

OLSEN NEWS



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

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▲ *PruTimber Forest Management*

With the sale of FCF forests to the Kiwi Consortium now complete, Olsens are in a position to settle down to the business of maximising stumpage returns for the new owners.

Olsens' role is Property Manager for two North American funds that between them have purchased the cutting rights over about 65,000 hectares of the FCF estate. Olsens work under the direction of Prudential Timber Investments Incorporated (PruTimber), based in Boston, Mass., USA. PruTimber's New Zealand manager is respected forest industry leader Mr John Galbraith. PruTimber is not affiliated with Prudential plc (Pru UK).

Marketing and Lessor Liaison

PruTimber will directly manage log marketing and sales agreements, as well as Lessor and Joint Venture partner liaison on the blocks that are not freehold land.

Forest Stewardship Council Certification

The forests were formerly certified by Scientific Certification Systems (SCS) under FCF but following a transition audit in the last week of February FSC certification will now fall under Olsens' Resource Manager certificate issued by SmartWood (SW-FM/COC-190).

Stakeholders wishing to contact Olsens in respect of FSC compliance issues during March should make contact in the first instance to Environmental Manager Jason Blair on 06 868 5426. From April onwards a new appointee Mr Kit Richards will take responsibility for the PruTimber forest environmental and FSC performance. Kit brings with him a wealth of experience from having established Timberlands West Coast environmental management and FSC systems. Kit will be based in our Ngongotaha Road office, Rotorua.

Staffing

Following a transition period in March when staff are being seconded from FCF, Olsens will be hiring 20 new staff. Combined with existing capability within Olsens these new staff will focus primarily on servicing the PruTimber forests.

The majority are former FCF staff, who have good institutional knowledge of the estate and its various stakeholders.

New Office

With some 20 new staff Olsens has now spread across two Rotorua offices until we can relocate into a single larger facility. Our second Rotorua office is the old forest health and entomology buildings at the South end of the Forest Research campus. With just 6 weeks in which to prepare these rather run-down buildings we have to say Trevor Bodley and his team at Forest Research really did a fantastic job. Trees were cleared away, paint applied and new linoleum laid. The buildings are now very tidy and a good work environment. IT and phone lines are all linked to the Ngongotaha Road office site.

The acquisition of part of the FCF forests by two North American funds is further evidence of a change in New Zealand forest ownership out of publicly listed vertically integrated firms into pure forest ownership entities that use debt judiciously.

Olsens look forward to the challenges that come with the increase in forest area and harvest volumes under its management. We believe it adds to our capability to efficiently service the needs of existing clients both in the Central North Island and beyond.

▲ *Nectria fuckeliana*

Implications for *Pinus radiata* management in Otago/Southland

A fungal disease, named *Nectria fuckeliana*, has recently been reported in *Pinus radiata* plantations in the Otago/Southland area.

The disease typically develops on trees after pruning. While the mechanism of infection and stem damage is not yet fully understood, it appears that the disease enters a tree through a pruning stub, moving upward and downward from the point of entry killing cambium cells, which may ultimately lead to stem malformation and wood depression, or fluting. While the fungus predominantly enters trees through pruning wounds, it can also infect through wounds caused by wind, snow, and possums. The point of infection typically becomes weak and vulnerable to breaking during strong winds. Fluting in the stem may occur in trees of all ages. Although the infection may lead to stain and decay within the pruned log, the crown remains green and healthy and continues to grow.

The disease was first noticed in the late 1980's, but until 2002 it had been assumed that the infection was primarily due to *Diplodia* because of the almost identical initial symptoms with that well-known disease, and also *Diplodia* had been isolated from sample material on several occasions. Pruning procedures were adjusted in order to minimise *Diplodia* infection.

By 2001 the fluting appeared to be widespread throughout the region on a range of sites and *Diplodia* control measures apparently failed to mitigate the problem. A detailed evaluation and sampling program commissioned by a private forestry company in the region indicated that the incidence of *Diplodia* was very low and that the fungus most frequently isolated from stained sapwood and distorted stems is *Nectria fuckeliana*. From a survey of 540 trees the incidence of stem malformation in any stand was found to range from 4 – 39%. Isolations made from dissected trees have shown that *N. fuckeliana* is the primary agent colonising pruning wounds in these stands.

N. fuckeliana is recorded in Scandinavia, Northern Europe and Canada at latitudes greater than 50°N. Host range of the fungus is confined to conifers, primarily spruce and fir. The fungus is not a primary pathogen, although in rare occasions, it can cause dieback on species of spruce and fir. The fungus is reported to be the most common fungal colonizer through stem injuries in Scandinavia. *N. fuckeliana* is not a decay fungus and therefore is not in itself harmful to wood quality.

Nectria infection now has a wide distribution among pine plantations in Otago/Southland. The northern boundary of the disease has yet to be confirmed. Detection of the relatively rare fungal fruiting, or destructive sampling and laboratory analysis, are the only definitive means of identification. The disease can cause downgrade and/or loss of the value of affected pruned logs. Since the production of light coloured prune logs is a major advantage of pine grown in Otago/Southland, *Nectria* has significant implications for pruned silvicultural management practices in the region. Current pine plantation in Otago/Southland is estimated around 140,000 hectares, or 7% of New Zealand exotic forest resource.

