



November 2007 Newsletter

Treetop Views

Hi all, it doesn't seem like twelve months or so have past since John MacKenzie took over as president from Bert Hughes but it has and now there has been another changing of the guard. On Saturday 13th October 2007 we had a very good turn out of members at our Annual General Meeting held at Vintners Retreat which started with lunch then at 12.45pm we had a very interesting programme with guest speakers giving the insight into the good, bad and the ugly of wood quality and marketing.

Rick Osborne and Jacob Mannothe presented slides of India's productive mill operations of low costs, high labour inputs and very high conversion rates.

Steve McIntosh, the marketing Manager for Weyerhaeuser was the next guest speaker. We were shown slides of logging in Korea and Japan, mainly done with diggers. Then he showed graphs of market share, trends and our share of the markets of the over seas countries that we export to.

Mike McManaway Marketing Manager for Weyerhaeuser Kaituna Mill brought a slice off the end a log showing the cross section, to show what part of the log the timber is used for and how valuable each part of the log is. The centre part of the log has very little value, the timber closest to bark has the highest value.

All speakers were very interesting with good information. There is a detailed report on the speeches in this newsletter.

We then held the Annual General Meeting, John MacKenzie presented his presidents report which is also included in this newsletter.

Murray Turbitt presented the Treasurer's report.

The income from subs, insurance commission and interest from term deposits came to \$16,637.76.

The expenses were a little more this year with new stationery and web site alterations \$12,196.59.

This left a surplus of \$4,441.17, after tax expense the surplus comes to \$3,390.00.

The proposed budget for this year has income of \$15,750.00 and the expenses of \$15,590.00.

The subs are to remain at the same level as last year (\$50.00 plus 5c per ha per member).

Next on the agenda were election of officers. Unfortunately John MacKenzie was not available to continue as president, there was only one nomination for the post and I had the honour of being elected as your president for this year.

Members due for re-election were Bert Hughes, Jason Bryant, Rick Osborne, Graham Sharland, Tamati Smith and John MacKenzie of whom all were available for re-election and duly re-elected along with a new member, Paul van der Voort who works for PF Olsen with Rob R Lawrence. I would like to take this opportunity to welcome Paul to the Executive.

The meeting finished with general business and the main discussion was on the importance of attending the up coming regional forestry public meeting on climate change/carbon credits in Nelson which was on the 16th October 2007.

The regional forestry public meeting on climate change/carbon credits was very well attended by Marlborough people. This meeting and the topics were very well presented by MAF staff, they knew

the topic thoroughly. In brief the carbon credits will be in NZUs (New Zealand units) which will be of the same value as Kyoto units. Each NZU is equivalent to one tonne of carbon dioxide CO₂. Every cubic metre of stem wood (tree mass) above ground has absorbed the equivalent of 1.5 tonnes of carbon dioxide from the atmosphere. This 1.5 tonnes per cubic metre of stem wood allows for what is also stored below the ground in the root mass, soil and leaf matter. On average it is suggested that a ha of a pine forest will remove 30 tonnes of carbon dioxide per year from the atmosphere.

For post 1989 forests these carbon credits of 30 NZUs per ha per year will be available to the forester along with the liabilities for deforestation or harvesting but only up until the replanted trees are about ten years old.

For pre 1990 forests the land owner will receive carbon credits of 39 NZUs per ha in total, the liabilities will only apply if you deforest. It is proposed that native forest owners will receive carbon credits of about 3 NZUs per ha in total. If you are intending to deforest any pre 1990 forest land you have only until the 31st December 2007 to have all trees removed including any saleable logs/wood off that land to avoid carbon liabilities. Please note these details are as I understand them to be and confirmation is needed before you act on them. There is a detailed report on this later in the newsletter.

The log prices for October 2007 are unchanged from the September 2007 prices as detailed in the September 2007 newsletter. There is some indications of some possible upward movements in export log prices.

The changing of the guard, I would like to introduce myself.

My name is Kevin Parkes, it is an honour to be elected as President of this association.

