



USDA Foreign Agricultural Service

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## New Zealand

### Solid Wood Products

### Annual

### 2006

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**Report Highlights:**

New Zealand's commercial forested area declined during 2005 and 2006. This occurred in spite of the Government of New Zealand's stated objective to expand the amount of land planted to forestry to comply with Kyoto Protocol obligations. Post has revised New Zealand's production and export estimates for softwood logs, lumber and plywood for 2005 and 2006.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Wellington [NZ1]  
[NZ]

**SECTION I. SITUATION AND OUTLOOK**

New Zealand's 2007 softwood log production is forecast to decline 1 percent to 18,500 cubic meters. (This follows a revision of New Zealand's 2005 and 2006 harvest levels by FAS Wellington.) The decline is primarily attributable to an ongoing shift in forestry management practices that favor increasing the age profile of trees to improve wood quality. Domestic softwood log consumption in 2007 is forecast to remain the same as 2006, while exports are forecast to decline 4 percent from 2006. The expected decline in softwood log exports is primarily the result of wood being further processed at a similar rate, despite ongoing reductions in wood production in New Zealand during recent years.

New Zealand's 2007 softwood lumber production is forecast to remain the same as in 2006. Exports are forecast to increase 1 percent while domestic consumption is forecast to decline 1 percent. These estimates are based on a slowing domestic housing market, which will likely dampen local demand, and increasing prices in overseas markets.

Total plywood production is forecast to remain steady, despite a small decline in total softwood harvest. Domestic consumption is forecast to decline two percent while exports are expected to remain at existing levels.

New Zealand's total commercial forest area decreased during 2005 and 2006. This is the result of a large volume of land used for commercial forestry being converted to other, more profitable land uses, such as dairy farming. The poor returns experienced by the forestry industry during recent years, combined with increased costs, have made it far less attractive than other land uses, which have experienced strong returns and are now profitable on what was once considered marginal land.

Two new forestry industry organizations were formed during 2006. The Wood Processors Association (WPA) replaced the New Zealand Forest Industries Council, which was disbanded in September of 2005. The WPA represents companies responsible for the primary processing of more than 80 percent of New Zealand's wood production. The other newly established organization is WoodCo. WoodCo was created as an industry-wide organization to provide a unified voice to the government for the entire forestry industry. WoodCo was also established to overcome the fragmented nature of the forestry industry, which features a number of different industry organizations. However, a couple of these organizations have not signed up as members of WoodCo.

Rank Group, owner of Carter Holt Harvey (CHH), is currently accepting offers for over 250,000 ha of CHH's forest estate. This volume is much larger than previous large sales in New Zealand – 107,000 ha of Former Fletcher Forest's estate and 165,000 ha of the Central North Island Forests Partnership's estate. CHH's other assets include processing and distribution facilities throughout New Zealand and Australia. The main bidders are expected to be Timber Investment Management Organizations (TIMOs). This reflects the TIMOs continuing demand for New Zealand forestry. Rank purchased CHH for NZ\$ 3.32 billion in 2005, following an aggressively contested takeover battle. CHH was the third largest company on New Zealand's share market prior to Rank's successful takeover.

## SECTION II. PS&amp;D TABLES.

New Zealand Softwood Logs									
	2005			2006			2007		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Market Year Begin									
Production	15395	0	19100	0	0	18700	0	0	18500
Imports	5	0	5	0	0	0	0	0	0
Total Supply	15400	0	19105	0	0	18700	0	0	18500
Exports	5700	0	5140	0	0	5200	0	0	5000
Domestic Consumption	9700	0	13965	0	0	13500	0	0	13500
Total Distribution	15400	0	19105	0	0	18700	0	0	18500

