

Institute For Sustainable Forestry

Sustaining Forests and Jobs: A Few Words to the Wise

The *Institute for Sustainable Forestry's* (ISF) goals promote forest management that contributes to the long-term ecological, economic and social well being of forest communities on the North Coast of California. Our primary constituency is non-industrial landowners. We note that many of these landowners actively maintain public trust values in their forest management practices and provide a variety of forest and ecosystem products and services to the county, the state, and society as a whole. For the past ten years we have worked to promote market-based incentives to encourage sustainable forest management: primarily Forest Stewardship Council (FSC)/SmartWood certification and markets for native hardwoods.

Based on knowledge gained from this experience we do not believe that environmental regulations are the primary cause of current difficulties in the timber industry. Nor do we believe that regulatory relief alone will be sufficient to protect timber and wood products jobs and businesses. Therefore, we offer the following observations regarding overall trends in the timber industry, and a few suggestions for initial steps we can take as a county to enhance the sustainability of our resources and our economy. An earlier version of this paper including links to informational sources can be accessed on our website at <http://www.newforestry.org/>.

Current forest industry trends include (see below for a brief analysis):

- » Global oversupply of wood products leading to low market prices.
- » Global overcapacity of production leading to curtailments and mill closures throughout the west.
- » Increasing volume and production efficiencies in surviving mills in the west / declining employment per production unit. In spite of curtailments production capacity has not fallen.
- » Increased availability of low-cost imported sawlogs in local markets due to US/Canadian softwood lumber dispute negotiations and tariffs on Canadian lumber imports
- » Increasing intensity of regulatory conflicts in CA as producers are squeezed between low market prices and relatively high production costs in the western US.

ISF Conclusions - As a high number of mill closures for Oregon and Idaho demonstrate, relief from the burden of California regulatory law is not likely *by itself* to keep our local mills open, or to maintain adequate sawlog prices for Humboldt County non-industrial landowners. If the high-volume, high-efficiency mills have increased access to supply, they might be able to compete in global commodity markets. However, this is not likely to increase sawlog prices for non-industrial landowners, the number of local timber harvesting jobs, or regional timber industry employment. *To keep productive non-industrial forestland, local mills, and timber jobs intact, we must find ways to offset landowner costs, and increase landowner income. We need policies that enable non-industrial landowners to grow high-quality timber and sell sawlogs in local markets at market prices at a profit.*

ISF Recommendations - To maintain timber jobs, mill jobs and economically viable sustainable forestry on non-industrial lands, we need a concerted effort to:

- » Develop county policies and lobby for state policies that decrease regulatory costs for landowners who have a strong record of 1) complying with land use regulations, and 2) maintaining public-trust values on their forest properties. We believe that Forest Stewardship Council certification is an appropriate starting point for documenting good management practices, and establishing eligibility for relief from regulatory costs.
- » Create policies to reward landowners who can document that they are providing some of these ecosystem products and services: clean water, clean air, viable wildlife habitat & commercial fishery spawning grounds, and carbon storage.
- » Develop county land-use policy to explore a zoning category that includes integrating clustered residential development with active timber management. This could be one method to maintain productive forestland while skyrocketing real estate prices persuade landowners to subdivide.
- » Engender county support for economic diversification that reduces our need to import products from other areas, and develop export base clusters such as forest products and commercial fisheries.
- » Include forest and stream restoration in county development goals. This will create jobs, offset current losses in environmental integrity and equity, and support exports of local products. Restoration projects should be eligible for Headwaters funding proposals.

Brief Analysis of Current Trends

Global Oversupply and Overcapacity

There is 10% over capacity in the forest product industry worldwide and an over-supply of lumber in world markets. "There's a shift toward low-cost regions, particularly the Southern Hemisphere, China and Russia. There will be more migration away from North America." (Craig Campbell of the PWC forest products consulting group). PriceWaterhouseCooper found that profits fell by 50% in the global forest products industry last year (2002).

