

Competitive Tender Benefits Forest Investment Company

Rodney Forests appointed Woodmetrics to manage the sales process of its 180 hectare forest – including the recent sale of 35,000 tonnes of timber by stumpage – because of its innovative approach to marketing forests.

Chairman of Rodney Forests, John Sandford, says they really liked the concept of undertaking intensive research into the forest before sale to find out what was really there.

“Our previous approach resulted in less than satisfactory returns but we are really pleased with the outcomes that Woodmetrics has achieved.”

Woodmetrics recommended Rodney Forests put the timber blocks out for tender despite the log markets at the time being relatively weak. The blocks had a number of characteristics ideal for the domestic log market – the trees were largely unpruned,

very tall and straight with small branches. With forest roading infrastructure in place the blocks were available for a buyer to make an immediate start to harvesting and to keep a hauler operating throughout winter.

Woodmetrics provided two pricing scenarios – one based on the current log prices at the time, and the other based on four quarter average prices over the previous year. The difference in valuations was over \$10/tonne reflecting the state of the log market! Rodney Forests used the four quarter average pricing scenario as their reserve price. Bids were received from six tenderers, with both blocks

Rodney Forests being harvested. Picture (from left to right) Ken Holmes, director of Holmes Logging, John Sandford and Bob King both directors of Rodney Forests.



being won by Holmes Logging.

Holmes Logging log sales manager, Andrew Esson, says the Rodney Forests blocks presented a valuable opportunity to continue with stumpage operations at a time when many forest owners were holding back volume.

“The tender round was very competitive, with bids above what the market could support at the time. With smart grade

recovery, and a small improvement in sale prices, we are realising a positive stumpage and providing a good return to the forest owner,” he says.

This is the second stumpage tender that Holmes Logging has won in Rodney Forests. “We find the Woodmetrics tender process and operational standards hard, but fair. With Woodmetrics handling all consents, harvest planning, roading and pre-harvest inventory, we keep our bid free of costs and risk associated with these areas. We will continue to bid for Rodney Forest stumpage and are keen to support Woodmetrics’ ongoing log sales programmes,” says Andrew.

Rodney Forests is an unlisted public forest investment company with around 150 individual shareholders. Woodmetrics has been managing the sales process for its 180ha forest at Warkworth, north of Auckland, since late 2000 – including undertaking forest mapping and pre-harvest assessment, harvest planning and resource consent applications, supervision of the forest roading construction and the sale of 24,000 tonnes of timber in 2002.

Holmes Logging is a Kumeu-based harvesting and marketing company that operates 2 hauler crews and 2 groundbased crews in the Auckland region, both for CHH Forests and private forest owners.

Contents

2 THE ‘WHEN TO SELL?’
DECISION

PROFILE:
PETER HARINGTON

3 WHAT DO YOU DO
IN A TOUGH YEAR?

STRAIGHT UP

4 MARKET OUTLOOK

WHAT TO PLANT
INDUSTRY NEWS
CONTACT DETAILS



The 'When To Sell?' Decision

Woodmetrics has developed a computer decision support model called "Woodmetrics Timing Tool" that simulates growing on the client's forest and the financial implications of their "When to sell?" decision. The forest owner is able to make the decision based on tree-based hard data, but as central North Island account manager Peter Harington says "It still can't predict the market part of the equation".

Selling a forest is not like selling an annual wool clip, where if you get it wrong you can be wiser next year. In the case of radiata pine your next shot will be at least 25 years away, and not many people are lucky enough to grow and sell two crops.

Most buyers of the structural and appearance grade logs like mature wood. Generally, if it is less than age 25 they would prefer not to take it, or will at a discount. Ideally they would prefer logs to be age 27 or above, but usually don't pay a premium for this older wood.

The trap for growers who leave their trees too long on the stump is the problem of over-size logs, especially in wide-spaced clearwood regime stands and shelter belts.

Up until the 1990s the central North Island industry was fed from Kaingaroa and Kinleith Forest's old-crop - by then age 60 plus. This was the Depression plantings of the 1920s, which launched the New Zealand forest industry. Sawmills were geared up to saw this large log size.

When this log source dried up mills quickly adapted to the new younger crop. Modern, electronic controlled mills with high throughput became standard. These new mills begin the process with a debarker that is likely to only handle logs less than 90-100cm in diameter. This sets the specification for 'oversize' log grades.

