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**MARKET MECHANISMS AND CONSERVATION**

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## **MARKET MECHANISMS AND CONSERVATION**

### **Introduction**

Last December the New Zealand Business Roundtable (NZBR) released *Conservation Strategies for New Zealand*, a report undertaken by a Tasman Institute team led by Professor Peter Hartley. The book was commissioned for several reasons. The Department of Conservation (DOC) is a relatively large government department with a budget of \$185 million in 1997/98. The public conservation estate administered by DOC constitutes an enormous holding. Whether current organisational arrangements and policies represent the best approach to managing these resources is a perfectly proper subject of examination and debate.

This may seem a fairly obvious point, but one of my enduring impressions from this exercise is the hostility of DOC to outside scrutiny. The Business Roundtable deals with a wide range of government organisations as part of its normal operations. We routinely adopt an open approach and our interest is typically welcomed – after all, high quality research can yield new insights and ideas that the organisation can use to advantage. Not so with DOC. Its resistance to the exercise was persistent. DOC has a reputation for being unresponsive, inefficient and poorly managed, and its management refused to provide information to assist in benchmarking its performance. The Cave Creek tragedy seems to have taught DOC nothing about the concept of accountability. Many outside sources gave evidence to our consultants of DOC's arrogant and defensive culture. Fortunately, they received willing assistance from such sources, from DOC staff outside head office and from other government departments, and they were not unduly handicapped in their investigations.

Such a culture is typical of those running state monopolies. DOC represents the application of command and control mechanisms to around 30 percent of New Zealand's land area. We must really ask the question: what is so special about conservation? Command and control mechanisms have not had a great track record elsewhere. Indeed, the environmental record of the command economies has been poor, at times appalling. So why are command and control mechanisms uniquely suited to providing conservation services?

Over the past 15 years New Zealand has come to understand the benefits of applying market mechanisms to a large range of environmental problems. I would argue that those who promoted many of the radical reforms made in this country on both economic and environmental grounds have done far more to advance environmental goals than the environmental movement in general. The list ranges from the removal of subsidies for fertiliser, irrigation, land development and forestry, to market-related pricing and more efficient production of electricity and other energy products, to the individual transferable quota system for fishing. Currently there are proposals to manage roading on more commercial lines, including the use of congestion pricing, and to price and supply water on a similar basis. As on so many occasions in the past when environmental interests have been on the wrong side of the arguments, the Alliance Greens and others are resolutely opposed to the use of normal market mechanisms to allocate and price scarce resources like water.

In approaching the issue of conservation, it therefore seemed to us necessary to go back to first principles and ask some basic questions, such as:

- what are we trying to achieve with our conservation policies?
- how consistent are these objectives with the goals of other policies and how should conflict between these goals best be managed?
- what are the optimum ways of achieving the goals of conservation policy?
- how well do current policies and practices compare with the best possible approach? and
- what policy changes or recommendations flow from consideration of these questions?

We were well aware that this would be as controversial an exercise as it has proven to be. In this paper I cannot deal with all the criticisms that have been raised and will confine myself to two major issues, the legislative objectives of DOC and – the issue which fits most closely with the theme of this conference – the idea of using market mechanisms to finance national parks.

### **Objectives of the Department of Conservation**

A key weakness of conservation policy identified in the report is that the *Conservation Act* says the purpose of DOC is to preserve the 'intrinsic value' of the conservation estate. The report argues that this is not an operational goal and may even be meaningless. It certainly does not provide a rational basis on which to allocate resources in the department. In order to set its priorities, DOC needs a clear and measurable goal. A vague and unquantifiable goal also presents an insuperable barrier to accountability. You cannot hold a department accountable for failing to achieve a meaningless goal.

In its response to the report, DOC stated that the Conservation Act is not a resource allocation mechanism. This seems like a comment that is either irrelevant or false. The Act says that certain resources – the conservation estate and the operational costs of DOC – will be used for a certain purpose: the preservation of intrinsic conservation values. Now, if this is not about resource allocation at some level, one is puzzled to know what the Act can possibly mean. That the Act is not a mechanism in the way a market is a resource allocation mechanism is surely beside the point.

