WOODLOT HARVESTING & MARKETING - A CORPORATE PERSPECTIVE

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Introduction

Carter Holt Harvey Forests, in the Kinleith Region, has been active in the radiata woodlot business since 1992. Prior to that our principal sphere of interest was sourcing Tawa for our pulpmill to blend with radiata and make bleached pulp for fine paper manufacture. In the late 1970s NZ Forest Products Ltd was active in woodlot purchasing, primarily to satisfy the Japanese export market with big logs. From early 1991 Carter Holt Harvey Forests again recognised the importance and opportunities the private woodlot resource offered our company as the pressure was applied to cut more from Kinleith Forest and reduce its average clearfell age. The woodlot resource became attractive, primarily because it was a source of higher density pulpwood, which was becoming a scarcer commodity in Kinleith Forest.

How Do We Source Woodlots?

Up until 1995 when Rayonier NZ Ltd started tendering blocks through its Auckland-based Resources Group, most of our woodlots were sourced by direct approach to, or from, woodlot owners. The advent of the Rayonier tenders was not new as blocks have been tendered successfully for years; what was new, however, was the fact that a significant forest owner introduced a tender system to sell standing timber when they themselves were active in the harvesting and marketing of forests they purchased from the State. Those tenders have now become a significant contributor to the overall volume sold nationally from, dare we say it, woodlots. We have successfully purchased blocks by tender from another significant resource manager, the Department of Conservation. DOC uses its exotic resource as a source of funding to supplement funds from Government and release blocks by tender as, and when, additional funding requirements or indigenous rehabilitation plans dictate. Tenders aside, the most significant volume still comes off farms where we purchase woodlots on a stumpage basis. We have a staff of three in the purchase wood department who generally respond to approaches from woodlot owners who wish to sell their trees; to date we have seldom approached farmers direct asking them to sell.

How Significant is the Woodlot Volume to Carter Holt Harvey Forests?

As previously stated, we use woodlot volume to supplement the log flows from Kinleith Forest and to satisfy our customers demands. We have particular interest in pruned and unpruned large sawlogs, along with high density pulpwood (ie from large logs or trees > 40 years old). In 1995 Carter Holt Harvey Forests completed the production thinning of Kinleith Forest as the cost of wood and new silvicultural regimes changed the direction we took in managing our forest. As specific pulp products are made from thinnings, there remains a demand which is satisfied from our stumpage contract with Lake Taupo Forest. Although not strictly a woodlot by definition re <50 hectares ?, we use our gangs to harvest someone else's wood.

As examples, the following volumes have been harvested from woodlots since 1 April 1995:

Period	1.4.95 - 31.3.96	139,350 t
	1.4.96 - 31.8.96	38,600 t

In the period 1.4.95 - 31.3.96 the 139,350 tonne was almost a 50/50 split of pulpwood and quality logs, which highlighted the targeting of "cockies" pulp trees for our pulpmill.

Where does the Wood go?

Unless you are fortunate enough to purchase a well tended and well managed woodlot the safest option is to sell the logs onto the export market. It isn't that our Asian customers are any less discerning than our domestic customers, they tend to have wider and more flexible specifications which suit woodlot logs. How many times have you been told that cockies' trees were pruned "when I bought the farm 20 years ago", only to find yourself apologising to your local sawmill customer for the oversized defect core inside the logs when he cuts them. Our tendency is to market the larger woodlots with trees >30 years, on the domestic market and export the rest. As for pruned stands, we will only purchase them subject to sawing trials to confirm the timing and quality of the pruning.

Using 1995 as an example, the market mix of quality logs from woodlots was:

Export	72%
Domestic	28%

Although not a typical year, the grades of pulpwood purchased from woodlots in 1995 were:

High Density (>25 cm SED)	52%
Low Density (10-25 cm SED)	4%
Minor species	41%
Eucalypts	3%

The reason for the high percentage of minor species was because of a contract we have to harvest minor species in significant volumes from Winstones Karioi Forest.

Crews to Harvest Woodlots

In the past two years we have put considerable effort into training selected external contractors to the level of Q Base accreditation. They tended to be from the Central North Island, had considerable previous experience in woodlots and were willing to travel around the country chasing woodlots. We have 6 or 7 crews which have the machinery and skills to work in Kinleith Forest during the winter, if possible, and in woodlots in the summer months. The only difference between our woodlot crews and Kinleith Forest crews is that the woodlot crews do not yet have to fell their trees mechanically in tractor settings. Some prefer the variety woodlot logging presents but would much prefer the security of constant production demand in Kinleith.

Woodlots on hauler settings present problems for us as we do not have sufficient work to employ a hauler contractor full time. That being the case we have to rely on the Kinleith Harvesting department releasing a hauler at what may be an inconvenient time for them. Having completed two woodlot harvesting jobs with haulers from Kinleith Forest, the results were not enough to convince us that we should be pushing the purchase of steep woodlots with any vigour.

Advantages and Disadvantages of Woodlot Harvesting

Having sat down and listed the pros and cons of being involved in the woodlot harvesting scene, it appeared easier to list the cons than the pros. One would then have to assume that the fewer number of pros were more strategically and economically important to CHHF. We therefore see some of the advantages and disadvantages being:

Advantages

- They supplement log flows from Kinleith Forest to our Customers.
- Someone else covered the cost of growing the wood.
- Some but not all can be profitable for CHHF.
- Helps CHHF maintain perceived market share.
- Some woodlot owners prefer to sell to corporates to guarantee payment.
- Often harvesting activity in an area attracts more willing sellers in that area.

