

# Are we at the bottom of a trough or the edge of a precipice?

Bruce Manley

This was the topic for debate at the October meeting of the NZIF Canterbury Branch – a very topical issue given recent trends in log and wood product prices. Rob van Rossen (Facility Manager at CHH Pinepanels Plant, Rangiora), Dave Janett (Director of Forest Management Ltd) and Kerry Ellem (CEO Selwyn Plantation Board Ltd) discussed the current state of local and international markets and gave their views on what was in store in the short to medium term.

All speakers concluded that the industry was not at the edge of a precipice but had reached the bottom of the trough. However they differed in their views on how wide the trough was and how quickly things would get better. Subsequent to the meeting there have been some signs of improvement. In November, Korean export log prices increased by NZ\$20-30/JAS m3 (delivered to New Zealand wharf) in response to the reduction in the New Zealand harvest. However, the NZD/USD exchange rate and freight rates have continued to increase and kept other market segments firmly at the bottom of the trough.

This edition of the Journal continues to address this question. In it the Chief Executives of four forestry companies give their views on “When will things get better?” Jeremy Fleming of CHH Forests puts the issue in context by reviewing the present situation, the underlying drivers for it, and expectations for the future. One observation that Jeremy makes is that forest owners “must increase the level of cooperation between suppliers to Asian log customers with a focus on achieving greater control over revenue streams in the future”.

Lees Seymour of Weyerhaeuser New Zealand provides a SWOT analysis of the New Zealand industry. Amongst the weaknesses are “Our industry is extremely diverse and lacks unity” and “Our focus tends to be very short term in an industry that is long term by nature”. However he notes that some companies are still performing well in the current circumstances because of the products that they are producing and the relationships that they have with their customers. His challenge is for us to become as proficient at processing, marketing and distribution as we are at growing trees.

Phil Taylor of City Forests counts the financial and social costs caused by the relentless restructuring that has occurred within many large corporates over the last 20 years. The focus on short-term profit has often been at the expense of long-term value. One consequence has been a significant loss of experienced staff from the industry.

Kerry Ellem of Selwyn Plantation Board comments on the mixed messages that are coming out of the sector and describes current realities. As part of this he compares and contrasts the New Zealand and Chilean forestry sectors – a comparison that is not flattering to our industry. Not only has Chile learnt much about forest operations from New Zealand, they also seem to have implemented the “fly in formation” slogan that was recommended by the 1992 New Zealand Forest Industries Strategy Study.

Kerry also makes some pertinent observations about the current approach to marketing. Given his background in marketing and the experience gained through living in or frequently visiting Chile, China and the US, his comments are particularly pertinent. Kerry makes no attempt to be politically correct in his 10-year plan for the industry. In his view the key to returning profitability to the industry is to focus on exporting logs to China. His approach is simple – give the customer what they want.

One common theme that comes through is that as an industry we have suffered because we have been so preoccupied with the short term that we have not been able to implement the long-term vision. This has been very evident in marketing where there has often been dysfunction between the strategic vision of organisations and their short-term market activities. The focus of the latter on sales for the next quarter has highlighted the difference between selling a product and marketing a product.

Underlying this has been a lack of a collective will to collaborate. Everyone in the industry has stories about New Zealand companies undercutting each other in the marketplace, refusing to use the same export vessels, turning up in the same foreign city at the same time to sell the same commodity product, attempting to piggy-back on the market development efforts of others, or refusing to support promotional activities.

We don't need a Fonterra but we do need a more cohesive industry. One that gets beyond vision statements and slogans and actually works together. It is important that individual company innovation and initiative is not suppressed and specialist products and niche markets are developed. Nevertheless, in commodity markets, such as export logs, greater collaboration seems an obvious way to go.