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New Zealand

Forest Products

FOREST PRODUCTS SITUATION & OUTLOOK 1998

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Report Highlights: The Asian crisis and subsequent economic downturn has had a severe impact on New Zealand's forestry industry. Exports are down, logging contractors have been laid off and forestry companies are cutting costs wherever possible. As New Zealand's wood harvest increases over the next 3 to 5 years, exporters will be looking to further diversify markets and the export product mix.

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

New Zealand is a net exporter of forestry products and in 1997 exported 10.7 million m3 roundwood equivalent of forest products. New Zealand's main forestry exports are softwood logs, sawn timber, woodchips, wood pulp, pulp/paper, fibreboard and plywood. New Zealand products compete with U.S. products in many markets. Occasional opportunities exists for imports of U.S. hardwoods.

New Zealand's wood harvest has grown steadily over the last decade, as a result of the 'second planting boom' which comenced in the 1960's. Harvest growth is expected to continue over the next decade, reaching 21 million m3 by 2000 and 31 million m3 in 2010. Almost all is radiata pine. There is extensive foreign investment in the forestry sector and additional investment will be required to process the forthcoming "wall of wood".

In 1997 total forestry exports were worth NZ\$2,309 million (US\$1530 million). New Zealand's top five markets in 1997 were Japan, Australia, Korea, United States, and Taiwan. Total cif value of forestry products imported for the calendar year 1997 was NZ\$840 million (US\$556.9 million), equivalent to 3.8 percent of total merchandise imports. Year-to-date 1998 forestry exports have been severely affected by the Asian crisis and subsequent economic downturn. Softwood logs have been the most affected of all forestry exports - down 48.5 percent to 1.5 million m3 in the period January - June 1998 compared to 2.9 million m3 in 1997. Lumber exports have not been affected as significantly. Year-to-date 1998 exports are running almost level with 1997 exports. Weak international demand and prices are expected to spur an increase in value-added lumber exports, particularly to the United States.

As New Zealand's wood harvest increases over the next 3 to 5 years, exporters will be looking to further diversify markets and the export product mix. The New Zealand and Australian markets are close to capacity and the outlook for log exports is uncertain. Most of the increment therefore will have to be taken up by processed wood exports. New Zealand forest companies are also looking at species diversification and, with the help of biotechnology, growing trees for specific end products. Geographic proximity to its Asian customers, competitive port charges, increasingly efficient processing capabilities and closeness of deep water ports to forestry plantations are all factors which exporters hope will add to, and maintain, New Zealand's ability to compete in international forest products markets.

Exchange rates: \$NZ:US (Reserve Bank Mid-rates)

1996 0.6876

1997 0.6630

e1998 0.5651

STRATEGIC INDICATOR TABLE: WOOD PRODUCTS SUBSIDIES			
Country: New Zealand Year of Report: 1998	Previous 1997	Current 1998	Following 1999
Total Solid Wood Export Subsidy Outlay (\$US million)	0	0	0
Is there a ban on the export of logs, lumber, or veneer? If yes, which?	YES NATIVES	YES NATIVES	YES NATIVES
Are there export taxes (yes/no)? 1/	No	No	No
If yes, for which products? (Identify export tax level in tariff table)			
Source(s) of Export Subsidy Information			
Total Wood Production Subsidy Outlay (\$US million)	0	0	0
Are there any programs favoring the development of commercial forestry?	No	No	No
If yes, Post best estimate of scope (thousands of hectares)			
If yes, Post's best estimate of financial outlay (\$US million)			
Source(s) of Production Subsidy Information			
Does the country support export expansion activities similar to the Cooperator Program?	Yes	Yes	Yes
--Which country markets are targeted?	Australia, Asia, United States		
--Which products are targeted?	Housing materials, kitset homes, value-added pine products, sawn lumber		
Are there significant wood products export expansion activities at the provincial or regional level?	No	No	No
--If yes, identify key players			
--If yes, identify key market segments			
--If yes, identify key country markets			
--If yes, identify key products			
--Post's estimate for combined outlay (\$US million)			
Source(s) of Provincial/Regional Support Information			
Are there other wood products export expansion activities? If yes, describe in report.	No	No	No

