

Invariably economic costings have been made on the basis of good site productivity, location, and a management not hidebound by tradition producing desired products for sale at world market prices. That performance-based cost measures are nearly double the economic projections may be as much a measure of the cost of achieving some of Government's social objectives as of Forest Service understatement of true timber production costs. As Treasury (1984) has stated, review of the data suggests "that production forestry is an expensive way of creating employment". It is also difficult to see, if Forest Service accounting was as bad as implied by Dr Grant, how one could have any faith in a performance-based, i.e. accounting-based, cost produced by it.

### OTHER POINTS

Nothing the Forest Service or its employees have done seems to be right; even optimism about the future of the industry in which one was employed, seemed to be inexcusable. Dr Grant makes no attempt to demonstrate that with the knowledge available in 1980/81 the viewpoint taken by Levack and Gilchrist was untenable. While I agree with Dr Grant that the Forest Service accounts were over the years less than totally satisfactory, and that historic cost accounting can be misleading, it is also fair to point out that the Forest Service accounts were always prepared in accordance with relevant New Zealand standard accounting practice and audited and approved of by the Audit Office itself. As mentioned previously, Dr Grant fails to demonstrate a notably poorer economic performance by the Forest Service than by other agencies, and this despite the fact that he has apparently ignored the debilitating effects of the social costs/constraints imposed on it over the years to help achieve Government's social objectives.

### CONCLUSIONS

Although Dr Grant's conclusions are not, I believe, supported by the evidence presented, many of them are obviously strongly-held opinions. Whether or not his opinions will change, only time will tell. Certainly public opinion has gone against the Forest Service in recent years. Set up as a result of the 1913 Royal Commission on Forestry, it was initially charged with ensuring a sufficient supply of wood to ensure domestic self-sufficiency. This it did. Over the years its role was both expanded and changed. At this point it is too early yet to write a definitive history of the Forest Service but when one is written perhaps 10 or 20 years hence, as I am certain it will, I will be surprised if the Forest Service will be judged as harshly then as by Dr Grant now.

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# Current changes in the forestry sector

Forestry in the environment of today has to accommodate the changing attitudes of the community to land use, taxation, the public service, labour requirements, training and education. It is part of the social upheaval generated by New Zealand's inability to earn enough as a nation to support a life-style previously characterized by full employment, a vigorous rural economy and an egalitarian concern for the welfare of the less fortunate members of a relatively affluent society.

The establishment and management of forests has a long-run character, ill-suited to rapid change. Accommodation to the requirements of the market place has to be at a ponderous pace simply because of the inertia of investments already in place, and the narrow range of management options available for foresters with the wit to perceive the need for change.

During the last 22 years the forest investment environment has been relatively stable with confidence in the marketability of the radiata resource expansion supporting continuation of investment. Since 1983 however, there has been an erosion of this confidence which has coincided with changes in forest taxation and together they have created an almost negative attitude to future expenditure by most of the large members of the forest industry.

If we examine some of the items of change, the impact can be observed as a result of interaction of the following elements:

#### 1. LAND USE

The most publicly perceived change is in taxation and financial incentives for rural activities, with the pastoral farmer being the hardest hit.

The historic long-run increase in farmland value has been stopped and we can now note a real drop in rural land values of the order of 20%, depending on the region. This will have the effect of making land more attractive to the forest sector as prices for better quality pastoral land will be of the order foresters can afford.

#### 2. TAXATION CHANGES

Along with the rest of the rural sector, forestry has been put through the taxation mill, and the Treasury demand that expenditure

claims for deduction be matched with income created by that expenditure, has resulted in resurrection of the pre-1965 "Cost of Bush" approach to deductibility. The complex and onerous burden of treatment for costs incurred early in the rotation has had the effect of active disincentive to projects based on more distant steep reverting farmland.

This change has been viewed by the potential new entrant into forest industry investment as a discouragement and has reinforced the tendency of established industry to reduce new forest development.

