

# Long Term Supply Agreements



And Their Role in the Wood Procurement and Supply System

# Agenda



- Introduction
- Traditional and Current Wood Procurement Systems.
- Structure and Characteristics of the Wood Supply Chain.
- Long Term Supply Agreements
- Integrating Supply Agreements into an overall procurement strategy.

## Introduction



Founded in 1950, RMS is a private timberland investment firm serving pension funds, endowments, foundations and family offices.

Our company is employee owned and managed, with ownership broadly distributed throughout the firm.

RMS is a registered investment adviser based in Birmingham, Alabama with offices across the US South, in Brazil and New Zealand.

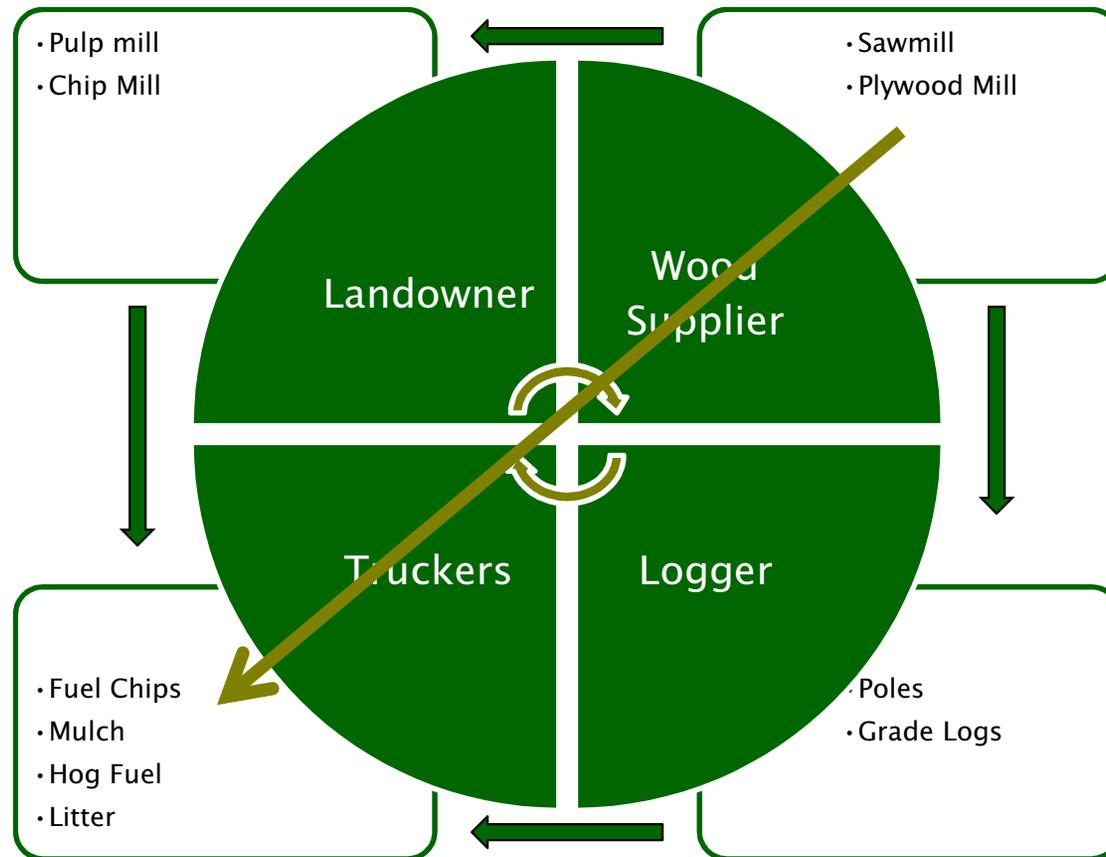
## Traditional

- Vertically Integrated Wood Procurement Systems
- Wood Manufacturing Company Ownership or Long Term Control of Timberland
- Company Ownership of Logging and Trucking Capacity.
- Forest Management Focused on Wood Supply
- Purchases of Privately Held Timber by Company Procurement Representatives on tract or gatewood basis.
- Company Owned Timber used to Leverage Prices and Mill Inventories
- Merchandising determined by Company Mill Specifications and consumption needs.
- Supplier wood purchases regulated with quotas
- Long Term Fiber Agreements Rare

## Recent

- Wood Procurement Systems based on Supply Agreements and Wood Suppliers
- Institutional and Private Ownership or Long Term Control of Timberland
- Independent Small Business Ownership of Logging and Trucking Capacity.
- Forest Management Focused on Highest Net Present Value of the Timberland Asset
- Downsizing of Forest Product Company Procurement Organizations.
- Long Term Fiber Agreements used to Leverage Prices and Mill Inventories
- Merchandising determined by product value.
- Supplier wood purchases regulated with price.
- Long Term Fiber Agreements Common

