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Woodco identifies government policies at heart of log supply – Oped as submitted from Woodco to Sunday Star-Times 28 August 2016

Roving 'log grabbers' in Northland buying immature trees for export may exacerbate log supply pressure at the expense of our local construction industry (Sunday Star-Times 21st August). But these procurers did not create the problem.

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The first cause is large forests are simultaneously coming to the end of their first rotation. Secondly, there has been virtually no new planting over the past two decades.

Slapping restrictions on exports would do little to increase log availability, but a lot to damage forest investor confidence. Farmers, Maori landowners and city based investors would exit the industry.

Our irregular plantation forest area and age profile is a result of a positive forest investment environment up until the late 1990's. Since then land prices have risen dramatically and log prices have not kept pace, until recently, meaning that forest growing profitability has dropped.

Government policies have favoured pastoral land values against forest land use, as applied in both water quality rules and in the Emissions Trading Scheme (ETS).

Disincentives to plant forests include the bogus Eastern European carbon credits (fortunately no longer permitted in ETS). While not a Northland issue, allocation of more Nitrogen Discharge Allowances (NDA) to dairy farms has increased their land values relative to land used for drystock and forests.

This sort of regulatory philosophy tilts what should be a level playing field in favour of grass and against trees.

Despite the obstacles, forestry remains New Zealand's second or third most important primary industry on export values, and is forecast to continue to grow.

Large scale forest owners usually sell to both local processors and exporters. Local mills take the higher value pruned and structural logs. Few are set up to profitably process industrial logs, and in Northland only the Juken New Zealand triboard plant in Kaitaia is set up to process pulp logs. The export market is crucial for forest owners to sell these lower grade logs.

In most regions of New Zealand forest owners choose to supply local mills first against much more volatile export markets with their large price swings of foreign exchange and sea freight rates.

For small scale forest owners, now collectively a major industry player, a decision to sell is often a once in a lifetime retirement income decision. After waiting at least two decades for the trees

to grow, the temptation for investors or farmers to sell earlier than the tree growth optimum can be considerable.

Selling young trees may not be the best option. From 18 years, trees add a lot of value in both volume and log quality, especially if they have been pruned with small knots which local mills prefer. A prudent seller will take professional advice on market prospects a few years ahead, so they can make an informed decision.

We as a nation need more trees planted outside the established forest areas, including in Northland. Confidence in future wood supply is critical for investment in internationally competitive wood processing plants.

Forests offer one of the lowest cost options to meet New Zealand's commitments from the Paris Climate Change Accord. In the right investment environment this can be at no cost to the taxpayer or consumer. Forests help keep our fresh water clean. This matters for marketing our Pure New Zealand brand on safe food and tourism that together make up such a large portion of our export receipts. Forests reduce erosion, mitigate flood peaks and add biodiversity.

Even against years of rising farm land values, the return from pine trees exceeds that of drystock farming by a considerable margin. Logs are not exempt from price swings, but can be held in the ground and continue to grow if prices are low. Woodlots at the farm level can provide a buffer against a downturn in dairy or meat prices.

There are some processing companies which are already investing heavily, such as Red Stag in Rotorua, Sequel in Kawerau and Pan Pac. These modern high production mills will in turn keep the costs of the New Zealand construction industry within bounds. Something surely new home buyers need.

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This Oped was submitted in response to this story published in the Sunday Star-Times on 21 August 2016

<http://www.stuff.co.nz/business/industries/83264710/Forest-industry-fearful-as-farmers-sell-immature-logs>