

PURCHASE WOOD - AN EAST COAST PERSPECTIVE

- IN SEARCH OF EXCELLENCE

Paul Fitzgerald
Procurement Manager
Rayonier, Operations, East Coast

Introduction

Purchase wood production is set to increase from now on out in all areas of the Country. From humble beginnings over the last 20 years private exotic planting's are rapidly expanding, forming a large forest estate that purchasers are hungry to control.

There are exciting prospects locked within this resource along with an amount of risk.

As an industry with unlimited potential - "Forestry" will see massive increases in private Purchase Wood Operations over the next two decades.

Those who are ready for big challenges, big downs and hopefully some ups, and have the pioneering spirit - this next chapter in an expansive dynamic primary business, is your opportunity, to make a name for yourself.

Rayonier has been operating on the East Coast for 4 years. During this time a steady percentage of our annual cut has been from outside purchase wood. The owners of this resource vary from Trusts, farmers, suppliers and corporates, including Rayonier Resources. Our purchase wood now represents 100 percent of our business on the Coast. We are enthusiastic to share our experiences and ideas with the

conference in the area of harvesting, quality, safety and environmental standards.

We certainly don't have all the answers, yet, the key issues concerning our Operations in purchase wood are :

- Resource ownership and woodflow.
- The land.
- Environmental concerns.
- The harvesting infrastructure.
- Educating the players.
- Monitoring the processes.
- Purchase contracts - Obligations as the purchaser.
- Expectations
- Purchase wood challenges - a summary.

We will work through these areas in this presentation. Be aware that the opinions expressed are personal and not necessarily shared by Rayonier NZ Ltd. Certainly, we are hoping to stimulate some thought.

Resource Ownership

Current estimates of forest ownership are as follows :

Ownership	Status	Area (Ha)
RNZ (Resources)	Corporate	31,000

FCF	Corporate	24,892
JNL	Corporate	16,500
Ernslaw	Corporate	5,000
PFO	Manager	20,000
R.Dickie	Manager	2,000
Kohntrol	Manager	12,000
Mangatu Inc	Corp Ag.	3,000
Ngati Porou	Private/Trust	2,000
Other	Private/Trust	6,000
	TOTAL	122,392

(Graph on ownership)

MOF estimates that the Forest estate is increasing by around 10,000 ha per year in the region. A high percentage of this area is being planted through the East Coast Forestry Project, the majority of this being private and investor groups.

Wood Flow

Woodflow was predicted to increase rapidly on the East Coast - and it is. This graph published by Industry sums up the current situation well.

Of real interest to the group will be this graph depicting a Purchase Wood "Feast" in the years ahead with around 78,000 ha of uncommitted resource.

The Land

A very high percentage of this forest has been planted for soil conservation purposes.

This makes for some very spectacular countryside, long convex slopes are common, mountainous peaks rise in the ranges and wide debris filled valley bottoms allow good summer access.

Erosion is visible in all areas from the sea to the ranges. Some of the most badly eroded country is in production forest.

Private forests harvested now and over the next few years were planted under subsidy by the Catchment Board and are covered by covenants stating minimum clear fell age and replanting constraints.

Environmental Concerns

Creating a credible relationship and performing to a high standard are of utmost importance in an area where harvesting operations are monitored closely by agencies and the public.

With vast conservation planting's on sensitive land it is understandable that there are real concerns on the Coast as far as harvesting and transport operations are concerned.

This makes for some interesting challenges when planning and operating...

- Excellent communication and liaison with District Council staff on RMA issues.
- Limited ground basing options.
- Well planned tracking kept to a minimum.
- Extensive use of cable harvesting techniques.
- Using economically viable roading solutions.
- Wise use of summer and winter harvesting options.
- Good water control pre and post harvest.

For a quality result, commitment and attention to detail is essential. Our industry is judged critically by the community, on the "cutover" we leave behind.

