

GREENPLAN FOREST NEWS

THE GOVERNMENT IS STEALING OUR CARBON CREDITS



Bruce Maunsell -
Marketing Director

Since becoming a signatory to the Kyoto Protocol in late 2002, and then releasing its policy on climate change, the New Zealand Government has continued with its plans to appropriate carbon credits belonging to owners of 'Kyoto forests'. Kyoto forests are those planted after 1990 and which can be treated as carbon sinks for the purpose of offsetting carbon emissions.

Under the Kyoto Protocol New Zealand must reduce its carbon emissions to 1990 levels during the period 2008 – 2012. Under Government plans carbon credits from forests planted after 1990 will be used to offset emissions from other industries and sectors of the New Zealand economy whose emissions have increased since 1990.

We see this appropriation of carbon credits as little more than theft of forest owners' property rights by the New Zealand Government.

By applying our carbon credits to offset emissions by other industries Kyoto forest owners will effectively be subsidizing those industries, with no compensation. For instance the steel industry, a direct competitor of the forest industry in supply of steel framing for construction, amongst other things, could have direct or indirect assistance in offsetting the vast volumes of carbon emissions it produces through the allocation of the stolen carbon credits.

In addition Government policy also places responsibility for deforestation on forest owners. This means that if forest owners decide not to continue growing forests, and change to some other land use after harvest, they will have to pay a carbon tax on the value of the carbon that will no longer be stored in their forest.

So on the one hand Government is stealing the carbon credits from forest owners, and denying them the potential benefit of income from trading those credits, and on the other hand it is placing greater potential cost at the feet of forest owners if, as a result of this theft or other reasons, forest owners decide not to continue growing forests.

Government and the forest industry are currently negotiating the Forest Industry Framework Agreement (FIFA) which aims to compensate the forest industry for the loss of carbon credits through a number of generic initiatives to assist the industry. Government maintains Kyoto forest owners will be compensated through the package. However the initiatives they are proposing will provide general benefits to the industry as a whole, but nothing specific to the smaller number of owners

whose forests qualify as Kyoto compliant forests, ie those planted after 1990. These forests total about 500,000 of the 1.8 million hectares of New Zealand plantation forests.

The cost to the country of achieving the target of reducing emissions to 1990 levels has been calculated to be approximately \$700 million. However the value of the carbon credits the government has appropriated from forest owners is estimated to be \$1.4 billion, based on current carbon value. So the government stands to benefit by approximately \$700 million over and above the cost of what it says it needs the carbon credits for.

We believe that Kyoto forest owners should be directly compensated for the carbon credits that they are losing, over and above the benefit that the industry as a whole will receive. Furthermore there should be no liability for deforestation or harvest placed on Kyoto forest owners.

This is a very serious issue, and one that the government should not be allowed to have their way on. By comparison, in terms of inequity, and value, the recently defeated Fart Tax was but a puff of hot air.

What can we do?

Greenplan has been involved in establishing the Kyoto Forest Owners' Association whose purpose is to gain compensation for Kyoto forest owners. KFOA is lobbying government ministers and government officials, and publicizing the situation. Individual forest owners should also make their feelings known.

We urge Greenplan investors to write as Kyoto forest owners to: Hon. Pete Hodgson, Convenor, Ministerial Group on Climate Change, Freepost Parliament, PO Box 18888, Wellington, expressing your concern at the theft of your property rights. Please find enclosed a card which you may like to use.

KYOTO MAY BE A NON EVENT

All the work and angst that the Kyoto Protocol has involved so far may come to nothing in the end. In order to be enforced the Protocol requires endorsement by Russia who has been indicating that it may not sign. Without the involvement of Russia there won't be sufficient international commitment to make the protocol enforceable. In that event the protocol will be annulled and international negotiation will begin again aimed at finding internationally acceptable mechanisms for controlling climate change.

Recently Australia has also signalled that it will withdraw its support for the Kyoto Protocol. According to an article in the Sydney Morning Herald, (13 January) the Environment Minister David Kemp has announced that Australia will no longer participate in the international greenhouse gas emissions trading scheme under the terms of the Kyoto Protocol.