A little about myself, I was raised at Tua Marina on a farm that my father Arthur and Uncle Basil farmed together on which they planted their first 4ha block of trees in 1960. Over time they continued to plant the rest of the hill country in trees. We now have just under 1000 ha of exotic forest known as Windermere Forests Ltd. I am a carpenter by trade, have worked for Anderson Timber managing the timber roof truss manufacturing plant and been an apple and grape grower. I am now involved with property investments and property management. I am also a director involved in three operations, a barging company, forestry company and a forestry partnership.

I am married with two adult children who are both presently in the UK.

On behalf of members of the association I would like to thank John MacKenzie for his time as president. I would like to also thank the executive members for their support and enthusiasm they put into running the association.

I would like to wish every one a merry Christmas and prosperous New Year, we will be in the UK for Christmas.

Kevin Parkes

MFIA AGM, 13 October 2007, Chairman's Report

The past year has been somewhat volatile for the forest industry; strong export prices at the start of the year, despite the high kiwi \$ and high shipping rates. Then from June/July onwards oversupply in Asia and historic increases in ocean freight had a major impact on the market and prices paid to forest growers. Luckily domestic log prices and demand have been steady, and where possible harvesting was switched to stands with higher domestic log content. Of course we have also had the contentious issue of Methyl Bromide to deal with. In response to the Port Company's banning of fumigation of one shipment of logs a press release was issued supporting the continuing use of the fumigant subject to health authorities monitoring gas levels. It is important for the Indian log export market to continue through Port Shakespeare.

A Government announcement in December 2006 on climate change resulted in considerable work for some members of the executive, attending meetings in Wellington, Christchurch and Nelson. An interesting meeting held in Blenheim was a discussion with Green party co-leader Jeanette Fitzsimmons. The Greens were pushing hard to counter what the Government stance was proposing

in their December 2006 document “Options for a plan of Action, New Zealand Government Initiative on Sustainability”. These options, some of which are still part of the recently announced policy, do not and will not result in enough incentives for land owners to establish sufficient new areas of forest to offset what has been converted back into farming.

A sub committee of our Association’s executive prepared and submitted a submission to the NZ Government in response to the above document that suggested ideas to revitalise interest in the forestry sector. This certainly can be achieved, one only needs to look at the Australian forest industry’s very positive attitude about their future prospects.

The September 2007 Government announcement about the proposed Emissions Trading Scheme is good news but we need to see and consider the finer details such as the cost of administration for the post 1990 forests that are eligible for carbon credits. This is a step in the right direction but all pre and post 1990 forests should be included in carbon trading if the owners want to be involved.

Fire Legislation – a submission was submitted on behalf of the Association to the proposed fire legislation. Currently the Fire Service is funded by a levy charged on all properties insured in NZ and is added to the insurance company’s premiums. Forestry and crops are exempt but the proposal is to include forestry and this could see premiums rise considerably. No announcement has been made as yet.

Field Visit – a very interesting and successful visit was made to Port Shakespeare last month to see at first hand what is involved loading export logs for different customers in various ports. We were guided by the captain of the “Clipper Lake” on a tour of the bridge and engine room. Speakers from the stevedore company, Port Marlborough and a representative from ACC also added to a very worthwhile visit.

Environmental Awards – Our Association sponsored this bi annual event and donated the prize money for the forestry category. The winner was Conrass Forest represented by past president Bert Hughes. Following on from the awards dinner was a field trip to Conrass Forest to see first hand mixed exotic and indigenous species growing adjacent to the Pelorus river then to view the second rotation radiata forest. MFIA strongly support the environment awards and we are now one of the trustees of the Marlborough Environment Awards Trust.

Marlborough Landscape Committee – I have represented the Association on this committee, which is supported by the Marlborough District Council and chaired by community representative Ian Mitchell. The object of this committee is to promote Landscape Enhancement Activities and our industry needs to be involved in these types of community groups and be aware of the wider community’s concerns about the results of land based operations on landscape values. From a forestry perspective there are ways we can minimise the effects on the landscape and it would be preferable to take these measures voluntarily rather than having them forced on us.

