

The rise and fall of multiple-use forest management in NZ

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Introduction

In common with many countries New Zealand had, until recently, a Forest Service practising multiple-use forest management on those public lands classified as State forests. Such lands have their equivalent elsewhere in federal, state and provincial forests and the Forest Service was analogous to its counterparts in the diversity of its management objectives. Although the New Zealand Forest Service when founded in 1920 sought a wider brief, its mandate was initially focussed on timber production and it was not until 1976 that a balanced-use approach to the management of State forests was recognized in statute. This gave comparable weighting to commercial and non-commercial uses of forests. The amendment to the Forests Act was the culmination of a gradually changing perception of the role of State forests. The evolution was hastened in its latter stages by the pressures of an activist environmental movement concerned to reduce wood production from indigenous forests in favour of preservation of natural values. In reality the multiple-use management of State forests commenced well before the statutory change, with such innovations as recreationally oriented forest parks. The changes in the mid-1970s to the Forests Act were regarded as setting the seal on the maturing of attitudes to the management of a public resource and were seen as a sound basis for obtaining the maximum benefit to the community. The Forest Service compared favourably with forestry agencies in other countries. Why then was multiple use abandoned 10 years later in favour of more focused management?

Accountability

During the 1970s and early 1980s there was a vigorous public debate in New Zealand on the use and conservation of indigenous forests. In the late 1970s the inadequacy of Government department accounting practices began to be high-

lighted by influential critics such as the Auditor-General. These apparently unrelated events shared a common thread, namely the fundamental question of the forms of administration and accountability likely to most efficiently allocate forest-based benefits.

Forests of course yield many benefits. Some take the form of goods and services. Others are less tangible. That is to say, some are commodities which are commonly traded privately, like timber, and others, like the protection of habitat of endangered species, are public benefits shared by the community at large. Some benefits require manipulation of the forest and others its strict protection. Some are realized on site and others off site. It is implicit in the multiple-use philosophy that, for any given area of public forest, the benefit to society will be greatest if the manager is able to deliver from a common resource a range of benefits both commercial and non-commercial. This aim has been described as a noble one and was certainly earnestly conceived. It must also be regarded as plausible given the widespread adoption of the philosophy by public forestry agencies. The question underlying the changes in New Zealand has been whether multiple use delivers the assumed maximum of benefits in practice. To defend multiple use by a single agency it became necessary to demonstrate that greater returns have accrued from such management than would result from the alternative, which is the pursuit of the same range of benefits by a number of organizations each with a more narrowly defined objective. The difficulty of demonstrating greater benefit was the general problem of measuring the efficiency with which multiple-use public agencies allocate resources. Inadequate measures result in a lack of accountability – a requirement to take management on trust. Unwillingness to do so has been the mainspring for the organizational changes that have occurred in New Zealand forestry. Similar problems of accountability for multiple outputs are evident in some other countries and the New Zealand approach will provide an interesting contrast.

It is likely that any organizational approach that results in ambiguity in

accounting for performance will ultimately face reform or at least the frustration of continual enquiry.

The problem of accountability faced by the Forest Service was twofold – that resulting from its mixed objectives and that resulting from inadequate accounting systems for commercial management within Government departments generally.

The Problems of General Accountability Under Multiple Use

A consideration of the problems of accountability for multiple use in public agencies need not be concerned about uses which are merely incidental to some well defined prime use. Few problems are encountered in accommodating low intensity ancillary uses, as is demonstrated by the encouragement of some public use of their forests by many commercial forestry companies. Rather I am talking about major uses or values which compete for a share of the common resource and must therefore be traded one against the other in seeking to attain a balance, e.g., a wilderness and a timber supply area.

The New Zealand Forest Service was charged with reconciling Government objectives of three types – commercial, social and environmental. The problems of attaining and accounting for a satisfactory balance between these objectives are complex:

- by its very nature the outputs of multiple-use management, as defined, are suboptimal. Obviously, strictly commercial decisions are not possible if major environmental and/or social trade-offs are simultaneously sought;
- despite ingenious attempts to devise them there are no satisfactory common yardsticks for measuring commercial and non-commercial returns. Commercial returns are measurable in the marketplace. Non-commercial returns defy simple measures;
- as a consequence maximum combined benefit is a concept with no straightforward and pragmatic way of recognizing it even if it has been achieved;
- in the absence of meaningful measures the achievement of best balance becomes a matter of judgement;

