# MAXIMISING VALUE THROUGH THE FORESTRY SUPPLY CHAIN

## NEW ZEALAND'S PROUD FOREST GROWING HISTORY

- Post WW2 NZ….
- Food Basket of Britain….
- New skills in alien areas - like marketing….
- Why do I mention this?

Because - **some of our primary sectors did a quite brilliant job of meeting this challenge but others - not so well**.

- Unfortunately the forestry sector started well, but…
- The early forest growing sector….
- NZ trialed - proved - and introduced - the whole concept of…..
- Went on to develop intensive management regimes …..
- Others were quick to copy – most notably Chile.
- Late 80's and early 90's key parts of the Forest Industry teamed up and led the charge …….
- **The NZ Forest Accord**
- **Reform of the NZ Ports terms of employment with the Waterside Workers**
- **Taxation regimes on Forestry**
- **Kyoto protocols around plantation forestry and carbon sequestration credits**
- **Accessing the North American markets for moldings and millwork products**

However - these were just small steps in a multi faceted series…..

- This has not translated into world class performance……
- Sure - issues about durability, strength, stiffness…..
- Segmented industry ("Decentralised")….
- Growing sector was working in a vacuum of market knowledge…..
- General failure to make world class consumer end products……

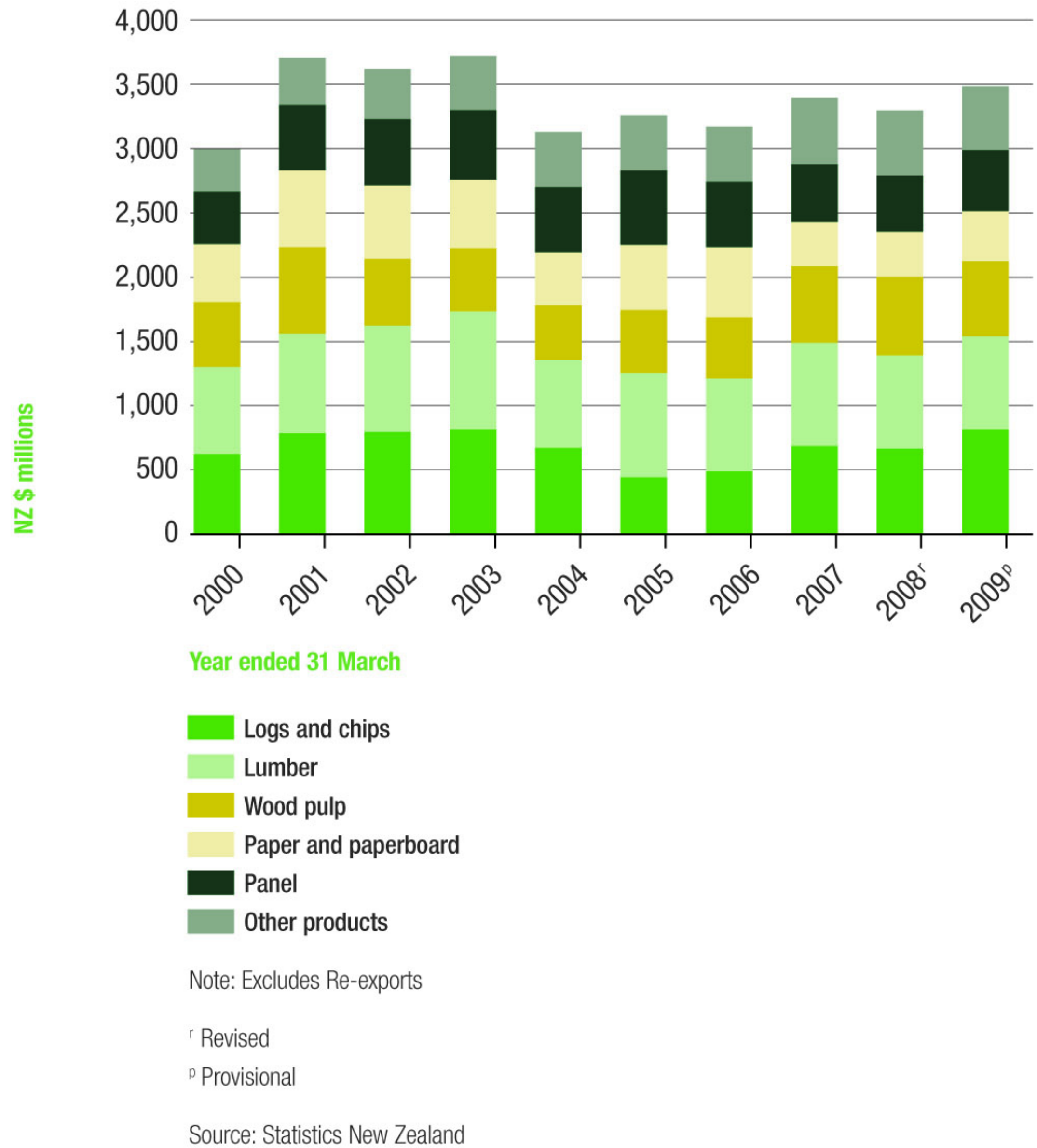
**To be fair - there were some exceptions to this**.

