

## **EXPERT STATEMENT OF CHRISTOPHER RAYES**

**27 July 2020**

### **Introduction**

1. My full name is Christopher Rayes.
2. I have a NZ Certificate in Forestry, Management: Diploma in Business Studies, Marketing and Diploma in Business Studies, Personnel from FTC and Massey University.
3. I am the marketing director of Rayonier Matariki Forests (“**Rayonier**”), and have held that position since 2009. My role for Rayonier involves sales planning, customer evaluation, management, operational logistics and procurement strategy. I lead Rayonier’s sales of logs to purchasers in other countries, and am responsible for decisions relating to sales strategy. I am very familiar with the usual processes for negotiating sales contracts with overseas purchasers, and with the risks that arise in these arrangements.
4. I have twenty seven years experience in forest product exports including logs, lumber, wood chips and remanufactured wood products. My export experience started with Forestry Corporation NZ briefly in market research, then moved to management of the Korean and Taiwanese markets. I joined Fletcher Challenge Forests when Forestry Corporation was sold by the NZ Government and managed sales and business development in Korea and later Japan. I managed the China market for Silva Forest Products from 2003 prior to joining Rayonier in 2006.
5. I am giving this evidence for Rayonier in support of its submission on the reassessment. I prepared that submission on behalf of Rayonier, and it forms part of my evidence.
6. To the extent that my evidence expresses matters of opinion, these are all based on my qualifications and experience outlined above, in which I consider myself to be an expert

### **Scope of Evidence**

7. This statement will cover:
  - (a) A description of Rayonier’s log export operations and how it would be impacted if it were unable to continue to use methyl bromide for fumigations; and
  - (b) An explanation of the irrevocable letter of credit payment system that is used for the sale of logs to trading partners.

## **EXECUTIVE SUMMARY**

8. Rayonier is a significant exporter of forest products to China, India and South Korea. It will experience a significant financial impact if the current recapture standard comes into force, because it will have to cease all log exports to India as well as deck-stowed exports to China. That would have significant flow-on effects.
9. Rayonier and other exporters face an additional difficulty in relation to the letter of credit payment terms for log exports. If the DMC decides not to change the recapture standard, and an exporter has letters of credit that will fall due after the recapture deadline, then the exporter faces an increased risk of non-payment of that letter of credit. That will have significant practical and financial consequences for log exporters.

## **RAYONIER'S OPERATIONS**

10. Rayonier manages approximately 119,000 hectares of plantation forests in New Zealand and directly or indirectly employs approximately 700 people. It is a significant supplier of wood products to the domestic wood processing industry and exporter of logs to Asian markets.
11. Rayonier is a member of Stakeholders in Methyl Bromide Reduction Incorporated (**STIMBR**), and pays a voluntary levy to STIMBR as a user of methyl bromide. Rayonier endorses STIMBR's objectives of reducing the use and emission of methyl bromide in a manner that allows New Zealand's forest industry to continue to operate in an efficient manner with market access to key trading partners maintained.
12. Log exports are a significant part of Rayonier's business. Rayonier harvested 2.4 million cubic metres of logs in 2018. Of this around 50% was supplied to domestic markets, and this was mostly the higher grades of wood. The other 50%, mostly lesser grade logs, was exported to China, India and South Korea. Of those exports, around 21% were treated with methyl bromide as a phytosanitary requirement.
13. If the recapture control comes into effect in its current form, then Rayonier will not be able to have its log exports fumigated because the recapture standard is not achievable. This would mean that Rayonier would cease its log exports to India, and it would be unable to export logs to China as deck cargo. This would have a significant financial impact on Rayonier's business, due to the immediate loss of around 13% of Rayonier's income. The flow-on effects would include:
  - (a) Logs that would have otherwise been fumigated with methyl bromide and exported to India or to China deck cargo would be diverted, probably to China, with in-hold phosphine fumigation. Rayonier would expect to see an increase in

shipping costs because an increased number of ship movements to China would be required to export the same volume of logs. This would decrease the returns on each log sold.

- (b) In the face of decreased returns, Rayonier will likely choose to leave some trees in the ground, rather than harvest them. This would involve downscaling forestry operations in the regions where it has its forests (i.e. Northland, Bay of Plenty, Canterbury, Otago and Southland), with corresponding job losses in those regions.
- (c) The value of Rayonier's forest estate may fall because the attractiveness of forestry as an investment category will decrease; and
- (d) All of this would involve a significant period of disruption and uncertainty for Rayonier while it does the best it can to adapt its operations.
- (e) Rayonier therefore supports the continued use of methyl bromide as a fumigant with recapture controls that are achievable and practical based on the current best available technology, and with sufficient lead time for the necessary recapture equipment to be implemented for all export fumigations.

#### **IRREVOCABLE LETTER OF CREDIT PAYMENT SYSTEMS FOR INTERNATIONAL TRADE**

14. In this section I explain the usual payment systems for exports of forest products to India and China, and why those payment terms create significant practical difficulties for exporters as the recapture deadline approaches.

##### *Usual procedure*

15. When an exporter arranges to sell logs to a purchaser in China or India, the terms of sale are provided in a contract of sale. The contract will almost always provide that payment is to be made by the purchaser providing a letter of credit from its bank. The purchaser's bank is typically located in the same country as the purchaser.
16. The purchaser's bank will then issue a letter of credit, which is a promise to pay the New Zealand exporter's bank for the amount stated in the letter, upon the presentation of documents listed in the letter. Those documents typically include the bill of lading and/or shipping manifest, as evidence that the goods were exported.
17. For exports to India, the letter of credit usually prescribes 180-day or 150-day payment terms, which means that payment by the Indian bank is due 180 or 150 days, respectively, after the logs are exported from New Zealand.

