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 “selling of good 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 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.¹

• 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?² 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?

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

² 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. If 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 strip

- 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

The law, however, makes no provision for replanting. In the absence of a

The 13th Commonwealth Forestry Con-

Global Warming

Recognising the effect of rising carbon
dioxide concentrations on global climate
and the potential dangers that climate
change poses for mankind, the contribu-
tion that forests and wood-based prod-

- 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 indige-
nous populations, the conference recog-
nised that immediate and decisive
action was needed to address the unpre-
ceded pressures that now threaten
tropical forests.

Following are some of its recommenda-
ded 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 amelio-
rate global warming.

E.M. Bilek and D.J. Mead
School of Forestry
University of Canterbury

Tropical Forestry Action Plan.
Austrian experience in plantation management.

**RECOMMENDATIONS**

Among the recommendations adopted by the conference were some considered

of sufficient importance and relevance to
be referred to the attention of the Com-
monwealth Heads of Government Meeting scheduled for October 1989 in

Malaysia.

The 13th Commonwealth Forestry Con-
ference was held in Rotorua from Sep-
tember 17 to 30 and attracted more than
220 delegates from 33 countries.

Theme for the conference was “Fore-

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- that the manufacture of forest products
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