- **Lockwood** forefathers - Johannes La Grouw Senior and John Van Loghem.
- Rotorua in 1951 - and the business literally took off.
- Family empire that still thrives today - some 60 years late
- Some others……… While I do not pretend to know them all a couple of examples may include **Verda Timber, Jenkins Laminates,** and **McIntosh Timber**.

## WHILE WE ARE GIVING CREDIT

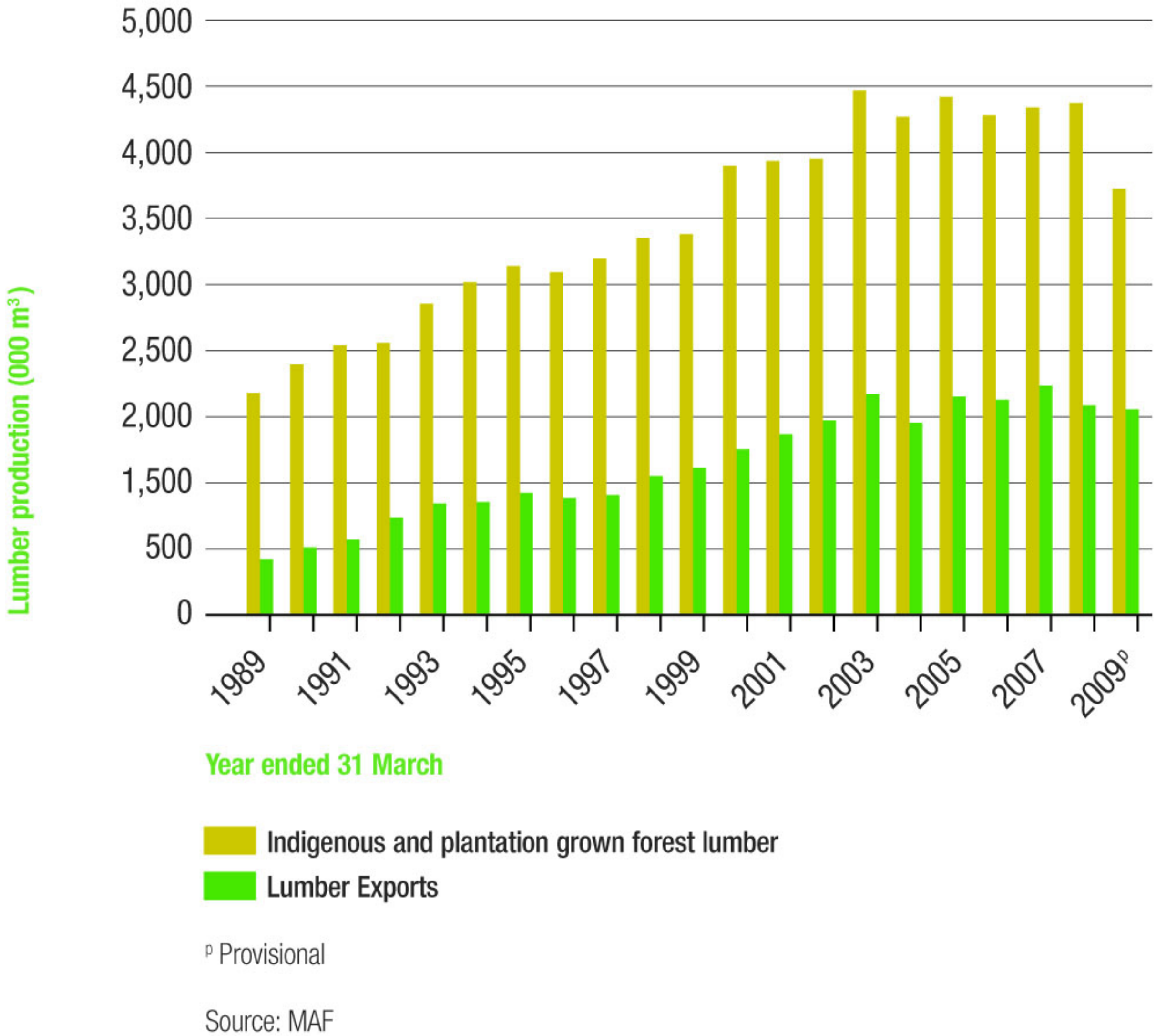
But first let’s give some credit

# MAJOR EXPORT EARNERS



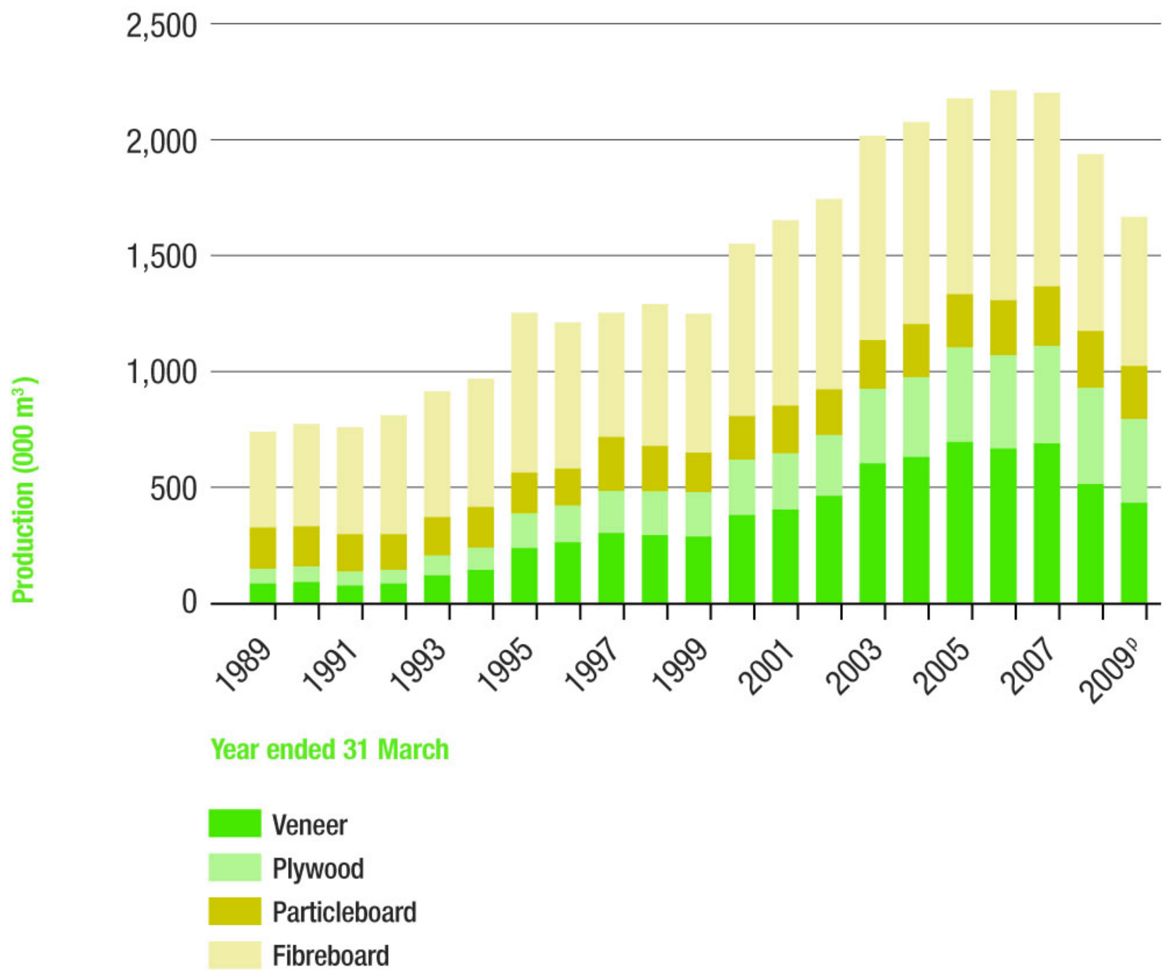

NZ’s forest exports have increased from around \$2.5 billion in 1990 to almost \$3.5 billion in 2009 – an increase of about 40%.

