

REGIONAL ECONOMIC DEVELOPMENT MINISTERS

RED Ministers' meeting pack 07 November 2019

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PGF PROPOSALS FOR REVIEW - N.Z Future Forest Products

Date:	04 November 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1328 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	07 November 2019
Hon Phil Twyford Minister of Transport Minister of Economic Development		07 November 2019
Hon David Parker Minister for Trade and Export Growth		07 November 2019
Hon David Clark Minister for Health Associate Minister of Finance		07 November 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	07 November 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of Natural	✓
Jessica Sandford	Policy Advisor	Privacy of Natural	
Isabella Radovanovic	Business Advisor	Privacy of Natural	

Recommendations

Projects seeking decision from Regional Economic Development Ministers

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
Minister Jones has declared a conflict of interest and will recuse himself for this item.							
8.	N.Z Future Forest Products	<p>Applicant: N.Z Future Forest Products Limited ('NZFFP')</p> <p>Region: Commercial (feasibility study to determine) f ti</p> <p>NZFFP intends to establish New Zealand as the Commercial Inform, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.</p> <p>NZFFP has requested PGF funding towards a feasibility study that will be undertaken by Commercial Information</p> <p>Following the completion of the feasibility study as stage 1, the applicant will then invest \$Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work. f ti</p>	<p>The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF on the basis that:</p> <ul style="list-style-type: none"> Commercial Information <p>Commercial Information</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but, notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully. The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PGF funding support.</p> <p>The original funding has been requested for Co % of the cost of the feasibility study. NZFFP has requested a loan – the maximum proposed term of which could potentially be up to F ability. Further discussions with the applicant has put forward the option for PGF funding of \$Commercial Information and the PDU does not support funding a share of the Commercial Information costs. NZFFP is a newly incorporated company; Free and Frank Opinions</p> <p>; and although the benefits that could potentially flow if it all proceeded, there are no direct employment or regional</p>	\$Commercial Stage 1 Feasibility Study: \$15 million Commercial Information	\$15 million loan	Decline	Approve, details provided in IAP advice letter.

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
			benefits from this initial feasibility study stage. Free and Frank Opinions [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]				

PROACTIVELY RELEASED

The Provincial Development Unit (PDU) recommends that you:

N.Z Future Forest Products

1. **Agree** to decline N.Z Future Forest Products Limited's application for a \$15 million loan from the Provincial Growth Fund on the basis that:

- a. Commercial Information

[REDACTED]

Agree/Disagree

David van der Zouwe
Head of the Investment Management
Provincial Development Unit

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Phil Twyford
Minister of Transport
Minister of Economic Development

..... / /

Hon David Parker
Minister for Trade and Export Growth

..... / /

Hon David Clark
Minister for Health
Associate Minister of Finance

..... / /

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N.Z. FUTURE FOREST PRODUCTS

Projects overview

Name of the project	N.Z. Future Forest Products
Region	Northland and Gisborne
Tier and type	Tier One: Regional
Applicant	N.Z. Future Forest Products Limited (NZFFP)
Estimated total project cost	\$Commercial Information Stage 1: Feasibility Study \$15 million Stage 2: Commercial Information
Amount of funding sought from the PGF	\$15 million
Financial instrument requested	Loan
PDU recommendation	Decline

1. NZFFP intends to establish New Zealand as the Commercial Information for Commercial Information in the Commercial Information region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.
2. On completion, NZFFP's Commercial Information
[REDACTED]
3. NZFFP has requested \$15 million from the PGF to go towards a feasibility study that will be undertaken by Commercial Information to confirm the viability and bankability of NZFFP's proposed Commercial Information
[REDACTED]

4. A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commercial to complete.
5. Following the completion of the feasibility study as stage 1, the applicant will then invest \$Commercial into stage 2 i.e. Commercial and completion of the balance of the Commercial work.

PDU recommendation

6. The PDU recommends that you decline NZFFP's application for a \$15 million loan from the PGF.
7. The PDU does not support NZFFP's application for the following reasons:
 - a. Commercial Information
[Redacted]

Costs and funding

8. NZFFP is only recently incorporated and therefore they do not yet have annual accounts. The PDU has not been provided with financials or been advised of the level to which it will be capitalised. The applicant has advised that Free and Frank Opinions [Redacted]
9. The PGF funding has been requested in two tranches as \$Commercial (tranche one) and \$Commercial (tranche two) once the PDU has cited successful completion and delivery of pre-feasibility reports. Commercial Information [Redacted]
10. Commercial Information [Redacted]
11. Commercial Information [Redacted]
Furthermore, further PGF funding required for work post the feasibility study would be beyond the lifetime of the PGF, and this would also apply to cost overruns with the project.

