CORRESPONDENCE

The Editor,
N.Z. Journal of Forestry.

POST PRICES, TREATMENT COSTS AND STUMPAGE

Dear Sir,

As readers of your 1962 Vol. VIII No. 4 issue of the *Journal*, and as a company perhaps qualified to comment, we would like to remark on aspects in the article by R. Fenton, namely "Round Produce, Price Control, and the Economics of Silviculture". We feel that some assertions and figures included cannot be substantiated, and if real value is to be obtained from the article, by foresters, forest owners and utilization plants, then more accurate figures are necessary.

(1) Assertion of high profit margins by preservation companies treating round produce. Fenton quotes profits of £12 10s 0d per 100 posts when 3d per cubic foot stumpage operates. This profit obviously could not apply at the majority of plants in New Zealand, and the Waipa plant operated by the N.Z. Forest Service must have been in mind when he conjectured this figure. It is estimated that for most areas (where cartage is not a major factor) wholesale selling price of treated No. 1 posts would approximate £38 per 100. It can be as low as £34 10s 0d. Fenton quotes £42. Calculating back from even this latter figure, cost of production he assumes at £29 10s 0d per 100 maximum, and in efficient units as low as £22. Surely he was not serious in putting forward this belief. The Wairarapa Farm Forestry Association several years ago circularized cost of production of round post material in trials at Ngaumu State Forest in thinning operations. With reasonable profit added, posts could be produced dry "at ride" for £13 6s 6d per 100. If to this finding we add stumpage of 3d per cubic foot, reject losses, risk and interest on the seasoning posts, plus cartage to treating plant, our costs approach £17 per 100 before treatment. In a competitive treating market many plants advertise treating charges of 2s 9d per cubic foot for ground contact retentions, but this varies according to preservative and retentions used. Fenton's figures indicate that oil-soluble treatment at Waipa costs 3s 0d per cubic foot. We may therefore add £13 15s 0d per 100 posts for treating. Already our production costs exceed Fenton's £29 10s 0d and make his suggested £22 an impossibility. Allowing charges to cover yard handling and loading out of the treated produce, interest on stock, losses, bad debts, etc., it is apparent that profit margins are not unreasonable, and in fact any reduction would not warrant the business risk and capital expenditure involved.

(2) Prices of competitive materials. Fenton's price for concrete posts at £45 we feel high, as many areas show their availability at about £40 wholesale per 100. Because concrete posts captured a large part of the market in the ten-year post-war period, treated wood posts have had to fight their way into an established field and a competitive or lower price is essential.

(3) Because farmers never take into account their own labour and its value, they can produce the untreated post material for no charge. Preservative cost and equipment would have to be less than

2s 9d per cubic foot of post material if the farmer is to make savings, and then the resultant product will be of lower quality.
(4) Preservation techniques rapidly improving. Although New Zealand is not lagging in wood preservation techniques and research, it is unwise to place too much confidence on new ideas until they are well proven in commercial practice. Evidence throughout the world during the past 100 years indicates that changes in wood preservation practices are necessarily slow and cautious, and rather than reduce costs, many of the new ideas mentioned by Fenton could actually increase costs.

Many timber treatment plants are today operated by forest-owning companies or by millers, and these groups seem prepared to market treated round products at cost or with low margins only. The aim of these groups is either silviculturally to thin their forests, with the post sales financing the operation or, in the case of millers, to avoid the necessity of sawing very small diameter material into timber. This situation alone creates competition and low selling prices, and dictates in many areas the stumpage that the treating plant owner can afford to pay for raw material and yet remain competitive. We may also assume that farmers satisfied with treated timber fencing material will in the future consider favourably further use of timber for their farm buildings, gates, cattle-stops, bridges, culverts, drains, ramps, retaining walls, silage pits, etc., and so reverse the swing away from timber usage to the so-called "permanent" materials of concrete and steel.

