

EC 1141  
Revised June 1993  
\$1.00

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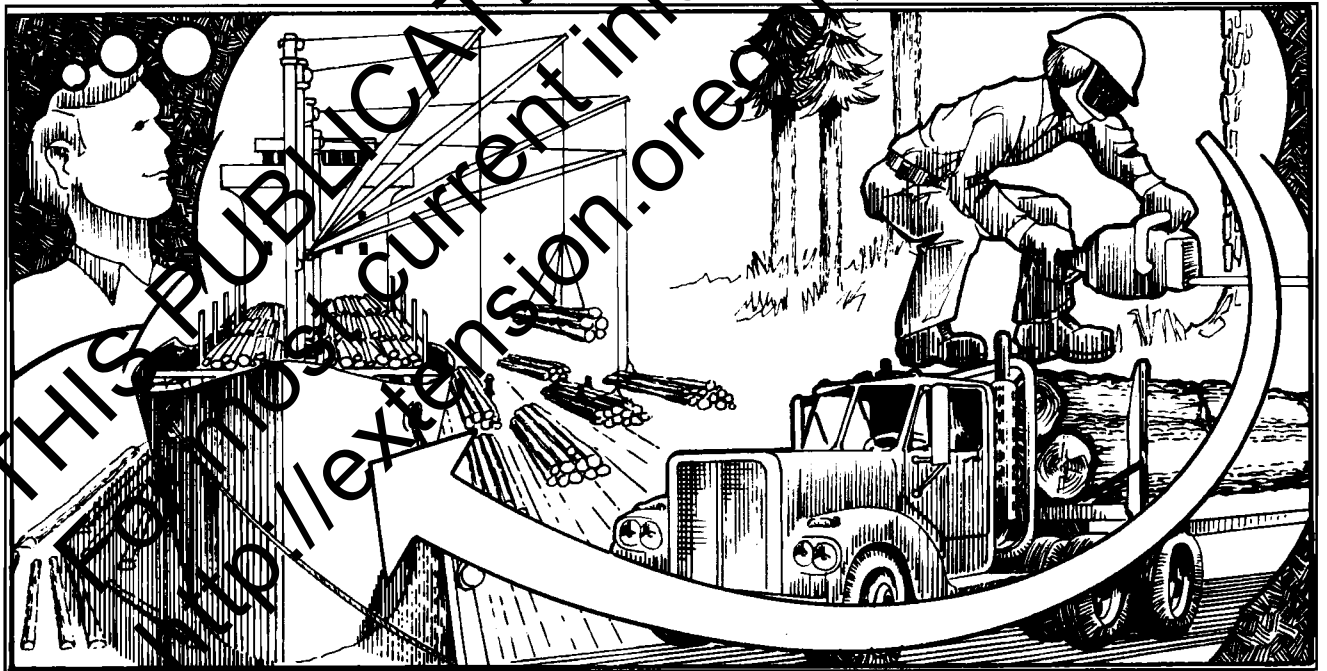
The  
Woodland  
Workbook

# Marketing Forest Products



## Log Exports and the Nonindustrial Private Forest Owner: An Overview of Operations and Markets

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Log exports and the  
nonindustrial private

This publication gives you, the non-industrial private forest (NIPF) owner, an overview of the activities and markets involved in exporting logs. It is organized in a question-and-answer format with information based on the Pacific Northwest's log export market and practices.

## General Nature of Export Logs

### What log characteristics are important in the export market?

Generally, export logs are the "cream of the crop" in appearance and quality. They should be straight, clean, and free of a large number of knots, large sized knots, sweep, burls, deep scars, burn, and crook. No conk, sap rot, excessive twist, or excessive pitch is allowed; all ends should be bucked clean.

Grain or ring count generally is important. The more rings per inch of wood, generally the more valuable the log for export. Extremely coarse grain (less than six rings per inch) is less desirable but still marketable at a lower value.

When exporting, especially old-growth, large logs (diameter and length) are preferred. In good quality old-growth logs, large diameters yield more and better grades of lumber. Many importing countries, however, now buy second-growth logs.

In general, longer logs bring higher prices. Japanese markets seek logs up to 40 feet. Some markets accept a 20-foot minimum log length, but usually logs between 26 and 40 feet are preferred as long as the average log length is 36 feet. China rejects logs over 40 feet because its transportation system cannot handle them.

