

# Current realities and future opportunities for New Zealand forestry

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## Introduction

The New Zealand public could be forgiven for being confused about the future of the forestry sector given the conflicting messages that they are receiving:

- There is talk of a wall of wood yet there is currently a reduction in harvest.
- There are calls for more value-added processing yet sawmill staff are being laid off.
- There is a requirement for a trained and productive workforce yet logging crews are being put out of business.

What then are some of the realities of New Zealand plantation forestry? What are the future opportunities?

## Export focus

One reality is that the majority of the harvest of the plantation estate is exported either as logs or wood products. Table 1 shows that although 80% of the Canterbury harvest is processed locally, only 33% of the harvest is sold in New Zealand markets. The export focus is evident even for a region that has a relatively low percentage of the harvest exported directly as logs.

Table 1: Where are Canterbury logs and wood products sold?

	m <sup>3</sup> (approximate)	
<b>Sale of logs</b>		
Export logs	200,000	
Chip logs (to CHH MDF mill)	200,000	
Sawlogs to sawmills & other processing	600,000	
<b>Total Canterbury harvest</b>		1,000,000
<b>Exported log form equivalent</b>		
Export logs	200,000	
Sawn lumber (180,000 @ 56% conversion)	320,000	
CHH MDF (75% export)	150,000	
<b>Total exported</b>		670,000

## What are the key export markets?

### Australia

Total Australian lumber imports have declined from 1.7 million m<sup>3</sup> in 1990 to 0.7 million m<sup>3</sup> in 2002. Much of this reduction is a result of lower imports of Douglas fir from the USA. Imports from New Zealand fell from 529,000 m<sup>3</sup> in 1990 (31% of total imports) to 417,000 m<sup>3</sup> in 2002 (60% of total imports).

There has been development of markets in Australia

for New Zealand, notably in the truss and outdoor treated product segments. However the overall trend has been for a decrease both in the volumes sold and also the price. Real lumber prices (in \$NZ) have declined 2.3% p.a. over the last 12 years. Concurrently there has been an expansion of the Australian sawmilling industry including investment by CHH and planned investment by McVickers. Relatively low stumpages mean that some Australian sawmills have the best profit margins in the world. The real question is how long it will be until we see Australian framing for sale in New Zealand.

### USA

Table 2 shows that New Zealand has a 12% share of softwood imports into the USA (excluding imports from Canada). New Zealand has a 7% share of the softwood mouldings segment of this market compared to 38% for Chile, 33% for Brazil and 14% for Mexico. While the solid mouldings market continues, the market for finger-jointed mouldings is being lost to MDF. New Zealand exporters have been struggling to stay in the solid mouldings market because of the 30% strengthening of the New Zealand dollar relative to the US dollar over the last year.

Table 2: Softwood lumber imports into the USA for 2002.

Country of origin	m <sup>3</sup>	% of total
Canada	44,657,000	91
<b>Non Canadian</b>	<b>m<sup>3</sup></b>	<b>% of</b>
		<b>non Canadian total</b>
Germany	961,000	22
Brazil	703,000	16
Chile	616,000	14
Sweden	565,000	13
New Zealand	521,000	12
Australia	382,000	9

### Korea

New Zealand has a dominant position in softwood log imports into Korea (Table 3). It is unlikely that Russia will increase its position in this market and will concentrate more on the closer Chinese market. Australian log exports, mainly by Pentarch out of Melbourne, will increase. However, New Zealand is likely to hold its position in the Korean market which is primarily for low quality logs. Noticeably Chile's log sales are rapidly declining.

Export log prices (FOB real NZ\$/JAS) have declined in recent years. The real price for K grade logs has decreased by 0.7% p.a. since 1989 and by 2.8% p.a. since 1995.

New Zealand lumber exports of 60,000 m<sup>3</sup> in 2002 are static.

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Table 3: Softwood log imports into Korea in 2002.

Country of origin	m <sup>3</sup>	
New Zealand	4,229,000	grown
Russia	1,493,000	growing
Australia	712,000	growing
Chile	148,000	declining
Total softwood log imports	7,127,000	

### Japan

The Japanese market pays more than the Korean market for logs but requires a tighter specification. Log imports from New Zealand provided 12% of total Japanese log imports in 2002 (Table 4). However log imports have declined by 60% over the last decade.

As for Korea, export log prices for Japan have declined. The price of A grade logs (FOB real \$NZ) has decreased by 1.0% p.a. since 1976, by 1.8% p.a. since 1990, and by 5.0% p.a. since 1995.

Japan imported 225,000 m<sup>3</sup> of lumber from New Zealand in 2002.

Table 4: Log imports into Japan in 2002.

