

PINING FOR PROFIT

From research prepared for the
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"...in all the great monarchies of Europe, there are still many large tracts of land which belong to the crown. They are generally forest; and sometimes forest; where, after travelling several miles, you will scarce find a single tree; a mere waste and loss of country in respect both of produce and population. In every great monarchy of Europe the sale of the crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown. In countries where lands, improved and cultivated very highly, and yielding at the time of sale as great a rent as can easily be got from them, commonly sell at thirty years purchase; the unimproved, uncultivated, and low-rented crown lands might well be expected to sell at forty, fifty or sixty years purchase. The crown might immediately enjoy the revenue which this great price would redeem from the mortgage. In the course of a few years it would probably enjoy another revenue. When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated. The increase of their produce would increase the population of the country, by augmenting the revenue and consumption of the people. But the revenue which the crown derives from the duties of custom and excise, would necessarily increase with the revenue and consumption of the people."

Adam Smith, *The Wealth of Nations*,
Book V Chapter II.

1. THE GROWTH OF STATE FORESTRY

The Forestry Commission was established as part of the post-First World War collectivist 'reconstruction' of Britain with "the general duty of promoting the interests of forestry, the development of afforestation and the production and supply timber in the United Kingdom."¹

The wartime blockade of shipping had revealed how dependent parts of British industry were on imported timber and, in government circles at least, it was not believed that private enterprise could be relied upon to create the strategic reserves of forestry that would guarantee, in any future war, such essential supplies as pit props for the coal mines and sleepers for the railways.

Between 1919 and 1939, the Commission received grants totalling nine million pounds and acquired about four hundred thousand hectares of land. But the Second World War, coming before any of its planting could have reached maturity, simply served to reinforce the perceived strategic need for state forestry.

Since 1945, The Commission has received the equivalent of two and a half billion pounds, at current prices, to finance the development of forestry. It now administers 926,000 hectares of timber plantations along with a further 230,000 hectares of low quality or recreational land. It employs around 5,800 people, with an estimated eighty-five percent of their workload concerning the commercial operations organised into Forestry Enterprise. In addition, a further 2,300 are employed indirectly through the use of private contractors.

Today's Forestry Commission

The Forestry Commission is an unusual public body, combining the legal status of a government department with the possession of a statutorily-appointed Chairman and Board of Commissioners with prescribed duties and powers.

Its activities fall into two distinct groups:

--As the Forestry Authority it advises the government on forestry policy, exercises regulatory powers over private enterprise forestry, administers the payment of forestry grants to the private sector, carries out research, gives technical advice and looks after plant health through controls over the marketing of seeds and cones.

--As Forestry Enterprise it acts as a commercial forestry company with specific additional responsibility for the provision of recreation facilities and special obligations regarding protection and improvement of the environment and the encouragement of rural employment.

¹ Section 3(1) of the Forestry Act, 1919

However, while its general duties remain much as they always have been, "promoting the interests of forestry, the establishment and maintenance of adequate reserves of growing trees, the production and supply of timber and the development of the recreational potential of the forests it manages"², the political, social and economic climate in which it operates has changed dramatically.

Altered expectations

Over the years since the Second World War, public expectations of the Forestry Commission have steadily widened. At the 1960 Symposium on Natural Resources in Scotland, for example, a variety of other roles were identified for forestry over and above the commercial production of timber: preventing erosion, providing protection and shelter for agriculture, enhancing the visual amenity of the countryside, increasing opportunities for recreation and sport, assisting the survival of the natural fauna, and providing rural employment and encouragement for rural settlements.³

At the same time, priorities have changed. In the early 1970s, a government review concluded that the principle objective of the Forestry Commission should in future be the creation or maintenance of employment in rural areas threatened with depopulation. In addition, forestry should harmonize with agriculture, the environment and other amenity aspects to bring about an effective pattern of land use.⁴ More recently, the Government has even seen forestry as a way of taking surplus agricultural land out of production.⁵

In varying degrees, the Forestry Commission has had to accept all of these often competing and sometimes contradictory roles, either to carry out in its own right or to oversee others as they undertake the task. It is scarcely surprising that it has not been able to do them all adequately or well.

Nor is it surprising that, throughout most of the past thirty years, doubts have been expressed about the economic justification for the Commission's continuing programme of afforestation, and, in more recent years, about the justification for its secondary objectives, particularly in the environmental field.

These doubts are discussed in the succeeding chapters.

² Forestry Commission: 67th. Annual Report and Accounts 1986-1987 (HC 171, London: HMSO, 1987) (Page 47)

³ Scottish Council (Development and Industry): Natural Resources in Scotland (Edinburgh 1961) (Pages 327-357)

⁴ See, for example, the discussion document on forestry policy issued in June 1972 and the statement of government policy printed in Hansard of 24th. October 1973 (written answers Co l. 517)

⁵ See the 1988 Farm Land and Rural Development Act

2. UNCOMMERCIAL FORESTRY

The trading activities of the Forestry Commission principally cover the establishment, maintenance and harvesting of forest plantations and the marketing of the timber they ultimately produce. Along with the provision of recreational facilities (considered separately in Chapter 3 below) these activities are collectively designated "Forestry Enterprise".

