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Solid Wood Products

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Approved by:

David Rosenbloom

U.S. Embassy

Prepared by:

Sven Koops

Report Highlights: Weak international log and lumber prices are encouraging reduced cutting volumes for the next one to two years. Profitability and return on investment have fallen markedly for forest owners/operators and 15 percent of New Zealand's plantation forests are now for sale. Harvestable tree volumes will increase significantly over the next 15 years and New Zealand's Wood Processing Strategy is attracting foreign investment to the secondary wood processing sector.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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EXECUTIVE SUMMARY

Despite a larger total volume, the value of New Zealand's forestry exports fell 5.6 percent to NZ \$3.49 billion¹ for the 12 month period ending June 2003. The downturn largely is a response to increased competition from other suppliers of wood and wood products, a weakened purchasing demand from U.S. buyers, and a strong New Zealand currency. The forest products industry, however, continued to be New Zealand's third largest merchandise export earner, accounting for approximately 4 percent of New Zealand's GDP and 12 percent of total merchandise exports.

Recent industry projections that New Zealand's annual log harvest might reach 50 million cubic meters by 2025 now appear to have been overly optimistic and a revised figure of 35 million cubic meters better reflects current industry and international market conditions. However, short term market developments can prompt a further revision of this figure both upwards or downwards. Many smaller sawmills and forest operators have ceased to operate in recent months. Two of New Zealand's largest forest owners have announced significant changes to their corporate business strategy. Fletcher Forests (FF) has signaled its intention to sell by the end of the year its entire forest estate of 106,000 hectares to the Campbell Group, an Oregon timber investment and management company. The reported sale price of NZ \$685 million reflects a significant reduction in asset valuation. FF has received a rival bid, however, from a New Zealand consortium of investors which it is now in the process of considering. Carter Holt Harvey announced that it will devalue its forest estate 30 percent and will reduce its harvest by 1 million cubic meters annually over the next few years. Harvest level reductions are likely to be made by other forest owners. This will slow or even reverse the recent trend of harvesting trees at an earlier age. Many industry analysts now predict that the average tree harvest age in New Zealand will soon move closer to 29 - 30 years compared to 27 - 27.5 years at present.

The planned reduction of harvest levels also responds to ongoing wood processing capacity constraints relative to potential log harvest volumes. While an industry-government initiative to increase New Zealand's wood processing capacity in order to expand exports of high-end, value-added forest products rather than lower value log exports is beginning to show promising results, the additional log volumes absorbed by three new joint venture projects with European companies is relatively small compared with potential volumes available for processing. Long-term, the proportion of New Zealand's log export volumes is likely to continue to increase despite the creation of additional industry processing capacity. An anticipated temporary reduction in total harvesting levels will ease the pressure on exporters to sell larger quantities of lower-value logs.

Australia continues to be New Zealand's most important export market, accounting for 27 percent of all exports in value terms. Exports to Japan declined 2 percent in 2002, but Japan continued to be New Zealand's second largest export market for wood products. Sales to the United States were stable, while export earnings from shipments to South Korea declined 19 percent in response to a heavy reliance on log sales. China now accounts for approximately 10 percent of New Zealand's forestry export earnings. The value of shipments to China declined 11 percent last year. Japan accounts for 20 percent of New Zealand's export earnings from shipments of wood products, the U.S. market 15 percent, and South Korea 12 percent.

PRODUCTION

FOREST SITUATION/OUTLOOK

The New Zealand forestry and logging sectors account for about 1.2 percent of national economic activity. Further processing of wood and wood products, paper, and pulp manufacturing account for an additional 2.9 percent of GDP. Forestry directly employs approximately 23,500 people. The growing importance of the forest industry in New Zealand's economy is being driven by (1) increasing export earnings which reached NZ \$3.6 billion in calendar 2001 and NZ \$3.7 billion in calendar 2002, and (2) an expanding resource of logs. Forests cover approximately 30 percent of New Zealand's total land area (8.2 million hectares, of which 6.4 million hectares are indigenous or natural forests and 1.8 million hectares are commercial plantation forests). Eighty-nine percent of all commercial forests are planted with radiata pine and 6 percent in Douglas-Fir. Approximately 21 million cubic meters were harvested in 2002/03 (July-June year), with plantation forests accounting for more than 99 percent of this total volume. In recent years, the New Zealand forestry industry has been adding just over 30,000 hectares of new forest plantations annually. This is, however, well below the 30-year average of 43,500 hectares per annum. The amount of harvestable trees is set to increase significantly over the next 15 years due to high planting rates in the past. However, the current slump in international log and lumber prices along with a strong New Zealand dollar are likely to precipitate a reduction in harvest levels over the next one to two seasons as forest owners may be inclined to delay their cutting operations.

