



New Zealand Farm Forestry Association
Oranga Rākau Aotearoa

NZFFA Executive Committee advisory paper to NZFOA: 8 March 2024

Levy improvements requested by NZFFA prior to the 2025 renewal.

Executive summary

This paper outlines suggestions from the NZFFA for the improvement of the functioning of the Levy. This includes the desire to re-visit the original intent of the partnership with NZFOA, as documented in 2014.

The NZFFA believes that despite its role as a partner, with a membership of 1,300 and representing approximately 12,000 non-affiliated small-scale growers, its constituency has not received commensurate benefits from the Levy.

A major issue is representation. The current representation model makes small-scale growers a minority in all funding decisions. This often results in less value being returned to them and a series of changes is proposed to address this.

Nine improvements to the Levy are suggested. They include support for an increase in levy revenue, improvements to structure, and an update to the research strategy to meet recent challenges.

An early procedural issue that needs to be addressed is the timing of general consultation. We suggest the timetable is further pushed back to achieve agreement on the changes suggested in this paper, prior to nationwide consultation.

Background

NZFFA has been a membership association for 68 years and is currently going through a revitalisation programme to increase its membership. It operates through 24 Branches and is managed through an Executive Committee and a National Council. It routinely provides district level field days and seminars, and has begun exhibiting at the National Field days, Southern Field Days, and Central Districts Field Days. In partnership with TUR/NZFS it has stepped up extension activity with landowners through national programmes of events. The organisation has recently engaged a Chief Operating Officer on contract and will formalise associate membership arrangements with several large, aligned groups.

NZFFA has been advised by the FGLT Secretariat that the timetable for the renewal of the Levy has suddenly become urgent, and MPI wants the referendum completed by October - November 2024. The proposed consultation process for this was outlined to the NZFFA on the 7th and 19th of February at meetings in Wellington.

To clarify the role of the parties in the renewal process we have reviewed various agreements. In particular:

The January 2014 agreement between NZFOA and NZFFA outlined how the two key parties intended to establish the Levy and the necessary structures. FOA would be contracted by FGLT for the provision of the Secretariat, and each year FOA and FFA would work together to prepare a proposed budget and annual work programme. This agreement clearly expected the two associations to act in partnership and communicate regularly. However, this intended partnership approach has been lost over time, and for many years the Secretariat has taken a central role in the operations of the Levy.

The July 2014 “Levy Services Agreement” between NZFOA and NZFFA detailed the arrangements that were agreed for the delivery of Secretariat services to the FGLT. It shows the original intention was for these two associations to work together to manage the Secretariat, and although the Agreement has not been terminated the cooperation has clearly been lost.

This has led to some concern within the NZFFA about the transparency of the arrangements between NZFOA, the Secretariat and the FGLT. In the Levy Board financial reports, the running costs and salaries of the Secretariat are shown as “Programme Management,” while the NZFOA also uses the services of the Secretariat and pays a proportion of the costs.

In the Work Programme about half the budget, or \$5 million a year, goes to the Research Committee. Most of this (\$4 million) is committed to long term programmes that are co-funded by a mixture of MPI, MBIE and large forest companies. These research programmes are set up as consortia and run by separate Boards dominated by the co-funding groups. Although small-scale growers contribute about 40% of the \$4 million Levy allocation, and the NZFFA has provided both direct funding and letters of support to encourage Government investment, small-scale growers get little say in the programmes and in most cases, little direct benefit from them.

Obviously, some Committees with large budgets have work programmes that do benefit all growers, such as Biosecurity, Health and Safety, Environment and Promotion. Together these make up about 30% of the total Levy spend.

To communicate with growers on renewal of the Levy the Secretariat is planning a series of consultation meetings around the country starting on 3rd April. This urgency creates problems for the NZFFA in engaging with our 1,300 members and associated small-scale growers. Some consultation will occur at our national Conference in Napier in early April, but it is unreasonable to expect a voluntary organisation to consult rapidly and well in the space of a single month.

Importantly, before the consultation starts the NZFFA Executive want to know what the implications would be of it supporting a “Yes” vote.

Key Considerations

The NZFFA Executive Committee met on 7th February and discussed a range of major issues associated with the renewal of the Levy. Since then, a Working Group (Neil Cullen, Graham West, Howard Moore, Vaughan Kearns, Hamish Levack) has been developing this proposal and liaising with Elizabeth Heeg and Stephen Franks. Issues worked through were:

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

Suggested improvements to the Levy.

