

# The Treasury

## Overseas Investment Forestry Information Release

### Release Document

February 2019

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- [5] 9(2)(h) - to maintain legal professional privilege
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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## Treasury Report: Screening acquisitions of forestry rights under the Overseas Investment Act

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<b>Date:</b>	Friday, 15 December 2017	<b>Report No:</b>	T2017/2836
		<b>File Number:</b>	IM-5-1

### Action Sought

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	Action Sought	Deadline
Minister for Crown/Māori Relations (Hon Kelvin Davis)	<b>Note</b> the contents of the report.	Tuesday, 19 December 2017
Associate Minister of Finance (Hon David Parker)	<b>Agree</b> to screen forestry rights. <b>Discuss</b> with Treasury officials.	Tuesday, 19 December 2017
Minister of Forestry (Hon Shane Jones)	<b>Note</b> the contents of the report.	Tuesday, 19 December 2017
Minister for Land Information (Hon Eugenie Sage)	<b>Note</b> the contents of the report.	Tuesday, 19 December 2017

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone	1st Contact
[4]	Analyst, International	[7] (wk) N/A (mob)	
Thomas Parry	Team Leader, International	[7] (wk) [3] (mob)	✓

### Actions for the Minister's Office Staff (if required)

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Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Screening acquisitions of forestry rights under the Overseas Investment Act

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## Executive Summary

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Forestry is an important sector for New Zealand – in the year ending June 2017, forestry accounted for around 3% of New Zealand’s GDP and is New Zealand’s third largest export earner behind dairy and meat. Forestry investment involves long-term planning as growing forests take around 20 to 25 years from planting to harvesting. Because of this, there are a range of different ways an overseas person can invest in forestry: land ownership, commercial forestry lease, Crown forestry licenses or forestry rights.

There is no comprehensive data about overseas investment in New Zealand plantation forests. However, a 2013 analysis by the Ministry for Primary industries estimated that over 70% of planted forests are in overseas ownership. Purchases and leases of forestry land over 5 hectares by overseas persons are normally screened under the Overseas Investment Act as ‘sensitive land’ However, forestry rights are not. [1]

Regulatory coherency is important for ensuring that the screening regime does not unintentionally distort decisions about land use or the choice of legal form for forestry investments. We also recommend you exclude forestry rights under 50 hectares or for a period of less than 3 years to avoid imposing excessive costs or being prohibitive to investment.

The impact of screening acquisitions of forestry rights will largely be determined by the criteria for screening. We are aware there are some issues with the current screening criteria for forestry investments. Any changes to the screening criteria will be considered on a slower post-CPTPP track alongside a national interest test during Phase 2.

The more intensive the screening criteria the more difficult it will be for overseas investors to invest in New Zealand, this is also likely to result in less forestry investment in some regions. However, screening forestry rights will better support land use being decided based on the highest value use. The flow on impact of screening to the value of forestry rights is unclear as the ultimate sale price of the trees will not be directly affected. However, forestry rights holders looking to sell before maturity may find it harder to sell – we understand liquidity is already an issue in the market. A wider assessment of the impacts is included in the body of the report.

Screening forestry rights under the Overseas Investment Act will require amendments to that act. If you agree to screen forestry rights, the changes should be made before the CPTPP enters into force. A Supplementary Order Paper to the *Overseas Investment Amendment Bill 2017* can be prepared and will require Cabinet to make policy decisions on 23 January 2018. There is no room for slippage.

[5]

. Māori involvement in plantation forestry is steadily increasing. Māori own at least 30% of the land under New Zealand’s plantation forests (not necessarily the trees themselves), [5]

## Recommended Action

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We recommend that you:

- a agree** to appropriate consultation on a proposal that acquisitions of forestry rights should generally be screened as an acquisition of sensitive land under the Overseas Investment Act.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

- b agree** to appropriate consultation on a proposal that acquisitions of forestry rights for a term less than 3 years should be excluded from screening under the Overseas Investment Act.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

- c agree** to appropriate consultation on a proposal that acquisitions of forestry rights under 50 hectares should be excluded from screening under the Overseas Investment Act.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

- d agree** to appropriate consultation with Māori about screening acquisitions of forestry rights.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

- e note** if acquisitions of forestry rights are screened then changes to the criteria for screening would be considered in the next phase of reforms to the Overseas Investment Act.

