

Strategy and Procedure for implementation of the Revised Timber Marketing and pricing policy

1.0 Introduction

The Revised Timber Marketing and Pricing Policy (hereinafter referred as "Revised Policy") has been announced by the Ministry of Agriculture (MOA), to be implemented from January 1, 1999. The revised policy supercedes the existing policy for timber marketing and pricing, except for the timber for rural house construction, for which revised policy guidelines will be issued separately.

2.0 Objectives

The objectives of the Strategy and Procedures are to ensure that the revised policy is implemented in its true spirit. The strategy and procedures prescribed in the subsequent paras will be applicable for all types of transactions in timber and timber products, except for the timber allotted for rural house construction. The procedures will come into force from January 1, 1999, including the forms and formats prescribed hereunder.

3.0 National Forest Policy

3.1 The National Forest policy stresses the need to manage forest resources on a systematic and scientific manner, and recognizes that effective management will require allocation of the land base to several management practises, such as conservation areas, watershed protection forests, production forests and community forests. The policy recognizes the importance of effective peoples' participation to ensure that multi-purpose forest management becomes a reality. The forest policy also proposes a more rational economic valuation of forest resources as a means of promoting efficient domestic use and development of viable forest based industries.

By. Com. O.D.
For 1999.

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3.2 The major focus of the National Forest Policy is to bring all forest of the country under scientific forest management system. To achieve this, requirement of approved forest management plans, as a condition, for any commercial harvesting of forest produce has become imperative. Consistent with the above statement, the primary objectives of the management planning are:

- To conserve the environment;
- To ensure a sustainable supply of timber, fuelwood and animal grazing and non-timber forest products for the local consumption;
- To allocate sustainable forest production in excess of local needs to promote value-added forest based industries.

3.3 A number of important criteria have been developed to guide the development of these forest management plans in order to achieve the above mentioned objectives:

- ▶ Managed forests should attempt to satisfy local requirements for timber, fuelwood, grazing, fodder, compost litter and other traditional uses as a first priority;
- ▶ Forest will be managed for long term sustainable yield, with allowable harvest calculations based on a detailed forest inventory and scientific growth and yields studies;
- ▶ Forest harvesting systems should ensure environmental protection by minimizing soil erosion and land degradation, protecting natural drainage systems and avoiding permanent changes in the composition of vegetative species;
- ▶ Forest management will be holistic and will consider not only the production of forest commodities but also watersheds protection, wildlife conservation, maintenance of biodiversity and social uses;
- ▶ Silvicultural systems should ensure regeneration of the principal species by natural means and only if natural regeneration is not obtainable should artificial regeneration techniques be adopted;

3.4 The Forestry Services Division (FSD) implements the approved management plans through the Territorial Forest Divisions and its authorized agencies like Forestry Development Corporation (FDC). The timber and fuelwood available in the country are produced as a result of the following activities that are envisaged in the forest management plans:

Sources of
Timber

- ▶ Implementation of the forest management plans.
- ▶ Sanitation/salvage operations in the epidemic affected areas;
- ▶ Patch felling on a piece meal basis in the forest areas such as road alignment, transmission lines for electricity, forest land allotted to industries, etc.

4.0 Highlights of Revised Policy on Timber Marketing and Pricing

4.1 The revised policy guidelines on Timber Marketing and pricing is enclosed as Annexure 1.

4.2 The important provisions of the revised policy are given below:

- ✓ a. The MOA will continue to harvest and market timber.
- b. The sale of timber will be conducted through open auctions.
- c. Only Bhutanese Citizens will be allowed to participate in the auction
- d. The buyer will be allowed to decide on usage of the timber within the country.
- ✓ e. Export of timber in either log form or sawn timber form or as firewood will be banned.
- ✓ f. Timber price will be determined by market forces based on the demand and supply.
- ✓ g. MOA will intervene, depending on the circumstances and situation to stabilize the prices.
- h. A revised system for the supply of timber for rural house construction will be implemented from July 1, 1999.

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5.0 **Institutional arrangement for implementation of the Revised Policy**

5.1 The Forestry Services Division (FSD) under the MOA will be the focal Government Agency responsible for implementation of the revised policy guidelines.

