

# Forestry for life Economics of Forestry



Eastland Wood Council

## Kim's comments

Kim Holland, chief executive, Eastland Wood Council



It is a coincidence that this month's Forestry For Life is looking at the economics of forestry at a time when the industry and the market are in challenging times.

Four years of a strong export market, maturation and harvesting of our region's forests have seen the industry and the regional economy doing well. However, over the past few months a number of global factors have influenced the value of our log prices and exports, compounded in our region by the sea conditions which have greatly affected the ability of the port to dock, and load ships.

The immediate severity of the log price drop would have been mitigated to some extent if companies had been able to get their logs out to market earlier.

There is a significant negative economic impact being felt across the forestry supply chain — from harvesting operations and contractors, cartage companies, service industries, to the principal forest companies and exporters, by these factors which are creating a "perfect storm".

### The global effects have come from:

- The China US trade war — China is sending fewer exports to the US
- China — less processing due to the trade constraints to the US as well as seasonal effects like hot, humid weather
- Timber coming across the belt and road initiative from Northern Europe

In the year to March 31,



2019, 126 ships carried 2,941,324 tonnes of logs to export markets.

A ship carrying 30,000 tonnes of logs injects over \$3 million into this economy.

The average costs/tonne of logs being exported from Eastland Port:

**\$40/T** logging contractors  
**\$25/T** cartage/transport  
**\$10-\$15/T** Forest Roding infrastructure  
**\$5/T** management  
**\$80/T + \$20/T** port  
 = **\$100/T**  
 with **\$300m** being paid into our regional economy, local companies and local people  
**The current log price: \$95/T**

### What does this mean for the industry right now?

- Reduced quotas for harvesting crews
- Reduced work for cartage companies
- Reduced work for forest industry service companies
- Reduced work for silviculture contractors — no money for replanting and pruning programmes

With 25 years of costs to be factored in, companies look at the longer term plan and not just the next few months.

Gisborne is one of the largest forestry employers in the North Island with 10 percent of the workforce,

and is a significant employer of people in our region. So it's opportune to look at supporting and investing in our key people to get through this, with the training that we never get time to do. The Eastland Wood Council, along with Forest Industry Contractors Association and Te Uru Rakau, are looking at programmes to upskill, and build capability of our existing workforce.

Now is the time for belt-tightening, and as with any primary commodity export market, whether it is dairy, sheep, beef or logs, we need to ride out the

storm.

On a positive note, the commitment from Government for the Processing Centre of Excellence in the region, means more value-adding in our community, more jobs, and more money flowing through our local economy; and less risk associated with the export log price. Not so good for the exporters though, but they will ride out the storm.

So for now, summer is coming, and with that we hope that the market will pick up. One thing we do know is that we have wood to be harvested for some time to come.



Note: CFR = Cost and Freight Rate meaning the export company is responsible for the cost of getting the logs to market.



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# Forest industry exports

New Zealand is a small player in the international forestry industry, contributing only 1.1 percent of the world's total supply of industrial wood and 1.3 percent of the world's trade in forest products.

New Zealand is the second largest log exporter to China, after Russia, with Australia and the US also competing for market share. (Although less so for the US in the current political environment.)

New Zealand also exports logs to Korea, India and Japan. High quality logs, such as pruned trees, are made into furniture and other high value products, but much of the rest is used as timber or made into plywood for construction work, packaging, and pallets. New Zealand also exports logs and chips for wood pulp.

