
SBC Warburg – advisor and agents for Forestry Corporation sale – Is there a conflict?

SBC Warburg have been appointed to:

- advise Government on the sale process, i.e. scoping the level of interest, best method of sale and likely level to be set for value of assets sold;
- act as agent for the Government if the sale proceeds.

This has been seen by observers as perilously close to a clash of interest for an organisation dependent on future assignments by maintaining a reputation for unassailable probity.

While it is a well-observed aphorism that the reformed poacher makes the best game keeper, it is a bit much to leave the stocktaking of the flock to the same game-keeper to provide a measure of his probity and effectiveness.

Doubtless SBC Warburg would feel hurt to be classified in the same category as a reformed poacher. There is still the need though to have some independent surveillance of their performance. I note that Mr Birch has said that they would be “subject to rigorous scrutiny by officials”. This presumes that these officials will be as knowledgeable as Warburgs in assessing their performance; which of course begs the question of why they need a skilled investment bank if they possess this knowledge. Of course they don't, and a likely outcome could be that officials are led to a decision by a process crafted by SBC Warburg. This decision may be, and in fact is likely to be, profitable to Warburgs in the second phase, the selling process.

Fees for such a role would normally reflect the skill of the “agent” and ability to find the likely markets for the FCNZ shares on sale. This fee would presumably be included in the estimate of costs of sale prepared in the first part of the “scoping” process. It would appear odd if, by them being appointed agent, and having to expend no further effort to find buyers, Government pay them a fee. It therefore appears to have effectively given them an unearned handout which comes out of the sale return with little added benefit to the taxpayer.

For evaluation of the bids received and a recommendation to Government of a successful bidder, knowledge of the part to be played by Maori would presumably be of value. The Waitangi claim on the land is said to have four claimants for every hectare of Kaingaroa. Local iwi have an expectation of involvement in the sale of shares of FCNZ as well. This com-

plex situation will stretch the wisdom of Government to arrive at a solution satisfactory to all New Zealanders while not necessarily selecting the highest bidder in cash terms. As this will no doubt affect the size of SBC Warburg's fee, there is, despite Mr Birch's claims, a very evident possibility of a clash of interest.

Since mid-March, when the issue was

first aired, there seems to have been a long period of quiet which presumably reflects SBC Warburg beavering away at beating up trade. We will be informed of the results when the process matures in August.

P.F. Olsen

Invercargill 1996 – What came of it?

The 1996 AGM and Conference has been and gone, and I enjoyed it. The winds of change are blowing again, nothing stands still, and who knows where we will all end up in 50 years' time. Metaphorically that is – I planted a red beech last year to house me till the last trump, but expect to be in it before then.

The Institute at its conferences tends to flog the industry horse, leaving farm forestry and the small grower to the Farm Forestry Association – come to their 1998 conference in Invercargill to hear about that side of things down here. As such, it misses out on much that is informative, entertaining and eccentric, but it does have a chance to put its finger on the mainstream changes which in the long run sweep all of us up.

As I heard it, and much simplified, New Zealand plantation forestry has reached a parting of the ways, and is splitting into two groups. One group, predominant at the moment and perhaps typified by the larger corporates and the Forest Owners' Association, sees forestry as a branch of agriculture, even to the extent of advertising a giant header mowing a forest. High-tech, short-rotation, vertically-integrated radiata industry is their theme song.

The other group is much more diffuse. Some just see a basic flaw in the argument and a chance to exploit it as a market niche. Others see higher productivity, of both quantity and quality, more interest and entertainment, and some may be just Luddites or millennialists who see (long for) doom in the agricultural model.

What will come of it all? Well, that's for the future, but as both Roger Sands

(Professor of Forestry at Christchurch) and Grant Rosoman (Greenpeace) told us, we are an international oddity in our preference for production from plantations with indigenous forest set aside for spiritual uplift. The prevailing orthodoxy is the reverse, and to the international bureaucracies that means we must be wrong; so our case has to be put, and the fingers (which we would all much prefer to give) will not do.

They also warned us of the dangers of trying to grow “tall wheat”. The day of reckoning for agriculture is nigh, a baleful green eye is on it, and we should beware of the wrath to come. Believe that if you like – when the history is written, the total failure of NGOs to face up to the environmental pressures of agriculture will certainly be the subject of much head scratching – but it still seems good advice.

Greenpeace Policy

Grant gave a different view when asked why Greenpeace New Zealand has a forestry policy but apparently no land-use or ag-chemical policy. He was tired, he said, of being asked why Greenpeace picked on forestry, and claimed that we did ourselves no credit by trying to sink to the agricultural level.

He went on to explain that it was his multinational's international policy to focus on forestry, and like it or lump it we were caught up in that. He was, he claimed – and I would believe him – making our case to be different, but in the end it seems it's all a kind of green pepsi, where you can absolutely rely on the same recipe, whatever the situation.

It was a good corporate answer, which disdained the question, even though it is one which has a great many foresters seriously puzzled and as such deserved a less casual (though still enlightening) answer.

