

# OLSEN NEWS



**PF Olsen and Company**  
Professional Forestry Services **td**

Issue N° 20 – August 2003

## ? *Wood Processing Strategy*

### Phase II

The Government has committed to a continuation of the Wood Processing Strategy, and to funding (as a part of its normal budgetary process) a range of new initiatives designed to maximise the economic benefit to New Zealand from our increasing harvest. WPS priorities for Phase II will involve action plans for both Government and Industry, encompassing the full range of blockages to increased on-shore processing including:

- Labour & skills
- Biosecurity
- Certification
- Research, Science and Technology
- Health and Safety
- Energy
- Market access
- Climate Change
- Resource Management Act
- Generic market development
- Infrastructure

The Ministry of Agriculture and Forestry (MAF) is the lead agency to co-ordinate Government and Industry agencies to advance these plans and actions arising.

Peter Clark will continue to serve as Co-chairman of the Infrastructure Working Group. He will be seeking to put in place a clear process whereby other regions can also get access to funding for local roads that are important to provide all-weather access for harvesting private forests.

## ? *Kyoto Protocol*

Negotiations between industry and government officials have reached a critical phase, with the partners working towards signing a Memorandum of Understanding over the next few months.

Our clients are looking for an outcome that treats forest owners fairly in respect of the nationalisation of all forest carbon credits. Specifically this outcome must:

- Not see our forest industry disadvantaged relative to international competitors or competing materials produced domestically (steel, cement etc).
- Cover ALL liabilities associated with deforestation (in the event that forestry becomes an uneconomic land use).
- Enhance the business environment for new planting and wood processing in New Zealand.
- Compensate (in some way) forest owners for the appropriation of carbon credits that would otherwise have been tradable internationally.

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## ? *Olsens Adding Value*

At Olsens we constantly strive to add value to client forestry businesses. These efforts may have either short or longer-term impacts on your bottom line. Some practical examples of this effort are:

1. Input to **Government policy decisions**. Through our representation on the NZ Forest Owners Association we have excellent access to Government Ministers and officials where we represent client interests in matters such as policies on:
  - Regional roading
  - Building codes
  - Carbon sink policies
  - Resource Management Act
  - Research direction and funding
  - Health and Safety

A practical outcome has helped our East Coast and Northland clients directly. Substantial investment in local authority roads that needed upgrading for log traffic is now under way. The objective now is to have that funding facility extended to other regions of New Zealand.

2. Olsens have been active in ensuring that the development of standards for the **environmental certification** of New Zealand plantation forests has accommodated the needs of smaller forest owners, and Group Schemes.
3. Olsens participate as active members of the following pan-industry **research** organisations, and quickly adopt research findings or new know-how for the benefit of clients:
  - Douglas fir Research Co-operative,
  - NZ Radiata Pine Breeding Company,
  - Stand Growth Modelling Co-operative,
  - NZ Forest Site Management Co-operative,
  - Farm and Forest Plantation Management Co-operative,
  - Forest Health Collaborative,

- *Dothistroma* Control Committee,
- WQI Limited (understanding the fundamental drivers of wood properties and development of tools that can measure and segregate logs and timber according to wood properties).

Other research initiatives under way within Olsens are:

- Development of *Armillaria* resistant tree seedlings and cuttings (a world first!),
- Road construction trials to reduce costs where base course rock is very expensive.

## ? *Whangarei Branch Opens*

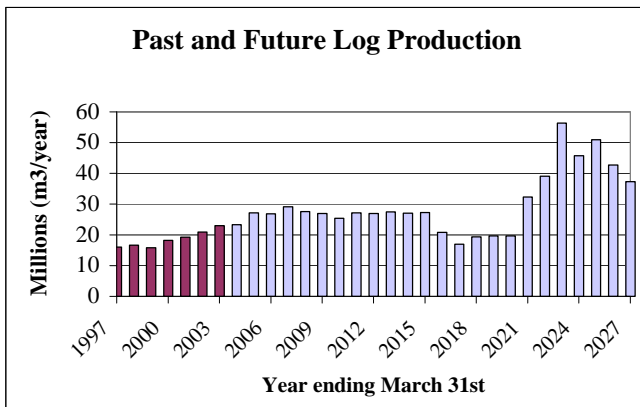
The 10<sup>th</sup> branch of PF Olsen & Company Limited was officially opened on Friday 15 August 2003 in Whangarei. This new office, only 60 km from the Kawakawa Branch will strengthen the Northland regional presence. Angus Malcolm, the new Branch Manager, brings 10 years of experience in inventory, yield and estate modelling, technical analysis for afforestation feasibility and valuations, and harvesting and marketing. It is planned for the Kawakawa and Whangarei branches to work closely together with Angus providing harvesting and marketing, valuations and consultancy expertise to the mid-north region, while Kawakawa will co-ordinate forest management and silviculture to best advantage.

The Whangarei Mayor, Craig Brown, emphatically welcomed PF Olsen and Company to the town, and was very pleased that the blossoming forestry industry in the North was translating into new businesses and people coming to Whangarei. The opening was well attended by community and forest industry leaders, and the mood was buoyant. Peter Clark presented a speech outlining the company plans for strengthening the services offered to forest owners in Northland, and welcomed all of the guests.

The new office is located at 6 Alexander St, Whangarei, and Angus can be contacted on 09 430 2957 or 0272 868 999, or Email: [angus.malcolm@pfolsen.co.nz](mailto:angus.malcolm@pfolsen.co.nz).

