

FSC GAINING TRACTION in Market

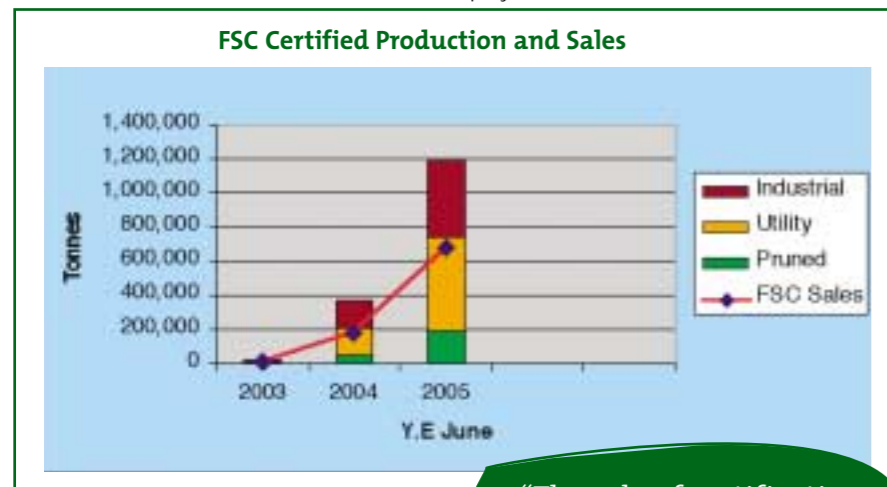
While certification under the umbrella of the Forest Stewardship Council (FSC) remains controversial within the New Zealand Forestry Sector, there remain underlying currents that continue to reinforce a trend toward certification becoming a relevant component of forest management.

Presently, over 42% of New Zealand's plantation resource is FSC certified, and other parties are looking to obtain some form of certification over large areas in order to satisfy a degree of market selectivity. In addition there are other factors at play, namely:

1. Significant or dominant FSC processors in some wood supply catchments creating a pressure for FSC supplies and leading to transport differentials in favour of FSC logs.
2. Changes afoot in FSC chain of custody labelling rules that are being geared to try to stop inputs of illegal wood under the FSC mixed label and also create more incentive to increase usage of FSC wood. The latter issue has already been reflected in the announcements of one major processor to go 100% FSC with consequential downstream ripple effects upon suppliers including those supplying presently uncertified sawmill residue.
3. While limited in extent, export markets are showing signs of premiums for FSC logs, resulting in significant bottom line opportunities for forest growers.

As the graph below shows, within Olsens, as the FSC Group Scheme has grown, so too have harvest levels from Certified Forests and the quantity sold as FSC product to requiring customers.

There is a sense that with these trends in play, the role of certification will



"The role of certification means you can sell your log products when you want and at the going market rate if not better."

continue and will become more important; at the very least as a means of ensuring you can sell your log products when you want and at the going market rate if not better.

The fact remains however, that much of the future private resource in the hands of the non-corporate sector and for them certification can seem difficult and expensive. To try to cater better for this market, Olsens has been working hard to develop their Group Scheme processes and pricing to accommodate both corporate and individual scaled forest holdings. More information can be seen in the recently upgraded FSC section of the Olsens' website www.pfolsen.co.nz

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THE ROTORUA BUSINESS EXCELLENCE AWARDS – Olsens wins big!

In addition to winning the Service Provider category award PF Olsen and Company Ltd won the Premier Award at the Westpac Rotorua Business Excellence Awards held at a gala presentation on 30th September 2005.

These annual awards are organised by the Rotorua Chamber of Commerce to recognise excellence in Rotorua-based businesses. Judging is by a panel of 12 experienced business leaders from both within and outside the region, against a range of business success criteria. Olsens clearly scored well over the full range of criteria to win the award

"Olsens clearly scored well over the full range of criteria to win the award against stiff competition."

against stiff competition. In accepting the award CEO Peter Clark noted the strength of teamwork and business ownership by staff as key factors.

This is the second time Olsens has entered these awards. In 1996 the company won Best Forestry Related Business category under the stewardship of the late Peter Olsen.



THE OLSENS TEAM
RECEIVING THE PREMIER AWARD AT THE WESTPAC ROTORUA BUSINESS EXCELLENCE AWARDS HELD AT A GALA PRESENTATION ON 30TH SEPTEMBER 2005.

OPTIMISING INCOME TAX arising from harvesting

Growing a successful forest takes a long time and taxation is a large cost component of the process. To avoid disappointment it is worth consulting your tax professional to optimise the tax implications prior to, or after, harvest and before any land use or ownership change. **Any discussion should cover:**

1. Income spreading over years prior to harvest.
2. Tax treatment of capital development during harvesting e.g. roading.
3. Re-establishment costs and land development costs prior to re-establishment.
4. Potential land sales or land use conversion.

