

# GREENPLAN

## FOREST NEWS

### IT'S TOUGH OUT THERE.



Bruce Maunsell -  
Marketing Director

There is no denying that things are tough in the forest industry just now. Prices for logs and processed wood products have been hit by the appreciating New Zealand dollar, increased supply from competitors, increased freight costs, and slow downs in key markets. For those involved in harvesting, processing and marketing forest products, business conditions are as difficult as they have been at any time in the past couple of decades.

Peter Clark, CEO of PF Olsen & Co, New Zealand's largest forest consultancy, agrees the industry is certainly in a trough, brought about by the convergence of a number of factors.

Looking forward he believes there are several factors to be aware of for the future:

**Need for general world economic recovery.** For a sustained improvement in the industry's fortunes, there needs to be a general world economic recovery to give our key Asian markets (Korea and Japan) confidence to invest in expanding infrastructure, and increase wood consumption.

**New Zealand competes with two large suppliers for the Asian markets, both of which are likely to become less competitive:**

- South East Asian hardwood producers. In reality this is almost exclusively Indonesia. Other suppliers have either completely exhausted or are close to exhausting supplies from their indigenous forests. Indonesia has made recent moves to clamp down on illegal logging which makes up a large proportion of wood supply. If attempts to curb illegal logging are successful there will be big reductions in wood supply. If curbs are not effective it likely to be only 5 or so years until the Indonesians run out of good quality logs.
- Russia has huge volumes of wood in its forests, but has little opportunity to expand production, without significantly increasing costs. Even now the Russian industry is operating on very small margins, and could only expand if the Russian government subsidised it in order to maintain inflow of foreign exchange. So wood from Russia is likely to become increasingly costly. Also there will be increasing pressure from environmental lobbies in Russia's markets, China and Japan, to slow use of wood from unsustainable sources. Carter Holt Harvey, New Zealand's largest forest company has recently announced a delay in harvesting of a significant portion of its mature forests. They have based their strategy on the view that Russian wood flows will decline in 4 - 5 years due to infrastructural limitations and the cost of extraction. CHH have decided to cut production now with

the expectation that they will harvest increased volumes in 5 years time at greater value.

**Log exports don't have a bright future** due to the high cost for small return nature of that business. New Zealand needs to continue the strategy to increase the proportion of harvest processed onshore.

**Macro factors affecting the New Zealand forest industry need urgent addressing.** The exchange rate, interest rates and tax need to be addressed in order to attract processing investment. Peter Clark believes that the 'tax hungry' nature of the current government is seriously increasing costs of business and discouraging offshore investment.

**The potential of China.** It is widely accepted that China will be a huge engine for consumption of wood products over the next couple of decades, both internal consumption, and in producing wood products for world markets. China has no capacity to increase internal supply. The two main sources of China's wood supply both now and in the immediate future are eastern Russian softwood, and SE Asian hardwood. New Zealand will benefit as these markets decline.

**Reduction or elimination of tariffs and trade restrictions on imports of wood products** would have significant benefits. While log exports face few restrictions, processed products are heavily penalised in many of our main markets, effectively increasing the cost of our products to customers and reducing competitiveness. New Zealand industry and trade officials are currently negotiating these at the World Trade Organisation Doha round.



Planting is complete for 2003 - see page 4

### CONTENTS

Investor News .....	pg 2
News Chips .....	pg 3
Forest Management Diary .....	pg 4
New Operations Manager .....	pg 4
Latest Issue .....	pg 5
Secondary Market Units for sale .....	pg 5

*continued from page 1.*

**Current volatility and uncertainty over the future cost of energy** in New Zealand is discouraging potential investors in wood processing from committing to development within New Zealand. Most wood processing requires high levels of energy, so achieving certainty of supply, and minimum cost is very important.