The infection of pruned stubs of *Pinus radiata* by *N. fuckeliana* formally identified in southern forests has no parallels with radiata in other parts of the world. There are number of questions that need to be answered with this disease, for example:

- Will this disease spread to other part of the south island or even the north island?
- What factors affect the infection and disease development?
- What are the management tools we can use to control the disease?
- Is there disease resistance naturally occurring among radiata pine genotypes?

The answer to a number of these questions is well advanced. PF Olsen and Company Ltd has joined three other major forestry companies in Otago/Southland in a research group aimed at developing management solutions for the disease. Forest Research scientists have been

commissioned to carry out this research. A research strategy has been developed, which aims at gaining an in depth understanding of the disease process and developing mitigation procedures to effectively reduce present and future damage to an acceptable level at an affordable cost.

▲ *Kyoto Protocol & Forest Industries Framework Agreement*

Since the NZ Government ratified the Kyoto Protocol (KP) it has been developing its domestic policies that will enable it to meet the greenhouse gas emission targets it has committed to. As part of “balancing the books” the Government has stated that it has the rights to all the CO₂ that is sequestered in post-1989 “Kyoto” forests. The Government’s position is that they created the value of the sink credits as the KP is a government to government agreement.

The NZ Forest Owners Association, Forest Industries Council and Farm Forestry Association have taken the position that there is more to be gained from working with the Government to develop a support package for the forest industry than to contest the Governments’ ownership claim via an uncertain political or court process. The Government has now acknowledged that it has a vested interest in a healthy and profitable forest growing sector to protect its carbon sinks. A package of cash and non-cash support is expected to be included in the 2004 budget. The Government has stated that access to this support is conditional on the signing of a Forest Industries Framework Agreement (FIFA) by the Forest Industry that acknowledges the reasons for and objectives of this “special” funding.

Many “Kyoto” forest owners view the Government’s claim to the forest credits as the theft of a private property right. Nor are they convinced that the FIFA adequately compensates them for their “stolen” carbon credits and wish to receive compensation either in rights to pool and sell carbon credits, or in cash. This group has formed the Kyoto Forest Owners Association (KFOA). Their support for FIFA would be conditional on an improved support package and the complete indemnity from Government imposed carbon taxes associated with both harvesting and deforestation. The tax indemnity would need to extend beyond 2012 to any future Commitment Period.

Olsens supports the objectives of the KFOA and has joined this group on behalf of clients that own “Kyoto” forests.

The NZFOA is committed to an extensive consultation to establish whether it has member support to sign-off the FIFA. There is significant crossover between NZFOA and KFOA membership. It follows that KFOA members must be satisfied that the FIFA fairly compensates them and protects them from a future carbon tax exposure on change of land use.

If you have plantation forests that were planted on farmland in 1990 or later then please advise your Olsens client manager of your email address so that we can inform you and get your feedback on specific FIFA and/or KFOA initiatives, once these are available for circulation.

▲ *Other Items*

Fumigation of export logs using phosphine

Dr Wei-Young Wang of Olsens has been involved in log fumigation research using phosphine gas as a replacement for methyl bromide, which depletes the ozone layer. The involvement included consultation with the Chinese Quarantine Office and assisting MAF's National Adviser on Forest Product Export Standards. Wei-Young also coordinated the research to test the efficacy of the phosphine treatment. The research was funded by a 3c/m³ voluntary levy on export logs. The outcome of the research is a treatment of export logs to China that has saved the NZ log exporters about NZ\$4 million since July 2001 while at the same time reducing the impact on the ozone layer.

Masterton on the move

The Olsens Branch Office in Masterton will be moving to 10 First Street by April 2004 and the postal address is now PO Box 788, Masterton. Phone and fax numbers will remain as they are now. The new location includes a lockup garage and storage shed.

Changes on the staff scene saw the Masterton Branch Forester Barry O'Sullivan leave in July last year to 'do' the big OE. Hamish McGregor has joined the team in Masterton, having recently returned from his big OE.

▲ *Wood Quality Initiative (WQI)*

PF Olsen and Company Limited is a shareholder in WQI Ltd. WQI Ltd is a New Zealand wood quality research and development company focused on the creation of valuable intellectual property (IP) that can be used for both resource segregation, and for greatly enhancing the value of the next *Pinus radiata* crop. The value proposition for shareholders is three-fold:

- Enhanced wood product value.
- More valuable forests.
- Revenue from IP and tools.

Enhanced wood product value will be achieved by segregating the resource by quality parameters, to access higher value markets, getting the right forest, log and lumber chip to the right processing plant and to the right market.

While we cannot change the characteristics of mature wood, we can increase its value by grading and selling logs not just on their visible characteristics but also on their intrinsic qualities and suitability for particular consumer products.

For example we can use sonic resonance tools to estimate the stiffness of a log to select those that are more suitable for structural timber and Laminated Veneer Lumber (LVL) production.