- f agree** that final decisions on matters in recommendations a to c above would not be made until after appropriate consultation and having considered views received.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

- g agree**, that Australian investors should be excluded from screening of acquisitions of forestry rights, due to obligations under the CER Investment Protocol.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

**h** [1] [2] [5] [6]

**i** **agree**, subject to the outcome of consultation, to implement recommendations a to c through a Supplementary Order Paper to the *Overseas Investment Amendment Bill 2017*.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

**j** **direct** officials to prepare drafting instructions for Parliamentary Counsel Office based on the approach set out in this report, but that final drafting would not be approved until the outcome of consultation and Cabinet decisions.

*Agree / Disagree*

Hon David Parker

**Associate Minister of Finance**

Thomas Parry  
**Team Leader, International**

Hon Kelvin Davis  
**Minister for Crown/Māori Relations**

Hon David Parker  
**Associate Minister of Finance**

Hon Shane Jones  
**Minister of Forestry**

Hon Eugenie Sage  
**Minister for Land Information**

# Treasury Report: Screening acquisitions of forestry rights under the Overseas Investment Act

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## Purpose of Report

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1. You have requested advice on whether overseas investments in forestry rights should be screened under the Overseas Investment Act. Ideally we would consider the role of regulating overseas investment in forestry more generally (whether that be through land ownership, leases or forestry rights). [1] [2] [5]

Therefore, completing a broader review is not possible and our advice focuses on the coherency of the regime as it applies to forestry investments.

## Background

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2. Forestry is an important sector for New Zealand – in the year ending June 2017, forestry accounted for around 3% of New Zealand's GDP and is New Zealand's third largest export earner behind dairy and meat. Logs and poles account for most forestry export earnings. Forestry contributes an annual gross income of around \$5 billion, and directly employs around 36,700 people. The forestry industry utilises around 6.5% of all New Zealand land.<sup>1</sup>
3. Of all New Zealand planted forests (managed forests in which trees are planted as opposed to naturally generated), 90% are planted with *pinus radiata*. A mixture of other species make up the balance.
4. Forestry also has environmental and social significance. Forests help reduce climate change, protect biodiversity, improve water quality and protect soils. Forests provide important recreational areas, including national parks, scenic reserves, and other conservation areas.
5. Māori involvement in plantation forestry is steadily increasing. Māori own at least 30% of the land under New Zealand's plantation forests (not necessarily the trees themselves). This year the Māori asset base was reported to be \$50 billion with 40% of that in forestry.

## Investment in forestry

6. Forestry investment involves long-term planning as growing forests takes around 20 to 25 years from planting to harvesting. Forestry also requires significant upfront capital investment and consideration of infrastructure issues (ranging from roading to energy). Because of this, there are a range of different ways an overseas person can invest in forestry: [1]

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<sup>1</sup> Source: Ministry for Primary Industries, Forestry Production Statistics, year ended 31 December 2015.

7. The different ways to invest all reflect the differing degrees of investment flexibility and risk. For example, the owner of land may receive a modest fixed rental return over a very long period, but be protected from variations in the log price. However, the owner of a forestry right could make very substantial returns if the log price is high, or could lose money if it is not.

***Investment flexibility***

8. [1]

9. [1]

## Overseas investment in forestry

10. As shown in the table below, not all overseas investments in forestry are subject to screening under the Overseas Investment Act.

