.3 the proposal aims to stimulate additional and/or improve productivity and competitiveness of onshore long-lived wood products wood processing;
- 5.4 where the investment involves the private sector, the proposal is supported by co-funding;

6 **agreed** that Catalyst funding be assessed against the following criteria:

- 6.1 value proposition;
- 6.2 impact;
- 6.3 proposal requirements (funding, resources);
- 6.4 future business prospects;

- 6.5 governmental risk;
- 6.6 location factors;
- 7 **agreed** that Accelerator applications be assessed against the following criteria:
- 7.1 value proposition;
- 7.2 impact;
- 7.3 capital requirements;
- 7.4 resource availability (technology, skills);
- 7.5 materials availability (logs and other inputs);
- 7.6 market sustainability;
- 7.7 capability to deliver;
- 7.8 commercial risk;
- 7.9 governmental risk;
- 7.10 location factors;
- 8 **agreed** that each Accelerator proposal be evaluated by a cross-agency panel, a pool of independent specialists with technical acumen, and Crown Regional Holdings Limited for commercial, financial, and management aspects;
- 9 **agreed** to the following decision-makers for the Catalyst:
- 9.1 Te Uru Rākau – New Zealand Forest Service (Te Uru Rākau) for proposals \$0.5 million or smaller;
- 9.2 the Minister of Finance, Minister of Forestry, Minister for Māori Development, Minister for Regional Development, and Minister for Trade and Export Growth (Wood Processing Growth Fund Ministers) for proposals over \$0.5 million and up to and including \$5 million;
- 9.3 Cabinet for proposals over \$5 million;
- 10 **agreed** to the following decision-makers for the Accelerator:
- 10.1 Wood Processing Growth Fund Ministers for proposals up to \$20 million;
- 10.2 Cabinet for proposals \$20 million and over;
- 11 **agreed** that Te Uru Rākau deliver and manage the Catalyst contracts and maintain overall responsibility for the delivery of the Fund;
- 12 **agreed** that Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) will support Te Uru Rākau by providing financial, commercial, and management advice, and negotiating and managing Accelerator contracts on behalf of Te Uru Rākau;

13 **agreed** that Crown Regional Holdings Limited will hold debt and equity investments made using the Accelerator programme;

14 **agreed** that the proceeds of Accelerator investments should be reinvested into future investments that meet the eligibility criteria as they become available;

15 s(9)(2)(h)

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17 **authorised** the Minister of Finance and the Minister of Forestry to jointly make further decisions aligned with the approach to the Fund as set out in the paper under DEV-23-SUB-0040, including on financial settings such as the treatment of underspend and recycled capital, in discussion with the Minister for Regional Development as necessary;

18 **agreed** to amend the requirement for completion of a detailed business case, as described in paragraph 1.1 above, to instead be subject to an investment strategy and framework agreed by Cabinet;

19 **agreed** that the investment strategy and framework have been satisfactorily completed;

20 **agreed** to establish the following new appropriation to enable the Ministry of Business, Innovation and Employment to deliver the Accelerator:

Vote	Appropriation Minister	Appropriation Administrator	Title	Type	Scope
Business, Science and Innovation	Minister for Regional Development	Ministry of Business, Innovation and Employment	Economic and Regional Development: Investment in Crown-owned Companies and their subsidiaries for the Wood Processing Growth Fund	Non-Departmental Capital Expenditure	This appropriation is limited to investments in Crown-owned companies and their subsidiaries for the Wood Processing Growth Fund, to catalyse and accelerate investments from the private sector into new long-lived wood processing.

- 21 **approved** the following changes to appropriations to provide for the decision in paragraphs 3 and 18 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Forestry Minister of Forestry	\$m - increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Growth and Development of the Forestry Sector (MCA)					
<i>Departmental Output Expense: Forestry: Climate Emergency Response Implementation and Administration (funded by revenue Crown)</i>	-	1.803	1.798	1.716	1.954
Non-Departmental Output Expense: Forestry: Climate Emergency Response Fund	-	3.160	3.061	3.143	3.005
Total Operating	-	4.963	4.859	4.859	4.959

Vote Business, Science and Innovation Minister for Regional Development	\$m - increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27
<i>Non-Departmental Capital Expenditure: Economic and Regional Development: Investment in Crown-owned Companies and their subsidiaries for the Wood Processing Growth Fund</i>	-	20.000	25.000	-	-
Total Capital	-	20.000	25.000	-	-

- 22 **agreed** that the expenses incurred under paragraph 21 above be charged against Initiative ID 14560: Maximising Carbon Storage: Increasing Natural Sequestration to Achieve New Zealand's Future Carbon Goals - Tagged Operating Contingency described in paragraph 1 above;
- 23 **agreed** that the capital incurred under paragraph 21 above be charged against Initiative ID 14560: Maximising Carbon Storage: Increasing Natural Sequestration to Achieve New Zealand's Future Carbon Goals - Tagged Capital Contingency described in paragraph 1 above;

24 **noted** that following the adjustments detailed in paragraphs 22 and 23 above, the remaining balances and indicative phasing of the operating and/or capital contingencies described in paragraph 1 above will be:

<i>Initiative 14560</i>	\$m – increase/(decrease)				Total
	2023/24	2024/25	2025/26	2026/27 & outyears	
Vote Forestry					
Tagged Operating Contingency	1.000	2.150	2.350	2.250	7.750
Tagged Capital Contingency	-	-	-	-	-

25 **agreed** to return the remaining tagged contingency amount of \$7.750 million to 2026/27 and \$2.250 million in outyears back to the Climate Emergency Response Fund, as this amount relates to capital charges that are no longer required given that the capital drawn down is Non-Departmental in nature;

26 **invited** the Minister of Forestry to report back to the Cabinet Environment, Energy and Climate Committee on the Fund’s progress by June 2024.

Jenny Vickers
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon Dr Ayesha Verrall
Hon Willie Jackson
Hon Kiri Allan
Hon Damien O’Connor
Hon Peeni Henare
Hon Priyanca Radhakrishnan
Hon Dr Duncan Webb
Hon Rino Tirikatene
Hon Dr Deborah Russell

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

