

KYOTO UPDATE – *nothing new to report but Peter Clark gives his view.*

Other than “All options are under consideration”, forest owners remain in the dark as to the direction of government in re-thinking its domestic climate change policies.



PETER CLARK
CHIEF EXECUTIVE

Given the time it will take for the forest investment community to react to any possible policy changes, including the build-up of suitable planting stock, the delays represent a lost opportunity to maximise forest sink creation during CPI (2008-2012).

It is now widely acknowledged that New Zealand will be unable to meet its targets for CPI without purchasing credits internationally. However, with suitable policies we could certainly make changes towards an economy that has sustainably lower greenhouse gas emissions and reduced reliance on fossil fuels. Such policies would include:

1. Recognition of the principle that emitters must take financial responsibility for their pollution. This may need to be introduced over time to avoid becoming uncompetitive.
2. Ability for forest owners to hold ownership of sequestered CO₂ and trade any surplus not required to cover liabilities with those wishing to purchase credits internationally.

New Zealand is not alone in being unlikely to meet its Kyoto obligations without spending a lot of taxpayer money off-shore. Our international reputation and the credibility of our commitment to doing our bit for climate change must surely now rest upon implementing domestic policies that set us on a course of long-term emissions reduction. The forest industry has a lot to offer New Zealand in achieving that outcome. Apart from increasing the amount of atmospheric CO₂ locked up in forest sinks, wooden building materials are much less energy intensive over their lifecycle than other building materials. Nor does wood emit large quantities of CO₂ into the atmosphere during its manufacture.

FAVOURABLE SIGNS IN TIMBER MARKET *for second half of 2006*

There is a notable improvement in sentiment regarding log prices for the second half of 2006. Pruned log prices set for the third quarter are up between \$5 and \$15 per tonne, structural logs are steady and domestic utility and export logs are looking to add to gains already made in the first half of the year.

Round wood is still keenly sought after and pulp log price increases have been achieved in some market segments. “Any continued weakness in the NZ \$ should translate into increased at-wharf and mill-gate returns so long as ocean freight rates behave”, says Peter

“A number of our clients are decidedly upbeat about prospects for the remainder of the year.”

market if prices meet expectations”.

Weblin, Olsens Harvesting and Marketing Manager. “A number of our clients are decidedly upbeat about prospects for the remainder of the year. For those contemplating harvesting soon, they should be getting harvest-ready now with a view to going to

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NEWSLETTER

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GREAT RESPONSE TO Harvesting Seminars

As a new initiative to informing forestry investors of important harvesting-related issues, Olsens has been holding regional seminars entitled “How to MAKE MORE MONEY from your forestry investment”.

So far four seminars have been held, one each in Christchurch, Blenheim, Gore and Dunedin. A total of 96 people, most with forests and woodlots near maturity attended. “The response has been tremendous”, says Peter Weblin, Olsens’ national Harvesting and Marketing Manager, “People are passionate about this topic and thirsty for knowledge.”

This is what some of the seminar attendees had to say about the seminar:

- “Very good”
- “Very educational”
- “Very valuable”

“Very informative. Risk management and necessary professional approach to the harvest/sale & marketing very helpful”

“Informative and motivational”

“Very informative. Risk management and necessary professional approach to the harvest/sale & marketing very helpful”

The objective of the seminars is to raise awareness and increase people’s knowledge of critical matters surrounding the harvesting and marketing of forests and what forest owners can do to maximise their returns. “Whilst Olsens is obviously in the business of providing harvesting management services, our approach is to empower forest owners to make informed decisions. If those informed decisions include Olsens, that’s fine, but there’s no hard sell”,



PETER WEBLIN PRESENTING THE “HOW TO MAKE MORE MONEY FROM YOUR FORESTRY INVESTMENT” SEMINAR.

adds Mr Weblin, “A key theme of the seminars is harvest-ready and we go into more detail on what that entails and why it can have such a positive impact on harvesting returns”.

Seminars are planned for most of the remaining regions around New Zealand so keep an eye out for them in your area.

MINIMISING THE TAX BURDEN on Harvesting Revenue

Our April Newsletter included a short piece on income tax and harvesting. We received a lot of feedback requesting more information. The following article, kindly provided by Judith Stanway of BDO Spicers Rotorua, expands on this important issue.

The satisfaction from being financially rewarded at harvest time for your foresight in investing in trees can be tempered by the contemplation of paying up to 39% tax on harvest income.

If you have made money you will pay tax, but there are many ways of ensuring that the burden is minimised.

One of the most significant is structuring the entity that owns the forest appropriately.

At harvest time there will be opportunities and also traps:

- If you have been claiming planting and growing costs as you go against other income in some form, you have to accept that you have got the deduction up front and now is pay-back time.
- Any costs not yet claimed can only be deducted against the income from the forest they directly relate to.

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2. Forests are not only environmentally-friendly CO₂ absorbers, wood is also highly energy-efficient.
3. Growing redwoods in New Zealand
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4. Kyoto Update - *nothing new to report but Peter Clark gives his view*
Favourable signs in the market for second half of 2006.