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- because returns for any one objective are less than optimal they will commonly fail to satisfy one or more special interest groups;
- the unsatisfied client groups, looking for a better deal in their particular field of interest, will question the judgement of resource professionals. They do so on two grounds – the judgements themselves and the authority to make such judgements on behalf of the public. Managers may be accused of ‘internalizing’ decisions of what should be a widely discussed matter of public interest. The criticism can come from the development or the preservation end of the spectrum and if the manager is doing his sometimes thankless job properly it will probably come from both;
- the highest attainable goal for managers in such circumstances is a state of moderate dissatisfaction among all client groups – hardly inspirational or motivating and virtually guaranteed to reinforce any latent tendency to fortress mentality;
- when the initial resentment of what is seen as an attack on integrity and professional ability is swallowed managers may attempt to avoid the criticism of somewhat arrogantly usurping popular decision-making by encouraging public participation in one form or another;
- this provides the opportunity for the more motivated, politically aware and articulate groups to swing the balance substantially towards their view. Despite the democratic intent it does not give equal weighting to all points of view and accordingly the inherent conflict may remain unresolved;
- as a consequence decisions on an acceptable balance ultimately have to be made politically, which of course does no more than recognize the fact that it is politicians who are elected to make value judgements on the allocation of public goods.

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It is not however a particularly sensible or sought after goal of politicians to have to adjudicate continually between competing claims, and an alternative mechanism is likely to be sought. In New Zealand that mechanism has taken the form of the physical and administrative



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separation of forests to be used for commercial or non-commercial purposes (at least in timber production).

Whatever the outcome the conclusion must be that multiple-use management of public resources for conflicting elements is not so much a technical or administrative process as a political one.

If the trade-off between use and preservation becomes controversial the political nature of multiple-use management dictates the allocation of time by top management. Commercial and other aims have lesser priority and major inefficiencies are likely to result if performance is measured in other than political terms.

In discussing corporatization of New Zealand State trading organizations in 1986 the Deputy Prime Minister, Mr Geoffrey Palmer, stated:

“[The changes in policy are a] reflection on politicians and their inability to say clearly what they want and to keep to that course once it has been charted. The truth is that the political process is usually an unsatisfactory environment for making decisions which are of a commercial or business character . . .

“ . . . But it is not just the politicians. They are only one factor. It is the system itself. Other unfortunate influences at work are:

- * inappropriate and unnecessary bureaucratic controls;
- * lack of managerial autonomy;
- * unclear and conflicting objectives;
- * a lack of proper accountability; and
- * the organizational structure of State trading activities.

“Bureaucratic controls which are exercised by agencies such as the

State Services Commission and Treasury can restrict the ability of trading organizations to respond quickly to changes in their business environment. As a result, the organization is unable to provide efficiently the goods and services demanded of it.”

That leads to the second source of inadequate accountability.

Problems of Commercial Management in Government Departments

The New Zealand Forest Service with half the country's production forests, half the timber output and the potential to double its production was a big commercial business in its own right. The distraction of managers' time from the commercial fundamentals of this business was without doubt one of the prices paid for the principle of multiple use. Until the reform of the last two years the price tag was obscure. The Forest Service, even in establishing new production forests, was required to meet other goals of Government. Planting programmes through the 1970s and early 1980s were commonly increased by 50% or more to ameliorate unemployment in rural areas which were, in strictly commercial terms, commonly of low priority for planting. Managers in all regions were torn between using labour-saving and cost-efficient methods and the obvious Government goal of using forestry to ameliorate rural unemployment. Major timber sales were awarded to competing interests by ministerial decisions based on a number of criteria – only some of which were commercial.

Accounting with any precision for the State's performance in commercial terms was compromised by the inseparability of the common costs of commercial and non-commercial forest activities, by the social and regional development aims of afforestation, and by the “public good” element of decisions on timber sales.

Some of the problems of measuring commercial performance within commonly used Government systems of accounting are now described. Annual appropriation of finance and payment of revenues to a general Government fund leads to accounting which is more concerned with tracking expenditure and revenue than with profit and loss, i.e., more oriented to outputs and inputs than to commercial achievement. Managers are consequently more subservient to the system than served by it and may become cynical about financial accountability. Financial oversight may be reduced to periodically checking how much of the amount appropriated for a particular purpose is left. Motivation takes forms other than profitability

including the likely political reaction to the programmes which are recommended and the satisfaction of broad professional aims in forestry. Disenchantment with financial management may be reinforced by the way in which budgets are screened. It is often done by a centralized group of outside experts remote from the workplace, the form of which regularly changes, but which is commonly (and myopically) guided by comparison of former and current bids rather than by any coherent business strategy. Such systems encourage padding, spending up to budget, advocacy rather than hard-nosed commercial analysis by the agency concerned, and emphasis on physical accomplishment rather than bottom-line performance. The conviction by the agency itself that what is being done is by its very nature a "good thing" is a proxy for more rigorous accountability. Finally centralized systems of appointing staff, staff ceiling controls which supposedly limit numbers but tend to act in reverse as targets, and a variety of institutionalized constraints to reducing numbers strike at the heart of any real accountability for performance. Ultimately the winning of financial and human resources may become a target in itself. What is remarkable about the New Zealand Forest Service is that it made many worthwhile achievements despite such systems. It was certainly not because of them.

