

INVESTMENT IN FOREST PRODUCTS

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1. Introduction:

When we talk of forest products we embrace the whole field involved in growing the crop and its subsequent processing into a multiplicity of products.

On the growing side in Australia we have Commonwealth and State Forest Services, complemented by individual companies in this field. The more meaningful private sector is concerned basically with growing its crop for conversion by their own plants.

In the processing area we have sawmilling, sheet materials (including veneer, plywood, particle board, and hardwood) and pulp and paper.

To cover this broad field of investing in forest products, I would like to sectionalise my talk into four parts.

Firstly, to have a look at the international scene and its supply of and demand for forest products.

Secondly, to relate these international developments to the Australian situation and proposed plans for the future development of forestry and forest products in Australia.

Then, to see how Queensland and its forest products industry are involved in national plans and international developments.

Finally, I would like to discuss some of the factors affecting investment potential in forest products, with some particular references to the local scene.

2. Internationally:

Forests, and what we do with them, are not the concern of foresters alone; nor of the scientists; nor of the bush workers; nor of the paper makers, sawmillers and boardmakers; nor of the picnickers and tourists; nor of the fauna; nor of the environmentalists. All have a stake. So have the next and future generations.

Moreover, they are not for Australians alone. They form part of a global resource.

Amongst Australia's nearest neighbours, we have countries endowed either with rich natural forests or with favourable conditions for creating man-made forests. These countries are looking towards the developed world for markets for their processed or semi-processed forest products.

Wood exports from the developing world have risen very sharply in the last decade, particularly from South East Asian countries - so much so that Asia now accounts for close on two-thirds of all the world's hardwood trade. Almost the whole of this increase, however, has been in unprocessed log form.

In future they will be looking for markets to return them a greater percentage of the value added of the final product. A healthy forest industry will provide these developing countries with a basis for secondary and tertiary industries, and a healthier economy.

The role and power of developing countries in the field of forest industries developments are growing in every sense and will continue to do so. They have, in the long term, a climatically and ecologically better position to grow cheap wood in one way or another for the industry, than most developed countries.

Within the short to medium term, the raw material availability is not considered a major problem. It is true that the temperate zone natural softwood resources have not much unused capacity. However, there does exist unused softwood production capacity in both the Pacific/North-West and the U.S.S.R.

The additional industrial wood needed will come from tropical forests, from plantations and from increased productivity.

The use of mixed tropical forests, particularly for pulp, is now being tapped for the first time.

Plantations, both hardwood and softwood, will undoubtedly become the main source of additional future wood.

Current consumption of wood in developed countries is 1.2 m³ per capita per annum. By the year 2000, with a doubling of population and a world-wide consumption equivalent to that now prevailing in developed countries, we would need an average world forest productivity of 6 m³ per hectare and per year. And that allows for a reduction of the forest area to half its current size.

Our Australian plantations of softwood are yielding an average of 16m³; better hardwood plantations overseas are averaging this and more. The results of a recent survey by the Food and Agricultural Organisation (FAO) of the United Nations, were announced earlier this month in Australia. The short term picture is not as bright as I have painted the longer term one, especially in relation to pulp and paper.

Internationally, newsprint and chemical pulp will continue to be the most significant grades in world trade. The major deficiencies will be in Western Europe and in Japan.

Hardwood is providing a much better return on investment than either softwood or mixed tropical hardwoods in terms of chemical pulp. Returns on investment in producing chemical, or bleached sulphate, pulp in developing countries are now approximating those in established pulp producing regions.

However, return on investment in producing newsprint in developing countries still lags behind returns in developed newsprint regions, because of lower machine outputs.

According to FAO the rates of return indicated for all of the newsprint mills studied are such that they would be unlikely to attract commercial investors. Potentials for improved returns are dependent upon integration with other forest products processing units, such as sawmilling.

In the same survey FAO predicts that by 1978 there will be an international cumulative deficit of 17 million tons of paper grade pulp, and a cumulative deficit of 8 million tons of paper.

These predictions are based on existing plant capacities and those being brought into production in the period. Consumption is taken as constant per capita.

Recycling of additional waste paper will be of minor benefit. Time does not permit, nor the returns provide, sufficient incentive to increase capacity in paper production in the short term.

