The New Zealand Sawmilling Industry
-- An Overview --

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Dennis Neilson
DANA Limited
dana@dana.co.nz

The sources of material for this presentation is a DANA Review, plus mid-2010 updates.
The New Zealand sawmilling industry morphed out of the magnificent native Kauri / Rimu / Totara forests of the 19th Century.

But -- what has this got to do with the NZ sawmilling sector?

McNaughtons comet
Well, it is a night picture of Red Stag's Rotorua mill. This (then NZFS Waipa Sawmill) was the first mill built specifically to process Radiata pine. Commissioned 70 years ago, it has grown into one of the largest sawmills in New Zealand.

A new book on the history of Waipa will be available later this year. It should be a very good read --

The Cutting Edge

A History Of Waipa Sawmill
1939 - 2009

Kevin M O'Connor

Source of Dust Cover Mock-up: Tony Hadlow, Finelinecreative
The sawmilling industry has been through some turbulent times in the last 50-60 years

- Growth period 1950 - 70s
- Consolidation 1980s
- Another growth period 1990s - early 2000s
- A major mill closure period 2003 - 2008
- A renewed period of optimism from late- 2009
  - Will it last?

And changing ownership patterns

- Rise of the integrated companies: 1950s - mid- 1990s
  - Carter Holt - Buy up growth and then to CHH
  - NZ Forest Products - CHH
  - NZFS (NZFC)
  - Tasman - Fletcher

- Rise of private NZ owned sawmilling companies: 1970s - 1980s
Continued

• Rise of Overseas (Japanese, Malaysian, Australian) sawmillers in 1990s

• Decoupling of (some) integrated forest products companies with trees and sawmills
  – CHH and ex-Fletcher
  – But not some overseas companies (e.g. Ernslaw One, Juken NZ)

The 1980s split between NZ Timber Industry Federation members integrated forest & sawmill owners still (we think) weakens the industry focus

  – Unfortunate debate over log exports

  – The industry is now a diffuse collection of industry bodies
    • Timber Industry Federation
    • Wood Processors Association
    • Pine Manufacturers Association
    • Forest Owners Association
    • Farm Forestry Association

  – A contrast with the huge, focussed lobby power of farmers

  – A new attempt to get closer by some
    • e.g. Combined WPA - PMA - FOA conference in 2010
Growth In Sawn Timber Production and Exports

Production peaked in 2002, and exports "flat" since 2003

There has been a worrying reduction in sawn timber export volumes to our major partners: Australia, Japan and USA -- but China/Middle East have increased.
A major feature of the industry in the last decade has been multiple mill closures: see 2003-2009

<table>
<thead>
<tr>
<th>Mill</th>
<th>Log In CM</th>
<th>Lumber Out CM</th>
<th>Mill</th>
<th>Log In CM</th>
<th>Lumber Out CM</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBM</td>
<td>16,000</td>
<td>8,000</td>
<td>Taranaki Tongariro</td>
<td>50,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Eastfield</td>
<td>8,000</td>
<td>4,000</td>
<td>Harvey Wood</td>
<td>14,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Kaitaia Timber</td>
<td>60,000</td>
<td>30,000</td>
<td>Ashburton Timber</td>
<td>24,000</td>
<td>12,000</td>
</tr>
<tr>
<td>CHH - Kopu</td>
<td>270,000</td>
<td>130,000</td>
<td>Keighley Canterbury</td>
<td>40,000</td>
<td>22,000</td>
</tr>
<tr>
<td>CHH - Putaruru</td>
<td>360,000</td>
<td>165,000</td>
<td>Coastpine Sawmill</td>
<td>22,000</td>
<td>12,000</td>
</tr>
<tr>
<td>CHH - Tokoroa</td>
<td>240,000</td>
<td>90,000</td>
<td>Inangahua Sawmilling</td>
<td>12,000</td>
<td>7,000</td>
</tr>
<tr>
<td>CHH Rainbow Mountain</td>
<td>320,000</td>
<td>156,000</td>
<td>W Whitley and Co</td>
<td>20,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Finnsaw</td>
<td>100,000</td>
<td>48,000</td>
<td>Alan Johnston Sawmilling</td>
<td>3,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Hunters Creek</td>
<td>60,000</td>
<td>30,000</td>
<td>Blue Mountain</td>
<td>120,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Lakesawn</td>
<td>200,000</td>
<td>95,000</td>
<td>Bright Wood</td>
<td>130,000</td>
<td>65,000</td>
</tr>
<tr>
<td>Matangi Sawmills</td>
<td>20,000</td>
<td>10,000</td>
<td>Bruce Sawmilling</td>
<td>10,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Tanner Tairua</td>
<td>80,000</td>
<td>40,000</td>
<td>Central Otago Lumber</td>
<td>8,000</td>
<td>4,000</td>
</tr>
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<td>Taumarunui Sawmill</td>
<td>16,000</td>
<td>8,000</td>
<td>Naseby Lumber</td>
<td>20,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Allied Pine</td>
<td>200,000</td>
<td>105,000</td>
<td>North Otago Sawmilling</td>
<td>10,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Kaimata Sawmills</td>
<td>6,000</td>
<td>3,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,439,000</strong></td>
<td><strong>1,170,500</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