DOC then offers the following gem:

Most of the arguments about "intrinsic values" in the report are interesting but irrelevant, given the Department interprets "intrinsic values" to mean "existence values", a concept that the report seems to find acceptable.

How nice for DOC to be able to decide for itself what its legislative purpose is! Clearly, if this is the case, DOC can have no objection to the Conservation Act being amended to replace 'intrinsic values' with 'existence values' – the worth of an environmental asset to people simply from knowing it exists, even if they never see it. The comment would be more persuasive if DOC were engaged in measuring existence values – for example by contingent valuation surveys – and then comparing such values with its costs of operations to judge their effectiveness. However, DOC is not doing this. 'Existence values' which are not quantified are no better than 'intrinsic values' which are undefined. They impose no discipline on DOC and they add nothing to accountability.

But there is more. DOC goes on to say

Nor is there the direct relationship between this concept and accountability that the report assumes. Instead, we have a range of other legislative provisions, policies and other documents that give a much more concrete basis for decision-making and accountability. The report does not give the impression that the way our business is conducted is understood by the author.

In fact the researchers understand the matter all too well. They are concerned about how DOC's business *ought* to be conducted – on the basis of a primary Act that *is* followed, because it *can be* followed. There should be a single clear objective or, where there is more than one objective, the trade-offs between them should be clearly specified. Otherwise, any decision is as good as any other – to the great advantage of whatever politician, bureaucrat or interest group can capture the decision-making process. Consequently, it is natural for public sector bodies to prefer more objectives rather than fewer. To have a range of objectives, including a primary one subject to self-definition, must be close to bureaucratic bliss – but not, I suggest, comforting for the citizenry whose taxes are paying for this.

The recent moves to a greater customer focus within DOC in its latest strategic business plan are welcome. However, the department should eschew any attempt to set a goal of maximising some biological criteria. As an agent of the Crown, its goal should be to serve the people of New Zealand. It is they who pay for its activities, either directly, through taxes and charges, or indirectly, in resources not being made available for other uses.

Taking customer service seriously means having some way of gauging the actual preferences of the customers – which the price mechanism does very well. It works best when there is competition – when more than one body has the incentive to seek out new and better ways of doing things, identify the reactions of people to different services, explore innovative ways of deriving revenue, and so forth. The federal government in the United States is currently looking at many innovative ways of financing conservation activity – from corporate sponsorship to bond issues. Conservation is every bit important enough to warrant harnessing the power of personal choice, private ownership and competition as resource management techniques.

### **Financing national parks**

The second issue that I want to discuss is the controversial suggestion that entry fees should be charged for national parks. This is clearly regarded by many environmental and outdoor lobbies in New Zealand as an outrageous intrusion on some god-given right.

Again we need to ask the question: what is so very special about the conservation estate? The right of access to a national park does not imply the right to take from taxpayers any more than it implies the right to damage the park. We pay for things far more important to us like food, clothing, transport and housing, and for activities like going to a concert or a sporting event. Given the small part entrance fees pay in determining the overall cost of visiting conservation areas, it is impossible to argue that charging an entry fee would be a serious barrier. The cost of getting to and from a park is likely to be much greater than any entry fee – in the case of North Island visitors to the South Island or overseas visitors, very much greater.

Conservation minister Nick Smith has suggested that since we do not pay entry fees for city parks, it would be illogical to charge fees for national parks. The Nobel laureate Milton Friedman answered this question many years ago in *Capitalism and Freedom*. Explaining the fundamental difference between a city park and a National Park he said:

For the city park, is extremely difficult to identify the people who benefit from it and to charge them for the benefits which they receive. If there is a park in the middle of the city, the houses on all sides get the benefit of the open space, and the people who walk through it or by it also benefit. To maintain toll collectors at the gates or to impose annual charges per window overlooking the park would be very expensive and difficult. The entrances to a national park like Yellowstone, on the other hand, are few; most of the people who come stay for a considerable period of time and it is perfectly feasible to set up toll gates and collect admission charges. This is indeed now done, though the charges do not cover the whole costs. If the public wants this kind of an activity enough to pay for it, private enterprises will have every incentive to provide such parks. And, of course, there are many private enterprises of this nature now in existence. I cannot myself conjure up any neighborhood effects or important monopoly effects that would justify governmental activity in this area.

