

Tabled at Hearing 12/03/2013

BEFORE THE INDEPENDENT HEARING COMMISSIONERS

IN THE MATTER of the Resource Management Act 1991 ('the Act')
AND
IN THE MATTER of the Proposed Canterbury Land and Water Regional Plan
BETWEEN **RAYONIER NEW ZEALAND LTD**
Submitter
A N D **CANTERBURY REGIONAL COUNCIL**
Local Authority

EVIDENCE OF PAUL GILLETT ON BEHALF OF RAYONIER NEW ZEALAND LTD

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INTRODUCTION

- 1 My full name is Paul Roger Murray Gillett. I am the CEO of SRS New Zealand Limited (SRS). I present this evidence in support of the submission filed by Rayonier New Zealand Limited. SRS also filed its own submission on the proposed Land and Water Regional Plan (pLWRP).
- 2 I grew up on my parent's dairy farm in Marlborough. In addition to the dairy herd, we also had pigs, sheep and forestry (a number of Pinus Radiata forestry blocks). I completed a B.Com at Lincoln University majoring in farm management and valuation.
- 3 Immediately on completion of my degree I commenced employment for the Bank of New Zealand in Corporate and Business Banking. In my roles, I was focused on servicing the needs of the bank's largest business customers in the South Island with the key component being lending and risk management. After 16 years with the Bank of New Zealand in February 2003 I commenced employment with SRS.

SCOPE OF EVIDENCE

- 4 In my evidence I will address the following issues:
 - (a) SRS business operations;
 - (b) Importance of continuity of log supply;
 - (c) Canterbury Wood Processing Industry;
 - (d) pLWRP discourages Plantation forestry; and
 - (e) Benefits of Plantation forestry

SRS BUSINESS OPERATIONS

- 5 SRS is the largest wood processor in the Canterbury Region. SRS owns and operates a state of the art sawmill in Rolleston, Canterbury. In addition the business has three other branches in the South Island and one in the North Island.
- 6 I provide the following information about SRS Business operations:
 - (a) As at February 2013 SRS employs in excess of 200 staff. There is a seasonal element to our business therefore some of these staff are temps.
 - (b) The SRS sawmill at Rolleston on one shift currently produces approximately 80,000m³ per annum of sawn timber. We process only plantation grown Pinus Radiata. The replacement cost of the SRS sawmill is in excess of \$50 million.

- (c) Over the last 4 years we have exported well over 60% of our annual production predominately to Asia. We have established and maintained these overseas customers for over 10 years.
- (d) The timber that SRS does not export is further processed and manufactured into a pallet, bin or cable drum. SRS has many domestic customers in a range of different industries including for food, dairy, manufacturing, cropping, cable manufacture, construction etc.
- (e) SRS total sales in the year ending 31 March 2012 were in excess of \$50 million.

IMPORTANCE OF CONTINUITY OF LOG SUPPLY FOR SRS

- 7 The raw material for our business is plantation grown Pinus Radiata logs. Continuity of log supply is absolutely critical to the on-going success and indeed survival of SRS. To be competitive domestically and internationally SRS needs scale and needs to source these logs from Canterbury. It is simply uneconomic to source logs from outside our province as transport costs are too great.
- 8 At times SRS does purchase small volumes of logs from the West Coast but this is marginal supply for SRS and a low contribution grade for the West Coast forest owner.

CANTERBURY WOOD PROCESSING INDUSTRY

- 9 New Zealand has approximately 1.79 million hectares of net stocked forest area. Canterbury has 114,000 hectares, being only 6.4% of the national total¹. The Canterbury industry may be relatively small by net stocked area; however it is well serviced by local processors and therefore from a forest owner's perspective is an excellent region for selling logs.
- 9.1 Direct employment in Canterbury by forestry and first stage processing as at February 2006 was 1,321 full time equivalents². Canterbury has seven sawmills (each with annual production over 10,000m³ sawn timber) and one MDF plant.
- 9.2 The plantation forest industry is now moving through a period of land use change on the Canterbury Plains with about 5,000 hectares having been converted to pastoral agriculture or sub-divided in the three years to 2007 and another 9,000 hectares across the region having been identified for conversion in the coming years³. I do not have up to date figures on actual land conversion since 2007, I can however comment that significant areas of Balmoral Forest, Eyrewell Forest and most of the Selwyn Plantation Board Ltd plains forests have already been converted to pastoral farming.

