

Oregon Business Plan 2007

Federal Forest Restoration Initiative

Boxed Summary:

An estimated 13 million acres of federally managed forests in southwestern and eastern Oregon are at increasing risk from drought, uncharacteristically severe fires and insect outbreaks impacting wildlife habitat, water quality, and human health and safety. Current rates of restoration, and infrastructure to support it, are insufficient and fall significantly short of addressing the problem. As a result, property loss and fire suppression costs are escalating.

To address this, the Oregon Business Plan should support a Federal Forest Restoration Initiative that includes:

- Raising awareness of the problem and engaging key decision-makers in developing new restoration-based economic opportunities to solve it.
- Increasing federal agency budgets for planning, implementation and monitoring active landscape-scale forest restoration including thinning, prescribed fire and wildland fire use. This will help ensure a long term supply of woody biomass from federal lands, which will be necessary to secure financing of new biomass conversion facilities.
- Investing Economic Development grants and state bonds to help finance planning and collaborative multi-stakeholder workgroups to engage Oregonians in landscape-scale, science-informed ecological restoration.
- Passing and funding state and federal tax incentives and transportation subsidies to help Oregon industries develop a restoration economy and increasing the utilization of woody biomass to meet restoration objectives.

Success in this Initiative will benefit Oregon's environmental and economic future by restoring and sustaining the resilience of our forests, increasing traded sector jobs and wealth creation, supplying clean energy for a growing economy, protecting private property and increasing safety for families living near our forests and the firefighters charged with their protection.

Why this issue is critical to Oregon's future:

Most ecosystems in Oregon evolved in response to fire. In eastern and southwestern Oregon, periodic fires maintained open stands of ponderosa pine. Exclusion of fire from these ecosystems over the past half century without a corresponding utilization of the biomass that would have otherwise burned up has resulted in increased density of trees and shrubs, shifting their composition to less fire-resilient species and increasing their vulnerability to insects, disease and invasive species. Some thirteen million acres of federal forests (20 percent of Oregon) are at risk of uncharacteristically severe fire, insect outbreak and drought-related mortality. The Oregon Department of Fish and Wildlife identified this as one of the six biggest threats to Oregon's fish and wildlife in the Oregon Conservation Strategy.

But the issue goes well beyond threats to fish and wildlife. With more and more people building homes bordering public forests lands, declining forest health threatens our human communities and costs taxpayers money. The cost to U.S. taxpayers of protecting privately owned properties in the wildland urban interface has skyrocketed, averaging \$1.3 billion each year from 2000-2005. Oregon ranks third among western states in the number of homes built next to forested public lands. Likewise, the threat to adjacent state, private and tribal forestlands is growing. This situation creates an enormous cost to Oregon taxpayers, loss of property value and increased insurance costs for private forest landowners.

Global climate change and carbon sequestration are also important considerations related to forest restoration. Governor Kulongoski has set in place a major climate change initiative. Efforts to reduce our carbon footprint are being compromised by catastrophic wildfires that release green house gasses.

The Challenge

In an effort to restore safer and healthier conditions, federal land managers have treated thousands of acres of forests and woodlands using prescribed fire, thinning and wildland fire over the past decade. Despite these effective individual efforts, there is growing consensus that conditions in our fire-prone wildland forests and woodlands are getting worse, not better. We need to treat hundreds of thousands of acres, at least triple current investments in forest restoration and sustain that increase for 25 years to address this problem.

Limitations in existing processing infrastructure and lack of a predictable supply of wood to spur new investments are key barriers to progress in addressing this problem. In addition, with reductions in the timber industry in Oregon over the past 20 years, we have also lost much of our skilled workforce. Data from Paul F. Ehinger & Associates show that from 1989 to 2000, 3,632 family-wage forest sector jobs were lost.

This trend continues today. Three of the 16 remaining forest products facilities in eastern Oregon closed in late summer 2007 causing an additional loss of 200 jobs in Harney, Grant and Wallowa counties. In a recent letter to County Commissioners, Oregon Governor Ted Kulongoski wrote: "News reports of mill closures in Harney, Grant and Wallowa counties are deeply troubling to me. Any Oregonian who values the diversity and independent spirit of our state should be equally troubled."

Without the infrastructure and a skilled workforce nearby, restoration won't be feasible. Other regions – Arizona and Colorado, for example – have discovered this too late. Oregon has the opportunity to avoid this scenario, as some infrastructure remains, but time is running short.