Peter says he is regularly rung by farmers with "beautiful big old trees" and has to let them down gently that their valuable asset is probably a liability.

When the trees reach the right stage in life the next challenge is to get them on the market at the right time. The log market is notoriously cyclical.

Peter reports that the current slump seems to have bottomed out and prices are showing signs of recovery in most log grades.

PROFILE

PETER HARINGTON

(Regional Account Manager - Central North Island)



Peter Harington's enthusiasm for the forest industry bubbles, even after 26 years.

"I was raised on a dairy farm in Waikite Valley, near Rotorua, so I know why no one has time to see me in the spring, and not to ring a dairy farmer after 8.30pm," laughs Peter.

Peter's career mirrors the changes in the industry. He started with a "great" training in the New Zealand Forest Service, then joining New Zealand Forest Products which became NZFP Forests (under Elders IXL) and merged into Carter Holt Harvey. In 1994 he joined Forestry Corp, which was sold to CNIFP, managed by Fletchers. In 2001 he joined Woodmetrics.

"This might sound like a crazy ride, but mostly companies were changing around me, reflecting the turmoil the industry has been through."

After his training, Peter became involved first in harvesting and transport, then establishment and silviculture. A career highlight being establishing new forests on big projects like Mangakahia Forest in Northland.

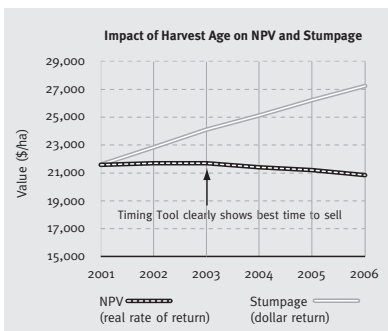
After moving into nursery, propagation, genetics and biotechnology, he made his mark developing the Rotorua Te Ngae Nursery from a bare paddock to an operation producing six million tree stocks per year.

Peter is enthusiastic about the Woodmetrics concept of selling stumpage for private forest owners. He felt the purchase of private wood has been the messy fringe of the industry "and horror stories reinforce this".

He believes a well-managed competitive stumpage sale puts the power with the seller "which is where it should be".

"With Woodmetrics there is finally independent assistance for owners."

Peter lives in Rotorua with wife Jenny and three teenage children. You are likely to find Peter fishing on or around Rotorua's lakes or chasing snapper in the Bay of Plenty. He's most content when he has hammer in hand. His home is surrounded by fences, decks and water features which he is keen to show off.





What Do You Do In A Tough Year?

Everyone agrees it has been a tough year for the forest industry and the newspaper headlines have been full of bad news stories for the industry. Foreign exchange rates, shipping rates, wood from competing countries, electricity prices and the economies of our main export customers have all gone in the wrong direction at the same time so commodity prices for most log grades have reached ten-year lows.

Woodmetrics has discussed the current situation and the implications of selling into this market with its clients and most have decided to hold off sale until the market improves – impartial advice that only a truly independent agent such as Woodmetrics can provide.

Meanwhile, the Woodmetrics team is as busy as ever. Why? Despite the depressed market, Woodmetrics is still signing up new clients and working hard on preparing their forests and woodlots for sale, which includes

all the background activities that have to be done before the sales prospectus documents go out to the market. The most time consuming of these is filing resource consent applications and the associated neighbour and Iwi consultation. There are inevitably access issues with neighbours and Transit to negotiate and the pre-harvest assessment, mapping and harvest planning are all taken care of well ahead of time.

What does Woodmetrics do then? We often put a client's file away in the drawer and wait until

the time to sell is right. When the client does decide to sell, all the documentation is ready and their block can be on the market in a few weeks to take advantage of any market improvement.

The lesson here then is not to wait until the market comes right before preparing your forest for sale. Call your local Woodmetrics account manager now and get him on the job readying your forest for sale. Then when the market comes right you are ready to take advantage of it.



One example of the type of work that may be involved before a forest can be sold is the engineering design work that Woodmetrics is undertaking for Mike Maxwell at Awakino. Mike's 70 hectare forest is on steep papa mudstone country, with only a very steep and precipitous four wheel drive track to the top, which has gradients for long sections over the legal maximum for logging trucks.

Woodmetrics has commissioned Forest Harvest Planning to survey the access road and design a road that meets legal and safety requirements while minimising cost and environmental impact. FHP uses state-of-the-art laser surveying equipment to survey the existing alignment and, back at the office, the Canadian developed RoadEng[®], software to design the new alignment.

