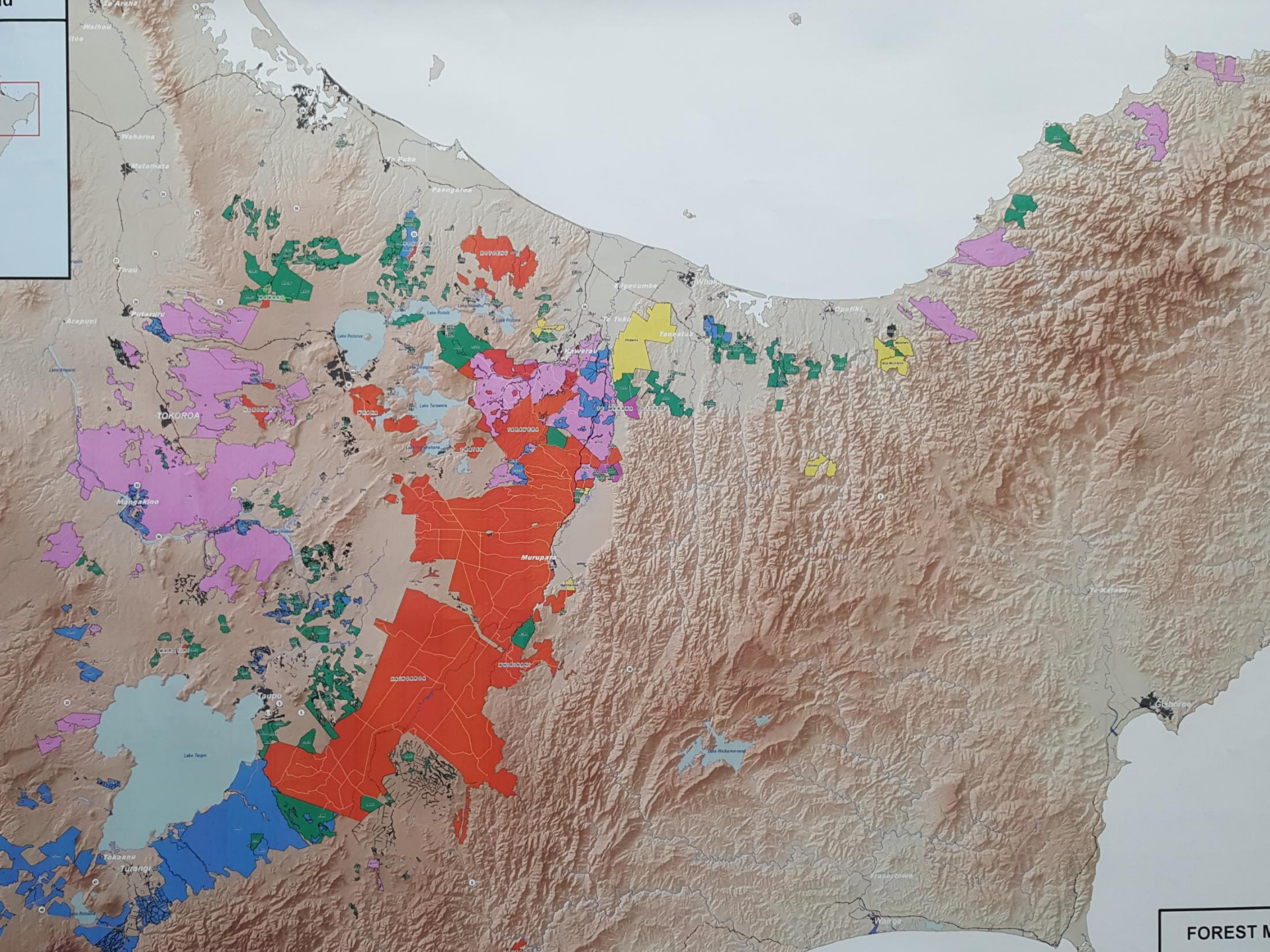


# Pruned wood supply from the CNI and disrupter influences on wood processing

*Jeff Tomblason*









# Forest Management Practices

*The only constant is change !*

- ❑ Sale of State forest assets purchased largely by TIMOs
- ❑ Spotted owl, unprecedented log price spike, and new land planting boom
- ❑ Changes of corporate forest ownership and loss of vertical integration
- ❑ All complicated by a foresters planning time horizon of 28 years and a sawmillers of 12mths



