Guest Editorial

State Forest asset sales – logical progression or reprehensible reversal of the State’s role in NZ forestry?

Debate is Joined
The November 1995 issue of NZ Forestry juxtaposes two strongly contrasting views of the role of the State in commercial forestry, both prompted by the intended sale of cutting rights to Kaingaroa Forest. The first by Peter Farley, in presenting the case for maximising value by such a sale, characterises the past state contribution as well intentioned but muddled, misguided and dogged by central planning. The Forest Service is the principal target of his tirade. The second by Lindsay Poole equates such a sale with theft and argues that Kaingaroa Forest is needed to “restart” forestry in New Zealand. About the only theme they have in common is pessimism, retrospective in the first and future-oriented in the second. The shortly to be celebrated 100 years of the State’s contribution to larger-scale plantation forestry practice (not least the 50 years of institutionalised research) are cause for optimism rather than the reverse.

Vindicated Strategic Planning
As an example of the failure of central planning, Farley chooses poorly in fastening on state forestry. Time after time from the late 1800s to the 1980s state forestry targets were not only clearly formulated but fully met. The broad strategy of reliance on intensive management of a number of domesticated fast-growth tree species rather than expansion of the logging front into ever more remote wild forests has not only been vindicated nationally but is an exemplary case study globally, deserving if anything of being recognised and emulated.

In any analysis of the State’s role for the purpose of marking the centenary of those seminal plots of introduced tree species, so hopefully placed in 1897 along the Rotorua-Galatea Road, I hope particular attention will be paid to comparing the intentions of the State with the accomplishments. I predict that the only remarkable feature will be shown to be the consistency with which they were coincidental. In that sense the State’s goals were indeed “well-intentioned”. While it may be politically correct to deplore central planning across the board, that should not blind one to the many shades of effectiveness and the enormous gulf between well-conceived and well-executed state works and travesties such as queuing for life’s essentials in former communist block countries.

The Forest Service succeeded where others continued to fail because front-line practitioners both contributed to and realised plans for afforestation in every region of the country. These were no ivory tower dreamers or doctrinaire bureaucrats but hard-nosed dirty-booted realists who understood their patch and their craft. Far from being an “economic disaster”, the legacy of state afforestation remains central to the health of one of the more successful sectors of the New Zealand economy, as it was intended it should.

Financial Sustainability – The Final Plank
On the financial front Farley claims that the return from the first round of competitive sale of state forests was “far in excess of anything that a zillion years of Forest Service management would have produced”. Wrong again, Peter. In as short a time as the three and a half years of its first incarnation the Forestry Corporation put the state commercial forests of every district in the black. The District Managers who did so at the front line were all ex-Forest Service. The prices subsequently paid by the buyers of the cutting rights to state forests were a direct consequence of this demonstrated capacity to make a positive financial return on state plantations throughout New Zealand.

The East Coast was no exception to the financial turn around, the local details of which are set out in the last annual report of New Zealand Forestry Corporation (mark I).

Had the Forestry Corporation as originally set up not been scuttled, its accumulated earnings would at least have been the equivalent of the first-round sale returns. The values paid for the forests concerned were the buyers’ estimates of the extrapolated earning streams expressed as net present value. Similarly, the diligent management, replanting with quality stock, and exploitation of log export markets, extolled as virtues of the new owners, do no more than maintain Forestry Corporation practices. Indeed it was the “muddling” Forest Service that made the initial breakthrough in most of the important log markets and laid the genetic base for the quality stock now available to the sector. Prior to corporatisation, the technological and operational capabilities of state plantation forestry were generally appreciative but there was widespread doubt about the commercial viability of tree growing per se.

In fairness, it must also be recorded that the ability of Forestry Corporation to prove the feasibility of financial self-sufficiency was in turn a direct consequence of Forest Service planning. For years new planting was focused on regions and regimes deemed capable of yielding a positive net present value for forest investment according to the “constructs of economist or forestry consultants”, by which I assume Farley means forest estate models. In well-selected regions, provided

Twenty-two-year-old Pinus radiata stand, Kaingaroa Forest. Genetic gain trial. Photo: D. Blake, NZFRI.
the age-class distribution approaches normality, the costs and returns going into these “theoretical constructs” may be incurred and realised contemporaneously and will yield, year by year, net differences in the form of positive cashflows which in turn underpin profits.

