FOREST EXTENSION THROUGH COMPANY FORESTRY IN NEW ZEALAND

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SYNOPSIS

The constitution of ownership and current trends of company exotic forestry in New Zealand are elaborated and the reasons for these discussed. Eighty-nine per cent. of company forests are now held by enterprises carrying out their own utilization, many areas having been acquired by such firms during the past ten years.

A continuing lack of finance and unfavourable taxation regulations are given as reasons for the present restricted extension of forests by companies. Three possible schemes to alleviate this situation are suggested.

INTRODUCTION

One-third of New Zealand's planted forests are owned by companies, the original establishment in most cases having been undertaken during the period 1925–1933. Exploitation of the stands has been proceeding during the past 15 years with great divergence between companies in the activities of re-establishment, tending and extension. This variation is due to the nature of the ownership and the individual company's expectation of favourable long-term dividends from further investment in forestry. A marked change in the ownership pattern has occurred during the past ten years with utilization firms now owning 89% of the acreage planted by companies.

In contrast with most developed countries, there has been no Government financial assistance to company forestry in New Zealand. Furthermore, these long-term enterprises have suffered from the iniquitous burden of normal taxation rates. Some relief granted in recent years has been designed to assist farm foresters and to encourage further expenditure on establishing a second crop of trees. There appears to be little possibility of public finance being made available to encourage the commercial growing of trees by companies in a primarily pastoral land-use economy. If the wood-using industries wish to ensure future improvement in both quantity and quality of raw material, the investigation of alternative financing schemes is imperative. Methods of funding, with numerous overseas precedents, are discussed and it is suggested that the current ownership pattern provides the opportunity for the introduction of such schemes.

TRENDS OF COMPANY OWNERSHIP

Initially established with a view to selling stumpage or forest produce in the form of logs and roundwood, the forestry companies have now largely expanded into utilization activities or alternatively

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sold their land and forest to established sawmilling firms. Acquisition of established exotic forests by the larger utilization firms has been particularly marked during the past ten years, as indicated in Table 1.

TABLE 1: SOME EXOTIC FOREST OWNERSHIP CHANGES IN PAST TEN YEARS

Purchasing Company[1]	*Previous Owner*[2]
Ellis & Burnand Ltd.	(i) N.Z. Timber Investment Plantations Ltd. (ii) Lichfield Lands Ltd.
Fletcher Timber Co. Ltd.	(i) Broadlands Forests Ltd. (ii) Rangitaiki Development Co. (iii) Pine Products Pty. Ltd.
Henderson & Pollard Ltd.	(i) Kaipara Forests Ltd. (ii) Tinopai Forests Ltd.
Hutt Timber & Hardware Ltd.	Pt. of Pacific Forests Ltd.
McAlpine Bros. Ltd.	Taranaki Permanent Forests Ltd.
New Zealand Forest Products Ltd.	Redwood Forests Ltd.
New Zealand Forest Service	Matea Forests Ltd.
Putaruru Timber Yards Ltd.	Putaruru Pine & Pulp Co.
Tuck & Watkins Ltd.	Pt. of Pacific Forests Ltd.

NOTES:

[1] All these companies operate their own conversion plants.

[2] All these companies were purely forest-growing enterprises selling stumpage or material in the round.

In addition, the majority of the areas still owned by forestry companies are committed for sale under cutting contracts to the sawmilling firms. These arrangements eliminate the necessity for the utilization company to purchase the land and forest at present but assures them of neither quality nor continuity of production in the future.

THE EFFECT OF OWNERSHIP ON MANAGEMENT

(1) *Forest-growing Companies*

Forest-growing companies do not own their own conversion plants but sell forest produce either "in-the-round" as logs, posts, etc., or on a stumpage basis.