**What does all this mean for forest owners hoping to sell their trees profitably in 15, 20 or 25 years?**

Wood is a global commodity, subject to cycles as supply, demand and price fluctuate. It's true that the current downturn has been an extended one, made worse recently by the strength of the NZ dollar, and other factors that have nothing to do with the forest industry itself.

Add to that the need for increased investment in processing facilities, which in turn needs government support, the benefit of more a more competitive exchange rate and interest rates, and a more supportive tax regime.

History indicates that an upswing will come. If and when it does it is likely to be due to a resurgent world economy and expansion in Asia, a reduction in the NZ dollar relative to the US dollar, and declining competitiveness of SE Asian and Russian log exports, and improvements in the business operating environment in New Zealand.

It's only when the tide is right out that it turns. Ten years ago the dairy, sheep and beef industries were also in the doldrums, with many farmers hurting so much that they sold up and moved on to greener pastures. True to form conditions in all these markets changed, demand for their commodities increased, world supply tightened, prices increased and those who stayed have recently experienced some of their best years ever.

The fundamental outlook for forestry has not changed: global wood demand increasing, wood supply static or declining. What is changing all the time are shorter term influences that create the rises and falls of market cycles.

Hold on to your forestry investment. It's a long term investment so don't be influenced by short-term events. Time is on our side.

P.S. An illustration of the need to expect the unexpected is a recent report that Italian customers are importing fire damaged trees from the ACT in Australia as an alternative fuel to electricity, which is very expensive in Italy.



## KEEP NOVEMBER 22<sup>ND</sup> FREE!

It's the date of Greenplan's 10th anniversary Field Day.

Registration forms to be mailed with the next newsletter, and will be available on the website in a couple of months.



## INVESTOR PROFILE: KIRK HAWKINS

Although most Greenplan investors are everyday kiwis, some are doing unusual things in unexpected places. One of these is Kirk Hawkins.

Kirk grew up in Dunedin, and graduated from Otago University with a Physical Education degree in 2000. Since then he spent a year in Sydney, then moved to Korea where he teaches English and trains in the sport of Tae Kwon Do and Tae Kwon Bong Moo Ye. He has represented New Zealand on two occasions and hopes to compete at the Olympics next year.

Kirk bought his first Greenplan unit, in Jubilee Partnership No. 50, in 2000, while still a student.

"I initially saw a TV advertisement while I was sitting in my flat in Dunedin, I called the number immediately for the free information pack - free was the most important point of the ad. Obviously a word students like to hear.

I liked what I read in the prospectus. I took some advice from a friend's father who is a very successful businessman and has his own forestry interests. Without telling me what to do he simply pointed out the advantages and disadvantages of such an investment from his well-informed perspective. He felt I was making a sound decision for a first investment.

Also, as I was a broke student at the time trying to save some money to get overseas, the interest free payment option over two and a half years was affordable. I saw the investment as an appealing way of repaying myself the cost of paying off my student loan. The way I looked at it in the long term the return on the investment was similar to the cost of my student loan, so in effect I was paying off my loan for \$7,300. That's a cheap four years of Uni study!!

The referral system is a very good idea and I'm sure many other investors have made some good money as I have through it.

I am not an experienced investor but I have enjoyed learning about forestry as well as other investments. Greenplan has provided me with an easy and potentially very profitable entry into the world of investment."

Kirk has just purchased a unit in Pinegrove Forest No.61, via the internet, from Korea.

Good luck for the Olympics Kirk!

## EMAIL ADDRESSES

Over the past few months we have been sending photos of investors' forests to those people whose email addresses we have. If you'd like to be added to the email list please send us your email address.

You can also view your personalised investment page on the Greenplan website. It provides detailed information about your Greenplan investments. Get in touch with us for your access details.

## EMAIL NEWSLETTERS

If you'd rather receive your newsletter by email than by post you can arrange that on your personalised page at [www.greenplan.co.nz](http://www.greenplan.co.nz). Alternatively get in touch with us at the Greenplan office and we'll sort that out for you.



