5. That the Working Party further investigate the feasibility and cost of a joint accreditation with IPENZ of the BE(For) degree programme.

6. That there be formal involvement via FITEC in the moderation of the National Diploma in Forestry (Forest Management).

7. That Council explore the possibility of establishing an International Accord between the professional forestry institutes of Canada, United States, Great Britain and Australia for the purposes of recognising the accreditation of forestry degrees.

8. That the Working Party explore the possibility of working in conjunction with IFA to develop and define common competencies and standards related to the accreditation of forestry degree programmes.

9. That NZIF seek formal representation on relevant Advisory Committees maintained by education providers, (eg. School of Forestry Advisory Committee — University of Canterbury; Forestry Advisory Committee — Lincoln University (being established))

10. That the Working Party investigate the administrative resources required to establish and maintain the proposed accreditation scheme.

LETTERS

David Norton's Article

Sir,

David Norton, in his article on Indigenous Biodiversity Conservation and Plantation Forestry, criticises the New Zealand forest Accord and the Principles for Commercial Plantation Forest Management derived from the Accord. Norton sees these voluntary agreements between conservation and forestry interests as polarising conservation and production, whereas enlightened managers should be adopting his more integrated approach.

The main purpose of the Accord was to identify those natural areas it would be inappropriate to clear for the establishment of plantations. This may be polarisation, as Norton calls it, but it is also plain common sense that has delivered significant conservation gains. It has been a cost-efficient way of resolving the hugely controversial land use disputes that dogged the pine industry during the native forest clearing era of the 1960s-1980s.

Would Norton have us return to that era or to so-called 'enrichment plantings' of exotics in indigenous forest areas? The Accord and Principles do not see plantations as areas devoid of value for indigenous biodiversity. A key section of the Principles sets out goals for the management of indigenous biodiversity in plantations. The conservation of indigenous flora and fauna is to be provided for where appropriate, with specific undertakings for threatened species, riparian margins, waterways and for the restoration of critically depleted habitats. The Principles also address a key issue of plantation management being ignored by Norton — the weed and pest threat they pose to natural areas. Invasive weeds can bulk up within a plantation and form a huge seed reservoir that hastens their spread. Grazed farmland presents far less of a threat in this regard.

Plantations can also facilitate the dispersal of animal pests such as deer and goats. They are harder to control under the forest cover provided by the plantation than on open land. Unless there is effective pest control within a plantation, native forest areas may survive better as forest islands amidst pasture than when surrounded by pines inhabited by browsing animal pests.

These issues present new challenges for plantation managers. Norton hasn't convinced me the "old paradigm" should be ditched in favour of his "new paradigm" which looks much like the old multiple use regimes for forestry long promoted by New Zealand's forestry schools and state-funded foresters.

Kevin Smith
Conservation Director

Commentary by Chris Perley

Sir,

Chris Perley (August 1998) argues cogently for the inclusion of uncertainty in decision making, and for reducing the over-emphasis on Discounted Cash Flow Analysis. I agree with nearly all his points, but feel he has over-stated his case, perhaps for the sake of impact.

How would Chris address the following situations? Two business people (Mr. Alpha and Ms Beta) approach Chris Perley & Associates for expert forestry advice. To Chris's disgust, they are interested only in maximising their profit, have scant regard for the environment, and have no time at all for New Age philosophies. Nevertheless, times are hard and Chris is obliged to accept their money.

Situation 1. Mr. Alpha has a 28-year old woodlot of radiata pine, which he wishes to sell. Does he need the money now, but wants to maximise the cash in his hand when he retires in three years' time? Should he harvest now, and put the money in a three-year term bank deposit, or should he grow the stand for another three years and sell it then? The latter involves more risk (wind, fire, market prices), although prices can go up as well as down.

I would analyse these options using Marvl, GroMarvl, and the principles of compound interest and taxation. Lastly, I would look at the historical evidence in order to attempt to quantify the various risks. The final decision is, of course, up to Mr. Alpha. What would Chris do?

Situation 2. Ms Beta wishes to plant a radiata pine woodlot on bare land as a superannuation scheme, to mature in 30 years' time. She has discovered two properties for sale, virtually identical in every respect except that Block A has a site index of 25 m and a sale value of $600/ha, while Block B has a site index of 32 m and a sale value of $1500/ha. Given that all else is equal, which is the better investment?

I would analyse these options using a number of Standup runs, calibrated for the local conditions. I would use Discounted Cash Flow Analysis to calculate Net Present Value for a number of discount rates. (Bill Studholme was right, if he was referring to NPV rather than IRR: you will inevitably get a range of answers.) If Block B was superior to Block A under all scenarios, I would breathe a sigh of relief and make an unequivocal recommendation. If not, I would say 'it all depends' and interrogate Ms Beta closely to discover how important cash-up-front was to her, compared...
with cash-at-harvest. In other words, to
discover her time preference, or personal
discount rate. What would Chris do?
I beg Chris not to cop out and say
'these are hypothetical situations, in real
life things would be different'. We are try-
ing to agree on the basic principles, in
order to determine where quantification
and DCF analysis should stop, and where
subjectivity should start.

