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Sent: 08 November 2010 13:01
To: review, secretary
Cc: Paul Brosnan
Subject: Review Group of State Assets & Liabilities IFS:0042110

Attachments: Forestry Review 2010 Submission.doc

Dear Mr McCarthy,

Earlier this year our company made a submission under the Forestry Review Group that was established to consider various aspects of Forestry Policy. It is our believe that this submission may be of relevance to the Review Group that you are chairing.

To this end, please find attached a copy of the submission that we made to the earlier group in March of this year.

Yours sincerely,

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Submission on Forestry Review

Forestry Review

I.F.S. ASSET MANAGERS LIMITED

Background

“Forestry is primarily but not only about the production of timber.” Ivan Yates TD, Minister for Agriculture, Food & Forestry, *Growing for the Future – A Strategic Plan for the Development of the Forestry Sector in Ireland*. This quote encapsulates some of the thinking at the outset of the forestry programme and it appears to remain a significant driver today.

The Renewed Programme for Government states that a review, for which this submission is being delivered, will look at forestry’s critical role across a range of additional subsectors from climate change to bio-energy.

However the sector has suffered from damaging and ill-informed outside influences that have, when taken together, removed the sector’s ability to deliver the originally targeted afforestation levels.

This being said much progress has been made and this should not be overlooked. In 1988 the private sector’s involvement in forestry was relatively minor in relation to the state’s forest estate. Since the introduction of the current style of support mechanisms this has changed to 40% of Ireland’s forestry being privately owned with participation ranging from the agricultural community to private individuals and even some international players. While the planting targets may not have been reached this is a laudable development over a period of only two decades that has now delivered a total forest area in Ireland of 10%.

IFS Asset Managers Experience

Over the past thirteen years, I.F.S. Asset Managers Limited (“IFS”) has acted in the capacity of Forestry Asset Manager to the Irish Forestry Funds. Between them the Irish Forestry Funds own well in excess of 20,000 acres of forestry on behalf of more than 18,000 shareholders. This portfolio of forestry is made of diverse properties that range from lands that were planted in recent years to forests that were originally planted in the mid-late 80’s resulting in an ever increasing volume of timber production coming from them.

With thirteen years experience of managing such an asset base IFS is ideally positioned to present views based upon real experience of the obstacles that are presenting themselves to forest owners (both existing and potential) to maximise the returns that should be delivered not just to them, but also to the state. IFS is cognisant of the substantial investment that the state has made over the past two decades to promote forestry among the private sector and it is a core belief of the company that a return must be delivered to both the forest owner and to the state. It is also a core belief of the company that both of these can easily be met to their mutual satisfaction.

However, it is the experience of IFS that without a long term, consistent approach by government to the forestry sector and to its underpinning support measures, it will prove difficult for the state to receive its return as the private forest owners find themselves tackling issues that appeared to have been dealt with when the original decision to invest into forestry was made.

The issues that forest owners can find themselves faced with are far reaching and range from a lack of supports for necessary infrastructure to some recent and damaging experiences of local government creating financial and operational obstacles to the delivery of timber into the national economy. It is worthy of note that other participants in the rural economy do not appear to be suffering the imposition of such obstacles.

Forest Targets

If a review of forestry in Ireland is to be meaningful, an understanding is required of why many planting targets have not been reached, in particular those over the past decade.

The following obstacles to planting have been experienced:

- A stop-go approach to forest funding. If the necessary long term approach to forestry is to be taken, then it is meaningless if each year the budget that underpins such a government programme is subject to the annual budgetary review and change as has applied to date.
 - Recommendation: the Afforestation budget should be assessed and allocated over a longer period than twelve months, with a suggestion for five year budgets to be allocated with mid-term reviews carried out to assess whether the measures are on target both in terms of financial requirements and forest area.

To ensure that blocks of approvals do not issue within the first months of each year, with the resultant collapse in planting for the remainder of the year, an approach should be taken whereby financial approvals are made over the fiscal year.

- Alterations to the terms of business upon which the forest owner relied: over time IFS has experienced a number of alterations to how the rules are applied to the forest owner. To list some of these:
 - Premia: The annual premia payments were considered guaranteed and on occasion they were increased to keep in line with cost of living changes. These payments were originally devised to compensate the landowner for having changed the land use permanently to forestry and to make this decision a financially viable one in the short to medium term – i.e. until harvesting receipts become available. It could be considered that without these payments the success of the forestry programme would not have occurred and that the entire burden of forestry would continue to fall on the state.