Globally, 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, Australia, Chile, Brazil, Argentina, and Uruguay. A roundwood equivalent of 15.6 million cubic meters was exported in raw and processed form during 2002, up 6.6 percent over 2001. More than a third of New Zealand's harvest is exported as logs, with the remainder being milled or used in pulp, paper, and production of other wood products such as medium density fibreboard (MDF) and panel products. The volume of logs exported as a proportion of New Zealand's total harvest continues to increase due largely to processing capacity constraints. New Zealand exported a total of 1,834,000 cubic meters of lumber and 7,859,000 cubic meters of logs in calendar year 2002, up 13 percent and 8 percent, respectively over 2001.

RECENT DEVELOPMENTS IN NEW ZEALAND FORESTRY

The combination of a strong New Zealand currency, fluctuating and rising energy costs, and temporarily uncompetitive freight rates to key markets have hurt the New Zealand forestry sector's ability to export profitably. The industry is focusing its efforts on reducing costs, increasing operational efficiencies, and maintaining its current markets. Faced with increasing international supplies of wood and wood products and a weaker demand in the U.S. market, the industry is looking at a downward re-assessment of New Zealand's future log harvest and replanting levels. This in turn has prompted changes in the structure of New Zealand's forest ownership.

There is a growing realization among industry participants that previous expectations of annual

harvest levels of more than 50 million cubic meters by 2025 were overly optimistic and that harvest levels in the next two decades may only reach 35 million cubic meters. A weakening of import demand in key markets, strong log export competition from Russia, and lumber export competition from Chile, Brazil and Russia are likely to adversely impact on New Zealand's production. Increases in harvest volumes are slowing and a drop in production during 2004 may occur. A decline in log production, however, is likely to be a temporary phenomena, since harvest delays and associated increases in tree age would be very difficult for the local industry to sustain for any significant period of time.

Provisional data for the year to April 2003 indicate that annual plantings have significantly decreased to 23,200 hectares from the 30-year average of 43,500 hectares per annum. The main factor driving this decrease is the low profitability of growing trees. An additional factor is the relatively higher profitability offered by dairy production. Many harvested forest blocks are now being converted into dairy pasture.

Two of the largest corporate New Zealand forest owners, Fletcher Forests (FF) and Carter Holt Harvey (CHH), are taking significant measures to address the low levels of profitability associated with growing trees. CHH, New Zealand's largest forestry company, recently estimated a return on its investment from its forestry estates of 3.5 percent which compares unfavorably with a 10 to 11 percent cost of capital. Carter Holt Harvey announced that it will revise the current value shown in its financial statement for its 300,000 hectares of forests from \$NZ 2.7 billion to \$NZ 1.8 billion. Although CHH maintains that it wants to continue to be a major forest owner and operator in New Zealand, it plans to reduce its harvest by 1 million cubic meters annually over the next few years.

Faced with an unacceptable return on investment, FF is moving ahead with its intention to sell all of its forest estates estimated at 106,000 hectares. A letter of intent has been concluded with the Campbell Group, an Oregon timber investment company for the purchase of FF's forests for NZ \$685 million. FF had previously devalued its forestry estates by NZ \$292 million to NZ \$728 million. However, given the large number of forest estates that are now for sale in New Zealand (accounting for approximately 15 percent of country's entire plantation forests), the agreed sale price is thought to fall below FF's latest asset valuation. The sale may be finalized by the end of the year. However, a rival bid has been made by Kiwi Forests, a consortium of mainly New Zealand investors, which FF is currently in the process of considering. Kiwi Forests' offer of cash and shares in Evergreen Forests, an American-controlled forest company, is valued at NZ \$750 million.

The declining value of New Zealand's forests in part reflects low international market prices for logs and lumber products. Relative to market prices, forestry estates have been significantly overvalued which is evident in the low return on investment generated by the industry. Lower returns also are being driven by increasing costs of compliance with government regulations and plantation input costs. Fletcher Forests seeks to concentrate on its profitable processing activities, utilizing its extensive North American distribution network.

