

Do not spoil the ship for a ha'porth of tar when deciding how to spend a commodity levy

Hamish Levack

Let us assume that, at March's referendum, stakeholders will vote in favour of a 27-cents-a-cubic-metre forest commodity levy. This would bring in \$6.5 million a year. How would that be best spent?

Preliminary budgets indicate, for example, that about half of it could be reserved for research. However \$3.25 million will not be enough for all the useful research that could be chosen, so expect debate over which projects should take priority. In the near term, the large-scale forest owners will be paying most of the levy because they will be harvesting most of the wood. Votes on expenditure will be proportional to contribution, so large-scale forest owners will have most influence.

A majority of these are harvesting most of their wood from tractor country. As a result we can, for example, expect steep country logging research, which is an expensive engineering project, to get the thumbs down. Conversely the large-scale forest owners need to be aware that most of the small scale forest owners own hauler-logging terrain. The owners of larger forests need to be careful they do not ignore the small-scale forest owners' wishes. If the small-scale forest owners feel that they are not getting a sufficient return from their contributions they can kill off the levy system in six years time when another referendum must be held and supported by more than half of forest owners.

Currently the small-scale forest owners are represented, mainly on a de facto basis, by the New Zealand Farm Forestry Association (NZFFA). Unlike large-scale forest owners, many NZFFA members are alternative species enthusiasts. But a modicum of levy money towards non-radiata pine species research is likely to be a lot more than is being spent now, so it would be wise for the large-scale forest owners to agree to it. This can also be justified by industry-good arguments for biological insurance, and the need to plant shade-tolerant continuous-canopy species in inaccessible carbon forests which are unlikely to be harvested. These examples provide a glimpse of the problems that will arise, but one hopes that the decision framework for spending the levy will be one of compromise, tolerance, understanding and above-all unity.

Do not spoil the ship

The people responsible for deciding how to spend the levy need to keep in mind the old English proverb 'Do not spoil the ship for a ha'porth of tar'. This proverb has multiple forestry connotations because the ship referred to would have been made of wood, and the tar to make the hull watertight would have been modified pitch obtained from pine trees. It is also highly relevant to the future development of the New Zealand forestry

sector. If we overlook certain elements which actually cost very little, everything will be undermined.

Woodco has assembled a strategic action plan to bring together the forestry sector's aspirations. If achieved, it will be cause for great celebration. It should be continually referred back to when prioritising the spending of levy funds.

Woodco aims, in 10 years' time, to generate \$12 billion each year in national export earnings from the forestry sector. This would be by domestically processing the increase in annual wood supply of about 10 million cubic metres a year which will be coming available in the 2020s.

Great expectations, but it is conditional on the 10 million cubic metres increase in yield being sustainable, as only a sustainable wood yield will attract investment in further domestic processing. It will only be sustainable if at least 20,000 hectares a year of further new planting is established between now and 2022. In addition it needs the tens of thousands of first-rotation-growing small-scale forest owners, who will be producing the increase, to organise themselves to produce a steady cut. Therefore some of the commodity levy should be earmarked to ensure that the latter two important conditions are satisfied. Metaphorically speaking, they are the 'ha'porth of tar'.

Promoting planting 20,000 hectares a year

Grower profits are being squeezed by steadily increasing costs of harvesting, transport and low log prices due to the global financial crisis. Because of this, commercial investment is not going into new planting. For a while it looked as though the ETS would stimulate planting, but with the enactment of the Climate Change Amendment Bill, and the price of carbon dropping so low, very little new planting is expected in 2013.

Of course forests produce more benefits than just timber and carbon. Forests work to reduce soil loss from the hills, to reduce silting of crops on the pastoral foreland, to reduce river-bed aggregation and flood damage to towns and infrastructure, to maintain or enhance the quality of drinking and industrial water. Forests also inhibit nitrogen run-off into lakes such as Taupo and Rotorua, increase the national reserves of accessible bioenergy, enhance natural conservation and provide recreational value. By their nature, and at low cost, forests mitigate many of the effects of climate change, which are causing an increase in storm intensity and rising economic losses.

In order to persuade the community, and Cabinet, of the importance of new planting, and the need for

the government to top up funding for afforestation in the short term, we need to value the externalities of forestry and estimate the costs to government of not getting new planting done.

New Zealand scientists have already carried out considerable research by measuring the environmental effects of a lack of afforestation. For example, Scion has estimated that the value of avoided erosion from afforestation of 2.4 million hectares of erodible hill country is in the order of \$2.1 billion. Afforesting the region with the highest erosion achieves about 50 per cent of the avoided erosion value.

