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Committee Rural Services and Wairarapa
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Reserve Forests Review for the Year to 30 June 2003

1. Purpose

To inform the Committee of the performance of the Reserve Forests Business Unit for the 2002/03 year.

2. Background

The Reserves Forest Business Unit manages the plantings on the soil conservation reserves at Tauanui, Hiwinui and Stoney Creek in the Wairarapa. The total land area in these reserves is 3287 hectares and 1806 hectares is planted in *Pinus Radiata*. The primary focus is on soil conservation as that is the reason for the reserves and the plantings. However, every effort is being made to generate income from harvesting of the plantings without unnecessarily compromising the soil conservation focus.

There is no rate money spent on the forestry plantings. Consequently the net costs are being debt funded from loans each year, as income is from the harvesting of mature trees and that is somewhat limited until about 2014.

3. Financial Performance

The financial health of the business unit has deteriorated in the past year. Total debt increased by \$1,296,000, or 20%, to \$7,804,000, which equates to 61% of the assets valuation. The operating deficit for the year was \$810,000. This was \$237,000 greater than the previous year as logging at Tauanui did not proceed because of ongoing difficulties in obtaining roading access to this land locked block. The operating deficit excludes \$326,000 of capitalised silviculture costs and \$163,000 of road development costs. The budgeted \$75,000 dividend was not paid to Council.

The 2002/03 financial statement for the Business Unit is attached.

4. Forest Revaluation

The forest valuation at 30 June 2003 was \$9,394,000, a decrease of \$2,186,000, or 19%, on the previous year's valuation of \$11,580,000. However, the valuation basis was changed this year to exclude land from the value of the trees (forest crop) as shown below. The valuation of the trees now includes a land rental.

Factor	Valuation Change \$million	Valuation Change %
Growth of trees	+1.37	+12
Land In Land Out formula	-2.26	- 20
Change in log prices	-0.50	-4
Increased o'head/sales cost	-0.80	-7
Overall Change	-2.19	-19

5. Land Revaluation

The land valuation at 30 June 2003 was \$3,471,000, an increase of \$2,031,000 over the previous valuation. Forest roads and tracks are incorporated in the land value.

6. Harvesting

Logging during the year was limited to 2,400 tonnes from remnants at Hiwinui and an old soil conservation woodlot at Stoney Creek. This generated a net revenue of \$59,000 or \$24.58 per tonne. Tauanui logging is planned to start in October 2003 subject to the South Wairarapa District Council completing roading improvement in the area. The full year logging target for 2003/04 is for 10,000 tonnes, largely from road line clearing.

7. Replanting

A condition of the harvesting resource consent requires replanting 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. Current seedling grades and management regimes will generate significantly improved returns from a 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.

8. Silviculture

247 hectares of pruning and 438 hectares of thinning were completed during the year to specification and verified by 2% quality control plotting prior to payment authorisation. The forests are in good health and quality control and silviculture supervision regimes have been intensively maintained.

The bulk of the large Stoney Creek silviculture programme was completed during the 2002/03 year with just 100 hectares of pruning and 250 hectares of thinning required this year. The following year will be a final tidy up of some exposed and slow growth areas.

9. Market Comment

At June 2003 log prices were about 4% lower than at the same time last year. Export markets have been depressed as a result of high NZ \$ values and shipping costs making NZ logs unattractive to buyers. Pruned logs have been depressed due to lack of demand from the USA. However, the domestic market for high quality sawlog has remained satisfactory with prices at the same level as last year.

The short-term future looks similar with projections of some improvements in export markets.

10. Future Management

Currently, the primary focus is on preparing Tauanui for harvesting and completing the residual Stoney Creek silviculture as growth permits.

Harvesting at Tauanui will be underway for the next 5 to 10 years depending upon the volumes extracted each year. Harvesting of fully tended blocks at Hiwinui is scheduled to begin about 2014. Silviculture requirements in the next decade will be limited to those areas replanted once the Stoney Creek silviculture is completed in 2004.05.

11. 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.*

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