COMMENT ON  
"Economics Principles for Forestry Investments"

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It is always difficult to discuss a review paper such as this since the principles cited represent the classics and have already undergone the rigors of time. It usually limits a discussion to an assessment of the completeness of the review. Let me thus preface my comments by saying that I am not a forest economist, but rather am trained in business finance.

The stated objective of the paper is to "review the economic principles relevant to forestry investments and propose some considerations for the application of these principles." To this extent, I feel the author has met his objective. The paper is a very concise review of the economic theory of choice which is familiar to us all. There is very little that I can offer as comments on the first seven pages of the paper. The graphs bring back memories of my graduate program in finance theory using the Fama and Miller text, The Theory of Finance. I might suggest that the author include in the references some mention of some of the other works which discuss and expand the theory of choice.

I do question whether the paper offers any significant new insights or understanding of the application of choice theory to the area of forestry investments. The major part of the paper contains material which is widely available in a variety of texts and is familiar to researchers in the area of forestry economics, business economics, finance, etc. I feel that this restatement of such well-known material might encounter difficulty in publication attempts. If the author could reduce the restatement by citing some of the literature and devote more attention to the unique problems of the forest industry which he mentions, I feel the paper would offer a greater contribution to the understanding of the investment process in the forest industry.

The author indicates that the current practice of using cash flows may lead to biased estimates since the acquisition of a forestry investment would lead to a reallocation of the asset structure but not a change in the equity value of a firm. The assumption is that the particular forestry investment is one of many alternatives in a mutually exclusive framework or at least this appears to be an implicit assumption on page 8. If this is the case, then the decision becomes a marginal or incremental analysis in the sense that one must compare cash flows from maintaining an existing asset versus investing in a new asset. In that sense, the incremental investment is relevant.

The second argument made by the author on page 8 concerns the recognition of the value of a forest at the time of sale. He indicates that these practices may lead to lower estimates of present worth. It seems to me from a business finance perspective that one might apply the
concepts of abandonment value to a forest investment. That is, while certainly forest land has economic value prior to maturity, one must consider their relevant investment horizon at the time of decision. If the forest matures in 20 years and the investment horizon is 20 years, then it would seem appropriate to use cash flows from the sale. However, if the horizon were unknown, then cash flow streams should be estimated based on various maturity scenarios. Basically, in business finance, the decision to abandon an asset is made when the present worth of holding the asset is less than the value to be received from current liquidation. It would seem that some of these principles might be applied to the industry.

For some final comments regarding the paper, I found it to refresh my knowledge of choice theory but feel that the author could have elaborated more on the forest industry applications which he suggests. As a minor note, the paper was easy to follow but certainly needs a little editorial work before submission for publication. As with all preliminary drafts, there remains work to be done.