

# Private Forestry Guidance Materials

## Information Sheet 04: Selling your trees

### Introduction

One of the biggest challenges facing small-scale private forest growers is how to go about selling their trees when the time comes. This fact sheet provides an overview of what you need to know to get your trees to market. It addresses key questions such as:

- What approvals do I need to harvest my trees?
- How is the value of my logs determined?
- Who will do the work?
- Where will I sell my trees?

This fact sheet provides a guide to the questions you should be asking and who you should be talking to. Every forest is different, rules for harvesting vary between state and local government authorities, and markets in your region may have different requirements to other regions. It is recommended that when it is time to harvest your trees, you seek expert advice from a forestry professional.

### Planning for your harvest

The first thing you need to do is understand your legal obligations in relation to harvesting your forest. Each Australian state and territory has different rules for planning and undertaking forest harvesting. The rules may also be different depending on whether your forest is native or a plantation. In some cases there may be a formal code of practice that provides clear guidance on how to plan and undertake the harvesting. You may also require approval from a local government authority. Information Sheet 05: Regulation of native Forest operations and Information Sheet 06: Regulation of Plantation operations provide more detail about what is required.

Once you have determined any required approvals, it is important that a timber harvest plan is prepared. The timber harvest plan will provide detail about a range of things such as:

- Where and when the harvest will occur.
- What harvesting system will be used (e.g. mechanical harvesting) and what silviculture will be applied (e.g. thinning or clear-felling).
- How much log volume is likely to be harvested.
- What infrastructure (e.g. roads and log landings) is required.
- What areas are excluded from harvesting and what special values need protecting.

The harvesting plan will usually include a map and detailed prescriptions for how the harvesting will be undertaken. Importantly, the harvest plan must include details about how safety will be managed during the harvesting event. The plan should be formally acknowledged by all parties involved.

## Determining the value of your tree crop

How much money you earn from harvesting your trees will depend on a number of factors.

These might include:

- What species is being harvested.
- How old the trees are.
- Past management of your forest.
- The volume of logs.
- What log products are being sold.
- The distance from your forest to the customer.
- Where along the supply chain you will be selling the logs.

## Price points

The net price you receive for your trees at harvest is usually referred to as the **stumpage price**. This is the net value you receive for your logs once the costs of planning, road works, harvesting, hauling and any other professional advisory services are accounted for. The price paid by a customer receiving the harvested products is usually referred to as a delivered price. Usually, the **delivered price** will be calculated at the **mill door** (for domestic processing) or at **wharf gate** (for exported products).

In most cases, smaller private growers will sell their logs on the stump. That means that the purchaser of the logs is paying for (and taking the risk on) all costs associated with harvesting and delivering the wood and paying the forest owner for the unharvested value of the trees. This is usually a low-risk option for most growers. However, some growers may feel they have the capability and confidence to engage contractors themselves. Alternatively, there may be professional service providers that you can engage for a fee to manage the sale, harvest and delivery of your logs to a customer. Typically, these agents will work for a set fee calculated on a value per cubic metre or for an agreed percentage of the delivered price.

Whatever approach you choose, it is worthwhile investigating the market to understand what options are available to maximise your net returns within the levels of risk you are comfortable to accept.

## Estimating what will be harvested

It is important that you have a reliable estimate of what volume of logs will be harvested and what log products will be produced, along with a calculation of the estimated value you will receive. This estimate is usually made based on a pre-harvest inventory, i.e. an estimate made from measuring the trees and harvest area and calculating the volume and value of logs to be harvested. The harvesting contractor or log purchaser should then provide you with an ongoing record of what is harvested and sold that you can use to reconcile actual volume and value against the inventory estimate.

## Log markets

Log markets vary considerably depending on the species you are growing and the region you are located. In some regions there are deep markets for all species and log types. In other regions the log market options can be very limited. Understanding the timber processing capacity in your region is an important step in understanding how much your logs could be worth and whether you have options available. More information is available within the other Information Sheets in this series, which provide an overview of markets for each forestry hub and for individual plantation species.

## Calculating log value

Small-scale private forest growers often question whether they are receiving a fair value for their logs at harvest. When you are considering harvesting and selling your forest it is useful to understand how log value is calculated.

### Prices

The delivered value of a log will vary depending on the species and products being harvested, available markets, location relative to market and the level of demand.

As a simple comparison, if you have a blue gum plantation, the delivered value of the product (whether logs or chips) will be the same for every unit of product sold but there may be an opportunity to improve the value if there is more than one buyer. However, if you are harvesting a mature pine plantation, the delivered value of logs will vary because there will be a range of log types produced which are suitable for a mix of uses including, for example, structural sawlog, non-structural sawlog, preservation and woodchip, depending on the availability of local markets for each of those products. It is strongly recommended that you seek independent advice on pricing.

### Costs

The typical costs associated with harvesting and selling logs include:

Activity	Cost units
Harvest and planning approvals	Fixed
Road and landing construction and maintenance	Unit (\$/km) or by quote
Harvesting supervision	Unit (\$/hour or \$/m <sup>3</sup> )
Marketing	Unit (\$/hour or \$/m <sup>3</sup> )
Harvesting	Unit (\$/m <sup>3</sup> )
Loading	Unit (\$/m <sup>3</sup> )
Haulage	Unit (cents/m <sup>3</sup> /km)
Sales administration	Unit (\$/hour or \$/m <sup>3</sup> )

## Calculating the stumpage

The actual price you receive for your logs, after costs are taken into account, is typically referred to as the stumpage price. An example of a stumpage calculation for a radiata pine clear-fell operation is presented below.

