

KEY REQUIREMENTS FOR A SUCCESSFUL PRIVATE FORESTRY MARKETING COOPERATIVE

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ABSTRACT

This paper discusses the main elements that were found necessary for developing innovative Australian timber marketing cooperative. It includes comparisons with cooperatives and grower associations in other countries the author visited in 2003 on a three-month study tour. There are clearly common elements involved in successful private forestry marketing association development, though in some countries long-term government support, and a historical background of sustainable forest management, appears to make it an easier road.

The key requirements include a dedicated and practically skilled group of directors, adequate start-up funding, a multiskilled manager, an adequate and continuing supply of logs, and an adequate operating profit margin. There also needs to be a good reason why growers should continue to sell through the association. Finally it is important that the government involved recognizes the positive advantages to the regional and national economy of a flourishing and productive nonindustrial private forestry sector.

Keywords: funding, forest growers association, marketing, profit, value adding

BACKGROUND

The initial group of growers may come together, as ours did, with some resource of quality sawlogs, the idea that marketing is better done as a group, and a dangerous ignorance of the eventual commitment involved of time, money and technical knowledge. We represent one extreme: value but little volume.

In Ireland, government incentives in the 1980s drove extensive planting of pines on lower productivity private land. Landowners there have formed cooperatives to coordinate harvest and marketing of low value thinnings, and develop local processing. They are the other extreme: volume but little value.

Another variation is exemplified by Coed Cymru (Welsh Woods) in Wales, where a group of visionary conservationists gained support from business, local and regional government, and philanthropic bodies, to fund an initiative to restore the scattered and neglected areas of the original broadleafed forest. This restoration involved thinning, but also development of processing equipment and timber value adding, furniture design, design of assembly jigs and systems, training of unskilled people, and product development. Here much of the value of the work is less tangible. It is in social benefit, and restored forest health, and in increased business turnover downstream, and "import" replacement.

The grower group may come together in response to a government initiative, as was the case in the state of Nova Scotia, Canada. Here the government offered a forester, and funding of an office and administrative support, for any forest-owner groups that could organize

themselves. This situation built up 19 grower associations. With the sudden removal of this government funding after many years three of these associations survived, and have carried on to trade profitably.

Or it may come together in a region where most landowners are foresters almost by birthright, the resource is abundant, and the reason for working together has evolved in response to a changing political, economic or environmental situation. This is generally the situation in Austria, Bavaria, Norway, and some other Scandinavian and northern European states or countries.

One key difference between associations or grower groups in any of these countries is whether logs are sold whole, or whether the association manages some degree of value-adding, even if this is only sale of chipped harvest waste, or firewood. SMARTimbers Cooperative in Australia is going well down this latter path. So is the Massachusetts Woodlands Cooperative based at Amherst, Massachusetts. Though not widely recognized, Coed Cymru in Wales is the value-adding organization par excellence.

In every case the association is formed to do harvesting and marketing more efficiently and cost-effectively than any individual can. The essential task is to solve how to reliably make a good operating profit, in a market that may be awash with similar timber, or that initially does not appreciate or value the association's philosophy or potential.

The development process

In our own case we have struggled for any financial or in-kind support from our state or national government, though what we proposed, and have so far achieved, is in line with their stated policy objectives. What our cooperative was setting out to do has really meant bringing about a change of culture in predominately farming communities. We compensated for a small resource volume (about 500m³ of logs initially) by value adding as far as possible. In some cases we have bought logs from firewood cutters. Increasingly the cooperative manages its member's logs up the value-adding pathway. Every step of our development has been a learning process. We have got this far by starting small, avoiding capital expense, and ignoring the normal practice of selling low value logs to industrial mills and processors. We have used our limited money to make more money.

Product differentiation

Fortunately we have a timber that we can readily differentiate in the market. It is a very dense durable hardwood, with high strength and hardness, low flammability, and an attractive colour and figure. It is all grown either on farms as shelterbelts or in planted forests, so it appeals to the Australian "environmentally aware" consumer, who is sadly being taught that all timber from mixed-species native forests is bad.

