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Newspaper Article
South Island Forestry
for Chris Johnstone

Harvesting the potential of forestry

by Rob McLagan, chief executive, NZ Forest Owners Association

Forestry -- currently New Zealand's third largest export earner -- is likely to become the country's largest export earner within 15 years.

Inevitably, growth brings with it challenges. But the current difficulties facing the industry need to be seen in the context of a rapid expansion from a modest base a few years ago.

This rapid growth in production is often referred to as a "looming wall of wood" -- an opportunity which the industry is already grabbing with both hands.

New Zealand manufacturers are processing an increasing quantity of wood fibre into a wide range of products. This is creating employment opportunities in "new" forestry regions like Otago and Southland.

But because the growth in processing capacity is lagging behind the growth in production, we are still exporting a higher volume of logs for the commodity trade than we would like. Hence the piles of logs on the wharves.

An unfortunate feature of any commodity-type trade is the relatively high level of price and volume fluctuation.

At present world log market prices are very low and the NZ dollar is high. These factors, along with increased freight rates, and some poor government policy settings, are depressing returns to the forest grower.

This has resulted in staff lay-offs, short working weeks and some plant closures.

It is always difficult to take a longer-term view of the industry in such difficult trading conditions. However, when viewed over the medium- to long-term -- which is how forestry should be assessed -- the industry has shown steady and on occasions, spectacular growth.

Indeed, forestry has a lot going for it. Wood is probably the most sustainable product known to mankind. It is environmentally friendly and is a large absorber of carbon.

At the same time, the global demand for wood fibre continues to increase at a steady rate, the pressure to stop illegal logging is increasing, and it is becoming increasingly costly to harvest wood in competitor countries like Russia.

We also know that New Zealand has extremely favourable growing conditions for radiata pine, that we have sound management and a skilled workforce, world-class research capability, and generally an efficient infrastructure.

All these factors suggest that over the medium- to long-term, plantation forestry will play an increasingly important role in the economic welfare of New Zealand, and particularly in the regions.

While New Zealand is well-placed to get through the temporary difficult patches, it is unfortunate that some of the most difficult challenges facing the industry are created by poorly designed and costly government policies.

On the one hand we have the positive outcomes from the government/industry partnership through the Wood Processing Strategy.

On the other, we have a compulsory accident compensation scheme which makes no distinction between the safe and unsafe employer; a local government structure and rating system which adds to costs and often does not deliver an adequate infrastructure; a taxation regime which discourages growth and innovation; and a trend back to higher unit employment costs.

The current debacle over the Building Industry Authority's leaky building proposals highlights the negative impact of policies which have been poorly researched and thought through.

Naturally, the industry is concerned to ensure that the home owner is protected from leaky homes and rotting timber. But unfortunately the BIA is proposing regulations which aim to slow the rotting process once water has entered a building. The real solution is to keep moisture out in the first place.

Episodes such as the leaky buildings syndrome, and the current cyclical downturn in the log and timber trade, are disruptive. They also deter much-needed investment in this rapidly growing industry.

Nevertheless, the future of the New Zealand forest industry is very positive. The challenge is to maximise its potential.

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