Farm Forestry

How to Sell My Wood

Technical Information Sheet No. 23 Level 2

The opportunities for selling current or future forest produce are many and varied and reflect a mature market. Opportunities now exist to lease land for forest purposes where the landowner has limited or no equity in the final crop – a least risk, least involvement option.

The sales opportunities reflect a certain level of risk that reflects the value of the return. Contracts, which pre-sell a final crop, are low risk and usually involve a joint venture with a future purchaser. Whereas selling direct to some current or unknown future purchaser is a higher risk option.

Basic Steps in Selling

The following points made by Ross Henderson, Executive of FARMWOOD and manager of the NorthWest Tree Growers Cooperative, highlight the complexities of arranging even the most straight forward sale.

- Negotiate with buyers to agreement on Quality Quantity, Price and timing of deliveries,
- Inspect forest, estimate quantities, returns, Forest Practices issues, required infrastructure and reforestation,
- Agree on sales terms, type of agreement and finalise,
- Prepare the Timber Harvesting Plan (a legal requirement of the Forest Practices Act 1985)
- Arrange a contractor and a contract with agreed rates,
- Harvest, deliver and supervise,
- Follow up reforestation. [1]

If this is done through FARMWOOD (the trading arm of the cooperatives) or one of the major companies, most of this work will be done on your behalf. A consultant forester could also be engaged or the grower could undertake part or all of the arrangements. ***There are many factors, including compliance with the legally enforceable Forest Practices Code and the engagement of a harvesting contractor who has both appropriate training and insurance.***

A larger forest estate should have a longer term harvesting plan with discrete planning units that must be completed prior to the contractor moving on to the next area. The absence of such control could see an ad hoc approach to harvesting and the temptation of the grass is greener, leaving areas uncompleted.

What may have seemed a simple matter of selling trees or logs has turned into a complex process of planning, control and compliance. Even if you still wish to undertake operations independently it is wise to seek sound advice and understand all your legal obligations.

A note of caution with contractor insurance, the contractor must physically present a certificate of currency where the landowner is noted as a party. Insurance must cover at least public liability, workers compensation or accident and sickness and third party insurance on machinery and vehicles.

Investment Forestry Schemes

Investment forestry within Australia has gained a poor reputation over the last 20 years. There have been a number of failed schemes that have mostly been driven by the claimed tax advantages. Often the soundness of the proposal from a business and forest management perspective was secondary to the touted tax benefits. [2]

Australian Forest Growers have published a guide for information to be provided by forest investment companies. This is required reading for anyone contemplating investing in a forestry investment scheme. Most forestry schemes will be offering to sell a prescribed interest and will therefore require a registered prospectus. The prospectus is required to contain the information

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Investment / Selling Risk Matrix [4]

Option	Risk	Description	Advantage	Disadvantage
Forest Lease / Annuity	Low	Land leased or forest right established to grow plantation for sawlog or pulpwood	No capital outlay, guaranteed $ return. Income from 1st year.	Fixed land use for 10-30 yrs Fixed return
Joint Venture	Low	Joint venture with company or government for pulp or sawlog. Landowner shares investment	Income from first year. Offers landholder access to technical knowledge, capital, guaranteed market, higher $ returns	Limited management and selection control. Land tied up for a fixed period
Native Forest High Quality	Low to medium	Private high quality native forest potential to produce multiple products on sustainable basis	Ecologically robust, Multiple species, multiple product options.	Small annual outputs, requires larger area
Commercial Species Plantation	Low to medium	Stand alone establishment for high quality pruned sawlog output.	Maximise potential $ returns, flexible design & management	Higher $ outlay No guaranteed market
Native Forest Low Quality	Low to medium	Private low quality native forest potential to produce multiple products on sustainable basis	Ecologically robust, Multiple species, multiple product options	Less preferred species, difficult or no markets, low productivity.
Investment Forestry	Low to medium	Invest in a prescribed interest in forest estate	No land, desk based investment	Subject to the quality of independent management, may only be tax driven
Special Timber Species	High	Planting of potentially high value timber species	Potentially very high returns. Suitable for small blocks	Long term, uncertain markets

that investors require to enable them to make sound investment decisions. The prospectus must not contain false or misleading statements or material misrepresentations or omissions. [3]

Conservation

This may sound unusual, however the Regional Forest Agreement has created a market in conservation and biodiversity of private forests. It relates to the requirement for Comprehensive Adequate and Representative (CAR) conservation of all forest communities. There is a requirement for approximately 100,000 ha of private forest to be conserved to reach agreed targets, the majority being in the lower rainfall regions of the state. The system is based on voluntary negotiations for identified forest communities. A CAR Implementation Unit has been established in the National Parks & Wildlife Department and $30 million has been allocated to achieve an acceptable outcome of private forest conservation.

