



Spring 2009

Introduction

After watching the Axe Men you realize why our industry is thought of so badly. Watching cowboys taking their lives and the lives of their crews in their hands you can see why parents never want to see their children involved in logging. The reality is that in New Zealand our industry is safer and more highly regulated than what is portrayed in this series. In fact almost all New Zealand contractors are actively involved in training and the statistics show we have much lower fatalities and lost time injuries than agriculture.

However public perception is a fickle thing. For years our industry has languished through poor returns, an image of being dirty and an employer of last resort. This is changing through some good promotion and also through increased public interest in the environment and the positive role forestry has on the environment.

Ever since the time of the New Zealand Forest Service we recognized the theory of "Multiple Use". This was defined as other non economic roles such as public access, soil and water conservation that are important to the environment and the community. The flaw in this model was that there was never a value attributed to these other activities. Under ETS we see a value being derived without having to harvest.

The commitment shown by the Government to an ETS and our role in it has increased public interest. The positive impacts of soil and water conservation and in carbon sequestration have a huge economic spin off for our sector through both the Afforestation Grants Scheme (AGS) and the Emissions Trading Scheme (ETS).

The emissions reduction targets announced mean that we are looking at reducing current emissions by up to 44%. Forestry is going to play a pivotal role in meeting this target but in order for that to happen we must get going now. The incentives are there through the AGS and the ETS. There are still mixed signal being sent out by Government though such as the reduction in funding for the AGS and a cap on NZU price.

In the latest newsletter we cover the following topics;

- Reports from our 3 regions
- Establishment and ETS
- Market Updates
- Valuing Forests for Non Lumber Returns

Glenn Moir

Regional Wrap

Canterbury/West Coast:

The planting season has almost concluded with FML putting over 250,000 seedlings in the ground. This is well up on the last few years but is nothing compared to next year as discussed later.

Our 9 logging crews are all busy producing for both export and domestic markets. The summer programme is going to be huge this year with concerns about getting all the logging done already. My advice is to confirm with us now.

Both Lyttelton and Timaru ports are operating smoothly with regular ships and the recent Fonterra announcement will only enhance our profile with Timaru port.

ETS is now creating work for us and it is refreshing to see interest in planting trees again rather than trying to convert to another land use.

Nelson/Marlborough:

340ha of land has now been restocked and now the focus shifts to releasing. We use a combination of hand and aerial release systems. Even though aerial release spraying is more expensive because more chemical is used it has the advantage of getting 100% kill and can be put on much quicker therefore on windy sites it is best option.

We are exporting logs through port Nelson with Pacific Forest Products and supplying 300-500 jas /day. Logs are currently stored off port but as PFP builds profile storage will be provided in the central storage yards thereby reducing the cost of double handling. Our arrangement is monthly with a fixed price. Exporting logs allows us to grow or shrink the business to match unexpected supply shifts. Sawmill customers have fixed log demand and therefore usually cannot respond to short term supply fluctuation. As a small grower a good strategy is to sell when average returns are in the top half of the long term trend. It is not always possible to put extra volume into sawmills given fixed demand so export options are more critical. A large supplier's best strategy is to foster long term supply arrangements with saw millers as the price and demand is more predictable, and therefore less risky. TFM provides long term supply contracts with local customers so that smaller growers can benefit.

We never lose sight of the fact that local sawmills are our best market, but to carry on cutting logs we must sell the surplus offshore.

We continue to manage the Queen Charlotte forests for Matariki and are exporting logs into India through Picton with Zindia.

Southern North Island:

Dave Palmer has decided to move on and pursue a career in with New Zealand Transport Agency. We wish him well in this endeavour.

Our business is continuing to grow with HP contracting and now Prince Logging coming on board. Prince Logging is contracted to Matariki in Hawkes Bay but through our relationship we are able to utilize a high production crew like this in a capacity sharing arrangement thereby matching the best harvesting option for the woodlot.

The planting programme is now done with about 100ha being put in. The recent rain will help in getting these seedlings going as the ground was drying out.

The summer logging programme is looking busy on the back of above average prices. Of note have been the compliments both HP Logging and ourselves have received after completing a job for the Pharazyns at Moutere. The photo to the right shows some of the cutover after completion. This picture speaks for itself as far as neatness and as the owners stated "price is not the only factor to consider when selling a block of trees".



Emissions Trading Scheme (ETS)

Things are picking up in the Emissions Trading Scheme. The Government has announced its target range for 2020 to be a 10% to 20% reduction from 1990 levels. The exact level will depend upon what international agreements are made in the next year.

More importantly they have also confirmed;

1. We will have an ETS.
2. All sectors and gasses will be included.
3. The government wants all amendments passed into law by early December.
4. The Government is committed to a 50% reduction by 2050.

This means

- A. Agriculture will be included in some form in the scheme.
- B. We will know the exact form of the ETS before Christmas – not far away.
- C. The 2020 target is a precursor to further major changes to meet the 2050 target.

They have also clearly stated that to meet this target there are 3 options

1. Reduce emissions
2. Generate forest offsets in New Zealand
3. Buy offsets internationally

Figures vary but it appears that New Zealand will need to plant another 500,000 to 800,000 hectares of forest by 2020 to meet this reduction along with emission reductions. From 2020 further areas will be needed to meet the 50% reduction by 2050.

What is FM Group doing?

FMG has been working hard on ETS for over 2 years.

