

GEORGIA FORESTRY
COMMISSION



A General Description of the Timber Supply Chain in Georgia and the Southern United States

Nathan McClure, Forest Utilization Department

Introduction

The typical timber supply chain in the South consists of the forest landowner, the timber buyer, and the end-user, or wood mill. Forestry consultants, loggers, and trucking firms are also involved; but are usually employed by others in the supply chain.

Forest Landowners

Georgia has 24.2 million acres of timberland. Non-industrial private ownership controls 58% of this timberland, 22% is owned by corporations that do not have forest products manufacturing facilities (such as TIMO's and REIT's)¹, 12% is owned by the forest industry, and 8% is owned by the federal and state government.²

Forest managers are hired to manage lands for a variety of benefits, with timber production often being the primary management objective. Many landowners hire forestry consultants on a contract basis, as managers. Forestry consultants must meet specific education and experience requirements and be licensed by the State to practice forestry. These consultants are also hired in many cases only to appraise and sell timber for landowners. Forestry consultants do not buy timber. Larger corporate landowners directly employ foresters to manage forests and sell timber when appropriate. Landowners holding large tracts (typically corporate owners) will sometimes enter into long-term timber supply contracts with forest product manufacturing companies.

Timber Buyers

Timber is typically purchased from a landowner by a dealer, who in turn sells the harvested wood to a variety of wood processing mills. The dealer often has a contract to supply certain mills. Supply amounts (quotas) and ranges of price may or may not be included in contracts between mills and timber dealers. Historically, large sawmills and pulp mills grew much of their timber on company land and purchased standing timber directly from landowners. In the late 1980's, larger forest product manufacturers began divesting their timberlands and began relying more on purchased wood from other privately-owned timberland and "gate wood". Gate wood refers to wood hauled to a mill that was not purchased as standing timber by the mill. Procurement by a mill is most often handled by one or two procurement managers doing business with several independent timber dealers.

Large landowners may enter into agreements with forest product manufacturing facilities to supply wood to a mill over a long period of time. These agreements are referred to as timber supply contracts. Prices are usually based on market rates with prices reviewed on a quarterly or annual schedule. Minimum and

maximum amounts to supply each year are also incorporated into the contracts. These arrangements are not common, but are used in certain circumstances.

Timber Harvesting and Hauling

Loggers are employed by timber dealers to harvest wood that has been purchased. The trucking of logs may or may not be part of the logging company. Trucking is sometimes done by another firm who is employed under contract by the timber buyer. There are some loggers who are timber buyers, but most logging is performed by contract and based on the amount (tonnage of product) of wood harvested.

Timber Purchasing Procedure and Payment Methods

Landowner to Buyer

Timber procurement from landowners is accomplished in the South using one of three general methods: 1) lump-sum payment for a specific timber sale, 2) per unit payment for timber in a specific timber sale, 3) per unit payment for a minimum supply of timber within a long-term supply contract.

Lump-sum timber sale procedure:

- 1- A forestland owner, or his forestry consultant, specifies which timber is to be sold, designates its location, and determines the value of the timber
- 2- The timber sale is advertised, usually through a mail out to prospective buyers
- 3- Bids are accepted based on the total amount of timber to be harvested and a successful bidder is chosen, usually the highest.
- 4- A deposit (typically 5%) is taken with the successful bid to be held in an escrow account
- 5- Within 2-3 weeks a contract is executed between the landowner and the timber buyer, at which time full payment is made for the timber.
- 6- The timber harvest is conducted.
- 7- At the appropriate completion of the timber harvest the deposit is returned.

Per-Unit timber sale procedure:

- 1- The forestland owner, or his forestry consultant, specifies which timber is to be sold and designates its location.
- 2- The timber sale is advertised or negotiated by mail, telephone, or in person with a timber buyer(s).
- 3- Bids or negotiated prices are accepted based on a rate per ton for each product expected to be harvested, such as pine pulpwood, small pine saw timber, large pine saw timber, pine ply logs, oak saw logs, poplar veneer, hardwood pulpwood, etc.
- 4- A deposit is accepted that is agreed upon by buyer and seller at the time that a contract is executed for the sale of the wood.
- 5- The timber harvest is conducted.
- 6- Payment is made to the landowner weekly based on the amounts of each timber product harvest. Scale tickets that show weights and product types are required to be provided the landowner with payment.
- 7- At the appropriate completion of the timber harvest the deposit is returned.

Long-term supply agreement:

Supply agreements provide a guaranteed maximum cost for an agreed-upon quantity of delivered timber for the mill and they provide a guaranteed minimum payment rate for the agreed upon quantity of sold timber for the landowner. Between the minimum and maximum value of the delivered timber product, the value changes as dictated by some financial index, such as reported prices in Timber MartSouth or based on other traditional financial rates. The value will change once each period (3 mo., 6 mo, 12 mo.) based on the prescribed index and bounded by the agreed-upon minimum and maximum value per unit of delivered timber. Many supply contracts also have provisions to include additional quantities of timber at prices below the minimum and/or above the maximum, if agreed upon by both the landowner and mill.

Supply contracts are typically used by larger landowners, especially when the landowner can provide harvesting and delivery of the timber to the mill. The details of the payment structure can be changed in the agreement and will generally follow that outlined in number 6 in the Per-Unit Timber Sale Procedure described above.

Timber Dealer to Mill

Timber products delivered to a mill are purchased from a dealer by a mill based on tonnage and product. Rates are normally pre-arranged by contract with allowances made to adjust them upon notification to the timber dealer by a buyer. Contracts are sometimes made concerning amounts of wood to supply a mill. Quotas, or limits to these amounts are sometimes applied based on market and weather conditions.

Sustainable Timber Harvests and Master Timber Buyers

The Sustainable Forestry Initiative is a forest management certification system used by most forestry operations in the South. The SFI program requires management of forest land in a manner that protects soil and water while providing for sustainable production of forest benefits. It requires that timber harvests be performed by those loggers and by those timber buyers who attend special training offered by the States and local forestry Universities, such as the University of Georgia. Timber buyers attending this training are referred to as Master Timber Buyers. The Georgia Forestry Commission lists the Master Timber Buyers and the Master Timber Harvesters on their website at GaTrees.org.

Additional Information

Nathan McClure
Chief Forester
Georgia Forestry Commission
159 Crown Mountain Drive
Dahlonega, Georgia 30533
478-951-4548
nmcclure@gfc.state.ga.us

¹Timberland Investment Management Organizations and Real Estate Investment Trusts

²Forest Inventory and Analysis program 2008 database, Southern Research Station, US Forest Service, 2009