

## **INSTRUCTIONS OF STATE FOREST MANAGEMENT CENTRE FOR SALE OF TIMBER BASED ON LONG-TERM CONTRACTS**

### **1. General provisions**

- 1.1. The purpose of these instructions for sale of timber based on long-term contracts (hereinafter the Instructions) is to ensure that the sale of timber based on long-term contracts in the State Forest Management Centre (hereinafter the SFMC) is transparent and verifiable for bidders and that the terms and conditions thereof are equal and foreseeable.
- 1.2. The Instructions are based on the requirements provided for the sale of timber in the Forest Act and in Regulation No. 1 Procedure for Sale of Felling Rights to Standing Crop in State Forest and of Timber issued by the Government of the Republic on 4 January 2007 and determine more detailed sales organisation principles as well as criteria for the evaluation of bids.
- 1.3. The Instructions do not cover the sale of forest residuals.

### **2. Definitions**

For the purposes of these Instructions, the following definitions have the following meaning:

- 2.1. CEQ – the annual conditionally ensured quantity (calculated on the basis of the place of delivery);
- 2.2. NQ – the annual nominal quantity under a long-term contract entered into before 1 November 2017;
- 2.3. AQP – the quantity that has been declared successful at a public auction;
- 2.4. AQC – the closed auction quantity under a long-term contract entered into as of 1 November 2017;
- 2.5. forecast quantity – the annual quantity of the timber assortment forecast for sale by the SFMC;
- 2.6. reserve quantity – 15% of the forecast quantity to be left for a public auction (AQP);
- 2.7. MOK – SFMC’s application software for weighing sales decisions;
- 2.8. planning area – the set of compartments used by the SFMC in planning felling. The compartments are determined into one planning area if the transport of the timber logged therefrom takes place mostly using the same roads.

### **3. Sales organisation principles**

#### **3.1. Qualification of bidders and compliance of bids with requirements**

- 3.1.1. To participate in negotiations over a long-term contract, bidders submit their applications pursuant to the procedure and by the time limit set out in the sales notice. The applications are submitted in closed envelopes marked as ‘Application for long-

term contract' or by e-mail as a digitally signed file named 'Application for long-term contract'.

- 3.1.2. The organiser of the sale opens the applications in the place and at the time set out in the sales notice and records them in minutes.
- 3.1.3. An application must contain the data requested in the sales notice. Upon submission of incomplete data, an additional term is granted and, upon failure to submit data within the term, the bidder is not qualified and is excluded from the bidding procedure.
- 3.1.4. The bidders who have submitted an application and are in compliance with the following qualification criteria are invited to negotiations over a long-term contract:
  - 3.1.4.1. The fulfilment of purchase obligations in front of RMK during the last three years. It is applied for enterprises with whom there have been prior contracts concluded and the fulfilment of which the parties have withdrawn from or cancelled unilaterally before the end of the term. In the case of withdrawal or cancellation, the reasons for withdrawal or cancellation will be taken into account;
  - 3.1.4.2. No tax debts to the host country (enterprises not registered in Estonia have to submit certification of a competent authority of their host country);
  - 3.1.4.3. The application meets the requirements of the substantive requirements published in the sales notice and the participant has submitted written consent with the sales notice and about the Standard Terms for the Contract of Sale of Timber of RMK published on the homepage [www.rmk.ee](http://www.rmk.ee);
  - 3.1.4.4. The average gross monthly salary of the employees of the bidders is no less than 70% of the average gross monthly salary during the comparative period of the same time frame in the area of timber processing or paper and paper products;
  - 3.1.4.5. An enterprise who is processing or establishing processing of deciduous and/or coniferous logs in a country of the European Economic Area (EEA) and Switzerland or their subsidiary or parent company who owns at least 50% of the share or stocks of the enterprises processing the logs or an enterprise who is processing or establishing processing of deciduous and/or coniferous pulpwood in a country of the European Economic Area (EEA) and Switzerland or their subsidiary or parent company, or also an enterprise whose areas of activity, according to the commercial register or the report of the financial year, include the purchase, sale and mediation of timber (timber trading), and the proportion of this constitutes at least 50% of the turnover or an enterprise who is using or establishing processing of firewood in a country of the European Economic Area (EEA) or in Switzerland for the production of wooden fuels (chopped wood, pellet, wood briquettes, charcoal, etc.), energy or another type of production (wooden board, etc.), or their subsidiary or parent company, or also an enterprise whose areas of activity, according to the commercial register or the report of the financial year, include the purchase, sale and mediation of timber (timber trading), and the proportion of this constitutes at least 50% of the turnover.
- 3.1.5. No application for a long-term contract must be submitted if a valid long-term contract exists, but the bidder must be in compliance with the requirements of