It contributes —

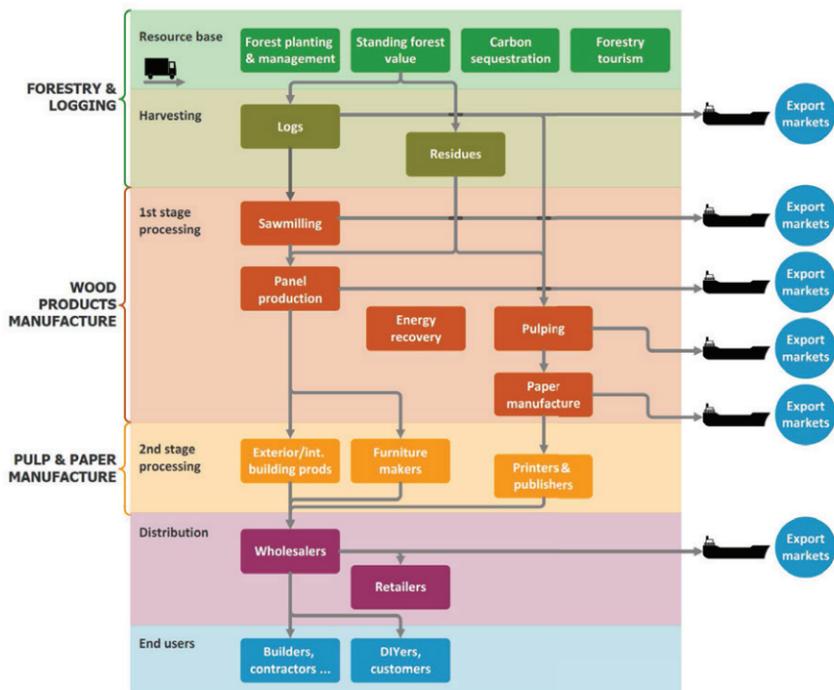
- an annual gross income of around \$5 billion

- 3 percent of New Zealand's GDP
- directly employs around 20,000 people (Figures taken from March 2017 NZIER – Plantation Forestry Statistics)

## Economic connections of forestry — forestry and logging, and wood products

While the main material flow between forestry-related parts of the value chain is of logs from harvest to wood processing and pulping, there are also large flows of residues from both harvesting and sawmilling activities and wood pulp manufacturing.

Residues are also used to provide heat and power to parts of the manufacturing process, with the wood processing industry long utilising bio-energy for a good portion of its energy needs.



Source: NZIER

# Forestry is a long-term investment

When log prices change, or share prices, it's important to put it into the context of your investment.

Forestry is a long-term investment which is why people like it.

Investing in alternative assets like forestry is complementary to equities, fixed income and property for diversifying and lowering the risk of an investment portfolio. Forest investment performance is not correlated to the share market.

"Time in the market is the objective – not timing the market," says Bert Hughes, CEO of forestry investment company Forest Enterprises.

"The longer you're in the market, the more likely you are to achieve the long run average log price. Periods of low prices in a several-year harvest programme have less impact on returns than if harvesting over a short period," says Hughes.

## Logs prices fluctuate

As a commodity, log prices are cyclical. The recent price drop is not unprecedented.

"You never know where you are in the cycle, so it's important you have a plan, and stick to the plan," says Hughes.

"We can only make plans with the knowledge that the trend is for price and demand volatility," he says.

Anyone with shares will see the stock market go up and down too.

## Good management is vital

Log price is a key risk in forestry investment because it determines returns, so good management is important.

"Our managed forests have a programme set out over several years, and returns are calculated using long run average price rather than using current price," Hughes says.

"Forest Enterprises has long-term contracts with our teams cutting and delivering logs so our response to price is measured. Stopping logging and cartage would breach contracts and damage infrastructure which is required long-term," he says.

"We are slowing down crews, targeting domestic log grades and taking managed time off. These actions reduce costs in the short term but enable us to continue harvesting as conditions improve."

## Diversity is key

Diversification applies to marketing logs as much as it does to any investment portfolio.

Forest Enterprises believes in supporting local customers to reduce risk in log pricing and routinely supplies domestic sawmills.

They have two domestic sawmill customers online for Gisborne and trial loads are under way for a third.

"Currently, returns from domestic customers are better than current export returns but lower than the long run trend price," Hughes says. "In simple terms, greater customer or product diversity means lower price volatility but does not always give higher price."

Forest Enterprises' investment in pruning trees produces a price premium for investors, as well as diversifying the product mix from log sales.



Export companies are monitoring the log price before sending logs offshore.

We have been operating in Gisborne since 1985 and are very proud to support the local industry



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## Bob Fraider and Korey-Paige Fraider-Johnson help out at the Titirangi/Kaiti Hill working bee

Thank you to staff families who helped plant 1000 native plants these school holidays enhancing the new track built and funded by Eastland Port.

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