

# The New Face of New Zealand Forestry

While much of New Zealand's forestry resource is in the hands of major corporations, a third is owned by woodlot owners, partnerships and syndicates.

Typical of these is Helensville forestry contractor and identity Ernie Smith, 70, who has sold a number of blocks from his plantation in recent years. The plantation is located at the site of the ancient kauri forests only a few kilometers from the centre of town.

Ernie's latest sale was six hectares of high pruned radiata planted 38 years ago.



Woodmetrics operations manager Bruce Chadderton says the sale shows the value of the competitive tendering process.

"It definitely helped that there were two bidders for Ernie's trees," says Chadderton.

"The competition assisted in obtaining a higher price than what would have been achieved had only one purchaser approached our client. The block was mapped, inventoried, harvest-planned and tendered as a graded sale."

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Chadderton explains a graded sale is where prices are received for each grade of log the bidder says they'll cut from the block.

Ernie confirms he was delighted with the outcome. He says he received a net price of \$67 per tonne, a price that far exceeds average returns.



Woodmetrics regional account manager Brendan Muller says Ernie is a pleasure to deal with.

"He has sound industry knowledge and a realistic sense of log prices," says Muller. "Negotiating the sale on his behalf was significant for us because it was such a high value stand (of timber). It also gave us some useful market information."

Ernie, who is married with four children, owns Oikoumene Forests Ltd whose main activity is to thin blocks of trees and process round-woods to sell. He's been doing this for 30 years and is the longest-serving thinning

contractor in the Helensville district.

A greenie at heart, Ernie sometimes spot sprays before planting, but draws the line at blanket spraying. He prefers the organic approach.

"Over-spraying ruins the soil," he says. "The land becomes tight, preventing water from percolating through it."

Ernie Smith's environmentally friendly philosophy extends to growing pumpkins using lawn and hedge clippings for compost. He must be doing something right as he's won several national pumpkin growing contests.

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## Northland **Woodlot Owner Benefits** From Competitive Tendering Process

Northland identity Bill Crum, of Ngunguru, swears by the competitive tendering process that resulted in his receiving top dollar for a 40ha block of trees he sold recently at Parua Bay.



Bill has the distinction of owning one of the largest private woodlot blocks close to Whangarei. The retired farmer-builder originally invested in forestry as a retirement fund. What began as an investment rapidly progressed to an interest – to the point where he's now recognised as something of an authority on forestry.

When a logging contractor went broke shortly after logging one of his woodlot blocks, Bill got to thinking there must be a safer option when selling trees. That safer option came

along in the form of Woodmetrics' competitive tendering process.

Woodmetrics virtually guarantees to get forest and woodlot owners the best prices. The company's service includes payment protection insurance – and this is what appealed to Bill Crum.

"I nearly got caught out when a logging contractor went broke three weeks after paying us for our logs," says Bill. "That experience made us cautious."

Bill was more than happy when Woodmetrics managed his latest sale. "They put it out to tender. We ended up going with the highest bid of \$45 per tonne. There were four bids ranging upwards from \$37.11 per tonne."

Bill and his wife Jenny are now enjoying a six-week South Island holiday aboard "Snoozza Crooza". They say the upside of selling their trees through Woodmetrics is they can go on holiday and know their interests are being looked after.

Close to Bill throughout the entire sale process was Woodmetrics regional account manager Brendan Muller, of Whangarei. He says the competitive tendering process for wood sales is nothing new to corporate forest owners, but until recently the benefits have gone largely unrecognised by private forest and woodlot owners.

"Woodmetrics, is concentrating on improving the poor level of marketing that often results in privately harvested wood, particularly pruned grades, achieving unnecessarily low prices," says Brendan.

In New Zealand 600,000 hectares of forests and woodlots is in private ownership with nearly 700 woodlots and around 60 non-corporate forests being sold every year.

## A day in the office?

When Eastern North Island account manager Ian Bell followed up a call with a potential client, he got more than he bargained for in a hard day's work.

"I phoned my client, Tim Peacock, but he couldn't talk as he was docking, so I offered to lend him a hand," says Ian

He spent the entire day with Tim and his wife docking lambs, and later, the tired and sore trio relaxed in the evening sun with a beer in hand.

"It was an enjoyable day's work." Says Ian. "After all, what better way to get to know your clients?"

## On the road to **resource consents**

Not many forest owners have the knowledge, time or resources to battle contested consents. When Woodmetrics stepped in to assist Rodney Forests through this arduous process, the outcome was favourable, but the timeframe – some 13 months from start to finish – was considerably longer than Rodney Forests expected.