Achieving Sustainability and providing well researched data on economic and social aspects of any land based industry is becoming increasingly important. For some time our executive has been discussing the need for updated data on the Marlborough forest industry and the role it plays in the local economy. A sub committee has commenced the process of developing a strategy to formulate information to enable an application for funding to be made to various organisations. It is envisaged that a report on the contribution of the forest industry to sustainable development in Marlborough will be expensive and we may need to seek funding outside of our own funding base. There is considerable work yet to be done on this and we will keep you informed as progress is made.

To finish off I would like to thank members of the MFIA executive for their willing participation for the good of the forest industry over the last 12 months. Remember that although forestry is not the “brightest star” at the moment, all primary industries have their ups and downs and it is those who remain for the long term who reap the benefits when the good times roll around again.

John MacKenzie

MFIA Forest Marketing Presentations at the AGM (13/10/07)

The AGM at Vintners Retreat had a forest marketing theme. Members were fortunate to have three presentations from representatives of Zindia Ltd. Weyerhaeuser New Zealand, Inc. Forest and Kaituna Sawmill which kept all attending engaged. These presentations covered many of the opportunities and issues facing the NZ forest industry.

The Zindia Story

Rick Osborne and Jacob Mannothe presented a fantastic photo show on their business Zindia Ltd, which exports NZ Radiata to India.

Zindia customers are generally small manual mills. The slides showed men and women working in sawmill with no hearing protection and bare feet. A common visitor to the Indian sawmills were cows which are considered sacred.

Rick explained that conversion is relatively high and nothing goes to waste in the mills.

Zindia has been exporting logs to India for three and a half years. Over this time the company's reliability has established good customer relationships. Zindia are currently exporting 300,000 jas per year out of Bluff, Port Chalmers, Timaru, Picton, Napier and Tauranga to India.

The Indian market has softened recently. This is due to other NZ exporters sending wood to India after demand dropped in Korea and China. Much of the wood has been sent unsold causing heavy discounting. Rick said those destroying the India prices are marketers who don't own their forests and just 'clip the ticket' on the way through. Companies which own their own forests are more responsible he explained.



Weyerhaeuser NZ Inc. Log Marketing

Steve McIntosh who is the Marketing Manager for Weyerhaeuser NZ Inc. (WNZI) explained the sale of the WNZI resource to Global Forest Partners (GFP). GFP is a pension fund management company. Steve said little will change from the current management philosophy. The new name will be Nelson Forests Ltd.

The WNZI resource has a sustainable cut of 930,000 m³ of Radiata and 140,000 m³ of Douglas Fir. The other significant part of the business is the log purchase programme which now contributes a major part of the sales programme.

Domestic Market

The proportion of pruned stands has increased from 20% to 80%. The harvest age of the estate has increased from 27 to 30 years associated with the pruned crop type. The Forest Management Team has always had a strategy of growing the domestic market while maintaining an export presence.

Steve showed a slide with the pruned log increasing from 175,000m³ to 275,000 m³ over the next 5 years in the WNZI estate. He said one of the opportunities for the business is managing the growth in pruned volume over the next 5 – 10 years.

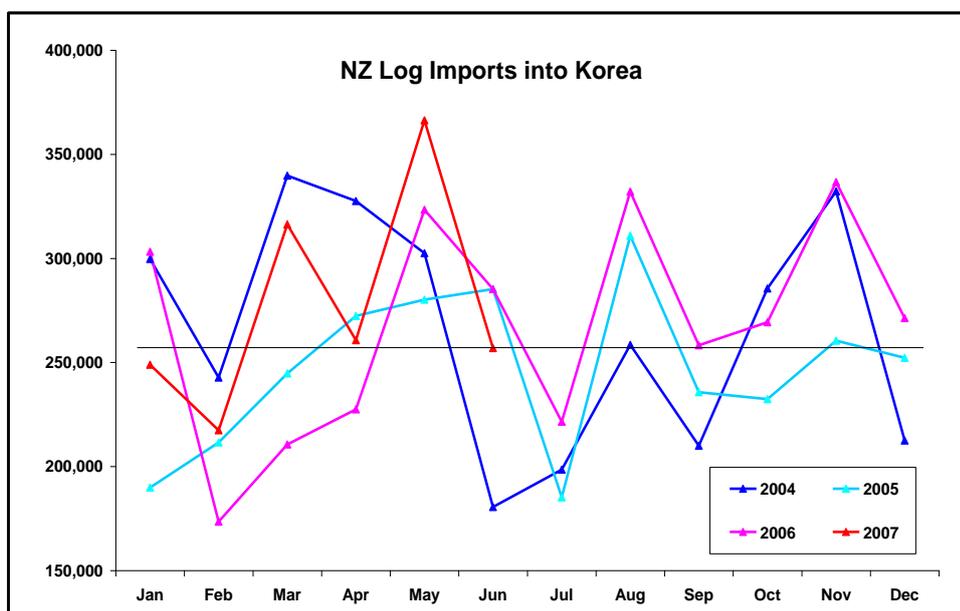
Another opportunity for the business is understanding the resource as it relates to stiffness characteristics. Logs above a certain sonic reading are achieving a premium in some Nelson mills. WNZI has a sampling programme to collect sonic information on harvested areas.