When the Forestry Commission was first established it was recognised that the length of time it took trees to grow, up to fifty years for conifers and a century for broad leaved trees, meant that it would be many years before there would be any return on the investment being made and an even longer time before the position would be reached where "traditional profitability" could be established. At that stage, according to the Commission, "revenue would be sufficient to re-establish the area harvested, maintain the woodlands and provide a return on the funds invested." They do not anticipate reaching that state until "beyond the turn of the century."⁶

After seventy years in existence, as Table 1 shows, the Commission is still far from reaching a position where harvesting matches its planting. And that is so despite substantial reductions in planting that have taken place over recent years.

Table 1: Planting, restocking and harvesting 1978/87 (hectares)

Year	Planted	Restocked	Total Planted	Harvested
1973	19,378	3,780	23,158	3,268
1974	18,402	3,321	21,723	3,001
1975	19,661	3,494	23,155	2,763
1976	17,269	3,242	20,511	3,232
1977	15,546	3,157	18,703	3,597
1978	14,123	3,069	17,192	4,156
1979	11,842	3,567	15,409	4,158
1980	15,830	5,669	21,499	4,208
1981	11,634	5,014	16,648	4,569
1982	10,978	5,510	16,488	6,062
1983	8,886	5,798	14,684	6,862
1984	8,382	6,753	15,135	7,495
1985	5,105	5,916	11,021	7,659
1986	4,333	7,297	11,630	
1987	5,342	8,038	13,380	7,943

Source: Forestry Commission Annual Reports

⁶ Forestry Commission: 67th. Annual Report and Accounts 1986-1987 (HC 171, HMSO: 1987) (Page 56)

That imbalance is reflected in the Commission's accounts where, as Table 2 shows, income from the sale of timber is insufficient to cover the cost of the commercial operations let alone meet any of the notional interest that would normally be paid on outstanding investment capital.

Table 2: Plantation sales and operating costs 1986-87 (£m)

Sales of timber, etc.		67.1
Harvesting and marketing:		
--Forest costs	26.7	
--Administrative expenses	11.7	
Establishment and maintenance:		
-- Forest costs	30.3	
--Administrative expenses	11.8	80.5
Notional interest		48.3

Source: Forestry Commission Annual Report and Accounts 1986-87

Measuring the immeasurable

The fact that "traditional profitability" will not be attained for many years has made determination of the success or failure of the Forestry Commission's commercial operations well nigh impossible.

Nearly thirty years ago, for example, E.M.Nicholson of the Nature Conservancy told the Symposium on Natural Resources in Scotland: "The whole basis of our forestry programme in this country...will just not bear scientific examination at all. It may be that the figures the Forestry Commission are working on are the right answers, but if so it is entirely by accident. There is absolutely no economic justification for those figures as against other figures, and that is the trouble. We stagger about and spend very large sums of money without any basis in resource economics.⁷

Twenty years ago the House of Commons Public Accounts Committee expressed concern about apparent losses being made by the Commission, about its poor future prospects and about the limited value of its accounts as a measure of efficiency and commercial success.

Arising from that criticism, a major review of forestry policy was undertaken by a joint working party appointed by the Treasury and the Forestry Commission. It concluded that even the most optimistic accounting assumptions could not justify forestry as a commercial enterprise. They therefore proposed acceptance of a low target rate of return on investment; that rate to be determined after a major restructuring of the Commission's accounts, including writing off two thirds of the Commission's debts, and the adoption of a new system of accounting.

⁷ Scottish Council (Development and Industry): Natural Resources in Scotland (Edinburgh 1961) (Page 199)

A system of quinquennial reviews was established under which a value is calculated for the existing plantations.⁸ The difference between that value and the one derived five years earlier, increased to take account of inflation, is then taken as a measure of the Commission's success or failure. Annual accounts for the years in between reviews are based on the results of the previous review.

In the view of the consultants employed by the National Audit Office to make the 1986 economic assessment of the Forestry Commission, however, such annual accounts "do not provide a satisfactory basis for assessing the return to public investment in state forestry because:

- (1) They do not accurately reflect the past costs incurred in establishing the existing forest, because capital investment is restated upwards or downwards every five years on a revaluation of assets;
- (2) they do not show the rate of return on new investment which may be low or even negative;
- (3) in view of (2) the 'rate of return' as established by expectation value accounting is not a test of the three per cent target return for new investment as envisaged by the 1972 cost-benefit study;
- (4) the method of valuing the existing forest estate assets by discounting estimated future costs and revenues at three per cent has the built in effect of producing the same three per cent target rate so long as those estimates are accurate; and this would indeed hold for any target rate adopted.⁹

Many unhappy returns

Considerable difficulties arise in estimating potential selling prices up to forty or more years ahead. But even were the system of quinquennial reviews to be accepted as providing a useful measure of the Commission's achievement, the record since 1972 is a far from satisfactory one.