However, these payments were arbitrarily cut in 2009 and it was made clear that this was done to ensure that the afforestation programme would continue to be funded.

This decision was a serious error for the following reasons:

1. For the forestry programme, existing forest owners can be considered the “Client” and as business experience proves the first route to increased market share is to underpin your existing clients’ confidence in their original purchase decision. By arbitrarily cutting premia

payments, when such payments were the medium term selling point for placing land into forestry, all forest owners' confidence has been undermined. This has also sent a message to landowners that should they chose forestry they cannot rely on the premia on the terms that they sign up to.

2. There is a perception that appears to have been borne out by departmental statements that the cuts to existing forest owner's premia were used to subsidise new forestry entrants. While the national economic circumstances are clear to all, such arrangements are very damaging and in a sector that is the focus of a national strategy this move was especially detrimental.

➤ Recommendation: in the current fiscal environment it is unlikely that these cuts can be overturned. However, confidence must be given to all forest owners that this was a once off event. It appears that the only meaningful way to provide this confidence is for the state to acknowledge the contractual nature of the premia payments and that this obligation will be honoured in the future.

- Support mechanisms being removed or put into question: When the decision to invest in forestry was made (be it land or capital investment) it was done so on the understanding that support measures in terms of infrastructure and other activities would be available to bring the forestry into its productive stage. These support mechanisms are being eroded resulting in an inability to extract value from the national estate.

➤ Recommendation: Clearly state in all new policy that the necessary support measures will be properly funded in a timely manner. If the necessary management planning is in place it will be relatively easy for the Forest Service to allocate the necessary funding on a property-by-property basis as these management plans are already being submitted as a requirement.

Furthermore, and in specific reference to forest roads, it should be a requirement that adjoining forest owners share their infrastructure and the length and specifications of forest roads should be more in keeping with what will be required on a site-by-site basis. From experience it is known that forest roads have been constructed to an unnecessarily high specification which stretches already limited funding resources beyond their ability to cope.

- Environmental policies: while all activities of whatever nature must always be carried out in sympathy with the surrounding environments, it appears to IFS that the forestry sector has been undermined by ill-informed pressure groups. Indeed, some complete mistruths have been circulated on some topics and the relevant authorities have allowed policy to adapt to accommodate such well meant but misinformed views. Of particular relevance is that of the hen harrier where the authorities in Ireland ignored the experience of our nearby neighbours in Scotland where it is now acknowledged that the species will thrive in a commercial forestry environment, utilising the roads and rides of such properties for hunting and nesting purposes.

Prior to that, the sector experienced the blanket imposition of various environmental land classifications on whole tracts of the country without the required reference to many of the affected landowners. A lack of support from the Forest Service left the forestry sector with a significantly reduced geographic area in which it could expand its activities and deliver the afforestation targets.

- Recommendation: the Forest Service must be empowered to protect the sectors' right to deliver government strategy. The sector must also be able to rely on the Forest Service to dispel misinformation when it appears so as to protect the interests of both the sector and the state's investment into it.
- Competing departmental schemes: A government department with competing schemes will ensure that landowners select the most attractive, short-term scheme.
 - Recommendation: while competing land uses will always exist the department must look at ensuring that forestry remains more attractive in the short – medium term if there is to be an expectation that existing landowners, especially those in the agricultural community, are to be expected to move into forestry in the sort of numbers required to deliver the strategic targets set down.
- Land prices: land prices became prohibitively expensive for new entrants to acquire land, plant it and expect any reasonable return from their forestry. Indeed, it is IFS's own experience that the choice had to be made to move entirely away from the identification of unplanted lands for its clients for a number of years. This situation is now changing however with agricultural land (i.e. unplanted land) returning to more sensible levels. Interestingly, forestry land prices have remained resilient throughout this period, arguably, because they never escalated to the sort of levels that unplanted land did.
 - Recommendation: utilise these points to actively promote forestry to the non-agricultural sector, one that has been largely ignored within the operations of the forestry programme to date despite IFS's own clear experience that there is significant interest and appetite throughout all of Irish society for supporting this initiative. This will have the added benefit of making forestry, and the problems it faces, more relevant to a broader spectrum of society and to tax payers.

