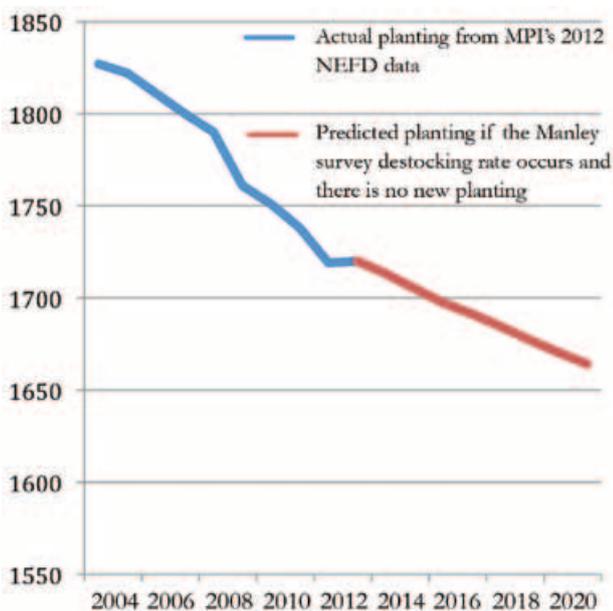


Changing government's attitude to planting

Hamish Levack

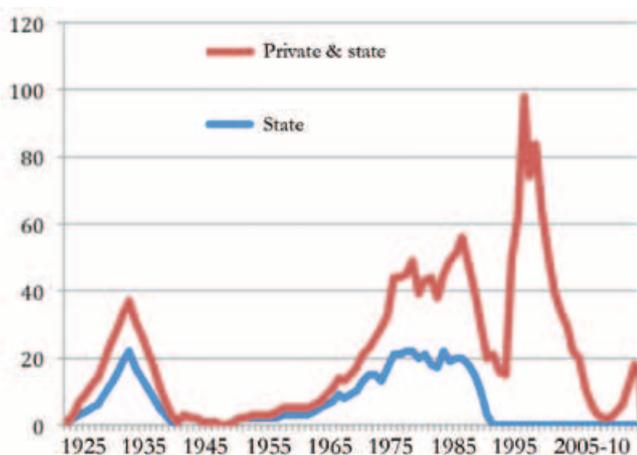
The national plantation estate has decreased by more than 100,000 hectares since 2003, and a survey of forest owners by Bruce Manley found that another 55,000 hectares would be de-stocked by 2020. Under current policies new planting has all but stopped, and should this persist the annual area loss of the production forest estate will continue, as shown in the graph. This alarming area loss of half a per cent each year is four times faster than the rate of loss of the world's forests.

Thousands of hectares



Planted production forest area in New Zealand

Thousands of hectares



National new planting rates

Government has had a crucial role in afforestation

How were the 1.8 million hectares, which are now being lost so fast, first planted? Apart from when log prices were exceptionally high, or when the profitability of forestry was misrepresented in investment prospectuses, significant rates of new planting only occurred when the government provided incentives, or did its own planting. Government employment schemes underpinned the boom in State afforestation during the late 1920s and early 1930s. New Zealand Forest Products Ltd, a major private forest entity, arose concurrently. It evolved from merging New Zealand Perpetual Forests and certain disreputable 1920s bond-selling companies that were terminated in 1934 by the introduction of protective legislation. Further merging of New Zealand Perpetual Forests planting was supported indirectly by a government licence to build a mill, with a protected monopoly, at Tokoroa.

World war-associated labour shortages meant that little planting was done from the late 1930s to the mid-1950s. However afforestation flourished from the 1960s through to 1984 when harvesting and processing grew and the government with two major corporates, recognised the need to normalise forest age classes. Responding to strengthening log export prices, the government promoted new planting via concessions, grants, loans, tax breaks and the development of Maori land, but most of this help was withdrawn from 1986 onwards.

The government also stopped developing forests itself. As a result, new planting plummeted, but then in the early to mid-1990s it resurged, partly because of market reforms but mainly because of an extraordinary spike in international wood prices. This was followed by another decline, as grower profits were squeezed between the steadily increasing costs and falling revenues. From 2008 it looked as though the ETS would stimulate planting by encouraging payment for carbon sequestration, but this has all come to nothing. With the enactment of the Climate Change Amendment Bill, and the crash in the price of carbon, a haemorrhaging of net stocked forest area can be expected.

