



# OLSEN NEWS

PF OLSEN AND COMPANY LTD

Professional Forestry Services – Issue N° 16 – December 2001

## ▲ *Industry Issues*

Where are we at and where are we going as an industry?

We are devoting this newsletter to commentary on some of the big-picture issues facing the growing sector of the plantation forest industry in New Zealand, and what is being done (or not done as the case may be) to address these.

### **The Vision**

The New Zealand forest industry, through the Forest Industries Council, has developed and agreed on a vision to grow the forest products industry to become New Zealand's Number 1 industry by 2025, as summarised in the table below:

<b>Forest products industry</b>	<b>2000</b>	<b>2025</b>
Outputs	\$5 billion	\$20 billion
Percentage of Gross Domestic Product	4%	14%
Directly employed	22,000	60,000
Indirectly employed	100,000	250,000
Export earnings	\$3.5 billion	\$14 billion
Ranking as export industry	Third Largest	Largest
Log harvest	17 million m <sup>3</sup>	40 million m <sup>3</sup>
Value of supporting technologies industries	\$100 million	\$1,000 million

### **BUT HOW DO WE GET THERE?**

#### **Co-operative Marketing**

At present, NZ wood production is dominated by large corporate firms. These companies have traditionally found it difficult to co-operate in market development. Small owners tend to be fiercely independent. Past attempts to co-ordinate marketing between small owners have also been short-lived.

However there are some good signs emerging. A successful co-operative marketing effort among corporate forest owners and log traders in India is working well, and paves the way to further cooperation. Forest Industries Council is facilitating discussions between the major forest owners to advance this concept.

While small forest owners are well served in NZ by independent consultants who can ensure they get the most out of their individual woodlots, this does nothing for processors who are seeking larger scale and continuity of supply as the basis of major new investments.

We need internationally competitive processors to sell to. Expansion of log exports to take up all the additional wood coming on stream is not a credible option. This would keep a downward pressure on prices over the long term.

Log exports have been driven (in part) by low processing costs in Asian countries. With rising labour costs in Korea at least, and energy costs set to rise internationally the economics are shifting towards domestic processing.

The rise in energy cost will be driven by rapidly expanding wealth in high population Asian countries and reduced reliance on cheap but polluting oil in favour of cleaner but more expensive energy.

It seems to me the best way to ensure forest owners get paid a better price for logs is to start thinking of the logs as the raw material for higher value products that are efficiently produced and distributed to international markets. So what can forest owners do to encourage investment in such processing and marketing?

The solution is obvious – unite to provide large-scale packages of continuous log supply. These large packages are more attractive to world-scale integrated processing investments, than the present

fragmented and insecure purchasing of logs providing only short term supply security.

The entity controlling such larger wood flows also has much more marketing clout than individual owners have. The corporates could help initiate such co-operatives in districts where smaller owners cannot yet commit sufficient volume.

But – we all cry – doesn't that mean I give away my right to harvest during price peaks! Well yes it does, but be aware that the opportunity for smaller growers to harvest simultaneously during price peaks is very limited.

The majority of the expanding harvest will require cable harvesting systems. At \$1.0 million set-up costs per crew, New Zealand simply cannot “turn-on” additional cable harvest capability for smaller owners harvesting during price peaks, without security of on-going work when prices fall away.

Continuous work for harvest crews is the best way to keep harvesting costs stabilised. Unless harvesting operators have that security they are not motivated to invest in better equipment, worker training (also lowering costs associated with worker turnover) and business improvement.

So what next? At present Olsens are consulting with forest owners and existing and potential processors to gauge interest in formal legal structures that would effectively see owners committing certain volumes of their forest to a jointly owned company for log marketing.

Any feedback on this from readers should be directed to Chief Executive, Peter Clark ([peter.clark@pfolsen.co.nz](mailto:peter.clark@pfolsen.co.nz)).

### **Positive Role of Government**

In the last 15 or so years, Government has taken a hands-off approach to industry leadership and new initiatives. The Wood Processing Strategy (WPS) led by Hon. Jim Anderton is welcome evidence of the recognition that Government does have an important role to play.

