

Growing trees in Panama

OUT of adversity often comes opportunity, and high land prices here forced Greenbelt to explore opportunities abroad. After much searching, they ended up growing teak in the unlikely location of Panama in Central America. "We can grow a high value end product at a low input cost," O'Reilly said.

They bought and retained a 75ha plantation in 2005. In 2006, they raised €1.71m from investors which funded the establishment of 207ha.

A third fund, Panama Teak Investments, is cur-

rently being completed and will raise €3m to purchase 800 hectares. A further fund is likely later this year, although pension funds rather than retail investors are the likely target.

To date, the trees are growing well and the rate of return based on current valuations is in excess of 10% per year.

It is a dollar-based investment, so there is an element of currency risk, although O'Reilly says it is the exchange rate at time of exit (year 18) that is most important.



John O'Reilly, Greenbelt, pictured in a two-year-old plantation in Panama.

Green shoots from forestry

PAT O'KEEFFE
NEWS EDITOR

HAVING survived strong headwinds in recent years, the forestry sector appears quietly confident that it can get back to a sustainable level of productive activity.

Certainly, a number of winds are now blowing in their favour, the most obvious being the 6% funding increase in the most recent Budget. Furthermore, at a fundamental level, the fall in land prices means that purchasing land for forestry is now beginning to look attractive in these turbulent times.

John O'Reilly is CEO of Greenbelt, the largest private planting company in Ireland. Since its establishment in 1982 by Mossy Ryan and the late Tim O'Brien, the Virginia, Co Cavan-based company



DOWN TO BUSINESS

with ...

John O'Reilly
CEO, Greenbelt



has planted over 170,000 acres in Ireland and has a market share of about 40% of annual planting.

The company employs 30 foresters and administration staff, with fencing, planting, etc, contracted out.

The recent CAP Health Check provided a further boost, as land planted from January 2009 can qualify for the Single Farm Payment

(SFP) without any need for 'stacking' of entitlements onto alternative land.

"This means that it will be possible to keep your full SFP and also draw a planting premium, plus a possible Forest Environment Protection scheme (FEPS) top-up on the same acre," he said.

When Irish planting hit 17,000ha per year in the mid-1990s, Greenbelt alone planted 6,000ha. Last year, the entire industry planted little over 6,000ha.

Policy uncertainty hasn't helped. The level of planting understandably fell sharply in recent years as farmers watched their land soar in value.

It appeared as if every piece of ground was a potential development site, so a reluctance to commit to forestry was understandable. Legislation does not allow an exit from forestry — it has to be perpetuated. "The IFA claim that this is a major turn-off for farmers, but it is very rarely raised with me as a reason for not planting," O'Reilly said.

John O'Reilly said that planting in 2008 was at 6,500ha, a marginal increase on 2007's 6,000ha. For this year, he is predicting an increase, perhaps by as much as 20%.

The basis for his optimism is the fact that in the August to December period in 2007, Greenbelt submitted 900ha of

applications. "In the same period in 2008, we submitted twice that amount," he said.

The majority of Greenbelt customers are farmers, because they qualify for higher rates of grant. Non-farmers only receive 40% of the farmer grant rate.

He believes that farmers see forestry as a potential safe haven in the current storm. "People plant to diversify and qualify for an average premium of €210 per acre," he said. Furthermore, the final crop revenue from a well-managed mature plantation averages €8,000 per acre. "The typical age when land is planted is when the farmer is in his early 40s with his eye on his pension," he said.

The average plantation is 20 acres and earns an annual income stream of between €4,000 and €5,000.

Now that economic circumstances have changed, land prices have fallen and land parcels are becoming available again at prices that make sense for forestry. I suggested to O'Reilly that the volume of land being sold has collapsed. "There is actually more marginal land on the market now," he said. "The ability to sell a site for €100,000 is gone so people have to sell a chunk".

PREDICTION

He said that the general run of forestry land made €5,000

per acre in 2007 but it is already back to €4,250. A price drop to below €4,000 per acre would probably see the pension fund buyer return to the market, but O'Reilly predicts that it will not fall much more. This is because good planting land at €4,250 per acre would generate a 5% annual return for the farmer buyer "and you still hold the land and the value of the final crop".

Another factor is that land owners who lost off-farm jobs are now looking to maximise the income from their land asset. Hobby farming often generates rather than pays bills.

Of course, forestry is a long-term game; conifers typically grow for between 33 and 35 years, with a first thinning at 17 to 18 years and second thinning at year 23 to 24. A third thinning is required in year 28.

Like almost all commodities, the price of timber has slumped recently but the optimistic O'Reilly points to the fact that final harvest can always be delayed for a few years.

Thinning is essential for maximising the value of a forest crop. "Only about 30% to 40% of plantations are thinned when they should be," he said.

The company are striving to find new end users for thinnings. The key is a short transport distance as it is low value material. O'Reilly said

that the first thinnings earned €15/tonne at best last year, but in difficult sites it may have been as low as €3/tonne to €4/tonne. He is hopeful that renewable energy will open up new markets for thinnings; peat stations are currently looking at co-firing options, for example.

Greenbelt has also moved into renewable energy through a company called Imperative Energy, run by Joe O'Carroll. They are targeting larger scale projects, such as schools and hotels. "Our own plantations have 170,000 acres so we can guarantee security of supply," he said.

WHY HAS COILLTE NOT PAID DIVIDENDS?

One of Greenbelt's main competitors is actually the State through Coillte.

John O'Reilly said that Coillte had one million acres of forestry but has been selling prime assets for development in recent years. "Yet they never paid a dividend to their owners, the State. Why not and what have they done with the money?" O'Reilly asked. "I can see no reason for them to compete for land with the private sector," he said.

O'Reilly also wonders if it is prudent for four State companies — Coillte, Bord Gáis, ESB and Bord na Móna — to be investing in the renewable energy sector.

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