Industry insiders acknowledge that many forest owners have not been very good at maximizing value from their assets, even during times when log prices were high. They agree that New

Zealand forestry only will become widely profitable once adequate value can be derived from tree growing activity. This will require additional processing value to be generated in New Zealand. The difference between exporting logs and value-added products is obvious. A container load of logs is valued at NZ \$8,000, while the same container of sawn lumber is valued at NZ \$25,000, engineered wood products NZ \$50,000, and furniture NZ \$150,000.

The goal of attaining additional wood processing activity in New Zealand poses unique challenges according to the New Zealand Forestry Industries Council (NZFIC). Essential to achieving the aim of increasing downstream processing activity is the successful implementation of the Wood Processing Strategy. Constraints to increasing New Zealand's processing capacity include: (1) an uncompetitive power supply (compared to other competing countries), (2) a lack of adequate road infrastructure to access large forest estates, (3) a difficult, costly and uncertain approval process to establish new wood processing sites, (4) uncertainty by potential investors over the long term effect of New Zealand's ratification of the Kyoto Protocol, (5) uncompetitive freight rates, (6) a strong New Zealand currency, and (7) lack of labor productivity and high labor rates.

Other issues raised by the industry include a need: (1) for innovation into achieving efficiency and competitiveness gains, (2) to position New Zealand's pine more aggressively in international markets and promote the qualities and characteristics of radiata pine to potential and existing customers through generic market development in high-value market segments, (3) to improve market access – forest product exports face a range of tariff and non-tariff barriers which penalize added-value production by increasing protection as the level of processing increases. NZFIC estimates that import tariffs cost New Zealand forestry product exports NZ \$40 million annually, while non-tariff trade barriers amount to NZ\$ 175 million. (5) for more cooperation between New Zealand competitors in New Zealand. For example, in December 2002 the Wood Quality Initiative was established – a research consortium bringing together forestry companies and research providers with the government's research and development funding agency (Foundation for Research, Science, and Technology or FoRST). The Wood Quality Initiative is a private company which pools financial resources from industry and government to develop commercial strategies around improving the fundamental cell-level structure of wood and of finding better ways to measure wood quality. The industry already spends NZ \$38 million annually on R&D. Funding through FoRST amounts to NZ \$26 million per annum.

Strategic Indicator Table - Forest Area

FOREST AREA			
Country: New Zealand Report Year: 2003	Previous 2001	Current 2002	Forecast 2003
Total Land Area (millions of hectares)	27	27	27
Total Forest Area (millions of hectares)	8.2	8.21	n/a
--of which, Commercial	1.8	1.81	n/a
---of commercial, tropical hardwood	0	0	n/a
---of commercial, temperate hardwood	0.054	0.054	n/a
—of commercial, softwood	1.745	1.760	n/a
Forest Type (millions of hectares)			
–of which, virgin	6.40	6.40	n/a
–of which, plantation	1.8	1.81	n/a
–of which, other commercial (regrowth)	n/a	n/a	n/a
Total Volume of Standing Timber ('000 cum)	382,000	390,000	n/a
–of which, Commercial timber	n/a	n/a	n/a
Annual Timber Removal ('000 cum)	20,900	23,100	n/a
Annual Timber Growth Rate (cum/hectare)	25	25	n/a
Annual Allowable Cut ('000 cum)	n/a	n/a	n/a
Note: 2002 forestry statistics were released in 2003 and data for 2003 will be released next year			

N.Z. Net Stocked Forest Area and Annual Planted Forest Roundwood Removals

Year	Area (ha)	Roundwood Cut (000m3)
1998	1,679	16,630
1999	1,731	15,689
2000	1,769	18,120
2001	1,799	19,285
2002	1,814	20,942
2003	1,830**	23,145**
** MAF estimate		

Source: Ministry of Agriculture and Forestry (MAF)

New Zealand Planted Forest Locations

Location	Area (hectares)	
	April 1, 2001	April 1, 2002
North Island		
Northland	205,105	205,399
Auckland	54,940	55,823
Central North Island	577,385	577,400
East Coast	153,311	157,545
Hawke's Bay	123,367	126,630
Southern North Island	156,934	158,549
South Island		
Nelson/Marlborough	174,132	172,362
West Coast	33,482	33,247
Canterbury	118,147	119,786
Otago/Southland	201,954	207,525
TOTAL	1,798,757	1,814,266

Source: MAF

Forest Resource Quality

Approximately 33,600 hectares of new planted production forest were established in the year ending March 2001. Sixty-eight percent of these plantings were made on improved pastures, 9 percent on unimproved pastures and 23 percent on land where scrub vegetation was the predominant surface cover. An additional 30,100 hectares of new plantings occurred in the year ending March 2002. Provisional estimates indicate that 23,200 hectares of new planting occurred during the year ending March 2003.