Developing tools to assess standing trees for both stiffness and other quality characteristics will allow us to improve harvesting and marketing decisions and thus improve the overall returns on your investment. If we can supply a customer with logs that are of a consistent high quality for specific consumer products then we can demand a higher price. Sonic testing employed recently on logs from one of our Gisborne region clients allowed us to negotiate a price that was \$30/tonne higher than the log export option.

WQI is a research consortium and Shareholders' cash contributions are matched by NZ Government funding via the Foundation for Research, Science and Technology.

The \$7.5 million research program (2002-2005) is broken down into the following groupings:

- Resource Characterisation.
- Appearance Properties & Performance.
- Structural Properties & Performance.
- Stability and Straightness of Wood Products.

Most of the large forestry companies and forest research providers of New Zealand are shareholders in WQI Ltd. Olsens is the only forest management services company in WQI Ltd. Much of the knowledge and many of the tools developed by WQI will be used by processing companies. NZ Forest owners will benefit from a more competitive and more profitable domestic wood processing industry.

Olsens is committed to support research and development that can benefit its clients. The company investment in WQI Ltd is part of a strategy that keeps the company at the forefront of knowledge and skills that are required to ensure that our clients can get the best possible returns from their forest investment.

▲ *Log Markets*

Export Markets

Following a reduction in the supply of export logs from New Zealand, Korean prices for Radiata logs climbed steeply in November and December 2003. After deducting the all-time-high ocean freight costs and currency conversion from \$US to \$NZ, the wharf gate increases in \$NZ were more modest than the \$US increases, but still welcome.

China opted to forgo competing with Korea and in the quarter ending December 2003 their uplift of logs was a mere 208,000 m³ compared to 519,000 m³ in the same quarter of 2002. This reduced demand from China has resulted in price slippage of around \$10/m³ at wharf gate for all Korean/China grade export logs in February 2004.

Japan export log prices have remained at a fairly constant level through the past six months. The price increases at the buyers end have only lifted to match rising shipping costs and currency changes.

The exchange rate between the \$US and \$NZ over the past 20 years has been variable, but no previous peak or trough has been sustained for any great length of time. Relief from freight rates may take longer as the problem is a shortage of ships. Building new ships will take time especially when shipyards already have full order books for ships other than the 25,000 tonne general cargo ships used to freight logs.

Domestic Log Prices

Domestic unpruned sawlog prices have remained fairly constant over the past six months and have generally exceeded the returns at forest gate obtainable from exporting logs. The domestic prices are linked to the relatively high levels of building activity in both New Zealand and Australia, as Australia remains the biggest export destination for NZ sawn timber.

Pruned log markets have declined despite improved prices for clearwood products in the USA due to the impact of the rising NZ\$.

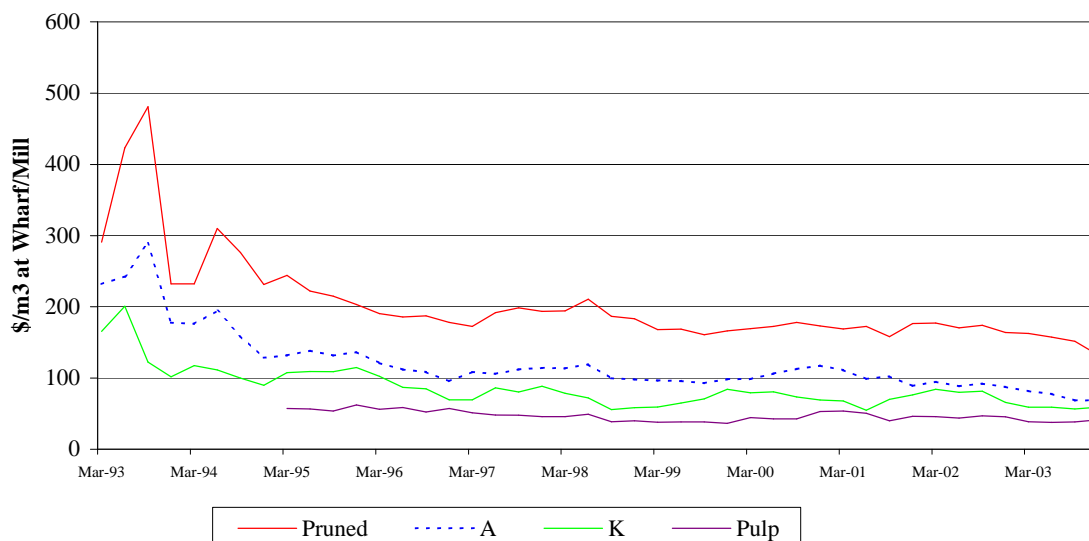
Pulpwood prices

Mill door pulpwood prices have increased by some \$2/tonne in February. Most pulplog sales are based on a differential price with a higher price paid for pulp drawn from the more distant forests that are further away from the pulp mill.

Long Term Trend

The long term prices trend for four log grades is shown in the graph below:

NEW ZEALAND QUARTERLY LOG PRICES 1993-2003 (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.

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