The normal pattern in New Zealand has been for a company to be financed through the sale of shares, the proceeds of which are used to purchase the land and plant the initial crop. A bare minimum has normally been expended on facilities such as roads or houses and scarcely enough has been held in reserve to meet annual administrative charges, rates, taxes and accountancy fees. Funds for protecting or tending the growing crop have in most cases been either minimum or non-existent. Little wonder that after thirty years such companies have been conditioned to accepting virtually any stumpage rates and cutting conditions that may be offered to them. For management to go to the shareholders, seeking addi-

TABLE 2: FOREST-GROWING COMPANIES IN NEW ZEALAND 1963

Area Planted (acres)	*Company Name*	*Established Area in 1963 (acres)*	*Total Acreage*
Over 5,000	Pacific Forests Ltd.	5,996	
	N.Z. Pinelands Prop. Ltd.	5,611	
		——	11,607
1,000 to 2,500	Hawke's Bay Forests Ltd.	2,255	
	Nelson Pine Forests Ltd.	1,755	
	Rukumoana Farm & Forests Ltd.	1,625	
	Matakana Afforestation Ltd.	1,510	
	Mamaku Forests Ltd.	1,253	
		——	8,398
400 to 1,000	Brandy Creek Pines Ltd.	861	
	Kaihu Valley Perp. Affor. Co.	795	
	Monterey Pines Ltd.	693	
	Te Papa Forests Ltd.	686	
	Tahora North Ltd.	528	
	Stanley Brook Pines Ltd.	486	
	Farnham Forests Ltd.	409	
		——	4,458
			24,463
Under 400	45 Companies		6,804
	Total net area established (acres)		31,267

tional finance for either logging or utilization equipment in order to make full use of their development asset, would require the certainty of immediate and substantial returns. Owing to the post-war trend of amalgamation of sawmilling and retailing interests and the difficulties associated with wholesaling timber containing a large percentage of low grade, the forest companies have been reluctant to extend their activities into sawmilling.

The result has normally been a clear-felling operation at the earliest possible age, undertaken by sawmillers or their contractors in forests they do not own and for which they have little respect. The difficulties of applying contract clauses to the operations of the forest company's sole revenue producer are too well known to most foresters to require detailing here. However, it is almost certain that, if the people who actually grew the forests had been able either by their own internal financing or through outside assistance to harvest the trees and sell the resultant logs, company forestry would today be in a far healthier condition. Being forced to accept artificially low stumpage rates, instead of receiving both full stumpage and the profit from logging and milling operations, has also given little encouragement to the owners to continue in forestry. Some taxation relief has been granted in an attempt to encourage forest owners to use profits from the sale of the first crop to re-establish and tend the second. Such expenditure can be claimed against assessable income, even though in the same year the cost of the area of first-rotation forest felled can also be written off. It is considered that this is a very liberal dispensation under N.Z. tax law but in practice it is found that many shareholders who have had their money tied up for thirty years are reluctant to forgo dividend money by diverting it to a second rotation, even though such expenditure is not taxable.

Already the area still controlled by forest-growing companies has decreased so much and the prospects of extension out of revenue are so slim, that it is very doubtful whether this type of company will have any significant effect on the future forestry picture in New Zealand. It is not surprising that there have been no new ventures