*“Maximisation of volume and value are mutually exclusive”*



*“Volume is a surrogate for value”*

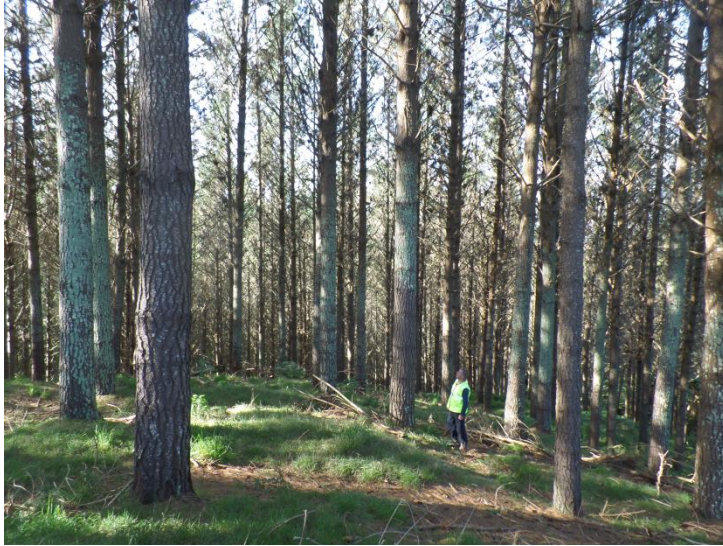






## **Merits of a high volume / high value per hectare regime**

- ☐ Much higher volumes of wood per hectare
- ☐ No pruning cost to carry
- ☐ Shorter rotation lengths



## To justify continuance of a pruned regime:

- ❑ A price differential between pruned and structural of \$80.00 m<sup>3</sup> or much more
- ❑ Such a differential may never have been achieved since the 1993/94 log price spike
- ❑ During the past ten years the differential has been around \$40.00 m<sup>3</sup>
- ❑ Would a sawmill invest for an uncertain return in 20 years?
- ❑ The issue is “pruned log price” – and “price” alone



# 25 years of market development and investment in wood processing





## The looming concern for the CNI pruned log mills

*Little or no business opportunity to change the business to sawing structural or pursuing remanufacturing*



# The Study

**Pruned log mills** provided the following information:

- ☐ Total quantity of pruned logs sawn annually?
- ☐ Pruned log forest source and quantity?
- ☐ Total employees?
- ☐ Annual turnover?

**Results** are **GENERAL** to protect the detailed individualised data provided



# The Study

**Forest Owners/Managers** provided the following information:

- ☐ Reconciliation of total consumption against supply taking into account any pruned log exports
- ☐ Pruned log forecasts