The Harvesting Infrastructure

To be effective in our purchase wood operating environment, it is necessary to have the range of systems required, to do the wide variety of sites and topography encountered. The days of trundling around in a D7 and a wheel loader are not conducive to a quality result at all sites on the East Coast.

Common Purchase Wood Combinations

Cable Systems

- 071 - Mackie carriage.
- M4 Berger - 2 x 30 tonne excavators.

Ground Based

- Cat 518 Skidder - 30 tonne excavator.
- Cat D5H Custom Skidder - 20 tonne excavator.

Useful Harvesting Techniques and Methods (*slides*)

- Slack pulling carriages.
- Tail/intermediate spars/supports.
- Mobile tail holds.
- Tree topping.
- Shovel logging.
- Total suspension (protected water courses).
- Skyline extensions (spans are common + 1000m).
- Shot gunning.
- Use of deadman anchors (some hand dug).

Continuity

Continuity of work for contractors is a major challenge within the purchase wood business. Within our area of operation hauler and ground base crews regularly change from one buyer to another. At times

due to market conditions forward planning is left to chance as the Forest Owners hold back volume, causing some crews to run out of work. This tactic also, in the Forest Owners eyes, though they won't admit it, serves to put pressure on the buyer to increase his price in order to keep his infrastructure in tact. In turn contractors are put in an unenviable position of being out of work for unknown periods. This type of situation could cost our industry in many ways. If Forest Owners want good returns, this type of situation is not conducive to low harvesting rates.

The ability to gear up and down in the purchase wood environment is essential, especially where market conditions can cause a loss situation to develop. The purchasers ability to move from one stumpage purchase to the next to control cash flow and associated market risk are the key to economic survival.

Harvesting Access

This can and often is a nightmare on the Coast. To build an all weather access road is expensive. On purchase operations summer options are the way to go, wherever possible. Use of riverbeds for access are common and midslope roading is always done with caution ie. it's a road today - tomorrow it's in the valley bottom.

Most roads are built to be shower proof, after that they cannot be used when wet, even by 4 wheel drive vehicles. The caution required on this heavy clay, highly erodable country cannot be over stated.

Some of the successful techniques used for roading solutions are :

- Use of corduroy.

- Central tyre inflation (CTI).
- Minimising use of culverts by road design.
- Minimising aggregate use.
- Minimum carriage width and use of passing bays.
- Maximum grade - up empty/ down loaded.

The aim of purchase wood harvest roading is to get produce safely and speedily at the lowest cost per m3 to the market place.

Education

You constantly find yourself in a position of informing or “educating” groups/individuals who are involved with a new process(es).

The Seller

Depending on the sellers background this can be a critical area for the purchasing professional. Time spent pre-operation to enlighten the vendor is very wise, a trip to harvesting operations is a minimum requirement, backed up by a written plan or prescription is essential. Depicting a scene of utter destruction post harvest is absolutely imperative, to give a sense of true expectation. There are a myriad of concerns from the first time seller. Be aware no matter how good you think you are, something always arises to raise concerns. Being available at short notice and taking time to listen are key skills for a purchase wood professional.

Logging Personnel

We’ve been lucky at Rayonier that all our crews are treated in the same manner, we make no distinction between private or Rayonier Resources stumpage operations. Safety plans, LFITB affiliation, strict

adherence to statutes and company rules are standard for all areas of operation.

Carrot vs Stick

Without input from a driving force, in this case Rayonier Operations, we find it hard to see any training programme be successful.

I venture to say our training programme has been a real success story with growth from 3% of firs holders in 1992 to 90% in 1996.

The use of the Carrot vs Stick approach has been a major influence in the training area.

Use of a crew ranking system - Preferred Suppliers Rating (PSR) has pulled the last bastion of resistance from the cupboard as far as Firs affiliation is concerned. With a high score for training within PSR, based on the number of Firs holders per crew, non holders have been pushed by their peers to achieve the qualification applicable to their position.

Rayonier Operations are strong supporters of the LFITB/FITEC and participate vigorously in the Health and Safety working group, established to promote better performance in the private purchase wood, harvesting area.

