

## TRANS-TASMAN TRADE IN FOREST PRODUCTS IN THE FIRST FIVE YEARS OF NAFTA

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### ABSTRACT

Forest products exports from New Zealand to Australia increased in free on board value from NZ\$22.7 million to \$29.8 million in the first five years of Nafta. Sawn Douglas fir timber was the only commodity to increase markedly in trade volume, though initial failure to grade compromised these exports. Both as a proportion of total Australian forest products imports and as a proportion of New Zealand exports, New Zealand forest products exports to Australia fell. The reverse trade decreased in value. When devaluation and inflation are allowed for, the net increase in trade is negligible. Future expansion is likely to come from deals between the monopoly pulp and paper suppliers.

New Zealand would do better to develop an efficient wood growing industry rather than to rely on tariff preferences in Australia. Forest processing industries should be exposed to world competition as the best incentive for achieving greater efficiency.

### INTRODUCTION

The New Zealand-Australia Free Trade Agreement—Nafta—(Commonwealth of Australia, 1965) has been in operation since 1 January 1966. Details of forest products trade and production up to 1965-6 have been published (Fenton, 1968) and the Agreement's potential analysed in that and other papers (Travers, 1967; Williams, 1968). Forest products were generally supposed to offer the best prospects for expanded New Zealand exports ". . . [by] judging the treatment of forest products by Australia as a crucial test case, an indication of how serious Australia really is about closer trade relations" (Lipski, 1965). This paper examines what has subsequently happened to the forest products trade up to 1971.

The "test case" was rendered even more critical by a drop in New Zealand's agricultural export prices in 1967; in 1967-8 ". . . [New Zealand was] emerging from the worst economic crisis since the war" (Muldoon, 1968), and increased export income was vitally needed. The crisis was followed by a 19.45% devaluation which resulted in parity between the New Zealand and Australian dollar; this should have favoured New Zealand exports. A third macro-economic influence on the trade has been the accelerated inflation in both countries since 1967.

The values for all trans-Tasman trade since 1964-5 are given on a free on board

(f.o.b.) or current domestic value in country of origin (c.d.v.) basis in Table 1; these data show that while New Zealand exports have doubled in value the deficit with Australia has now reached record levels.

TABLE 1—Values of Total Trans-Tasman Trade  
(A\$000, f.o.b. or c.d.v.)

Year	N.Z. exports to Australia		Australian exports to N.Z.	
	Value	% Australian Imports	Value	% Australian Exports
1964/5	46,541	1.6	158,302	6.0
1965/6	46,859	1.6	171,277	6.3
1966/7	47,274	1.6	177,352	5.9
1967/8	61,648	1.9	155,579	5.1
1968/9	74,734	2.2	158,846	4.7
1969/70	86,435	2.2	198,872	4.8
1970/1	95,240	2.3	232,231	5.3

Overseas Trade, 1964-71.

Finding the real cost, on a cost, insurance, and freight (c.i.f.) basis, is difficult (Fenton, 1968), because import data for c.i.f. values are not readily available for either country.

#### AUSTRALASIAN FOREST PRODUCTS TRADE 1966-70

Summarised data on the value of Australian forest products imports from New Zealand are given in Table 2. The use of a c.d.v. basis evidently inflates the apparent costs of some imports. Subdivisions of Australian forest products imports which are important to New Zealand are given in Tables 4 and 5.

The volumes and values of New Zealand forest products imports by categories, and Australia's share in supplying them, are given in Table 6. Forest products exports from New Zealand to Australia increased in value from A\$22.7 million to A\$29.8 million from 1965-70 (Table 3)—A\$27.0 million to A\$29.7 million on a c.d.v. basis (Table 2). Corresponding figures for Australian exports to New Zealand were A\$3.6 million and A\$3.0 million. If inflation is allowed for, these are very modest differences in total value, and it is necessary to check if prices declined and the volume of trade altered.

