

# A Positive Future

In his guest comment in this issue our Minister of Finance, the Hon. Roger Douglas, emphasizes the tremendous potential of the forest industry based on our plantations. It is excellent to hear a senior Government Minister speaking so positively about the industry's future. In the past few years, especially during the restructuring, the comment has been so negative that the country has been getting a wrong impression about industrial forestry. Perhaps it had to be this way or the system would never have undergone the restructuring the politicians were wishing to achieve.

I believe foresters will agree with the Minister that to capture this potential the country needs to build an efficient industry around the resource they have created. While some may argue with Lindsay Poole's interpretation of the Murupara Scheme which was built to utilize the Kaingaroa Forest (p.4 this issue), the scheme undoubtedly influenced the shape of the forest industry in this country. Throughout my 30 years in the profession, foresters have criticized the low stumpages agreed to when the industry was set up and pointed out the flow-on effects. It is vitally important to get it right this time.

There are a few critical points missing from Hon. Roger Douglas's guest comment. One of these he is responsible for – tax. The forest industry must be taxed fairly or it cannot compete on the world market. Dr Ted Bilek in his comment on this subject (p.7) argues that the current tax system is discriminatory against forestry. If we don't get the tax regime right we won't get the expanded industry this country needs.

Research also needs to be considered. The forest expansion in the 1960s and 1970s was underpinned by research – research which was innovative and helped put New Zealand ahead of the rest of the world in plantation forestry. We need to continue our research effort to ensure that we maintain our position as the best plantation managers in the world and in addition we need to ensure we are at the top in the utilization field. We must have innovative, basic research if we are going to compete in the next century.

Unfortunately Government's 'user-pays' policies are tending to push towards short-term research and consul-

tation work. By continually increasing the percentage FRI must recover from other sources, the Government is not sending our scientists the right messages about the importance of their basic research. When it started the final target was about 33%. Currently the FRI is achieving this figure but now the target has been raised to 47%. This perhaps is largely behind FRI having to make 31 people redundant (see p.12). It is sad to see the low morale at the FRI. Some restructuring of research was needed and it is also reasonable to have industry bear some of the financial load. But it is vital to ensure that innovative and long-term basic research is pushed and that it is not hindered by unrealistically high recovery targets.

Finally, a comment on forestry education. This too has been adversely influenced by forestry's restructuring in recent years. The bright school leavers are not coming forward to start forestry degrees because the message they have been given is that there is no future in the forest industry. Yet we must begin training these people now for the mid-1990s. The Hon. Roger Douglas speaks of 30,000 new jobs but we must not overlook that to compete on the world market we need skilled people and top managers.

It is good to see the Minister describing a positive future. It is important that this is widely accepted.

**D.J. Mead**  
Editor

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## Forestry offers potential for job growth

**Hon. R.O. Douglas**

As people try to think about New Zealand's future, one question repeatedly heard is: "When and where will we see new growth and jobs?"

My response is that New Zealand's natural resources offer this country great development potential – if we're prepared to take advantage of it.

For instance, development of the forestry industry has the potential to create thousands of new jobs. But those jobs won't be handed to us on a platter; we've got to be ready to grab hold of them!

Forestry could provide the single biggest investment opportunity available to New Zealand in the next 25 years, as a major source of future wealth and well-paid employment.

Through this industry, we have the potential to create at least 30,000 jobs.

We could earn up to \$7 billion a year in new export earnings – more than double the total present value of our meat and dairy exports.

Nor would that \$7 billion be a one-off figure. It would be generated each year,

every year, in today's dollars, achievable cumulatively by 2015.

The opportunity arises for New Zealand because the volume of wood available for export will double by 1995, from 4 million cubic metres now to about 9 million cubic metres.

Ten years beyond that, the wood available for export will be close to five times the present volumes. The forests for this already exist; the trees are planted and growing.

However there is one snag.

Merely having the forests is not enough. The trees only represent 3 per cent of the income we can achieve.

The *only way* we can maximize the potential of the forestry industry is by having modern, efficient, value-added processing plants. It's not the wood that matters; it's what is done with it.

The amount of investment money required to build up such an industry is massive: something in the order of \$6500 million.

We would need pulp mills, paper mills, and probably a kraft mill worth \$1 billion in itself.

The electricity requirement would be

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*The author: The Hon. Roger Douglas, New Zealand's Minister of Finance.*

roughly the equivalent of two and a half new Clyde dams. Meeting that demand would be a large construction task in itself, creating many more jobs on top off the 30,000 cited earlier.

Then you have to think in terms of the road and rail requirements, and the wharf facilities.

The kraft mill alone would be consuming 100,000 truckloads of wood a year.

If we constructed the necessary mills and processing plants, we would earn five times more from our forests than we would by simply exporting the logs.

But again there is a catch.

Nobody is going to invest \$6500 million in our forestry industry, unless they believe this country will be fully competitive in world markets.