5.2. The FSD has been authorised to implement approved Forestry Management Plans and other activities, such as, sanitation and salvage operation, Silvicultural operation etc., through which the timber and related forest products are produced. The Government Agencies authorised by FSD/MOA, from time to time, will be responsible for marketing the timber and related forest products in accordance with the prescribed procedures.

5.3 The Forestry Development Corporation (FDC), Integrated Forest Management Project (IFMP) and Integrated Forest Development Project (IFDP) are the authorised Government agencies. The list of authorised Government agencies may be modified in future, depending on the requirement.

5.4 The regulatory functions under the Forest and Nature Conservation Act 1995 will be carried out by the FSD through its agencies, such as, Divisional Forest Offices and other authorised Units.

6.0 Auction procedures

The following procedures will be followed for conducting auctions by the authorised Government Agencies.

6.1. Place of Auction

Auction will be conducted at prescribed locations, which will be approved by the Head of FSD. Generally, such auctions are to be conducted at various locations in the country, to reduce transport cost and to ensure availability of the timber to the local consumers. Depending on the FMUs, atleast one auction centre should be identified for each Dzongkhag for auctioning the timber.

6.2 Proposal for conducting the Auction

When a reasonable volume of timber is available at the depot/auction centers, the respective authorised Govt. agencies will submit proposal to the Head of FSD for conducting the auction. The proposal should include the following information:

- Place of Auction
- Date of Auction
- Total quantity and type of timber to be auctioned
- Lotwise details
- Present market conditions
- Reserve price for each lot
- Estimated sale price and value
- Any other relevant information

Based on the proposal received from the authorised Govt. agencies and prevailing market condition for timber within the country, the Head of the FSD will decide on the proposal for conducting the auction.

6.3 Lot formation

As per the policy guidelines, timber is to be auctioned in small volume, as practically possible, to encourage small consumers to take part in the auction. In accordance with this policy guidelines the authorised Govt. agencies will decide on lot size, with the approval of the Head of the FSD.

6.4 Notice of Auction

The authorised Government Agencies will issue notice of auction through Advertisement in the local Newspaper and other mass communication methods available, such as, BBS, DYY/GYT meeting etc. The notice of auction should be issued atleast two weeks prior to the date of auction.

6.5 Auction committee

The authorised Government Agencies will form auction committee comprising the following members:

- Concerned Divisional Forest Officers
- Representative of Authorised Govt. Agencies
- Representative of Dzongkhag Administration
- Representative of Revenue & Custom Division.
- Representative of Royal Bhutan Police
- Representative of Ministry of Trade & Industry
- Any special invitees (to be decided by Head of, the FSD)

The quorum for the Auction Committee meeting is five (5) members present. The Auction Committee is empowered to finalise the auction price upto the reserve price fixed for each lot, which should have been approved by the Head of FSD. The Committee members will select the Chairman of the Auction Committee.

6.6. Terms and conditions of Auction

The standard terms and conditions applicable for auction is given in Annexure 2.

Any additional terms and conditions to be incorporated, depending on the situation and circumstances will be proposed by the authorised Government Agencies. The same will be incorporated in the terms and condition after approval by the Head of the FSD.

6.7 Auction Report

The authorised Government Agencies will submit a report on the auction conducted to the Head of FSD in the prescribed format.

7.0 Regulation of timber prices

7.1 Reserve price

The authorised Government Agencies shall fix the reserve price for each lot. The reserve price will be fixed based on the cost of production including the royalty and 5% of profit margin. The reserve price will be approved by the Head of the FSD, prior to conducting the atiction.

7.2 Reserve price for timber with cull

Timber with cull will be assessed by a Technical Committee comprising the concerned DFO, the representative of the authorised Government Agencies and Representative of the FSD Headquarter (wherever required). The objective of ascertaining the cull percentage is basically to make adjustments in the reserve price. Based on the assessment carried out by the Technical Committee, the reserve price will be proposed by the authorised Government Agencies to the Head of the FSD for approval.

7.3 Confidentiality

The information on reserve price is to be kept highly confidential by the authorised Govt. Agency and the officials involved in fixing the reserve price. In case of leakage of information on reserve price, the officials responsible for the lapse will be penalised.

