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## **Public Excluded**

## **Report PE-01.772**

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Report to Wellington Regional Council  
from Barry Leonard, Plantation Forestry Manager

## **Contract No. 1203 : 2001 – 2005 Log Harvest**

### **1. Purpose**

To advise Councillors the results of the tender selection process for the above Contract.

### **2. Exclusion of the Public**

Grounds for exclusion of the public under section 48(1) of the Local Government Information and Meetings Act 1987:

*That the public conduct of the whole or relevant part of proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist, i.e.; to allow the carrying out of, without prejudice or disadvantage, commercial activities.*

The “net income to WRC”, which was calculated by Council officers, may be made public.

### **3. Background**

The next area for harvest, on completion of the Pakuratahi East Forest, is a number of mature blocks located in Puketiro, Valley View and Pakuratahi West Forests. Given the need to balance the contract term and the costs involved in retendering with the desire to have competition for the right to harvest and market the timber, it was decided to opt for a four year Contract term. In coming to this decision, cognisance was given to the increasing demand for harvest crews and the advantages that would accrue from retaining the experienced crews used previously.

Access from Puketiro Forest was known to be a potential problem, with the only options being through Battle Hill to Paekakariki Hill Road, or via Bulls Run Road and Moonshine Roads to State Highway 58. These and other options were considered in Report PE-99.582, with the favoured option being a route through land owned by the Rallywoods Partnership which enabled access to the road network in Valley View Forest to exit at Totara Park. Council approved this proposal at that time, and in the interim, two bridges have been constructed and 22 km of road upgraded, in preparation of the harvest.

This access route will be available for the full harvest of the Puketiro Forest.

The blocks included in the tender were:

<b>Year to be Harvested</b>	<b>Forest</b>	<b>Block</b>	<b>Block No.</b>	<b>Year Planted</b>	<b>Area (ha)</b>
2001/02	Puketiro	MOT 73	7/02	1973	14.9
2001/03	Puketiro	MOT 74	7/01	1974	66.4
2002/03	Puketiro	Harris North	8/01	1975	20.0
2002/03	Puketiro	Harris South	8/02	1975	99.5
2003/04	Puketiro	Blow Fly	1/01	1976	65.3
2004/05	Valley View	Reservoir Rdg	3/03	1976	33.0
2004/05	Pakuratahi W	Martins	6/01	1976	20.7
2004/05	Puketiro	Kaika Mako	4/01	1976	30.8
2004/05	Valley View	Castle Ridge	3/01	1976	2.6
2004/05	Valley View	Reservoir Rdg	3/02 & 3/04	1976	32.2

#### 4. **The Tender Process**

In May of this year bids for a four year harvest contract were invited from ten organisations, including the major players, Rayonier New Zealand (RNZ), Fletcher Challenge (FCF), and Carter Holt Harvey (CHH). The tender parameters were broadly scoped to allow the maximum freedom to bidders to structure their tender in the manner best suited to them. This process was adopted after criticism was received in an earlier tender round that the structure of the tender documents was such that only a major player could win.

The tender specified that in coming to a decision the following factors of the bid would be considered:

- The harvest methodology. A detailed harvest plan for year 1 of the Contract was to be submitted with the bid.
- Evidence of experience with logging other areas where there was a high level of recreational activity was to be submitted.
- Current prices for the predominant grades to be produced and the arrangements for price adjustments.

- Harvest costs and cartage costs to proposed destinations and the arrangement for price variations.
- Detail of the proposed harvesting personnel, including an outline of their experience and qualifications.
- Detail of the proposed “audit” procedure, to ensure that all product is correctly despatched and documented.
- The terms and conditions of payment of the net proceeds of sale to WRC, including any arrangements to “protect” monies due to WRC.
- Arrangements for tracking and skid construction, including indicative prices and/or unit costs and agreed variation procedures.
- Any costs relating to the harvest to be met by WRC.

Bids were received from RNZ and FCF.

A letter was received from Bawden & Associates declining to bid in terms of the request for tender but offering to negotiate an agreement. This was treated as a non-complying bid and was not considered further.

## 5. Tender Analysis

Both companies met the quality and experience criteria set out in the request for tender documentation, so emphasis was on the estimated net return to WRC.

Current Prices: Only RNZ submitted a list of prices by grade, so no comparison was possible of this aspect of the bids.

Gross and Net return by block: Although only a one year output plan was sought, both companies submitted two year plans.

<b>Block</b>	<b>Gross (\$)</b>	<b>Net (\$)</b>
MOT 73 (14.9ha)		
FCF	565,928	218,041
RNZ	335,985	102,204
MOT 74 (66.4ha)		
FCF	1,468,048	493,087
RNZ	2,610,377	1,033,197
HARRIS Nth. (20ha)		
FCF	266,963	35,369
RNZ	274,199	80,858
HARRIS Sth (99.5ha)		
FCF	2,751,444	1,282,571
RNZ	2,943,883	1,249,639
<b>TOTAL (200.8ha)</b>		
<b>FCF</b>	<b>5,052,383</b>	<b>2,029,068</b>
<b>RNZ</b>	<b>6,164,443</b>	<b>2,466,896</b>

Margin in favour of RNZ \$437,828

### Harvest and Cartage Costs

Block	Cartage (\$)	Harvest (\$)
MOT 73 (14.9ha)		
FCF	15.58	31.87
RNZ	13.87	25.00 – 28.00
MOT 74 (66.4ha)		
FCF	13.36	30.05
RNZ	13.92	25.00
HARRIS Nth. (20ha)		
FCF	13.24	34.69
RNZ	14.63	25.00
HARRIS Sth (99.5ha)		
FCF	17.32	28.57
RNZ	14.76	25.00

### Recoverable Volume by Grade

The volumes by grade recovered from each block were compared with the estimates from the Council's forest valuer, Alan Bell & Associates (ACB).

