



## Summary: Economics

Paul Brewbaker, Bank of Hawai'i

The first point is that unquestionably the market for koa wood products looks really good. To me, prices are no mystery; you have supply shrinking, demand growing. That's a natural for the current situation, for prices to be strong. For the near term prognosis? Anybody know where some koa forests are coming on-line? I don't, so I don't see the price dynamics changing in the near term. There's a danger. Will prices rise to a point of exclusivity? Where people just don't buy koa anymore, they can't afford to anymore? That would be a real shame. And then looking down the road away, the question is when and if future koa comes on-line, what would be the effect at that point on prices? I'm reminded of the 1981 tax reform, in which accelerated depreciation and investment tax credits all came on-line at the same time. Jim Nabors and a bunch of guys flew out to Hawai'i, planted a bunch of mac nut trees, and eight or ten years later their first harvests came on-line and crashed the macadamia nut market.

So, we have to be thinking of some of those dynamics. The solution, it seems to me, looking down the road again, is while the near-term focus, I think, rightly should be on production and understanding production and, concurrently, R&D to go with it. Eventually, we have to think about the marketing side, developing new markets, capitalizing on the emergence of consumer markets in a place like Asia, where attention to quality is something that's already a part of the consumer preference set, and also to capitalize on the Hawai'i brand-identity. I saw one of these chocolate macadamia nut boxes, the cheap chocolate with chunks of junky mac nut they can't sell, priced at \$9 a box. Every airport I go through, I look in the duty-free store and see how much their macadamia nut chocolates are: \$9 a box is the going rate for a box of chocolate mac nuts from Hawaii. My point is, brand identity sells. And if we can do it with junk mac nuts in chocolate, surely we can do it with the beautiful woods that we have.



Finally, we need to continue to pay attention to fine-tuning the tax and regulatory environment for forestry. It's not just forestry, it's the whole corporate culture, as we would say in the private sector, of government. Did you know it takes seventeen forms to teach a course at the University of Hawai'i for one semester? That's what you do to be a lecturer, fill out 17 forms, swear an oath of allegiance. I don't understand that, but it's the mindset. And it's changing. The administrators are on our side. These are the people who are advocates within the public sector for the kind of changes we seek. We need to work together now to get the legislative momentum in our direction as well. We need to pay attention to quantifying those non-market environmental benefits that a lot of today's discussion focused on and, maybe, on creating ways to capture, to allow producers, growers, and landowners to capture some of those benefits deriving from what they've produced for the community. And we need to continue to pay attention to capitalizing on forest production and restoration to achieve some of the cultural and educational objectives that have been raised today as well.

### Comments

**Mike Tulang:** Peter, do we have time to get people back together before the Governor's forestry conference?

**Peter Simmons:** This time of year it would be rough to get people back together. I look through the audience and I know most of the people here. I think we all do; maybe over the years we've become too familiar. As these issues come up, I think it's important to ask a second question. If you hear that there's something going on with Kamehameha Schools/Bishop Estate forest land that you are upset about, if you hear about a bill that you can't understand why anyone would be for, rather than showing up at the legislature to go beef it out and kill it, it would be a lot more productive to try to give that phone call, to reach out a little bit to people you know in the conference here or others. Perhaps, it might be some of the wildlife biologists who aren't heavily represented here that may not understand an issue of why we want to promote commercial koa forestry. If they come to the legislature, it'll be a problem. We need to be able to reach out in that kind of networking.

**Skip Cowell:** These two days have been very interesting to me. I've listened to speakers and to people talk-

ing back and forth, I've listened to [Cynthia Salley's] comments, and I agree with her wholeheartedly. When people have asked where they can find land, how they can do partnerships, they're turned down by the state. When we started our TREE project, we wanted to have a few acres to take children up and show them the forest. As we talked about this in our soil and water conservation district, more people became interested in what we were doing. One of the things we had to come to grips with is that there is no money from the state or local or federal government to make it happen.

We have a vehicle, the Tropical Forest Recovery Act. That's public law, it's supposed to happen, the Governor's supposed to appoint a place where this center will be to do the research on exactly what you're asking, and I haven't heard a lot about that here. That's public law. And every person on this island, lives within a soil conservation district. That's how we got going. There's 16 districts in the state. There are five directors from each district plus associate directors. Once you go ahead and join a group like that and you can start saying we have a plan, let's do something, there's a watershed out there. HACD is a partner with DLNR. We're supposed to working with them. So there's a natural conduit whereby you can go to a district and say let's plant trees. I don't know whether they're going to let you cut them down right now. If you stop and look at public sentiment, anybody that you talk to, do they believe that we need clean air or we need clean water? Of course they do. Why don't you champion the first cause that will get them to think that they need to work with you? Out of that comes the next step, to go ahead and put something together, to work with the private landowners. I'm sure that Bishop Estate would probably at some point lease some land. It's a good thought.