1. We have been working with clients gaining Afforestation Grants (AGS). We have secured over \$1,000,000 for clients to date.
2. We are registering clients with post 1990 forests into the ETS
3. Negotiating with emitters to buy credits on a long terms basis once the ETS is finalized.
4. Developing new planting projects for clients to take advantage of carbon credits. This is buying land and also Joint Ventures

The AGS is now well subscribed and it is getting competitive. MAF officials are lobbying for increased funding for the scheme.

Through a combination of AGS and ETS schemes we will be establishing over 1200ha of new land for the 2010 season. This is on top of our annual restocking and it shows real interest in establishing forests as a sound investment again.

Contact us for assistance on

- AGS applications
- Registering post 1990 forests in to the ETS
- Sales option for carbon credits
- Investment opportunities in new forests. If you have land you wish to plant but need capital contact us. We have clients interested in undertaking joint ventures.

David Janett



Land preparation for an AGS forest being established in Canterbury by FMG

Market Update

Export;

Demand for export has firmed since May. New Zealand looks on track to put 9,000,000 m³ into our offshore markets. This has increased from 6,700,000 in 2008.

China has emerged to now be the largest importer of our logs. China is predicting 5.8% GDP so this should be reflected in demand for our logs.

Korea is a maturing market but we now have good distribution channels into end users that have been built over many years and must be maintained.

India also remains strong and is forecast to increase in demand for our product.

Radiata sales this year have benefited from slow production out of North America and Russia.

Unfortunately shipping rates appear to be heading North as well. Inbound vessels are not matching the requirements of our industry so an increasing number have to relocate after discharging in Australia and elsewhere. One major shipping line has also gone into court administration. Demand from other competing products like iron ore is also driving rates up and it is our belief that short term rates will only go one way.

Prices have moved up significantly in the 3rd quarter with all 3 major importers lifting by \$6-8USD. Some of this gain has been eroded by firming freight and the high flying kiwi dollar.

Having recently come back from Washington, we do need to be aware that we are competing against some very good quality timber from the Pacific North West where they are selling Douglas fir and Hemlock at wharf gate prices lower than what we get for radiata.

Evan MacClure

Domestic;

Markets for our processors are very tight and profit margins are either extremely thin or non-existent. A lot of mills are on reduced hours and others have tightened log specs to get better returns.

Having stated this, the regions we operate in show differing signals;

Canterbury is actually short of quality structural logs and this is only forecast to continue as both major estates are being harvested above sustainable levels. Chip logs are also in tight supply leading to a firming in some prices.

On the West Coast the appearance grade mills are struggling with sourcing quality pruned logs and making a profit. The US market for clears is very tight causing processors to scour the globe looking for other opportunities. IPL is back on track having taken all year to get on top of breakdowns and high log inventories. This is one of our major markets for logs from Canterbury, Nelson/Marlborough and the Coast and our relationship now stretches back some 15 years.

Nelson is pretty much in balance and on the positive side NPI is now buying reasonable volumes of logs for LVL and consuming more chip logs for MDF. The Nelson Forests reduction in supply has been picked up by other private operators such as us.

Southern North Island mills are on reduced volumes and as a result are able to pick and choose to get quality logs. However Crightons have commenced again after an extended shut to do a mill upgrade and we are supplying significant volumes of structural logs for them.

Glenn Moir

Valuing Forests

Non Lumber Returns

Forest Valuation is an evolving science. We can do inventory and calculate NPVs and IRRs but what about the other benefits forests create. These are becoming more recognized. Suddenly carbon sequestration has a value but there are others such as soil and water conservation, leisure activities and biodiversity.

The Pearse River comes out of the Mt Arthur hinterland and is extremely cold, clear and pure. It runs around the foot of the Pearse Forest which TFM manage for an institutional client. This pure water flows into the Motueka River, a major brown trout fishery. This means a lot of people are interested in what we do. You cannot hide dirty water or sediment in the Pearse.

Our simplest solution is either not to generate sediment or not let it travel to the river. The local granite soil is very erodible and requires intensive management. We will always disturb the soil in some way building roads and skids so the focus is on minimizing this and making sure the soil stays where we put it. This is achieved through good design and on site practice.

As they say a picture tells a thousand words. The true value of clean water could be seen as the reverse of the cost to clean up a polluted source.

In time the flow of clean water through our forests may be so valuable we will not harvest the logs in order not to degrade our water asset. Another example of value in forests is the flood control. Forests reduce peak outflows in rain events. This is largely due to filtration through leaf litter and duff, interception and evaporation from vegetation and storage within forest soils.



A good example is the Poverty Bay flats which depend on the nearby forests to mitigate peak flows and sediment yields. Without forests like Mangatu holding sediment back we would not be able to provide food (and wine!) from the fertile flat lands. This relationship between farmers and foresters is not recognized financially but definitely has a value.

Horizons District Council also recognize the value of forests in soil and water conservation. After the February 2004 storms they developed One Plan and have identified 4 key issues as follows;

- Surface Water Quality Degradation
- Increasing Water Demand
- Unsustainable Hill Country Land use
- Threatened Native Habitats

Over 300,000ha of hill country has been recognized at risk from moderate to severe erosion. Forestry is going to play a major role in the region and is seen as part of the answer.

There are also many exotic forests that endangered species use as their habitat such as Maude Island. The value of logs in these cases is insignificant.

Valuing such things does not diminish them and we should embrace it.

Bert Hughes



Cutover above Pearse river catchment



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