STRATEGIC INDICATOR TABLE: FOREST PRODUCT TARIFFS AND TAXES (percent)
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		Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees	Total Cost of Import	Export Tax
Country: New Zealand	Product					
Report Year: 1998	Description 1/					
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	All other	Free	Free	n/a	Free	Free
	4407.10.09	8.0	7.0	n/a	8.0	Free
	4407.10.29	8.0	7.0	n/a	8.0	Free
	4407.10.49	8.0	7.0	n/a	8.0	Free
	4407.10.69	8.0	7.0	n/a	8.0	Free
	4407.10.89	8.0	7.0	n/a	8.0	Free
	4407.24.20	8.0	7.0	n/a	8.0	Free
	4407.25.20	8.0	7.0	n/a	8.0	Free
	4407.26.20	8.0	7.0	n/a	8.0	Free
	4407.29.40	8.0	7.0	n/a	8.0	Free
	4407.91.09	8.0	7.0	n/a	8.0	Free
	4407.92.09	8.0	7.0	n/a	8.0	Free
	4407.99.09	8.0	7.0	n/a	8.0	Free
	4407.99.29	8.0	7.0	n/a	8.0	Free
	4407.99.49	8.0	7.0	n/a	8.0	Free
4408	All other	Free	Free	n/a	Free	Free
	4408.10.09	8.0	7.0	n/a	8.0	Free
	4408.31.90	7.5	6.5	n/a	7.5	Free
	4408.39.90	7.5	6.5	n/a	7.5	Free
	4408.90.08	7.5	6.5	n/a	7.5	Free
	4408.90.19	7.5	6.5	n/a	7.5	Free
	4408.90.29	8.0	7.0	n/a	8.0	Free
4409	All other	Free	Free	n/a	Free	Free
	4409.10.09	6.5	5.0	n/a	6.5	Free
	4409.20.09	6.5	5.0	n/a	6.5	Free
4410		6.5	5.0	n/a	6.5	Free
4411		6.5	5.0	n/a	6.5	Free
4412	All other	8.0	7.0	n/a	8.0	Free
	4412.22.	6.5	5.0	n/a	6.5	Free
	4412.23.	6.5	5.0	n/a	6.5	Free
	4412.29.90	6.5	5.0	n/a	6.5	Free

	4412.92.10	6.5	5.0	n/a	6.5	Free
	4412.92.90	6.5	5.0	n/a	6.5	Free
	4412.93.00	6.5	5.0	n/a	6.5	Free
	4412.99.90	6.5	5.0	n/a	6.5	Free
4413		Free	Free	n/a	Free	Free
4414		6.5	5.0	n/a	6.5	Free
4415	All other	Free	Free	n/a	Free	Free
	4415.20.10	8.0	7.0	n/a	8.0	Free
	4415.20.90	8.0	7.0	n/a	8.0	Free
4416		Free	Free	n/a	Free	Free
4417	All other	Free	Free	n/a	Free	Free
	4417.00.11	6.5	5.0	n/a	6.5	Free
	4417.00.21	6.5	5.0	n/a	6.5	Free
4418	All other	7.5	6.5	n/a	7.5	Free
	4418.50.00	Free	Free	n/a	Free	Free
	4418.90.00	6.5	5.0	n/a	6.5	Free
4419	4419.00.01	7.5	6.5	n/a	7.5	Free
	4419.00.09	8.0	7.0	n/a	8.0	Free
4420		7.5	6.5	n/a	7.5	Free
4421	All other	Free	Free	n/a	Free	Free
	4421.10.00	8.0	7.0	n/a	8.0	Free
	4421.90.19	8.0	7.0	n/a	8.0	Free
END CHAPTER						
Pre-fabricated Houses, a subsection under chapter 96		n/a	n/a	n/a	n/a	Free
Source: NZ Customs Service Working Tariff Document						

STRATEGIC INDICATOR TABLE: FOREST AREA (million hectares/million cum)

