

**WOOD FOR THE TREES**  
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# 1. DEVELOPING A STATE FOREST

For more than seventy years commercial timber growing has been seen as a responsibility of the state. Public money has been used to encourage private landowners to plant trees and to provide them with a range of supporting services. Public powers have been used to control major aspects of the operation in addition, large sums of public money have been used to develop what is in effect a national state forestry company. From the start, responsibility for both activities was combined in the one body, the 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.

Today 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.

It is its commercial activities that should be of particular concern to anyone seeking to reduce the state's role in the economy.

## The Legacy of War

The First World War had revealed how dependent major parts of British industry were on imported timber and, in government circles at least, it was not believed that private landowners or private enterprise could be relied upon to recreate 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 the wars the Commission received grants at today's prices of around £300 million and acquired about four hundred thousand hectares of land. The Second World War, however, coming before any of its plantations had reached maturity, simply served to reinforce the perceived strategic need for state forestry. Since 1945, the Commission has received around £3 billion, at current prices, to finance the development of forestry. It administers nearly a million hectares of timber plantations along with a further 200,000 hectares of low quality or recreational land. It employs around 4,500 people, with an estimated eighty five percent of their workload concerning the commercial operations organised into "Forestry Enterprise." In that capacity it provides employment indirectly for a further 2,300 through the use of private contractors.

## **2. MUDDLED AMBITIONS**

The stated objectives of the Forestry Commission have changed little over the years. In 1919 they were "the general duty of promoting the interests of forestry, the development of afforestation and the production and supply of timber in the United Kingdom." Today they are "promoting the interests of forestry, the establishment and maintenance of adequate reserves of growing trees, the production and supply of timber, the provision of opportunities for recreation and the development of the recreational potential of the forests it manages, and as a habitat for wildlife."

### **Altered expectations**

If the objectives have changed little, public expectations of the Forestry Commission have steadily widened. At the 1961 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. The need to seek a "reasonable balance" between the needs of forestry and of the environment was imposed by law in 1985.

As generations have changed so too have priorities. 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. More recently, the Government has even seen forestry as a way of taking surplus agricultural land out of production.

The Forestry Commission has had to accept all of these often competing and sometimes contradictory roles. 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.

### 3. UNCOMMERCIAL FORESTRY

Along with the provision of recreational facilities considered separately below the collective designation "Forestry Enterprise" covers the trading activities of the Forestry Commission, principally the establishment, maintenance and harvesting of forest plantations and the marketing of the timber they ultimately produce.

From the start it was recognized 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."

Despite the substantial reductions in planting that have taken place over recent years as part of Government policies, Table 1 shows that the Commission is still far from reaching a position where its harvesting matches its planting.

Table 1 Planting, restocking and harvesting 1975/90 (hectares)

Year	Planted	Restocked	Total planted	Harvested
1975	19,661	3,494	23,155	2,763
1977	15,546	3,157	18,703	3,597
1979	11,842	3,567	15,409	4,158
1981	11,634	5,014	16,648	4,569
1983	8,886	5,798	14,684	6,862
1985	5,105	5,916	11,021	7,659
1987	5,342	8,038	13,380	7,943
1990	4,081	7,865	11,946	9,463

Source: Forestry Commission Annual Reports

The Commission's accounts reflect that position well. 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 Timber sales and operating costs (£m)

	1988-89	1989-90
Timber sales	81.3	78.6
Forest costs	76.0	68.8
Administration	68.8	26.1
Total costs	105.4	94.9

Source: Forestry Commission Annual Report

## Measuring the immeasurable

Because "traditional profitability" will not be attained for many years, determination of the success or failure of the Forestry Commission's commercial operations have been well nigh impossible.

As far back as 1961, 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." Little has changed.

Ten years later 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.

That criticism brought about a major review of forestry policy 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.

Regular quinquennial reviews were introduced under which a value is calculated for the existing plantations, 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 percent 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. The difference between the value established at the end of each quinquennial 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.

Consultants employed by the National Audit Office to make the 1986 economic assessment of the Forestry Commission, however, took the uncompromising view that 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 percent 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 percent has the built in effect of producing the same three percent target rate so long as those estimates are accurate; and this would indeed hold for any target rate adopted."