Where necessary **Results** are **GENERAL**

## Pruned logs are categorised as being supplied by:

- ☐ Kaingaroa Timberlands
- ☐ Taumata
- ☐ Medium forests
- ☐ Small scale growers





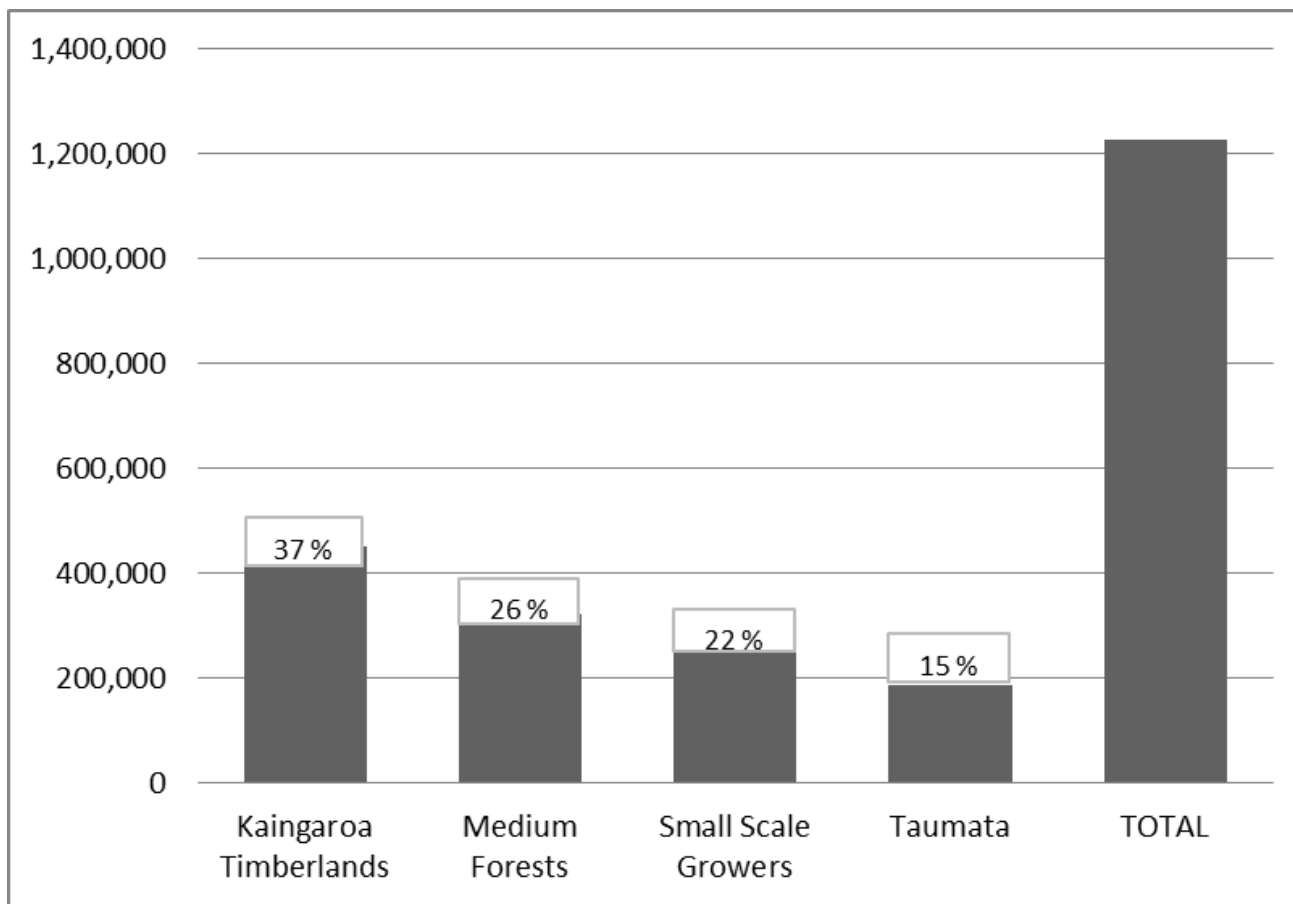
## Results

The CNI currently contains:

- ❑ 12 pruned log mills
- ❑ Processing 1.226 million m<sup>3</sup> of pruned logs annually
- ❑ Employing 1,575 staff
- ❑ Annual turnover of \$734 million



## Quantification and source of CNI pruned logs processed domestically 2017





## Forecasting pruned log supply for the next 13 years to 2030

- ❑ Kaingaroa Timberlands

- ❑ Taumata

- ❑ Medium forests (x18)

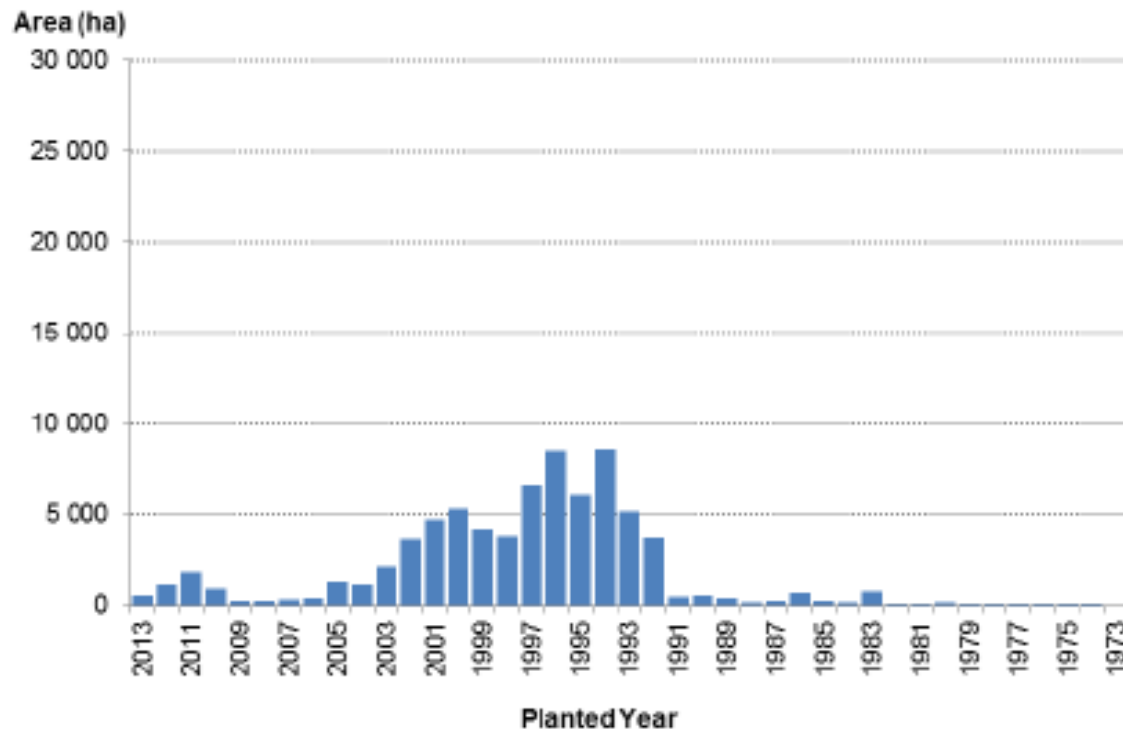
- ❖ *All the above supply little or no pruned logs to export*



