

Global Timberland Ownership Trends and How Oceania – Asia Stack up

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Assessing Innovative Forestry Financing
Mechanisms in Asia/Pacific Region
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Topics Covered

- Historical Perspective
 - Government to Forest Products Companies to Institutional / Financial Investors
- Oceania Perspective
- Timberland Investor Options
- Major Overseas Locations and Trends
- Oceania and Asia – Challenges and Opportunities

International Timberland Ownership Trends

- **Governments initially owned most forests – and many still do**
 - **But Governments are not natural owners of commercial timberland**
- **Forest Company ownership is ancient (e.g. Stora for 720 years, Sumiton Ringyo for > 400 years)**
 - **But, most expansion/consolidation took place from 1945 to 2002**
 - **Trend of consolidation to 2-3 giant F.P. companies**
 - **USA, South Africa, New Zealand, Chile, Brazil**

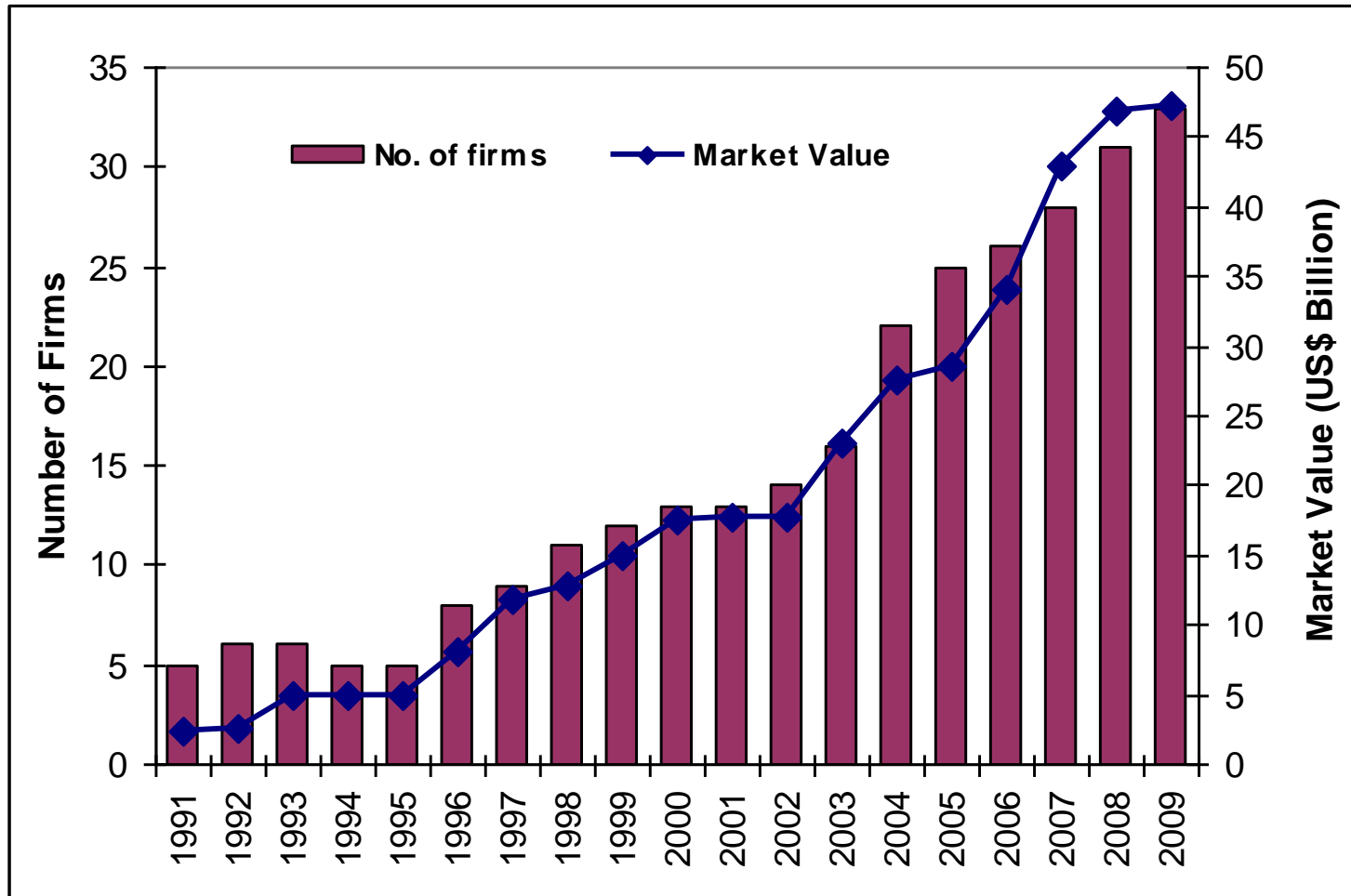
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- **Rise of institutional funding (mostly) started in USA**
 - **A “lucky” marriage of supply and demand started in early-mid 1980’s**
 - **US forest products companies were required by Wall Street to sell their timberlands to crystallize value gains**
 - **Changed US tax laws enabled institutions to invest in forests**

