USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Voluntary _ Public

Date: 2/7/2012
GAIN Report Number: NZ1202

New Zealand

Post: Wellington

New Zealand Forestry and Wood Products Report 2011

Report Categories:
Wood Products
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Report Highlights:
It is not quite the "wall of wood" many predicted but the log harvest is up 30% since 2008 to 26million m3 in 2011. Of which nearly 50% is being exported in raw log form predominantly to China. Foresters are making profits but saw millers are having a much harder time struggling with depressed construction sectors domestically and offshore. The appreciating NZ currency is also dampening down export returns.

Executive Summary

Plantation forestry area in New Zealand seems to have stemmed its downward trend to stabilize at 1.72 million hectares as of April 2011, just 1% less than a year earlier. During the planting season (mid 2011) it is estimated that 60,000 hectares of trees were planted, comprised of: 43,300 ha forest land that was harvested the previous year; just under 5,000 ha of previously harvested forest land that had been lying fallow; and 12,000 ha of new planting on former farmland or land that has come from other uses. It is likely then that the net planted area in 2012 will be slightly above 2011. The key drivers behind this are: the potential to sell carbon credits; and the better financial performance and outlook for forestry. Indigenous forest areas are stable.

For the year to September 30, 2011 there was a record log harvest at an estimated 26 million cubic meters. Industry participants forecast a similar removal rate in 2012. Even with a dip in log prices in the second half of 2011 forest owners have had a successful year.

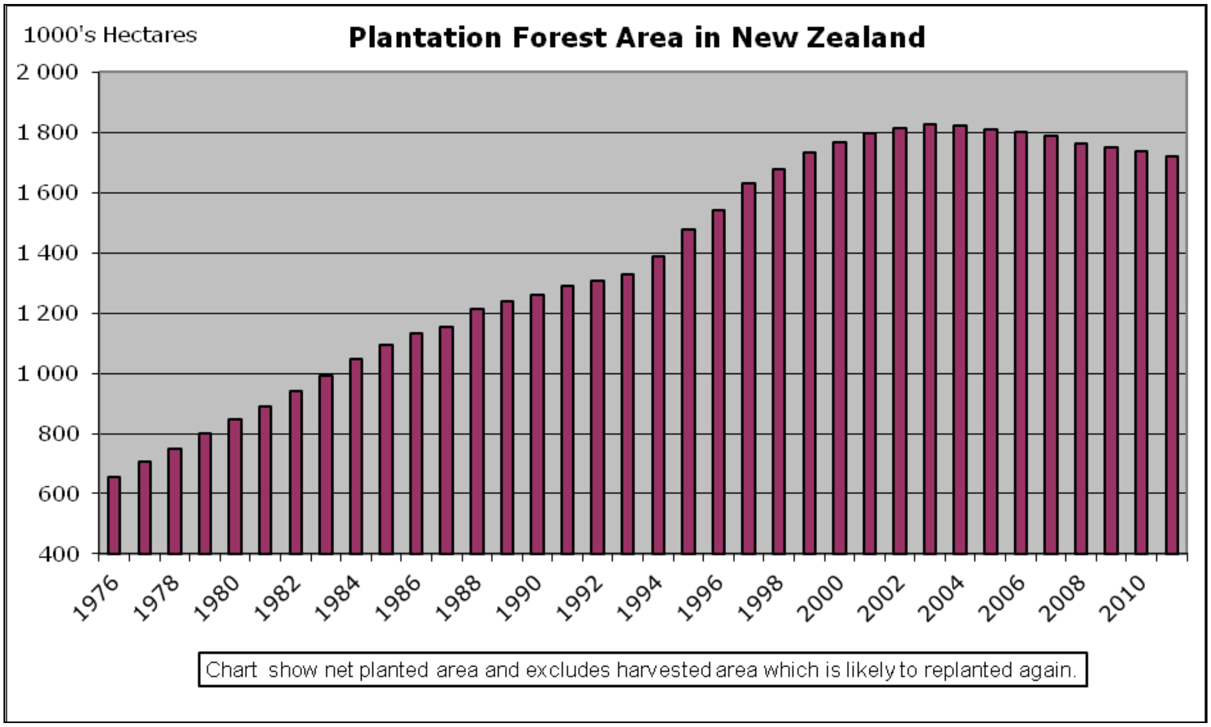
Although New Zealand's domestic construction sector remains under pressure, the forestry and wood products sectors continued to post gains due to strong international (i.e. Chinese) demand for logs. At 12.8 million cubic meters, log exports accounted for nearly 50% of the total harvest, up from 32% of a 20 million cubic meter harvest in 2008. Log exports were up 28% from the previous year and have doubled in volume over the past four years. China is the major buyer, taking 69% of the total volume in the year to Sep. 30, 2011. South Korea, India, and Japan round out the major destinations for raw logs.

With an annual production estimate of 5 million cubic meters ending in Sep. 2011, saw millers and wood processors are still not producing at pre 2008 levels but are making a tough but necessary move to increase the proportion of their throughput which is going to export. For the Sep. 2011 year exports of the major categories of lumber, plywood, particle and fiber board were up 6.5% (at 3.14 million cubic meters), and 7.7% by value in USD. Wood product exports are almost back to peak levels reached in 2006 at 3.18 million cubic meters.

