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Forestry is a big industry with a vision to match.

Already the third largest export earner, the industry has a vision of being New Zealand's top export earner by 2025 with exports worth around \$20 billion. By that time, it expects to be contributing 14% to the country's Gross Domestic Product and employing, directly and indirectly, around 300,000 people.

Like most land based industries, forestry's progress towards its goals is strongly influenced by commodity price swings and changes in the exchange rate. Over the past year, forest sector returns have been impacted badly by the strength of the New Zealand dollar and by a rapid and substantial increase in freight rates – up from around \$19 per tonne to around \$47 per tonne. The increases in freight rates resulted largely from the rapid expansion in China's economy and its consequent demand on shipping freight capacity to handle its large increases in imports (largely of raw materials) and the export of finished goods. Unfortunately it will take a few years for shipping freight capacity and demand to return to a better balance.

The Australian market (the largest for NZ wood product exports) remained buoyant while others such as Korea were very weak.

The immediate market outlook remains uncertain but the fall in the NZ dollar is providing welcome relief to the industry. While the exchange rate, international market prices, and sea freight rates will continue to dominate the level of returns to the forest grower, internal domestic policies which influence the cost of labour and capital will influence forest gate prices. In turn these prices will influence the area of new plantings which are at a low level at present.

Reaching the industry's ambitious growth goals will not be easy. However, the industry recognises that it needs to change traditional ways of doing things. Many of the existing production and marketing practices have evolved from a largely commodity mind-set conditioned by a rapidly expanding volume of raw fibre.

The industry recognises that to maximize the returns from its wood fibre will require further processing in New Zealand of a greater quantity of the increasing harvest.

Increased research is being directed towards new and exciting uses for wood fibre. In addition, the industry has embarked on a research programme which will further improve the genetic quality of our tree stock and develop sophisticated tools to measure the quality of wood in standing trees. These tools will improve the utilisation of the raw material by directing harvested trees to the optimum end use.

Processing further down the value chain also requires new skills and knowledge.

A joint industry/government initiative is well advanced to develop a well resourced learning centre to train technicians and managers in all aspects of wood processing. At the same time, the forest industry leads the way in placing young people under the Modern Apprenticeship Scheme. This will help to not only reduce the turnover of skilled workers, but will provide valuable career pathways within the industry.

At a time when there is increased international concern about climate change and sustainable production, the forest industry is well placed to capitalise on its natural advantages. Forests absorb and store carbon from the atmosphere, and New Zealand's forestry is internationally recognised for its high environmental management practices and is thus well placed to promote the "wood is good" message.

These advantages, particularly compared with forest products from many other countries – including those where illegal logging is practiced – provide a good platform to further develop the New Zealand industry.

The Government and the industry are in the process of considering entering into a partnership to utilise a portion of the forest sink credits arising from the Kyoto Protocol to protect and enhance the volume of the plantation estate and to facilitate and encourage further processing in New Zealand.

All these changes are taking place against a backdrop of a major change in the ownership structure of the country's plantation forests. A significant portion of all plantation forests are now owned by overseas investment companies. At the same time, an increasing proportion of forests coming to harvest are owned by farm foresters, and the settlement of Maori land claims means that Maori forest ownership is increasing significantly.

Obviously most of the changes are being driven by individual commercial enterprises... However, the industry appreciates that there are many areas where progress can be achieved by working together. Discussions are under way to develop a modified industry structure and funding mechanisms which will assist the industry to make an even greater contribution to the New Zealand economy and to the local communities in which forestry is located.

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