

The changing face of forest ownership

Bruce Manley

We have seen major changes in plantation ownership in New Zealand in recent years. In 1987, when the total plantation estate was just under 1.2 million ha, the Forestry Corporation succeeded the New Zealand Forest Service in the management of 550,000 ha of state-owned plantations on Crown land together with a further 50,000 ha on leased Maori land. Today, because of privatisation, and because virtually all subsequent new planting has been by private owners, the State owns less than 5% of the 1.8 million ha plantation estate.

The other well-publicised change has been the emergence of "small-scale" private growers as a significant entity. This ownership category includes farm foresters, individual investors, partnerships and groups of investors with an interest in the forests promoted and managed by forest investment companies.

Although less dramatic than the changes of the 1990s, there are ongoing changes in forest ownership today. Some current trends are:

- reduced forest ownership by large public companies;
- increased forest ownership by TIMOs (Timber Investment Management Organisations);
- continuing new planting by "small-scale" private growers but at a lower rate than in the 1990s;
- Maori land owners taking a greater interest in forest ownership; and
- private U.S. companies purchasing both existing forests and land for afforestation.

These trends are reviewed in this issue of the Journal. Collectively they are resulting in a greater diversity of forest ownership in New Zealand and changing the nature of the plantation forestry sector.

Dennis Neilson describes the international trend for forestry corporates to reduce their ownership of forest and presents reasons for the changes. One example of the trend in New Zealand has been the recent sale by Fletcher Challenge Forests of forestry rights over mature stands in the Tahorakuri and Tauhara forests.

The purchaser of the forestry right was UBS Timber Investors, a U.S. TIMO. TIMOs are investment advisors and managers who purchase timberlands on behalf of institutional investors, often pension funds. Colin McKenzie describes the development of TIMOs as investors in timberlands around the world, increasingly in New Zealand. He notes that timberland investment is both long-term and capital intensive and observes the advantages that TIMOs have over corporates; namely the absence of debt and U.S. tax exemption.

Farm foresters also have advantages over corporates according to Denis Hocking. He suggests that these include "greater acceptance of plantations as growth assets rather than cash cows" and "potentially lower growing costs through use of lower opportunity value land, labour and capital". He argues that a challenge is to complete the cultural transition in New Zealand to a

"balanced approach to land use, where a family forest might be seen as much the norm as a family farm...".

The increasing Maori connection with forestry is taking a number of forms. As a result of their treaty settlement, Ngai Tahu have become owners of a large area of plantation land which is leased to a number of forestry companies. The recent Ngati Awa settlement is another example of Maori becoming owners of forest land. However, there is also increasing ownership in the forest crop by Maori. For example, Ngati Porou, in a joint venture with Hansol, have afforested about 10,000 ha of their land on the East Coast.

Ngati Tuwharetoa have gone from being lessor's of their land at Lake Taupo and Rotoaira forests to being owners of the second rotation crop. Their desire to become forest owners is described by Geoff Thorp. He makes the observation that the owner's "link to the land results in management decisions targeted simply at maximising returns, rather than setting any hurdle rate of return below which a decision to get out of forestry may be contemplated".

A long-term view to forest ownership is also being taken by two U.S. companies who have recently acquired and established plantations in New Zealand. Both Blakely Pacific (19,000 ha of plantations) and Soper-Wheeler (14,000 ha of land) are family-owned businesses who have a strong interest in alternative species. Blakely Pacific, who also have radiata pine plantations, have established Douglas fir in the South Island, while Soper-Wheeler are planting redwood as well as Douglas fir. In this Journal Jim Holmes gives an outline of the philosophy and goals of Soper-Wheeler in New Zealand. One of the Soper Laws; "Buy what you need, but always pay cash" is a sober reminder that forest investment and debt can be an unhappy combination.

The entities that are increasing their stake in forest ownership (TIMOs, farm foresters, Maori and U.S. private companies) appear at first sight to be a disparate collection. One common thread is lack of, or limited use of, debt to finance their forest acquisitions and developments. This provides a greater ability to maximise long-term forest value rather than short-term cash flows. It allows greater flexibility in species selection and choice of silviculture. It also provides the opportunity to vary the level of harvest according to market demand and log prices; i.e. to realise the potential option value associated with forestry.

At a time when some analysts are preaching doom and gloom about forestry it is good to see such a wide range of entities so positive about the future of forestry that they are willing to put their money where their mouth is and invest in forest ownership in New Zealand.