New Zealand's planted production forests covered an estimated 1,814,266 hectares as of mid 2002. Seventy-one percent of this area is in the North Island and 29 percent in the South Island. Nearly a quarter of New Zealand's total land area is covered with natural or indigenous forests which are commonly protected as wildlife habitats and recreation areas. Taking commercial plantings into account, 30 percent of New Zealand's land surface is forested.

Radiata pine continues to be the dominant plantation species in New Zealand, accounting for 89.4 percent (1,622,329 hectares) of planted commercial forest. Douglas fir is the next most common species, covering 5.7 percent (103,801 hectares) of plantation forest area. The balance consists of hard woods (3 percent) and other softwoods (1.9 percent).

Most of the radiata pine resource is characterized by predominantly young crops. Sixty percent of all radiata pine plantings are less than 15 years of age. This reflects high planting levels in the early 1980's and during the past decade. As a result of this planting activity, New Zealand's harvest is expected to increase significantly over the next 15 years.

Sixty-seven percent of all radiata pine is pruned. Currently, 998,079 hectares (91.9 percent) of all pruned radiata pine is less than 25 years old. Approximately 170,335 hectares of pruned radiata pine is between 21 and 25 years old, while trees on 88,282 hectares are older than 25 years. Compared with the previous season, the proportion of older pruned radiata pine trees has increased from 4.9 to 5.4 percent.

Planted Forest Management Standards

Work undertaken by the National Standards Working Group to develop a New Zealand Standard for plantation forest certification (NZ2030) that conforms to the Forest Stewardship Council's certification has yet to be finalized. The standard is likely to be in place in early 2004.

Forest Stewardship Group Certification Scheme

Private forest owners seeking to gain access to the increasingly important Forest Stewardship Certification (FSC) market can avail themselves of a new FSC group certification scheme (NZ2030) which provides a cost-effective way to gain access to the FSC marketplace. There are now mechanisms in place for small-scale independent growers to join a group certification scheme. The growing importance in New Zealand of smaller-scale, private plantations over the next five years is reflected in a growth forecast made by the agribusiness company, Wrightsons. Harvested volume from smaller producers in New Zealand is forecast to expand more than 270 percent to 1.6 million cubic meters over the next 10 to 15 years, according to Wrightsons.

SOLID WOOD PRODUCTS SITUATION/OUTLOOK

Softwood Logs

PSD Table						
Country	New Zealand					
Commodity	Softwood Logs				1000 CUBIC METERS	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Production	16000	16557	16000	18540	0	17980
Imports	4	6	5	5	0	5
TOTAL SUPPLY	16004	16563	16005	18545	0	17985
Exports	6975	7596	7000	8081	0	8191
Domestic Consumption	9029	8967	9005	10464	0	9794
TOTAL DISTRIBUTION	16004	16563	16005	18545	0	17985

While the availability of wood for harvesting in New Zealand will continue to increase in the future, it is not expected that actual log production will follow the same trend over the next two years due to the depressed market for softwood logs. Several factors have contributed to the current slump in log prices. Some of these are likely to persist for some time thereby affecting the profitability of the New Zealand log harvest. This in turn will affect harvest levels during 2004. According to industry sources, New Zealand's log production is forecast to decrease 3 percent during 2004.

The relevant factors contributing to this downturn in harvest levels include: (1) an increased supply competition from Chilean and Russian log supplies, (2) a stronger appreciation of the NZ currency versus the U.S. dollar than currencies of New Zealand's competitors, (3) transport cost increases due to a reduction in shipping capacity, (4) increasing input costs associated New Zealand forestry operations, (4) depressed international demand conditions, especially in the United States which led to a diversion of competitors' logs into Asian markets. This in turn affected the value and volume of New Zealand's exports to those markets.

South Korea's economy which commonly absorbs half of New Zealand's export logs, is depressed as the country is in an economic recession. China, New Zealand's second largest market taking 20 percent of New Zealand log exports is being supplied with large volumes of inexpensive Russian industrial and chip logs. Furthermore, inexpensive Chilean logs are entering Asian markets thereby adding to existing supplies in that market region. While international supplies are beginning to abate, conditions are likely to remain challenging during 2004. According to industry sources, only a demand-led recovery in the United States will improve the overall outlook for forest products.