## Forecasting pruned log supply for 13 years to 2020

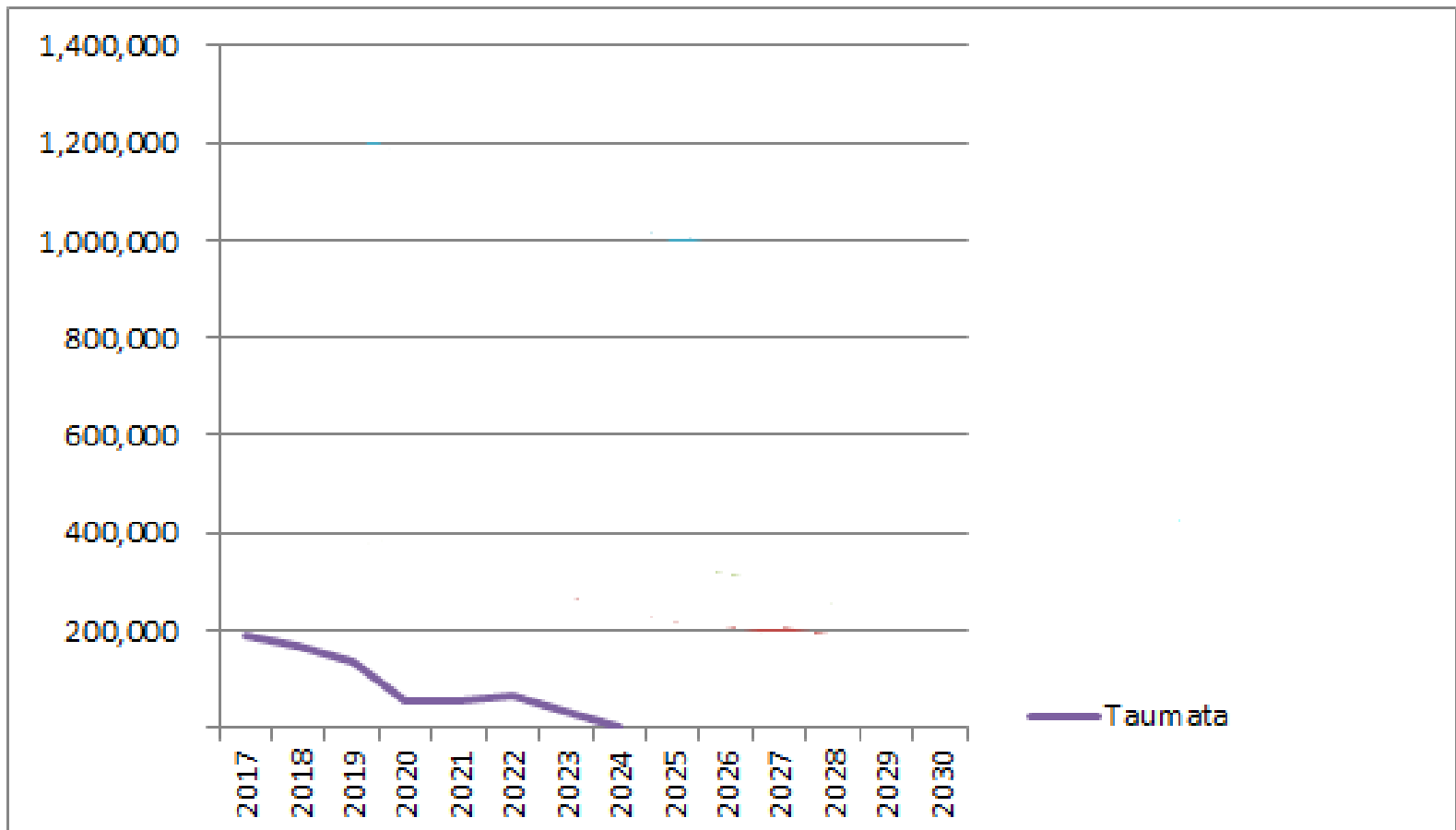
### ❑ Small scale growers

- Average of 5,000 ha was planted between 1992 and 2002
- Assumption that the average harvest age is 25yrs
- And 60% of the pruned logs are sold domestically

