Session C4: Opportunities

Sourcing information

Marketree- buying and selling forest and wood product online

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Biography

Warwick Ragg has served as Chief Executive of Australian Forest Growers since 2002. Prior to joining AFG he was a regional Area Manager for the NSW Farmers Association. Warwick has almost 20 years serving in industry advocacy organisations with a focus on primary production.

Christina Staderman is the Administration Manager for Australian Forest Growers. Christina is responsible for maintaining and updating AFG’s website, including Marketree and acting as a help desk for potential users of Marketree. She has been with AFG for seven years.

Abstract

Marketree – Ode to a frustrated farm forester

In the beginning wood access was free
Especially for farmers like thee
But the millers had to pay fees
If they wanted to buy your trees
Though they preferred to pay government royalties

The RFA’s made public forests scarce
Due to greenies promoting a farce
So millers had to come on down
To access forests you might own
And reap the harvest you have sown

But growers couldn’t set a price
Nor was there independent advice
So groups then formed into co-ops
And they could be the one stop shops
Though most of them turned into flops

So market access, it was croaking
A few smart men, they went broking
This works a treat in some select towns
In others though it leads to frowns
Where the brokers do the miller owns

So Marketree was then conceived
For better access to be achieved
Marketree puts resource online
And says to buyers come see mine
Let’s set a price we both think fine
Marketree- buying and selling forest and wood product online.

It has been my almost melancholy duty as AFG Chief Executive to:

- receive a donation to the Tasmanian Branch from Farmwood, its final act to distribute the proceeds of the wind up to a like minded body;
- to assist FFORNE merge with the North East Victorian AFG Branch; and
- to act as returning officer for the ballot to wind up the Central Queensland Co-operative.

To dwell a moment on the Farmwood wind up will be useful in demonstrating my emerging view about cooperatives. Farmwood was a very successful cooperative run under the passionate stewardship of Ross Henderson, incidentally an AFG Life Member mostly for his services to the industry in developing markets, which counts among its successes selling short softwood logs in containers to China, before the market got undercut. Ross, a passionate and committed man, upon reaching (or passing?) retirement age, determined he should appoint and nurture a successor. He may be here to correct me, but I think he gave up after the third one walked out the door. The supply was still there but the person to run it was not.

The beginning

Marketree was developed through a confluence of needs and opportunities.

Needs

The needs that drove the interest in developing a new pathway to the market for private growers were quite simply an ongoing frustration reported across the non-industrial grower sector that price discovery, market access, and certainty of demand – i.e. market participation - was most likely the single greatest disincentive to investment in private forestry, especially plantation establishment.

At its most fundamental point private forest growers are by and large farmers. A group who, while they are used to being largely price takers in their other commodities, have two key differences when it comes to their forestry resource.

Firstly general agricultural commodities have robust, well known, reliable and highly utilised price discovery mechanisms. Let’s look at two stark examples of that. Wheat, an internationally traded commodity, can be priced by phoning any number of buyers to provide a daily price, including delivery timing, options for futures contracts or various other hedge mechanisms or even a pool. In addition the state weekly rural papers, the Country Hour, Landline and various other public or subscriber based information (the latter of which also does some further analysis) are also at the fingertips of growers. And this includes an international benchmark price referenced to the Chicago Board of Trade of which even the most inexperienced farm trader can work back to a farm gate price despite it being expressed in cents per bushel. Ok sure there is a lot of wheat sloshing around the world market and it’s a staple. But until very recently wheat was a regulated commodity for international trade, that is if one wanted to export their wheat (and Australia is one of the major wheat exporting nations) it was done so via a single seller - the Australian Wheat Board. Even the domestic wheat market remained regulated, in that case also by the Australian Wheat Board as a statutory authority with a majority of growers on the board, up until the late 1980s. It remained NSW Farmers Association policy at least until I left in 1991 for a deregulation of the domestic wheat market, and I understand it is now their policy to deregulate the international market. Ok sure wheat’s big business, what can a small sector like private forest growers expect? Hold that thought.

So by way of drawing a substantive comparison let’s pick up The Land, (for those not from NSW insert your rural weekly state based newspaper eg The Queensland Country Life, Weekly Times, Stock and Land etc.) and see what another really high profile heavily traded and highly demanded commodity like say jackfruit (a fruit apparently), kale, koh rabi (vegies), chincherinchee or wattle flower (flowers) are worth that week and there is an answer there in black and white, every week. The same info can be gotten by ringing up your agent, who works for you, or at least he deducts his commission from the price he gets for you. Hold that thought.

