Contractual Relationships in the Logging Business...
- Consulting Foresters and Landowners...
- Loggers and Forest Product Companies...
- Wood Dealers and Forest Product Companies...
- Forest Product Companies and Landowners...
- Forest Product Companies and other Forest Product Companies...
- The Government and Forest Product Companies and Loggers...

What’s so important about a contract???
- What is the value of a timber sale?
- How often does the landowner do business with the logger? With the Forest Products Company? With the Consultant?
- What recourse does the landowner have if the logger or the forest products company create problems? What if the landowner causes problems?
- Legal issues, or potential issues, often arise. How would they be resolved without a contract?

Timber Supply and the Mill
- Forest products companies constantly work to maintain flow of wood into mill.
- Wood supply is controlled by a large number of landowners holding small acreages (“the non-industrial private landowner” or NIPF landowner) and a few larger companies who have access to substantial acreage as investments.
- Forest products companies rely on those landowners to supply stumpage.
- Forest products companies also rely on contracted logging and trucking to acquire the wood for the mill.

The Value of Raw Material to a Forest Products Company
- Final product value is affected by at least four components:
  - Stumpage Costs (SC)
  - Logging and Transport Costs (LTC)
  - Milling/Manufacturing Costs (MMC)
  - Minimum Acceptable Profit (Profit)

The Relationship Defining Product Value
- Most FPC’s know the price they can get for their manufactured product. So, the following limit applies to the component costs:
  \[ \text{FPV}($) > \text{SC} + \text{LTC} + \text{MMC} + \text{Profit} \]
- What does this relationship mean to the Forest Products Company? What does the company control and not control? How is product value set?

Buying and Selling Timber
- Relationship of standing timber to final product...
- Stumpage value depends on various factors...
- Who buys timber?
- Relationship of Contract Logger to Seller and Purchaser...
- How is timber sold?

Variables to Consider When Negotiating a Contract Rate
- Terrain - slope, drainage, soil features, obstacles...
- Tree Characteristics - average size, defect, limbiness, lean.
- Stand Characteristics - density, species mix, volume per acre...
- Timber Markets - availability, price per unit, distance...
- Logging Quotas - existing or potential limits
- Tract Size - large or small?
- Tract Location - adjacency and distance

Sale Types Involving the Landowner and the Forest Products Company or Others...
- Bid Sales
- Negotiated Sales
- Contracts with a logger
- Management Agreements
- Merchandising Option

Bid Sales on Timber
- Timber sold on open market - Fair market value
- Best option is Bid or Lump Sum Sale – Some say the return is 40 percent higher than that from other types of sales...
- Forest products company, through the wood procurement forester, does most of the work.
- Landowner defines what goes, where the tract is located, and other factors of concern.
Bid Sale (cont’d.)
- Landowner usually hires a consulting forester to develop a prospectus and conduct sale (See handout).
- Wood procurement forester cruises the timber, values the estimated volumes and products, and develops bid.
- Bids are typically given to landowner or representative prior to a specific deadline and opened for review in front of bidders.
- Landowner has the right to refuse any and all bids - Very important!

Bid Sales (cont’d.)
- Once the bid is accepted, the sale is legalized with a...
- Different companies will bid a sale at different amounts - Why?
- “Leaving money on the table” - A common phrase when bidding timber sales...
- A wood procurement forester lives and dies by the amount of timber brought in to the mill and the cost of that timber!

Negotiated Sales
- Any sale where the landowner (or his/her agent) negotiates with a forest products company representative (or others - list), rather than put the timber on the open market...
- Typically, the negotiations are initiated by the buyer and are often unstructured.
- Sale can be lump-sum or “per unit of volume” based.
- Companies prefer to purchase timber using a lump-sum negotiated sale – any idea as to why?

Harvest-based Sales
- A form of the negotiated sale based on volume removed...
- Where company and landowner agree on a price per unit for harvested products prior to harvest.
- Timber is harvested and exact tallies are made of the volume harvested by product.
- Landowner is paid for only the volumes harvested.
- What’s wrong with this approach? Are there advantages to this type of sale?

Landowner - Logger Contracts
- Less Common than other types of sales
- Landowner and logger split revenue - Some percentage of gross sale amount
- Pitfalls?
  - What comes off the site?
  - Is the wood merchandised effectively?
  - Does the landowner profit over other approaches?

Management Agreements
- Some large landholdings are owned by investors who have no knowledge of forestry - Forest products companies work with these landowners to a common advantage - Profits and good management for landowner and continuous supply of wood for the company...
- CFM Program previously operated by Westvaco

Merchandizing Option
- Contract with logger to harvest and merchandise the logs based on commonly accepted log dimensions.
- Focus on merchandizing for highest value.
- Sold by the landowner as logs to the highest bidder.
- Requires adequate knowledge of logging, log merchandizing, and the forest products market.

Contracts Between the Logger and the Forest Products Company
- Can be long-term or short-term
- Contract defines the price of wood delivered to the mill.
- Typically negotiated on a tract-by-tract basis.
- Variables

The Timber Sale Contract
- Description of the land, the boundaries, and a guarantee of the title.
- Specifies the amount of timber to be harvested, and the manner, time, and method of payment.
- Describes the timber being sold, its location, and the marking method used.
- Describes the logging method(s), utilization standards, and merchantability.
- Includes a map of the tract.
- Specifies the location of roads, landings, and skid trails.
- Specifies the treatments to these areas after harvest (BMP's).
The Contract (cont’d.)

- Specifies the time period of the contract
- Specifies the limit of acceptable damage on partial harvests
- Specifies damage amount when unmarked or protected trees are harvested
- Assigns liability for losses from workers' comp claims, liability lawsuits, or property damage claims
- Requires the use of BMP’s and that the buyer abide by all federal, state, and local regulations
- Requires written consent of the landowner before another logger can be assigned to the harvest