

FUTURE FORESTS 2002

EXPORTS: COMPETITION, COLLABORATION AND THREATS

**Rob McLagan
NZ Forest Owners Association
Melbourne
November 2002**



New Zealand Forest Owners Association

NZ PLANTATION FORESTS VITAL STATISTICS

- 1.8 million ha plantation forest - 39,000 ha new planting in 2001
- US\$ 2.25 billion turnover - 4% GDP – 12% total NZ exports
- 23,000 directly employed - 100,000 indirectly employed

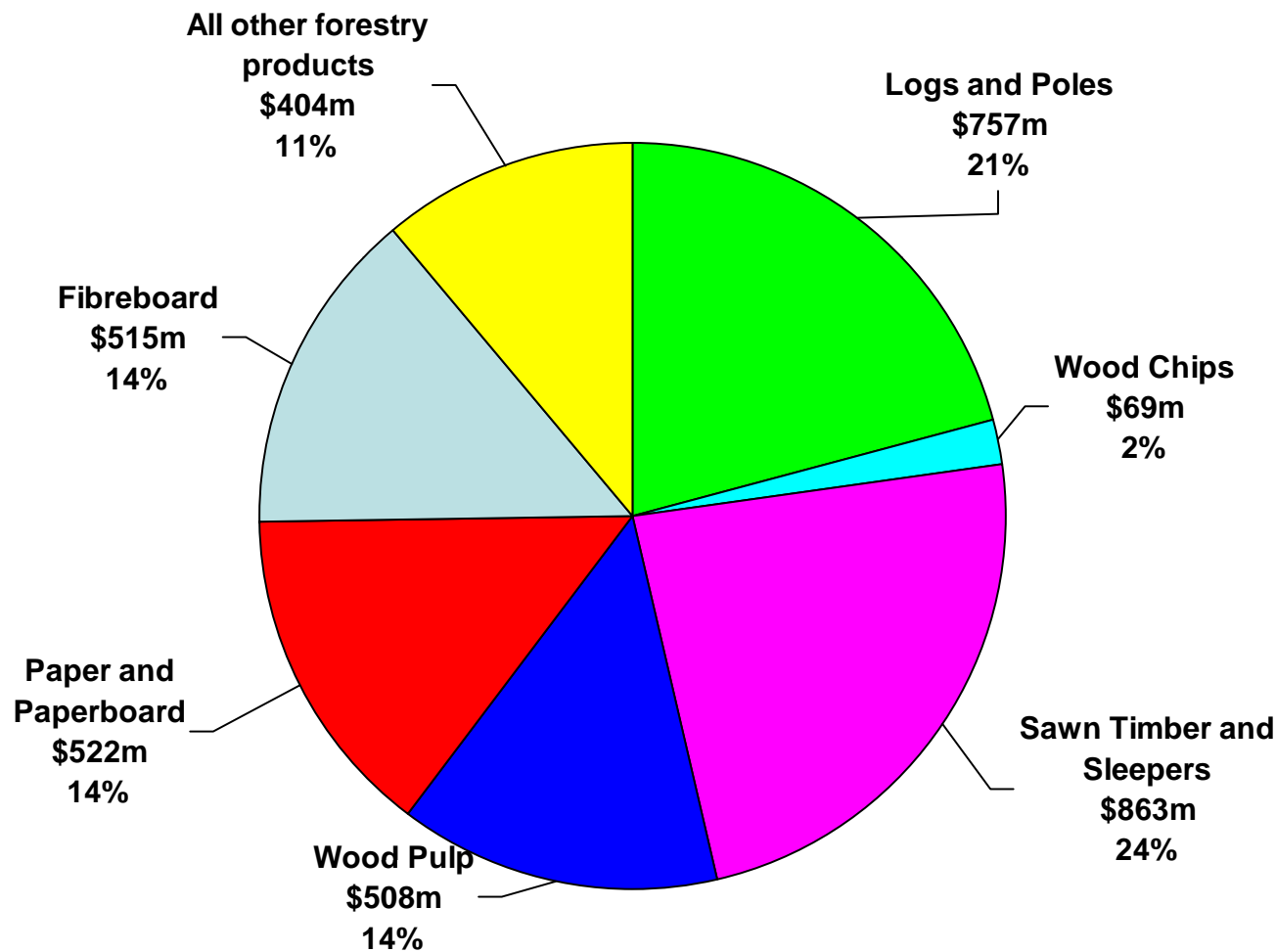


PERFORMANCE

- Annual harvest exceeded 21 million m³ (to June 2002)
- Target 35-40 million m³ by 2013
- 3 LVL plants come on stream + 2 new processing investments
- US \$1.77 billion exports (June 2002)
 - Third largest exporter