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KYOTO FOREST OWNERS – Update

Olsens are members of the Kyoto Forestry Association (KFA) representing clients with forests planted on former pasture since 1st January 1990.

As you may have picked up from the media, the forest industry has been less than impressed by the lack of information and leadership from Government regarding the direction of key climate change policies affecting our future. While the Government has acknowledged that its current (now abandoned) policies would not have achieved its commitment to reduce emissions to 1990 levels, it seems at a loss about what to do instead. Worse, it seems unwilling to take seriously proposals put to it by the forest industry and by its own economic advisors at the Treasury!

New policies are under formulation now and it is unclear to us what approaches are being considered. What does seem clear is that the two largest emission sources, agriculture and transport, are to be shielded from any new policies. The signals to date suggest that the forest industry is to be taxed to pay for that shielding, by having our carbon credits taken from us and a deforestation cap imposed on us.

It is not clear to forest industry leaders how this approach would positively change the behaviour of emitters, let alone expand forest sinks and lead to a more sustainable, greenhouse-gas-friendly economy over

time. Our Prime Minister has sought to show political leadership on the international stage by ratifying the Kyoto Protocol, but her ministers and officials have not matched that political will by developing policies at home that will change emitter behaviour.

The forest industry and the Government's chief economic advisers at the Treasury believe that a market-based mechanism is the least-cost way to achieve New Zealand's Kyoto commitments. This would create at least a domestic trading regime such that atmospheric polluters may purchase credits from those that sequester CO₂. It would encourage much greater use of transport fuels and bio-materials that do not pollute our atmosphere. Were the Government to implement such an approach, it is clear that significant private sector funding would flow into forestry, potentially saving the taxpayer the hundreds of millions of dollars which are currently earmarked to be used to buy credits offshore.

"The two largest emission sources, agriculture and transport, are to be shielded from any new policies."

EXPORT LOG MARKET

freight rates still high but relief from falling \$NZ

Ocean freight rates have recently oscillated with a see-saw pattern of rises and falls. Added to this problem was a shortage of ships available for charter in March and April this year. High freight costs come out of both the pockets of New Zealand forest owners and the log buyers in Asia. The latest rate of around \$US34.00/JAS/m³ for freight to Korea is still high compared to pre-2003 shipping costs.

Freight rates rose in 2003 in response to increasing demand for dry bulk carriers and the increased cost of fuel. Tonnages of logs are small compared to other bulk cargo categories. Log shippers are thus price takers.

Is there hope of improvement in sight? A downwards trend can be discerned, but a sustained fall will depend on how the future level of demand for ships, particularly by China, matches the available ship supply. The tonnage of forward orders for new dry bulk carriers in 2005/2006 was larger than the tonnage of older ships expected to be scrapped, so a modest increase in the total tonnage over the next year is likely. However 56% of ships in the Handysize class that includes the log carriers are over 20 years old. If freight rates fall the retirement of older Handysize ships is likely to accelerate.

At present China's growth rate appears to be cooling off. This offers some hope of lower freight costs in the future, but during the past year once daily charter rates fell in the Pacific rim region, some ships moved to the Atlantic or Indian oceans, following the higher rates currently available there.

The exchange rate has fallen quite sharply in March having gained some 70% in the past two years against the currencies of all the main log buying nations. The high New Zealand dollar reduces the returns to the forest owner and increases the cost to the log buyers. Other countries whose currencies have not soared like the New Zealand dollar, such as Chile, Russia and the Euro zone have used the opportunity to increase their share of the wood trade at the expense of New Zealand.

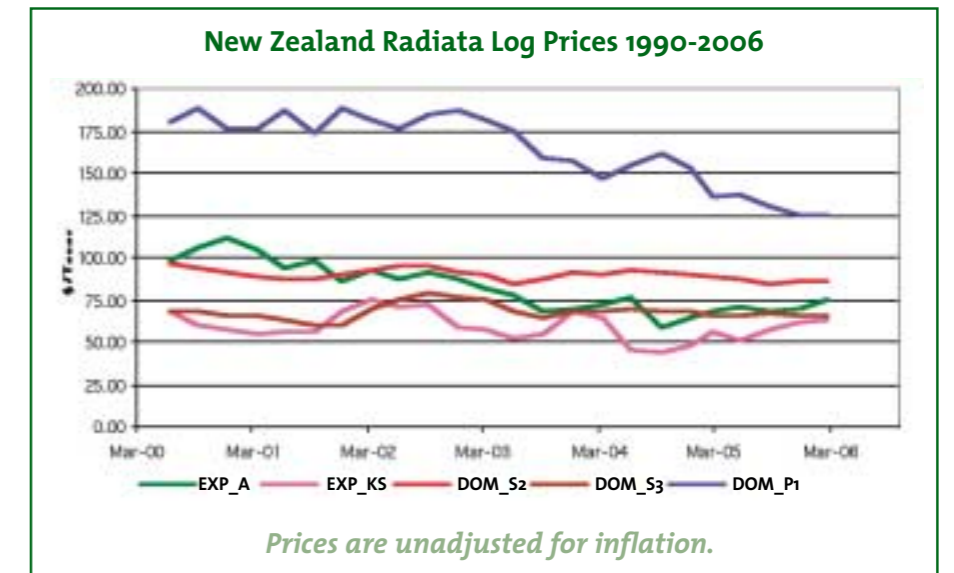
The current fall in \$NZ exchange rate is already re-awaking interest in markets such as the Philippines that have been dormant while the \$NZ was riding high. While outlets for the

