

FORESTRY ECONOMIC UPDATE

MARCH 2004

Overview

The forestry sector incorporates activities such as wood production, forest management, timber processing and an emerging biofuels sector. Changes are being driven by increased regulatory requirements, mechanisation, the use of ICT and increased foreign competition. Over the medium term growth is expected in this sector, however, long term stability depends heavily on current plantations. Although prices have been dropping for basic products, there is potential to increase economic benefits from forestry through providing added-value to forestry products leaving the area. The current importance of the sector to the Highlands and Islands economy is summarised below:-

Employment

- Forestry and processing employs 10,694 FTE's in Scotland¹, of which 4,300 FTE's are estimated to be located in the Highlands and Islands².
- Employment is split evenly between forest activities, such as establishment, maintenance and harvesting, supported and non-forest activities, such as haulage and processing¹.
- A large proportion of the workforce is estimated to be self-employed (46% in the UK)³.
- Average full-time weekly earnings in land based industries in Scotland are £325, lower than the all industry average of £427⁴.

Units/Businesses

- Woodland occupies over 1.3 million hectares of Scottish land area¹, with approximately 40% of Scottish woodland in the Highlands and Islands (0.5 million hectares)².
- Conifer woodland is the dominant forest type in the Highlands and Islands, representing around 70% of all woodland².
- New private planting covered 6,634 hectares of Scotland for the year ending March 2003 (half of which was in the Highlands and Islands) compared to 11,627 hectares in 2001⁵.

Output

- Annual wood production in Scotland is estimated to be over 5.2 million cubic metres⁶.
- Around 56% of wood production in Scotland comes from Forestry Commission woodland⁶.
- Total output at basic prices for forestry in Scotland is approximately £206 million⁷.
- GVA at basic prices for forestry in Scotland is approximately £76 million⁷.
- This represents c. £19,000 GVA per employee for forestry in Scotland⁷.

Production, Markets & Exports

- UK forestry production satisfies 15% of apparent UK consumption¹.
- In 2003, the price of coniferous standing sales in the UK fell to a quarter of the price in 1996⁸.
- Wood & paper products exported from the Highlands and Islands are valued at £47.6 million, accounting for 11% of exports (excluding whisky)⁹.

Workforce/Skills

- The New Entrants programme supports forestry contractors in employing and training new recruits².
- Technical and IT skills are needed because of increased mechanisation and technological advance².
- Health and safety skills are becoming increasingly important. The Forestry Forward Programme, driven by the Forestry Contractor's Association, provides business and safety workshops to forestry contractors².

¹ Source: Forestry Facts & Figures 2002 (Forestry Commission & National Statistics)

² Source: Growing Businesses and Developing Skills Group 2004 (HIE)

³ Source: Source: Skills Foresight 2001 (Lantra National Training Organisation)

⁴ Source: Futureskills Scotland Industry Profile: Land-based Industries in the Highlands and Islands 2003

Note 1 – Earnings data taken from New Earnings Survey 2002 (ONS)

⁵ Source: Scotland Annual Report & Accounts 2002-03 (Forestry Commission)

Note 1 – Compiled from Local Authority areas: Highland, Orkney, Shetland, Western Isles, Argyll & Bute and Moray

⁶ Source: Economics & Statistics Group 2001 (Forestry Commission)

⁷ Source: Scottish Annual Business Statistics: Scotland by Division 2001 (Scottish Executive & ONS)

Note 1 – Based on ABI employment data which excludes self-employed

⁸ Source: ETS Ltd 2003

⁹ Source: Survey of Highlands and Islands Manufacturing and Exports 2001/02 (Scottish Council for Development and Industry)

SWOT Analysis

The following analysis illustrates the main issues facing the development of the forestry sector in the Highlands and Islands.

Strengths	Weaknesses
<p>Traditional industry</p> <ul style="list-style-type: none"> - Close proximity to major areas of the basic resource - Established distribution channels <p>Wide local impacts</p> <ul style="list-style-type: none"> - Provides a variety of local impacts including recreational facilities, e.g., picnic sites, wildlife hides, forest walks - Supports other sectors, e.g., haulage and tourism <p>Current growth momentum</p> <ul style="list-style-type: none"> - There is a growth in harvesting new areas - Potential increase in the volume of saw logs <p>School of Forestry</p> <ul style="list-style-type: none"> - Based in Balloch, this provides full-time HNC, HND and degree courses 	<p>Geographical disadvantage</p> <ul style="list-style-type: none"> - High costs of distribution. - Absence of suitable transport infrastructure <p>Management/ownership issues</p> <ul style="list-style-type: none"> - Consistent economic gain is not always the primary objective for private forest plantation management - Management are not always locally sensitive - Social and environmental considerations are not always taken into account <p>Specialist skills requirements</p> <ul style="list-style-type: none"> - There is a shortage of ICT, safety and business skills (eg, risk assessment, contract management, supervising, job planning and costing) - The requirement for specialist skills brings recruitment difficulties - Training needs to be provided before workers can work in the high risk forestry environment
Opportunities	Threats
<p>Innovation</p> <ul style="list-style-type: none"> - Product innovation to utilise lower grade timber and to deliver value-added products - Further developments of woodfuel as a contribution to targets for sustainable energy - Innovative use of non-timber forest products <p>Integration</p> <ul style="list-style-type: none"> - Rationalisation and integration will help reduce costs - There is the potential for developing a pulp mill in Scotland <p>Specific markets</p> <ul style="list-style-type: none"> - There is increasing demand for construction softwood and panel products - Timber production is expected to increase substantially in future years - Plans currently in place to target sub-sectors with long-term market potential <p>Maximise geographical dispersion</p> <ul style="list-style-type: none"> - Improve dispersion into more rural areas <p>Community engagement</p> <ul style="list-style-type: none"> - The growth of community owned woodlands 	<p>Strong competition</p> <ul style="list-style-type: none"> - Lower cost locations in Europe and North America, where large areas of indigenous forestry exist, increase the potential for import substitution and decrease demand for certain types of domestic production - Competition from alternative materials, such as steel, concrete, plastic and vinyl and from electronic media <p>Price pressures</p> <ul style="list-style-type: none"> - Price pressures have remained flat or downward for many products - The strength of the sterling affects prices and some only harvest when the price is good <p>Increasing transport costs</p> <ul style="list-style-type: none"> - Increasing road haulage costs in the UK and especially the Highlands and Islands are affecting the industry <p>Limited resources for growth</p> <ul style="list-style-type: none"> - The market for foreign investment has plummeted and further large-scale projects will be hard to come by

Priorities for Action

Factors identified for positive development of the forestry sector in the Highlands and Islands include the following:-

- Development of infrastructure for improved access to markets and reduced distribution costs
- Improvement in breadth of skills to cope with changing demands in the sector
- Intra-area communications and co-operation between companies
- Product innovation and integration into new markets
- Better local private sector supply-chain management
- Consideration of social and environmental objectives
- A more equal balance between commercial and non-commercial production
- The ownership and management of Community Woodland