Collaboration in the Forestry Industry - Opportunities and requirements from a Harvesting Contractors Perspective

Ian Reid

Austimber
Harvesting Gippsland

Company Background

- Based in Latrobe Valley 160 KM east of Melbourne
- Harvest in excess of 500000 tonnes pa of Pine and Eucalypt for HVP and Farm Forestry plantation owners
- Clearfall Pine and Eucalypt operations
- T1 and T2 flat and steep pine operations
- 31 Employees with average length of service of 9.5 Years
- 75% of employees trained in industry by Austimber or its previous entities.
- In house training program
- Fleet consisting of 24 machines including 11 harvesters and 8 forwarders
- Value of equipment of approx. AUD 10 Million
- Annual Capital reinvestment program and equipment replacement program
- Our employees are our greatest asset

Technology and equipment Partners

Austimber
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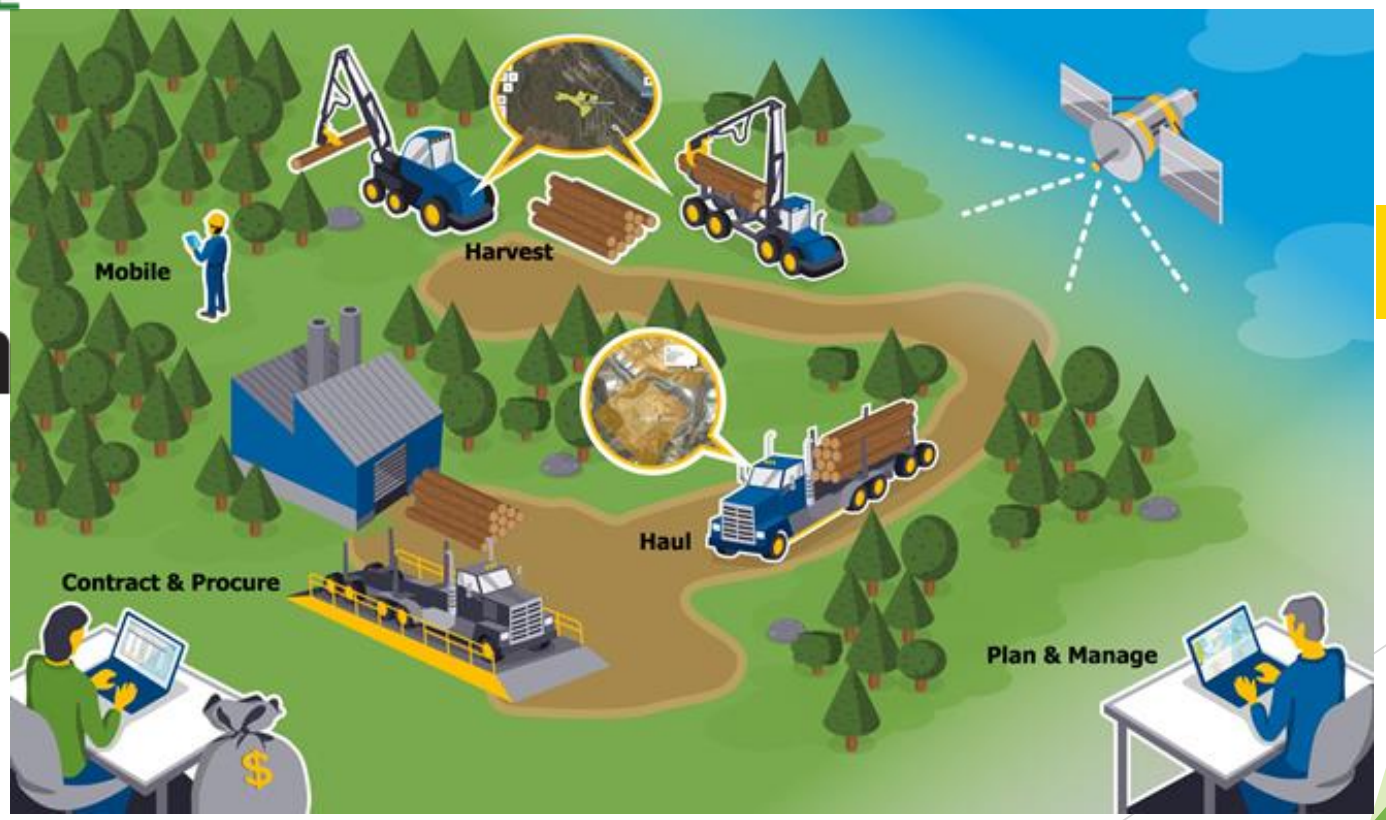
ForestPHD
PLAN | HARVEST | DELIVER