## NEWS CHIPS (thanks to the Radiata Bulletin)

### NZ LOG EXPORTERS TARGET THE MIDDLE EAST

A New Zealand log exporting company is looking at the Middle East as another market for radiata pine logs. Trans-Pacific Trading (TPT) is actively looking at growing alternative markets for New Zealand radiata pine. The Middle East is a comparatively large consumer of radiata pine, though mainly in the form of sawn timber from Chile. Log consumption is estimated to be on 100,000 to 200,000 cubic metres per annum, while sawn timber is reportedly well over 350,000 cubic metres. TPT has just completed loading its third consignment of logs and second consignment of lumber, and plans to ship every 6 to 8 weeks according to a report in *Wrightson Forestry News*.

### CONTINUED GROWTH IN NZ PANELS PRODUCTION

New Zealand's production of wood-based panels continued to surge ahead. During the year ended 31 March 2003 plywood production grew by 25 percent to 323,000 cubic metres, compared to the previous year, due mainly to an increase in laminated veneer lumber (LVL) production which is included in the plywood statistics. Fibreboard production (primarily medium density fibreboard – MDF) grew by almost 8 percent to reach the highest ever annual total of 886,000 cubic metres.

### INDONESIA UNDER PRESSURE TO CURB ILLEGAL LOGGING

The Indonesian and Japanese governments recently signed a joint statement that outlines measures to curb illegal logging. The measures include development of a tracking system for illegally harvested logs, monitoring and surveillance systems for harvesting with participation from private citizens, co-operation on law enforcement measures and promotion of products that can be proven to come from legal sources. Indonesia is the largest producer of hardwood in South East Asia. A recent survey undertaken jointly by Indonesia and England, shows more than 50 percent of logs produced in Indonesia are illegally harvested. Other sources indicate that while total annual harvest is over 60 million cubic metres, less than 10 million cubic metres is harvested legally. Under pressure from importers to make its industry more environmentally sustainable, Indonesia's Forestry Ministry plans to cut the legal quota for log production further, to 5.74 million cubic metres in 2004. This year the ministry reduced the quota to 6.89 million cubic metres from 22 million cubic metres in 2002, which has reportedly led to even more widespread illegal logging.

### NEW ZEALAND GOVERNMENT/INDUSTRY STRATEGY TO CONTINUE

The New Zealand Government and forestry industry are keen to continue with a forestry partnership to help develop New Zealand's forestry sector. The wood processing strategy (WPS) is a partnership between the forest industry, central government, unions and local government to accelerate the development of wood processing. A key objective is to attract \$3 billion in new wood-processing investment by 2010 to enable the sector to become the country's primary exporter. Stage one of the strategy concluded last July, with transport, the Resource Management Act, climate change, and skills and training addressed. Issues dealt with in stage two relate more to commercial activities such as maximising the value of trees, developing world-class mills, and building markets. There will be an increased focus on New Zealand's competitiveness as a location for wood-processing activities. Market access and market development issues also require further work.

### WOODEN HOUSES BETTER FOR THE ENVIRONMENT

A study by Australia's Co-operative Research Centre (CRC) for Greenhouse Accounting found steel house-frames were

significantly worse for the environment than wooden ones. About 2.7 tonnes of carbon dioxide was released in the manufacture of the steel framing needed for a typical four-bedroom, single-storey home. This included the carbon dioxide released from mining the iron ore and turning it to steel, as well as the effects of transporting the steel. By comparison building frames made from plantation pine trees released just 0.4 tonnes of carbon dioxide, in large part due to the significant amounts of the gas taken up by trees while they were growing. The CRC, have so far spent three years trying to work out house designs with the least greenhouse gas emissions.

