

# Private Forestry in Ireland

## Recent Achievements and Future Direction\*

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### Introduction

In 1600 about 12.5% of Ireland was under forest, and this was reduced to 2% by 1800. By 1907, this figure was less than 1.6% and the reduction continued during the 1914-1918 war. Since then, many of our older private forests were allowed to fall into a state of neglect, so the history of private forestry in this country is one of exploitation rather than establishment.

It was not until the initiation of the State afforestation programme in the early 1920s that any substantial increase in the national forest area occurred. The expansion of State forestry up to the 1980s was not matched by the private sector and there were a number of reasons for this: Forestry was not a traditional land use and was looked upon by farmers as a last resort for poor land; grant aid was not sufficiently attractive; and later, with the emphasis on agricultural development in the 1970s, land owners influenced by advice and the financial supports available, retained what today would be considered 'forestry land'.

Thus, until the introduction of realistic grant schemes in the early 1980s, both the level of interest and the level of development in private forestry was minimal. In this paper I want to look at

- The achievements of the 1980s
- Identify the main reasons for the rapid expansion in private plating.
- Examine the present challenges to continued development and how they might be countered.
- Chart the course for private forestry for the 1990s.

### Achievement of the 1980s.

The total area planted by the private sector in the second half of the 1980s is 11 times greater than the private sector planting for the first half of the decade. From 1985 to 1989 20,385 ha. were planted as against 1,825 ha. for the years 1980 to 1984. This is phenomenal growth by any standards and an achievement that everybody involved in all aspects of private forestry can well be proud of. Table 1 shows the growth on an annual basis.

**Table 1: Private Sector Planting 1980-1989**

Year	Area (ha.)	% Increase on Previous year
1980	268	—
1981	275	3%
1982	499	81%
1983	311	(38%)
1984	472	52%
1985	764	62%
1986	2561	235%
1987	3213	25%
1988	5253	63%
1989	8594	69%

The introduction of the Western Package Grant in 1981 was responsible for an increase of 81% in the 1982 planting with the rather hesitant uptake leading to a drop back in 1983. The huge increase in planting for 1986 coincides with the decisions of Allied Irish Banks (AIB) and Irish Life to allocate a larger percentage of pension funds to forestry investment. Growth in the following 3 years shows an average increase of 2,000 ha. per year brought about by an increasing number of private investors and landowners.

The State was planting almost 7,000 ha. per year during the early 1980s. At that stage who would have dared to predict that the private sector would be planting this amount by the end of the decade. If somebody had suggested that this figure would be exceeded by almost 25%, it would be regarded as ridiculous.

While private forestry was very slow in getting off the ground in the first half of the 1980s, the sector has emerged at the end of the decade in a strong and powerful position after very rapid expansion.

### Reason for Expansion

Many and varied reasons can be put forward for the expansion of private forestry but in my opinion, as somebody who has been closely involved with this sector during the period, the 3 main reasons are:

- Introduction of the Western Package

- Four year fixed price package
- Lead given by the financial institutions

**Introduction of the Western Package:** Forestry, because of the long term nature of the investment needs the support of grants and tax incentives to compete with other investment opportunities. For the first time in the history of the State a realistic and very attractive grant scheme was introduced in 1981, partly funded by EC, and known as the Western Package Scheme. A level of 85% of costs applied to farmers and 70% to others, up to a maximum of £800 per ha. with 75% payable in Year 1 and 25% in Year 4. This amount was substantially higher, and the 4 year retention shorter, than the State grant. The only negative aspect was its application to the 12 Western counties exclusively and as a result, 85% of the private planting in the 1980s was carried out in the western half of the country.

Grants payable to farmers for agricultural development tended to be less than 50%, which in reality, amounted to much less because costs were generally out of date. The prospect of getting an 85% grant based on current costings caused farmers, who would never have even considered forestry, to look at the income they were receiving from marginal agricultural land. Farmers are conservative by nature and slow to change traditional farming methods and did not rush into forestry. The forestry grant was seen by them as being much more attractive than any of the agricultural grants under the Western Package. It was promoted as such by the media and made a very big contribution to the positive change in attitude to forestry among the rural community.