In its last set of centrally planned targets the Forest Service placed considerable emphasis on rounding out age classes and for years did so in its own state forest programme. The persistence of the departmental planting programmes from the post-war resurgence of planting until the organisation’s demise was fundamental to the achievement of the necessary balance of age classes and thus to enabling its commercial successor to make money from plantation forestry. This is but one illustration of the seamless nature of the state endeavour over a century of commercial afforestation.

Evolution
While it is convenient, and in some respects instructive, to divide that endeavour into discrete chapters, to do so disguises the unbroken evolutionary nature of the process from 1897 to the present day (and beyond). Each advance has sprung quite directly from its predecessors, and in my view the history is one of continuing advance even though there is widespread scepticism about the contribution of the last couple of stages.

Continuing Evolution
Historically, renaissance has commonly been the companion of reformation, as I believe it is proving to be in the latest approach to sale of state wood. Renaissance does not merely entail a re-run, but requires something of value to be added to the legacy of past accomplishment. Kaingaroa, rather than restarting its immense contribution to New Zealand forestry, will surely build on its innovative legacy in the forests themselves. It is also found in key people throughout forest management, forest teaching and forestry-based institutions. This powerful network has for so long been intertwined with the entire sector, private as well as state, that it is virtually uneradicable, even if there were a will to do so. For that reason the view that state forestry needs restarting is, to me, pessimistic.

The State as Catalyst
The recent sales of cutting rights are not the first examples of state resources kick-starting private forestry enterprise. Earlier forms of long-term plantation timber sales, by stimulating ancillary private planting, had the same effect.

The state influence was sometimes more direct; that is from manager to manager. For example, in describing the birth of New Zealand Forest Products Ltd’s principal forest resource, Brian Healy records: “H. A. Goudie (variously described as Superintendent Nurseryman, Manager in Charge and Conservator of Forests, Rotorua) was knowledgeable and had the benefit of long experience (gained in the birth of the Kaingaroa Forest). His enthusiasm sowed the seed for a commercial forestry venture in the minds of Smith and Wylie (NZFP founders). Landon Smith is emphatic, ‘It was H. A. Goudie who put the idea into our heads’.”

The Network Developer
Both the sectorial network and the advanced technology of plantation forestry were further strengthened years later by the series of excellent symposia that FRI sponsored and masterminded, covering the key elements of intensive plantation forest management. In translating technological findings to practice the companies made a major contribution, and the farm forester was well represented in discussions by the common sense interjections of the iconoclastic Neil Barr.

State forestry needs no restart from Kaingaroa or elsewhere; its contribution has for so long permeated the entire sector that its influence is indelibly stamped on the present generation of managers and administrators. The persistent sectoral dedication to shared technology and long-term forestry goals was strong enough to survive corporatisation and privatisation. It is, as stated earlier, latent in key people in management, teaching and research, and in the forests themselves.

Each advance in the sector has sprung out of its predecessors. I am optimistic that this long-standing process will continue more strongly than ever in the revamped sector. Only when the golden era of utilisation arrives, as the state strategy for tending bears fruit early next century, will the planning models be finally validated and refined and the role of the State fully displayed. If at that time the strategic planning of companies is as comprehensively based as that which shaped the existing plantation resource, the sector will go from strength to strength.

For the purposes of a School of Forestry lecture I recently attempted to objectively contrast the relative contributions of the Muldoon (indicative sector planning) and Douglas (market-driven) philosophies to New Zealand forestry—a futile exercise as the results of the latter simply wouldn’t exist without the foundation of the former. If anything, it demonstrated to me that all shades of political correctness are as ephemeral as politicians and that New Zealand forestry fundamentals are strong enough to transcend both. Hence my optimism.

The Vision Persists
The final major catalyst in forging a unified sector and disseminating the visions of state forestry strategists was the series of forestry development conferences. From 1969 to 1980 these provided a
forum for systematically examining sectoral goals and advancing the shared vision of the role of plantation forestry (state and private) in the future national economy.