The distinction between city parks and national parks which the minister has difficulty understanding is drawn in practice in many locations around the world. The major US and African parks charge for entry. Indeed, a recent opinion poll in the United States conducted by the National Parks and Conservation Association found that 80 percent of respondents supported charging entry fees for national parks, provided the money raised was spent on the upkeep of the park. And, of course, if they were not used for the upkeep of the park, they would not be a user fee – they would be a tax. The US-based Friends of the Earth released a report last year, *Green Scissors 97*, which cited that poll and urged higher fees for entry and usage of national parks.

Friends of the Earth argued that it was an appropriate way to reduce the burden on taxpayers, to give park managers the right incentives to collect fees, to improve funding and maintenance of parks and to reduce environmental degradation. Such views are very different from the environmental socialism still characteristic of DOC and most New Zealand environmental groups – the Maruia Society being the most notable exception.

Free entry is a subsidy. The real resource costs of using national parks are then borne by taxpayers, through expenditure of public money, or other users, through degradation of the conservation experience. Those who do not go to the parks pay for those who do. And many of the payers are much worse off financially than many of the non-paying users – surveys have consistently shown that visitors are predominantly from above-average income groups. As is so often the case with government interventions, the implicit income transfers are from poor to rich.

The notion of charging for entry to wilderness areas would have seemed utterly daft to our predecessors in New Zealand. They were few, wilderness was everywhere. Scarcity of wilderness was not an issue; on the contrary, they judged there was too much of it. So they worked with a will, turning much of it into highly productive farmland.

But there are now far more of us, and far less wilderness. Scarcity of wilderness, and congestion of use, are now issues. As circumstances change, so must our actions. New Zealanders who use DOC facilities do not commonly argue against paying for them. New Zealand tourists are not offended at paying to visit national parks overseas. Nor would foreign tourists be horrified at returning the favour.

The reality of scarcity cannot be wished away – it can only be dealt with by the range of mechanisms available. The challenge is to choose the best mechanism. Again and again we find that prices are the best method for rationing scarce resources. This is not some perverse ideology or expression of greed as the minister of conservation suggested. The advantages of making more use of prices in the conservation setting are several:

- prices help gauge consumer preferences (much more accurately than other mechanisms such as surveys);
- consumers of services balance the benefits of using them against the costs;

- pricing curbs hidden cross-subsidies and therefore returns from lobbying activities;
- the deadweight costs of taxation are lowered;
- more revenue can be generated and resources directed to the production of whatever is being demanded.

Charging for access to public conservation areas also raises the market value of natural habitats. Private land owners (including Maori) will then have stronger incentives to supply conservation and recreational services – as at Tiritiri Matangi or Birdlands Sanctuary. At the moment, giving away publicly provided recreational services for free signals to private landowners that farming, harvesting or mining are the only things worth doing with their land.

Consider the main alternatives – rationing by queue or by politically determined rules. Queuing demands investment in time, an investment whose cost varies greatly from person to person. Our ability to devote time to queuing is not somehow more morally distributed than income. The time spent in queues is time wasted – it could be allocated to more productive or worthwhile pursuits. The opportunity to raise revenue is forgone with arrangements like the booking system which is proposed for the Abel Tasman National Park. Moreover, such arrangements are inconvenient for local residents who want to spontaneously seize the opportunity to walk at a weekend, or for those who wish to adjust the timing of a visit to weather conditions.

DOC is basically opposed to entry fees, partly on transactions cost grounds. This is a proper issue to raise and collection and enforcement costs will vary from park to park, and on a seasonal basis. However, DOC prefers to avoid an in-depth discussion of practicalities. It is odd that something which is eminently enforceable in South Africa, the United States and Australia is apparently felt by DOC to be beyond its capacities. Yosemite National Park has been levying visitor fees since 1913, Yellowstone since 1915. Kruger National Park in South Africa finds visitor fees of 15 rand for adults and 7.50 rand for children quite within its capacities. Or is DOC simply coming up with a convenient excuse to placate well funded and vocal environmental lobby groups?