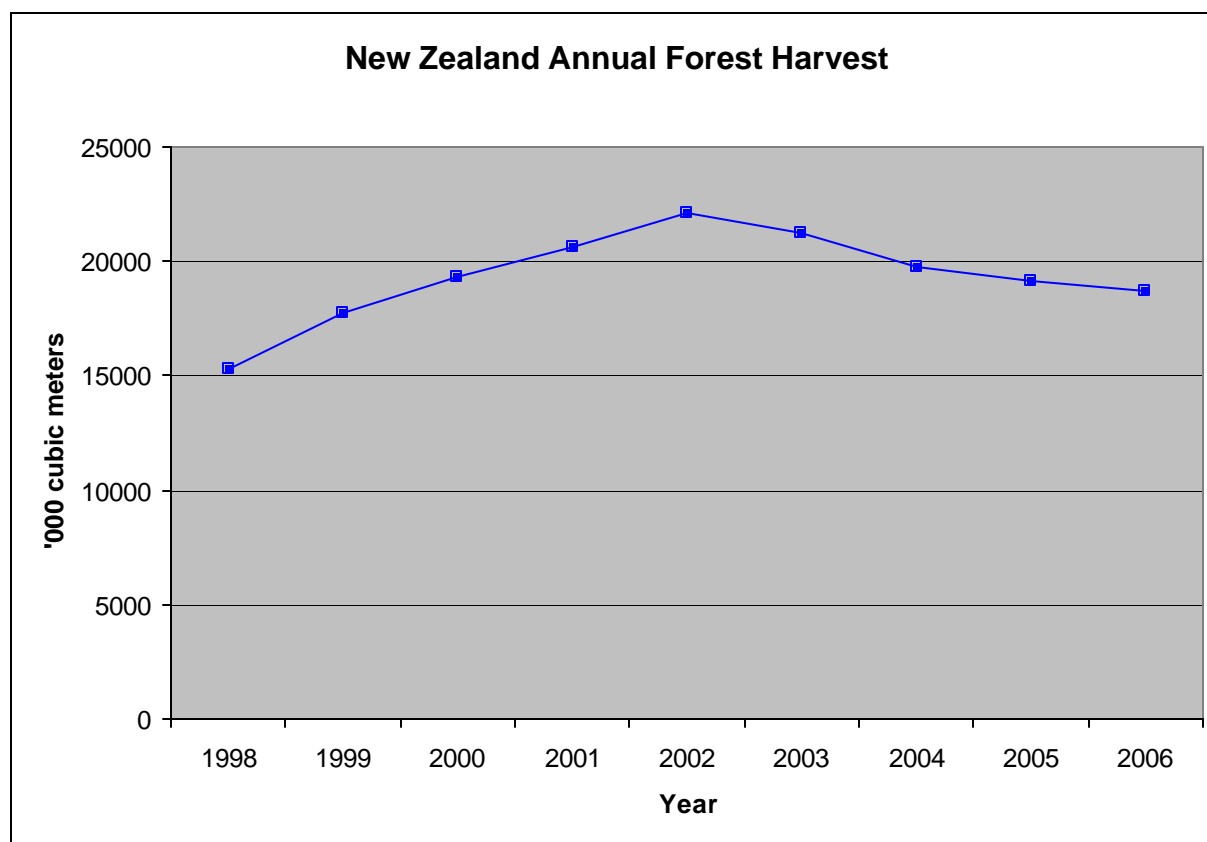
New Zealand Softwood Lumber									
	2005			2006			2007		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Market Year Begin									
Production	4100	0	4250	0	0	4170	0	0	4170
Imports	17	0	30	0	0	25	0	0	25
Total Supply	4117	0	4280	0	0	4195	0	0	4195
Exports	1632	0	1800	0	0	1900	0	0	1920
Domestic Consumption	2485	0	2480	0	0	2295	0	0	2275
Total Distribution	4117	0	4280	0	0	4195	0	0	4195

New Zealand Softwood Plywood									
	2005			2006			2007		
	USDA Official	Revised Post Estimate	Post Estimate New	USDA Official	Estimate Post Estimate	Post Estimate New	USDA Official	Forecast Post Estimate	Post Estimate New
		01/2000	01/2000		01/2001	01/2001		01/2002	01/2002
Market Year Begin									
Production	290	0	400	0	0	390	0	0	390
Imports	5	0	15	0	0	15	0	0	10
Total Supply	295	0	415	0	0	405	0	0	400
Exports	95	0	130	0	0	120	0	0	120
Domestic Consumption	200	0	285	0	0	285	0	0	280
Total Distribution	295	0	415	0	0	405	0	0	400

Source: Ministry of Agriculture and Forestry (MAF), Statistics New Zealand, Post Estimates.