The private sector is disinterested

Dissuaded by the lack of straight commercial profitability, hardly anybody is interested in new planting now. At a recent workshop about logging on erodible country, Scion's Spenser Hill demonstrated that much of New Zealand's current steep land plantation forests could only be harvested at a loss, never mind the cost of growing the wood. Distortions caused by

the lack of a capital gains tax on farms mean that land suitable for forestry is unavailable at a price that would seem to generate an adequate commercial return. In addition, most people who have accumulated sufficient funds do not expect to live long enough to see a new planting investment reach maturity. Current tax laws mean that they cannot convert immature stands to cash at a reasonable value. A transferor of standing trees to a transferee is required to declare it as a sale and pay taxes whereas the transferee cannot deduct the value until the trees are harvested.

People living overseas are further discouraged because of the requirement to deduct non-resident withholding tax on forest investors in forest syndicates as a royalty on gross harvests at 15 per cent. Recent reform of the Financial Markets Authority does not help either. It disallows cash flow projections in prospectuses beyond three years, which militates against any entrepreneur putting a forestry investment partnership together.

The introduction of regulations which discourage plantation forestry by governments and local authorities are a further disincentive to new planting. Several examples can be cited. Nitrogen leachate allowances from land around Lake Taupo effectively prevent change from forestry to another land use. Since the introduction of the ETS, owners have been obliged to pay for the carbon emitted if a forest first planted before 1990 is converted.

Some organisations which have planted steep land forests, including those encouraged by an East Coast Forest Grant, now find that the conditions attached to consents to cut down their trees are too stringent to harvest at a profit. Some local authorities place a range of other unreasonable constraints on forestry development. National environmental standards might mitigate this but the government has decided to mark time while it reviews the RMA. Owners of forests planted after 1989 who were enticed into the ETS now face penalties and bureaucratic obligations with little prospect of any benefits.

Government action required

Against the above concerns, a case can be made that, in the long term, new planting will turn out to be commercially more profitable than it is now. With the passage of time world demand for wood will increase due to growth in wealth per capita and population expansion. Conversely, global supply will diminish because the world's forests are being unsustainably harvested and becoming less accessible. At the same time energy costs are expected to increase and this will favour wood against substitute materials.

Past government support of forestry has succeeded in turning marginal land and sunlight into commercial wealth and has provided major socio-environmental benefits. It has been successful, among other things, because forestry's current GDP contribution per hectare is about seven times greater than that of pastoral land.

New planting has the potential to confer major socio-economic benefits in future. The need to transform the wall of wood, expected in the 2020s, into a sustainable yield is one of the more important benefits.

In 2012 Woodco prepared a strategic action plan to bring together the aspirations of the New Zealand forestry sector. If achieved, this plan will generate \$12 billion a year of national export earnings from the forestry sector within a decade. The revenue will come from new mills built to process the surge in annual wood supply of about 10 million cubic metres a year which will be coming available in the 2020s. However, processing investment will be conditional on this 10 million cubic metres a year increase in yield being sustainable. It will only be sustainable if at least 20,000 hectares a year of further new planting is established between now and 2022 to provide continuity of supply. This assumes that all harvested trees are re-planted, otherwise more afforestation will be needed.

Papers available on Scion's website, which were presented at a recent Te Papa workshop, help to quantify the very substantial return on capital that would be achieved from the ecosystem services provided by plantation forestry. Although the workshop was advertised as 'Integrating forest ecosystem services into policy', only one government policy analyst registered for it. On being asked what steps MPI was taking to get Cabinet to encourage new planting he gave the Ministry's misleading spin that 'The current ETS framework provides an opportunity for foresters to realise financial benefit from carbon sequestration'.

It is quite possible, of course, that eventually a collection of climatic catastrophes will tip an international agreement suddenly towards major carbon price increases. However New Zealand would face a huge greenhouse gas budget blowout if this happened before the 2020s, and meanwhile not enough new planting would have been done.

As Kit Richards says, the viability of forestry as a primary industry depends on competition for suitable land at the right cost, but currently the provision of ecosystem services by plantation forest results in added cost. The failure to price and account for ecosystem services results in economic distortion. It is a cross subsidy to the consumers and non-providers, and it gives rise to misallocated capital and poor economic performance.

