Did we do it right ? Part II

2003 was marked by a singular event in New Zealand forestry. It passed unrecorded and almost without notice. It was the purchase of the 2,000 ha Silver Peaks forest by City Forests Ltd of Dunedin. It is the first, and so far only, part of the former State plantation estate to return to entirely New Zealand ownership and management.

When I asked the question (45/4, February 2001) as to whether we had got it right when we privatised our forest plantation estate I expected answers. I got no response at all in the Journal, just some emails, mostly from foreign parts, from people tipped out by the frequent restructurings of the larger corporates. So, three years on, maybe it's time to raise the matter again – did I ask the right question?

All the same, I have heard no reason since to change most of what I wrote. I still think that a wider range of sale sizes would have led to the possibility of more adventurous forest management systems, and I can still see no reason for a process which effectively excluded local companies. But overall things seem to have gone quite well, with one significant exception - the division in performance, apparent then, that has grown between the performance of the largest companies and the rest.

The basis of the original sales structure, as I understand it, was that success meant bigness – you needed enough forest to justify investing in processing, and 'enough' was a lot. That theory now seems to be in question, given the dire state of the biggest of the big.

Things weren't too good when I wrote and, measured by what I read in the press and in this Journal, they have carried on getting worse. The two corporate giants of the central North Island appear to be continuing their journey down hill. The praise singers still dance outside the gates, but both seem to have lost control of their destiny, and share an unfortunate proclivity to be in there when disaster strikes. Untreated radiata, the leaky building scandal, the attempt to seek a scapegoat in Douglas fir, Clayton's strength testing of radiata framing, one follows another until it seems that the only industry to thrive is the advertising of non-wood building materials.

That's what we read. What has happened inside the forest gate is less visible, but we hear rumours that the more valuable Douglas fir resource has been cashed in, and that a shortened radiata rotation has much to do with the strength testing problem.

The irony is that both these companies have been big for long enough to have mastered the arts of large scale management, and that neither of them were big players in the State plantation sale until Kaingaroa got sucked into the whirlpool.

Of course they suffer by being large and visible – their share price is quoted, people notice what is going on and the media reports it. That's their problem, but it becomes our problem too when it begins to drag down people's perception of forestry as a business and of a profession perpetually on its beam ends.

Perhaps I am being unfair, but if the rest of the plantation forest industry has suffered these convulsions, I haven't heard of it.

So do we have a conflict of philosophies, one of which demonstrably fails and another which seems to work? It looks as though there is, and I am not the first to notice it – Dennis Hocking mentioned it recently (48/1, May 2003) and it has long been an axiom of forest management that forest and industry are best kept separate, or the forest will be plundered. So should we ask – why? Is there in fact something genetic in the structure of large public companies which makes success in long term ventures difficult, or is it just size and an obsession with being lean and mean that makes them unmanageable?

The trouble with large size is that inevitably it seems to drive an industry to the bottom of the market. Inherently size is not entrepreneurial but defensive - occasionally megalomaniac perhaps, but we won't go there. Form a laager, circle the wagons, monopolise if possible, and wait for the next band of corporate raiders. There just aren't enough people to deal with the detail and the easy way out does seem to be bulk commodities such as logs, 'fibre' or, in another world, milk powder.

Nothing wrong with 'fibre', only it is a generic term for a vastly varied raw material reduced to its lowest common denominator. Everything that makes 'fibre' good must be due to the brilliance of CEOs, marketing people, engineers because on its own 'fibre' has no virtue. So possibly a fibre mentality lowers the sights. It implies a lack of respect for the forest and its potential, and that shows up in public attitude and I suspect also in the bottom line.

I got a glimpse of where this philosophy might have come from a couple of years ago when I visited a large mill in inland British Columbia. It had a sawmill cutting studs and decking, and a veneer and plywood line. This is not Big Tree country - the trees, like large power poles, were cut to about 2½ metre lengths at the mill and jostled down the conveyor for processing. They were a mixture of spruce, silver fir and pine, cut as one, and Douglas fir. Very few, even from the plywood line, would have made it onto the log deck here. They were strictly a low value commodity which could only be turned to value by the ultimate in automated milling and ruthless culling of the product. They were truly 'fibre'.

Transfer that North American situation here under the guidance of CEOs ambitious in that culture and urgent to carve another notch on their CV before they move on, and perhaps it isn't surprising that so often they seem to have completely lost the plot. Just like dairy farming in Southland no one hangs around long enough to adapt a system to the local environment – there is only time to force the environment to fit the system - with mixed results.

I of course see only my own small area – Otago/ Southland south of Dunedin. The other model - life continuing much as before, gently rising. Faces don't change, no 'big players'. There has been little new green-field expansion of industry, but there is a continuing and considerable investment in improving existing facilities. The 'wall of wood' has been soaked up by that investment and there is now a close balance between regional supply and demand. Log exports have dwindled to grades which no one wants and 'fibre' (in this case MDF) comes from logs which otherwise would be left in the bush. Forest management improves, in part due to the discipline of certification, in part through a wish to do things better.

Whenever I get this far I recall the NZIF annual conference in Invercargill in 1996. John Warjone of Blakely Pacific Ltd spoke there about his company and its rather different philosophy as a long rotation forest grower specialising in large logs. The questioning, inevitably steered by Chris Perley, turned to internal rates of return and discounted cash flows, and whether the Company used these tools in the development of its strategies.

As I understood him, John said that they did, but more to see what consequences conventional bean counting might throw up for those who practised it and what market opportunities it could offer to those who didn't. He mentioned shortened rotations, supply problems, smaller and lower quality logs as some of the consequences, and a 15-20% higher stumpage as the opportunity. The consequences at least sound familiar.

So perhaps in the end whether we got our forest sales structure right doesn't matter any more. The choice, in so far as we can choose, seems to be between a corporate system which, here at least, looks pretty sick and another system which by and large seems to be working.

Dennis Neilson (48/1, May 2003) claims that corporate forestry is rare in complex evolved economies, possibly (my view) because it is simply too out-of-scale and unsophisticated to fit in. It also seems to be a bird of fashion and the fashion now, he suggests, is to fly away, from everywhere. But where will it land? Colin McKenzie (48/1, May 2003) suggests that it will change along the way into TIMOs (timber investment management organisations) and land back pretty much where it took off. But the trouble with TIMOs is that they look much like more of the same, which so far hasn't even been very successful in delivering the goods that it wants, let alone what we require.

And that of course goes way beyond just profit as measured by economic fundamentalism. We are expecting a whole lot more social responsibility, a whole lot more innovation and sophistication in silviculture and forest management generally, a lot more research into the growing and use of other species. New Zealand has a forest climate, so none of this is too much to ask, and there will eventually, I suspect, be trouble if we don't get it.

Phil Taylor (48/3, November 2003) speaks for that road, and that is the way we must go. I suspect that ideology will prevent some taking that road – so be it.

John Purey-Cust