18. For exports to China, the terms of trade are usually 90 day term letters of credit.
19. Once the contract of sale and letter of credit are in place, the logs will be harvested and transported to the New Zealand port for fumigation with methyl bromide. Methyl bromide fumigation is required by the Indian Government for all logs; and is also applied to deck cargoes of exports to China. After fumigation, the logs are then shipped from the New Zealand port to a port in India or China. It takes approximately six weeks for the logs to reach India, and approximately three weeks to reach China. The logs are then unloaded and released into the custody of the purchaser.
20. By the time that the letter of credit falls due, 90 to 180 days after the logs are shipped from New Zealand, the logs are within the custody of the purchaser. The letter of credit therefore is important to the exporter as a way to enforce payment.
21. But there is still some risk of non-payment, even when a letter of credit is in place. The main risk of non-payment is termed "bank risk". This is the risk that the overseas bank will not honour payment under the letter of credit when it falls due. This risk is usually seen as low. If there is a continued supply of log products from New Zealand, then there is an incentive for the overseas bank and its customer to honour payments so that trade is able to continue smoothly.

*Increased risk of non-payment as the recapture deadline approaches*

22. I understand that one possible outcome of the reassessment is that the DMC might decide to retain the current 5ppm recapture standard, and that the deadline for recapturing to that standard remains at 28 April 2021 (as the DMC directed in its waiver decision on 1 July 2020).
23. The consequence of that would be that New Zealand log exporters will be required to cease methyl bromide fumigations after the recapture deadline, because the 5ppm recapture standard cannot be achieved with available technology.
24. If that occurs, then it will have an impact in advance of the recapture deadline actually being reached, because log exporters face an increased risk of non-payment if they continue to export goods as the deadline approaches.
25. The risk arises because as the recapture deadline approaches, overseas customers will have accumulated many months' worth of log imports for which payment has not yet fallen due. In the absence of a continuing trade relationship to preserve, overseas customers and their banks might decide not to pay for the cargo that has been delivered. They will have no strong incentive to pay in the absence of a continuing trade relationship with the New Zealand exporter (or New Zealand log exporters

generally) to preserve. I expect it will be difficult for New Zealand exporters to enforce letters of credit through overseas court systems.

26. In theory this risk might be addressed by progressively decreasing the credit terms (from 180 days to 150 days to 120 days and so on) in proportion to the time remaining until the recapture deadline. However, in practice this is unlikely to be achievable. A change in the terms of trade would be difficult to negotiate in a situation where the overseas economy has a limited amount of liquidity.
27. The perception by New Zealand log exporters of an increased risk of non-payment is significant in itself. Faced with this increased level of risk, New Zealand log exporters may be increasingly reluctant to continue to export logs when payment is going to fall due after the recapture deadline. The industry has already faced this risk once, prior to the DMC's decision on 1 July 2020 to waive the recapture deadline to 28 April 2020. That decision was made around 120 days prior to the then deadline, meaning the industry had already entered the period of risk for 180-day and 150-day letters of credit. Such risk was sufficient that Rayonier had decided not to export any logs to India beyond June 2020.
28. As matters stand, with the recapture deadline set at 28 April 2021, this means the increased risk around 180-day terms will start to impact at the end of October 2020, the increased risk around 150-day terms from the end of November 2020, the increased risk around 120 terms from the end of December 2020 and so on. I would expect that exports of logs to India and China beyond each of these dates (and beyond) will progressively decrease as the recapture deadline grows nearer. Put simply, the credit terms on which such trade depends will bring forward in time the impact of the deadline: rather than all such trade ceasing on the deadline itself, trade will progressively decrease from the end of October 2020, and I would expect little if any trade would continue beyond January 2021 (i.e. once the industry enters within 90-days of the deadline).
29. If exporters choose to stop exporting in response to the forthcoming recapture deadline, then one of the consequences will be that exporters in countries where methyl bromide use is approved, such as Uruguay, will be able to fill the gap in supply to China and India. Once those exporters are supplying to China and India then it will be difficult for New Zealand log exporters to rebuild relationships with their customers, even if they are in the future able to recommence export operations (for example if EDN use is approved with workable controls).

*Risks if the recapture deadline is brought forward*

30. I understand the DMC might also consider retaining the current 5ppm recapture standard and bringing the recapture deadline forward to a date prior to the 28 April 2021 date set by the waiver decision, potentially reverting the deadline to its former date of 28 October 2020. The DMC signalled in its waiver decision that it could impose a different timeframe as part of its reassessment decision.
31. The consequence of this decision would be even more acute for exporters.
32. New Zealand exporters are currently shipping logs in reliance on the 28 April 2021 deadline. By necessity they will be entering into letter of credit payment arrangements where payment falls due after 28 October 2020.
33. If the DMC were to decide to bring the recapture deadline forward, then exporters would suddenly be exposed to a risk of non-payment for letters of credit that they had agreed to on the expectation that payment would fall due before the recapture deadline. It is likely that some of those letters of credit would not be honoured, due to the lack of an ongoing trade relationship. Exporters would have to make a difficult decision between accepting non-payment or seeking to enforce the letter of credit through the foreign court systems.

**CHRISTOPHER RAYES**  
27 July 2020