Government consults on carbon sinks

Concerns over de facto nationalisation of forest assets were raised during a workshop held recently in Rotorua as part of the Government's consultation on ratification of Kyoto and internal policy to discuss forest carbon sinks, the *Carbon Monitor* reported.

The *Carbon Monitor*, a newsletter of Environmental Intermediaries and Trading Group Ltd, said that prior to the meeting cabinet discussion papers had been released on this issue.

Part of the Cabinet discussion centred on questions over the proportion of the carbon creditable to be retained by the forester.

"This raised the ire of most of the participants as this was perceived as a nationalisation of an existing right."

Recent newspaper reports had stated the Minister for the Environment was looking at retaining the credits from forestry for the Government. While these reports were rejected as inaccurate by people actually present at the briefings, the Cabinet Papers signalled a question as to the government's intentions in this area.

"New Zealand has to deal with the issue of the large reduction in ruminant methane from decreasing livestock numbers. This reduction is similar to the reduction in industrial emissions in Russia and the Ukraine, and is likely to be claimed by the Government as its own."

A number of issues complicated the retention of part of a forest based carbon credit by the Government, the *Carbon Monitor* said. These included the ability of the owner to choose harvest date and the need to repay credits. The risk and liability associated with the credit was also a factor, as was who was liable for the Government credit shortfall if the forest was lost.

"The issue of the indivisibility of the credit and the actual timber also raises questions of ownership and property. Claims for compensation on the basis that the Carbon is being nationalised are also likely."

There was also good news on the development of a system to take into account wood products and use as opposed to the current deemed emission on harvest. The expectation was set that wood product use would be a factor in second and subsequent commitment periods.

Copies of these papers can be sourced by contacting EITG or Caren Inwood, Communications Adviser, Climate Change Ministry for the Environment, PO Box 10-362, Wellington; email **Caren.inwood@mfe.govt.nz**

Industry challenge highlighted

The challenge facing the industry was highlighted at the annual meeting of the New Zealand Forest Owners Association held in conjunction with the NZ Forest Industries Conference at Auckland on October 5. In his opening remarks, president Peter Berg noted that the recovery of the Asian economy and the decline in the value of the New Zealand dollar saw a welcome recovery in forest products returns. Between June 1999 and June 2000, total export earnings from the forest sector increased from $2.45 billion to $3.11 billion - an increase of 26 per cent over a 12-month period.

Associated with this was a record harvest from the country's forests - more than 18 million cubic metres over a 12-month period.

"This level of activity, and the further major increases in the volume of timber coming to harvest, has focused attention on the ability of the infrastructure - particularly roads - to handle the increased volume."

Further growth in the sector would require a climate that was conducive to business. This meant making the issue a political priority at central and local government level, commitment, strong leadership and consistency.

The previous government used to say its commitment to exporting was expressed through the creation of an environment conducive to business, and for a period in the last 1980s and early 1990s, this may have been true. However, the lessening of priority over time had seen New Zealand rapidly weaken in the international competitiveness stakes.

Govt relations reviewed

The New Zealand Forest Industries Council (FIC) has been encouraged by its relationship with the current government.

In his report at the annual meeting of the FIC, held in conjunction with the industry-government partnership conference, chair Devon McLean said the organisation was restructured three years ago.

This led to changing its membership to a mix of major companies and key sector associations providing linkages to small to medium-sized enterprises, and new and emerging sectors involved in forest and forest products manufacturing. the FIC established a combined national office with the NZ Forest Owners Association, with joint task groups in the environment, safety and communication areas to raise the profile of the forest industry at a national level.

The FIC's ability to communicate with key audience groups, such as the government and policy and deliver agencies on the industry's development needs, had been greatly enhanced.

"This is especially important given the change of government in November [1999] and the new approach to economic management and industrial and regional development adopted by the Labour/Alliance Government."

The change of government had seen the FIC take every opportunity to ensure the new Ministers and lead officials fully understood the domestic and international development needs of the industry.

"The response to date has been positive and we look forward to continuing to work with the leaders and their support teams to the benefit of the industry and to the New Zealand economy as a whole."

