

## SAWLOG SALES TO JAPAN

A. W. MASON\*

Our experience illustrates some important aspects of the sawlog market. In 1969 we obtained the cutting rights to a sizable forest in the South Island. We made a five-year contract with a Japanese buyer at a satisfactory price. The following year was uneventful. In 1971 my Japanese opposite number told me he was losing money on the deal, but said he would keep going because sooner or later he would make a killing. Four months later things were worse and in August the buyers came to re-negotiate prices and brought down a proposal that was unacceptable to us — and they knew it. The result was a broken contract. We warmed up our contacts with other potential buyers considerably. Then I went to Japan and contacted other buyers; they were polite but disinterested. I tramped the streets of Tokyo knocking on doors and looking for buyers, but I came back with the logs unsold — nobody wanted them. There was still no buyer in December, but in January one of the Japanese companies bought the logs in the stockpile — at a low price, but I was glad to get it — and signed a contract for a further 12 months' supply. In March 1972 I was back in Japan again and another firm said they wanted to buy the logs. In October I was back in Japan again and by that time every company I had been in contact with would have bought those logs had they been available — just 12 months after I had been knocking on doors without success. March 1973 is well known to everyone in the trade. We then made a sale at double the previous volume and at a price more than 40% higher than the price we got in June 1972 — such a rise is well worthy of comment. In the meantime the Japanese buyer who broke his contract with us, and who had lost \$80 000 in handling our logs, had made a total loss, in the timber department of his company, of \$800 000. In August there was a seamen's strike on the west coast of America, and anyone who could get hold of logs after that made a killing. This buyer who had lost \$800 000 in five months made \$1 million in the next month — a profit of \$200 000 in six months.

This story emphasizes one of the first and most important lessons we have to learn in a trade like the export of sawlogs. We are exporting a raw material — a commodity — on to an international market, and commodity markets are notoriously volatile. There are price movements all the time. The simple

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\*Managing Director, P.T.Y. Industries Ltd, Putaruru. Abridged version of talk delivered to the A.G.M. of the N.Z. Institute of Foresters, May 1973, transcribed from a tape recording.

reason is that such markets are subject to the free play of supply and demand — quite different from the internal situation in New Zealand. That is why we have to be prepared to learn. But the reasons for rises and falls in the market for logs and lumber are remarkably complex. They can be due to improvement in a country's balance of payments, or a Government's conscious decision to boost a lumber-using industry like housing (this happened a short time ago in Japan), or to impediments to the free flow of material, like the seamen's strike in North America, or any number of other factors. So the second fact of life we have to live with is that there are severe limits to our ability to forecast the movements of the market. We can forecast with reasonable certainty in the short term — say, to six months. And we can quite clearly forecast long-term trends — ten to forty years. But we cannot forecast in the medium short term —  $1\frac{1}{2}$  to  $2\frac{1}{2}$  years from now. The Japanese seldom can tell us what the market will be like in a couple of years, and they don't even seem to try.

The place that New Zealand has in the Japanese market is small but valued. Japan's imports of lumber from all parts of the world in 1972 were 42.8 million m<sup>3</sup>. One half was hardwood from east Asia and the western Pacific. Of the softwood half, 11.9 million m<sup>3</sup> came from north America, 7.3 million m<sup>3</sup> came from Russia, and 1.9 million m<sup>3</sup> from New Zealand. So we supplied 9% of Japan's softwood imports and 4% of her total wood imports. Bearing in mind that Japan can buy lumber from any part of the world, and that lumber will find its place on the price scale in proportion to its value in the market place, radiata pine from New Zealand is the cheapest of the softwood imports. In Japan it is put into use for purposes traditionally reserved for the lowest grade timbers — cable drums, crates for industrial products, and disposable lumber on construction jobs. New Zealand lumber occupies this lowly position primarily because it is in competition with natural-grown first-crop timber from Russia and north America, the outstanding difference being the ring width. This is often equated with quality. There has recently been what purported to be a scientific study to determine the difference in quality between radiata pine with wide annual rings and with narrow rings. The conclusion was that radiata pine with wide rings is not suitable for more exacting purposes, but this does not seem to have had much effect in the market place, but then the market is particularly buoyant. Two years ago the Japanese housing industry started to move upwards in a big way and radiata pine has found its way into housing, and I have been told that now some 50% of imports from New Zealand is finding its way into housing. We are hampered by the traditional Japanese use of exposed wood surfaces in housing, where the demand is for slow-grown high-quality lumber, but there is a move towards frame houses, and if this goes ahead we shall see much more use of radiata pine as hidden structural members in Japanese houses.

Where we go from here is rather more in our hands than in the hands of the Japanese. All long-term projections of the

Japanese market, and for the world market as a whole, are that there will in future be a substantial shortage of timber. The Forestry Development Conference predicted that the market for New Zealand's forest produce would be limited solely by our ability to supply, and this clearly applies to our market in Japan. The two biggest New Zealand suppliers have announced plans to reduce substantially the volume of their exports of logs. Certain other companies intend to stay in the trade for as long as it pays to do so. It seems that there will be continuing trade, at a considerably reduced level, but in the long term Japan will most likely accept all the radiata pine we are able to supply. At present, that market wants a log 12 metres long with a 30 cm small end. They are getting these from the largest exporters and from overmature stands, but there will be a substantial change as the bulk of the supply swings over to the firms who intend to stay in the business. The Japanese market will, in fact, accept smaller and shorter logs already, and at present anything that looks like a saw-log could be marketed in Japan — even some of the chip logs with small end diameters of 12 cm or even 10 cm. But when the market weakens (and it will) then log specifications will again tighten, and we shall have to stop sending the shorter, smaller logs for the time being, until the market again strengthens. But, overall, exports to Japan will in future contain a greater proportion of small radiata logs, and a higher percentage of minor species, and exports will be from smaller ports. These will occur because of decisions made in New Zealand, not in Japan.

There is a current debate in the industry on the relative virtues of the export of logs compared with the export of more processed material. This is a highly valid debate whether we are considering ironsands, meat, wool or wood. B. E. Talboys, when Minister of Trade and Industry, expressed the question well when he said that he would prefer to export processed material provided we get paid adequately for the extra work done in the processing. The proviso is very important. In my estimation, putting sawlogs through a sawmill and producing sawn timber and chips, and exporting them to Japan, will give a lower net effective realization than exporting logs. If you can give the buyer what he wants you can expect to make him pay the highest price he can afford. Currently the market wants sawlogs, and this preference is translated into a higher effective price. The market will accept other produce, and there is some evolution towards an increase in this trade. But we must keep our goals clear and not fall into the trap of seeing some sort of processed value as an aim in itself — it is only a means to the end we want.