The pulp, paper and export chip sectors comprise the other major users but their production tends to fly under the radar. They use an estimated 4.1 million cubic meters of logs and wood and their production levels are reported stable and export earnings robust over the last 4 years.

The overriding factor damaging the financial performance of exporters is the continued appreciation of the New Zealand currency from buying an average of USD 0.72 in 2010 to US0.79 in 2011. However industry participants expect export tonnages in 2012 to be similar to 2011 unless the domestic construction sector takes off and the demand for timber pushes the price saw millers are willing to pay above the export log market prices.

Forest Area and Harvesting 2011



Source: MAF

- Net planted area reduced by 1% to 1.72m hectares in April 2011
- From MAF tree nursery surveys it is provisionally estimated that the approximately 48,000ha of forest area previously harvested was replanted in mid 2011.
- As the harvested area for the year to April 2011 was 43,300ha, it is reasonable to assume that just under 5000ha of previously harvested fallow land was replanted which should reduce the forest land waiting for replanting reduce to around 50,000ha
- In addition it has been estimated 12,000ha of new planting was completed on former farm land or land that has come from other uses.
- Drivers behind increased planting intentions include: potential to sell carbon credits as the trees grow; and the better net revenue from tree harvesting for forest owners coupled with some confidence the future will bring similar net financial returns.
- Nursery manager opinions are weighted toward plantings increasing again in 2012.
- Record volume of logs harvested from the plantation forests in year to September 2011.
- Industry participants suggest the log harvest will be similar in the next 12 months to September 2012 at 26million cubic meters.
- If current planting levels are maintained, then over the next decade it is likely log removals will gradually rise to be in the order of 35million cubic meters p.a.
- Even though log prices have dipped in Q3 and Q4, 2011 Foresters have had another successful year, both in terms of volume and profits.

National Exotic Forest Estate Statistics

Area and standing volume statistics as at (note 1)	**1-Apr-08**	**1-Apr-09**	**1-Apr-10**	**1-Apr-11**
Forest area				
Net stocked area (ha)	1 761 000	1 751 000	1 738 000	1719400
Harvested area awaiting replanting (ha) (note2)	47 500	46 400	55 300	54300
Total forest area	1 808 500	1 797 400	1 793 300	1773700
Growth characteristics				
Standing volume (000 m^3)	445 933	456 874	467 063	479709
Average standing volume (m^3/ha)	253	261	269	279
Area-weighted average age (years)	15.2	15.6	15.9	16.3
Area by species (note3)				
Radiata pine (ha)	1 575 000	1 568 000	1 556 000	1545000
Douglas-fir (ha)	111 000	109 000	110 000	107000
Cypress species (ha)	9 000	9 000	10 000	10000
Other softwoods (ha)	26 000	26 000	25 000	24000
Eucalyptus species (ha)	25 000	25 000	24 000	22000
Other hardwoods (ha)	15 000	13 000	13 000	13000
Radiata pine area by tending regime				
Pruned with production thinning (ha)	213 000	216 000	217 000	210000
Pruned without production thinning (ha)	706 000	728 000	708 000	700000
Unpruned with production thinning (ha)	34 000	31 000	37 000	35000
Unpruned without production thinning (ha)	622 000	593 000	593 000	599000
Planting statistics Year ended (note 4)	**31-Dec-07**	**31-Dec-08**	**31-Dec-09**	**31-Dec-10**
Total estimated new planting (ha) (note5)	2 400	1 900	4 300	6000
Replanting (ha) (note6)	34 700	31 300	32 500	35200
Harvesting statistics Year ended (note7)	**31-Mar-08**	**31-Mar-09**	**31-Mar-10**	**31-Mar-11**
Area clearfelled-all species (ha)	41 400	41 800	43 500	43300
Area clearfelled-radiata pine (ha)	38	37 700	39 200	39800

	500			
Volume clearfelled-all species (000 m^3) (note6)	18 663	19192	20588	21725
Volume production thinned-all species (000 m^3) (note6)	195	190	146	201
Total volume removed -all species (000 m^3) (note6)(note8)	18 858	19 382	20 734	21926
Average clearfell yield -all species (m^3/ha) (note6)	451	459	473	506
Volume clearfelled -radiata pine (000 m^3) (note6)	17 753	18 095	19 192	20493
Average clearfell yield - radiata pine (m^3/ha) (note6)	461	480	489	515
Area-weighted average clearfell age for radiata pine (years)	27.9	28.3	28.4	28.6