According to industry sources, harvest levels in New Zealand will be reduced by delaying the cutting of younger trees. This will also enhance the quality of harvested wood. Some forests were affected by unsustainable logging levels, driven by forest owners seeking to maximize revenue from their forest resource during the past two years of high prices.

Softwood Lumber

PSD Table						
Country	New Zealand					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Production	4000	3930	4000	4472	0	4104
Imports	15	34	15	17	0	17
TOTAL SUPPLY	4015	3964	4015	4489	0	4121
Exports	1540	1723	1600	1856	0	1760
Domestic Consumption	2475	2241	2415	2633	0	2361
TOTAL DISTRIBUTION	4015	3964	4015	4489	0	4121

Softwood lumber production will also be affected by factors described in the previous section. Total New Zealand softwood lumber production is forecast to decrease 8 percent as exports are forecast to decrease 5 percent. Domestic consumption will decrease 10 percent as demand from housing construction is forecast to slow in 2004.

According to industry analysts, recovery of U.S. and European lumber markets is unlikely to occur during 2003. New Zealand lumber exports to the U.S. market have fallen steeply resulting in a considerable stock build up in New Zealand. Some discounting of New Zealand radiata lumber versus ponderosa lumber is occurring but industry analysts are unsure of the reasons for this. Canadian exports into the United States have also increased despite high tariffs imposed by the United States. Random width boards and sawn lumber have been most affected by the downturn in the U.S. market, while moldings and higher grades have been affected the least as the housing construction sector remains strong. In the long term, however, the U.S. market continues to hold the greatest potential for New Zealand lumber exports.

New Zealand's second largest lumber market, Australia, has been relatively stronger thanks in part to a weaker New Zealand currency versus the Australian dollar. Supply from North America has put supply pressure on this market and plans by Finland to ship 100,000 cubic meters to Australia over the next twelve months will add to supplies again. However, demand from a strong Australian housing market is now declining with building consents 10 percent lower than the same

time last year. Australian demand for construction lumber is also increasingly filled from Australia's own forestry production which has increased in response to increasing Australian domestic demand. This is likely to lead to an increasing replacement of imported lumber for domestically produced lumber in the medium term.

Softwood Plywood

PSD Table						
Country	New Zealand					
Commodity	Softwood Plywood				1000 CUBIC METERS	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Production	195	264	200	292	0	296
Imports	7	7	5	7	0	7
TOTAL SUPPLY	202	271	205	299	0	303
Exports	92	88	90	89	0	95
Domestic Consumption	110	183	115	210	0	208
TOTAL DISTRIBUTION	202	271	205	299	0	303

Plywood production in 2004 is forecast to increase just over 1 percent. Export volume growth will be around 7 percent driven by strong export demand from Australia, China and Japan thanks to relatively strong building activity in those areas. Domestic consumption is likely to decrease modestly as house building activity is forecast to slow down.

New Zealand Wood Processing Industry

New Zealand's wood processing industry is concentrated in the central North Island where the majority of the country's mature planted forests are located. The major wood processors, which are also New Zealand's major forest owners, have their processing plants close to their forests.

Plantation forest ownership is distributed as follows: 48 percent – registered private companies, 43 percent – registered public companies, 3 percent – local government bodies, 3 percent – central government, and 3 percent – state-owned enterprises.

New Zealand has a well established wood processing industry. The processing industry absorbs approximately 15 million cubic meters of roundwood log equivalents, with the balance of 8 million cubic meters exported as logs. Of the 2002 harvest of 23 million cubic meters, 35 percent was exported as logs, 45 percent was supplied to panel producers and sawmills, 17 percent was

used as a direct log supply to the pulp and paper and reconstituted product industries, and 3 percent was used to produce other forest products.

More than 100 sawmills produced 4.5 million cubic meters of sawn timber in the 12 month period ending June 2003. Ninety percent of these sawmills produced less than 20,000 cubic meters. Five panelboard companies in New Zealand produced 893,000 cubic meters of fibreboard and 213,000 particle board during the same period. Six panelboard companies produced a total of 623,000 cubic meters of veneer and 336,000 cubic meters of plywood. New Zealand's four pulp and paper companies produced 1.39 million tons of wood pulp and 798,000 tons of paper and paperboard.

