

Privatisation of State forest plantations - did we do it right?

John Purey-Cust

I was away when the NZ Forest Service's plantations were sold off so I only saw the process from a distance and after it had been largely accomplished. Nor did I have any great hostility in principle to privatisation. Huge amounts of capital were needed to finance new industries to process the oncoming wall of wood, and I couldn't see much future for Treasury rules there.

At that time the 'industry view' (e.g. that of the largest forest companies) was that vertical integration was an absolute necessity for investment. Without a secure supply of wood (by which was meant plantation ownership) no one would invest. The plantations were therefore bundled for sale into parcels of a size suited to fit the imagined needs of investors in wood processing. The parcels were all of a uniformly large size, so excluding virtually everyone but the largest New Zealand forestry companies, whose interest in the sales immediately attracted accusations of monopoly.

Thus for a short while it appeared that the sale pattern had been designed deliberately to exclude New Zealand companies. Fortunately the accusations of monopoly fell down and Fletchers and Carter Holt Harvey were allowed back into the bidding, but scale excluded

everyone else.

I came back to a vastly different scene to the one I had left and dark mutterings about the 'Asian Invasion'. The Yanks, everyone said, would do us so much better. Now, a few years later, I am not so sure. Vertical integration has gone out the window except for very large capital-intensive exercises like pulp and paper mills, who otherwise wouldn't be able to get enough low quality wood for their needs on the open market.

In Otago/Southland a large and vigorous log market has sprung up (largely based on Rayonier's innovative method of selling standing wood) which allows anyone to buy the class of log they need. Apart from an MDF mill (using entirely rubbish wood) all investment has been by relatively small companies and at the high value end of the market. The apostles of gargantuan size and commodity trading have all fled to the Dairy Board.

Opinions have changed too on the relative virtues of Asian and US management practices. People watch goggle-eyed the ritual restructuring dances in Carter Holt Harvey, aimed apparently at destroying all the local knowledge base, company loyalty and dependent service industries as fast as possible. Their faith in technol-

letters

Who did succeed?

Sir,

I appreciated Tony Grayburn's comments on ex - AFS students, and even his comment on my forays into politics.

I suggest my success level was on a par with public plantation forestry over the years, for very similar reasons. May I explain?

The first Labour government had, I am told, fourteen monetary reformers in its caucus, headed by Ministers John A. Lee, and Frank Langstone. (The latter stood later as a Socred candidate.) There are recorded statements by M.J. Savage paying at least lip service to this principle.

I have heard admiration expressed by more than one American economist (1) for the way this government "led the world out of the depression" by the use of Reserve Bank credit for various development projects.

It is related that Walter Nash's reversion to orthodox financing resulted from strictures, including threats to our meat exports, by the Governor of the Bank of England in about 1939. For whatever reason, most public assets from then on were financed by taxation or borrowing, and the private trading banks regained unfettered rights to manufacture our money (2) and charge us "rent" for it.

Dealing with long-term projects, foresters tended to be more aware of the effects of this racket than most, particularly the effects of high interest rates, but even in our profession they were a minority.

In view of the stream of dis-information emanating from those involved, including, for example the pretence that banks lend their deposits (their liabilities!), this is not surprising. As the resulting debt built up, it became inevitable that the first government unscrupulous enough to do so (ironically also Labour), would commence the sale of public assets.

Were our plantation forests sold under "fire sale" conditions for considerably less than their value? I believe so. How great was the success of all the dedicated foresters who worked their guts out well beyond the requirements of the salaries they were paid to build assets for the Nation? Similarly not very, I believe, and for similar reasons.

John G. Rawson.

- (1). F. Hotson et al, of the USA "Sovereignty" movement.
- (2). Report of the Royal Commission on Monetary, Credit and banking Systems 1956, p.45