Log prices under scrutiny

A column in the *National Business Review* noted that Carter Holt Harvey had been buying every log it could, pushing up prices by as much as 30 per cent. Although the tactic to raise the price at which CHH could sell its own logs in the domestic market looked highly successful, the columnist suggested it was also a risky game.

The risk was not so much in the reaction of the Commerce Commission to a large player throwing its weight around. There seemed to be sufficient alternative supplies to diminish action under the Commerce Act .

Nor was it the possibility of losing market share, as the theory was that this would be offset by the higher market price.

The problem for CHH was in the looming "wall of wood" as production doubles in the next two decades. Although CHH's own harvest would increase rapidly, many more players would come on to the market and competition would grow stronger. However, given the limited large-scale investment in forest products, domestic demand was not likely to rise as much, so the extra harvest would have to be exported.

Forests Rights Issue

Fletcher Challenge Ltd's decision to go for a rights issue instead of quitting its Fletcher Challenge Forests (FCF) follows an unsuccessful sale round.

FCF is to be recapitalised by as much as $557 million as part of the FCL group's restructuring announced in October. The recapitalisaiton was to include a two-for-one rights issue at 25 cents a share, raising $427 million. Newly created Fletcher Energy offshoot, Rubicon, was to inject a further $90 million into FCF through a share placement.

Rubicon was also to be buy FCF's biotechnology and South American assets for $80 million, which included assuming a $40 million liability.

The new capital raisings would improve FCF's debt to total capitalisation ratio from 34.7 per cent to 13.5 per cent. Total liabilities will fall from $1.1 billion at June 2000 to $726 million. FCF may use some of its proceeds from the recapitalisation to reduce senior bank debt of the Central North Island Forestry Partnership, providing its partnership, Chinese corporation Citic, makes the same reduction.

Prices for its products were relatively low, the company said, and this had been reflected in the offers from third parts interest in buying FCF.

A Commerce Commission rejection of the plan involving Fletcher Energy cast a shadow on this latest plan. However, FCL has said it could proceed in a different form.

Longer Logging Trucks?

A suggestion has been made that logging trucks should be extended by four metres in an effort to make them more stable and less likely to roll. The proposal has come from Cater Holt Harvey, which wants to extend the length of jinker pole trucks from 20 metres to 24 metres and truck and trailer combinations from 20 metres to 22 metres. The allowable weight would not change but the height of the logs would have to be reduced as a result of the longer vehicles,.

The *Rotorua Daily Post* quoted CHH representative Rick Walden as saying there were advantages to road users if longer trucks were allowed on public roads. Statistics showed truck roll-overs happened more than once a week and logging trucks were three times more likely to have an accident than other combination vehicles.

The trucks would be more stable because the centre of gravity would be lower, Walden said.

Forest Rates Recalculated

Local bodies in the Rotorua region are starting to calculate rate refunds to forestry companies following a decision in the Court of Appeal, the Daily Post reported. From 1992 to the 1999/2000 financial year, all councils in New Zealand are to refund adjustments to the land valuations of forests. That could mean refunds totalling up to $250,000.

A level of refunds was set through a test case in 1992 using the valuations in Taupo's Tahorakuri forest collected by the Taupo District Council, Quotable Value NZ's rating valuations manager in Rotorua, Mark Johannsen said.

A representative body of forestry companies had objected to the land values being set by the property value service Valuation NZ, now known as Quotable Value NZ. After companies made objections across New Zealand, the test case was heard by the Land Valuation Tribunal in Rotorua, eventually ending up before the Court of Appeal in late 1998.

A method was clearly set out by the Court which gave guidelines on how forestry land was to be valued. Councils would not be dealing with a huge amount of information by revising rates set on each forestry property over three rating periods, Johannsen said.

Chandler Fraser Keating Board Restructuring

Geoff Manners, until recently a member of the DANA group, has joined forest industry consultants, CFK as a senior consultant. Geoff brings with him a wealth of experience international forestry, as well as wood supply management, harvesting and logistics, further strengthening the CFK group as it continues to expand its practice boundaries. He will operate from the Rotorua CFK office but will participate in assignments throughout New Zealand and overseas.

In announcing additions to its board, CFK is also pleased to welcome as a director, Mike Colley (pictured below), who has been a senior consultant with the company for some years.