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ANNUAL FEES

Annual fee invoices will be sent to Greenplan investors in all partnerships up to No.61 in early April. This year you will have the option of receiving your invoice by post or by email. You will also be able to choose from paying by direct payment, mailing cheques or credit card details to us, or by credit card through a secure facility on the Greenplan website. If you do wish to receive your invoice by email rather than by post please log in to the Investor Centre at www.greenplan.co.nz and click on the appropriate button. In order to log on you will need your username and password. Please contact us if you do not yet have those.

GREENPLAN FIELD DAY 2003

Greenplan's 10th Anniversary Field Day in November was an outstanding success. More than 350 investors, their families and friends enjoyed a typical day in the King Country amongst the trees at Centurion Forest No. 45. Despite the rain everyone enjoyed themselves, with highlights including the inaugural Greenplan Pruning Competition, guest speakers - Mark Bogle of Evergreen Forests Ltd, and Greenplan Managing Director John Barton, and the picnic lunch (wild pork and mutton cooked on the spit).

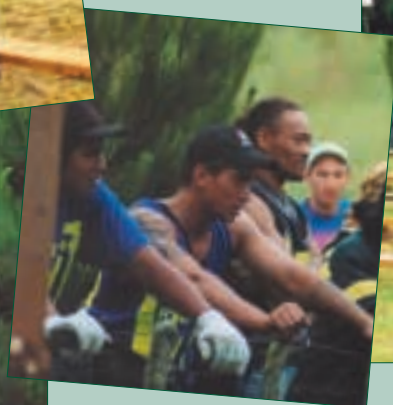
The pruning competition proved to be an exciting spectacle. After qualifying heats during the morning, finals for two divisions were held, which visitors were able to watch from the field day site.

Each competitor was required to select and prune 10 trees from a group of 20 trees, within a 15 minute period. They were then graded by independent judges, on the quality of their pruning and tree selection.

Nearly 40 pruners participated from 6 different contract crews that work in Greenplan forests. The standard of workmanship was particularly impressive. Several competitors scored 100% during their heats. The winner of the second division was Sam Rehulai of Litchfield Agroforestry Ltd, with a score of 100% in the final. Garnett Ratana of Bennydale won the first division final, and a prize of \$1,000, with a score of 98%.

Total prize money of \$4,000 plus various product prizes were kindly donated by ANZ Bank, Perpetual Trust, Geosystems Ltd, Levin Timbersaws, PF Olsen & Co, and Aggro.

We are planning on making the pruning competition a regular event. It is an excellent way of raising the standard of work done in Greenplan forests, increasing workers' morale and pride in their work and giving them some recognition for the hard work they do.



NZ FOREST COMPANIES CREATING CHANGE

Although the strength of the New Zealand currency is causing pain for exporters it is not depressing the share prices of the largest forestry exporters Carter Holt Harvey and Fletcher Forests. After years of stagnant, depressed prices both have enjoyed strong share price increases recently.

Analysts put the improved performance down to the sale of assets by both companies. Many are speculating that proceeds from the sale of Carter Holt's tissue business will be distributed to shareholders, although the company has indicated it is considering other options, including reinvestment in other processing facilities.

Fletcher Forests is selling all its forests, returning \$1.20 a share to shareholders and turning into a much smaller wood processing and marketing company.

There is also speculation that Carter Holt will also either sell its forests or place them in a separate, unlisted vehicle owned directly by its shareholders. Chief executive Peter Springford has said it was not a good time to sell but also that a "go forward" strategy for forest ownership was being looked into.

The sale of forests by these companies is part of a global trend towards forest ownership by pension funds employing specialist timber management companies. The buyer of the Central North Island Forest Partnership was the endowment fund of Harvard University. The trend is taking forests into private ownership and off sharemarkets.

Like Greenplan investments the funds have a low cost of capital, a long-term focus and can invest with little or no debt.

Source NZ Herald.

MAF REPORT FORECASTS CONDITIONS FOR FOREST INDUSTRY

The Ministry of Agriculture and Forestry released a report entitled Situation and Outlook for Agriculture and Forestry in late 2003. The report assesses market conditions through to 2007, and makes some observations on market conditions through to 2013/4.

