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PRIME MINISTER

REVIEW OF FORESTRY POLICY: PAPER FOR E COMMITTEE

As George Younger's letter to you of 18 July records, I have already had some discussion with Forestry Ministers and am content with both the policy and the procedure which they propose. My officials are currently in touch with theirs about the accounting arrangements referred to in paragraph 7 of the paper and (with Inland Revenue Officials) about the possible revised structure of incentives referred to in paragraph 5.

2. I am copying this minute to Forestry Ministers, members of E Committee, Humphrey Atkins and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

29 July 1980

129 JUL 1980



DRAFT:

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CABINET

ECONOMIC STRATEGY COMMITTEE

FORESTRY POLICY

Memorandum by the Secretary of State for Scotland, the Secretary of State for Wales and the Minister of Agriculture, Fisheries and Food

1. We invite colleagues' agreement to an early statement on forestry policy, confirming Government support for expansion at a rate consistent with the availability of resources, alternative land uses and environmental considerations, and long term market requirements for wood, indicating that we see greater scope within this for the participation of the private sector, and announcing that to facilitate this we intend to introduce legislation and consult the interests concerned.

2. The Forestry Commission (FC) and the private sector share almost equally the 1.7m hectares of productive woodlands and the 4m cubic metres of annual wood production. The long-term average annual rate of new planting has been 30,000 ha in the ratio 2 by FC to 1 by the private sector. The production forecast for 1985 is 5m and for 1990 6m cu metres, with the FC's share rising to 60%. The FC's annual grant in aid currently averages £35m at 1979/80 prices, about £25m of which finances the FC's commercial operations.

3. Expectations of a very wide-ranging reassessment of forestry policy have been aroused generally by the FC's discussion paper on the Wood Production Outlook on Britain, and another by the Centre for Agricultural Strategy at Reading; both reports considered, as maximum options, expansion at a rate which would roughly double the amount of woodland in Britain over the next 50 years. We do not consider it realistic to profess to commit Government to aims which can only be

realised over the course of half a century, and whose realisation in any case depends on the commercial decisions of landowners to make land available for forestry. While the evidence adduced justifies continued Government support for the expansion of forestry we do not think that this should go beyond the basis set out in paragraph 1 above.

4. The substantial interest in forestry investment which has also been aroused justifies, in our view, the conclusion that, given Government support for expansion, the private sector would be ready to participate increasingly in it. This would enable our general policy aim of switching the emphasis from the public to the private sector to be achieved without introducing new special measures or incentives, providing the value of the existing incentives is maintained. A possible revised structure of incentives for the private sector, taking account of the 8th Report of the PAC and of the Rayner report on FC grant aid, is being prepared by officials and it is our intention to put further proposals to our colleagues in the autumn.

5. We are however committed to an earlier statement on general policy; the level of expectations in any case makes this essential. It is our view that, in accordance with this Administration's support for private enterprise and policy of cutting public expenditure, a determined effort should be made to reduce that part of the FC's grant in aid which finances their Forestry Enterprise by making better use of their existing assets. We propose the following to encourage private investment in forestry:

- i. the sale or sale and leaseback of a proportion of freehold productive woodland;
- ii. the sale of up to about one-third of the FC's land awaiting afforestation; the remainder, being essential to the management of existing forests, or of no interest to private investors, would be the basis of the FC's continued new planting.

6. An independent financial consultant has estimated that this could raise some £75m over 6 years from 1981/82. The possible effect on grant-aid requirements is shown in the Annex. This is a new field for the FC and we should not like to be held to these precise figures or to the timing. Nevertheless there are known to be substantial funds available for investment in property, and we believe that, once the first investments have been made, it may be possible to attract even more to forestry than the estimate envisages.

7. The arrangements for accounting for the privatisation proceeds need to be carefully considered. It will be important to ensure both that Ministers are able to take account of progress in the privatisation programme when considering annually the PES provision for the Commission's programmes and that these programmes are not subject to arbitrary change resulting from unexpected fluctuations in the privatisation proceeds. We propose therefore that we should be authorised to agree appropriate accounting arrangements with Treasury.

