TIMBER SALES: THE STATE'S VIEWPOINT

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The current basis for sales of wood from State forests has evolved over the past decade from the recommendations of two government-sponsored bodies which link the wood-growing and wood-using industries, the public, and the government.

The first of these is the Indigenous Forest Timber Advisory Committee (IFTAC), which was set up in 1966. With three members from the New Zealand Sawmillers' Federation and three from the New Zealand Forest Service, its role is to investigate and inform the Minister of Forests of:

(i) The present and potential indigenous forest resources, with due regard to production, consumption, conservation, and the public interest.

(ii) Methods of sale and allocation of State indigenous wood.

(iii) Valuation of State indigenous wood and matters incidental to the above or matters referred to the committee by the Minister.

The committee's first recommendations to Government in 1967 were accepted, including (i) the setting of cutting targets for the remaining North Island indigenous forests; (ii) the introduction, where appropriate, of long-term sales of 10 to 15 years' duration; (iii) advertised invitations for proposals to cut this wood; and (iv) a selection of the successful tenderer based on consideration of the efficiency of his operations and the markets proposed for the sawn wood, rather than on the criterion of price alone. The committee also considered sales of State indigenous wood in the South Island, and in particular on the West Coast, where sales were already being administered in a manner similar to that recommended for the North Island. The committee has continued to the present day to make recommendations to the Government in accordance with its terms of reference, and where appropriate they are incorporated into policy.

The other body whose recommendations to Government have shaped recent timber sales policy is the Forestry Development Council (FDC), formed in 1969. In 1970 the Council

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set up a working party, with all sectors of the wood-producing and wood-utilising industries represented, to consider procedures for the establishment and review of stumpages for State-owned indigenous and exotic wood. The resulting "Report of Stumpages Working Party" (published by FDC in 1972) was accepted and approved by Government, and provides (*inter alia*) for State exotic wood sales to be of two major types:

(a) Long-term sales — to provide industry with a secured raw material to allow sustained production, and

(b) Short-term sales — to enable advantage to be taken of short-term marketing opportunities, and to facilitate management of exotic forests.

A long-term sale is defined as one in the course of which a revision of stumpages and terms of sale will take place.

The report also provided for the review of stumpages in long-term sales to be of two kinds: an annual automatic review to make adjustments for changing money values, and a negotiated (periodic) review to consider terms of sale, including stumpage. Annual automatic adjustments are determined by movements in the Consumer Price Index — All Groups, over a 12-month period. These are applied to that proportion of the stumpage which is assessed as the cost to the State of operating, maintaining, and administering forests supplying wood throughout the country at the time when the sale was first made. For both types of sale market demand should establish the value of the wood being sold, but in the absence of a competitive market this value can only be set by negotiation. The cost to the State of growing the wood and the inherent value of the wood to industry are factors taken into account in those negotiations.

The definitions of long- and short-term sales indicate that short-term sales are not considered to be of adequate volume to sustain long-term production: they are thus not intended as a basic supply to the prospective purchaser.

The Stumpages Working Party also recommended that valuation of State indigenous wood should continue on the residual-value principle, which previously had similarly been endorsed by IFTAC. This value represents the difference between the value of the sawn timber on the one hand, and the cost of production (by an efficient and reasonably capitalised operator), plus an appropriate allowance for risk and profit, on the other. The residual value so determined represents stumpage.

Further moves affecting State wood sales resulted from the 1974-5 Forestry Development Conference. Conference recommendations for a revised indigenous forest policy were en-
endorsed by the FDC, which in turn recommended them to Government. In June this year Government confirmed the principles of the revised policy which, in terms of utilisation, will entail an increase in log production costs. This additional expenditure could be met either by:

(a) Increasing the cost of the raw material to the purchaser and allowing him to recover this increased cost by raising the price of indigenous sawn timber or veneers; or

(b) Lowering the cost of the raw material to the producer and hence reducing revenue to the State.

The strategy of the revised marketing policy for indigenous timbers is to encourage (amongst other things) the maximum recovery of finishing and dressing grades, and alternative (a) is considered to be the more effective in achieving this objective. Alternative (b), on the other hand, would operate in effect as a subsidy to the end-user. It would not allow indigenous wood to establish its real worth on the market in relation to exotic timbers; and it would not influence consumer demand in a way which would conserve the indigenous resource.

With the valuation of State indigenous wood being based on residual value, any changes in marketing procedures must be examined in terms of their effect on the parameters used to calculate this. One of these parameters is the selling price of sawn timber which is at present under price control. An increase in selling price to recover increased logging costs cannot be initiated by the Forest Service, which is the seller of the raw material. One way of effectively implementing the revised policy so that the various grades of indigenous timber can find their true value in a free market, competing with other wood or non-wood products, could be by the removal of all forms of price control; representations to this effect have been submitted to Government. A less desirable method of influencing consumer demand and end use would be an upward movement of controlled prices.

Price control of sawn timber has been in effect since 1919, with only a few breaks, its prime objective being to allow the provision of low cost housing. Its continuation has tended to work against the conservation of indigenous wood, however, for in the absence of a free market indigenous and exotic sawn timbers have not found a level which reflects their respective values. Exotic timbers have, in certain circumstances, proved to be more expensive than the indigenous counterparts they were intended to replace, and this situation has not promoted the conservation of indigenous wood.

A further effect of price control has been to depress stumpages the State has received for its wood, which (as the State
is the largest grower) has in turn depressed those of private growers, particularly those with no ancillary processing units. The depression in revenue also discourages further investment in the national forest estate, a factor having long-term implications for further development of our forest industries.

The original concept of price control on sawn timber to provide cheap housing is difficult to justify today in view of the substantial increase in the cost of housing arising from factors other than the price of sawn timber. This is particularly so for indigenous timbers.

Looking to the future, wood from recently expanded planting programmes in State exotic forests will start coming on-stream in the 1980s. Forests of North Auckland, the East Coast, and the Taupo basin are specific examples. An approach to the marketing of this wood at present under consideration would involve advertising a volume of wood as being available at a specific future date. Proposals to use this wood would be required to specify which of various possible produce categories they required, as well as the price the purchaser was prepared to pay. In this manner the forest could be grown and managed with a predetermined end use in mind. The best agreement possible could be negotiated for the use of the wood. The economics of the afforestation effort could be determined in advance of utilisation; stability and confidence would be engendered in the annual planting programme with a forward commitment established; and an infrastructure could be planned and developed with adequate advance notice. Although this approach to future sales of State exotic wood is only tentative at this stage, there are obvious advantages in tailoring the establishment and management of State forests to the most desirable form of ultimate processing.