

FACILITATING WOODLOT CO-OPERATIVES

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Summary

Data gathered before a co-operative on the Kapiti Coast was established, and anecdotal evidence, strongly indicates that generally woodlot owners have a poor understanding of good forest management, but if they join a co-operative they can change that as well as capture scale benefits. If they do not form co-operatives it is estimated that it will cost New Zealand \$1.5 billion over the next rotation.

By collectively guaranteeing a sufficient supply of timber, woodlot owners may also be able to attract greenfield timber processing and get even better stumpages.

Because of practical impediments some form of Government intervention is needed to get viable co-operatives started. This is justified by market failure in the forestry sector and the off-site environmental benefits that the community gets from woodlot owners.

Although it is in the national interest to subsidize co-operatives this is likely to be difficult to achieve politically because woodlot owners are viewed as being already over-privileged.

An alternative is to introduce legislation, akin to that which was used to set up diary co-operatives, requiring the small private woodlot sector to levy itself for administrative funds and self-organize to obtain advantage from scale economies.

Whatever option is pursued private forestry would be much more efficient and productive if the purchase of stands of trees was made deductible against other income in the same year. This would help provide the usual free market benefits, and in particular it would make it easier for unsuitable, unco-operative woodlot owners to be replaced.

1. Lessons from Ratanui, a fire protection co-operative.

In year 2000 a co-operative, called Ratanui, made up of 18 forest entities comprising 1037 stocked hectares of plantation, and double that area in indigenous forest and reverting scrubland on the northern Kapiti Coast was established.

Enhanced fire protection was the first objective because it was suspected that most woodlot owners did not engage in forestry as their primary activity or have much understanding of rural fire risk. Other concerns were:

- Absence of major forest companies in the region to lead rural fire protection.
- Public roads to access the Tararuas running through the forests.
- High fuel loads were present due to intensive silviculture.

Owners were asked questions to help prepare a fire hazard map and were surveyed for their levels of knowledge about how the risks of wildfire could be reduced.

Their responses exposed serious knowledge deficiencies

- 50% to 66% did not know the Te Horo rural fire brigade was located nearby with a 4WD fire engine, where their nearest water points were, and did not consciously carry equipment, such as a spade or a cell phone, in their vehicles as a first line defense against fire.
- Only 15% obtained advice by being NZFFA , NZFOA, or the NZIF members.
- None had a full understanding of their legal obligations and liabilities

2. What was achieved by setting up the Ratanui co-operative?

- With the help of the District Council, a fire plan and map of the area was prepared
- All owners now have adequate public liability and fire suppression insurance.
- The Te Horo rural fire brigade now knows the terrain.
- Helicopter water points have been identified and enhanced.
- Forest tracks have been sign-posted to help fire-fighters.
- Owner knowledge of fire fighting techniques has improved.
- A new neighborhood fire watch has also reduced theft and cannabis cultivation.

3. What else can the Ratanui co-operative achieve?

A platform has now been established for

- (a) Further exchange of technical forestry information.
- (b) Setting up land (environment) care groups, including effective pest control.
- (c) Setting up group forest certification thereby cutting costs for individual owners.
- (d) Getting insurance, fertilizers, chemicals, and tree stock discounts
- (e) Reduced aerial costs for photography, survey and spraying work.
- (f) Setting up a harvesting and marketing company whereby members grant their cutting rights in return for shares. The company managers then harvest and market the combined forest to best commercial advantage. Wrightsons estimate that this sort of company will increase an individual woodlot owner's net commercial income by 15 to 33% overall because it will
 - Reduce overall market risk.
 - Provide lower pre-harvest, harvest, and transport costs because high volume, long-term contracts can be created.
 - Provide greater market leverage including priority as a seller when demand is restricted.
 - Gain more liquidity because shares are more easily bought and sold than forests held in alternative ownership.
- (g) Combining with other Lower North Island forest owners to guarantee a sustainable and sufficient supply of timber to attract processing investment (MAF's national exotic forest description, indicates a sustainable yield of at least 500,000 m³ of chipwood/year is already available from plantations between Palmerston North and Wellington but less than 300,000 m³ of chipwood/year is all that is needed to meet the minimum input for a greenfield MDF, particle board, hardboard, methanol or bio-energy plant. There will also be sufficient saw logs to integrate such a plant with a modern new saw-mill. The collective commitment of wood supplies will be the key to attracting processing and better stumpages.

4. In spite of their benefits, it is very difficult to get forest co-operatives set up and working effectively.

(a) The few woodlot co-operatives that do exist operate sub-optimally. Typically they depend on a few influential volunteers to carry out the administration and provide the managerial drive. The scarcity, and suitability in terms of forestry experience, of such volunteers severely limits the effectiveness of forestry co-operatives.

Setting up a formal partnership, company or fee-paying governance would be a better than relying on volunteers, but this is not yet acceptable to most of the woodlot owners needed by the co-operatives.