The Moir Hill Road Residents Group is a proactive organisation in a number of local affairs. They weren't happy with the plans for harvesting Rodney Forests which would mean logging trucks going through their peaceful lifestyle blocks. The group had raised their concerns with the district council and had managed to get the local press on side.

Woodmetrics projects manager Philip Elworthy says Rodney

Forests needed to get trucks over Moir Hill Road as the alternative required extensive earthworks to create a road suitable for logging trucks.

"We met with the District Council and attended hearings of the Works & Services Committee, finally coming up with a solution acceptable to all parties which meant our client could get on with harvesting the forest," he says.

Work began on upgrading the

road in March. Philip says it has been a challenge but "hugely satisfying" to achieve a favourable outcome for the client.

"It highlights the pitfalls many woodlot and forest owners are unaware of and can get caught by. We've had to deal with local press, concerned local residents, district council representatives, and keep our client's project in perspective."



# Forest Roding **Made Easy**

One of the barriers to attracting the maximum number of buyers to bid on a forest is the issue of access, from the forest to an external road.

With forest roding typically varying between \$20 to \$100/metre (averaging \$50-\$60/metre) this cost area has a major impact on grower returns.

Where roads are not constructed buyers have to factor in the very real risk of cost and time over-runs. Whilst for most smaller blocks this isn't a major issue, the risks associated with larger road construction programs can exclude some buyers who would otherwise bid. Less bidders equals less dollars to the forest owner.

In conjunction with UDC Finance, Woodmetrics has established an extremely competitive credit facility for forest owners, to help pay the cost of road construction where a roaded sale is recommended.

Growers pay nothing up front. Instead the engineering costs are deducted once a buyer has commenced payment for the forest, usually a year or more later.

**Ask the question** - "If I'm dealing direct with a buyer who is also organising the roding, how do I know where their pricing sits? How is that affecting the returns I'm getting?"

### Advantages of a Roaded Sale:

- improved marketability & less buyer discounting due to less cost uncertainties;
- reduced risk that access issues will affect the timeliness of the forest owner's revenue realisations;
- reduced risk of poor environmental performance through greater engineering control.



### Disadvantages of a Roaded Sale:

- carrying the capital cost of the infrastructure until sale revenue is received;
- risk of not recovering the costs of the infrastructure if no sale was made; and
- increased H&S risk in managing the engineering supplier.

### How does it work?

Woodmetrics makes no margin on the cost of roding so can provide objective advice to the forest owner on their roding options, and make a recommendation as to what works best for them given their individual situation.

A recent roding tender managed by Woodmetrics resulted in tender quotes varying by over **\$250,000** or **100%**. In that instance the lowest tenderer was successful as they still met all performance and experience criteria.



## Straight Up

Whether you're an urban dwelling investment syndicate that owns a few thousand hectares or a farm forester with a smaller stand, this newsletter is for you.

And whatever your background, as a private forester you've waited 25 - 30 years and now it's bottom-line time. A time when a wrong decision can easily mean a 30% loss over what your trees are really worth - the difference between retiring comfortably or not, or purchasing that new tractor or having to stick with the old one.

It's at this 'hard end' of the tree growing process - your forest sale - where sale expertise, not forest management expertise is crucial. Woodmetrics specialises in managing the entire sale process for you, from start to finish.

Finally, our approach to you is straight up. We have no self interest in who buys your wood. Just maximising your returns and minimising your risks.

I urge you to read the enclosed article 'Proof of the Pudding' to see how this works. It explains how competitively tendering out your trees will consistently return more than selling direct to a buyer who then competitively markets your logs far and wide.

Kind Regards,  
Adrian Barber  
Chief Executive

## A matter of timing

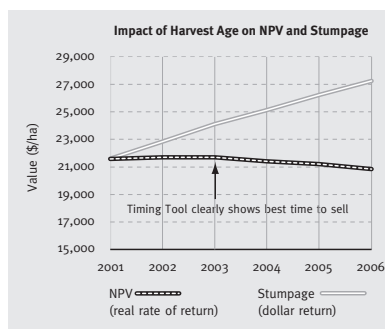
A sales timing model which forecasts the best times for selling trees has been used successfully for many forest owners.

Called simply 'The Timing Tool' the programme is quick and easy to use and can demonstrate effectively just how selling now or waiting can make a difference to the forest owner's financial return on their trees.

Developer of the tool, projects manager Philip Elworthy, says it made sense to be able to demonstrate just what a difference "waiting" could mean to a sale - for better or worse.

