ADDRESS TO TIMBER DESIGN SOCIETY SEMINAR

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"BUILDING A PARTNERSHIP FOR WOOD''

It's good to be with you this morning to talk about product design and innovation as a means for expanding the use of wood, adding value to our forest production and reclaiming the ground we risk losing to alternative building materials.

I want to congratulate the Timber Design Society for taking the initiative to hold this series of seminars around the country.

This series takes place at a time when the industry is facing enormous challenges to its future direction.

It is not a comfortable place to be but there is nothing like a crisis to help focus the mind.

We have today an opportunity to do things differently so that our current experience does not become a recurring pattern.

This morning I want to set out some of these challenges, to consider some alternative scenarios for the future of the industry and to highlight the strength that could come from working both with the Government and the timber design community to build a future partnership for wood.

Current challenges

It's often said you need to be an optimist to be involved in forestry.

Planting a tree is an act of faith as you wait patiently for 25 years or so for the harvest.

And yet this is an industry that has in fairly short time become the country's third largest export sector, with a turnover of $5 billion, employing 23,000 New Zealanders and contributing 4 percent of GDP.

It follows then that 'getting forestry right' is not just imperative for the sector's workers, owners and shareholders – it is imperative for the whole nation.

There are few other sectors with the capacity to make such a major contribution to the nation's economic, environmental and social livelihood.

This is an industry that knows where it <u>wants</u> to be headed.

Our vision for the year 2025 is one where

- we contribute 14 percent of GDP
- we employ 60,000 New Zealanders
- we are the largest export sector
- we have a turnover of NZ$20 billion.

There's no doubt that for some months now the industry has faced a number of challenges.

We all know about the effect of the 'triple whammy – high exchange rate, high transport costs and high energy costs.

The news has not been all bad.

Tenon's new partnership with Zenia house, Carter Holt Harvey's new investment in distribution in Japan, new investments in forest ownership in the Central North Island all show the resilience and the ongoing attractiveness of the industry for investment

And not all markets have had the same difficulty.

New Zealand and Australian markets have performed strongly over the last six months.

Even so in February 2004 the export value of logs, wood and wood articles was 15 percent lower when compared to the previous year.

Today thankfully there are positive signs that markets are recovering

Log prices increased by nearly 10 percent in March although the Chinese market remains difficult.

Similarly sawn timber prices increased by nearly 7 percent as the US market recovers from the lows of mid 2003.

Unfortunately the adverse signals from the market have already been passed back to the production end.

The most recent statistics indicate that almost 21.4 million cubic metres were harvested in the year to December 2003 - that's down 3 percent on the year to December 2002 and short of the previous all time record of 23.2 million cubic metres recorded in June 2003.

Planting is also slowing.

Annual new planting in 2003 was only 14,000 ha – well down on the 43,500 hectare long term average over the last thirty years.

I've even heard it suggested by some that planting has more or less come to a halt.

For some years now we have talked about a doubling of the annual harvest.

That has been based on an assumption that by 2007 the available wood supply would double to 30.7 million cubic metres per year from the 15-16 million cubic metres harvested each year between 1994 and 1998.

The so called 'wall of wood' has always been a bit of a misnomer because the pattern of planting around the country has never been even.

But even at 21.4 million cubic metres we are more than half way up the 'wall of wood' although it's clear that the recent decisions by major forest owners to delay harvesting until markets improve and to develop a better overall age class will delay achieving the target.

The point is that getting back to forecast levels of production and moving beyond them it will depend entirely on future market conditions.

Future outlook

What chance is there then of achieving those Vision 2025 goals?

I suggest we can do so only if we seize the opportunity to do things differently.

We can of course continue in much the same way as we have always done.

The existing size of the industry and the ideal conditions in New Zealand for growing trees mean that despite temporary market instability, we are likely to be propelled forward into an expanding harvest, even if at a slower rate than previously.

The question is not so much whether we will have an industry but what kind of industry it will be.

Our experience to date shows that if we do keep on doing the same old thing, we are unlikely to deliver the value that owners and shareholders are seeking.

This vision for the future will not deliver Vision 2025.

The reality is that this increased value can be captured only if we undertake further processing in New Zealand.