For the institutional and private investor, funding only 30% of the development cost plus the cost of the land would give a tax free return on investment of 5% to 7% plus inflation. For the first time, forestry was being considered as an alternative investment opportunity by a growing number of pension fund managers and private individuals.

Despite the slow uptake initially, the Western Package grants were responsible for farmers and investors taking a new look at forestry investment, thereby, making a major contribution to the expansion of private forestry.

**Four Year Fixed Price Package:** Initially AIB and Irish Life because they were investing pension fund money on behalf of others, and could not quantify in advance the cost of replacing failures and vegetation control, were not prepared to invest in a green field situation. They were only interested in buying 3 to 4 year old forests which were established and past the risk stage. However there were very few established forest properties for sale in the mid 1980s. AIB and Irish Life had money to invest in forestry,

Green Belt had the expertise to buy land, establish forests but no money, so it required some original thinking to come up with a solution.

We examined the situation in Britain where pension funds invested only in established forests which were planted by private investors with the help of relatively small grants and very generous incentives for high tax payers. Higher than estimated costs for replacing failures was a major issue with smaller investors but was not a problem for the larger investor because risks of failures were averaged out over the full planting season from November to April and possibly over a number of sites and over a few years.

We then re-assessed our situation and came to the conclusion that we could reduce the risk of a major catastrophe involving a very high percentage of failures, by spreading the risk over as large a number of sites and soil types as possible, by planting from November to April, by using top quality trees and ensuring that they were properly planted.

We convinced both institutions that we were prepared to take all the risk and the concept of a four year fixed price contract was agreed. What we now had was a complete package for investors involving land acquisition, development and planting, maintenance and management, fire insurance, funding both phases of grant and a contract to deliver an established forest in four years. In addition to the legal contract the investor had the comfort that Green Belt had to wait for four years for the second phase of the grant, i.e. £200 per ha., knew what the investment was costing, and realised there was not incentive for us to take short cuts either through shoddy workmanship or cheap materials.

It became our strongest selling point over the years and I am glad to say the the 'Green Belt Package' is now adopted by most responsible contractors, and the private forestry sector is now in a much healthier position because of it. The alternative is disputes, arguments and legal fees which gives forestry a bad name and reflects on the whole sector.

**Financial Institutions Gave a Lead:** The rapid expansion of private forestry from 1985 can in no small way be attributed to the lead given by AIB and Irish Life. When others were not as open minded to new investment opportunities, these institutions recognised the potential and the suitability of pension fund money to finance a long term investment like forestry. Both organisations appointed professional consultants to analyse and appraise the specific proposals put forward by the private forestry companies, and only invested if the real minimal rate of return was likely to exceed 5%. They insisted on the highest standards of development and planting and successfully marketed the investment to the trustees and managers of the various pension funds.

By their actions, they opened peoples eyes to the tremendous investment opportunities on offer in forestry and gave confidence to private individuals to invest. This is understandable because AIB and Irish Life are widely

respected and an integral part of the Irish economy for years. The announcement by Smurfit Natural Resources in 1989 to invest £10m removed any doubts that were lingering at that stage and provided an outlet for private investors to sell 3 to 4 year old forests. Financial institutions accounted for about 50% of the private planting carried out in 1986, whereas the current level is less than 20%, with the balance made up by farmers and private individuals which gives the industry a very healthy spread of investors.

### **Present Challenges**

The threat from environmentalists would appear to be the greatest challenge to forestry at present but I have relegated it to No. 2 on my list because a lot of their criticism is exaggerated, and some of their arguments are beginning to lose credibility as a result. Damage from acid rain is not as bad as claimed and the hole in the ozone layer does not seem to be getting any bigger. The No. 1 challenge to private forestry is still:

**Selling the Concept to Farmers and Investors:** The biggest problem when selling forestry is the lack of knowledge among farmers and investors, and that stems from the fact that there is practically no tradition of forestry in Ireland.

