Interest Rate Effects on Choice of Regimes

Sir,

Judging by points raised in recent issues of your Journal, the confusion over the effects of higher interest rates, [and the assumption that it is these that cause short as against longer rotations], continues.

I have published comments on this issue to both your and to the Australian Forestry Journals in the last decade. These letters cite an earlier paper: NZ J For. Sc. Vol. 2 where on p. 382 the ranking of the seven models evaluated (at that time) are given by interest rates against LEV [land expectation value, which is the net discounted present value per unit of area]. For the four least profitable regimes, which all involved longer rotations, their ranking was virtually unaffected from interest rates from 3 to 10%. There were minor changes in ranking amongst the three more profitable regimes from 3 to 5%, but the order of the differences in LEV were not very great. These three "publications" continue to be ignored, [with much else that I produce].

With today's ease of calculation [work that took me many months can now be done in a few hours and there is also more basic data on, for example, growth rates], these findings can be tested. This should be done on a series on models all based on "normal" rotations, to avoid the complications of the previous "accelerated" models. If these confirm that, roughly speaking, the shorter the rotation the more profitable the result by both IRR (internal rate of return) and LEV this has consequences which I did not appreciate at the time of first publication.

Economic theory remains coy on the difficulty of choosing an interest rate on an objective basis. As far as I know it is little discussed. It is more than coy on the subject of what basis is there for any time evaluation when, as in real life, the current rates vary through time. With current machines, it would be easy to test this too. It is quite possible that the earlier results will be repeated. [there would be complications with longer rotations with varying interest rates as they would extend over different time horizons, but then all uncertainties - both good and bad - increase over time]. The evaluations suggested above would clarify and may even dispose of these very real and, I contend, unacknowledged economic difficulties.

I could clump them out myself, but I have to produce work on plantation silviculture (world plantations, that is, not just temperate softwoods) and I have been asked to write papers on Japanese plantations; and to evaluate if New Zealand should emphasise clear-wood production. Perhaps wrongly, I feel I should clear up my now-wide experience on these silvicultural points first.

In the meantime, there is a good opportunity that such work would attract attention, and if it is not done here, more energetic workers may exist overseas.

R. Fenton

Beech Forest Logging and Management

Sir,

Your editorial in the November 1998 issue of *Forestry* deserves comment.

In your article, *When Science is not Relevant*, you endeavour to differentiate three groups within our society on the basis of their views on the Beech Management Plans of Timberlands West Coast Ltd. Subsequently, you claim that there is a conflict between the paradigms underlying the views held by each of these ":groups".

This would seem to be a reasonable reflection of the situation, however there is an inherent conceptual flaw which needs to be corrected. Of the three groups identified, it is only the environmental groups opposed to Timberlands who see "indigenous forest management" as "native logging".

Unfortunately, your distillation of the essential differences also fails to make a clear and explicit distinction between "logging" and "forest management". In fact, your persistent substitution of the word "logging" in instances where the words "forest management" should be used only serves to exacerbate and perpetuate the misconception that these words are directly interchangeable.

Despite whatever short-comings the Timberlands Plans may have in documenting a comprehensive and detailed approach to beech management, they must be seen and described as forest management plans, not logging plans. This should be readily apparent to any member of the public, let alone trained forestry professionals, who have applied themselves honestly to reviewing the documents.

It would behove the Institute to reflect the concepts, if not the ethics, now underpinning indigenous forest management in New Zealand and to use language which accurately describes these concepts. Without this, the misconceptions will endure and these disparate "groups" will never find the common ground necessary for the furtherance of ecologically, economically and socially sustainable forest management in this country.

Roger May
Secretary
Indigenous Forest Section
NZ Farm Forestry Association

Timberlands Beech Project

Sir,

Reading the contributions to your special section (November 1998), it would appear that the prime justification for the Timberlands' plan is being based on the opportunity this <u>might</u> provide to prove that these forests could be managed sustainably at the same time as their biodiversity is protected, even thought there is no obvious commercial demand for the product and the economics are likely to be unattractive.

Thus, Guy Salmon writes about "the only really impressive plans for sustainable forest management" that he has ever seen, and Chris Perley identifies "an opportunity to put in place such a model for future ecosystem management."

I have no difficulty with the concept of management for both forest protection <u>and</u> use, and am no fan of the peculiar New Zealand system of segregated land use categories.

But if, "when science is not relevant", may be thought an appropriate catch-phrase for the preservation argument, then surely, "when market demand and production economics are not relevant", might reasonably be applied to the Timberlands seed project.

Eric Bennett

New Zealand Forest Histories

Sir,

A. J. Grayson's kindly review in the Commonwealth Forestry Review of my friend Lindsay Poole's *Trees, Timber and Tranquility* ends with the conclusion that it is "of immense value to anyone wishing to write a formal New Zealand forest history". It is good that this has been said.