Country: New Zealand Report Year: 1998	Previous 1997	Current 1998	Following 1999
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Total Land Area (ha)	27	27	27
Total Forest Area	7.8	n/a	n/a
--of which, Commercial	1.6	n/a	n/a
----of commercial, tropical hardwood	0	n/a	n/a
----of commercial, temperate hardwood	0	n/a	n/a
----of commercial, softwood	1.6	n/a	n/a
--of forest area, non-commercial	6.4	n/a	n/a
Forest Type		n/a	n/a
--Of which, virgin	6.4	n/a	n/a
--Of which, plantation	1.4	n/a	n/a
--Of which, other commercial (regrowth)	n/a	n/a	n/a
Forest Ownership		n/a	n/a
--Nationally owned and no commercial access	4.9	n/a	n/a
--Nationally owned, commercial logging permitted	0.1	n/a	n/a
--Other publicly owned land, no commercial access	n/a	n/a	n/a
--Other publicly owned, logging permitted	n/a	n/a	n/a
--privately owned commercial forest	1.4	n/a	n/a
Total Volume of Standing Timber	329.0	n/a	n/a
--Of which, Commercial Timber	n/a	n/a	n/a
Annual Timber Removal 1/	16.0	n/a	n/a
Annual Timber Growth Rate	13.0	n/a	n/a
Annual Allowable Cut	n/a	n/a	n/a

Note: 1998 forestry statistics will be released in 1999, 1999 statistics in 2000 etc.

1/ If Removals exceeds growth rate, analyze impact in text.

TRADE

Overview

The Asian crisis and subsequent economic downturn has had a severe impact on New Zealand's forestry industry. Exports are down, logging contractors have been laid off and forestry companies are cutting costs wherever possible. Softwood logs have been the most affected of all forestry exports - down 48.5 percent to 1,541,069 m3 January to June 1998 compared to 2,995,619 m3 in 1997. Lumber exports appear not to have been affected as significantly - January to June 1998 exports at 546,000 m3 are running at about level with 1997 levels. Industry sources believe there will be some positive outcomes from the Asian downturn for the New Zealand forestry industry, including identifying new and expanded market opportunities, increasing the proportion of value-added exports and further increasing production, processing and transport efficiencies. Weak international demand for logs is expected to spur an increase in value-added lumber exports, which will target US markets. The New Zealand government is a keen participant in the APEC Early Voluntary Sector Liberalization (EVSL) discussions, particularly with regard to forest products.

Outlook.

The Asian economic crisis is expected to knock about NZ\$150 million (US\$84.7 million) off forestry sector earnings in the next 12 months. In 1997 nine Asian economies (Thailand, Malaysia, Hong Kong, China, Taiwan, Philippines, Singapore, Indonesia and Korea) took 34.4 percent by value of New Zealand's forestry exports. Over the next two, years exports of forest products to these markets are expected to decline with the exception of China and Taiwan. In the medium term (3 to 5 years) some recovery is expected in the commercial building sectors in Korea, Malaysia, and Thailand. Competition is not expected to fall from other softwood producers such as Chile, North America and Russia. As the Asian markets for forest products decline in the short term, these markets are expected to become increasingly competitive. Demand for New Zealand forestry products in Australia and the United States is expected to weaken over the short term.

Competitor Activities

Major forestry companies currently operating in New Zealand include:

Carter Holt Harvey Ltd is a publicly listed company and a subsidiary of International Paper. Activities include plantation forestry, sawmilling, the manufacture and merchandising of wood products and building materials, pulp, paper and tissue converting, packaging, paper and industrial products distribution and the production of building products.

Fletcher Challenge Forests Ltd is a publicly listed company which manages, processes and markets the products from almost 300,000 hectares of radiata pine plantation forests. It operates 10 processing sites in New Zealand and produces finished mouldings, laminated components, structural and packaging lumber and logs.

Rayonier New Zealand Ltd is a subsidiary of the international forestry company, Rayonier. Rayonier is estimated to hold cutting rights to 216,000 hectares of New Zealand forest. The company has its own medium density fibreboard plant which can produce 140,000 m3 of product per year.