The other group of people we need to work with is HARC. Those are the research people that get paid for a project, then they shut down and move on to the next one. They don't just keep going along for years and years. We have the vehicle whereby we can do a lot of things, and if you can take advantage of it, a lot of these dreams can come true.

**Kathy Ewel:** I'd just like to add one factor to the economic equation and that's something we've hardly talked about, but it's certainly a product we ought thinking about, and that's the potential for ecotourism. For creating a forest that's a commercial forest in the sense that



it attracts and sustains people interested in seeing the different kinds of plants and animals that it holds.

**Mike Robinson:** I want to propose a possible economic model for the future. I've been to a couple conservation conferences, and I constantly hear the lament, "If we only had another \$10 million, we could protect this, or if we only had another \$6 million, we could do this." I remember doing some research as director of HFIA, that our very small industry pays something like \$7 million a year in taxes. It would be kind of nice to kick at least a part of that back into the forest where these guys make a living and perhaps help perpetuate not only their own livelihoods but acquire some of the environmental protection we all know we need, yet can't seem to afford.

**Michael Buck:** One part of my law says we're supposed to make the forest reserve self-sufficient, yet another part of my law says all income from the forest reserves goes back to the general fund. This year, again, we're going to try one more time to have a law that allows income from the sale of seedlings at the nursery and from the forest reserve to go back into the forest system for overall forest management, for creation of demonstration forests and environmental educational materials talking about sustainable forest management. Hopefully, people will show up, and we'll try to take at least the registration list from this conference and make sure people have a copy. Second, I was talking to Paul, and if he could get that mutual fund set up, I bet we could find some pieces of state land to actually use and maybe have some timber on it to start an asset right away. I think those type of things from a different sector of the community would really show some of the legislators that this is serious. I like the concept. I'm ready to enlist.

**Paul Brewbaker:** I'll just follow up with a little comment on the funding question. I think the boom is going to be lowered on the visitor industry, the tourism sector as it's called, which has pretty much been free-riding off the government gravy train for a long time in the way that the Visitor's Bureau is funded. The principal concern that's being raised within the government, over at DBEDT where they've been looking at this question, is why there isn't more cost-sharing of destination promotional expenditures that the state is largely bearing. The model that they're moving toward, which I think is perhaps appropriate for this industry, is some form of

collective giving. The way you structure that giving is important as well. Mike raised the question of the general fund versus the special fund set-up. Maybe one legislative proposal to float out there is to create special funding in which industry taxation of some form actually goes to funding research or development. That's the classic form of a special fund, a dedicated revenue source with funds dedicated only to specific uses. We use it for all other kinds of infrastructure investments, primarily in the transportation arena. It makes sense to do it in investments in the environment as well.

**Margarita Hopkins:** These two days have been fruitful, and it's very nice to interact with different experts from different aspects of this industry. There are so many frustrated people out there trying to sort out the different forms that they have to fill out. In order for us to be able to cut down on those forms, we at the County of Hawaii have been working very closely with DLNR and HFIA to come up with some idea of the type of forms they are requiring, so when they come to the counter we will be acknowledging or we will be accepting those forms, so they don't have to repeat it. We are very sensitive to that. In regards also to the comment regarding inviting legislators, it is a good idea, so they understand what this industry entails. You shouldn't stop there. Don't expect that what you need will happen. You still have to follow up. The reason why those things happened in the county was because HFIA had been working on those issues for quite some time, and following up. They just didn't let it go and wait for legislators to act, because they don't have as much knowledge and the ability to synthesize and come up with a policy.

**Q:** Could you broaden your definition of forestry to include orchard tree crops, whether it's macadamia nuts or oranges or apples, or other annually harvested projects?

**Peter Simmons:** When we were working on the Tropical Forestry Recovery Plan, I suggested this, and it wasn't the right time. I feel strongly that we have leadership, a variety of leadership within our industry, but one thing we lack is a way of expressing what we feel in our hearts. We know about the rare biology, the cultural aspects, the economy; everyone here knows what's in your heart. I think we need a challenge. We need to say in a loud, collective voice that we want to reforest 20,000 acres



with koa in our lifetimes. You might think this is a big challenge, but it's not a big challenge. We could do something of this order, but we just have to say that we're going to do it. Some of it's being done regardless. It's a leadership challenge to say that, by golly, one way or another, we don't know how we're going to get there today, but we're going to plant, or enrich, 20,000 acres of former koa land, and we're going to do it together. I don't know how we're going to send a letter like that to the governor that we're going to take on a challenge like that collectively throughout the Hawaiian Islands.

I think it takes that kind of a statement that we're going to do it. Then we go and find our way.

**Skip Cowell:** I think that what Peter said is a very, very good idea. If we go ahead and have one good thing come out of this, we're going to have a letter come from HFIA to the governor that we're going to put in 20,000 acres in the next 20 years.

**Mike Tulang:** All those in favor of the motion say aye. Okay, it's carried. Any opposing make for the door.