In the last two years we have seen a doubling of the price of pulp. In the next 12 months it would not be surprising to see a doubling in the price of paper.

Australia:

Recently I had the pleasure of attending a conference which was one of the first attempts in Australia to plan the long term development of an industry.

This conference was the Forestry and Wood-Based Industries Development Conference, abbreviated (as is our habit today) into the Forwood Conference.

Background reports and recommendations were made in the eight major areas of:

- Land use and its role in the economy
- Forest Resources
- Multiple Use of Forests
- Wood-Based Industries
- Marketing
- Finance
- Education, Training, Research and Manpower

The final decisions reached and their degree of acceptance by Governments and sectors of the Industry will take some time before the value of the conference can be evaluated.

However, the forestry and forest products industries in Australia now have guidelines for their activities into the early part of the 21st century.

The major issue affecting the conference decisions is whether the Governments of the day, over this period, continue to accept a policy of self-sufficiency in forest resources in Australia.

Currently, Australia has a plan for self-sufficiency by the year 2000, based mainly on plantations of softwood.

The outgoing Australian Government, based primarily on recommendations in the Coombs Task Force report, has the program under close scrutiny.

The words of Jack Westoby, former head of FAO forestry section, and who was the keynote speaker at the Forwood Conference are pertinent:

He said:

"When all the arithmetic has been done, when the cost benefit ratios have been worked out, when the internal rates of return have been calculated, two things are worth bearing in mind.

One is that, on this resource hungry planet, a raw material that is versatile, renewable and biodegradable is more likely to appreciate in real value than to depreciate.

The other is that in twenty odd years of international forestry activity, I have yet to come across a case of a sensibly planned, properly located, man-made forest that has not eventually paid off."

Australia has been described as a giant desert fringed by eucalypts and Australians, and some of these are inconveniently clustered.

Some 6% of our country is forests. Of this area of forests, 84%

are eucalypts, 10% Cypress Pine, 4% rain forest and 1% plantations.

The ownership of the forests is primarily in public hands, only 21% being owned by private individuals or companies. Slightly more than two-thirds of our forest products are produced from these public lands.

Of our forest produce two-thirds are native forest sawlogs, one-eighth plantation sawlogs, the balance being native and plantation pulpwood.

By the year 2000 our plantations will be producing more than half of our forest products. Currently they are producing some 20% of our needs from one area that occupies only one per cent of our forest estate. This large increase in productivity will come with a doubling of plantation area.

Whilst we have been importing about one-third of our forest products needs from overseas - primarily in pulp and paper - our ability in the future to continue this level of imports is open to question.

We have a trade agreement with New Zealand in terms of forest products. It is interesting to note that whilst there are requirements on Australia to buy, there are no requirements on New Zealand to sell, in terms of the agreement.

There are overseas countries, such as New Zealand, which appear to possess comparative advantage over Australia in the growing of forests.

I say appear, because comparative data is virtually impossible to obtain. The other problem is one associated with attempting cost-benefit analysis on a crop that takes 40 to 50 years to maximise its returns.

The end result, of course, is that a political decision has to be made based on criteria of levels of employment and external viability tied into land use policies, and whether the Government of the day is primarily concerned with equity or efficiency.

Queensland:

Coming closer to home, we have an industry in Queensland which is less reliant on overseas imports, but more reliant on interstate imports and exports, than most other States in Australia.

Our plantation program is generally in line with other States, but we are using different species. Currently we are planting at the rate of 5,000 hectares per annum, roughly 25% of which is the native hoop pine, the balance being exotic softwoods, primarily slash pine.

Our present 100,000 hectares of plantations are being used to allow removals of some 150,000 cubic metres per annum. By the year 2000 they will be yielding 15 times this volume of forest products, with only a doubling of the area required.

Major development is planned around the Gympie-Maryborough region. It is anticipated that a pulp mill will be in operation in this area in the early 1980's.

Factors Affecting Investment:

Having given you a broad picture of forestry and forestry products, I would like to touch on some of the factors influencing investment in the industry.

