OLSEN NEWS

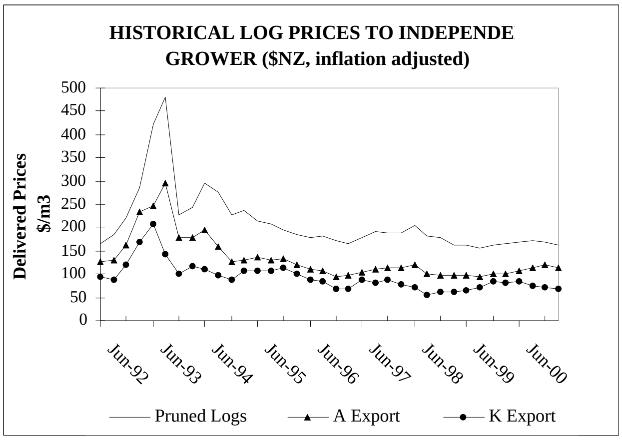
PF OLSEN AND COMPANY LTD
Forestry Consultants & Managers – Issue N^{o} 15 – June 2001

▲ Log Prices and the Long Term Perspective

Export log markets

Export log markets weakened during the current quarter. Volume demand and prices in Japan are subdued, albeit there is some increase in the use of New Zealand radiata pine J-grade logs for the production of veneer. In this market radiata pine is competing with Larch from the Russian Far East. Volume demand from Korea has picked up after a slow first quarter, but prices are weaker.

For the year ending March 2001, Korea remains our most important log market by volume taking more than 48% of our log exports, Japan follows at 27%, India at 8.4 %, China at 6.6% and Philippines at 3.1%. The total volume of log exports declined by 3% during the year.



Volumes and prices to China are improving and volume growth is reported to be strong for logs used in the production of veneer. Annual log export volume to China was up 8.3%. Volumes to the Philippines have also recovered to their highest levels since the September 1999 quarter and increased 9% on an annual basis. Volumes to India have been extremely variable from quarter to quarter and declined 4% on an annual basis.

The outlook for prices in the short term is negative. Log prices are expected to fall further.

Domestic markets

In the domestic market, pruned log prices remain firm especially for high quality pruned logs. The US prices for clear timber remain strong and the outlook there for the short term is good. Demand in the US for lower specification "Shop" grades is also growing. The Australian market looks firm with a modest revival expected in the Spring. The recent introduction of a government subsidy to first home owners is stimulating the building industry. Despite this positive outlook for sawn timber exports, the current demand for unpruned logs in the domestic market is low and prices are weak.

Total sawn timber exports have increased. They were 10.6% higher in 2000 compared to the year before. Australia remained our largest market at 29%, followed by the USA at 23%, Japan at 18%, and Taiwan at 9.0%. The increase in exports was across the board with Australia the destination for the largest increase. The smaller markets in China, Hong Kong and Thailand also expanded, but the volumes to Korea remained constant.

Longer term outlook

The log production volumes from New Zealand plantation forests have been declining during the last three quarters at a time when production volumes were expected to increase. The New Zealand domestic market also cannot be taken for granted. Recent publicity about poor quality timber frame houses could result in more substitution using steel and/or concrete. Expansion of both log and timber exports is essential but during the past couple of years this has been difficult. Entering new markets and expanding market share in existing markets is essential to expand the current annual harvest from 18 million cubic metres to 30 million cubic metres within the next 10 years. While recent experience has not been encouraging, the wood supply and demand analysts (FAO in particular) remain convinced that the demand for wood in the Asia-Pacific region in particular will exceed supply.

IN THIS ISSUE

- Log Prices and the Long Term Perspective
- Fire Insurance
- FSC Certification taking hold in NZ
- National Initiative
- Profile
- Global Positional System

▲ *Fire Insurance*

Last summer severe drought conditions on the East Coast from Hawke's Bay to Otago have seen the Fire Weather Index readings reach levels previously unrecorded in New Zealand. A number of rural fires have occurred, the worst of which have been in the Marlborough Region. These have caused considerable damage to crops and property including a number of forest plantations. Fortunately many (not all) of these plantation owners were insured and claims have been lodged with the relative insurers.

While this summer's climatic events have not been the motivation for Olsens to develop their own Group Forest Insurance Scheme it certainly has been the catalyst to see us complete this project prior to the next fire season starting in October. Our motivation has come from the following frustrating aspects of the "off the shelf" insurance products currently available to our clients:

- The high cost of this insurance relative to historical claims record.
- The inefficiency built into reviews of the levels of cover and updating of cover i.e. the time and costs to clients involved in reviews and to sort out changes or seek alternative quotes with insurers.
- The refusal of the insurer covering most of our clients to extend their cover to wind or lower premiums on fire (despite an excellent claims record and wide geographic distribution of the risk across clients).

To address these issues we have been working with the niche broker Risk Solutions Ltd of Auckland and have achieved underwriting for the ***Olsen Group Insurance Scheme*** initially with HIH and now with QBE who have taken over the assets and liabilities of HIH. QBE has been operating in New Zealand for over 100 years and has a Standard and Poors rating of A+.