### NORTHLAND WILL NEED 10,000 MORE FORESTRY WORKERS

The Northland forestry industry will need a further 10,000 workers by 2025 to meet an expected increase in harvest levels according to reports by the New Zealand Press Association. Northland Forest Industries Training regional manager Morgan Toia said there were 1100 Northlanders undergoing training through the service. "There is a shortage of workers right across the board," Mr Toia said. The training institute runs a course through the Northland Polytechnic. Nationally, it is projected the number of people working in forestry needs to double if New Zealand is to cope with the expected rise in the harvest levels. Forest industries Training chief executive John Blakey said the industry was gearing up to recruit 30,000 more workers by 2025.

### CHINA IMPORTS

China's imports of logs during the first five months of the year totalled 10.8 million tonnes, 7 percent up on the same period last year. The main suppliers were Russia, Indonesia, Malaysia and New Zealand. However, growth in supply from Russia has slowed. Imports from Russia were 0.3 percent lower than in January to May 2002, and May imports were down 7 percent on the previous year. Imports from New Zealand were up 35 percent year to date.

### NEW ZEALAND LEADS ON FAIR TRADE

The New Zealand Forest Industries Council is leading an international industry effort to achieve free and fair trade in forest and paper products. Chief executive Stephen Jacobi Geneva in July, along with industry representatives from the United States and Canada, to meet with the WTO.

The non-agricultural products group is calling for trade barriers to be reduced and more effective trade rules for forest and wood products to be set up via the WTO Doha Development Agenda.

"New Zealand forestry faces a tariff bill of NZ\$40 million a year and non-tariff barriers amount to at least NZ\$175 million", said Jacobi. "These figures do not take into account the trade that did not happen because the barriers were too significant." The group meets again in Geneva in August before discussions between trade ministers resume in Mexico in September. The deadline for the trade talks to conclude is January 2005.

For more information visit: [www.nzfic.nzforestry.co.nz](http://www.nzfic.nzforestry.co.nz)

### EXPORT HOTSPOT IN VIETNAM

Sales of New Zealand pine to Vietnam shot up by 200% in 2002 to NZ\$13 million with much of the timber going to the fast-growing local furniture industry. Previously relying on salvaged pine from dockside pallets and packaging as demand increased and product quality improved, Vietnam has turned to kiln-dried pine from New Zealand.

Hanoi-based New Zealand ambassador, Malcolm McGoun says that there is further growth potential. "The Vietnamese are very good at producing furniture . . . it will only be a matter of time before Vietnamese-made New Zealand pine furniture is exported around the world."

It will be interesting to see if this boom survives the current adverse conditions for New Zealand exporters who have previously rock-solid markets disappear as customers look for suppliers with better exchange rates.

# FOREST MANAGEMENT DIARY

Planting is complete! The 2003 planting programme included 740 hectares of land in five different partnerships. Up to six planting crews were employed to carry out the planting operation, which commenced on 17th June and was performed to a high standard. Cuttings were sourced from nurseries at Ngongataha, Tokoroa and Cambridge, and were of very good quality.

The survival and health of the 2003 forests will be closely monitored over the next few months. The releasing operation is programmed to commence in mid September 2003, weather permitting. Releasing involves spraying a small amount of chemical around the newly planted tree to kill any competing grasses and other weeds. You may have noticed the brown dots on the hillsides if you have driven by any of our recently planted forests in the past.

Other silviculture operations currently underway include first and third lift pruning, and thinning to waste. Seven silviculture crews are presently employed in the Greenplan forests. The second lift in the 1997 forests has been completed, along with the first lift in Huntaway No. 40. Good pruned heights have been achieved and there are excellent growth rates throughout the forests. The first lift in Jones No. 39 and Clearwater No. 42 has commenced. Other 1999 forests are scheduled to be ready in the spring for the first lift operation.