8. Legislation will be required to make the programme possible, since the Forestry Act 1967 gives Ministers inadequate powers to dispose of forestry land. We propose that in order to enable a start to be made in 1981/82, a Bill should be included in the 1980/81 programme to enable the Forestry Commission, by extending Ministers' powers under the present Act, to dispose of land held for forestry in the interests of the better management of their assets. It is also proposed to include in the Bill provisions making consequential changes to the accounting arrangements laid down in the Forestry Act.

9. We propose that there should be an early initial statement to Parliament of our intentions, with a view to spelling out the Government's position in detail at Second Reading. Any detailed changes in the support for the private sector would also be the subject of consultations when ready and approved by our colleagues. The initial statement will need, in addition to covering the investment questions reviewed in paragraphs 5-8, to make clear our approach to forestry expansion and, in order to avoid damaging confidence, to include positive assurances of our intention to maintain the existing level of overall effectiveness of the various incentives for the industry. It will also have to show an awareness of the interests of other users of the land, notably agriculture and the general public, as represented by conservation, recreation and amenity interests. Not the

least important interest will be that of the wood processing industries, particularly in view of the possible closure of Bowater's news print mill at Ellesmere Port, and the users of small roundwood will look for reassurance that disposal of FC estates will not mean fragmentation of their sources of supply. This is essentially important in relation to the search for a large scale replacement to the Wiggins Teape pulp mill at Fort William, now about to close.

10. We therefore invite colleagues' agreement in principle to:

- a. The reduction of our grant in aid to the FC's Forestry Enterprise by utilising their existing assets to extend private investment in forestry.
- b. Legislation in 1980/81 extending Ministers' powers to dispose of FC land, and regularising the accounting procedures in the Forestry Act.
- c. A statement to Parliament before the Summer Recess outlining our legislative and investment proposals, with a view to detailed decisions on the scale and nature of the programme in readiness for Second Reading.

G.Y.
P.W.
N.E.

Scottish Office
Ministry of Agriculture, Fisheries and Food
Welsh Office

Table 1

Projected Grant in Aid of the Forestry Commission
before provision for inward investment

| <u>Year</u> | <u>1980/ 81</u> | <u>1981/ 82</u> | <u>1982/ 83</u> | <u>1983/ 84</u> | <u>1984/ 85</u> | <u>1985/ 86</u> | <u>1986/ 87</u> | <u>Total 1981-1987</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------------|
| Total Grant in Aid of which | 35 | 31 | 28 | 26 | 23 | 22 | 21 | 151 |
| Forestry Authority | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 55 |
| Forestry Enterprise (a) | 26 | 22 | 19 | 17 | 14 | 13 | 11 | 96 |
| Forestry Enterprise net of expenditure on forest recreation and amenity | 22 | 18 | 15 | 13 | 10 | 9 | 7 | 72 |

(a) Net expenditure assuming new planting as proposed in para 5 ii. and revenue from sales of wood and of surplus property disposals as currently planned.

Table 2

Possible distribution of private investment in Forestry
Commission assets over years 1981-1987

| | <u>1980/ 81</u> | <u>1981/ 82</u> | <u>1982/ 83</u> | <u>1983/ 84</u> | <u>1984/ 85</u> | <u>1985/ 86</u> | <u>1986/ 87</u> | <u>Total 1981-1987</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------------|
| Sale of plantations, sale and leaseback of land under plantations and sale and leaseback of land and trees | PENDING | 5 | 10 | 10 | 10 | 15 | 15 | 65 |
| LEGISLATION | | | | | | | | |
| Sale of bare plantable land | NIL | 4 | 4 | 2 | - | - | - | 10 |
| Total | | 9 | 14 | 12 | 10 | 15 | 15 | 75 |
| Total net of lease rents etc | | 9 | 14 | 12 | 9 | 14 | 14 | 72 |
| Call on Exchequer for Forestry Enterprise Grant in Aid, net of forest recreation expenditure | | 9 | 1 | 1 | 1 | -5 | -7 | 0 |