Value for Money

It is clear that the forestry programme requires significant investment by the state to deliver a critical mass within the sector and the resultant economic benefits. Therefore, it is imperative that this funding is used in a focused and targeted manner to maximise its effect. The following areas should be looked at:

- Grant schemes: The policy surrounding the grant scheme system must be consistent and supportive of those who have substantially invested on the basis that pre-agreed support mechanisms would remain in place for the long term. For example, the 2009 decision to subsidise the afforestation programme to the expense of pre-existing forest

owners undermined confidence of industry participants while attempting to attract new entrants.

- Recommendation: review the operation of all grant schemes to ensure that maximum efficiencies are being delivered by the sector as a whole in a commercial manner.
- Forest Owners: There is currently a requirement for forest owners to develop a management plan for their forest property and a government contribution has been made available to cover the cost of this requirement. However, it is not clear what oversight of this management plan exists to ensure that the state receives a return on its investment over time. If proper management regimes do not exist then otherwise productive forestry will fail to deliver the necessary returns.
 - Recommendation: introduce a new approach to monitoring the implementation of forest management plans to ensure that forest owners have the necessary management regimes in place. Where proper management does not exist then a penalty system should be implemented.
- Livestock trespass: IFS has brought this matter to the Forest Service's attention in the past as one that needs more focus by the department as a whole. Trespass has the ability to cause great damage to a plantation and forest owners are often limited in what they can do to protect their forests from determined trespass by livestock. Through cross compliance within the Department of Agriculture the owners of livestock found to be persistently trespassing should have severe penalties imposed yet there appears to be little appetite to impose such penalties despite the negative impact that this is having on the investment made by the state.
 - Recommendation: a clear strategy for tackling persistent trespass must be agreed upon and implemented with penalties covering all agricultural and farming schemes under the department's control.
- Wastage: The bureaucracy involved in complying with the implementation of grant schemes is excessive. The most obvious example of this is the annual Form 4 which is issued at huge expense every year to all forest owners, under all contract numbers that relate to their forestry. The annual postage and printing of these annual documents alone must represent a significant overhead to the Forest Service.
 - Recommendation: an internal review of all processes is required to remove unnecessary bureaucratic overhead and ensure that the annual budget is maximised for the benefit of the forestry programme. All forestry contractor documents should be completed online with physical documents such as maps being forwarded in the post by the company concerned. This reduces administration costs for all concerned and removes a substantial print and postage burden from the system.

Where documentation is required from forest owners as much of this as possible should be done online with physical documents only being available where necessary.

National and Local Government Policy

Currently there exists in some local councils the policy to impose on forest owners artificial and completely counterproductive measures that undermine the national policy for forestry. Over the past two decades in particular the state has invested substantial resources into expanding the national forest estate and to encouraging the private sector's involvement in

this critically important industry. Now, just as Ireland comes to a point where this timber is beginning to arrive into the marketplace and as the bio-fuel sector creates new and important market-drivers for this early production, local government is being permitted to create both operational and financial obstacles to the extraction of this timber.

It is of particular concern that these barriers are being created around the topic of road construction and the physical removal of timber from properties on the premise that the forestry sector imposes a particular burden once every four or five years on local infrastructure. There is no similar imposition on other rural activities such as the movement of farm produce (e.g. milk), livestock and farm machinery which must be considered to impose a far more regular, indeed daily, strain on the local infrastructure. It is of particular concern to forest industry participants that the forestry sector is being singled out in such a blatant and damaging manner.

- Recommendation: With local government soon to be given even greater powers over forestry should the currently proposed Planning and Development (Amendment) Bill be implemented, there is a greater need for a clear and complete cohesion between national and local government in terms of the implementation of national forestry spolicy. Further, the formal authority in Ireland for forestry rests with the Forest Service and must to be continued to ensure that necessary decisions are being made by suitably qualified personnel to deliver national forestry policy.