Over the first quinquennium the Forestry Commission claimed to have achieved a rate of return of 3.1 per cent but that was after subsidies of £28.4 million had been paid to cover activities which were expected to earn less than the target rate of return. Without those subsidies they would have failed to meet the target. Indeed, the Commission told the Comptroller and Auditor General that they had only reached the result they had "due to temporarily high timber prices which had since returned to a more normal level."¹⁰

⁸ In essence by taking the estimated selling price of the timber at maturity and calculating what its present value would have to be to produce an annual rate of return of three per cent after meeting operating and other expenses. As a result of the first valuation, £320 million, or two thirds, of the Commission's then debts were written off.

⁹ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 24)

¹⁰ Forestry Commission: 57th. Annual Report and Accounts 1976-1977 (HC 168, London: HMSO 1978) (Page 100)

Over the second quinquennium the Commission claimed to have achieved a rate of return of 2.6 per cent but only after taking into account subsidies totalling £68.9 million (at 1982 prices). On this occasion, the Commission attributed their poor results to "the impact of the world recession on the paper and board industry."¹¹

In the last quinquennium the Commission claim to have achieved a rate of return of "3.1 per cent with the benefit of subsidies and 3 per cent without."¹² Over the entire period from 1972 the estimated rate of return was 3.1 per cent with the benefit of subsidies and only 2.7 per cent without.¹³

And that unsatisfactory record was achieved against a target that was set artificially low and derived from a 1972 capital base that had been substantially reduced by writing off two thirds of the Commission's then capital debts.

Lost opportunity cost

In the view of the National Audit Office, "there appears to be no clear rationale for setting a target for the return on new forestry investment which is substantially lower than that required for other forms of public sector investment. This is particularly so as the non-financial considerations advanced to justify new planting do not appear to be persuasive."¹⁴

There is, indeed, no clear rationale for accepting a rate of return on public sector investment that is lower than the rate that could have been achieved from investment in the private sector or even the savings in interest payments that could have been achieved by using the money to reduce the national debt.

The harsh reality is that, at today's prices, the taxpayer has invested around two and a half billion pounds in the Forestry Commission but the best estimate of the value of its timber assets today is only around one and half billion pounds.¹⁵

Not all of the responsibility for this unsatisfactory state of affairs lies with an inherently low potential profitability of forestry in Britain or in the way the Forestry Commission has managed its affairs.

¹¹ Forestry Commission: 62nd. Annual Report and Accounts 1981-1982 (HC 363, London: HMSO 1983) (Page 115)

¹² Forestry Commission: 67th. Annual Report and Accounts 1986-1987 (HC 171, HMSO: 1987) (Page 42)

¹³ Ibid (Page 70)

¹⁴ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 24)

¹⁵ In its most recent accounts, the Forestry Commission estimates the value at £1,612 but the National Audit Office believes that this could be overstated by as much as £100 million. See the Commission's Annual Report and Accounts for 1986-87 (Page 72)

As the House of Commons Public Accounts Committee has pointed out, "...there are a number of conflicts between the Commission's primary objective and their secondary objectives, and between the secondary objectives themselves. The effect can be to inhibit the fully efficient production of timber and limit achievement of the target rate of return."¹⁶

The Commission is also constrained in successfully pursuing its commercial objectives by government policy, dating from 1980, that it should yield a major role in new planting to the private sector and concentrate its activities into remote areas and less fertile sites. The result is that "the average rate of return expected on new investment is 2.25 per cent and, in the poorer areas where much of the Commission's plantable reserve is located the expected return on new planting falls to 1.25 per cent or lower."¹⁷

Such relatively unprofitable investment represents a significant waste of scarce resources with a loss of the opportunities for the creation of wealth and employment that could have been exploited if the capital involved had been invested in different ways. And it is an inevitable feature of any nationalized industry, particularly one as vulnerable to political lobbying as the Forestry Commission is.

It may well be that little new afforestation would have taken place in recent years if the industry had had to produce a rate of return comparable to those available from other available investment opportunities. But if that is the case then there is a need for clearly stated reasons to be given for foregoing those other investments in favour of forestry.

The great majority of current comment on forestry matters demonstrates a complete absence of such clear cut reasons.

Indeed, in recent years, the Forestry Commission has been the subject of considerable criticism. The House of Commons Public Accounts Committee "received a considerable volume of evidence from bodies with strong conservation interests and a recognised pedigree in such matters, and they expressed widespread and varying degrees of concern about the effects of blanket afforestation of conifers on the environment and on recreation. They argued not only the adverse environmental effects of some Forestry Commission planting but also that it had a number of negative economic effects."¹⁸

In evidence to the House of Commons Agriculture Committee, the Convention of Scottish Local Authorities complained that investment in forestry was "failing to make the most effective contribution to the development and enhancement of Scotland's economy and environment."¹⁹

¹⁶ Forestry Commission: Review of Objectives and Achievements Twelfth Report from the Committee of Public Accounts, Session 1986-87 (HC 185, HMSO: 1987) (Page v)

¹⁷ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 3)

¹⁸ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Pages vii-viii)

¹⁹ ¹⁹ Press and Journal, 1st. December 1988

In the light of all of this there is a clear case for ending the preferential position the Forestry Commission's commercial forestry activities enjoy and requiring them to compete on equal terms with other businesses for the capital they need to continue their planned growth.

