

(The N.Z. Journal of Forestry 1967, 12(2): 84-86) about the Forest Service not getting adequate royalties for its wood. This schism within the forestry profession was thus apparent at an early stage – that forestry is a land use that must be profitable versus forestry that must ensure, even at the price of a concession, that the industry receiving the wood is profitable.

In the circumstances the offer from southern Kaingaroa became a 'hot political potato'. The first thing that had to be done officially was to clear the air with Treasury and the then Department of Industries and Commerce. Both were vehemently opposed to open tender. Six months of torrid meetings got them to admit, somewhat reluctantly, that there was possibly something to competition in selling wood from Kaingaroa and something in the effects on regional development.

The Minister of Forests by this time, the Hon. R.G. Gerard, had trouble with his colleagues too and decided to test the resolve of the Forest Service to do something better by Kaingaroa. He instructed a meeting to be called of all tenderers at which their claims could be presented and explored in one another's presence. A surprising development by that time was that the main tenderers, Tasman and NZ Forest Products, decided to make a joint claim even though the amount of wood was small relative to their proposed need. They conducted inspired press and political campaigns. Carter produced a plan of utilization at Whirinaki and a letter from proposed Japanese partners stating their joint intentions of a timber and pulp plant in Hawkes Bay.

The meeting was certainly 'torture on the rack' for the Forest Service. However, later developments in Hawkes Bay amply justified the decision made as a result of that meeting and the many prior departmental meetings.

A succession of competent foresters has changed the face of Kaingaroa and increased the yield substantially since the days when the dwarf-growing variety *scopulorum* was planted for *Pinus ponderosa* and other forestry errors were committed.

The Murupara Scheme has had a profound impact on the public conception of forestry and foresters, and has helped to form the schism referred to amongst foresters themselves. At present both forestry and foresters are maligned from all quarters – by the public, Government, the press, and of course by conservationists. Scorn is poured on them because of their inability to produce profitable forests. But people really don't know what the term means.

Although there may be no more Kain-

garoas, or for that matter, large tracts of idle country such as gave rise to NZ Forest Products, the potential for increasing afforestation remains very substantial. The Editor of this Journal posed the question in the May 1988 issue: "Does the Institute of Foresters have a role in promoting reforestation of New Zealand?" If the potential is to be realized, there can only be one answer.

However, somebody has to analyse the position, and somebody has to discover how to crank things up again. This time it will have to be based on profitable land use just as agriculture must be. A lead by the Institute to ". . . develop the clear policies, objectives and practical guidelines", could help to reverse the Institute's, and forestry's, "low public profile" – the Editor's words, not mine!

A comment on forestry taxation

E.M. Bilek

"The hardest thing in the world to understand is the Income Tax."

– Albert Einstein

Current tax system buzz words are "neutrality" and "transparency". But the current tax system discriminates against forestry investments.

New Zealand is perhaps the world leader with respect to plantation forestry. We have the climate and the technology to produce wood fibre as efficiently as anyone and more efficiently than most. We have a competitive advantage in this respect and are envied and emulated by many other countries.

The majority of New Zealand's forests are being grown for export. In order to compete on the export market, we will have to compete not only against the production capabilities of other nations, but also against their tax systems. If all things were equal, *ceteris parabus* in economic terms, we would be able to compete successfully. However, what is easy to theorize away in the classroom may not be so easy to eliminate in reality. If other countries wish to subsidize their timber (for whatever reason) and our timber will compete in those markets, it's rough for our producers.

It's not fair. It's not fair for our producers who must bear the true costs of production. It's not fair for the consumers in other countries who must pay higher costs for their products. And it's not fair for producers of other commodities in those countries who must also bear the cost of the subsidies. But there is nothing in economic or political theory about competition being fair.

While the international marketplace may not be "fair", the domestic market should be fair for an industry that promises to be so significant with respect to foreign exchange earnings and jobs. But I am not arguing for subsidies or special tax treatments for forestry invest-

ments. These tools do distort the economy's investment structure and encourage more investment in the favoured industries than would be economically desirable. In this respect, I fully support the directions Treasury has taken in removing these distortions. But in removing the deductibility of planting and tending expenses from current income, I believe Government has gone too far.

There are many risks involved with forestry – insects, disease, fire, windthrow, on the cost side and market outlets and prices on the revenue side 30 years or so from planting. The risk of owning a forest increases the longer the forest is held. The tax system does not recognize the true loss that occurs when a stand near maturity is destroyed. The deduction is limited to the historical cost of that stand, the "cost of bush", which usually bears no relationship to the stand's true market value. Current tax policies do not recognize this risk.

