Bush Telegraph

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An occasional newsletter about topical matters in the contracting industry.

ACC NEWSFLASH

An urgent heads up for all forestry contractors. Latest indicative figures from ACC website of likely levy rates from 1 April 2010 are:

Forestry - CU 03020

Work levy rate $5.26
Residual levy rate $2.45
HSE $0.05

Total rate is $7.76 + GST

This compares to $6.76 + GST for the March 2010 year, an increase of nearly 15%. This will result in an increase in per man day ACC costs of between $2 - $3. For a 10 man crew this could result in an increase in ACC levies of up to $7,000 per annum.

The news for silviculture contractors is even worse, their new indicative rates being:

Silvicultural - CU 03030

Work levy rate $5.30
Residual levy rate $1.78
HSE $0.05

Total rate is $7.13 + GST

This compares to $5.87 + GST last year, a 21.4% increase. Allowing for lower man day rates in silviculture, but a bigger increase in levies, we would anticipate a similar annual cost increase for the same 10 man crew configuration.

I stress that at this time these rates are indicative. They will not be confirmed until 1 April but these figures are currently indicated as likely on the ACC website.

What to do?

1. Make sure that your costings are updated to recover these increases, otherwise you are likely to wear it for the next 12 months.

2. Consider the WSD/WSMP schemes, discounts of 10-20% are now even more worthwhile!

3. Revisit and re-cost your configuration and consider what labour savings may be made if (further) mechanisation were incorporated. While the ACC in itself is hardly likely to justify mechanisation, experience suggests that looking at the operation holistically, and considering other issues e.g. potential improvements in productivity, especially in regions where there are labour issues, can often justify such an approach.

COSTINGS

The updated Business Management for Logging is now available for $60 (including GST and delivery). This is 179 pages of detailed logging and costing information, and includes completely revised machinery and crew costing model and your own XL costing model to “play with”.

It is important to review your costing regularly. While most forest owners now incorporate monthly or quarterly fuel adjustments, most other adjustments are on an annual basis. There is therefore only one chance to get it right. In particular machinery prices continue to strengthen and interest/insurance rates firm. Failure to reflect these in your rates means contractors can easily fall behind and have an equity shortfall when machinery replacement comes around.

For example latest Department of Statistics figures for the 12 months to December 2009 show increases of:

Forestry wages	1.8%
Forestry capital cost index	5.0%

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One issue we have seen is some contractors not updating for impact of four weeks annual leave. And of course there are KiwiSaver costs that need factoring into your man day rates.

The BGL team can assist in reviewing your costing if you don't like dealing with all those calculations ! And what's more we can provide an independent benchmark as to what is happening around the country.

WE ARE ON THE MOVE

In fact we have moved, to temporary premises at 100 Horomatangi Street Taupo, while our new office is being built. Immediate benefits of that for us are a quieter working environment, and for you much better parking, right outside the door and no parking Nazis to put up with.

And to reflect our countrywide presence, and make things easier/cheaper for those outside Taupo we now have a freephone number, 0800 378 5270. Local calling number has changed to 376 0092.
Fax (07) 378 2044 and our website
www.Blackburnegroup.co.nz remain the same.

FUTURE FORESTRY FINANCE CONFERENCE

This two-day conference organised by FIEA was held in Auckland last week. Many interesting papers on forestry investment, TIMO's, other forestry regions, Maori forestry etc and more than happy to update any who might be interested in those topics if desired.

But the underlying theme coming through (and our own recent direct discussions with major exporters confirm) was of an underlying solidity in forest markets and demand. China justifiably gets all the headlines, but Korea and Japan remain solid and India continues to grow, and is now our third largest export market.

Our growing dependence on China will always be of concern and anyone in the industry with even a short term memory will have seen any number of brief market pick-ups followed by significant crashes. And while there is no question that markets will always go down, as they go up, when you look at the context of China i.e.:

- an 8 - 10% annual GDP growth target,
- concerns about reliability of Russian supply (and pricing)
- reorientation of the processing industry towards southern China and access to ports

The situation looks as encouraging as it has been for many years.

What was of particular significance to me was advice from a major exporter that China now recognises it needs to take all of the log, including pruned butt, not just the lower grade wood traditionally exported to this market.

Even freight and exchange rates seem to be behaving reasonably!

WHAT DOES THIS MEAN TO CONTRACTORS?

You will be aware that in most parts of the country demand for contractors is considerable. 2009 was a solid production year and 2010 is continuing along those lines, with little sign of change. Accordingly many contractors are being requested to increase production from existing crews, and/or start new crews.

While such options may be attractive, and the gear may be available the critical resource will be good people to run such operations. If you have any doubt about this I suggest it is preferable to run one well-managed and performing operation than two half arse ones.

The above market demand is reflected in returns to forest owner's, with net stumpage pricing increasing rapidly. The historic cry from forest owners that "we are not making any money and can't afford to harvest this forest if you don't drop rates" (and believe me I have heard many variations of that over the last few years -- funny how they seemed to think contractors should carry the loss so they won't?) would now have to be wearing exceptionally thin.

Professional contractors who have been hanging on through the tough times maintaining skilled and experienced crews should now ensure they are getting an appropriate day rate and return on those skills.

BUY/SELL/EXCHANGE

While assisting contractors throughout the country we often hear of gear wanted, or available for sale. We have now established an internal database where contractors can list what equipment they wish to sell, or buy. Where there appears a match we can introduce the two parties so they can negotiate their own terms.

There is no charge/commission by us on sales, it is a service we are happy to provide. If you wish to participate please advise appropriate machine details for either a possible purchase/sale e.g. make/model/hours/price range.

Regards

Mark Blackburne