JOHN DEERE

KOMATSU | Forestry Quality™



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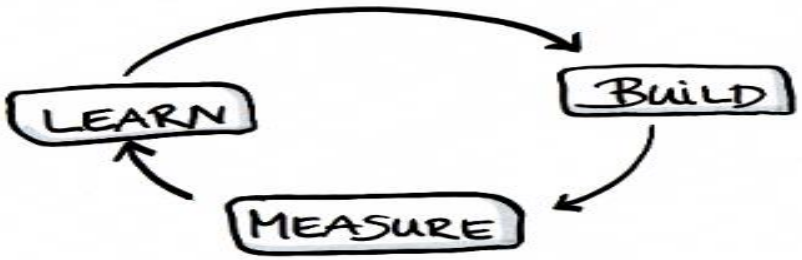
Trimble

Data Available from Many Sources

- Pine Harvest pre inventory
- Harvester Head - All types
- Forwarder weigh scales
- Machine fleet management - Various manufacturers
- Wood delivery information
- With this information we are able to make informed decisions more quickly. Decision-making becomes faster and more informed.

Allows us to

- Monitor operator hours
- Monitor machine reliability
- Monitor machine performance
- Monitor operator performance
- Training assistance tool
- Permanent record and easy to access historical information
- Cross check and improve both forecasting and value recovery
- Ability to do accurate trials



Industry structure

Forest or plantation ownership – Government, superannuation based or corporatized. (generally with long term supply arrangements)

Contracting (Establishment, Silviculture, Roading, Harvesting & Haulage) generally family businesses with short or mid length contracts (normally no more than 5 year term but often much less

Frontline equipment effective lifespan of 5-7 years

The processing industry large corporate businesses with long term supply arrangements to secure investment

Each group is very dependant on each other

Mechanisation and technology has reduced the number of contractors with contractors needing to increase in size to support technology, OH&S, environmental, capital and management requirements. Specialisation is becoming the norm. Generally personally guarantee business debt

Increase in capital requirements has not necessarily lead to longer term contracts. Is this stifling further innovation?

Something is not working here

SURREY NOW-LEADI

B.C.'s forest industry has shifted to logging contractors to supply mills and export markets. (Black Press files)

B.C. loggers struggle despite record lumber prices

Province gets recommendations to stabilize contractor business

TOM FLETCHER / Jun. 7, 2018 4:00 p.m. / BUSINESS

Even with record-high lumber prices driving the forest industry, logging contractors continue to struggle to stay in business, says B.C.'s main harvester group.

American Loggers Council's post

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- Proposal to have government regulated rates
- Growers are trying to implement technology and optimisation programs
- Many contractors are suspicious and all they see is reduced viability

What is Collaboration?

- **Collaboration – The act of working together with people or organisations to create or achieve something. (Cambridge Dictionary)**

- Is an open tender for existing work an act of collaboration
- What are alternative options

What can contractors bring to the table through collaboration

By growers and processors working with contractors and communicating their vision for future development contractors can provide

- Structured equipment replacement program accessing latest technology
- Retain and train professional operators
- Reduce supervision costs by relying on performance and audit reviews. Let contractor do his job and be accountable for his work
- Sharing of data to monitor performance
- Increase value of the forest/ provide information to streamline processing tasks at mills

The “Cost v Return” equation

- The cheapest rate is not necessarily the most cost effective
- Harvesting and transport of product is the signal most costly process in the plantation cycle.
- Other opportunities for contractor to value add.eg qualified foresters starting to work with contractors to allow greater management of the coupe during harvest and possibly reestablishment.

Product	Relative Value	Senario 1	Gross Value	Senerio 2	Gross Value	Senerio 3	Gross Value
Sawlog A	130	20%	26	21%	27.3	25%	32.5
Sawlog B	110	20%	22	21%	23.1	21%	23.1
Sawlog C	90	20%	18	21%	18.9	22%	19.8
Sawlog D	70	10%	7	11%	7.7	16%	11.2
Pulp	50	30%	15	26%	13	20%	10
		100%	88	100%	90	104%	96.6
				Increase	2.27%	Increase	9.77%

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Tender v Negotiated renewal

Tender

- Cost of disruption (grower and contractor)
- Time stands still whist happening
- Employee uncertainty
- Equipment bought tender to tender (little innovation during term)
- How often are there surprises with outcome. Generally well prepared tenderers with good history are successful
- Following awarding of tenders equipment delays

Negotiated outcome

- No disruption
- Innovation continues
- Employees focused on future
- Regular updating of equipment
- Ability to modify equipment and or method of operation
- Reset KPI's

What should a negotiated contract include

- Must be bankable
- Description of task
- Clear description of responsibilities
- Key trigger points timeline
- Method of contract review
- Defined contractor review template (should always be at least annually)
- Planned equipment replacement and training program
- Rules regarding data exchange.