It is perverse to deride suggestions that people should pay for the conservation resources they use, and then complain that conservation is underfunded by the political

system, and undervalued by private landowners. This is an indication of shallow posturing, not serious intellectual grappling with the issues.

The obvious place to start would be to introduce an access charge for foreign tourists, with perhaps a lower charge for New Zealand residents. At the same time, hut fees should be set at levels which cover the full cost of the facilities provided. Foreigners are accustomed to such charges – hut fees are US\$50 a night on parts of the Appalachian Trail, for example. Foreigners now account for around two thirds of the visitors on some of the Great Walks, and the number will grow as tourism increases. It would not be difficult to identify foreign and New Zealand visitors by requiring a passport, driving licence, credit card, community services card or some other means of documentation to be provided on entry into the park or, in the absence of any identification, within, say, two weeks of a visit. The idea that non-payers could be fined was ridiculed by some environmentalists, but in fact large fines are already applicable, for example up to \$500 on the Milford, Routeburn and Kepler tracks for people camping overnight outside specified areas. DOC itself agrees that large fines could overcome most of the practical problems of charging for access. Priority in introducing such policies would be given to parks and walks where usage and the practicalities of collection justified the collection and enforcement costs.

In a juvenile response to the report, the minister of conservation rejected out of hand even the idea of charging foreign visitors. His extraordinary logic was that carrying passports was unacceptable, whereas most foreigners require one to enter New Zealand, and that overseas visitors pay GST, but they do so on local purchases regardless of whether they use park services or not. Other reactions differed. As one letter to us put it: "I heartily agree with the idea ... that we should stop paying a subsidy to foreign visitors who wish to see our natural heritage." Such a move seems unlikely in Dr Smith's term of office unless some of his colleagues insist on pragmatism instead of ideology, but the chances that the present policy will survive for many more years seem slim indeed.

## **Conclusion**

One of the key ideas of *Conservation Strategies for New Zealand* is that conservation is amenable to the powerful decision-making attributes of market mechanisms in which people without political contacts and influence can exercise their own choices, and that political decision making should be minimised wherever possible. As John Craig, a

professor of environmental management at the University of Auckland, said in a comment on the book:

[It is] desperately important that conservation is put into the normal practice of New Zealand society rather than being seen as something like government welfare which is where it sits at the moment.

About the same time as the book appeared, the Industry Commission in Australia published in draft form a major report *A Full Repairing Lease: Inquiry into Ecologically Sustainable Land Management*. It argues for improvements in the markets for natural resources – especially those for surface and ground water, farm forestry, native vegetation and native flora and fauna. More specifically in the present context, it advocates the expansion of nature conservation on private land through a system of incentives, the removal of obstacles and the promotion of joint ventures between public and private organisations and landowners. The report strongly endorses the promotion of diversification and recognises the need to guarantee the right to harvest privately planted native forests – a right that is uncertain in New Zealand. It also recommends lifting export controls on wildlife where an appropriate management system or code of practice has been put in place – in recognition of the simple truth that valuable animals do not become extinct. As Owen McShane has observed, the prevailing ideology in New Zealand is that it is immoral to make money from trade in indigenous species – another issue discussed in the Tasman Institute report.

It is true that conservation assets have qualities that are very particular. Ecosystems are elaborate, and build up over centuries and millennia. Ecosystems also require certain critical sizes. But none of these things precludes the use of normal market mechanisms to provide conservation assets. As various volunteer and other private initiatives have shown, with proper care, even highly decayed ecosystems can be regenerated. Nor has public ownership had anything close to a satisfactory record in this regard. And one of the major flaws of free provision of national parks is that it undermines incentives to engage in private provision of conservation.

The question we should be asking is: what is the best means of promoting conservation and proper resource use? The best answer will be some mix of government action, private commercial activity and voluntary activity. What we should be concerned about is getting the mix right, not declaring certain options out of the question or inherently wrong.

