

Afforestation in the Baltic Sea Region – experience, current activities and future plans

Promotion of Afforestation through relevant EU funds

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John Phelan, FCCA, Director of the Woodland group of companies based in Galway, which is the most westerly city in Ireland, the most westerly country in Europe, and an accountant by profession, and has been in the forestry sector for the last 15 years or so. He was asked to speak on the topic of the Promotion of afforestation through relevant EU funds. This is what he had to say.

I can, of course, speak only from the Irish experience and from the business perspective rather than the Government perspective. To give you some context for that experience, I will firstly give you some very basic infor-

mation about Ireland, Irish agriculture and forestry and EU involvement and then I will move on to more specific aspects.

Ireland

The area of the island of Ireland is about 84,000 square kilometres of which about 70,000 are in the Republic of Ireland, the remainder being in Northern Ireland, which is politically, and administratively part of the United Kingdom.

Ireland has very fertile mineral soils, excellent for growing grass and trees with a moderate climate. The predominant land use is agriculture.

Temperatures range from 4 - 7 degrees in winter and average 14-16 degrees in the Summer. Rainfall is very high ranging from 800mm to 1600mm depending on the part of the country.

We have a population on the Island of about 5.2 million of whom 3.6 million are in the Republic. Ireland has been referred to as the Celtic Tiger and has benefited significantly from the EU funds. However, that is not the full story and while I don't have the time to go into details of that, factors such as education, social contracts, useful population, flexible and competitive workforce, controlled public spending and industrial policy have all contributed to the mix which has led to us having the highest growth rates in Europe over the last decade or so. In common with many other economies we are now slowing down somewhat.

Ireland has a comparative advantage in softwood, and some hardwood, production benefiting from suitable soils and climate. We have shorter rotations woods and our growth potential for softwoods is perhaps 16 cubic metres per hectare per annum - which those of you who are Foresters will probably agree is about 4 times the European average.

Ireland was once virtually covered entirely by trees and even 400 years ago, the level of cover was at 12% about 33% greater than the present day. For various reasons this had dropped to about 1% at the turn of the last century (1900). Successive Governments sought to encourage forestry but not at the expense of agriculture. Over the 40 years or so to 1945 percentage covered doubled - to 2% and experience and expertise was developed. After the 2nd World War there was greater emphasis on growing timber but it remained general policy that agricultural land should not be used for forestry so much of the planting was on very poor land in the West of Ireland. After a further 40 years cover had again doubled, plus a bit, to 5% by 1984. By then, various studies which supported the case for timber production and related industry had been undertaken; we had joined the EEC (in 1972); there were forecasts of EC demand for timber increasing twice as fast as production (perhaps a questionable assumption) and the tremendous forestry potential of the wet mineral soils which were very marginal in agriculture was being recognised. So the active encouragement of afforestation was rapidly gaining support. However the challenge was to convince farmers that forestry could be seen as an integral part of an agricultural programme instead of being seen as inimical to farming interests.

In 1981 the EU launched a campaign to encourage more private planting and this led to the introduction of what became known as the Western package. Private investors increasingly participated in forestry - led I should say by the founder of our Company.

Much of the planting at that stage was done by Pension Funds and other private investors who would buy abandoned or retiring agricultural land and then avail of the grants for the planting costs. This led to an improvement in the quality of land going into forestry. Our company has its origins in that type of business. However there was poor farmer take-up. The scheme was relaunched in 1985 with grants up to 85%. But farmers were not convinced and they had to be if there was to be a dramatic change. In 1988 the scope of the package was broadened further and it was announced that compensatory headage

payments would be paid to qualifying farmers (mainly those on low incomes) who planted land. For the first time forestry became a realistic alternative land use for Irish farmers. There was a modest increase in planting but even more importantly a change in attitude began to take place. Forestry could now take place on lands that were previously regarded as agricultural. The key to this was the support from the European Union. Substantial additional grants were introduced in 1990 and as luck would have it agriculture went through a very difficult time in the early 1980s. The 10 years from 1984 to 1993 produced almost as much increase in forest cover as the previous 40 years.

A significantly improved programme introduced in 1993 provided for annual compensation for loss of income for nearly all farmers who planted land and led to an initial dramatic increase in planting in the mid 1990s although this has fallen off significantly for reasons that I will touch on later. However over the last 10 years or so we have added a further 2% to forest cover. So in less than 20 years we have achieved more than had been achieved in the previous 80 years. In 2000 a further programme was launched, the result of which is that most planting will now be undertaken by farmers.

To put a context to these figures we have about 620,000 hectares of forests being 9% of the landmass. About 70% of this is in State ownership. We have planted about 110,000 ha since 1993 (much of it privately owned). There is a target of planting a further over 100,000 ha over the next 5 or 6 years (virtually all of it to be privately owned).