Most sawmilling technology in use today has been imported. The imported equipment usually is second hand and is supplied mostly by Norway, Finland, and North America. Imported equipment is adapted to New Zealand's larger-sized, heavier, and lower density core logs. Drying technology in New Zealand such as that used in dust extractors, ventilators, and kilns is considered advanced.

Wood Processing Investment in New Zealand

(Values in NZ\$ million, Source: MAF)

	Solid Wood Processing			Residue Processing			Total
	New Plant	Plant Upgrades	Total	New Plant	Plant Upgrades	Total	
1988	11.0	0.0	11.0	0.0	0.0	0.0	11.0
1989	0.0	21.0	21.0	0.0	230.0	230.0	251.0
1990	20.0	0.0	20.0	8.0	50.0	50.0	78.0
1991	0.0	0.0	0.0	0.0	304.6	304.6	304.6
1992	42.0	14.7	56.7	0.0	0.0	0.0	56.7
1993	41.5	41.6	83.1	1.1	8.8	9.9	93.0
1994	49.0	67.2	116.2	0.0	52.0	152.0	268.2
1995	2.0	49.8	51.8	0.0	0.0	0.0	51.8
1996	1.0	4.0	5.0	10.0	58.0	68.0	73.0
1997	13.0	25.4	28.4	120.0	265.0	385.0	423.4
1998	65.4	56.3	121.7	0.0	313.0	313.0	434.7
1999	1.6	4.0	5.6	10.0	0.0	10.0	15.6
2000	0.0	49.0	49.0	4.0	10.0	14.0	63.0
2001	2.0	64.4	66.4	0.0	10.0	10.0	76.4
2002	85.5	33.5	119.0	0.0	7.7	7.7	126.7

2003-09	400.6	55.0	455.6	0.0	0.0	0.0	455.6
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Other Wood Processing Investment

Three larger scale further wood processing initiatives are currently in the final planning stage. These initiatives will be based on joint venture arrangements between European and New Zealand companies with a potential to absorb 1 million cubic meters of wood annually. The three joint ventures include door manufacturing, window framing, and furniture manufacturing all intended for export markets. A Danish furniture manufacturer is planning to set up a processing facility in New Zealand in an joint venture with Juken Nissho to produce high-end furniture using New Zealand pine for the European market. The total value of these investments is has not been published.

Wood Processing Strategy

According to a report by the Wood Processing Strategy Group, wood processing could become New Zealand's biggest export earner by 2025, offering employment to 60,000 people. The report sets a target of lifting the wood processing industry from its current NZ \$3.7 billion export level to more than NZ \$20 billion by 2025. Achieving this target will require NZ\$ 3 billion of new investment by 2010. It is projected that the wood harvest from New Zealand's planted forests will reach 34 to 35 million cubic meters by 2020. It is vital for the industry that increases in annual harvestable volume is exported in the form of value-added products as opposed to logs in order to maximize returns to the New Zealand economy.

The Wood Processing Strategy is a partnership between local and central government, industry and unions to accelerate the development of wood processing in New Zealand. The strategy is scheduled for completion in three stages. The first stage involving the resolution of various government and compliance issues, and the setting out of requirements for forest owners under the Kyoto Protocol to which New Zealand signed up last year, have largely been accomplished. Transport infrastructure and the creation of a skilled workforce are still to be completed. The government has announced additional funding of NZ \$30 million over three years to improve roads in Northland and eastern coastal areas around Gisborne where access to large areas of plantation forests is currently restricted due to an inadequate road infrastructure. The industry has also proposed a strategy which integrates the rail network, ports and barging operations.

The second stage deals with maximizing the value of trees, developing world-class mills, and building markets. Stage three focuses on enhancing New Zealand's competitiveness as a location for wood processing initiatives, improving market access to potentially lucrative markets by addressing tariff escalation, and conducting more intensive market development for secondary manufactured wood products. Obviously, further wood processing into value-added products must be accompanied by efforts to improve market access and to reduce escalating tariffs.

TRADE**OVERVIEW/OUTLOOK**

For the year ending June 2002, the provisional FOB value of New Zealand's forestry exports fell 6 percent to NZ \$3.48 billion due to a significant deterioration in international market conditions during the months of May and June.