Following are some of the more interesting points;

- Export freight costs increased by around 30% during the first half of 2003, and now account for around 30 – 40% of the value of high quality pruned logs and 50% of the value of unpruned logs that are shipped overseas. This means that margins for exporters have been severely cut and in some cases eliminated completely. This has led some exporters to cut back drastically on production in order to survive until markets and exchange rates become more favourable.
- Much of the increase in freight costs is due to increased activity in China as it prepares for the 2008 Beijing Olympics. Chinese steel production increased by 23% in the first 6 months of 2003, while iron ore imports have increased by 300% in the past 3 years.
- It is expected that preparations for the Olympic Games will provide considerable opportunities for exports of NZ forest products to the Chinese construction sector. Exports of NZ lumber to China are expected to rise significantly.
- The Russian Government is planning to raise duties on log exports, which will increase prices of Russian logs in Korea and China, and help to expand NZ's market share in those markets.
- Transport infrastructure limitations will limit supplies of accessible logs in eastern Russia putting upward pressure on prices.
- The current restructuring of the New Zealand industry, in terms of forest ownership, infrastructure and processing, should also result in a stronger, more resilient and cost competitive logging sector.
- There is enormous potential for increasing lumber production

from NZ sawmills over the next 5-10 years, through upgrading existing mills and developing new ones.

- Increasing electricity costs are a significant issue facing wood processors in NZ
- The biggest issue impacting on log prices through to 2007 will be the NZD/USD exchange rate.
- Prices for processed timber are expected to be firm, fuelled by high demand in Japan and southern China, and increasing demand in India.
- Demand in the US for processed timber is expected to remain strong due to continued high rates of housing starts. This should increase demand for NZ construction timber.
- Australia should remain a strong market, with a buoyant economy and high rates of construction.
- In the longer term, through till 2013/4, log exports will continue to be an important part of the export mix, with volumes likely to increase. The proportion of the total harvest exported as logs will remain at about current levels (around 60%).
- In 10 years time increased onshore processing capacity will be committed to processing the increased harvest that will come on-stream during that time.
- A major challenge will be to ensure that radiata pine logs are processed into products in offshore markets that the timber is suited to and that the uses it is put to exploit radiata's properties. This will be best ensured through an efficient technical support regime and robust quality control procedures.
- Wood properties of trees will increasingly be assessed while trees are still standing or at the skid site before logs are transported. This will involve the use of new technology enabling more effective matching of timber to end uses.

The full report can be found at:

<http://www.maf.govt.nz/mafnet/rural-nz/statistics-and-forecasts/sonzaf/2003/httpoc.htm>



CHINA WELCOMES NZ PINE FOR BUILDING

New Zealand radiata pine is to be recognised in Chinese building standards. The confirmation came from Chinese President Hu Jintao during his visit to New Zealand in October.

The New Zealand Forest Industries Council, with the help of the Ministry of Foreign Affairs, has been working for two years to have pine included in the code with North American species. The lobby succeeded in getting it into draft codes and it has now been confirmed as being in the final code.

What is not known is whether buildings with timber frames will catch on in China where concrete is mostly used, or what dimension and specifications of timber will be used in buildings in the country in the future.

The inclusion of pine in the code potentially opens a market for higher-valued pine, rather than the lower value log trade.

China is the forest industry's fifth-largest market, taking \$345 million worth of products last year, of which about a third was logs.

If structural timber was more accepted in the market, use of laminated veneer lumber and other engineered products would expand.

CURRENT ISSUE

WAYLEGGO PARTNERSHIP NO. 62

Wayleggo is Greenplan's 62nd forest partnership. The forest will be 95 hectares in size. It will grow approximately 5 kilometres northwest of Taumarunui on a 116ha property. The balance of the property, a large area of native bush and some fertile flats, will not be developed into forestry. The partnership consists of 95 units, each equivalent to approximately one hectare. It is proposed to plant the forest during 2004.

The property is very suited to growing a quality forest. Data from a nearby forest of 6 year old trees estimates the site index of Wayleggo No.62 to be 33, which is consistent with the high quality sites that other Greenplan forests grow on. There are good farm tracks which provide internal access to the majority of the block for management purposes. The property is situated in an area which experiences moderate rainfall and an almost complete absence of summer droughts. Its medium fertility soils and negligible winds are well suited to growing radiata pine forests.