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Sets of log categories, called sorts, are more important than our regional log grades. Length, diameter, ring count, and physical appearance determine price. Importing countries resell and distribute logs by sort, diameter, and length, as well as by quality within these classes. They do not use our domestic log grading system. Therefore, U.S. domestic grades are becoming less important to U.S. exporters. Generally, logs that can be graded Special Mill (SM) and No. 2 Sawmill (2M) are priced the same for export.

Usually, the longest log cut to the best possible grade is best for the export market. This doesn't always hold, however. Bucking 36- or 38-foot logs can sometimes pay off because they scale out at higher volumes. Depending on current prices, these shorter length and grade combinations may yield more value than cutting only 40-foot lengths. Lengths shorter than 36-feet are acceptable, but be sure to confirm this with the log buyer, as special arrangements are usually necessary.

### What Kind of Logs are Exported?

Principal exported species include the following:

- Douglas-fir
- Hemlock
- Spruce
- Grand fir
- Port-Orford-cedar
- Alaska yellowcedar
- Western redcedar
- Sitka spruce

Several of these species are categorized by their characteristics into various sorts. The sort names refer to specific combinations of log species, age, size, ring count, surface, and internal characteristics. Sort names change periodically. Thus, this publication uses only the more general "old-growth" and "second-growth"

sort names to illustrate the distinguishing log characteristics described in the following sections.

**Douglas-fir.** This species is exported in the greatest volume. It is priced into several sorts of old-growth and second-growth are two general categories.

*Old-growth* logs are usually in the greatest demand and attract the highest prices. They must have fine grain (eight or more rings per inch) and usually come from trees exceeding 150 years old. The logs are of large diameter and must be clean, that is, without an excessive number of knots, and all limbs and existing knots must be trimmed flush. Most export logs of this quality come from larger land ownerships; relatively few NIPF owners have logs of this type.

*Second-growth* logs are becoming more popular in the export market. They must be at least No. 3 Sawmill (3M) grade. Some log buyers prefer 2M-grade logs with 2M- or SM-grade surface characteristics. Export quality, second-growth logs are usually a minimum of 8 inches in diameter on the small end, but occasionally diameters down to 3 inches are accepted. Some second-growth logs require minimum ring counts and some do not. Many NIPF owners have second-growth logs.

**Whitewoods.** Whitewoods include spruce, hemlock, and grand fir and are exported in fairly large quantities. They are divided into two basic categories: Cascade and second-growth.

*Cascade* logs are the most preferred and command the highest price. Traditionally they are very fine-grained (12 or more rings per inch), old-growth logs from higher elevations in the Cascades and must be graded 2M or better.

*Second-growth* logs are more common on NIPF ownerships. As with Douglas-fir second-growth logs, whitewood second-growth logs must be at least 3M grade. Some log buyers prefer 3M-grade logs with 2M- or SM-grade surface characteristics. Ring count is less restrictive. Fast-growth,

coarse-grained logs are usually less desirable. If they are marketable, their price will depend on overall quality.

Several other tree species are traded on the export market, including Port-Orford cedar, western red cedar, and hardwoods such as Oregon white oak and Oregon maple. However, the markets are not always available and prices are not always better than the domestic market.

These export markets may be regional and variable in activity, and often extremely diverse in prices observed. Owners with logs of these species should explore potential markets in their regions. For help exploring potential markets, consult EC 1384, *Selling Timber and Logs: Seven Steps to Success*. Names of log buyers and exporters and other, similar sources are in the telephone yellow pages under such entries as *Foresters—Consulting, Exporters, and Log Exporters*.