There are real economic benefits to be had in further processing but only if it can be carried out in New Zealand more competitively than elsewhere.

You know the story.

The equivalent of a container of logs is worth around NZ$8,000.

That same container filled with sawn lumber is valued at NZ$24,000, with engineered wood products between NZ$50,000 and NZ$100,000 and with furniture $150,000.

As things are today we lack the investment required to expand added value processing in New Zealand.

We have estimated we would need additional investment of at least NZ$ 3 billion by 2010 to process half of the additional harvest by 2015.

That figure assumes significant new investment in pulp and paper which at the present time with the current uncertain outlook for energy pricing and supply seems unlikely.

It may be we can undertake other sorts of processing requiring a lesser amount of investment.

The future may well lie in a larger number of smaller investments rather than the large scale plants we had been targeting.

The point is if we cannot attract additional investment which enables us to add value, then I fear we are destined to remain a commodity exporter of logs and timber, a price taker in overseas markets, largely facing the continuing challenge of deriving value from a resource that is processed by others, probably in China, Korea or Japan.

Underlying strengths

There is no magic wand to wave in this industry to realise this added value future.

At the same time we are not without a number underlying strengths.

First, we have an extraordinary forest resource based on 1.8 million hectares of sustainably managed plantation forest together with some world class processing facilities.

Second, we have an industry that is amazingly resilient and full of talented, skilled and committed people.

We are taking some knocks at present, and the blows are hard, but the industry is already adjusting and will emerge stronger than before.

Where we have to do better is in finding ways to work more closely together.

Our industry has always been fiercely competitive and competition has been a driving force in the industry’s rapid expansion.

But increasingly the fractured and unco-ordinated nature of the industry is becoming more of a liability than an asset.

There are things we can and should be doing together – things like research and development, skills and training, market development, asset protection such as forest health and fire prevention, public promotion of the industry.

These are all ‘industry good’ areas crying out for collective action and collective funding.

That’s why we are considering the introduction of a commodity levy for the industry.

No decisions have been made about this and no levy will be put in place unless the industry agrees.

But it does seem that the Commodity Levies Act provides a useful means for the industry to come up with a secure and equitable level of funding for industry good activities.

A report commissioned from the international consultancy Jaakko Poyry has found a strong level of support for a levy amongst forest growers but some points of concern that will need to be addressed if we are to take the initiative forward.

The industry’s leadership will be considering this further in coming months.

I can assure you that if the initiative does proceed, there will be plenty of consultation and an opportunity for everyone to make their views known.

A third source of strength for the industry is the active support of the Government.

I am not one who thinks we should look to the Government to lead industry development but the Government is an active, necessary and willing partner with us in getting us to the place we need to be.

In our sector we have the positive experience of the Wood Processing Strategy.

The Wood Processing Strategy is all about improving the investment climate and the industry’s competitiveness.

The WPS has already given us an early harvest in areas like roading and skills, as well as an effective framework for interacting with central and local government and the unions.

In some areas like the implementation of the Resource Management Act, we wish the Government would move faster – “just do it” is a motto that springs to mind.

In other areas - energy, transport, skills, market access - we have a solid agenda going forward.

We now also have a new and major opportunity arising from New Zealand’s ratification of the Kyoto Protocol.

For the best part of two years the industry has been negotiating with the Government to recognize the contribution of forestry to climate change policy.

These negotiations for a Forest Industry Framework Agreement or FIFA are now drawing to a close.

This is not the place to rehearse the whole saga of the Kyoto Protocol.

Suffice to say, we disagreed with the Government on early ratification and we rejected the Government’s assumption of ownership of the carbon sink credits.

But where we find ourselves in agreement is in the opportunity we now have to do something useful both for climate change and for industry development.

In fact it is forestry through the provision of carbon sinks which makes it possible for New Zealand to meet its obligations under the Kyoto Protocol without a massive shock to the economy.

Through its assumed ‘ownership’ of the carbon sinks the Government has created for itself a critical interest in the future of the industry.

Without the ongoing planting of sinks, and the protection of existing ones, the whole Kyoto policy can rapidly become unstuck.

