Does the NZ Industry Have to be World Class to Compete in the World?

Veteran observer of the New Zealand forestry, wood processing and wood trade sectors in New Zealand, DANA Director Dennis Neilson thinks the sector is at a major crossroads. It could go either way: A slow decline over time; or a revitalisation. Some factors which will determine its direction are external, and others are in the hands of industry leaders. His comments below are a prelude a 1 ½ day conference in Taupo, New Zealand in October covering most aspects of the sector, followed by a 1 ½ day field trip visiting several sites; including the largest pruned log sawmill in the world, a major Maori- owned plantation forest, a new geothermal power station, a wood pellet mill and a large treated post and pole operation – and a highlight: Lunch at a Marae.

The New Zealand plantation industry was a global pioneer. More than 100 years ago, and long before other countries took note; New Zealand had identified a future limit to its native forest resource. It had tested over 80 exotic plantation species and had determined that Radiata pine, and to a lesser extent *Douglas fir* could grow well. It had planted hundreds of thousands of hectares before the Second World War, and soon after in two visionary strategic moves, Government and industry had formed two world-scale unintegrated wood processing companies which then built (what was considered then to be) two world-scale integrated processing plants.

However, since the 1980s, with a few exceptions, the New Zealand industry has largely been on "flight mode", drifting along. A major new land planting programme in the 1990s set the industry up for a big processing expansion opportunity 25-30 years later. However a huge increase in Chinese log demand since 2009 has so far nipped that in the bud. Log exports to Asia in 2017 totalled 19.4 million cubic meters, or 59% of the total New Zealand harvest of 33.1 million cubic meters.

The now defunct (thank goodness) NZ Forest Industry Council (FIC) had lofty plans for a huge expansion in the industry when it published its 2000 Strategic "Vision", which targeted the industry to once again to become a world leader – as the table below suggested.

Forest Industry Council 2025 Vision - Targets to 2025

2000	2025	Actual 2017
$5 billion outputs	> $18 billion	N/A – but not good
4% GDP	> 14% GDP	1.6 % GDP
25,000 employed (100,000 indirect)	60,000 (250,000 indirectly)	23,000 employed
$3.1 billion export earnings	> $14 billion	$5.4 billion
Third largest exporter	Largest exporter	Third largest exporter
Top 20 global suppliers	Top 5 global suppliers	N/A – but not good
1.7 million hectares	3.5 - 4.0 million hectares	1.7 million hectares
19.4 million CM harvest (December 2000)	55-60 million CM	33 million CM

Source: DANA 2016 and 2018

Eighteen years into this 25 year programme, one would have to give this lofty set of FIC targets an F-grade so far -- after almost 20 years of "drifting".

Then again in 2012, NZ WoodCo, the FIC "replacement" at the top of the NZ Forest Sector leadership tree (and soon perhaps to become defunct – thank goodness) published the ***"New Zealand Forest and Wood Products Industry Strategic Action Plan".*** It targeted forest products import earnings to jump from $4.5 Million in 2011, to $12 million by 2022. However, by 2017 – 55% on the way to the

target date - this revenue had increased to $5.4 million, or only 11% along the targeted increase path. This leaves a huge (and very unlikely) jump required to be met in subsequent five years.

DANA and others have for several years been "harping on" about the importance of scale in achieving serious growth in a sector which is so dependent on exports for forest products, given the tiny New Zealand population of less than five million. Does the NZ sector have any scale left? Much of it has failed/splintered due mostly to dysfunctional management in the 1980s and 1990s, but some is left. But it needs more – much more.

DANA has organised a series of 'case study' presentations for its 2018 Conference to be held in Taupo on October 1 & 2. The theme of this year's conference is: **Does the NZ Industry Have to be World Class to Compete in the World?** Speakers will present on several relevant topics, which include on one of the best managed and possibly most profitable forest in the world, an existing major integrated forestry and wood processing company, an expected major new arrival with an integrated forest products model, an expected huge new planned wood panels project, a new sawmill (the largest in the Southern hemisphere - with much more to come), a world scale port operation, a world class forest research institution – and much more.

Two keynote speakers will feature. One is the NZ Minister of Forests, who plans to transform the forestry sector from a backwater largely neglected for nine years by the previous government, to one which features a massive new land plantation target (one billion trees) and "targeted" approvals for overseas investment. The other is an expert on the gigantic and growing Russian forest industry sector and its wood export business and potential. If any country can teach the New Zealand industry about the importance of scale to become internationally competitive, it is the modern Russia.

Separately, Dennis Neilson will be visiting Russia in late July to investigate in detail the Russian forest resources and industry and its future potential, and will be available to share his observations and conclusions at the Taupo conference.

DANA has just received a May 2018 Wespac Bank: **Industry Insight Foresty and Wood Products** report on the New Zealand forestry sector. It can be read here

Readers should register now for the DANA Taupo NZ event. Field trip seats especially are likely to fill up. See www.danaevents.co.nz/2018taupo or contact Julie Bell at admin@dana.co.nz