Marketing Forest Products

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

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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, and crook. No conk, sap rot, excessive twist, or excessive pitch is allowed; all ends should be backed 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 least desirable but still marketable at a lower value.

When exporting, especially old-growth, large logs (diameter and length) are preferred. In good years, old-growth logs, large and small, are in high demand and bring high prices. Many importing countries, however, have size restrictions on export logs. Generally, longer logs command a higher price. In the past, these size restrictions included a minimum log length of 20 feet, or a maximum log length of 40 feet. Long logs were more valuable than shorter logs, even for short logs. Large logs (diameter and length) are preferred by many export markets. Some larger logs with 5-6 or 7-8 rings must be graded as 2M and not as No. 3M-

What Kind of Logs are Exported?

Principal exported species include the following:

Douglas-fir, Sitka spruce, grand fir, Port-Orford-cedars, 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, 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.

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 excessive number of knots, limbs, and existing knots must be trimmed flush. Most export logs of this type come from larger land owners rather than NIPF owners.

Second-growth logs are becoming more popular in the export market. This doesn’t always hold, however. Bucking 6- or 8-foot logs can sometimes yield a No. 3M grade. Some log buyers prefer 3M-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 softwood species mentioned. Since early 1980, China has been increasingly active in the market. The Chinese purchase mainly Douglas-fir and hemlock. Their purchase criteria are a little lower quality than Japan and the price they pay for this lower quality is lower than that for Douglas-fir. Korea, on the other hand, is the lowest quality buyer of Japanese softwoods, and purchases Port-Orford cedar, Douglas-fir, and small hemlock.

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, harvesting, and log trading. The process and parties involved are discussed in the following sections.

Domestic owner. Tree growers, regardless of ownership, may arrange log sales with several kinds of brokers. Some large industrial companies establish their own marketing departments to handle their own logs. Small independent brokers may buy or sell, and even find log buyers. There are also large, regional, and international large buyers that act as brokers. Occasionally, a large buying company purchases large quantities of logs and acts as a seller.

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.

Export broker. This broker performs an important first step in log trading by matching supply and demand. Broker location and then confirm 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. Brokers negotiate contract terms and sale price, locate the logs or timber to meet specifications, and then negotiate a purchase price for the delivered or delivered to shipside.

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<table>
<thead>
<tr>
<th>Process</th>
<th>Parties Involved</th>
<th>Function/Activities</th>
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| Tree growing | Domestic owner | - Grows trees  
- Locates export buyer  
- Sells logs and stumpage to broker |
| Log trading | Export buyer | - Gets export order from trading company and makes sale agreement  
- Pays from owner  
- Makes timely payments  
- Accumulates cargo  
- Checks sorts and specifications  
- Oversees operations and costs  
- Brings logs f.a.s. (free alongside ship) |
| Foreign trading company | |  
- Conducts market research  
- Locates cargo in U.S.  
- Negotiates price  
- Charters ship  
- Distributes to foreign markets  
- Pays cash in U.S.  
- Risks market price and currency exchange rate fluctuations and log measurement conversion factors |
| Foreign wholesaler | |  
- Buys from the trading company  
- Stocks logs  
- Sells to mills  
- Custom cuts logs to order |
| Foreign mill | | |

Further, and require full payment approximately midway through the sale. It is 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 of 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, 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...
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 a log is available in the export market, the seller can secure a higher possible return for his timber. In essence, the export market functions to maintain a spread between export and domestic prices.

To maximize dollar returns 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.

Enter 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.

Remember, however, that the log export market fluctuates closely with prevailing economic conditions in the exporting and importing countries. Supply and demand, currency exchange rates, and transportation costs affect the overall price of export wood. The spread in price between export and domestic markets varies according to the species and quality of export and stumpage available in the export market. The maker of this chart will make significant changes in all of these factors can go wrong. As a result, the spread in price between export and domestic markets is usually somewhat lower as well. 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.

Steps to entering the export market

- Determine what you have:
  - species
  - volume
  - quality
  - age
- Contact brokers
- Negotiate sale
- Cut and sort timber according to export specifications

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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 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.

The Woodland Workbook is a collection of publications prepared by the Oregon State University Extension Service specifically for owners and managers of private, nonindustrial woodlands. The Workbook is organized into separate sections, containing information of long-term, day-to-day value for anyone interested in wise management, conservation, and use of woodland properties. It’s available in a 3-ring binder with tabbed dividers for each section.

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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