Some levy funds should be used to bring this sort of data and other relevant information together. Although they have a different mix of non-commercial benefits, other countries have done this. For example, the Forestry Commission in the UK determined that the capitalised social and environmental value of forests and woodlands in Britain was £29 billion, or £1 billion a year.

The advantages of cooperation

Just as important, some levy funds need to be allocated to providing small-scale forest owners with relevant information and encourage them to group together to rationalise the coming 'wall of wood' for their own benefit and that of the wider industry. Probably the most important information will be an analysis of different ways they could aggregate cutting rights. Commitment of cutting rights and some form of income equalisation will be needed to reduce risk and to obtain the substantial economies of scale that are possible.

Exchange of cutting rights for shares in a company is a possibility. However, depending on crop age, this is likely to have major tax disadvantages, and difficulties in defining fair values to attach to the component cutting rights. A majority of an NZFFA working group, based in Wellington, currently favours a cooperative model that would function in the following way.

Several forest owners commit to pooling their maturing trees to yield a sustainable harvest, perhaps over a five-year period. Each owner earns a preliminary income based on agreed benchmark log prices by grade, less the harvest and marketing costs incurred on cutting their forest. The balance of the income would go into a co-op pool kept in an interest-bearing account until the end of the period. At this time money in the account would be redistributed back to the owners on the basis of a formula. This would take into consideration the time value of money, the volume contributed by specific owners by log grade, multiplied by the mean value in dollars per cubic metre per grade, less the preliminary pay-out that specific owners have already received. This would spread the log price risk while localising the costs of harvesting and marketing.

Commodity levy funds need to be committed to the development, verification and promotion of a

generic cooperative system such as this. One which can be picked up and used in all regions of the country.

Identifying small-scale forest owners

If a small-scale forest owner is to collaborate to regulate the regional cut, they need to know how to contact the other similar owners. The Wellington NZFFA branch has recently completed a very promising pilot to progress this.

GIS satellite imagery freeware was used and overlaid with the land information database to identify New Zealand exotic forests greater than five hectares in size. Location, area and proprietor were obtained and a spreadsheet was created listing the title, forest area and forest location for each forest-owning entity. A total of 14,690 such entities were found, but only 26 per cent of the titles were also the postal addresses.

For a southern North Island pilot region it took no more than a few minutes to identify each of almost all the remaining addresses for service. This was carried out using the companies office, farm location maps, local directories and local knowledge.

A modest amount of commodity levy money should be reserved to seed the maintenance and expansion of this database. It will also be relatively easy and cheap to identify the proprietors owning less than five hectares of forest. We know that many, if not most of the entities, have several people on the title, particularly if they are companies or partnerships.

There could well be over 100,000 people with a significant private commercial interest in forestry. This means we are on the verge of being able to coordinate a strong collective voice to raise community support for forestry and to get more government involvement in forestry development.

Conclusion

We must not lose sight of the fact that a sustainable yield is essential if the full potential of the New Zealand forest industry is to be achieved. Therefore, some of the levy needs to be reserved for ensuring that sustainability is achieved. Part of this process has to be involvement with tens of thousands of currently unaware and unenlightened small-scale forest owners.

Involvement will provide the opportunity to encourage good forest practice. The process will also let them know that they are likely to lose a substantial part of their potential profit if they do not pull together and work towards ways of aggregating and regulating their cutting rights, and using their so far untapped influence. We have a very real opportunity to mobilise a powerful political constituency to promote good forest policy. Using valid environmental externality arguments, we could justify society paying some of the costs of new planting and, faced with 100,000 voters advocating this, the government would agree.

Hamish Levack is a forest-owner and a member of the provisional forestry Commodity Levy Board.



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It is against that background that Helen Beaglehole sets the fascinating and previously unexplored history of how settlers' random and careless burning led, in 1921, to legislation that still underpins New Zealand's official policy on wildfire. She explores the huge public education campaign that sought to change attitudes to use of fire, and traces how increasingly sophisticated fire-fighting technologies, coupled with developing knowledge of weather and fire behaviour, were used to prevent, contain and extinguish fire. Finally she looks at the early Forest Service employees who became the nation's first rural firefighters, their skills honed in the vast controlled burns of the 1960s, '70s and '80s, and describes the regime established after the Service's demise and the issues faced today.

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