Notes

1. Source: National Exotic Forest Description as at 1 April 2010, Ministry of Agriculture and Forestry, 2011.
2. I n this report, the area of harvested land that was recorded as awaiting a land use decision has been reported in the area awaiting replanting.
3. Individual entries may not add to totals due to rounding.
4. The forestry statistics released in this report, and in particular, new planting estimates, may differ from those produced in the Agricultural Production Survey by Statistics New Zealand. These surveys use different survey frames and designs.
5. The method used to estimate new planting is described on page 7 of this report.
6. The 2011 survey only sought data from owners with 1000 hectares of forest or more. These estimates have been rated up based on the 2010 NEFD survey results for owners with less than 1000 hectares of forest.
7. All volumes are reported as recovered volumes inside bark.
8. These estimates are based on data collected in the 2010 and 2011 NEFD surveys and may differ from the roundwood removals estimate as published in the Annual log and roundwood removal statistics, Ministry of Agriculture and Forestry. This is due to the estimate from that source being an indirect estimate that uses conversion factors for each forestry product to estimate the total roundwood input that would be required to produce total forest product outputs

Annual Estimated Roundwood Removals from New Zealand Forests
(units: 000 cubic meters of roundwood)

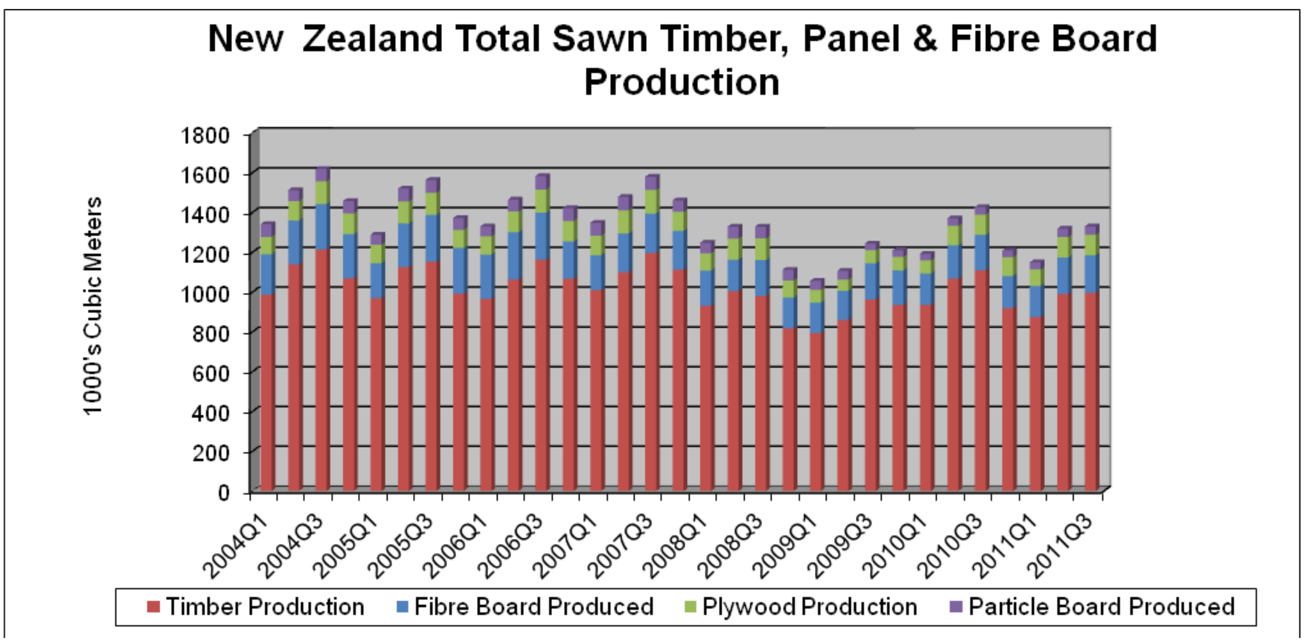
Natural Forest		Removals from planted production forests							
Year Ended	Total Removals	Saw Logs	Peeler Logs	Small Logs	Pulp Logs	Export Chips	Export Logs	Total Plantation Removals	Total Removals
Sep-01	52	7 185	674	1 530	3 452	418	6 794	20 053	20 105
Sep-02	49	7 841	822	1 441	3 501	401	7 613	21 619	21 667
Sep-03	36	8 139	1 035	1 403	2 993	299	8 239	22 108	22 142
Sep-04	29	7 955	1 109	1 457	3 266	230	5 859	19 877	19 904
Sep-	23	7	1	1	3	244	5 033	19 019	19 042

05		827	176	432	308				
Sep-06	22	7 529	1 140	1 494	3 228	219	5 323	18 933	18 954
Sep-07	19	7 877	1 231	1 306	3 410	325	6 286	20 434	20 454
Sep-08	17	7 298	1 189	1 236	3 299	411	6 290	19 722	19 739
Sep-09	12	6 214	785	1 162	3 263	204	8 359	19 986	19 998
Sep-10	17	7 312	1 037	1 122	3 599	315	10 043	23 427	23 444
Sep-11	14	6828	1184	1142	3722	402	12815	26 092	26 107