Building a New Restoration Economy

While the build-up of fuels in our forests is a threat, their removal is also an incredible opportunity. The thinning and other active management required to improve forest health can also create jobs and help to save the forest products processing infrastructure. Interest among

diverse forest stakeholders to find real solutions to forest and community safety challenges is growing. If we make smart investments today we can improve forest health, create new sources of renewable energy and help revive rural economies - the triple win.

Michael Porter, a Harvard Business School Professor, told the 2006 Oregon Leadership Summit that Oregon's competitive advantage in the global economy lies in its potential to combine unique strengths in natural resources with capabilities in high tech, higher education and our tradition of environmental sustainability.

To build this new restoration economy, we need to:

- *Invest in the science, science-informed restoration planning and adaptive management necessary to create the certainty of supply*

For businesses to make any sort of commitment or investment there must be some certainty about supply over the next decade. Anecdotal information suggests that financial institutions are wary of investment risks associated with forest products manufacturing facilities that rely upon federal forests as their sole source for materials; to secure financing, facilities seek at minimum 10-year supply commitment contracts. Federal land management agencies have faced major budget reductions, are severely under funded for this task and will need major budget increases to address the overstocking issue and put up the necessary supply of restoration timber sales.

- *Pass tax incentives to help spur investments in state-of-the-art, low-impact harvesting technologies, retooling mills to take full advantage of the commercial opportunities arising from the use of small diameter trees and investing in woody biomass energy facilities.*

Much of the infrastructure needed to achieve forest restoration is not adequate for the job, particularly on the eastside. Businesses need some tax incentives to spur investments. The new state tax credit of \$10/green ton of woody biomass and the recent increase in the Oregon Business Energy Credit are a big step in this direction at the state level. However, federal action such as increasing the production tax credit for biomass energy to the level of other renewables and extending the length of time for renewal would make a big difference.

- *Fund transportation subsidies needed to make it economically feasible to restore remote forests.*

According to the 2006 OFRI report on *Biomass Energy and Biofuels from Oregon's Forests*, transportation accounts for one-third to one-half of the delivered costs of forest residues, and this cost is often the tipping point to make projects infeasible. The 2005 Federal Energy Bill passed by the U.S. Congress established a transportation credit for biomass of \$10/ton that has not been funded. Funding this credit would make a big difference in the economics of delivering biomass to facilities.

- *Prepare to invest public funds in restoration*

Elected representatives must accept the fact that not all restoration projects will square with current economic bottom lines, and they should be prepared to supplement restoration costs. If one tenth of the fire fighting portion of the U.S. Forest Service budget was invested in restoration, future funding needs for firefighting would be greatly reduced.

Potential Benefits to Oregon's Economy

The payoffs to Oregon's economy could be substantial. Projections of supply need to be based on scientific evaluation of what is needed to make these forests healthy. OFRI's study on *Biomass Energy and Biofuels from Oregon's Forests* estimated that about 4.25 million acres of forest could be economically thinned to improve forest health, reduce wildfire risk and produce biomass energy. In order to make this thinning economically viable, the OFRI study concluded that Integrated Stand Management must be practiced which involves managing the entire stand, not just the very small trees. Thinned over 20 years, these predominantly federal forestlands could produce about 1.0 million bone dry tons of biomass and an additional 400 million board feet of softwood sawtimber per year and as many as 7,000 direct forest sector jobs. At a minimum, the 7,000 new jobs would add \$284 million in new payroll to drive Oregon's economy per year and have major impacts on the unemployment rate in rural areas.

One million bone dry ton of woody biomass is enough to generate 100 MW of electricity. This is enough electricity for about 100,000 homes and is roughly equivalent to the load growth for the state's utilities for one year.

Accomplishment to Date

Much has already been done to lay the groundwork for this new Forest Restoration Economy thanks to work by the Oregon Business Council, the Oregon Legislature, Governor Kulongoski, Oregon's Congressional Delegation and others. In 2005 the Legislature passed Senate Bill 1072 directing the state to get involved in woody biomass and federal land management. In response, Governor Kulongoski convened the Oregon Forest Biomass Working Group and in 2007 the Legislature passed SB 838 to establish a Renewable Portfolio Standard, HB 2210 to establish a biomass producer and collector tax credit and establish a Renewable Fuel Standard, and HB 3301 to expand the Business Energy Tax Credit, thus enacting some of the key recommendations of the Working Group and the 2006 Oregon Business Plan's forestry initiative. To give Oregonians a more effective voice in the management of federal forests, the Governor tasked the Board of Forestry to convene the Forestry's Federal Forest Advisory Committee to develop a vision for how forests should be managed to contribute to the sustainability of Oregon's overall forestland base. This group is currently working to develop specific policy recommendations necessary to achieve this vision.