7.4 Unsold timber and rejected timber

The timber lot which could not be sold in the auction will be included in the next immediate auction. The timber which cannot be sold in two consecutive auctions will be referred to the Head of MOA through Head of FSD with full details.

7.5 Information on price and market condition

The FSD will be responsible to monitor the timber prices in the country. The authorised Government agencies will be responsible to provide information on timber price and market condition to the FSD. The FSD will be responsible to take all required actions to avoid abnormal variations and to stabilise the timber prices. The FSD will be responsible to submit information at the National Level on timber prices and market condition to the Head of MOA in time.

8.0 Timber marking

8.1 For marking the timber the following timber marking hammers will be used.

- a. Standing tree marking
- Rural
- Auction

- b. Passing hammer (stump site to depot)
 - Rural
 - Auction
- c. Sale hammer (for auction only)
- d. Seizure hammer
- e. Export
- f. Import

8.2 The designs of the hammers to be used are given in Annexure 3. The usage for different types of hammer will be as follows:

- a. The standing tree marking hammer is to be used for marking the standing tree (for harvesting). Different marks are to be used for rural allotment and for auction sales.
- b. Passing hammer is to be used for marking harvested timber and for transporting the timber from stump site to the depot/rural house construction site. Different marks are to be used for rural and auction purposes.
- c. Sale hammer is to be used for marking the timber confirming the sale in the auction.
- d. Seizure hammer is to be used for confirming seizure of timber for violation of rules and regulations.
- e. Export hammer is to be used for marking the timber confirming export, authorised by the MOA.
- f. Import hammer is to be used for marking timber imported from outside the country, authorised by the FSD.

FSD will provide timber marking hammer to the DFOs with clear indications of the Dzongkhag (in abbreviated form) to indicate the sources/Dzongkhags from where the timber has originated.

✓ 9.0 Movement of timber

9.1 The FSD through its units such as DFO, Range Office, Check Post etc. will be responsible to monitor movement of timber within the country. To facilitate smooth movement of timber within the country and to avoid misuse of rural timber for other purposes, the following procedures will be adopted.

- a) The authorised Government Agencies will issue Timber Release Order cum Certificate of origin (TROCO) in the prescribed form on realization of the full auction value. Purchaser will have to deposit the full auction value for the lot, prior to issuance of TROCO.
- b) For one lot only one TROCO is to be issued.
- c) The TROCO will also identify the source of timber and will serve as the certificate of origin.
- d) The authorised Government Agencies will issue Internal Timber Movement Order (ITMO) for each truck load of timber released to the purchasers against the TROCO.
- e) The purchaser will be allowed to use their own printed documents to identify the timber originally brought from the open auction and subsequently sold to other parties.
- f) Any timber movement within the country should be accompanied with the following documents:
 - A copy of TROCO/Imported Timber Movement Order.
 - Original invoice/cash memo of the private agencies selling timber

9.2 Any timber movement without the documents prescribed in 9.1.f will be liable for seizure and punishment as per the provision of Forest and Nature Conservation Act 1995.

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10.0 Timber Movement Forms and Records to be maintained

10.1 Timber Movement Forms

To facilitate smooth movement of timber within the country, the following forms will be used.

Form No.	Name of the Form	Purposes/Remarks	Annexure
FSD-01	Timber Release Order Cum Certificate of Origin	To confirm sale of timber in the auction and to certify the origin of timber.	4
FSD-02	Stump to Depot Timber Movement Order	To facilitate timber Movement from Stump to Depot	5
FSD-03	Internal Timber Movement Order	To facilitate Timber Movement within the country, such as, Depot to Depot in same Dzongkhag or Depot to Depot in different Dzongkhags.	6
FSD-04	Export Timber Movement Order	To facilitate and identify timber for export purpose based on specific approval of the MOA	7
FSD-05	Imported Timber Movement Order	For facilitating Movement of timber imported from other countries	8
FSD-06	General Permit	To facilitate movement of non-timber forest products, such as, boulder, sand, etc.	9

The above forms are mandatory statutory forms to be used for timber movement. Timber Movement not accompanied with relevant statutory forms will be liable for seizure. The specimen forms are enclosed as Annexure indicated in para 10.1 above.