## **Fortune telling**

Major difficulties do exist in estimating likely wages and other felling costs, let alone potential selling prices up to forty or more years ahead. Even allowing for these, 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.

In the first quinquennium the Forestry Commission claimed to have achieved a rate of return of 3.1 percent 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."

In the second quinquennium the Commission claimed to have achieved a rate of return of 2.6 percent 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."

In the last complete quinquennium the Commission claim to have achieved a rate of return of "3.1 percent with the benefit of subsidies and 3 percent without." Over the fifteen year period from 1972 the estimated rate of return was 3.1 percent with the benefit of subsidies and only 2.7 percent without.

After 1987 the period between reviews was reduced to three years. Over the first of the new triennia, completed in 1990, the Commission claimed a marginal improvement, a rate of return of 3.2% with subsidies and 2.9% without.

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.

The very limited value of these accounting exercises is abundantly obvious. All that is needed to produce a reasonable rate of return is to adapt criteria which increase the final valuation of the assets. Indeed, any single year's operating deficit can be turned into a healthy surplus by such an increase in asset valuation. In the financial year 1989/90, for example, a deficit of £16.3m becomes a notional profit of £66m.

The problem that arises in the long term is that such inflated book valuation of the Forestry Enterprise assets become the basis upon which future rates of return have to be based. The achievement of a reasonable rate of return in one triennium makes the achievements progressively more difficult in the next.

In its annual Accounts for 1989/90 the Forestry Commission reveals that its own assessment of the market value of its timber, land and roads is £1.6bn, nearly 30% below the valuation in its accounts of £2.271bn.

## **Alternative opportunity**

In 1986 the National Audit Office commented that "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."

It is not at all clear indeed why the taxpayer should be expected to accept 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.

## **Rewriting History**

Because of the unprofitable picture the quinquennial system of accounting reveals there are those amongst the Forestry Commission supporters who propose an entirely different system of accounting based on historic cost. The Commission is seventy years old, they say. Its early woods have reached maturity. All the actual costs are known. The prices realized for the timber are known. The profit or loss on their planting can therefore be calculated.

It is an attractive idea but one that comes up against a number of serious problems. The first is that the Commission's accounts have been restructured on at least six occasions which creates difficulties in making backward calculations of the type proposed. The second is that the nature of the Commission as a hybrid producer and regulator means allocations of overhead costs will have to be made. As profit or loss may depend upon those allocations they will inevitably be controversial and leave the final outcome, whatever it may be, open to question. A third concerns the rates of interest to be applied to the accumulating costs of original investment plus annual maintenance and unpaid interest. Is the assumption to be that a series of yearly flat rate loans will be taken out, maturing when the trees became due for felling or will interest be paid on the growing debt at whatever rates then prevail? And what about inflation?

If all of the above could be overcome and an unlikely profit revealed, the exercise would still be of little value in determining future investments of public money. Knowing that a past planting of particular trees in a particular place at a particular time were profitably harvested after a particular number of years tells us nothing about the value of future planting when every single variable is likely to be different. In the end the same estimates about the future will have to be made that are said to render the system of quinquennial, and now triennial reviews unreliable.

## **Harsh realities**

In the absence of any reliable alternative method of valuing the Forestry Enterprise assets, and hence its profitability, the harsh reality has to be accepted that, at today's prices, the taxpayer has invested around £93 billion in the Forestry Commission but the Commission's own estimate of the value of its timber assets today is only around £1.6 billion.



Responsibility for this unsatisfactory state of affairs is not entirely due to an inherently low potential profitability of forestry in Britain or to the way the Forestry Commission has managed its affairs. 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."

Further constraints are imposed upon the Commission's pursuit of 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 percent 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 percent or lower." There is considerable scepticism, not only amongst critics of the Commission, as to whether some large areas of recent planting will indeed ever be suitable for profitable felling when it reaches maturity.

Any 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. It is an inevitable feature of any nationalized industry, particularly one as vulnerable to political lobbying as the Forestry Commission is.

It can be argued that little new afforestation would have taken place in recent years if the industry had to produce a rate of return comparable to that available from other investment opportunities. If so 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.

### **Critical Comment**

On the contrary, 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 recognized 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."

