Government Budget addresses are important for forestry. They signal Government's overall economic objectives as well as their priorities and goals in the forestry sector. For example, in the 1988 Budget the sale of the State forest assets was announced. On July 26, 1990, the Minister of Finance, David Caygill, gave his second budget address which was no less significant than that of 1988. In this year's budget Mr Caygill announced that while the forests are still going to be sold, a large percentage of the total expected revenue, $1.25 billion, will be used to offset current expenses, not to retire debt.

This is an accounting fiddle in its grandest sense. The treasury official who came up with it deserves a significant raise. A large asset has been converted from capital to income with the stroke of a pen. Mr Caygill noted that this is in accordance with International Monetary Fund principles. While it may be in accordance with the IMF accounting principles, it is not in accordance with the rules for accounting for forestry laid down by the New Zealand Government in at least two respects. First, although Government is recognising an income, there is no matching of income and expense. There is no offsetting expense—the write-offs having occurred over the past 70 or so years in prior government budgets. Second, there is no recognition that a long-term property right, the right to manage the land for 35-70 years, has been sold also along with the current cutting rights. The revenue received for this portion of the asset represents an advance cash payment and will not actually be "earned" for many years.

It is ironic that Mr Caygill announced this new accounting policy in the same address in which he noted that the Ministry for the Environment is examining methods for ecological accounting. One of the principles of ecological accounting is that natural resources are valued. This is important because many natural resources are "free" in the sense that no money was paid for their creation. For example, when a rimu (or a tropical rainforest) is felled, the entire revenue is considered net income. There is no offsetting expense for the loss of the stand.

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FORESTRY SELL OUT

E.M. Bilek

The financial markets have recognised this new accounting policy in the same address in which he noted that the Ministry for the Environment is examining methods for ecological accounting. One of the principles of ecological accounting is that natural resources are valued. This is important because many natural resources are "free" in the sense that no money was paid for their creation. For example, when a rimu (or a tropical rainforest) is felled, the entire revenue is considered net income. There is no offsetting expense for the loss of the stand.

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"transparent" than it first appeared. It was only because of a court case involving Carter Holt Harvey that it was revealed that Mr Prebble approached Carter Holt Harvey and invited them to make a secret pre-emptive bid to buy the Hawke's Bay and Canterbury forests. How much other information involving other sales isn't public and won't be revealed because there is no court case?

At the moment the sales mechanism is a perversion of Dutch auction whereby the negotiators have established a forest value and are approaching the losing bidders individually. If a bidder does not come up with an acceptable bid in negotiations, the next bidder is approached. This system is not open. It is not fair. And it is not transparent.  

In announcing the withdrawal of the Bay of Plenty forests and the creation of Timberlands (BOP) Ltd, Andy Kirkland, General Manager for the Forestry Corporation, noted: "It may sound a little vague, but it is better to enter into (the sale) in a flexible way". One is left to wonder that if it is a better way now, why wasn't it the way recommended by the Forestry Working Group to Government and why wasn't it the method which was adopted in the first place?

Repeated assurances were given all during the sales process by the Prime Minister and others that the sales were necessary and essential to repay debt. Yet a large portion of the sales are now to be included in current income and used to pay current operating expenses. It is clear why Government is selling the assets. Mr Caygill noted in his budget address that Government no longer needed to reduce the country's debt. That is gratifying since Treasury predicts that next year's deficit will be $2.2 billion. However, if all goes as Mr Caygill hopes, there will be no further opportunities for cash flow from State forest assets other than tax recovery and minimal land rentals. Given these scenarios, Government will have to either increase the country's debt, increase taxes, or expand the money supply. They will have little choice. They will not be able to depend on rapidly increasing cash flows from the forests. The forests will all have been sold. Why is it imperative that the forests be sold if the proceeds don't have to be used to retire debt?  

Everyone seems to agree that an enormous amount of capital will be required if the forest assets are going to be processed onshore. And Government cannot and should not provide that capital. Overseas capital will be needed to build up the processing sector in the forest industry. But with the creation of the Forestry Corporation, there were opportunities to develop this processing in a commercial manner without Government funding. The Corporation could have entered into joint ventures and partnerships to develop the processing sector in New Zealand. Now it appears highly unlikely that they will have that opportunity. They are scheduled to go out of business on March 31, 1991.

Government is conducting a forestry sellout. The country's State forest assets which have been built and developed for at least 70 years are being sold. A large part of the revenue will go to fund Government programmes in one year, and an election year at that. Looking at the expected development beyond 1990, nothing, including this Budget, has convinced me that it is either the right time or the right way for Government to sell out forestry.

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State Forest Assets Sale: Myths and Realities

Jim Sutton, Minister of Forestry

In the May/1990 issue of New Zealand Forestry E.M. Bilek identified "myths from realities" in the reasoning behind the long-term sale of cutting rights to the Crown's plantation forests. The "realities" he identified show more "myths and red herrings" than helping to identify the issues involved. Where necessary I shall deal with individual questions. But in the first place let me answer the initial question he raised: why is the Government selling cutting rights? That will clarify the position on most of the other questions.

Since the 1920s hundreds of millions of dollars in taxpayer money has been spent in establishing our State plantation forest resource which now stands at 550,000 hectares. At the same time through generous incentives (again using taxpayer funds) the private sector too has planted a similar area. This expansion was the result of a conscious decision to establish an export-based forestry industry. The Government's role then was to support and nurture an immature industry. As a part of that strategy long-term contracts were entered into to supply wood at subsidised prices and the Government itself was involved as a shareholder in some operations.

Those mechanisms served their purpose: we now have a largely efficient forest industry which annually contributes over a billion dollars in export income. But in reaching that stage the taxpayer had to bear a large cost; until the Forestry Corporation was established in 1987 the taxpayer continued to directly pay for the Government's plantation forestry operations. Furthermore, the taxpayer as a consumer had to pay higher prices for forest products because of various government restrictions such as import controls.

Let me turn the initial question around: why should the Government continue to manage a commercial forest estate?

Forestry is no longer an infant industry; thanks to the taxpayers and the entrepreneurs we now have mature plantation and processing industries in New Zealand. Over the next ten years wood supply will double; if the country is to derive maximum benefit from this increase critical decisions on its use have to be made now to give sufficient lead time to establish the necessary processing plants.