The volumes and unit values of major Australian imports of forest products from New Zealand are given in Table 7. The major forest products exports from New Zealand to Australia continue to be newsprint, unbleached sulphate pulp, and rough-sawn timber. These were duty free before Nafta, apart from a tariff imposed—almost inadvertently—on rough-sawn Douglas fir (*Pseudotsuga menziesii* Mirb. Franco) timber. Hence price and value changes in these products do not directly reflect Nafta effects. Generally, New Zealand wood-based exports to Australia have grown slowly; have only recently broadened to include a wider variety of products; have fallen in relative terms as a percentage of total exports to Australia, and did little to ease the crisis of 1967. Judging by the newsprint prices per ton, devaluation must have been a great relief. There has, however, been an increase in Douglas fir timber sales and pulp sales.

TABLE 2—Values of Trans-Tasman Forest Products Trade—Australian Data  
(A\$000, f.o.b. or c.d.v.)

Year	N.Z. exports to Australia					Australian exports to N.Z.				
	Division No.: 24	25	63	64	Total	Division No.: 24	25	63	64	Total
1935/6	2,219	6,291	1	18,496	27,007	1,703	—	353	1,554	3,610
1936/7	2,310	6,687	31	16,043	25,071	1,803	—	518	1,421	3,742
1967/8	3,323	5,671	186	18,773	27,953	1,081	2	401	1,218	2,702
1968/9	5,405	5,881	445	17,119	28,850	924	9	453	1,338	2,729
1969/70	5,767	6,423	540	17,002	29,732	982	—	567	1,427	2,976
1970/71	4,997	7,969	413	17,556	30,935	1,094	8	706	1,755	3,563

Division No.: 24 = Wood, timber, and cork; 25 = Pulp and waste paper; 63 = Wood and cork manufactures (except furniture);  
64 = Paper, paperboard, and manufactures thereof.

Overseas Trade, 1967-8; 1970-1.

TABLE 3—Values of Trans-Tasman Forest Products Trade—New Zealand Data  
(A\$000)

Year	N.Z. exports to Australia f.o.b. <sup>(1)</sup>					Australian exports to N.Z. c.d.v.			
	Sawn timber, Logs and poles	Wood Pulp	Paper and Paperboard	Other	Total	All Timber	Pulp and Paper	Other	Total
1965/6	2,149	6,049	14,406	122	22,726	1,730	1,574	626	3,930
1966/7	2,125	6,137	12,351	312	20,925	1,753	1,322	672	3,747
1967/8	3,234	5,373	17,097	690	26,394	1,030	1,177	574	2,781
1968/9	5,319	5,589	16,350	1,539	28,797	907	1,352	621	2,880
1969/70	5,561	6,244	16,350	1,665	29,820	1,029	1,434	810	3,273

(1) Values in NZ\$ have been multiplied by 1.2 up to 1967 and by 1.075 for 1967/8 (devaluation was in November 1967)  
Yska, 1970

TABLE 4—Values of Australian Forest Products Imports<sup>(1)</sup>  
(A\$000 f.o.b. or c.d.v.)

	1935-36	1936-67	1937-68	1968-69	1969-70	1970-71
Logs and poles		2,896	3,695	3,323	3,671	3,165
Sawn timber:						
Douglas fir	16,860	16,366	16,104	21,785	21,479	19,970
Radiata pine	1,955	2,004	1,868	2,108	2,213	2,423
Malayan hardwoods	6,095	5,322	8,994	7,964	9,810	10,252
Total sawn timber <sup>(2)</sup>	32,026	31,674	37,398	43,965	49,094	49,186
Pulp and waste paper	26,249	26,396	25,145	26,410	36,550	38,448
Newsprint	37,681	37,057	39,143	36,502	34,518	37,278
Veneers and reconstituted wood		6,357	7,777	8,581	9,024	10,333
Total all pulp and paper <sup>(2)</sup>	109,948	114,734	118,499	126,099	144,349	158,506
Wood manufactures (excl. furniture)		2,725	3,722	4,419	4,967	5,274
Paper and paperboard		79,848	84,760	90,107	97,952	109,059
Paper manufactures		8,490	8,594	9,582	9,847	10,999
Totals <sup>(3)</sup>		159,905	172,925	188,041	212,799	228,556
Totals <sup>(4)</sup>		192,002	208,472	234,927	266,568	228,556 <sup>(5)</sup>
Totals ex New Zealand <sup>(2)</sup>		25,071	27,953	28,850	29,732	30,935
% ex New Zealand <sup>(2)</sup>		15.7	16.2	15.3	14.0	13.5

(1) Categories from Overseas Trade 1966-71.

