

# New Zealand's State Forest Assets 'Sale of the Century'

On October 25, 1989 at the James Cook Hotel, Wellington, Alan T. Gibbs, Chairman, New Zealand Forestry Corporation Limited, announced what he described as "this sale of the century", the upcoming sale of the Crown's plantation forest assets. He never defined his terms. It was a prophetic and ironic choice of words with several different possible interpretations. While sale can mean "the transfer of ownership of and title to property from one person or organisation to another for a price", it can also mean "a selling of goods at bargain prices". "Sale of the Century" itself is a popular New Zealand television game show in which prizes are purchased for considerably less than their retail value.

There are many concerns about the sale. Most have been expressed by others. None has received a satisfactory answer.

- Is the market timing right?

What is the market value of a forest? It's a question that is not easily answered. Forests are not commonly bought and sold every day. They are not like domestic real estate. There is little market transaction evidence to help guide the buyers and sellers.

Is the market for forests up or down? Is this a good time to be selling? Without any idea of the market value, and with few if any transactions to base a decision on, it is impossible to say.

General world financial markets are strong, despite their October dip. But will they be even stronger next year? How about in 10 years? The short answer is that no one knows.

Will the simultaneous releasing of half the country's exotic estate depress the market for forests in any way? Again the answer is unknown. Basic supply and demand theory would suggest that it might. But it depends on the overall size of the market.

New Zealand is in a position where (1) the value of the forests is not known, but is known to be increasing as the forests near maturity; (2) the state of the overall market for forests, either domestic or world-wide, is not known, but it is suspected to be increasing; (3) given this lack of knowledge, the forests are all to be sold at once.

## Why?

A prudent financial adviser would recommend that given these uncertainties and the trends, the sale of assets now should be only a partial one. Some assets should be held in reserve. Selling them all forecloses all future options. If you suspect the market will go up but you want to protect yourself, it's foolish to sell *all* your assets at once.

- Is the sales method right?

The Crown is selling cutting rights to largely immature forests. What is the purpose of this? Why sell rights to forests that are not ready for use? No industry needs to fix its costs 15 or more years in advance. Industry does need assurance of supply, but the assets do not *all* have to be sold immediately to accomplish this.

Evidence suggests that the market places large discounts on immature forests. This means that forests could be expected to increase in value rapidly as they near maturity. There are too many uncertainties with immature forests, not the least of which is the political and tax system which will be in place when the forests are harvested. For example, New Zealand has experienced at least 19 tax regimes for forestry since 1965. To reduce the uncertainty, and increase the price received, only mature timber should be sold.<sup>1</sup>

- Is the intention right?

There are two facets to this: the reason for the sale and Government's use of the proceeds.

- In discussing the reasons for the sale, Alan Gibbs, Chairman of the New Zealand Forestry Corporation, concluded: "Past methods and past organisation are not good enough - it's as simple as that."

Mr. Gibbs seems to be saying that his company, the Forestry Corporation, was not good enough. Wasn't it? The Hon. Stan Rodger, Minister for State Owned Enterprises, had nothing

but praise for the Corporation. At the sale launching he said: "The New Zealand Forestry Corporation has demonstrated, in the two and a half years it has been in operation, an expert and unparalleled understanding of the nature of our forestry industry. In that short period it has succeeded in turning a 70-year deficit in State forestry into a healthy surplus."

The Corporation never showed a return on assets because it was never given the chance to own them. Was the Corporation good enough? In the end, it probably was not good enough for the export-oriented future Mr. Gibbs outlined for the year 2000 and beyond. But then, it had 10-15 years yet to prepare for that future. Maybe that wasn't long enough for him. We'll never know if the Forestry Corporation could have been good enough. It won't be given the chance.

- Government is going to use the money from the sales to retire debt. That would be reasonable, but even the most conservative estimates are that the forests are earning more than current Government debt is costing. If an asset is earning Government more than it costs, why sell it?<sup>2</sup> The only possible reason is that it is worth more to the private sector than it is to Government. But no one knows how much it is worth to the private sector. Why sell it *all* now?

- Will the sale provide the maximum benefit to the people of New Zealand?

The forest resources are one of the keys essential to the development of New Zealand's forest industry. There is tremendous opportunity for investment in downstream processing. The forest resources could be the catalyst for industrial development. There is no guarantee that the sale of *all* the cutting rights now will encourage *any* of this development.

- Will there be future forests on Crown lands?

<sup>1</sup> Note that this would not prevent longer-term contracts for supply being signed. Some supply guarantees are essential for industrial development.

<sup>2</sup> If older, higher cost debt is to be retired, it would make more sense to refinance it at lower rates and to hold on to a high-earning asset.