clauses 3.1.4.1 and 3.1.4.2 of the Instructions at the time of the bid carried out before the start of each calendar year.

### 3.2. Evaluation of bids and publication of results

- 3.2.1. The organiser of the sale calculates for each year the assortment quantity to be sold on the basis of long-term contracts, which accounts for 85% of the SFMC's assortments quantity. Of the quantity calculated using this method, the conditionally ensured quantity (hereinafter the CEQ) accounts for 70% and the closed auction quantity (hereinafter the AQC) accounts for 30%. The calculation process of the conditionally ensured quantity is set out in clause 3.2.3. The organiser of the sale publishes information about quantity to be sold before every delivery period.
- 3.2.2. In the case of bidders with whom a long-term contract or a public auction contract had been entered into earlier, the CEQ of a new long-term contract is calculated. In the case of new qualified bidders have no CEQ then in the first year they can only participate in bidding the AQC quantity. A calendar year is divided into three delivery periods, of which the first period lasts for six months and the second and third periods last for three months.
- 3.2.3. The annual conditionally ensured assortment quantity of a bidder is calculated using the following formula:

$$\text{CEQ} = \frac{\text{the bidder's } 3\text{y (NQ+AQP+AQC+CEQ)}}{3} / \frac{\text{all bidders' } 3\text{y (NQ+AQP+AQC+CEQ)}}{3} * (\text{forecast quantity}^1 - \text{reserve quantity}) * 0.7,$$

whereas the bidder's maximum

$$\text{CEQ} \leq \frac{\text{the bidder's } 3\text{y (NQ+AQP+AQC+CEQ)}}{3},$$

where

3y – three previous calendar years;

0.7 – 70% of the annual quantity of long-term contracts.

- 3.2.4. Before the start of each delivery period and in accordance with clause 3.3 of the Instructions, the organiser of the sale determines, if necessary, the starting prices (DPU, Incoterms 2020) of the assortments that correspond to the usual value of timber, also determines estimated prices at forest roadside (EXW), bids of lower prices than the estimated prices are not taken into account, prepares a bid form and, in the case of logs, with a valid cutting scheme and sends these to bidders.
- 3.2.5. Bidders submit a completed bid form with a purchase request in terms of volume and a price bid (DPU) to the organiser of the sale by the set time limit. A bidder may make a reasoned proposal to the organiser of the sale for amending the valid purchase terms and conditions entered in the bid form and, in the case of purchasing logs, for amending the valid cutting scheme. The submitted purchase request in terms of volume and a price bid is binding until the end of the bidding procedure and a bidder cannot withdraw from it.
- 3.2.6. Based on the price bids and purchase requests in terms of volume, the organiser of the sale calculates the weighted average price (DPU) of successful bids for each

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<sup>1</sup> Spruce, pine and aspen pulpwood quantity for 2021 is not entirely included.

assortment and the prices (EXW, Incoterms 2020) of successful bids in terms of planning areas. If the organiser of the sale has determined, on the basis of clause 3.3.4 of the Instructions, starting prices and estimated prices, bids of lower prices than the starting prices of the timber assortments are not taken into account in weighing. In addition, the organiser of the sale finds, with the help of the MOK, the logistic location of the conditionally ensured quantity (CEQ) calculated for the bidder.