(2) Totals include categories not specified here.

(3) Totals by adding categories 242, 243, 244, 251, 631, 632, 633, 641 and 642 ex "Overseas Trade".

(4) From Forestry and Timber Bureau, 1966-71 (c.i.f. values).

(5) From Overseas Trade, 1970-71 (f.o.b. value). Totals include products not itemised above.

TABLE 5—Australian Forest Products Imports by Values, 1970-71<sup>(1)</sup>

Commodity	Total forest imports		New Zealand component	
	Value A\$000	% <sup>(2)</sup>	Value A\$000	% <sup>(3)</sup>
Timber (Commodity 243)				
Douglas fir	19,970	9	1,434	7
Radiata pine	2,423	1	2,380	98
Malayan hardwoods	10,252	4	—	—
All timber <sup>(4)</sup>	49,186	22	4,997	10
Pulp (Commodity 251)				
Unbleached sulphate	10,456	5	6,848	65
Bleached sulphate	15,552	7	547	4
All pulp <sup>(4)</sup>	38,448	17	7,969	21
Paper (Commodity 641)				
Newsprint (sheets and rolls)	37,278	16	14,310	33
All paper <sup>(4)</sup>	109,059	48	16,457	15
Paper manufactures (Commodity 642)	10,999	5	1,099	10
TOTAL FOREST PRODUCTS <sup>(5)</sup>	226,464		30,935	13.5

(1) Overseas Trade, 1971 (f.o.b. or c.d.v.)

(2) Percentage of imports of the Australian forest products listed

(3) Percentage of category originating from New Zealand

(4) Totals include other categories not given in detail here

(5) Commodity classification nos. 242, 243, 251; 631, 632, 641, 642.

TABLE 6—New Zealand Imports of Forest Produce

Year <sup>(1)</sup>	Sawn Timber				Paper and paperboard				Miscellaneous <sup>(6)</sup>		Total	
	Volume		Value		Volume		Value		Value		Value <sup>(7)</sup>	
	(2)		(3)		(4)		(3)	(5)	(3)		(3)	
	A	All	A	All	A	All	A	All	A	All	A	All
1966	37.5	118.0	1.4	4.3	4.0	29.6	1.3	9.9	0.5	2.9	3.2	17.9
1967	33.3	103.1	1.3	3.9	3.3	24.2	1.1	8.9	0.6	3.1	3.2	16.5
1968	21.0	55.0	1.0	2.3	3.0	23.0	1.1	7.5	0.5	2.8	2.6	14.0
1969	15.8	50.0	0.9	2.7	3.0	22.6	1.4	9.8	0.6	3.2	2.9	16.0
1970	18.6	65.4	1.0	4.3	3.1	24.2	1.4	11.3	0.8	4.1	3.2	20.2

A = Australian origin

All = From all sources

(1) Year ending 30/6

(2) Volume in 000 m<sup>3</sup>

(3) Values in NZ\$ million c.d.v.

(4) Volumes in 000 metric tons

(5) Values include pulp

(6) Includes panel products, all wood and paper manufactures

(7) Totals include further categories

Yska, 1970

TABLE 7—Volumes and unit values of Australian forest products imports from New Zealand