Businesses are responding to these advances. The new project that best exemplifies the triple bottom line we seek is the Lakeview Biomass Project. Marubeni Sustainable Energy (MSE), the developer, is building a 15 megawatt biomass energy facility in conjunction with Collins

Company's Fremont Sawmill in Lakeview. According to a press release from Governor Kulongoski, "Using biomass from overstocked forests, this innovative project will produce electricity while helping restore forest health, reduce fire risks, and create jobs." An additional benefit of this project came with the announcement that Collins Company will be building a new small-log sawmill to complement its existing mill and take advantage of the increased timber harvest. The timber harvest for these mills will come mainly from federal lands. An agreement to provide a stable supply of woody biomass fuel from federal lands was critical to assuring this project's success. New woody biomass plants are also under development at Cave Junction, Lyons, Tillamook and Warm Springs.

Where We Want to be in Five Years and Beyond

Our vision for 2012 is to be treating at least 550,000 acres of federal forest per year through the use of thinning, prescribed fire and managed wildland fire.

Key Strategies

- Raise awareness of the problem and contribute to its solutions.
- Increase federal agency budgets for science, planning, implementation and adaptive management of active landscape-scale forest restoration including thinning, prescribed fire and wildland fire use. This will help ensure a long term supply of woody biomass from federal lands, which will be necessary to secure financing of new biomass conversion facilities.
- Invest Economic Development grants and state bonds to help finance planning and collaborative multi-stakeholder workgroups to engage Oregonians in landscape-scale, science-based ecological restoration.
- Pass and fund state and federal tax incentives and transportation subsidies to help Oregon industries transition to a restoration economy and full utilization of woody biomass.

What We Must Do in the Next 18 Months to be on Track

- Communicate Oregon forest health and economic vitality as a priority of the Governor and the Oregon Economic and Community Development Department.
- Work with U.S. Forest Service, Bureau of Land Management, EPA, NMFS, Air Quality Boards, and USFWS to revise forest, fish, wildlife, water and air management standards in current plans and biological opinions to allow for sufficiently aggressive forest treatments to achieve desired forest conditions following treatments.
- Work with congressional leaders to increase U.S. Forest Service and Bureau of Land Management funding for priority landscape forest restoration projects as an investment in future reductions in fire fighting costs, resource loss and carbon emissions.

- Work with other western states to engage the new President's transition team in addressing the problem as a high priority.
- Support Oregon Board of Forestry's Federal Forestlands Advisory Committee's work and act on their recommendations.
- Demonstrate the state's commitment to improve economic vitality of the forest sector, especially in southwestern and eastern Oregon, by implementing a Resolution and a Memorandum of Agreement, signed on November 1 & 6, 2007 by ODF, OECDD, OSU and OFRI.
- Commit time and energy to participating as effective members of geographic specific collaborations.
- Ensure that restoring forest conditions and improving their resilience is identified as a priority in federal forest plans for management of these forests.
- Develop a partnership with the Washington State forest sector where the eastside has been identified as a high priority in a legislatively-funded study
- Build support for the initiative among local, regional and national conservation organizations.

How the Audience Can Help

- Support science-informed, active management, including thinning and the appropriate use of fire, in federal forests to achieve improved forest health, through communication with state and federal policy makers.
- Buy and use wood products grown and manufactured in Oregon.
- Support use of woody biomass energy in meeting Oregon's renewable energy goals.

Initiative Team

Russ Hoeflich – The Nature Conservancy
 Wade Mosby – The Collins Company
 Steve Grasty – Harney County Judge

Support:

Leslie Lehmann – Oregon Forest Resources Institute
 Mike Cloughesy – Oregon Forest Resources Institute
 Linc Cannon – Oregon Forest Industries Council
 Jim Geisinger – Associated Oregon Loggers
 David Morman – Oregon Department of Forestry
 Hal Salwasser – Oregon State University College of Forestry