New Zealand has no God-given right to sell pulp and paper overseas; we have to meet the market to win customers.

It's a fact of life that countries like Japan will go where the price is right.

New Zealand forests mature faster than those of our competitors. Nature has given us an advantage.

But that is not enough. Capital costs make up nearly 40 per cent of overheads for processing wood into pulp, fine paper and newsprint.

These projects would become fundamentally uneconomic unless we build them on time and within budget.

If we can't do that, we would be hanging a millstone around the neck of the industry.

New Zealand's track record in major construction projects over the years has been consistently appalling.

Almost every major project – Tasman, Forest Products, Huntly Power Station, the Clyde Dam, the BNZ Building – has been plagued by planning delays, budget overruns and industrial disputes.

The calculations on New Zealand Steel, for example, were based on a construction cost of \$1.5 million – and at that price it was economic to build the plant.

Instead we ended up with a construction bill for \$2.5 billion to \$3 billion, and a project that was not viable unless the taxpayer took over its debt.

Unless we can change that record, any investor thinking of putting billions at risk will run a mile, taking their cheque books with them.

Investors will not be interested in the forest industry unless our unions are prepared to give undertakings that the labour cost of the job will be confined within competitive limits.

We need international levels of efficiency in every area of the economy which affects the forestry industry – growing and harvesting the trees, project construction, road and rail transport, port operations and shipping.



Hon. Roger Douglas

This has been the whole point of restructuring many of the State's trading operations into modern commercial enterprises – a point some people have lost sight of.

Let's look firstly at Electricorp. When we set Electricorp up as a fully commercial corporation, some people questioned the need for a state service to become a competitive business enterprise.

But the Government recognized that unless electricity was generated at a competitive price, the growth of modern industries would be hindered.

Coal is a major raw material nowadays in the generation of electricity.

Some of our critics were appalled when Coal Corp paid off 800 people – half the staff of the old State Coal organization – in order to become more efficient. They saw it as the ruin of the coal industry.

But it didn't wreck the industry. Today, Coal Corp produces as much coal as before, with half the staff.

It can afford to sell that coal at roughly half the old price to industries such as Electricorp – and it now makes a profit as well, after years of crashing losses under the old system.

If we had continued to shelter the jobs of 800 miners, our ability to develop industries like forestry to their full potential would have been put at risk.

But even taking a narrower view, the coal industry itself is gaining from those changes.

Coal Corp's lowered costs have opened up new export opportunities. Now a Japanese firm is conducting a \$9 million feasibility study into developing a mine on the West Coast.

If this mine goes ahead, it will create 2000 extra jobs for the depressed West Coast region.

Make no mistake: this project would never have been economic before Coal Corp was restructured.

Railways is another enterprise which was suffocating businesses in this country through its gross inefficiency and overstaffing.

When we restructured Railways, there was a cost in unemployment. Staff numbers were cut from 21,000 to 12,000 – and there could be further redundancies in the future.

But the question has to be asked: How did Railways ever come to have 21,000 people in the first place?

Certainly not because Railways was offering its customers a fast efficient transport system that had people clamouring for its services.

On the contrary, the country echoed from one end to another with complaints. By granting Railways the privilege of monopoly, we had given them a free reign to charge high prices for a slow, inefficient service.

Disgruntled customers were given no opportunity to choose alternative transport, even where it was faster and cheaper. We forced farmers and manufacturers throughout the regions of New Zealand to move their goods by a slow, high-cost system to protect the interests of railwaymen.

In doing so we took away from the regions some of their natural opportunities in the markets of New Zealand and the markets of the world.

We priced them out of the job growth we could have had by giving those manufacturers and exporters a fair go. In a country 1000 miles long, it was just madness to run our transport system that way.

It has to change, and it has. Railways has risen to the challenge of a new environment. Today 97 per cent of its 1983 total net tonne kilometres of freight are being moved with 40 per cent fewer people.

Productivity has improved out of sight. Net tonne kilometres handled per staff member are up 220 per cent on 1983 levels.

A single modern wagon today carries what 10 rail wagons used to carry. Train sizes are up 45 per cent and will grow further.

And since 1983, they have cut their real freight rate per net tonne kilometre by no less than 43 per cent. Indeed, they will reduce it even further over the next couple of years.

Without those changes, rail freight rates today would have been almost 100 per cent higher than they actually are, right now.

It's not hard to imagine the impact

those costs would have had, on employment in the regions, if the Government had ignored the need for railways reform.

For the regions, Railways restructuring has not been a tragedy. It has given producers there new hope and new opportunities.

However I have to say that, compared with Railways, some other equally important areas of the transport system are still back in the dark ages.

Scandinavia ships its pulp 1300 nautical miles to Britain at a cost of \$US55 a tonne.

New Zealand ships pulp 1300 nautical miles to Australia: the cost is \$US145 per tonne. The target level we need to achieve for a competitive pulp industry in the future is about \$US35 per tonne.

