OLSEN NEWS

PF Olsen and Company Ltd
Professional Forestry Services

Issue N^{o} 17 – June 2002

▲ Kyoto Protocol

Climate change issues continue to develop with the Government re-enforcing its commitment to ratifying the Kyoto Protocol this year. Other countries also appear to be committed to ratifying, notably the European Union countries and Japan. Some that are not include the USA and Australia.

The Government has released its Preferred Policy Package on Climate Change. The main point to note is that the Government expects to nationalise carbon credits and liabilities from forestry. From a forest industry perspective this may be the preferred outcome short of not ratifying the Kyoto Protocol in its current form. However, this does leave those “Kyoto Forests” (forests planted since 1990) without the windfall of carbon credits.

The Government has suggested that forest owners will receive some benefit from the surplus carbon.

As a result the forest industry has requested the Government to enhance the international competitiveness growth and development of the New Zealand forest industry by accelerating investment in:

- Wood processing capacity expansion
- Energy efficiency and renewable energy capital projects
- Energy efficiency and renewable energy technology projects
- Re and afforestation plantation development
- International market development and positioning of New Zealand wood products.

While these do not retrieve any “lost” carbon credits they should provide a better environment for forest owners in New Zealand.

Industry submissions have been critical of Government appropriating all carbon credits. Particularly as some of the carbon credits may be used to shield competitors to the forestry industry (e.g. steel and concrete) from Kyoto implications.

Olsens have been involved with the forest industry on this issue and will continue to lobby for a better deal for all our clients. We are particularly keen to see more funds allocated for roading improvements, increasing the pool of skilled labour, and investment in R & D around wood quality.

For further information please contact Colin Maunder, Olsens Environmental Manger in our Rotorua office.

▲ FSC Update

Olsens Certified

The Olsen FSC Group Scheme was assessed in late February and we have confirmation from our assessors (SmartWood) that we have been certified as FSC Resource and Group Managers. This means that our FSC clients that have met the requirements can now carry the FSC Logo on their forest products and sell these to FSC certified chain of custody buyers.

Olsens are the first company in New Zealand to achieve Group FSC certification and there does not appear to be another that will achieve this for some time. FSC certification allows our clients the opportunity to take advantage of some great marketing prospects.

FSC Presence Increasing

The pressure to have FSC certification continues to grow. The recent announcement that Carter Holt Harvey Forest Resources are proceeding with FSC certification confirms this. They join other heavy-weights such as Fletcher Challenge Forests, Wenita, Pan Pac, Winstone Pulp, and Timberlands West Coast who already have FSC certification. Over half of the radiata pine resource is likely to be certified before the end of this year. An even higher proportion of older forests that are close to harvesting will soon be certified.

Log Buyer Survey

To determine the interest by log buyers in FSC certification, Olsens undertook a log buyer survey of New Zealand sawmills. We asked over 200 sawmills about their intentions regarding FSC certified logs and received the following results:

- returns from 32 mills.
- 63% wish to purchase FSC certified logs of which:
  - 25% indicated they would pay a premium of between 5% and 15%.
  - 80% expected that they would impose some restrictions to purchasing non-FSC logs in the near future.
  - 70% require pruned FSC logs.
  - 60% require unpruned FSC sawlogs.
  - 10% require FSC pulp logs.

These survey results combined with the growing number of certified forest owners justifies the development of the Olsen FSC Group Scheme. We now believe we have enough evidence to recommend that our clients obtain FSC certification.

To find out more contact your forest manager or Olsens Environmental Manager: Colin Maunder on 07 357 4135 or 025 385 171, or contact Colin by E-mail on colin.maunder@pfolsen.co.nz. (Please note Colin will be away from June 14 to July 22).

We have developed a web page for our FSC Group Scheme, which can be found on www.pfolsen.co.nz/environmental.html.

▲ *Group Insurance Scheme*

As most of you will be aware, the global insurance industry was in bad shape even before 11th September 2001. The full impact of claims from 11th September are still to be felt as they work their way through the courts. Insurance companies are continuing to underwrite the usual high-volume retail risks, but are declining or dramatically increasing premiums for non-standard risks (the bucket into which forest insurance falls). Despite commencing the process for renewal prior to Christmas 2001 our broker has had a tough time getting renewed policies in place on satisfactory terms.

That has now been achieved, with underwriting 60% by QBE and 40% by Lloyds (through JCG) their local agent - both highly reputable insurers. A premium rise was unavoidable, as well as some tightening of the cover. However, acting as a group, the end result is still better than what clients could have obtained individually had they remained with their previous insurer. By working as a group there is also a substantial administration cost saving that is being passed onto our clients.

Details of individual client cover will be sent out shortly.

▲ *Industry Issues*

Regional Development Transport Funding

The Government has allocated $30 million for regional development transport expenditure in the 2002/03 year. This came about from some hard work by the Transport Working Group of the Wood Processing Strategy (WPS). This working group was Co-chaired by PF Olsen and Company Ltd CEO, Peter Clark.

The business case that was developed for the East Coast region gave WPS champion, Hon Jim Anderton, the ammunition he needed to get this initiative included with the Government's overall transport package.

Transfund will release the funds commencing 1st July for projects that do not meet the Benefit/Cost ratio to qualify for funding under the general roading fund, but still have a B/C greater than 1 (i.e. benefits exceed costs).

To qualify the projects must:

1. Be in a region identified by the Minister of Transport. (These are not yet known but we expect both East Coast and Northland to be high priority regions).
2. Fit within a regional transport plan that has been developed and agreed by key stakeholders, including forest industry representatives.