Harvest variables					
Harvest area (ha)	50	Harvest cost (\$/m <sup>3</sup> )	25	Haulage cost (\$/m <sup>3</sup> /km)	.15
Planning and levels (\$)	10,000	Roads and landings (\$/m <sup>3</sup> )	1	Marketing & Supervision (\$/m <sup>3</sup> )	6

Product	Standing volume (m <sup>3</sup> /ha)	Haul distance (km)
Large sawlog	80	49
Medium sawlog	100	49
Small sawlog	20	73
Preservation and posts	30	15
Pulp log	70	49
<b>Total</b>	<b>300</b>	

Item	\$/m <sup>3</sup>	\$/ha	\$ total
Planning, levies and advice	0.67	200	10,000
Marketing & supervision	6.00	1,800	90,000
Roads and landings	1.00	300	15,000
Harvest	25.00	7,500	375,000
Haulage pulp log	7.35	515	25,725
Haulage pres and posts	2.25	68	3,375
Haulage small sawlog	10.95	219	10,950
Haulage medium sawlog	7.35	735	36,750
Haulage large sawlog	7.35	588	29,400
<b>Total cost</b>	<b>39.75</b>	<b>11,924</b>	<b>596,200</b>
Revenue			
Large sawlog	150	12,000	600,000
Medium sawlog	125	12,500	625,000
Small sawlog	90	1,800	90,000
<b>Preservation and posts</b>	<b>115</b>	<b>3,450</b>	<b>172,500</b>
Pulp log	60	4,200	210,000
Total revenue	113	33,950	1,697,500
<i>Net stumpage (profit)</i>	<b>73</b>	<b>22,026</b>	<b>1,101,300</b>

## Engaging service providers

### Stumpage sales

If you are undertaking a stumpage sale, your only direct contractual relationship will be with the log buyer. The log buyer could be the harvesting contractor, an independent log buyer or a timber processor. It is essential that you have a written contract with the log buyer that stipulates conditions such as:

- Responsibility for planning and approvals.
- Responsibility for safety management and specification of liability.
- Harvest and haul contractor details and expectations of performance and behaviour.
- Insurance requirements for all parties.
- How the harvested wood will be measured and the measurement communicated to you (e.g. with log docketts or a similar system).
- How and when you will be paid for your logs.
- Whether payment is on a lump sum unconditional basis, or based on logs harvested, usually calculated by weight (tonnes) or volume (cubic metres).
- Clear contractual responsibility for all costs.
- What condition the site is to be left in following the harvesting event.

### Agency sales

It may be possible to engage the services of a third-party professional forest services agent that can manage one or more of the aspects of planning and supervising the harvesting process, engaging the contractors and establishing sales arrangements with customers on your behalf. It is still essential to have in place a written contract that stipulates the conditions of the arrangements, including how the agent will be paid (e.g. set unit fee or percentage of net stumpage).

### On-truck and delivered sales

Some growers will have enough experience and confidence to deal directly with a timber processing company for log sales and to engage with harvest and/or haulage contractors themselves.

## Risk management

### Contractual arrangements

Contractual agreements are the most important tool for managing operational and commercial risk. Contracts should provide absolute clarity about which parties are engaged and what their responsibilities are. In many cases, a log purchaser or agent will provide a template contract for the activity. It is essential that you take legal advice on the contract to ensure that your interests are clearly addressed. Under delivered sales arrangements, forest owners are responsible for contracts and this should also be undertaken with legal advice.

For all forest management activities, it is essential that you have a written contract that clearly identifies responsibility and processes for factors such as:

- Planning and approvals.
- Safety management and specification of liability.
- Contractor details and expectations of performance and behaviour.
- Insurance requirements for all parties.
- How harvested wood will be measured and how the measurement communicated to you (e.g. with log docketts or a similar system).
- How and when you will be paid for your logs.
- How contracted parties will be paid (e.g. unit fees, percentage of stumpage, lump sum).
- Whether payment is on a lump sum unconditional basis or based on a unit measure (e.g. kilometres of road maintained, volume of wood harvested).
- Clear contractual responsibility for all costs.
- What condition the site is to be left in following when the activity is complete.
- How operational outcomes will be monitored and quality assurance will be achieved.

## Insurances

Contracts should clearly specify which parties are required to hold insurance, what insurances need to be held and what value should be insured. It is usual for all parties to hold public liability insurance to an agreed level. Any party that uses employees to undertake activities must also hold workers compensation insurance. Where a party provides professional or expert advice, it is normal for them to hold professional indemnity insurance. A certificate of currency must be provided for any required insurance that specifies what the insurance is for, what value is insured, what entities are insured and when the insurance expires. Your own insurer may require to be notified about the insurance details of other parties.

It may also be possible to take out insurance for the forest asset itself, in case of damage. To determine whether this is appropriate and feasible, forest owners should consult an experienced agricultural or forestry insurance broker.

## Professional advice

Forestry is a specialist discipline and wood products markets are quite different to markets for other commodities. It is strongly recommended that private forestry practitioners seek the advice of professional forestry service providers to understand how commercial forestry can best be integrated into their specific agricultural enterprise and obtain detailed site-specific guidance on how to go about this.