¹ New Zealand Forestry Industry Facts and Figures 2008/2009

² MAF (now MPI) Canterbury wood availability forecasts for the period 2007 – 2040

³ MAF (now MPI) Canterbury wood availability forecasts for the period 2007 – 2040

- 9.3 I quote a section from MAF (now MPI) Canterbury wood availability forecasts for the period 2007 – 2040 (relevant extract attached as Appendix 1):

"The future development of the plantation forest industry is uncertain because of deforestation on the Canterbury Plains, and also because regional and district planning provisions potentially restrict forest establishment in water-short catchments and aim to protect outstanding landscapes. These provisions cover extensive areas of the hill and high-country land that is generally regarded as the most suitable land in the region for plantation forestry."

- 9.4 This land change means it is essential for the long term growth of SRS that establishment of new forests in Canterbury occur. Without new plantings SRS will be unable to secure enough resource to grow and remain internationally competitive. In my view, due to the limited amount of net stocked area in the region, Canterbury Wood Processors and SRS is particular are vulnerable to any additional RMA regulation that would constrain or limit the establishment of new plantation forests or otherwise make it more difficult for forest owners to operate in Canterbury.

PLWRP DISCOURAGES PLANTATION FORESTRY

- 10 In SRS's submission, I listed the reasons why I believe the pLWRP actively discourages forestry, and recommended relief. This is also discussed in Mr Meredith's evidence and Mr Boyes' evidence presents the relief sought by Rayonier.
- 11 My concern is that without substantial amendment the pLWRP will result in no new forest establishment in Canterbury in the foreseeable future. These proposed rules will make it uneconomic to conduct forestry in Canterbury, and it may result in many forest blocks post-harvest not being replanted. I believe it will in time result in the decay and decline of the forestry industry in Canterbury.
- 12 Therefore, I question on what research ECan has based the proposed plan, when there is such a vast range of literature supporting the benefits from plantation forestry and associated activities such as wood processing.

BENEFITS OF PLANTATION FORESTRY

- 13 Plantation forestry provides many benefits regionally and at a national level, I will discuss these in turn.
- 14 Plantation forestry assists with erosion control and land stabilisation, catchment runoff and moderation of peak flood flows, water quality, maintenance of biodiversity, it will consume and store carbon and will likely improve the aesthetic appeal of the region.

Regional Benefits

- 15 I firmly believe that a diverse range of activities should be encouraged within a geographic area. One only has to do case studies of other areas of the world where at times certain locations have become mono cultures. For example, in areas of

Australia intensive cropping and irrigation have lead to the land becoming salt laden and totally unsuitable for arable farming (for example, Murray-Darling Basin).

16 Furthermore, I consider the highest and best use of much of the Canterbury foothills and Banks Peninsula is indeed plantation forestry. Based on my experience in Canterbury, the forestry sector and my personal background and knowledge of the farming sector, I consider that plantation forestry, if well managed will provide better economic returns than other forms of farming.

16.1 In a recent article, "Canterbury's Rivers: How low can they go"⁴, this quote is of particular relevance to the reasoning behind the pLWRP:

"Until recently, Canterbury's waterways were in excellent health, with few exceptions. However, Canterbury's freshwater has deteriorated badly over the past two decades. It is no coincident that the decline has come at the same time as intensive irrigated farming, which has capitalised on the dairying boom. The national dairy herd is now six million, with two million dairy cows in the South Island. Canterbury's dairy herd is increasing at the fastest rate. High-input dairy farms use more fertiliser, and New Zealand's use of nitrogen fertiliser (urea) has increased by 800 per cent in the past 20 years. Urea dissolves in water and gets into streams and springs. Nitrates are toxic to juvenile fish, and they fertilise algae. Which clog up waterways and, when they die, can deprive fish of oxygen. Manure from dairy cows adds even more nitrogen to the land – about five times the amount from nitrogen fertilisers. When the nitrogen from that manure reaches a waterway – which can take years – it too can lead to algal blooms. It's no surprise that throughout Canterbury signs beside lowland rivers warn people not to swim."

16.2 This is indeed concerning. Well managed forestry has none of these adverse effects. Forestry has become an established industry in Canterbury since the first recorded introduction of radiata pine to New Zealand at Mt Peel Station in South Canterbury in 1859. Since 1997, new plantings have reduced and since 2006 deforestation has occurred. Might it be that forestry has a positive impact on water quality?

16.3 Consequently, over recent years Canterbury has experienced significant growth in a land use activity which causes declining water quality whilst over the same period afforestation, which improves water quality has reduced. I support steps to better manage changing activities however I also consider that these should be implemented by a planning framework that supports and encourages plantation forestry.

National Benefits - economic

17 For the year ending 30/9/2010, the total value of forestry exports from New Zealand was \$4.0 billion (sawn timber, logs, panel, and pulp and paper).

⁴ Forest and Bird, "Giving Nature a Voice" magazine, February 2013, Issue 347, page 16.