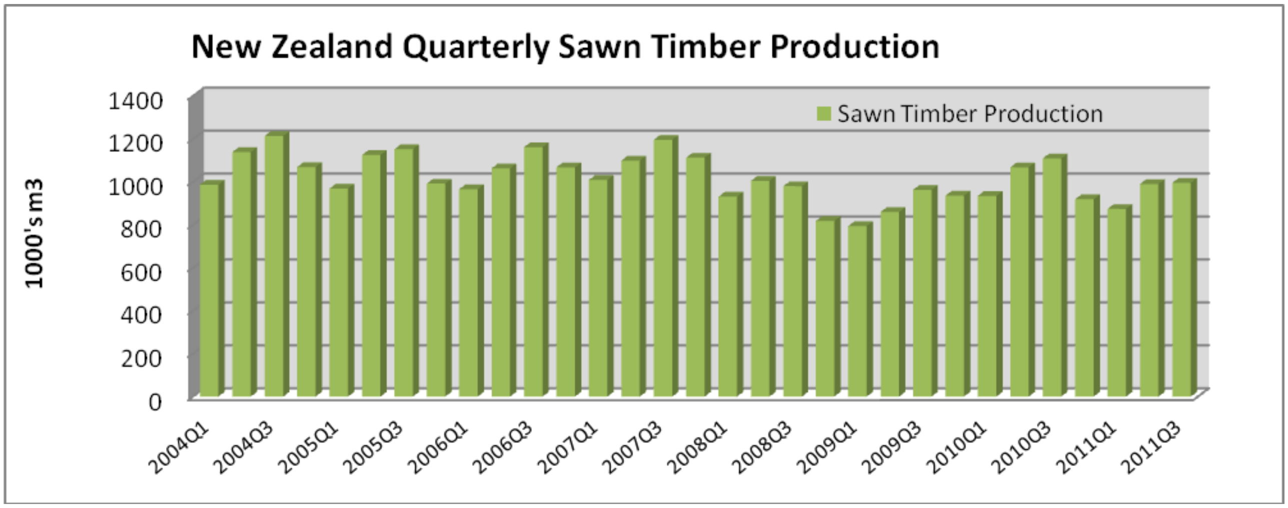
Source: MAF

Wood Disposal 2011– Where Did All the Logs Go?

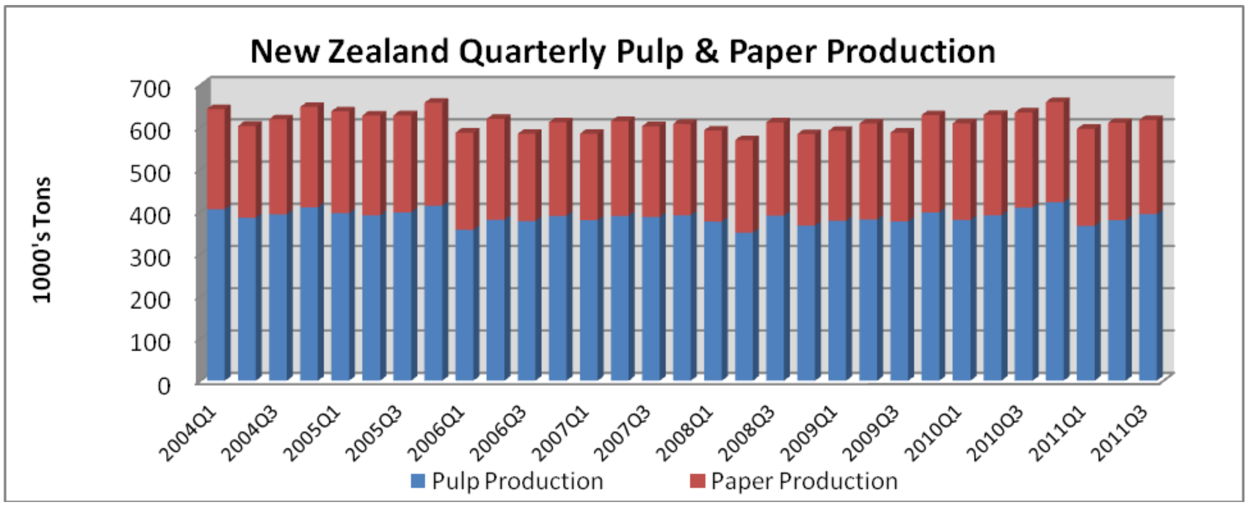
- 12.8 million cubic meters of the harvest was directly exported in log form in the year to Sep 30, 2011, (i.e. 49% of total harvest)
- A further 5 million cubic meters of wood ended up as sawn timber, plywood, particle board, or fiber board.
- The pulp, paper and export chip sectors used another 4.12 million cubic meters
- The balance went to waste streams for co-generation of energy either heat, steam, or electricity or to many other smaller niche end uses.



