



caring about you & your environment

Report PE 02.692

5 November 2002

File: Y/3/2/0

Report to the Rural Services and Wairarapa Committee
from Tom Ward, Senior Conservation Forester, Wairarapa

Reserve Forests Review for the Year to 30 June 2002

1. Purpose

To inform the Committee of the performance of the Reserve Forest's business unit for the 2001/02 year.

2. Exclusion of the Public

Grounds for exclusion of the public under section 7(2)(h) of the Local Government Official Information and Meetings Act 1987 are:

That the public conduct of the whole or relevant part of the 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 commercial activities and to enable negotiations, without prejudice or disadvantage.

3. Financial Performance

The operating deficit for the year was \$573,000. This was \$346,000 worse than budget because of significantly reduced logging revenue. We were not able to secure road access into the Tauanui Reserve and only poor quality trees were available to be harvested from the last remaining areas of the Hiwinui Reserve.

The operating deficit excludes \$470,000 of capitalised silviculture costs. Total debt increased by \$1,040,000, or 19%, to \$6,508,000, as all deficits are debt funded under current policy. The budgeted \$75,000 dividend distribution was not required by Council.

A copy of the 2001/02 financial statement for the Business Unit is attached.

4. Forest Revaluation

The forest valuation at 30 June 2002 was \$11,580,000, a decrease of \$339,000, or 2.8%, on the previous year's valuation of \$11,991,000. The valuation included consideration for the first time of Marvl inventory assessments for the young Hiwinui stands. These decreased the valuation by \$890,000, or 7.5%, as a result of revised yields, as shown below:

Factor	Valuation Change \$million	Valuation Change %
Growth of trees	+0.926	+7.8
Yield revision at Hiwinui	-0.890	-7.5
Change in log prices	+0.131	+1.1
Clearfelling at Hiwinui	-0.389	-3.3
Increased log cost	-0.117	-1.0
Overall Change	-0.339	-2.8

Further Marvl assessments for the Hiwinui and Tauanui Reserves will be undertaken in 2003/04 to verify yields and gain information for future marketing and harvest performance monitoring.

The forests are in good health. The independent valuer has confirmed the quality control and silviculture supervision regimes have been intensive and effective, and the records validate this.

5. Harvesting

A total of 11,000 tonnes was logged from the Hiwinui Reserve, yielding a gross return of \$631,000 and a net return of \$200,000, or \$18 per tonne. The full year budget of net \$550,000 (20,000 tonnes) was not achieved because of the previously mentioned Tauanui Reserve road access problems. Negotiations for this access to the land locked Tauanui Reserve have been long and complicated. They have involved negotiations with regard to two large farm properties and nine blocks of Maori land. At present negotiations are constructive and we are hopeful that Tauanui logging will commence before the end of the 2002/03 financial year.

6. Replanting

A condition of the harvesting resource consent requires us to replant in woody vegetation within 18 months of harvest because of the steepness and/or erosion proneness of the land. Pinus Radiata quickly, cheaply and effectively provides the required protection and erosion control which are the primary reason for being of these forests in the first place. Current seedling grades and management regimes will generate significantly improved returns from the second rotation.

Riparian zones will be created up to two tree lengths from streams using species such as tree lucerne as a food source for birds and a nurse crop for native regeneration.

7. Silviculture

554 hectares of pruning and 540 hectares of thinning were satisfactorily completed to specification and verified by 2% quality control plotting prior to payment authorisation. A record of the work completed, plot data and tree measurements have been stored in the Forest Vision stand record database.

The bulk of the large Stoney Creek silviculture programme will be completed during 2002/03 with 300 – 400 hectares of pruning and thinning required this year. The following year will be a final tidy up of some exposed and slow growth areas.

8. Market Comment

At June 2002 log prices were as high as they were in June 1998 for most grades of logs. The export market has appeared to show rises over the last few months, but when the effect of the weakening \$NZ is taken into consideration, it is in fact static. The Asian markets (except for Japan) and Australia are continuing to look positive. The USA market needs careful management to preserve prices. The domestic market continues to be under supplied as a result of poor weather conditions limiting access and an unwillingness to meet export prices.

The short-term future looks similar to the above with as yet unrealised potential markets in China. The Jim Anderton sponsored Wood Processing Strategy is gathering momentum towards a raft of ambitious targets for the forest industry over the next 25 years. These targets include forestry becoming New Zealand's No.1 export earner by 2005, and a further \$3 billion invested in timber processing by 2010.

9. Future Management

Currently, the primary focus is on securing legal access to Tauanui in preparation for development of roading access so that harvest can commence in this forest. Roading is anticipated to be relatively straightforward once the legal arrangements are made. Fords will be required through a tight gorge section of the Tauanui River and while not ideal, the three fords on the proposed route will be better than the current 11. Logging of some mature woodlots within Stoney Creek are dependent on contractor availability, suitable markets and weather conditions.

Strategies to improve the financial position and reduce annual debt financing costs, include:

- Gaining the Tauanui access and maintaining an annual harvest of at least 20,000 tonnes for several years
- Completing the Stoney Creek silviculture program by the end of 2003/04
- Non replacement of Field Assistant Mike Sullivan who left some months ago
- Having Council consider a general rate contribution for public good expenditure.

10. Recommendation

- (1) *That the report be received and the information noted.*
- (2) *That the replanting of harvested areas in the winter immediately following harvesting be approved.*

Report prepared by:

Approved for submission by:

TOM WARD
Senior Conservation Forester

IAN GUNN
Manager, Operations

COLIN WRIGHT
Divisional Manager, Wairarapa