TABLE 3: UTILIZATION COMPANIES WHICH OWN EXOTIC FORESTS

AUCKLAND CONSERVANCY:	
Ellis & Burnand Ltd.	Hamilton
Henderson & Pollard Ltd.	Auckland
C. R. Lovatt & Co.	Whangarei
George Syme & Co. Ltd.	Auckland
West Timber Co. Ltd.	Helensville
ROTORUA CONSERVANCY:	
Bartholomew Timbers Ltd.	Te Whetu
Ellis & Burnand Ltd.	Putaruru
Fletcher Timber Co.	Rotorua
Hutt Timber & Hardware Co.	Tokoroa
N.Z. Forest Products Ltd.	Tokoroa
P.T.Y. Industries Ltd.	Putaruru
Taupo Totara Timber Co.	Putaruru
Tuck & Watkins Ltd.	Putaruru
Whakatane Board Mills	Whakatane
WELLINGTON CONSERVANCY:	
C. E. Daniell Ltd.	Masterton
W. B. Fussell (Est.)	Waiongona
R. Holt & Sons Ltd.	Napier
J. Odlin & Co.	Manakau
McAlpine Bros. Ltd.	Oakura
Mallaby Mills Ltd.	Silverstream
Marton Sash & Door Co.	Marton
Treelands Ltd.	Oroua Downs
NELSON CONSERVANCY:	
H. Baigent & Sons Ltd.	Nelson
Tasman Forests Ltd.	Moutere
CANTERBURY CONSERVANCY:	
Addington Timber Co.	Christchurch
Fletcher Trust & Investment Co.	Christchurch
SOUTHLAND CONSERVANCY:	
Barrow Box Co. Ltd.	Tapanui
J. H. Thomas & Co. Ltd.	Mataura

of this type initiated for many years. Without a radical change in either stumpage rates or the financing of extension forestry, there can be no expectation of future major forest expansion from this source.

(2) *Forestry/Utilization Companies*

Although from a list of 617 sawmillers there would appear to be only 27 firms owning exotic forest resources, a close examination of Table 3 will show that nearly all the major companies are represented. In addition, many of the individually registered sawmills are not independent concerns but are directly owned or connected with the major companies. Very few of these larger companies control enough forest to supply all their needs in perpetuity and they will no doubt be ready purchasers of any established forest areas if these become available. Possibilities of extension by these companies are dependent on availability of land and capital for new planting and on acceptance of the policy of diverting profits back into the re-establishment and tending of the second crop. This type of company has the assurance of reaping the benefit of early thinning and pruning undertaken in its own forests. Advantages of lower logging costs and improved grade recovery must accrue to the integrated forestry/utilization company, in contrast to the uncertainty faced by those growing forests for sale on the stump.

Companies considering acquisition of additional land for planting face severe competition from other land-use activities and from Government departments. Current prices for suitable parcels are such that little expansion is taking place in this way. With the cheaper and improved techniques being developed by the Forest Service for re-establishment of cutover indigenous forests with exotics, many companies could take advantage of the extensive area of Crown and Maori land being exploited each year. With good roads already formed, heavy equipment available for clearing, and permanent staff, immediate steps could be taken in many areas if the Crown would introduce a policy of releasing suitable land, either freehold or on long-term, deferred lease. In addition, it would be reasonable to expect the taxation department to extend the dispensation given to costs incurred in re-establishment of exotic forests to the similar operation of conversion from indigenous to exotic forest.

Expenditure on regeneration, consolidation, thinning and pruning of the forests already owned by most of these companies is currently averaging £2 per planted acre annually, which represents approximately 1½d. per cubic foot of mean annual increment. It is also possible for these integrated activities to utilize, rather than waste, the early thinnings prescribed on silvicultural grounds, by accepting lower retail prices when the market is difficult for roundwood products. The long-term benefit from timely thinning is now considered to be as important as maximum current sales profit. Practical experience with forest management on their own holdings also encourages better co-operation from the utilization firms when they are drawing raw material supplies from other areas such as State forests.

With their appreciation of the industry's future needs and rational approach to silvicultural practices, unhindered by traditional orthodoxy, the forestry/utilization companies are already having a strong effect on New Zealand forest practice. The continuation and extension of this influence is dependent on the factors mentioned above, together with improved assurance of funds, irrespective of short-term economic crises in the timber industry.

FINANCING COMPANY FORESTRY

(1) *Overseas Practice*

Virtually every western country encourages company and private forestry by some or all of the following concessions:

- Tax exemption when the forests are young and not earning revenue;
- Long-term loans for periods up to 50 years and interest rates as low at ¼ per cent.
- Self-supporting fire insurance schemes;
- Investment schemes, with levies on sales being returned in the way of direct silvicultural and improvement grants.