10.2 Records to be maintained

The following records are to be maintained and report submitted to the appropriate authority by the authorised Govt. Agency, particularly for the auctions conducted:

Form No.	Particulars	Annexure No.
FO-01	Timber Lot statement	10
FO-02	Statement of assessment of cull	11
FO-03	General Auction List	12
FO-04	Bid price statement	13
FO-05	Auction Result Report	14

Specimen of the above records/reports are enclosed as Annexure indicated in Para 10.2 above.

11.0 Specification for the Finished and Semi Finished Products of timber

As per the revised policy, only finished and semi finished products of timber will be allowed to be exported. The specification/description of the finished products and semi finished products of timber that will be allowed for export are given below:

11.1 Finished Products

Particle board
Plywood
Broom Handle
Lathe Turned Railings

Tables Chairs, Showcase, Wardrobe, Sofa-sets, Wooden Almirah, Dressing Tables, Meat-safe and other such finished furniture.

11.2 Semi-Finished Products

Doorframes: both side plained, tongued and grooved, ready for assembly, maximum height 7', maximum width 4'

Window frame: both side plained, tongued and grooved, ready for assembly, height 4', maximum width 6'.

Doors and window panel: both side plained, tongued and grooved, ready for assembly, maximum height 7', and maximum width 6'

Flooring panel: maximum thickness 1.5", maximum width 6", one side or both side plained, half joint cut, can be of any length

Ceiling beats: maximum thickness 1", maximum width 2.5", can be of any length

Cross-arms: maximum length 10', holes for nut and bolt, treated with chemical.

Wall panel: maximum thickness 1", maximum width 4", can be of any length, one side plained and grooved.

* Veneer: (to be added thru amendment-}

* Packing boxes: do —

12.0 Strategy for implementation of Revised Policy

The following strategy may be considered for the successful implementation of the revised policy:

12.1 Training of Forestry Staff

It is essential that the Forestry staff at all level are clear about the revised policy and procedure to be adopted, forms to be used, records to be maintained etc. For this purpose training programme need to be conducted at various levels before the effective date for implementation. For this purpose FSD should work out a training schedule for completing the training latest by 2nd week of December 1998.

12.2 Printing of Forms

The existing statutes forestry forms are to be replaced by the new form prescribed in the procedures. The statutory forestry forms are to be printed and issued centrally from the FSD. The forms should be available at various locations prior to implementation of the revised policy. For this purpose printing of forestry forms need to be taken up on priority basis. With the introduction of new forestry forms, the old forestry forms are to be withdrawn from the entire country.

12.3 Timber Marking Hammer

Under the revised policy, a new set of timber marking hammers have been prescribed. This implies that the new set of timber marking hammers should be made available to the forestry staff prior to effectiveness of the revised policy. Further, old timber marking hammers are to be withdrawn from various locations throughout the country.

12.4 Internal Records

With the introduction of revised forestry forms and records to be maintained, the internal records presently maintained at various units of the FSD will undergo change. The FSD should work out the details of internal records to be maintained by the Units. This also needs to be explained during the training session.

12.5 Suspension of timber Movement

To make the above changes, particularly withdrawal of old forms and hammers and to introduce new forms and hammers, suspension of timber movement within country for a period of 7 days from 25.12.98 to 31.12.98 may be considered. If the change over is not effected smoothly, problems are foreseen in Timber Movement during the change over period. However, for timber auctioned prior to 31.12.98, the old forms and hammer will continue to be utilised. Lifting of timber auctioned prior to 31.12.98 should be completed on or before 31.3.98.

MINISTRY OF AGRICULTURE
ROYAL GOVERNMENT OF BHUTAN
THIMPHU: BHUTAN

TIMBER MARKETING AND PRICING POLICY

1. BACKGROUND

The last three decades of planned development has brought about significant changes in the socio-economic condition of the people of Bhutan. Tremendous progresses have been made in all the sectors including the Renewable Natural Resources Sector. In line with the economic development and the changed socio economic conditions, there is a need to review the economic policies that were put in place at the beginning or during the early years of planned development.

The present Timber Marketing and Pricing System has served its purposes till now; but in the light of the changes in the socio-economic condition and the developments in the economy, there is a need to revise the policies to facilitate the move towards a free market economy. Even though Bhutan is rich in forest resources, significant progress in the development of wood based industries has not been achieved. This revision is aimed at improving the transparency in the system, encouraging local timber based industries and providing equal opportunity to all Bhutanese nationals in accessing the forestry resources.