Forest Products Companies with Timberlands

- Most FP companies with associated timberlands in USA, Australia, New Zealand and even some in Finland and Sweden have sold down most/all ownership to institutional timberlands investors
- But this has not happened in Latin America or Asia, nor in overseas plantations owned by Japanese paper companies

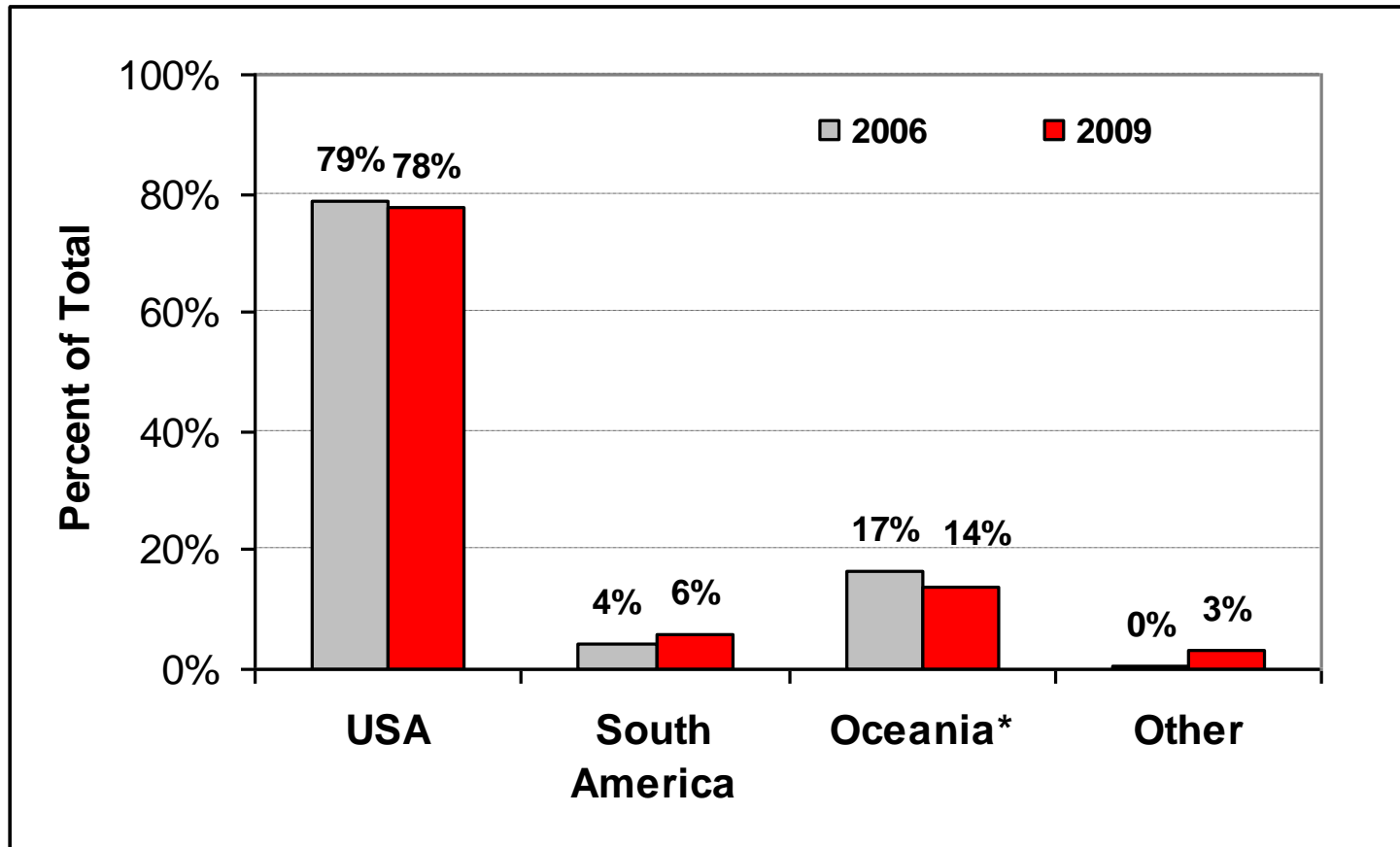
And in 2009 "financial"* timberland investments totalled almost US\$ 50 billion



Source: BAM, 2010 * = Public + Institutions

The USA still dominates institutional/financial timberland investment – but will this change?

