SUMMING UP

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As might be expected, a large part of the discussion at this conference on marketing in the forest industries centred around the perennial problem of the return to the raw material supplier — stumpage. Viewed in the context of the industry as a whole, stumpage is merely one of a chain of costs or returns met in a process starting with the tree seedling and ending with the product demanded by a customer. Irrespective of where this chain is severed, by separate interests, argument may be expected on the equitable apportioning of the total realizable return to each. It may therefore be profitable first to consider whether there is any general goal which transcends the inevitable wranglings between the links in the chain. In this respect the criteria outlined by the Stumpages Working Party have relevance to more than just State Forest wood. They are: economic efficiency; economic progress; economic stability; and equity.

I believe that you will all accept these as reasonable general goals for the combined growing/utilizing forest industry. The problem is not so much defining the goals as defining the mechanics of achieving them, and this has been the topic covered in discussions. Pure economic theory suggests that maximum efficiency in the use of forest resources is likely to be best approximated as pure competition is approached in the sale both of the raw material and of the finished product. In fact, anything approaching pure competition has not been a feature of marketing in this country. Mr Thomson has pointed out that in the early era of native forest utilization supply was so great in relation to demand as to encourage give-away prices and practices. Subsequently the competitive element in the indigenous wood industry has been severely blunted either by these historic precedents, or by price control, or by the over-riding State goal of conservation rather than of maximizing returns.

Early sales of exotic forest produce in the post-war era have also been marked by an absence of pure competition — a reflection of the abundance of raw material in relation to demand and to some degree of the desire to nurture an infant industry. The oversight of such now obvious safeguards as revaluation clauses in sale agreements probably reflects the strong buyer's market then in existence, and the idle nature

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of much of the forest estate. The introduction of export sales, dealt with by Messrs Childs and Mason, and the gradual approach of wood commitment to allowable cut, has resulted in an increasingly competitive situation, and this in turn probably influenced the Stumpages Working Party in reaching its major conclusion that the price paid for exotic wood should be determined by a free and competitive market, with the rider "if such exists". Although Mr Jewell has spoken of compromise in matters of detail, I do not believe there was any in this and the other key recommendations of the Working Party.

A free and competitive market does, of course, exist in the international trade in forest products, and although we entered that market on a significant scale in the 1950s and 60s, it has not been without self-determined constraints both in export and in import. It is unlikely that anything approaching pure competition will evolve in a domestic industry cushioned from the international market in one way or another. Rather, some intensification of monopolistic trends in sales of produce, and monopsony* in purchase of raw material, may be anticipated. These terms are coloured, and I do not wish to imply that they are of necessity bad or demonstrably inefficient. Mr Childs has nevertheless floated the idea, and it is worth pursuing, that increased economic efficiency might result from setting domestic raw material prices on the basis of produce prices obtainable on overseas markets. It was pointed out in discussion that this is not a hypothetical situation, but one which already exists where State owned resources cannot be substituted on the local market for privately exported sawlogs. In fact, a large proportion of the sawlogs sold in this country may be freely directed to either market and, unless even more constraints are imposed, they are available domestically only by competitive bidding at export prices — right now. Similarly it is not a hypothetical situation in that it exists in other primary industries. It is not surprising, then, that Mr Barr, with a wealth of farm marketing experience, came out strongly in support of Mr Childs' arguments. I believe that Messrs Olsen and Tustin were also sympathetic, and they advocated in addition the pursuit of a judicious balance between domestic and export marketing. By using the internationally available price as a guide, and placing no restrictions on marketing, particularly for State sales, certain administrative difficulties are removed but, more important, exposure to competition may, as Mr Childs suggested, increase efficiency in the use of wood in New Zealand, and in so doing increase the total economic gain from use of the raw resource. It may even permit more wood in various forms to be placed upon the export market, and I need not belabour the importance of this. It is sufficient to point out that the Stumpages Working Party's specific criteria for policy in sales — nine in number — included foreign exchange earnings and

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*Monopsony — a situation where only one buyer exists for resources in a particular area.

development of new overseas markets. In view of the fact that current afforestation programmes are directed towards providing major exportable surpluses it seems to be a matter of mere prudence to purposefully maintain export marketing links in the widest possible range of forest products, perhaps even at some moderate expense domestically. Mr Childs' suggested procedure may be the simplest way of encouraging this aim.

