NEW ZEALAND
TIMBER INDUSTRY FEDERATION
Incorporated

Submission to Ministry of Business, Innovation and Employment

All of Government Procurement Project
Building Materials – Sawn Timber

New Zealand Timber Industry Federation

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Executive Summary

This submission from The New Zealand Timber Industry Federation (NZTIF) provides background information, discussion, comments, and recommendations regarding the All of Government (AoG) procurement project as it relates to building materials and in particular sawn timber.

The NZTIF represents sawmilling companies throughout the country, and is strongly opposed to sawmilling companies being shut out of dealing direct with government agencies under the proposed AoG programme. The current thinking would mean that all government timber would be procured from a select number of merchant chains (ie Carters, Placemakers, ITM, Bunnings, Mitre 10). The NZTIF believes that this arrangement would unnecessarily disadvantage sawmillers and government.

Unlike many other building materials, timber prices have remained static and some timber products have even decreased over the past 20 years, while costs of production have all increased. This has led to a highly competitive environment and industry rationalisation as sawmills large and small have been forced to close. Those remaining have had to increase productivity and work on the slimmest of margins to survive. Sawmillers have had to become professionally run firms well versed to providing a high level of quality, customer service and convenience at both national and export levels.

Sawmillers are at the start of the timber distribution supply chain and unlike some other primary industries there is no prescribed channel to market. Sawmills are located throughout the country and supply a wide range of customers including construction firms, merchant chains, frame and truss fabricators, and housing firms. This is typically in larger bulk (pack) lot volumes, however some mills also supply direct to the public in smaller volumes. Sawmillers manufacture to order and also hold large stocks of finished product to promptly service customers.

To continue to allow government agencies to buy timber directly from sawmills will ensure that the best value can be had without compromise on quality or service. Merchant chains can still be part of the supply chain to government but this need not be on an exclusive basis. This structure would also reduce any potential price collusion between major merchant chains and simplify cost transparency and margin structures.

It is recommended that if the goal of government is to achieve best value for money then it must procure from as far up the supply chain as possible ensuring competitive pricing over the longer term. This can be achieved in one of two ways. The first option is to simply remove sawn timber as a sub-category from the building products AoG program, meaning the current status-quo would remain. The second option is to include both sawmills and merchants as suppliers to the AoG programme providing the best of price, convenience and service to government. The NZTIF offers its assistance as required to include sawmills in any procurement program.

Introduction

The New Zealand Timber Industry Federation understands the Governments wishes to establish a single supply agreement between government agencies and approved timber suppliers as part of an All of Government (AoG) procurement arrangement for the wider building materials market.

The purpose of this document is to provide information to assist the Government Procurement Branch's investigation into such an arrangement, convey the timber industry's position, and provide recommendations that will achieve the desired outcomes of reduced costs, productivity gains and improved competition while maintaining quality and convenience.

Background

The New Zealand Timber Industry Federation represents the New Zealand sawmilling industry providing advice and services to members in areas of market development and promotion, standards and technical matters, quality assurance and certification, and the commercial and regulatory environment.

There are approximately 60 permanent sawmills currently operating throughout New Zealand. The industry employs 7,000 people and is highly regulated. The industry produces 4,000,000m3 of sawn timber per annum of predominantly radiata pine and douglas fir. Currently 50% of that production is supplied to the domestic market. Sawn timber is a natural product cut from logs, then finished, treated and dried. It differs markedly from composite wood products such as particle board, veneers and MDF. Sawn timber is produced to a small range of specific grades, quality standards and lengths to suit variety of end uses across a range of industries, notably housing, construction, and landscaping.

Timber prices have remained relatively static over the past 20 years[1], and even decreased in some product lines, despite significantly increased supply costs. This has been possible due to investment in new technologies and the need to drive cost savings in response to intense market competition from significant industry rationalisation as a result of these tough market conditions.