sale of export logs may have improved it may take a little while before returns to the grower improve as buyers have been impacted by the high cost of logs and will be rebuilding their margins. New Zealand's largest market, South Korea, is still inactive and exporters have been looking to China and India to improve returns.

Returns to growers for unpruned export logs have improved by around \$NZ10/m³ since June 2005. Export pruned log prices have fallen by a similar amount over that period.

The graph below compares the \$NZ delivered prices, at mill or wharf gate, for two export log grades and two domestic log grades in New Zealand (prices surveyed by AGRIFAX and MAF).

"Returns to growers for unpruned export logs have improved by around \$NZ10/m³ since June 2005"



DID YOU SEE US AT THE Forest Industries Expo?



THANKS TO ALL THE OLD FACES AND NEW THAT VISITED US AT OUR STAND AT THE FOREST INDUSTRIES EXPO, 9-11 MARCH IN ROTORUA.

DAVE CRAWLEY, OLSENS' RESOURCES AND INVENTORY MANAGER, DEMONSTRATES AND EXPLAINS SONIC TESTING OF LOGS TO GUESTS ON A FIELD DAY HELD LAST MONTH.



The site is Mangaone forest (Bay of Plenty) where the harvesting crew, SNI Logging Ltd, is producing 700 tonnes of logs per day from a cable-based operation. Guests on the day included Olsens' clients and those wanting to learn more about harvesting and Olsens' services. In total 22 guests enjoyed an informative day out that included a visit to log export operations at the Port of Tauranga and a BBQ lunch in the forest.

OLSENS' INVOLVEMENT WITH forest growing related research

The New Zealand forest industry spends in the order of \$3.5 million/annum on forest growing related research. This work is funded jointly by forest owners and the Foundation for Research Science and Technology (FRST)

Since the early 1980s most of this research has been directed and managed under 5 joint Scion (formerly Forest Research) industry cooperative structures. The industry and Ensis (a Joint Venture between Scion and CSIRO of Australia) are now working jointly on a revised structure with the objectives of:

- Achieving better synergies and efficiency of research expenditure across research themes.
- Improving the industry input (at senior level) into the direction of research most relevant to its needs.
- Improving the early uptake of research findings into operational forestry planning and practices.
- Ensuring an all-inclusive approach that eliminates the time and energy presently devoted to IP protection, for what most consider a marginal, if any, gain.

The existing Research Co-operative model is not broken, but as we head into another FRST funding round for forest growing research we are looking

for a model that meets FRST's new messages about close end-user engagement and a model that delivers more to industry for it and FRST's expenditure. We also need a funding model that provides the stimulus and stability for Ensis to ensure it has the research capability to keep New Zealand at the forefront of softwood plantation growing research.

An industry consultation round has already established that there is strong support for this change. Peter Clark of Olsens is playing a key role in the Establishment Board of the new structure.



PETER CLARK CHIEF EXECUTIVE

DOMESTIC LOG MARKET the market softening with price increases

The domestic non-pruned log market has softened in the past half-year as domestic demand for wood in New Zealand and Australia falls off. There are tentative indications of the market strengthening as this newsletter goes to press with significant price increases recently achieved for utility grades to domestic processors.

Logs milled for structural uses are increasingly required to meet minimum wood stiffness specifications as well as the usual maximum branch size specification. The tendency is for mills to discount logs whose stiffness is lower, rather than pay a premium for stiffer logs. Logs from low altitude and latitude locales are more likely to meet stiffness requirements than those from high sites and those further south. Olsens' sonic log testing programme is successfully maximising yields of higher-value structural logs for forest owners.

Pruned log markets are dominated by sales of pruned product to the USA. The high exchange rate has made New Zealand clearwood uncompetitive with clearwood products from South America. Substitute products such as extruded medium density fibre board mouldings also continue to expand their share of this key market. Prices paid by New Zealand sawmillers for pruned logs have fallen over the past year, but have been stable for the last quarter, possibly

because supply has been reduced by forest owners. Any impact from the recent falls in the exchange rate is yet to be seen in rises in pruned log prices.

What can forest owners do to maximise returns in a volatile market?

Whilst we would love to be able to forecast timber, freight and foreign exchange markets, the reality is that we can't. The best investment for a forest owner with timber near maturity is to get HARVEST-READY. Please call your local Olsens representative directly or contact us on 0508 OLSENS (0508 657 367) to find out how we can help you get harvest-ready.