The third lift and thin to waste operations in the 1996 forests has commenced. Pruning is almost complete in Aratoro No. 20 and Slab Hut No. 22, and work is in progress at Slab Hut No. 21, Brakeside No. 23, River Road No. 24 and Touchwood No. 27. Thinning operations are also underway in partnerships 20 and 21. All 1996 forests will be thinned down to the final crop stocking after the third lift is complete. We regularly monitor the growth rates in the other 1996 forests and will time the pruning operation for when they are ready. In most cases pruning operations commence during the spring and early summer.

The final audits for the 1995 forests have been complete and these forests along with the 1994 forests are now left to grow. We keep a regular check on all forests to monitor forest health and pests. We will shortly begin our *Dothistroma* survey to determine which partnerships require a spraying programme this coming November.



*Another tree in the ground at  
Whitecliffs Forest No.59.*

## MARKET UPDATE

**EXPORT LOGS** - Demand in most major markets has remained reasonably stable over the past month, with prices steady in \$US terms. However the flying kiwi dollar is creating havoc with New Zealand wharf gate returns. For every cent change in the US:NZ exchange rate, the NZ wharf gate price changes by \$1.50/tonne. Rising shipping rates are also impacting on returns. As a result, to maintain margins, exporters have reduced wharf gate prices by \$3-\$5/jas metre in the North Island and \$2-\$3 in the South Island over the past month.

The Asian rainy season will also mean demand starts to ease soon.

**PROCESSED TIMBER** - Exporters are slightly more confident the bottom has been reached, but Chilean pricing and market penetration remain a major problem. The exchange rate and higher shipping charges are impacting even more heavily on sawmillers and processors than log exporters. Pruned prices have been coming down, but not fast enough for many, now forced to make large reductions in processing and employment, to minimise losses. The extent of the impact of falling overseas returns varies across operators and regions depending on their size and market mix. In the North Island, where prices fell 10% in the past three months, some sawmillers need log prices to fall another 10% just to break even. There has been little change in the Australian market and other smaller timber markets. In the domestic market prices are coming under pressure as sawmillers try to divert production away from poor paying overseas markets.

**DOMESTIC LOGS** - Prices for unpruned logs have fallen back in some regions by up to \$5/tonne. Problems are mounting for poorer chip/pulp logs due to a number of factors. Low \$NZ returns for export pulp logs, and the strike at Kinleith ensured more than plentiful supply. Prices are weakening, with logs being left in the bush, particularly in areas long distances from processing plants.

The outlook for export is probably further easing, and for continues weakening in the domestic market.

## DAVID PIKIA - NEW OPERATIONS MANAGER

David Pikia is Greenplan's new Forest Operations Manager, replacing Warwick Shardlow who recently resigned the position after four years at Greenplan.

Our warm welcome is extended to David and his wife Mere, and their children, who hail from the sunny east coast city of Gisborne. David has an extensive forestry background, including a Diploma in Forestry, time as a silvicultural contractor and most recently as a forest industry trainer. With a family history in the industry you could say forestry is in his blood.

David has responsibility for ensuring that all Greenplan forests are developed according to the Forest Management Contract. This requires a high level of organization, co-ordination and supervision of a large contracted workforce.

David is a keen sportsman enjoying rugby, tennis, squash, fishing and diving in his spare time.

We also welcome Luke Kirk and partner Holly Williamson from Wanganui. Luke, as Forest Operations Supervisor, brings valuable skills, experience and enthusiasm to the company. He assists David, and carrying out quality control monitoring of forest management, assisting with mapping and analysis, and generally helping to ensure that forest management is well organised and of a high standard.



*Luke Kirk and David Pikia checking new plants prior to planting.*



# LATEST ISSUE

## PINEGROVE PARTNERSHIP NO.61

Only 70 units left! Your last opportunity to invest in forests planted this year.

Pinegrove is the 61st Greenplan Forest partnership. It will grow on the same property as, and adjacent to, the Pinegrove No.60 Partnership, approximately 45 kilometres west of Taumarunui, near the settlement of Matiere. The partnership consists of 135 one hectare units. It is proposed to plant the 135 hectares of land in winter 2003.