Ironically, the department entrusted by the then Prime Minister with managing this major indicative planning exercise refused to recognise the validity of the afforestation targets finally formulated to round out the proposed state contribution.

A similarly negative response to setting up a revolving fund for Forest Service operations left corporatisation and associated opportunities for financial self-sufficiency as the sole available avenue to round out the state effort with funding certainty. The opportunity so presented, and the subsequent privatisation, in my view enhance the possibility of realising the broad economic objectives set out in the 1960s and 1970s, more certainly than any taxpayer-dependent restart of state forestry is likely to do.

I hope that this debate will continue with some input from those organisations which saw fit to invest in the state-created forest resource, and which now have the opportunity collectively to realise the ambitious national and export goals first formulated in the 1960s.

Andy Kirkland

Why sell Kaingaroa Forest?

Kaingaroa Forest is the largest man-made forest in the Southern Hemisphere, perhaps in the world. It is also one of the best. It has been intensively managed for nearly 50 years with carefully thought-out thinning, pruning and replanting programmes. It has been improved enormously by the tree-breeding programmes carried out by FRI, itself acknowledged as one of the best forest research institutes in the world. It is an extremely valuable forest paying good returns to the Crown. For decades it has been the envy of every other forest-growing country. It is truly a jewel in New Zealand’s crown.

Why then should the Government be so keen to sell it?

Almost every other forest-owning country in the world maintains some of its state forests. They realise that forests are extremely important national assets, that Crown ownership can enable Governments to influence the location and nature of developing forest industries, and that they enable Governments to maintain consistent and stable forest policies. They do not believe that assets that have taken decades or hundreds of years to develop should be sold because of the short-term thinking of some accountants and some politicians. Forests are long-term in nature; they go on for hundreds of years. Accountants’ views can change and politicians are commonly only in charge for relatively short periods. They do not know whether or not in 20 or 50 or 100 years New Zealand will want or indeed need to own a forest estate of its own. They should not be granted the responsibility for removing all the options without consultation for changes in the long-term nature of a nation’s forest.

Why on earth does New Zealand now think privatisation necessary? One can only guess. Perhaps it is simply a wish to sell in order to make easy money; or perhaps it is because of a Treasury-oriented impetus against the philosophy of any form of state ownership. There may be other undisclosed reasons. The earlier sales were said to be made in order to reduce public debt. Is this so? And, if it has happened, how important is it? The public really does require much more information.

The suggestion has already been made by three former Directors General of Forests, Lindsay Poole, Mick O’Neil and myself, and is repeated here, that before a decision is made there ought to be a full-scale, totally independent, public enquiry into the pros and cons of the sale. The enquiry should establish and publicise the many facts which are currently not available to the man in the street. It should answer inter alia the following questions:

What future surpluses over and above existing commitments are expected to be sold from the forests?

What are the existing commitments? When will the surpluses occur and from what date will the sales be made?

What new processing industries have been started as a result of the 1990-91 sales, and what capital investment has been involved?

How do the results compare with the capital invested in forest industries in the decades prior to 1990?

What provisions have been made for a continuation of the vitally important log sales to Tasman? The public has never been told the detailed results of the long legal battles between Tasman and the Forestry Corporation.

To what extent is the enormous increase in the overseas log trade due to the 1991 sales rather than the higher log prices subsequently operating?

Will the terms of reference given to the bankers advising the Government on the sale be made public? If not, why not?

There will doubtless be other important questions that should be answered.

Until these questions have been asked and answered there should be no decision to sell Kaingaroa. There are very many people in New Zealand who believe that, even if satisfactory answers are forthcoming, Kaingaroa is still too valuable an asset to be sold.

New Zealand has been praised the world over for its success in developing, managing and regenerating Kaingaroa. Let us not sell it unless a close, independent investigation shows without doubt that the merits of selling far outweigh the merits of retaining it in Crown ownership.

Andy Kirkland

A.P. Thomson

New Zealand Forestry invites you to submit material for inclusion in this publication.

We accept:

- articles on a wide variety of forestry topics;
- comment on forestry or Institute of Forestry affairs;
- items on current events;
- letters to the editor;
- items from local sections;
- advertising.

Comments, letters, news items, and Institute news need to be with the Editor at the beginning of the month prior to publication.