Year	Radiata pine <sup>(1)</sup>		Douglas fir <sup>(2)</sup>		Major pulp categories <sup>(1)</sup>	Unbleached sulphate pulp <sup>(1)</sup>	Newsprint	
	Volume	Unit value	Volume	Unit value			Volume <sup>(1)</sup>	Unit value
	000 m <sup>3</sup>	A\$/m <sup>3</sup>	000 m <sup>3</sup>	A\$/m <sup>3</sup>			000 tonnes	A\$/tonne
					Volume	Unit value	Volume <sup>(1)</sup>	Unit value
					000 tonnes	A\$/tonne	000 tonnes	A\$/tonne
							FOB <sup>(2)</sup>	CDV <sup>(1)</sup>
1965-66	61.2	31.78	4.6	38.98	57.5	109.7	112.6	127.3 166.3
1966-67	62.6	31.78	5.3	40.68	63.3	111.5	96.5	126.4 166.1
1967-68	58.6	31.78	20.9	44.91	57.6	95.5	122.7	136.9 151.4
1968-69	69.3	30.51	47.0	46.61	64.3	92.0	121.8	138.9 135.1
1969-70	70.0	33.05	48.4	49.15	65.1	96.1	118.7	135.2 134.1
1970-71	69.6	34.32	29.6	47.88	73.0	103.3	111.4	133.0 132.5

(1) From Overseas Trade, 1966-71 (year ending 30 June)

(2) From New Zealand Forest Service, 1972. Values based on a calendar year (not altered for devaluation in mid-November of 1967 for the 1967-68 data).

Corresponding Australian forest product exports, when corrected for devaluation and inflation, have decreased since Nafta.

### AUSTRALASIAN PRODUCTION AND CONSUMPTION

Australasian production of major forest products, and total consumption are given in Table 8. The figures show some increase in the gap between production and consumption in Australia, hence greater imports. They also show a formidable increase in the production surplus in New Zealand, hence greater exports. The two trends have, however, been largely independent of each other; the very modest difference in trade following Nafta is less than the general trend in forest products production and consumption would suggest. It is necessary to study specific end uses in forest products to see where trade has, or could be, improved, and to explain the poor results from Nafta.

TABLE 8—Scale of Forest Production in Australasia

Product	New Zealand					Australia			
	Year ending 31/3					Year ending not specified (30/6?)			
	1937	1968	1969	1970	1971	1967	1933	1939	1970
Sawn timber <sup>(1)</sup>									
Hardwoods	0.08	0.05	0.06	0.06	0.05	2.45	2.51	2.45	2.43
Softwoods	1.67	1.54	1.67	1.75	1.80	0.77	0.74	0.72	0.75
Plywood <sup>(2)</sup>	5.4	4.0	4.7	5.1	N.A.	18.6	21.3	20.2	22.2
Pulp <sup>(3)</sup>	436	481	494	561	576	365	373	409	497
Paper <sup>(3)</sup>									
Newsprint	187	199	203	207	214	99	94	126	174
Paperboard	173	179	193	239	243	334	339	347	394
Other paper						357	390	447	477
Log exports <sup>(1)</sup>	0.5	1.1	1.4	1.8	1.9		Negligible		
Chip exports <sup>(5)</sup>	—	—	—	34	71	—	—	—	0 <sup>(4)</sup>
Total Roundwood Equivalent <sup>(1)</sup>									
Produced	6.0	6.3	6.9	7.8	8.2	11.3	11.4	11.5	11.6
Consumed	5.0	4.4	4.4	5.0	N.A.	15.0	15.5	15.8	16.1

(1) In million m<sup>3</sup>

(2) In million m<sup>2</sup>

(3) In 000 m tons

(4) Beginning 1971

(5) In 000 m tons of oven-dry wood

N.A. = not available.

New Zealand Forest Service, 1968-72

Forestry and Timber Bureau, 1937-70

Yska, 1970

### THE NEW ZEALAND MARKET

The depression of 1967 reduced New Zealand consumption, which was reflected in lower domestic production of sawn timber and of plywood (Table 8). Pulp and paper production, however, continued to increase. The sawn hardwoods Australia has available for sale were freed from New Zealand import control in 1966 but so far have failed to establish themselves (for example, as flooring timbers). This is not due to any lack of quality but, it is surmised, to their price in the face of intensified domestic competition

on a falling market, the substitution of particle board, and the increasing use of concrete floors. The plywood industry in both countries consists largely of small old plants and both have very low per capita usages of ply. Particle board production (Table 9) increased rapidly in both countries, but there was little mutual trade.