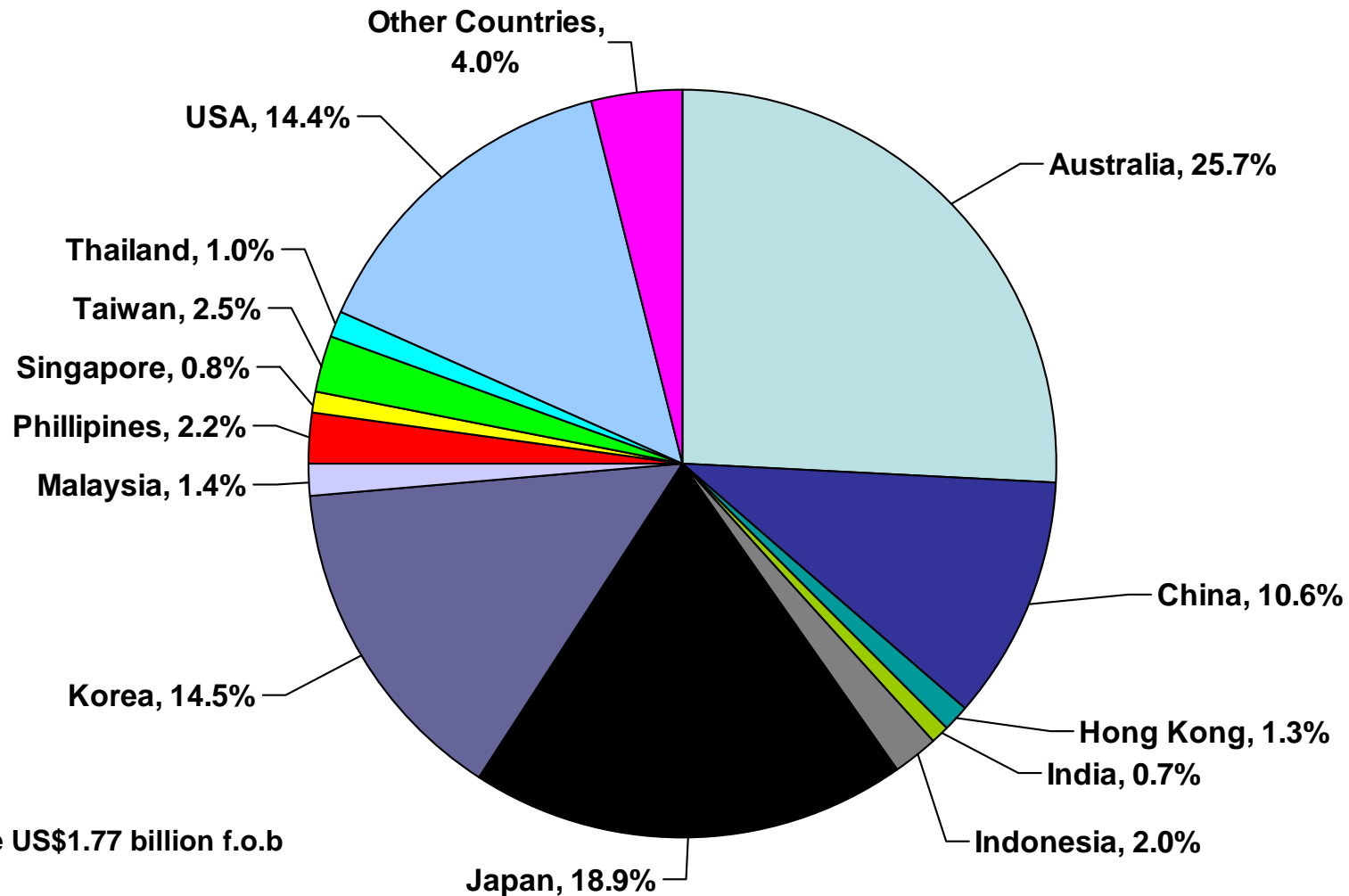


EXPORTS OF FORESTRY PRODUCTS BY VALUE FOR YEAR ENDED 30 JUNE 2002



Total Value Us\$1.77 billion f.o.b

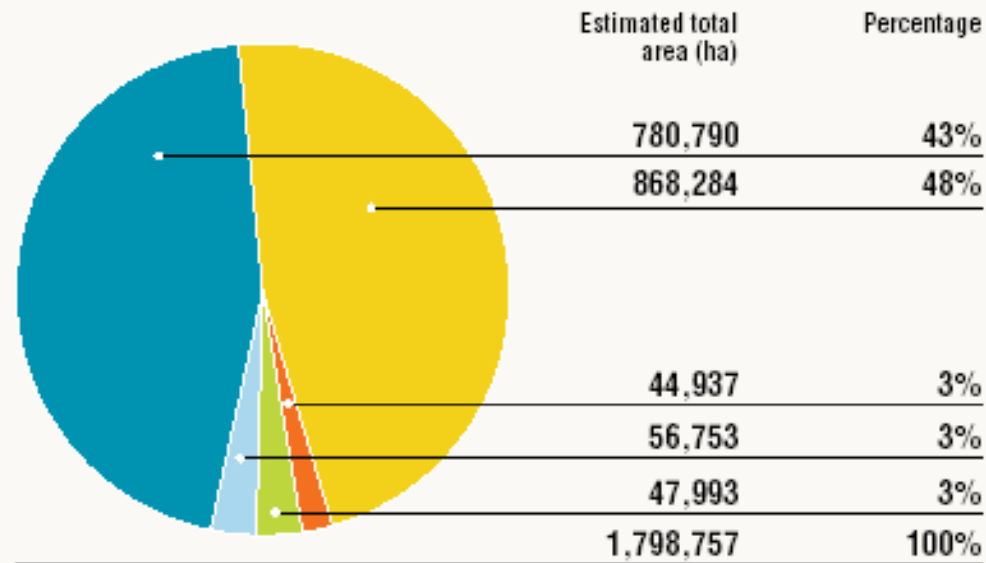
EXPORT DESTINATIONS OF FORESTRY PRODUCTS BY VALUE FOR YEAR ENDED 30 JUNE 2002



Total Value US\$1.77 billion f.o.b

Plantation Forest Ownership

(Net stocked planted production forest area at 1 April 2001)



Ownership category¹

- Registered public companies
- Registered private companies²
- State owned enterprises
- Central Government³
- Local government bodies

Note:

1. Ownership is based solely on the ownership of the forest irrespective of the ownership of the land.
2. "Privately owned" includes all privately owned forests. The legal entities included in this category are private companies, partnerships, individuals and trusts, which include Maori trusts and incorporations.
3. "Central Government" forests are predominantly Crown owned forests on Maori lease hold land. These forests are managed by the Ministry of Agriculture and Forestry.