- 3.2.7. The organiser of the sale and bidders hold negotiations for specifying the purchase terms and conditions as well as other circumstances before entry into a long-term contract and, if necessary, before the start of each delivery period. The negotiations are recorded in the minutes and the terms and conditions set out therein serve as a basis for the evaluation of bids (the bid evaluation criteria have been listed in clause 4.1 of the Instructions).
- 3.2.8. In the course of the negotiations, the bidder is notified of the weighted average price (DPU) of successful bids for the assortment and the bidder's potentially successful CEQ. If the bidder's successful quantity is smaller than the CEQ calculated for the bidder, the organiser of the sale makes a counteroffer to the bidder for purchasing the non-successful portion of the CEQ in the corresponding planning area at the price (EXW) of the successful bidder.
- The counteroffer to be made by the organiser of the sale is calculated using the following formula:

$$\sum_{\text{plan area}} (\text{the price of the best bid} * \text{quantity}) / \text{the bidder's CEQ}$$

The price (EXW) of the planning area is calculated by subtracting from the bidder's price the difference between the sum of the bidder's price points and maximum price points. If the bidder does not confirm the counteroffer made by the organiser of the sale, the bidder's non-successful CEQ is added to the quantity of the closed auction (AQC) to be conducted in the second stage.

- 3.2.9. After successful bidders have been found in respect of the CEQ, the organiser of the sale will carry out the AQC for the available quantities of the long-term contract of the delivery period. The bidders submit, by the set time limit and upon request, a new price bid that may not be lower than the weighted average price of all successful CEQ bids. Bidders cannot change a purchase request in terms of volume. Upon failure to submit a new price bid and if the bidder's purchase request is larger than the bidder's CEQ that has been declared successful, the AQC will be carried out using the bidder's initial price bid if it exceeds the weighted average price of all the successful CEQ bids. Bids are weighed by subtracting from the price (DPU) bid by the bidder the amount that falls short of the maximum sum of the price points in euros per cubic metre.
- 3.2.10. All bidders are notified of the assortment prices (EXW) of the bidders who have been declared successful on the basis of the Instructions during the corresponding delivery period as well as the geographic location of quantities in terms of EXW broken down by the SFMC's planning areas. The total annual CEQ is disclosed with the information of the first delivery period.

- 3.2.11. If the bidder who has been declared successful refuses to perform their purchase obligation of the delivery period, they will forfeit their right to participate in the bids for the CEQ and the AQC of the next two delivery periods and, depending on the extent of the refusal and following from the standard terms and conditions of the contract of sale of timber, the organiser of the sale may withdraw from the contract.
- 3.2.12. Long-term contracts are entered into with successful bidders, taking into account clause 3.2.2 of the Instructions, and annexes to the long-term contract are entered into with bidders who have an effective long-term contract. The contracts and annexes set out the total annual CEQ, incl. the CEQ quantity won at the price of the first delivery period, the weighted average price of the first price agreement period of CEQ+AQC, the sum of the bidder's price points, the delivery schedule of the first delivery period in terms of months as well as any other agreements necessary for the performance of the long-term contract. The CEQ, the price agreement, the sum of the price points and the delivery schedule of the next delivery periods of the calendar year are executed using the same principle.
- 3.2.13. If the number of bids submitted in the AQC round is not sufficient or the prices bid in terms of the forest roadside of the planning area remain below the usual value of timber, the volume of the unsold timber will be included in the reserve quantity.
- 3.3. Determination of usual value and starting price of the timber**
- 3.3.1. Pursuant to subsection 46 (5) of the Forest Act, a negotiated price of timber may not be lower than the usual value of the timber. Pursuant to section 65 of the General Part of the Civil Code Act, the average local selling price (i.e. market price) of an object is deemed to be the value of the object unless otherwise prescribed by law or a transaction. The scope of market is defined in respect of each assortment (commodity group) as the territory where the vast quantity of the assortment is sold/consumed. As a result, market price is defined as the average selling price that develops in the respective territory. Such a territory may cover more than one country.
- 3.3.2. Pursuant to the International Valuation Standards (IVS) 104 ([https://www.ivsc.org/standards/glossary#letter\\_m](https://www.ivsc.org/standards/glossary#letter_m)), market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
- 3.3.3. Usual value is found using the price information originating from public data sources and the market transaction comparison method. Sales transactions conducted with timber of similar quality and under similar terms and conditions are compared within the last 6 months. The sources of the price information used are as follows:
- 3.3.3.1. the SFMC's price statistics of sales transactions and results of public auctions [www.rmk.ee](http://www.rmk.ee);
- 3.3.3.2. the prices of the assortments of the Baltic Sea countries published on the website of the Natural Resources Institute Finland (Luke) <https://stat.luke.fi/en/volumes-and-prices-roundwood-trade>;
- 3.3.3.3. the monthly price reviews published by the Latvian Forest and Wood Products Research and Development Institute at [www.latvianwood.lv](http://www.latvianwood.lv);

