TIMBER SALES: A SAWMILLER'S VIEWPOINT

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The conversion of logs to sawn timber has not been a financial bonanza for those organisations engaged in the industry. I think this has always been the case and it continues to be so today. In the past the industry, like the building industry upon which it depends for its momentum, has been subject to endless cycles of boom and bust as successive governments manipulate building activity for political and fiscal reasons. The industry has been subject to price control for many years and the effect of this has been to set maximum prices in times of high demand but without offering a minimum price in times of low demand. The granting of price increases is usually based on the recovery of cost increases so that profit margins actually decrease. The increasing cost of stumpage rates does not automatically result in price increases, and within the constraints of price control legislation the recovery of this type of cost increase is always long delayed and insufficient. Right now the sawmilling industry, through the N.Z. Sawmillers' Federation, is endeavouring to establish the economic state of sawmilling so that a case may be made for prices to reflect real costs. Hopefully this will help restore a measure of economic viability to the industry.

When indigenous timber was produced in sufficient volume to supply the building industry needs the grade specifications, particularly for building grades, were less stringent than they are today. Apart from finishing timbers the industry was geared to use timber in a green, rough sawn, untreated condition. Both stumpages and production costs were low; capital investment levels were modest but so also was the price received by the sawmiller. The introduction of radiata pine brought with it the need to re-equip the sawmills with machinery better able to handle the new species; also necessary was a heavy investment in new equipment, waste disposal systems (including debarkers and chippers), kilns and treating plants. Today the industry produces a fairly sophisticated product, but I believe that the return to investors has remained

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low due to the application of McDowall's first and only law of sawmill economics. This says:

"The price of sawlogs will always rise to a degree sufficient to negate the cost savings achieved by the sawmiller, following the investment by him of further capital in plant and machinery, which was intended to create the cost savings in the first place."

Maybe I am being a little cynical in propounding this situation, but it is a fact that in situations where sawlogs are limited in availability the more efficient sawmiller will have to use his competitive edge to ensure that his bid for supplies is successful. He is not likely to earn more profit as a result of his greater investment and efficiency. The forest owner is the one who stands to benefit most. The sawmilling industry must recognise, of course, that the cost of growing trees is also rising rapidly and the forest owner will be looking for an adequate price: it is only when the demand for sawlogs exceeds the supply that the real problems emerge. No fortunes have been made in sawmilling operations in the past and this has been due mainly to the tremendous fluctuations in demand and the effects of continuous price control. In future, unless some control is exercised over the sale price of public offerings of State exotic timber, it is likely that sawmilling for many millers will become even more uneconomic.

The economic future of sawmilling will remain difficult for as long as we have uncontrolled costs on the one hand and controlled prices on the other; and so long as the State (as the major supplier of sawlogs to industry) is permitted to offer limited volumes of sawlogs for short-term sales. It is in this area that I see the perpetuation of some of our existing problems. The basis upon which sawlog prices are to be determined in the future will have an important bearing upon the successful development of an economic sawmilling industry in areas where forests become established.

It is beyond the scope of these remarks to discuss the question of valuing log sales by the State to private industry, but perhaps I could make a couple of points which will indicate the problems we have with the present system.

(1) The tender system for selling State logs or cutting rights will produce the correct "market" price only where there exist a willing buyer and a willing seller.

(2) For the industry at large, the State is the only supplier and could not be termed a willing seller. The State is under little compulsion to sell in the normal commercial sense. This places the State in the powerful position of being able to manipulate sales offerings in various areas to
force stumpage rates up. The offering of short-term sales of radiata pine or Douglas fir in areas where there is a shortage of logs for industry has exactly this effect, and the State does not have to sell unless it gets the price it desires.

(3) On the other hand, the sawmiller tendering for logs offered in short-term sales is faced with the prospect of having to secure the log supply or go out of business. He must therefore bid high to beat off the competition created by the small offering, and perhaps a general log shortage in the area.

(4) The high prices generated in such circumstances are then available to support the seller’s argument for a high price when a long-term sale is being negotiated.

The sawmilling industry hopes that a better method of selling State wood can be evolved. This should be one which enables the forest owners to get a fair price and also enables an efficient sawmiller to get an appropriate return for his investment. This is particularly necessary when logs are offered in areas with total resources which are insufficient for the needs of the sawmills in those areas.