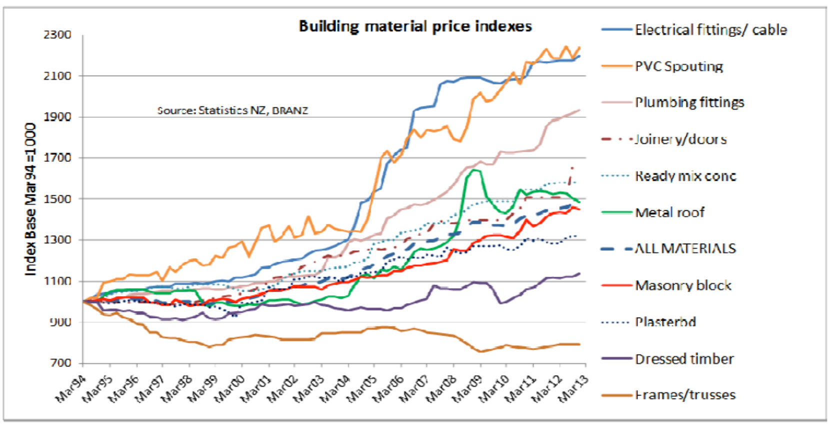


Figure 1: BRANZ New house price model update at April 2013[10]

[1] BRANZ New House Model Price Update Aril 2013.