Although many of these deficiencies could be at least partly remedied they are sufficiently widespread in administering commercial activities within a conventional departmental framework to suggest that they are endemic and structural rather than superficial. Certainly the blurring of managerial responsibility by dispersed multi-level decision making and other forms of second guessing are widely manifest.

Dissatisfaction with lack of accountability in both of the forms described and an inability to refute the resultant criticism set the scene for change.

The Change

Multiple-use forestry in New Zealand satisfied neither the conservation movement which was supposedly a party to the statutory changes that legitimized such management nor the Finance Ministers of the 1984 Labour Government and their economic advisers. It was not a major concern of the forest industry so long as the additional costs incurred in meeting non-commercial goals did not find their way into wood prices. Conservationists argued that environmental values had second-class status in agencies with commercial functions. Financial advisers argued that the lack of transparency in agencies with mixed commercial, social and environmental

objectives made it impossible to measure the real cost and effectiveness of satisfying any one of those objectives. The result was a Government decision in September 1985 to separate 'commercial' and 'non-commercial' management of the forests which it owned. This decision was not confined to forestry and on April 1, 1987 nine State Owned Enterprises came into existence under a new statute which set them up as commercial limited liability companies with the prime goal of functioning as successful businesses. In each case steps were taken to clearly separate the commercial and non-commercial functions. The change is understandable only as part of a major structural reform of the New Zealand economy which has been underway for the past three years. That reform has sought inter alia to remove restrictions and controls which have limited competition and constrained entrepreneurial activity. In the financial market ownership structures, interest rates, capital flows and exchange rate have been freed from tight controls. Subsidies and concessionary finance to traditional land-based industries and to non-traditional exports have been phased out or are subject to planned termination. The changes to the public sector are the most sweeping ever undertaken in New Zealand. In forestry the former activities of the Forest Service were split among three organizations as follows:

Department of Conservation (Government department)

- Preservation of natural forests
- Management of native and free-ranging introduced fauna
- Public recreation

Ministry of Forestry (Government department)

- Forestry and forest products research
- Advisory services in forestry and wood processing
- subject to cost recovery programmes
- Administration of forestry statutes and controls
- Policy advice to Government in forestry

New Zealand Forestry Corporation (Company under State Owned Enterprises Act)

- Production forestry and logging
- Wood processing

The lands and forests of the Forest Service were split between the Department of Conservation and the Forestry Corporation on the simple criterion of whether or not production of timber was intended by the Government as owner. No economic studies have been undertaken to guide the allocation of land although the process in effect classifies forest land into that expected to earn a

commercial rate of return on the asset and that exempt from such consideration by virtue of higher value in some other use. As no payment is entailed for forests allocated to preservation rather than timber production successful advocacy of the former is cost free and the final allocation will be skewed in that direction. However it is debatable whether in the short period available for such a major division of public lands an objective analytical framework could have been put together. And, had it been, the final decisions would necessarily have been political for reasons already canvassed.

Three organizations now exist in place of the former multiple-use agency, two of which manage lands and forests. Each is more narrowly focussed in its objectives. Will the overall result be greater efficiency in resource allocation from New Zealand's forests than was possible with a single multiple-use agency? It is in any event early days to say so. Without doubt, however, the outcome will be greatly improved commercial management by whatever commercial yardstick that is measured.

Changes in Commercial Forestry

The Forestry Corporation is required to function as a successful business. The first steps to achieve this objective have involved a drastic reduction in overheads, particularly salary costs and increased productivity at the operational level. The requirement to be "competitively neutral" with private-sector forestry companies, and the simultaneous abolition or phase out of Government subsidies for forestry, means that forest growing must become a viable business in its own right. It is doubtful whether it ever has been in New Zealand or is in many countries at present. Natural forests are commonly sold at less than the replacement cost of their timber content and the management of planted or regenerated forests is, like agriculture, generally State subsidized in one form or another. Concern with below-cost timber sales and with the mounting debt incurred by those State forestry agencies in which debt is explicitly recognized means that the "New Zealand experiment" is being watched with considerable interest abroad. The extent of the initial efficiency gain from corporatization is set out in the first half-year report of the Forestry Corporation.

Further Problems of Multiple Use

The separation of forested lands formerly administered by the Forest Service into 'commercial' and 'non-commercial' has been decided by whether or not the forests involved should in future produce timber. Hence virtually all plantations have been allocated to the Fore-

stry Corporation and the vast bulk of the indigenous forests to the Department of Conservation. However much of the forested land allocated to the latter organization provides the basis of commercial activities or opportunities (other than timber production), for example mineral exploitation and tourism. The supposed separation of commercial and non-commercial is not therefore clearcut or complete. The allocation of rangelands between the commercially oriented Land Corporation and the Department of Conservation has proven even less clearcut than the allocation of forested lands. The custody of large areas of South Island high country with a long grazing history may therefore end up with oversight from both organizations and related problems of accountability.