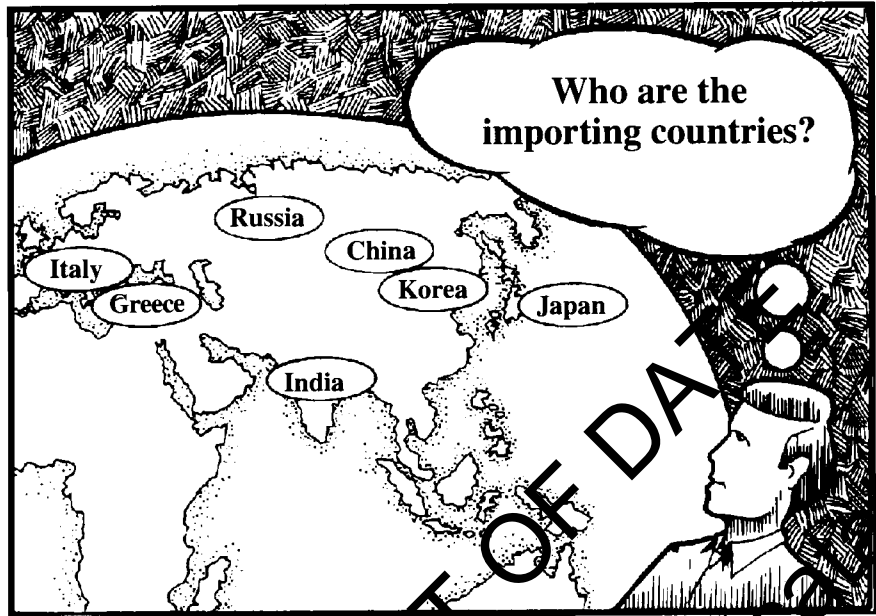
## Movement of Export Logs

### Who are the importing countries?

Japan is the greatest volume buyer. It purchases virtually all the sorts and species mentioned here. Since early 1980, China has been increasingly active in the market. The Chinese purchase mainly Douglas-fir and hemlock. Korea purchases mainly hemlock and only small quantities of Douglas-fir. Korea and China accept lower quality logs than Japan, but the price they pay is also lower. Taiwan purchases Port-Orford cedar, Douglas-fir, and small hemlock logs.

### How do export logs flow from the timber owner to the ultimate destination?

Exported logs change hands several times as they flow from timber owner to final user. Key steps in the flow are tree growing and log trading. The



process and parties involved are discussed in the following sections.

**Domestic owner.** Tree growers, regardless of ownership size, may arrange log sales through several kinds of buyers. Some large industrial companies employ their own export marketing personnel to handle their own logs and to buy from NIPF owners. There are also companies and smaller independent agents that act exclusively as brokers. Occasionally, independent buyers purchase directly from landowners and sell to export brokers, almost exclusively. NIPF owners enter the export market by selling to one of these three kinds of buyers.

**Export broker.** This broker performs an important first step in log trading, requiring much coordination and involving considerable risk. Initially, the broker locates a foreign buyer and then confirms an export order with the buyer. Export orders usually involve enough volume for a full ship cargo (3 to 6 million board feet) and are made on a "free alongside ship" (f.a.s.) basis. This simply means that all costs involved in getting the logs to shipside have been included in the price once they arrive there.

Brokers typically buy delivered logs, but some may also buy stumpage (see EC 1384, *Marketing Timber and Logs: Seven Steps to Success*, for a discussion of log vs. stumpage sales). Brokers negotiate contract terms and sale price, locate the logs or timber to meet specifications, and then negotiate a

purchase price for standing stumpage or logs delivered to an export yard.

Brokers' costs allow an allowance for profit and risk are accounted for in the price offered to the landowner. Brokers arrange and pay to have the logs scaled, sorted, merchandised, bundled, dumped and delivered to shipside, and they ensure the correct timing of each step. They face many risks: Log sellers may not provide the right logs on time. The buyer may cancel out, delay the ship (causing inventory financing problems), be extremely fussy, reject an excessive number of logs, or attempt to reduce prices.

As an NIPF owner, you generally deal only with the broker. However, you should contact as many different brokers as possible before you choose one. Always describe your timber uniformly to each broker. See EC 1384, *Marketing Timber and Logs: Seven Steps to Success*, for information about selling timber uniformly using a prospectus.

To protect yourself, you should have a written stumpage sale contract or a purchase order to sell your logs to the broker (see EC 1192, *Contracts for Woodland Owners and Christmas Tree Growers*), clearly stating log specifications, prices, and the nature and time of payment. When selling logs, you should receive payment within a reasonable time following delivery to the broker (for example, 2 weeks).