Steve showed a graph with a downward trend for domestic log prices for the last 10 years. The challenge for the forest owners is to understand their resource so they are in position to respond when/if the domestic market recognises the value.

Export Market

WNZI's export log trade used to be 50 / 50 between Korea and Japan with a very small percentage going to China or USA. Over the last 3 years the market has been 80% Korea and 20% Japan. The Korean market has strengthened as Japanese plywood manufactures use their own domestic species to reduce import log costs.

Steve explained the major drop of the last few months with the Korean log prices. The chart below shows the NZ log imports to Korea month by month. The horizontal line is the average of all this data – essentially the Korean market needs just on 250,000 m³ of NZ Radiata per month. Simple maths, if the area over the line become too great there will be a correction like the one we are currently experiencing. As can be seen from the chart there is a drop in June/July. This is due to the rainy season. Steve said it is important to cut to order rather than inventory. Currently product has been shipped to this market without sales and the wholesale sector tends to wait to see how much discounting will take place.



Kaituna Sawmill Marketing

Mike McManaway presented a great talk on sawn lumber marketing. Mike is the Marketing and Sales Manager from Kaituna Sawmill. Kaituna is one of the few mills in New Zealand which wholly cuts pruned logs.

Timber grades from a pruned log

Mike described how the pruned log is cut/split up and the different grades produced.

Core wood comes from the center of the log. It is the defect core and has low density. Timber from the core is typically used for packaging, landscaping and fencing. The next zone in the log is the transitional inner. This is where the core wood meets the pruned zone. Cut of log and merchantable grades come from this zone. The cut of log grade often has the better quality segments cut out. The next zone is the transitional outer from which F7 grade is cut. F7 is typically used in building. The outer wood is the pruned proportion of the log. This is where the best money is, in Molding & Better, Clear mix and 25mm Clear Boards. Low value products are bark which is used for landscaping, chip from the flitch which is sent to NPI in Nelson and sawdust which is used for fuel at the mill.

Timber markets

Mike talked about current markets and issues.

The New Zealand market is strong across all grades. Prices are good and its easy to do business i.e. same country and language.

Australia takes a large volume of sawn timber from NZ mills mainly in the F7 grade. The products are easy to make and the Australians are good to do business with.

The Asian market has gone flat. Low demand has caused low prices. Asian customers tend to take the lowest price and are difficult to establish a strong long term relationship with.

USA is a difficult market. Prices are up and down and there is often a love hate relationship between customers and suppliers.

The European market is weak at present but reasonable prices are presently still being achieved. Language and time difference can be a barrier to doing business

All markets are driven by the USA.

Mike talked about Titan Wood Products who has developed a new treatment process for wood. This business is treating lumber with acetic acid using a process of vinegar, heat and pressure. This makes the timber extremely stable, is environmentally acceptable and gives no colour to the wood. Timber treated by this method is used in high grade external uses such as window surrounds. Trials are showing that NZ Radiata is the best timber for this treatment method. This process looks promising for NZ Radiata!

