

How do governments strengthen resilience and integrity in national timber supply chains?

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Figure 1: Logs waiting on transport, Port of Tauranga. Photo courtesy of MPI

Abstract

This paper looks at the tools which governments have available to strengthen the integrity and resilience of forestry and timber processing supply chains to meet current and emerging market conditions. It focuses on how government can facilitate access to international markets for wood and timber operators when it is not a dominant participant in the market through ownership of forests or processing. In cases like these, the emphasis for governments tends to shift to regulatory settings, international market access, supply chain infrastructure, and support for research and development and developing emerging markets. This paper compares the New Zealand approach with those of similar overseas jurisdictions, particularly as they meet the challenges of climate change, enhancing domestic lumber supply and illegal harvesting.

Crown has largely divested commercial forestry assets

Prior to the 1980s, the New Zealand Government was the dominant force in forestry through ownership of forests and processing assets. Since then, they have actively divested commercial forestry assets by using the Crown Forestry Licence process, Treaty of Waitangi settlements, and various restructures of government departments in the 1980s and 1990s. This has led to a significant decrease in the direct operational control of commercial forestry assets by the Crown.

New Zealand's current forested area totals 10.1 million ha, or 38% of New Zealand's landmass, of which 8 million ha is naturally occurring native forests. There are 2.1 million ha of exotic plantation forests, with a net stocked area of approximately 1.7 million ha (MPI, 2021). The Government's remaining commercial interests, 29,000 ha of productive plantations (NZFOA,

2021), is managed by Crown Forestry, a government-owned commercial organisation.

The progressive withdrawal of the Crown from commercial forestry operations has occurred during a time of increased harvesting production and export volumes. Forestry is now New Zealand's third largest export industry, with a forecasted revenue of approximately \$6.3 billion in the year ending June 2021 (MPI, 2021). Within this, logs provide the largest revenue of \$2.8 billion, followed by sawn timber (\$809 million), pulp, paper and paperboard (\$1.14 billion), and panels (\$408 million). The role of forestry within the economy is forecast to increase. The transition to renewable energy, a growing interest in engineered timber products and future market developments are all helping meet government climate change objectives.

It is within this context that we compare New Zealand's operating model to those in other countries. This paper considers the approaches taken in Australia and Canada, which have similar constitutional systems to New Zealand.

Regulatory and supply chain tools available to governments

In the absence of direct market involvement, governments have several tools (or levers) to support or strengthen the forestry supply chain. The areas where these tools could be applied are summarised below:

1. The trade in illegally harvested timber products, with its potential to erode or undercut both credibility and the social license of the forestry industry.
2. Forestry's role in regional development and how different jurisdictions are considering, or have developed, plans to increase employment.

3. The extent to which free trade agreements have reduced trade barriers and are facilitating increased two-way trade in forest products, and whether this is occurring across all product areas.
4. The value of supply chain infrastructure investment to improve the resilience and productivity of national and international freight paths.

Given the breadth of these topics, and that the New Zealand Government is currently progressing legislative reform for certification of legal harvest, this paper focuses on comparisons between legal harvest assurance systems.

Illegal logging

The United Nations and Interpol estimate that illegal logging costs the global community up to \$206 billion per year, which makes illegal logging the largest environmental crime by monetary value globally (Australian Government – Department of Agriculture, Water and the Environment, 2021). No country is immune to the effects of illegal logging and several countries are implementing schemes (or already have them in place) to remedy these activities.

New Zealand

In New Zealand, the Crown manages less than 2% of the plantation estate, with private investors, plantation management companies, iwi and small growers managing the bulk of the harvest. This means the Crown's levers to ensure there is integrity in the supply chain and to support access to overseas markets is focused on providing information, regulation, trade agreements and export market development. A key to facilitating each of these is to provide markets (and consumers) with assurance on forest management practices and wood harvest legality.

In 2020, Cabinet and Parliament agreed to a series of policy changes to register forestry advisers and parties trading in logs, with the aim of supporting improved professional performance and market transparency. This was accomplished by the 2020 amendment to the Forests Act 1949. At the same time, Cabinet agreed to progress legislation to provide overseas markets with greater assurance that illegal harvesting is not occurring in this country, and to ensure New Zealand does not become a soft import target for illegally harvested wood products. This legislation is still being drafted at the time of writing.

