

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

ogy and the bottom of the market - 'fibre' - raises a few eyebrows too.

Rayonier, who are on the one hand very well thought of in Southland because of the benefits flowing from their sales system are now looked on askance because staff have been so reduced that even the smallest question has to be answered by the New Zealand head office, causing doubts as to the strength of their forest management systems. Their foray into FSC certification caused a surge in local industrial expansion that fell flat when, on the instructions of their US head office, they pulled out. Coincidentally just as the certification market took off in the US, it was a nasty piece of commercial imperialism based on prejudice.

On the other hand the Asian companies seem to stand in higher repute. They don't (or haven't yet) shaft the market, they are restrained in their restructuring and they respect local susceptibilities. They are innovative and prefer their investments at the top of the market. Or is this just a difference between public and private company philosophies. Is there a question here as to whether large public companies are capable of long-term sustainable resource management, or does shareholder and bean counter pressure drive them inevitably towards short term solutions and the bottom of the market? Certainly it seems that it is the really large companies run under largely US management systems who seem to have done worst here over the last few years, and caused the most

social chaos in the process.

But maybe things are changing - does Fletcher Forest's sale of its paper division and pursuit of FSC certification indicate a corporate intent to leave the market bottom of 'fibre' to industrial hemp and to move on up? We have renewed interest in one or two species other than Radiata pine and in longer rotations and more stable forests.

But what we don't know is what we lost in a sale design that intentionally excluded most of the New Zealand forest interest. Where are the community forests that might have become centres of innovation, as they are in Europe? We could have greatly increased the breadth of forest ownership, but it seems to me we lost the plot. I suspect we could have done it better and with less overseas capital had some of those sales parcels been smaller.

One other thing - when the plantations were sold we were assured that it was a sale of cutting rights only, not of the land. Now the land on which some of those forests stand has been taken up by various Maori groups, which have in turn sold it to the companies who leased the cutting rights. Maori are not to blame, as the land became theirs as a part of Treaty of Waitangi settlements. I have no quarrel with that, but the fact remains, we were promised that the land underlying the plantations would not fall into foreign ownership - and some of it has.



The comprehensive, innovative forest protection plan.

StandSure insurance cover is specifically designed for small to medium sized forests. It offers improved flexibility in the amount of cover you can select and gives forest owners, investors, managers and consultants a level of protection previously unavailable.

- ¥ **StandSure** covers you automatically for fire as well as damage caused by windthrow and malicious damage.
- ¥ **StandSure** extensions cover earthquakes, volcanic eruptions and claims made against you following firespread.
- ¥ Cover against fines and defence costs where managers, consultants, owners or investors have unwittingly breached legislation is also available.

For more details on StandSure contact:

Tony Gouldson or Ian Fair, RiskSolutions Limited
Level 15, West Plaza Business Centre,
3 Albert Street, PO Box 106035, Auckland.
Tel: 09 302 3060 Fax: 09 377 0202
tony.g@risksolutions.co.nz or ian.f@risksolutions.co.nz


RiskSolutions Limited
Professional Risk and Insurance Advice

StandSure - better product, better price, better believe it.