Aaron Robinson

Introduction of Paul van der Voort

I was born and brought up at Rotorua in the Bay of Plenty, with the exception of a few years as a youth back in Holland. Both my parents are Dutch. They emigrated to New Zealand in the early 1950's as single people and married at Rotorua. My father had a Dutch Forestry degree but work in Holland in that discipline was very difficult to obtain in those years.

I left school with the minimum of educational qualifications as modified cars, girls and beer were far more exciting. This was something I paid for later as I completed my NZ Certificate in Forestry in 1984 and completed a Masters of Business Administration in 2000.

My harvesting experience commenced on the East Coast of the North Island when the harvesting first commenced there in 1985. I was responsible for harvest planning, road construction, harvesting, customer liaison, and log export port operations.

Changes in opportunity opened in the Central North Island where I managed the harvest planning for the Forestry Corporation. During this time I also worked with a team on changing the harvesting activities from a log based to a stem harvesting and transport to a Central Processing Yard operation With forest sales to Fletcher Forests I secured the Roding Manager position responsible for the road construction and maintenance programme to allow the harvesting programme to be completed. I later took the senior position of the log transport operations covering on and off highway truck transport, stem transport and rail operations including transfer yards.

It was during this time that I was the clients representative on the capital programme of resurfacing of 6.5 hectares of logyard at Kaingaroa, and 3.5 hectares at Murupara. Shortly after that I filled the same role in building the Green Fields 20 hectare log and transfer yard at Kawerau.

At the demise of Fletcher Forests I moved to Carter Holt Harvey Forests in Tokoroa and managed the transport operations there before moving to Kaikoura to take an opportunity to further my civil engineering experience and to manage the Fulton Hogan branch there.

I have taken up a Harvesting and Roding management position with PF Olsen Ltd in Blenheim, and I manage these operations to provide the best return in dollars per tonne to clients who chose to harvest their forests with PF Olsen Ltd.

This role is special for the relationships I must build with clients and the expectations that must be managed. It can be far more complex than working for a large corporate, and meeting the different people around this district has provided me some insight as to the diverse nature of the forest industry in Marlborough.

Paul van der Voort

PF Olsen Ltd
Blenheim
Harvesting and Roding Manager.

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Running a safe farm or forest can help save lives and money.

Now you can rub 10% off your ACC work levy and earn a free hi-viz polo shirt by passing a farm forestry focused Safety Training Workshop. Provided you are self employed or a small business owner involved in the forestry industry (as a tree grower or farm forester or you assist these people as a contractor) and your ACC levy unit is in certain forestry or agricultural sectors.

MFIA and ACC have arranged for farm safe to run this workshop as follows:

Date: Thursday, 29 November.
Time: 9am to 3pm.
Refreshments: Morning tea and lunch provided.
Cost: Nil.
Venue: To be advised.
Registration: Contact Graham Sharland on (03) 5716203
(Those who have already registered do not need to ring.)

Wood a wonder material

Wood takes less than a tenth of the energy of steel and concrete and is cheaper

Forestry Minister Jim Anderton extolled the virtues of wood as a building material. "Wood is environmentally friendly because it is energy efficient. Compared to wood substitutes like steel and concrete, it needs less than a tenth of the energy. Recent research in New Zealand shows that building in wood can be eight percent cheaper than concrete and five percent cheaper than steel over the fifty year life of a building."

In Wellington, Jim Anderton was launching the NZ Wood project, a promotional campaign being launched by the industry. He went on to ask why wood isn't used more, when researchers can find no technical or financial reason preventing its greater use in commercial buildings.

"The major barrier seems to be that we get used to doing things a certain way. And there are few examples of commercial or public buildings constructed predominately from wood," Jim Anderton said. "The NZWood campaign is going to set out to break this Catch-22 by providing high-quality information about wood and its advantages."

Three quarters of the \$4.8 million for the wood promotion campaign is government funded through the Forest Industry Development Agenda. "It's a good example of the advantages of the government working in partnership with the private sector," Jim Anderton said. "I hope the industry commits itself to this campaign for the long haul and maintains its enthusiasm. This campaign will help forestry develop as a vibrant, commercially sustainable and internationally competitive sector."

