

Central North Island forest ownership puzzle unravelled

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If, like me, the changes to forest ownership in the central North Island over the last few months have left you somewhat confused about who now owns what, the FIEA evening meeting in Rotorua on 6 April was definitely the place to be. Three speakers, Ian Jolly from **GMO Renewable Resources**, Bill McCallum from **Kiwi Forests Group** and John Galbraith from **PruTimber**, each representing a different 'new' owner, gave a series of short presentations about the changes that have occurred or are still occurring.

It was only a little over a year ago that the whole 275,000 hectares of forest – almost half the total CNI estate – was managed by just one company, Fletcher Challenge Forests (FCF). At that time things were relatively simple. The forest estate was split into two distinct parts – the 166,000 ha of the Central North Island Forest Partnership (CNIFP) which was on Crown Forest Licence land and the FCF estate of some 109,000 ha the bulk of which (73,000 ha) was on freehold land. The CNIFP forests were in receivership but were being managed by FCF on behalf of the receiver. FCF was, at this stage, still interested in re-purchasing the CNIFP forest assets. However, with the FCF shareholders' rejection of that option everything changed radically.

The first precursor to change occurred in January 2003 when FCF announced a US\$65 million sale of cutting rights to 8,940 hectares of mature age-class trees from its own forest estate to entities managed by the global timberlands investment manager UBS Timber Investors (which is now Global Forest Partners). That sale involved two separate transactions, one of US\$45 million covering 6,400 hectares in FCF's Tahorakuri forest and the other a US\$20 million for 2,540 hectares in the company's adjacent Tauhara estate. The total area involved in these sales represented approximately 8.2% of FCF's 109,000 hectares of planted forest estate.

If this first movement to ownership seemed relatively innocuous the next four months were going to prove much more tumultuous. Over this period management of the CNIFP was to be taken away from FCF, the receiver for the CNIFP was to set up a stand alone company, the Timber Management Company (TMC), to take over management of the CNIFP assets and FCF was to announce a change in company focus away from wood growing to processing. As a consequence

of the changes, FCF was also to announce at the end of the period that its forests were for sale.

On the night the first speaker was **Ian Jolly** from **GMO Renewable Resources**. This is the group that now manages Kaingaroa Timberlands – old TMC or CNI Forest Partnership forests – and perhaps in some ways the relationship between this group and the change of ownership is one of the more easily understood. GMO Renewable Resources is a Boston (USA) based TIMO (Timber Investment Management Organisation) with world-wide assets of \$65 billion. It has had a presence in the NZ industry since 1990. The actual forest assets have been purchased by Harvard Management Company – which is responsible for Harvard University's US\$21 billion endowment fund – and reputedly the price paid (to the Receiver) for the assets is of the order of NZ\$970 million. Basically GMO Renewable Resources' role is that of looking after the new owner's interests in the old TMC.

Possibly of most immediate interest and impact is the fact that Kaingaroa Timberlands has begun the process of increasing the mean rotation length of its forests. The target at this stage is a mean rotation age of 30 years (up from the current 26 years) and it is going to take around 6 years to get to this with, over this period, the annual radiata pine harvest being reduced by something like 400,000 m³/year from 2.4 million to 2 million m³/year. Overall the goal for the new owners of the CNIFP forests appears to be one of achieving a decent return through growing, active management and the harvest of tree crops.

Bill McCallum from **Kiwi Forest Group Limited** (Kiwi) was the second speaker. Four New Zealand-based investors (Trevor Farmer, Ross Green, Mark Wyborn and Adrian Burr) own Kiwi and, although its shareholders are each in their own right long term investors in New Zealand and have all previously worked together on a number of projects, Kiwi was formed specifically for the purposes of acquisition of the FCF forest estate.

When FCF decided to get out of forest growing the Kiwi group along with PruTimber were the successful bidders for all of the FCF estate – save Tarawera Forests Ltd – for a price of NZ\$560 million. Kiwi's primary interest is land not trees, so having acquired FCF's forest estate on 27 February 2004, Kiwi, on the 4 March 2004, on-sold the cutting rights to the standing timber that

Table 1: Who owns what in the central North Island.

| Organisation (TIMO) | Area For Which Cutting Rights Are Currently Held (Ha) | Owners Represented | Land owners |
|------------------------------|---|--|--|
| GMO RR | 166,000 (Kaingaroa Timberlands) | Harvard Management Company | Crown Forest Licences |
| Global Forest Partners (GFP) | 8,900 (Part of Tahorakuri & Tauhara) | TEAL 3 and TEAL 4 | Kiwi |
| PruTimber | 65,000 | Ontario Teachers' Pension Plan and Viking Global | Kiwi (freehold) |
| Hancock | 14,500 (purchased from Kiwi) | | Kiwi (freehold) |
| Hancock | 20,700 (Tarawera) | | Tarawera Forests Ltd (Likely to be Maori) |
| TOTAL | 275,100 | | |

it had owned for just 5 days to Hancock Natural Resource Group. Progressively as Hancock (and PruTimber) log the forest on the 73,000 ha of freehold land over the next 30 years, the land will be returned to Kiwi. As the bare land becomes available Kiwi intends to make a decision as to its best use – trees, pasture, lifestyle blocks etc.

Tarawera Forests Ltd is/was a 21,000 ha JV between Maori land owners, the Crown and Tasman Pulp and Paper (then FCF and now Tenon) set up in the 1960s. Hancock will become the owner of a one-rotation forestry right over the Tarawera forest estate purchased (from the 82.5% FCF-owned Tarawera Forests Ltd) for NZ\$165 million. It is likely that ownership of the land on which this forest is growing will eventually revert to Maori. Hancock has appointed Kiwi to manage Tarawera forest until June 2004 but what happens after that is one of those many questions that has yet to be answered.

The last of the evening's speakers, **John Galbraith**, from **PruTimber**, which is yet another Boston-based TIMO. PruTimber was part of the Kiwi headed consortium that purchased the FCF estate. PruTimber has acquired cutting rights to 65,000 ha of forests and 'ownership' to some (mainly JV) land. These assets were purchased on behalf of Ontario Teachers Pension Fund (78%) and Viking Global New Zealand Limited (22%).

The Ontario Teachers' Pension Plan is one of Canada's largest financial institutions, with assets of over Canadian \$68 billion of which Canadian \$1.9 billion are timberland assets. This organisation invests to secure the retirement in-

come of over 330,000 active and retired teachers from the Canadian province of Ontario. The other party to the sale, Viking Global New Zealand Limited, is a wholly owned New Zealand subsidiary of a fund managed on behalf of institutional investors by Prudential Timber Investments, Inc., which is headquartered in Boston, Mass., USA. Prudential Timber (PruTimber), which is not affiliated in any way with the United Kingdom based insurance company Prudential Plc., will manage the Viking and Teacher assets with PF Olsen & Co as the public face of that management.

Based on these talks the first thing that is obvious is that an understanding of the current CNI forest ownership requires one to distinguish between owners of the trees and ownership of the land. Over the last 15 years with the experience of Crown Forest Licences most New Zealanders have probably managed to get their head around that one. The other requirement though to fully understand the current situation is a need to distinguish between forestry manager, management organisation and ultimate owner. The TIMOs are management organisations rather than asset owners and typically they employ companies such as PF Olsen & Co as forestry managers. It is the clients of the TIMOs that are the ultimate owners of the trees (and in some cases land) that make up the forests. Table 1 provides a breakdown of who owns what in the CNI.