OLSENS MAINTAIN *robust FSC Group Scheme.*

Our last newsletter reported on indications of a steady gain in FSC traction in the New Zealand market. Since that time it has become apparent that in the near future, there are likely to be further corporate additions to the New Zealand stable of FSC Certified Companies.

This continues the trend toward all the major companies and forest owners becoming FSC Certified and continues to motivate Olsens to maintain a robust Group Scheme system, providing a service option to clients that is likely to become increasingly relevant in the New Zealand market at both large and smaller scales.

In recent months Olsens;

1. Achieved an excellent 2006 Audit result with all past corrective actions closed and no new ones issued.
2. Welcomed into the Group Scheme portfolio another 10,000 hectares of plantation from the Gisborne area as well as another forest from the Napier region.
3. Reviewed its base pricing structure providing greater flexibility in pricing to potential new members to reflect scale and the nature and division of work involved in achieving and maintaining the FSC standard. At medium and larger scales of operations significant savings are possible.
4. Significantly upgraded sections of its website – www.pfolsen.co.nz to provide better reporting of key



THE NORTH ISLAND BROWN KIWI



RELEASING THE NORTH ISLAND BROWN KIWI ONTO TUHUA ISLAND

FSC aggregated information. 5. Embarked on a revision and simplification of the Group Scheme Manual to make it easier to use and better linked to Olsens foundation databases and website. This improved the efficiency of Group Scheme management and assisted communication with Group Scheme Members and Stakeholders to better service our FSC obligations at lower cost.

North Island Brown Kiwi start a new life.

Tuhua Island is the location of Kiwi following surveys undertaken as part of FSC related programmes. These programmes have led to the recovery of eggs from breeding pairs and subsequent successful captive breeding of chicks, as well as the capture and subsequent release to the protected predator free Tuhua (Mayor) Island of 7 adult birds (3 pairs). This release – representing the first release of Kiwi to the Island – has been undertaken with high hopes that it will mark the start of rebuilding the Kiwi numbers in the area.

North Island Brown Kiwi – Benefiting.

Over a period of some months, Olsens has been coordinating with one of our Group Scheme clients, DoC, Iwi and Environment Bay of Plenty in a joint approach to the management of a population enclave of seriously threatened N.I Brown Kiwi present in at least two forests. This species has suffered enormous declines in the Bay of Plenty region to the extent that it is on the threshold of local extinction.

FORESTS ARE NOT ONLY ENVIRONMENTALLY-FRIENDLY CO² ABSORBERS, *wood is also highly energy-efficient.*

With a lot of discussion and debate around the issue of Kyoto, forests and carbon credits, it's easy to lose sight of another significant advantage of wood – its ENERGY EFFICIENCY.

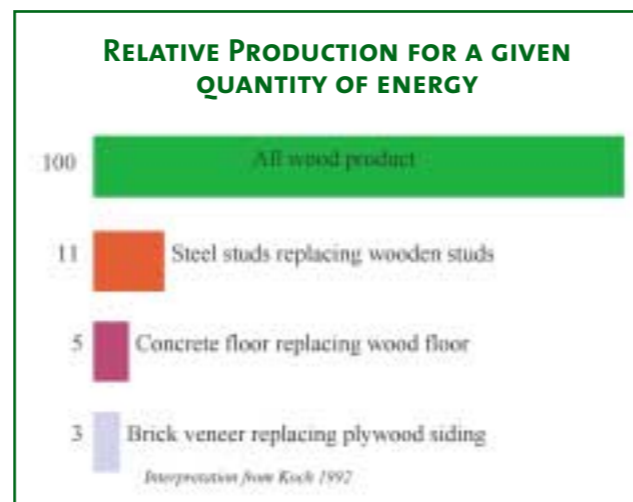
“...wood has excellent thermal qualities and is thermally more efficient than many alternative building materials such as aluminium and concrete.”

Wood is 10 to 30 times more productive per unit of energy than steel, concrete or brick. This means that, in service, wood will produce 10 to 30 more house frames, floors or exterior sidings for each unit of energy used in producing, transporting and installing the material (see accompanying chart).

The reason for this excellent energy performance is the ingredients needed to produce wood – sunshine, water and a few soil nutrients! It's not until harvesting, transporting and processing logs that fossil fuels are required to drive the skidders, haulers and logging trucks. And even then, their energy needs are relatively minor compared to other building materials.

In addition to this, wood has excellent thermal qualities and is thermally more efficient than many alternative building materials such as aluminium (in windows) and concrete (in floors).

As the world experiences increasingly costly energy, it is comforting to know that wood comes out tops in terms of energy efficiency. Whilst this aspect of wood may not be translating directly in log prices at present (there are still plenty of alternatives available and old habits take time to change), it is likely that in a world of finite natural resources, wood will increasingly gain prominence as a renewable, sustainable and energy-efficient material.



GROWING REDWOODS in New Zealand.