Presently, because of the lucrative export market for prime timber, there is shortage of timber in the market for local consumers. The present system is geared more towards revenue generation through export of prime timber, which compromises the national policy objectives of forest conservation and promotion of local industries for enhancement of economic growth. The present system involves lengthy procedural formalities, including voluminous paper work often causing inconveniences to the consumers.

Further, there is a need to eliminate misuse of subsidies on timber for rural house construction, provided under the present policy. Diversion of subsidised timber to urban areas and availing of subsidised timber more than the entitlements are some of the loopholes in the present system. While it is important to provide subsidies on timber for rural house construction, it is equally important to ensure that the misuses of the subsidies are eliminated.

2. OBJECTIVES OF THE POLICY

2.1. Long Term Objectives:

The Long Term Objectives of the Timber Marketing and Pricing Policy are:

- a. To facilitate in establishing economically viable timber based industry through effective Timber marketing and pricing system,
- b. To enhance sustainable use of forest resources by balancing commercial utilisation with environmental conservation,
- c. To generate employment and enhance the income of Bhutanese citizens from the forest resources, and
- d. To ensure equity and fairness to all Bhutanese citizens in accessing opportunities from the forest resources.

2.2. Short Term Objectives:

The Short Term Objectives of the Timber Marketing and Pricing Policy are:

- a. To make the timber available to Bhutanese consumers on a timely basis and with minimum formalities,
- b. To ensure fairness, equity and transparency in timber marketing and pricing, and
- c. To encourage the establishment of local timber based industries.

3. PROVISIONS OF THE TIMBER MARKETING AND PRICING POLICY

As per the provisions of the Forest and Nature Conservation Act, 1995, commercial production of timber will be undertaken by the agencies of the Ministry of Agriculture only based on approved Forest Management Plans.

3.1 Sale of Timber and Usage

- a. The Ministry of Agriculture, through its agencies, will continue to harvest and market timber.
 - b. Sale of timber will be conducted through open auctions by the timber producers.
 - c. Only Bhutanese citizens will be allowed to participate in the auction.
 - d. Timber will be auctioned in small volumes, as practically possible, to encourage small consumers to take part in the auction.
 - e. The buyers will be allowed to decide on the usage of timber purchased in the auction within the country.
 - f. Export of timber in either log form, sawn form or as firewood will be banned. Only finished or semi-finished products will be allowed to be exported.
- 10

- g. Auctioned timber will be properly labeled, to identify the auction depot, type and grade of the timber.
- h. Free movement of timber within the country, including logs and sawn timber, with proper documents will be allowed.

3.2 Pricing of Timber

- a. Timber prices will be determined by market forces based on demand and supply.
- b. Ministry of Agriculture will intervene, depending on the circumstances and situations, to stabilise the prices.
- c. Prices of finished and semi finished goods of wood based industries will be decided by the manufacturers.

3.4 Timber for Rural House Construction

- a. Timber for rural house construction will continue to be supplied at subsidised royalty rates in force from time to time.
- b. Timber will be allocated for rural house construction based on standing trees throughout the country.
- c. The beneficiaries will arrange for timber extraction, sawing, etc.
- d. The rural timber allotted at subsidised royalty will be clearly marked as such and strict supervision will be exercised over its ultimate use.
- e. Misuse of rural timber allotted at subsidised royalty rate will be viewed very seriously and the offenders will be penalised, in addition to forfeiting their future entitlement for subsidised timber.
- f. To streamline the system of allotment of timber for rural house construction, entitlement, end use and safeguards to be incorporated in the system, the Ministry of Agriculture will conduct a review of the present system.


Will be deleted
& amendment will
be issued by
MoA. Continue
the same practice
will be
followed
till June 1999


3.5 Supervision and Monitoring

- a. The Ministry of Agriculture, through its agencies, will supervise and monitor the system.
- b. The Ministry of Agriculture will frame rules, regulations and guidelines, within the framework of policy guidelines, for the purposes of monitoring, supervising and regulating the timber marketing and pricing functions.

