

*By Rob McLagan, Chief Executive NZ Forest Owners Association  
September 2003*

The forest industry is experiencing a different phase at present. Such periodic downturns are of course not new to the industry, and need to be considered in the context of the extremely long period that trees and their products have provided energy, building materials, paper, and furniture for mankind.

Today the forest industry is extremely diverse and sophisticated. The range of products from New Zealand's largely plantation forest estate continues to expand at a rapid rate. While the quantity of the fibre which is being transformed into more value added products is growing significantly, we are still exporting an increasing volume of our harvested trees in log or semi-processed form.

It is wrong to view log exports as somehow a failure of the industry. They are a legitimate part of our export trade meeting overseas customers requests for raw materials to be converted into their specific end uses. However, we can and must transform a greater percentage of our harvested trees into higher valued products.

Whereas a container of logs earns New Zealand around \$8,000 in foreign exchange, a similar container of lumber is valued at \$25,000 and of furniture earns around \$150,000.

The industry is working hard to increase the amount of value added activity in New Zealand. The industry/ Government partnership- the Wood Processing Strategy- has as its objective the further domestic processing of 50% of the increased harvest. In view of the rapid increase in harvested wood, this is an ambitious target. However, it is worth striving for as success would increase the numbers working in the industry from 23,000 to 60,000 ( mainly in the regions) by 2025, and would increase the forest exchange earnings from \$3.6 billion at present to around \$14 billion taking forestry to the top export earner for the country.

The current difficulties need to be seen in the context of rapid expansion from a low base. They could be described as inevitable growing pains.

The industry is already well up the 'wall of wood' and can take credit for the way it has coped with the rapid and substantial increase in the harvest from around 14 million cubic metres in 1994 to around 22 million today- an increase of 57 per cent.

In spite of all the focus on so-called 'new wave' industries, the forest sector is notable for its growth and innovation. Indeed a small percentage growth in such a large industry far outstrips larger percentage increases in newer- but very small- 'glamour' industries.

The current normal market price volatility is being compounded at present by New Zealand's high exchange rate and large increases in shipping freight rates. This combination of factors means the industry is facing a period of consolidation as it adjusts to the new economic and trading environment.

The industry also continues to face serious trade barriers in overseas markets. For this reason, the industry is working hard in the Doha Trade negotiations to achieve a successful outcome. Tariffs on New Zealand forest product exports currently cost the industry around \$45 million per year and non tariff barriers around \$165 million.

While the recent WTO negotiations in Cancun concluded without much apparent progress, the industry remains optimistic that the negotiations will continue and will ultimately achieve real progress in dismantling the current trade barriers.

Focusing on the longer-term view, we know that forests in many other countries are being protected for environmental or flood protection reasons; that the pressure is increasing to stop illegal logging, and that it is becoming increasingly costly to harvest wood in Russia for example.

We also know that wood is an environmentally sustainable product; is part of the solution to climate change; that New Zealand has extremely favourable growing conditions for radiata pine; sound management and a skilled workforce; a world class research capability; and generally an efficient infrastructure.

All these factors suggest that over the medium to long-term, our forests resources will play an increasing role in the welfare of New Zealand as a whole and for a growing number of regional economies.