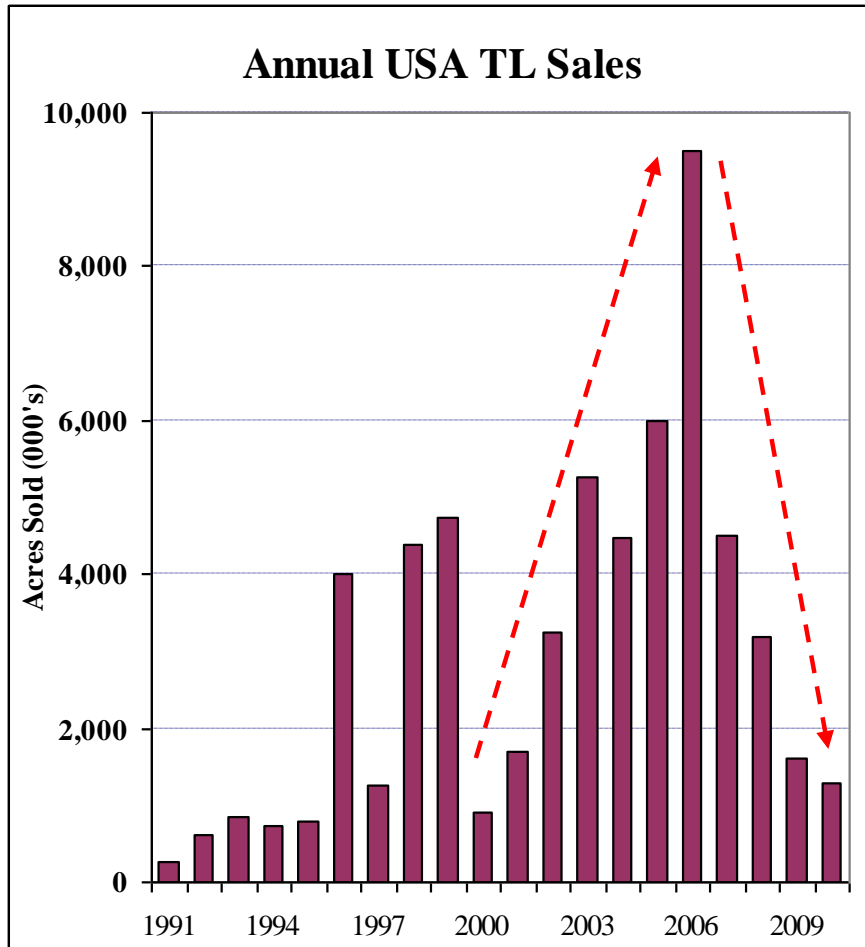
Yes probably



Source: RMK 2010

* Has increased with HTRG 2010 200,000 ha Qld Aust. buy

Why?



Source: BAM, RISI, DANA

- **US Forest Products Industry Timberlands are almost sold out to TIMOs**
 - Weyco is last one standing
 - Fun of earlier big returns now harder to find
 - Maybe future is Overseas:
 - One TIMO from 15% O/S now; to 80% of expansion O/S
 - Another TIMO raising two funds in 2010 – O/S one will be >60% of total funds raised
- **Still Government TL sales to come**
 - South Africa, Australia
- **Possible future huge sell-down yet for Chile and Brazil Forest Product Company Timberlands**

Now – a bewildering array of investment options

- **~ 20 North American based TIMO's**
 - **These have been the main pension fund investment vehicles**
 - **At least seven US TIMO investors offshore in 2009-2010**
 - **GEF in Malaysia; RMS in China**
- **3 US based publicly listed T-REITS**
 - **Rayonier, Potlatch, Plum Creek – and soon Weyerhaeuser**
- **Listed UK Vehicles – Phaunos and Cambium**