The property is currently in pasture, with areas of native bush and scrub. A QE II Trust Open Space Covenant lies within the title area, which will be excluded from forestry development.

The land experiences an almost complete absence of summer droughts and gale force winds. Its medium fertility soils and consistent rainfall make it well suited to growing quality radiata pine forest. Based on data from a nearby 6 year old forest, Pinegrove site index is estimated to be 33.

The block is well located, with well formed district roads, providing good access to State Highways 3 and 4, and to a variety of processing facilities and major ports.

Pinegrove Forest units cost \$7,300 per unit. The three payment options available start as low as \$100 on application, and \$200 interest free payments for 36 months. Closing date for this partnership is 20 September 2003. Call us on 0800 800 154 to find out more.

Remember, if you are already a Greenplan investor you qualify for a \$250 discount on reinvestment, meaning you can buy a unit in Pinegrove for \$7,050. This is your last opportunity to invest in forests planted this year. Our next issue will be for a forest to be planted in 2004.



*King Country hill country pasture is well suited to growing quality forests.*

### SECONDARY MARKET UNITS FOR SALE

## SECONDARY MARKET

The following units are for sale. \* These units are subject to the clause two procedure, whereby partners in that partnership have a 28 day period first option in which to apply. The units not marked are available for sale to anyone. Please contact Kath Meredith ([invest@greenplan.co.nz](mailto:invest@greenplan.co.nz)) at Greenplan for more details.

Partnership Name	Planted	Units	Price
Awakino River No.16*	2	1995	\$11,600 each
Aratoro No.14*	1	1995	\$11,300
Slab Hut No.21*	1	1996	\$9,800
Pig Et Whistle No.34* 1/2 ha	2	1997	\$4,600 each
Tunnel Rock No.46	3	2000	\$ 7,200 each
Headwaters No.52	1	2001	\$7,300
Ducksfield No.53	2	2002	\$7,000 each
Glen Afton No.54	1	2002	\$7,000
Glen Afton No.54	1	2002	\$7,300
Big Valley No.55	3	2002	\$7,300 each
Hidden Valley No.56	1	2002	\$7,300

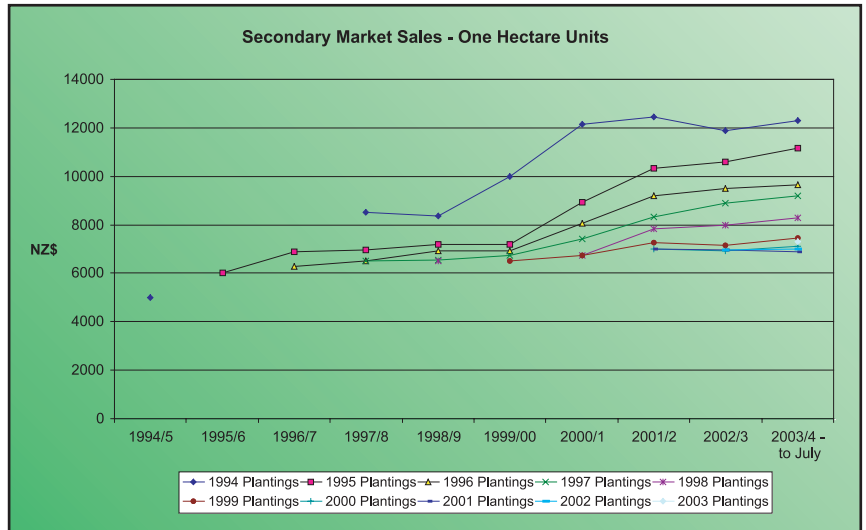
## SECONDARY MARKET SALES BOOM

Sales of Greenplan units in established forests have continued to increase over recent months. To date this year over 70 units have sold on the secondary market, compared to 50 to the same time last year.