The House of Commons Agriculture Committee received a similar volume of evidence. The Convention of Scottish Local Authorities for example complained that investment in forestry was "failing to make the most effective contribution to the development and enhancement of Scotland's economy and environment."

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

How this could successfully be done without simultaneously removing the political constraints that inhibit proper commercial management and impose uneconomic decisions is difficult to see. 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.

Such changes can only be achieved by transferring the Commission's commercial forestry interests to the private sector where economics rather than politics would determine the appropriate pattern of future development.

## 4. MAKING VISITING A VIABLE PROPOSITION

Back in 1975 the Forestry Commission recognized 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.

As a major provider of camping and caravan sites the Commission now adopted a policy aimed at exploiting the recreational potential of its land and property by opening up its 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	1990
Camp & caravan sites*	8	9	17	33	38	37
Cabins & cottages	–	–	46	166	191	174
Walks & trails	–	124	421	648	611	641
Picnic places	–	133	347	609	576	621
Visitors centres	2	12	22	29	18	22
Arboreta	n/a	n/a	25	23	20	22
Forest drives	1	3	6	7	9	10

\* Including sites leased to the Caravan Club and the Camping and Caravaning Club

Source: Forestry Commission Annual Reports

These non-forestry activities are divided for accounting purposes 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.

It is estimated that around fifty million people visit the Commission's property with over a million campers using the campsites and approaching a million using the visitors centres.

Regardless of their popularity the provision of recreation facilities operates at a heavy loss, requiring a subsidy that has risen from £6.6 million in the year 1986–87, rising to

around £12 million in the current year. And the position is deteriorating. In the space of four years, the subsidy required has nearly doubled.

### **Avoidable losses**

Against this pattern of permanent and apparently increasing losses, the National Audit Office in 1986 considered 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 then made use of them.

Although it must obviously be true that an individual or a family value a visit to the forest as being worth at least the cost of making that 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 while producing a net income from visitors, indicating that the public value them even more highly.

The recreational use of forestry land for 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 both more substantial and immediate than that involved in new planting.

The National Audit Office accepted the Commission's view that charges for recreational activities were levied where practicable. It is, however, by no means obvious that this is so. Charges are not normally made, for example, for entering visitor centres. Nor is it clear that it is always recognized that the provision of one facility for which a charge can be or is made, such as a car park or a picnic site, may provide access to other facilities for which charging is not practicable. Pricing policy should recognize the full costs of such interrelated provision rather than just the cost of the particular facility for which the immediately charge is made.

### **Converting costs**

If the Forestry Commission raised an average of only 25 pence per head from its day visitors it would break even on the cost of providing its total recreational provision, a provision in which it has "invested" over £106 million over the past fifteen years. To produce a reasonable rate of return on that investment would require an additional 20 pence per head.

Compared to most commercial recreation and leisure facilities, charges of around 50 pence per head from visitors is small scale and ought not to pose any serious problems.

It may be in some areas recovery of the full cost may not be practicable or effective. People may be able, for example, to park equally easily on other than Commission land hence limiting the ability to charge for that parking. But, in general, there should be an accepted principle that, at the very least, charges should be set at such a level not simply to cover Forest and Commercial Recreation costs but to produce a return on the past and current investment in providing the Forest Recreation facilities.

The potential for profitability could also be increased by relaxing restraints and invest in the provision of more income generating recreational facilities such as cabin accommodation. As the National Audit Office report pointed out five years ago, "as a result of cash constraints, there has been no investment in major new commercial facilities since 1978." As Table 3 shows the position has scarcely changed since then.

Table 4	%age distribution of recreation facilities 1986–87		
	Scotland	England	Wales
Plantations and land	63.5	24.1	12.4
Camping/caravan sites	28.1	68.7	3.1
Picnic places	30.4	55.1	14.5
Walks and trails	40.4	43.8	15.8
Visitor centres	36.4	45.4	18.2
Arboreta	9.1	68.2	22.7
Forest drives	20.0	50.0	30.0
Cabins and cottages	38.5	61.5	—

Source: Forestry Commission Annual Report and Accounts 1988–90

It is a common problem 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. In a statement all too typical of the public sector 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."