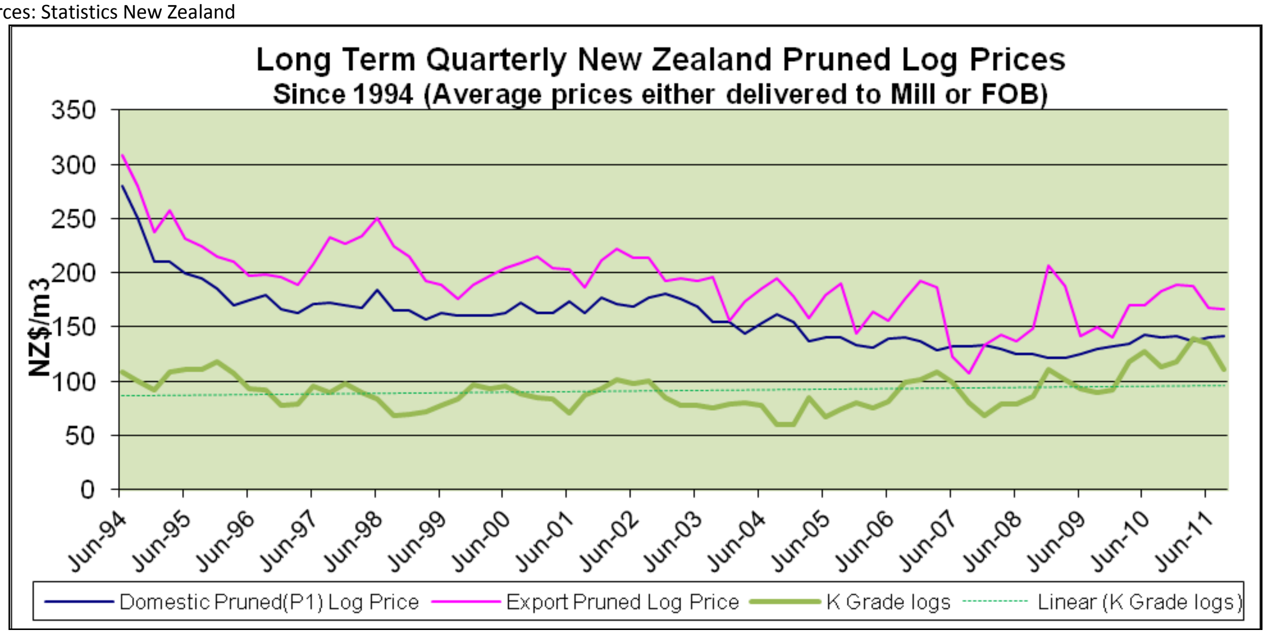
Sources: Statistics New Zealand



Sources: Statistics New Zealand



Sources: Statistics New Zealand



Source: MAF

New Zealand Log Prices January 2012 *NZ$/tonne delivered to mill or wharf*							
Grade	SED Min	Branch Max	This month	Last month	3 months ago	1 year ago	2 years ago
P1	40cm	pruned	133	131	139	143	122
KS	20cm	10cm	81	85	80	99	74
S1/S2	40/30cm	7/6cm	101	97	109	99	88
Pulp	10cm	No limit	54	47	52	48	47