The most notable feature has been the popularity of units in older forests. Any unit available in forests older than four years tends to be snapped up as soon as it is advertised, usually at prices providing returns of between 9 and 12% p.a. net to the seller.

The highest price paid for a one hectare unit this year is \$12,800 for a 1994 planting. The average price paid for units in all planting years has increased over 2002 levels.

Units currently available are listed on page 4, and on [www.greenplan.co.nz](http://www.greenplan.co.nz).



## NZ RADIATA FOR DANISH FURNITURE?

A bright spot in the forest industry is the recent news that a Danish furniture manufacturer is investigating setting up an operation in New Zealand, perhaps Taupo, making up-market furniture from radiata pine. The products manufactured here are likely to be targeted at the United States and Japanese markets.

If it goes ahead the new operation will be in partnership with Fletcher Challenge Forests, and is being facilitated by Industry New Zealand.

The Danes have assessed Radiata as being very suitable for their requirements, as well as having the very important benefit of being environmentally sustainable.

The new business would be a significant achievement for Industry New Zealand, and Economic Development Minister Jim Anderton. Industry New Zealand found that European furniture makers had no knowledge of Radiata pine while researching how furniture manufacturing industries operate. They then invited a number of manufacturers to New Zealand and put them in touch with New Zealand forest companies.

An expanded furniture manufacturing industry would be an ideal enhancement of the forest industry. Furniture adds more value to wood than products such as pulp, paper or board manufacturing. It also provides spin-offs in associated technology, design and marketing.

A final decision on the new business is expected in October.

## WILL NEW TIMBER TREATMENT REGULATIONS AFFECT FORESTRY INVESTMENTS?

Although only a very small percentage of new houses have been affected by rotting timber, new regulations will require that all timber framing used in construction in New Zealand will need to be treated. They have been described by the Forest Industries Council chief executive Stephen Jacobi as the regulatory equivalent of "taking a sledgehammer to crack a nut". Many within the forest and building industry believe the problem lies more in the poor design and construction methods used in some new houses.

While not a positive development the new regulations are unlikely to affect the overall market for radiata pine to any significant degree. There are a number of factors:

- The portion of NZ's total radiata harvest that goes into framing timber construction in the NZ market is quite small.
- A portion of that which is used is currently treated anyway. Untreated timber has only been used in construction for the past 7 years. It won't be a big change for the industry to go back to treating timber.
- Radiata lends itself very well to treatment compared to other timbers such as Douglas Fir, so radiata market share is likely to increase relative to other timbers. The Douglas Fir industry is likely to be more adversely affected.
- On the negative side the cost of treatment will be added to the timber cost meaning timber construction will increase in cost relative to other construction materials. However even this will not be a significant increase, perhaps 2-3% in the cost of a new house.
- The publicity about the problem could have a short-term negative impact on the perception of radiata causing people to look to other materials as an alternative. If this were to happen it would not impact significantly on a long-term forest investment.

## CONTACT DETAILS

### Greenplan Forestry Limited

PO Box 24, Te Kuiti

Internet: <http://www.greenplan.co.nz>

Email: [invest@greenplan.co.nz](mailto:invest@greenplan.co.nz)

### Greenplan Office

Tel. 07 878 6730

Fax 07 878 6744

### Customer Service

Freephone 0800 800 154

### After Hours

John Barton - Managing Director

Tel. 07 878 7917

Bruce Maunsell - Marketing Director

Tel. 0274 887 663

Matthew Barton - Operations Director

Tel. 021 658 565



**GREENPLAN**  
FORESTRY INVESTMENTS

All material in Forest News is copyright to Greenplan Forestry Limited, and may not be reproduced without permission. While every attempt has been made to ensure the information in Forest News is accurate, Greenplan Forestry Limited accepts no liability for mistakes or omissions. Views expressed in Forest News are not necessarily those of the Directors of Greenplan Forestry Limited.

