

# Market Report – March 1992

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## General Situation

The New Zealand economy appears to be moving away from a recessionary trough, with a number of fundamental economic indicators showing improvement over recent months. Real, seasonally adjusted GDP rose by 1.7 per cent in the September 1991 quarter, though it remained 1.9 per cent below the corresponding period in 1990. An external trade surplus of \$NZ2097 million was recorded for the December 1991 year, with total exports of \$NZ16.67 billion being a record for any 12 month period. Achievement of this surplus was assisted by a significant depreciation in the exchange rate over the December year. The Trade Weighted Index ended the year at 53.4 – an 8 per cent depreciation from its December 1990 level. It is anticipated that a lower valued New Zealand dollar will feed into inflation in coming months through increased import prices. In terms of current inflation, however, the December quarter CPI showed a 0.1 per cent fall, leaving CPI inflation for the December year at 1.0 per cent.

Domestic demand in the New Zealand economy remains weak and this is reflected in a continuing decline in building activity as measured by building permits issued on a moving annual basis. Some improvement in building activity is anticipated in late 1992, aligned with improvements in the general economy.

Total roundwood removals from New Zealand forests for the year ended September 1991 are provisionally estimated to be 14.03 million m<sup>3</sup>, a 10.6 per cent increase on the previous September year. The Forest Industries Council Strategy Study produced new woodflow estimates that indicate roundwood removals from the plantation estate will average 14.4 million m<sup>3</sup> for the period 1991-95, 17.3 million m<sup>3</sup> for 1996-00, and 18.9 million for 2001-05.

The total value of forestry products exports for the December 1991 year was \$NZ1701 million, an increase of \$NZ151 million on the 1990 year. Australia remained New Zealand's largest export market, taking 33.3 per cent of exports by value, followed by Japan (29.3 per cent) and Korea (10.5 per cent).

Log exports for the 1991 calendar year increased markedly with 3.56 million m<sup>3</sup> being exported. The supposed downturn in the Korean log market was masked in the export volume figures for the December 1991 quarter. Log exports destined for Korea totalled 407,00 m<sup>3</sup> –

an increase on the corresponding quarter in 1990.

Sawn timber exports have also increased significantly over the past year. In the year to December 1991 sawn timber exports were 776,000 m<sup>3</sup> – a 22 per cent increase on the preceding year. In terms of value, sawn timber export earnings totalled \$NZ259 million in 1991.

## New Planting

The Ministry of Forestry has revised its forecasts for new planting in the year 1992 winter planting season upward, to 40,000 to 60,000 hectares, dependent on levels of stocking. The forecast is based on a survey of nurseries which revealed a number of seedlings being grown on contract which were not previously counted, and better than anticipated seedling survival rates. Locating seedlings for planting will still be a difficult task with many nurseries having presold all their stock.

The Ministry of Forestry is continuing to hold forestry investment seminars throughout New Zealand in response to unprecedented interest in forestry investment.

## Dutch Elm Disease

The Ministry of Forestry has imported from Britain an experimental vaccine against Dutch Elm disease. The vaccine, which is actually a virus, acts by weakening the Dutch elm fungus which attacks the trees. The Ministry is awaiting progress reports on the Dutch elm eradication programme before deciding whether the vaccine should be used. Dutch elm disease is presently confined to Auckland.

## Corporate Activities

### • Fletcher Challenge Ltd

Fletcher Challenge Ltd (FCL) announced an interim post-tax profit for the six months to December 1991 of \$NZ151.6 million, a decline of 59.7 per cent on the corresponding period in 1990. Pulp and paper operations lost \$NZ79.4 million, as kraft pulp prices declined from \$US840 per tonne in mid-1990, to \$US500 per tonne in December 1991. The energy sector continued to provide FCL's strongest performing operations.

Fletcher Challenge Canada reported a \$NZ42 million loss for the 12 months ended December 31, 1991. Declining pulp prices were also the most significant contributory factor to this loss.

FCL has sold an interest in its Nelson and Marlborough forests to a group of United States institutional investors for \$NZ155 million. The forests will be held as a joint venture with FCL retaining a 61 per cent stake in the partnership. The forests include Golden Downs, Wairau and Rai forests, and comprise 60,600 hectares.

FCL has signed a 10 year methanol supply contract with two major Japanese companies which could be worth more than \$NZ1 billion in sales revenue over the life of the contract. The contract is for the supply of up to 300,000 tonnes of chemical methanol per year, mainly from the NZ Synthetic Fuels plant near New Plymouth.

FCC has recently sold its stake in pulp and timber producer Donohue St Felicien Ltd, to the majority owner, Donohue Inc, for \$C120 million. Also sold recently were the Hammond and Fraser sawmills to International Forest Products, for \$C75 million.

The British Columbian Government has announced an 18 month deferment on logging in five disputed areas of Vancouver Island, including the Walbran Valley. FCC manages 6500 hectares in the Walbran Valley, where logging plans have drawn strong opposition from conservationists. The companies affected will be allowed to draw timber from other, less controversial forest areas.

### • Carter Holt Harvey

Carter Holt Harvey (CHH) have announced a one-for-seven rights issue to raise \$NZ400 million from its shareholders. The issue is to be underwritten by major stakeholders Brierley Investments and International Paper. The share issue is part of a three-pronged debt reduction strategy announced in early March. CHH also intend floating their seafood processing subsidiary Sealord, and cutting dividends by one-third for the 1992/93 financial year.