TABLE 9—Fibre- and Particle-board Production in Australasia

Year	Fibre board					Particle board	
	Australia				New Zealand	Australia	New Zealand
	Hard		Soft		Hard and Soft		
	million m <sup>2</sup>	000 m tons	million m <sup>2</sup>	000 m tons	000 m tons	million m <sup>2</sup>	million m <sup>2</sup>
1966	33.5	151	2.0	7	35	7.1	0.7
1967	32.7	147	1.9	6	34	8.6	0.8
1968	31.2	140	1.6	5	34	10.7	0.8
1969	31.8	143	2.0	7	39	12.5	1.2
1970	33.2	149	2.4	8	40	13.9	2.0

Forestry and Timber Bureau, 1967-70

New Zealand Forest Service, 1971

Yska, 1970

The main components of New Zealand's forest products imports are specialist papers; in 1970-71 the United States (26%) supplanted the United Kingdom (23%) as the main supplier. Australia (16½%) is the third biggest supplier (New Zealand Forest Service, 1972). Eventually Australia may gain more of this market as production becomes more sophisticated; current exports already cover more than 15 types of paper. There are medium-term plans to give preference to Australian hardwood pulps (over Scandinavian imports), and these categories are probably among the best prospects for Australian exports. They rely on the cost of exploitation, not the cost of producing the forest.

It is thought that the inclusion of Papua-New Guinea (PNG) into the Agreement would not greatly help forest products exports from the new country. Article 13 of Nafta allows "[extension] to the association with this agreement of any territory for the international relations of which one of the member states is responsible", and Australia extends a duty free preference on PNG timber, while maintaining substantial tariffs on, for example, Malaysian hardwoods. It seems a safe inference that, in the future, these could influence some New Zealand forest exports, as PNG forest industries develop. Some specialist cabinet timbers will find a market in New Zealand, but these are saleable elsewhere in the world. The general run of medium-density hardwoods are sawn at high cost in PNG and, although many are useful timbers, they appear to have no complementary advantage on the small New Zealand hardwood market. If the developments planned in PNG occur, decorative veneer may be available in the next 5 years and a market could be developed for these. A decorative face on a radiata pine (*Pinus radiata* D. Don) core or onto particle board would be saleable in a wood-orientated country such as New Zealand. The bulk of the species (mixed tropical hardwoods) will be used eventually,

but New Zealand is unlikely to be a buyer of logs and/or chips as the local industry does not demonstrate any competitive edge in primary processing. Sales of kauri (*Agathis* spp.) may be feasible, as the reputation of this genus is still undimmed in New Zealand. But such quality softwoods, again, are saleable elsewhere.

### THE AUSTRALIAN MARKET

Australian forest products consumption and production by round produce equivalent (RPE) are given in Table 10; there is variation, but little increase in total production, and about a 4% rise in consumption to bring the RPE deficit for all products to 4.5 million m<sup>3</sup> in 1970.

TABLE 10—Australian Production and Consumption of Major Forest Products by Roundwood Equivalent

Year	Sawlogs				Pulp and Paper			
	Production Volume <sup>(1)</sup>	% <sup>(2)</sup>	Consumption Volume <sup>(1)</sup>	% <sup>(2)</sup>	Production Volume <sup>(1)</sup>	% <sup>(2)</sup>	Consumption Volume <sup>(1)</sup>	% <sup>(2)</sup>
1966	8.35	71	9.74	63	1.53	13	3.42	22
1967	8.21	72	9.59	64	1.47	13	3.34	22
1968	8.26	72	9.82	63	1.53	13	3.45	22
1969	8.15	71	9.82	62	1.83	16	3.79	24
1970 <sup>(3)</sup>	8.09	70	9.74	61	1.98	17	4.13	26

(1) Million m<sup>3</sup>

From Forestry and Timber Bureau, 1936-70 (Tables 6; 25)

(2) Percentages are of total roundwood equivalent of all products

(3) Provisional

The Australian sawnwood market consistently imports over 0.8 million m<sup>3</sup> annually. New Zealand's share has increased since 1965, due partly to small volumes of indigenous species but mainly to increased sales of Douglas fir. The Douglas fir trade up to 1965, and its silvicultural and management background, has been analysed (Fenton, 1967). Exports to Australia are given in Table 11. The increased New Zealand exports were

