

The fundamental questions to be asked of any investment, whether in forestry or downstream in processing and marketing, are: Does it provide us with our best return, and is it in accordance with our strategic objectives? This will raise fundamental questions about location of future plantings, silvicultural practices, and even the choice of species.

Furthermore, I believe it is not only the Corporation that needs to establish this tight discipline in its future investment decisions. There will be an increasing pressure for commercially efficient forestry throughout the sector. Total costs from planting to selling finished products need to be minimized. With the ever-increasing exposure to world competition there will be progressively less room to hide high forestry costs in the integrated production line. (I believe that the shakeout that started with the establishment of the Corporation is now in progress throughout the industry and the final outcome, if sensibly pursued, can only be good for the industry and the country.)

I would now like to turn to the issue of privatization which I know is of particular interest to many of us.

We currently exist as an unlisted wholly government-owned company. There are inherent problems in this both for us and for the Government, if we are to meet the legal requirement to perform. Two of the most important are monitoring and the need for capital. How without the normal disciplines of the market, such as takeover or disposal, can there be effective sanctions against underperformance by the Corporation, for whatever reasons? Is the monitoring system which the Government proposes to introduce the answer? The questions posed by monitoring from the Corporation's point of view include:

- Firstly, will the process become too onerous to the point where a bureaucracy has to be set up within the Corporation just to cope with the information needs of Ministers and officials?
- Secondly, will Ministers or future Governments resist the temptation to direct the Corporation to undertake or not undertake certain activities or investments for other than purely commercial reasons and to revert to the past?
- Thirdly, how can the problem of forewarning competitors of the Corporation's strategy by prematurely disclosing information, possibly removing a competitive advantage, be avoided?
- And fourthly, how can full accountability be achieved if spreading the decision-making process wider than the Corporation itself is perpetuated? The fundamental question is whether

it is better to get involved in the complex task of trying to model the real world, or let the real world do the job directly. Establishment of the Corporation as a listed company, with or without a Government shareholding, would of course remove the need for a monitoring process.

An advantage which the Government obviously sees from the sale of its ownership is the elimination of the need to provide further capital. It is elementary that if the Corporation, and indeed the industry, is to have a future, then it must be able to grow. This can only occur if the owners are prepared to invest in the very real opportunities that lie ahead. Long-term investment in our industry is no longer a high Government priority and without access to private capital the Corporation will therefore remain hamstrung in achieving its long-term objectives.

Sooner or later the Corporation will probably want to get into downstream processing activities. The reasons for this are many, but include the need to have greater involvement in the chain between forest growing and the ultimate consumer, the lack of processing capacity for the expanded future supplies of the Corporation's wood, the possibility of greater earning from added value products, and so on. There is no doubt that at least some of the capital needed for any such expansion will have to come from the shareholder.

Some may assert that Government ownership is needed on the basis that it provides strategic control of national resources. Is there a strong basis for this assertion when the resource remains in New Zealand and provides jobs and opportunities for New Zealanders regardless of ownership? Is not the critical issue the quality of commercial management and not the facility for

imposing bureaucratic strictures? Why indeed should forestry be regarded any differently from that bastion of private endeavour, farming, just because the crop has a longer rotation? (Private ownership has never prevented Governments from imposing their will when they have perceived it as necessary.)

Does Government need to own assets to earn income? They can raise it by taxing the income of those who do have assets. In summary, because they can both control the way a nation's assets are used (and do this evenly across all owners of any type of asset) and can raise money for Government expenditure without owning assets, the question that needs to be addressed by those interested in privatization is not what is the justification for disposing of an asset, but rather what is the justification for retaining it?

The current situation is that the Government owns a forest-growing business which:

- has to become a competitive producer of exported products in a relatively hostile world market;
- currently has a relatively small cash flow compared with future expectations;
- and will probably need large capital injections in the future.

At the same time the country has high government expenditure and high government debt. Setting the forestry business up as a company with a requirement to be efficient solves some of the problems.

There are others which must now be addressed to fully realize the gains from corporatization. Whether the route is direct, by privatization, or takes some other less obvious form of corporatization is only an interim step, albeit an important one, for the development of the internationally competitive company essential to the challenges of the 1990s.

The Ministry of Forestry

Malcolm Douglass

1. General

Government reform has already reallocated responsibilities in central government and will shortly impact on regional and district government.

The relationships between the Ministry of Forestry and regional authorities is generally excellent, more especially because of the common goals of these two levels of government.