Anyway, for me it clarified the purpose of his "Plantation Effect". I found Grant's arguments at the conference persuasive and far from radical, but I started off prejudiced by what he had written, and would have remained so had I not heard him. My view of that document as a useless mishmash, in which no forester is likely to find anything to help him do better, remains the same. But now I see that it was not written for foresters. It was a patch-gaining exercise to establish credibility within the organisation, and an attempt to gain entry to wider discussion.

The first is irrelevant to us, though worth storing away for future reference when Greenpeace raises other issues, and the second worked. We just have to remember that when all is said and done, Greenpeace is a multinational corporate and we can expect it to behave like the rest of the genus, relatively indifferent to local opinion, jealous of its brand name, and neither democratic nor accountable. We need to remember that, even when we support the cause of the moment.

But what pleased me most was to hear the opinions of John Warjone (Blakely Pacific), Andy Wiltshire (Rayonier NZ) and Paul Adams (Ernslaw One). All question holy writ – John and Paul by their support for longer rotations, quality and site productivity, John and Andy for their denial of vertical integration, and Andy for a new concept of selling wood which will widen the market for everyone else, and particularly the small grower, in the process.

When asked what spurred Blakely Pacific to move out of sawmilling into high-quality wood production, John Warjone replied that it was the mill burning down for the third time. Now they grow logs, large logs, for those whose manufacturing ambitions have got ahead of their wood supply, and get 20% above the market price.

Paul justified Ernslaw's choice of Douglas-fir on the grounds of market research and the fact that the mill could pay him on time for the logs because it had already sold and been paid for the timber – which he doubted was common practice just now for pine. His Malaysian principal has already been on public record about the benefits of older and larger radiata and a desire to manage it on a 35-year rotation.

Rayonier by all accounts are not yet convinced of the value of a longer rotation, but their standing stumpage sale method is likely to create a very much

more flexible market place for those with wood to sell. It will hopefully create a whole profession of log brokers eager to push the market wider and wider, and that will create excellent opportunity for the small grower, though cooperative marketing will be needed to take advantage of it. The idea too, that the company's industry and harvesting sections should stand alone and not be subsidised by the forest, has been long needed by the grower.

Longer Rotations

Longer rotations, of course, question the very foundations of conventional resource economics, internal rate of return and all that. So far, that approach has had the strength of all the law and the prophets, which may not be questioned. Even environmental groups, in my experience, favour it because, they argue, you can shaft any proposal simply by altering the presumed interest rate or any of the other innumerable assumptions in the equation. So, for negative reasons, they have liked it and have failed to come up with alternatives.

John Warjone's argument is simple. Yes, he does the calculation, but having done it he follows his nose, and his nose tells him that those who follow the IRR approach create some excellent opportunities for those who don't. So his company doesn't, and commands the market.

Customer Card

Interestingly, all played the customer card – you must give customers what they want, but then qualified that by saying that since what the customer wanted now was not what he would want in a rotation's time, it is over to the grower to decide. John mentioned big knots and wide rings (probably part of his Douglas-fir heritage), and it is a pity that he was not there on the field day when the case for growing small logs was justified on the grounds that most new mills could not handle anything bigger.

In ten years' time, when the mill wears out and the customer has tired of buying lumber made up of lots of short lengths glued together to hide defect and balance out stress, they will be buying larger saws, and where then will the radiata grower be if his plantation philosophy is based on maximising juvenile wood production?

It has always seemed to me that discounting and the systems of economics based on it are merely designed to make things easier for the bean counter. Compound interest cancels out future uncertainty by denying any possibility for the long-term investment, while IRR demands that the resource be destroyed in

toto, so that the capital it represents may be freed up for a "better" investment if one is around.

Udo Benecke's case for near-natural forestry, continuous canopy forestry, group or single tree selection management, all names he floated in front of us, denies the whole thing. In that form of management – and you can extend the principle to a plantation forest if you regard the felling coupes as large groups – compound interest disappears because there is no rotation, only continuous yield and re-investment.

Piers Maclaren questioned that on the grounds that it is economically inefficient because too much capital is tied up in the forest, by comparison with a short rotation. But that comes down to what Grant Rosoman said in the context of certification – no matter how well you've done your sums, if the customer doesn't want what you sell you are up the well-known creek without a paddle.

One of the big regrets of my career is that we kept no record of two radiata compartments in Pebbly Hills Forest, which were thinned four times (from memory), three of them for production, before being clearfelled at about age 50. The accumulated harvest yield when felled at 50 was expected to be about twice that being got (10,500 cu. ft/acre) from untreated stands of the same vintage, being clearfelled at about age 40. The last two production thinnings sold for clearfelling sawlog prices, and the miller was prepared to come back for single windblown trees on the same basis.

Driving Force

It is that rise in both quality and quantity of sustained production that Udo argues is the driving force behind the German move towards continuous cover forestry in all State forests there. No doubt there are environmental pressures too, but they are not seen to be the deciding factor. At Couvet, where I was as a student, the claim is that the annual volume yield has risen by a third over the 100 years of selection management, and by more again in value. The only price you have to pay is a larynx-shattering German name for the management system.

Udo argued the case well for such systems to be used in indigenous forest management, and I am sure that they will be, but he also (and others too) cited their place in exotic forest management, as more environmentally acceptable and more productive, and that is where I think they will flourish.

J.R. Purey-Cust