When selling stumpage, your contract should require payment prior to harvest completion. Some owners go

Table 1.—Flow of Export Logs: Stump to Mill

Process	Parties Involved	Function/Activities
Tree growing	Domestic owner	<ul style="list-style-type: none"> <li>• Grows trees</li> <li>• Locates export buyer</li> <li>• Sells logs or stumpage to broker</li> </ul>
Log trading	Export buyer	<ul style="list-style-type: none"> <li>• Gets export order from trading company and makes sale agreement</li> <li>• Buys from owner</li> <li>• Makes timely payments</li> <li>• Accumulates cargo</li> <li>• Checks sorts and specifications</li> <li>• Oversees operations and costs to bring logs to U.S. (free alongside ship)</li> </ul>
	Foreign trading company	<ul style="list-style-type: none"> <li>• Conducts market research</li> <li>• Locates cargo in U.S.</li> <li>• Negotiates price</li> <li>• Chartered ship</li> <li>• Distributes to foreign markets</li> <li>• Pays cash in U.S.</li> <li>• Risks market price and currency exchange rate fluctuations and log measurement conversion factors</li> </ul>
	Foreign wholesaler	<ul style="list-style-type: none"> <li>• Buys from the trading company</li> <li>• Resorts logs</li> <li>• Sells to mills</li> </ul>
	Foreign mill	<ul style="list-style-type: none"> <li>• Custom cuts logs to order</li> </ul>

further and require full payment approximately midway through the sale. It's quite risky to delay payment until the logs are loaded aboard ship and the broker is paid. Special purchase orders can be written confirming prices for guaranteed log delivery within 30 to 60 days after signing the purchase order.

**Foreign trading company.** The export broker sells the logs to a foreign trading company. The trading company's responsibility covers everything necessary to buy the logs in the U.S. and resell them delivered to a wholesale yard in its country. Foreign trading companies research potential

markets to determine species, sorts, and volumes that they can handle at a profit.

The trading company completes the following steps:

- negotiates a purchase in the U.S.,
- arranges payment to the seller,
- charters a ship,
- clears customs on both ends,
- distributes and sells the logs into its market,
- arranges payment terms with its buyers, and
- pays all associated costs.

The company's risks are high, and its profits are generally low. Its major risks are market price fluctuations,

mistakes in log measurement and conversion, and currency exchange rate fluctuations.

There are many foreign trading companies buying logs in the United States; several have offices in Portland or Seattle. Their log buyers are stationed in the U.S. for tours lasting from 3 to 7 years. They regularly travel the coast coordinating their business with export brokers. Foreign trading companies then sell logs to mills in their countries or in some cases to wholesalers, who in turn sell to mills.

An example of this process might find a Japanese trading company

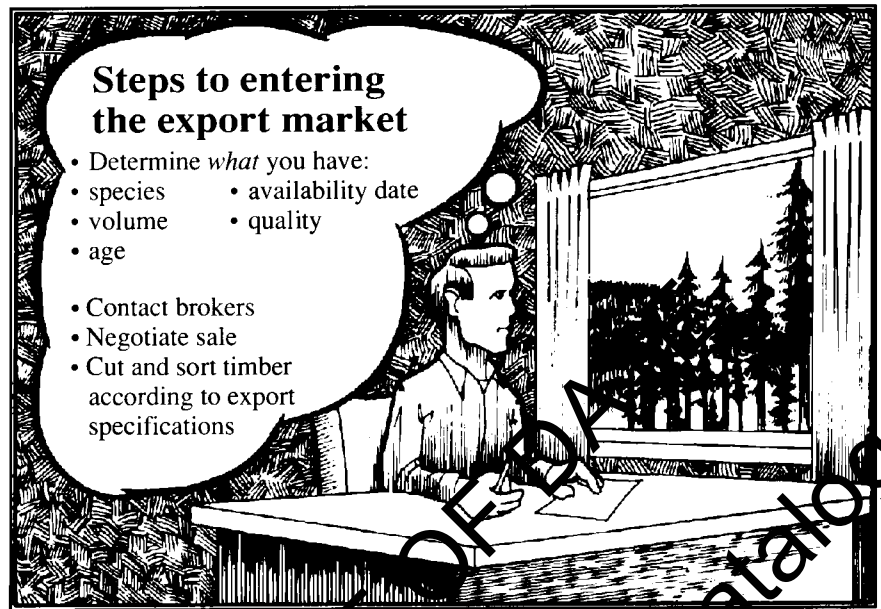
purchasing a cargo from the broker. After 2 weeks, the ship arrives in Japan. Two or 3 weeks later, the ship clears customs, unloads, and the logs are rescaled in Japanese cubic measurement. A sale price is then negotiated with a buyer, and the logs are delivered. The buyer gives the trading company a note promising payment approximately 180 days later. As much as 7 months may elapse before the trading company gets paid. During this time, exchange rates may vary considerably.