We live now in the 21st century, I haven’t checked but I am confident that the majority of wheat growers get at least a weekly email update on prices and I wouldn’t be surprised if they also can get a daily text message or can log onto a website on their mobile phone, in the air conditioned comfort of their header, with similar information. Even a decade ago there was a significant amount of wheat being traded from the cabin of the header, or even in the bar after the footy. Yes hold that thought too.

So now let’s look at the access to information that a private forest grower has. Remember we are really talking about the non-industrial or smaller scale grower. As a grower of a marketable commodity from my forest unless the output falls into another category (like flowers) then I have almost no domestic price discovery. Almost? Well there are a couple of ways to
understand the pricing in a limited manner. The Australian Pine Log Price Index is supported by all major softwood growers except Western Australia, which gives some generic guidance for softwood. And beyond that there are a few broad determinates of pricing trends and supply demand needs floating around, most of which are not freely available. Which leaves the local rumours and general information that tends to be ‘out there’ but extremely hard to pin, track and report. Some will recall the UN Bhati reports which used to be published including in the Australian Forest Grower. Those reports are no longer produced and even when they were they were more a discussion paper of trends with some anecdotal price information from a few old mates.

The logic then, in this comparison with agriculture, is that we anticipate that many farmers are used to their pathways to market - whether they be high tech via a futures and hedge market complex, or as simple as putting the kohlrabi or fat lambs on a truck and sending them to a central market (produce market or saleyards) where there is buyer competition - is to try and play to their strengths rather than expect them as farmers to meet the needs, whatever they might be, of the wood processing industry. This in itself raises two issues of note. Firstly the confidence that there will be a market for the product that can be accessed and is understood is a fundamental basis for deciding to invest either in plantations or in managing private native forests. Secondly that, for the most part, the Australian forest processing industry is still supplied by either state growers, people who have purchased a state forest resource, or by large scale growers. This leads processors to be used dealing with large scale producer/s for their needs and means they are both unused to and probably largely uninterested in, dealing with a plethora of small growers. Of course there are exceptions to this emerging which are welcomed, though even those regions where private growers are increasing their share there would be gains from other avenues to market.

**Opportunities**

A part of almost every conversation I have with groups of growers seems to include a discussion either about lack of incentive to invest in plantations or forest management or lack of capacity to get any pricing information or access the market. I would argue the former are a function of the latter to a great extent. And yet any definitive discussion I have with a small grower who has harvested and done some economic analysis seems to conclude that returns from forestry are at least consistent from the enterprise the trees may have replaced. This ultimately lays a burden of responsibility of Australian Forest Growers to try and resolve the problem as a service to their members.

My predecessors were able to convince the Commonwealth, via the farm forestry program, to invest in a number of projects. The two most relevant to this discussion were the Getting Started in Farm Forestry and A Starter Kit for a Treegrower Cooperative publications. The former as part of the education for the intending grower, a publication which though out of print remains in demand. The latter as an attempt at the answer to the ‘how will I market the resource’ question.

So let’s trot off on a cooperative tangent for a paragraph or two. As a ‘child’ of 1990’s farm lobbying I saw first-hand how collaborative marketing, whether on a national, state or local scale was to the benefit of an individual producer. Conversely I also witnessed the devastation of commodity sectors when those, often legislated and compulsory, marketing boards and cooperatives were either politically assassinated or poorly managed to the extent of insolvency. So much so that I too saw the utilisation of grower cooperatives for small scale forest growers as a sensible and logical pathway to creating both a marketing strength but also a capacity to provide an ongoing resource to industry. (To the extent that I may well have trouble convincing you that I think that an agrarian socialist philosophy to marketing is a bad thing). In fact I still watch with interest and heavy heart the effects of deregulation of particularly the dairy and export wheat industry.

There are some excellent examples of forestry cooperatives, Farmwood in Tasmania really broke down some doors. A cooperative in Western Australia was on the verge of major exports to India, and SMARTimbers continues to develop a niche for their highly processed and popular hardwood species to the point where their demand is beginning to outstrip supply. There were others, FFORNE in north east Victoria, and another based in central Queensland of which neither lived long enough to prosper.

This seems to lead to the inevitable conclusion that there are real difficulties in keeping a treegrowers cooperative going. There are, I think, three recurring themes – more than a little intertwined- that cause this:

- Treegrower cooperatives seem typically to be formed around planting time, meaning they have to remain for some considerable time prior to doing much business;
- Treegrower cooperatives often struggle to fund staff to progress their business model, thus meaning it then relies on directors to
fulfil these roles as well as run their own businesses; and/or

- Even if the above two processes are not an impediment the task of providing a regular and consistent supply means that gaining and maintaining a place in the market is difficult.