The block is well located in terms of access and transport options at harvest time. Well formed district roads provide good access to State Highway 4, the nearby Main Trunk rail link, and to a variety of processing facilities, major ports and sawmills.

And what about the name? For people who work on the land and have working dogs, the expression "wayleggo" will be familiar. It is a term many farmers use to call their dog(s) back to the point where the farmer is situated, be it on the bike, on foot, at the gateway etc. In other words it means "get in behind"!

Wayleggo Forest units cost \$7,300 per unit. The three payment options available start as low as \$100 on application, with \$200 interest free payments for 36 months. Closing date for this partnership is 20 March 2004. Call us on 0800 800 154 to find out more.

Remember, if you are already a Greenplan investor you qualify for a discount on reinvestment. Please enquire for details.



The Wayleggo forest will grow well on clean hill country, with good access.

The property is bordered by established trees belonging to Carter Holt Harvey. Areas of flat land along the stream in foreground will not be planted.



FOREST MANAGEMENT DIARY

Third lift pruning and thinning-to-waste continues in the 1996 forests. This is the final operation to be performed in these forests. Third lift pruning operations are now complete in Awakino River No. 19, Slab Hut No. 21 and No. 22 and Smiths No. 25, and is almost complete in Aratoro No. 20, Brakeside No. 23, River Road No. 24, Tin Whare No. 26 and Touchwood No. 27. Thinning-to-waste operations are complete in Slab Hut No. 21 and 22, while thinning continues in all other partnerships.

It is expected that all third lift pruning and thinning-to-waste will be complete before April 2004. The final audit of the 1996 forests will then be carried out.

First lift pruning is underway in Jones No. 39 and Boltaway No. 41, and is about to commence in Wild Boar No. 43, Pruning is completed in Huntaway No. 40 and Clearwater No. 42. The second lift in the 1998 Partnerships is scheduled to commence in March and April 2004.



Dunmore North Forest No.48, planted 2001, due for it's first prune in 2005.

Releasing to kill off competing vegetation around newly planted trees in the 2003 forests was completed in November 2003. Some areas that are particularly prone to weeds will be sprayed again in February. This is a small operation which will involve approximately 5 percent of the forest being sprayed. A local helicopter operator will perform the spraying operation.

Forests which are susceptible to the fungal infection *Dothistroma pini* were sprayed in November 2003. There are also some small areas that will be re-sprayed in February. The fire risk during the summer has been low due to the late summer and recent sustained rain. All Greenplan staff and contractors carry fire extinguishers in their vehicles for prevention. If the fire risk was to escalate contractors would be asked to carry fire fighting equipment. Greenplan staff have recently performed safety audits on all contractors and procedures have been put in place to prevent accidents. Greenplan's fire management plan has also been updated, including comprehensive mapping of all forests to assist with co-ordination of fire fighting, if that were to be necessary. Greenplan operational staff have also recently undergone fire training refresher courses.

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) at Greenplan for more details.

Partnership Name	Planted	Units	Price
Arapito No.8*	1994	1	\$11,900
Araptio No.9	1995	3	\$11,600
Awakino River No.17*	1995	1	\$12,000
Awakino River No.17*	1995	1	\$11,600
Awakino River No.17	1995	2	\$11,600
Barkers No.18*	1995	2	\$11,600
River Road No.24	1996	1	\$9,700
River Road No.24•	1996	2	\$9,700
Tin Whare No.26*	1996	1	\$9,700
Rhodes No.29*	1997	1	\$9,500
Coach Road No.30*	1997	1	\$9,100
Stockyards No.32	1997	1	\$9,100
Rim Rock No.33	1997	1	\$4,700
Miners Creek No.37*	1998	1	\$8,500
Boltaway No.41	1999	1	\$7,500
Millennium No.44	2000	1	\$7,200
Jubilee No.50	2001	1	\$7,200
Ducksfield No.53	2002	1	\$7,000
Ducksfield No.53	2002	1	\$6,500
Glen Afton No.54	2002	1	\$7,000
Glen Afton No.54	2002	2	\$7,300
Big Valley No.55	2002	4	\$7,300
Hidden Valley No.56	2002	1	\$7,300
Hidden Valley No.56	2002	2	\$7,300
Greatwood No.57	2003	3	\$7,300



THE RUSSIAN THREAT

- How real is it?