3.6 Implementation Schedule

- a. The Timber Marketing and Pricing Policy guidelines will come into force with effect from January 1, 1999.
- b. The Ministry of Agriculture will undertake a study on the supply of timber for rural house constructions and revise the system, based on the findings and recommendations of the study. The revised system for supply of timber for rural house constructions will come into force from July 1, 1999.
- c. The Ministry of Agriculture, through its agencies, will work out the modalities of transition from the present system to the revised system.


Kinzang Dorji
Minister



Terms and conditions of Auction

1. All interested purchasers have to deposit an amount of Nu as earnest money at the entrance of auction hall and get their name enlisted to qualify themselves for participating in the sale. This amount of earnest money will be refunded to the purchaser at the close of the sale or as and when the bidder declares that he/she is no longer interested to participate in the auction.

2. Inspection of Lots

Interested purchasers are requested to inspect the lots and scrutinize the contents of the sale list before purchase and satisfy themselves completely regarding the quality and quantity of the produce they intend to purchase. Under no circumstances any complaint about the produce will be entertained once the sale is accepted by the authority concerned.

3. Authority of Auction committee

The Committee is not bound to accept the highest sale price offered for lot/lots and also not bound to assign any reasons for the acceptance or rejection of the sale price offered.

4. Payment

The payment shall be made by the purchaser in form of demand draft drawn in favour of the No Bank deposit counterfoil and cheque will be accepted.

*Demand draft
H&A cash is
acceptable*

5. Schedule of Payment

20% sale value will be realised at the fall of hammer/acceptance of the sale against each lot and the balance 80% shall have to be deposited, as indicated in the settlement order, based on the sale value of the lot. The Timber Release Order Cum Certificate of Origin will be issued after receiving the full sale value for the Lot.

6. Material to remain at the risk of purchasers

After the date of signing the agreement the materials will remain at the depot at the risk of the purchaser. All other additional taxes will be payable to concerned authority by the successful purchaser.

7. Consequence of Non-payment

Failure to deposit of 20% sale value in cash as provided in clause 5 shall render the sale invalid and the purchaser will be debarred from further participation in auction. The lot/lots so affected shall be resold at the discretion of the committee. Advance of 20% sale value will be forfeited in case the purchaser fails to deposit the balance 80% within the time given in the settlement order and sale will be treated as cancelled.

8. Sale

This sale is open to only bonafide Bhutanese citizens.

9. Removal of Timber

No timber shall be removed from the lot/lots until Timber Release Order Cum Certificate of origin of the timber is obtained from the concerned Issuing Authorities.

10. Illegal activities

The purchaser or his employees shall be liable to be punished under Bhutan Forest and Nature Conservation Act and other law of the land for any illegal act committed by them.

11. Suspension and Penalty

In case of any illegal activities done or being done by the purchaser or his employees, the seller reserves the full authority to issue a suspension order against the activities of the defaulter till the investigation of the case is completed and there after to penalise the contractor if felt necessary in the event the contractor is proved guilty of the offence.

12. Settlement of Disputes

In case of any dispute the decision of the Head of the Forestry Services Division shall be final and binding on both the parties.

13. Purchases' Agent

Name and address of any person appointed by the purchaser as his agent/agents be reported to the seller along with their specimen signature duly attested by the purchaser for this approval. The seller will have the discretion to approve or reject such appointment.

14. Compensation

No claim for any compensation whatsoever will be entertained to the purchasers for any loss due to natural calamities at any stage.

15. Lifting of Timber

The timber auctioned is to be lifted by the purchasers within 30 days from the date of auction. In case of genuine problems, the lifting period may be extended from the time given in settlement order in the following manner, if the purchasers apply for extension:

- a. First 30 working days on realization of extension fee of 1% of the value of the unlifted materials.
- b. Further 30 working days on realisation of extension fee of 3% against the value of the unlifted materials.

If the purchaser fail to lift the timber within 90 days from the date of auction, the seller will forfeit 20% sale value deposited by the purchaser and the sale will be cancelled.

16. All other taxes as applicable from time to time in Bhutan will have to be paid by the purchaser at the time of lifting of timber in the offices authorised to collect such taxes.
17. The purchaser will not be allowed to export the timber purchased through the auction either in Log form or in sawn timber form or as firewood.