

N.Z. Institute of Foresters  
Annual General Meeting, May 1973

PANEL DISCUSSION ON STUMPAGE

The panel consisted of:

- G. M. O'Neill, Conservator of Forests, Auckland, N.Z. Forest Service.  
A. Jewell, Associate Director, Fletcher Holdings Ltd.  
J. R. Tustin, Scientist, Forest Economics, Forest Research Institute, N.Z. Forest Service, Rotorua.  
P. F. Olsen, Forestry Consultant, Rotorua.  
B. Childs, Marketing Director, N.Z. Forest Service, Wellington.  
B. D. McConchie, School of Forestry, Canterbury University.  
N. A. Barr, farm forester, Kaukapakapa.

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O'NEILL introduced the members of the panel and asked each of them to speak for about ten minutes before opening the meeting to general discussion.

JEWELL: In my opinion, stumpage is the market price, in a particular area, for standing forest. When the Stumpages Working Party first met, ideas about what stumpage is, and how it should be determined, were many and varied. Initially there was strong support for basing stumpage on the cost of growing wood. Some members favoured the cost of product manufacture as a basis — the cost-plus approach — which is the basis for the residual valuation method. However, as discussions developed, it was realized that there was only one basis for stumpage determination — the market value.

We were fortunate in having in the Working Party a man who is not only an experienced farm forester, but who has also had a wealth of experience as a producer and administrator in the fiercely competitive dairy industry. From the outset, he kept repeating that the only way to determine stumpage is to find out what the market would really pay.

Naturally, many factors influence market value. These include local short-term and long-term demand, Government price policy, suitability of the final product for export, market demand outside New Zealand, the volume of forest being offered and the term over which that volume is available, distance from market, the cost of transport to that market, competition or lack of it among people wanting the resource, and their assessment of the long-term demand for the product they propose to manufacture. All these have an effect on the final offer. Other factors bearing on stumpage are the age of

the trees, the species, the quality of the tree, and the ground conditions in the forest.

The terms and conditions of sale also influence the level of stumpage paid. There is an increasing tendency to amend and add to the conditions of sale, especially when the forests are publicly owned, since the agency selling them has many interests to protect. Stumpage can also be affected by local tax and local dues. As a general rule, the more onerous and more demanding the conditions of sale become, the lower the market value of the stumpage. In sales of indigenous forest, where the licensee is required to clearfell all species or to build a road for subsequent exotic forest establishment, the sale price must automatically drop by the extra costs involved.

Frequently the real stumpage price is not that which is paid in the offer-and-acceptance phase; it is the price paid at the subsequent revaluation. The recommendations of the Stumpages Working Party in this area are important and will prove to be of material benefit to the forest-growing and wood-using industries in the next decade.

CHILDS: I would like to explore what we really mean by market price. Should we take account of international trends in prices, and if so what would be the likely repercussions? When I was asked to discuss the sale of State Forest wood, I wondered whether it differed in any way from selling wood irrespective of ownership. As a major seller of wood, the State is the pace-setter for wood sales. This role brings with it a two-fold responsibility: first, to ensure that the State and the private grower receive a fair market price; and, secondly, to ensure that the price aims to safeguard the place of wood in competition with other non-wood materials. Just over one year ago the New Zealand timber industry was beseeching Government to restrict the sale of State Forest logs for converting into sawn timber for the domestic market. At that time the export of both logs and sawn timber was something to be encouraged in order to avoid an over-supply for the domestic market. In the last few months there has been a change to the opposite extreme. At the moment the concern of industry and Government is to ensure sufficient wood for the domestic market. In examining what we mean by market price, we have to take account of these changing circumstances. Up until the early 1960s, market price quite simply meant the price paid in New Zealand. Only then did log exports become significant in both volume and price, and the market for raw material has taken account of international demand only since then.