In our August newsletter we noted the strong competition for log sales to Asia from Indonesia and Russia, and the effect this was having on prices. In sifting through some old magazines over the Christmas break we came across an article in the December 1993 issue of NZ Forest Industries magazine, by forest industry commentator Denis Neilson, in which he examines Russian forestry. We think it is worth passing on as the information it contains is as relevant now as it was then.

Russia's forests are often referred to as the "lungs of the world". The area is vast and estimates vary from 600 million hectares to 800 million. By comparison New Zealand has 1.8 million hectares of plantation forest and a further 6.2 million hectares of native forest.

Russian forests have the theoretical capacity to produce around 600 million cubic metres of timber per year. By comparison New Zealand plantation forests produce 23 million cubic meters, with a potential based on present area to produce 37 million cubic meters.

Whilst data on Russian forests makes impressive reading, there are a large number of issues that make its potential as a competitor in the Asian wood market less threatening. Much of Russia's forests are seriously affected by air pollution, nuclear radiation damage, fungal and insect attacks, drought stress, fires, climactic, water and soil constraints, overestimating, indigenous peoples claims and endangered or protected species issues.

If your competitor takes 100 years to produce product that you can produce in 25 years you have a significant competitive advantage.

In addition there are serious infrastructure shortcomings such as lack of roads that are becoming increasingly prominent as harvest moves further into the hinterland.

Fire is a serious problem. One single fire in the early '90's destroyed a total of 1.7 million hectares; more than New Zealand's total area of plantation forest. Fire not only destroys the trees but causes deep thawing of the frozen saturated soil which causes melting or collapsing in to form small lakes. In one province more than 700,000 lakes were formed following lightning fires.

Logging has the same effect on these permanently frozen soils, by removing the protective layer of sphagnum moss.

Growth rates of the major species, larch, are extremely low at around 0.5 to 1.5 cubic meters per hectare per year. Compare that to 20 to 25 cubic meters for radiata in New Zealand. Per hectare yields are generally low as the forests are harvested as soon as possible even though tree size may only be about the size of a good New Zealand fence post.

Whereas in New Zealand we can harvest 700 to 800 cubic meters per hectare at age 30, in Russia a typical harvest yield is between 30 and 60 cubic meters per hectare.

And because natural regeneration takes about 50 years and a tree will take about 10 years to grow a meter high, it will take at least 100 years to be ready to harvest again.

So when New Zealand Pine's competition is coming from natural forests in Russia and Indonesia that are over 100 years old, it's fair to say that our 25 to 30 year age gives us a long term competitive advantage.

NEWS CHIPS FCF SELLS ITS FORESTS

Fletcher Challenge Forests has announced it is selling most of its 106,000 hectares of forests to a consortium led by the Kiwi Forest Group Consortium for \$725 million. The consortium includes a group of New Zealand businessman, and a couple of large overseas pension funds including US based Prudential Timber Investments and the Ontario Teachers' Pension Fund Ltd. The sale is subject to Overseas Investment Commission consent and shareholder approval.

PF Olsen & Co, Greenplan's forest consultant, has been contracted to manage the 65,000 ha portion of the Fletcher forests that have been acquired by Prudential Timber Investments.

NZ PINE FURNITURE LAUNCHED IN EUROPE

A range of NZ pine furniture that is the result of a joint venture between Fletcher Challenge Forests and Danish furniture company Zenia House was released at the International Furniture Fair in Cologne in mid January. The furniture features the very straight grained timber which distinguishes pruned radiata from the knotty pine most Scandanavian furniture is made from. New Zealand's clean green image is being emphasized in the marketing of the furniture.

COMMODITY LEVY LIKELY FOR FOREST INDUSTRY

The suggestion of a levy of New Zealand forest industry participants is being supported by the industry. According to NZ Forest Owners Association President Peter Berg there is a general feeling that a commodity levy would be a mechanism to bring the various industry parties closer together, to coordinate activities and generate a greater sense of direction and participation. The levy could be introduced by mid 2005.

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