

# RECENT EVENTS

## Sale of State Forests – an update

(Based on an interview with Corporation Staff on April 27, 1990)

According to Mr Andy Kirkland, Managing Director of the Forestry Corporation, the sale is on track, although there have been changes in the way some forests are to be sold. In support of the sale Mr Kirkland observed that past long-term timber sales had not produced a satisfactory return to the State, the forest owners; the fundamental question was how to get a more efficient commercial relationship with the wood-using industry. This involved how most effectively to transfer the property rights to companies investing in processing and ensure a high return from the State's investment. He argued that most people rejected the idea of the State being involved in wood processing themselves, but it was necessary for investors to have security and flexibility over the supply. Selling cutting rights was the only option if the State was not to be an investor in industrial development – the question was what form of sale was the best option.

On the question of overseas buyers not investing in processing but rather sending logs offshore the Corporation had been promoting the forests as being most suitable for long-term sustained yield management. Most potential buyers had expressed interest in being in New Zealand in the long-term and doing the processing here. The age structure of the resource generally meant that the forests were not open to rapid exploitation. However, local processing was not a criterion for choosing between applicants. There was considerable interest in the pruned resource.

### **New Zealand Timberlands (Bay of Plenty) Ltd**

This was formed in April in order to allow more flexibility in the sale process in the central North Island where the Tasman contracts had to be satisfied. The new company includes seven forests – Kaingaroa, Whakarewarewa, Waimihia, Rotoehu, Horohara, Marotiri, Crater and Horohoro.

It was formed by transferring long-term obligations (under the 1986 S.O.E. Act) and cutting rights (under the 1989 Crown Forest Assets Act) to the new, fully owned subsidiary of the Forestry Corporation. The exact details have not been made public as the agreement with the Crown must first be tabled in Parliament. It has been reported that they were transferred for a nominal \$1.00

pending the establishment of value through the asset sale. These cutting rights and other assets are to be sold by negotiation rather than through the sealed bidding process. The exact method has not been prescribed.

According to Mr Kirkland, no formal injunction on their sale had been taken out by Tasman Forests Ltd, although they have filed papers with respect to their interests in the courts. Carter Holt Ltd have filed papers with respect to Hawkes Bay and Canterbury forests. (Subsequently it has been decided that the sale of these forests also will be handled in the manner described above.)

### **Pricing Questions**

The Corporation does not have a minimum acceptable price for each forest. It is expected that for some forests it will be possible to get a good fix on market value because there will be genuine competition. The relative value of forests, according to Mr Kirkland, is easier to establish than absolute values, and comparison of sales for which there is competition will assist in assessing bids for less keenly sought forests.

The Corporation is not unduly concerned about the effect on saleability of the Crown's assets of the concurrent sale of Elders – NZFP, nor the sale of Telecom.

### **Covenants**

Final details of the covenants are to be



**Mr Andy Kirkland, Managing Director of the Forestry Corporation.**

announced shortly. There has been considerable consultation with environmental and recreational interests.

### **Crown Forestry Licences**

No final decision has been made on who will manage these licences when the Corporation goes out of existence but it is most likely to be a land-administering Government agency.

### **Timing of Sale**

The Corporation's current contracts for the management of the forests and for their sale expire on March 31, 1991. According to Mr Kirkland it will be up to the Government to decide what to do if any of the sales are not finalised by that date or if any forests remain unsold.

It was noted that Waipoua and Waiuku Forests were not being sold because of their importance as sites of wahi tapu.

### **Staff Redundancies**

Mr Kirkland said that Timberlands staff will be made redundant when no longer needed by the Corporation. Redundancy payments, which are spelt out in employment contracts, are not tied to the price received for the forest sales. Some staff had been laid off already as the workloads under liquidation management declined. Prolog may be sold as a going concern.

It is anticipated that most staff will be made redundant at the time of transfer of forests to the new owners. Redundancy payments will not be influenced by whether a person is subsequently employed in the sector by the new owners or not.

### **Current Management Questions**

Mr Kirkland denied that overcutting or other poor forestry practices were being undertaken by the Corporation. He restated his willingness to discuss any specific allegation with the industry, or the Institute of Forestry or other persons. The increase in log sales was a normal commercial response to a resurgence in this trade, and revenue to the public coffers from operations was just as effective as that which would be earned through the sales of the forests. Mr Kirkland suggested that the Corporation may have actually been conservative in its cut in some situations such as mature Douglas fir forests of the Bay of Plenty.

**D.J. Mead**