It is difficult, however, to see how this could be done successfully without simultaneously removing the political constraints that inhibit proper commercial management and impose uneconomic decisions. Indeed, so long as the Forestry Commission remains a government agency under political direction it is impossible to envisage a way in which it could realistically and fairly be exposed to the full discipline of the market place.

To bring about the changes needed requires that the Commission's commercial forestry interests be transferred to the private sector where economics rather than politics would determine the appropriate pattern of future development.

3. RAISING MONEY FROM RECREATION

In the early seventies, the Forestry Commission recognised that there was "a strong public demand for recreational facilities in the countryside" and that, being responsible for three million acres of land throughout Britain, they were in "a unique position" to help to meet it.²⁰

The Commission was already a major provider of camping and caravan sites but now adopted a policy aimed at exploiting the recreational potential of its land and property.²¹ It began to open up the forests to visitors, establishing walks, picnic places, visitors centres and car parks. It set out to provide holiday accommodation in dwellings it already owned, supplemented by purpose built holiday cabins. It developed a limited number of forest drives and offered facilities for fishing, shooting, deer stalking and other recreational activities.

The growth in the provision of such recreational services is shown in Table 3 below.

Table 3: Forestry Commission Recreational Facilities

Facility	1965	1970	1975	1980	1985	1987
Camp and caravan sites*	8	9	17	33	38	42
Cabins and cottages	-	-	46	166	191	192
Walks and trials	-	124	421	648	611	611
Picnic places	-	133	347	609	576	615
Visitor centres	2	12	22	29	18	20
Arboreta	n/a	n/a	25	23	20	20
Forest Drives	1	3	6	7	9	5

*Including sites leased to the Caravan Club and the Camping and Caravanning Club
Source: Forestry Commission Annual Reports

For accounting purposes these non-forestry activities are divided into two groups: "Commercial recreation", covering camping and caravan sites, holiday cottages and cabins on which the Commission is expected to meet a target rate of return, currently set at five percent, and "Forest recreation", which deals mainly with facilities for day visitors, for many of which no charge is made. Shooting and fishing were dealt with as part of commercial recreation up to 1987 since when they have been incorporated into the main forestry accounts.

²⁰ Forestry Commission: 56th. Annual Report and accounts 1975-1976 (HC 1, London: HMSO (1976) (Page 39)

²¹ The text of the Commission's Recreation Policy is printed as Appendix V of the 1975-1976 Annual Report.

The Commission estimates that around twenty million day visits are made to its land with over a million campers using the campsites and approaching a million using the visitors centres.

Despite these numbers the provision of recreation facilities operates at a heavy loss, requiring a subsidy of £6.6 million in the year 1986/87. Over the five years 1982-1987 the total subsidy, at 1987 prices, amounted to £27.1 million. And the position is deteriorating. In the space of three years, the subsidy required has increased by more than fifty percent. Even the return from profitable activities like letting cottages and cabins has diminished markedly.

In the Commission's plans for the current five year period, it is hoped to keep the subsidy below £7 million per annum.

Valuable losses

Despite this pattern of permanent and apparently increasing losses, the National Audit Office considers the Forestry Commission's estates as "a valuable recreational asset" and estimate its notional capital value for recreational purposes as "in excess of £200 million", a figure they derive by assessing as the income value of the facilities provided free the estimated £10 million costs incurred by people who make use of them.²²

While it must obviously be true to say that an individual or a family value a visit to the forest as being worth at least the cost of making the visit, the aggregate of such estimated costs cannot be used as a justification for investing in providing the facilities. Alternative investments might involve similar attendance costs and yet also produce a net income from visitors.

Certain types of recreational use of forestry land, such as fishing, shooting, campsites and holiday cabins, fall into that category. People are willing to travel to use them and pay enough to make them profitable. Indeed, they produce a far better return on capital invested than the somewhat notional return on investment in forestry itself. And they offer "potential for job creation which is more immediate than that involved in new planting."²³

Although the National Audit Office accepted the view that charges for recreational activities were levied where practicable, it is by no means obvious that this is so. Nor is it clear that it is always recognised that the provision of a facility for which a charge can be or is made, such as a carpark or picnic site, may provide access to other facilities for which charging is not practicable. Pricing policy should recognise the full costs of such inter-relate provision rather than just the cost of the particular facility for which the immediately charge is made.

²² National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 4)

²³ Ibid (Pages 16 and 17)

Paying guests

Were the Forestry Commission to raise an average of 30 pence per head from its day visitors it would break even on its total recreational provision, a provision in which it has invested over £66 million over the past fifteen years. To produce a reasonable rate of return on that investment would require an additional 30 pence per head.

