



**New Zealand Forest
Industries Council**



**New Zealand Forest
Owners Association**



**New Zealand Farm
Forestry Association**



**New Zealand Pine
Manufacturers
Association**

New Zealand Forest and Wood Processing Industry

Brief for political parties

“Securing a sustainable future”

August 2005

“Securing a sustainable future for the forest and wood processing industry”

Executive Summary

This paper outlines a 13-point agenda for securing the future of the New Zealand's forest and wood processing industry.

Enhanced Government support for the industry is vital if the current challenges to the industry's competitiveness are to be overcome and the industry's contribution to the nation's economic growth, environmental performance and social cohesion is to be maximised.

The industry's main message to political parties in the current election campaign is that improving the climate for investment is indispensable to the industry's future development.

New Zealand's forest and wood processing industry uses wood fibre from the country's 1.8 million hectares of renewable, sustainably managed, planted forests to make products which consumers in New Zealand and around the world use everyday – timber for use in construction or furniture manufacture, a vast array of building and DIY products, newsprint and other paper products. The nation's forests also store carbon, prevent soil erosion, contribute to water quality and provide habitat for wildlife and insects as well as a range of recreational pursuits.

The industry is already significant: it currently accounts for 3.5 % of GDP, is the 3rd largest export sector, directly employs 26,500 and generates an estimated 110,000 additional jobs. Some 11,880 people are currently in training. Since 1988, over \$ 3.5 billion has been invested in further forest products manufacturing capability.

Today the industry finds itself challenged on numerous fronts. After a ten year period of growth, exports and employment have declined and new plantings are slowing rapidly. The appreciating exchange rate, high shipping costs and the commodity cycle have impacted on the industry's competitiveness.

Poorly focused government policy – particularly in the area of the Kyoto Protocol - and burdensome regulation coupled with an uncertain outlook for energy pricing and supply are significant issues. The industry itself has work to do in improving co-operation across the supply chain, investing in market development and product innovation and promoting the benefits of the industry to stakeholders. This effort will be assisted by new representational structures for the industry which will be in place by the end of September.

While there is no shortage of challenges, the industry has the capacity to be a world leader. The annual harvest suffered a decline in recent years but is still on a pathway to increase from 20 million cubic metres currently to 30 million cubic metres by 2015. New plantings would be encouraged by government policies which recognise the multiple benefits of forests rather than by “nationalising” those benefits without compensation as has been the case with carbon credits under the Kyoto Protocol.

Ongoing wood processing development will be driven by enhancing international competitiveness and the investment attractiveness of wood and paper products' manufacturing and technology, as well as international success in reducing escalating tariffs for value added products and addressing non-tariff trade barriers. Providing greater certainty with resource consents would also be of significant benefit.

The industry strongly supports a co-operative approach with Government, such as that achieved through the Wood Processing Strategy and its successor the Forest Industry Development Agenda (FIDA). To enhance the industry's future competitiveness, the following 13-point plan is recommended to all political parties and to the incoming Government:

1. continue the **Forest Industry Development Agenda (FIDA)** as a high level interaction between industry and government including funding for market access and development, wood design, skills and bioenergy
2. abolish the **carbon tax**
3. review the implementation of New Zealand's **Kyoto Protocol** policies to provide market incentives for new planting and for uptake of new climate-friendly technologies, promote the wider use of wood, provide equitable treatment across sectors and respect private property rights
4. provide compensation to **landowners** when public benefits are required from the privately owned forest assets (e.g. carbon, biodiversity, water, nitrate)
5. reform the **Resource Management Act** to address the fundamental imbalance between economic/environmental concerns, provide for less discretion on the part of local authorities, more national standards and greater certainty of process for investors
6. reduce **corporate tax** and introduce **accelerated depreciation** for large scale, capital-intensive projects
7. maintain strong investment in **biosecurity** controls and responses to incursions and potential incursions moving responsibility for cost-sharing to shippers and importers, including tourism, moving risk management offshore where possible, and provide funding for "solutions oriented" biosecurity research
8. continue investment in **transport and energy** infrastructure
9. continue to seek **open international markets** through the World Trade Organisation (WTO) and bilateral free trade agreements (with China and the United States as highest priorities)

10. explore regional approaches to address **illegal logging**
11. expand **immigration** and adopt a population policy aimed at having 6 million New Zealanders by the end of the century
12. develop a more innovative **research and development** regime, including tax incentives and accelerated depreciation rates, and continue the consortia approach
13. maintain funding for **skills and training** initiatives including apprenticeships and adult apprenticeships.

