

AT THE CORE

EUCALYPTUS STANDS ATTRACT INVESTORS TO HAWAII ISLAND

After several years, proposed veneer plant could start digging.

Don Bryan is persistent. Since the latter part of the last decade he has been wanting to build a green and dry veneer plant on Hawaii Island.

Bryan, a forester, is the founder of The Timber Exchange, a timber brokerage firm based in Portland, Ore. Initially Bryan was looking into putting an investment package together concerning eucalyptus timberlands growth and management. The state of Hawaii and private entities had planted a substantial amount of eucalyptus in the previous five decades.

His interest expanded into the possibility of eucalyptus wood products. Subsequent testing on young eucalyptus trees revealed manufacturing characteristics compatible with veneer peeling, he says, as long as it was peeled fresh. The veneer demonstrated nice engineering and strength properties. He says they've been able to produce stress rated veneer out of five-and-a-half-year-old trees (6-7 in. blocks) that have been managed more for pulp. Given a plantation thinning management scheme more conducive to veneer production (such as 8-9-year-old trees in the 12-13 in. DBH range as well as older and larger trees), and there's more stress and grade to be had. As a result, Bryan remains focused on the laminated veneer lumber market as a customer of the proposed veneer venture.

Tradewinds Forest Products, as the venture has always been called, originally involved Bryan and a company named Quality Veneer & Lumber from the Northwest U.S. In 1999 Tradewinds was able to secure a license from the state's Dept. of Land and Natural Resources for timber harvest on 9,000 acres in the Waiakea Timber Management Area, located southwest of Hilo.

Tradewinds hoped to start construction of a veneer plant somewhere on the Big Island by 2002. It didn't happen. Meanwhile Bryan's partnership with QV&L dissolved, as did QV&L.

Bryan stayed the course, meanwhile searching for a site, not to mention the funding to build the plant. He has found the former, and appears to be getting close on the latter.

The site is an already industrialized former sugar mill. It's located on the coast in the small community of Ookala about 30 miles up from Hilo. "We think it's ideal for wood products manufacturing," Bryan says. "The log yard is already there, and it's paved."

Not surprisingly, as time has dragged on, people began wondering about the funding of the project. Last October, Bryan "put up" so to speak, or at least Rockland Capital Energy Investments, LLC did. The private energy investment company, based in Houston, formed an affiliate, Rockland Tradewinds LLC, and acquired a reported 31.45% interest in the venture.

This makes sense for Rockland because in addition to the dry veneer mill, the project includes a wood-fired cogeneration plant, which will use mill waste to generate all of the steam and power required in the mill process, with excess power sold to the local utility. Rockland will oversee all of that, including the design and construction of the power plant. Rockland also has an option for additional investment in Tradewinds.

Along with lead investor Rockland, Bryan says he's accumulated six smaller investors. "So we've been doing the development work, kind of finalizing raw material supplies, we have air permits filed, our preliminary designs are done...at this point everything looks pretty good and we're getting ready to start building a veneer plant late this year."

Bryan adds that they're still seeking some funding for what he estimates to be a \$30 million to \$40 million, 80MMSF

(% in. basis) annual production plant.

One source of funding Bryan went after and nearly got, but didn't, was the issuance of potentially \$25 million in special purpose revenue bonds, as authorized by the state legislature. But after the legislature passed the bill, Governor Linda Lingle vetoed it.

She stated that the bill was objectionable because of "serious questions" as to whether the bonds would serve a public purpose and whether financing of the project would be an appropriate use of the bonds.

Bryan is still scratching his head somewhat over the governor's response. "She is a pro industry governor and has done a lot to boost the economy of the state," Bryan says.

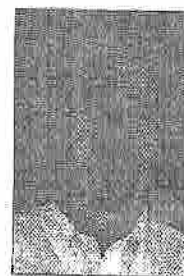
But Bryan has moved on. He says the project had never counted on the bond funding, and that he appreciates the vote of confidence of the legislature, which cast only one dissenting vote.

Meanwhile, some local residents have voiced their dismay for the project, particularly the noise potential. Bryan has tried to soothe their fears. "We've spent a lot of time with community members. Whether all of these folks are now happy, who's to say. But we do enjoy strong support on the island at many different levels."

Bryan emphasizes that the major challenge is not simply building a veneer plant, but establishing the infrastructure for a new wood products industry. "You don't have your friendly log supplier and chip customer right down the road," he says.

Other wood-related projects are percolating here involving various entities. "We've agreed as a group we're all better off with a diversified forest products industry," Bryan says.

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