Wenita Forest Products Ltd is a joint venture company whose major shareholders are China National Foreign Trade Transportation Corporation (Sinotrans), a major Chinese state owned enterprise and Togen Limited, a forestry and shipping company based in Hong Kong. Wenita owns and manages a forestry estate of 30,000 hectares, predominantly radiata pine, and annual harvest is presently about 300,000 m3. Wenita exports logs and lumber products produced at the company's own mill.

Weyerhaeuser NZ Ltd is privately owned by U.S. interests. The company has cutting rights for 64,000 ha of crown forest and owns another 14,000 ha freehold. Weyerhaeuser exports 35 percent of its log production and the remaining 65 percent is sold to domestic processors.

In addition, there are numerous small forestry companies and farm forestry holdings throughout New Zealand which account for an estimated 31 percent of New Zealand's total forest area.

NEW ZEALAND FORESTRY OWNERSHIP		
<i>Owner</i>	<i>Estimated total area (ha)</i>	<i>Percentage of estimated total</i>
Carter Holt Harvey	352,000	22
Fletcher Challenge Forests	304,000	19
Crown Forestry Management	32,000	2
Wenita Forest Products	32,000	2
Timberlands West Coast	32,000	2
Earnslaw One	32,000	2
Hawkes Bay Forests	32,000	2
Junken Nissho	64,000	4
Crown Leases	64,000	4
Weyerhaeuser	78,000	5
Rayonier New Zealand	96,000	6
Other	482,000	30
Total	16,000,000	100

The New Zealand economy has slipped to near zero-growth and is now arguably in recession. Real GDP growth continues to slow and is expected to slip from 3.2 percent in 1997/98 to 0.4 percent in 1998/99, well down on the peak of 6.2 percent in 1996/94. The outlook for the New Zealand economy is highly dependent on how events unfold in the rest of the world. GDP growth is not expected to pick up until 2000.

House building is already falling and is expected to decline strongly in 1998/99. Building permit numbers continue to be distorted by inner city apartment conversions. The clear trend is downward in residential construction overall reflecting a decline in house sales and prices, indicating a lean time ahead for the domestic sawn timber market. Non residential building has also been showing a general decline, but the outlook is not quite as negative as for residential housing.

Over the past few months the value of the New Zealand dollar has been buffeted by turbulent international currency markets and the ongoing domestic current account deficit. While the NZ dollar has fallen steadily over the last twelve months, it is said to be just reaching its long term average level. The N.Z. dollar's fall against the U.S. dollar has allowed N.Z. exporters to redirect sales so far this year into other markets, including the United States.

Trade - Softwood Logs

The difficult economic conditions being experienced in key Asian markets continue to be reflected in weak log demand and prices. The slowdown in building activity in Korea has impacted on log exports which are mainly used by Korean processors to produce concrete formwork for use in the construction sector. Log exports have fallen dramatically January-June 1998 - down 48.5 percent by volume to 1,541,069 m3 (1997 Jan-Jun: 2,995,619 m3) and 52.1 percent in value terms to NZ\$163 million (1997: NZ\$340.4 million). Hardest hit export markets year-to-date include Korea (-74.8 percent), Thailand (-94.5 percent), and Taiwan (-83.6 percent). Year-to-date log exports to China (+26.0 percent), the United States (+226.8 percent) and India (+33.7 percent) have all experienced increases over 1997 year-to-date data. Forestry Research forecast demand for New Zealand logs to fall an estimated 20 percent in 1998, 35 percent in 1999 and 35 percent in 2001. This represents a loss of 614,000 m3 in 1998, rising to 1,075,000 m3 in 1999 and 900,000 m3 in 2001. China and India have been identified as being potentially large alternative markets for New Zealand log exports. Exports to India in 1997 (the first year of trading) reached 149,000 m3 and in the six months to June 1998 log exports have hit 115,000 m3.

