

MARKETING & HARVESTING WOODLOTS "A FARMER CO-OPERATIVE PERSPECTIVE"

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AORANGI FORESTRY SERVICES

INTRODUCTION AND BACKGROUND

Aorangi Forestry Services is a private consulting and management company with offices in Christchurch, Waimate and Balclutha. Our predominant client base includes farmers, forestry investors, forestry investment companies as well as District and Regional Councils. The company employs a total of ten staff, and up to 60 contractors as work flows dictate. Aorangi Forestry Services was formed by myself and my wife Gail in 1987 in response to a redundancy package from the demise of the New Zealand Forest Service. Our company offers a full range of services to the forestry sector including management of forestry operations, general consulting and advisory as well as Marketing and Harvesting woodlots and shelterbelts.

Our company has management contracts with two co-operative organisations; the Canterbury Forestry Foundation (CFF) and Otago South Forestry Consultants Ltd (OSFC).

The Foundation was formed some 15 years ago out of a desire by Farm Foresters in North Canterbury to have a marketing co-operative. Since then the Foundation has become an incorporated society and operates as a stand-alone organisation with Directors (seven) appointed annually from

the membership. There is no membership structure as such, however users of the service are regarded as members of the Foundation. Our Company took over operational management of the Foundation five years ago. We are guided by the Directors and the Accountants/Financial Managers who are McKay Bailey, Accountants, Christchurch.

The Otago South Group was formed 2 year ago as a private company with the shareholders being the South Otago Farm Forestry movement. It is also headed by seven Directors all of whom are appointed by way of an annual meeting (two Directors rotate each year) and the movement is very much controlled by Farm Forestry philosophy. The company's day to day management is under the control of Secretary Don Gordon, a local farm forester and A F S manage all operational details.

A focus of service provided by all three companies is marketing and harvesting management and the current annual cut averages 70,000 - 80,000 cubic metres. There is significant growth anticipated and I would predict that by the year 2000 to 2002 the total annual cut will be in the order of 120,000 moving quite quickly through to an excess of 200,000 cubic metres per annum.

The type of material harvested varies dramatically from small pockets of trees

and shelter belts to woodlots up to 20 hectares. In the last financial year the average block harvested was slightly less than 500 cubic metres or .85 hectare.

MANAGEMENT AND ADMINISTRATION

MARKETING

I am responsible for all of the marketing of the companies' timber. Methods include one to one contact, phone tenders, and formally advertised tenders from all the normal points of sale. The majority of timber is sold at "Mill Door" or "Wharf Gate" with most woodlots being sold to a wide range of buyers to ensure maximum value and volume recovery. I have two operations staff who manage the day to day harvesting operations and they are also involved in regular contact with clients and the purchasers to ensure co-ordination and cohesion.

HARVESTING CREWS

All of our operations are ground based with the prime contractors having a range of skidders, excavators and bell loggers. The largest crew we have working for us at this current time is a four man crew with a skidder and excavator. We currently employ three full time contract crews and three part-time crews which is less than we would prefer, however reflects the current state of market.

Our operations are more confined to the summer months as we have a lot of difficulty sourcing material during the wet winter months from wood-owners who display a lot of reluctance to absorbing additional cost of access, in wet weather conditions.

Problems of availability and accessibility leads to difficulties in providing a continuity of work to contractors. We

endeavour as much as possible to keep what we regard as our full time contractors employed. Even so we find that a full time crew will have up to 2 weeks a year when we cannot provide work. Often they can find alternatives if longer than 2 or 3 days at a time.

SAFETY AND TRAINING

Aorangi Forestry Services employs a full time contractor trainer and safety officer. We realise this position is quite unique for a small consultancy company, however we saw the need two years ago to employ an in-house trainer to increase the standards and professionalism of our crews and to ensure compliance with H, S & E Act. Russell Barclay is our registered trainer and we also have a registered trainer as one of our professional staff. Russell provides the majority of training and arranges support training for short courses (i.e. general requirements) as needs dictate. All contractors employed by the Company are required to be on a standard training programme (F I R S modules refers). All are given a specified time in which they are required to have General Requirements. We provide induction courses for all new employees. All prime contractors are required to have a Health and Safety Policy which is approved by ourselves before they are employed. All contractors are required to have the normal Public Liability and Fire Fighting Insurances'.

SALES PROCESS

In all cases AFS, CFF and OSFC conducts the sales of standing timber as agents for the growers. Whilst this reduces our risk it does not absolve us from the responsibility of ensuring that the client and contractors are paid and that the work is carried out to correct standards.

The client receives all information relevant to the sale including point of sale prices

and all harvesting costs. The client also receives a copy of our Visitor Policy and a Letter of Understanding detailing the sales process and the relationship between the client and ourselves as agent.

SUMMARY KEY ELEMENTS TO CURRENT MARKETING & HARVESTING

- 70,000 - 80,000 cu.m/yr
- 95% Radiata pine
- 5% Douglas Fir and Macrocarpa
- 85% Small blocks and woodlots
- 15% Shelterbelts
- AFS acts as agent in sale
- Sold via 1 month to 6 months contracts to Sawmillers or Exporters
- Currently 70% sold Domestic, 30% Export
- Some spot trading opportunities
- Majority of Sales AMD or AWG
- Concentrated on Summer months
- Logging Crews hired on block by block basis . Ongoing commitment to permanent crews.
- All contractors required to be on our Training programme.
- All contractors required to have H S E policy.
- All sale proposals include full disclosure of information.
- Company is independent and has a wide customer base.