With the reduction in supplies of 'Old Growth' redwood in California, and increasing environmental restrictions, there is increasing interest in growing redwoods (Sequoia Sempervirens) in NZ. In the past five years two American companies have bought land in NZ with the intention of developing a sustainable supply of redwood logs and timber to the North American market.

Establishment

The lessons of the past have shown redwood to be very site specific with much variation in growth even within small areas. Careful attention to nursery techniques, tree-stock handling, planting, and weed control are all significant factors affecting early growth.

The main climatic factors affecting growth in NZ are temperature, moisture, and wind exposure.

Redwood growth will suffer if exposed to strong winds, particularly if salt laden. Exposure to regular strong winds will result in tops of trees being repeatedly blown out. Double leaders develop and tree form is adversely affected.

Redwood grows best where soils are free draining and there is no underlying 'pan' which can restrict root growth. It appears to be more demanding than either Radiata Pine, or Douglas Fir in preferring a fertile soil. Some trials have shown good response to fertiliser, particularly with weed control, in the first few years of growth.

Weed control has a major affect on early growth and it will respond very well to a weed free site which should be maintained for at least the first two years of growth.

Apart from temperature, it is moisture availability that affects redwood growth more than any other factor. The best redwood growth is in sheltered parts of the North Island with mild temperatures and rainfall over 1,500mm per year. In the South Island redwood grows well providing annual rainfall exceeds 1,000mm, and other factors are not restricting.

NZ does not grow redwood any faster than California, but it is the ability here for

redwood to grow right through the summer that provides a growth advantage. In California growth virtually stops over the driest part of the summer and it is only the fogs that keep the trees alive.



THE REDWOOD FOREST IN ROTORUA.

Planting is ideally done at desired final crop stocking to take full advantage of redwoods inherent good form and apical dominance. Typical planting spacing is 4.5 x 4.5m (500s/ha). This also avoids the need for thinning and eliminates the problem of thinned stumps coppicing. In more exposed sites nurse crops of pine, larch or Douglas Fir have been applied. There is some evidence that redwood will grow better on sites that have had a previous crop of trees, rather than being planted directly into pasture.

Silviculture

The principal aim of redwood growers in NZ is to provide logs/timber that will be an acceptable substitute for second-growth Californian logs. This is expected to be achieved with the following silvicultural objectives:

- 30 year rotation
- 60cm diameter (dbh) log
- Growth rings 10cm maximum
- Final crop stocking 250-500s/ha
- Pruning to reduce 'dead knots'
- Breeding for higher wood density and durability

Benefits of pruning include reducing dead knots, improving overall log grades, and allowing wider spacings to enhance diameter growth. Costs and uncertainty over premiums for 'clear' redwood timber are the

main arguments against pruning.

The intended practice of New Zealand's largest grower of redwood, Soper-Wheeler, is to prune to 6.5m in three pruning lifts.

Timber Quality & Markets

The majority of redwood timber in California is used for:

- Interior decorative panelling
- Exterior cladding
- Outdoor furniture
- Decking
- Fences

The current redwood timber market in California is about 1.0 million m³, most of which is consumed locally. Prices are around 40-70% higher than Douglas Fir and twice the price of Ponderosa Pine.

A summary of NZ grown redwoods timber performance is as follows:

	DENSITY	STRENGTH	STIFFNESS	HARDNESS
NZ Redwood	5	5	6	5
US Old Growth	3	4	2	4
US 2nd Growth	4	6	5	5
US Douglas Fir	1	2	1	2
NZ Douglas Fir	3	3	4	3
NZ Radiata Pine	2	1	3	1
1 = Highest	6 = Lowest			

Durability is a key factor as most redwood in the US is used in outdoor applications: fencing, decking, furniture. NZ grown redwood (heartwood) is not as durable as slower growing US Old growth timber, and likely also to be less durable than 2nd growth timber that is grown on 50-60 year rotation length. It is worth noting that Americans seem to accept a degree of 'failure' in redwood and are prepared to replace fence paling and decking as part of the privilege of using redwood in their outdoor applications.

MINIMISING THE TAX BURDEN on Harvesting Revenue *continued from front page...*

- You can apply to spread income earned from sale of timber in one year over that year and the proceeding three years.
- Planting and maintenance costs incurred pre 1990 / 91 year may have been aggregated into a "cost of timber" account that can be used to offset the harvest income.
- If you purchased a standing forest, the cost price of the immature trees is deductible against sale proceeds.
- Roading is not always deductible but where a road is constructed for the purpose of providing access to the timber it may be.
- The subsequent use of the land is an extremely important consideration. It affects a) what costs are deductible against your harvest income; and b) the tax treatment on the disposal of the land.

For instance, subdividing the land may turn capital gains into taxable income.

Your entitlement for deductions has to be calculated on a case by case basis. The objective is to claim the maximum deductions within the law over the life of the forest.

Your tax accountant needs to be familiar with forest businesses and be given full information in order to minimise the dark side of your investment.

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