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 Council seek 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.

11. That the Working Party investigate any legal or constitutional requirements involved in NZIF operating an accreditation scheme.

The NZIF Council endorsed these recommendations in principle, but decided to consult with the membership first before proceeding with implementing most of them. Therefore members feedback, views and comments on the recommendations is welcomed by Council.

Peter Hay
Convenor
NZIF Accreditation Working Party

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. He does not 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 fell 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 Standpak 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 trying 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, subjective 'tack-on': I argued for its acceptance 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 element 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 quantitative analysis, but only when placed within a broader framework. Given Piers' narrowly 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 certainty 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 definition in the examples, the parts of the analysis that, dare I say it, separate the better consultant from the rest — his judgment, 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 hypothetical accountant X advising a prospective kiwifruit grower. The 'rational', 'objective', quantitatively derived advice the accountant gave his client in 1968, before kiwifruit was a commercial success, 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 quantitatively 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 prices, leading to an over-reaction, leading 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 obviously did not include all the information — it never can. But a broader perspective might have made things a little more profitable — 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 interested in my client achieving an actual rate of return rather than a hypothetical one worth only as much as the paper it is written on. I would base my advice to Mr Alpha on a broader understanding first of my client's objectives, resources and especially the key constraint(s) (Peter Drucker advised to always maximise your returns to the limiting factor — be it land, capital, expertise, a lack of liquidity, payback period, whatever). He might, perhaps, own the only local integrated processing plant. Cop out or not, nothing is ever as clear cut and simplistic as Piers would suggest.

The second consideration would be what is going on in the real world: who's doing what; where are we on the business cycle; how much timber, of what quality, by what ownership is coming on stream in three years time; what are the issues relating to managing and marketing timber such as Mr Alpha's; how the forest he owns perhaps complements his other investments; what options it provides in an uncertain world — all the boring, largely unquantifiable stuff that impacts on someone's chosen strategy. I am a firm believer that strategy comes before financial analysis, and financial analysis is an exceptionally 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 — quantitative stand and financial analysis (I hear gasps and cries of "heretic!", "unscientific!", "unprofessional!"). The recommendation might fall out of the strategic analysis, without any need for the quantitative. 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 considerations, 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 quantities, 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' 'rational', 'objective', 'scientific' mantle. It has become almost a religion.

As the example of the 'rational', 'objective' kiwifruit beancounter should show — any focus on purely the quantifiable is a load of old cobblers. Suggesting a broader perspective does not indicate some personal propensity for floral-decorated 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 ignoring the openly subjective and strategic. McIntosh Ellis practiced the strategic approach. As with the kiwifruit industry, relying 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