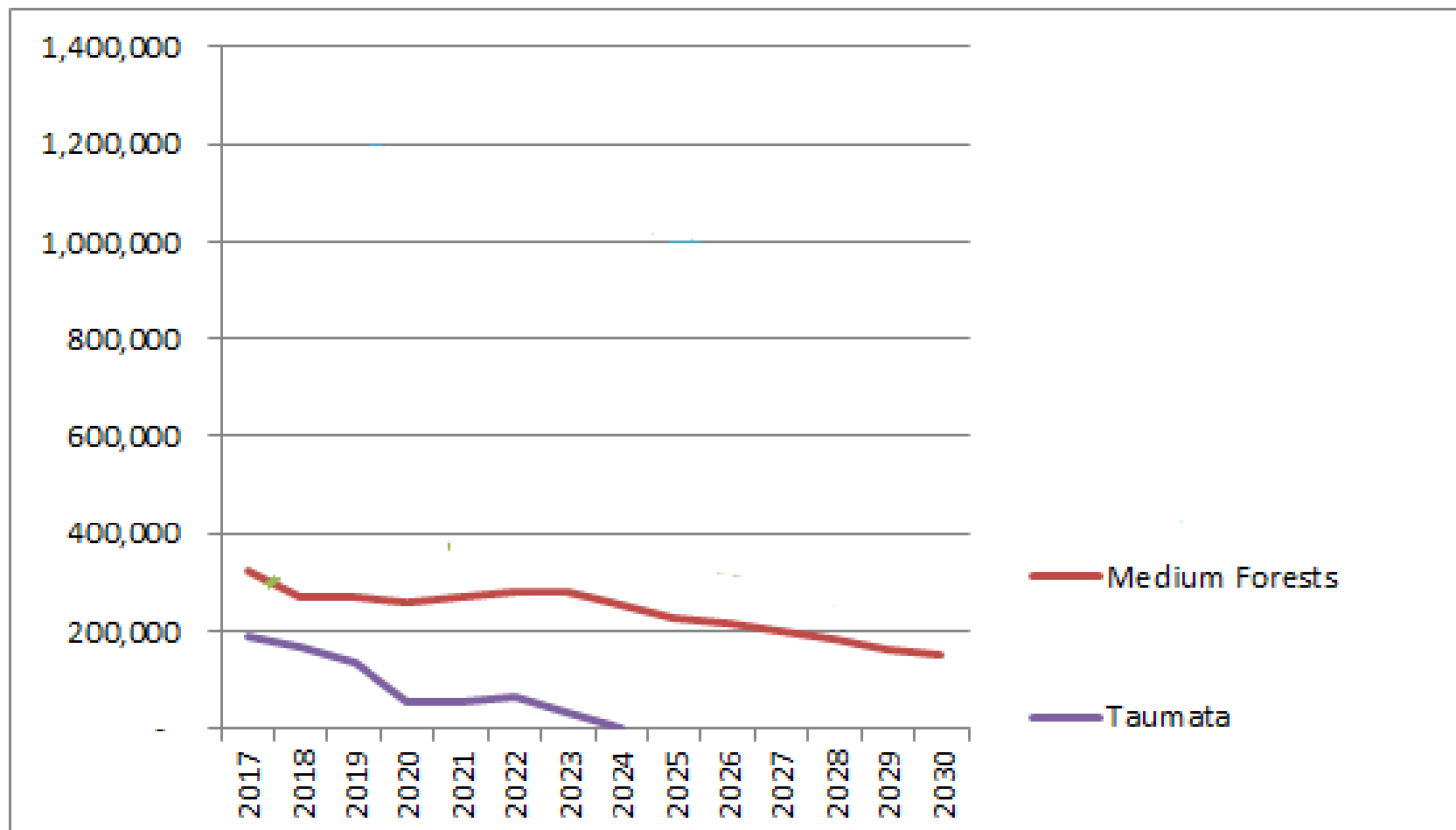




## Pruned Log Forecasts 2017 - 2030

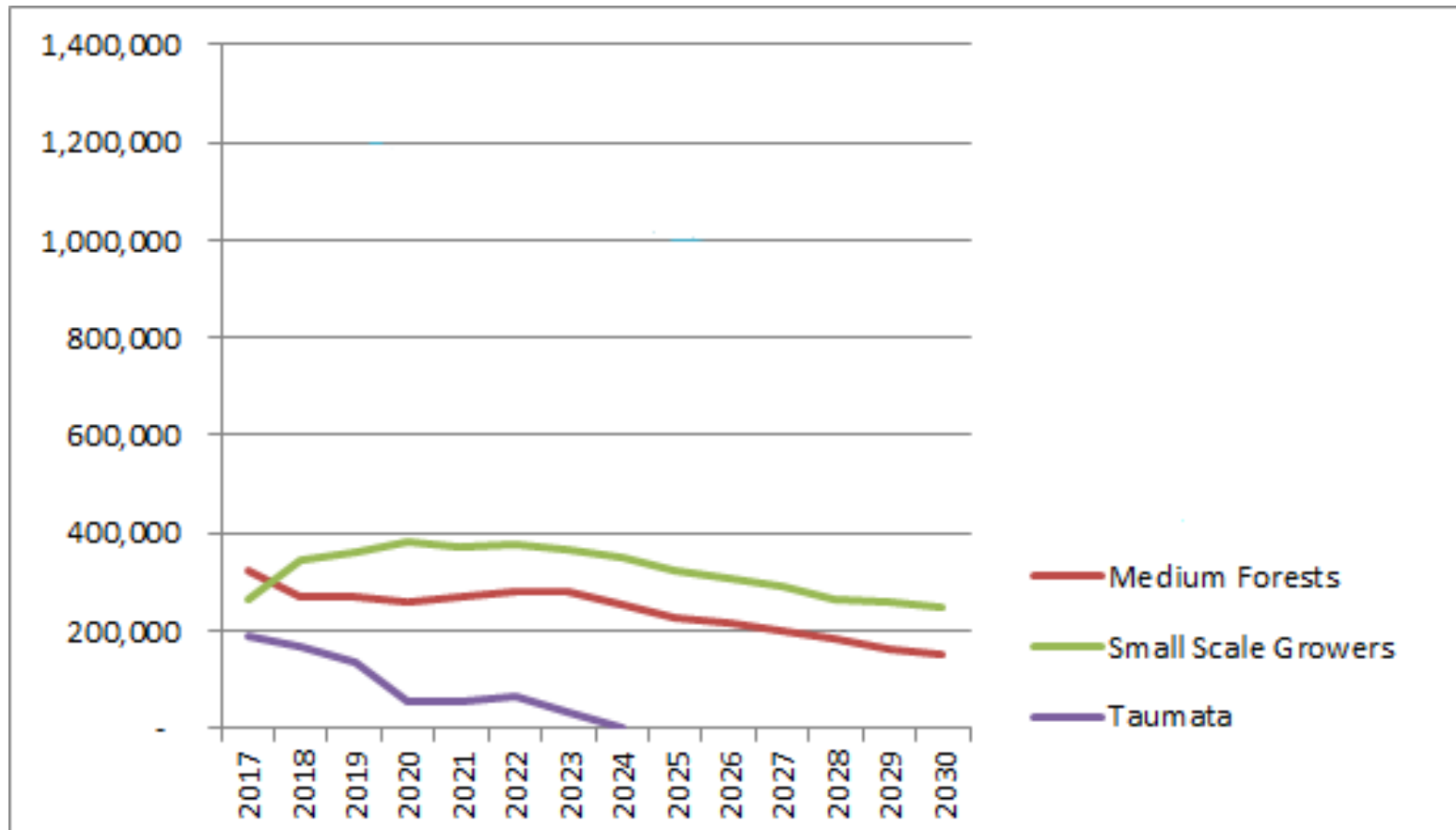


## Pruned Log Forecasts 2017 - 2030

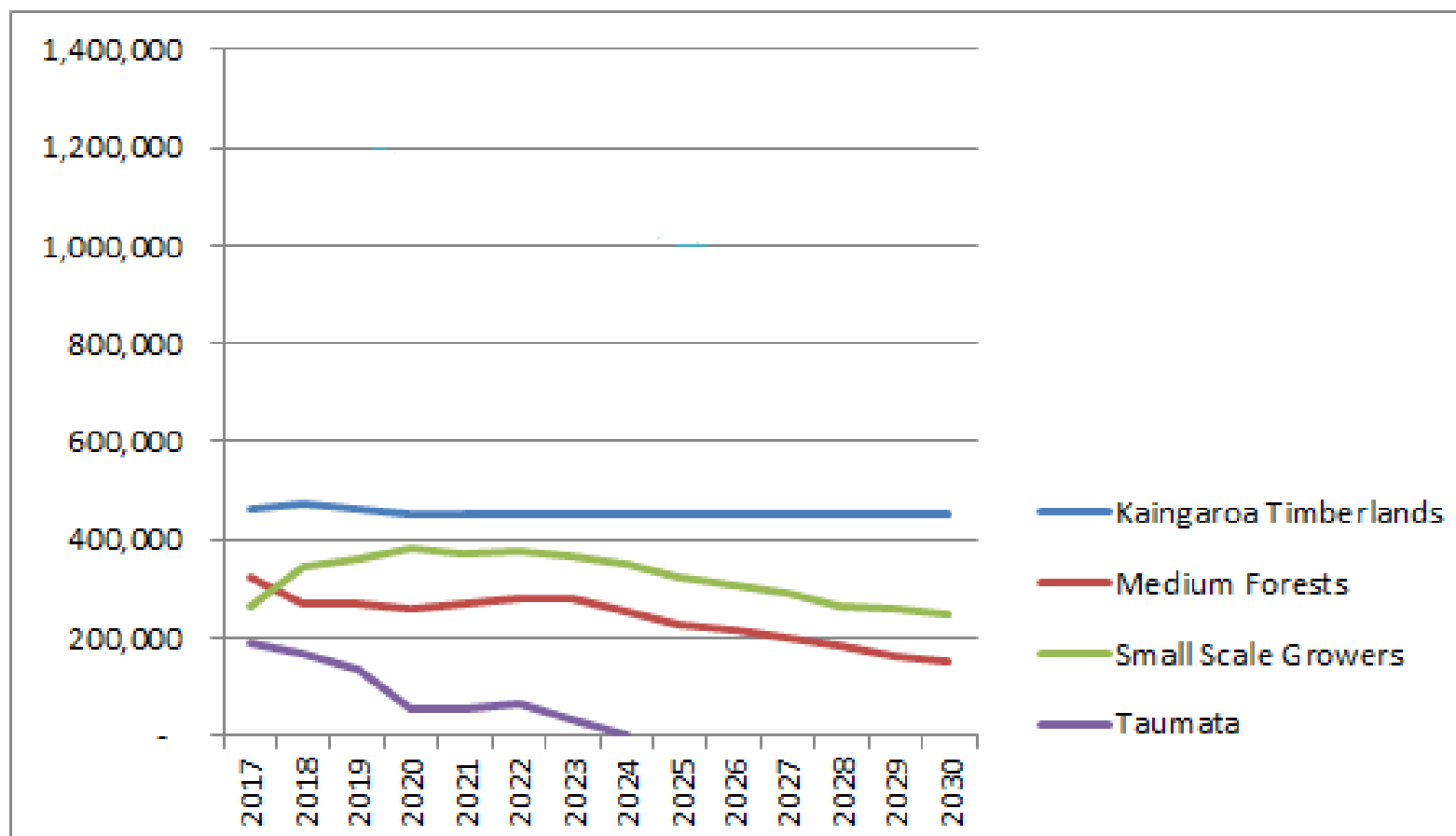




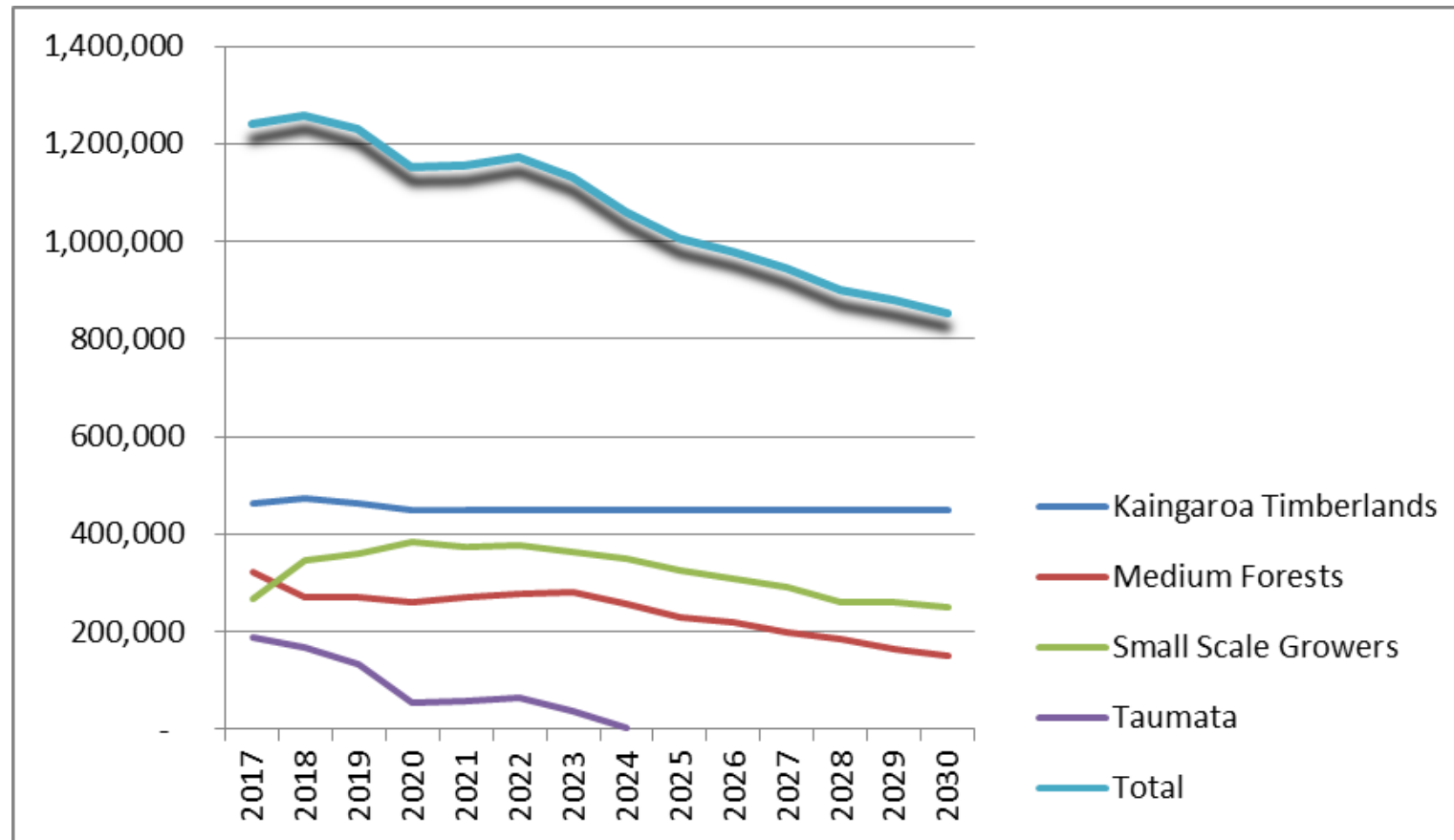
## Pruned Log Forecasts 2017 - 2030



## Pruned Log Forecasts 2017 - 2030



## Pruned Log Forecasts 2017 – 2030 & projected to 2037





**Will the remaining CNI forest estate continue to be pruned?**

☐ Generally - Yes

## 2037 is 20 years - or a generation away

In 1996 when the *Millennium* regime was instigated who would have believed that 20 years later