# LUMBER PRODUCTION AND EXPORTS




In this 20 year period, creditable increases in export growth have been registered by Lumber - +300% (off a low start point)

# PANEL PRODUCTS PRODUCTION



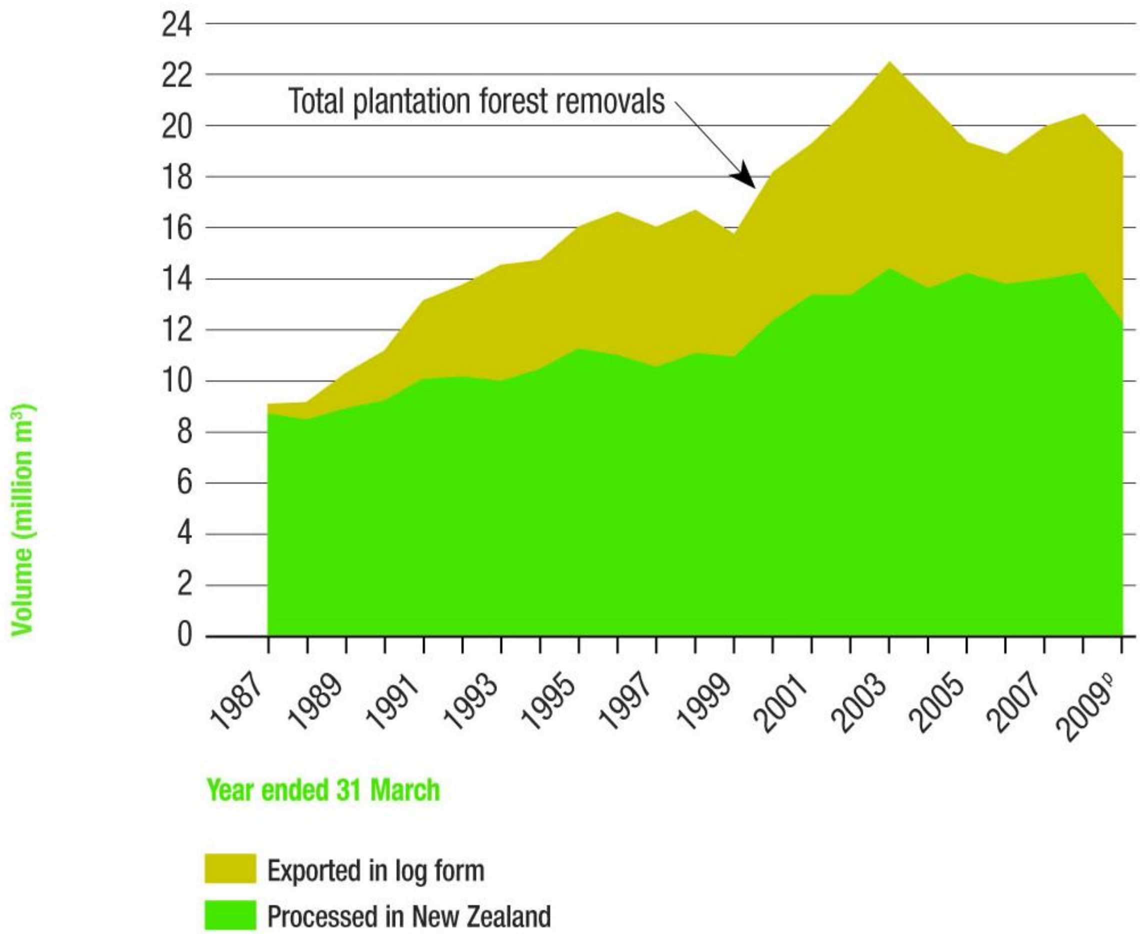

Note: Plywood includes laminated veneer lumber.
Fibreboard includes MDF, hardboard and softboard.

p Provisional

Source: MAF

And also panel products – off a very low start point

# WHERE THE LOG HARVEST GOES




Note: Export logs data in 2007, further processed and production forest removals data from 2003 to 2007 have been revised.

p Provisional

Source: MAF

- However, let's stack this alongside the log harvest - which has risen from about 10 million m3/yr, to 20 million m3/yr – an increase of **100%.**
- Why are we not getting value from the resource?
- The multi-billion dollar question that has haunted……… >30 years……..

