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Headwinds Facing Oregon Forest Sector – Board Forest Policy Future

Comment by Rex Storm, Associated Oregon Loggers, Inc.
before the Oregon Board of Forestry – November 1, 2017

Chair Imeson and Board members, my name is Rex Storm, Certified Forester and Forest Policy Manager for Associated Oregon Loggers (AOL). I make these comments on behalf of the 1,000+ AOL member companies, representing Oregon logging and allied forest management businesses — those family businesses who grow, harvest, protect, and own forestlands statewide. We manage forests across Oregon, both private and public, and our experience with public forestry in recent years is very troubling.

We urge your renewed commitment toward improving the public and private forest policies that now stifle the sustainable future of all Oregon forests. The Board can influence the headwinds buffeting Oregon's forest sector--because many of those headwinds are policy generated.

Later you will hear about Oregon's 'Annual Forest Health Update.' We urge you to consider the urgent need for a report about the health of the forest sector, and how current forest policies and regulation have accumulated to unduly repress this sector. And today, the many often well-meaning forest policies enacted over the years have accumulated to become harmful headwinds. It appears that we may just be loving our forests to death with all the protections!

By "forest sector" we mean collectively the forests private & public, the forest management businesses and their workforce, the agencies, the rural forest communities, the suppliers and educators, plus the forest product manufacturers and contractors. The forest sector is a central component of Oregon's economy, being a top-3 traded good sector, which especially contributes to the vitality of rural communities.

Collectively, the forest sector should aim to sustain the "greatest good" by its mutual work together... yet, this goal may be lead astray by our zeal at tending to environmental preeminence in recent years.

We urge your future consideration of the impacts of increasingly harmful public forest policies— as outdated or conflicting policies impact all Oregonians and impair the sustainable practice of forestry on both private and public forestland. In particular, the Board arguably has policy influence surrounding several of those headwinds buffeting the collective forest sector, including:

- A. Statewide Oregon Timber Harvest Weakens
- B. State Forest Harvest Declines
- C. Forest Service "Merchantable" Harvest Decreases
- D. Disinvestment in a Forest Sector Facing Headwinds
- E. Eastern Oregon Forest Sector Distressed
- F. "Federal-Private Interface" Injures Non-Federal Neighbors
- G. Idled Federal Forest Management Impacts All Oregon

A. Statewide Oregon Timber Harvest Weakens

Limited by several obstacles in recent years, Oregon's statewide 2016 sawlog timber harvest volume remained stuck below 4 billion bdf for the year, at 3.888 billion board feet, according to the Oregon Dept. of Forestry's annual timber harvest report. While all ownership categories increased their harvest, federal forest harvest volume decreased last year (Forest Service & BLM).

The past two years of Oregon sub-4 billion harvest is very concerning, considering that Oregon harvest volume remains *below* par during a markedly improving US economy—a period when structural wood is in greater demand domestically and globally. In perspective, the 2016 harvest volume remained stalled—500 million bdf below the “par” statewide annual harvest of 4.4 billion bdf/year. This disappointing volume warrants caution, as it indicates very real obstacles continue to impair Oregon's statewide timber harvest. And if unresolved, these obstacles could impact future output from the nation's leading state for growing and producing structural wood.

The lackluster 2015 and 2016 harvest volume was shaped by several obstacles that continue to impair Oregon logging and trucking production. Correcting these obstacles is a worthy consideration to foster future forest sector growth:

1. Public forest timber supply severely-limited, declining, and unreliable (fed & state)
2. Non-industrial/family forest timber supply is under-utilized or indirectly discouraged
3. Private forestry regulation discourages forestry; motivates change to non-forest land use
4. Regulated shutdowns for wet weather, fire season, other interrupted logging and trucking
5. Chronic market compression and rate depression following public forestry declines have furthered sector infrastructure disinvestment in contracted services, production, and labor
6. Deteriorating, overcapacity public highways impair moving products from forest to market
7. Mistaken systems of education and social entitlements (OR & US) are stifling labor participation, discounting trade careers, and contributing to worker shortage
8. State government largess, increasingly demands greater burdens on forest sector business

B. State Forest Harvest Declines

It's troubling that as state forest grow approximately twice the volume annually harvested, the state forest has declining output of merchantable “net” sawlog timber volume (Table 1). And under this situation, as the state forest stand inventory has increased rapidly in recent years, these forestlands are subject to increased risk of catastrophic loss to wildfire, pests, disease, storms, and regulated species prohibitions.