Origin	m <sup>3</sup>	
Russia	4,532,000	declining
North America	3,697,000	declining
South East Asia	1,981,000	declining
New Zealand	1,445,000	declining
Total log imports	11,800,000	

### China

Chinese log imports totalled 24.3 million m<sup>3</sup> in 2002 of which 60% were softwood logs. Over 90% of softwood log imports (13 million m<sup>3</sup>) were from Russia while 1.5 million m<sup>3</sup> of logs were imported from New Zealand. Growth in Chinese log demand has been compounding at 28% p.a. since 1996 and continues to expand. Imports from New Zealand could reach 3 million m<sup>3</sup> in 2004. However, New Zealand logs sell at a discount compared to Russian logs.

Imports of lumber from New Zealand have increased from 6,000 m<sup>3</sup> in 1993 to 188,000 m<sup>3</sup> in 2002. New Zealand will face difficulties in expanding in the Chinese lumber market because of competition from domestic sawmillers. China, as all developing nations do, wants domestic processing to develop its own employment and skills as well as add value. In addition, there is increasing competition from suppliers such as Russia where the sawmilling industry is gearing up. For example, Stora Enzo is commissioning sawmills in Russia.

### India

India is an emerging market for logs from New Zealand and in 2002 imported 294,000 m<sup>3</sup>. This made India the fourth largest market for export logs from New Zealand.

However it is still a relatively small market compared the top three and there are logistics issues to be overcome.

### What is New Zealand's position in global markets for forest products?

Although we may think that New Zealand is a major player in global markets, in fact we account for about 3% of the total world trade in forest products. Only in the log and MDF markets does New Zealand account for greater than 5% of trade (Table 5). One implication of this is that there is plenty of upside for New Zealand. Only in the export log market with Korea and the lumber market in Australia does New Zealand have a dominant market position. Elsewhere there are opportunities for growth.

Table 5: New Zealand's position in global exports of forest products in 2001/02.

	World	New Zealand	New Zealand
	'000 m <sup>3</sup>	'000m <sup>3</sup>	%
Logs	117,320	7,858	6.7
Lumber	109,703	1,834	1.7
MDF	7,897	680	8.6
Pulp	37,074	765	2.1
Paper/Paperboard	76,792	270	0.4
Newsprint	17,764	220	1.2

### What has Chile been doing?

In 1990 the forestry sectors in Chile and New Zealand were in a similar position. Both countries were exporting lumber, MDF, plywood and logs. Both were starting to export edge glue panels.

In 2003 New Zealand is still exporting lumber, MDF, plywood and logs. In addition there are exports of LVL and finger-jointed fascia. There are minimal exports of solid lineal mouldings, finger-jointed mouldings and finger-jointed blocks.

In 2003 Chile is still exporting lumber, MDF and plywood. But, in addition there are exports of LVL, doors, solid lineal mouldings, finger-jointed mouldings, finger-jointed blocks/components and edge glue panels. There is minimal exporting of logs.

In 1992 the New Zealand Forest Industries Strategy Study recommended a vision for the sector "to develop an internationally focused, market-led New Zealand forest industry that profitably adds value through processing which will result in a continuing expansion of the forest resource and a significant enhancement in the wealth of the industry's investors and the nation". At the subsequent conference there was much talk about the need for companies to "fly in formation". It would appear that while New Zealand continued to talk about implementing such a vision Chile went and actually did it.

Why has this happened? Fundamentals of the forestry sectors in Chile and New Zealand are contrasted in Table 6.

Other issues that the New Zealand forestry sector faces

Table 6: Fundamentals of the forest industry in Chile and New Zealand

	<b>Chile</b>	<b>New Zealand</b>
Investment in processing	Significant	Limited
Major companies	CMPC/Arauco	CHH/FCF
Industry interaction	Close	Mistrusting
Marketing cooperation	Strong focus	Lacks cohesion
Trade agreements	NAFTA, CAFTA	CER
Government focus	Primary industry	Techno industries (Knowledge wave)
Compliance costs	Minimised	Escalating (RMA, District/Regional)
Kyoto Protocol	Annex 1 (Not bound)	Ratified

include:

- Difficulty in attracting a skilled labour force because of poor perceptions and a lack of understanding of the industry. For example, careers advisors in schools often have a limited knowledge about forestry.
- Declining consumption of wood in domestic construction partially because of consumer confidence affected by leaky buildings and product substitutes.
- Insufficient investment in research and development, and key infrastructure investment.

### What are the opportunities for New Zealand?

Rather than spending the next 10 years continuously debating what we should do, we should get on and implement a strategy. Some key steps are:

#### 1. Be clear of our existing position

We are a minor global player. The downside of this is that the world would survive without our forest products. We need to focus on understanding what customers want.

#### 2. Understand our opportunities

We have clearly identifiable market share gain opportunities particularly in China, USA, India and South East Asia.

#### 3. Focus on our largest opportunity

China is our single biggest market opportunity. We need to focus on realising the potential of this market.