“Securing a sustainable future for the forest and wood processing industry”

Introduction: industry organisations

This paper represents the collective views of the

- New Zealand Forest Industries Council (FIC)
- New Zealand Forest Owners Association (FOA)
- New Zealand Farm Forestry Association (FFA)
- New Zealand Pine Manufacturers Association (PMA).

The New Zealand Forest Industries Council is a pan-industry organisation representing the larger participants in the industry and the other sectoral associations. The Council's goal is to enhance the international competitiveness of New Zealand's forestry, pulp and paper, remanufacturing, sawmilling, and wood panels sectors. The Council is to be replaced by a new industry representative structure on 30 September.

The New Zealand Forest Owners Association represents the interests of commercial plantation forest owners who collectively own more than 80 percent of the national commercial forest estate.

The New Zealand Farm Forestry Association promotes an ethic of integrating trees with farming and represents the interests of the smaller-scale forest growers. Members cover a wide spectrum of tree-related interests ranging from a particular focus on innovation and alternative timber species, to indigenous forestry, conservation, shelter, amenity values, and conventional radiata pine plantations

The New Zealand Pine Manufacturers Association promotes the development and marketing of higher value added solid wood products, including interior and exterior building products, engineered wood products and furniture and furniture components.

Situation analysis

A big sector

The New Zealand forest and wood processing industry supplies a wide range of goods and services on a renewable basis. These include traditional items - such as sawn timber, engineered wood products, furniture components, wooden building systems, panel products, pulp, paper and packaging materials – as well as non wood goods and services in the form of carbon sequestration, land rehabilitation, water quality, climate change neutral energy, recreation and the protection and enhancement of indigenous biodiversity including rare species.

These goods and services are sourced from the industry's 1.8 million hectares of sustainably managed planted production forest. More than 40 percent of planted forests are 3rd party certified against internationally endorsed sustainable forest management standards. Although a small volume of timber products is also sourced from indigenous forests, the industry's planted forests enable nearly 80 % of New Zealand's remaining native forest to be managed in national parks and protected areas as part of the 5 million hectare conservation estate.

Total forest product sales are in excess of NZ\$ 5 billion pa. Industry activity accounts for 3.5 % of New Zealand's GDP and the industry is the third largest export sector earning \$ 3.5 billion annually in foreign exchange. The industry directly employs over 26,500 New Zealanders, including 5,000 Maori, and an estimated 100,000 indirectly. Some 11,880 people are currently undergoing training in the industry.

New Zealand supplies 1.1 % of global and 8.8 % of Asia Pacific region's forest products trade from just 0.05% of the world's forest resource and an annual harvest area equivalent to 0.0009 % of global forest cover because of its highly productive, sustainable managed plantations.

Over the past decade, over \$ 3.5 billion has been invested in wood product processing in New Zealand – a mix of "greenfield" developments as well as significant reinvestment in upgrading existing plant.

... Facing significant challenges

After a period of considerable growth, the industry today finds itself with considerable challenges with the potential to impact negatively on future growth:

- the annual harvest declined from 22.4 million cubic metres in March 2003 to 20.8 cubic metres in March 2004
- new plantings are at an all time low - new plantings were 10,000 hectares in 2004, down from 14,900 in 2003 and well down from the long term average of 45,000 hectares. Such a low level of new planting has not been recorded since 1991, and before that, since 1966.
- Exports increased from NZ\$ 3.1 billion in December 2003 to NZ\$ 3.3 billion in 2004. This compares with exports of NZ\$ 3.6 billion in 2002 and 2001
- With the exception of two sawmills currently under construction new investment in wood processing has ceased with no major new projects completed in 2004 or 2005: the industry's goal of attracting \$3 billion new investment by 2010 looks unlikely to be fulfilled
- Significant job losses occurred at both contracting and processing levels in 2004-05 and there is also significant consolidation and restructuring underway in both growing and processing industries.

