

Agenda Item No.:	5
Work Plan:	Emerging and Overarching Issues
Issue/Topic:	<i>Forest Landowner Vitality</i>
Presentation Title:	Progress Report on the Forest Landowner Viability Issue/Topic
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SUMMARY

The purpose of this agenda item is to discuss progress on the *Forest Landowner Viability* work plan and to get feedback from the Board on the next steps to take on the four projects outlined below.

CONTEXT

The Issue/Topic of *Forest Landowner Vitality* in the Board of Forestry's Emerging and Overarching Issues work plan is designed to help the Board explore alternate revenue sources for forest landowners (in addition to timber production) and develop options to increase markets for those sources of revenue.

Economic opportunity is a necessary component in keeping working forests working. Absent opportunity, the value proposition for continued forestland investment and by extension, associated infrastructure diminishes. In turn, alternate considerations such as land conversion establish precedence and challenge the interests of maintaining and growing working forests. Recognizing that diverse and productive markets hold the capacity to create value for all participants in the forest product value chain, from landowners through distributors, identifying, maintaining, and growing economic opportunity in the forest sector is essential.

BACKGROUND

ODF Staff has been working on the *Forest Landowner Viability* project for a considerable amount of time. Several tasks in the work plan have been completed including:

- Developing an advisory committee to help with this process. The committee includes representation from agency, academic, landowner, and manufacturing interests. The committee developed a holistic framework to identify potential options and selected a broad range of market concepts for exploration and research.
- Conducting a scoping process to evaluate a broad range of potential market opportunities and narrow the number of options for further research to a few of the most promising ideas.

- Developing contracts with outside experts (e.g., Portland State University, Oregon State University, and the Beck Group) to explore a range of market opportunities, provided needed data and information, and recommend additional steps that could be taken by the agency to assist with market development.

At the September 2014 Board meeting, staff presented information on a broad range of alternatives that could be pursued to enhance markets for Oregon's forest products and landowners. At that meeting, the Board directed staff to narrow the focus of future work to concentrate on developing options for four specific topic areas including:

1. Pathways for Non-Timber Forest Products and Other Markets
2. Small Diameter Wood
3. Cross Laminated Timber
4. Finished Product Export Markets

ALTERNATIVES CONSIDERED

A program of work has been developed for each of these topic areas. Four projects are underway that include analysis and development of recommendations to help advance specific market opportunities. A discussion of each project, including next steps, is below.

Pathways for Non-timber Forest Products and Other Markets

While markets for essential oils, wild forest foods, floral greenery, and small diameter wood present woodland owners with a potential revenue stream, there are many barriers to entering these markets. These barriers include the need to maintain a steady supply stream, time and commitment for building relationships with buyers, and general marketing and production challenges. Understanding and evaluating enabling infrastructure or pathways needed to provide market access is an important step to fully evaluate the economic viability of markets. For non-timber forest products in particular such pathways may include forest cooperatives, regional branding initiatives, and marketing and business development assistance.

Attachment 1 provides information about forest cooperatives and regional branding strategies that could be used by forest landowners to more effectively access markets for a variety of products. Examples of cooperatives from around the country have been explored and key characters of successful cooperative were identified. The report also provides advice and recommendations on how ODF could assist cooperatives in Oregon. Some of the most important items for success included access to start-up capital through grants and loans from external partners, and assistance with business functions.

Next Steps:

The Resources Planning staff will inventory the state's existing programs that provide business or financial support to landowners and look for opportunities to communicate with landowners about these programs. We will also begin creating a list of grant opportunities that might be available to support market or product development, business planning, start-up investments, and capital investments.

The Private Forests Division is in the process of creating a new strategic initiative for Family Forestlands. As part of that initiative they will explore the option of having a staff person on the ground focused on providing support to landowners on organizational development.

Small Diameter Wood Study

This study examines opportunities, markets, and operating requirements related to production utilizing small diameter wood and biomass. Small diameter material creates operating challenges since it is less amenable to lumber production, but it does constitute a feedstock for a range of products including chips, firewood, hogfuel, pellets, posts and poles as well as other value-added items.