Such opportunities may be significant.

As Table 4 shows, 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.

### **Profitable partnership**

The Forestry Commission's 1976 statement of "Recreation Policy" provides an excellent outline of the opportunities that its three million acres of land offer as a way of catering for the ever-growing demand in modern British Society for leisure facilities. It is unfortunate that it has proved unable or unwilling to exploit those opportunities to the full.

To realise the full commercial potential of the Forestry Commission's recreational potential the constraints on further development must be removed and the Commission given freedom to decide for itself the best way in which to realise the full potential of its forest based recreation.

An alternative option would be for the Forestry Commission to transfer 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 their management. In either case the considerable interaction of such recreational activities with the normal management of the forests would make it sensible in most cases for the Forestry Commission to retain a minority interest or establish a formal partnership agreement with each private company.

## 5. JUSTIFYING POOR PROFITS

Defenders of the 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 percent rate of return to more acceptable levels.

Most important of the Commission's additional objectives are protecting the environment and promoting rural employment.

### Environmental questions

A major benefit of the Forestry Commission's activities was once seen as replacing part of the forest that once covered most of Britain. More recently it has been seen to have the added benefit of reducing the incidence of greenhouse gases. Whether such gases do pose an environmental threat is open to debate. To some environmental and conservation groups, particularly the Nature Conservancy Council, however, afforestation has been seen as a clear 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 Nature Conservancy Council for example have 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 tree, plants and animals, has been turned into modern plantations, mainly of introduced conifer species."

The Royal Society for the Protection of Birds has similarly pointed to a decline, over the past twenty-five years of 25 percent 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."

At the same time they have also expressed their concern at the major impact afforestation has had on important and valuable habitats and their bird populations. Particular losses to the environment, they told the House of Commons Agriculture Committee, have occurred in heather moorland and in oceanic blanket bogs and peatlands. Both types of environment they pointed out are rare outside Great Britain.

The World Wide Fund for Nature, in its evidence to the House of Commons Agriculture Committee expressed extreme concern at the way current forestry policy and practices were contributing to a decline in biological diversity.

The Council for the Protection of Rural England added its concern warning that afforestation continues to prove frequently devastating to wildlife conservation.

The National Trust for Scotland has now publicly added its concern that the re-forestation of large areas of countryside might become a matter for recrimination rather than congratulation. They would like to see lower planting targets, perhaps accompanied by guidance on the proportions of different types of trees to be planted.

### **Adding to acid damage**

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 rain-waters run into streams and lakes."

Recognizing 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." Unfortunately, however, 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.

### **Work in the wild**

For many years the creation of rural employment appeared prominently amongst the Forestry Commission's secondary objectives but with 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.

Timber processing tend to take place in urban centres and recent investment in it has also 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."

In any case there is 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. 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.

### **Manifest Absurdity**

A more recent argument for accepting low returns on investment in the Forestry Commission has been that of "import saving". Since we produce only 10% of the timber we use any expansion of forestry, it is claimed, can only be to Britain's economic benefit.

It was one of the Forestry Commission's 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."

Others point to Britain's import bill of £6 million a year for wood and paper products. At a time when the UK is running a substantial balance of payment deficit the idea that production should take place here at home regardless of the cost has a superficial appeal.

More than 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.

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

Despite Smith's wise words, there are still many today who see the principal justification for uncommercial forestry in the way it is claimed to save imports. The essential nonsense of their position is that the money invested in producing trees could have been invested in other, more profitable way. By definition, selling the more profitably produced goods and services would lead to more valuable import substitution. If the goods and services were sold abroad they would provide the income to pay for the cheaper imported timber.

## **6. CLEARING THE UNDERGROWTH**

For decades a confusion of economic, social and environmental objectives has characterised Britain's involvement in state forestry. Inevitably, not a single one of these objectives has been met.

Yet we see the curious picture of a Government that openly expresses its disbelief in nationalised industries, in centralized planning, and in quangos; a Government that extols the merits of competition in the marketplace; and a Government committed to returning state industries to private ownership applying to forestry the entire panoply of policies which it despises everywhere else in the economy.

It is all the more curious when one considers that state forestry has been a conspicuous financial failure and has contrived, over recent years, to antagonise virtually every environmental or conservation body that exists.