**Table 1:** Common types of rights in plantation forests

Interest	Description	Overseas investment screened?
<b>Land ownership (freehold)</b>	The owner of forestry land also has the right to harvest the trees.	<b>Yes</b> - purchases of forest land by overseas persons are generally screened under the Overseas Investment Act if the land is non-urban land over 5 hectares.
<b>Commercial forestry lease</b>	A commercial forestry lease allows the holder to harvest the trees. A lease also allows the holder to exclude other people from the land.	<b>Yes</b> - Leases of non-urban land over 5 hectares for a term of 3 years or more (which almost all forestry leases are), including rights of renewal are generally subject to screening under the Overseas Investment Act.
<b>Forestry rights (often referred to as a cutting right)</b>	<p>[1] [2]</p> <p>Under the Forestry Rights Registration Act these rights are deemed a <i>profit à prendre</i> (a right to take something off another person's land such as minerals, crops, timber, fish or flax). Forestry rights do not grant exclusive possession of the land but they can allow holders to exclude other people from the land for the purposes of establishing, maintaining and harvesting the forest</p>	<b>Generally no</b> - All <i>profit à prendre</i> interests (including forestry rights) are expressly excluded from screening under the Overseas Investment Act (see the definition of exempted interest in section 6). However, a forestry rights transaction may be subject to screening if it exceeds the significant business assets threshold of NZ\$100 million (or higher for investors from some countries, .e.g. Australia \$501 million).

11. Forestry leases are a less flexible way of investing compared to forestry rights as they can require resource consent. For example, a forestry right can be granted over only part of a land title. However, a commercial forestry lease would generally require a subdivision and resource consent for it to be granted over only part of a land title.
12. There are various types of contracts to acquire trees that do not give a property right over the trees (and are not a forestry right or screened under the Overseas Investment Act). The Crown also grants Crown Forestry Licences (CFL) in respect of former Crown forests sold to the private sector. They contain detailed provisions relating to the rental payable for the land occupied and termination in the event that the underlying land is returned to Māori.

### **Data on foreign ownership**

13. There is no comprehensive data about how much forestry is held under each type of right. However, indications are that plantation forestry is mostly overseas owned. For example:
  - a a 2013 analysis by the Ministry for Primary Industries estimated that over 70% of planted forests are in overseas ownership.<sup>2</sup> That figure focuses on ownership of the trees, whether that is through forestry rights, leases or ownership of the underlying land.
  - b the Overseas Investment Office has screened 32 sensitive land applications covering 472,000 gross and 34,000 net hectares of forest land since 1 January 2015. That figure does not include forests held under forestry rights. For comparison, there are around 1.7 million hectares of plantation forests in New Zealand.
14. Many of the major investors are overseas pension funds. The nature of the overseas investment varies considerably – for example, there are foreign-owned vertically integrated forestry companies (such as Ernslaw One / WPI International). There are also overseas pension funds (and conglomerations of these that own forests). Kaingaroa Forest is an example where the NZ Super Fund and a Canadian pension fund own the standing forests, which are on 176,000 hectares of land most of which was returned to eight iwi through a Treaty settlement in 2009.

### **Regulatory coherency (problem definition)**

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15. Completing a broader review of overseas investment in forestry in the timeframe needed to support policy changes pre-CPTPP is not possible. Accordingly, our advice focuses on forestry rights from the perspective of coherency within the existing regime. We conclude that excluding forestry rights from screening lacks coherency with the wider regime.

### **When are forestry rights screened under the Overseas Investment Act?**

16. Forestry rights are not screened as an interest in sensitive land because they are deemed a type of a *profit à prendre* and are therefore an exempted interest. However, an overseas investor acquiring forestry rights worth more than the 'significant business assets' threshold of NZ\$100 million is subject to screening.
17. The Overseas Investment Office has not recently screened any forestry rights transactions under the 'significant business assets' criteria. It is unclear whether this is because of non-compliance or because all transactions are below the significant business asset threshold. As an indication of value, the Greater Wellington Regional Council in 2013 offered 5,430 hectares of forestry rights for sale – those rights were valued at \$28.5 million to reflect the forests were ready for immediate harvest. By way of comparison, the average land size for land with forestry rights is around 415 hectares.