The WPS is a NZ Government/Forest Industry partnership to address constraints to maximising the returns to New Zealand from our forestry sector. It is addressing (and making progress) on:

- Roothing infrastructure for harvesting in regions where harvesting is expanding.
- Resource Management Act delays and costly blockages that have nothing to do with improving environmental or social outcomes.

- Labour and skills shortages.
- Trade access to key markets (tariff and non-tariff barriers).
- Improving biosecurity.
- Climate change – Kyoto protocol impacts.

There is strong evidence that the Government is fully committed to improving trade access. Efforts to improve biosecurity are also commendable, with substantial new resources committed. There is also a renewed focus from Trade New Zealand on efforts to introduce new processing investment. This is all good stuff.

### **Roothing Infrastructure**

The Government has assisted in getting parties talking to each other and funded studies to develop strategies and costings in East Coast and Northland. But still, after 18 months of study and talking, not a single new dollar has been spent to sort out blockages and safety issues in rural public roading.

Forest owners wanting to harvest in the East Coast and Northland regions continue to face uncertain delays and costs as local authorities refuse to spend any money on capital improvements or minor safety works. The present situation is intolerable. Forest owners are seeking short-term relief via a special fund for urgent public road works now, while longer-term sustainable funding solutions for New Zealand's rural roading network are put in place.

The problem is simple. The solution is straightforward. Are we suffering from paralysis by analysis?

### **Resource Management Act**

The other major area of concern is over the recent review of the Resource Management Act. The Government seems to be of the mindset that if it takes 3 years and \$2.0 million dollars to get a port expansion or new processing plant approved, then that is OK – that is just the cost of letting everyone have their say. Well it is not OK.

It is quite pointless having a WPS focused on expanding investment in wood processing at the same time as we put those sorts of blockages in the path of investors – they simply find it easier and cheaper to go elsewhere.

We are not suggesting environmental and social outcomes be compromised – simply that the opportunity for vexatious, opportunistic and extremist objections to be dealt with very swiftly. Unless under very strong leadership, local councils

are not the best placed to do this – it will take Government leadership that is not evident right now.

We are a small nation. Speed of decision-making and implementation of investments is one competitive advantage we should be able to capitalize on – why aren't we? Poverty in paradise is still poverty!

### **Kyoto Protocol**

The final topic of concern is the Government's apparently immovable commitment to lead the world in ratification of the Kyoto Protocol. The forest industry supports the need for international action to address climate change. It is also our view that the forest industry can deliver sustainable long-term reductions in global greenhouse gas emissions. Forest sinks are only a temporary solution. Biomass energy and substitution of products requiring high energy in manufacture with wooden products is what provides lasting benefits.

While there may be windfall gains for owners of post-1990 new forests, our concern is about the timing of ratification versus our competitors. Are we rushing to the front of the pack, only to look behind after passing the finish line and find no one else has bothered to leave the starting blocks? New Zealand produces only 0.2% of greenhouse gas emissions, so on its own can have only limited impact. Major competitors in the forestry sector, including USA, Australia, Chile, Malaysia, Indonesia and China are not committing to ratification yet. The real danger of early ratification is that this involves introduction of domestic policies that could make our wood processing sector uncompetitive internationally – again inconsistent with the objectives of the WPS.

This is really a question of understanding the cost/benefit equation. The Government has determined that there is benefit to its domestic and international profile by opting for early ratification (as stated previously, the environment benefit is small). But at what cost to the productive sector of our economy? Without domestic policies articulated, it is quite impossible for economists to tell us what the costs will be – but some early analysis by NZ Institute of Economic Research looks scary. Until industry and the Government can agree that the cost side of the equation is not debilitating, or that their policies for implementation will not erode the international competitiveness of our wood processing industry, why push ahead with early ratification?