In general, farmers think short term and fail to see forestry as a long term investment. They are not able to differentiate between a top quality job and a poor one. The need for maintenance is irrelevant to many, so when it comes to selling a particular job, often the only thing that counts is price.

Private investors like the idea of outright ownership of a forest – part of the Irish emotional attachment to land. They complain about the long term nature of the investment but will accept that forestry can compare favourably with alternative investment opportunities. The real problem, however, is the lack of confidence to invest in a totally new concept.

To overcome these problems an extensive educational campaign is required to be carried out by Teagasc, the Forest Service and the private forestry companies. Teagasc have a key role to play because of their contact with farmers, they will have to adapt to thinking in much longer time spans than they have been traditionally used to, and realise that the standards of the job carried out today will have a huge bearing on the quality and the volume of the final crop of timber in 30 to 40 years. The Forest Service has also a key role to play in promoting forestry among the general public by making them aware of the various schemes, and education should be one of the main functions to be carried out by the Inspecting Officers about to be recruited. The private forestry companies have a vested interest in educating all investors to the opportunities in forestry. This would be much more effective if it were a combined effort by all of the forestry companies and of greater benefit to everybody in the long term.

**How to Counter the Anti-Forestry Lobby:** In recent years the Environmental or Green Lobby have become a force to be reckoned with in almost every aspect of life, and in general, their effects are positive. However, there are certain elements within the environmental lobby who seem to take on somewhat of a 'knee jerk' reaction to any mention of forestry. Many of their comments misrepresent the facts, are couched in emotional language, and if allowed to go unchallenged, will do enormous damage to the industry and must be addressed by foresters.

The forest industry in Britain failed miserably to counter the publicity of the anti-forestry lobby. This lobby is made up mainly of city types who enjoy going to the countryside for weekends and shout loudly if the environment is disturbed either by the planting or felling of trees.

In this country they are unlikely to achieve the same degree of influence because of the greater understanding of the countryside among the city dwellers who, in most cases, are only one or two generations removed from the land. However, there is an onus on the forest industry to educate the public and explain that properly planned forests can enhance the environment. Trees can add considerably to scenic quality when set beside large scale mountain features such as lakes and valleys. On dark monotonous blanket bog, plantations of Sitka spruce or lodgepole pine can give a great textural lift to the landscape if we avoid artificial lines and soften hard edges. Silting of waterways can be avoided by the provision of silt traps and filtering run-off. Wildlife can be encouraged with a diversity of species. Each hectare of forest takes up to 4 tonnes of carbon a year from the atmosphere thereby reducing the green house effect.

To date, foresters have been on the defensive in this debate and as a result are losing the argument. Good public relations are vital to reverse this trend and the industry must be prepared to carry a much higher public relations budget for the future. The Forest Industry Chain appears to me to be the ideal vehicle for this, and I would strongly recommend that they take immediate action.

Foresters destroying the environment is a contradiction in terms. Our basic training and instincts are to protect and improve the environment and we have to regain the high ground by communicating this to the public. As foresters we should be proud of our profession and record to date, and as members of the Society of Irish Foresters, there is an obligation on all of us to sell that message at every opportunity.