**SECTION III. PRODUCTION, POLICY AND TRADE****PRODUCTION****Forestry Situation/Outlook**

New Zealand's softwood log harvest in 2007 is forecast to decline 1 percent to 18,500 cubic meters. This follows a revision of New Zealand's 2005 and 2006 harvest levels by FAS Wellington. Domestic softwood log consumption in 2007 is forecast to remain the same as 2006. Domestic consumption figures for 2005 and 2006 have been revised following access to more accurate information. Softwood log exports are forecast to decline 4 percent from 2006 to 5,000 cubic meters. Exports of softwood logs have been the main area to decrease significantly with the decline in New Zealand's harvest levels. Domestic production of lumber and other products have not declined significantly.



Source: MAF, Post Estimates.

The decline in softwood harvest follows a decline in exports in recent years as many forest owners take a longer-term view, delaying harvest until the age profile of the trees improves (improving wood quality) and returns are more profitable. Returns for New Zealand's forestry industry have improved during the past 12 months, but they still remain very low. The depreciation of New Zealand's dollar during this period and strengthening log prices in international markets have been key factors in improving export returns. This has been offset to some extent by increases in shipping costs, due to high oil prices and continued Chinese demand for shipping capacity.

New Zealand's ongoing reduction in timber supply will be beneficial to its forestry industry as the trees are left to age, improving their construction quality. This is due to a change in ownership in recent years from publicly listed companies, who needed to maintain cash flow, to Timber Investment Management Organizations (TIMOs), who take a long-term approach to forests. Prior to this change in ownership, harvests were increasingly characterized by marginally lower overall quality, as younger timber was harvested to satisfy a strong export demand and maintain cash flow and debt servicing of the larger companies. This has changed, with these companies divesting their forestry assets to focus on processing. Harvesting levels may have been stopped from declining further due to long-term supply contracts that need to be fulfilled and the need to maintain a certain level of production capacity in New Zealand. The decline in timber production will be temporary. The industry anticipates that forestry owners will return to full harvesting operations once the age profile of forests and export prices improve (after 2010). Additionally, timber production will respond to the large number of trees planted during the 1980's and early 1990's that will begin reaching harvestable age by 2010.

New Zealand's 2007 lumber production is forecast to remain similar to 2006. Exports are forecast to increase 1 percent while domestic consumption is forecast to decline 1 percent. Post forecasts that a slowing domestic housing market will decrease local demand, while increases in prices in overseas markets will strengthen exports. Total production is forecast to remain steady, despite a small decline in total softwood harvest. Plywood is expected to follow a similar pattern – production at a similar level, with a 2 percent decline in domestic consumption. Exports are forecast to be similar to 2006, while imports decline.

## STRATEGIC INDICATOR TABLE – FOREST AREA

New Zealand Forest Area 2005			
	Previous 2004	Current 2005	Forecast 2006
Total Land Area (million hectares)	27	27	27
Total Forest Area (million hectares)	8.23	8.23	8.23
--Of which, Commercial ('000 hectares)	1,842	1,841	1,835
----Of commercial, tropical hardwood ('000 hectares)	0	0	0
----Of commercial, temperate hardwood ('000 hectares)	56	56	56
----Of commercial, softwood ('000 hectares)	1,786	1,785	1,779
Forest Type			
--Of which, virgin ('000 hectares)	6.4	6.4	6.4
--Of which, plantation ('000 hectares)	1822	1815	1810
--Of which, other commercial (regrowth) ('000 hectares)	n/a	n/a	n/a
Total Volume of Standing Timber (thousand cubic meters)	n/a	n/a	n/a
--Of which, Commercial Timber ('000 cum)	400,000	400,000	398,500
Annual Timber Removal ('000 cum) 1/	19,100	18,400	19,000
Annual Timber Growth Rate ('000 cum)	25,000	25,000	25,000
Annual Allowable Cut ('000 cum)	n/a	n/a	n/a
1/ If Removals exceeds growth rate, analyze impact in text.			

Source: MAF, Post Estimates.

## NEW ZEALAND'S FORESTRY INDUSTRY

The New Zealand forestry and logging sectors account for 1.2 percent of national economic activity. Further processing of wood and wood products, paper, and pulp manufacturing account for an additional 4 percent of GDP. Forestry directly employs approximately 23,000 people. Forests cover 8.2 million hectares, approximately 30 percent of New Zealand's total land area. Of this area, 6.4 million hectares are indigenous or natural forests and 1.8 million hectares represent commercial plantation forests. Of the commercial area, seventy percent is located in the North Island and thirty percent in the South Island. Eighty-nine percent of all commercial forests are planted with radiata pine and 6 percent in Douglas Fir. The balance consists of hard woods (3 percent) and other softwoods (2 percent). Plantation forests account for more than 99 percent of New Zealand's total timber production. Approximately 6000 hectares were planted in new forests during 2005 (and 7000 hectares were removed), which is significantly below the 45,000 hectare average per year between 1990 and 2004. Planting rates are expected to remain low.

