The Privatisation of New Zealand Forests

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During the 1980s and early 1990s, the New Zealand economy went through radical economic changes, overhauling almost all aspects of economic policy. The New Zealand Forest Service was not exempt from these changes. This paper describes two major aspects of that change: the way the New Zealand Forest Service, like many other state trading activities, was restructured first through corporatisation under the State-Owned Enterprises Act 1986 which has ultimately led to privatisation; and secondly through the enactment of the New Zealand Resource Management Act 1991 which has fundamentally altered environmental management in New Zealand. The Act’s underlying principle is based on the principle of sustainable management. This principle forms the foundation of forest management in New Zealand. Whether the restructuring and privatisation will produce a more efficient forestry sector is an issue that the author does not address.

Key words: corporatisation, Crown Forest Assets Act 1989, forestry, privatisation, State-Owned Enterprises Act 1986

Background

Over the last decade, New Zealand has been transformed from a highly controlled economy, to a relatively deregulated one with less Government involvement than at any time in its modern history. This transformation was carried out by the 1984 Labour Government and accepted by a public disillusioned with years of poor economic growth and Government intervention. With the enactment of the State-Owned Enterprises Act 1986, Government provided for the mandatory corporatisation, and eventual privatisation, of the nine main trading Government enterprises including the Forestry Corporation. There was a new major emphasis on the short-term issue of improving economic efficiency within the existing corporations. In essence, the Forestry Corporation was Government owned, but possessed commercial goals. Other features included the devolution of management responsibilities; a shift from input controls to output performance specification and more extensive contracting out. All these were a part of a comprehensive strategy of economic, social and economic reform, the chief aim of which was to improve the country’s economic performance and thus end three decades of relative decline. The depth and radicalism of the New Zealand’s government reforms under the Labour Government from 1984 to 1990 created in its turn a new investment environment for the foreign investors.

The origins of the new Forestry Corporation were, however, in the establishment of the New Zealand Forest Service in 1919. Prior to this date there was significant state involvement in plantation forestry. From as early as the 1860s forested land in New Zealand was rapidly exploited partly for timber but mostly for grazing land. A timber ‘famine’ appeared possible. Estimates of the exhaustion dates of indigenous timber resources ranged from 1893–1921 (Roche, 1990). Agitation from environmentalists for the preservation of land remaining in indigenous forests reached new heights and the accompanying debate mirrors arguments voiced a hundred years later during the 1980s lead-up to the privatisation of state forestry (Bilek, 1990).

Despite some legal provisions made for the preservation of permanent forest reserves, vast amounts of timber which were nevertheless cleared. It was recognised that further legislation was desirable and in 1874 the first Forest Act was passed which was directed to the establishment of state forests. Provision was made for the appointment of a Minister with the title of Commissioner of State Forests and for the appointment of a Conservator and other subordinate officers. The newly established New Zealand Forest Service had the specific aim of managing and developing public forests.

This aim was carried out until the mid-1980s when two underlying domestic and international pressures each proved to be catalysts for dramatic and unexpected changes in the New Zealand Forestry Corporation. The first was the desire within Government to place all environmental issues under the one umbrella of the Resource Management Act 1991. The second originated in the pursuit of transparency in state trading operations and, to this end, Government enacted the State-Owned Enterprises Act 1986. This new administrative configuration was not driven entirely by domestic environmental preservationist concerns; it showed some of the hallmarks of a new right economic philosophy already applied to the role of the state in various Western nations. State agencies, including forestry, in this view were to have non-conflicting goals, operating efficiently (using private sector measures) and to be accountable.

To this end, the Government set up a Forestry Working Group to examine options into looking into the feasibility of the establishment of a fully commercial forestry corporation. The decision was made in April 1987. In the group’s view a commercial forestry undertaking should like other commercial entities have:

a) Freedom to make commercial decisions without normal departmental constraints of always having to get Government approval;
b) Clear and simple objectives;
c) Improved accountability and efficiency; and,
d) An increased direct role in the marketing of state resources.

The New Zealand Forest Service was accordingly disbanded in 1987 in favour of a Department of Conservation, a Ministry of Forestry, and the New Zealand Forestry Corporation. The Department had a preservation mandate, the Ministry a policy and regulatory role, and the Corporation was to operate as a commercial owner.