Disadvantages

- As a general rule, the grade recovery is less than plantation grown wood.
- Often constrained by weather, farmers don't like winter logging on their farms.
- 1993 created unrealistic expectation from many woodlot owners.
- Variability of silviculture treatments.
- RMA restrictions and length of time required to process consents.
- Better blocks have been picked over leaving steep, rough and young blocks.
- Some landowners test the people management skills of contractors and staff.
- H & SE Act requirements on the landowner and corporate (principal).
- Rural disruption, whether it be dairy cows or school buses.
- Market fluctuations can leave you holding a lemon, especially with lump sum tenders.

- Maintaining a good harvesting, hauling and marketing infrastructure when working away from your usual company activities.

Continuity of Work

Currently we offer no work guarantees to our woodlot contractors but do try to find them work in Kinleith Forest during the winter or where underfoot soil types will allow. We encourage our contractors to find alternative work for themselves and have assisted with skills that can be transferred to any other potential employer. CHHF funds 100% of their L&FITB skills training and paid the full cost of their Q Base registration. Harvesting rates in woodlots tend to reflect the transient nature of the work and appear to provide sufficient profits to upgrade and maintain the types of machines best suited to woodlot harvesting.

Responsibility for Harvesting Operations

In the Kinleith Region we have two staff with full time responsibility for woodlot harvesting operations. All harvesting is to be carried out in compliance with the Kinleith Forest operational and environmental guidelines. As the employer of the contractor (principal) CHHF accepts full responsibility for the overall harvesting operation, with the contractor required to comply with conditions of his contract with CHHF. The contractor is provided with periodic changes to cutting instructions which reflect our customers demands, it is then his responsibility to produce those logs to specification, with an emphasis on maximising the return to both the woodlot owner (with stumpage sales) and CHHF.

All contractors are required to comply with the following minimum standards:

- Safety Management Plan - to include hazard ID, training records etc.
- L&FITB affiliation.
- Tree Felling Stage 2 FIRS module for all fallers.
- Qualified log maker for each crew
- OSH notification - each new woodlot start or accident within 24 hours.
- RMA - Resource consent required for all woodlots >1 hectare.
- Prescription for each woodlot.
- Compliance with Local Body statutes (other than RMA).

Resource Consents

CHHF's own internal environmental policy requires us to have a resource consent for all woodlots >1 hectare. Often that is in conflict with the requirements of some Regional Councils, such as those on the Coromandel Peninsula, who are far more lenient. It is an obvious advantage to have the woodlot owner apply for and be granted a consent prior to offering the block for sale. In that way the time of harvest can be more flexible as it is normal practice to wait six weeks for a consent from the time of application, if you are lucky. Being a forestry corporate we tend to attract a little more baggage when we apply for consents which the smaller private operators seem to be exempt from. The timing of the consent process can be critical if a woodlot is put up for sale in the autumn or if markets show signs of softening. In such cases a six week wait can lead to an expensive logging operation in winter conditions or negative margins for the purchaser as market prices slide into the red. The RMA legislation was certainly overdue, don't get me wrong, but it does hinder the planning and flexibility of woodlot harvesting operations.

Methods of Purchasing and Marketing of Woodlots

In the past four years we have experienced a number of options when purchasing woodlots, with some being more favoured than others, being:

- Lump sum tenders.
- Pay as you cut tenders (stumpage).
- Stumpage sales.
- On-truck - with another party responsible for harvesting etc.
- Forestry Rights - lump sum payment with a future harvest date 2-15 years in the future.
- Exclusive Cutting Right - first option for timber at time of harvest.
- Gratis - remove the trees for no payment.

If I were to favour any one particular method of purchasing woodlots it would be lump sum tenders. They have more risk attached to them but they offer total flexibility at harvest to change your log cuts as many times as you like to maximise your market return as the purchaser. If your market intelligence is good prior to tender they have their attraction and possible profits but you can lose big time if markets crash as they have in 1996. The safest method other than gratis is stumpage sales, but they also have their inherent problems of vendor suspicion that you are cutting the maximum volume and value from his/her woodlot. With some woodlots the log grades are few and obvious, the difficult ones are the bigger woodlots which can be harvested over many months of fluctuating markets. Often the agreed log grades and flexibility are not there to maximise revenue to both the buyer and seller. To date the predominant method used by CHHF has been stumpage sales. In addition to the cut now options we have purchased approximately 160 hectares of trees using forestry rights and lump sum payments, hopefully the world-wide wood shortage will arise by the year 2005 and our decisions applauded.

What of the Future for Woodlots

If I were to highlight one single issue of concern for the future it would be the sale of pulpwood arisings from the maturing woodlots planted in the 1970s. Who do you sell those logs to when they will be predominantly low density logs of small diameter. Kinleith Forest produces all the low density clearfell arisings, plus some, that the Kinleith Mill requires without buying a tonne from outside suppliers. With FCF being the successful bidder for FCNZ it is unlikely they will be crying out for more pulpwood of the grades arising from maturing woodlots. Unless there is considerable investment in new or existing production plants in the Central North Island, the future market for woodlot pulpwood looks uncertain. Exporting pulpwood is an option already being taken up by some, but often at break-even or negative revenue prices for the seller. Will woodlot owners be forced to accept that some volume will be left in the cutover at the completion of harvest?

Carter Holt Harvey will continue to show interest in woodlot harvesting whilst demand for certain grades of domestic and pulp logs remains. As we margin trade quality logs it remains a source of revenue we can tap without capital investment in land or trees of our own. As funds become available we may resume purchasing semi-mature woodlots by way of forestry rights for the future supplementation of log flows from our forests. There is no doubt that considerable volumes of woodlot timber will be coming on stream over the next 5-10 years and CHHF must look on that volume as an opportunity to maintain market share in what will become a significant contributor to the national cut.