The main emphasis in the past has been on planting of Sitka Spruce. It will continue to be the main crop at about 50% of total planting with other conifers accounting for 30% and broadleaves for about 20%.

It would take many hours to describe the measures that evolved during the 1990s, which led to the position that now virtually all planting is undertaken by farmers. Suffice to say for today's purposes that these took place in the context of CAP reform, that is a reform of the Common Agricultural Policy of the EU. In simple terms the EU and the Irish Government wished to reduce production on Irish farms of goods that nobody wanted and forestry became an instrument of this policy. In effect a scheme of incentives was developed where farmers were compensated for loss of income that they would suffer by going out of Agriculture. This makes sense to the EU because otherwise it would have to pay significant price supports in respect of those goods and farming activities. Better to subsidise the creation of a real asset such as forestry than subsidise production of goods that nobody wanted.

[By way of background, Farms tend to be small with more than half having less than 20 hectares. Farmers are old - Farmers over the age of 54 own about 45% of the land and those under the age of 35 own only 12% of the land. There is a lack of mobility; with low incomes (about 80% of the average industrial income) there are huge transfers in support much of which has come from the European Union. It is now the case that more than half of Farmer income comes from such supports rather than from farm gate sales of produce. Of the total Farmers about 140,000 perhaps only 40,000 are viable full time Farmers, there are a further 40,000 part time Farmers with the remaining 60,000 Farmers in transition consisting of mainly older social welfare supported men.]

Current position

You have seen that EU support for Irish forestry has evolved over a twenty-year period. This brings us to the current programme of incentives in Ireland for afforestation. The starting point is the relevant Commission regulation. Support in Ireland is now provided under Council Regulation 1257 of May 1999, which provides support for rural development from the European Agriculture Guidance and Guarantee Fund (EAGGF). This is a detailed, technical and bureaucratic document. It sets out the broad parameters of EU support for sustainable rural development measures including investment in agricultural holdings, early retirement measures, less favoured areas and areas with environmental restrictions. Specifically it provides in Article 31 that support should be granted for the afforestation of agricultural land and that such support may include in addition to planting costs, an annual premium per hectare of forest to cover maintenance costs for a period of up to 5 years and an annual premium per hectare to cover loss of income resulting from afforestation for a maximum period of 20 years. It provides that support for the afforestation of agricultural land undertaken by public authorities shall cover only the cost of establishment. There are exceptions; for instance Farmers benefiting from early retirement support cannot benefit nor can those planting Christmas trees.

Critical to the development of any afforestation programme with EU support is a keen understanding of this and other highly technical and complex regulations. That regulation is supplemented by regulation no. 1750/99. That lays down detailed rules for the application of regulation 1257. For instance, it states in Article 25 that agricultural land eligible for support for afforestation according to Article 31 of regulation 1257 shall be specified by the Member State and shall include in particular arable land, grass land, permanent pastures and land used for perennial crops, where farming takes place on a regular basis.

These highly technical documents interact with other EU Regulations. Obviously clauses in these regulations are open to interpretation and a total understanding of these together with a good relationship with relevant Commission officials in various Directorates General in Brussels is a must if one is to make progress.

After consultation, deliberation and negotiation the Irish Government produced a document, the Rural Development Plan for 2000 to 2006, which is dated November 2000, when it was approved by the EU Commission. The plan provides for total public expenditure of €5.0 billion over that 7-year period including €2.4 billion from the EU. It incorporates a number of support measures including early retirement, compensatory allowances, and agri environment and, for us, most importantly afforestation.

The forestry element provides for €648 million with €351 million (54%) from the EU. This represents about 14% of the total measures whereas 41% has been allocated to REPS, the Rural Environment Protection Scheme, an agri-environment scheme which provides for support payments for agricultural farmers who comply with environmental protection requirements. These schemes can conflict with each other and the REPS scheme can lead to land being withheld from forestry even though forestry would be the optimal land use. I will return briefly to that point.