Landowners are compensated for their loss of rights, through the placement of a conservation covenant on their title. Compensation payments can relate to general loss of rights, loss of commercial timber and loss of grazing rights, the size of the payment will vary greatly as some commercial activity may not compromise the conservation objectives. Associated with the CAR reserve will be a management plan with a schedule of work, the landowner will receive management payments relating to work undertaken to maintain the conservation values, e.g. fencing and firebreak maintenance. The process and outcomes are to be negotiated with individual landowners. Landowners should seek professional advice regarding their taxation liability. The process is to be completed by the middle of 2003.

Contracts of Sale

The larger companies and the cooperatives/ FARMWOOD use some relatively standard contracts that will contain information on estimated harvest volumes, pricing of forest products and price reviews, time of payments, timing of operations, parties rights including access and completion. The contract should contain utilisation standards and the completion conditions, environmental conditions are covered under the *Forest Practices Act* 1985. ***Forest owners should be wary of independent operators who do not have a contract and are unable to demonstrate the appropriate management.*** It is always a good idea to find out where they last operated and talk to that owner regarding the contractor ability. It is appropriate to enquire about all operations as you are seeking the best outcome both in current financial terms and for sustainable forest management.

Records

Logging records are usually provided by log delivery dockets and weighbridge dockets. Sawlogs are usually measured using a formula related either to mid diameter underbark and length or small end diameter and length as in JAS (Japanese Agricultural Standard) for log exports. Logs are recorded individually on the log delivery dockets, with a copy for each party involved, owner, harvesting contractor, transport contractor, buyer and a book copy. Log delivery dockets and weighbridge records are important to keep and reconcile payment.

Competitive Advantage

How can price advantage, market entry or market share be gained and maintained? In the case of native forest this may be more difficult to achieve and could be market dependent. Some limited examples include certification of sustainability, a well-developed forest management plan with infrastructure in place. Closeness to market and good logging conditions may be a consideration when purchasing a forest to then be used to advantage.

Pruned Stand Certification, a system developed to provide certified evidence of pruning and the knotty core size and administered by Australian Forest Growers, could provide a valuable advantage to the smaller plantation owner during price negotiations.

What Value?

If you were selling an agricultural crop or livestock you could relate to recent sales prices or trends and may be able to make planting or stocking decisions on predictions. This all relates to short term investments, however, the long rotations of forests require more faith in the long term use of wood fibre and solid wood products. Until recently price reporting was anecdotal, irregular and unreliable. The Forestry Department of the Australian National University has introduced a Log Market Report that provides bimonthly information about real log prices and forest product trends. (http://anu.edu.au/Forestry/info/marketreport).

An example from the ANU Forestry Market Report No 5 September 1998 [5] for Tasmania:

Period	Log Type	Stumpage	Comments
April	Pine Veneer logs	$85/m³	285km to mill 130m³
May	Pine Pulpwood	$2/t	Windthrow logs for woodchips; 40km to mill
May	Pine Sawlogs	$10/m³	80km to mill; 65m³
Feb to June	Myrtle Pulpwood	Ave $10/t	Regrowth 30cm 50-70km
Feb to June	Eucalypt Pulpwood	Ave $10/t Range $8-$10/t	Native forest 50-120km
Feb to June	Eucalypt Sawlog Category 1	Ave $30/m³ Range $28-$35/m³	Native forest 50-100km
Feb to June	Eucalypt Sawlog Category 2	Ave $24/m³ Range $22-$28/m³	Native forest 50-100km
Feb to June	Eucalypt Sawlog Category 8	Ave $18/m³ Range $14-$22/m³	Native forest Pallet logs 50-100km

Farm forest growers require information on both current and future prices of logs at mill door. However, most growers do not have reliable information even on current prices let alone the likely future prices. [5] The Log Market Report is a national market report and great caution should be taken in applying any of the information even when it states the origin or applies to the state. Returns for forest product will vary according to the volume of wood available, distance to market, terrain conditions and specifics negotiated on an individual basis.

These Market Report prices must be applied with caution. A comparison with Forestry Tasmania prices[6] in the following table shows a clear difference in pulpwood royalties but the private

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resource is achieving higher returns for sawlog material. This most likely relates to the oversupply of pulpwood and the contracted sawlog commitment. It again supports the aim to produce the highest quality product in farm forestry as the larger growers will always have a leverage through larger volumes.

Forestry Tasmania Prices [6]

Log Type	**1997-98**
Native Forest	
Eucalypt veneer	\$50.79/m³
Eucalypt sawlog Category 1&3	\$29.50/m³
Eucalypt sawlog Category 2&8	\$18.61/m³
Special Species	\$46.86/m³
Pulpwood	\$13.63/t
Plantation Softwood	
Veneer	\$80.70/m³
Sawlog	\$29.66/m³
Pulpwood	\$11.63/t

References

1. Henderson, 1998, *Cooperatives for Tree Growers* AFG Conference Lismore
2. Dunbabin, 1997, Farm Forestry Conference Ballarat
3. AFG, 1995, *Investment Forestry Guidelines*
4. AFG, 1998, *Getting Started in Farm Forestry*
5. ANU Forestry Market Reports 1-6
6. Forestry Tasmania, 1998 Annual Report

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