TRADE MATRIX: SOFTWOOD LOGS & PRICES						
000 CUBIC METERS, NZ\$/FOB, CALENDAR YEAR						
	1996		1997		1998 YTD	
	000m3	\$/m3	000m3	\$/m3	000m3	\$/m3
Japan	2,104	134.82	1,748	130.43	860	110.24
Korea	3,086	102.36	3,030	100.18	407	88.25
China	81	96.87	63	115.64	43	119.40
Taiwan	127	137.32	170	129.72	17	117.76
United States	54	192.66	26	179.65	24	189.84
Thailand	27	164.04	43	137.52	2	86.96
Phillipines	136	196.18	132	195.60	55	158.99
Malaysia	5	319.56	3	223.06	0	208.88
India			149	106.51	115	76.09
Others	21	160.11	28	157.18	17	163.06
Total	5,640	167.10	5,391	163.94	1,541	146.61
1998 YTD: 6 months to June 1998.						
Sources: Statistics New Zealand, MoF						

Trade - Softwood Lumber

Exports of softwood lumber have been relatively untouched by the Asian economic downturn compared to log exports. Total lumber exports in 1997 increased 20.5 percent by volume over 1996 to 1,157,000 m3 but average prices declined 2.0 percent to NZ\$377/m3 fob. Japan and Australia were New Zealand's largest export lumber markets in 1997 taking 27.7 percent and 27.4 percent of exports respectively. Exports to Taiwan increased 55.6 percent (+44,000 m3) to 123,000 m3 as did exports to the United States, up 55,000 m3 to 191,000 m3 in 1997. Lumber exports January - June 1998 have remained stable at 546,000 m3 (1997: 541,000 m3) but sales values have increased 14.0 percent to reach NZ\$227.7 million (1997: NZ\$199.0 million).

Year-to-date exports (by volume) to Australia, the United States and Hong Kong are well above 1997 levels. Average export prices for January to June 1998, at NZ\$417.19/m3, are 13.6 percent above the average January to June 1997 price of NZ\$367.68/m3. A buoyant United States timber market has encouraged increasing volumes of NZ exports, especially for moulding timber. The impact of the weaker New Zealand dollar has meant that domestic market returns are up an estimated 10 percent. While some weakening is to be expected in demand for N.Z. lumber in Taiwan it is unlikely to match the downturn markets facing log exporters to Korea and Indonesia. The New Zealand Pine Remanufacturers Association has identified Vietnam as a potential market for New Zealand lumber exports based on declining local rubberwood and pine resources.

NEW ZEALAND LUMBER EXPORTS (000 CUBIC METERS, NZ\$FOB, CY)						
	1996		1997		1998 YTD	
	000m3	\$/m3	000m3	\$/m3	000m3	\$/m3
Australia	292	468.60	318	473.60	179	511.76
Japan	269	316.04	321	286.51	157	214.13
Taiwan	79	244.93	123	257.26	55	260.93
United States	136	500.84	191	494.97	89	708.23
Korea	89	277.92	79	253.50	11	251.16
New Caledonia	11	425.34	9	413.50	3	390.70
Phillipines	15	322.87	18	340.54	6	384.99
Thailand	23	296.64	23	292.69	7	248.57
Hong Kong	21	376.17	28	392.91	18	390.79
Indonesia	6	401.90	17	461.88	3	664.72
China	4	505.73	8	476.26	3	478.40
Others	25	282.90	21	390.76	13	456.86
TOTAL/AVE	960	385.15	1,157	377.36	546	417.19
1998 YTD: 6 months to June 1998						
Source: Statistics New Zealand, MoF						

Trade - Softwood Plywood

Exports of softwood plywood continue to trend downwards and fell 8.4 percent to 98,000 m3 in 1997, down from 107,000 m3 in 1996. Japan continues to be the largest export market by volume and value, taking 48 percent of all exports in 1997. Exports to Australia in 1997 accounted for 32 percent of all exports compared to 22 percent in 1996. Plywood exports to Korea have been non-existent in the six months to July 1998. Price declines of plywood exports reflect the depressed Asian plywood market. Much of New Zealand's plywood production is used in low grade construction work (particularly concrete form work) in Japan and Korea. Exports year-to-date 1998 have reached 49,000 m3 and are expected to reach 100,000 m3, but prices are significantly down when compared to 1997 prices.

