

**27 January 2009**

## **Forestry Policy Group Response to FCS Forestry & Climate Change Consultation**

### **Introduction**

Using forests and forest products in combating climate change is positive and FPG recognises the value of imaginative initiatives in this respect. FPG accepts the view that the financial arrangements for the Forestry Commission Scotland would benefit from an overhaul that:

- makes FCS less dependent purely on public funds and softwood timber revenues
- eliminates the rather absurd "cost of capital" arrangement
- leads to overall higher income to the FCS in the long term, to allow it to deliver increased new planting rates and a higher standard of forestry management on the existing public estate.
- reduces the apparent disparity between the government spend in the public and private sectors.

However we do not support the proposal for a single large scale lease and offer alternatives.

### ***Consultation Q1 What are your views on allowing the Forestry Commissioners to enter into joint ventures, with the intention of participating in renewable energy programmes on the national forest estate?***

The proposal to introduce new legislation to allow the Forestry Commission to participate in renewable energy joint ventures is positive and is supported by FPG. Such joint ventures have considerable potential for increasing future FCS income and reducing dependence on the current income streams. There is also a case for extending the range of joint ventures that FCS could participate in to other fields, notably tourism.

Mechanisms should be put in place that increase community benefit from these joint ventures, for example by enabling community equity stakes and supporting further community based action on climate change.

### ***Consultation Q2 What are your views on allowing Scottish Ministers and Forestry Commissioners to offer leases and cutting rights over parts of the national forest estate?***

FPG supports the principle of allowing FCS to lease land in a number of specific circumstances. For example, FPG member organisations have been

campaigning for several years on the need for FCS to be able to lease land to rural communities. FPG supports, the idea of income being generated by the leasing of forest land to community groups, NGOs and private sector forestry organisations where:

- the overall effect is to increase the provision of public benefits by enhanced management of the area concerned,
- this releases funds not otherwise available to FCS
- any loss of control on the part of the public over the public forest estate is constrained due to the limitations on either the scale or time periods of leases.

However, the provision of secondary legislation to allow for the leasing of a large proportion of the forest estate to a single investor as a mechanism for generating funds for climate change is, on balance, not acceptable. This is because:

- the lease would result in too great a loss of control or influence on the part of the public, over a very long time period.
- the lease would probably reduce the likelihood of future increases in the provision of public benefits on the leased land. FCS has been constrained to date in its provision of public benefits on its core timber producing area due to insufficient funding. Whilst this situation which could conceivably change in the future; it is hard to conceive of management by a timber land trust leading to improved public benefit.
- the funds generated are not matched to clear emissions reductions and the carbon benefits are likely to be small when viewed in the bigger picture.
- the funds generated might not be used within the forestry sector and if not, would represent a loss to the forestry sector.
- loss of future timber revenues from leased forest may jeopardise standards of management on the remaining part of the estate.
- if timber prices were to increase from their current historic low values in the future, the nation would potentially forego increased future revenues. In this respect it is not judicious time to enter into a lease arrangement unless provision can be made for future changes in timber values.
- .experience from other countries such as Canada does not encourage the view that such arrangements will deliver effective sustainable management of forests.
- the perceived benefits associated with relieving FCS of the costs of capital are better delivered by changes in government accounting procedures.

## Alternatives to the Large Scale Leasing Arrangement

The benefits associated with the large scale lease proposal are achievable in other ways that expose the national forest estate to fewer risks. FPG has considered some of these options, and provides an overview of those that

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appear to have the most potential below. These alternatives aim:

- to deliver a similar financial injection into new woodland establishment, thus securing SFS planting targets and
- to assist in delivering proposed climate change emission reductions.

### **Option 1 Ensure that SRDP is working effectively**

Scottish Government has in place a grant scheme that was designed to deliver 10,000ha pa of woodland expansion. This is not being achieved, and at least a part of the Government's motivation for these proposals seems to be driven by this failure. However a review is in process, and this should aim to ensure that barriers to delivering 10,000ha of new planting and natural regeneration are removed.

If this is done effectively then other alternatives to the large scale leasing arrangements can be of a more modest scale. Smaller scale measures are more likely to be absorbed by the sector without further market distortions.