One justifiable environmental benefit

Forests produce many valuable ecosystem services over and above the processed timber potential outlined in Woodco's strategic plan. If we just consider the difference in sedimentation under bare land and under planted forest then we can provide enough of the hard data needed to justify the government paying the modest top-up required to get the private sector to afforest 20,000 hectares a year.

Dr Luke Barry from Scion says that if we planted 200,000 hectares of the most vulnerable land, then we would be well on the way to saving \$1.4 to \$2.7 billion in avoided land erosion, depending on the discount rate used. The government intervention needed to ensure afforestation of that 200,000 hectares over 10 years would be about \$700 a hectare, the cost to buy and plant seedlings. Achieving the annual target of 20,000 hectares a year would therefore cost the government \$14 million a year, a very good rate of return for the taxpayer. It would be an even better return when the more intangible net benefits of water quality and regulation, terrestrial and aquatic biodiversity, recreation, scenery, energy security, hunting and the socio-economic effects of implementing Woodco's strategy are added to the equation.

We are responsible for promoting change

It is up to us to get politicians to understand that there is market failure in the forestry sector. We need to get the government to pay a contribution towards the value of the ecosystem services that forestry provides. We also need to lobby the government to moderate the impediments that constrain the trading and amalgamation of woodlots, and therefore the

attractiveness of new planting as an investment. These involve circumventing the tax anomaly which stops the sale of immature forests, making it easier for overseas residents to invest in forestry, and allowing long-term projections to be included in forest partnership prospectuses.

We also need to convince our local MPs that we also need a stand-alone government forestry agency reporting directly to its own Minister in Cabinet. Currently no top tier MPI official has a professional forestry education. In addition, any forestry policy proposal successfully inserted into MPI tends to get distorted by competing rural interests within the Ministry, sometimes even to the extent of being detrimental to the environment and the wider community.

We need to point out that there is a political opportunity for the party that first starts to support forestry properly again. The arguments are sound and we now know that there could be 100,000 voters who have forestry investments. Many of them are wealthy and influential community leaders. Let us work on mustering their support.

Hamish Levack is a forest owner.

Letter to the Editor

It was interesting to read your editorial on the need for a national forest policy. Putting your editorial alongside Chris Goulding's article on New Zealand's export of unprocessed logs, it is clear to see that you are right.

In this context it is interesting to look at the recent Forest Growers Levy proposal and the Levy Referendum because this had the potential to strengthen, unify, and build a more cooperative and inclusive framework for the New Zealand forest industry. But the democratic deficiencies in the process leading up to the referendum suggest this will not happen.

As you mention, the March referendum '...produced a majority 'yes' vote...' with 86 per cent voting in favour of the proposal. However, as you know the NZ Farm Forestry Association has a geodatabase of New Zealand plantation owners who have five hectares or more, containing 14,683 names. This database includes individuals, companies, iwi, trusts, local authorities and other types of plantation owners.

Given that only 582 voters participated in the referendum it is misleading to suggest that the best estimate for voter turnout was '...no more than 15 per cent of eligible voters....' when in fact was less than four per cent. At least 96 per cent of potential levy payers either did not vote or did not even know that a referendum was being held and for many, the latter is most likely the case.

In November 2012, three months before the referendum, the NZFFA provided the Forest Growers Levy Referendum Board with their database including the 6,734 names for which there were validated postal addresses.

Furthermore, they advised that the number of valid postal addresses in the database could be increased to over 13,000 with minimal expenditure.

In the event, the Levy Referendum Board instead relied on a legal opinion from solicitors, Kensington Swan, that advised against a mail-out on the basis that it might 'skew the communication process by informing one particular interest group but not another.' It is difficult to see how contacting 6,734 growers from a list of 14,683 could create a significant bias.

Kensington Swan also advised the Board to 'advertise details in forestry-related publications and magazines including all major daily newspapers (*NZ Herald, The Dominion Post, The Press*.)' But the Board did not advertise or place formal notices in any major newspapers.

Given what has happened, the referendum cannot be described as being democratic. If it is true that the 'yes' votes accounted for 86 per cent of the plantation area, then it is clear that the large growers dominated the referendum and that, as a result, small growers will just have to tag along (yet again).

You have to ask, is this the sort of industry we want for the future or have our industry leaders missed a golden opportunity to build a foundation that will strengthen, diversify and unify the New Zealand forest industry in an open, transparent and inclusive manner?

Yours faithfully
Roger May