

### Contractual Relationships in the Logging Business...

- Consulting Foresters and Landowners...
- Loggers and Forest Product Companies...
- Loggers and Wood Dealers...
- 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:  
$$FPV(\$) \geq SC + LTC + MMC + Profit$$
- 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 hand-out).
- 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 unsolicited.
- 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 merchandize 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