

RESEARCH ON ASSESSING ADVERTISED PRICE OF WOOD BY STEM

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ABSTRACT

The paper presents the three main principles invoked for assessing the timber value, regardless what type of timber is sold: stumpage or logs at the road side. The transaction analysis, full cost principle and residual value principle are briefly described along with their advantages and disadvantages. Regarding the transaction analysis approach, three forms widely referred to in literature are presented, namely: average bid premium, average winning price and hedonic price method (a pure statistic technique). A special concern is given to the implementation issue of the three methods, as the existing data bases of the National Forest Administration can be employed in improving the pricing system of timber.

The second section deals with some particularities of timber market such as oligopsony and biased timber demand structure (low demand for thin logs provided by thinnings). Mixed methods such as full cost and transaction analysis or hedonic price combined with average bid premium are more suitable in such circumstances than pure form methods. It is also highlighted that a market cannot be improved by transaction analysis pricing system, and a profound analysis of managerial alternatives can be more useful where the market is slack.

Transaction analysis, widely debated in literature, is a time demanding technique, and a reliable result depends to a great extent on the analyzer's experience in econometrics. As both secondary and main yields are mainly sold as wood by stem and many new logging companies have a little experience in timber appraisal, the accuracy of predicting the winning price is poor in many cases. A

rough procedure, also oriented towards the market signals is the bidding premium method, which takes into account mainly the average difference between the starting price and the winning price. Combined with the traditional full cost method, this procedure can be used to direct the logger towards commercial thinning.

Finally, a scheme addressing the problem of compatibility between the market characteristics and the advantages and disadvantages of the presented methods is drafted.

Keywords: assessing methods, wood by stem, average bid premium, transaction analysis, starting price, winning price.