Wood Products Trade Overview by Commodity and Value

Exports	2001-2002 (July-June)		2002-2003 (July-June)	
	Quantity (000m3)	Value NZ\$ million	Quantity (000m3)	Value NZ\$ million
Logs	7,604	758	8,393	720
Lumber	1,724	864	1,808	855
Wood Pulp	784	518	708	433
Paper & Paperboard	498	557	472	467
Fibreboard	646	291	674	268
Plywood	102	145	107	150
Other Panel Products	135	79	214	127
All other forestry products		410		412
Total Forestry Products		3,695		3,488
Imports (CIF)		1,223		1,240
Source: MAF & Statistics New Zealand				

Softwood Logs Trade

New Zealand Softwood Log Exports				
	2001/02*	2001/02*	2002/03*	2002/03*
Destination	000 m3	NZ\$ million FOB	000 m3	NZ\$ million FOB
Korea, South	4,252	411	4,024	334
Japan	1,368	158	1,578	161
China	1,280	119	1,772	134
India	225	21	312	27
Philippines	213	23	186	19
Taiwan	96	9	107	11
United Arab Emirates	47	5	56	6
Thailand	47	4	54	5
United States	16	3	25	4
Vietnam	24	1	5	0.4
Other	36	4	274	18.6
Total	7,604	758	8,393	720
* July-June Year				
Source: Statistics New Zealand and MoF				

Log export volumes for the 2002-2003 (July-June) year increased 10 percent to a record 8.4 million cubic meters mainly due to larger export shipments to China. Log exports to China increased almost 40 percent. However, the average export price fell 20 percent from a year earlier. Log exports to South Korea declined 5 percent to 4.02 million cubic meters and export log prices fell 15 percent. China as an export market for New Zealand pine is promising as Chinese authorities have approved New Zealand pine in their housing construction.

Log exports are likely to continue as a major part of New Zealand's forest products export-mix. However, the current high level of log exports is seen by many as a lost opportunity for further processing. Log export prices in nominal terms are likely to remain under pressure over the coming year. Any international supply increases to China and South Korea, two log markets that concentrate on lower value logs, are likely to keep downward pressure on the average log export price. Any additional strengthening of New Zealand's currency will result in further declines in New Zealand dollar terms for exports.

Softwood Lumber Trade

New Zealand Softwood Lumber Exports				
	2001/02*	2001/02*	2002/03*	2002/03*
Destination	000 m3	NZ\$ million FOB	000 m3	NZ\$ million FOB
United States	529	387	532	356
Australia	380	229	402	248
Japan	235	79	238	77
China	119	41	134	43
Taiwan	166	34	145	31
Philippines	30	11	63	17
Thailand	53	11	71	13
Vietnam	29	7	60	13
Hong Kong	51	19	33	12
Korea, South	64	13	54	10
Indonesia	16	7	22	9
New Caledonia	8	4	9	4
Other	41	22	45	22
Total	1,721	863	1,808	855
* July-June Year				
Source: Statistics New Zealand and MoF				

Lumber exports from New Zealand's planted commercial forests are estimated at 1.808 million cubic meters for the year ended June 2003, up more than 5 percent over the previous year. Lumber export volumes to the United States remained stable and the United States is still the dominant export market. A strong demand from the Australian construction sector during 2002 led to a 6 percent increase in export volume to that market. Total lumber export value in 2002/2003 would have exceeded NZ \$855 million if not for a significant weakening in export sales which began in May 2003.

New Zealand successfully persuaded Chinese authorities to include New Zealand pine into its new building code. This is an important achievement for New Zealand exporters as it removes a significant trade barrier to New Zealand timber products. The Chinese building code has moved away from a prescriptive approach which specified North American species, sizes and grades towards a non-prescriptive, calculated engineering design regime. All radiata pine must be machine-graded which may be an advantage for larger New Zealand processors which have the resources to invest in the required technology.

The Japanese market for imported lumber has been depressed due to the weak Japanese economy. Japan remains, however, New Zealand's third largest market. The market has the potential to expand for engineered wood products for the post-and-beam housing market. Japan is the second largest wooden housing market in the world. Annual construction permits reach 1.2 million, about half of which are for wooden houses. Faced with more stringent quality assurance laws and

regulations, Japanese housing companies are now demanding higher performance and precision from all building materials. Variability in both solid and kiln-dried lumber has driven housing companies towards engineered wood products with greater precision. As a result, a New Zealand company is now exporting kitset wooden homes to Japan.