Until recently the selling price of sawn timber has also meant the selling price within New Zealand. There has been little difference in the net realizations for selling on the domestic market compared with selling it overseas. There was no real incentive for mills to supply the export market. Their decision to do so was influenced by such factors as increased throughput and tax incentives. But the situation is changing right now. Currently it is more profitable for some

sawmills to sell wood overseas than on the home market. One way of ensuring local supplies is by putting artificial restraints on exports. For instance, it could be a condition of a sale of State Forest logs that a certain percentage be supplied to the domestic market. This type of restraint has several disadvantages, some of them being: it is difficult to administer; it restricts the freedom of industry in marketing its end product; it could create artificial stumpage differentials according to whether the product is sold locally or for export; there would be no encouragement to economize in the domestic use of sawn timber. The artificial restraints may also be inflexible and unable to adjust readily to fluctuating demand such as we have seen during the last 12 months. The advantage of artificial restraints on the sale of State-owned wood is that prices on the home market would be kept lower than if exposed to international market forces at times when there is a strong overseas demand at attractive prices.

The alternative to artificial restraints is to allow domestic market requirements to be fulfilled by having prices set in accordance with international supply and demand. Under such an arrangement the sawmillers would pay the same stumpages irrespective of the destination of the sawn timber. This has the disadvantage that it could result in higher sawn timber prices in New Zealand, but it would permit true market prices to operate for a commodity based on raw material that is becoming increasingly important in New Zealand's overseas trade. There would be no risk of the State being burdened with having to provide a disproportionately large share of wood to a less remunerative local market because other forest owners sell to a more rewarding overseas trade. Further, the higher prices should result in reducing the wasteful use of wood in New Zealand.

The possible effect of allowing sawn timber prices to meet international competition can be calculated. In some instances at the moment there is a difference in price of the order of \$1.25 per 100 bd ft in favour of the overseas market. If domestic prices were allowed to increase by this amount, it would mean an increase of about \$100 per house. Translated into stumpage this represents perhaps 7.5 cents a cubic foot. Meeting this difference by the indirect subsidy of lower stumpage has a disadvantage since it is spread indiscriminately over the total volume of wood in all uses. Only a portion, about one-third, of sawn timber is used in housing. If the home builder is to be protected from increasing timber costs, it could be more efficiently done by direct subsidy, which could be specifically beamed at lower-cost housing through suspensory loans. In my view it is best to avoid concessional stumpages for State Forest wood.

TUSTIN: I will briefly review some trends overseas because they are, I consider, relevant to the New Zealand situation. For ease of interpretation, all prices are in New Zealand currency.

First, the U.S.A. has a huge and relatively free market for stumpage. Representative stumpage prices for softwood pulp-

wood vary between 2 and 6 cents per cu. ft. and they have barely kept up with inflation over the last 20 years. Instead of paying higher stumpages, most pulpmills have preferred to invest their money in improving their harvesting systems to control delivered wood costs, and they have also turned more and more to cheaper raw materials — mill residues, fuelwood sources, cull trees from the forest, and hardwood species. Certainly competition for pulpwood in America is not as intense as it is for sawlogs. Some people suggest that pulpmills have not been able to afford to compete with each other.

Unlike pulpwood, sawlog stumpage prices have risen substantially in constant money values over the same 20 years. The market went mad in 1968 and 1969 but, even if we ignore that, stumpages from National Forests for Douglas fir are up 60% on 1950 levels, and southern pine is up 25%. The levels of sawlog stumpages, however, show a large variation among species and regions, varying with market conditions, timber quality, location, and the accessibility of the stands, but the increases through time are largely attributed to growing competition for supplies. The long-run outlook for the U.S.A. is for intensifying competition for wood supplies, for rising prices, and for increasing substitution by alternative materials. The main current problem is to curtail the growing demand for the withdrawal of commercial land from timber production, for such uses as wilderness areas, wildlife, and protection. This pressure is aggravating the market for stumpage. The position in Canada is also of some interest. Weighted average stumpage prices for Crown timber in British Columbia have fluctuated between 3 and 7 cents per cu. ft. since 1965. Stumpage rates for wood from the interior are tied directly to dressed timber selling prices, but stumpage prices on the coast are tied to log prices. As a result, coast stumpages were depressed over recent years by the weak pulp market. Setting stumpages in this way has its problems. In 1971, for example, there were 38 000 stumpage revisions — 4 000 went down and 34 000 went up.