"The laser equipment means that we can survey roads a lot quicker much more accurately and because it is hooked up to a datalogger, there is no opportunity for human error," says Geoff Gover, FHP manager.

"The time and effort is considerably less than the costs associated with fixing mistakes by a bulldozer and maintaining a poorly designed road," he says, "and the amount of earthworks can be kept to a minimum – especially important in difficult country like this."



Straight Up

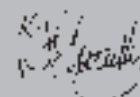
Be Prepared!

Changes have continued throughout the industry with the "For Sale" sign up on Fletcher Challenge Forests' forest estate, a number of temporary or permanent mill closures, and reduced harvest levels from some of the larger forest owners. Change is indeed the only constant.

Our advice to many has been to delay harvest until things improve – if you can! But there are often opportunities to use Woodmetrics' stumpage sale process to take advantage of local market conditions – see Rodney Forests story page 1.

I am confident things will improve but to capitalise on this, you must be ready. Resource consent applications and sale preparation can take a lot of time so prepare for harvest now rather than risk missing the boat!

This edition sees the moving on of Adrian Barker from CHH Forests. Adrian was the manager of Woodmetrics until earlier this year and we wish him every success going forward. And best wishes to Ian Bell who is tying the knot as this edition goes to print!



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What To Plant

One of the toughest questions to answer is "what crop to plant next" as it involves so much prediction on what will happen with timber use in the future. New Zealand Farm Forestry Association executive member Wade Cornell says "there are plenty of high value species foresters should consider before the alternative, radiata pine, if nothing else suits the site."

Here's our advice:

- Join the NZFFA – a great source of information with expert enthusiasts in every species keen to share their knowledge.
- Radiata pine is industry standard. We know a lot about managing it and there should always be a market for it. It is flexible about site, will flourish almost anywhere, and is a low risk option.
- Some of the alternative species have higher potential earnings. They can also be a lot more fun to grow, and make an interesting contribution to the landscape.
- If the site is a potential gorse problem, choose an aggressive species, like radiata pine, that will close canopy quickly and suppress the gorse.
- How much time or money are you prepared to put into the

silviculture? Some species require intensive form-pruning and management for many years.

- Match your site. Look at the performance of your intended species in your area.

Contact:
NZ Farm Forestry Association,
PO Box 1122, Wellington
Ph: (04) 472 0432



14-year-old redwood growing near Auckland – 55 cm DBH and 20 m tall.

Photo courtesy of Wade Cornell, executive member of NZFFA.

Industry News

The proposed sale of Fletcher Challenge Forests' estate to the Campbell Group and the "unsolicited" offer from Kiwi Forests marks another step in the change away from corporate ownership of forests in New Zealand. If either sale proceeds, forest ownership will further fragment towards smaller and less dominant players.

In June the NDG Pine sawmill in Wanganui went into receivership.

However, the sale of the mill assets to Allied Farmers is good news to growers in the Southern North Island, with the mill scheduled to be back to full production by early October.

UBS bought 8,940 hectares of cutting rights in the Tahorakuri and Tauhara forests from FCF earlier in the year and have recently sold three stumpage sales totaling 65,000m³ from the forests – all to different buyers.

Market Outlook

Export markets

Recent price rises in key export markets have been largely offset by a US\$ exchange rate hovering around the US\$0.60 mark and rising shipping rates. With analysts predicting the US\$ to stay at that level and possibly go higher, and with no sign of shipping rates coming back down, export markets remain bleak.

Korea

The impact of Typhoon Maemi, which killed over 100 people and caused almost US\$4 billion in damage, is still being assessed but may divert effort into maintenance rather than construction.

Japan

The Japanese market remains stagnant.

Clearwood

Forest owners are reducing or refusing to cut pruned stands at current pruned log prices. Recent improvements in radiata lumber prices in the US have provided much needed relief to the New Zealand mills.

Crows has shown a US\$65-75 upwards movement in prices for most grades in recent weeks. Inventories are low in the US. We should see some modest improvements in pruned log prices in upcoming months.

Structural

The New Zealand and Australian building and construction booms. Prices for lumber and structural logs remain strong.

Roundwood

There is good demand for post/-pole material for viticultural/-farming industries.

Pulpwood

Falling consumption in key markets is leading to mill closures internationally in an effort by the bigger companies to maintain price and profitability.

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