New Zealand accounts for 0.05 percent of the world's forest resource and 1.1 percent of world trade. New Zealand's major competitors are South Africa, Russia, Chile, Brazil, Argentina, and Uruguay. More than a quarter of New Zealand's harvest is exported as logs. The remainder is either milled or used in the production of pulp, paper, or other wood products such as medium density fiberboard (MDF) and panel products. The volume of logs exported as a proportion of New Zealand's total harvest has increased in recent years due in large part to industry processing capacity constraints.

New Zealand's forestry sector has undergone great structural change in recent years. It has become more fragmented as the large companies that previously dominated New Zealand's

industry have divested much of their vertically integrated businesses. Forests and processing are now separately owned as they are considered to be greatly differing investment vehicles. Forests are considered a long-term, low-risk, relatively low return investment, which has attracted a large amount of international investment, mainly by TIMOs. Wood processing, on the other hand, is considered higher risk, but can potentially provide much higher returns.

Most industry participants argue that there is little motivation to invest in infrastructure in New Zealand's post harvest industry. Reasons they give include stringent regulations and difficulty in gaining consent for new plants (as a result of the current structure of the Resource Management Act), rising energy costs, low availability of trained staff and the short-term nature of supply contracts for most industry participants. As a result, by world standards, New Zealand has older plants that vary in size from small to medium. The low profitability of the industry has motivated forest owners (including Carter Holt Harvey) to reduce their harvest in anticipation of better future prices, as well as increase the age profile of their trees, increasing their value. This decrease in the need for wood processing infrastructure has further decreased motivation for investment by post harvest operators.

## **POLICY**

### **The Kyoto Protocol**

Despite the New Zealand government's aim to increase plantings of forestry in New Zealand, the total area of commercial forests decreased during 2005 and 2006. New Zealand's liabilities under the Kyoto Protocol would decline if forestry plantings increased, as forests are considered carbon sinks. New plantings continue, but a much larger amount of existing forestry land is being converted to dairy farming and other land uses. In some cases, even immature trees are being replaced by alternative land uses (see NZ5018 for more information). During 2005 there was a net decrease in commercial forestry area of 1000 hectares, increasing to an estimated decline of 6000 hectares of commercial forestry in 2006. Estimates of New Zealand's liabilities under Kyoto during the first commitment period (2008 to 2012) continue to fluctuate, with estimates between \$0 and NZ\$ 3 billion. The New Zealand Government has re-estimated its carbon balance for the first commitment period (2008 to 2012) as a 41.2 million ton carbon dioxide equivalent deficit. This decrease from the New Zealand Government's December 2005 deficit of 64 million tons is mainly due to the impacts of higher oil prices. The projected balance is volatile and will continue to change over coming years.

The New Zealand Government announced in August 2006 that it is set to implement the Permanent Forest Sink Initiative<sup>1</sup> (PFSI). The PFSI allows farmers to earn revenue from selling carbon credits on land that they permanently plant in forestry. This is beneficial to farmers and regional councils who wish to retire erosion prone land from farming.

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<sup>1</sup> <http://www.climatechange.govt.nz/resources/info-sheets/forest-sink-initiative.html>