### **Option 2, Enhanced "repositioning & disposals programme" combined with joint venture income**

In order to support planting in the private sector, FCS should aim to access additional funding by:

- in the short term, increasing disposals of FES forest under an enhanced repositioning & disposal programme;
- in the medium term, generating income from joint renewable energy ventures

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FPG believes that it will be politically and practically possible to release further funds by additional modest sales of forestry land. Some of the funds from this programme of sales could be used to enhance support for new planting and natural regeneration under SRDP, with the balance used for small and careful purchases by FE to complete its repositioning programme. It may be that an element of "front loading" of SRDP funds would be necessary to cover the first few years before income from joint ventures comes on stream.

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### **Option 3, Part-privatisation of FES**

This proposal would sell shares in a new body, but retain state control of the assets. It would involve:

- Restructuring FES as "National Forest Holdings plc" with the Scottish Government retaining a majority shareholding and the remaining stake being made available to investors.
- NFH would not be not eligible for SRDP, but would have a service level agreement with Scottish Government to deliver public benefits such as ecosystem services and recreation provision.

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The value of the company would be based largely on the assets (land) rather than the turnover, so this might be attractive to long term investor. Sales of share could also be targeted at general public. This proposal would also

recast the relationship between FES and the State. It could be structured to remove the capital charge and to remove the limitations of an annual budget.

#### **Option 4 – Futures Market for Sitka spruce Standing Timber**

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This concept is well established in other commodity markets, and Chicago Mercantile Exchange also offer a futures market for US timber. The Government would contract with a market maker to develop a scheme under which investors and investors can buy or sell specified volumes of roundwood in 5 year periods over the next 75 years. This option has the potential to provide the Government with capital while keeping the present structure of the sector largely unchanged

#### ***Consultation Q3 What are your views on transferring the proceeds from leases and cutting rights to a not-for profit trust, for investment in woodland creation.***

##### **Role of Not-for-Profit-Trust**

Creating a not for profit trust to hold and disperse monies raised by repositioning and/or joint ventures is seen as a positive proposal by FPG. This would avoid the need to spend monies raised within the one financial year and would allow involvement of fresh faces (people and organisations) in the decisions on where to acquire new land, what to plant and when etc.

#### ***Consultation Q 4 Are there other actions which need to be taken, or are there other changes in legislation which need to be made, in order to allow the public and private forestry sector to contribute to Scotland's target of reducing emissions by 80% by 2050? If so, please outline what these are.***

##### **Financial support of climate change forestry**

FPG proposes that financial support be increased for new planting by asking SGRPID to seek a change in State Aid rules to allow an increase in planting grants in order to **top up existing levels of grant** and allow locational premiums. FCS could target increased grant levels to deliver the additional 4-6,000 ha of woodland expansion per annum (over present rates). Reducing the focus on peri-urban areas will allow larger areas to be planted at a lower unit cost.

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##### **Other wider approaches to climate change mitigation**

The following alternative approaches which would obviate need the for radical financial solutions sought be the Consultation

##### ***Drive up recover rates from harvesting to feed biomass markets***

We harvest c. 6Mm<sup>3</sup> timber in Scotland, and leave another 3 - 4 Mm<sup>3</sup> to rot (high stumps, unwanted stemwood, lop & top). There are good practical

reasons why it can't all be recovered (need for brushmats, nutrients in needles etc) – but the main reason for such a high level of wastage is economic – the lack of markets. If we could recover an extra 1Mm<sup>3</sup> per year this would have large carbon savings and reduce the need to seek savings solely by forest expansion.

***Fundamental rethink of land use management support***

Any carbon “gains” made by forestry are more than outweighed by emissions from the agricultural sector - overall Scotland’s land use is a major net contributor to greenhouse gas emissions. Generally accepted that there are significant social benefits to supporting rural land use – but successive administrations have done so by subsidising fuel use and encouraged farming / food production / distribution to become very dependent on high inputs (fertilisers, etc) and long distance transport. Scottish Government support for land management needs radical restructuring to support sustainable methods – lower inputs & greenhouse gas outputs, and greatly reduced transportation.

***Overcome SRDP bureaucratic problems***

This requires the government to make the grant application process much simpler and easier; to simplify planning procedures and approvals and to speed up decision making on the award of grants. These are all matters that lie within the remit of the Scottish Government at present and require no new powers or regulations.