Transport is costing us 65 per cent of the market value of the logs. We export logs to Japan. If that figure can be cut to 35 per cent, then we double the value of our forests.

We face those costs largely because of the inefficient restrictive manning and work practices which still persist on the wharves and in ships on runs like the trans-Tasman route.

We've got to get extra productivity into our cost structures and work practices.

Some people take that as a suggestion that working people should get lower wages. But the truth is forestry workers in Canada get paid twice what our pulp workers get.

Why? Because their extra productivity results in lower labour costs per tonne produced.

Kawerau, before its big strike, used to take six man hours to produce a tonne of pulp. In Canada the figure is two man hours per tonne.

The real key to creating new industries and jobs is productivity – and it is also the key to higher wages in the future.

Let's face it: By keeping productivity down, our pulp workers have been throwing away the chance to double their own wages!

The incessant strikes at Kawerau came close to closing down the whole town a couple of years back.

Since then, I believe a lot has been learned. People are coming to understand that nothing can be gained through wild-cat strikes in an industry which depends on continuous production processes.

But if we can't shake up some of the traditional attitudes on work practices and services, then the prospects look grim.

We won't get the investment we need in new industries. The processing plants will never be built. Our present forests will be cut down to export logs and chips at one-fifth of their real worth.

The jobs will go, not to New Zealand,

but to more efficient processing plants built overseas.

As our present forests disappear, investors will find it's not worth replanting them.

A significant part of what could have become a vast forestry industry will gradually wither up and disappear.

The choice on whether we follow this road is not up to the Government alone.

It is a choice which has to be made by construction workers, foresters, mill workers, transport staff, watersiders and seamen as well.

We have all got to face up to the reality of the task before us, roll up our sleeves and get on with the job.

Otherwise we're throwing our chances for a better future and new jobs needlessly away.

## Kaingaroo: deep in the forest

A. L. Poole

Kaingaroo loomed large during student days at the Auckland University College School of Forestry. Included in the curriculum was a period of 12 months' 'practical work'. Some of the braver souls went from Auckland's balmy climate to plant trees in Kaingaroo's August frosts. A camp on the western Reporoa slopes was one destination. Being short-term 'residents' we were allocated dirt-floor tents – no comfort of a smoky fireplace or spare bedding.

As compensation we met the legendary Roderick Macrae who supervised the planting of most of Kaingaroo. He lived with his troops at the forefront of planting, ate with them, knew all that was going on, and frequently got his Tin Liz stuck on the muddy roads.

Planting speed was the essence. These were the boom planting years. At the end of a day we didn't boast about our 1000 seedlings planted. The top men had a competition. Notes were compared at grub time and 3000 was claimed. Since such figures were unaudited one suspected that bundles of trees had been discarded under monoao bushes or elsewhere.

In 1930, being the proud possessor of a forestry degree, I looked for employment to the State Forest Service I knew. Apart from the short bursts of planting I had also had, after leaving school, a year in the great Whakarewarewa nursery – said to be the largest tree nursery in the world while Kaingaroo was being planted.

At that time, however, the future of the young Service was in doubt, and the future of young foresters in even greater doubt. But I could sow tree seed and I

could weed, and I could plant trees. So as a 'student labourer', a category paid two shillings per day below labourers' rates, I found myself in charge of labourers in the Wairapukau nursery in the centre of Kaingaroo.

There followed a deepening depression and slow recovery; then the war. All this meant forestry on a catch-as-catch-can basis. My next main involvement with Kaingaroo was in the 1950s when the Murupara Scheme was being designed and consummated. This involvement could also be described as catch-as-catch-can because the scheme was the brain-child of the then Director of Forestry, A.R. Entrican. Nevertheless, there were some very important differences expressed at the time. If they had been taken note of, and incorporated into the scheme, the recent happenings to the forestry world might have been quite different and perhaps have helped to mould a more hopeful-looking future for forestry.

By the 1950s Kaingaroo was 'packing on wood'. Its future nature and potential could be envisaged. It was certainly growing wood but there were great differences in forest quality. The early plantings in northern Kaingaroo, and those at Whakarewarewa, and Waio-tapu done by the Forestry Branch of Lands, produced good stands. Central and southern Kaingaroo showed all the defects of rapid planning and planting; poor, even wrong species and seed selection, incorrect siting, malformation and almost total lack of tending.

About that time developments set a course, various aspects of which have, in turn, affected what had happened to the management of forest land recently. Development commenced with the State mills, and with NZ Forest Products. To use the great volume of central North Island wood, spoken of colloquially as 'coming out of our ears', we had to have

The author, Lindsay Poole, was formerly Assistant Director of Forestry (1951-61) and Director General of Forests for the Forest Service (1961-71). In this article he recalls his involvement with Kaingaroo Forest and the Murupara Scheme.