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<sup>2</sup> The Legality of New Zealand's Forest Products, A report prepared by the Ministry for Primary Industries and the New Zealand Forestry Industry (2013).

18. Even if an acquisition of forestry rights is screened as a ‘significant business asset’ investment it will not be assessed against the benefits test. This is because the criteria for investments in significant business assets are different to those for investments in sensitive land. Investments in significant business assets must pass the ‘investor test’ which involves showing business acumen, a demonstrated financial commitment, good character, and an absence of ineligible individuals under Immigration Act. Investments in sensitive land must also benefit New Zealand. However, under the wider review we will consider the criteria for screening that applies to ‘significant business assets’ and ‘sensitive land’.

## Should acquiring forestry rights be screened?

19. Purchases and leases of forest land over 5 hectares are normally screened as investments in ‘sensitive land’. This is intended to reflect an overarching purpose of the Overseas Investment Act that it is a privilege for overseas persons to own or control sensitive New Zealand land. [1][2]

we consider the nature of forestry rights means, that for regulatory coherency, they should be screened under the Overseas Investment Act as acquiring an interest in ‘sensitive land’.

20. The original rationale for excluding *profits à prendre* is unclear, the change was made following a submission asking for clarity about the treatment. [1][2][5]

Forestry rights are also very similar in substance to a forestry lease, the primary difference being that a forestry lease allows the holder to exclude other people from the land. Forestry rights do not grant exclusive possession of the land but they can allow holders to exclude other people from the land for the purposes of establishing, maintaining and harvesting the forest.

**Table 2:** Comparison of forestry rights and *profits à prendre* generally

	<b>Forestry rights</b>	<b><i>Profits à prendre</i> generally</b>
Period of time	Generally granted for long periods to reflect the growing cycle for trees.	Grants for longer periods are uncommon. However, some may be for longer periods but overseas investments in those types are effectively regulated by other regimes. For example, prospecting and mining permits are regulated under the Crown Minerals Act 1991, and the Crown automatically owns all petroleum, gold, and silver in New Zealand.
Registerable interest	Holders of a forestry right can register their interest against the land title and a registered interest will bind all future owners of the land.	Some <i>profits à prendre</i> may be noted on the certificate of title, noting the interest on the title does not bind a future owner, but rather informs a prospective buyer that they must get consent from the holder of the <i>profit à prendre</i> to acquire the land.
Other	Holders of a post-1989 forestry right can participate in the New Zealand Emissions Trading Scheme (NZ ETS).	Holders of other types of <i>profits à prendre</i> cannot be NZ ETS participants.

21. Regulatory coherency is important for ensuring that the screening regime does not unintentionally distort decisions about land use or the choice of legal form for forestry investments.

## Considerations for screening

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22. Removing the exclusion for forestry rights would require investments in forestry rights that relate to sensitive land to be screened. [1] [2] [5]
  
23. This section discusses a minimum time period and size for forestry rights to avoid regulatory overreach, and outlines some of the considerations for the Phase 2 review of screening criteria.

### **Minimum timeframe**

24. Screening acquisitions of forestry rights for short time periods may impose excessive costs, be prohibitive to investment and be inconsistent with the 3 year approach to leases. Therefore, we recommend you exclude forestry rights for a period of less than 3 year.

### **Minimum size**

25. We understand you are interested in screening forestry rights greater than 50 hectares. A 50 hectare threshold would mean that fewer than 50% of forestry rights currently registered would be subject to screening. [1]
  
26. Alternatively, a minimum size of 5 hectares would align with the screening threshold for non-urban land purchases. A 5 hectare threshold would cover over 90% of forestry rights currently on issue. However, we do not recommend this alignment as the cost of obtaining Overseas Investment Act consent for small forestry rights [1]

This is because forestry rights over larger plots of land are more likely to be commercially managed with greater control exercised over the land.
  
