Inflation and the new Forestry Programme

The recently announced increases in forestry premium and grant rates have been mooted by Minister Hackett as a remedy for the lethargic level of afforestation in recent years. I am not so certain that this will be the case for two main reasons:

Reason One is that as far as I can see premium increases will only apply to new planting. Landowners who have already planted will not benefit. In previous years, increases in premium were applied to existing premium recipients. This is important from an equity viewpoint.

Perhaps, more importantly from an afforestation viewpoint is that failure to apply increases to all, will make landowners wary of planting, particularly if further premium increases are on the horizon. Why would you plant today if higher payments are expected in a year or two, if you know that they will not be made retrospective?

This is particularly relevant at a time when the widespread talk of the need for major increases in afforestation levels across Europe let alone Ireland would lead one to suspect that afforestation incentives will have to improve dramatically in the not too distant future. On top of this, increases in premiums in the past which did apply to existing recipients were seen as a form of indexation.

This leads to the second main reason for doubting the effectiveness of the proposed increases.

Reason Two. Since their introduction in the early 1990s, forestry premiums have never been index linked as such but were occasionally increased as alluded to earlier. Because we were in a low inflation environment during the intervening period the net effect was that premiums overall probably kept ahead of inflation. This low inflation period is now firmly at an end. The cost of living is surging, due to Monetary Inflation otherwise known as quantitative easing on the one hand and dramatic supply side shocks, largely due to Covid 19 and the Ukrainian war on the other. The current annual rate of inflation in Ireland is now above 9%. It is unlikely that we will revert to the targeted 2% rate of inflation anytime soon.

So, for instance, if we take the proposed new rate of €746 for Sitka (FT12). At current inflation rates the real value of this payment will be back at the current level of €520 (GPC3) in just four years. See Table 1

Table 1. Impact of Inflation on real Premiums at various Rates (Sitka).

Year	0	1	2	3	4	5	6	7	8
Premium (€)	746	746	746	746	746	746	746	746	746
Real value (5%)	746	709	673	640	608	577	548	521	495
Real value (9%)	746	**679**	**618**	**562**	**512**	**466**	**424**	**386**	**351**
Real value (12%)	746	656	577	508	447	393	346	304	268

Table 1 shows the impact of different levels of inflation on real premium rates. In the 9% scenario real premiums will halve in just eight years. Even at a 5% rate of inflation, real premiums will be back at the old level of €520 in just seven years. When we use a 12% rate of inflation (inflation went over 20% in the 1970s) then the real value of premiums decreases at an accelerating rate.

This potential erosion of premium value due to inflation is likely to be (or should be) very important to the typical farmer who invariably is dependent on these payments to provide household income while his or her forest matures. Payments which hold their value are crucial given that the recipient, under current legislation, is permanently tied into forestry. If he or she is unhappy with their income from any other farming endeavour, a change to some other farm enterprise can be made. Not so in forestry. For this reason alone, it is essential that premiums increase in line with inflation and a decision to plant should not be taken lightly.

Inflation is not the only reason why planting one's land is still problematic. From a logical investment viewpoint, the level of premiums is but one element of the planting decision. There are several, arguably more important aspects of the investment decision to consider. Critically, from what can be seen, these have not been addressed in the new programme.

Decisions to invest in forestry will also be influenced by inaction on the application of carbon credits to forestry, the continuing forestry licences debacle, the over-the-top application of the various environmental restrictions and the failure to address the Ash dieback issue. These have largely been ignored in the new Programme. Therefore, they remain major barriers to afforestation.

Taking FT12 Sitka again, when one considers the higher requirement for broadleaves under the new programme, on top of the biodiversity requirement, only about 65% of any given acre can be planted with Sitka spruce which is practically the only commercially viable tree species in our environment.

While the premium rates for other tree species have also increased, again they are subject to the impact of inflation as outlined earlier. Much more importantly, most broadleaf trees have little commercial value unless one considers Oak perhaps, which takes much more than the average human lifespan to leave a commercial return. All broadleaf plantations are in reality public goods which deliver environmental and social benefits. In other words, they are perceived as yielding a benefit to society as a whole but give little return to the farmer whose land is devalued as a result of growing these trees. Therefore, what is required here is a perpetual payment by society as represented by the State in return for what economists call the Positive Externalities provided by broadleaf woodlands. A positive externality arises when one party bears the costs of an undertaking while others largely benefit. A twenty-year premium for broadleaves in such a situation is derisory.

I believe that the long-term prospects for commercial forestry are very good. Conifers are excellent sequesters of carbon and provide the most sustainable building materials available. What a shame that the barriers mentioned above - licensing issues, unnecessarily restrictive environmental requirements, delays in introducing carbon credits and the utterly counterproductive replanting obligation - have not been addressed by the Department of Agriculture. Failure to meaningfully engage with these issues is causing doubts in the minds of many potential forest owners. Indeed, the new requirement to plant 20% broadleaves on unsuitable land as a commercial mix, on top of leaving large areas for biodiversity, seems to suggest that the Minister would prefer if no conifers were planted.

People who can take a long-term view that conifers will pay and that the issues will be addressed over time, may decide to plant. This may or may not be the correct decision.

For others, especially those whose main reason for planting is to gain secure current income, I would suggest that they tread with great caution.

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