Source: NZX Agrifax

Exports Vs Domestic Usage – Exports Winning

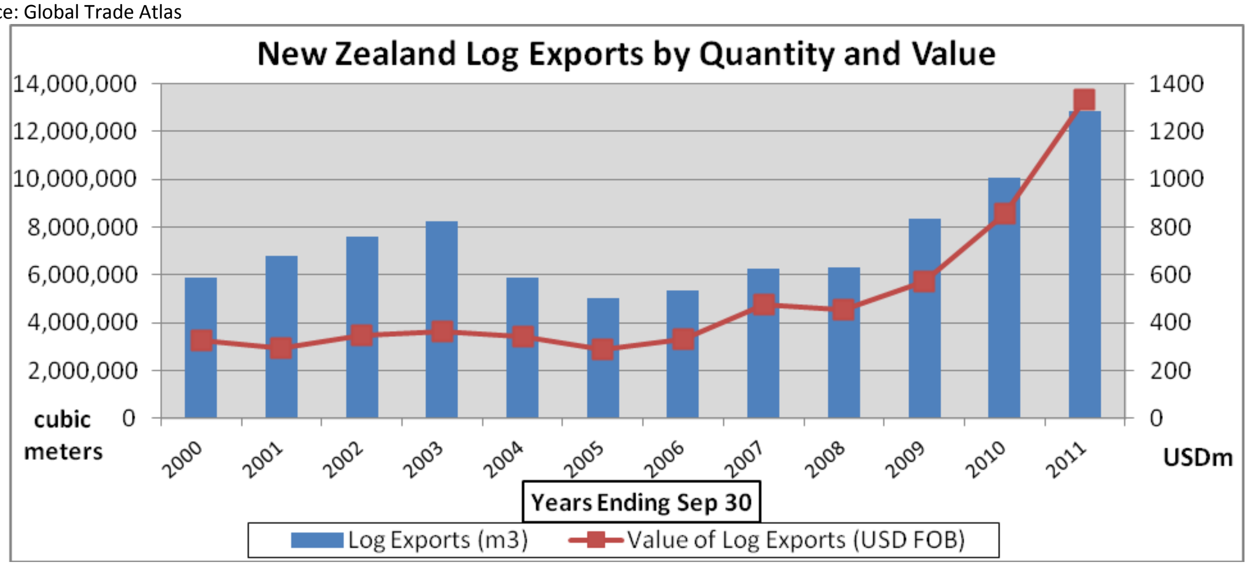
Exports

- Log sales to China underpin the export effort; 69% of all logs exported in the year to Sep 30, 2011 went to China.
- Export returns for the year to Sep 30, 2011 were up by 28% in USD terms but only 14% in NZD terms.
- Despite total wood processing being below pre 2008 levels export quantities of sawn timber and wood products are back up at pre 2008 levels and receipts in USD are at the highest level in over a decade.
- The New Zealand currency has appreciated against virtually all major currencies except the Australian dollar. This has taken the gloss off the returns once repatriated into NZ Dollars.
- Exporters with stable markets into Australia, mainly sawn timber, mouldings, and plywood are doing well.
- The heat went out of the Chinese log market in Q3, 2011, as the Chinese Government policies to slow the economy took hold and log inventories in China got too high. However this seems to have been a temporary setback with prices improving again and log inventories under control.
- The industry in NZ is likely to look to export a similar tonnage of logs again in 2012 unless the domestic construction sector takes off and the demand for timber pushes the price saw millers are willing to pay above the export log market prices.
- The Central North Island and Bay of Plenty regions are encouraging large scale Chinese saw millers/wood processors to relocate their operations to this area on account that they would be close to the source of the logs they are already purchasing; would have close and ready access to geothermal energy (zero carbon footprint); and a port is close at hand. Apparently a Chinese group is already evaluating a sawmill investment in the region.
- In the medium term even if domestic construction gets back to pre 2008 levels exports are likely to continue trending up.

New Zealand Export Statistics for All Wood Products, Logs, Pulp & Paper (HS Codes: 44,47,48)							
Year Ending Series: September, 2005 - 2011							
Partner Country	United States Dollars - FOB Receipts						
	2005	2006	2007	2008	2009	2010	2011
China	227,021,968	251,203,050	365,222,116	353,227,503	500,822,703	743,975,030	1,181,859,275
Australia	574,587,017	436,900,172	526,395,668	614,945,923	426,192,154	564,705,513	652,393,807

Japan	422,759,134	324,030,894	370,967,615	357,735,157	289,934,492	354,637,789	421,410,260
Korea Sth	216,832,555	248,752,685	314,828,672	289,597,401	235,238,290	297,869,395	368,233,455
India	22,378,600	36,422,432	52,456,746	61,184,119	60,971,109	105,095,189	190,660,156
USA	285,319,329	270,682,636	235,963,873	208,528,623	138,168,772	167,385,445	148,861,078
Indonesia	52,240,426	80,906,087	72,062,126	94,192,701	86,968,899	118,490,583	113,478,677
Taiwan	41,639,951	51,241,582	56,960,648	57,012,765	40,464,958	61,648,064	78,328,988
Philippines	77,808,114	58,829,434	57,472,479	57,774,740	47,422,880	55,312,550	74,898,064
Malaysia	24,527,302	26,007,134	35,162,091	35,617,969	29,607,952	51,198,884	63,983,765
Rest	203,977,103	220,855,441	295,650,039	337,176,060	265,037,327	309,058,382	321,717,627
World	2,149,091,497	2,005,831,550	2,383,142,072	2,466,992,958	2,120,829,534	2,829,376,828	3,615,825,156

Source: Global Trade Atlas



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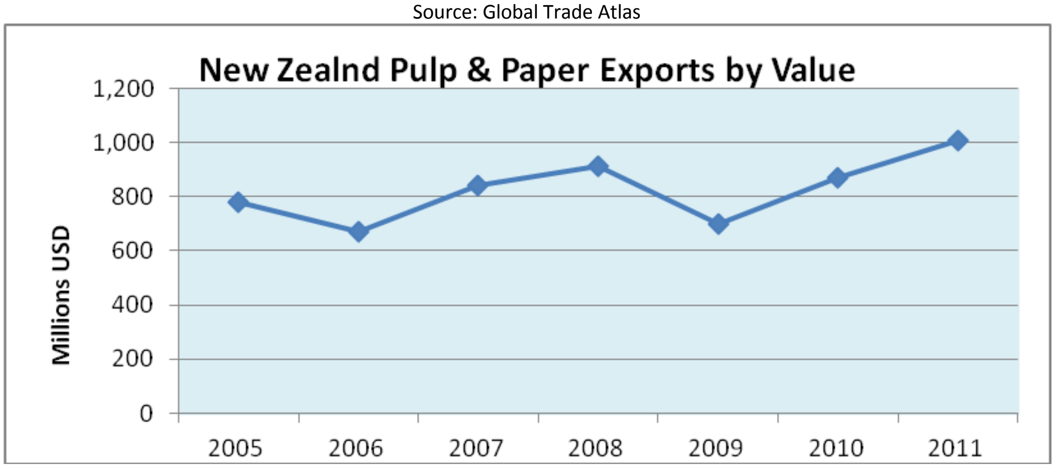