# The Wood Supply Network



- Stumpage Sales Agreement for a Particular Tract
- Stumpage Sales Agreement for a given time period.
- Posted pricing by Specification
- Gatewood
- No Penalties for non-performance other than quota or pricing in the future.
- Pricing determined by negotiation on a term, product, or tract basis

# Long Term Fiber Supply Agreements



- Multi-year agreements – Some as long as 20 years or more.
- Volume Obligations generally based some percentage of an annual minimum budget with options.
- Options for first refusal following the term of the volume obligation.
- Serious Penalties for Nonperformance
- Pricing Process
  - Tract Based
  - Alternative Purchases Based
  - Index Based
  - Arm Wrestling, High Card, Rochambeau
- Delivery Schedules
- Assignment
- Force Majeure
- Default
- Dispute Resolution

# Advantages and Disadvantages of Long Term Agreements



## Advantages

- Both supply and price are predictable – buffers market volatility
- Volume production stability offers the opportunity to build efficiencies in to the logging and delivery parts of the chain.
- Relationships between all segments of the supply chain are developed and enhanced.
- A guaranteed home for wood during market downturns.

## Disadvantages

- Limits opportunities to take advantage of spot or short term timber market volatility.
- Limits the ability of sellers to hold timber during price lows or to surge timber during price spikes.
- Limits the ability of sellers to respond to new or emerging markets.
- Pricing mechanisms can be leveraged by the agreement itself.
- Limits the ability of the buyer to develop alternative supply.

# Incorporating Long Term Supply Agreements in to a Procurement System



# Does a Long Term Supply Agreement Make Sense for You?

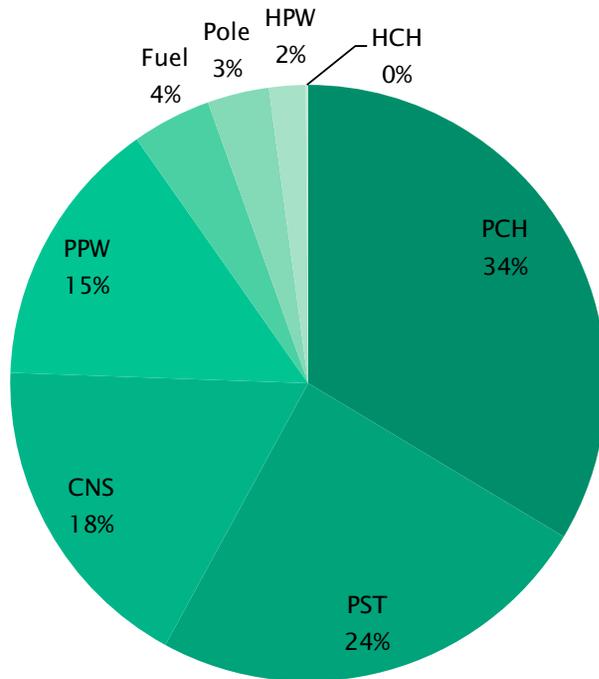


- Relative Product Values
- Relative Product abundance
- Product Mix
- Haul Distances
- Product Price Volatility
- Buyer health and reliability

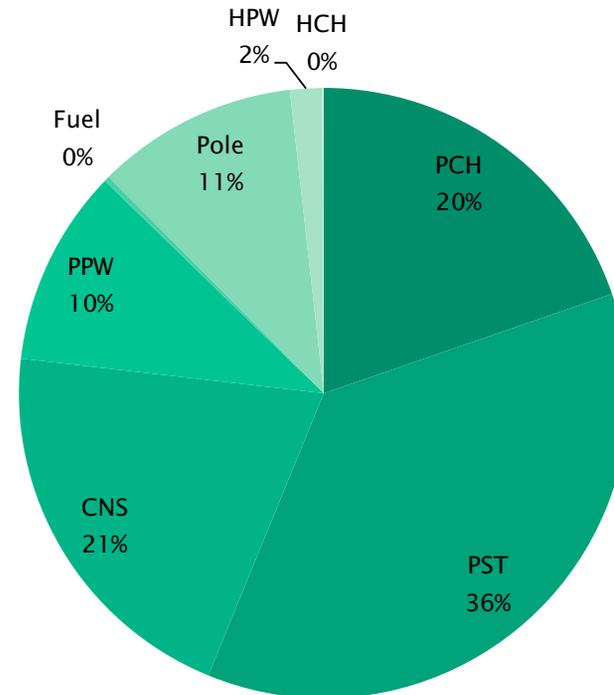
# The Impact of Relative Product Values



### Volume by Product



### Stumpage by Product



Questions?