The other side of the coin was, however, touched upon by Mr Webby. There was surprisingly little comment, apart from his, from the representatives of industry — I suspect because of the limited time given them to marshall appropriate arguments. Mr Webby correctly drew attention to the possible political and sociological repercussions that might result from a procedure leading to increased domestic prices for finished products. Mr Studholme and Mr McConchie raised the equally valid need to consider possible substitution. In this respect it is interesting to reflect on how much substitution of sawn timber, for example, might be by reconstituted wood products or ply, and might in itself lead to greater efficiency of use of raw material. Mr Webby advocated a thorough study and this suggestion I would support. The question is too important to dismiss on the basis of speculative objections. Such a study would necessarily involve a thorough economic appraisal of both the domestic timber industry and that part of the international scene relevant to us. There would doubtless be difficulty in obtaining the necessary econometric data. This problem was illustrated by Mr McConchie's laudable attempt to relate stumpages to supply and to local product prices, the deficiencies of which were pointed out by Mr Carter. The weaknesses in such analysis are corrected by access to relevant and detailed data, and in this respect it was encouraging to note an absence of objection to the publication of stumpages once agreements are concluded. Any analysis should, *inter alia,* test Mr McConchie's claim that the addition to New Zealand's GNP occasioned by local processing may offset to some degree considerations of profitability to the firm or forest owner. The real costs and the opportunity costs of adding value would surely have some relevance, as Mr Mason implied.

Although the Stumpages Working Party has provided a solution to a most difficult problem, it has not been able to cross all the Ts. The subject of revaluation was briefly discussed, and while the automatic annual review poses few real problems, the negotiated five-yearly review, taking account of all factors relevant to stumpage prices, will again present economists and econometricians with an interesting task — if only to identify those factors objectively.

Many other avenues worthy of fuller exploration were opened up by the panel, and by the subsequent questioning. Time unfortunately precludes comment on them. The question, for example, of likely relative trends in pulp and sawlog stumpages and product prices, touched upon by Messrs Tustin and Shirley, is obviously of vital importance in planning major new afforestation schemes.

In the papers dealing specifically with aspects of marketing, Mr Hyam stressed the difference between selling and marketing, and the need for co-operation between grower and processor to ensure premiums for quality products. This is an important field. Mr Ackland, as well as providing a most interesting account of some of the practical problems in marketing round produce, also drew attention to this need for co-operative development. As is the case with plywood, his product requires raw material conforming to fairly tight specifications, and his needs may similarly receive insufficient attention in the dominant planning for production of sawlogs and pulplogs. The challenge to foresters to plan for and meet these needs carries with it a challenge to industry to clearly define them. To a busy forest manager, the production of specialist lines on the skids can be a nuisance and the logistics may, as Mr Ackland indicated, require much closer attention. The importance of recognizing the intrinsic value of various parts of the tree is closely related, and was touched upon by Dr Whyte.

Much of the discussion at the conference has been concerned with export lines. In this respect, two important characteristics were covered by Mr Mason and Mr Shirley, namely, the volatility of the market with respect to price, and the existence of apparently anomalous relative prices for products processed to varying degrees. My impression was that both speakers felt that in the long term such anomalies would be resolved, presumably by the free play of market forces, but Mr Mason stressed the normality of ups and downs in response to political decisions in other countries, seamen's strikes, and other unpredictable events. If there is any conclusion to be drawn it is probably the need, in managing forests and associated industry, to retain a good measure of flexibility in the type of product that can be turned on at relatively short notice, and this in turn means purposefully diversifying the range. Fortunately there is every indication that New Zealand export marketing has been competently handled and will continue to be.

If I can sum up this summing up, I would say that economists of late have put in a major effort in analysing current forest practices, and suggesting alternatives, with good results. Many of the unanswered questions raised in discussions probably require similar objective analysis of the practices in the industry and among consumers. This would allow the picture to be completed, hopefully to the ultimate benefit of the whole forestry sector.