Piers MacLaren

Chris Perley replies

The Parable
of Accountant X

In the article to which Piers refers, I didn’t
argue for the inclusion of uncertainty in
decision making as some fashionable, sub-
jective ‘tack-on’: I argued for its accept-
ance as a reality. What is more, I argued
that relying solely on quantitative data has
only the appearance of rational objectivity.
The cost and return assumptions involved
in any financial analysis have a large ele-
ment of subjectivity, and can lead you
down the garden path, perhaps minimising
your return, or losing it all.

As to Piers’ examples, he obviously
wants me to provide some quantitative
analysis. I accept the benefit of quantita-
tive analysis, but only when placed within
a broader framework. Given Piers’ nar-
rowly defined bounds of consideration
(his framework) I must concur with Piers
approach. If Mr Alpha and Ms Beta wants
the numbers, or rather the perception of an
‘objective’ comparison of options, then so
be it — bring out the spreadsheet, load it
with assumptions and feel the glow of cer-
tainty and security in the knowledge of our
‘rational objectivity’. Our butts are
covered and no one can blame us when the
projected loser perhaps turns out to be
the actual winner.

But does this prove I have overstated
the case for accepting uncertainty or the
openly subjective and strategic? I think
not. Piers has precluded, by his own defi-
nition in the examples, the parts of the
analysis that, dare I say it, separate the bet-
ter consultant from the rest — his judg-
ment, her consideration of the uncertainty
and the wider qualitative world that exists
as a reality.

To illustrate, I’ll tell a parable. I am
fond of recounting the story of a hypo-
ethical Accountant X advising a prospec-
tive kiwifruit grower. The ‘rational’, ‘objecti-
ve’, quantitatively derived advice
the accountant gave his client in 1968,
before kiwifruit was a commercial suc-
cess, and while land prices remain cheap,
was — “Don’t invest!” Unfortunately —
for the client who had just the piece of
land — a bad call.

By 1978 kiwifruit was going hell for
leather (unfortunately not for the client, who
on the advice of Accountant X sold
his kiwifruit land for three marbles and
invested in the hot 1968 investment — wringer
washing machines). People were
leaving their ostriches (or whatever was
the last fad) in droves to invest in ‘fuzzy
green gold’. The client goes back to ask
for the ‘rational wisdom’ of the quantita-
tively objective, chartered accountant seer
(past bad advice being forgotten). The
seer crunches his numbers again and says
— “Invest!” Wrong again.

We all know what happened to
kiwifruit in the 1970s and 1980s — an
undersupply on surging demand increased
growth, leading to an over-reaction, lead-
ing to financial collapse. The same
dynamic happened with blackcurrants as
well as worldwide, greenfields MDF
plants as I recall. Perhaps that dynamic
— the tendency to overreact based on the
current and historic quantitative data, and
its consequences — is also relevant with
short and long term forestry investment
advice? Six months ago, the numbers
might have said sell your forest invest and
reinvest in interest deposits, or a year ago
to invest in forestry stocks.

How is it that such apparently rational
and objective advice from Mr X, the most
rational of advisers, could produce the
wrong answer — twice? The advice obvi-
ously did not include all the information
— it never can. But a broader perspective
might have made things a little more prof-
table — a perspective that included what
others were or were not doing for
instance.

Contrary to Piers’ cheeky suggestion
that I am perhaps anti-profit, I am inter-
ested in my client achieving an actual rate
of return rather than a hypothetical one
worst case, leading to an over-reaction, lead-
ingar to the conclusion that strategy comes before financial analy-
isis, and financial analysis is an exception-
ally poor tool with which to derive such a
strategy. Determining a strategy is not just
a matter of finding out those factors that
relate to the financial analysis — Ms Beta’s
time preference for instance — it is
far more than that.

Setting aside any disagreement I might
have with Piers regarding forestry’s risks
relative to interest deposits and other
investments, I wouldn’t necessarily bother
with the third consideration — quantita-
tive stand and financial analysis (I hear
laughs and cries of “heretic!”, “unscienti-
fic!”, “unprofessional!”). The recom-
pensation might fall out of the strategic
analysis, without any need for the quanti-
tative. The initial, largely qualitative
analysis may, for instance, indicate that
his best strategy is to leave forestry well
alone. The ironic thing is that financial
analysis, devoid of the broader consider-
ations, might indicate the opposite!

The essential consultancy framework I
would recommend is therefore — first,
understand the client as well as possible
(largely subjective and qualitative), then
the external environment (involving quan-
tities, qualities and subjectivity). Combine
them to identify some form of strategy,
including the value of options. Only after
that consider the financial quantitative
data within that strategic framework —
and don’t forget its subjective element. So
many of us ignore the first two in our haste
to claim and strut our ‘professional’ ‘ratio-
nal’, ‘objective’, ‘scientific’ mantle. It has
become almost a religion.

As the example of the ‘rational’,
‘objective’ kiwifruit beancounter should
show, one can focus on purely the quantifi-
able is a load of old cobblers. Suggesting
a broader perspective does not indicate
some personal propensity for floral-deco-
rated VW combies and ‘make love, not
profit’ New Age ideals. On the contrary,
the ideology I think doomed to return poor
dividends is the pursuit of, and giving sole
credence to the quantitative, while ignor-
ing the openly subjective and strategic.
McIntosh Ellis practiced the strategic
approach. As with the kiwifruit industry,
relating only upon the quantitative ‘facts’
of the day to determine ‘rational’ actions
would have precluded the establishment
of our own plantation forestry industry.

So which approach deserves the cloud
cuckoo land epithet?

Chris Perley

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