

## CHAPTER

# 9

## Sawmilling

### Current Features

- 4.9.1** The sawmilling sub-sector in Ireland is comprised of a multiplicity of privately, and in many cases, family owned operations, the only exceptions being two small mills owned by Coillte. There are some 100 mills in all, of which 10 are medium sized in European terms and process between 70,000 m<sup>3</sup> and 250,000 m<sup>3</sup> annually. These 10 mills handle approximately 80% of current timber supply. The representative body for Irish sawmills is the Irish Timber Council.
- 4.9.2** There is currently a domestic over-capacity in sawmilling of at least 30%. On current forest output forecasts (3.5 million m<sup>3</sup> by 2010) a balance between available supply and installed processing capacity will not be achieved before 2010. These estimates are based on single shift operations. Double shift operations, which would be characteristic of most milling operations internationally, would exacerbate the over-capacity problem if the structure of the sub-sector were to otherwise remain unchanged.
- 4.9.3** Although a number of mills have made significant investments in their operations in recent years, there are diverse levels of efficiency and wide variations in the degree of commitment to investment in plant, equipment and product development.
- 4.9.4** Coillte, as the dominant supplier of logs to the mills, accounts for virtually all sawlog supply (currently 1.4 million m<sup>3</sup> per annum).
- 4.9.5** Coillte has hitherto sold logs in three ways:
- by closed tender, with up to 6 such tenders being usually held each year;
  - through the CAS (Coillte Allocation System), under which mills which met strict criteria could purchase up to 50% of their logs by negotiation, with reserve prices being based on most recent tender prices;
  - by local sales, the bulk of which were taken up by small mills.
- 4.9.6** Irish sawmills meet about 60% of the domestic market for construction timber. Production also includes lower value products such as fencing and palletwood. Exports are confined mainly to palletwood.
- 4.9.7** There is general agreement on the need for rationalisation in the sub-sector. Various proposals for rationalisation have been advanced over recent years, including, most notably, recommendations contained in a 1991 report commissioned by Forbairt, An Bord Trachtala, the Irish Timber Council and Coillte, and prepared by Canadian consultants Simons. For a variety of reasons none of these proposals were implemented.

- 4.9.8 There have been on-going difficulties in the area of timber volume measurement, with a variety of different approaches being used.
- 4.9.9 Quality assurance has been a problem but significant improvement has been made in this area in recent years. Forbairt carries out expert inspection of sawmill processes in the context of the maintenance of standards.
- 4.9.10 Supply security in order to meet advance commitments to customers is a concern of a number of mills, as is the area of information exchange on timber to be offered for sale.
- 4.9.11 There are some limited imports of logs from, notably, Canada, the Nordic Countries and Eastern Europe, but forest protection restrictions apply (eg coniferous timber must be heat treated or debarked to prevent possible introduction of insects or disease).

### Policy Considerations

- 4.9.12 Sawmilling is a most important link in the forestry chain and the development of a strong, efficient and internationally competitive sawmilling sub-sector is critical to maximising return from the Irish forestry sector as a whole. The need for rationalisation in this area has again been confirmed by the consultants appointed to assist in the formulation of this Strategic Plan. Rationalisation is essential for long term viability and commercial success. The Government is committed to commercial development of the sub-sector. It is also supportive of efforts of both Coillte and mills alike to agree arrangements for both supply and pricing which are more closely aligned to market forces and which will facilitate the desired rationalisation of the sub-sector.
- 4.9.13 As commercial entities, the well-being of the sawmills ultimately depends in each instance on success or failure in accommodating market forces, in meeting market demands and in organising and positioning the business so as to do both to best effect.
- 4.9.14 The grower is entitled to expect that sales of raw material to the mills will reflect market realities and generate an adequate commercial return. The Forestry Act, 1988, pursuant to which Coillte Teoranta was established, requires that the company carry on its business on a commercial basis. Coillte's log sales arrangements must be consistent with this requirement.
- 4.9.15 Arrangements for log sales which would ignore or discount market or commercial realities applicable to either the grower or the sawmill, or which would in effect shield either from market forces, would be inconsistent with rationalisation of the sawmilling sub-sector and indeed the optimum development of the sector as a whole. The Government believes that a combination of market forces and the commercial behaviour of those involved in sawmilling is the best determinant of rationalisation.
- 4.9.16 Coillte will remain the dominant supplier of timber to the sawmills over the period of the Strategic Plan by virtue of the relative immaturity of the privately owned forest estate.
- 4.9.17 It is possible to make changes to the current systems of log sales which would increase the level of market responsiveness, provide a greater measure of transparency and facilitate rationalisation which would be to the benefit of both Coillte and the sub-sector as a whole.
- 4.9.18 Coillte is of the view that its commercial mandate could include vertical integration of its operations and that a stake in the sawmilling sub-sector is essential for the

