

as judged by your Piers

When forestry was well-behaved

So the Government wants more trees? Less deforestation? Their strategy: pathetic incentives for the former and draconian sector-crippling disincentives for the latter. But during the 1990s, we willingly planted over 57,000 hectares of land per year and deforestation was unknown. Back then, Government did not need to use either carrots or sticks. So what has changed? Can we learn from history: why were the public so unimpressed with forestry in 1991 (new-land planting rate of just over 15,000 ha/yr) but so enamoured with it just three years later (new-land planting rate peaking in 1994 at 98,200 ha), and totally turned off in recent years? Ask any eight foresters these questions and you will get nine answers, all of them subjective and some clearly wrong. But the Government and Industry just yawned: "Planting rates are fine - why would we want to know this stuff?"

Answer 1

"It was the price spike that led to the planting boom". Codswallop. New-land planting rates had jumped to over 50,000 ha in 1992, whereas the price spike occurred the following winter. Besides, it takes time to acquire land and order tree stocks. And furthermore the price spike was all but over in March 1994 whereas planting rates continued at a high level for many years thereafter.

Answer 2

"Forestry peaked in 1993 and wood prices have since slipped downwards". It is true that prices averaged across all grades peaked in September 1993, but recent prices (in US dollars) are as high as they have been since April 1996. So the international wood price does not explain the current absence of new-land planting. More to the point: the NZ dollar is now high relative to the US dollar, and shipping costs are now double that of 2003.

Answer 3

"All due to tax incentives". Nonsense. The boom took place without any unusual incentives, whereas there were indeed tax perks from 1965 right through to 1987. In the previous period, forestry hadn't captured peoples' imagination - despite the incentives. Economists currently advocating forestry grants should learn from the historical evidence about the futility of this approach. In any case a knowledgeable investor could calculate that the magnitude of tax-breaks and grants was insufficient to greatly affect IRR.

Answer 4

"Decline is due to Government's discriminatory Kyoto policies". Get real. Until very recently, most forestry investors or would-be investors knew as much about Kyoto as the magpies in the branches.

Answer 5

"Dairy farming became more profitable than forestry". Actually, forestry by-and-large still produces a better return than dairying given the relative value of the preferred land types. The Achilles Heel of dairying - or for that matter any type of farming - is that increased product prices quickly get capitalised into the cost of suitable land. The beneficiaries

of a rise in product prices are landowners who sell to more profitable enterprises, while the new entrants or those who continue farming make a lousy return on their capital. Their self-justification lies in the expectation of a continuing increase in land prices. But how long will this last?

Answer 6

"Better technology transfer". Not so. The Forest Service (and later MOF) ran a brilliant extension service up to the 80s. Like many others, I owe my own forestry career to the late lamented Ross Jamieson and his colleagues. Their enthusiasm was infectious. They would tell you anything you needed, and more, and then actually visit your property with hands-on advice. All this disappeared when MOF was absorbed into MAF and the bulk of foresters in that organisation were driven out by anti-forestry agriculturalists.

Answer 7

"The public perception of forestry changed between 1991 and 1993". True. No longer was forestry seen as the sole domain of large forestry companies or government agencies; it became an enterprise suitable for a small-scale grower. Indeed, you could argue that the presence of subsidised Forest Service plantings had stifled the small-scale market until privatisation occurred in the late 80s. Media analysts underscored the real underlying profitability of forestry with a feeding-frenzy in the financial pages.

Answer 8

"The superannuation scare". Right on the button. National superannuation payouts peaked in 1992, and did not reach equivalent amounts until ten years later. The public suddenly became frightened, prompted by government pronouncements, and fuelled by an army of retirement-scheme salesman who phoned private addresses night after night. A logical private superannuation investment might well include a forestry project. People were wary of shares, as the stockmarket crash of 1987 was all too close.

Answer 9

"Land prices". Nail on the head. Rural land prices quadrupled between 1993 and 2006. Back in 1993, the cost of establishing and tending a forest was equivalent to the price of the land, but now the dominant cost factor is overwhelmingly the land price. Forestry no longer yields an IRR equivalent to the sharemarket because of the costs of land purchase or rental.

So what's to be done? Reduce land speculation and lower the New Zealand dollar. Restrict productive land to those who wish it use it productively, introduce a capital gains tax for second properties, impose a mortgage tax for rural land, tighten residence requirements, and - most of all - sheet home to land users the positive or negative environmental costs associated with their activity. Just don't insult our intelligence with trivial incentives or idle threats.

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