In comparison with most commercial recreation and leisure facilities, raising incomes of under a pound a head from visitors is small scale and ought not to pose any serious problems.

Profitability could also be increased by investing in the provision of more income generating recreational facilities such as cabin accommodation. As the National Audit Office report pointed out, "as a result of cash constraints, there has been no investment in major new commercial facilities since 1978."²⁴

Table 4: %age distribution of recreation facilities 1986/87

	Scotland	England	Wales
Plantations and land	63.1	24.4	12.5
Camping/ caravan sites	27.3	69.7	3.0
Picnic places	27.3	56.6	16.1
Walks and trails	35.4	45.3	19.3
Visitor centres	40.0	40.0	20.0
Arboreta	20.0	60.0	20.0
Forest drives	25.0	50.0	25.0
Cabins and cottages	44.3	55.7	-----

Source: Forestry Commission Annual Report and Accounts 1986/87

The problem is a common one in the public sector. Investment which could produce an acceptable rate of return and cater for a clearly demonstrated market demand is inhibited, or prevented completely because of public spending controls. In the case of the Forestry Commission the problem is compounded by an apparent reluctance on the part of the Commission to accord sufficient importance to its non-forestry commercial operations. As its Deputy Chairman and Director General told the House of Commons Public Accounts Committee, "We believe there are such opportunities but we have not given them priority because we have set...great priority on some of the other secondary objectives."²⁵

Table 3 suggests that such opportunities may be significant.

²⁴ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 10)

²⁵ Forestry Commission: Review of Objectives and Achievements Twelfth Report from the Committee of Public Accounts, Session 1986-87 (HC 185, London, HMSO: 1987)(Page 5)

Compared to the distribution of Forestry Commission plantations and land, existing recreational facilities, both income yielding and otherwise, are disproportionately concentrated in England and Wales. Clearly, the Commission has yet to tap the full income generating tourist and recreational potential of its Scottish assets.

Partners in profit

If the full commercial interests of the Forestry Commission were to be privatized, the constraints on the further development of its potential income from recreation would be removed. The new company would be free to decide for itself the best way in which to realise the full potential of forest based recreation.

Were, however, no steps to be taken to privatize the bulk of the activities of the Forestry Commission, there would be a strong case for transferring responsibility for operating and further developing its recreational activities to the private sector with the accompanying freedom to make sensible investment decisions in response to actual or anticipated public demand rather than in accord with restrictive public expenditure controls.

This could be done by establishing new private sector companies to take over established facilities and sites with development potential or, alternatively, by inviting existing companies in the leisure and recreation field to bid for them.

While it would be possible to pass outright ownership over to private companies, the considerable interaction of such recreational activities with the normal management of the forest would make it sensible in most cases for the Forestry Commission to retain a minority interest or establish a formal agreement with each private company.

4. QUESTIONABLE SECONDARY OBJECTIVES

Those who argue for acceptance of a low rate of return on public investment in commercial forestry point to the fact that production of timber and provision of recreation facilities are only two objectives of the Forestry Commission. Achievement of some or all of the Commission's other objectives, they claim, provides additional benefits which lift the notional three per cent rate of return to more acceptable levels.

The two most important such additional objectives are protecting the environment and promoting rural employment.

Damaging the environment

For many years a major benefit of the Forestry Commission's activities was seen as replacing part of the forest that once covered most of Britain. Recently, however, afforestation has come to be seen by some environmental and conservation groups, particularly the Nature Conservancy Council, as a threat to important parts of Britain's natural environment.

The very act of afforestation has threatened to destroy designated sites of special scientific interest or areas thought likely to merit future designation. The method of planting and the species used have been attacked. The Observer, quoting from an unpublished Nature Conservancy Council report claimed that "over the last forty years, nearly a third of Britain's lowland ancient woodlands, which can contain more than 5,000 species of trees, plants and animals, has been turned into modern plantations, mainly of introduced conifer species."²⁶

A report by the Royal Society for the Protection of Birds has pointed to a decline, over the past twenty-five years of 25 per cent in the area of the remaining scattered remnants of the former Caledonian Forest. Those remnants, according to the Society's Scottish Director, constitute "a unique part of our natural heritage" which has "remained largely unchanged since the last Ice Age."²⁷

More localized pressure groups such as the "Campaign for the Future of the Border Hills" have drawn attention, not just to the damage they see being inflicted on the local landscape but also to the future infrastructure costs of upgrading roads and bridges to cope with forestry vehicles.²⁸

²⁶ The Observer, 15th. November 1987

²⁷ Reported in the Press and Journal, 3rd. October 1988

²⁸ The Scotsman, 7th. September, 1988

Adding to acid damage

Modern commercial forestry has been blamed for contributing to the acidification of Britain's rivers, streams, lakes and lochs.