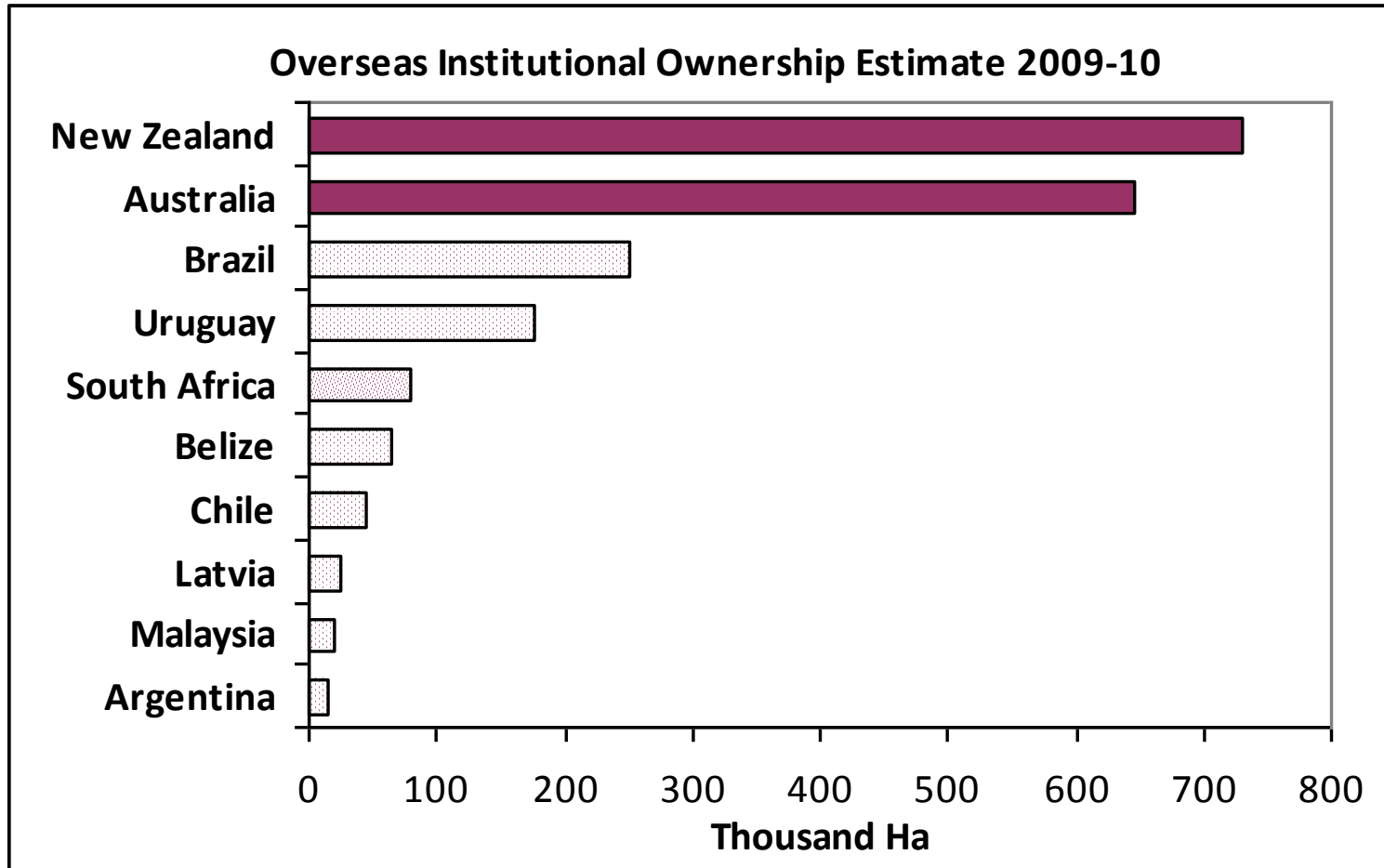
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- **Listed China Forestry Cos. (Canada - Hong Kong)**
 - Sino Forest, Cathay Forest, China Forestry Holdings – more new ones coming
- **Growing list of specialized Forestry Funds**
 - Germany, UK, Ireland, Other Europe, Chile, Brazil, Uruguay
 - Including "Fund of Funds" – Stafford, IWC etc
 - **And, recently US\$/A\$ 500 million New Forests Australasian Fund**
 - Trying to raise an Asian Timberland Fund
 - **And (more recently) another \$500 million Dutch "Fund of Funds" outfit announced**
- **Growing list of "Forestry Index" Funds**
 - UK, USA, Switzerland

Myriads of timberland retail funds – but ..