## ? *Log Markets*

Whilst there is little disagreement about the languishing stumpages at present, there are varying views regarding forecast harvesting volumes. The chart below projects the level of annual harvest by assuming that the 2002/2003 average harvest age of 27 years and yield of 459m<sup>3</sup>/hectare (MAF statistics) is maintained.



(Source: Age classes from MAF. National Forest Description 2002)

This forecast contrasts with those of the NEFD, which show a dramatic harvest increase in the years to 2015! So maybe the wall of wood is behind us – from 1999 to 2003 annual harvest levels nationally increased by a solid 47% to 23.1 million. What ever is ahead of us, there is little doubt that current timber trading conditions are at a very low ebb. In the last quarter, whilst there has been relatively stability in US\$ price in export markets, further appreciation of the NZ\$ has continued to lower stumpage returns.

### Export Log Markets

Sluggish demand from Japan and Korea has contrasted with strong demand from China. Prices are rising for China deliveries and we are expecting Korean buyers will have to make up a widening price gap to secure volume later in the year. Shipping costs have increased again recently, but the reduction in supply from NZ corporate owners (CHH in particular) is likely to increase prices. In particular, there is expected to be tight competition for low grade logs in the CNI as export markets and domestic pulp mills compete for logs in the run-up to Christmas.

There are tentative signs of improving prices for clears into US markets, but recent price appreciation has been a small US\$25 for mouldings and better. Only modest improvement is expected in the next quarter.

### Domestic Markets

Domestic demand for structural grades remains steady with only modest price erosion compared to export grades. Reduced harvest levels are starting to cause shortfalls in unpruned sawlog supply in some localities. Pruned logs prices have fallen significantly as timber processors are forced to adjust costs in line with significantly lower revenues in the US market. The trend of reducing supply through dropping shifts, changing to unpruned processing and receiverships continues but increased supply of US grown Ponderosa Pine has muted any price increase.

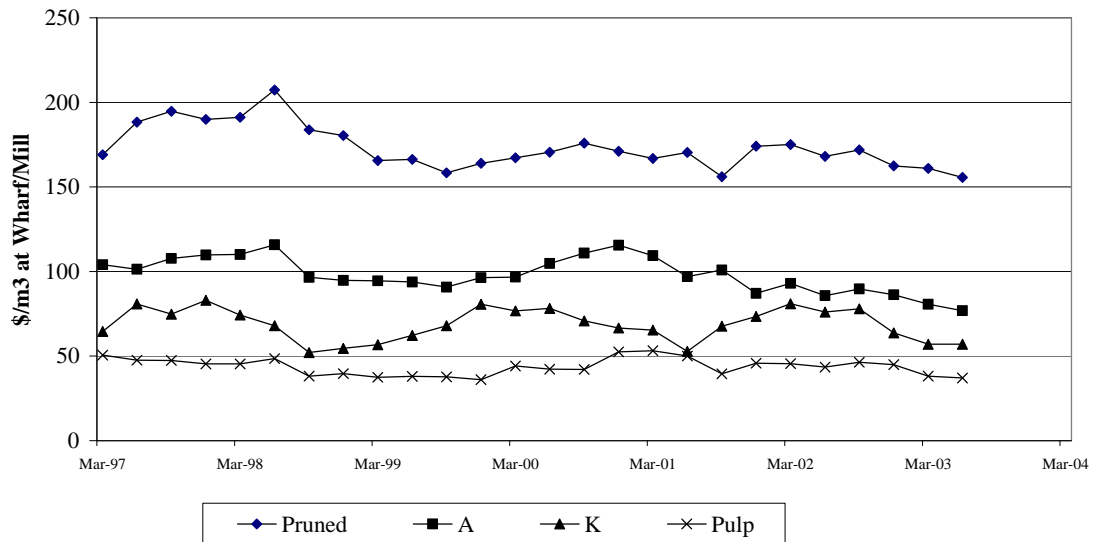
The best news has been the clearing of pulp stocks in the CNI as Kinleith hits its straps after the strike. The mill plans to gradually increase production and, in conjunction with lower harvest levels by Carter Holt Harvey (and small independents), there should be strong demand and hopefully some price rises for pulp and industrial logs in the next 5 months.

### Harvest-Ready

Whilst it is difficult to forecast timber prices, there are signs that we could be climbing out of a trough. Olsens is still recommending clients with trees near maturity prepare for harvesting. As markets improve, there will be strong demand for harvesting contractors and those not harvest-ready could face costly delays. It is likely that lower grade stands, in reasonable proximity to a pulp mill, could start to yield reasonable stumpages, as we get closer to Christmas.

Some things need doing better than they've ever been done before.  
Some just need doing.  
Others don't need doing at all.  
Know which is which.

**LOG PRICES 1997-2003 (CPI adjusted)**



The graph indicates average prices to independent growers based on FOB prices published by MAF up to March 2003. Prices have been adjusted for conversions factors, costs and exporter commissions.

**Adams Logging Limited – 60,000 Hours Accident Free**

PF Olsen and Company Limited and Crown Forestry have jointly sponsored a celebration of 60,000 hours accident-free at Pukenui in the Far North. Herb Adams' runs a high-producing mechanised crew operating in Crown Forestry lease forests in the Far North.

Company Health & Safety Manager, Peter Keach praised the crew for its commitment to training and issued a challenge to reach 100,000 hours.

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