Providing assurance to exporters is not something new. It is, however, becoming increasingly important for our trading partners, and for consumers who are focusing on the source of their imported products and how they are managed and processed (World Wildlife Fund, 2020). For New Zealand forestry, this relates directly to our social license to operate and our ability to access high-value markets in the future.

The Government has an important regulatory role in supporting entry into overseas markets and assuring the legality of the timber products that these international customers purchase. This assurance will

also demonstrate to New Zealand's trading partners that we are committed to ending illegal logging on the international scene.

Providing regulatory assurances is one way that governments can increase the resilience in the supply chain. This added resilience is achieved by ensuring more business certainty through smooth and unimpeded access to markets that the supply chain services. Regulatory intervention to ensure there is high-quality advice through registers of approved practitioners, codes of practice and biosecurity assurance schemes are examples of how we can increase reputation and resilience for the sector.

Another challenge to the supply chain is the supply of raw materials. The recent Wood Availability Forecast shows that New Zealand is currently near the peak of log production, with a trough approaching due to past planting levels (MPI, 2021). The Government has a key role in gathering and making available information to ensure industry are informed of factors that may affect business so that they can make any adjustments.

The challenges of illegal logging are not unique to New Zealand, with both being drivers of policy development in Australia and Canada.

Australia

By comparison, forests in Australia are larger than New Zealand, consisting of 134 million ha, or 17%, of Australia's landmass (Australian Government – Department of Agriculture, Water and the Environment, 2021). The extent of native forest that is available and suitable for commercial wood production was 28.1 million ha in 2015–16 (Australian Government – Department of Agriculture, Water and the Environment, 2021).

The challenges facing Australian forestry are similar to New Zealand, but differ in the area of publicly-owned native forest available for harvesting. Due to this, Australia has been able to achieve reforms earlier than New Zealand. In 2012, Australia enacted its legal harvest assurance legislation, the Illegal Logging Prohibition Act 2012. The regulations are currently under review, which may lead to legislative changes (Australian Government – Department of Agriculture, Water and the Environment, 2021). One of the major differences between Australia and New Zealand is that Australia is a net importer whereas exports dominate our trade scene – and their legal harvest system does not provide for export market assurance.

The regime for importing timber products into Australia is similar to the New Zealand proposal for legal harvest assurance, as the law does not directly affect the people at harvest, and both systems need evidence that sufficient due diligence has been undertaken to ensure imported timber products have been legally harvested.

Canada

In contrast to New Zealand, Canada's forests are largely publicly-owned by provincial, territorial and federal governments (94%), leaving 6% privately-owned forests. Like New Zealand, some of Canada's publicly-



Figure 2: Logs being prepared for shipping, Port of Tauranga. Photo courtesy of MPI

owned forests are held as National Parks (Government of Canada, 2020).

The regional forestry breakdown of Canada's forests consists of 31% in Quebec, 27% in British Columbia and 21% in Ontario. The western provinces are more focused on wood product manufacturing and market pulp. Pulp produced in the eastern provinces is mostly used in the domestic manufacturing of paper products (Government of Canada, 2020).

Canada's legal framework aims to protect commercial tree species and trees at risk from illegal harvesting. The Canadian approach is different to New Zealand and Australia in that Canada relies on third-party forest management certification schemes (Government of Canada, 2021). While no government certification scheme exists in Canada, the third-party system is designed on the same principles as the New Zealand proposal. The system uses existing laws and regulatory interventions to ensure there is no illegal harvesting occurring (Government of Canada, 2020).

By having large areas of forest owned publicly, Canada does not have the same challenges about control over the supply chain. Through ownership of forests, Canada's government has more direct control of the timber harvest and availability within the country and does not need to look at the same regulatory and non-regulatory interventions discussed earlier.

Comment

All systems have advantages and disadvantages in the way the countries operate and maintain resilience within their respective supply chains. New Zealand and Australia have largely divested themselves of direct control by not owning forests and processing assets. They are therefore reliant on regulations and incentives to control how forest management and harvesting practices are undertaken by private forest owners, and to provide assurances to other governments that timber has been harvested in accordance with the relevant laws.

A legal harvest assurance system will help with resilience in the New Zealand supply chain, by assisting market access certainty for both logs and processed products, but does not go so far as addressing the issues around global climate change.

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