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optimum medium to long-term commercial development of the company. The Government recognises the commercial logic of this viewpoint and also the need, given Coillte's supply dominance, for suitable safeguards to be put in place in the event of the company taking such a stake.

**4.9.19** It is in the interests of the sub-sector and of Irish forestry as a whole that mills continue to place a strong emphasis on meeting quality requirements and that they become committed to research and the development of new products, particularly where there are significant import substitution, added-value, niche market and export opportunities. There is a role for Forbairt in supporting the development of a quality approach within the sub-sector and in assisting product development and marketing initiatives.

**4.9.20** There is scope for closer liaison between the relevant Departments, Forbairt and other State and public grant-aiding agencies (eg Udaras na Gaeltachta) on the provision of assistance to the sawmilling sub-sector. Weaknesses in this liaison could compromise implementation of the Plan insofar as the sawmilling sub-sector is concerned.

## Policy Statement

Policy on sawmilling will be:

**To develop an internationally competitive sawmilling sector, based on sound commercial principles.**

## Strategic Actions

**4.9.21** Radical changes to the current systems of log sales will be put in place by end-1996. These changes have been agreed in principle between Coillte and the Irish Timber Council and discussions on detailed implementation are now in progress. The principal elements of the new regime include the following:

- with the exception of small local sales volumes, it is intended that the disposal of all sawlog supplies and a specified volume of pulpwood material will be by open, competitive bidding;
- electronic auctions will be introduced;
- an approach to reserve pricing which is transparent and closely related to market price movements will be put in place;
- other features will include provision for forward-purchasing of limited supplies, advance information on timber being offered for sale and a standardised system of log measurement;
- the regime provides for independent input to certain elements and for periodic independent audit.

**4.9.22** It will be open to Coillte, on the basis of its commercial judgement, to make such proposals for equity investment in sawmills as it considers appropriate. Proposals will be considered on their merits by the Ministers for Agriculture, Food and Forestry and Finance. The Minister for Enterprise and Employment will also be consulted.

- 4.9.23** In the context of considering any such proposals which may be made by Coillte, the Minister for Agriculture, Food and Forestry will wish to be generally assured that equity investment by Coillte in particular mills does not in any way disadvantage other mills in terms of supply and pricing.
- 4.9.24** Forbairt, through its Forest Products Research Division, has a long association with the timber industry. Subject to certain criteria, Forbairt will provide assistance to mills in product research and development, with particular emphasis on initiatives involving added value, niche market and export opportunities. Forbairt will not however grant-assist capital investment in the installation of additional facilities where there is already processing over-capacity.
- 4.9.25** Other grant-aiding State and public agencies will liaise with the relevant Government Departments and with Forbairt on the provision of any financial assistance to sawmills and will not, in any event, offer assistance which is at variance with implementation of this Plan.
- 4.9.26** Forbairt will continue to have an active role in promoting and maintaining quality standards in the industry and in ensuring that Irish sawn timber can trade within internationally recognised quality standards (see Chapter 11).
- 4.9.27** The Departments of Agriculture, Food and Forestry, Enterprise and Employment and Tourism and Trade will examine and promote means by which Irish sawmills can better market Irish sawn timber on both the home and export markets, with the support of the relevant State agencies.