27. If you are interested in other thresholds, the table below presents the sizes of forestry rights currently registered with Land Information New Zealand.<sup>3</sup>

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<sup>3</sup> There are a number of limitations on the data presented. A forestry right will continue to be recorded on a title until surrendered – i.e. an action is needed to remove it. Therefore there may be instances where that right has already been exercised and there is now bare land for replanting, or it is nearing its end date / has expired. Some rights may also not be captured in the displayed data as Land Information New Zealand were not able to capture spelling errors or forestry rights registered as other interests.

**Table 3: Size of forestry rights registered with Land Information New Zealand**

Forestry right size	Number of forestry rights registered	Total area covered by forestry rights as a percentage of the area for all forestry rights
Less than 5 ha	496	0.05%
5 - 20 ha	879	0.48%
20 - 40 ha	784	1.00%
40 - 80 ha	826	2.15%
80 - 160 ha	909	4.70%
160 - 320 ha	776	7.94%
320 - 1000 ha	644	15.41%
Over 1000 ha	303	68.28%
No Area / Shared Area with another Title	134	0.00%
<b>Total</b>	<b>5751</b>	<b>100.00%</b>

Source: Land Information New Zealand

### ***Broad considerations for screening acquisitions of forestry rights under phase 2***

28. A decision now is only required about whether to screen acquisitions of forestry rights. That is because, similar to the national interest test, the criteria for screening can and should be considered on as part of later wider review of the Overseas Investment Act (Phase 2). [1]

We will also be considering the broad considerations below (in order from most intensive screening to least intensive):

- a **Full screening as an interest in sensitive land** – forestry rights are screened in the same way that acquisitions of forestry land or leases are screened. Consent would only be granted if the investor test is satisfied and the transaction is likely to benefit New Zealand (as measured against the 21 economic and environmental benefit factors).
- b **Simplified benefits screening** – forestry rights are assessed against a simplified set of policy outcomes without a counterfactual analysis. The existing ‘investor test’ would continue to apply. This is conceptually similar to the ‘new builds’ screening option for residential property. This approach may also be compatible with pre-screening, as is proposed for residential property.
- c **Screening against the investor test only** – consent is only granted if an overseas investor can show good character, business acumen, financial commitment and absence of ineligible individuals for visas or entry permissions under the Immigration Act.
- d **Notification of investment** –an investor must notify the Overseas Investment Office of their intention to acquire forestry rights, and the Overseas Investment Office could impose conditions where appropriate, but consent would not be required.

- e **No screening, but additional information disclosure required on all forestry rights acquisitions** – no consent is required for investment, and accordingly conditions could not be imposed. The additional information would be used by government for statistical and monitoring purposes. However, requiring investors to disclose particular information for statistical or monitoring purposes could be inconsistent with New Zealand’s non-discrimination obligations – registration requirements may fit into this category. [1][5]

**Criteria for consent should be considered later**

- 29. More time and careful analysis is needed of the different criteria for screening, and the criteria should be considered more holistically alongside the existing criteria for screening forestry investments and a national interest test. We are aware that the current counterfactual test (a comparison of what is likely to happen with and without an overseas investment) can make demonstrating the requisite benefit to New Zealand difficult. For example, if one investor commits to processing 50% of the forest in New Zealand, any competing overseas investor must commit to processing a greater volume to show benefits over and above the counterfactual.
- 30. [1][2][5]

**Impact of including forestry rights in the Overseas Investment Act**

- 31. We assess potential changes to the Overseas Investment Act against the overall purpose of supporting New Zealand’s well-being. Intergenerational wellbeing relies on the growth, distribution and sustainability of the Four Capitals (human, social, natural, and economic (financial/physical) capital). The Capitals are interdependent and work together to support wellbeing. Definitions of the Four Capitals are in the table below.