In Quebec is produced 47% of Canadian newsprint, and this province supplies one-third of the total U.S. market. Accordingly, stumpages are very political. This was indicated by a recent report produced by the 56 pulp and paper companies in the province. Most of their wood supply is roundwood. Net profits in 1970 were 67% lower than in 1960 and the companies wanted to highlight their "competitive difficulties and consequent poor financial results". Their report suggested that stumpages should be reduced from 2.2 cents a cu. ft. to less than 0.5 cents to assist them to compete with mills in the southern U.S.A. The same report quoted some delivered costs for pulpwood, which are interesting: Quebec, 30 cents; Southern U.S., 26 cents; western Canada, 22 cents per cu. ft. Pulpwood stumpages in nearby Ontario are approximately 3 cents per cu. ft.

It is probably dangerous to generalize on Scandinavian stumpage prices. Several factors contribute to their relatively high level, including well-organized selling by private owners,

considerable pressure on the resource from utilization companies, and keen competition for available supplies. Pulpwood stumpages range from 4 to 5 cents per cu. ft in some regions to 9 to 12 cents in others. Sawlog stumpages are about two to four times higher than pulpwood stumpages.

The main message from several countries outside North America relates to sawlog stumpages. In Scandinavia, the United Kingdom, South Africa, and some of the Australian states, there are well-established price gradients for sawlog size. In other words, millers are prepared to pay a lot more per cubic foot for large logs. For example, a tree of 20 in. dbh is worth twice as much per cube as a tree of 10 in. dbh. Softwood log sizes in these countries tend to be fairly small. Another point — the selling price of sawn timber is the most important determinant of sawlog stumpage prices. Rising prices are pulling stumpages up. There is no evidence of the reverse happening — high stumpages putting pressure on timber prices.

American timber price lists have much more spread than New Zealand price lists. Instead of a spread of seven times between the poorest and the best grade, we have a spread of little more than two. As a result, there is less incentive in this country than there is in the U.S.A. to produce quality in the forest or the mill. Price control used to be blamed for this, but the situation has persisted since control was removed. Stumpage premiums for quality will depend on the spread of prices between grades in our sawn timber price lists.

I see market value as the only really satisfactory criterion for setting stumpage prices. Recovery of growing costs should not enter the debate, because most of the wood in the world is derived from natural forests which have been produced at virtually no cost to man. Furthermore, these forests are frequently in Government ownership and control and the objectives of a Government can be very broad indeed. It has been said of the low Canadian pulpwood stumpages that "according to the provisions of the timber leases, the cost of silviculture in Canada shall be borne by the provincial Governments, and will thus not influence the cost of pulpwood to the industry", so growing costs will not enter the picture there. There are some lessons for plantation growers though. First, we should know our growing costs so that they can be compared with the stumpage prices we receive. Secondly, if stumpage prices are likely to be insufficient to cover our growing costs, including interest, we should enquire whether (a) we are investing in the right business and (b) whether we are going about it in the right way. We know how we manage our forests will have a large influence on our growing costs.

I do not expect the price of stumpage will ever be uniform because, as Mr Jewell has pointed out, there are many variables in its determination. This is why it is difficult to determine a fair price for wood. It is also one reason why buyers often complain that stumpages are too high at the same time as growers feel they are too low.