I now want to move on to the specific topic of funding of individual afforestation projects. Again this would require some considerable time to describe in detail because there are many variations. I have chosen an exam-

ple of a Farmer who has decided to afforest 10 hectares of his/her land. The Farmer must firstly obtain specific written approval from the Department of the Marine and Natural Resources, which is the State Department that administers grant schemes. Approval requires submission of a detailed application prepared by a Forester. Various environmental checks are carried out during the approval process. Assuming that approval is granted the situation might look like this:

Planting Scheme:					
	Ha	Affor Grant	Maintenance Grant	Total Grant	Farmer Premium*
Oak	2	9,650	3,047	12,697	973
Norway Spruce	3	7,237	2,286	9,523	1,288
Sitka Spruce/SL	5	10,793	3,492	14,285	2,019
TOTAL	10	27,680	8,825	36,505	4,280

*Includes * 13/ha supplement because area > 6 hectares

The grant rate is 100% of costs up to the maximum stated in the table, which were set in 1999. Basically the Farmer can afforest his land at a nil cost although because of high labour costs and inflation in Ireland, the costs of many projects are close to, at or exceeding the maximum grant figures. He will receive an annual income (which averages about €428 per ha) for each of twenty years. This is in line with agricultural income from many activities except perhaps dairy farming and better tillage farming. The income is tax free as is virtually all forestry related income. Basically the farmer can convert some (or all) of his holding to forestry at no capital cost and protect his income, at least for 20 years. Other Government schemes, with EU backing, are available for other aspects of forestry such as building of forest roads, reconstitution of woodlands following fire damage, improvement of old woodlands, education and training, research, back up measures and so on. However, the main focus is on afforestation.

An issue that has arisen is that while most incomes tend to rise with inflation, the forest premium income is not indexed and has been eroded by inflation. This is being addressed.

Land use

Irish land use is "embedded in deep-seated historical and structural conditions and linked to cultural values about land possession – factors which are not readily amenable to policy interventions" [ESRI, May 1993]. Afforestation usually takes place on land that has been in agricultural use, albeit sometimes on a very marginal basis. Forestry is seen as a major change and some people might see it as abandonment or as a failure of agriculture. In Ireland what happened, particularly in the 1980s and 1990s, was that there was a movement away from dependence on agriculture for income. Land mobility into "retirement", "stand by use", and into part time farming was much more important than the movement of land through the market, according to one 1993 study. In other words the abandonment of agriculture first took place and then forestry followed. But cultural beliefs and values and attitudes meant that the landholders were reluctant to make the change in land use and often the change only came about following death when the next generation sold the land. In more commercial agricultural

areas there was less sentiment and more acceptance of change. The result has been a shift in strategy in recent years towards placing forestry development within the framework of an integrated approach to rural development rather than as a stand-alone activity. There is a significant shifting of opinion so that for instance the largest farmers association, largely opposed to forestry fifteen years ago, now has a very pro-active forestry section. Forestry is now seen as a farm enterprise. However the units tend to be small and diverse (many under 8 hectares with three or more species) and there is a concern about future yields.

A second difficulty is that at policy level there has been, in Ireland, a basic inconsistency between on the one hand farm income maintenance measures – headage and related CAP measure and State income transfers – which are largely oblivious to resource development and on the other hand measures intended to diversify farm activity and increase output from indigenous resources [ESRI]. In simple terms support measures, often unproductive in focus, compete with and contradict measures such as forestry support. While many of these matters, and the solutions, are clear to many people, we do not have the detailed socio-economic research which might authoritatively identify the policy interventions needed to manipulate land use for optimisation of regional rural resource development. Owners must, of course, be free to make their own choices, but at policy level, the reward for change must significantly exceed the competing *status quo* measures.

In Ireland a good forestry package introduced in 1993 led to a dramatic increase in planting over the next two or three years we then introduced a competing agri-environment package which led to a sharp fall-off in planting. We are now beginning to look at ways of harmonising the two schemes.

An integrated land policy is desirable but politically difficult to achieve. In Ireland we have concentrated more on where afforestation should not take place than on where it should take place. The factors have been environmental such as bird habitats, special areas of conservation and natural heritage areas as well as water quality, landscape and archaeological issues. There are also localised restrictions such as proximity to houses and roads.

Land prices

There is also the very important issue of land prices, which could merit a separate paper, indeed a separate seminar. Financial incentives, which are related to the use of land, will become reflected to some degree in the price of that land in a free market. This is a very complex issue but any land use policy would have to consider the effects that such incentives would have on land markets and therefore on other land users. In Ireland forestry land has risen in price from perhaps 1,500 euros per hectare about 12 years ago to over 5,500 euros per hectare now. There are many factors of which grant and premium payments are probably the most significant. This can have unexpected and perhaps undesirable side effects.

In summary from an Irish perspective land mobility is increasingly related to economic factors with cultural factors and attitude reflecting to a greater extent greater awareness of the potential of forestry, in some part due to specific awareness programmes as well as the example of others. Environmental controls are reducing the availability of forestry land. There is a commitment to developing Regional Forest Plans over the next couple of

years, which should help to formally identify the most sensitive areas.

Legislation

I was asked to touch on the issue of legislation. The EU regulations are statutory instruments. In Ireland forestry activity is governed by a Forestry Act, that of 1946 being the most important. It governs felling of trees which is strictly controlled. Ireland is also obliged to comply with EU directives and these, particularly in the Environmental area, can have major implications. In an afforestation context the State can impose conditions through the grant approval process and it is intended to put these on a statutory basis. Ireland has developed a suite of governing principles and regulations with which all afforestation must comply.