The group scheme, in addition to achieving up to 20% lower premiums than current insurers, (depending on age, location and value of forest) has some unique features as follows:

- Wind cover up to a maximum of $250,000 per forest per event as an option. This cover applies to trees 5 years and older.
- A combined fire fighting costs cover of $1.0 million per annum. We view this as a major advantage, and a much cheaper option than each client increasing cover to say $250,000 or $500,000.
- For site clearance and re-establishment costs we have obtained $1.0 million cover per annum with no maximum limit per hectare. If the insured elects to use the land for non-forest purposes following a fire, the reasonable costs of land clearing in preparation for replanting will be paid in cash.

As with all fire/wind insurances the contract is an annual one. Part of the reason that Olsens have been able to negotiate such a competitive insurance package for clients is that our integrated Forest Information and Planning System (FIPS) enables us to systemise the annual updating of the approximate value at risk for all clients for whom we hold stand records. The insurers have agreed that our FIPS based valuation model will form the basis of both the annual premium and the payout in the event of loss. These valuations are our best estimates of your value at risk based on records held and generic costs and revenues. They do not represent market values and are not suitable for any purpose other than for estimating appropriate fire insurance cover.

The ***Olsen Group Insurance Scheme*** has been well received by clients to date. In excess of 95% of our clients have opted to change from their current insurance arrangements and the value of cover taken now exceeds $140 million. This provides the scale necessary to retain and even improve the levels of cover, excess and premiums over time.

Should you not have received a letter regarding this Group Scheme, or you are currently not insured, you can obtain a quote to insure under the ***Olsen Group Insurance Scheme*** by contacting Jeff Schnell or Peter Keach in Olsens' Rotorua Office.

▲ *Global Positional System*

The Rotorua Land Information Group has recently purchased a top-of-the range GPS Receiver (Global Positioning System). The increasing need for accuracy in all aspects of forestry and especially in mapping, has led to the decision to purchase this instrument, which is capable of sub-metre accuracy.

This instrument, for use on all client forests and land. The main function will be to capture information for inclusion in the company's digital mapping database. Use of the GPS will include:

- Locating legal boundaries in the field to avoid undertaking forest operations outside legal boundaries.
- Location of roads and tracks which are especially difficult to transfer from aerial photographs.
- Monthly or quarterly harvesting mark-ups to provide accurate areas to reconcile actual volumes and grades against predicted.
- Spot points such as archaeological sites or Permanent Sample Plots.

▲ *FSC Certification taking hold in NZ*

The recent certification of Fletcher Challenge Forests Limited and strong interest by the forest industry indicates that FSC is rapidly becoming a pre-requisite for log trading in New Zealand.

What is FSC?

The Forest Stewardship Council (FSC) is an international non-profit organisation that promotes sustainable forest management through an independent forest certification system.

FSC offers a "green" label for wood products that are derived from sustainably managed forests and manufacturing processes.

Despite on-going attempts by other organisations to provide similar green labelling, FSC holds the dominant marketplace position and is strongly supported by the major international Environmental Non-Government Organisations (ENGOs) such as WWF, Greenpeace and Friends of the Earth.

What does it mean to New Zealand forest owners?

Most of the major and intermediate scale New Zealand plantation forest owners and processors have recognised that FSC certification is now necessary to expand pine product into the higher value North American and European markets. Sellers into Asian markets are encountering increasing demand for FSC certified logs and timber that is being turned into products for resale into those high value markets.

By early 2002, based on present applications for FSC certification in process, over 25% (including Fletcher Challenge Forests) of the NZ plantation estate will be certified. As these areas are dominated by older age classes, a far greater portion of annual log production will be certified.

With an ever-expanding wood supply in NZ, it is highly likely that FSC certification will become both a market access and log price issue. Price premiums already exist for FSC certified logs. Price premiums may turn into price discounts for non-certified logs.

What are Olsens doing about this?

As a result of demand from both Olsens clients and other small scale forest owners, PF Olsen and Company Ltd is offering a Group Forest Certification Scheme under the rules of the Forest Stewardship Council (FSC). The scheme is open to all New Zealand plantation forest owners, but has been specifically designed to meet the requirements of our existing client base. Olsens will be using the next 9 months to get the Group Scheme up and running.

What does it take to get FSC with Olsens?

Fortunately our wood is grown in managed plantations, and we have in NZ quite strong environmental legislation and standards of environmental management. It is much easier for NZ forest owners to obtain FSC certification than many overseas owners. That is one competitive advantage we have.

Nevertheless there is an extensive checklist and some items that will need active management to comply. That is followed by a rigorous audit process by Olsens to ensure compliance with the FSC Principles and Criteria. The Group Scheme is then audited externally by FSC accredited auditors. This will involve external audits on about a third of individual members each year.

What about cost versus benefit?

Clearly forest owners will want to weigh up costs versus benefit. The market access and price premium/discounts will evolve further over the next 18 months or so. However owners close to logging must realise there will be a time lag of up to a year between expressing interest and obtaining FSC certification.

