

## *Newsletter for March 2004*

### VIEW FROM THE TREETOPS

Bert Hughes

This is my first edition of view from the treetops as Rick has passed on the baton of Presidency to me.

My view is from different treetops than Ricks so I can take this opportunity to pass on what I see from my own collection of opinions, experiences and prejudices.

I like to describe myself as a forester, and most of you will probably also be foresters of some sort. No matter how much forest you own or have an interest in or whether your work takes you into the forest you should use the term forester with pride.

As foresters we tend to the forests. We look after the physical environment because trees grow better on good soil, with clean water.

We look after the social environment because harvesting rotation length forces us to pass on our forests to the next generation.

We look after the economic environment by producing valuable goods from generally marginal areas.

So why do we hear such bad things from corporate forestry? They would have us believe you can't make money from forest ownership. In my opinion it's because they don't get out into the woods with their boots on. Corporate forestry, and by this I mean forests owned by publicly listed companies in New Zealand has suffered badly from poor leadership and poor forest stewardship.

They seem to know the price of everything and the value of nothing. One of the problems is the imposition of discounted cash flows; that a dollar today is worth more than a dollar tomorrow. Of course this is a truism but it does have the effect of making investment today for return in 28 years look dodgy. The investor's cry of fast money is good money doesn't work over the time frame we work with. The reality of a sustained yield of quality logs over time can be justified if you have valued the forest correctly. With an inflated forest valuation you will always find your return as a percentage of valuation to

be disappointing. Reduce the valuation and your rate of return grows, magic it is not.

It starts with paying the right price for the right land, establishing a good crop, controlling costs throughout the rotation, adding value through silviculture, and harvesting with care and awareness of log value. You don't have to plant pine but be aware that it is cheap, easy to grow and easy to sell. Any other species should be seen as a less certain investment. Having said that in my own forest I like a bit of variety. (I have blackwood, redwood, black walnut, eucalypt, Douglas fir, thuja, cypresses etc)

Mistakes are your biggest cost, plant well, look after your seedlings, pay your labour a fair rate and supervise their quality. Get professional advice on harvesting and marketing, seek references, go and look at other jobs, go on field trips and talk to everyone about their experiences. We have a great body of knowledge in the Association that is there for the asking.

I am proud to be a forester and I like nothing better than a walk in the woods to visit my trees, as they busily grow on adding value even while I am at home in bed.

So to sum up, get up off the sofa and get out into the woods! And come to the field days and pester the executive about anything you want to know or see.

See you on the field days.  
Bert Hughes

### **Kaiuma Field Day**

Friday 12<sup>th</sup> March – Meet at 9.00 am at Dalton's Bridge (between Canvastown and Pelorus Bridge)

In conjunction with Nelson Farm Forestry Assn. Kaiumu Station – 2000 ha of farm forestry combining deer and sheep with Pines, Cypress, Eucalypts, Redwoods, Oak and Elm for both commercial and amenity plantings. Described by Ross Higgins (Nelson FFA) as "Marlborough's best kept secret."

Finish at 3.00 pm then adjourn to the pub.

## Executive Member Profile

Hi my name is Kevin Parkes.

As a new member on the Marlborough Forest Industry Association executive, I have been involved with our family forestry since being old enough to plant trees back in the late 1960's.

Carolyn and I have two adult children, Rochelle is presently overseas on her OE and Philip is working in a logging crew in the Herbert Forest, North Otago.

I started my career as a builder, then worked in a timber yard for 16 years mainly with roof trusses. Later went into apple and grape growing, now into real estate investments/property management.

Our family farm at Tuamarina has 450 Ha of hill. The management and control of the weed problem over these hills was proving too costly for my father Arthur and Uncle Basil to keep as grazing country.

Following discussions with Ross McArthur it was decided that the best option was to plant the hill in pine trees, in 1966 a planting program was started with approx. 70ha planted that year, planting continuing until 1977. In 1978 Windermere Forest Ltd was formed to own and manage the forests.

My late brother Robert, cousin Rodney and myself were appointed as Directors in 1986 to assist with the running of the forestry. We started logging in 1986 and have completed our first rotation on our home block. We are due to start logging at a block across the Tuamarina swamp, which we call the Staces block containing a planted area of 98Ha which was bought in 1992.

We purchased "Fairholme" a farm at Kaituna in 1994 and planted the hill in trees and also have some jointly owned forestry.