And especially the influence of CHH

<table>
<thead>
<tr>
<th>Closed Mills</th>
<th>Location</th>
<th>CM</th>
<th>CM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coromandel</td>
<td>Kopu</td>
<td>270,000</td>
<td>130,000</td>
</tr>
<tr>
<td>CNI</td>
<td>Putaruru</td>
<td>360,000</td>
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<td>240,000</td>
<td>90,000</td>
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<td>CNI</td>
<td>Rainbow Mountain</td>
<td>320,000</td>
<td>156,000</td>
</tr>
<tr>
<td><strong>Expanded Mill</strong></td>
<td><strong>Kawerau</strong></td>
<td>550,000</td>
<td>290,000</td>
</tr>
<tr>
<td><strong>Purchased Mill</strong></td>
<td><strong>Whangerei</strong></td>
<td>500,000</td>
<td>250,000</td>
</tr>
</tbody>
</table>
There has been a major shift in where radiata pine sawn timber has actually been manufactured: NZ has dropped away

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (MMCM)</th>
<th>N.Z.</th>
<th>China</th>
<th>Korea</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>6.3</td>
<td>50%</td>
<td>0%</td>
<td>18%</td>
<td>32%</td>
</tr>
<tr>
<td>2009</td>
<td>11.1</td>
<td>34%</td>
<td>22%</td>
<td>12%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: NZ TIF

So, where to from here for the NZ sawmilling industry?
I am probably the last person to ask
### DANA’s #1 choice of a sawmilling Company as a Global Benchmark of Excellence: The Plan

<table>
<thead>
<tr>
<th>Date</th>
<th>Mill</th>
<th>Capacity 000 m³</th>
<th>Log Usage 000 m³</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td>Founded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>Tyrol (Exp)</td>
<td>80,000</td>
<td>Closed 1996</td>
</tr>
<tr>
<td>1993</td>
<td>Thuringen</td>
<td>1,300</td>
<td>2,600</td>
</tr>
<tr>
<td>1998</td>
<td>Wismar</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2005</td>
<td>Sashaen</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2007</td>
<td>Lansberg</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2008 (Prop)</td>
<td>Hanover</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>Boxed Link Mill</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>5,900</strong></td>
<td><strong>10,600</strong></td>
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**Klausner Group in Germany**


In 2009, the guy basically went broke --

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**Klausner Group in Germany**

- Sold to Ilim Russia, 2010
- Sold to Ilim Russia, 2010
- Sold to Ilim, 2010 – relocate to Russia
- Sold To Sodra 2010 – relocate to Sweden
- Sold from Ilim, 2010 – relocate to Russia
Is a new Global Benchmark of Excellence emerging? Rick Doman of EACOM Timber

- In 2009, EACOM bought a closed Weyerhaeuser sawmill in Saskatchewan
- In 2010 it bought eight Domtar sawmills in Quebec and Ontario
  - C$80 million + C$46 in working capital
- EACOM has the potential of being one of the top 10-15 global lumber producers by 2012 from nothing in 2009!
- But wouldn't you just know it —
  - July 2010: “EACOM Timber suing British Columbia government claiming it has been improperly denied the wood supply needed to restart idled Big River sawmill”

D. Neilson’s superannuation: The Plan
Centralia Sawmill Company – Centralia, Washington USA
D. Neilson's Superannuation: The Cold Reality

- Dec 2006 – January 2007
  - Director/Investor "Issues"
  - US lumber market had turned from record starts to a slow down
    - All predictions were for a "minor" correction; but it turned out to be a savage, multi-year tank which continues into 2010
    - Capital was tight for upgrades to optimise production