MOT 73	14.9	P1	P2	S1/S2	K	L	Pulp	Total
ACB		715	760	313	358	2,786	2,086	7,018
FCF		1,082	352	417	3,361	0	1,481	6,693
RNZ		497	0	469	1,633	1,093	1,476	5,168
MOT 74	66.4	P1	P2	S1/S2	K	L	Pulp	Total
ACB		2,656	1,527	1,328	1,461	9,628	11,222	27,822
FCF		1,309	1,751	1,353	9,216	0	6,753	20,382
RNZ		5,644	0	2,390	9,362	10,093	6,839	34,328
Harris Nth	20	P1	P2	S1/S2	K	L	Pulp	Total
ACB		480	180	100	60	880	4,120	5,820
FCF		284	266	98	1,196	0	2,486	4,330
RNZ		500	0	120	1,340	300	2,720	4,980
Harris Sth	99.5	P1	P2	S1/S2	K	L	Pulp	Total
ACB		9,055	2,786	2,886	2,090	13,433	13,035	43,283
FCF		6,696	1,402	1,989	11,970	0	7,404	29,461
RNZ		8,209	0	3,264	10,286	6,725	7,418	35,902
<b>Total</b>	<b>200.8</b>	<b>P1</b>	<b>P2</b>	<b>S1/S2</b>	<b>K</b>	<b>L</b>	<b>Pulp</b>	<b>Total</b>
<b>ACB</b>		<b>12,906</b>	<b>5,253</b>	<b>4,626</b>	<b>3,968</b>	<b>26,727</b>	<b>30,462</b>	<b>83,942</b>
<b>FCF</b>		<b>9,371</b>	<b>3,772</b>	<b>3,857</b>	<b>25,743</b>	<b>0</b>	<b>18,124</b>	<b>60,866</b>
<b>RNZ</b>		<b>14,850</b>	<b>0</b>	<b>6,243</b>	<b>22,621</b>	<b>18,211</b>	<b>18,453</b>	<b>80,378</b>

RNZ anticipated recovering 95.75 percent of the volume assessed by Alan Bell and Associates while FCF only anticipated a recovery of 72.5 percent. In order to make valid comparisons of monetary return to Council, both bids were recalculated using ACB volumes and grades.

## **Commissions**

FCF sought 4 percent of wood sale value, except for bundled pulp which was a fixed price with any variation being met or retained by FCF. The average commission on the figures supplied was 5.8 percent. This equated to \$275,626 over the first two years.

Rayonier New Zealand Limited sought \$4/tonne plus 8 percent of net royalty. This equated to \$566,419 over the first two years.

Although the RNZ commission rate was considerably higher they still produced a better net return to Council by recovering the difference in other costs. The RNZ offer returned an additional \$437,000 to Council over the first two years.

On the basis of this analysis it was decided to enter into negotiations with RNZ to clarify a number of matters in their bid and to attempt to negotiate a reduction in the commission rate.

A commission rate of “Greater of \$5/tonne or 10% net stumpage” was subsequently agreed with RNZ. This had the effect of increasing Council’s returns by a further \$74,000 over the first two years.

## **6. Agreed Contract Conditions**

In summary, the Contract agreed with RNZ included the following provisions.

- RNZ would manage the harvest and sale of the logs from the nominated blocks.
- RNZ would employ and control all staff required for the harvest including the responsibility as the “Principal” for health and safety matters.
- Operations will be restricted to weekdays, unless special arrangements are made to cater for weekend recreational activities.
- RNZ will “own” the trees off the stump.
- RNZ will underwrite the proceed of sales to domestic mills.
- RNZ will arrange and supervise road and track construction within each block.
- Costs are fixed for the first two years, except for fuel costs and Government charges.
- RNZ responsible for ‘audit’ trail for felled logs, to ensure all loads can be tracked from the forest to the payment schedules.
- RNZ and subcontractors must hold sufficient insurance.
- Contractors available for firefighting if required.
- RNZ to abide by the Forest Accord and demonstrate “best industry practice”

The negotiations with Rayonier have been protracted, however, we were finally in a position to sign the contract last week.

Our judgement was that the contract needed to be signed as soon as possible so work could begin in the Puketiro Forest.

## 7. **Estimated Return From the Harvest**

The overall Contract returns are difficult to estimate, as the result will depend on the following factors :

Tree stocking

Log grades

Market prices

Cost variations

Opportunities for Export

Conversion factors for export

The officers' estimate of income after harvest costs, but before roading costs, are:

Year 1	\$1,107,310
Year 2	\$1,301,920
Year 3	\$1,032,537
Year 4	\$2,291,182

## 8. **Implications for Recreation**

In order to minimise the effect on recreational access to the area being harvested, the following principles have been agreed with Landcare.

- Ongoing liaison between Plantation Forestry staff and the Ranger Battle Hill.
- The blocks being harvested will be closed to the public for the period they are being harvested.
- Recreational access will continue as usual for weekends and during the Christmas close down of the sawmills.
- Logging truck movements will not be permitted on weekends without special arrangements.
- Forestry will ensure there is no disruption to major events such as the "Karapoti Classic".

- Walkers and bikers who do not require permits will be controlled by signs.
- An alternative route to replace the eastern section of the Battle Hill loop track will be constructed should the present track be required for truck access.

## 9. **Communications**

A media statement will be released at an early date.

## 10. **Recommendation**

*That the Council:*

- (1) *note that a Contract has been signed with Rayonier New Zealand Ltd for the harvest of mature blocks of forest in the Puketiro, Pakuratahi West and Valley View Forests.*
- (2) *endorse the action taken.*

Report Prepared by:

Approved for Submission by:

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