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Report to the Utility Services Committee
From Euan McQueen, Utility Services Committee Chairman

The Future of Plantation Forestry

1. Purpose

The aim of this paper is to explore options for the future of this activity in Wellington Regional Council (WRC). The underlying goal is to raise the level of debate about an aspect of the Council's affairs which needs serious review of its long-term goals, and its financial implications.

2. Exclusion of the Public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information Act 1987 are:

> *That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, i.e. to carry on commercial negotiations.*

3. Background

Plantation Forestry in the western part of the Region, which now covers some 4,000 hectares of land, began in the 1960s when there was active encouragement to landholders (including local authorities), to plant 'waste' land with exotic species for eventual financial gain. The knowledge at that time of exotic forest plantation finances, and of the optimal growing conditions for exotics (mainly pinus radiata), was not extensive. Planting was seen as essentially a means of utilising land that would otherwise grow scrub or regenerating native bush. Neither of these forms of vegetation were regarded as of value.

The result was that on WRC land, planting took place on many different types of landscape, including at altitudes and on soils which today's knowledge would have left unplanted, or at least planted in only certain areas. This planting practice was the conventional wisdom over the whole country. It was encouraged by loans from the Government to local authorities. This took place at a time when Government was subsidising the clearing of native 'scrub' and regenerating bush for farmland. The nation's landscapes were generally perceived in very simplistic terms, essentially as pine forest and pasture/crops, and reserves or regional/national parks. Native timber was still being actively felled on the West Coast, King Country, Hawkes Bay, Urewera, Southland and South Otago, and inland Taranaki. There was little or no understanding of the concepts of biodiversity, ecological principles or landscape values.

The economics of plantation forestry extraction were treated with equal disdain. Access for extracting timber was often not considered, especially (but not exclusively) in relation to smaller blocks. Markets were seen as infinite in both scale and price. Exotics were the tree crop of the future.

3. The Present Scene

Time, experience, research and market realities have now intruded on this somewhat halcyon scene. Other nations now provide stern competition for New Zealand's exotic timber output. The costs of extraction are now more clearly defined as forests of the 1960s and 70s mature and are cut, and the costs of forest maintenance and the physical risks (mainly fire and disease) are now better appreciated. The economics of managing forests of different sizes are a lot better understood, as are the opportunities for recreational values to be recognised.

In all those regards, WRC's experience has been not especially different from any other smaller scale plantation owner. The Council's predecessors responded to new knowledge and financial incentives of the time. While silvicultural management was, at best, uneven until the 1990s, the fact that some good timber has been extracted over recent years indicates that, in production terms, planting in at least some areas was a reasonable move to make.

In the mid nineties, managerially the overall forestry operation was split into natural forestry and plantation forestry. The natural forestry costs were rate funded while plantation forestry deficits were to in future be debt funded. This was because at the time the debt carried by the forests was relatively low compared with its value. This, also was at the time of a significant upward spike in world timber prices. In addition it was considered that the financial ratios were so healthy that the current generation should share some of the expected future financial benefits and the concept of the forestry dividend was introduced.

The management of the plantations in more recent years has been excellent. Contractors, with the appropriate skills, are used extensively; market trends are followed closely, with quick responses to market changes; operational costs and overheads are lean; one could describe it as a good little business.

Sadly, the financial aspects of Plantation Forestry are now not strong. Since the heady days of the mid nineties, timber/log prices have dropped significantly and the value of forests has halved. However efficient the current operations, the policy of funding all deficits and the forestry dividends from debt means that the current level of debt weighs heavily over the whole activity.

The comments above give a broader context within which this has occurred. With the value of hindsight, it might have been done differently. But this is not a paper about blame, it is a series of suggestions toward solutions. That is now the only sensible path to follow.

4. Plantation Forest Business Profile

Key points:

- The business now has relatively high debt in relation to the current value of the forest. It is expected to be $10M as at June 2001 and is forecast to rise to $16M by 2010.