TABLE 11—Australian Imports of Douglas Fir Sawn Timber

Year	Volumes 000 m <sup>3</sup>			Values A\$ million			Value per m <sup>3</sup> <sup>(1)</sup> \$A		
	Canada	New Zealand	USA	Canada	New Zealand	USA	Canada	New Zealand	USA
1965/6	244	5	170	9.23	0.18	7.45	37.8	39.0	43.8
1966/7	232	5	181	8.47	0.21	7.68	36.6	40.7	42.4
1967/8	207	21	176	7.59	0.94	7.57	36.6	44.9	43.0
1968/9	252	47	162	11.52	2.19	8.08	45.8	46.6	50.0
1969/70	197	48	144	10.05	2.37	9.06	50.9	49.1	62.7
1970/1	181	30	205	8.01	1.43	10.52	44.4	47.9	51.2

(1) Unit values based on more detailed figures



a concern to Australian millers (Anon., 1968) and the apparently unexpected greater volume available for export was explained (Mason, 1968). It is notable that an increase in trade should require an explanation from the N.Z. Sawmillers' Federation. If clear-felling, instead of thinning, starts in Douglas fir stands greater volumes should soon be available for export. The drop in sales in 1971 was possibly caused by a reaction against variable quality. One Australian opinion charitably ascribed this to cuttings from "immature forest" (Anon., 1971a), but accurate warnings were made earlier in New Zealand: "A minimum quality standard for Douglas fir must be established soon, failing which Government action could be expected to protect the future of the trade" (MacIntyre, 1968); and again ". . . there is an urgent need to police yourselves, particularly in the quantity and quality of exports . . . and to find a brand that carries a guarantee" (MacIntyre, 1969). New Zealand Douglas fir sales now have to recapitulate the earlier lessons of radiata pine sales, to re-establish a reputation tarnished by initial failure to grade. This failure was due to the technical ignorance of the managements concerned; a quick and transitory profit was preferred to the production problems involved in quitting stocks of low grade Douglas fir timber labelled as such. Anti-sapstain dipping was to be applied to all Douglas fir export timber from November 1970 and was made obligatory in May 1971. The trade introduced grading for export timber in March/April 1970; domestic sales of Douglas fir are still (March 1971) ungraded.

Sales of radiata pine to Australia failed to grow and did not recover to the levels of the 1950s. They now comprise less than 6% of the New Zealand pine cut. Industry is apparently unable or unwilling to supply, at a competitive price, the seasoned framing or clear-cuttings potentially available in their current log supply. This is despite a large domestic timber market as a base; utilisation with some degree of integration with pulp plants; and large-scale sawmills and kiln-drying capacity.

Newsprint sales are difficult to compare with those of earlier periods as increases in capacity depend largely on individual machine installation; the last New Zealand machine came into production in 1963. The immediate result of the initial Nafta agreement was, it is contended, a drop in the potential export of newsprint. The Tasman Pulp and Paper Company announced plans for diversification into kraft liner board paper, which were later rescinded when the Australian Paper Manufacturers Ltd countered with statements that they would then stop buying Tasman's pulp (Larsen, 1967). The large wood volume available for Tasman was not utilised, and now (1972) a further newsprint machine is being planned over 5 years after the abortive plans to move into liner board. Technically the raw material available, which is now another 12% older, is less suitable for groundwood than for kraft type papers. New Zealand supplied little more newsprint physically, and less in relation to other suppliers, than before Nafta was signed.

Kraft pulp prices dropped in 1967, but both export volumes and unit values increased in 1971 (Table 7). They were largely duty free to start with, and few other pulp categories are exported.