- ❑ That up to 70% of the harvest would be exported, and up to 70% sold to China
- ❑ That China would embark on a city and infrastructure spend of \$2 billion/day
- ❑ That NZ would be the leading supplier of logs into China and that China would be paying 20-year record prices for these logs
- ❑ That this infrastructure build would consume more concrete in a three -year period than what the USA poured in the last 100 years
- ❑ That China's concrete construction is the instigator of NZs forestry's current increased prosperity

## 2037 is 20 years - or a generation away

**So what might change and where's the next mega demand for CNIs radiata pine?**

- ❑ Climate change and rising sea levels
  - Raising and/or migration of infrastructure
  - The next mega demand for CNIs wood
  - supplied as lumber via some district based super mills
- ❑ Predicting disrupters/opportunities 20 years out in 2037 is not possible or any more than in 1996 at the instigation of the *Millennium* regime.
- ❑ Regrettably whatever new market opportunities that may arise it wont be the saviour of the pruned log mills



# Conclusions

- ❑ Changing management practices & age class structure is more than a disrupter
- ❑ The 30% pruned log reduction by 2020 will challenge some mills
- ❑ Further reduction of around 70% in 2037 will commercially compromise most of the pruned log mills
- ❑ 2037 is 20 years away. Emergence of large scale export knotty lumber markets would be welcomed but of no assistance to pruned log mills
- ❑ ... “This is what the data says” ...”and such is the business of forestry”  
until the next market ..ideally a mega market demand for knotty lumber



.....*field day*

