

Logs to lumber value chain - a sawmill/forest owner's perspective

Bruce Anderson
Pinepac Group NZ

This paper presented me with a bit of a challenge as during its preparation I found myself constantly wanting to change hats as I struggled to decide whether I was a sawmiller or a forest owner. Ultimately I had to admit defeat and take both hats off!

Why did I reach that conclusion? Listen to the flavour of what I've got to say and I trust I can convince you as well.

Firstly let's define value: The Oxford dictionary, pearl of wisdom that it is, defines value as: "The worth of something compared to its Price". For my money in the context of logs or lumber it is simply what is left over after a purchase is made, some further processing carried out and the successful sale of a new product is completed. (You may also want to bank the Cheque.)

Secondly let's take a selection of Markets: I'm drawing on a recent Ministerial Trade mission I was part of and I unashamedly include New Zealand because it should make us feel good.

So what might value mean in each of these markets?

India

My first exposure to India taught me some sobering facts of life. India has a population of some 1200 million people; around 10 million of whom we were told are millionaires. Most of the remaining 1190 million sit somewhere near the bottom of the food chain (Fig. 1).

That is also the current position of New Zealand radiata pine. It is invariably compared with teak (which they seem to have plenty of) and doesn't rate highly. Uses for radiata pine include

concrete formwork and any sort of packaging. Bluestain in locally milled logs tends to remove it from the added value product stream. Mostly it is valued for just being wood and available for handling by as many hands as possible before its ultimate journey skywards as a means for cooking or heating.

Interestingly the brand on the end of New Zealand logs was seen as a **value point** as certain suppliers were seen to provide additional value even within the same log grade.

China

The Chinese value system is, of course, thousands of years old and not only recognises the physical properties of the product being traded but also the credibility and reliability of the supplier.

So here we see cultural as well as economic influences playing a role. The Chinese customer will invariably have a customer of their own whom they are committed to satisfying and providing value. You are expected to buy into that relationship and in turn provide your contribution to the value chain.

No partner should take more profit from the relationship than is fair and reasonable; often this has been referred to as "Sharing the same Rice Bowl". An example from one importer was his insistence on buying 23 mm thick boards to finish 19 mm thick where our New Zealand standard is 25 mm. When asked why he insisted on 22 mm he stated quite simply that to buy 25 mm would mean he would lose 12 % and that was unacceptable. Simple really!

Fig. 1: Pine is still seen as a lowly wood in India.

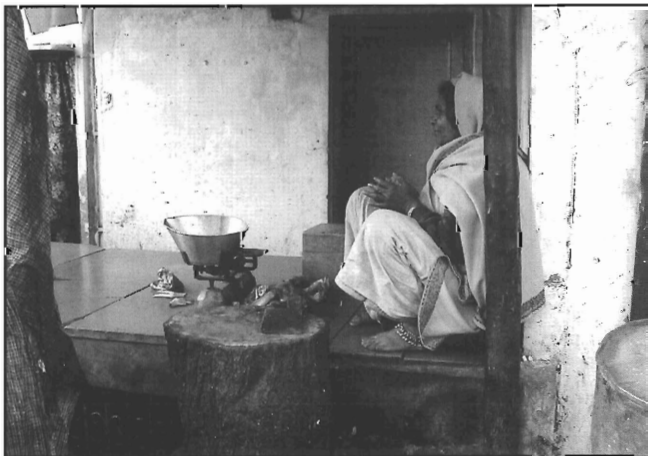
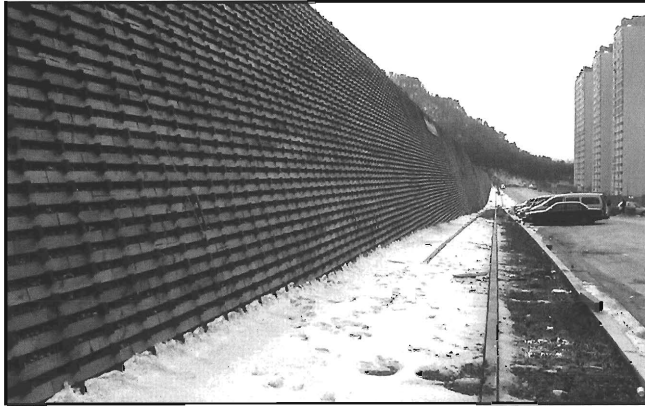


Fig. 2: China adds value for US customers.



Fig. 3: Korea accepts treated New Zealand pine



Korea

In the short time I was in Korea it would be wrong to suggest that I have interpreted the culture or the market correctly but the evidence of a developing vibrant market was obvious. The Korean style seems to be a rather pleasant mix of Western and Asian influence along with, I suspect, a Korean work ethic to succeed.

There is an emerging market for Western style homes and significant commitments have been made by Canadian companies in introducing 2x4 type construction methods. From a New Zealand pine perspective a considerable amount of groundwork appears to have been done by Koreans who have taken up citizenship or residency in New Zealand then taken our products and ideas back into the Korean market (some lessons there!). A couple of excellent examples were a timber crib retaining wall some 440 metres long on two levels and 15 metres high; and a motorway rest area development where the builder had used a substantial amount of treated New Zealand pine as structural poles, decking and cladding.

The value proposition likewise seems to have the Western/Asian cultural mix with, on the one hand, the economic solution provided by the crib walling and, on the other, the aesthetic and design opportunities provided by treated New Zealand pine.

A snippet on the log trade - a question as to why the Korean market required 3.7 m logs was answered by the reply that "Koreans thought that was a good length to build with" and so therefore it was a cultural thing!

The message is clear "Give the customer what they want" don't try and change hundreds of years of culture.

New Zealand

Last but by no means least the place that makes me feel good.

Forest owners should feel good too about the

New Zealand market for logs. For as long as the value proposition in New Zealand and Australia is propped up by distorted domestic lumber prices all's well! But as Shakespeare so aptly put it "Something is (or I'll add could be) rotten in the state of Denmark".

So what could go wrong? The bad news is domestic prices will eventually come under downward price pressure from either alternative suppliers or alternative products such as composites or steel. The good news is any refinement of and adherence to log specifications, that the market requires to compete efficiently, can still produce the best forest values. Length, diameter and density sorts, for example, are simple but effective value chain contributors.

Fortunately or unfortunately, depending on that damn hat again, the market value for lumber in the Australasian market is high in comparison to other markets available for New Zealand Pine. So, on the one hand, we have the challenge of New Zealand domestic mills wanting to expand their exports and, on the other hand, forest owners accustomed to log prices supported historically by domestic lumber pricing.

Domestic mills are really no different to export customers albeit that they are continually being challenged to become more efficient. Invariably they require logs sorted to either grade, length, diameter, density or a combination of these properties. These requirements are driven by customer requirements – these customers in turn have customers of their own to provide value to.

So what or where is the Value in the "Logs to Lumber Value Chain"? Quite simply the value must lie with your customer as without it they are unlikely to become a repeat purchaser. If you can't sell the value in your product then why would anyone want to buy it?

Value - create some in your forest now.

Fig. 4: E-grader – helping New Zealand sawmills meet the requirements of their customers