#### 4. Give the customer what they want

China wants to buy logs from New Zealand. Wood Processing Strategies are fine but if the customer wants to buy logs then why not sell them logs? In the medium to long term there are opportunities for processed products in a range of markets but in the short term the major market opportunity is for logs and by default we will always have log grades not necessarily suitable of high added value potential. No current tree to my knowledge is capable of producing its entire log volume in pruned wood, and our total national resource is far from all being pruned.

#### 5. Invest in developing this market

We need to

- Invest in radiata pine promotion in China. For example, Canada is building 800 wooden houses in Beijing to promote their products. In contrast the New Zealand industry is often guilty of trying to push products into markets rather than creating pull.
- Invest in log infrastructure in China; e.g. port storage and transport. We have much expertise here.
- Explore adding value in China; e.g. truss plants.

### What else do we need to do?

There are some other fundamentals that we need to address:

#### 1. Improve our industry's cost position

Currently we have high costs because

- There is poor utilisation of capital. Harvest machinery and sawmills often only run for 8 to 10 hours per day on a 5 day week.
- Some ports (e.g. Lyttelton) only load in daylight hours.
- Different companies use different ships to export logs. Consequently small to medium size ships follow each other from the same New Zealand ports to the same export ports. If we know, as we surely do, that we are going to export logs from the same New Zealand ports to the same Asian ports for the next decade, let's focus on gearing up for it, let's take some lessons out of the oil industry distribution manual, of getting cost out and accepting we are moving a bulky commodity product, so let's resource and structure our real transport needs appropriately.

#### 2. Revitalise promotion to consumers that wood is good

We need to promote and support the use of wood in the domestic economy.

#### 3. Seek biofuel options for our existing forest waste (stumps and slash)

We should concentrate on the development of efficient co-generation options to utilise existing forest waste.

#### 4. Get Government support

Government should invest potential carbon credit gain in international promotion, infrastructure development and reducing tariff barriers.



### 5. Make strategic marketing decisions

Too often in recent years marketing decisions have been driven by the need of companies for cash. We have seen situations where companies have responded to prices going down by increasing harvest volumes in order to maintain revenues. We have also seen many examples of New Zealand companies undercutting each other in markets.

The current forest ownership changes should assist in removing cash-driven marketing decisions. Greater cooperation in marketing is still needed to avoid New Zealand companies being individually picked off by customers and to improve our credibility in the market place.

### We need a profitable forest industry

These actions, together with realising short-term log export opportunities into China, will help to return profitability into forestry so that investment can be attracted. There are opportunities for value-added products in the medium to long term. The challenge in the short term is to get profitability back into the forest industry.

A Golden Goose has planted the trees and the trees continue to grow, yet what are we doing as an industry to ensure the trees are golden?

### Reference

DANA. 2003: *The NZ Forest Products Industry Review 2003*. DANA Limited, PO Box 392 Rotorua.

# When will things get better? Never and soon – it will just be more of the same but in a different way

Phil Taylor\*

The first question is, "How does one measure better"? Is it greater financial return, less risk, fewer compliance costs? Or is it a greater acceptance of the forest industry by the community, a more responsible attitude towards the environment and a greater commitment from the industry for its people? The list could go on *ad infinitum*. So, do these "betterisms" which are often seen as being mutually exclusive need to be? This really is the nub of the question posed in the rhetoric. So, before we can answer the question, "When will things get better?" we must first ask the questions, "Better in what way?" and "Better at what cost?"

### A Question of Context

On the surface, the answer to the question, "When will things get better?" is a simple one (although not an easy one to achieve). I am sure there are other commentators in this series of articles who will talk in depth about international freight rates, exchange rates, market demand, costs structure, competitive forces etc. But, when we talk about these "economic factors", we talk about "better" in terms of the current construct, i.e. an acceptable financial return from forestry as an investment.

If one were to ask this same question of a recently laid off harvesting contractor, he or she may well repeat those issues identified above, but would also conclude that things will get better when the company really cares, when company vision moves beyond the next reporting

cycle to the shareholder, and when the social consequences of decisions made on the basis of short-term economic performance are truly recognised. Alternatively, put the question to an NGO concerned with environmental issues, and a different response again might be expected.

So we can see, the answer to the question is dependent on the context within which it is constructed and ultimately asked.

### A Question of Change

There is an age-old saying, "The more things change, the more they remain the same" and there is nothing to suggest that the focus on economic performance will change in the short-term (and this is economic reality); businesses need to pay their way. There will always be a tension between cost efficiency and a commitment to social and environmental matters.

However, perhaps, just perhaps, there is a better way.

Our industry is dominated, and in many cases led, by corporations who have a need to focus on the bottom line. Shareholders expect it and therefore this way of thinking tends to dominate both their and our ways of thinking. But should it? I would suggest that this approach is slowly changing. We have seen the fashionable (if you are a cynic) or inevitable (if you have a broader world view) shift towards recognising the importance of both the community and the environment for the long-term economic well being of our organisations. We have to accept that this recognition is likely to come at some cost to the short-term bottom line. But, is this a bad thing if it encourages long-term benefits?

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