- The business is currently difficult to operate profitably; stands are scattered and those being harvested are of mixed quality. Many have had difficult and expensive access, although all major roading is complete except to Maungakotukutuku forest. However, the business has some advantage in its location relating to the port and mills.

- In forestry terms the business is relatively small.

Current indications are that debt levels are going to rise to about $16 million (26% of WRC's total debt excluding stadium and water debt) in 10 years. Even with rising price levels, the age-classes of the holdings do not allow significant reductions in this debt by increasing sales in the short/medium-term. The Council's decision to keep paying a dividend each year, presumably in the interests of holding the rate line, is adding to the long-term debt. While predicting future prices is risky, market-forecasts would suggest that prices in real terms will stay around the present levels in the foreseeable future.

It does not need a consultant to tell us that these points add up collectively to a state of real financial concern. We should recognise this and look seriously to options for the future of the activity. The fate of the 'business' will be at least influenced, and probably determined, by which option, or set of options, are chosen.

It should also be noted that this review excludes the Wairarapa forests for which the financial projections look similar.

5. More Background

Wellington Regional Council's views of its roles, as an estate manager, have changed markedly, and positively, over the last five years or so. New values have become key elements in our policies – for example:

- The major significance of broader environmental values, reflects both the spirit of the Resource Management Act 1991 (RMA) and also a genuine belief that such a mandate is essential for the Council's role in the future of our region and the management of its land.

- An increasing acknowledgement of biodiversity and its management as a key element in the quality of the environment and landscapes.

- A new preparedness by WRC to both learn about and apply these (and associated) principles and values, and invest in them for the longer term.

- Underlying all this, a recognition by the Council of WRC's role in planning for inter generational benefits, and looking toward a region – and nation – which reflects strong, well justified, and considered views about the environment in the long-term future, and the role of diverse landscapes and ecological systems within that environment.

Setting out these principles gives a good context against which we can consider the longer term future of Plantation Forestry.

Key points:

- In relation to these policies, Plantation Forestry is relatively small fry in terms of the physical areas involved.

- However, Plantation Forestry occupies and affects some land (and nearby waterways) which are key elements in managing the qualities of the WRC estate.

So we need to consider, as a matter of principle, whether we want to struggle on with the existing management scenario for Plantation Forestry, debating it each year – or fit it into longer term goals reflecting our overall environmental aspirations.

6. Management Options

The options are (and this is not necessarily an exclusive list):

6.1 Do nothing and carry on as we are. Frankly, I think WRC has the ability to find a better answer. If it does nothing, the scale of debt will come to haunt future Councils.

6.2 Sell the cutting rights (i.e. keep the land). This is the simplest solution but is ideologically disturbing to some. With luck, it would eliminate all or most of the debt, and we would be out of Plantation Forestry as a business.

6.3 Sell some blocks (with or without land). This would reduce debt – but the size of the blocks is such that individual sales would be unattractive, and it is unlikely to produce a good financial result. (The costs of multiple sales would also be disproportionately high).

6.4 Introduce a phased withdrawal from Plantation Forestry by not replanting in plantation forestry species.

6.5 Adopt a major change in approach to plantation forests which would treat them as simply part of WRC's estate to be managed in a way appropriate to the respective sites, the overall goals for the areas in which they are located, and the values attached to those areas. This would include Plantation Forest operations where appropriate.

This would mean, for example, prior to harvesting the Pakuratahi Catchment we would ask:

- *What would we like the area to look like in 30 years time?*
- *Do we want it to be, for example, all regenerating native bush?*
- *Should we rotate (i.e. replant)* ***all*** *existing blocks of pine (and other conifers)?*
- *How would we manage these pine blocks?*
    - *harvest them?*
    - *plant in long rotation conifer/deciduous species with amenity value – as is happening now in some cases?*
    - *accept the concept of a 'working landscape' not just a passive landscape?*
    - *Acknowledge the scope for a working landscape (e.g. plantation forests) where it abuts farmland, but gently phase it to an entirely native or deciduous vegetation landscape as altitude increases and soil quality decreases.*
    - *And there will be other points as well.*

Similar tests/questions could be applied to other blocks with widely varying answers.