Bio-energy

With power stations both home and abroad moving over to co-firing with, in part, forest produce, this is becoming an increasingly important area for all in Ireland's forestry sector. Taking into consideration the fact the UK is 85% dependent on its timber requirement the need for a solid long term supply of biofuels in that market should be of interest to all in Ireland's forestry sector. This commercial demand is complemented by the use of wood pellets for heating in the domestic market. IFS's experience is that the price being paid for early thinning outputs continues to be quite volatile as these markets continue to find an equilibrium but the benefits for Ireland in terms of carbon outputs are clear.

If this new market is to fully benefit forestry in Ireland it is essential that no artificial obstacles to the extraction of the necessary produce are permitted to exist. Furthermore, the necessary infrastructural requirements will have to be put in place within the forest properties. Through the proper use of the information already available to the Forest Service in the form of the management plans submitted, it should be possible to project the timing of production from Irish forests so that the necessary infrastructural requirements can be met.

If Ireland is to fully benefit from the potential of bio-energy it will be necessary to ensure that all bio-fuel emanates from sustainable sources. Irish forestry benefits from being sustainable through adherence to national legislation. Imported bio-fuel must also comply with similar criteria being applied. Irish produce also has the added benefit of being an import substitute.

Irish production capability is being hampered due to the shortfall in the planting programme of recent years. Therefore the obstacles already addressed in this document must be overcome to get the planting programme back to target levels.

Bio-diversity

This is an essential topic that must be dealt with in any discussion on forestry. There is no possibility for the Irish environment to produce meaningful volumes of what is an essential raw material through the planting large tracts of native hardwood species.

It must be remembered that most of Ireland's landscape is foreign; from the potato to cereal crops to modern farm livestock – none of these are native to Ireland's landscape yet they are as essential to us for food as are the tables, chairs and fuels that we use in our everyday lives. It is simply the case that modern generations have spent their entire lives looking at this landscape so it has become the norm.

Therefore, in the context of bio-diversity we must ensure that the necessary commercial approach to forestry in Ireland is not undermined.

We must also ensure that in diversifying the tree species that the industry must plant there is no temptation to venture into timber species for which there is no established market.

This is not to say that through a specific vehicle, perhaps the NPWS, that more amenity and native forestry cannot be planted for non-commercial reasons. Indeed, it is recognised that there are many reasons why this should be done for social, economic and environmental purposes and to the ultimate benefit of Irish society as a whole. Indeed the right approach to this could see what limited timber is produced out of the careful management of such programmes being used to offset the costs of running them.

Coillte

Having a single government owned player representing 60% of the asset base of a slow developing industry presents a number of challenges for government in terms of policy. When that single player also owns in excess of 6% of the country and is heavily vertically integrated into processing and nurseries this complication becomes unsustainable in the context of a healthy future for the sector.

The strategic direction of Coillte is not immediately apparent. The company was originally created to be the national forestry company and has since ventured into windfarms, timber housing along with its heavy vertical integration. It also must contend with the need to provide ancillary amenity services which can only serve to weaken its ability to perform on behalf of the Irish taxpayer (i.e. pay a monetary dividend).

If any meaningful new strategy is to be explored for Coillte then the first step is to clarify exactly what the company is and for what purpose it exists. If it is to continue to be the state forestry company then the focus should be on this and this alone.

Consideration should be given to moving all non-core assets out of Coillte. Take any primarily amenity forest properties out of its portfolio and move these into another vehicle, perhaps the NPWS using any potential commercial output from these properties to assist in the funding of such a vehicle.

The other business elements of Coillte should be broken out into stand alone businesses operating independently and allowed to develop aggressively on behalf of the state with the ultimate aim of returning such operations to private enterprise with the resultant payback to the state from such asset sales.

It is unclear why Coillte, a state company, has its own research and development arm when the state already has a research and development activity in Coford. There is undoubtedly duplication taking place in this and economies of scale will clearly exist by merging these two operations.

Out of these actions will come a pure forestry company that can benefit from all the advantages of such an operation. The problem will remain however of the scale of Coillte's landholding in the state. It is proposed to break the operation into regional businesses to permit the government to have broader scope of choice in what strategic future the separate businesses will have.

This broad strategy allows the government to maximise the value of each distinct business function that exists within Coillte while not opening up the politically sensitive concept of privatising over 6% of the country's landmass in one operation. It also ensures that the socially valuable amenity properties move into a more appropriate ownership structure that will ensure their continued contribution to society while releasing the more numerous commercial operations to more fully contribute to the Irish economy.