## LET’S TAKE A 20/20 HINDSIGHT LOOKBACK AT SOME POSIBLE REASONS FOR THIS FAILURE

- **Log Exports** in the late 1980’s took away the urgent need process on shore……..
- Export log prices………………… in a “bugger thy neighbor” (and “bugger my own future too”) attitude.
- Instead of using the cash generated on add value…………..
- Forest owners reinvested in more forests for more log exports……
- Processors were left to struggle along on the breadline.
- This led to cash starved behaviors’………..
- **Insufficient investment** into researching and developing new products for new markets
- **Commodity traders** – cash driven…………..competing wood on wood
- Chasing each other into undeveloped offshore markets - and competing on price……...
- **Weak** international **market development** attempts - by processors and owners alike
- Radiata pine entered one new market after another without adequate technical support…………………..
- And quickly became entrenched as a low grade………….
- Near irreversible blow………………….

- **Fluctuating cross currency rates** - the $US 40 - 80 cents……….
- **While Steel, concrete, plastic and aluminuim** industries - systematically stealing share………………………

**(Repeat) LET'S TAKE A 20/20 HINDSIGHT LOOKBACK AT SOME POSIBLE REASONS FOR THIS FAILURE**

If this was not enough, further blows were delivered - many of them self inflicted by friendly fire! New and innovative ways to self destruct were being invented monthly as the wood industry scrambled to grab a bigger share of the dwindling wood pie – mostly competing on price!

- **"Privatize" the national forest estate** ………
- This effectively destabilized………..
- **Wiped out the NZFS**
- Weakened the FRI–
- New owners – many of whom had little interest in processing or development of consumer end markets.
- Second wave of **"cashing out" of forest ownership** by those corporates who had been the backbone of the industry for decades
- Some **big strong players self destructed** (NZFP and Fletcher Challenge)
- (But Maori emerged as new important player – could be a big plus……..)
- **NZ Forest Industries Council** became the mouthpiece for one or two big remaining corporates who funded and controlled it.
- **Small members were disempowered** and lost their voice
- Its agenda ceased to be an "industry" agenda

- Dominance of these big corporate effectively stymieing………. a wider audience
- "NZ Inc" investment in group R&D and market development largely halted….
- Squashed the life out of the entrepreneurs.
- **Controversial issues** like cheating on Machine Stress Grading, manipulating the benefits from carbon credits to bring about a transfer of wealth between Forest Owners and ignoring their Research Providers when they failed to support irrational behavior around treatment of timber - did nothing to add credibility to the industry as a united and trustworthy sector, in which to invest.
- The "NZ Inc" ideology defeated and **the noble art of co-opetition** was lost

**Co-opetition**

| | |
|---|---|
| e.g. Wood is good<br>Forest Accord<br>Carbon Credits | National co-operation |
| e.g. Regional infrastructure<br>Local body compliance rules | Regional co-operation |
| Price and Service | Inter-company competition |

So folks, here we are today – still revisiting the issues that existed in 1988 – some 22 years ago.

**SO IF WE KNOW WHAT'S WRONG – HOW DO WE FIX IT?**

- It is relatively easy for me to tell of the problems…………….
- Great deal more wisdom and visionary foresight is needed to prescribe the remedy!
- A few random thoughts to start the thinking.

Today we see a **new order running the Forest Industry**.

- Still evolving and Maori have a role here
- Safe bet it has a better chance than its predecessor…………
- The first element………… **rebuilding of TRUST**……….
- **Elevate the issues debate to a high** enough **level**
- Common agendas exist …………….
- It is easy to **see Steel, Concrete, Petro Chemical and Aluminium** industries **as the common enemy**.

**It is encouraging to see the Wood is Good and Trees Eat Carbon programs being put together by NZ Wood in recent times.**

- **Great stuff guys – let's have more of that.**
- What else?...............

**Wood is Good**

- 52% by weight **stored carbon**!................ Think about that!