CHH subsidiary Pinex Timber Products has secured a \$NZ1 million contract to supply treated power poles to the Philippines. The contract is a spin-off from a new timber export strategy, emphasising value-added lines, adopted over the past two years by the company.

### ● Caxton Group

CHH subsidiary, Caxton Group Ltd, are to begin exporting a selected range of toilet and facial tissue to Australia. The export drive is to be spearheaded by their Purex family toilet tissue. Purex will compete in the Australian market against tissues produced by Kimberley-Clark and Bowater Tissue, both of whom introduced tissue products into the New Zealand market in 1991.

### ● Winstone Pulp International

Winstone Pulp International's Karioi pulp mill produced 116,000 dry metric tonnes of chemi-thermo mechanical pulp worth about \$NZ85 million in 1991. The mill operated close to capacity throughout the year and, against world trends, remained profitable in the face of a sharp downturn in world pulp prices. The mill's Indonesian owners are considering expanding capacity from 12,000 tonnes to 175,000 tonnes at a cost of between \$NZ35 million and \$NZ50 million.

### ● Corporate Investments Ltd

Corporate Investments Ltd (CIL) reported a 25.9 per cent decline in operating profit, to \$NZ7.52 million, for the year to December 1991. Earnings from forestry, including an equity accounted profit from CIL's 50 per cent stake in Nelson Pine Industries, were down 25 per cent to \$NZ3.3 million.

### ● Juken Nissho

The \$NZ40 million Juken Nissho laminated veneer lumber (LVL) mill near Masterton was opened in January. The mill is employing 70 staff with an additional 50 people being employed in Ngaumu forest. Approval for a second Juken Nissho mill in Gisborne has been obtained. This mill is expected to cost

around \$NZ40 million and will employ 200 people.

### ● Conical Hill Upgrade

The first stage of a \$NZ5 million upgrade at Blue Mountain Lumber's Conical Hill sawmill was completed in December. The log preparation area upgrade, which accounts for the major proportion of the project's total cost, includes the installation of three new machines which will enable small logs to be cut faster and more accurately. The mill will eventually process 250,000 cubic metres of logs per year compared with the present 150,000 m<sup>3</sup>.

### ● National Exotic Forest Description

The Ministry of Forestry has published the NEFD Steering Committee's report describing a summarised inventory of New Zealand's forest plantation resource as at April 1, 1990. The report estimates New Zealand's net stocked exotic forest area as 1,272,029 hectares, of which 89.3 per cent is radiata pine forest.

### ● Tropical Timber Imports

The Timber Importers' Association has announced a ten-point policy designed to limit imports of tropical timber and contribute to halting the degradation of tropical rainforests. Importers will seek to source timber from sustainably managed forests and forests where logging was conducted with the least possible damage to the environment.

### ● Review of Depreciation Rates

The Government has announced an interim depreciation regime which applies over the period from December 16, 1991 to April 1, 1993. The interim regime adds 25 per cent to all deprecia-

tion rates for new plant and equipment, including imported second-hand assets and assets used in forest development. For example, wood processors who previously depreciated plant and equipment at 10 per cent can now depreciate this plant at 12.5 per cent. These new rates are a positive boost to the industry's international competitiveness.

### ● Ports and Shipping

Port Marlborough New Zealand Ltd has gained planning approval for the development of a deep water port in Shakespeare Bay. The Marlborough District Council has approved the reclamation of eight hectares at the Bay and the building of a 240 metre berth to cater for Marlborough's timber exports. The cost of this development is estimated to be \$NZ17 million.

Port Otago Ltd has applied to double the size of its woodchip storage facility in response to increased estimates of woodchip export volumes for 1992. The port currently handles about 50,000 tonnes of woodchips a year but anticipates that chip volumes could increase to 500,000 tonnes over the next five years. The port hopes to have storage available for 40,000 tonnes.

The Port of Wellington also plans to build a woodchip storage and loading facility. The port envisages exporting 125,000 tonnes of woodchips annually using this facility. The port has conducted a six-month feasibility study and is confident the facility will be commercially viable.

The Port of Wellington announced a trading profit of \$NZ8.33 million for the year to September 1991. This is an increase of 48 per cent on the previous September year. Log exports provided the major impetus behind the increase with log volumes increasing from 15,570 tonnes in 1990 to 150,190 tonnes in 1991.

The existing log storage area at the Port of Gisborne is currently being expanded from 5.8 hectares to 7 hectares, with a target completion date of September 1992. This will give the port a single-tiered log storage capacity of 60,000 tonnes.

## The NZ Branch of the CFA formed

### D. Wijewardana

At a meeting in Wellington on April 23, 1992 a local branch of the Commonwealth Forestry Association was formed. The expressed objective of the group was to work in conjunction with the NZ Institute of Forestry, where issues of more global significance to forestry would be discussed. It was stressed at the meeting that this grouping must complement New Zealand's own forestry organisation – not compete with them.

The officers selected were:

Peter Berg, Chairman

Don Wijewardana, Secretary

The meeting was addressed by the Immediate Past President of the NZ Institute of Forestry, Dr Wink Sutton, who gave a presentation on the global significance of the New Zealand plantation experience – a paper he had given earlier this year at an international workshop organised by Yale University and Winrock in Connecticut, USA.

## Another clone of Leyland cypress released

The November 1989 issue of this journal (NZ Forestry 34(3): 18-20) detailed the introduction to New Zealand of various clones of *X Cupressocyparis leylandii*, and noted that of the major clones only Haggerston clone 5 was absent. This clone failed in quarantine in Auckland when it was first imported in 1985. In