Finally, let us look at the record. According to Wairarapa Farm Forestry Association reports on Ngaumu Forest, thinning to waste was costing £4 6s 6d per acre. Thinning for round post material gave a profit of £12 per acre, plus stumpage royalties.

With a market of 5,000,000 fence posts in New Zealand per year, let foresters, forest owners and utilization plants ensure that that represents 5,000,000 cubic feet of treated round wood thinnings, and not cubic feet of concrete. Treated round wood posts are being offered to the farmer as the lowest cost, most readily available, and most durable fencing material he can obtain.

Yours faithfully,

R. C. ACKLAND

Commercial Executive (Sales),
Hickson's Timber Impregnation Co. (N.Z.) Ltd.,
Auckland.
4 October, 1962.

Dear Sir,

Mr Ackland's major criticisms refer to the short Part II of the paper. The wholesale selling prices of fencing material quoted referred to those prevailing in the Auckland province for the year 1961 and are, to that extent, historical; prices and costs are seldom static. For example, the timber prices quoted have been increased twice since the publication of the paper and were, in fact, increased once while it was in the course of preparation (the increases were in January, April and December 1962); costs have been affected by a general wage increase in 1962. That the trend in round produce

prices has been the reverse of that of timber prices is not surprising, and an easing in prices is now evident.

The reasons for these price changes are, in my opinion, the combined effects of increasing competition (due to the rapid increase in quantity of produce on the market) and, of course, the considerable profit margin that has previously been available has left ample scope for reductions. The increase in production has been formidable and I can now give two further sets of figures to add to those in Table 1 of the paper: in 1961 and 1962, the amount of fencing material treated was 1,870,000 and 2,147,000 cu. ft respectively; compared with 403,000 in 1955 — a fivefold increase. Furthermore, the Forest Service's share of this total has dropped from over 70% to 30%.

The main point made in the paper was that sawlog stumpages are low relative to those obtained, and those likely to be obtained, for round produce. It was evident, from a study of preservation costs and production trends, that round produce prices could be reduced, and the second case demonstrated in Part I of the paper allowed for a reduction in the price of posts to around £33 per 100. At this price, and a stumpage of 3d for posts, sawlog stumpages are still anomalous relative to round produce.

It is of interest to examine Mr Ackland's criticism of the cost of production of £29 10s 0d per 100 for multi-salt-treated posts on the basis of figures which he himself provides. (I would point out that a cost of £22 represents a minimum where specific cost elements — such as logging, haulage and seasoning — were less than those given on pages 655 and 656; these costs could be lowered on, say, some sand dune forests).

	per 100 posts £	*s*	*d*
Mr Ackland's figure for dry (presumably peeled) posts at forest ride	13	6	6
Less stumpage (it is necessary to subtract this to obtain the full margin available for stumpage, + plant profit) [see *Farm Forestry*, 2(*1*), 1960]	2	13	4
Net	£10	13	2
Cartage: my figures were for actual contract rates, for hauling green, unpeeled posts for a 35-mile round haul; 4.5d/cu. ft	1	17	6
Cost at Plant	£12	10	8

Mr Ackland then quotes a treatment charge of 2s 9d per post; my figures are for actual *costs*, not charges. There are, indeed, differences between the major proprietary salts approved by the T.P.A. My figures are based on the use of a major salt, which is intermediate in cost between the cheapest and the most expensive available approved preservatives.

	per 100 £	*s*	*d*			
Carried forward	12	10	8			
Handling charge into plant, say 1.5d each for dry posts		12	6			
Treatment cost, 2.2s and 2.75s per post	11	0	0	to	13	15	0
Sales charge — say 6d per post	2	10	0			
	£26	13	4	to	29	8	4

It is evident, from this range of costs, that a figure of £29 10s 0d is an appropriate cost of production, even allowing for the substitution of a charge for a cost for the treatment element; and allowing for the most expensive of the salts available.