- 3.3.3.4. the quarterly reviews of the timber market published by the Estonian Private Forest Centre Foundation at <https://www.eramets.ee/uuringud-ja-statistika/hinnainfo/>.
- 3.3.4. Based on the sources listed in clause 3.3.3 of the Instructions and by evaluating the market situation, the organiser of the sale determines, prior to starting negotiations and if necessary, the starting prices (DPU) of timber assortments.
- 3.4. Processing of price bids with elements of market distortion**
- 3.4.1. A price bid with elements of market distortion is such a price bid that differs from the usual value of timber calculated using the methods and sources described in clause 3.3.3 of the Instructions or from the weighted average price (DPU) of bids found on the basis of clause 3.2.8 more than 15%.
- 3.4.2. Upon establishing a price bid with elements of market distortion, the organiser of the sale asks the bidder to provide additional information about the price formation logic and reasons therefor and explains the risks that the bidder will incur if their bid proves to be successful, but the bidder withdraws from it and fails to perform the contract later. The bidder is required to provide the organiser of the sale with such information.
- 3.4.3. The organiser of the sale has the right to remove a bid with elements of market distortion from the procedure or not to take a price bid with elements of market distortion into account upon calculating the average price and prices of successful bids and/or reduce the price of the respective bidder to the level of 115% of the weighted average CEQ price. No restrictions are imposed on bids with elements of market distortion in the AQC stage.
- 4. Evaluation criteria and price points**
- 4.1. Criteria for evaluation of bidder's bid upon selling timber based on long-term contracts and price points to be given for these

Criterion to be evaluated \	Price point	Piled timber	Logs
The receipt of timber is ensured in the delivery period without a break of more than two weeks.		1	1
Purchasing FSC and/or PEFC certified as well as uncertified timber without limitation.		3	3
Claim for financial compensation filed within the last 12 months due to a long-term breach of the rules for the measurement or quality assessment of timber and ascertained by the SFMC.		-3	-3
An invoice for default interest submitted by the SFMC within the last 12 months.		-1	-1
The lengths purchased in respect of conifer logs: three or more, incl. the share of the lengths according to the SFMC's log standard cutting matrix, or the lengths purchased only <4.2 m, and the lengths purchased in respect of deciduous logs: two or more (the lengths whose volume accounts for at least 10% of the total volume are taken into consideration) or the length purchased in the case of birch logs ≤3.2 m, aspen and black alder logs ≤3.0 m, and the share of deciduous logs of >3.3 m up to 40%		-	3

The consecutive diameter groups purchased in respect of conifer logs: three or more; or two; or one.	-	3 1 0
Restrictions on sorting and loading conditions: the lengths need not be sorted out separately and the tree tops need not be turned to one direction; the lengths separately (does not apply to pole purchasers) or tips of tree tops in one direction; the lengths separately and the tree tops in one direction or different lengths related to a different diameter range.	2 1 0	2 1 0
Receipt in the place of delivery is ensured during the delivery period, except for public holidays and the agreed holiday: From Monday to Sunday; From Monday to Saturday; From Monday to Friday.	2 1 0	2 1 0
Pulpwood and/or firewood is/are processed in a company owned by the bidder or their parent company that holds at least 50% of the bidder's shares.	3	-
Maximum total price points	11	14 conifer 11 deciduous

- 4.2. The organiser of the sale determines the value of a price point in euros per cubic metre before the start of the first delivery period of a calendar year. The price points are added up and the sum received is multiplied by the value of a price point. The amount received is used upon comparing the CEQ when making a counteroffer concerning the price and carrying out an AQC offer between all bidders.