The House of Commons Environment Committee, in its report on Acid Rain, observed that "forests often increase the acidity of rainfall as it passes through the tree canopy. Some evidence suggests that groundwater running out of forest catchments is more acidic than in unafforested soils. Trees, particularly conifers, collect and hold dry deposition during dry periods. When it rains these acid deposits dissolve and pass through forest canopies to the soil. This phenomenon appears to vary with the species of trees planted. There is also evidence to suggest that when trees are grown as a crop their complete removal takes with it alkalis which would otherwise return to the soil in a natural, unmanaged life/death cycle. Thus forestry as an economic activity tends to increase acidification of the soil through which rainwaters run into streams and lakes." ²⁹

Giving evidence to the Committee, Dr.M.W.Holgate, Chief Scientist and Deputy Secretary, Environmental Protection, at the Department of the Environment, stated that "there is no doubt that afforestation can increase the acidity of run-off from a forest. This is partly because of the way in which the land can be prepared for afforestation. The increased drainage, the turning over of soil, even if there is not a nitrogenous fertiliser application, will increase the acidity of the run-off." ³⁰

In its observations on the report the Government accepted that "vegetation can...add to the acidity reaching the soil surface. Tree-growth can also acidify some soils directly by withdrawing neutralizing metallic ions such as calcium and magnesium. Once water reaches the ground, subsequent changes depend critically on whether it drains swiftly from an impermeable surface or percolates through soil layers, undergoing at least some degree of chemical transformation. If the drainage is through mineral rich layers, calcium and magnesium are dissolved: if the neutralizing capacity of the soil is low, as it is in shallow layers over granite or in many sands, the acidity remains high." ³¹

In recognition of these effects, the Forestry Commission has, since 1980, adopted the practice of "leaving streamside strips unplanted at the time of new planting and restocking. Where new drains are being dug, these stop short of streams in order to provide a filter for particulate matter and to buffer the drainage water before it enters the streams." ³²

Unfortunately, present Government policy aims to direct new Forestry Commission planting towards the most remote and marginal areas, inevitably involving a high proportion of just such poor soils.

²⁹ Acid Rain: Fourth Report from the Environment Committee, Session 1983-84, Volume 1 (HC 446, London: HMSO 1984) (Pages xxix-xxx)

³⁰ Ibid (Page 102)

³¹ Acid Rain: The Government's reply to the Fourth Report from the Environment Committee (Cmnd 9397 London: HMSO 1984)

³² Forestry Commission: 64th. Annual Report and Accounts 198384 (HC 1, London: HMSO 1984) (Page 13)

Creating rural jobs

Although the creation of rural employment has appeared prominently amongst the Forestry Commission's secondary objectives for many years it is an area where there has been little demonstrable success. The National Audit Office report noted that employment trends in rural areas have been more favourable than those in urban ones, but pointed out that forestry was an extremely costly way of creating jobs and that, in any case, the bulk of the jobs created came at the end of the growth cycle, after forty or more years, when the trees came to be felled.

Jobs in timber processing tended to be in urban centres and recent investment in them had required significant central government subsidies.

In the circumstances, the National Audit Office concluded that it was "not possible" to regard creating rural employment as "justifying the acceptance of a low rate of return on new planting."³³

Similar opinions have been expressed by a variety of conservation and environmental groups.

There is in any case an obvious and fundamental conflict between creating employment and the efficient operation of the Forestry Commission. Following the decline in wood prices in 1979 the Commission had to take steps to reduce costs and increase productivity in an attempt to maintain their notional return on capital. As part of that exercise they introduced new mechanized systems and made significant reductions in their total manpower.

Over the past five years there has been a further reduction of twenty percent to 5,894. Without those reductions the estimated return on capital would have been even worse and the Commission would have been open to even greater criticism. In the light of the available evidence it is difficult to see that either of the Commission's major non-commercial secondary objectives produces any net benefit, let alone one large enough to compensate for the poor return on its commercial activities.

³³ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 24)

5. PROPPING UP PRIVATE FORESTRY

It is not just the Forestry Commission's own commercial timber operations that have aroused criticism over recent years. The way that they have exercised their regulatory and supportive powers with regard to private sector forestry have also attracted substantial hostile comment.

The Commission controls private sector forestry in two direct ways:

- through felling licenses which are required whenever trees are to be cut down, except in, the case of trees in orchards and church yards, of bushes, and of small, immature or dangerous trees. Felling licenses may require the - cleared land, or some other area of land, to be replanted and properly maintained for ten years. There is provision for appeals against refusal of a license or the imposition of unacceptable conditions and for the payment of compensation.
- through the payment of one or more of the various forms of forestry grant. While permission to plant trees is not required from the Commission, no grant is payable where permission has not been sought and granted. Predictably, only around 5 per cent of planting takes place without grant aid.³⁴

Until recently the Commission even possessed the power to require trees to be felled in what it regarded as the interests of good forestry and the power to undertake that felling itself if the owner did not comply with their instructions.