IMPLICATIONS OF WOODLOT HARVESTING

As I see it there are problems and difficulties to be overcome in the area of woodlot harvesting. There is no doubt that this is going to become very significant business in New Zealand and its good to have this type of forum to discuss the issues which currently effect the industry and I present today some of my thoughts and ideas on the farmer/woodlot

marketing-harvesting and how we might work toward making improvements.

PRODUCT AND INDUSTRY OVERVIEW

The woodlots that we are typically dealing in are small, fragmented and of a very wide range of timber quality.

We find that even in quite small woodlots we target market timber to a wide range of buyers in order to maximise return to the grower.

Typically woodlots contain a wide variety of log grades including very heavily branched edge trees, framing grade internal trees pulp or chip and in many cases some post wood material which the farmer inevitable wants to maximise.

Edge trees are normally sold as boxing or flitch grades and or pulp or chip and the internal trees into framing logs (S1 S2). Even the framing grades can vary quite dramatically in quality from woodlot to woodlot. Particularly we have noted that anything grown in wide-spacing produces inferior quality timber. I believe that wide spaced agro-forestry type woodlots have a very limited marketing potential. In Canterbury and Otago we find these normally contain a high incidence of stress wood, low density core wood and a high incidence of resin pockets. It is impossible to produce framing grade sawlogs from wide spaced agro-forestry regimes and this typically leads to low returns for what farmers have believed were high quality stands of timber.

UNIQUENESS OF WOODLOTS

In my experience there are several unique features to woodlot Marketing and Harvesting as opposed to forest operations.

- Diverse individual expectation.

- More hazards requires higher skill level (particularly logging)
- High expectation of utilisation.
- Not locked into harvest/income strategy
- High cost of production.
- Generally Seasonal.
- More expensive to manage and administer.
- Access constraints.
- Forestry is not the core activity.

The following have been identified as key disadvantages and advantages to Woodlot trade

DISADVANTAGES

- Lack of understanding of the industry by the grower.
- Forestry by default leads to poor decision making.
- Difficulty in providing continuity of work to contractors.
- Difficulty in providing continuity of wood quality and quantity.
- Crop is typically poorly managed.
- Attracts shonky operators.
- Uncertainty as to future harvest volumes.
- Conflicts of Interest with some operators.
- Difficult to achieve reasonable returns off small blocks.
- Harvesting operations are often regarded as a 2nd rate priority.
- Typically a lack of stand records.

KEY ADVANTAGES OF WOODLOT TRADE

- A wide range of Product types to diverse markets.
- Scattered resource equals lower risk.
- Continuum of supply due to diversity of objective.
- Potential for well managed crops for high value markets.

- Potential for diversity of species.
- Diversity of growers minimising monopolistic controls.
- Potential for well planned co-operative approach to marketing.

A CO- OPERATIVE APPROACH TO SELLING WOODLOTS

In analysing the current "co-operatives" we are involved with I draw the conclusion that, depending on your definition of a co-operative, CFF and OSFC are not really co-operatives at all.

In the sense that the two groups have directors whose interests lie with the farm forestry movement and the companies strive to fairly and independently represent the interest of the users of the service, they can be said to be a co-operative.

In the sense that they must trade and make profit appropriate to risk whilst providing service, they are little different to any other trading company.

The uniqueness of the two companies however, is that they are controlled by an elected board of Directors, they independently overview the service provided to ensure accountability and they prepare annual reports and are ultimately responsible to the membership or user group.

The mix of commercial reality, profitability, market fluctuations and volatility dictates that any co-operative must trade in a competitive environment. Services must be diverse, delivered with professionalism and be better than the competition to ensure on going commitment and loyalty from the users.

In that context a farm forestry co-operative is really a trading company with the objective of servicing farm forestry clients

as independently and as practically possible.

In analysing the potential I wonder that a "co-operative" is an appropriate structure in the very diverse farming environment or, in fact, in today's market place.

Farmers are typically fiercely independent traders with a common desire to work co-operatively as long as the price offered for their product is the best on the day and someone else hasn't given them what appears to be a better deal 2 hours beforehand. And who can blame them? They are self employed businessmen who strive to yield the highest possible return.

Anybody who trades with the primary objective being profitability does so with the same intent.

The issues related to the appropriateness of co-operatives need to be examined in the light of any particular proposition. Until the resource increases in size dramatically I see little opportunity to attempting the formation of a true marketing co-operative. What I see short term is more and more companies forming with the expressed purpose of representing the interests of farmers. (Farm Forestry based?).

To be successful, a true co-operative would need to contain the following elements:

- Have a defined and committed membership structure.
- Provide a limited range of service re sell farm logs.
- Expect the complete loyalty of its members.
- Provide service only to the membership.
- Provide financial incentives to membership (discount on service - dividend payouts).
- Make a trading profit acceptable to a normal banking institution to cover risk.

Given the diversity of the woodlot owner objective, locality, size, quality and quantity in the context of the current resource, I doubt that a co-operative as defined above could be successful.

CONCLUSION

We all know that the woodlot trade is important business. Just how important a true co-operative marketing strategy can be, will be the subject of further debate and evolution.

At the end of the day no-matter how big our involvement in the industry we must be vitally concerned about the implementation of standards, continuing educational development, self imposed rules and regulations, and embracing of the relevant codes of practice.

In promoting self rule it must be remembered that at the end of the day, to be ultimately successful, co-operative or not, we must all promote our industry by proving compliance.

A healthy woodlot industry must be progressive, responsive, profitable and have long term goals.

As the resource increases then some of the current constraints and problems will self correct. Others we can improve by being collectively of the realisation that we work in an industry with a large number of people with a diverse range wants and needs. Our ability to understand and respond to that will ensure that the private grower keeps on planting trees.

To that end we have a collective interest.

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