### 3. IMPACT ON PEOPLE

- a) The forest industry generally shows the pressure being exerted on established companies to yield profits. The place where the first gains can be perceived is by labour shedding and this has a built-in price of deflation of regional economies. The constant concern with company performance as a means of keeping takeover bids at arms length can be expected to reinforce the trend to avoid high labour content establishment and silviculture.
- b) Within the forest industry there appears to be a tendency to restrict investment. Outsider interest being shown in already established forests possibly depends on the assumption that prices of these will reflect a better return than a new project.
- c) Regional economy effects will include reduction of spin-off benefits for associated business and the change in the requirement for social services and good quality housing.

### 4. FOREST MANAGEMENT

- a) Better sites will be sought for those few investors who are active and for the extension of establishment by current forest companies. These will be preferred to the more distant low fertility sites where companies have the cash flow to sustain new establishment.
- b) Hardwoods can be expected to have more priority in this period where site fertility has been a constraint in the past. Eucalyptus planting can be seen as an example of this. There would be some case to be made for a wider range of species, although this will tend to be preferred by those for whom planting is an article of faith rather than the purely market-driven assumptions which support the present emphasis on radiata pine.
- c) In silviculture there is probably more case to be made for intensive regimes aimed at clearwood, although in the Bay of

### REFERENCES

- Fenton, R.T. 1972: Implications of Radiata Pine Afforestation Studies. NZ Jnl For. Sci. Vol. 2(3), p.378-88.  
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Plenty there is possibly a case within company budgets for regimes with high pulpwood content. From the point of view of return on investment these latter regimes are not proven as profitable and reflect more the need for return on historic investments in pulp and paper plant.

- d) Extraction thinning is becoming more significant where pulpwood has been perceived as under-supplied and possibly reflects the temporary reaction of the maldistribution of age classes in the Bay of Plenty resource. It has been estimated that the demand of present and planned capacity in this region is 300,000 to 500,000 cubic metres in excess of supply capability between now and the turn of the century and thinning programmes are an alternative to more sacrificial rotation shortening and clearfelling. Although nationally we should try to bring clearfelling forward, to reduce the marketing difficulties associated with rapid build up of forest yields towards the end of the century, these suggestions are not economically beneficial to the forest grower.
- e) The impact of taxation changes and investment nervousness has the built-in deficiency of causing planned programmes to be truncated. Where regional forest development may have been

planned to support large-scale industrial establishment, truncation of the planned forest resource could result in forest yields being inadequate for optimum industry type and size.

#### 5. IMPACT OF CORPORATIZATION

For the forest sector, corporatization of the NZFS and creation of the revenue-hungry Forestry Corporation has meant a doubling of the people in the forest profession, primarily concerned for private-sector-type performance and profit. This of course has resulted in a considerable projected drop in social based investment traditionally associated with NZFS regional schemes where labour and unattractive land were seen as under-utilized community resources.

Probably the most significant impact will be in reduced career opportunities for all grades of trained personnel from foresters to untrained apprentices.

The Corporation and the remainder of the forest-growing industry have to cope with a period of diminished demand for sawlogs, both domestically and in export terms, and the likely result will be diminished cash flow for the early months of the new Corporation. The Bay of Plenty earthquake, of course, has disabled a proportion of the pulping capacity and this will, for some months, have a considerable effect on the

logging operations and earnings of forests involved with the pulpwood supply.

#### 6. PROFESSION OF FORESTRY

Professional membership of the Institute was previously constituted by about 60% people employed by Government. These people reflect a public service attitude to their employer which constrained the capacity of the individual to take a professionally independent and possibly critical view of Government activity. With the corporatization and conversion of these "public servants" we can probably expect a different attitude by the bulk of the membership of the Institute to matters of professional concern. The initial impact will also probably be reflected in a reduced membership and there will be, possibly, a diminished concern for indigenous forest management. This will be particularly so if "preservationist" attitudes of management become entrenched with individual indigenous forest managers.

1987-88 will be a year when the changes made result in new administrative structures and a new public perception will develop. As this will affect foresters' status in the community for a considerable period ahead, our professional performance at this stage is of considerable importance for the future of the Institute.

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