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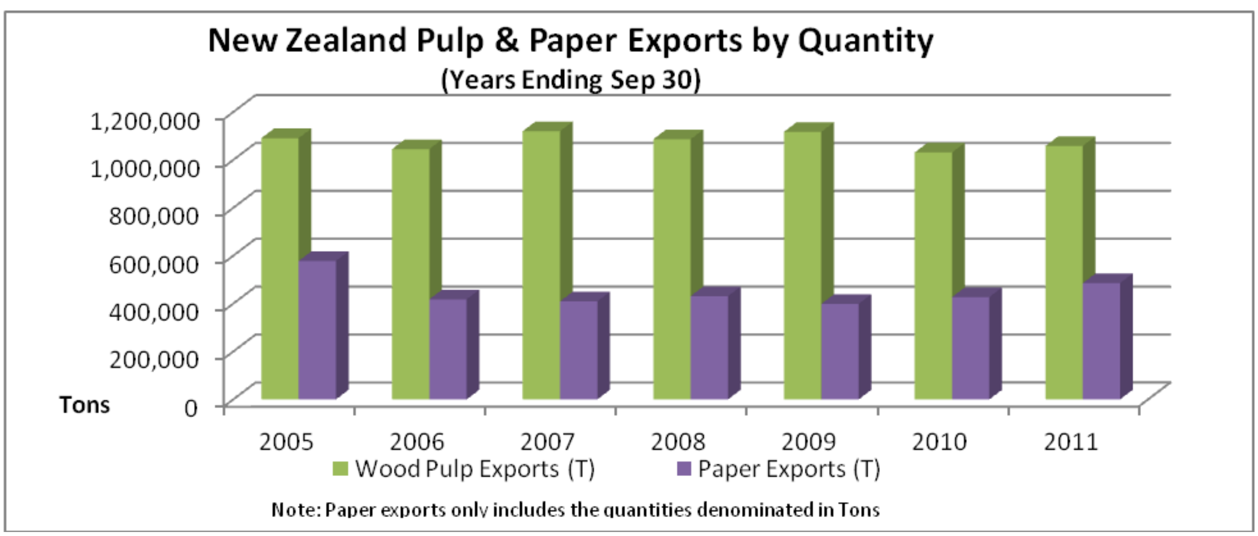


Source: Global Trade Atlas

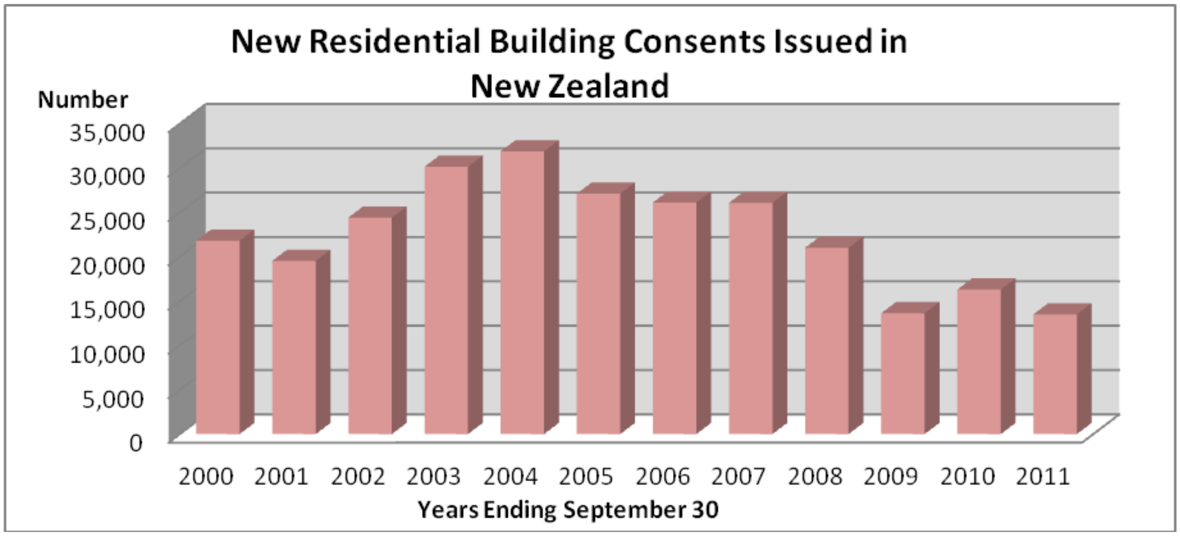
New Zealand Export Destinations Statistics by Value Wood And Articles Of Wood: Logs, Timber, Wood Products, & Wood Charcoal (HS Code 44)								
Year Ending Series: September, 2005 - 2011								Average Annual Compound Growth Rate
Destination Country	United States Dollars							
	2005	2006	2007	2008	2009	2010	2011	
China	101,217,188	134,503,731	186,769,327	205,976,166	399,726,990	612,897,061	973,690,099	45.8%
Japan	349,932,920	276,484,432	303,716,900	288,811,070	217,352,189	277,498,816	355,817,160	0.3%
Australia	259,645,493	219,662,115	244,814,422	288,854,665	194,859,954	281,494,093	315,274,003	3.3%
Korea South	172,858,305	196,771,906	251,002,231	227,821,213	191,195,165	226,283,287	283,003,655	8.6%
India	18,497,788	30,810,012	45,400,787	53,436,867	52,793,400	93,632,980	161,068,241	43.4%
United States	272,652,216	258,582,045	224,787,619	194,739,522	124,684,529	156,692,006	135,869,914	-11.0%
Vietnam	19,631,936	29,998,526	39,453,111	40,804,105	48,499,169	65,601,864	57,664,224	19.7%
Taiwan	25,345,340	27,105,880	25,938,367	27,884,803	20,612,727	31,072,517	44,893,713	10.0%
Philippines	44,993,478	29,687,952	24,843,256	21,887,524	21,368,963	27,941,781	39,709,007	-2.1%
Indonesia	17,729,816	30,274,825	33,257,560	26,223,582	23,825,035	31,175,926	35,362,941	12.2%
Rest of World	87,068,653	100,181,354	159,277,700	176,505,019	128,169,598	153,990,249	153,909,867	10.0%
All World Total	1,369,573,131	1,334,062,775	1,539,261,279	1,552,944,535	1,423,087,721	1,958,280,577	2,556,262,821	11.0%