7. Management of the Options

The Pakuratahi exercise has been instructive in crystallising these questions and helping toward answers. The management solutions will vary from block to block.

The critical point underlying all this is that pine plantations for production forestry would cease to become primarily a business. A new management regime would develop in which landscape values, and the other values applied in for example Landcare's signature values concept, are predominant. The Council has already set aside areas in this forest that will be managed for predominantly recreation amenity values.

The pine blocks would be managed for the goal adopted for managing the landscape, not only for producing a financial return. I am certain that some blocks would continue to be cut, and replanted: others would not. The overall drivers adopted in managing these areas will have fundamentally changed from the present; financial goals would be only one of several objectives.

8. What About the Debt?

Good question.

Key Points:

- It is there now ($10M).
- It is growing, it will reach approximately $16M in 2010.
- It is not going to go away in the foreseeable future.

I'm going to depend heavily on advice from our managers on this one. Using probably a simplistic solution would be to roll at least part of the debt into the Council's general debt package and pay it off from the rate stream – unless there is some windfall gain that could be reasonably used for this purpose. This would still allow some financial gain from production forestry in appropriate areas and perhaps assignation to debt redemption.

I suggest this solution because I believe the state of the business is such that ratepayers will eventually have to pay the debt – and the longer we put it off, the more interest will have to be paid as well.

9. Plantation Forestry Replanting Programme

In the normal course of events, pine seedlings are ordered some months ahead of the planting season (July – September). The planting programme for a forthcoming year is submitted to the Utility Services Committee prior to work starting.

This process would need to be reviewed under the management concepts outlined in this paper. The seedlings for this year have now been purchased, and planting for this season has begun.

If the new concepts set out above are adopted, we could be faced with having Plantation Forestry planting on other sites destined for other purposes. As the suggested changes are for the long-term, I suggest that:

9.1 The planting programme for 2001 proceed.

9.2 That future tree planting programmes be determined no later than September of the year prior to the planting taking place. (Current practice).

10. Next Steps

I am writing this paper to my own Division, as a first step. I value their views and those of divisional management, and would hope that the basic idea survive, perhaps with new ones as well, to go to Policy and Finance for a full debate. The recommendations below are designed to crystallise the key issues, and meet appropriate procedural steps. For reasons of commercial sensitivity (which could affect value price for forest land and timber), the debate would need to be in Public Excluded.

I emphasise that none of the recommendations or suggestions in the paper should preclude the sale of some land, especially isolated blocks, if appraisal shows that such a move would be logical.

I also emphasise that none of the content of this paper is to be construed as being in any way critical of past Council's policies or of officers who have in good faith and with real skill and efficiencies administered those policies, especially in recent years.

11. Recommendations

It is recommended to the Policy and Finance Committee that:

(1) The attached paper be received.

(2) The changing strategic goals of the Council, especially with the new emphasis on environmental values, be acknowledged.

(3) The serious long-term financial problems facing Plantation Forestry as a business be recognised.

(4) The merits of adopting a broader land management concept, which includes the future of WRC's exotic forest holdings, be recognised.

(5) The approach implicit in Recommendation (4) above be endorsed.

(6) *The Policy and Finance Committee be invited to consider that approach as a basis and context for managing the land and assets of Plantation Forestry.*

(7) *It notes that the Plantation Forestry Planting Programme for 2002 be submitted to the Utility Services Division for approval and that all future plantation planting programmes be submitted in September of the year prior to planting taking place.*

(8) *Officers be invited to report on the financial and other implication of suggestions made in the paper.*

EUAN McQUEEN
Utility Services Committee Chairman