A major marketing advantage will come with our Australian Forestry Standard group certification in 2005. Till then we rely on quality control, good publicity, good service, and a steady product flow. Within Australia most timber for the building and furniture industries is sourced from large industrial growers. Consequently the wood purchaser is not accustomed to dealing with a niche supplier like SMARTimbers. Because this Eucalyptus species has not been used previously to produce commercial timber, much of our time and effort has gone on promoting it into its new market areas.

Funding, and the business structure

Much time and energy has also gone into trying to raise funding to employ our field officer/manager to do this crucial developmental work. Our start-up fundraising effort has had mixed success. After two years and much progress, our first field officer has had to resign, due to insufficient cash reserves to pay for this half-time position. We have found out how critical it is that the right business structure be found that will allow a group like ours to fit inside the funding guidelines for government and philanthropic institutions. Perhaps, unfortunately, we chose early to be a trading cooperative, unashamedly setting up to be eventually a profit-making organization. This has not sat well with the many sources of funding which solely fund not-for-profit groups.

Our structure would have perhaps been no problem if we had had the log resource to allow us to trade profitably almost from day one. But for the majority of groups like SMARTimbers Cooperative, where it will take up to four years to put an infrastructure in place and to build up a market and log flow, the choice of a business structure acceptable to funding bodies will be paramount. To maintain a person with the forestry and marketing skills to develop the supply chain and do all tasks, may cost all-up about US\$70,000 per year. In our case this means, just to maintain this person, we have to be selling about 250m³ of product at 15% commission, or gross sales of about US\$450,000, or nearly US\$40,000 a month (of course, we will be generating useful profits for the log owners at the same time). Currently, entering our third year, we are approaching a third of this level.

The Massachusetts Woodlands Cooperative in the US has partly solved this by creating a foundation to run separately, but in alliance with itself. The foundation, as a nonprofit research organization, is able to apply for grants from sources that are closed to the cooperative. It can use these funds to contract the cooperative, or some other body, to do necessary research work such as product development or testing, habitat surveys, and market development.

Another example is the Harrup-Procter Community Cooperative in British Columbia, Canada. This nonprofit community cooperative in the southeast of the state raised close to US\$1 million to assess and develop the community forest, and develop their enterprise. Since it was an even-aged, relatively young forest growing in the community water supply catchment, cable logging was used to thin the stands without affecting water quality. The cost of extracting logs this way exceeded log value. The cooperative experienced the common problem of going from an initial cash surplus at early start-up, to being in debt after two years. The only way out was to make value-adding work, and sell in the community, or through a marketing cooperative in Vancouver, more than eight hours haulage distance away.

The Vancouver-based marketing cooperative, Eco-Lumber, itself needed a structure that allowed it to attract start-up funding from environmental groups and other supporters, till it was turning over enough timber to be viable (about US\$500,000 in sales). As with other examples, the whole early process is very precarious and always requires a visionary yet realistic business plan, hard-headed and dedicated managers, and some solid supporters.

But the payoff of surviving the start-up phase can be dramatic. Coed Cymru in Wales is a nonprofit charity, funded by a range of local and regional bodies. Since 1986 it has developed processing machinery, product design, furniture designs, and jig-based manufacturing systems suited to prison and sheltered workshop unskilled workers. It has managed over

17,000ha of deteriorating broadleaved forest. The number of farmer-owned portable mills has gone from 2 to 82. One result has been an annual turnover of about US\$15 million by regional industry using Welsh-grown hardwoods. All the county councils and National Parks in Wales now specify Welsh-grown hardwoods in their countryside and building projects. Ex-convicts taught woodworking skills can now find employed in furniture manufacture.

Sources of income

Our cooperative, and the other examples, generally have not owned capital equipment (to do so appears to be the fast route to cooperative financial disaster). Sawmills, kilns, trucks, and logging gear are usually either owned independently by members, or by contractors used by the group or association. In most countries the association or group earns its money by a commission or levy on sales, by doing other consulting work, by being paid by government for extension services that would otherwise have to be done by government employees, and a range of other activities. These include selling forestry consumable items like clothing or accessories in the case of the Athol Cooperative in Nova Scotia, contracting to do forestry work like planting or thinning, or dividend income from commercial organisations created to process the associations log output (this is the case in Norway with Norske Skog).