- **POSITIVE carbon credit footprint** at the Eco conscious consumer end?
- Climate Change……….. It is a one horse race – let's use it shamelessly.
- Next issue is international protocols for wood products……………….
- **fresh carbon credit should be negotiated for wood products**
- **sustained yield tree farms**. No other raw material in the big league of raw materials can claim this.

**Use the Imitation tactic**

The Petrochemical industry…………. post WW 2

**Rubber**

**Leather**

**Glass**

**Cotton**

**Bakelite**

**Steel**

**Wool**

**Glue**

**Paper**

**Fabrics**

**Jewelry**

**And yes - even Wood!**

One study showed we use petrochemical derivatives in our everyday lives =100 times/day…………….

## Earthquake resistance

If the Christchurch earthquake proved one thing…………………

- **Wooden floors**
- **Timber frame buildings**
- **Solid wood Buildings**
- This may not be handed up on a plate for another 100 years!
- For the next quake may happen tonight…..

Other environmental benefits

- trees and forest
- recreational and conservation perspective
- the thermal mass benefits of wood
- the natural material angle
- the use of waste as energy generation and a host of other benefits.

Who else can we learn from?

## SOME MODELS THAT MAY HELP ILLUMINATE THE DARKNESS

### 1. The Vertically Integrated Corporate Model

- This model was practiced widely in the 1970's 80's and early 90's.
- A difficult mix with large and small…………..but may be irrelevant anyway, because

- **"where are the vertically integrated big corporates?**"

## 2. The Fonterra Model

The dairy industry went through this debate 30 or 40 years ago. (and Zespri too). We heard from Nigel Jones $5billion revenues, 10,500 shareholders and 140 market countries earlier…………

Their response was to go to a producer owned co-operative –

- **with total single desk marketing - distribution - sales and processing.**
- Suits multiple small owners
- Too late………..**A forestry imitation** of this model **is clearly not achievable** from this start position.
- However, **elements of it might be achievable** at either or both national and regional levels.
- **Useful Lessons** we can take from the Fonterra model…………
    - Customer/quality/waste/optimization/innovation
    - **working together**
    - **Success attracts more**
    - The **power of controlling** a big lump of **market**
    - **Difficult to set up and expensive** to operate on a world scale

It seems practical to consider extracting some of the elements of the Fonterra model and applying them at regional levels to **"gatherings of the willing"**

### 3. Single Desk Marketing and Distribution

- Leaves processing in the hands of the individual players - but
- All are led by a common marketing strategy, with perhaps some shared distribution.
- Marketing and sales may be carried out by a combined entity on behalf of all players.
- While the concept is simple –the **permutations are almost limitless**.

Consequently the ground for dissent and wealth distribution among the members is fraught with complexity.

- The **inclusion or exclusion of distribution** ??
- **Shipping**. The cost of bulk freight to Asia for logs has varied between $US 16 -60/tonne. The currency fluctuations look pale by comparison. Why have we not banded together to buy our own ships?

Notwithstanding all the complexities, I believe that this model has some potential and is **worthy of further investigation** – especially at a regional level - by the small-medium sized enterprises

### 4. Single Desk Promotion and Market Research

This is the most easily achieved model and is an obvious first step. Some would say that the **wood industry is already doing this?** My answer to this is to answer the question with some questions – such as:

  - Are all parts of the industry participating (TIF)?
  - Is the activity well funded - and in fact self funding - so that it doesn't fall into the trap of "he who pays has the say"?
  - Is there an agreed promotion and market research strategy?
  - Does this run into identifying new products for new markets?

- Does it span the total value chain?
- Does the Promo and Research body have a full time executive?

If the answers to the above questions are in the affirmative – then "Well Done!" - because to my mind - **this should be done in any scenario.**

**Summary**

There are more permutations on all models that time or head space can cope with in an address of this nature.

What is needed is:

- **the will to work together**
- **the wisdom to identify those areas where we cooperate and those where we compete**
- **the integrity not to break ranks and TRUST for a quick buck, and**
- **focus the debate on the real enemy – which is non wood competitors.**

Never lose sight of this. A healthy wood industry is good for ALL wood players. We must celebrate one another's success, not envy or covet it.

The real enemy lies without. Within the wood industry we must be united in our commitment to evangelize the benefits wood.

The road will not be easy; it will be long, tortuous and testing.

The rewards might be immense.

**GOOD LUCK**

**Thank you**

Bryce C Heard

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