There are many other reasons for forests besides timber production – soil and water protection, recreation, wildlife habitat, are among them. We have a tax system which ignores all but timber production for any group but farmers. The production benefit comes last – at the end of the rotation. Yet it isn't until that last benefit is achieved that any of the costs of planting and tending the forest may be deducted.

It might be argued that these benefits do not occur when the expenses occur. Certainly there is little or no benefit of soil stabilization and erosion control in the first few years of a stand's life. Recreation and scenic benefits also are minimal in these early years. However, all of these benefits occur before the stand reaches maturity for timber production purposes.

The "cost of bush" should not exist. Planting and tending costs should be deductible against current income, or at

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least be capitalized and depreciated over the life of a stand. This is in accordance with Treasury's own philosophy. According to them . . .

"Capital Expenditure is undertaken by taxpayers to earn income in the future. . . . Capital Expenditure is generally capitalized and depreciated over its economic life."¹

All of a forest's non-production benefits come before the tree is cut. Companies receive little or no return for providing these other benefits to New Zealand, yet it isn't until harvest that the direct costs of producing all the forest's benefits may be recovered. The tax system is discriminatory against forestry.

If forestry expenditures are current expenditures, they should be deductible directly against current income. If they are capital expenditures, they should be depreciated.² In either case, this would help ameliorate some of the risk in forestry and it would certainly help recognize that forestry investments produce more than timber.

¹ *Consultative Document on Primary Sector Taxation. 1986. Wellington: Government Printing Office. p.72.*

² *At the extreme, the argument is that forestry investments should be taxed at the capital gains rate, but I realize that while this might be an interesting argument, it is completely unrealistic.*

Reform and devolution

J.C. Halkett

Public servants have long suffered at the hands of so-called humorists. Some of the recent batch of funnies are diametrically opposed to the jokes of yesteryear. There are a couple about the decline in ten trip bus and train ticket sales and the one about the optimistic public servant who took his lunch to work. The comment about recent lay-offs in the Department of Conservation and Ministry of Forestry on page 12 of this issue suggests that working for the Government is now high risk. In this post-crash era it is not only the employees of Judge Corp or Rada that have had to contemplate looking the dole clerk in the eye.

Clearly those in Government's employ who thought that the trauma of change had climaxed on April 1, 1987, with the formation of new forestry and land management agencies, couldn't have been more wrong. It is now apparent that existing functional responsibilities and staff changes might pale by comparison with those waiting in the wings if present modifications to

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resource management legislation and local government organization come to fruition. Changes to resource management statutes, and to local government administration, have the potential to radically transform central government involvement in land use planning and management.

"One of the country's most ambitious law reform exercises" is how the current resource management law reform exercise has been described by Deputy Prime Minister Geoffrey Palmer. The official outline of the exercise embraces all laws covering the management of land, air, water and minerals, and indicates a need for a fundamental "zero-based" review of affected statutes. Under consideration are 20 laws. The Town and Country Planning Act, the Water and Soil Conservation Act and the Mining Act are included on the list of those to be overhauled.

Developers and environmental interests have both, over recent years, acknowledged that existing resource statutes are lengthy, complex and cumbersome. Conflict resolution has been the basic model upon which present laws have been founded and operate. Today,

A.G.M. WAITANGI 1989

Many thanks for all the response to the request for suggestions on what you want in your A.G.M.

We think we get the message! Here's the basic idea for the meeting.

- No single theme.
- As many workshops, field trips and tours as we can organize, on a range of subjects utilizing all that is available at Waitangi and in Taitokerau. These will include Forestry and Maori Land (you couldn't come to Taitokerau and not hear about that!), Kauri management, alternative exotic species, tourism, sewage disposal, marine farming, bargaining.
- Supershort business session (2.5hrs on the Friday morning) . . .
- Hold it over a weekend to minimize time off work.

Dates are Thursday 11th May to Sunday 14th May

The workshop on Forestry and Maori land will take place on the Thursday afternoon and evening and will include a forum session on a marae which will be open ended and could go late. If you come to this one bring a sleeping bag and stay on the marae and travel on to Waitangi on Friday morning (transport will be provided).

Post conference tours on the Monday will be with transport provided or self-drive convoy style. Either way they will be designed to head generally southwards and help ease the travelling pain.

MAKE IT A DATE! WAITANGI AND TAITOKERAU HAVE LOTS TO OFFER IN FORESTRY AND FOR A HOLIDAY. THE WEATHER AND THE FISHING CAN BE AT THEIR BEST IN MAY AND THE CROWDS HAVE LONG GONE.

BRING THE FAMILY - GIVE THEM A MARAE EXPERIENCE - HAVE A HOLIDAY - JOIN IN AND MAKE IT A GREAT MEETING.

We will be sending more information and chasing some sort of commitment soon after Christmas.

Kia ora Ian Page (Chairperson, convening committee)
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