This helps to explain why lumber prices have remained low in spite of very active housing and building markets throughout the US. While California consumes more wood than it produces, the availability of low-cost lumber in global markets helps to keep California lumber prices low.

This may be good for consumers, but it hurts Humboldt County timber producers and workers.

Capacity / Curtailments

We are seeing a consolidation of production capacity in larger, more efficient production facilities. A recent U.S. Forest Service publication documents that 12 mills closed in California between 1995 and 2002. An additional 69 mills closed throughout the western states. In the same time period 6 new mills opened in the western states—one in California. Nonetheless, in the west production capacity was slightly higher in 2002 than in 1995.

This helps major producers, but hurts mill workers.

Production Efficiency

According to a Spokane Spokesman-Review article on 2/16/2003: "Mills here are less cost competitive," said Richard Haynes, an economist at the U.S. Forest Service's Pacific Northwest Research Station in Portland. "There are three major players -- Canada, the South and the West. Two of them are doing better than the third, because they can do things cheaper." Survivors in the battle of the mills are extremely efficient. They've cut labor costs and increased production through automation... "The ones that closed tended to be older mills, mostly smaller mills," Spelter said. "They weren't making money relative to the cost of doing business."

Again, this is good for consumers, but bad for older mills and their workers.

US/Canada Softwood Lumber Dispute

The primary source of imported lumber products in the US is Canada. When the US / Canada Softwood Lumber Agreement expired in 2001, the US Department of Commerce determined that elements of Canadian forest policy subsidized Canadian lumber coming into the US. In May 2002, the Department of Commerce imposed a total average tariff of over 27% on Canadian lumber coming into the US. The US indicates it will remove these barriers to trade between the US and Canada when Canada brings its forest policy in line with market-based principles. There are no tariffs on imported Canadian sawlogs. US policy is in line with the US based Coalition of Fair Lumber Imports (FLI) lobbying group objectives:

The U.S. lumber industry has consistently made clear that all that is needed to resolve the softwood lumber dispute is for the Canadian provinces to sell their timber in a truly open and competitive market...Canada's trade practices in softwood lumber are not fair and won't be until the subsidies end and there is open and free competition for timber as well as lumber.

At issue are stumpage prices paid to the Canadian Provinces by Canadian forest product companies. If stumpage paid is artificially low this constitutes a government subsidy, which is illegal under the North American Free Trade Agreement. In the short term Canadian sawlog prices remain low and recent changes in Canadian tenure policies increase access to Canadian sawlog markets for US companies.

This is good for the consumer, including US mill owners, but difficult for Humboldt County non-industrial landowners and timber workers.

Low Cost Sawlogs in Local and Regional markets

Low-cost imported sawlogs help mill owners compete in a commodity market heavily impacted by low-cost imported lumber and therefore help to keep local mills open. These mills provide employment for local mill workers and markets for local sawlogs. However the increasing availability of imported sawlogs also affects the local and regional timber economy in negative ways: 1) sawlog prices have fallen and remain low making it difficult for non-industrial forest landowners to harvest timber profitably, 2) as landowners delay harvests until sawlog prices improve, timber yield tax income for the county declines and licensed timber operators, log truck drivers, and equipment repair men work less.

This time it's mixed. We need local mills to stay open to have markets for sustainably harvested sawlogs, but this is still imported low cost logs reduce profits for local landowners and employment for timber workers.

Regulatory Relief

Local non-industrial landowners, caught between rising costs and declining incomes, are increasingly searching for ways to remain competitive in tight lumber and sawlog markets. Environmental regulations are presented as a costly threat to maintaining industry employment levels and mill operations.

ISF notes that landowners who maintain the public trust values that regulations are designed to protect incur significant costs to do so. Yet they receive no income for providing environmental products and services such as clean water, clean air, wildlife habitat (including commercial fisheries spawning habitat), and carbon storage/sequestration. Each of these elements carries opportunity costs for the capital value of the property, taxes, etc., even if no timber harvesting or other economic activity takes place.

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