

Discount rates used for forest valuation

Results of a pilot survey

The Terms of Reference of the NZIF Forest Valuation Working Party require it "To recommend to Council the desirability of, frequency and format for collection and publication of commonly applied valuation inputs including log price information, discount rates and costs." A quarterly survey of log prices is carried out by the Ministry of Forestry and published in the Forestry Report. There is every indication that this information will continue to be collected and published by the new Ministry of Agriculture and Forestry.

In the second quarter of 1997 a pilot survey was carried out to help determine

the feasibility and merit of the NZIF providing information on discount rates. Forest valuers in a range of forestry companies and consulting firms were surveyed and asked (i) What discount rate did they use to estimate the market value of a forest?; and (ii) What was their estimate of the discount rate implicit in the transaction price of recent forest sales? As assumptions about discount rate articulate closely with log price assumptions, the forest valuers were also asked what log prices they used — both the initial prices used and any growth assumptions.

Responses were:

(i) Discount rate used to estimate the market value of a forest

Respondent	Discount rate applied to post-tax cashflows	Discount rate applied to pre-tax cashflows	Log prices based on	Log price growth (%)
1	8-9		current prices	0-1
2	8		current prices	1
3	8		current	0
4	8.5		average last 12Q	0
5	8		current prices	0.5
6		9-10	current prices	0
7		8.5-9.5	recent trend line	0
8		9	average last 6Q	0

(ii) Estimate of the discount rate implicit in the transaction price of recent sales.

Forest	Implicit discount rate (applied to post-tax cashflows)
Forestry Corporation of NZ (1996)	8-9
Hikurangi (FCF sale - 1996)	7.4-8
South Auckland (FCF sale - 1997)	6-7.9
Small forests/partnerships (1997)	7.1-10.1 (average 8.8)

The results indicate a strong consensus on the discount rate used to estimate the market value of a forest but quite a range in discount rates inferred from transaction evidence (both between valuers and between sales). Discount rates being used may well have changed since the survey was carried out because of changes in the forest market.

Clearly the choice of the discount rate to be used in forest valuation will always require judgement on the part of the forest valuer. Readers are referred to the Exposure Draft of the NZIF Forest Valuation Standards for a discussion on the factors to be considered in deriving a discount rate.

Bruce Manley
Convenor, NZIF Forest Valuation Working Party

devoted to forestry. They admired the determination he brought to the organisation of the New Zealand Forestry Corporation, and the passion he brought to facilitating the changes which were made by many people who were formerly dependent in some way on the Forest Service. They respected the compassion he had for those whose adaptation to change was dominated by hardship. Not surprisingly, Kirkland's attitude to the developments of the late 1980s was marked by ambivalence, acceptance of intellectual arguments alternating with deep emotional rejection. There was never any doubt that Kirkland would always see both advantages and disadvantages in what was done, and his assessment of the net balances fluctuated. The sale of NZ Forestry Corporation was sometimes seen as a betrayal; the new Director-General of Social Welfare was optimistic about the chances of reconciling the claims of compassion and efficient use of resources. Sadly, the continued learning and constant reassessment of a very lively mind was cut short, uncompleted.

Berg was much less in the public eye and operated at less elevated heights, but this book suggests that his experience was not dissimilar in kind. The same must have been true for many in the Forest Service.

A Century of State-Honed Enterprise does not continue the search for balance. While it is not a simple polemic, it is dominated by nostalgia for the past, and it does not give a basis for exploring the argu-

BOOK REVIEWS

'A Century of State-Honed Enterprise'

A Century of State-Honed Enterprise: 100 Years of State Plantation Forestry in New Zealand. Andrew Kirkland and Peter Berg (Auckland: Profile Books, 1997).

Andy Kirkland worked for the New Zealand Forestry Service and its successors from 1952 to 1990. He was later Director-General of the Department of Social Welfare until his untimely illness and premature death. Peter Berg worked for the New Zealand Forest Service from 1967 to 1987 and then moved with Kirk-

land to the New Zealand Forestry Corporation. He continues to be involved with forestry, and at the time this book was written he was General Manager Business Development for Rayonier NZ Ltd, the New Zealand arm of a North American forestry company which bought former State forests in 1992. This book is therefore a retrospective survey of public sector forestry in New Zealand by insiders.

Kirkland was the last Director-General of the New Zealand Forest Service and presided over the abandonment of "multiple-use forestry" which had been the ideology of that Service for many years. Those who knew Kirkland in the mid-1980s will remember the tremendous pressures on him as he came to terms with changed attitudes towards forestry — his reluctant acceptance of the argument for clarifying objectives and of the imperative of getting better returns from the resources

ments about what happened in the 1980s. It is an account from the point of view of those who were present and saw some of a major historical process; that experience is not set in a wider context.