The Athol Cooperative in Nova Scotia also chose to invest US\$35,000 in a GPS tower and mobile equipment. They use this facility themselves for member surveying on a fee-for-service basis, and also sell time on it for other groups. The Kempten forest owners association in southwest Bavaria has a syndicate of members who sell chipped harvest waste to the Kempten city council for biomass power generation. The syndicate owns the chipper, and deals through the association. The association has joined with other regional associations to develop the markets for harvest waste, whether as chip or firewood, and also to move toward CO2 neutrality for the region.

The development of the associations outlined here varies country by country. The common feature is that groups of individuals join together to address their needs and service a range of markets, and can be considered a form of community forestry. Whilst community forestry is new in Australia, what is in place are numerous farm forestry networks formed by landholders joining together to provide each other with information and support on tree establishment and management. As most of these networks have only existed for no more than 15 years it is probable that in the next 5-10 years they will focus on marketing and utilization, and in turn will mature from grower to harvester networks.

RESULTS

Creating a profitable and expanding network of forest owner associations has many real advantages in terms of social, economic and environmental outcomes locally, regionally, and nationally. These networks can perform most of the tasks of government forestry extension services. Not only perform them adequately, but do it more efficiently and cost effectively, with more accountability to the growers, and more responsiveness to the commercial realities of the market. Their relationship with the growers is naturally closer, and they serve the growers' interest in any commercial dealings, thus keeping costs down and returns as high as practicable. In several Scandinavian countries the government maintains no private forestry advisory or extension service, with all the advice to farm foresters coming from foresters employed by the grower groups.

In Bavaria, 75% of farms have productive forest stands. Average forest size is about 4ha, and increasingly owners are absentee (up to 30%). Most larger stands (over 10ha) are managed regularly for sawlog production, with harvested logs mostly marketed through associations. Bavaria in 2003 had 174 forest owner associations, with about 15 being particularly entrepreneurial. An example is the Kempten region association, which has 1,500 members owning 5,000ha of forest. The association manages mechanical harvesting, and also contract chainsaw harvesting of small or steep blocks. The association markets almost all the members' harvest, selling about 50,000m³ annually. Sawmills prefer to buy from the association rather than individuals. Log grading by the association is so good that most sales are done over the telephone. The Kempten association is able to aggregate and market any grade of log, and also annually arranges sales for 3,000t of firewood, 20,000t of chip and 15,000t of pellets.

In Norway, about 125,000 registered growers privately own 80% of productive forest. 55,000 are members of the 8 district forest grower organizations. Nine thousand member-growers are in the West Agder-Telemark region in southern Norway (which consists of 3 subregions with 54 local associations). In the West Agder subregion, 95% of forest is privately owned by about 7,000 growers (perhaps half are association members). The total productive forest is 250,000ha, averaging 35ha per farm holding. Annual growth is 850,000m³, with about 220,000m³ of annual sustainable harvest. The subregion with its five foresters manages about 60% of the harvest in the area, and the sale of almost 100% of the logs.

These officers do planning, mapping, assist members with paperwork, monitor browsing of seedlings by deer, oversee harvests, and manage sales. The officers work in close contact with the 13 government foresters.

In many countries the effective associations have meant that nonindustrial private forestry is a key source of timber for industry. In Finland, more than 80% of timber logged within the country comes from the 900,000 nonindustrial forest growers, with their average forest holdings of 26ha.

In our case in southeastern Australia all of this is a dream for the future. We have started from a base of almost zero. In 2000 there were no sawlog woodlots being planted in our area (there had not been extensive plantings on these originally treeless plains since about 1910). There was no culture of sustainably growing trees on farms for higher-value uses. All the mill-quality logs of our lead species (*Eucalyptus cladocalyx*) harvested by firewood cutters from farm shelterbelts were being cut into firewood. The species was unknown to architects, builders, or furniture makers.