Mr Ackland's figures, on analysis, show that he has used some costs twice (for example, stumpage, yard handling, etc.) and then substituted an oil treatment charge in a budget for multi-salt treatment. The lowest margin then available for plant profit plus stumpage is at least £8 10s 0d per 100 (at £38 sales price) and up to £15 (at £42 sales price). At a stumpage of 6d, this leaves the forest with £2 10s 0d and the plant with £6 per 100. Comments on the 'reasonable' level of this division seem superfluous.

I am not sure if Mr Ackland infers that the stumpage at the Waipa plant is 3d; to set the record straight, the price paid for cut to length, unpeeled, unseasoned Corsican pine posts, at forest ride is more than 2s 0d per post. The stumpage then depends on extraction conditions, but is far more than 3d.

The price of concrete posts may well be coming down, in many areas they may be £40; similarly in many areas they were £45, still above the price of oil-soluble treated posts. I'd agree that farmers can produce posts of their own cheaply. They have every incentive as they save freight and retail prices if they treat their own. While Mr Ackland and I are in agreement as to concrete posts, and the necessity to sell below the price of concrete, it is salutary to recall the 1938 Annual Report of the Director of Forestry:

". . . the concrete post has made some headway, but it is anticipated that as soon as large quantities of creosoted material are available from the treating plants at Rotorua, Hanmer Springs and Conical Hill the wooden post will regain this lost ground."

In twenty-five years, we are halfway to replacing concrete, and the tempo is increasing rapidly. The statement in the paper as to the effect of improved techniques on costs read ". . . (they) *may* reduce treatment costs" [my italics]; this is scarcely placing too much confidence in new techniques. As Mr Ackland raises the question "throughout the world . . . changes in technique are slow," I'd remind him that his company alone has changed its recommended salt formulation three times in fifteen years — Tanalith U; C; and now CA; all, no doubt, better than the last. The contention, from a commercial firm, that improvements in technique presuppose an increase in costs falls strangely to my ears, and I'd suggest that the preservation plants aim at reducing operating costs (excluding the £1 5s 0d to £3 per 100 posts stumpage), not increasing them.

To recapitulate, the paper included two assessments of timber prices and residual stumpages, one based on actual margins available for round produce at the time it was written, the other on the projection that prices were too high and would fall. It is evident that the latter course was warranted and prices are now falling, but, even at this level, the sawlog is still grossly undervalued in comparison with round produce and the case for increased timber prices remains. It appears feasible that post stumpages will stabilize at 3d to 8d each, depending on local conditions, and that sale prices will come down to £33 to £34 per 100 (wholesale). It was pointed out that where higher prices were being obtained, foresters

are being poor business men to ask too low a stumpage for produce which they are, admittedly, glad to sell at a profit.

Mr Ackland's attitude seems to me, if I may misquote the Scriptures: "It is naught, it is naught saith the buyer, but when he has gone his way then he whingeth". (*Proverbs* 20, 14.)

Yours faithfully,

R. FENTON

Forest Research Institute,
P.B. Whakarewarewa, Rotorua.
26 February, 1963.

Fifty years on --

". . . In considering any scheme for the profitable conservation and partial utilisation of our forest lands, therefore, it has always to be borne in mind that the obtaining of the largest possible quantity of sawn timber from any given area of forest is not the only consideration, but that with a limited supply of timber-trees it behoves us to insure that too rapid a cutting does not take place at the present time, and that a future supply is systematically provided. . . . The more this subject is studied, the more one is impressed with the fact that judicious afforestation is the backbone of success in the important industries of every nation. As has been frequently pointed out, the cutting and utilisation of the indigenous forests by the sawmillers is proceeding at such a rapid rate in New Zealand that it is only a matter of a very few years (comparatively) when the greater bulk of our timber supply must be obtained from abroad. Each year sees the output larger, and the resources of the Dominion smaller, and, although the Government has taken the matter in hand with commendable foresight by the establishment of State plantations of timber-trees, yet it must be at least from thirty to forty years before any great supply can be calculated on from this source. . . ."

— Extract from the 1908 Report of the Forests Branch of the Department of Lands, by the Chief Forester, H. J. Matthews.