Grainger (1950) and Zivnuska (1959) have summarized details of the various schemes operating in Europe. Their favourable assessments of many of the methods used are common knowledge to those concerned with forest policy and taxation in New Zealand. Under our conditions, the main difficulty with application of many of these schemes appears to be due to differences of both the relative importance of forestry in the country's economy and the pattern of ownership. In many European areas forestry is the major land-use activity. Furthermore, the State seldom owns more than one-third of the productive forest estate. Strong representations can therefore be made by companies and individuals for equitable taxation and other inducements to permanent forestry.

(2) *Past New Zealand Practice*

A perusal of the past annual reports of the Forest Service indicates the official attitude towards non-State forestry activities. The briefest details, contained in a single paragraph, indicate the continued presence of company forestry and the fact that there has been some planting "but less silvicultural activity than is desirable". Sporadic references to the undesirable drain on trained Forest Service staff to company forestry are interspersed with comments on the need for better control of forestry activities by the same companies. Some efforts have been made to alleviate the effect of taxation, with the limited success mentioned above. There has not been a strong, positive attempt by the forest authority to encourage company forestry.

Recent success in obtaining Government assistance for farm forestry indicates that this is possibly the sole field where forestry can expect to benefit from the public purse for many years. It is therefore likely that it is only through internal financing that company forestry can be expected to gain a sound base and a position of growing importance.

(3) *Possibilities for the Future*

(a) *Government Loan Schemes*: The type of scheme already benefiting individual farm forest owners in New Zealand would be of some assistance to the smaller company forest with a limited expansion programme and no trained staff. However, the present scheme limits each applicant's area to an annual level well below the normal company's requirements. In addition, a high degree of control by the loan authority is envisaged if the applicant wishes to qualify for suspension of portion of the loan. Many companies, and particularly those undertaking their own logging and sales activities on a competitive market, will not wish to be subject to outside control in order to qualify for assistance. It would appear more desirable to make normal loan arrangements. Provided the companies had continued access to technical assistance, satisfactory fire protection or insurance, and sufficient collateral in the form of land or growing stock to cover the loan, they should be permitted to make use of the loan money for extension or tending as they choose.

(b) *Taxation Incentives*: Tax dispensations for re-establishment of the second exotic crop are of considerable assistance to those who own forests of some age. However, it is apparent that such forests are now largely in the hands of the utilization companies, which derive additional benefits from the sale of the manufactured product. Little extension of forests can be expected by investment companies while the present tax regulations operate.

A strong case can be argued for allowing the whole of a company's expenditure on establishment to be deductible in the year in which it is incurred. The amount involved is very small when compared with the tax payable on income received at the time of utilization. Denial of this advantage to companies is resulting in a drain of forest capital away from the industry and into dividends and more profitable investment.

(c) *Financing by Taxing Utilization*: The forest improvement and silvicultural tax schemes operated in European countries are levied either on raw material sales from the forest or on sales of manufactured products from the utilization plants. The moneys so raised are distributed to those companies and individuals who establish new forests or improve young stands. With the continuing trend towards forest-owning utilization companies, the N.Z. forest products industry may now be inclined to consider the funding of forestry and their future supplies of raw material by a tax on current production.

An arbitrary 5% tax on all sawn timber sales, at ex mill values, would provide approximately £875,000 annually from the current production of 700,000,000 board feet. Alternatively, a tax of 1½d. per cubic foot on all roundwood consumed by the wood-using industry (including saw logs, pulp logs, etc.), would provide £1,062,500 annually. As many of the companies and certainly the State itself are already spending equivalent sums on improvement and replenishment of their growing-stock it might be expected that considerable support would be forthcoming for such a scheme. Those prepared to provide for and improve future raw material supplies would benefit. At the same time they would be assisted by those who are exploiting current stands at low stumpages. This neglected but legitimate claim on behalf of the forest should be promoted without delay.

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