Yet the curiosity does not end there. It sets the Forestry Commission financial targets lower than for any other part of the public sector; so low that even were they to be met in today's world it would mean a loss on the Government's investment. It makes it well nigh impossible for the Commission to even meet those targets by insisting that it plant trees in the least profitable areas and restricts its investment in the provision of profitable recreation facilities.

In the end it would have obtained a better return for the taxpayer by putting in the bank the money it granted the Commission!

### **Escaping government's heavy hand**

Despite its unhappy record it has resolutely refused to consider privatization of the Commission's commercial activities. Yet full scale privatization offers the only avenue of escape from the costly heavy hand of government control.

Oddly, the House of Commons Agriculture Committee concluded its lengthy studies into "Forestry and Land Use" by recommending even greater controls and even less clear cut objectives. Estimating that "surplus" farmland might amount to something between one and five million hectares within 25 years, it echoed the odd view prevalent amongst both farmers and foresters that land must not be left unused.

It is a little difficult to reconcile the Government's lack of interest in privatizing the commercial operations with its insistence that the Forestry Commission undertake a rolling programme of piecemeal disposal.

Since 1981 the Forestry Commission has disposed of 85,000 hectares of woodland and plantable land along with 73,000 hectares of other land and properties raising £150 million. In 1989 the Government announced that the sales programme was to continue with the aim of selling a further 100,000 hectares of land and property by the end of the century.

It would no doubt be possible to build on that programme and try to dispose of the Commission's commercial assets through a more rapid 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.

### **Forestry Enterprise plc**

The Forestry Commission could continue in existence to carry out its 'Forestry Authority' functions in so far as they were felt necessary. It would be desirable, however, possible to terminate the existing regulatory arrangements, and the situation where the Commission is judge and jury in its own cases, and allow environmental and conservation matters to be dealt with through the planning system.

Privatization of the Forestry Commission's commercial operations as a single company 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.

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, minimize 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.

Alternatives could be to float the company through an offer of shares, to seek a bid from a consortium of institutions which would guarantee to provide for employee shareholding or to organise a management-worker buy-out along the lines of that which took over and so successfully transformed the National Freight Consortium.

### **Ending Private Sector Subsidies**

At the point of privatization it would be appropriate to end all subsidies provided for commercial timber growing.

Forestry interests must face the fact that the public may well tolerate a planting programme that covers large areas of the countryside with row upon row of identikit sitka spruce if that is the price to be paid for having a healthy and prosperous timber industry in Britain. They may well be willing to ignore the near unanimous chorus of protest from environmental interests, particularly when the areas concerned are ones they are unlikely ever to visit.

What it cannot be expected to accept is a subsidy system that is blatantly abused to make the rich even richer at the taxpayers' expense and one which compensates

landowning interests for foregoing subsidies on planting trees they are denied the right to plant on environmental grounds, trees which there is no evidence they ever had any intention of planting.

An important factor which should make the phasing out of subsidies easier to implement will be the impact of the availability of increasing areas of "surplus" farmland. Not only should it lead to a reduction in land prices, it should make it possible for forests to "come off the hills" onto better quality land.

It is argued that large areas of Britain could not be left undeveloped without any explanation being given why that should be the case. Areas left unplanted, as large areas of Britain already are, would in due course develop their own, more natural habitat be it moorland, peat bog or broad-leaved woodlands.

An additional point is that even if no trees had ever been planted, the original land might well now be valuable for recreation such as walking, cross-country skiing and sightseeing and could be creating income from activities such as grouse shooting and fishing. The income generated might well be greater than that produced by recreation in the forest.

If, after privatization, 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.

The recent emphasis on forestry as a means of improving the environment has included plans to create new forests covering industrial and formerly-industrial areas. To the extent that the Forestry Commission is involved in anything other than a supervisory role, such plans pose the danger of blurring still further the boundaries between commercial timber growing and tree planting for other purposes. In doing so they make it difficult, if not impossible, to measure the Commission's return on investment in any meaningful way.

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 planting 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.