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The Department of Conservation has not been set up as a multiple-use agency – in fact it is required to act as an advocate for conservation. It is nonetheless the custodian of much of the water, mineral, tourism, recreational and game animal resource of New Zealand and as such must inevitably be drawn into the balancing of development and preservation goals. Its non-neutral advocacy role will accentuate the pressures to decide an appropriate balance by political process, and increased lobbying by the interest groups concerned is inevitable. Further segregation of lands into those for which commercial activities are acceptable, and those for which they are not must be a possible outcome if resolution follows the approach taken to date. The dilemma posed by multiple-use management of public lands, or rather by its repudiation, has not therefore been fully resolved in New Zealand.

Further Change in Commercial Forestry

Nor are the changes on the commercial side necessarily completed. The commercial efficiency with which the State's production forests are managed has improved dramatically as a result of corporatization. Even without further change much of this efficiency gain would be sustainable. However the full gain in both efficiency and commercial effectiveness will depend upon achieving the basic objectives – unambiguous accountability and to that end a genuine arms-length relationship between corporations and Ministers. There is growing doubt about whether these objectives

can be achieved by corporatization alone and it is likely to be merely a step towards privatization. The doubt arises on two grounds, the first conceptual and the second pragmatic.

Conceptually the reasons advanced for corporatization hold at least as well for privatization. A number of objectives would be better attained. If a substantial arms-length separation of political and commercial responsibility can produce significant gains (as it has) the inevitable question is why not complete the job by full separation, i.e., privatization? The change from department to corporation relies on approximating, as closely as possible, the working environment faced by the private sector. It involves appointing a board of directors to represent the shareholders' interest and direct the executive, withdrawal of taxpayer funding (other than that available to private interests) and a general attempt to create a position of 'competitive neutrality' with the private sector. However under corporatization the attempt is necessarily incomplete. Certain disciplines facing private-sector companies are absent. They include threat of takeover and replacement of management, the pressures to perform that arise from external shareholding, the related probing of financial analysts, the raising of loans and the ultimate sanction of bankruptcy. Despite Government's proclaimed intention to let success or failure take its course and not to guarantee loans Government-owned corporations are likely to be perceived as relatively safer on both counts.

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The lack of these market related disciplines is being advanced as a serious impediment to competitive neutrality and hence to the fully commercial approach sought in changing from department to corporation. Surrogates have been suggested, including elaborate procedures for 'monitoring'. Such proxies are likely to backfire by producing distortions to commercial behaviour in their own right and they run the real risk of reintroducing the second guessing culture of departmental administration. Why erect a complex system of surrogates for private sector disciplines instead of the simple option of exposing corporations to the real thing? The move to a fully commercial corporation im-

plies that its goals are achievable in the marketplace so why not join the market fully? Conversely if Government's production forestry goals are severely constrained by strategic or non-market considerations the move to a corporation in the first place is questionable.

The prime question in considering the pros and cons of privatization is whether there is a need for the State to be directly involved in commercial forestry. At an early stage of commercial forestry development there are good reasons but after 100 years of plantation development and 50 years of processing plantation woods it is questionable whether the New Zealand forestry sector needs to be nurtured by the State as if it were an infant industry. There is a growing recognition that even if the State wishes to finance an activity it does not follow that it should itself deliver the produce or service. In a small way the move to contract forest work by the New Zealand Forest Service recognized this some time ago. The ability of the State to achieve its strategic goals through the private sector by a combination of regulation and incentive is demonstrated by the advanced forestry practices of Scandinavian countries.

The pragmatic reasons for favouring privatization are drawn from experiences of corporatization which did not work. The experience most quoted in recent seminars on the subject in New Zealand is that of the United Kingdom which is of course engaged in a major programme of privatization. George Jones of the London School of Economics at an Institute of Policy Studies in September 1987 stated:

"The New Zealand State Owned Enterprises look very similar to the [British] public corporations, gingered up with devices to limit Ministers' interventions and to provide surrogates for market pressures to encourage effective managerial performance. Britain has been through all this. It does not work. The half-way house is not viable. New Zealand, if benefiting from British experience, should regard the SOEs as a stage en route for the departmental form to full privatization. SOEs offer no enduring model."

In advising Government two years ago on the form of the then proposed corporation the view was expressed that the commercial functions of an organization with half the forest resource must be organized either as a conventional Government department or allowed to function as an unfettered competitor in the forestry sector – that any intermediate position would be likely to confer the worst of both worlds. There is no reason in the light of events since to alter that view.