## Log Marketing

We have been experiencing, or enduring interesting times lately. Export log prices surged up in November and December then dropped away again as rapidly. This was caused by the usual things. Export log prices at the wharf are driven by the US \$ exchange rate, the cost of shipping in US \$, and the price paid in US \$ by the customer. Shipping is basically an auction on a ship by ship basis, and recently prices have been bid up by about 350% on a daily cost basis. This cost basically is borne by the forest owner. Log traders pushed for large price rises to cover cost rises but even so cost rise was higher than price rise. Once log prices hit a certain level then substitutes look more attractive, in this case some South American sourced logs arrived in Asia.

To complicate matters the US \$ exchange went against us and so reduced margins and generally added to the uncertainty.

The latest cost to forest owners is that Port Marlborough have demanded large price rises based on their desire for a favourable cost of capital return on their Port infrastructure. As they are a monopoly they have forced through rate increases despite forest owners objections.

The upshot of things has been quite a flurry of harvesting activity over summer, but with the usual seasonal slowdown taking place with the early start of the wet weather.

Corporate forestry will carry on with regular programs but smaller private forests will find the going tough at the moment for their export logs.

On the local front there is reasonable demand for quality logs. To sell logs domestically you need to make volume commitments and establish regular business. Customers don't want to have to compete with the up and downs of export prices so you need to lock into supply agreements regardless of export price, this gives the best results over the long-term. There is very little demand for small logs in Marlborough but Nelson mills are still taking regular quantities from established suppliers. Postwood demand is steady but at low price levels.

The key to getting good returns from forests is knowing the product you have and where to best offer it, e.g. peeler quality logs for ply or LVL have a good price advantage over equivalent export grades, but only if you can supply consistently "in spec and on time". Any forest selling to local mills will do better than one selling a lot of export, so those of us growing quality pruned or unpruned logs will always do well, trying to sell short k or ki doesn't look great right now though.

You can't always hit the top of the market but having good infrastructure in place early means you can take advantage of good trading conditions or temporary surpluses of logging equipment.

Be prepared, have your consent in place, open up roads and skids early and get your planning done in advance. Poor planning can result in much larger costs of logging, construction of roads or mitigation of environmental problems. In logging terms cheap means poor quality. A builder friend of mine was asked once how cheap he could build a house and I liked his answer that he wasn't in the business of building cheap houses, he built good ones!

Bert Hughes

## **Forest potential still looking bright**

An extract from NZ Forest Owners Assn Bulletin

World forest product markets are tipped to make a modest recovery in 2004 but, if the Kiwi dollar remains high, this may not be reflected in returns to NZ forest owners.

NZFOA president Peter Berg says any recovery in log prices to New Zealand growers will be gradual. The main drivers will be the next down-cycle in the Kiwi dollar and improved availability of shipping.

"We would like it to be otherwise, but NZ forest owners are supplying commodity markets."

The softwood forest product trade -- in which New Zealand's radiata pine is a player -- is being driven by four main factors: economic uncertainty; over-supply in North America; increases in production in Russia, South America and New Zealand; and a dramatic increase in demand from China.

"In 2002, China imported 16 million m3 of logs, a massive increase on the 1.45 million m3 imported five years before," Berg explains.

Surging demand from China for all commodities had a perverse effect on NZ forest product exporters in 2003, pushing up demand for the class of ships which normally service the NZ log and lumber trade. Berg says relief -- in the form of new ships -- is not expected inside 12 months.

Chinese timber demand is expected to reach 200 million m3 by 2010, of which 100 m3 will need to be imported. Competing with New Zealand will be other suppliers, including Brazil, Chile, and the countries which made up the former Soviet Union, but there may be room for all.

"New Zealand's total log production is expected to reach 30 million m3 by 2010, a small fraction of the world softwood trade," says Berg.

"If our industry strategies have worked, we'll be supplying China and other markets with high-value products, while other countries supply logs."

The Russian harvest is thought to be 180 million m3, of which at least 40 m3 is exported, mostly to Western Europe and China.

A formidable competitor, Russia enjoys a weak currency and abundant low-cost forest resources.

For some time now, Western European producers of sawn softwood have been finding it difficult to compete with low-cost exports from countries of the former Soviet bloc. In response, they have moved into the production of speciality, value-added and engineered wood products.

Berg says the same strategy needs to be adopted here. "Overall the potential for our forest products exports is very good. We are working with Government to facilitate more processing and hope to have shortly an internationally recognised sustainability standard available for our products. However we will have to maintain and even lift this effort for sometime yet, if the full potential is to be recognised.

"In the meantime, NZ forest owners are reliant on spot commodity prices for their incomes. In good years, it's not too bad. But in the last 12 months it has been far from satisfactory."

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## **Chinese approve radiata**

New Zealand radiata pine is to be recognised in the Chinese Building Code.

NZFIC chief executive Stephen Jacobi said the decision opens up higher value markets in China for radiata pine and positions it alongside competing species from North America.

