

## LETTERS TO THE EDITOR

## DOUGLAS FIR PROFITABILITY

Sir

I regret I have to report a consistent error in the computerised calculations on which the series of forest profitability papers are based. The capitalisation calculation used did not allow for the appropriate amount in the year of origin. The net effect is to understate both costs, and more particularly, returns. The effects for the paper "Douglas fir profitability" Vol. 6(1): 80-100 calculated at interest rates around the internal rate of return (IRR), are:

|                           | Interest rate %                             |       |      |   |
|---------------------------|---|-------|------|---|
|                           | 5   | 6     | 7    |   |
| Increase in total cost    | \$5.11                                      | 3.67  | 2.74 | \$ Land Expectation Value Equivalent (L.E.V.) |
|                           | %1.5  | 1.4   | 1.3  |   |
| Increase in total returns | \$21.64                                     | 13.34 | 8.31 | \$ L.E.V. Equivalents                         |
|                           | %4.9  | 5.9   | 6.9  |   |
| New L.E.V.                | +129  | -6    | -6.3 | \$ per ha                                     |
| I.R.R. old                | 5.8% cf. new 5.9 % (including social items) |       |      |   |

At the other extreme, the "Export Log Afforestation Profitability 1973" Vol. 5(3): 323-46, results are now:

|                           | Interest rate %                              |       |       |           |
|---------------------------|--|-------|-------|-----------|
|                           | 13   | 14    | 15    |           |
| Increase in total cost    | \$5.53                                       | 4.87  | 4.33  | \$ L.E.V. |
|                           | %3.8   | 3.8   | 3.7   |           |
| Increase in total returns | \$20.80                                      | 16.95 | 13.77 | \$ L.E.V. |
|                           | %12.9  | 13.9  | 14.9  |           |
| New L.E.V.                | +36  | +8.3  | -12   | \$ per ha |
| I.R.R. old                | 13.7% cf. new 14.3% (including social items) |       |       |           |

The net effect is to increase the calculated profitability, and the higher the original I.R.R., the greater this effect will be. The relative ranking of the projects evaluated are unlikely to be changed by these corrections. The absolute results are, inevitably, now largely of historical interest in any case (e.g. as yield projections for *Pinus radiata* are presumably, now being modified).

I am very grateful to R. K. Grant for finding this error.

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