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At the regional level, the Forestry Corporation is developing close linkages with regional authorities. The SOE Statements of Corporate Intent have not yet developed in a meaningful way (apart from the commercial emphasis).

Other Government Departments (e.g. DOC, MFE) are still developing their new relationships with regional authorities and with local government.

2. Ministry of Forestry Corporate Plan

The 1988/89 Corporate Plan clearly sets out the internal relationships and

objectives. The document excludes any reference to the linkage and advice to and from regional and district government. Under the goals (5) of providing an authoritative and comprehensive forestry information service and also in the situation analysis dealing with internal strengths and external opportunities, the linkage with regional government and district government should be reinforced. The mission and functions could make explicit reference to local authorities as the other half of government involved in forestry.

3. Regional Liaison

The higher profile of Timberlands, the Ministry of Forestry as advocates, is already reflected in their involvement in the community. The Ministry's recent Waimakariri Basin visit considering forestry, farming and tourism, is an excellent example of co-operative initiative.

4. Regional Planning

In an indicative sense as a guide for the public sector, joint ventures, Forestry Corporation and private sector activities are still alive and well. I attach a summary of aspects being embraced within the Canterbury Regional Scheme. A new style of scheme is emerging, including:

- (i) Advocacy Statement
- (ii) Formal Objectives
- (iii) Letters of Agreement
- (iv) Guidelines

5. Local Government and Forestry

Over ten years local government and forestry interests have been on a converging course. This is a productive and efficient use of resources. Closer dialogue, especially at the regional level, is sensible and will reap benefits.

6. Review of Resource Use Management Statutes

Members of the Institute and Ministry of Forestry should make a major contribution to the review of the Resource Use Management Statutes. The issues surrounding forestry as part of the primary production and rural resources of the nation together with the most efficient means of seeking planning approvals are good reasons for your involvement.

Expectations of the Ministry of Forestry

A.W. Grayburn

Introduction

Prior to 1987 the New Zealand Forest Service was beleaguered for several years by various proposals for reorganization or restructuring to improve the state sector. In many respects these turned out to be counter-productive and did not have the desired effect. During the same time the New Zealand Forestry Council was given a new constitution but it lasted little more than two years. The Ministry of Forestry grew out of these developments. This paper examines the subject from the point of view of the private sector forest owners. It is in three parts. What did the private sector see as needing to be done by a State Department or Ministry? Once it has decided to set up a Ministry of Forestry, what are its missions or functions? And a little over a year after it was set up, how has it performed those missions and what with a little hindsight does the sector think about it?

Why did we need a Ministry of Forestry?

This question must be viewed from the background of a very successful 1981 Forestry Conference, plus the views that the Forest Service should not be disbanded and that a Forestry Council was still necessary. We all know now that the optimism of the 1981 Conference was short-lived. In the short term none of the things we expected survived. Corporatization came along and quickly the Forest Service was no more. Whatever was to emerge to represent the State as an overview of the forestry sector and to advise Government would have particular and important functions. In various submissions to Ministers of the Crown over time, the Forest Owners had views on this. The list of functions was wide, including a range of research, planning and advisory duties.

One submission said:

"The most important function, and the critical reason for the existence of the Ministry, will be to provide economic and strategic research, and to represent the

sector on a co-ordinated basis, both domestically and internationally. It will be the only common organization which can objectively and impartially represent the sector and provide total industry economic, research and planning information. This will be a critically important function for the sector over the next 20 years as the industry expands and current wood production undergoes a threefold increase and exports expand eight to tenfold.

"The Ministry would provide reviews of trade, taxation and other policies that affect the future development of forestry and could provide assistance in removing barriers to trade. It would be involved in the development of markets in China where official government backing is so necessary. It will fill a need for liaising and co-ordinating with our major potential competitor, Chile, to jointly promote and develop markets. Liaising with radiata producers in Australia and Spain will also be necessary.

"The Ministry will provide invaluable research not only into the products we should be growing and how they can best be grown, but also on product development. An applied and innovative research effort is an essential support if New Zealand is to make the most of the opportunities offered by our plantation resource."

A similar list was submitted by others. From amongst the above items, the Forestry Council was undertaking such things as: market research for radiata pine products; development of produce price indices; participation in the National Forest Description data bank; developing a sectoral planning format; forest taxation investigation; and forestry joint venture formats.

With the demise of the Forestry Council, some of these things would need to be picked up by the Ministry.

The Ministry of Forestry Mission

The Ministry is authorized under the

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