

priate to adopt economic accounting procedures for public roading? I will leave the answers to these questions to the economists. It would, however, appear that the objective of a level playing field is required for the development of a transport infrastructure framework, and economic accounting procedures are necessary to judge economic contestability.

A Challenge for the Forest Industry

The Land Transport Pricing Study is a very detailed and complex investigation which aims to establish a comprehensive pricing policy for land transport systems in New Zealand. It attempts to build a framework within which all measurable costs of the roading system and the appropriate form and level of changes to recover those costs, can be determined.

It is an opportunity to develop a funding framework on a national basis, which is efficient and equitable to the users of all transport modes, in line with the Government's philosophy of open competition.

I believe the consultation provides an opportunity for the forest industry to have constructive input into the future direction and development of transport infrastructure funding. In the past the forest industry has stated that they are happy to pay their share of infrastructure development and maintenance costs, but will resist being singled out with transport levies and differential rating.

The forest industry now has the challenge to assist in developing a framework and funding mechanisms which are fair and equitable between all users of the transport infrastructure.

The Land Transport Pricing Study discussion papers are available from:

Land Transport Pricing Study,
Ministry of Transport,
P.O. Box 3175,
Wellington.

Written submissions on the papers close February 29, 1996.

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Kaingaroa for sale? Off on the road to hell at last?

Peter Farley
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Remember the old saying about the road to hell being paved with good intentions? To me that aphorism encapsulates the old Forest Service. A lot of very good people, a lot of very good intentions and a performance that was a financial and economic disaster!

The first round of competitive sales of management and cutting rights to state forests has produced a substantial ongoing financial return to Government. This return was far in excess of anything that a zillion years of Forest Service management would have produced. Remember the East Coast project that was going to produce about a 4% real rate of return. This was much less than Treasury's desired 10% but it was going to provide other marvellous things such as soil conservation and regional development. At last count it had produced limited soil conservation, limited regional benefits and a negative rate of return of the order of 50%.

The new investors in forestry have, unsurprisingly, acted rationally to maximise the return on their investment. They have managed their forests diligently, replanted after harvesting with quality stock, accelerated log exports when prices boomed, trained staff, invested in new processing capacity and technology, developed new markets and supplied those markets. They organised and financed all this without a central planner or a planning study in sight. How lucky they were that the "very well-intentioned" Forest Service and Ministry of Works were no longer around. Had they survived, the country would have been subject to tirades to the effect that proceeding without such planning is fraught with financial and social perils, if not totally impossible.

One unintended effect of all this new investment and related activity has been to establish in New Zealand, for the first time, a real market in plantation forests. Not some theoretical construct of an economist or forestry consultant, but a real market, where people risk their own money and evaluate their own opportunities for making alternative investments. The result has been the same as in all the other privatisations of state sector activities: costs have been driven down while quality and value have been driven up. At the same time, local and regional infra-

structure and businesses have been underpinned by a sustainable, competitive private-sector forest industry.

The Best Possible Use for Kaingaroa

The uncommitted Kaingaroa resource represents a great opportunity to establish the best possible use of this high-quality material. What is that best possible use?

Well, to decide this, one could gather all the available experts and commission reports and studies and seminars and consultations on all the technical, research, financial, economic, social, environmental, cultural and other aspects of this optimisation problem. This would be hugely entertaining and rewarding for all hands, except the Minister of Finance. New Zealand has repeatedly experienced the futility of this approach in activities as diverse as, for example, agriculture, irrigation, electricity and banking. It is devoutly to be hoped that the lesson of this futility has finally sunk into the collective national cranium.

The alternative is to offer the resource in a competitive sales process with no strings attached. The bidders will have no axe to grind (so to speak) on political agendas or the causes of special interest groups. Their individual objectives will be to work out what the long-term financial value of the resource is to them. Their bids for the resource will be somewhere between what they consider to be its value to them and what they think someone else will bid for it. The more strong bidders there are for the resource, the more likely it is that everyone will bid their full value.

Provided the resource is advertised internationally, the outcome of this market process will be that the forest (or at least the management and cutting rights) will be sold to the bidder who values it more highly than anyone else in the world. There will then be no doubt that this buyer will make the best use of the resource. This is likely to be high value-added processing near to the forest. But, irrespective of what the buyer does, and that is entirely their own business, the irrefutable fact is that it will be the most valuable use of the resource. After all, if someone had a higher value use, then they would have bid a higher price.

If someone subsequently discovers a higher value use, then they will offer the

first buyer a higher price than that first buyer can obtain for itself and it will be sold into the new use.

The sale of Kaingaroa forest would substantially strengthen the New Zealand forestry market.

Selling the resource competitively would also provide valuable information to other forest owners and existing and potential forest investors. Correct decisions on how to manage existing forests, or whether to convert land uses to or from forestry, depend on knowing the real value of the forest. Any restrictions on who can buy the forests or how they can use them can only decrease the value. That will decrease the value of all forests in New Zealand and divert investment into less productive areas.

Any muddled, misguided, "well-intentioned" attempt to constrain who can buy the Corporation or how they can utilise the resource, can only detract from the value of the business and the ultimate benefit that the nation obtains.

It is time for New Zealand to abandon the failed central planning shibboleths of the past. The national economy, the forest industry, the landowners, the employees and the Government will all benefit most from an early unconstrained, open, competitive sale of the Forestry Corporation.

The theft of State forests

Lindsay Poole

Cutting-right sales of logs had their origin at the face of the migration of mankind around the world. As populations expanded to new areas, forest was both an impediment to settlement and a necessity for the wood it yielded.

And so it was with New Zealand. From the seeking for kauri spars for sailing ships to the passing of legislation in 1921/22 setting up the State Forest Service, this situation prevailed and determined political action on the clearing of forest.

Even when the Service was formed it was only permitted to measure standing trees and (almost invariably) to sell them to established operators. Prices were regulated through a system of controlled sawn timber prices, with the political aim of cheap housing.

Sawmills operated on what were essentially rights to cheap logs from forests whose clearance for settlement was seen to be necessary. Invariably this led to pressure by sawmillers as well as settlers for the opening up of isolated timber-rich

areas such as Westland, creating an illusion of inexhaustible wealth.

Invariably they were successful – and everybody conveniently forgot the fate of the kauri forest, a clean sweep of a superb timber in exchange for indifferent farmland. The process swept on, giving us, amongst other things, the horrendous erosion of the East Cape, and only stopping when good timber-bearing forest was almost at an end.

Sustained-yield Forestry

Sustained-yield forestry has eventually developed in some parts of the world, such as Central Europe where people were locked into their homeland, with little chance to emigrate and dependent on their immediate resources. Life became precarious without wood! For surety of supply, only the amount of wood that the forest could produce annually should be harvested.

This meant the end of cutting-right sales, which appeared to deny regulation of the harvest, and theft was rife. Sometimes the penalties imposed were horren-



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