While small and/or emerging markets and opportunities exist for products that use low value and/or small diameter wood, growing and initiating new operations can be challenged when produced through a stand-alone capital- and resource-intensive process. This is a function of different forces including high harvest costs, transportation logistics, supply consistency, and market value variations. These risks and challenges are particularly keen for firms limited to a single product line as there are no operational alternatives in the face of emerging or continued business impacts (e.g. supply limited, market limited, etc.). A measure of this risk and challenge may be offset, by creating production flexibility and operational alternatives with more intensive merchandising and sorting to identify and extract greater value from small diameter material while simultaneously allowing dynamic production response to market fluctuations and supply availability. Developing the capacity to sort materials and invest in low intensity production of multiple products at a single facility may help producers avoid the cyclical challenges posed by shifting markets and resource availability. This study addresses both standalone small diameter operation requirements as well as a diversified approach both in sorting and production.

In addition to operational considerations, the study will develop broad volume estimates by diameter distribution and species for biomass harvested from Federal timber sales and stewardship contracts in eastern Oregon. Biomass in this context is not necessarily limited to or reflective of forest residuals but instead includes small diameter material which can be utilized in the production of value added materials. These estimates will be based upon material that is marketable and will be or is planned to be harvested and removed, based on the sales contract. Using this information, the study will examine market opportunities for small diameter material, research market mechanisms and characteristics, market entry and participation requirements. This study component will be completed in the coming months.

Next Steps:

Supply and production information is relevant to a variety of stakeholders both on the East Side and the West Side, as a better understanding of the resource opportunity and connection to processing and consideration of operational opportunities. Initial stakeholders to be apprised include:

- State and Federal Partner Agencies (Regional Solutions, Oregon Business Development Department, Oregon Best, Pacific Northwest Manufacturing Partnership, USFS)
- Research Partners: Oregon State University to support Wood Utilization Grant Projects

- Private Interests: US Endowment for Forestry and Communities, Cooperative, Collaboratives and other public private entities associated with PNW forest restoration, rural economic development, and small diameter utilization

Cross Laminated Timber

Cross Laminated Timber (CLT) is an emerging opportunity for the forest sector. Production of CLT occurs in a variety of ways utilizing a variety of materials, but is commonly created by alternating layers of lumber in 3 to 5 and even 7 layers thick to produce a panel. Completed panels can be standard or custom in size to match specifier needs and are often routed at production sites to match building specifications, which in turn ensures a quick and efficient build process. Material renewability, performance, and flexibility capable of meeting specifier needs, coupled with build speed and lower costs is fueling exponential growth of CLT.

Based on market trends, the potential opportunity for CLT production in the Pacific Northwest is significant. Currently regional production is limited with two producers in Vancouver BC and the first US facility being developed in Drain, OR. Additional investment has been made in Idaho with a production facility expected in the future. Despite these investments, the anticipated demand is expected to be sufficiently large that the sector could support multiple producers in the state and more in the region. It is anticipated that the Pacific Northwest Manufacturing Partnership will be a factor in driving additional siting and production investment as well as market development.

As noted CLT is made in a variety of ways using different materials and does not necessarily require standard lumber from larger dimension logs. Several current CLT producers employ small dimension lumber to create CLT panels which are commonly used in infrastructure applications. This production flexibility creates a potential path for utilization of smaller diameter trees that would otherwise be overlooked for production of value-added materials due low efficiency in processing and recovery. To explore this opportunity members of the OSU College of forestry, along with ODF who is participating as a co-Principal Investigator, were awarded a grant to examine and identify the potential surrounding small diameter utilization and CLT production using small diameter trees.

The goal of the project is to determine the technical and commercial viability of utilizing small diameter logs (as small as 4” diameter) generated in the east-side restoration in structural CLT products. The target region of for the study is the Blue Mountains and the NE quadrant of Oregon, which includes the Malheur National Forest. Specific objectives are to: (1) Evaluate the efficiency and recovery of processing small diameter logs using different processing technology (small diameter and hew saws). (2) Build and test CLT panels utilizing low-value lumber from forest restoration operations in core layers of homogeneous and hybrid laminations (pre-certification protocol per PRG320). (3) Based on the findings, propose respective changes to the product standard for CLT utilization PRG320. (4) Assess the effects of regional logistics options (location of the primary processing, transportation routes/costs) on the commercial viability of the utilization scheme.

Next Steps:

A study outline is currently under development and positions are being hired to implement efficiency, build, and testing. Following this, material selection and processing efficiency evaluations will begin in the coming year. Production of CLT will follow along with stress and engineering testing. Pending results of testing, changes will be proposed for CLT product standards to permit utilization of materials and methods in production of specifiable CLT. Upon study completion, the report and findings will be available to inform production and operational considerations.