1. NZFOA / NZFFA partnership

We believe many of the following issues have arisen from our joint failure to act on the intentions documented in 2014. The original MOU clearly expected the two Associations to act in partnership and communicate regularly, to jointly set high level policies, and to advise the Levy Board and Secretariat on options for the collective good of the industry. The NZFFA believes it would be useful to re-establish this relationship between the NZFOA, NZFFA, Levy Board and Secretariat.

Rationale

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

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

Once before the Association AGMs to jointly agree what has been achieved with the levy over the year, before reporting to members.

Once in the middle of the year, to review any changes that are starting to affect the industry (like ETS charges, fresh water legislation, storm events etc) which might influence our views on the direction of the Levy Board programmes.

Once near the end of the year to review events to date, look ahead to the coming year, and offer suggestions as to the budget allocation of levy monies to Committees.

2. Increase Levy revenue.

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

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

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

Rationale

The sector faces significant challenges and opportunities that require a quantum step in funding. It needs to attract significant co-funding from Government to achieve resilience in terms of climate and markets, and it needs to re-establish its social licence to operate. We face significant increases in compliance costs if we don't succeed.

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

To leverage the increase, we suggest the Levy Board approach MPI for a commitment of matching Government co-funding over the next 6 years. Alternatively, it could hold in reserve some of the increased revenue (over a certain threshold) to be used only for Government co-funding opportunities as they arose. This would be like the current consortia model for 6-year programmes.

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

3. Representation

Over the next 6 years, 40 - 45% of the Levy will be paid by the <1000ha membership category (see MPI 2021-2060 Wood availability forecast, under revision). This contribution should be reflected in the representation of these Levy payers on the FGLT Board. In addition, there has been for some time a lack of Māori representation on the Board. We suggest the representation for the coming 6 years should be:

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

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

Rationale

Due to the current model of representation, the NZFFA Executive believes that despite our role as a partner, with a membership of 1,300 and representing approximately 12,000 non-affiliated small-scale growers, the NZFFA has not received commensurate benefits from the Levy.

At present small-scale growers (<1000ha) have a one-third representation on the Levy Board and about 10–15 % in most Committees. The SME Committee is an exception but with a token budget of \$100,000 a year (1% of total) it is almost irrelevant. Because small-scale growers are a minority in essentially all funding decisions, their priorities are usually undervalued. There is also lack of Māori representation on the Board now that Geoff Thorpe has left, which raises the issue that perhaps there should be one dedicated seat for Māori. Representation could be made more flexible to allow groups that are paying significant Levy funds for a defined period, get equitable representation. In terms of procedure, Clause 5.1(e) of the Constitution allows the Board to make such a change on the recommendation of the Levy Members. They of course would want to see that it was the wish of the Levy payers.

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

4. Secretariat

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

Rationale

Currently NZFOA pays 11.5% of Secretariat costs for the use of their services. A recent short review of the actual time Secretariat staff spent on NZFOA activities indicated it should possibly be twice that. A longer study with time sheets will give a more reliable figure, but for now it suggests that there may have been a significant under payment by

the NZFOA for several years. Greater transparency around this contractual relationship is needed, lest it conceals conflicts of interest.

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

It is a common perception that the Levy Committees are “outreach” from the NZFOA, although they are in fact part of the Levy structure. The NZFOA seems to encourage this perception and indeed, many of the Committees issue communications that are branded as NZFOA documents. This is misleading, as the Committees act - on paper at least - for all forest owners. By generalising its constituency, the NZFOA implies that what is good for its members must be good for all forest owners. This is not true, and the NZFFA wants the Levy Board to take more responsibility for its branding, and for clear communications to both small and large forest owners.

5. Funding for Representation

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

Rationale

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

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

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

6. Research Strategy

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

Rationale

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

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

7. Litigation fund

In order to discourage fraudulent behaviour by forestry contractors, a fund of \$200,000 could be set up under the Secretariat as a “litigation safety net” to help small-scale Levy payers meet the initial costs of legal action where there is a clear dispute over harvesting or other forestry operations.

Rationale

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

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

8. Documentation

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

Rationale

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

9. Consultation timing

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

Rationale

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

The consultation for the 2019 referendum was held in October/November of the previous year. We appreciate there has been some recent adjustment to the timetable but we suggest further push back on the 6 months that has been added to MPI's timetable is warranted.