Except on erosion-prone lands, there are no replanting restrictions. There are not even any restrictions regarding "wise land use". Mr Gibbs has himself commented that the best use for most of these lands is forestry. If that is the use, then replanting restrictions would not diminish the sale's value. In the future these restrictions proved too restrictive, we have no fear that they couldn't be changed.

While purchasers will have to make annual rental payments these alone will not be any incentive to replant. Fair market rental on forest land is insignificant when compared with the other costs involved in forestry. If a company wanted to cut out and get out it would cost them (at most) next to nothing to do so.

The assets are relatively young. Only 10 per cent of the trees are 30 years old or more and 50 per cent are 14 years old or less. If the assets are going to be stripped, they will at least be stripped slowly.<sup>3</sup>

● Was the process right?

The Labour Government has decided to dispose of an asset which was created over several generations and Governments. It is an important decision. It is a decision which deserved open public discussion and comment *before* the decision was made.

At the very least, selling these assets should be a bipartisan effort. It isn't and National Party philosophy towards the sale and their policy towards the use of Crown forests and forest land differs from Labour's. National's SOE spokesman, Ian McLean, has said his party would, if elected, renegotiate unacceptable contracts. He further stated that a National Government would pass laws enforcing people who bought forests and logged them to replant.

Leader of the Opposition, Mr. Bolger said that it would be a disaster if a large portion of the State's forestry asset were sold to foreign buyers who then exported the bulk of the forests in the form of logs. He also feels that it is essential that there be an obligation on buyers to replant.

Will the sale of the Crown forest assets result in a fair and reasonable return to the people of New Zealand for their long investment in plantation forestry, or will it be a bargain for the purchasers? No one knows and with the sales occurring all at once, there will be no second

## RECENT EVENTS

# Commonwealth Forestry Conference

The 13th Commonwealth Forestry Conference was held in Rotorua from September 17 to 30 and attracted more than 220 delegates from 33 countries.

Theme for the conference was "Forestry - A Multiple-Use Enterprise".

There were three major conference sessions relating to the need for accountability in multiple-use forestry. These were concerned with:

- the contribution of technical innovation in developing and extending multiple use and the benefits which accrue;
- problems and solutions in description, assessment and valuation of forestry benefits;
- accountability in multiple-use enterprises.

Other important sessions were:

- Forestry case studies which covered research, education, rural and social development, community involvement, extension programmes, valuation procedures, management practice and a corporate approach on multiple-use forest resource management;
- Commonwealth initiatives on the Tropical Forestry Action Plan.
- Australian experience in plantation management.

### RECOMMENDATIONS

Among the recommendations adopted by the conference were some considered

chance. The only thing which can be said with certainty is that once the sales process is finished, the uncertainty surrounding Government's management of these assets will be finished.

Government's involvement in New Zealand's plantation forests has spanned at least 70 years. Over the next 10-15 years, the production from those forests is expected to double. It may triple over the next 30 years. Looking from the past into the future over 100 years of plantation forest development why is June 30, 1990 (the closing date for the bids) the optimum day to hold the "sale of the century"?

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of sufficient importance and relevance to be referred to the attention of the Commonwealth Heads of Government Meeting scheduled for October 1989 in Malaysia.

### Global Warming

Recognising the effect of rising carbon dioxide concentrations on global climate and the potential dangers that climate change poses for mankind, the contribution that forests and wood-based products make to the storage of carbon, and that the manufacture of forest products require less fossil fuel and hence releases less carbon dioxide than the manufacture of many other substitute materials, the conference recommended to the Commonwealth Heads of Government Meeting that they urge member countries to institute programmes and incentives to promote both forest restoration and afforestation, and to encourage the greater use of wood products to ameliorate global warming.

### Tropical Forestry Crisis

Recognising the increasing rate of loss of tropical forests, with consequent effects on biodiversity, global warming, and the need to safeguard the welfare of indigenous populations, the conference resolved that immediate and decisive action was needed to address the unprecedented pressures that now threaten tropical forests.

Following are some of its recommendations of particular interest:

- that the conference recommends to the Commonwealth Heads of Government meeting that they urge countries to institute programmes and incentives to promote both forest restoration and afforestation, and to encourage the greater use of wood products to ameliorate global warming;
- that the conference strongly supports the Tropical Forestry Action Plan (TFAP) initiative while recognising that there is scope for more collaboration with non-government organisations, and a closer working relationship between foresters and environmentalists, and for refining targeting to ensure its effectiveness;
- that the Commonwealth Heads of

<sup>3</sup> It must be noted that the New Zealand forest industry has a long and proven history of responsible management of their plantation forestland. Not all overseas companies have the same record.