**Figure 1: The four capitals**



- 32. Overseas investment policy settings involve trade-offs between the best outcomes for each capital; there are competing concerns. As a consequence, the best outcome overall might not appear to be the best if focusing on one particular Capital. Following consideration of the interplay between these Capitals and related considerations (such as resilience, sustainability and growth), we have identified four key objectives for the wider overseas investment work.

33. Changes to the Overseas Investment Act, including those relating to forestry, should ensure the regime:
- a Protects against risk to the country with particular consideration of economic security, social capital (including concepts of culture and sovereignty), and national security concerns;
  - b Facilitates an open business environment;
  - c Is consistent with international obligations, including Free Trade Agreements and commitments at the World Trade Organisation; and
  - d Is fit-for-purpose – being robust, simple, predictable, and provides certainty to investors.
34. The annex to this report summarises our analysis against the four objectives. We have not analysed the impact of each option of screening acquisitions of forestry rights, but rather highlighted where the impact would differ based on the intensity of screening.

### Crown-Māori consultation (legally privileged)

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35. [5]

36. The impacts of screening forestry rights will be likely to disproportionately affect Māori interests. For example, members of the Forest Owners Association hold leases or forestry rights over 383,000 hectares of plantation forestry – that is almost a quarter of all plantation forestry in New Zealand. However, the figure is likely to be higher as members of the Forest Owners Association only account for about 60% of New Zealand plantation forests.

37. [5]

38. [5]

### Next steps

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39. Screening forestry rights under the Overseas Investment Act will require amendments to that Act. If you agree to screen forestry rights, the changes should be made before the CPTPP enters into force. A Supplementary Order Paper to the *Overseas Investment Amendment Bill 2017* would be the most expedient way to progress this. Table 5 outlines our suggested timeline with indicative dates.

40. PCO have indicated that they can start drafting the SOP based on decisions from this Treasury Report. Should you agree to make pre-CPTPP amendments, we will prepare a Cabinet paper to approve policy decisions for the first Cabinet meeting on Tuesday 23 January. The second Cabinet meeting on Tuesday 30 January will approve the release of the SOP, which will then be considered with the Bill at Select Committee.
41. There is no room for slippage in this proposed timeline. We expect that there will be at least two Select Committee meetings to consider the SOP before reporting back to the House on Tuesday 20 February. However, the Select Committee may decide to meet more often, including meeting more frequently in a sitting week or meeting in the non-sitting week in early February. The final stages for the Bill will be progressed by 1 March.

**Table 5:** Suggested timeline for introducing a Supplementary Order Paper

Date	Event
Friday 14 December	The Treasury provides Ministers with advice on pre-CPTPP reforms, with initial decisions made as soon as possible.
Early January	Draft Cabinet paper and Regulatory Impact Statement prepared
Mid January (TBC)	Crown- Māori consultation.
23 January – First Cabinet of 2018	Policy Cabinet paper and Regulatory Impact Statement considered by Cabinet.
30 January – Second Cabinet of 2018	Supplementary Order Paper drafted and approved by Cabinet Legislation Committee and Cabinet.
5 to 16 February	Select Committee meetings about <i>Overseas investment Amendment Bill 2017</i> and Supplementary Order Paper.
20 February	Select Committee Report due
22 February to 1 March	Second reading, Committee stage, third reading, royal assent.

## Consultation

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42. In preparing this advice we have consulted with the Ministry for Primary Industries, Ministry for Environment, Overseas Investment Office, Land Information New Zealand, Inland Revenue, Te Puni Kōkiri, Ministry of Foreign Affairs and Trade, Office of Treaty Settlements, and the Department of Conservation.
43. Treasury intends to seek advice from Crown Law.