## **7. POLICING THE PRIVATE SECTOR**

Freed of its own commercial operations, the Forestry Commission could concentrate on its role as Forest Authority. They have not, after all, been free of criticism in recent years over the way that they have exercised their regulatory and supportive powers with regard to private sector forestry.

Control of private sector forestry is exercised in two direct ways:

- through felling licences 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 licences 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 licence 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 percent of planting takes place without grant aid.

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.

### **Undemocratic control**

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 not just that such powers are exercised by a non-elected and locally unaccountable body but often at the way they are exercised.

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 its own and private land-owners' forestry developments.

In considering applications for licences to fell trees the Commission has to have regard to the silvicultural implications, including the age and condition of the trees and the management objectives of the owner. Any effect on amenity, conservation, agriculture, access and public recreation is also taken into account.

If the existence of the Forestry Commission 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 existing planning system where all the competing interests could be considered through that established framework.

### **Taking the taxpayer for a ride**

Providing state support for private forestry 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."

Whilst the rate of afforestation dropped dramatically after 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 seeking ways to use trees to reduce their tax bills while making money.

Unfortunately 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. 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. Rumours regularly circulate of wealthy landowners pocketing payments counted in the hundred's of thousands of pounds. The government grant system is only the latest of a series of subsidies reflecting a sad attitude of dependence amongst private forestry interests on the involuntary benevolence of the taxpayer.

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

It is, far from clear quite why financial encouragement should be given to private forestry. The same economic arguments, outlined above 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.

### **Private-sector self interest**

The real interests of those engaged in private commercial forestry are perhaps put in perspective by the way planting slumped when the 1988 Budget replaced tax breaks with grants towards the planting and maintenance of trees. There was a curious contradiction between the claim that forestry is a profitable industry benefiting Britain and the widespread complaints that planting has become unprofitable since the tax benefits were withdrawn.

It did not take long, however, for alternative ways to be devised of exploiting the potential for similar gains through a combination of the financial encouragement being given to farmers to "set aside" their land and the grant incentives introduced to encourage new planting.

The Highlands and Islands Development Board, amongst others, tried to recreate the momentum towards new planting, in part, through encouraging timber users to safeguard their future supplies by taking a financial stake in new plantations.

In addition to British financial support, the EEC has adopted a Forestry Action Plan that will offer aid for up to twenty years to farmers who plant new woodlands in place of agriculture as a form of compensation for lost income before the trees reach maturity. Farmers and wood processors will also be able to receive support for felling stripping, drying and storage. The aim is to encourage farmers to take land out of arable production and reduce the EEC's food surpluses. They also hope that the aid will deter farmers from planting quick growing varieties.

The likelihood of Europe's farmers moving into forestry in any major way has, however, been questioned. Professor Kenneth Thomson of the North of Scotland College of Agriculture, writing in the Scottish Agriculture Colleges' Economic Review suggests that Europe is more likely to experience a "minor expansion of lightly used grazing land rather than a massive expansion of either forest or nature conservation."

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.

If, however, the commercial timber operations were to be privatized, the planning function were to be transferred to the local authorities and grant were phased out, it might not be felt necessary to retain the Forestry Commission at all.

Other functions such as research, training and safety could be transferred to the control of the committees that currently deal with them subjects 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.



## 8. THE SCOTTISH DIMENSION

If the commercial timber operations of the Forestry Commission were to be privatized 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 percent of the Commission's land holdings are in Scotland with only 24.5 percent in England and 12.5 percent 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 the 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
<b>Total land</b>	<b>63.0</b>	<b>24.4</b>	<b>12.6</b>
Forestry property	40.5	43.2	16.3
Other property	42.8	36.6	20.6
<b>Total property</b>	<b>41.9</b>	<b>39.3</b>	<b>18.8</b>
New planting	94.8	2.6	2.6
Restocking	41.3	34.6	24.1
<b>Total planting</b>	<b>62.7</b>	<b>21.8</b>	<b>15.5</b>
Felling	45.5	34.5	20.0
Recreational facilities	32.8	52.0	15.2
Sporting lettings	61.4	29.9	8.7

Source: Forestry Commission Annual Report and Accounts 1986-87

With the new company based in Scotland, the backing of a predominantly Scottish shareholding could be achieved by giving employees the normal preferential 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

Were it 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.