Although many bits of forest history have been written, there are, apart perhaps from Allsop, few which give an objective and unbiassed view of events.

This is particularly true of the early Tasman years for which Entrican's writing failed to tell the whole story.

Nor is it true of Sir James Fletcher's book, compiled from his own intimate knowledge of company events. Treasury has not published the story of its involvement. The second period of major Government decisions, from the late 1980s into the early 1990s was of lasting importance to New Zealand forestry.

The one book dealing specifically with the sale of State forests (Birchfield and Grant) was too early to deal with the effects.

I think what is needed is not a complete forest history now nor just a factual account of the important relationships between Government and pulp and paper industries.

A new book should incorporate the many stories of the last 60-70 years which are now either unrecorded, or at best, inadequately recorded.

These include, as well, the large-scale private plantings of the 1920s and 1930s, the Forestry Development Conferences to which the private sector, the Government, forest industries and the Forest Service all agreed, the continuing emphasis of planting targets on regional development, the attempt to get a major sustained yield beech management industry away on the West Coast, the 1986 Forest Accord, the takeover of many large private forests by American and Japanese interests, and the emergence and dominance of successful environmental lobbies.

By the time such a book is written, the Asian crisis and the effects of the merger of the agriculture and forestry ministries will deserve mention.

The author will doubtless think of others. There are still quite a few people alive who could research and write such a book.

It should be a fascinating account to forest administrations the world over.

A. P. Thomson

Labour and taxation

Sir,

The Evening Post published a couple of editorials recently which implied that it was almost a forgone conclusion that next year New Zealand will have a Labour-led left of center coalition Government.

Helen Clark has already announced that it is the Labour party's intention to raise personal taxation on those with annual incomes in excess of $60,000 p.a. by 6 cents in the dollar.

For forest owners intending to harvest even minor areas of trees in any given year this is bad news. They face the prospect of the Government taking another six percent of their future net earnings as well as an inequitable penalty off not having been able to deduct all their costs of producing wood at 39 cents in the dollar. (See footnote).

In these circumstances it would be reasonable for forest owners to seek a tax credit to equalize the previous deductibility foregone because of the long term nature of forest investments.

It is also quite likely that a new left-inclined Government would re-introduce death duties. This may be up to 25% of the value of the estate. Because there is a high probability of forest owners dying before they harvest their trees, the inclusion of forests in the assessment of estate value for death duties would be a major disincentive to forestry investment and eventually would result in less rural employment, more soil erosion, more serious flooding, bleaker landscapes, a reduction in bird and other wildlife numbers and sub optimal land use decisions.

We need to ensure that the movers and shakers in the Labour and Alliance parties are at least aware of the advantages of excluding forest assets in the assessment of the value of estates for death duties.

It is also a good time to point out to Labour and the Alliance that the National Government never honoured its 1990 pre-election promise to allow the purchase of forests to be fully deductible. They might get some good press if they took up that idea which is about putting forestry on a level playing field with other sectors. If the idea was adopted the transactional value of immature forests would increase as the purchase cost of bush component would no longer have a discounting effect on immature forest value. It would also reduce the current risks associated with the long term nature of forest investment. Increased exchanges of immature forests would lead to the establishment of a competitive market for them which would help make the forest industry more efficient.

This letter is a call for members of the Farm Forestry Association, the Institute of Forestry and the Forest Owners Association to discuss the implications of likely general taxation changes on forestry investment with anyone they know who might have influence in Labour party circles.

The Councils of the aforementioned organizations might like to join together and send representatives to meet with Helen Clark, Michael Cullen and Jim Anderton direct. Now is the time because it is very difficult to turn politicians around once they have taken a public position on an issue.

Yours sincerely

Hamish Levack
Forest owner, and a previous policy manager in the Minister of Forestry.

Footnote: As a long term investment with most of the expenditure being made in the first few years of the term, forestry warrants some sort of special dispensation when it comes to the implementation of the declared Labour party policy to increase personal tax for those with incomes in excess of $60,000 from 33 to 39 cents in the dollar. This is because there is a lack of equity in treating the owner of say a 25 year old crop of radiata pine the same as say the owner of a month old crop of carrots. The same amount of money may have been spent on the development of both crops but the forester has only been able to deduct his expenditure at 33 cents in the dollar whereas the farmer will be able to deduct his expenditure at 39 cents in the dollar.

Pondering the IRR

Sir,

Correspondence between Dr Ted Bilek, Canterbury University and myself reveals a different approach to the interpretation of discounted cash flow investment analyses which readers of New Zealand Forestry may wish to comment upon. At the root of the disagreement is the definition of internal rate of return, and the possibility of there being more than one internal rate of return for a given project. I define internal rate of return as "the aggregate rate of return on all proprietor's capital invested in a project at any point in its duration", and argue that there can only be one internal rate of return for a given project.