Forest products exports to China in the year to June 2003 were worth NZ\$345 million -- making it the industry's fifth largest export market after Australia, Japan, Korea and the United States.

NZ forest product exports, expressed in roundwood equivalents, totalled 16.47 million m3 for the June 2003 year, up 5.3 per cent on the previous year.

Worth NZ\$3,488 million, forest products made up 12.4 per cent of New Zealand's total merchandise exports -- up from 11.9 per cent the year before.

## **FOREST FIRE COURSES**

These two courses were held in February and run by Tom Snodgrass of Forest Industries Training ( the I.T.O. for forestry).

A good mixture of forest owners, forestry contractors and their employees attended, together with the folk from Assured Safety (who sell and service fire and safety products) and five volunteer firemen from the Rai Valley V.F.B.

The first Saturday was devoted to the theory of rural fire fighting. Although entitled "Ensure Personal Safety at Vegetation Fires" – it was much more than this, covering fire behaviour and fire fighting strategy in a useful and interesting manner.

On the second Saturday we concentrated on fire fighting tactics. After a period inside covering the use of fire fighting hand tools, we visited a nearby private forest (with permission kindly given by executive member John MacKenzie) where we applied this 'low tech' first aid approach to constructing a fire line. Using tools typically 'on the job' in most forest operations, and under Tom's guidance, we created a fire break in very little time despite operating on a steep part of the forest with some gorse undergrowth. Then it was back indoors for a fire extinguisher drill. Mike Wells, of Assured Safety, kindly provided extinguishers for us to practise discharging.

If you missed these courses but want to learn more about rural fires and how to control them, contact F.I.T. direct, or via Graham Sharland for access to this information. Although these fire courses, like last year's environmental course, were an initiative of your association, they would not have been affordable without the assistance of Weyerhaeuser (Dennis Parsons and Leo Jelinek) and F.I.T. (Tom Snodgrass).

By Graham Sharland.

## **Co-operation can cut roading costs**

An extract from NZ Forest Owners Assn Bulletin

During the productive lifetime of a forest, logging typically has no more impact on district roads than some other users -- such as milk tankers -- according to a new report commissioned by the NZFOA.

Yet forestry is being singled out by local bodies to fund roading upgrades.

The Review of Issues Relating to the use of District Roads for the Transportation of Forest Harvest, was prepared for the Association by Frame Group Ltd.

It quotes a Waikato Regional Council study that shows that dairy farms generate twice as many truck movements per hectare per year than beef farms or forestry, with sheep farms using the roads even less.

The Frame Report details a number of constructive ways in which forest owners and

Territorial Local Authorities (TLAs) can work together to ensure that district roads can manage forestry traffic during the peak demand at harvest time. Some options will benefit the whole community at relatively little cost.

Simple strategies, such as ensuring adequate pavement strength when roads are constructed, will reduce lifetime maintenance costs. Traffic management, including good signage, can be very effective, as can restricting the time or weather when roads can be used.

NZFOA chief executive Rob McLagan says that, ideally, forest owners and local bodies should get together to plan for future roading needs. He also says the significant rating contribution made by owners over the whole life of the forest should be considered an advance payment on the short-term demands made on roading services at harvest time.

"If a council finds it cannot fund its infrastructure from its rating base, then it should look to the example of the Banks Peninsula District Council, and actively seek to merge with a larger partner," he said.

Find out more: Trevor Butler, Frame Group Ltd, [Trevor@frame.co.nz](mailto:Trevor@frame.co.nz)

## **FUTURE FORESTRY COURSES**

I believe (on the basis of filling previous courses) that there is an interest amongst the Association's membership in one day or half day courses either for themselves or their contractors. Although this interest is quite limited, in that only small numbers are involved, this is not a bad thing because those attending are keen to have their competence recognised by receiving their 'Ticket' and it is the assessment for this that requires the time that limits the numbers to around twelve.

I would be pleased to hear from members, or their contractors, interested in other topics. Possibilities include 'Demonstrating Knowledge of' or actually carrying out:

- Log making or log scaling
- Cutover wast wood assessment
- Tree selection or tree felling
- Plotting, pruning or planting
- Use of job prescriptions or prescription maps
- Chainsaw use and maintenance
- Environmental or safety management

N.B. This list above is not the actual titles of courses or training books but merely an attempt to show the range available.

For those who can't or don't want to attend a course, you can improve your knowledge in every sphere of forestry by purchasing specific 'Distance Learning Guides', 'Training Guides' or 'Best Practice Guidelines' all of which are available from Forest Industries Training.

Contributed by Graham Sharland.