Fair taxation for forestry investments

Dear Sir

I write in response to the honourable Jim Sutton's comments in the May 1999 issue.

Contrary to his implication, I did not criticise the Labour party's intention to increase the top marginal tax rate to 39 cents in the dollar. The extent to which the Government has the ability to spend money more wisely than the individual is something that I would be willing to debate at another time. The point that I want to make here is that we need to ensure that the playing field is made level so that people who are currently engaged in long term investments like forestry are not disadvantaged in comparison with other investors, and that further forestry investment is not discouraged.

Jim quite correctly highlighted the reverse inequity of a potential situation where owners of certain woodlots that have had some (only one year actually) of their development costs deducted at 66 cents in the dollar would only get taxed at 39 cents (plus GST of 12.5 cents of course) in the dollar when they get their income at harvest time.

In such circumstances it may be fair for Government to introduce regulations that obliged these owners to pay an appropriate amount of extra tax, but an equitable quid pro quo would be that growers who have only been able to deduct their growing costs at 33% get a 6% tax credit at harvest time.

Jim may have been obliquely suggesting that whatever is deducted in one year is offset against income made in the same year at the same rate, (probably from non forestry income), and that would be the end of the matter, but this is not valid. A person's decision to put money into forestry development instead of some short term investment is based on the expectation that Government will not change the tax rate so that a special penalty is loaded onto forestry investors.

Jim went on to promise that "the Labour party would not reintroduce death duties or any broadly applicable capital taxes during Labour's first three year term of office." This is some consolation for forest owners that are likely to harvest their crop in the short term but cold comfort for the rest of them. Making its commitment for only a three year period implies that Labour may well reintroduce death duties during a second or subsequent term of office.

Could it be that the Labour party has a hidden agreement with the Alliance party, to encourage the phasing out of private investment in forestry and return to a situation where forestry development is dominated by the State?

Hamish Levack

Defining leadership

Sir

Your "Defining Leadership" Editorial in the May Journal is very pertinent. The forest industry does seem fragmented at present; for while the NZ Forest Service (particularly the Forest Research Institute) provided leadership in the past, the industry today is rather like a hydra.

Your discourse missed one of the hydra's most important heads -the Farm Forestry Association. With a membership of some 4000, comprising a wide range of people from farmers, through business people to professional foresters, the Association is a leader in many areas. In particular its work with alternative species is well advanced with groups working on Acacia melanoxylon, the Cypresses, redwood and indigenous forestry. The existence of the Indigenous Forest Section of Farm Forestry probably explains why there is little interest in the Institute's continuing efforts to be involved in the indigenous area. This group is very active, contains most of the indigenous forest practitioners in the country, and is involved in research and forest certification as well as other activities.

Leadership in New Zealand forestry will evolve through time but in the Interim I would urge the Institute to pay more attention to the Farm Forestry Association. After all, within a decade or two, they may not only be the biggest forest ownership group but could also control most of the non Pradiata resource.

I have a feeling that this Institute is becoming introspective and the biggest problem to overcome may be its tendency to be the "NZ Institute of Pinus radiata Forestry"

Ian Barton

Millennium forestry

Sir

One of the things that puzzles me is why are the large forestry corporates doing so badly while down here the forest industry seems to be booming. Of course there was some downturn, particularly in log export, in the early days of the Asian contagion, but over the same period there has been massive investment in new plant and all the mills seem to be working double shifts.

I am not sure whether this represents over-large industry locked into its own mindset versus free-wheeling entrepreneurs or whether it is just a basic contradiction between the ethos of public and private companies.

I rather suspect it is the latter. A public company essentially farms money in the enterprise of the moment and is judged by its success (via various discounting formulae) in doing this. A private company must also of course be successful in its management of money, but has far more freedom in how it sets about doing it, neither is it subject to such detailed and pedantic daily criticism.

Thus in the private companies throughout New Zealand we see an enormous range of rotation lengths for radiata (from 20 to over 30 years), a keen interest in other species, particularly Douglas fir, cypress and eucalypts, and a much greater appreciation of the place of their business in the community.

The public companies on the other
hand have so downsized, centralised and prime-contracted their management that often they can't be said to have a place in the community at all. CHH's Millennium Forestry takes this to its logical conclusion, with the rural workforce discarded and professional management so thin on the ground (and so frequently turned over) that one has to doubt whether the relation between the computer model and actuality is ever seen.

Leaving aside the PR possibilities behind the title (borne of a time of financial stress to people who will be long gone before the project is tested), the whole thing looks to come straight from the people who gave us the Vietnam War. Programme in what ought to happen, weed out the unreliable comment of people on the ground who might cast doubt, and get closer still to the spread sheet. The sad thing is that investing in these companies via their shares is the only way for most people to get a piece of the action.

John Purey-Cust

To prune or not to prune

Sir

With the debate on whether “to prune” or “not to prune” and aim for short rotation Radiata pine forests, a significant factor appears to have been overlooked. Low quality softwood rubbish can be easily and abundantly grown in most temperate countries in the world.

New Zealand has a great advantage in being able to produce quality large diameter Radiata pine sawlogs in supply clearwood sawn lumber to a world market to replace production from rapidly disappearing natural old age production forests. While nobody can accurately predict with certainty what is going to happen in 30 years time, forest managers would be foolish if they did not take into account this important trend.

I feel very sad that Carter Holt Harvey has decided to “not prune” and to clearfell at the young age of 20 years. Surely short-term gain is going to be long-term pain. The company’s vision is narrow and short.

Fortunately we do have investing in New Zealand forests overseas companies with a wider long-term vision and faith in the future of our forests. One example is Ernslaw One in west Otago, which is planting extensive new areas of Douglas fir with a 60 year rotation.

J. A. Smith

ForPeople

Keeping in touch with who is doing what, and where, can be difficult these days...so please send updates for publication in ForPeople in the NZ Journal of Forestry.

bms@wave.co.nz