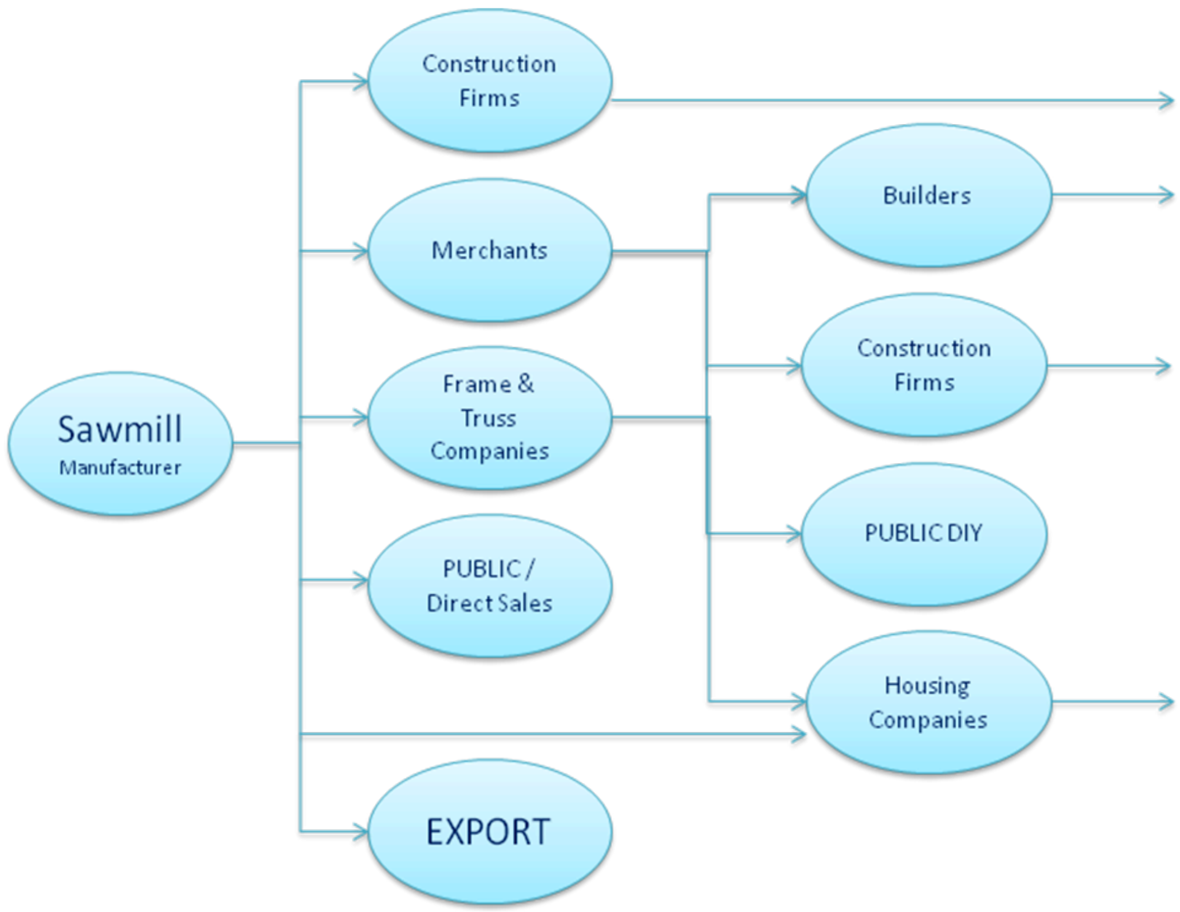
Current Distribution Channels

Timber distribution channels from sawmill to end user generally follow the paths set out in Fig. 2. The size of the customer and volume/type of product ordered, combined with the location and size of mill and its log resource will dictate how many players are present in the supply chain.

Typically a sawmill will have a supply relationship with a merchant for a range of products. Most relationships are established at the regional level, however some chains require national authorisation as a prerequisite. Sawmills will supply a price list for timber, merchants will place orders at the list price, then receive a negotiated rebate from the sawmill depending on the supply relationship. Varying wholesale and retail timber prices are then established off the list price depending on size and value of the client and seasonal promotions.

Of recent times there has been an increase in demand for direct supply of sawn timber from sawmills to large housing and construction firms, particularly in the Christchurch market to secure better terms and prices than what are being offered to them by merchant chains.

Fig. 2 – New Zealand Timber Industry Distribution Channels



Discussion

Industry rationalisation, through increased costs and price pressure in the New Zealand timber industry over the past decade has meant only the fittest, leanest, most efficient sawmilling operations have survived. Many of the smaller players, and some of the bigger ones, have fallen away. The current sawmills in operation are of reasonable size and spread throughout the country producing large volumes of highly standardised timber products to predetermined grades and standards. These are operations that have made major financial investments in plant and equipment and who are responsible for the quality of timber products in the market alongside the health and safety of their employees.

It is these professional sawmills who are set up and more than capable of supplying government agencies directly, alongside their other major customers, with the timber needed at the best price while ensuring consistency of service and quality.

ABILITY TO PROVIDE CUSTOMER SERVICE TO GOVERNMENT AGENCIES

Large export timber clients demand exacting customer service. New Zealand sawmills send bulk quantities of timber with complex shipping and customs documentation requirements and formalities across the world. They liaise on a daily basis with freight companies, advising clients of delivery time frames, invoicing, quoting, taking and scheduling future orders and responding to customer enquiries. Domestically, in addition to national merchant chains, some sawmills are already supplying and servicing end users, such as construction firms and local councils. There is no reason why sawmills could not service government agencies equally as professionally and efficiently.

COMMITMENT TO QUALITY

Sawn timber has a precise structural and appearance grading system that sawmills produce to and customers order from. In addition there are industry bodies that oversee preservation and drying quality. The timber industry has recently established a quality assurance scheme known as the Timber Quality Scheme. This is a programme under which audit organisations verify structural timber grade and treatment for compliance with relevant standards and the production processes conform to standard operating procedures. The program operates at the sawmill level.

ABILITY TO SUPPLY THE REQUIRED PRODUCT RANGE

Timber is a discrete product available in set grades and conditions to meet specific requirements. A number of sawmills produce a full range of timber products and hold stock of key lines, providing essentially the same role as a merchant. Therefore the range available at the merchant level may be similar to that of a sawmill. In fact, often merchants don't hold all particular grades or sizes and order on demand from their local sawmill. Within any region, most if not all, timber lines could be sourced reasonably conveniently directly from a sawmill. North Island mills supply timber product to the Christchurch market, so distributing timber around the country is generally not an issue.

Sawmills that don't cover a full product range could be 'registered' suppliers to Government for a limited range of products, such as round wood. Often such specialisation results in best price for quality in a particular line.

ALIGNMENT OF FIT TO PURPOSE

Sawmills can and will service government agencies with top quality timber to specification at the best possible price in the market. What sawmills are not set up for are the very small orders, unless they have their own retail yard. Supplying small and mixed job lots of timber is where merchants add the most value to the timber industry.

