



ForestWood 2010

Murray Sherwin
Director-General
Ministry of Agriculture and Forestry



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Te Manatū Ahuwhenua, Ngāherehere

Industry Scale

- 1.8m ha
- Approx \$11 billions NPV trees
- Approx \$7 billion in land
- Approx \$4 billion in processing assets
- How to generate strong returns from a \$22 billion asset, and enhance the capital value



Opportunities

- **Y/E June 2010**
 - **23.5m³ harvested**
 - **9.9m³ exported as logs**
 - **6.3m³ domestic processing**
- **2015 – 25-27m³ projected harvest**
- **2025 – 37m³ projected harvest**
- **Most of increased harvest will be exported**



Opportunities

- 70% export revenue from 40% volume (processed)
- 30% export revenue from 60% volume (logs)
- Real log prices today half of 1993 levels
- Domestic processors often struggle to match export prices



Opportunities

- **What matters is profitability**
- **Better to ship logs profitably than process locally without profits**
- **Even shipping projected harvest as logs will pose a logistical and resource challenge**
- **Processing poses even bigger resource challenges**
- **We're not alone – meat, wool**
- **Coherent, well targeted strategy required**



Investment & Capital

- Hard to find good information on processor profitability
- Small processors being squeezed
- Source evidence that NZ returns stack up ‘reasonably well’
- Relentless drive for efficiency, innovation and cost control



Investment & Capital

- Need a whole of system view
- Need profitability across each part of the value chain



Challenges

- Many
- Old CNI vertically integrated models gone
- Ownership of forests fragmented
- Some owners with limited interest in post harvest
- Future growth from small, scattered forests, variable quality, higher transport costs



Challenges

- Existing 'big' mills no longer 'big'
- Where are the new investors?
- What to build, and where?
- Wood pellets / biofuel – competing with pulp & paper?
- Multi-story wood construction?
- Wooden residential – to world scale?



Challenges

- **Tiny domestic market**
- **Capital intensity & scale key to efficiency & productivity**
- **Means high export dependency**
- **Means high exposure to risks**
- **Requires robust strategy and robust balance sheet**



Owning the Future

- **Industry needs to own its future**
- **Sizeable resources, not the best tree species, but versatile & known product**
- **We're stuck with it for a long time**
- **Need compelling ways to present it to international markets**



MAF's Role

- Significant involvement
- Crown Forestry - \$120m pa revenue
- East Coast Forestry Project – 34,500ha so far
- Sustainable Land Management Fund, Afforestation Grants Scheme, Permanent Forest Sink Initiative
- Trade negotiations / market access
- Biosecurity
- ETS
- Sustainable Farming Fund – 64 projects, \$6m
- PGP



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Industry / Govt relationship

- FIDA has gone. Will need at least matched funding (at least) from industry in future
- Govt/Industry Agreements on biosecurity
- MAF review of existing schemes – AGF, PFSI, etc
- Crown funded R & D
 - Scion - \$21m pa Govt spend
 - Are you getting value?
 - What do you want from it?



PGP

- A partnership
- Just one forestry bid so far \$3m towards mechanical harvesting on steep slopes (FFR)
- Would like to see more – built around a strong strategy for the future
- See meat (\$60m) and dairy (\$85m) bids



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Conclusion

- **Forestry a big and important industry**
- **Challenges, but also opportunities**
- **Need robust strategies and strong leadership to grab the opportunities**
- **MAF keen to assist**