PLANTATION FOREST OWNERSHIP

Country	Ownership 1997	Ownership 2001
New Zealand	52.3%	46%
USA	35.0%	28%
Japan	5.5%	5%
Malaysia	3.7%	3.5%
China/Hong Kong	2.0%	5.5%
Indonesia	1.5%	1%
Other	Na	11%
Total	100.0%	100.0%



VISION 2025 AND WOOD PROCESSING STRATEGY GOALS

2001	WPS–milestones	2025
\$ 5 billion outputs	<i>\$ 3 billion new investment by 2010, processing 50 % additional harvest by 2015</i>	> \$ 20 billion outputs
4 % GDP		> 14 % GDP
23,000 employed (100,000 indirectly)	<i>+ 20 % employment</i>	60,000 employed (250,000 indirectly)
\$ 3.7 billion exports	<i>Accelerate trade liberalisation No. 1 export earner</i>	> \$ 14 billion exports
3 rd largest exporter		Largest exporter
Top 20 global suppliers	<i>Transport infrastructure in new forest regions Forestry certification World class Biosecurity</i>	Top 5 global suppliers
1.8 million hectares		3.5 – 4 million hectares
21 million m3 harvest		> 40 million m3 harvest
\$ 100 million supporting technologies industry	<i>World class wood processing R + D capability</i>	\$ 1 billion supporting technologies industry



SUSTAINABLE FOREST MANAGEMENT

- 24% land area in natural forests
 - 7% plantation
- 29% Plantation FSC Certified
- National Plantation Forest Certification Initiative making progress
- Increasing Maori participation in industry



GOVERNMENT POLICY

- Election returns Labour-led minority government
- Continuing focus on Industry/Government partnership
 - Wood Processing Strategy (WPS)
- Ratification of Kyoto Protocol + “preferred policy package”
- Active trade policy – aim to integrate trade and environment



THREATS

Major threats facing NZ forest sector:

- Significant imbalance between global supply and demand – downward price pressure.
- International competition from subsidised / non commercial forest production and processing.
- Competition from wood substitutes – steel, aluminum, concrete
- Economic policies within NZ
- High compliance costs imposed by resource management legislation.



CHALLENGES

- Improve economics of added value processing
- Increase investment in further processing
- Enhance sustainability credentials
- Improve market access
- Build international marketing strategy



NZ FOREST PRODUCT EXPORTS TO AUSTRALIA (1)

Logs	-
Sawn Timber	22%
Wood pulp	12%
Paper & Paperboard	38%
Panel products	8%
All other	20%



NZ FOREST PRODUCT EXPORTS TO AUSTRALIA (2)

Australia has been largest and most important market for NZ sawn timber since 1970's.

- 1990's sawn timber exports to Australia increased from 25% to 50% (53% in 2000).
- In year to June 2001 fell by 21% (compared to June 2000).
- Volume of all sawnwood imports into Australia in December 2000 totalled 1 million m³ of which NZ supplied 51% (54% in 1998). Decreased recently.



NZ FOREST PRODUCT EXPORTS TO AUSTRALIA (3)

- New entrants to Australian sawnwood market – Chile, South Africa and Finland.
- NZ's dominant position not assured.
- Over past decade, benchmark grade Radiata F5 has exhibited a real annual price decline.



NZ FOREST PRODUCT EXPORTS TO AUSTRALIA (4)

- Australia will continue to remain a very important market for NZ even as it becomes more self sufficient in lumber production.
- NZ has a cost competitive position vis a vis Australian producers, particularly to the east coast states.
- Shipping costs tend to be less than Australian internal transportation costs.



TRADE (1)

- Like Australia, New Zealand's forest product exports suffer from tariff and non-tariff barriers.
- Tariffs “escalate” with the degree of added value to the products – e.g. logs attract zero tariffs while furniture up to 45%.
- Non-tariff barriers include:
 - building codes
 - product standards
 - regulatory and market discrimination against plantation based forest products.
 - subsidies and incentives offered to competitors.