BARR: In my own district, north of Auckland, there are some thousands of acres of forest in a mosaic with farm land. The area of plantation is increasing rapidly, financed not only by farm foresters and local bodies but also by a strong infusion of professional people who buy areas of 400 to 500 acres for planting. As a group, we wonder what we are going to do with our trees in 15 to 25 years' time. There will be thousands of acres of forest available for Auckland's supply, but we are rather appalled at the market prospects. At present we have only one small sawmiller interested in our timber. We have a very large Auckland timber firm with access to most of the State-produced timber, and we have another very large firm indeed which monopolizes the chip market under several different company names. This worries us a deal. It reminds me of the days between the world wars when, as producers of meat, we found ourselves in much the same position as we are today in the timber business — a totally disorganized group of sellers. It usually takes a Government to straighten out this sort of situation. In the case of the meat business, when very large overseas companies were taking farmers for a ride, William Massey cracked the whip and the Meat Board was formed. As a result, we are now able to sell our meat to any buyer who might come on to the farm. He will give us the current price for this meat, delivered at the works. Unlike wood, the prices for the various types and grades of meat are published in the press every week. At the works, the meat is inspected by graders who are employed by the Board and we get paid for our meat within 10 days. This is important. When we sell logs, we have a long wait at times, and sometimes we never see the money. So selling meat contrasts with the wood market where we are at the mercy of a very tightly and well organized timber industry. We growers have to be equally well organized in our selling, and here I think the Forest Service can help us a great deal. I hope there might be someone in this present Government who will crack the whip, as some form of coercion will probably be necessary.

What should we do as a group to put our own house in order? First, we must keep the export log market going. We have been able to get very much higher stumpages since the export log market came into being. It must be kept going at all costs. I feel the Forest Service has a responsibility to keep some of the minor ports open by supplying some State logs, because if the trade ceases the farm foresters will lose their best market. Secondly, we must have competition for wood supplies within the local processing industry, and also competition between local mills and the export market. However, if this becomes too tough, there should be a consumer subsidy on timber as outlined by Bruce Childs. Dave Kennedy once said: "The nearer the soil the smaller the margin." This dictum deserves some consideration. We farm foresters will have to log and process our woodlots if we can to improve our returns. We can produce small rounds and treat them in a co-operatively owned treating plant. We should have our own skidders and our own post peeling equipment for a start.

We could venture into small portable sawmills which can operate where no other mills exist. We could also market as a group. But we will have to get together, and I would like to see the Forest Service included in an organization which promotes orderly marketing for the grower.

OLSEN: I feel we have to grow the wood people want, at a price that enables all concerned to stay in business. The prime interest of the forester is selling wood at the highest price consistent with market stability. The wood processor wishes to purchase at the lowest price consistent with having a continuing supply of wood available to him. The grower wishes to have good returns from a minimum investment. Currently he can sell whatever he can grow if he is close to a port. The temptation in this situation is for the forester to ignore the requirements of wood quality and to place overmuch reliance on export markets which may become more fickle as price rises continue.

I consider that the domestic market for sawlogs and veneer billets should be serviced by all sectors, not just the State, to ensure an overall market stability for logs. The pulplog needs of the pulp and paper manufacturers are likely to be fed by tied company forests or long-term, low-priced State contracts. However, the time will soon be with us when all logs of a sawlog dimension will require to be converted primarily for solid or high-grade use. We won't be able to afford to throw these large-dimension logs into a chipper. This leads me to one of my major concerns — what market are we growing our logs for, and how best can we tailor our log quality to this demand with the minimum of expenditure? I consider the FAO concern with pulpwood production to be insecurely based. If the wood supply becomes short, the resource will tend to be diverted to the more profitable sectors of the industry. Pulp and paper will depend more on waste, and industry growth will be constrained by this factor; although, if future supply is greater than future demand for higher uses, a proportion of production will be diverted to pulping or to reconstitution for lack of a more profitable market.

I suggest that one major concern of us all in securing future optimum stumpages is market research. We are presently dependent on rather crude statistical data based on *per capita* consumption, population growth and obsolete trend data. These are used to support expectations of vast future markets. It could be that such Malthusian style arguments are totally irrelevant. Affluence, substitution, market preference, factors of acceptable landed price, are all aspects which a sophisticated market examination may reveal as being of more profound significance than our present parameters.