Pulp and paper exports are now a matter of negotiation between the respective monopoly producers in each country, and a number of agreements have been announced which should result in increased trade after 1971. The opinion: "trade in forest

produce . . . is more likely to develop gradually by the individual negotiations of private enterprise than by a grandiose free trade agreement . . . that provokes suspicion" (Larsen, 1967) has been vindicated for Australasian pulp and paper where "private enterprise" is heavily protected, supplied with cheap raw material, and naturally prefers an undisturbed monopoly position. It contrasts with private enterprise in, for example, the United Kingdom paper industry where Scandinavian competition is rampant and where ". . . in recent months 9,000 workers have lost their jobs in the British paper industry . . . much of the shake-out no doubt represents long overdue rationalisation" (Anon., 1971b). The lack of growth in trade was forecast earlier ". . . the F.T.A. . . . indicates . . . little change in the status quo. . . . There is still no real foundation for a free trade agreement between countries with competitive exports unless far more draconian legislation is passed. There is no counterpart of the E.F.T.A. demolition of tariffs on forest products . . . which has had a considerable impact on the previously protected United Kingdom paper industry" (Fenton, 1968). There is no doubt that the method adopted to gradually increase trade will be pragmatic private agreement rather than opening up competition.

## DISCUSSION

As expected, Nafta has resulted in little increase in trans-Tasman forest products trade. At the same time total New Zealand forest products exports increased due to a tripling of log exports to Japan (Table 12). Hence, there was plenty of raw material available but the New Zealand industry was not capable of processing it for profitable export.

Trans-Tasman freight rates for sawn timber have increased by  $6\frac{1}{4}\%$  p.a. in the last decade, which is above the  $4\frac{3}{4}\%$  p.a. average rate of inflation in New Zealand. Freight is a complex subject, depending on the volume per shipment, packaging, port facilities, and methods. It can be said, however, that freight rates on trans-Tasman timber are now \$22.45/m<sup>3</sup> for most packaged timber. It is cheaper to ship timber to Japan;

TABLE 12—New Zealand Exports of Forest Products by Round-Produce Equivalent Volume and Value

Year	Logs and poles		Sawnwood		Chemical pulp		Newsprint	
	RPE	Value <sup>(1)</sup>	RPE	Value <sup>(1)</sup>	RPE	Value <sup>(1)</sup>	RPE	Value <sup>(1)</sup>
1966	538	8.8	181	11.4	346	17.8	362	31.7
1967	796	8.9	224	11.8	340	17.4	354	34.1
1968	1441	11.4	515	14.3	433	15.8	388	41.5
1969	1671	13.5	603	14.7	368	18.3	388	40.6
1970	1821	13.6	640	16.7	447	20.4	382	40.0

RPE = Round produce equivalent in 000 m<sup>3</sup>

(1) NZ\$ (f.o.b.) per m<sup>3</sup> RPE

New Zealand Forest Service, 1972

Yska, 1970

geographical proximity counts for little. The phasing out, under the Nafta agreement, of duties on timber processing will be complete by 1974 and may increase the supply of dressed timber; the private agreement between the pulp and paper companies will increase sales of waxing and other speciality papers; Tasman's third newsprint machine will be on stream before 1976 and so the volume and value of future trade is likely to increase. But this will have little to do with Nafta.

New Zealand must continue to trade to maintain living standards, and the forest industries need to demonstrate a real comparative advantage on world markets. They show little indication of more efficient processing at present, and rely on cheap raw material and protected local markets for their existence. Forestry based on artificial plantations is too expensive an investment to allow for "further processing" to be advocated mindlessly; at the minimum it should be based on a demonstration of an acceptable level of profit in both growing and processing the trees. Future policy should be directed to exposing the industries to competition, as this is the most direct incentive to become efficient. Export income can be sustained, as far as forest products are concerned, by the perpetuation of the log trade, producing high quality logs comparable to those being imported from North America and increasing the "value added" if necessary (the value being added by pruning).

As for Nafta, Australian plans for self-sufficiency in forest products proceeded simultaneously with the Nafta negotiations. The record of the first five years, especially 1967, shows it to have been an ineffective agreement as far as forest products are concerned, but until a real basis for competitive production is achieved in New Zealand there is no economic reason to complacently hope Australia is going to buy New Zealand products. There will probably be political reasons, especially as New Zealand will, inevitably, be making a trade agreement with Japan in the next 5-7 years.

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