Government projects are typically planned well in advance and requirements known. Large scale projects requiring volume of timber would ideally suit a sawmill's production scheduling. A supply arrangement under these terms would be mutually beneficial to both government and the sawmill.

It is not our intention to exclude merchants from Government timber supply, rather align their purpose and convenience to the appropriate supply task, earning their extra margin accordingly.

REDUCED COSTS, IMPROVED TRANSPARENCY

Based on price alone, sourcing timber from sawmills directly would achieve significant savings for Government. Particularly for volume supply, removing merchants and other middlemen from the timber supply chain for government orders will reduce the price of timber supplied with no impact on service, quality or risk.

Dealing directly with sawmills also greatly simplifies cost transparency as there are no complex margin structures and rebate systems to factor in such as at the merchant level. Margins at the sawmill level are uncomplicated.

KEEPING SUPPLY COMPETITIVE

Limiting the government procurement of sawn timber to only national merchant chains will reduce supply competition in the market. This will have a detrimental effect on supply and could create an environment where inadvertent collusion or price fixing could occur. Not all sawmills have relationships with the national chains, particularly in regions, reducing the availability of timber supply to government. Dealing directly with a small number of professional independent sawmills on a regional basis would ensure competitive tendering for government contracts.

Recommendations

If the goal of the government is to secure pricing benefits in the purchase of sawn timber for government agencies, then the government must move its procurement as far up the supply chain as possible and keep the supply competitive. Unnecessary cost levels should be removed where possible, not inserted to temper fears of risk and complication that may prove unfounded.

It is the recommendation of the New Zealand Timber Industry Federation that the Government

EITHER

1. Remove sawn timber as a sub-category from the building products industry for the purpose of the AoG procurement arrangement, and continue to monitor the situation, as:
    a. Timber is not contributing to building material price index increases
    b. The industry is substantially rationalised already with trim margins. Exclusion of some mills from government contract supply will bring greater hardship, particularly in regions.

OR

2. Set a standard break point for timber order volumes, eg. Packs lots or 1 cubic metre, at which direct procurement from registered sawmills is the default position for government agency supply, with procurement from merchant chains as a secondary convenience option for smaller volumes.

    HOW IT WOULD WORK

    We propose that the Government on a regional basis invite sawmills to tender for the supply of timber, either in its various grades for a set period of time, or in some cases on a project basis. For continuous supply arrangements, prices could be fixed or there could be an escalation provision. Tenders would be awarded on the basis of capability to supply specific grades of timber in specific volumes.

    Regions would be identified and sawmills registered. The NZTIF would be willing to assist government set up the program to include sawmills with appropriate products in each region. The multiple number of sawmills would ensure the transparency the government requires and the tenders would be competitive. Within each region there would be a number of sawmills with the capability to supply and the selection process would be relatively simple.

    We understand national pricing and national distribution are not expected to be a factor in the proposed timber procurement arrangement and so entering into arrangements with individual sawmills at a regional level should not present a problem.

Conclusion

In conclusion, the New Zealand Timber Industry Federation is against the prospect of sawmill companies not being able to supply timber directly to government agencies. To introduce policy that enforces government agencies to only buy timber from a select group of national merchants will lead to less competition and higher prices to government and erode value for money. The sawmilling industry and government would be unfairly disadvantaged under such a policy. While national merchants may offer some advantage in distribution and convenience for smaller quantities of timber, sawmillers are equally able to provide comprehensive product range, quality assurance, convenience, service, and distribution on a national basis for the bulk of government's timber requirements. Two recommendations are put to government as options. One option is to take sawn timber out of the proposed AoG all together, and maintain the current status-quo. The second option is for sawmills to be included in the AoG program as default suppliers for bulk timber while retaining merchants for smaller volume requirements.

The New Zealand Timber Industry Federation wish to thank MBIE and the Government Procurement Branch for the opportunity to comment and is available for further discussion and assistance as required.

For further information please contact.

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