**Diversification of Species:** When Minister for Energy, Mr. Bobby Molloy introduced the Forestry Operational Programme he laid particular emphasis on the diversification of species and especially the planting of broadleaved trees. The grant for planting broadleaves was increased by 50% to £1,200 per hectare. The Annual Premium for broadleaves was fixed at the higher

level of £47 per acre and is payable for a period of 20 years, with no limit to the annual payments. These two incentives provide real encouragement to farmers to plant broadleaves on good quality land. Unfortunately this type of land seldom becomes available for afforestation, and if we are going to increase the percentage of broadleaves being planted on the bulk of our afforestation sites, we will have to accept that the reasons are aesthetic or amenity rather than growing quality hardwood timber. If we are going to achieve the Minister's objective of planting 10% broadleaves in our national afforestation programme, incentives should be provided to encourage a minimum of 5% broadleaves and larch in all plantations for amenity and wildlife. A real incentive could be provided at minimal cost by making a minor adjustment in the grant regulations to allow payment of the broadleaf grant for broadleaf percentage of the plantation and the conifer grant for the balance. Small pockets of broadleaved trees scattered naturally through a conifer forest will improve the visual amenity, and provide additional habitats for flora and fauna thereby improving the overall environment of the forest.

**Maintaining Standards:** The single most important element in the establishment of a forest that will affect the future profitability of the crop is ground preparation. If poor drainage work is carried out prior to planting it can never be properly rectified. It will lead to early wind throw and, as a result, seriously reduce the returns from the crop. There is only one opportunity of getting it right and that is on day one.

Most amateurs are able to assess the quality of a fence and can quantify the survival rate of trees but it takes expertise to plan and lay out a drainage system that will last for up to 40 years. Unfortunately, we have too many pseudo experts establishing forests today whose mistakes will not be obvious for possibly 20 years. Somebody referred to them as the bucket and spade brigade with certificates under their belt which were acquired in less than 2 weeks, or worse still, no experience at all except a few weeks driving a mechanical digger.

I welcome the role of Teagasc in advising farmers that forestry is a very attractive use for marginal agricultural land. I am not impressed with some of their arguments put forward to support this alternative use. I strongly object to the sales pitch that is being used to convince farmers and that is 'if you do some of the work yourself you will get the job done for the grant'. The farmer is being encouraged to carry out a cheap job, which will ultimately be the ruination of farming forestry. Being paid by the EC to provide this type of advice is wrong and will have to be addressed immediately. Most farmers in this country are capable of growing trees the same as any other crop, but it takes expertise to produce a crop of commercial timber profitably. There is a considerable difference between growing trees and producing commercial timber and we must differentiate between the two situations.

I also welcome the higher standards required by the Forest Service, particularly the requirement to have a 90% stocking to qualify for the second phase of the grant. Those of us who are foresters with experience in crop establishment will appreciate the difficulty and cost involved in achieving this standard. Could I suggest that greater emphasis be placed on this aspect when free advice is being given to applicants for grants, and also the requirement to repay the first phase of the grant if the crop is not properly established.

### **Future Direction**

If one were to label the private forestry of the 1980s it could be described as 'Investment Forestry'. Agriculture is now at a cross-roads in this country and I am suggesting that the 1990s will be a decade of 'Farmer Forestry'. In this final section I want to answer the question 'Why Farmer Forestry?' I want to set the targets for the 1990s and how we are going to achieve them.

**Why Farmer Forestry:** The answer is short and simple – the Forest Premium Scheme. The Western Package scheme was the catalyst that sparked off the development of the 1980s and I am confident that the Forest Premium Scheme will make an even greater impact on the 1990s. Like many good schemes it is slow to start and needs to be promoted and sold to farmers. The basis of the scheme is to compensate farmers for loss of income from agriculture for a period of 15 years, at which time the forest will be due for thinning. In general, farmers who qualify can continue to receive up to £6,000 per year tax free for 15 years if the forest is properly managed.

Most farmers who have the land available, and would benefit enormously, from this scheme, have not got the finance to establish the forest. This calls for an imaginative package involving leasing and joint venture where the investor is compensated by a percentage of the crop and the farmer retains ownership of the land. Alternatively, if the farmer can live without the Premium income for a number of years it can be used to repay a bank loan to pay for the planting.

As a result of the Forest Premium Scheme, more farmers will retain the ownership of land on which forests are established and will continue to live on the holdings, thereby preserving the population and structure of rural Ireland.

