

Privatisation of State forests

Sir,

John Purey-Cust was so disappointed when he had no response to his article "Privatisation of State forest plantations – did we do it right?" (February 2001, Volume 45(4)) that he wrote "Did we do it right? Part II" (February 2004, Volume 48(4)). He has repeated an assertion that there should have been a wide range of sale sizes when the former State forests were sold in 1990 and 1992.

In the 1990 sale, 91 units were initially offered, ranging in size (stocked area) from 51 hectares up to 132,112 hectares and totalling 554,214 hectares. Prospective purchasers were able to bid for one or more of the forests and were allowed to place as many bids as they wanted. Thus, for example, if a bidder had really set his/her sights on one particular forest and was quite keen to have a bit more resource as well, it was possible to place a bid for forest A, another for forests A, B and C, and another for A, C and D. Because of the wide range of parcel sizes and the flexible bidding system, potential purchasers could mix and match to their heart's content.

Prior to bids closing, some forests had to be withdrawn from the sale for a variety of reasons, including threatened legal action. However, there were still plenty of parcels available, covering a wide size range. The main criterion for a successful purchase was the highest bid, so long as that bid reached the government's price expectations. Evaluation of bids included an optimisation model for situations where the individual forests were included in different bids involving a range of other forests.

Several small forests were sold to local (NZ) investors or to small sawmilling companies. Forests were also sold to larger New Zealand forestry companies, as well as to a number of overseas companies. Both of the "corporate giants of the central North Island" referred to by John were significant players in the sale, well before one of them became involved with Kaingaroa.

In John's own region, Otago-Southland, there were 16 separate parcels, ranging in size (stocked area) from 279 hectares to 10,592 hectares. This should have been sufficient to whet the appetite of any serious bidder. During the 1990 sale, bids for only three of the Otago forests met the Crown's price expectations, two to one bidder and the third to a bidder who had parcelled it with several North Island forests. No bids were successful for any of the Southland forests.

It is not correct to assert that local companies were excluded from the sale, that bids had to specify processing intentions or that there was not a wide range of parcel sizes.

While the forests in the 1992 sale were essentially offered as a single package (of 36 forests across six regions with a stocked area of 114,000 hectares), the information memorandum also included the possibility of bids being made for regional groupings.

John is also incorrect in believing that Silverpeaks was the first and only former State forest to return entirely to New Zealand ownership and management. The land under the former State forests on the West Coast is owned by Ngai Tahu and the trees are owned and managed by Timberlands West Coast. Both Ngai Tahu and Timberlands are New Zealand owned entities. New Zealand companies or investors own the forests on two other blocks of land transferred to Ngai Tahu. In the North Island, part of Pureora forest (land and trees) was transferred to Pouakani as part of a Treaty of Waitangi settlement.

John also describes another problem that has exercised my mind in recent months. This is the attraction of the media to two large listed forestry companies, and the impression that this has given a bad press to forestry generally. He also talks of a long held axiom that forest and industry are best kept separate.

When I was part of the New Zealand Forestry Corporation team negotiating with Treasury for the purchase of the State forests in 1986/88, and again during the forest sale process in 1989/92, one of the valuation inputs we needed was an appropriate discount rate. At the time we searched the world for examples of pure forest growing companies (which was primarily what NZFC was to be, at least initially). We soon discovered that this was a very rare beast. Forests in private ownership at that time (or more particularly forests for which data were available) were generally owned by companies also involved in processing. The conclusion we drew was that it must be less risky to own a significant part of the raw material required for a processing plant, rather than having to rely on supply contracts with other forest owners. The current situation of separating forest ownership from processing plant ownership seems quite contrary to that conclusion.

In a recent article in the Dominion Post, the NZIF noted the way in which business commentators and share market analysts report on listed forestry companies but largely ignore unlisted companies. Because the commentators work in the financial market environment (where long term probably means next lunch time) their reports seem out of step with a biological product that takes 25 years to mature. Many of those who invest in listed companies obtain much of their

information from these reports, so their inability to describe the forest growing process accurately means the investors finish up with a wrong impression, there are demands for the trees to be sold off for some short term capital return to shareholders and the shares are written down if this does not happen. It must be tough being forestry-trained managers in those listed companies and I can only admire them for persisting.

On the other hand, there are other forest companies in New Zealand which, by being unlisted, are able to go about their business with much less fuss and attention. Their shareholders will have invested in forests because they understand the biological process and they are prepared to face the ups and downs of the market that occur during one rotation of a crop.

As to John's specific question "did we get it right", I think it depends on your point of view. Taxpayers should be pleased that the forests were sold when they were and for the price that was received (and that was an outcome of the way it was done). Whether or not the government made good use of the funds received is another question altogether. The government has avoided the risks of ownership through the recent troubled times for forest owners. Shareholders in some companies that acquired forests may not be so happy, but others might be very pleased. Since the sale, some communities have benefited from the employment opportunities offered by new processing plants, while other communities have strenuously resisted such developments. Finally there are those whose lives were shattered by the process and still wish it had not happened at all.

By the mid 1980s, there was probably little reason for the government to be a major player in forest ownership in New Zealand. Along with help from the private companies, a forest resource had been created that not only met all of the country's domestic wood needs but also provided a huge resource on which an export industry was developing and with plenty of scope for expansion. There were no threats to the national security of supply that has driven government forest ownership in some countries, but there was risk associated with processing and marketing the resource. This is an activity that is probably best left to private enterprise. The sale of the forests would allow government to focus on other, more traditional roles like health, education and welfare.

The sale itself was a complex exercise and had to be completed in a relatively short period, dictated by New Zealand's three year election cycle. I may be biased, but I believe that it was a successful sale, it did provide opportunities for involvement by a wide range of players (the fact that some chose not to participate was not really the fault of the sale design) and it has led to a diversification of forest management and marketing in New Zealand. The successes and woes of those who purchased the forests are a function of their commercial decision making, not a consequence of the sale. The current task for the sector as a whole is to lift the overall return that "Forestry New Zealand" makes as the potential export volume climbs from around 73% of the harvest volume today to about 87% by 2020.

Andrew McEwen

What exactly do we expect of our forestry graduates today?

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mentoring programmes designed to provide the graduate with as wide an experiential base as possible in the first two years of employment. I then listed the usual employer expectations such as report writing skills, numeric and computing skills, basic chemistry, biology, soils and ecology knowledge, GIS skills, silviculture and harvesting knowledge, basic forest engineering and business management knowledge, good interpersonal communication skills, the ability to work as part of a team, to be a quick learner and to be able to resolve solutions from first principles etc.

In preparing this list, I became very aware of the vagueness surrounding the depth of the minimum basket of knowledge and skills a

forestry graduate should possess. It is important to get clarity on this issue especially as the Institute of Forestry makes progress toward establishing an accreditation scheme for professional forestry programmes. Accreditation of entry-level educational programmes is one means the Institute has of protecting professional standards and should link in closely with its member registration requirements. I look forward to receiving feedback from members of the Institute on this issue once a draft profile of the competencies of a graduate forester has been produced.

I enjoyed my visit back to the School – it appears to be in good heart and in good hands.