Factors contributing to this include:

- the appreciating exchange rate
- high shipping costs

- a decline in commodity prices
- high electricity prices and an uncertain outlook for both pricing and supply
- significant uncertainties around the implementation of climate change policy, particularly in respect of potential liabilities to be applied after 2008 to forests planted before 1990¹.

At a more strategic level the industry's performance continues to be hampered by such factors as

- difficulties in obtaining resource consents for new processing investment under the Resource Management Act
- the cost of environmental and other regulation
- insufficient domestic transport and roading infrastructure
- inflexible labour markets and skills shortages
- timber treatment issues which have affected the perception of wood in the domestic market
- trade barriers in overseas markets, both tariffs and non tariff barriers
- illegal logging particularly in Russia and parts of Asia and the Pacific.

... But with strong development potential

Even so the industry continues to have considerable potential and this is reflected in continuing interest in forest acquisition by international financial interests especially timber investment management organisations ("TIMOs") in North America.

Global demand for wood products continues to increase², particularly in developing countries such as China and India which New Zealand is well positioned to supply.

¹ According to Government policy, forests planted after 1990 and harvested after 2008 will incur neither liabilities nor carbon credits

² In 1999 the FAO forecast that global demand for industrial wood and wood products would increase by 27 percent to 1.9 billion cubic metres between 1996 and 2010, an increase of 400 million cubic metres.

The share of production from planted forests is also increasing as more affluent and environmentally aware consumers pay more attention to the origin of the products they buy.

New Zealand's climate and topography make it an ideal location for growing trees in record time and this provides a valuable resource for the processing industry. While in face of current challenges there is a growing trend to longer rotations, (ie forest owners delaying harvesting until trees are older), forestry remains on a pathway to growth. Longer rotations will also deliver higher quality wood. By 2015, annual harvest available for processing should expand from current levels to 30 million cubic metres, with a further possible increase to 40 million cubic metres by 2025.

Providing the industry's international competitiveness is enhanced and its attractiveness as a location for processing investment is improved, it is still possible for the industry to achieve its long-held goal of becoming the country's leading exporter by 2025, contributing 14 percent of GDP and employing 60,000 New Zealanders.

The role of Government

Full achievement of the industry's vision for growth requires the industry and the Government to work closely together to address those areas strongly influenced by Government policy and action – both here in New Zealand and in the many export markets targeted to buy increasing volumes of New Zealand wood products.

The industry is not looking for hand outs. It is looking to the Government as a partner in its future growth. Above all it looks to the Government to apply policy in a consistent manner, ensure equitable treatment between sectors and adhere to market based signals to provide the appropriate incentives for the industry to respond.

Involving other stakeholder groups—such as local government, iwi, unions, community organisations and environmental groups – is also important to address specific development challenges and opportunities.

... through the Forest Industry Development Agenda

The industry has a strong track record of close co-operation with the Government.

Between 2001 and 2005 the Wood Processing Strategy (WPS) provided a high level framework for the industry's interaction with central government and also with local government and unions. The WPS also provided a model for other sectors. A number of significant outcomes were achieved in the areas of transport, market access, skills and training, biosecurity and energy policy.

In April 2005 the WPS was replaced by a new vehicle, the Forest Industry Development Agenda (FIDA). FIDA commits the Government and industry to investing \$23 million over five years to develop the industry. Funding has been allocated in the areas of market access, market

development, bioenergy and skills. FIDA is governed by a Steering Group with representatives from both the Government and industry which has embarked on the development of a new industry development strategy to guide its work.