Information Exchange and who's data is it?

- Information about the trees and products cut is now normally asked for in contracts and is a value added service of the harvesting contractors.
- Data regarding machine performance and productivity is the machine owners data.
- With the evolution of systems there needs to be clear agreement of this principal prior to commencement of data transfer
- Perhaps a standardised agreement between forest owners and contractors should be pursued. No need to re invent the wheel these agreements have been developed in Scandinavia. So a simple modification to account for local factors is all that is required

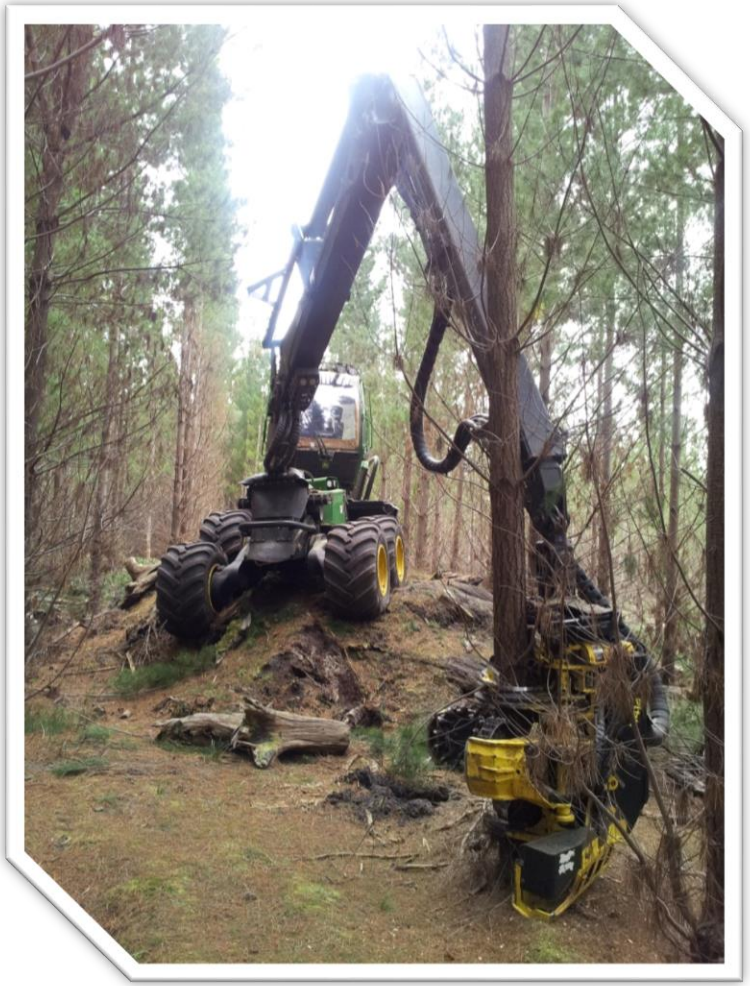
My vison for the future

- Collaboration and technology can allow Forest growers to increase Value Recovery of their Forests
- Correct use of technology requires well trained and professional operators
- Technology can streamline supply chain and make efficiency improvements across the chain
- Technology shouldn't be seen as a way to cut rates
- By sharing the gains made by increased recovery forest growers can pass some of these gains onto contractors to ensure continual improvement (training, equipment, contract tenure) and save operational costs to the grower through reduced supervision.
- Clear agreement regarding data ownership and usage. Data relating to tree and coupe information is being collected by contractor for forest grower. There should be a reasonable acknowledgment of this data's value, savings by getting data promptly and reliability of this data.
- Machine performance and operator performance data is the contractors information and clear understanding from forest grower that they have no interest in this data and that they wont use this data even if they accidently receive this information.

The Key ingredients for Successful Collaboration are

There must always be a "Win Win" for all involved across the supply chain

Any Questions?



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