Capital investment in the wood based industries (excluding forests) is 0.20% of the value of production, considerably below

the ratio of aggregate national investment of GNP of 0.28%. The relatively more capital intensive nature of the pulp and paper group is reflected in its ratio of 0.25%, compared with 0.10% for the wood and wood products group.

The total annual industry rate of investment is expanding at 6.75% annually, and in forests at the rate of 5% per annum, in real terms.

Some 21% of the Australian work force is employed in the harvesting, conversion and re-manufacturing of forest products. The total economic impact of the wood-based industries is some 5% of GNP.

I have belaboured these figures a little in an attempt to give you a background perspective of the size and importance of the industry.

The wood-based industries are connected with many other sectors of the economy, and their expansion induces increased employment and spending in other industries. There are indications that the multipliers for forestry and the wood products industries average 2.2 for income and 2.8 for employment.

As mentioned before the industry groups itself into sections relating to sawmilling, panel products and pulp and paper.

A brief look at these sections may be of interest in evaluating industry companies.

The sawmilling industry is widely scattered throughout Australia. Whereas at present it obtains some 80% of its material from hardwood forests, its output by 2010 will have doubled, with some 60% of its production coming from plantations.

Government policies allowing amalgamation of production units are having a marked effect, particularly in Queensland. Increased economies of scale are becoming available, greater mechanisation, and improved working conditions have resulted.

These policies have meant the decline of small sawmill towns. However, a form of rural reconstruction is eventuating, and for once without Government finance to achieve it.

During the past five years we have seen the entry of major public companies into the sawmilling industry. These companies tend to have expertise in raw material processing. A topical example would be B.M.I.

Some other companies, including overseas ones, have entered the industry during the last few years and departed again. One that comes to mind is Felt and Textiles, although they still have some interest in N.S.W.

In Queensland our sawmilling companies tend to do their own marketing or have arrangements with marketing companies.

Because of this we have seen greater co-ordination of production and marketing, than occurs in most other places in Australia.

At the same time we have seen the near demise of some family companies which have gone public, and continued to be controlled by the previous owners. This may not be anything particularly different from other industries, where financial management is lacking.

The plywood industry has been going through a major revolution in recent years. The major companies have tended to move out of the general jobbing field into specialised production lines, in order

to compete with imports.

Their future is also based on local forestry plantations, rather than reliance on imported logs or local rain forests.

Particle board has been the major growth segment of the timber industry. Their growth is now slowing, and is about 7% per annum. It is expected that this rate of growth will continue.

Hardboard, somewhat like plywood, has been stagnant in growth terms in recent years. Both have lost markets to particle board. The excess of capacity over domestic demand has been absorbed by export sales.

The Australian paper industry is large scale, capital intensive, and highly concentrated geographically. It meets some 70% of our local requirements and has obvious growth potential, providing it can obtain raw material.

The production efficiency of these industry sections varies widely between and within the sections.

Labour costs in sawmilling represent about half total production costs. This labour intensity brings with it particular problems, especially in periods of full or over-full employment.

The other major cost factor is transport costs. These vary from some 15% to 33% of the market value of sawn timber, depending on the distance to market. At the same time, Government regulations distort the logical flow of sawn timber to markets. This is one of the major reasons for the high interstate movements of timber, with its resultant effects on market prices.

Plywood and veneer, like sawmilling, are resource oriented, which has prevented the achievement of major economies of scale and use of latest technology.

Particle board, hardboard and paper plants are capital intensive and generally as efficient as similar size overseas plants.

One of their major problems in recent times has been the capital cost of maintaining a pollution free environment in factory locations. This has impeded their profitability and expansion potential.

Today's pressure on the forest resource is high and is rising. Forest management has adopted a "multiple-use" method where each forest is managed for as many uses as are compatible.

The quality of our softwood plantations is improving with age and management experience. The integration of industry processing operations not only has benefits for the investor, but for the forest manager who can better control his plantation with several options open to him.

More effort is being made to use a greater percentage of the tree, and this will have a marked effect on the efficiency of the industry. Currently, up to half of some trees are disposed of by burning.

Gentlemen, in conclusion, those that are involved in the management, control and planning for the industry consider that it is well equipped to cater for the needs of the nation and the demands of the market place.

We are managing and controlling today, and planning for the future with as much savoir-faire as any Australian industry.