Beyond this, forestry has the potential to contribute directly to the Government’s objectives for climate friendly renewable energy and to carbon mitigation through the adoption of processing methods which meet world’s best practice for greenhouse gas emissions.

This is the ‘win-win agenda’ which the FIFA seeks to promote by returning to the industry a proportion of the value of the carbon sink credits through funding for projects which promote both climate change objectives <u>and</u> the industry’s future development.

It is too early to declare the FIFA negotiations a success. We won’t know that until the Government’s Budget is delivered on 27 May.

If the negotiations can be successfully concluded, and the outcome accepted by the wider industry, we will have a powerful new engine for industry development and for co-funding of projects to help us realise Vision 2025.

A further source of strength lies in the potential for partnership groups like the Timber Design Society.

It is clear that in New Zealand as in international markets we have not as an industry done enough to position *radiata pine* more aggressively.

We must tell the story of this sustainable and versatile timber in international markets through a programme of generic market development which seeks to lift market returns by positioning *radiata pine* in higher value market segments.

And we should do the same for the other species we grow, especially Douglas Fir.

Let’s face it we have a good story to tell.

We know that wood’s environmental credentials are exemplary.

To quote from a recent publication from the Canadian Wood Council:

“Wood makes a major contribution to improving the overall environmental performance of any commercial or residential building by reducing energy use, reducing resource use, minimizing pollution and reducing environmental impact”.

And to differentiate New Zealand products in the market place we have our unique system of plantation-based sustainable forest management underpinned by the growing third party certification of our forests.

We have also been negotiating with other stakeholders on a new national standard for sustainable forest management in New Zealand.

A New Zealand standard if it can be achieved would provide us with a good base to position and differentiate *radiata* and expand our international market share.

This needs to be part of a wider effort to understand consumers, develop products that meet their needs and wants and promote and brand our offerings in the market place.

At the same time we should also be more active in offsetting the decline in market share for wood in the domestic market where competition from substitute building materials is growing slowly perhaps but surely.

While light timber frame construction is still the norm in New Zealand, concrete and steel are making inroads in multi-unit residential dwellings.

The use of timber has also come under threat from the heavy handed and excessive changes to the Building Code introduced late last year by the Building Industry Authority.

We were fortunately successful in mitigating some of the worst aspects of these proposals.

Requiring the mandatory treatment of all timber used in both exterior and interior framing regardless of risk of leakage would have made no sense at all.

The message it would have sent to consumers both in New Zealand and overseas about the durability qualities of wood in general and our two main species would have been damaging to the future of the whole industry.

Tomorrow's consumers even more so than those of today will be looking for sustainable, environmentally friendly building solutions.

By introducing unnecessary and unwanted chemicals into the home, the BIA runs the risk of taking a huge, counter-cultural leap backwards.

What's worse, the requirement for mandatory treatment will make no real gain in addressing the substantive cause of the problem of weathertightness – those high risk cladding and design types that cause buildings to leak in the first place.

As with international market development, reclaiming the future for wood in the domestic market will involve action on a number of fronts – understanding consumers, communicating the environmental benefits of wood, developing innovative product solutions and influencing government procurement policies.

This is also where we can see the beginnings of an important new partnership with those groups like the Timber Design Society which share an interest with us in seeing wood reclaim this lost ground and position itself for the future.

I know you are concerned about training and education in design and want to see New Zealand designers assume their rightful place as world leaders in the innovative use of our sustainable construction resource.

We should join forces in this endeavour.

I am certainly willing to commit the Forest Owners Association in developing further this partnership with you.

Conclusion

The moral of this story is at this critical time in its history the industry is faced with a choice.

We can continue doing the same old thing. Or do something radically different.

Realising the industry's Vision 2025 is all about understanding consumers, increasing investment in added value processing, and exports of value added forest products combined with increasing the use of wood in the domestic market - all of which generate increased revenues for forest owners and shareholders.

The industry today has a number of underlying strengths.

We have a fantastic, sustainable, well managed and expanding forest resource.

We have committed and talented people who are learning to work more closely and cohesively together.

We have in the Government a willing partner through the Wood Processing Strategy and the proposed Forest Industry Framework Agreement.

And lastly we have the potential of powerful new partnerships with groups like the Timber Design Society with whom we can work to reclaim the future for wood.