If, as Bruce Childs suggests, we move towards a price structure for wood which links domestic prices with export log prices, we are going to see a return to the grower which will require him to do his job properly. By this I mean he will have to grow quality wood, grow it fast to reduce growing costs, cut out unnecessary overheads (consultants are

often put into this category!), and produce a high rate of return which I think all profitable people deserve.

McCONCHIE: I would like to talk about stumpages in New Zealand. One of the things we need is the reporting of stumpages, including the range of prices which have been paid. At present the only source of such information is the Director-General's Annual Report. The data I quote have been extracted as averages from successive Annual Reports. In discussing prices of this nature, we must try to eliminate the effect of a depreciating monetary unit. If we just quote prices as reported, it is like quoting our volumes per acre in a cubic foot which is constantly varying. And yet we quite happily talk about stumpages this year and compare them with stumpages last year or even five years ago without fully understanding the effect of changing money values over that period of time. So the figures I have taken out are real stumpages expressed in 1965 prices. As a deflator I have used the consumer price index. If we look at the long-term position for indigenous stumpages, we find that initially in the early 1920s, real stumpages were very high. They fell very rapidly through the 1920s to bottom out about 1926, and since then they have progressively increased to a peak in 1966. The rate of increase over that 45-year period was of the order of 2.4% per annum — a very fast rate. Since 1966 the stumpages for indigenous timber have been declining again. There is a rough association between indigenous stumpages and indigenous timber prices.

For exotic stumpages we have data only from 1951, but over the last 20 years real stumpages have shown a decline of something like 1% per annum. Stumpages are now less by that percentage for 20 years than they were in 1951, although the money value has increased. This is where the significance of the real prices as against money prices becomes apparent.

When we look at individual regions, we find that since the early 1960s indigenous stumpages in the three North Island conservancies have been around 10 to 14 cents per cu. ft, although in the last three years Rotorua has fallen very markedly to the price levels of the South Island conservancies (excluding Canterbury) of 5 to 8 cents per cu. ft. After 1967-8 all the indigenous stumpages tended to fall, quite markedly in some instances. This sharp decline can be in part associated with constant money prices in the face of a very rapid change in our money unit, over the last few years. (The \$NZ has depreciated to the extent of 25% from January 1970 to December 1972). Reasons why the decline has been as fast as it has over the past few years include declining real prices for indigenous timber, the effect of longer haul distances and more costly extraction, giving delivered costs that have been rising also in real terms, and the residual value approach itself.

If we turn to exotic stumpages, we notice that over the same period, from the early 1960s to the present, Nelson and Rotorua have always occupied the lowest position — around 3 to 4 cents per cu. ft. The Nelson average has in fact dropped quite substantially in the last few years, associated with the



use of slow-growing species there for chipping. Canterbury was also down in this group, but since 1966 the average stumpages there have risen very rapidly, until they are one of the highest of the various regions in New Zealand. It is interesting to reflect on the efficacy of nor'westers for correcting imbalances in supply and demand, and the effect that this might have on prices! I am not suggesting this is the only effect in Canterbury, but I do feel it has a substantial effect on the increasing stumpages that have become apparent there. Auckland, Wellington and Southland conservancies tend to form a group where exotic stumpages have been about 5 to 7 cents per cu. ft. In the last few years Southland has tended to move up closer to the Canterbury position, with average stumpages around 7 to 8 cents per cu. ft. In contrast to indigenous stumpages, the exotic material has not shown the sharp decline over the last four to five years. Exotic timber prices have also not shown the decline the indigenous timber prices have, and this is in part why the exotic stumpages have remained up. Very briefly, that presents a picture of the New Zealand position.

There are some implications I should like to draw. First, we get changes in stumpages largely as a response to the supply of wood that is available. John Tustin's remarks for North America confirm this tendency, and there is an indication of it in Canterbury as well. As increased pressure is placed on the New Zealand resource, we can expect real stumpages to rise. There are many other factors which tend to inhibit this rising effect, but supply position is a very strong influence.