Finished Product Export Markets

Green certification of wood products is becoming a key component for access to international markets. Buyers and specifiers (e.g., architects and engineers) are increasingly wanting to know that the products they are using come from legal sources and well managed forests. Voluntary forest certification systems are used as a mechanism to recognize forest products originating from forest operations meeting specific management, harvesting, and processing requirements. Certification involves costs to landowners and others but in return, certification affords access certain markets which are otherwise closed and differentiation from uncertified competing products.

Independent Recognition of the Oregon Forest Practices Act by the International Green Construction Code (IgCC)

There are multiple forest certification systems in use around the world today. The leading global systems include Program for Endorsement of Forest Certification (PEFC) and Forest Stewardship Council (FSC). In Oregon there are three active certification systems, American Tree Farm System (ATFS), Sustainable Forestry Initiative (SFI), and FSC. PEFC recognizes SFI and ATFS. FSC does not have reciprocal recognition with these certification programs. In terms of certified acres in Oregon, the total state land base is a little over 63 million acres nearly half of which is forestland. Nearly 60 percent of this is federal land with an additional 3.3 percent owned by the state. None of the publicly owned lands hold certification. Of the remaining Oregon forestland, roughly one third is privately owned. Of this, 40 percent is certified while the remaining 60 percent is uncertified.

Regardless of certification status, all of Oregon's private and state forestlands are subject to the requirements of the Oregon Forest Practices Act (OFPA), comprehensive land use plans, and federal statutes and rules, and as such, are held to standards that are in many respects comparable to recognized certification systems. Despite this, OFPA subject, yet uncertified wood, receives no recognition in markets where certification is required for access or capacity to differentiate products from domestic and foreign producers operating under less rigorous requirements. This lack of recognition can raise market challenges for uncertified Oregon grown forest products and limit opportunities for differentiation. One mechanism toward addressing this imbalance includes third party certification that OFPA subject wood meets the requirements of an internationally recognized forestry standard.

The American Society for Testing and Materials (ASTM) is an internationally recognized standard setting entity which has created standards on forest certification systems (ASTM

Standard D76120). The ASTM D76120 standard is voluntary and consensus based and has been developed to categorize fiber procurement systems to facilitate differentiation according to consumer needs. The D76120 Standard has been identified by the ICC and IgCC as compliant to international code, and therefore provides a qualifying foundation for product reports used by specifiers. Additionally the USDA has specifically identified the D76120 standard as qualifying for the Bio-Preferred Program which permits further differentiation and federal purchasing preference for qualifying materials.

Given these qualifiers, the ASTM D76120 standard is an acceptable and preferred standard to which OFPA subject forest products could receive internationally recognized designation through a qualified third party evaluation of the OFPA and ODF administration relative to the ASTM standard. With verified compliance, Oregon forest products would find access to International Green Construction Code (IgCC), the USDA Bio-Preferred Program, and processors could petition ICC-ES for voluntary product reports VARs. Meeting these standard requirements would provide a foundation upon which producers could differentiate Oregon products.

Recently an ISO certified third party evaluation corporation completed an evaluation of the OFPA and ODF administration relative to the ASTM D76120 standard. This evaluation resulted in certification of the standard being met and a certificate was provided. Commercial application of the certification is limited until a qualifying chain of custody process can be implemented which will allow landowners and processors a mechanism for utilizing the certification in conjunction with products.

Next Steps:

With the recent completion of the OFPA and ODF administration review and certification, a chain of custody will be developed which will permit landowners and processors who wish to employ certification. Based on initial response, this pathway could extend to the broader PNW region and in turn leverage greater market response as additional processors and land owners participate.

RECOMMENDATION

Information and discussion only, no action required

NEXT STEPS

Staff will continue to work on the four projects outlined in this report and update the Board on progress as the next steps are achieved.

Outreach on these projects is ongoing. Several organizations have been, and will continue to be briefed on the projects including: The Governor's Forest Products Work Group, the Committee for Family Forestlands, and the Oregon Forest Industries Council's Manufacturers Committee.

ATTACHMENTS

- (1) *Landowner Viability: Opportunities and Challenges related to Market Diversification for Family Forest Landowners.* Jennifer H. Allen and Mary Ann Rozance. Portland State University. June 2015