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**Co-operation necessary for industry to grow**

Ian Boyd*

At ANZIF we had the opportunity to be informed and inspired on the depth, range, and potential of our industry. I want to focus on some commercial realities: in particular, the ongoing debate about how the industry could structure itself to improve overall performance.

There has been a great deal said in recent months about industry co-operation, or consolidation - the concept that an industry that fights as "NZ Inc", would have the scale, and global clout to maximize performance in the market place.

I have no argument with the concept. But I am concerned that it is in danger of becoming a popular catch-cry, a simplistic answer to complex and demanding problems. It is also important to keep things in perspective, particularly in terms of what is already being achieved. It is therefore timely and appropriate to do a short stock-take of exactly what is going on within the industry, what is achievable, and where new effort and commitment should be divested.

Of course, we must first remind ourselves that the New Zealand forestry industry was largely founded on national development principles. The great plantations of the Central North Island, the early research and development organisations such as the Forest Research Institute, and the early commercial companies, built this industry from a base of common purpose and national economic commitment. Without that investment and belief in long-term goals, we would not have an industry to argue about.

But they were much simpler times. The industry had a simple structure. The public policy and trade environment, domestically and internationally, was relatively uncluttered; commercial regulatory frameworks were relatively undeveloped.

Today, the New Zealand industry is diverse and complex. It spans virtually every form of commercial structure. Ownership patterns reflect the internationalism of the New Zealand economy. It is interwoven in the public policy and government structures of every region of the country. Its stakeholders are varied in motivation and expectation. Markets are extremely diverse, very competitive, and much more demanding in terms of quality and service. Efforts to achieve industry co-operation must reflect that complexity.

That said, we should acknowledge there is considerable activity and progress, not always visible to outsiders. I want to put in front of you three powerful cooperative streams that exist, that are adding real value, and which must continue to develop. Then I want to add two new important challenges.

**Examples of industry cooperation**

**Log exports**

First, there is a vital area of log export co-operation. I

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have to say that the industry has come a long way in this area over the last two to three years. Much of it has been done quietly and carefully and not necessarily discussed in the public arena. There are many constructive, informal relationships, but the core model has been the approach taken in India, a very difficult new market to enter and penetrate.

I admit now that there was considerable nervousness when some of the interests in the industry looked at taking a joint approach in this market. We were concerned about potential customer and international competitor reaction, and reaction back here in the wider industry. However, the initiative has been a success.

I am confident that this could not have been achieved by individual companies. All of the interests involved learned a good deal along the way, not only about how to access complex markets, but also how to cooperate with each other. That model can be applied to other new markets and I sincerely hope that it can be widened to include other interests.

You will be aware of the formation, by Carter Holt Harvey and Timber Management Company, of Export Co. which is of course a much more extensive joint marketing proposition. On the face of it, for those outside the industry, this proposal for a joint marketing vehicle for very large volumes of logs, could seem a simple idea. In reality it is a very substantial step and a great deal of detailed work is involved in bringing it to life. I know the majority of medium sized forest owners in New Zealand are now actively considering joint export alternatives, including ultimately joining Export Co. or an equivalent, depending on how the details evolve.

However, I want to emphasise two things - first these opportunities have evolved from an established foundation of informal co-operation, and secondly, any such co-operation is not necessarily a magic wand for higher prices. At best it may help in controlling price downside by regulating volume flows to specific markets and providing economies of scale for logistics costs. But at the end of the day we are a small player in a major global commodity market. In my view the real gains will be made through added value processing and capturing the supply chain in niche markets right through to the retailer.

Research and development

Secondly, major progress is also being made in another vital area, research and development. Again, not necessarily work that gets into the public, nor market arena, but fundamental to the long-term success of the New Zealand industry.

With Forest Research there are a number of co-operatives dedicated to research and development, plus a further group of collaborative multi client programmes. Some examples include: Forest Health, Douglas Fir, Wood Drying, Eucalyptus, Forest and Farm Plantation Management, Forest Site Management, and Stand Growth Modelling.

A further major step forward is represented in the recent formation of a research consortium directed to accelerating research in the area of wood quality. This cooperative/partnership model with research providers and the Government should eliminate costly duplication that often came through in a competitive funding structure, and importantly, is industry-driven and stakeholder owned. This new programme is still in its initial stages, but the signs are positive that significant results can be obtained.

Partnership with Government

However, it is a hard reality that while the industry can push ahead with new directions in market development and in research, it will be for nothing if we cannot get our maturing volumes out to the markets at a competitive price.

Much of the responsibility for industry competitiveness rests with individual commercial interests. But overlying that responsibility is a set of public policy drivers such as infrastructure, transport, the RMA, skills and education policy, trade and investment policy, all largely determined by Central and Local government, but absolutely vital for our industry.