Secondly, the manner in which revaluations are proposed in the Stumpage Report will affect stumpages. The suggestion is to have a short-term one-year revaluation, which will adjust prices in terms of changing money values. Then there is a medium-term, five-year revaluation as well, to cover other factors. If stumpages have moved in line with changing money values, then you could not criticize this particular approach. But some evidence suggests this is not the case, and that prices for stumpage move independently. Thus, if we use a deflator (such as the Forest Service growing cost index), I could envisage an awkward situation where, over a five-year period, we have annual increases in stumpage of a certain amount, and then at the medium-term revaluation, when we consider these other factors, we find that we should reduce the stumpage. In other words, the increases annually through that five-year period have been greater than they should have been.

My other comments apply to the long-term effect of an artificial, or administrative, means of adjusting prices. First, price substitution might be induced. If we distort relative prices, we may find timber in a less competitive position in respect to competing products. Secondly, we may distort the true profitability picture of the forest grower. In essence, we can set prices in accordance with a market principle, or we can set them administratively. Do we really prefer to have our prices set in committee, or according to some desired

index of costs or prices applied administratively, or are we prepared to continue to let the market place derive our prices for us? There is no inherent reason why administrative prices will be better than market prices. We may well come to the conclusion that the farmers have come to. They prefer to have administered prices, rather than be subject to the idiosyncrasies of the market place. But before we do reach that conclusion, we ought to give this very careful consideration.

CARTER: Is it not valueless to base conclusions on average stumpage rates adjusted to constant money values, when important factors such as species, location and the ratio of pulplogs to sawlogs are ignored?

McCONCHIE: Data of this nature have shortcomings, and I tried to bring out some of these. However, we have this information and there are conclusions we can draw from it, while recognizing these shortcomings.

BARR: In his foreword to the Stumpages Working Party report, I notice the ex-Minister of Forests said that profits should be shared between the grower and the industrial side. Fair enough. The industry has a good idea how much it costs to grow wood, but as growers how do we discover the profit that industry makes by manufacturing our raw material? This is not available. In America, the U.S. Forest Service has right of perusal of their industry's books. Farmers have this in the Meat Board. How do we discover the margin of profit in wood processing?

JEWELL: From the point of view of both the industry and the grower, the highlight of the arrangements that have been agreed is that there is a right of protest to a committee to be set up by the Minister to advise him whether or not prices are reasonable. When that committee sits, it will have to have evidence submitted to it to show that the claim of either the seller or the buyer is correct. In so doing, there must be cost information available. This, to me, is one of the best safety valves that has been provided. It indicates that industry and the growers have reached a compromise whereby they can both live in reasonable harmony. Now we can all do a positive job and we can all get a fair profit out of it.

USMAR: The prices for sawlogs in New Zealand and overseas seem to suggest that there could be one national base price for sawlogs. The situation is a little different for pulplogs, especially as there tends to be only one buyer within any one area in New Zealand. Would the argument put up for an international price for sawlogs also apply to pulplogs?

OLSEN: Basically, the reason why we are looking for a market for pulpwood is that at present our mills are not able to absorb the volume available locally. When our industry can absorb this, they will have to do some marginal costing. If they cannot bid a price equivalent to 41 cents f.o.b. — or whatever the Koreans will pay — the grower has a market choice. I do not think arrangements between the Forest Ser-

vice and their contractual purchasers will affect this. Growers will make a business decision whether their pulpwood goes to the local mill or whether it goes out of the port. Basically, the pulp industry now is not able to face up to the high export prices. In future, you will not see any roundwood being fed straight into a chipper if it will yield  $4 \times 2$  in. timber first. This is the trend in the U.S.A. and Canada. The pulpmills will exist on cheap raw material, primarily waste.

CHILDS: I do not see continuing large-scale international demand for pulpwood in round form. There are reasons why wood can be sold in that form at the present time overseas. If such a situation did persist, I would see no difference between that and the sawlog market.