Now, in early 2005, all firewood cutters sell quality logs for milling. The cooperative manages mechanical harvesting for member-owned sites. The cooperative in 2005 will sell more than US\$100,000 worth of products, including decking, flooring, cladding, furniture grade board, and veneer. It sells by tender the firewood and pole diameter timber from harvests on member's sites. And now *E. cladocalyx* is the most planted commercial woodlot species in the lower rainfall (450-650mm per annum) parts of the state, with about 1,500ha planted in western Victoria since 2001. In addition a similar scale of plantings of sawlog woodlots on farms is happening across other southern Australian states. In a year our cooperative's member-growers will be part of a group certification system compatible with PEFC and FSC. Yet, puzzlingly, we still find it very difficult to get adequate funding to develop and expand this process.

Grower groups may have to develop skills and expend energy in lobbying government. The government need to be pressured (guided, persuaded) to develop a supportive and visionary policy framework that looks beyond the next election and instead is more compatible with tree growing cycles on the farm. Regionally integrated and focused marketing-savvy networks are actually low risk for government, compared with large-scale industrial processes. In our state recent large-scale plantation establishment has been seen as displacing rural communities, and has caused wider community anxiety about industrial forestry.

Of the public native forest timber harvested, approximately 75% is presently turned into woodchip. Almost all this chip is exported unprocessed. Australia exports its forestry product principally as logs and woodchip, and imports twice that value in paper and processed product, plus we import almost all our timber industry machinery. While this culture of undervaluing forest and woodland is still deeply entrenched, there are signs it is beginning to change.

DISCUSSION

A group of forest growers anywhere considering forming a marketing association will have to consider a range of issues before making any serious commitment. The most important considerations are:

- Are there enough growers who have a common interest in joining up to become the association?
- Is there a supply to the group of one or more quality species that is in demand, and that the group can reliably supply at an adequate profit? They will need to have either a sustainable annual log supply, or value-added product, with a sale value from US\$500,000, with scope for expansion. If selling logs alone that may mean 20,000m³/year or more.
- Can the group's timber be differentiated in the market by either its unique qualities, or by some quality such as sustainable management certification, or by processing into a quality product?
- Is there adequate government funding support to employ personnel to organize the chain of supply, develop the marketing, and develop the products? It may take three years of a full-time skilled employee's activity to approach being economically self-sufficient. The all-up cost for this in our instance (if we had been able to raise it) would be about US\$240,000.
- Is there a core group of directors who have the vision, financial resources, industry knowledge, wide networks, ability to work together, and self-interest in the project's success?
- In the area are there skilled, honest and well-equipped contractors to harvest, transport, mill, kiln dry, process, warehouse, and possibly manufacture?
- Is there the cash within the group, or able to be raised, that will pay for the initial harvest, transport, milling etc? In our small-scale operation we required about US\$75,000 in our first full production year.
- Are there other groups who will join with your group, to form some larger and more effective and efficient network or enterprise?
- How long can you afford to take to develop this marketing business? It could take from 2-5 years to become a forest grower association with enough volume to be self-supporting.

The above points should all be seriously evaluated. Some are absolutely critical. Obviously supply of quality timber is one. For a trail-blazing group like our cooperative a supply of start-up money, and a supportive policy framework from government is crucial. Several established groups credit the quality of directors with being a key reason for success. Directors need to be practical yet visionary, active, hardworking, and skilled. There is no room for egotism. They must enjoy the process of creating this new enterprise. Good directors will make the finances work, draw in members, develop a workable certification system, work well with the officer. Good directors will build credibility with government, with contractors and with customers. As important as the directors is the choice of a dedicated, multiskilled, and competent officer who will develop the association.