There are of course always exceptions. At present the only two that would seem to have an ongoing role are Tasmanian Oak Growers and SMARTimber.

I have digressed. The key opportunity then was to observe the lessons and think outside the square. The following steps occurred, many of which were present in their own way and each building on its forebear.

1] The Private Forestry Council of Victoria (PFCV), which existed within funding and a secretariat provided by the Department of Sustainability and Environment commissioned a feasibility study which was prepared by Bernie Pigdon, Glenn Zanatta and Mark Poynter titled Private Forestry Web-Based Notice Board. Among the recommendations were that the PFCV:

- Proceed with the development of a web-based notice board to assist the marketing of products from the private forestry industry; and
- Develop a detailed operating framework for the establishment and operation of a web-based notice board that ensures the operator performs to a satisfactory standard and achieves targets for developing the service.

The PFCV accepted the findings of the report and allocated some funds towards the next step. However between the allocation and the delivery the PFCV ceased to operate as the Victorian Government progressed towards the development and implementation of a Sustainable Timber Industry Strategy. The funds were held by Central Victorian Farm Plantations CVFP.

2] AFG began to seriously think and discuss within what could be done to assist small growers access the market. Given the lessons outlined above a new way of doing things was seen as the way forward. AFG was able to use its national presence to provide some of its own funds, and its in house expertise, to leverage both the allocated funds that were now held by CVFP and some grant funds from the Commonwealth Department of Agriculture Fisheries and Forestry. These funds were used for a project for the design of an Internet Based Tool to Promote Trade of Small Scale Forest Resources. This phase 1 report recommended a complex design in phase 2 that would include automated market statistics, secondary trading in immature plantations and a percentage based payment scheme. It was estimated that such a project would cost $180,000 to deliver.

3] AFG, without the funds necessary to deliver phase two, chose to continue development of what became MarkeTree into a lower cost platform that did not provide price statistics nor percentage based payments, each of which were complex design issues. Instead AFG was able to develop a more basic platform that essentially allowed either a buyer or seller to ‘list’ their products anonymously, in the first instance, in a range of categories.

The Future

MarkeTree was officially launched at this corresponding conference in Albury in 2008. There had been very little activity so at the 2009 AFG Policy Forum a more detailed and functional account was provided to attendees. Some more hopeful activity has since occurred. The nature of the website doesn’t lend itself to tracking sales so it is not known whether there have been in fact any transactions.

Three reasons occur as to why there is little usage at present:

1] the widespread downturn and uncertainty brought on by the economic downturn has meant that the demand for any wood product, especially small grower resource, is incredibly soft;

2] as a function of the first reason there has been little promotion to potential purchasers; and/or

3] small growers, despite their ongoing loud complaining, simply do not want alternative selling arrangements.

On the upside AFG has maintained free access to list to AFG members, and this is likely to continue to be the case subject to a Board decision tomorrow. Also the experts tell us that there are major supply gaps emerging in both plantation softwood sawlogs, as a result of increased demand and losses to fire, and in native forest resource as a result of continuing removal of public forests from production and the inherent over utilisation that this inevitably leads to. Couple this with an expectation that the market is and will continue to firm and then it may be worth persevering until happier times erupt.

While a need for patience is understood there may well come a time for the AFG Board to consider not continuing to service or provide MarkeTree. The best way to prevent that is of course to use it and in doing so allow AFG to receive a modest income for the sunk investment in time and dollars.

MarkeTree can be accessed, free to AFG members for the time being, at www.marketree.com.au and if it looks too complicated give the national office a call on 02 61629000 and the staff will be happy to walk you through the registration and listing process.

Acknowledgements

The following people are acknowledged as having a significant involvement in the development of MarkeTree whether as paid consultants or as a consequence of their employment: James Gray, Nicky Moffat, Roger Cross, Christina Staderman (all AFG staff); Rosemary Lott (Vegetation Connections); Michael Ashcroft (cenart.net); Paul Turnbull (Vic DPI); Dion Pitsolis (Collaborative Systems Pty Ltd); and David Fisken (CVFP).

References

Pigdon Bernie (prospect consulting); Zanatta Glenn (web designer); Poynter Mark (Forest and Natural Resource Services); Private Forestry Web-Based Notice Board Feasibility Study prepared for the Private Forestry Council of Victoria; Department of Sustainability and Environment.

Australian Forest Growers; Internet trading tool for forest resources MarkeTree phase one project report funded by Commonwealth Department of Agriculture Fisheries and Forestry, Victorian Department of Primary Industries and Australian Forest Growers.