WEBBY: The essential problem seems to be to determine a fair and competitive price for wood. When we think of a competitive price we are all thinking of substitute materials. When we think of a fair price in the other direction, I wonder who we are really thinking about? Are we thinking of the forest grower, or the manufacturer, or the consumer? I suggest that the consumer is the most important factor in all this. The suggestion has been made that we can look internationally for a method of valuing stumpage. I think that this suggestion cannot be considered unless we consider also all the political, social and economic implications that constitute the economic and social way of life in this country. I see an enormous danger in conclusions being reached until this subject is studied in the depth it deserves.

STUDHOLME: Would Mr Childs take into account prices of alternative materials in setting stumpages?

CHILDS: Yes, most certainly. In setting the selling price one has to take note of competitive non-wood materials. I do not see replacement of strip flooring by particle board as substitution of a competing material — it is still a wood-based product.

CUTLER: Is this international stumpage going to be set on stumpages of wood going to Japan, or does Mr Childs envisage that it will take in stumpages to other countries as well? Further, does this mean that New Zealand stumpages and timber prices are going to fluctuate the way the world market does from time to time, because we base them on an international rather than a domestic standard?

CHILDS: I did not mean that prices would be set having regard to the stumpages paid in other countries. I meant the price in New Zealand would be set having regard to international demand for that wood, be it sawn timber or logs. Mr Webby correctly pointed out that this is complicated and will take a long time to sort out. But, unless we face up to this, the risk is that we may not have the wood we need in New Zealand. Of current sawlog supply to sawmills in New Zealand, less than half comes from State Forests. Up to now, sawmills have been able to rely on other sources, but these

may no longer exist if owners remain free to sell at prices set by international competition. In some localities, for instance, Taranaki, there are no State Forests to supply a number of mills. These mills have to pay prices set by international competition. They have already faced up to this; otherwise they wouldn't have had any supplies. In discussions with representatives of the Taranaki sawmillers, they have said that they are paying prices similar to export log stumpages. This is the conflict to which I referred.

BARR: I certainly agree with Bruce Childs. This is what has happened in Taranaki where you are distant from State Forests. It has also happened in the Rangitikei area where there are some smaller State Forests and several quite efficient small mills which compete for the produce. Stumpages are, I think, around 18 cents, being given freely down there by millers who are selling timber locally. This shows that the industry can pay these prices. Up in Auckland, they throw up their hands in horror and say: "Well, we just can't pay these prices." But where you have smaller mills and free competition, without too much State Forest wood coming on to the market, then prices seem to set themselves. I cannot see any reason why you have to get complicated about this business of setting a price in relation to overseas prices. Once you start insulating yourself from overseas prices you are in great trouble. We must get away from the situation where sawlog stumpages to domestic mills are half of what they are to the export market — the two-price structure.

CARTER: Would the Forest Service remove its prescription on many sales that the timber must all be sold on the local market? This may assist the achievement of Mr Childs' objective of relating stumpages to overseas prices.

CHILDS: My answer would be "yes". If we can get to this stage, it avoids the need for any restraint on the industry as to how it sells or where it sells its manufactured products. Once it has the raw material, it is entitled to sell it on whichever market suits it at the time. Restraints would not be necessary.

MERCER: After Dr Fenton's studies showed that a log export regime is the most profitable in terms of export earnings, do we still need a restriction that Forest Service sales of logs shall be manufactured in New Zealand?

TUSTIN: I should like to know the answer myself. One of the good things about the log trade is that it does not need much labour or capital, and it generates a lot of overseas exchange. In other words, the export dollars earned per import dollar used is a very favourable ratio. I personally consider the log trade has many direct advantages over export of more highly processed products. It also has some indirect advantages in that we export much of our industrial pollution and strikes.

McCONCHIE: We should not get bound up entirely on the return on invested capital. When we process the product domestically, and subsequently export (say) the sawn timber or pulp or paper, we are adding to New Zealand's national

income. We are making a greater contribution to New Zealand's GNP. We might object to adding to GNP, just as we might object to adding to profitability, but I think we have got to see these as two indicators of the efficient use of resources. Log exporting does not add very much to GNP. It adds a lot to somebody's profitability, and John Tustin made the point that it has a good relationship between export earnings and import requirements. But processing adds a lot to GNP; it seems also to add a lot to certain people's profitability; but the ratio between export earnings and import requirements is, I suggest, equally as good, because now you have a bigger export receipt per cubic foot of raw material used.