While generous financial support is obviously desirable, it is also possible to have too much support by funding sources. If it comes with obligations to consult, or develop in particular ways (such as the seduction of owning plant and equipment), the grower group can be diverted from the main aim—that of making a good commercial return and being independent as soon as possible. Grower groups with excellent chances of commercial success have found that too much input by forestry “experts” or economists actually jeopardized the whole operation. SMARTimbers has had to concentrate on making the whole thing work fast and within a very tight budget. This has forced us to assess the conventional forestry practices, and modify or abandon them when they did not suit.

We have developed in a way that has suited our small-scale operation, with its emphasis on maximising returns to the landowner-members, while minimising risk. We prefer to deal with smaller family-owned businesses for harvesting and processing. We seek to work with perfectionists, and with people who have a small enough turnover that our small volume is still significant to them. We build on these relationships. We pay fast and expect to be paid fast. We are in good contact with customers, and will follow up on queries rapidly. We are involved in developing government policy on private forestry, and with providing input into research and product development. One example of this is in the area of microwave modification of wood properties. For us this may open wider the area of furniture design and manufacture for our timbers.

For a tiny group we are developing a growing influence. We see our approaches for harvesting and value-adding, which we have developed by doing things our own way, as being a real key for investor-funded private forestry, and for a profitable future for the proliferating farm forestry grower groups, particularly through the temperate lower-rainfall zones of Australia.

CONCLUSIONS

In the case of the SMARTimbers Cooperative, the fact that we are still operating and expanding after three years is due more to favorable external factors than to our early business skills. We are lucky to have begun this venture at a moment when it was politically and environmentally timely. Australia-wide native forests were being closed to logging, mills were looking for other log supply or closing, the issues of global warming and sustainable management of forests were on everyone's agenda. The cities were experiencing a major housing boom, and there was state government support for planting sawlog woodlots on farmland.

The Australian state and federal governments are aware that there are real problems with supply of good sawlog to industry. There are problems with encroaching salinity in vast areas of the country that had been overcleared for agriculture. We have a glaring in-balance in our trade in timber and forest products. We have problems getting our greenhouse gas emissions down to the levels agreed at Kyoto. It all requires development of an intelligent long-term strategy favouring expansion of sustainable forestry, in a range of forms and sizes of organisations. I believe the models for profitable lower rainfall farm forestry developed by our cooperative can help form part of the solution.

Globally, the countries that are managing sustainable forestry and value adding of forestry products intelligently are showing how it can be a remarkable contributor to the national economy. Finland is the obvious example, with up to 40% of export income from the forestry "cluster." This includes wood products, machinery, energy, expertise, and technology. About 22% of Finland's national energy requirement is produced from chipped thinnings or processing waste. The timber industry produces about half its own energy requirements. The largest chip-fuelled electricity plant has the output of a small nuclear plant.

Yet Finland at the start of the 20th century was up to 75% deforested, and even after the Second World War was still exporting a large percentage of its timber harvest as sawn lumber and logs. The Finns' achievement shows that with vision, strategic government planning, and good management it is possible for other countries and states to similarly benefit from the potential of sustainably managed nonindustrial private forestry. And it will begin with groups of private growers. Growers who are prepared to work together to market their own timber, and keep most of the profits within their own communities. And to reinvest those profits in improving their forests and expanding the resource base.

ACKNOWLEDGEMENTS

For funding for this study trip, and involvement with conferences in Vilnius, Lithuania, and Minnesota, USA, I am grateful to the Corangamite Catchment Management Authority, the Central Victorian Farm Plantations committee, and the Rural Industries Research and Development Corporation. I acknowledge the achievements of my codirectors and the members of the SMARTimbers marketing cooperative, and John Reed, our manager for the last two years, and of the state and federal forestry extension officers, and other individuals who are changing the culture in Australia toward a greater valuing of sustainable forestry. I am deeply indebted to the Churchill Trust of Australia, and to the many people involved in forestry in 12 countries who helped me on my 2003 study trip.

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For further information

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Canadian Eco-lumber Cooperative – www.ecolumber.ca

Massachusetts Woodlands Cooperative – www.masswoodlands.coop

Australian Forest Grower organisation – www.afg.asn.au

SMARTimbers Cooperative – www.smartimbers.com.au