

# Future market opportunities for radiata pine

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## Introduction

House building is booming. House starts in USA, New Zealand and Australia are at record levels. However the New Zealand wood industry is certainly not booming in this period of unprecedented construction in some of our main Pacific rim markets. What's happening?

## Processed Products

A snapshot of the USA market is interesting as, since 1995, this market has accounted for around 95% of the world's growth and is the largest and wealthiest market in the world.

Exports of softwood lumber to the USA from 1998 to 2002 increased by 12.5% over 4 years – an average increase of 3.1% per annum. Once we take Canada out however the growth has been over 300% - an average of 75% per annum increase.

The most surprising fact is the source of lumber. We would all expect Chile, Brazil and Russia to be at the forefront. They have had rises but the real increase is coming from Europe. Germany has come from nowhere to do nearly double what New Zealand does. Sweden now does more than New Zealand. No one has been talking about our competition from Europe !!!

Softwood moulding imports into the USA have grown by 56% from 1999 to 2003. New Zealand has not really moved while Chile and Brazil now control this market with China now starting to gear up. If you look at hardwood mouldings, China did 1.3 million metres in 1998 and 48.4 million metres in 2002.

What does this mean?

1. New Zealand lumber suppliers have traditionally supplied M+B and shop grades to remanufacturers in USA. These remanufacturers then produce solid moulding, FJ mouldings, doors, windows etc. We are now seeing these people being challenged by processed product from outside countries - Chinese furniture imports is a case in point.
2. The volumes of lumber available from Europe are increasing rapidly. They have the infrastructure to quickly produce more finished wood products and compete.
3. China is rapidly emerging as the new big supplier to the market. They have made large inroads into the furniture industry and are now targeting the moulding industry.

Our main Pacific rim markets are in the start/middle/end of a housing boom. All parts of the wood industry should be doing well. Instead we find the following:

- We face increasing competition from non-traditional and traditional suppliers directly and indirectly. Our processors are finding stiff competition from traditional competitors and many of their customers are being challenged as other countries move further down the processing route.
- Our main recognised, and previously unrecognised, competitors have fully embraced the processing route and now control parts of the US market and are spreading. China is growing and starting to compete as well.
- Australia has increasing volumes of logs becoming available for domestic consumption, has cheaper log shipping costs and a large domestic market.
- The world has plenty of processed wood products available and people prepared to invest in processing. In the Pacific rim new processing is being done in countries with lower labour and compliance costs than New Zealand. Ask any New Zealand pine furniture manufacturer and they will confirm that some of their hardest competition comes from New Zealand radiata pine furniture from such countries as China and Vietnam.

## Where to?

Have we missed the processing boat?

We have slipped well behind our competitors in processing. We do have excellent processors in New Zealand who have been and are doing well. These people have the vision and drive to succeed. They will certainly tell you it hasn't been, or is, easy. The most successful tend to be small-medium sized businesses that have a clear vision and drive. These people and companies will continue to grow and develop through currency fluctuations and changes in demand.

Processing does not automatically reduce price swings or increase returns. I have serious doubts that we should be trying to take on the Chileans or Brazilians in markets they have established and dominate. There is no easy road here and investment in processing must be done with clear vision.

If we look at where we could turn our attention to find new markets most of us come up with a

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list of China, SE Asia and India. The fact is that none of these countries want totally processed product. New sawmills, MDF and other plants are being built in China. Korea still has a sawmilling and plywood industry. India is another China in waiting.

Who can supply logs to all these processing units in these markets besides New Zealand ?

- We have Australia which has a slowly increasing log supply and has cheaper freight rates.
- Russia continues to hold large potential but infrastructure development will increase costs.
- Chile has virtually stopped log exports and their log freight is \$10 - \$15 per unit higher.
- Canada/USA – available log volumes are under increasing environmental pressures.

So we still have customers that want logs. Russia looms as our main threat. Elsewhere in the world everyone is heading down the processing route to greater and greater levels.

It is predicted that by 2020 50% of the Chinese population will be urbanised. This will require in excess of 1.3 million new dwellings to be built per year for the next 15 – 20 years and then the next 25% will want to move in and the renovation industry will start. The Chinese will supply much of the wood products from their own processing industry – we won't compete with their processing costs.

They and other SE Asian countries will continue to grow and dominate manufactured products. For processing we will have to become more flexible in deciding where the manufacturing is done in the future. In practice we already do this with many New Zealand sawmills having long established processing customers in China, SE Asia and USA. They process the KD/RS lumber and it ends up back here, or in the USA or UK, as furniture and other end products.

We need to accept that there is a shift in where manufacturing occurs for many products and get on board. There will always be a place for processing in New Zealand for some items and products but this will become more specialised over time.

We also need to accept that logs are a legitimate value added product and sell these as well. It's one part of the market where the main competition can be identified.

### Log Export Prices

Why have they been so low ?

The truth is that, and I believe most people know this, for the last ten years some of our larger log exporters have been driven by selling logs for

volumes of cash vs return per unit. This has led to sales people having to generate cash sales with no concern as to how much volume was involved. This led to lower prices meaning more volume being shipped – the end result is not pleasant. There is little point in dwelling on this other than to hope that this will become a chapter of history.

Shipping and foreign exchange do play a major role as well but it has been very interesting to watch the large increases in USD CNF prices once some volume cutbacks have been announced and implemented.

I believe we have more power in our hands than we realise at times and being return (rather than cash) driven will sharpen everyone's desire to improve and maintain returns. As discussed above alternative log sources are not overly abundant.

Processing does and will continue to play an important role in the development of our forests but logs also represent an enormous opportunity. All processing plants need raw material – if we continue to sell radiata pine logs to overseas processors at cheap prices our local processors will always be disadvantaged. In my experience, New Zealand processors generally do well in times of higher export log prices in USD terms.

The log export industry needs to:

- Be driven by return per unit – not just gross cashflow.
- Maintain higher CNF prices by collusion in marketing – yes, collusion amongst ourselves, not cutting each others throats. We are small and need every advantage we can get.
- Share and coordinate shipping – use bigger ships with less load ports and work in with local wood processors to help them get cheaper rates as well.
- Accept that both logs and processed products are our future. We have missed the boat in some of the processed product areas and a lot of our potential customers want logs only. We do have excellent processors in New Zealand who have done great things. We need to work with them to help them grow as well.

It won't be an easy road but we all need to be on the same road at least.

We have a great tree resource.

We have good people who are bright and motivated.

We need to work together to start this industry back to profitability and respectability.

We need to promote our wood as the great product it is.