<p><b>(a) Protects against risk to the country with particular consideration of economic security, social capital (including concepts of culture and sovereignty), and national security concerns.</b></p>	<p><b>(b) Facilitates an open business environment</b></p>
<p><i>Productive land use and domestic processing</i></p> <p>Screening forestry rights different to forestry land or lease investments could distort decisions about land use of the choice of legal form for forestry investments. Screening these investments on the same basis is most likely to ensure land use is decided on the highest value.</p> <p><i>New Zealand Emissions Trading Scheme (NZ ETS)</i></p> <p>The Ministry for the Environment does not consider the options will impact the NZ ETS. Forestry is important in helping New Zealand meet its international climate change commitments. Holders of forestry rights over post-1989 forest land can register in the NZ ETS and claim emission units (NZUs) for increases in carbon stored in the forest. Registered post-1989 forestry participants also face emissions obligations for decreases in carbon, for example when the forest is harvested and must surrender the net units received should they exit the NZ ETS. Registration in the NZ ETS is voluntary for post-1989 forest land.</p> <p>However, if the forest land is already registered in the NZ ETS and a forestry right is granted, the holder of the right automatically becomes the participant and as such becomes liable for any carbon losses at harvest.</p> <p><i>Imposing conditions about environmental standards</i></p> <p>Screening investments in forestry rights will allow for conditions about forestry environmental standards to be imposed. However, concerns about environmental standards are better addressed through change that capture domestic and overseas investors.</p> <p><i>Crown-Māori relationship</i></p> <p>Crown forest licensed land has formed an important part of many Treaty of Waitangi settlements. Māori freehold land (which is not related to Treaty settlements) is also often used for plantation forestry (184,351 ha as of January 2017). There is a question of consultation with Māori on the possible impact of more intensive screening options on the value of their holdings of forest land (see the above section on value of forestry rights and tax revenue). The next section of this report discusses that further.</p>	<p><i>Value of forestry rights, and tax revenue</i></p> <p>The more intensive screening options are likely to make overseas investment in forestry more difficult. However, the flow on impact to the value of forestry rights is unclear as the ultimate sale price of the trees will not be directly affected. Forestry rights holders looking to sell before maturity may find it harder to sell – we understand liquidity is already an issue in the market. The less intensive the screening option the smaller the impact on forestry right values.</p> <p>Any impact on forestry right values will also affect tax revenue because forestry rights are treated as ‘inventory’ so any losses are deductible against assessable income in New Zealand.</p> <p><i>Domestic processing</i></p> <p>Screening forestry rights and attaching conditions with a view to increasing domestic processing will not, at least in the short term, materially increase the value of forestry captured in New Zealand. This is because some grades of log may not be suitable for, or economically viable to, process at a domestic sawmill.</p> <p><i>Forestry and regional development</i></p> <p>Most forests are in regional and remote areas, and some of those areas are socially disadvantaged. The more intensive screening options could result in less forestry investment in those regions in the long term, with a flow on impact to the people living there. The Government has committed to plant one billion trees over the next ten years, and this will require significant additional private sector planting. Additional screening for forestry rights may discourage private investment, and limit the pool of funding available to meet this target.</p> <p><i>Perceptions of New Zealand</i></p> <p>More intensive screening options could affect the perception of New Zealand investment by overseas pension and managed funds. These capital funds are very mobile, and the managers have forestry investment choices across several continents. To continue attracting that kind of investment the government would need to work closely with the industry (particularly forestry investment advisors) to explore new business models for managed funds and for alternative investor groups.</p>

[1] [5]

**(d) Is fit-for-purpose being robust, simple, predictable, and provides certainty to investors**

The short timeframe for policy development and consultation has meant that the Overseas Investment Office was not been able to determine the impact on resource and application numbers of screening forestry rights. However, we are aware that on average there are around 50 transfers of registered forestry rights each year (including organisation name changes), and 70 new registrations per year.

The impact on certainty to investors will largely be determined by criteria for screening, which we are recommending for consideration on a slower track.