Costs of obtaining and maintaining FSC certification comprise:

1. Forest Owner's internal costs to meet the standards.
2. External Certifier Costs (that include payments to the international FSC).
3. Group Scheme administration and auditing individual members.

Cost for participation will depend on the size and maturity of your forest resource. The scale of economies of a Group Scheme means that small and medium-sized forest owners will be able to obtain the benefits of FSC certification at a cost significantly lower than they could achieve by going it alone.

Participation

We have contacted some of our clients about FSC and several have agreed to participate in the Group Scheme. If we have not already contacted you, more detailed information can be obtained from Colin Maunder, Manager, Olsen Environmental Services on: Ph: 07 357 4135 Fax: 07 357 5185
E-mail colin.maunder@pfolsen.co.nz

▲ National Initiative

Under the FSC certification guidelines there is opportunity for national forest groups and interested stakeholders to develop national standards for forest management. These standards can be used as a basis for FSC certification. As a result the NZ forest industry in conjunction with the Environmental Non-Government Organisations (ENGOs) is undertaking a National Initiative that will set standards for sustainable plantation forest management in New Zealand. While these standards are voluntary and not legally binding most forest managers will stick to them. Our experience with similar, but less far-reaching agreements with ENGOs, has seen these actually become legally binding through such mechanisms as the Resource Management Act and Local Government regulations. Even if not taken up in rules then the ENGOs are likely to place that much pressure on non-compliance that forest owners or managers can ill afford to do anything but comply.

The National Initiative is the industry's means of providing a common basis for FSC (or other) certification. But even without FSC you can expect that your forest may actually be managed to that standard. Thus you can expect to be complying with the same standards as FSC certified forest owners, but without the market benefits of certification. FSC certification will cost little more than not getting certified if you wish to manage your forest in such a manner (keeping records) that future certification will not be compromised.

One of the benefits of national standards being developed is to limit the ratcheting up of standards by ENGOs through the FSC process and to promote a level playing field for all parties that are involved.

Olsens, through our representation on the NZ Forest Owners Association, are taking an active role in the development of these standards. In this respect we are representing our clients and indirectly many of the smaller forest growers who would otherwise not be involved. As the resulting standards will impact on forest management (whether certified or not), it is important that we take the views of our client base into the proceedings to ensure all forest owners interests are presented. *Contact: Colin Maunder*

▲ Mid North Expansion

Derek Colebrook has recently joined the Olsens Mid North Branch to strengthen their capacity in forest management and forest harvesting operations. Derek will be based in Whangarei and will maintain an office there so that he can respond to new work opportunities that develop, especially south of Whangarei.

Derek’s forestry background is with Chandler Fraser Keating and Wood Marketing Services and through his association with these organisations he has developed an extensive knowledge of ground based harvesting techniques, MARVL inventories, log grades and markets. More recently he has been successfully running his own forest management firm and we are very pleased that he was able to successfully transfer his clients over to Olsens.

Olsens were looking to expand their presence in Northland to cope with increasing work demands and are very pleased that Derek agreed to join the company.

PF Olsen and Company Ltd was founded in 1971 by the late Peter Olsen. Since then we have grown with the forestry industry. We now have over fifty staff operating from nine offices throughout New Zealand. The company is owned solely by its employees. Our Board of Directors is elected by the staff shareholders. All the shareholders have a stake in providing the best possible service to you and in maintaining our reputation as a leader in forest consulting and management.

Location		Postal Address	Office Address	Phone	Fax
Rotorua (Head Office)	Peter Clark (CEO)	P O Box 1127, Rotorua	430 Ngongotaha Road,	(07) 357 4135	(07) 357 5185
Far North	Bob Shirley	P O Box 633, Kaitaia	228 Commerce Street	(09) 408 0480	(09) 408 2974
Mid North	Peter Bullen	P O Box 322, Kawakawa	62 Gillies Street	(09) 404 0032	(09) 404 0455
Gisborne	Nick Bunting	P O Box 516, Gisborne	396 Childers Road	(06) 868 5426	(06) 868 4147
Hawke’s Bay	Bob Pocknall	P O Box 824, Napier	72 Ford Road, Onekawa	(06) 834 3871	(06) 834 3872
Wairarapa	Phill Wishnowsky	P O Box 2059, Masterton	Cnr Dixon & Crayne Streets	(06) 377 3531	(03) 377 2913
Nelson	Peter Wilks	P O Box 3353, Nelson	195A Queen Street	(03) 544 0066	(03) 544 0067
Marlborough	Rob Lawrence	P O Box 282, Blenheim	Marlb. Research Centre, SH1	(03) 577 6675	(03) 577 6674
Otago	David Thode	P O Box 975, Dunedin	Unit 12, No 4 Strathallan St	(03) 455 8995	(03) 455 0107
Olsen Seed	Wei Young Wang	P O Box 1127, Rotorua	430 Ngongotaha Road	(07) 357 4135	(07) 357 5185

E-mail: info@pfolsen.co.nz or firstname.lastname@pfolsen.co.nz

Internet: www.pfolsen.nzforestry.co.nz