Unplanned growth

At present, the use of land for the purpose of forestry is deemed not to be development in terms of planning law and planning permission is not required for afforestation. The burden of attempting to balance the interests of the individual landowner, the community and the conservation and environmental interests falls upon the Commission. Although they conduct extensive consultation with interested parties there is, nonetheless, growing concern that such powers are exercised by a non-elected and locally unaccountable body.

That concern has been particularly acute in the case of the threatened encroachment of forestry into designated sites of special scientific importance or sites likely to be so designated. Although there is now a formal agreement between the two bodies over the protection of such sites, the Countryside Commission for Scotland has questioned the suitability of the Forestry Commission to act as effective judge and jury in the environmental assessment of forestry developments.³⁵

³⁴ National Audit Office: Review of Forestry Commission Objectives and Achievements (HC 75, HMSO: 1986) (Page 19)

³⁵ The Scotsman, 28th. October 1988

If the purpose of the Forestry Commission possessing controls over the private sector is to protect the environment, and it is difficult to see any other reason for their existence, it would seem more sensible to bring forestry within the planning system where all the competing interests could be considered through that established framework.

Calling the tune

The provision of state support for private afforestation raises quite different difficulties. Before the substantial tax benefits were withdrawn in the 1988 Budget, widespread afforestation was taking place for the sole purpose of exploiting the available financial benefits. People with little or no interest in forestry were, in the words of a spokesperson for the Friends of the Earth (Scotland), planting "the wrong trees in the wrong places for all the wrong reasons."³⁶

Although the rate of afforestation has dropped dramatically since the tax incentives were withdrawn the new arrangements to take agricultural land out of production and the introduction of a new grant scheme to encourage the planting of trees on such land has inevitably led to the development of new schemes to assist those who wish to find ways to reduce their tax bills while making money.

And the system can be exploited in other ways, too. Compensation arrangements, such as those available under the 1981 Wildlife and Countryside Act, provide that people can receive some financial recompense if they are denied the right to plant grant-aided trees on environmentally sensitive sites. Inevitably, such payments have to be made to people who would never have considered planting trees at all if the government grants had not been available. And equally inevitably, some applications will be made by people who have no intention of planting trees but see the availability of compensation as a way to make easy money.

An equally regrettable result of the government grant system has been the development of a sad attitude of dependence amongst private forestry interests on the involuntary benevolence of the tax-payer.

At the 1988 Conference of the Royal Scottish Forestry Society one estate owner with 32 years experience of afforestation was quoted as saying that he would not be tempted to buy further land for afforestation unless he could secure good planting land for £100 an acre and, at the same time, receive a substantial increase in the plantation grant.³⁷

Another complained of the failure of "those who make decisions to understand what is necessary to make forestry development take place."³⁸

³⁶ The Scotsman, 17th. December 1986

³⁷ The Scotsman, 26th. November 1988

³⁸ Press and Journal, 26th. November 1988

It is, however, far from clear why financial encouragement should be given to private forestry. The same economic facts, outlined in Chapter 2, apply to private sector trees as they do to the public sector ones yet whatever limited social benefits may be produced are, if anything, even less obvious.

If the government does not wish to go on wasting public money in subsidising unprofitable investment it will have to face up to the conflict between the interests of those who wish subsidies to enable them to make money out of their land and the interests of those who have to pay for such subsidies -- and often pay, too, to finance schemes to dispose of the resulting over-production.

Useful functions

There are a number of areas of Forestry Commission activity which arouse little or no controversy. It carries out research and education, provides a general lead in other forestry matters such as safety and, in co-operation with the EEC, it controls the quality of seeds and cones used throughout the forestry industry.

Such activities are generally under the supervision of a committee on which the full range of forestry interests are represented, although there are exceptions such as the Forestry Research Co-ordination Committee which is composed of representatives of the Commission, other government agencies and the universities.

The past practice of providing such services free to the private sector has begun to give way to the idea that those who benefit should make some contribution towards costs. The 1986 Agriculture Act, for example, provided for fees to be levied for a range of plant health functions. It is a principle that should be extended as widely as possible both to eliminate the hidden subsidies involved and to relate the work done more closely to the actual demands of the forestry industry.

6. TOWARDS PRIVATE ENTERPRISE

Throughout the seventy years of its existence the Forestry Commission has invested substantial sums of public money in building up state forests, operating under political constraints that limit potential profitability and motivated by noncommercial attitudes. It was one of their former Director Generals who stated that "it is impossible, given the demand of British Industry, to over-produce in wood supply. We bring in so much from other countries that, simply by import substitution, the scope for added sales is enormous."³⁹

Over two hundred years ago Adam Smith demonstrated the nonsense of that argument, pointing out that good grapes could be grown in Scotland and very good wine made from them but that, at thirty times the cost of buying it from abroad, it would be a "manifest absurdity" to do so.⁴⁰

Yet just such absurdity has apparently motivated successive governments who have happily financed an investment in forestry both public and private, which has cost the tax payer around a billion pounds more than the timber finally produced is likely to be worth.