NEW ZEALAND PLYWOOD EXPORTS (000 CUBIC METERS, NZ\$FOB, CY)						
	1996		1997		1998 YTD	
	000m3	\$/m3	000m3	\$/m3	000m3	\$/m3
Australia	24	652.08	32	586.81	27	478.22
Japan	45	1,840.62	48	1,628.01	16	1,745.96
Hong Kong	8	540.72	12	545.73	4	559.87
Taiwan	9	336.67	4	605.53	1	392.03
Korea	3	1,126.67	0	5,790.77	0	na
Other	19	189.09	2	1,054.27	1	877.73
TOTAL	107	780.97	98	1,116.84	49	915.20
1998 YTD: 6 months to June						
Source: Statistics New Zealand, MoF						

PRODUCTION

Forest Situation

New Zealand has two main forestry estates: 6.4 million hectares of natural forests (24 % land area) and expanding commercial softwood production forests (6% land area). New Zealand's planted production forests covered an estimated 1.6 million hectares as at June 1997. Seventy-one percent of the area is in the North Island and 29 percent in the South Island. Road and rail provide critical links between forest, processors and shipping ports. The Central North Island region is most intensively forested area in New Zealand, as can be seen below:

NZ PLANTED FOREST LOCATIONS	
<i>Location:</i>	<i>Area (ha)</i>
Northland	150,000
Auckland	80,000
Central North Island	535,000
East Coast	129,000
Hawkes Bay	103,000
Southern North Island	112,000
Nelson/Marlborough	154,000
West Coast	30,000
Canterbury	95,000
Otago/Southland	155,000
TOTAL	1,600,000

The planted production resource of radiata pine is characterized by predominantly young crops. Sixty-two percent of radiata pine plantings are characterized as 15 years old or younger - the area weighted average was estimated at 12.9 years. This a result of high new planting levels since the early 1980's. Consequently New Zealand's harvest is expected to increase significantly over the next 6 years (average harvest age between 25 and 30 years).

Radiata pine continues to be the dominant species planted and accounts for 91 percent (1,480,000 ha) of the planted production forest. Douglas Fir is the next most common species covering 4.0 percent (75,000 ha). Other planted softwood species totaled 32,000 ha (or 2 percent), while planted hardwood species totaled 43,000 ha or 3.0 percent of the net stocked area. Douglas fir, Macrocarpa, Blackwood and Eucalypt species are popular within the "other" category.

Approximately 67 percent of the radiata pine forest estate is, or is expected to be, intensively tended through pruning. Around 29 percent of the radiata pine forest resource is production thinned, and as a result, the

production of high quality sawlogs and peeler logs will increase as a proportion of the total harvest.

An estimated 111,800 ha of new planted production were established in 1997 (year ended June), up from 81,500 ha in 1996. This is made up of 83,600 hectares of new planting and 28,200 ha of restocking. Forests have not always been planted solely for commercial reasons. In past years various New Zealand governments have adopted policies for establishing forests including developing unproductive land and providing regional employment. The location of commercial forest is determined by a number of economic and environmental factors, land availability and growing conditions, terrain, proximity to export ports, domestic markets, wood processing facilities and other infrastructure such as road and rail. Any forestry development must also meet the regional planning requirements of local authorities such as the need to balance forest land use with others such as tourism and conservation. Planting trees is now considered a form of investment and new forests are being developed by forestry companies, individuals or by joint businesses arrangements (joint ventures), mostly on private farm land. It is estimated that New Zealand has a further three to five million hectares of land suitable for new forest planting.

Forest Outlook

Currently there are no government initiatives which affect commercial reforestation or deforestation rates and none are expected in the future. Harvesting and exports of native timbers are restricted. Reforestation rates are high as commercial foresters usually replant immediately after harvest.

The forestry sector in New Zealand is largely dependent on external private sector investment. Overseas interest in buying forestry land in New Zealand continues at record levels. In 1991 it was one-third of the land approved by the Overseas Investment Commission (OIC) - five years forestry was the intended use of nearer 90 percent of OIC approved foreign land sales. Foreign investment in forestry is encouraged by the government's open and competitive investment policies.