These include the IRISH NATIONAL FOREST STANDARD that outlines the criteria and indicators relating to the national implementation of sustainable forest management (SFM).

The Code of Best Forest Practice, the first to be produced in Europe, describes all forest operations and the appropriate manner in which they should be carried out to ensure the implementation of SFM.

Five environmental guidelines relating to water quality, archaeology, landscape, biodiversity and harvesting are the mechanisms by which the Forest Service (the section of the Department of the Marine and Natural resources which is responsible for forestry matters) ensures that the environmental aspects of SFM are implemented. Adherence to the guidelines is a condition of grant aid and felling licence approval and there can be penalties for breaches.

Other issues

Now I want to look briefly at some of the issues that have arisen in the Irish context of EU funding.

Objectives should be discussed and agreed. The setting of objectives need not compromise key principles but should provide reference points for an indicative strategy. These are, of course, political issues, being ultimately a matter for Government.

In Ireland we have had a shift in policy over the last five or six years from timber production towards forestry for environmental purposes without any significant public debate and without any detailed examination of the economic consequences of not reaching the levels of softwood production that were targeted just 5 or 6 years ago. Failure to achieve a critical mass of annual softwood production will have major repercussions for wood prices and for existing woodland owners. Some wonder whether policy is set by middle ranking EU civil servants rather than by the political process.

There must be **financial justification** for such an enormous investment whether by Government or EU. This can be a difficult area; there are economic, social and environmental benefits from forestry. The quantification of some of these is not straightforward. It also takes some courage to make forecasts about the demand for and value of timber that in an Irish context may not be sold for 40/60 years and, from what little I know about your growing conditions, even longer here in the Baltic region. However a reasonable comparison can be made by considering the position, under appropriate headings, if an afforestation programme takes place and also the position if no such programme takes place.

It is important that there be a focused clear **strategy** for meeting the objectives and that there be **responsibility and accountability** for delivering on that.

It is questionable as to whether a Government department is the best agency for that and personally I would like to see a well resourced Forestry Development Agency, directed by industry experts, accountable to a Government Department and responsible for devising and implementing the necessary strategies for implementation of Government policy and market development. The Government Department should, of course, be responsible for the controls and audits that are an essential part of any major programme.

There must be long term **commitment**. Government programmes, particularly EU programmes, tend to have a stop go aspect. Forestry needs to be pursued on a progressive and orderly basis so as to sustain orderly development. Ideally programmes might cover 15 to 20 years with regular review mechanisms every 5 years. Thorough consultation at various stages is essential.

EU programmes have a long period of planning, consultation and negotiation and it can take a long time to finalise a plan. The plan has an end date but the new plan is not always ready in time to follow on immediately from that and this can cause huge problems particularly for support services such as nurseries and contracting companies. It is very important that there be continuity and significant advance warning of major changes.

It is also very important that there is **adequate research**. For example, Ireland, in 1998, at the insistence as I understand it, of the EU suddenly introduced significant changes to species specifications. The trees required by the new regulations were not available in sufficient quantity. We are still trying to establish which species are best suited for some soils. The flexibility and understanding that an experienced forester brings can sometimes be lost in the myriad of rules and regulations imposed by technical bureaucrats who no doubt have good reasons but

often perhaps lack practical understanding perhaps due to lack of contact with the business activity which they are regulating. There should be a very clear understanding all round of what is to, and can be achieved. There must be flexibility in schemes to accommodate the preferences of owners, the practical judgement of foresters and localised conditions.

Finally, afforestation on a significant level can only take place with a **well resourced infrastructure**; there needs to be development of an infrastructure support literally starting with the seed for your plants and ensuring that the physical and technical resources are in place to deliver a quality programme. As with building a house if the foundations are wrong you can never really correct the problem. The required resources should be considered, and support and encouragement given to encourage best practice. In Ireland about €15 million of the forestry-funding programme will go to education and training. There will be other measures also.

Conclusion

There are significant advantages in EU support, not least the financial capacity to tackle major structural issues. There are drawbacks to EU support; perhaps these are the price to pay for support. A careful evaluation should nevertheless take place if that price is worth it.

In conclusion Ireland have benefited as I think I have demonstrated, from European funds for afforestation and have achieved an acceleration in our planting programme that probably would not otherwise have taken place. However lessons can be learned from our experience. Priorities must be maintained. Land policies should, where possible, be harmonised instead of competing with each other. I hope that you have the opportunity to develop a programme that meets your objectives and that this presentation may be of some small help in your process.