At one time, afforestation may have been seen as possessing some compensating, if intangible, benefits through the restoration of woodland cover lost in previous centuries. Today, that is no longer the case. There is substantial and growing opposition to the progressive disappearance of more and more areas of wild and unspoiled countryside under a carpet of identikit conifers.

It is time, therefore, for a radical reconsideration of Britain's forestry policy. In the absence of any economic or environmental justification for large scale afforestation the government should cease to provide public support for new or continuing programmes of planning in either the public or the private sector.

Without such support, the private sector and the Forestry Commission would have to make their future decisions on the basis of hard economic fact, rather than rely on the transient whims of the politician. The Commission could not expect to do so easily or effectively so long as it remained in the public sector.

³⁹ Press and Journal, 28th. July 1986

⁴⁰ Smith, Adam: Wealth of Nations (Book IV, Chapter II)

Paths to private ownership

Already, over the past eight years, significant areas of Forestry Commission land have been sold to the private sector bringing in around £100 million. It would no doubt be possible to build on that programme and try to dispose of the Commission's assets through a programme of piecemeal sales. It could not be done quickly, however. The Commission has not found it easy to complete the disposals so far arranged within the planned timescale and the amounts involved represent perhaps only a fifteenth of the land remaining.

Piecemeal sales would have other drawbacks, too. Preserving public rights of access might prove difficult, and a consistent argument put in favour of retaining the Forestry Commission has been that no private company was big enough to give the type of guarantee of future supplies required by the wood processing companies that have been developing or expanding in Britain.⁴¹

A more attractive option would be to privatize the Forestry Commission's commercial operations as a single company. This would allow existing contracts and arrangements to be continued uninterrupted, minimise any potential disruption and enable provisions to be written into the new company's articles of association covering such subjects as guaranteed public access to forests.

The Commission could continue in existence to carry out its 'Forestry Authority' functions but this would appear to be unnecessary. With the ending of grant aid to the private sector it would be possible to terminate the existing regulatory arrangements and allow environmental and conservation matters to be dealt with through the planning system.

Other functions such as research, training and safety could be transferred to the control of the committees that currently deal with them subject to some restructuring of their membership and the adoption of new arrangements for their finance. While they could be financed directly by government they would be better paid for by charges for their services or by contributions from the broad spectrum of forestry interests.

The only remaining significant function, maintaining standards of seeds and cones could be transferred to the appropriate government departments.

If, after such changes, the government wished to see particular areas planted with particular types of trees for environmental, conservational or some other non-commercial reasons they could seek to achieve that objective in an open and clearly accountable way. Costs could be clearly and explicitly identified by inviting existing forestry interests to tender for the work of planting and maintenance, rather than hidden in the complex and unhelpful accounts of a state funded and superficially commercial nationalized industry.

⁴¹ Although the growing co-operation within the private sector through Timber Growers United Kingdom suggests that this argument may be losing its force.

7. THE SCOTTISH DIMENSION

Privatization of the commercial timber operations of the Forestry Commission would provide the Government with an opportunity to further its objective of encouraging the development of a healthy, private and independent Scottish regional economy.

As Table 5 shows, sixty-three per cent of the Commission's existing land holdings are in Scotland with only 24.5 per cent in England and 12.5 per cent in Wales. Annual planting is similarly distributed with completely new planting almost entirely concentrated north of the border. Given that pattern of distribution of its principle activity, it would make sense to establish a newly privatized forestry business as a Scottish company.

Table 5: Percentage distribution of assets and activities 1986/87

	Scotland	England	Wales
Forest land	59.3	26.2	14.5
Other land	78.1	17.2	4.7
Total land	63.0	24.4	12.6
Forest property	40.5	43.2	16.3
Other property	42.8	36.6	20.6
Total property	41.9	39.3	18.8
New planting	94.8	2.6	2.6
Restocking	41.3	34.6	24.1
Total planting	62.7	21.8	15.5
Felling	45.5	34.5	20.0
Recreation facilities	32.8	52.0	15.2
Sporting lettings	61.4	29.9	8.7

Source: Forestry Commission Annual Report and Accounts 1986/87

In addition to basing the new company in Scotland, the backing of a predominantly Scottish shareholding could be achieved by giving employees the normal opportunity to purchase shares, by giving individuals and companies who trade with the Commission a preferential right to invest and by giving financial institutions based in areas of significant Forestry Commission activity a degree of priority in the allocation of shares.

Keeping Scottish control

If it were felt desirable to provide some protection against ownership and control passing outside Scotland it would be possible to adapt the mechanisms already used in previous United Kingdom privatizations.

Just as, in some cases, there has been a limit on the proportion of the shares that could be held by overseas interest, so there could be a fixed upper limit for the, aggregate shareholding of individuals and institutions resident outside Scotland. Given the existing distribution of Forestry Commission assets, that limit could appropriately be set at one third.

A second protection, with wider Scope for preventing unwanted changes in ownership, would be to create a "Tartan Share" which would be held by the Secretary of State for Scotland giving him effective majority voting power to block any unwelcome take-over bid, whether from inside or outside Scotland.