The outlook for New Zealand lumber exports is hurt by the expectation that import demand from its most important market, the United States, may not recover over the next twelve months. High current stock levels are likely to clear with an expectation that price recovery may set in. Exports from Chile and Brazil to the United States are expected to maintain their currency and shipping cost advantages and more lumber is likely to be imported by the United States from these suppliers. Large softwood plantations in the southern states of the United States will also add to lumber supplies in the near future. Overall, the U.S. housing market continues to offer the greatest potential for New Zealand sales of dried/dressed lumber (i.e. weatherboards, fascias, handrails, doorjambes, moldings, window, door and stair parts, and wall panels and flooring).

The Australian market is expected to weaken as building activity is likely to decrease in 2004. Also, Australian lumber production holds a strong position in the Australian market and displaces New Zealand product in the structural part of the market. New Zealand export sales to Australia consist mainly of construction lumber.

Softwood Plywood Trade

New Zealand Plywood Exports				
	2001/02*	2001/02*	2002/03*	2002/03*
Destination	000 m3	NZ\$ million FOB	000 m3	NZ\$ million FOB
Japan	56	102	55	92
Australia	38	36	43	48
Philippines	0	0	5.1	5.4
Tonga	0.7	0.6	1	0.9
United States	4	2.4	0.7	0.7
Samoa	1	0.8	1	0.6
Cook Islands	0.9	0.7	0.9	0.5
Other	1.4	2.5	1.6	1.9
Total	102	145	108	150
* July-June Year				
Source: Statistics New Zealand and MoF				

Export demand for New Zealand plywood in the near term is expected to remain strong throughout Asia thanks to continued robust building activity. While export volume growth will be good (around 6 percent), price increases for wood panels will be constrained due in part to competition from other producing countries.

New Zealand Imports of U.S. Forestry Products

New Zealand Imports of U.S. Forestry Products			
Year Ended June 2003 (provisional data)			
	Quantity	Value (NZ\$ million)	% Market Share
Logs/Poles (m3(r))	0	0	0
Sawn Timber & Sleepers (m39(s))	1,674	2,797	4.5
Wood Pulp (MT)	929	1,040	13.9
Paper & Paperboard (MT)	21,580	37,973	5.1
Panel Products (m3)	1,161	1,561	6.3
Furniture & Furniture Parts *	n.a.	2,005	1.4
Other Forestry Products *	n.a.	22,847	6.5
Total *		68,223	5.5
Source: MoF, Statistics New Zealand			
Note 1: % Market share by volume for each product group except for * (value)			

Wood pulp exports from the United States have dropped from a market share of 60 percent to 14 percent for the year ending June 2003. Total import volumes of wood pulp have halved over the same period. Australia supplies more than 65 percent of New Zealand's imports of logs and poles. Canada and Australia are the main suppliers of sawn timber and sleepers (41 and 20 percent, respectively) to New Zealand. Australia is also the largest supplier to New Zealand of paper and paperboard (51 percent) and panel products (41 percent).

Other Issues

Insignificant progress or no change has been made in areas reported on in NZ2030. These include: New Zealand's ratification of the Kyoto Protocol, Biotechnology, and independent forest ownership.

Forest Product Tariffs and Taxes (percent)

These remain unchanged. See NZ0049.

Wood Product Subsidies

This table remains unchanged from NZ0049. Foreign market development activity is undertaken primarily by the New Zealand Timber Industry Federation, which is an affiliation of independent sawmillers. Among other things, the federation provides commercial and economic advice to its members and performs generic marketing and promotion activities. The Federation also works with the government agency, Trade New Zealand, to develop new markets. In general, New Zealand's major wood processing companies in New Zealand do their own wood products promotions and have their own distribution channels in the United States and other key export markets.

BIBLIOGRAPHY

New Zealand Trade and Enterprise

Website: www.nzte.govt.nz

Ministry of Agriculture and Forestry

Website: www.maf.govt.nz

E-mail: econ@nzier.org.nz

New Zealand Forest Industry Council

Website: www.nzfic.nzforestry.co.nz

E-mail: nzfic@nzfic.org.nz

New Zealand Forest Owners Association

Website: www.nzfoa.nzforestry.co.nz

E-mail: robmcl@nzfoa.org.nz

New Zealand Institute of Economic Research

Website: www.nzier.org.nz

FOOTNOTE

1. Exchange Rates:

1 NZ\$ = US\$

Calendar Year 2000: \$ 0.43

Calendar Year 2001: \$ 0.42

Calendar Year 2002: \$ 0.46

Jan. to Sept. 2003 average: \$ 0.57