TARIFFS AND SUBSIDIES<sup>2</sup>

New Zealand Forest Product Tariffs and Taxes (percent) 2004						
H/S Code	Product Description 1/	Tariff 2005	Tariff 2006	Other Import Taxes/Fees	Total Cost of Import 2/	Export Tax
4401		Free	Free	n/a	Free	Free
4403		Free	Free	n/a	Free	Free
4404		Free	Free	n/a	Free	Free
4405		Free	Free	n/a	Free	Free
4406		Free	Free	n/a	Free	Free
4407		Free	Free	n/a	Free	Free
	Sanded or Finger Jointed	7	7	n/a	7	Free
4408		Free	Free	n/a	Free	Free
	4408.10.09	7	7	n/a	7	Free
	4408.31.90	6.5	6.5	n/a	6.5	Free
	4408.39.90	6.5	6.5	n/a	6.5	Free
	4408.90.08	6.5	6.5	n/a	6.5	Free
	4408.90.19	6.5	6.5	n/a	6.5	Free
	4408.90.29	7	7	n/a	7	Free
4409		Free	Free	n/a	Free	Free
	Molded Wood	5	5	n/a	5	Free
4410		5	5	n/a	5	Free
4411		5	5	n/a	5	Free
4412		7	7	n/a	7	Free
	4412.22.90	5	5	n/a	5	Free
	4412.23.00	5	5	n/a	5	Free
	4412.29.90	5	5	n/a	5	Free
	4412.92.10	5	5	n/a	5	Free
	4412.92.90	5	5	n/a	5	Free
	4412.93.00	5	5	n/a	5	Free
	4412.99.90	5	5	n/a	5	Free
4413		Free	Free	n/a	Free	Free
4414		5	5	n/a	5	Free
4415		Free	Free	n/a	Free	Free
	4415.2	7	7	n/a	7	Free
4416		Free	Free	n/a	Free	Free
4417		Free	Free	n/a	Free	Free
	4417.00.11	5	5	n/a	5	Free
	4417.00.21	5	5	n/a	5	Free
4418		6.5	6.5	n/a	6.5	Free
4415.5		Free	Free	n/a	Free	Free
	4418.9	5	5	n/a	5	Free
4419		6.5	6.5	n/a	6.5	Free
	4419.00.09	7	7	n/a	7	Free
4420		Free	Free	n/a	Free	Free
	4420.10.09	6.5	6.5	n/a	6.5	Free
	4420.90.01	5	5	n/a	5	Free
	4420.90.09	6.5	6.5	n/a	6.5	Free
4421		7	7	n/a	7	Free
	4421.90.01	Free	Free	n/a	Free	Free
	4421.90.09	Free	Free	n/a	Free	Free
	4421.90.11	Free	Free	n/a	Free	Free
4422		n/a	n/a	n/a	n/a	Free
4423		n/a	n/a	n/a	n/a	Free
4424		n/a	n/a	n/a	n/a	Free
4425		n/a	n/a	n/a	n/a	Free
Pre-fabricated Houses, a subsection under chapter 96		n/a	n/a	n/a	n/a	n/a

Source: New Zealand Customs Service.

<sup>2</sup> Note: 2006 Tariffs and Subsidies are unchanged from 2005.



**WOOD PRODUCTS SUBSIDIES**

New Zealand Wood Product Subsidies 2006			
	Previous 2004	Current 2005	Forecast 2006
Total Solid Wood Export Subsidy Outlay (\$US million)	N/a	n/a	n/a
Is there a ban on the export of logs, lumber, or veneer? 1/	No	No	No
Are there export taxes (yes/no)? 2/	No	No	No
Total Wood Production Subsidy (\$US million)	N/a	n/a	n/a
Scope (thousands of hectares)	1822	1815	1810
Are there other wood products export expansion activities? 1/	No	No	No

1/ If yes, describe in report.  
2/ If yes, identify in Tariff and Tax Strategic Indicator Table.

Source: MAF, Post Estimate.

**FURTHER INFORMATION**

Ministry of Agriculture and Forestry (MAF) Forestry Section

<http://www.maf.govt.nz/forestry/>

MAF SONZAF update (July 2006):

<http://www.maf.govt.nz/mafnet/rural-nz/statistics-and-forecasts/sonzaf/2006/index.htm>

MAF Forest Industry Facts and Figures (good resource, although some stats out of date):

<http://www.maf.govt.nz/statistics/primaryindustries/forestry/index.htm>

Wood Processors Association:

<http://www.wpa.org.nz/>

New Zealand Forestry Owners Association

<http://www.nzfoa.org.nz/>

New Zealand Farm Forestry Association

<http://www.nzffa.org.nz/>

New Zealand Timber Industry Federation

<http://www.nztif.co.nz/>

Kyoto Forestry Association (forestry owners lobby group):

<http://www.kfoa.co.nz/>

New Zealand government and the Kyoto Protocol

<http://www.climatechange.govt.nz/>

Tenon

<http://www.tenon.co.nz/>

Carter Holt Harvey

<http://www.chh.com>