As little as a decade ago the Government dominated forest ownership in New Zealand, owning around half the forestry estate. The New Zealand government now owns less than 20 of plantation forests through its stake in the Forestry Corporation of New Zealand and forests planted on Maori leasehold land.

Solid Wood Products Outlook

New Zealand's forestry processing industry is undercapitalized considering the "wall of wood" expected to be available for harvest by 2010. By 2010, New Zealand's softwood harvest of 17 million m³ will have almost doubled to a sustainable 32 million m³ annually. The New Zealand-Australian markets are already close to capacity and the export market for whole logs is questionable. Most of the increment therefore will have to be taken up by processed wood exports. The Ministry of Agriculture and Forestry predicts a three to four-fold increase over 21 years and a NZ\$6.5 billion investment requirement, possibly including: 100+ medium sized sawmills, 90 remanufacturing plants and a mix of 20 panelboard mills and six pulp and paper plants. Many companies have already committed significant capital to new plant and technology. Carter Holt Harvey has placed nearly NZ\$500 million across two major investments in the past year. It also plans to build a NZ\$50 million LVL plant in 1999. Fletcher Forestry this year opened a NZ\$13 million moulding plant and has committed a further NZ\$260 million to future solidwood processing. Rayonier NZ has commissioned an MDF plant in June 1997 (NZ\$180 million), Sumitomo recently opened a third line at Nelson Pine Industries (NZ\$100 million) and Panpac is putting NZ\$50 million into a sawmill upgrade.

Interest in biotechnology is high in the forestry industry. The first genetically modified radiata pine were trailed

in 1997. Traits being targeted for gene transfer include wood and fibre yield and quality (including durability, strength and appearance). Transclones are expected to be developed and deployed within 3 to 5 years from transformation of conventionally improved trees for specific, new traits, and subsequent multiplication using both tissue culture and rooted cutting techniques.

The Ministry of Agriculture and Forestry has banned the exports of unsustainably harvested indigenous native timbers and woodchips. A complete ban will be effective by December 31, 1999. The Government is allowing some exports to continue until the end of 1999 so contracts signed before the announcement can be met. The export ban is to help protect the small proportion of indigenous forests not already protected by legislation. The ban affects Maori owned forests and State owned forests on the West Coast of the South Island.

Production - Softwood Logs

PSD Table						
Country:	New Zealand					
Commodity:	Softwood Logs					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Production	13146	13286	13200	10600	0	12900
Imports	4	4	4	4	0	4
TOTAL SUPPLY	13150	13290	13204	10604	0	12904
Exports	5650	5391	5655	3500	0	5000
Domestic Consumption	7500	7899	7549	7104	0	7904
TOTAL DISTRIBUTION	13150	13290	13204	10604	0	12904

Softwood log production is expected to fall 20 percent to 10,600,000 m3 in 1998 due to the Asian economic downturn and depressed domestic demand. While some foresters are holding back from cutting while prices are low, others are accepting low prices and are increasing logging activity accordingly. Fletcher Forests have reportedly decreased logging by 30 percent and Carter Holt Harvey's logging activity is said to be down 15 percent. Small woodlot owners and farm-foresters are being encouraged to delay harvesting if cashflows allow. The export log scene is still difficult and further setbacks are likely, but there are signs that the log trade is reviving. Log exports from Whangarei Port have resumed and volumes through Mt Maunganui Port are reportedly increasing. Japanese prices are stable, with less interest in A-grade logs than in poorer quality J-grade logs. Korean activity is also reported as increasing, but prices are still low. Exporters continue to send logs to India despite very low prices. Production is expected to return to near 1997 levels in 1999 to 12,900,000 m3 reflecting some recovery in Asian log markets as IMF policies filter through.