Source: Global Trade Atlas

The Domestic Scene

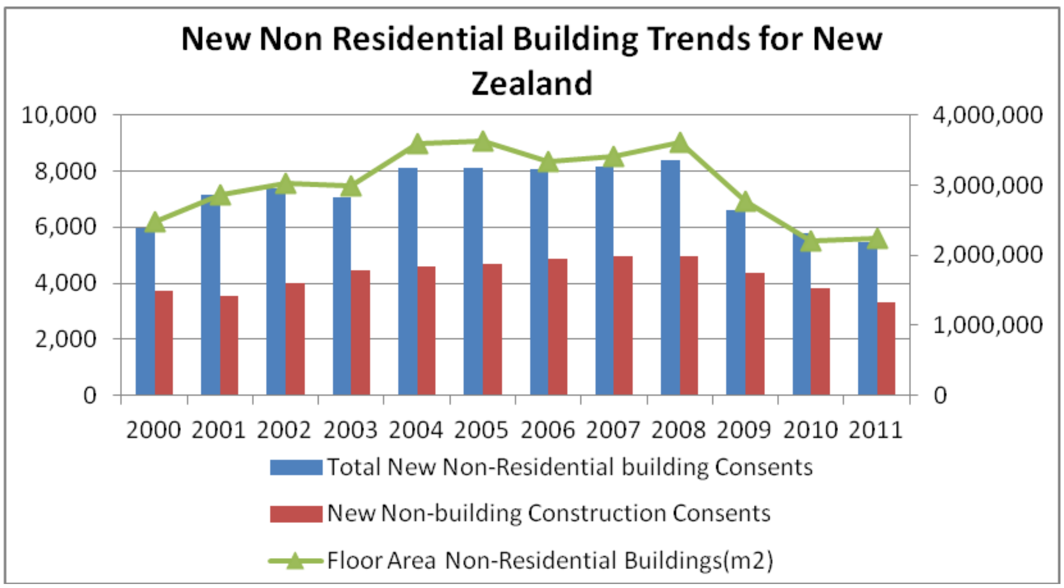
- New dwelling construction in the doldrums (currently 13,000 to 16,000pa).
- Christchurch post earthquake rebuild: if wood use generally confined to just residential dwellings then anticipated stimulus to wood processing sector may be illusory.
- While non residential construction is also at low levels, steel and concrete are the main building materials used for the larger buildings; however a pickup in this sector would still help wood processors.
- Large scale/efficient saw mills and wood processors are exporting an ever increasing proportion of throughput as domestic markets have shrunk.
- Industry rationalization is slowly taking place: There are around 400 sawmills in NZ, however at current national output only 5-10 large scale, efficient sawmills/wood processing facilities are actually needed.
- The Wood Processors Assn and other forestry and wood groups are working hard to convince builders, engineers and architects that buildings of up to 10-12 levels high can be constructed totally from wood or wood beams tensioned with steel. These buildings would be very safe in the event of earthquake(s) so are being promoted for Christchurch.

- It has been estimated that at least 25,000 new dwellings need to be constructed each year to sustain current housing stock and provide for population increase.



Sources: Statistics New Zealand

- Over last 2 months (Dec-Jan 2011) there are some signs of simulation of the construction sector particularly as the pace of rebuilding in response to the the Christchurch post earthquake begins to pick up in 2012.
- The pulp and paper businesses fly under the radar, especially politically, but they have international scale and efficiency and are maintaining profitability.
- Over time it is likely the pulp and paper businesses, given the right policy settings and R&D will broaden their horizons to become bio-chemical companies and perhaps net energy producers.



Sources: Statistics New Zealand

Useful Websites:
MAF: http://www.maf.govt.nz/
NZ Forest Owners Assn: http://www.nzfoa.org.nz/

Wood Processors Association of New Zealand http://www.wpa.org.nz/