"Although there are many reasons why a forest owner would want to sell their trees at any one time, this model provides just one more solid piece of information on which to make an informed decision," he says.

The model works by regional account managers using the inventory that has been completed on the forest to predict the growth of the trees and plugging in different future price assumptions across the different grades and types of wood to come up with a net present value curve.



**0800 woodmetrics**



**Adrian Barker**

Chief Executive  
Tel: 09 356 4762  
Mob: 025 357 748  
email: adrian.barker@chh.co.nz

**Bruce Chadderton**

Operations Manager  
Tel: 09 356 4765  
Mob: 025 273 3323  
email: bruce.chadderton@chh.co.nz

**Brendan Muller**

Account Manager  
Northern North Island  
Tel: 09 432 8811  
Mob: 025 414 928  
email: brendan.muller@chh.co.nz

**Peter Harington**

Account Manager  
Central North Island  
Tel: 07 349 1727  
Mob: 025 417 094  
email: peter.harington@chh.co.nz

**Geoff Keall**

Account Manager  
Southern North Island  
Tel: 06 326 9955  
Mob: 025 310 274  
email: geoff.keall@chh.co.nz

**Ian Bell**

Account Manager  
Eastern North Island  
Tel: 06 870 9616  
Mob: 025 953 371  
email: ian.bell@chh.co.nz

**Phil Melhopt**

Account Manager  
Canterbury and Nelson  
Tel: 03 341 4474  
Mob: 025 314 760  
email: phil.melhopt@chh.co.nz

**Robert Watson**

Account Manager  
Otago/Southland  
Tel: 03 248 8940  
Mob: 025 971 981  
email: Robert.Watson@chh.co.nz

**0800 966363**

**www.woodmetrics.com**

# Export Log Market Outlook

During the quarter April to June 2002 log supply from New Zealand is unlikely to be able to keep up with demand from both export and domestic markets.

International prices that improved over the last quarter appear likely to hold over the coming quarter. The China market continues to develop with steadily increasing radiata sales from New Zealand over the past months. Japan is generally depressed with demand for Japanese plywood – therefore demand for ‘J Grade’ logs – down due to competition from imported plywood. ‘A Grade’ log sales are still in overall decline although there has been some small price increases due to competition for logs. The US economy has bounced ahead of predictions, which will impact the Asian economies.

The Indian market is benefiting from the consortium of New Zealand companies working together to develop the market.

There is an expectation that the New Zealand dollar will appreciate over the next year and we can expect shipping price rises with increased fuel costs.

The Korean stock index has grown an outstanding

18% which has driven Asia’s third largest economy out of recession. Continuing decreases in Russian log imports means strong demand for smaller dimension radiata leading to price rises of US \$ 6-7 over the last quarter. Construction permits for light to medium construction is at a three-year high. Higher prices have drawn the Chileans back into the market.

## New Zealand Domestic Market

The US economy has slowed slightly over the past 18 months but is still strong in its overall cycle even at a slower pace. Some of New Zealand’s trading partners are feeling the effects of a US slowdown but the domestic economy is riding a wave of optimism due largely to the farming returns experienced this year. That strength is expected to diminish this year but domestic demand is expected to be strong. The New Zealand Reserve Bank’s cash rate could rise from the current 5% to 6.5%.

## Proof of the pudding

In Dec 2001 Woodmetrics prepared, marketed and sold through a competitive stumpage tender approximately 80ha from a Maori joint venture forest. Attracting eight bidders, including CHH’s own log procurement division, Woodmetrics achieved a staggering bid spread of 101%. This represented a difference of \$850,000 to the owners. The sale was awarded to a private operator who bid the top price.

While the above is an example of a very high bid variance, independent evidence also proves that significant bid variance is the norm if you sell your trees through a competitive tender process managed by professionals.

Proving this point, NZ Forest Research have published the results of one of their many forest sales (NZ Tree Grower, Nov 2001). It showed a bid variance of 45% between the top 3 bidders (out of a total of 5 bidders!).

Other independent research shows that introducing just a

second bidder will on average increase stumpage prices (net return to the grower) by 15%. A third bidder increases that figure to 30%.

The message is clear – different buyers value the same forest differently, and at different times. The top bidder on one day is not necessarily the top bidder on the next! Unlike the stock market or pricing schedules for your farm produce, there is no well publicised, reliable price indicator that can be applied to your particular trees.

The only way of determining the maximum price is to let the

market (not just one buyer) decide.

If you’d like a copy of the abovementioned article, please call your nearest regional account manager.



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**info@woodmetrics.chh.com**