Domestic Markets:

The domestic scene is described as being flat to very poor, but there is some hope that lower interest rates may give a boost to the number of housing starts. Prices for pruned logs have come under pressure, especially in the North Island, and in general for smaller diameter logs. After holding up reasonably well throughout the Asian

crisis, a downward trend is now clearly evident. Pruned log availability has increased markedly. Unpruned sawlogs have also fallen in all regions, but there has been a general tightening in log specifications, masking a big drop in returns in the local market. Poorer grades of logs are under severe price pressure. Local saw mills continue to provide most of the demand for private forests and woodlots, but there is increasingly interest from the bigger players.

Production - Softwood Lumber

PSD Table						
Country:	New Zealand					
Commodity:	Softwood Lumber					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Production	3259	3167	3454	3215	0	3440
Imports	22	22	22	22	0	22
TOTAL SUPPLY	3281	3189	3476	3237	0	3462
Exports	1036	1157	1140	1175	0	1350
Domestic Consumption	2245	2032	2336	2062	0	2112
TOTAL DISTRIBUTION	3281	3189	3476	3237	0	3462

Softwood lumber production has grown strongly throughout the 1990's, driven by the construction and expansion of large scale saw mills by forest owning companies. Softwood lumber production is forecast to increase 1.5 percent to 3,215,000 m3 in 1998CY and a further 6.9 percent to 3,440,000 m3 in 1999CY. Processing capacity is unlikely to be a constraint as most plants are currently operating at less than full capacity. Further greenfield investment by multinational companies is likely to occur in the medium term. New Zealand's increase in softwood lumber production is partly due to improvements in the conversion rate of logs into lumber. The percentage of log converted into sawn timber ranges from about 42 percent to 70 percent. Four factors influence the variation: log size, saw milling technology, product mix & tally conventions used, and production strategy. New Zealand sawmillers operate a mix of old and ultra-modern equipment. With mills only supplying the domestic market tending to stay with the older equipment. Modern sawmilling equipment used in New Zealand includes log scanners, head rig optimizers, automatic grade based edging, and to a lesser extent, automatic trimming saws. Many companies, particularly the large ones, are upgrading, and where necessary, adding to their equipment to enable them to participate in the value-added drive moving through export oriented parts of the industry. The most significant trend in production change appears to be the production of kiln dried products - material for door frames, joinery, furniture components and other house components - with the consequent need for more high-tech downstream machinery in those mills. This reliance on technology means that large New Zealand sawmills will be competitive in Asian markets despite higher labor costs. Some saw-mill owners are looking at ways of increasing their kiln-dried lumber production in order to sell into more differentiated markets. The United States is seen as a major export destination for the increased volume of kiln-dried lumber.

The downturn in the United States and Australian markets is putting sawmills under pressure as the domestic market remains quiet. Quality timber products, such as mouldings, are still in reasonable demand but marketing of poorer-quality low-density timber is difficult. Carter Holt Harvey has announced that it will mothball its Taupo sawmill at the end of October. The company reports the fall in demand for timber products in Asia, but also acknowledges the timber mill is expensive to run due to its lower level of technology.

Softwood lumber consumption in New Zealand is heavily influenced by housing construction rates and demand for packaging timbers. About 64 percent of sawn timber production is used in dwelling construction and the remaining 36 percent in industrial applications and furniture. New Zealand houses commonly use wooden framing, with residential dwelling permits fluctuating between 15,000 and 25,000 units annually during the past 15 years with no significant upward trend.

Production - Softwood Plywood

PSD Table						
Country:	New Zealand					
Commodity:	Softwood Plywood					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Production	172	194	172	160	0	170
Imports	2	5	2	5	0	5
TOTAL SUPPLY	174	199	174	165	0	175
Exports	112	98	116	100	0	105
Domestic Consumption	62	101	58	65	0	70
TOTAL DISTRIBUTION	174	199	174	165	0	175

Plywood production has been a growth area in New Zealand's forest industry during the past six years reflecting increasing commercialization of the forestry estate. New Zealand has four plywood producers: Carter Holt Harvey, Fletcher Wood Panels, International Plywood Limited and Juken Nissho. Plywood production capacity is estimated to be 295,000 m³. Plywood production is expected to remain static in 1999 as international plywood prices remain weak.