We believe LFITB training is a must and is used as the benchmark for minimum skills at all levels in our harvesting workforce.

Individuals within crews are encouraged to be ambitious with a “Key Skill Incentive” (KSI) scheme operating, where individuals are rewarded with a cash payment system on the attainment of “key” modules.

Currently we have two fulltime contract trainers. All training and assessing is on a

share of cost basis between the contractor and Rayonier Operations. We see it as imperative that contractors and all forest owners have a stake in the training system, and are encouraged to take an interest in all aspects of the process. As we all share in the improved performance that is generated.

Consultants

There are a number of consultants involved in the purchasing, preharvest, harvesting and marketing phases of the private wood industry. A few comments are pertinent here - "Consultants" Be conservative - it may make you feel good to paint a really rosy picture in your assessments of a stand, but when its the purchasers turn, we often find it impossible to measure up to your portrait.

The results being aimed at the purchaser;

- "your trying to rip me off!"
- "I know there is more volume than that"
- "There is too much pulp"

and alike.

When it comes down to it "Consultants" are protected by a disclaimer and we're under contract - "yes" as usual - we carry the "RISK" and big uncontrollable risks they are.

Purchase Contracts : Obligations as the Purchaser

There's no such thing as the perfect contract, but experience is a great teacher. Always expect the unexpected.

Some key points to consider when writing your contract :

- Conditions must be workable.
- Flexibility is a must.

- State responsibilities of both parties clearly.
- Log specifications must match the expected cut and allow for any changes in the market.

Warning - A Contract isn't a Contract until both parties sign.

Monitoring the Processes

During the operation checks and balances must take place to ensure quality standards are adhered to.

Harvesting

- Safety and quality management audits.
- Log quality checks.
- Crew safety audits.
- Avis audits.
- Cutover waste assessments.

Environmental

- Adherence to RMA consent conditions.
- Regular visits/communication with GDC staff.

The Seller

Providing the seller with good information during the operation is an important part of our service to the customer.

- Weekly/daily visits by the purchasers agent.
- Supplying weekly docket information.
- A written weekly summary of grade, volume and any pertinent comments.
- Access to other harvesting checks if required.
- A post harvest summary - volume and financial outcome.

Expectations

A simple word with so many connotations!

At times it is impossible to satisfy a seller's wants, as a buyer, frustration is common as the insatiable appetite for more goes unended.

We are all aware of the turmoil faced by the meat industry, lessons must be learned from this legacy.

To have a viable competitive industry the prime purchasing company's need:

- commitment from forest owners
- a degree of loyalty
- recognition of good performance
- feedback on indiscretions
- to make a return on investment

We need these essentials to carry the "risk" associated with the business.

"Forest Owners it's up to you to support us".

CHALLENGES

PURCHASE WOOD - "An East Coast Perspective" - "In Search of Excellence"

Rayonier Operations are now in a position where we rely on our ability to purchase wood to stay in business. 100% of our volume is purchased wood. Having to compete for every cubic metre has sharpened up attitudes and practices within our infrastructure from our harvesting and transport operators to our own staff. When your LPC's want to know how much margin is being generated per m³, by setting, it's a sure sign the team as a whole is thinking the right way.

Now, as a truly margin driven organisation, what we have experienced in the past buying private wood we now put to good use in an extremely competitive environment.

Commitment to quality, safety and environmental standards on purchase wood operations are an integral part of a leading primary industry heading into an era of increasing production.

As a sector we need to:

- Create a professional team doing "smart" business.
- Have a margin conscious approach to succeed.
- Be giving good "service" to forest owners and sellers.
- Have a well trained, diverse harvesting infra-structure and providing continuity of work is essential.
- Have integrity, trust and adherence to industry standards.
- Promote our image - "Purchase wood" or "Private Forest". But not W....L

The bottom line is making margin for the vendor and your own organisation without compromising standards. Enjoying what you're doing, accepting and adapting to continuous change while being part of an exiting business.

The challenges are great, the Risks are high but the rewards are there.