We have battled away on these fronts for years, through various industry organisations. The Wood Processing Strategy Group, which is a direct partnership with Government, has now taken that to a higher level. This is the third major area of current industry cooperation. The partnership with Government makes this area particularly significant.

There have been positive outcomes, especially for some of the regions where forestry is just coming on stream.

However, that said, I think all of us would acknowledge that there are major issues still to be addressed and time is running out as the maturing wood flows and our global competitors, come at us. Labour availability, energy costs, and infrastructure development are topical issues at present.

Challenges for the future

From all of the above, it is clear that contrary to perceptions, there is already a considerable amount of constructive, cooperative effort throughout the New Zealand forestry industry. The challenge now is whether we are prepared to go further.

Further structural consolidation is one possible outcome, but that will be determined through market and corporate actions. Further progress should not depend on such potential arrangements. So I want finally to turn to two new areas, which present new challenges and which the industry itself, at our various working levels, should address using a cooperative approach.

Promotion of New Zealand Radiata

The first is the challenge to continue to lift the status and profile of New Zealand Radiata as a species, and a focus of consumer choice in our established and new global markets.

Realistically, in our present commercial structures
many of us will continue to expand our individual products and increase our product brand profiles. Cooperation is therefore not about setting up joint marketing companies. But there is a core common interest, a pan industry interest, in the generic wood product - the diversity and capability of radiata pine products. This is where co-operative market development must focus.

The opportunity is all before us. China for example, that huge emerging market in our neighbourhood, has the capacity alone to take our so-called wall of wood and more. Much of the initial market development work required in this market is relatively simple. It is educating the consumer about the potential of radiata pine. How best to saw the logs, how to finish and treat the wood. This technical in-market support is largely generic. If the New Zealand industry is to remain competitive, then we have to squeeze every last bit of market advantage for our products.

Volume and price will continue to be key drivers for large parts of our business. But to achieve differentiation and high value we must become much more sophisticated marketers. We must be far more knowledgeable about the economic, social, and cultural trends that shape consumer preference, the strength of consumer advocacy, the dynamics of new markets, especially in Asia.

If we could also convince the emerging middle class in markets like China, that New Zealand Radiata has the quality, value, and flexibility to be the key product of choice in wood, then we will have created a core brand on which our individual company products can build further.

This step up to the creation of a generic brand is a huge and sophisticated job. It demands skills and experience not traditionally found within our industry. It is a task that could, and should, be a cooperative venture.

I have been pleased to note that the Wood Processing Strategy Group has recently announced that it will continue its charter to look at such generic market development issues. The NZFIC has also formed an International Marketing Committee to address these issues.

**Partnership with Maori**

Finally I want to turn to a significant, new development - the pending settlement of the great land claims, especially in the Central North Island, and with that the confirmation of Maori as a major partner in this industry.

This process of historic importance is not something to be feared, or seen as a constraint on the industry going forward. Maori interests are our natural partners. They own the land. For generations Maori people have been at the heart of the forest work force; their communities and culture infuse large parts of the industry. They are already business partners in a range of relationships. We have a mutual desire to see the forest industry succeed.

As the progressive settlements expand this existing participation, new economic influences, business relationships and stakeholders will come into the industry. More Maori ownership and management in the business can only be good and produce mutual benefits.

There is the onus both on the existing industry, and on Maori, to ensure that the full potential of this new development is realised. To see Maori expand its participation beyond land ownership to participation in forest ownership and processing. There will be limitless opportunities for further co-operation and development in this area.

**A common cause**

I have talked about structures and goals for industry cooperation. I am stressing the need for realism about what we can, and cannot achieve, given the diversity of the industry and normal commercial pressures.

But structures are meaningless without the human factor, the common cause of people who share the industry. We certainly now have commercial diversity, but the common background of the majority of the people working in the industry remains. This gives me confidence that we will continue to achieve significant advances through various co-operative ventures. In fact, in the last year or two it has become clear that many share that view.

So at the conclusion of ANZIF, when we have shared and learnt so much from each other, let's resolve to all keep the doors open, keep talking, keep open minds to ideas. In this way our industry will continue to grow and play an increasingly important role in our national economy.

**State of World’s Forests out**


First published in 1995, *State of the World’s Forests* is produced every two years for the purpose of providing current, reliable and policy-relevant information on the forest sector. Part I of *State of the World’s Forests 2003* presents recent developments and areas of current attention in forest resources; the management, conservation and sustainable development of forests; the institutional framework; and the international forest policy dialogue. Part II addresses five current issues in more detail: Forests and poverty alleviation; Sustainable use and management of freshwater resources – the role of forests; How sustainable use of forests can contribute to conserving biodiversity; Science and technology in the forest sector – widening gaps and narrowing options; and Recent trends in fiscal policies in the forest sector in Africa.