While *A Century of State-Honed Enterprise* is presented as a retrospective survey of the entire experience of State forestry in New Zealand and not as a re-examination of the developments of the 1980s, its tone and content is dominated by the end of the process. It is written mostly from the records of the Forest Service, and it records rather than analyses the achievements of the Service. There is no doubt that the achievements were considerable and *A Century of State-Honed Enterprise* is a convenient source for the basic narrative of choosing the species which were to compose the State forestry plantations and the development of the nurseries and plantations themselves. There is also a useful account of how the Forestry Service saw the development of Tasman Pulp and Paper Co. Ltd, but it would have to be supplemented elsewhere if what was wanted was the history of Tasman itself. And then we are into the 1980s.

So a foresters' record rather than a history or analysis. It is, however, lucidly written and well illustrated, and can therefore be recommended for those who want a foresters' record.

Gary Hawke

'Trees, Timber and Tranquillity'

'Trees, Timber and Tranquillity' by Lindsay Poole. C. Rex Monigatti Publishing, Wellington, 1998.

As we approach the turn of the century now is a good time for reflection and fresh vision. It is more than a decade since the New Zealand Forest Service was abandoned by the Government of the day in an unholy alliance between the emerging popular environmental movement and the then currently fashionable deregulated market-led new age treasury apostles. They were supported by an extraordinary bipartisan political policy reversal. These are matters that continue to worry author Lindsay Poole.

In the contemporary scene many in the forestry sector today may not support a reversal of present-day policies (and widespread privatisation), but I would urge them to purchase and read for themselves this modestly-priced lifetime testimonial of one of this country's all-time most experienced foresters, and uniquely wise land use advocate.

'Trees, Timber and Tranquillity' is essentially autobiographical (including a fascinating account of the author's formative years and overseas experiences) — one that describes episodes in the long life and times of a man well steeped in the understanding of the New Zealand environment — a former Director of the Botany Division DSIR, Director-General of Forests 30 years ago, and a notable Chairman of the Soil Conservation and Rivers Control Council. An outstanding scientist with a practical and proven

working knowledge of the earth sciences and the wise management of our soil, water and land resources. Lindsay Poole has been honoured by the Institute of Forestry, the Royal Institute of Horticulture, the Institute of Chartered Foresters in Britain, and was a former President of both the Institute of Forestry and the Ecological Society. He is a very special person — today a father figure in the forestry world in this country.

Lindsay Poole knows better than most the art and culture of forestry — both indigenous and introduced. His well-documented professional interest in the wise long-term environmental stewardship of the land — its mountains and varied river catchments — is unchallenged. During his lifetime he has studied the experiences of other countries where forests have been successfully managed for centuries on a sustainable and usefully productive cycle compatible with the care of their geographically unique landscapes.

Many have enjoyed lifetime friendships with this man, students of botany have reason to be thankful for his insights and practical observations, and thousands are grateful for his leadership nearly three decades ago of the New Zealand Forest Service whose recent demolition continues to give Lindsay Poole much pain and anguish. For a man of his age and one who prides himself in keeping his golf score under that figure he is also mentally very alert and one whose passion for the trees in our varied landscapes — both indigenous and introduced — is undiminished.

As Director-General of Forests in the Sixties, Lindsay Poole is remembered for his chairmanship of the important Forestry Development Conference and his leading role in the implementation of the second major tree-planting boom in New Zealand. There has been a three-fold increase in commercial plantings since 1966. The planned decentralisation away from the Volcanic Plateau which held no less than 56% of this country's plantations in 1966 into districts from Northland to Southland was greatly encouraged by Lindsay Poole.

Those other districts gained no less than 72% of the newly-expanded plantings. And whilst state-funded measures to spread population growth are no longer popular this earlier initiative is unique and one for which many in these districts will be forever grateful. He actively encouraged the emerging and now influential farm forestry movement too.

His book 'Trees, Timber and Tranquillity', excellently illustrated by lifetime professional photography friend and forestry colleague, John Johns, contains a personal testimony and informed view on the state of forestry in this country — a viewpoint based on a lifetime of distinguished service to the public and an unwavering commitment to the care of our land, soil and water values.

Jolyon Manning
Jolendale Park
Alexandra

'Trees, Timber and Tranquillity'

by
Lindsay Poole



The greater part of Lindsay Poole's working life, or for that matter his whole life, has been geared to forestry one way or another — by forestry is meant the use of forests for multiple purposes, including especially protection of soil and water, and the growing of trees and the selling of wood. This life is traced in his new book, 'Trees, Timber and Tranquillity'.

His comments about the relationship between short-term changing Governments and the long life of a tree have special significance, and his story will be of considerable interest especially to professional foresters, farm foresters, tree lovers generally, and politicians!

The 144 page casebound book includes 32 pages of colour and black and white photographs — many taken by noted forestry photographer John Johns — and they have informative captions.

Copies of 'Trees, Timber and Tranquillity' are obtainable from the publisher:

C. Rex Monigatti Publishing, PO Box 3541, Wellington, and from the author at 22A Waru Street, Khandallah, Wellington.

The \$35.00 price includes GST and packaging and postage within New Zealand.