## Log Prices on the Export Market

### How do export prices compare to domestic values?

Generally, export log prices must always be higher than domestic prices. If they were not, there would be no export market. The average spread between export and domestic prices can range from nothing to \$125 per thousand board feet (MBF) or more. As the price spread increases, more logs are exported; as it closes, the advantage in exporting disappears, and the market simply dries up. Because prices are higher when there is an available export market, to obtain the highest possible return for your timber, investigate the export market before selling.

Be sure to consult a firm that is specifically involved in exporting. Most local mills do not export and do not quote export prices because their own mills use all of the logs they purchase. Of course, no buyer will pay more than necessary to purchase logs, so if export buyers can purchase logs or stumpage at domestic prices, they will. Thus, if you wish to market export quality products, state your intent to sell in the export market, and demand export price consideration. Buyers will then know that they must compete with export prices.



Remember, however, that the log export market fluctuations follow prevailing economic conditions in both the exporting and importing countries. Supply and demand, currency exchange rates, and ocean transport costs affect the quantity and price of logs and stumpage available to the export market. The species and quality of the logs and stumpage acceptable to the export market also vary according to existing conditions when a deal is made. Significant changes in all of these factors can occur rapidly.

Remember, too, that in addition to receiving higher prices for export logs, owners generally incur somewhat higher costs when selling on the export market because of additional sorting and handling and usually additional marketing.

## Entering the Export Market

### When and how should NIPF owners go about exporting logs?

The best time to sell into the export market is, of course, when prices are highest above domestic values. Usually, when the domestic market is good, so is the export market. The reason is that when good quality logs are in demand domestically, export supplies are reduced, thus causing prices to rise.

This does not always hold true, however. Sometimes one market may be good while the other is not. Export prices are also higher when the foreign exchange rate is favorable to the exporter.

If you want to sell in the export market, begin by examining your timber to determine key characteristics including:

- species,
- volume of exportable wood,
- age of trees, and
- planned harvest timing.

To maximize dollar return from your timber sale, do not overlook domestic markets while exploring export markets. Some export quality logs, for example poles, might net better prices in the domestic market.

Depending on your harvesting strategy and species and grade available, your product marketing mix might include different proportions of export and domestic quality wood. Be certain to shop both the export and domestic markets for the best possible net return on your product marketing mix. That is the best you can do.

You may find it helpful to employ the services of a professional consulting forester experienced in log marketing. Many consultants can work through all phases of the marketing and harvesting process. A consultant can serve as your agent by helping determine volume,

species, grade, and the best markets for your timber. Consultants experienced in log marketing can serve as skillful advocates in negotiating the best prices for their clients, often improving net income well beyond their fee.

Next, you or your consultant should contact several brokers, provide the necessary information, and request prices. The brokers probably will want to examine the timber before it is cut. This is a good time to work with buyers to understand their requirements for log lengths, diameters, surface characteristics, and so on. Make clear that you have export timber, are looking for a premium price, and will go to the extra effort to get it. You or your consultant then accepts the best price after considering the contract terms. After negotiating a sale with a broker, ensure that the logs are cut and sorted to the specifications of the export sale agreement.

There are no set geographic boundaries or maximum distances within which brokers purchase logs or stumpage. Although there is no minimum volume you must have to sell to the export market, remember that brokers must accumulate a large volume at a particular time to compile an export order. Therefore, they will be most interested in sales of larger rather than smaller volumes, and the prices they offer may reflect that.

### Summary

Barring legislation to limit export of private logs, a good export market should exist for some time. As the supply of old-growth timber diminishes, the export staple will become second-growth and small logs. While most woodland owners don't have high quality old-growth, they do have

smaller logs that are of export quality and quantity. Meeting the specifications demanded in an export sale requires extra effort from timber owners. When export markets exist, however, owners' efforts are compensated in higher prices.

If you are considering export sales, do the following:

- Familiarize yourself with the log exporting process.
- Consider the services of a professional consulting forester.
- Work through an export broker.
- Always use a written agreement.



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For information about how to order, and for a current list of titles and prices, inquire at the office of the OSU Extension Service that serves your county.

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