- Many have been very problematic
 - Most of the multi- \$ billion (A\$ 5.3 billion) Australian MIS industry has all but ended in tears (a few exceptions)
 - Earlier teak rorts in Latin America and India still affect confidence
- Propensity for smaller retail funds to exaggerate growth, prices
- Less resources to undertake proper due diligence
- Difficulty of action if proven to less than up front

New Zealand/Australia are still the predominant recipients of "overseas" TL investments of "financial" investors (chart is for planted areas only)



Late- 2006 DANA - RISI "Attractiveness" Parameters

Parameter	Parameter
Policy Consistency	Land tenure
Inflation	Land Availability
Economic Climate	Market Accessibility
Deviation from PPP	Biological and Physical Risks
Corruption	
Foreign Ownership Provisions	Total Score in 2006
Transport Infrastructure	
Local Labour Costs	2006 Ranking:
	2002 Ranking:
	1997 Ranking:

N.Z. and Australia are “safe havens”: e.g. in 2007 **Tree Farm Investment Attractiveness Ranking** Terms (70 countries)

Rank	Country	Rank	Country
1	USA	16	Uruguay
2	Finland	29	Brazil
3	Sweden		
4	Germany	25	Malaysia
5	Canada	34=	China
6	Australia	37	Vietnam
7	New Zealand	41	Thailand
8	United Kingdom	50	Philippines
9=	Ireland	55	Laos
9=	Chile	60	Cambodia

Source: RISI- DANA 2007

"Sizzle" Countries - Regions keep evolving

- **1980's - US Pacific Northwest**
- **1990's - 2000s - US South**
- **1990's & again in mid- 2000's - New Zealand: [two sizzles]**
 - **but no new land planting unless for carbon offsets**
- **Late 1990's - 2010 - Australia**
 - **But little pine/eucalyptus new planting**
- **1990's Chile**
 - **But restricted opportunities so far**

Continued

- **Mid-2000's Decade – Uruguay**
 - But land prices are pushing limits
- **Late - 2000's Decade - Brazil**
 - Subject to land price affordability; and from late 2010 subject to possible new restrictive land law
- **2009 - 2010 - Southern Africa**
 - “Discovered” by two Funds
- **2010**
 - Central America (GFP, GMO)
 - China (RMS, PTF), Eastern Europe (RMK, PTF)
- **Next**
 - Central America? Russia? West Africa? SEA?

Contrast Oceania vs Asia (to date) -- Oceania

- Major Opportunities
 - National (NZ) and State (Aust) Pine Plantation Sales
 - Distressed Aust HW MIS sales
 - Non- Core Aust HW MIS sales
- Australia has a softwood sawn timber deficit
- Australia is worlds largest plantation hardwood woodchip exporter
- Returns are "OK" (but not very exciting)
 - Country risk premia now very small compared with "risk free" USA
- Generally very good infrastructure
- Australia and NZ rank highly in many international measures
 - Corruption, political risk, judicial strength, competitiveness, economic freedom

Asia

- Relative lack of opportunities in Asia
- Lack of private land for establishment
- Some land tenure security issues
- Lack of any reasonable areas in some countries
 - Vietnam, India
- Language and business culture issues
- Most investment to date has been by Forest Products Companies
 - Japanese paper companies in Vietnam, Laos, China, Indonesia
 - Indian company in Laos

But there are institutional fund managers already/expecting to be Asia TL investors [e.g.]

- US TIMO RMS - ~ 30,000 ha (we think) pulpwood in southern China
- US TIMO Greenwood Resources with listed LSE Fund Phaunos Timber Fund – small area so far
- US TIMO GEF - ~ 25,000 ha (gross) in Sabah, Malaysia – turning pulp crop to sawlogs
- Australian fund manager New Forests expects to close a US\$ 200 million fund in 2011
 - to focus on Asia Pacific high value crops
- Ata Marie Group Ltd - planning a 10,000 ha teak project in Indonesia

Future opportunities for Asian institutional TL investment

- Lack of timberland investment opportunities in USA is forcing some fund managers to look elsewhere
- Limited opportunities in Europe and many returns are very low – some are starting on biomass projects
- Rapidly rising land prices and some restrictions may limit access to better Latin American options (Brazil, Uruguay, Chile)
- Move of some funds into Africa/Central America has reduced "aversion to risk"

Sources for 2010 material include:

THE NEW ZEALAND FOREST PRODUCTS INDUSTRY REVIEW

2010 Edition



12 year old radiata pine pruned to 10 metres, Bay of Plenty, New Zealand

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INTERNATIONAL TIMBERLANDS OWNERSHIP AND INVESTMENT REVIEW

2010 Edition



Indian Sandalwood (*Santalum album*) plantation in Ord River West Australia (Source: TFS Ltd)

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Thank you for your attention

Questions?

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