- 18 There is a widely held view within the forestry industry that if it was more integrated and all forest production was further processed within New Zealand prior to export rather than being exported in log form, the New Zealand Forestry Industry would earn more export dollars than the New Zealand Dairy Industry. I support this view.
- 19 Additionally, it is a relatively basic economic principle that further processing a raw material into a useable product prior to export will add approximately 6 times economic value to the domestic economy over and above just exporting that raw material.

National Benefits – Climate Change & Afforestation Grant Scheme

- 19.1 The New Zealand Climate Change Accord 2007, acknowledged, among other things:
- (a) The environmental benefits delivered by indigenous and plantation forests;
 - (b) That carbon sequestration by forests is a key mechanism to offset greenhouse gas emissions; and
 - (c) That policies must be consistent with the Polluter Pays Principle, be broad based and cover all greenhouse gases in all sectors, should avoid net increases in greenhouse gases, should promote the retention and expansion of indigenous forests and the replanting and expansion of plantation forests.
- 20 The Afforestation Grant Scheme (AGS) is a forestry scheme that encourages greater levels of greenhouse gas absorption by increasing the area of Kyoto-compliant new forest in New Zealand. The AGS offers a simpler option to the New Zealand Emissions Trading Scheme (ETS). The scheme is administered by the Ministry of Agriculture and Forestry (MAF), now MPI.
- 21 Under the AGS, landowners can receive a government grant for establishing new forests on Kyoto compliant land (that is, land that was not forested as at 31 December 1989). Grant recipients own the new forests and earn income from the timber, while the Crown retains the carbon credits (and liabilities) generated during the 10-year period of the grant agreement.
- 22 A secondary objective of the AGS is to establish this new Kyoto-compliant forest in areas where it will help reduce the likely impacts of climate change, and generate other environmental benefits such as: reduced erosion, nutrient leaching and flood peaks; and improved indigenous biodiversity.
- 23 The Scheme, which was introduced in 2007 to boost the planting of trees in New Zealand to store carbon and to combat erosion, is currently on hold. But with forestry planting all but halted in the face of record-low carbon prices, the Government is considering reactivating the scheme. The Ministry for Primary

Industry officials confirmed to Carbon News⁵ that the AFS scheme is one of the options to encourage planting that they are considering:

"Afforestation contributes to the Government's long-term goals in the Business Growth Agenda of transitioning to a low-emissions economy and the stewardship of land and waterways," the Ministry said in a statement to Carbon News. "The Afforestation Grants Scheme successfully achieved those goals with approximately 12,500 hectares of trees planted at the cost \$23 million. As a result, an estimated 1.6 tonnes of carbon dioxide will accrue to the Crown over 10 years."

- 24 A 2011 review of the scheme recommended that a new AGS scheme be implemented this year using money from the private sector, and with carbon sequestration as its only objective.
- 25 There is an apparent contradiction between ECan and the Government; ECan seems to be discouraging forestry while at the same time the Government seems to be encouraging forestry. It makes better sense if we were all on the same page, encouraging forestry.

CONCLUSION

- 26 I believe that as a region we should develop forestry to a scale and in a manner which maximises its contribution to the national economic and social wellbeing on a sustainable basis and which is compatible with the protection of the environment.
- 27 If the pLWRP does not recognise and provide for forestry in an appropriate manner the future of Wood Processors in Canterbury, including SRS is uncertain.

Dated this 5th day of March 2013

Paul Gillett

CEO of SRS New Zealand Limited

⁵ Friday Offcuts, 8 February 2013

Appendix 1 – Canterbury Wood Availability Forecasts for 2007-2040

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Canterbury wood availability forecasts for the period 2007–2040

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Overview

The Canterbury Region saw some of the earliest tree planting and plantation forest establishment in New Zealand for shelter, amenity and the commercial production of timber.

The first recorded introduction of radiata pine to New Zealand was at Mt Peel Station in South Canterbury in 1859 (Burdon and Miller, 1992), and the first known milling of radiata pine was at Leslie Hills in North Canterbury in 1893 (Simpson, 1973). New Zealand's oldest plantation forestry company, the Selwyn Plantation Board Ltd, has roots that go back to the Canterbury Plantation Board which was formed in 1879 (Selwyn Plantation Board Limited, 2007). The planting of Raincliff Forest began in 1890, and Hanmer Forest in 1902. Today there are 114 000 hectares of plantation forest in the region.

The plantation forest industry is now moving through a period of land use change on the Canterbury Plains with about 5000 hectares having been converted to pastoral agriculture or for sub-division in the last three years; another 9000 hectares across the region having been identified for conversion in coming years.