(b) Not uncommonly it is even difficult to get some key neighbours into a forest co-operative on a “free-ride” basis. Often such Owners say they “do not want to lose autonomy” but the real reason might be that they:

- Have not learnt from a neutral source, (such as the Government), how much they can benefit from seeking, sharing and heeding good advice.
- Fear being exposed as naïve and inept.
- Have had a long running feud with one or more forest neighbours.
- Fear being pressured into making financial commitments to group projects.
- Are poor communicators

Two significant North Kapiti Coast woodlot owners have been non-co-operators. Both have wasted thousands of dollars by badly mistiming pruning and thinning work. One of them is logging now and has done practically everything wrong. He did not call for tenders to manage the harvesting, he left no time for new road surfaces to weather before subjecting them to laden logging trucks, he harvested in Winter unnecessarily, and he harvested when log prices were at an all time low.

Collectively such woodlot owners cause huge resource wastage.

5. The cost of current bad forest practice.

(a) Better woodlot management could earn \$1.5 billion over the next 25 years.

Extrapolating from the Ratanui sample, at least 10% of the combined 200,000 hectares owned by small woodlot proprietors nationally will have had badly mis-timed silviculture and as a consequence will forego say a \$40 premium/m³ on their pruned log component of say 180m³/ha. Therefore around 200,000 ha x 0.1 x \$40/m³ x 180m³/ha = \$144 million of pruned log revenue will be foregone.

Assuming current average yield is \$25,000/hectare and that it could be increased by 25% (refer section 3(f)), then over the combined 200,000 hectare woodlot estate \$1,250 million will be lost if a co-operative approach to harvesting is not encouraged.

Further revenue losses arise from the other preventable bad forestry management decisions that are made. This means that the nation is foregoing about \$1.5 billion of net income over one rotation because good forest management advice is not getting to the right quarters and a co-operative approach is not being adopted.

(b) More profitable woodlot management will encourage more new planting.

Radiata afforestation is approaching negative growth, having dropped nine-fold since 1994. This is serious for New Zealand, if only as a signatory of the Kyoto protocol. More profitability through better woodlot management will contribute to more new planting.

(c) Small and directed Government subsidies could ensure the capture of the \$1.5 billion and other associated benefits.

It has been demonstrated that forestry co-operatives not only provide ways of capturing economies of scale but also can be vehicles to disseminate badly needed forestry knowledge. However most woodlot owners are not members of co-operatives and it is postulated that they will need more direct incentives to induce them to become members. Assuming Government would get 33% of the \$1.5B over a 25 year rotation back as tax, (i.e. \$20 million per year in tax), it would be a good investment for Government to pay up to \$20M a year to make sure that woodlot owners generate that extra \$1.5B of income.

Actually it is estimated that only about \$2M/year would be needed, and is likely to be a very cost effective investment for Government to make.

Having read the last paragraph the reader might well object that such a concept runs counter to the prevailing view that forestry is treated, and should continue to be treated, like most other sectors, i.e. allow the market to run free with the result that inefficient producers go to the wall and the efficient take over the abandoned resources and use them more productively. In fact several factors stop the forestry sector from running freely

(d) “Laissez faire” economics do not apply to forestry.

Factors inhibiting the forestry market from running freely include:

- **Tax treatment of the cost of buying standing trees.**

A fair price can only be reached if there are many willing buyers and sellers, but because the cost of purchasing a stand of trees is not deductible against any income except the revenue generated by the harvest of that stand of trees, would-be buyers value forests for less than would-be sellers. Therefore woodlots seldom change hands.

- **A free and rapid flow of information is essential in a free market**

Excellent information flows are necessary for a free market to work, but forestry is characterized by long perception lags (that may even span the transition of ownership from one generation to another).

- **Users do not pay for environmental services.**

There is currently no market for soil and water benefits, carbon fixation, bio-diversity, aesthetics, and the wildlife values provided by private woodlot owners.

(e) Would Government forestry subsidies attract unwanted counter-veiling duties?

The reader might also object that the provision of financial subsidies for forestry would run counter to another Government initiative, i.e. the freeing up of world trade, but in fact precedents are already in place indicating that “non-commercial” Government intervention for environmental, educational or social reasons is acceptable to our trading partners. These precedents include East Coast Forestry Grants and the Sustainable Farming Fund that provide social, educational and environmental benefits.

Intervention can be justified further as equalization for the off-site environmental benefits provided by private forestry.

Interestingly, in September 2003 the Australian Government announced that it was assisting 18 Private Forestry Development Committees (read co-operatives) across Australia with a \$A1.23 million boost.

6. In spite of the logic of the arguments for Government subsidising woodlot owner co-operatives it will be politically difficult to achieve. The next best option would be to introduce regulations to levy woodlot owners to provide the necessary funds.

Because woodlot owners are viewed as already over-privileged members of society it will be difficult politically for Government to provide subsidies that benefit them directly. Legislation, akin to that which was used to set up diary co-operatives, effectively forcing the small private woodlot sector to levy itself for administrative funds and self-organize to obtain advantage from scale economies is an alternative. However Government is unlikely to introduce such legislation unless it feels the majority of woodlot owners support it, and this is unlikely to happen unless Government first invests in the persuasion of woodlot owners.

7. Reform of the IRD’s treatment of cost of bush is necessary regardless.

Whatever approach is taken to facilitate woodlot owner co-operatives the system will work much more efficiently and productively if the purchase of stands of trees was made deductible against other income in the same year. This would help provide the usual free market benefits, and in particular it would make it easier for unsuitable, unco-operative woodlot owners to be replaced.