Funding priority will be given to projects that support new and existing wood processing investments.

While we expect East Coast and Northland to be the major beneficiaries, other regions should be starting now to get their Strategic Transport Plans in place and agree on priorities. This involves forest owners getting together and engaging with District Councils and Transit to agree on key transport routes and priorities for works critical to the industry.

▲ *Field Days*

Olsens are at the Field Days

Olsens will again have a stand at the Mystery Creek Field Days being held during June 12 – 15. As the focus of the field days is sustainable management our stand will feature Forest Stewardship Council. With recent strong log markets we will also be featuring our harvesting and marketing services.

You will find us in the sawmill area at site G109 near Gate 1. We look forward to seeing you there.

▲ *Survey*

Survey Questions

You will find a survey form included with this newsletter. It has been designed to survey opinions on Olsens and forestry in general, for our FSC stakeholders. As our clients are also stakeholders and we are interested in your views, we have included the survey for you to complete and return. The survey is optional, however we will certainly appreciate your comments. This is one of the many ways in which we can improve our service to you. A summary of the results will be made available. Please return the form to Colin Maunder at PF Olsen and Company Limited, PO Box 1127, Rotorua.

▲ *Log Markets*

Export Log Markets

Demand remains buoyant with regular new enquiries from China especially. Prices in Korea are softening slightly. Both the soccer world cup and rainy season in Korea have slowed demand temporarily. India remains firm.

The big issue for forest owners is the rapidly rising NZ$ relative to US$. Every percentage point rise knocks about NZ$2.10/$m^3$ off the bottom line. There has been a 3 point rise in May alone. Some commentators say the rapid rise is driven largely by interest rate differentials and speculative investment rather than a fundamental strengthening of the NZ economy. If that is the case the trend could reverse just as quickly with a change in interest rate differentials and in overseas sentiment towards NZ. International shipping rates have also risen by about US$1.25/tonne since March, but are now steady.

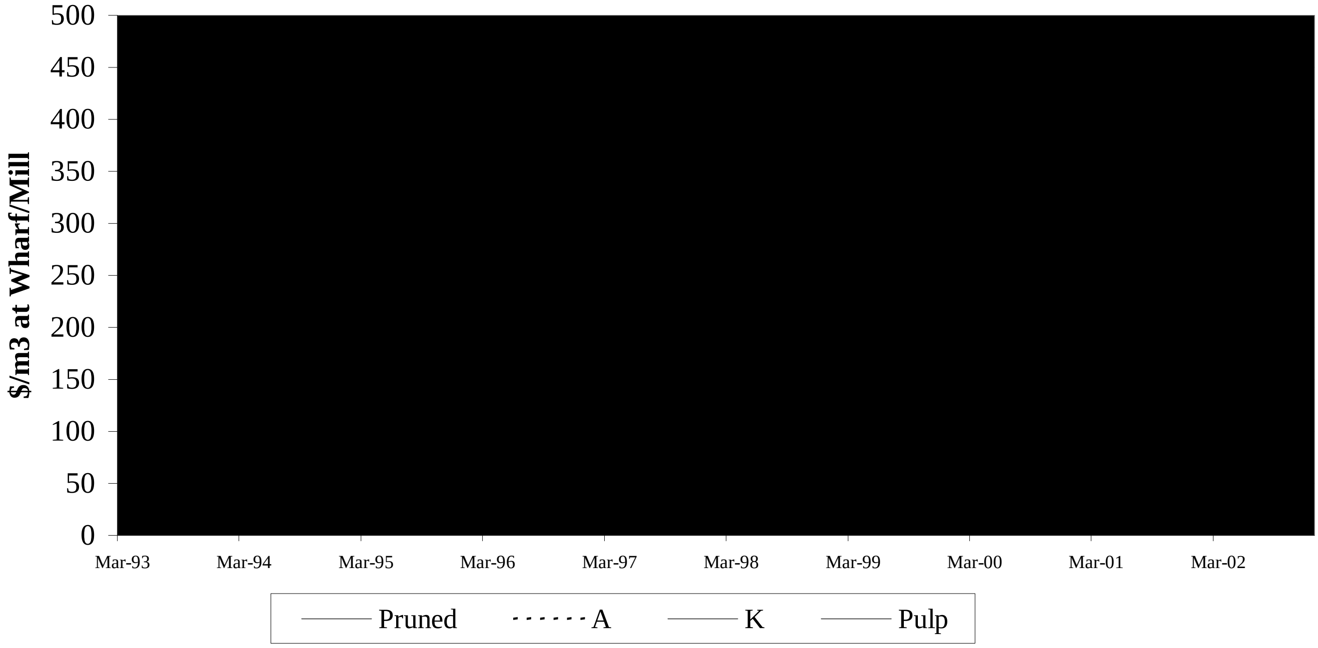
Exporters expect prices in Asian markets to strengthen in August/September, based on experience in previous years.

Domestic Markets

Domestic demand for all grades is strong, and especially so for pruned. US Moulding and Better prices are at historical highs, despite the rising NZ$. US demand has improved steadily since September 11. Log supply has slowed in the North Island due to winter weather and in some cases lack of harvesting contractors. Some mills are running on restricted hours because they cannot get enough log supply.

Pulplog demand is strong in both domestic and export markets, but the prospect of industrial action at Kinlieth is creating uncertainty for demand in the near future.

LOG PRICES 1993-2002



The graph indicates average prices to independent growers based on FOB prices published by MAF up to March 2002. Prices have been adjusted for inflation, conversions factors, costs and exporter commissions.

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