Five wood availability forecasts have been modelled for the radiata pine estate, and one for Douglas-fir. The forecasts indicate that over the next 10 years the available harvest volumes of radiata pine from all growers may remain at recent levels of about 800 000 cubic metres per year. However, within this total, the volume contributed by the large-scale forest owners may decrease from about 750 000 cubic metres per year to around 500 000 cubic metres per year. Increases in the available harvest volumes from the small-scale forest owners potentially compensate for this, but there is more uncertainty associated with both the timing of harvesting and the volumes realised from their resource than from the large-scale owners' resource. Actual annual harvest volumes are consequently likely to vary over this ten-year period.

From about 2017 there is potential for the radiata pine harvest from all owners to increase to between 1.2 and 1.3 million cubic metres per year to at least 2035 (under scenario 4).

For Douglas-fir the forecast suggests that the available harvest volumes are also likely to remain static to 2015. Beyond 2025 there is potential for a significant increase in the harvested volumes from this resource.

The region has a modest range of wood processing industries, dominated in size by Carter Holt Harvey's medium-density fibreboard (MDF) plant at Sefton, and in number by small to medium-scale sawmills (in a New Zealand context). A significant proportion of processed wood products is exported through the ports at Lyttelton and Timaru, while the volume of log exports has varied considerably over recent years.

The existing total wood processing capacity (based on the "usual" number of working hours per day for a mill) of the regional sawmills and the MDF plant is estimated to be about 940 000 cubic metres (roundwood equivalent) per year. This is an estimate of the sum of the individual processing plants' roundwood input capacities. In practice the MDF plant sources about 25 percent of its fibre as wood residues and chips from sawmills; the actual demand for roundwood if all plants operated at 100 percent capacity would be about 860 000 cubic metres per year.

Some logs are processed outside the region and some are exported, which suggests that there is no potential for installing additional wood processing capacity for the next 10 years unless logs are sourced from other regions, or unless existing processors constantly operate well below capacity. Beyond the next ten years there is potential for additional investment in wood processing capacity: this will be driven by potential harvesting from the resource planted in the 1990s by a large number of small-scale forest owners. The pattern of harvesting from this resource is less certain than harvesting from the large-scale forest owners.

The future development of the plantation forest industry is uncertain because of deforestation on the Canterbury Plains, and also because regional and district planning provisions potentially restrict forest establishment in water-short catchments and aim to protect outstanding landscapes. These provisions cover extensive areas of the hill and high-country land that is generally regarded as the most suitable land in the region for plantation forestry.

Table 1: Key statistics for the Canterbury forest industry

Statistic	Value
Stocked plantation forest area as at 1 April 2006 (ha)	114 000
Harvest – estimated roundwood removals – year ending March 2007 (m ³), provisional ¹	1 010 000
Area weighted average age of plantation forest as at 1 April 2006 (years) ¹	14.28
Sawn timber production – year ending March 2007 (m ³)	228 000
Estimated log input to sawmills – year ending March 2007 (m ³)	413 000
MDF annual production capacity (m ³)	220 000
Estimated wood processing capacity (m ³ roundwood) ²	940 000
Log exports – year ending June 2007 (m ³) ³	307 000
Sawn timber exports – year ending June 2007 (m ³)	155 000
Direct employment (forestry & first stage processing) as at February 2006 (full-time equivalents)	1 321

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Concluding comments

The wood availability forecasts indicate that the harvested volumes of radiata pine are likely to remain static for the next ten years at around 800 000 cubic metres per year, with the potential for additional wood from the small-scale forest owners compensating for reductions in harvested wood from the large-scale forest owners.

Beyond 2017, there is potential for a significant increase in the harvested volume of radiata pine to a level approaching 1.3 million cubic metres per year for nearly 20 years (under scenario 4) and perhaps beyond, depending on trends in new planting and deforestation. However, this increase is driven by the maturing of the resource planted by a multitude of small-scale forest owners during the 1990s. This resource was not necessarily planted purely for commercial purposes, and the timing of the harvesting is therefore more uncertain.

The quantity and quality of that resource are also less well understood and may provide some challenges for wood processors. In addition, to utilise this resource wood processors will have a more complicated task sourcing logs from a large number of small-scale forest owners, each providing irregular or one-off harvests. To date, co-operative forest management models have not found favour among small-scale forest owners in New Zealand.

Utilising the potential provided by increasing levels of radiata pine wood availability in ten years' time will not be without its obstacles.

The wood availability forecasts indicate that the harvested volumes of Douglas-fir are also likely to remain static at about 60 000 cubic metres per year through to about 2015. There is potential for a significant increase in harvested Douglas-fir volumes beyond 2025, again driven by the resource of the small-scale forest owners.