*Feedback on this article is best directed at your local MP.*

## ▲ **FSC Update**

Our development of a Forest Stewardship Council (FSC) group certification scheme has progressed well. After careful consideration we have selected a new FSC assessor, SmartWood. One of the more reputable assessors, SmartWood are USA based and are working in New Zealand through AgriQuality NZ Ltd. We believe SmartWood will provide a service and assessment that best meets the needs of Olsens and our FSC clients. We have set a date of mid February for the assessment and expect to be awarded the group certificate by June 2002.

Uptake of the scheme by Olsen clients has been excellent and we have many other forest owners showing great interest. This is a reflection of the commitment of the forest industry to FSC certification.

Certified plantation forests and those in the certification process now amount to one third of the plantation forest area in New Zealand and more than one third of the current production (these are mostly mature forests). There are over 20 sawmills with chain of custody certification and many more in the process of obtaining this. Demand for FSC wood has outstripped supply. The increasing demand for FSC certified logs means some mills offer a premium to growers.

Olsens have also been very busy providing FSC consulting to other companies and are involved in the national standard setting process for forest certification.

If you require any information on FSC or would like your forest to join the Olsen FSC Group Scheme please contact our Environmental Manager, Colin Maunder for more details at our Head Office or on 025 385 171. ([colin.maunder@pfolsen.co.nz](mailto:colin.maunder@pfolsen.co.nz)).

## ▲ **Log Markets**

### **Domestic - Pruned**

There is downward pressure on the prices for pruned logs as demand softens. US markets for clear boards, clear cuttings and mouldings are the main market for NZ pruned logs. This market has weakened in the wake of slowing overall US economy and the September 11<sup>th</sup> attacks. However, with the lowering of interest rates confidence is returning and the downturn is expected to be short-lived.

## Domestic – Unpruned

Unpruned sawlog demand remains strong with small price improvements, especially in the higher grades. Wet weather has constrained harvesting in some areas.

## Export

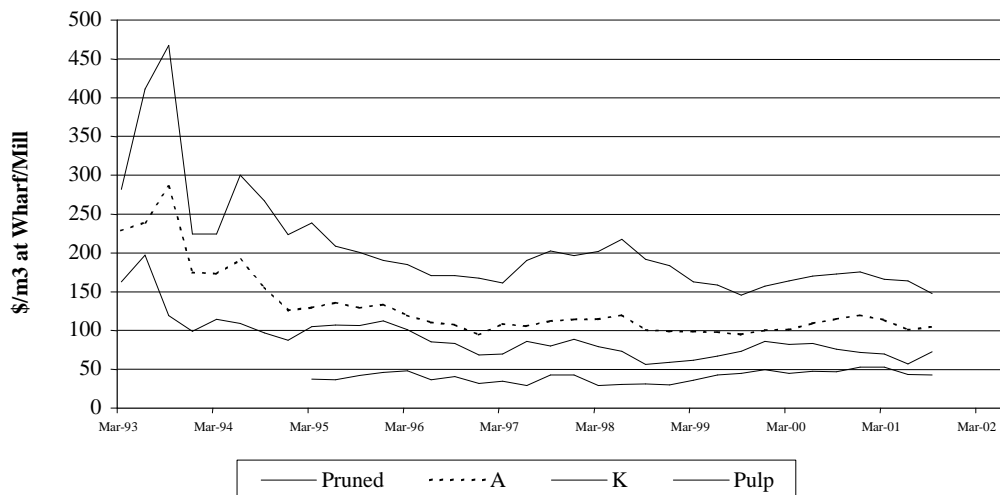
For the first time in many months we are seeing price increases driven by increased demand and constrained supply in Korea and China. In recent months price increases or stability had only been achieved on the back of a weak NZ\$ and reducing

sea freight costs. The latest upwards price pressure is supply/demand driven.

Japanese demand remains extremely weak, but Chinese demand is strong. Co-operative marketing by NZ exporters is working well in India and achieving steady price improvements.

This upward price movement is not reflected in the graph shown. This graph shows prices recorded by MAF in September 2001.

LOG PRICES 1993-2001



**HAVE A RELAXED CHRISTMAS AND HOLIDAY  
BREAK AND ALL THE BEST FOR 2002 FROM THE  
OLSENS TEAM.**

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