The Resource Management Act 1991

The reorganisation of national environmental administration through the enactment of the Resource Management Act 1991 has certainly changed environmental policy structures, processes, rules, responsibilities and duties.

The structure of the Resource Management Act 1991 is complex as is the framework for the environmental policy it creates. It is also tightly integrated, with a linked series of relationships among and between several management instruments. Achievement of the Act’s purpose is made fundamental to each of them. The principles and philosophical purpose of the Resource Management Act 1991 are comprehensively defined in section 5:

- managing the use, development, and protection of natural and physical resources in a way, or at any rate, which enables people and communities to provide for their social, economic, and cultural well-being and for their health and safety while:
  - (a) Sustaining the potential of natural and physical resources (excluding minerals) to meet the reasonably foreseeable needs of future generations; and
  - (b) Safeguarding the life-supporting capacity of air, water, soil and ecosystems; and
  - (c) Avoiding, remedying, or mitigating any adverse effects of activities on the environment.¹

An example of this concept is the harvesting of resources such as fisheries and forestry at a rate which will permit regeneration on a sustained basis. This concept is more difficult however when applied to non-renewable resources. It is unlikely that this means that a non-renewable resource cannot be used at all, because it will thereby diminish the supply of that resource for future generations. Rather, it probably means that non-renewable resources will not to be used in a way that compromises the ability of future harvesting.

The Forest Amendment Act 1993

The same governing philosophy which lays the foundation for the Resource Management Act 1991, has also been adopted in New Zealand’s Forest Amendment Act 1993. It assures the future of natural forests on private land. The broad definition of sustainable management in the Resource Management Act 1991 has been renamed sustainable forest management in effect becoming more forest industry-focussed.

Sustainable forest management applies to the following:
  a) Export of indigenous forest produce is prohibited unless the timber has been harvested from forests managed under registered forest management plans or permits approved by the Secretary of Forestry. The most notable exception under the Act applies to some indigenous forest plantations on the West Coast of the South Island because one of the newly-created State-Owned enterprises, NZ Timberlands, has the right to have and process timber in this area.
  b) The milling of indigenous timber is prohibited unless the sawmill concerned is registered and the timber has been harvested under specified sustainable management plans and resource consent permits. The new legislation does not have an impact on exotic forestry.

The Process of Corporatisation

The disestablishment of the Forest Service did not occur as a result of the enactment of the Resource Management Act 1991. As early as 1984 the role of the State sector, of which the Forest Service belonged, had been changing—in particular, there was a shift towards a market-led resource management. The 1984 to 1990 Labour Government was, in fact, concurrently reshaping the entire structure of the public sector.

The reason that laid behind the reforms was based on a redefinition of the major Government trading enterprises as limited companies with the prime objective of financial profitability. This redefinition can be traced back to a fundamental shift in perception as to the nature of the activity itself. Traditionally, the Government’s major trading activities were seen substantially as services which the Government undertook to deliver to all New Zealanders as part of their birthright. Profit, or economic efficiency, was, therefore, a secondary consideration as compared with ensuring that all New Zealanders had access, for example, to pension schemes and a living wage. Up until 1984, the State was indirectly responsible in promoting and directing development.

Section 4 of the State-Owned Enterprises Act sets out the principal objective for State-Owned enterprises. This provides:

1) The principal objective of every State enterprise shall be to operate as a successful business and, to this end, to be as profitable and efficient as comparable businesses that are not owned by the Crown.²

The redefinition of these activities as economic concerns acting in accordance with normal commercial criteria was fundamental. The new Forest Corporation made a operating surplus of NZ$54 million in its first year, compared with an estimated net Government injection of approximately NZ$70 million in the last year of the commercial operation of the old Forest Service.³

¹ The Resource Management Act 1991, s. 5(2)(a)
² The latest figures, according to Treasury, state that Government has posted an increase in operating surplus of NZ$4.27 billion for the nine months ended March 31, 1996, SNZ778 million up on the corresponding year last year. Christchurch Post, 4 May 1996.
³ Later to be renamed Forestry Corporation of New Zealand Ltd.