PEDDER: One recommendation of the Stumpages Working Party was to put up short-term sales in small lots from time to time, either on a tendering system or by negotiation, in order to determine wood values. Wood growers would be concerned how this would work in areas where we have monopoly control by wood users.

JEWELL: Of course we were only talking about selling State Forest wood. The short-term sale was to help the forest grower get rid of surpluses that developed from time to time and to take advantage of market situations that would develop, such as are currently existing in New Zealand. As far as monopolies are concerned, I am not prepared to comment on that, as I am not involved in that situation.

OLSEN: Monopolies are a good thing as long as one happens to belong to one! What we are trying to discover in New Zealand is how can we get the efficiency of large-scale industry without creating a monopoly situation.

TUSTIN: What we want to make sure is that the small sale is big enough to get other people interested, and thereby generate competition. If that sale is big enough, we would not have a monopoly situation.

MOLLOY: I should like to ask the panel how it is that when timber is short the industry can bid higher prices on open tender than might be determined by the revaluation formula, and how they think that this could be adjusted?

McCONCHIE: The simple answer is, of course, that when a commodity is in short supply the price goes up. Industry accommodates this effect by either seeking cost reductions in some other area, or by increasing the price of the commodity, or by taking a lower profit.

JEWELL: The Stumpages Working Party recognized this situation, and it was resolved that, when it came to revaluation, the relative positions established between the buyer and the seller at the time of the sale would continue to be reflected in subsequent revaluations. This matter caused a lot of discussion because it could well be that a particular operator wishing to obtain a long-term source of supply pays a premium. Having paid that premium, it is then translated into the revaluation, and so that is the first protection that the grower has got.

In the case of individual tenders, when people want the resources, the short answer is, providing they are as profitable as possible before they go into the tender situation, they are just reducing the profit, and they have to be prepared to live with that in the short run.

BARR: In Queensland, the millers meet with the Government Forest Service, representing the growers, and they agree on stumpages and these prices are published, like our meat prices, so that everyone sees them. I cannot see why we should have this utter secrecy about what someone or other paid for a sale. We can find it out with a little wheedling, but it is not readily available. We should come out into the open and publish these prices.

FLEMING: The same secrecy does not seem to exist in tendering in the contracting field or any other field. It seems to be a peculiarity of tendering for wood. Why is this?

CHILDS: I do not see any reason why prices should not be disclosed once a sale is decided. I say that largely because it seems to be only a matter of time after conclusion of a sale before the price does become known to all those within the industry with an interest in finding out.

JEWELL: There is no real reason why the actual price for wood sold by the State should not be published just as the acceptance price for a contract is shown in the Gazette, but I think it has become traditional over a number of years in New Zealand that it is not disclosed. It is a subject that could well be discussed between the Forest Service as a seller, and the industry as a buyer.

TUSTIN: Stumpages overseas are often readily available. I do not think there is any reason why they should not be published locally. It is of most importance to the small operators such as farm foresters and other private investors. Such people have very limited knowledge, yet they need to know what their trees may be worth when they come to sell them. Often they are dealing with large firms, who have much better information and accordingly have less to gain from publication of stumpages.

CARTER: Anyone that puts a million or more dollars into a processing plant cannot be placed at the mercy of an ordinary public tender system based on a shortage of raw material. For his base supply he must know what he is going to pay, and what is the system of revaluation from time to time. The principle of offering short-term sales and expecting industry, having secured their long-term sales, to marginally cost on the short-term sales is, I think, quite unreasonable.

O'NEILL: The question is, Mr Carter, would you be happy about stumpages being divulged?

CARTER: Not until the agreement was signed, sealed and delivered.

O'NEILL: You would be quite happy for stumpages to be divulged after the sale agreement is signed?

CARTER: Yes.