**Targets for the 1990s:** In private forestry we are very pleased that Government has set quite ambitious targets for the next 3 years and has organised the funding through the Forestry Operational Programme 1989-1993. Subsidising farmers to produce products that are in surplus in the EC does not make sense. Neither does it make sense to pay farmers to



leave their land idle through the 'set-aside' scheme, when it could be used to produce timber – a product which will never be in surplus in the EC. So the political climate at home and in Europe continues to be very favourable to forestry and there are very positive indications that a further 5 year forestry programme can be negotiated, which will bring us to 1998.

Table 2 shows my estimates of the number of hectares likely to be afforested by the private sector for the rest of the 1990s.

**Table 2:** Anticipated annual area of private afforestation 1991-99

Year	Farmers	Others	Total	Funded by
	hectares			
1991	5,000	5,000	10,000	Forestry
1992	6,000	6,000	12,000	Operational
1993	8,000	7,000	15,000	Prog. '89-'93
1994	9,000	8,000	17,000	New 5 year
1995	11,000	8,000	19,000	Forestry
1996	12,000	9,000	21,000	Programme
1997	14,000	9,000	23,000	'94-'98
1998	15,000	10,000	25,000	
1999	15,000	10,000	25,000	

For the current year 1991 I am only showing a modest 10% increase on the 9,000 ha. approximately planted last year and a more rapid increase in 1991 the 1993. The doubt about the continuation of the grants after 1993 will prompt more farmers and investors to avail of the opportunity before then.

After 1993 annual increases in private planting should grow by about 2,000 ha. up to a maximum of 25,000 ha. and if it were possible to continue at that figure we would all be happy.

**How Targets Can be Achieved:** Planting 25,000 ha. a year may sound a daunting task for the private sector by the end of the 1990s, but if the national will is there, and the incentives put in place, it can be done. Let us assume the political will is there no matter what Government is in power over the next 10 years. Let us also assume that increased finance will be forthcoming from the EC despite the demands of other poor regions. So the question is how can the existing schemes and incentives be improved to encourage increased planting.

1. Forest Premium Scheme: The value of these payments will be depreciating yearly because of inflation and therefore will not compensate farmers adequately for loss of income, so they should be adjusted upwards on a regular basis.
2. Amount of grants should be adequate to cover not less than 70% of the actual costs and should be reviewed regularly.
3. The Social Welfare Code should be examined by the Government with a view to removing obstacles to the development of forestry. Ageing bachelor farmers who own a substantial part of the land suitable for forestry will not get involved if it affects, even in the smallest way, their entitlement to Farmers Dole, Old Age Pension or Health Benefits.
4. The existing tax incentives that apply to individuals investing directly in forestry should be extended to include the smaller investor who would like to invest a few thousand in a unitised forestry fund.

Positive action on these four points would go a long way to achieving our targets. The management companies who have been used to rapid expansion over the past few years are now structured and geared to cope with continued expansion. Private nurseries are growing an increasing number of trees. Agricultural machinery contractors have made the successful transition to forestry for an increasing amount of their work. There is a core of registered planting and fencing sub-contractors around the country who have been trained over the past few years and can expand their labour force as required. In short, if more land became available and additional finance for investment, the private contracting sector is now well structured to establish the forests and cope with any expansion.

## **Conclusion**

Private forestry has grown and come of age during the 1980s, and great credit is due to everybody associated with this pioneering development. Firstly, all investors in forestry who had the vision and foresight to grasp an opportunity, the Forest Service who negotiate the EC finance and administer the grants, Coillte officials who carry out grant inspections and advise land owners, and finally the management and staff of all the private forestry companies.

A man of vision, a forestry enthusiast, a client of Green Belt and a very good friend of ours, the late John Healy, journalist, forecast that the west of Ireland would become the new Golden Vale. To achieve that should be the dream and objective of all foresters. The land is there, grants and incentives are in place, we have the knowledge, we have the expertise, we have proven it can be done. Everyone here has a part to play, so let's get on with it.