- Directors decided to sell mill
  - US billionaire Red Emerson (Sierra Pacific) walked in off the street and made a good offer
  - Sale closed three weeks after initial verbal offer
  - Sold at a profit
  - If not sold then, would have been difficult
  - DAN spends 3 years fighting with US IRS for a withholding tax refund
    - Finally paid in May 2010

NZ Dwelling Permits: Are we at the bottom of the cycle. We hope so --
But this year dwelling permits remain subdued after a promising early trend

And still doom and gloom in USA: July 17 Report

- The Fed’s June meeting cited “significant downside risks to the outlook for real activity”

- Then came the killer blow:
  - “Most expected the convergence process to take no more than five or six years”. The reaction to this on Wall Street was generally along the lines of: “5-6 years -- Aaarrrggh!”
  - July 10 vs Nov 09 poll suggests Americans have delayed time when things come right: from 2012 to mid-2013

- Softwood lumber prices drop 9% in June, the largest monthly drop since 1980 (Forestweb 17 July)
Corollary:

We should not expect demand for NZ lumber in USA to bounce back to previous highs

546,000 CM in 2002; vs 182,000 CM in 2009: 33% of its peak anytime soon – probably never?

NZ industry is not immune to "supply elasticity"

- This supply elasticity is a bane off almost all sawmilling industries around the world

- When markets fall, shifts are closed and some mills shut

- When they improve, almost instantly shifts are re-instated and mills re-open

- This supply elasticity smashed a revival in the US lumber industry in early 2010, almost before it started

- In NZ, it only takes 3 - 4 major mills in NZ to add another part shift/shift (before a sustainable recovery) to kill snooker a revival.
Steel Framing: Should sawmillers be concerned

You had better be aware of what the opposition is up to:  http://www.zog.co.nz/about.html
See show home on Te Ngae Road

What is Golden Homes saying about steel?

1. High strength & safer
2. 100% termite, rodent, borer and dry rot-proof
3. Dimensionally stable
4. Will not twist, shrink, warp, split or rot
5. Compatible with all interior wall & ceiling linings
6. Straighter walls and squarer corners
7. Fully engineered
8. Invulnerable to insects
9. No chemical treatments
10. Resistant to mould
11. Recyclable
12. Conducts lightning to ground
13. Non-combustible
R&D and Optimising

• In the last 10 years, the forestry industry is closer to pigs/poultry than pastoral in collaborative Govt. - Industry R&D. Will this change?

• NZ mills need to upgrade to leading edge optimising equipment e.g. scanning
  – Many of those which do not may not be around for long

Source: MAF

NZ domestic sawmill log supply is so tied up to log export demand. Where to from here?
New Zealand harvest levels are due to rise, especially in CNI and Northland; but maybe only limited amounts to domestic mills? We will see
Maybe it is all about China?
Wood Markets International (July 2010)

– Wood deficit in China = major opportunities for Pac. Rim exporters:

– Big winners expected to be BC and Russian lumber, and New Zealand and West Coast North America logs

– Canada has increased lumber exports to China by almost 800% in the last four years. Why can't we?

• But, probably not meeting even cash costs in 2010; and we hear of a big drop in BC lumber price offers in July 2010

• BC along with Russia are the two lowest cost lumber suppliers to China

China continued

– Chinese softwood lumber imports should double by 2013: average prices to increase by at least 5% pa.

– Radiata pine log exports have grown by almost 400% in the last three years -- 22% of softwood log imports in 2009

• Radiata exports are forecast to increase further over the next 5 years
**In conclusion**

- The NZ sawmilling sector has recently emerged from a long & deep malaise, helped by:
  - The closure of over 30 sawmills and the loss of ~20% of productive capacity
  - A return to at least some capital expenditure by some mills
  - A bounce of NZ housing activity
  - Increasing sawn timber export demand in China and some SEA countries
  - A increasing (finally again) harvest level

- Most players are "cautiously optimistic"
Conclusions cont

- But DANA suggests the recovery is fragile, and only in balance
  - Prices in China and Middle East are reported to be dropping sharply in July

- The industry needs:
  - A sustainable housing permit/start turnaround in NZ and Australia
  - China to keep increasing radiata pine sawn timber imports
  - More "add value" exports instead of margin-killing "green industrial" grades
  - To fight the encroaching influence of steel framed houses: e.g. Golden Homes

Thank you for your attention