The forest and wood processing industry strongly supports such a co-operative approach to its future development.

Enhancing international competitiveness: a 13-point agenda

To continue to succeed in the highly competitive global forest products business – often against overseas suppliers who receive Government subsidy and protection, are located closer to markets and have lower cost structures – it is essential that New Zealand remains an internationally competitive location to grow wood fibre, manufacture wood and paper products and develop associated technologies and services.

The following 13–point plan sets out actions which the industry considers to be of paramount importance to enhancing the forest industry’s global competitiveness and accelerating investment in wood processing and technological development.

Issue	Outcomes sought
Industry development	<ul style="list-style-type: none"> ▪ Continue the the strategically focused, coordinated “whole of government”/“whole of industry” Forest Industry Development Agenda (FIDA) as a high level interaction between industry and government including funding for market access and development, wood design, skills and bioenergy
Carbon tax	<ul style="list-style-type: none"> ▪ Abolish the carbon tax due for introduction in April 2007. This tax will have no demonstrable impact on reducing carbon emissions and can only increase the cost of energy at a time when the outlook for pricing and supply is uncertain, thus impacting negatively on the competitiveness of the wood processing industry
Climate change/Kyoto Protocol	<ul style="list-style-type: none"> ▪ Review the implementation of New Zealand’s Kyoto Protocol policies in particular to: <ul style="list-style-type: none"> ○ provide market incentives for new plantings ○ meet any liabilities applying to forests planted before 1990 which do not receive carbon credits ○ provide equitable treatment across sectors

	<ul style="list-style-type: none"> ○ promote the uptake of new climate-friendly technologies ○ respect private property rights ○ promote the wider use of wood
Property rights	Provide compensation to landowners when public benefits are required from the privately owned forest assets (eg carbon, biodiversity, water, nitrate)
Resource management	<ul style="list-style-type: none"> ▪ Reform the Resource Management Act to <ul style="list-style-type: none"> ○ address the fundamental imbalance between economic/environmental concerns ○ provide for less discretion on the part of local authorities, more national standards and greater certainty of process
Corporate tax/accelerated depreciation	<ul style="list-style-type: none"> ▪ Reduce the corporate tax rate and introduce accelerated depreciation for large scale, capital-intensive projects: this will ensure companies have the funds available to investment in added value wood processing
Biosecurity	<ul style="list-style-type: none"> ▪ maintain strong investment in biosecurity controls and responses to incursions and potential incursions moving responsibility for cost-sharing to shippers and importers, including tourism, moving risk management offshore where possible, and provide funding for "solutions oriented" biosecurity research
Infrastructure	<ul style="list-style-type: none"> ▪ Continue investment in transport and energy infrastructure through <ul style="list-style-type: none"> ○ an equitable funding mechanism, and planning and management structure to deliver a cost effective and safe transportation infrastructure, especially in new forest regions in line with expanding harvest timelines ○ introducing changes to vehicle dimension requirements to ensure international competitiveness while still meeting safety requirements ○ a forward-looking energy strategy that will ensure the wood processing industry's expanding

	<p>energy needs are met</p> <ul style="list-style-type: none"> ○ energy markets that provide appropriate incentives for the development of energy derived from woody biomass
Market access	<ul style="list-style-type: none"> ▪ Continue to seek open international markets through the World Trade Organisation (WTO) and bilateral free trade agreements (with China and the United States as highest priorities): this includes tariff elimination and action to address non tariff barriers
Illegal logging	<ul style="list-style-type: none"> ▪ Explore regional approaches to address illegal logging
Immigration	<ul style="list-style-type: none"> ▪ Expand immigration and adopt a population policy aimed at having 6 million New Zealanders by the end of the century
Research, science and technology	<ul style="list-style-type: none"> ▪ Develop a more innovative research and development regime including tax incentives and depreciation rates, and continue the consortia approach
Skills and training	<ul style="list-style-type: none"> ▪ Maintain funding for skills and training initiatives including apprenticeships and adult apprenticeships with a focus on continually improving the quality of training outcomes.