The government is supporting the wood industry because it will result in more trees being planted. "More trees help to reduce the impact of climate change, and that's vital for New Zealand," Jim Anderton said. "NZWood stands to be a very valuable campaign for our environment, our economy and our lifestyles."

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Over The Gate with Vern Harris

Carbon credits an opportunity for foresters

By Vern Harris

For several years I have endeavoured to get my head around climate change, global warming, the Kyoto Protocol, carbon credits, emissions trading and so on. Like most people, I became totally confused, not so much by the concepts involved but by the fact that the goalposts were forever shifting.

While there may well still be disagreement over Government's recently released Sustainable Land Management and Climate Change Plan of Action, it's good to at last see some certainties around these issues. The Plan of Action includes creating an economy-wide NZ Emissions Trading Scheme (ETS), to encourage reduced greenhouse gas emissions and increased forest carbon sinks. Landowners with forest planted after 1989 can opt in or out, with their decision irreversible. Those who choose to participate will be able to claim emission units (NZUs) for credits but will also have to surrender NZUs to cover any carbon released (usually when they harvest, if they do not re-plant).

Government proposes to allocate "free" per hectare NZUs to owners of pre-1990 forests, perhaps worth around \$585/ha. About 40% of this amount will be paid between 2008 and 2013, after which the remainder would become available. Emission liabilities will have to be met at deforestation, unless areas are replanted or allowed to regenerate.

Over the life of a post-1990 forest it's estimated that 800-850 cubic metres of carbon is sequestered per hectare; about 30 tonnes/ha/year. At around \$15 per tonne, under a normal regime one hectare would return \$450/year. Or, the value of carbon could lift to say \$25 or \$35/tonne, representing significantly increased income.

For a forest planted in 1990, credits will start to exceed debits incurred in planting in about 2008, with the first

NZUs allocated then. Radiata pine will sequester carbon for 50 or 60 years then its sink starts declining. Owners of pre-1990 forests of less than 50ha and people removing wilding pines are among those who can apply to be exempted from the ETS.

Also relevant to the forestry sector is the creation of an Afforestation Grant Scheme (AGS), from December this year. This will allow landowners to tender for a government grant for the planting of new forests on previously unforested land. Participants will own the new forests and timber, while the Crown retains sink credits and takes responsibility for meeting any deforestation liabilities.

Some of the main points I see as especially relevant to existing and potential forest-owners are;

- * Timeframes have now been set in concrete. The forestry sector is the first to enter the ETS, joining on January 1, 2008 (five years ahead of agriculture). The AGS could begin with a tender round closing in December this year, for planting next winter.

- * Existing infrastructure may not be adequate to cope with a sudden scaling up of forestry planting, under the AGS. Nurseries are unlikely to have sufficient trees, for example.

- * Carbon farming will change how and why we manage forests which could have downstream effects on the production and supply of timber, species planted and forest location.

- * Forest-owners will be liable for carbon loss not only at harvest, but also if a forest is burned or blows down so insurance will be needed.

- * The biggest impacts could be on smaller forest owners who may not have the ability to spread harvesting to avoid peaks and troughs in credits claimed and debits incurred. In Marlborough, where we have so many small forest owners, I see the



Vern Harris is vice chairman of the Marlborough Regional Development Trust and a New Zealand Institute of Forestry-registered consultant with Property and Land Management Services (PALMS), Blenheim.

potential for pooling of forests to spread the age classes harvested.

- * Where land is owned by one party and trees by another (e.g. a joint venture), only the landowner is eligible to claim credits and will also carry liabilities.

- * Credits will be helpful in areas where heavy rainfall has damaged hill country soils, such as the Manawatu, Wanganui and the East Cape. Farmers will be able to de-stock and plant trees while still potentially earning a significant income and flood risk will be reduced.

- * In all areas of New Zealand, there is

the potential for farmers wanting to retire regenerating land to claim ETS credits, based on carbon accumulated. So are carbon credits a threat or an opportunity for the forest industry? So long as people are prepared to think outside the square as to how they will manage their forests and identify any pitfalls, I believe they are an opportunity.

There is still a lot of detail around this new policy to be worked through, but at least now the basics are out there to consider.