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Pmie Quinter
Agree to write a
Memorandum?

PRIME MINISTER

30 October 1985

FORESTRY

31/10.

Yes not

Michael Jopling's spontaneous offer to consider the privatisation of the Forestry Commission's estate is a welcome contribution - one which deserves your encouragement.

This is the right course. It would separate the Forestry Commission's regulatory function from its business activity. It would give an overdue return to the taxpayer, who has stood by the FC for so long and currently puts in £40 million a year to assist its forestry enterprise. Proceeds would exceed £1 billion.

The FC will, of course, resist. It may well get support. Independent analysis suggests that the Forestry Commission is an efficient operator. Its losses are primarily due to the immaturity of its standing timber. The major surge of planting took place after World War II, and will generate increasing revenue as these trees mature (conifers require 50-60 years). The FC has a good environmental record. Sensitive to environmental criticisms about its monstrous regiments of conifers, the FC has taken imaginative steps to landscape its forest, conserve wildlife and provide the fullest public access. This last point may worry the environmental lobby. The FC has judged it not worthwhile to write in covenants guaranteeing public access when selling off its assets. The FC also claims to offer industrial

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advantages because, by virtue of its size, it can encourage new investment in paper mills by guaranteeing long-term supplies of timber. These factors suggest that the FC could expect support from the Departments of Scotland, Environment and Industry.

However, none of these considerations justify Michael Jopling's bid to earmark the proceeds to subsidise private forestry. The existing tax and grant régime will probably cost the Exchequer an additional £20 million at least, if the FC is privatised. The tax treatment of forestry was described by the previous Chief Secretary as a "tax scandal". Foresters can opt for Schedule D in early years, and offset the costs of planting and maintenance against tax from other activities, and then switch to Schedule B, which levies a piffling, nominal charge on forestry land, but not on timber, the moment any income appears. Schedule B ought to be abolished (the PAC recommended as much in 1979-80, but we resisted in order to assist disposals). If we retain this régime, is there any reason to increase grants as well?

We recommend that you:

1. Welcome Michael Jopling's initiative.
2. Observe that the question of whether and how commercial forestry and farm woodlands should be encouraged further

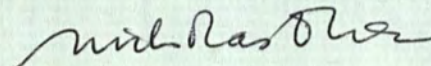
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is unconnected with the privatisation question, and should be considered separately. Colleagues will first want to consider whether funds currently devoted to supporting commodities in surplus should be diverted to forestry.

This can be considered only when we have cut the support for commodities in surplus. ✓

NRW


NICHOLAS OWEN

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