TRADE (2)

- NZ industry believes WTO negotiations offer best option for achieving significant trade liberalisation - second best regional or bilateral arrangements.
- An opportunity for forestry to build a coalition of interests which spans the developed/developing country divide.
- Within the Doha Round, forest products being treated most particularly with non-agriculture market access – both tariffs and non-tariff barriers, and with the environment.



TRADE (3)

- Opportunities to identify options for linking trade and sustainable development objectives which do not create new legitimacy for protectionism.
- For NZ forest industry objectives include:
 - create a focus for forestry.
 - reduce barriers to international trade.
 - promote use of sustainable forest products.
 - build bridges between developed and developing country interest.



TRADE (4)

- A forestry focus group (based on Cairns group of trades in Agriculture) could develop a concerted approach on:
 - Tariffs – including the prospect for zero-for-zero deals in forestry.
 - Non tariff barriers – focusing especially on product standards and building codes.
 - Subsidies.
 - Environmental/Sustainability issues including eco-labelling.



TRADE (5)

- Possible participating countries in a Doha Round Forestry Focus Group could be:
 - New Zealand
 - United States
 - European Union
 - Chile
 - Brazil
 - Indonesia
 - Australia
 - Canada
 - Norway
 - Argentina
 - South Africa
 - Malaysia



COMPETITION (1)

Other countries also expanding their supply positions:

- Russia owns 58% of the global softwood resource but only accounts for 10% of the global supply. Estimated at 90 m tonnes sustainable harvest (currently only harvests 60m tonnes pa) v. current NZ harvest of 20m tonnes. Russian Far East is major competitor in NZ's markets, accounting for total exports of 10m tonnes pa.
- Chile – 20m tonnes annual harvest and growing by 2m tonnes pa. However the bulk will be exported as processed wood products. Softwood log exports are almost non existent.



COMPETITION (2)

- North America produces around 424m tonnes pa and exports around 13m of logs to higher value segments. Most of the domestic log harvest is domestically processed.
- Europe has emerged as a competitor in the softwood log/lumber markets in the past few years.
- USA – President Bush is considering opening up previously closed forests.
- Australia – current annual cut is around 13m tonnes. May increase to 15m by 2005. Currently exporting around 1m tonnes pa. Export growth predicted to be slow.
- Some of NZ's long-standing markets also changing – Japan economy at a low ebb and not likely to improve in short term.



DEMAND

- Korea – only a limited increase in SW log demand forecast. NZ currently export approx 4m tonnes SW logs to market.
- Japan – domestic harvest is in decline so it is expected that SW log imports will replace this volume. However, due to poor economic outlook, it is expected that log demand will decrease overall. NZ currently exports approx 1.6m tonnes to Japan.
- China – SW log imports forecast to grow to very high levels as domestic harvest levels will not be able to sustain increasing demand. Russia will continue to be the largest supplier. NZ currently export approx 1m tonnes to China.
- India – increases expected in SW log imports in which NZ is the major supplier. NZ currently export approx 280,000 tonnes through a JV export company.



COLLABORATION

- Competition not just from off-shore, NZ forest industry fragmented.
- As a result, industry is a price taker dealing largely in the low value sectors, such as packaging.
- Some changes underway –
 - Pan industry organisation has initiated the development of a common marketing platform for the industry.
 - Trade NZ has organised successful in-market initiatives for groups of lumber exporters.
 - Scope for more NZ/Australia collaboration.



THREATS

- Russian bear will awake – could swamp us all – 5% increase in Russian output equates to 4.5m tonnes cf. total NZ exports of 7.5m tonnes.
- Possible increases in tariff and non-tariff barriers in spite of W.T.O. negotiations.
- Slow-down in economic growth in China.
- Kyoto Protocol will create distortions and increase costs.
- Global economies don't recover as quickly as expected.
- Intensified competition from wood substitutes – steel, concrete, plastics.
- Fragmented marketing strategies.