PDU assessment of the project

12. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓	As indicated by the applicant, NZFFP's proposed Commercial Information business would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.
Delivers benefit to the community	✓	Stage 2 has the potential to deliver benefits to the community. However, the feasibility study, to which this application relates, will not.
Increased utilisation and returns of Māori asset base	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Enhanced sustainability of natural assets	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
Mitigation of climate change	✓	Potentially, however, this will not be realised through the feasibility study, to which this application relates.
<i>Additionality</i>		
Adding value by building on what is already there	✓	<p>NZFFP intends to establish New Zealand as the Commercial Information</p> <p>However, significant work and research is still to be undertaken – much by the feasibility study.</p> <p>Commercial Information</p>

Criteria	Rating (1✓ to 5✓)	Comment
		<p>Commercial Information</p> <p>However, this will not be realised through the feasibility study, to which this application relates.</p> <p>The applicant has subsequently advised the PDU that the Feasibility Study is now already underway; but, notwithstanding this, re-emphasised that the Feasibility Study still needs to be completed to a 'bankable' standard to enable the capital raising to proceed successfully.</p> <p>The PDU therefore believes that, given the Feasibility Study is already underway, and given the background of the individuals involved, it seems likely the Feasibility Study will be completed, even without PCF funding support.</p>
<p>Acts as a catalyst for productivity potential in the region</p>	<p>✓</p>	<p>This will not be realised through the feasibility study, to which this application relates. From what the applicant has noted, and assuming the feasibility study is successful, the project has the potential to</p> <p>Commercial Information</p> <p>PDU notes that Commercial has a shortage of wood, and that Government support for a major project that proceeded in that region could have negative impacts on existing operations, which may or may not be a good thing.</p>
<p><i>Connected to regional stakeholders and framework</i></p>		
<p>Alignment with regional priorities</p>	<p>✓✓✓</p>	<p>If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information business does ultimately eventuate, it would be well-aligned.</p>
<p>Support from local governance groups</p>	<p>✓✓✓</p>	<p>Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming.</p>
<p><i>Governance, risk management and project execution</i></p>		
<p>Robust project management and</p>	<p>✓✓✓</p>	<p>The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to</p>

Criteria	Rating (1✓ to 5✓)	Comment
governance systems		confirm its viability. Commercial appears capable, and the C timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. Commercial Information, would also require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much in relation to the feasibility project itself, but in relation to the funding for the overall Commercial on which Commercial would rely. Commercial appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.
Risk management approach	✓✓✓	Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand engineering firm, Commercial. This will include breaking down the project into distinct, sequential steps.
Future ownership / operational management	✓✓	Details to be confirmed.

Agency comments

Ministry of Foreign Affairs and Trade

13. Free and Frank Opinions

[Redacted]

Ministry for Primary Industries

14. Free and Frank Opinions

[Redacted]

Risk assessment

15. Due diligence has not been undertaken as the application has been recommended for decline.

16. Minister Jones has declared a conflict of interest and will recuse himself for the discussion and decision-making for this proposal.

17. The PDU has identified the following key risks and mitigations:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Outcome of the feasibility study	[Redacted]	C o m m e r c i	[Redacted]
Procurement of Consulting Company	Commercial Information [Redacted]	[Redacted]	[Redacted]

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Letter from IAP to Regional Economic Development Ministers

The Honourable David Parker, The Honourable David Clark, The Honourable Grant Robertson and The Honourable Phil Twyford

Regional Economic Development Ministers

4 November 2019

Tēnā koe e te Minitas,

Project: New Zealand Future Forest Products

Applicant: New Zealand Future Forest Products Limited

Panel Recommendation: Conditional Support

The Independent Advisory Panel (**IAP**) for the Provincial Growth Fund (**PGF**) considered the New Zealand Future Forest Products Project at its meeting on 19 June 2019, including advice from the Provincial Development Unit (**PDU**).

New Zealand Future Forest Products Limited (**NZFFP**) is seeking a \$15m loan for Stage 1 of the Future Forest Products Project. Confidential Advice to Government

Confidential Advice to Government

The IAP are supportive of the overall objectives of the Future Forest Products Project to maximise our natural competitive advantage in forestry and wood processing. The project has the potential to deliver substantial productivity gains in these sectors and generate significant sustainable jobs throughout the supply chain. Confidential Advice to Government

Notwithstanding these reservations, the IAP are supportive of the Future Forest Products Project in principle given its potentially significant productivity and employment benefits. We therefore recommend that Stage 1 is supported by the PGF subject to the following:

- Confidential Advice to Government

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We recommend that the PDU work with NZFFP to obtain the further assurance sought and, if appropriate, negotiate a loan agreement that incorporates these conditions and such further commercial terms as recommended by the PDU.

Nga Manaakitanga

On behalf of the Independent Advisory Panel

Nāku noa, nā Rodger Finlay

IAP Chairperson