**Table 1 -- State Forest Harvest; Oregon
Average Million bf per Year**

<u>5-Year Period</u>	<u>“Net” Sawlog ODF-reported Actual harvest mmbf/yr</u>
2012-2016	261 a/
2007-2011	273
<u>2002-2006</u>	<u>298 a/</u>
15-year average	278

a/ Notes:

- 37 million bf/year actual sawlog decline from period 2002-2006 to 2012-2016 (12% decline)

C. Forest Service “Merchantable” Harvest Decreases

Unlike other forest ownership categories in Oregon, the US Forest Service reports its timber volume in “gross” figures, rather than the net merchantable sawlogs tallied by all other forest entities. This distinction is significant, as the added non-merchantable volume in USFS volumes have a negative economic value that deduct from its net sawlog value--thereby rendering the remaining net volume even less valuable than would be customary non-federal sawlog volume.

We note with serious concern the Forest Service’s declining output of merchantable “net” sawlog timber volume despite receiving additional federal AND state of Oregon funding--especially in Eastern OR. Although the USFS-reported Eastside “gross” volume figures have increased over the past 15 years, the apparent net actual sawlog harvest has harmfully *declined* during that same period, calculated in 5-year period average/year (Table 2). On a statewide USFS basis, the apparent net actual sawlog harvest also harmfully *declined* over that most recent five years, 2016 compared to 2012 (Table 3). Because the merchantable sawlog harvest is the economic metric that derives meaningful value from the forest, the erosion of this metric is alarming and detrimental to the forest sector at-large (harms both private and public entities).

**Table 2 -- Forest Service Harvest; Eastside Oregon (from 6 national forests)
Average Million bf per Year**

<u>5-Year Period</u>	<u>“Gross” FS-reported Sold mmbf/yr</u>	<u>“Gross” FS-reported Cut mmbf/yr</u>	<u>“Net” Sawlog ODF-reported Actual harvest mmbf/yr</u>
2012-2016	232	184	110**
2007-2011	197	190	105
<u>2002-2006</u>	<u>177</u>	<u>178</u>	<u>133**</u>
15-year average	202	184	116

**** Notes:**

- 23 million bf/year actual sawlog decline from period 2002-2006 to 2012-2016 (17% decline)
- Why the decline?? Less merchantable sawlog due to: a) increasing amounts of non-merchantable volume reported; b) increasing amounts of inoperable or infeasible volume sold; c) increasing amounts of defective volume becoming non-merchantable; and d) significant leakage of USFS-cancelled volume.

**Table 3 -- Forest Service Harvest; Statewide Oregon (from 11 national forests)
Million bf per Year**

<u>Year</u>	<u>“Net” Sawlog ODF-reported Actual harvest mmbf/yr</u>
2016	352 #
2012	369 #

Notes:

- 17 million bf/year actual sawlog decline from 2012 to 2016 (5% decline)

The most important role the USFS can play in supporting a sustainable primary milling and contract infrastructure is to consistently offer economically and operationally-viable timber sale volume of positive contract value. In recent years, the USFS trend has been the converse of this objective. USFS has a reputation for inconsistently offering often uneconomical and operationally-challenged timber sale volume of often marginal contract value. USFS sales are typically encumbered with exhaustive restrictions, limits, and non-merchantable volume requirements. And

the agency is known to unilaterally reduce, delay, encumber, or cancel planned, offered, and contracted volume (see Table 2). Such behavior seriously impacts the business community with whom the USFS relies upon. The agency routinely under-performs both its planned and targeted timber sale volumes. Making matters worse, in the 1990's the agency altered its reporting metric from net to gross volume--which masks the true value or declines in merchantable volume.

There's a practical need to develop a USFS forest management program geared towards increased restoration and selling dependable merchantable timber supply, which would sustain the viable forest product infrastructure necessary to sustain the federal forest resource asset.

D. Disinvestment in a Forest Sector Facing Headwinds

Although Oregon's forest sector is renowned as the nation's leader in structural wood growth and production, there are serious headwinds that are resisting necessary investment that would foster this leadership. The headwinds include an eroding and uncertain future public timber supply, threatening added forest regulation, and unfavorable state policies that impair business, employment and primary education of young workers.

Global demand for structural wood is increasing, and Oregon's forest sector is well positioned to increase wood manufacturing and sales. However, due to an progressively-unpredictable sawlog timber supply from public lands, the forest sector has been operating below capacity, is often idled, and primary forest product mills continue to close (Table 4). Many sector businesses operate either below capacity, or at curtailed levels, that are not sustainable in the long-term.

The emerging uncertainty over future declining public timber supply, and added state regulation, has had a dampening impact on investment into forest sector production infrastructure (forestry, contracting, transportation, manufacturing, workforce, rural community employment).

Furthermore, these many headwinds impact the contract forest management segment most severely (forestry, harvest, reforestation, transportation, protection). The emerging uncertainty, rate compression, and added state regulation has discouraged investment into contract infrastructure capacity, technology, and labor. Contract capacity shortages are an emerging issue.

**Table 4 -- Primary Mill Closures; Oregon
Permanent closure of lumber, veneer, panel, pulp mills**

<u>5-Year Period</u>	<u>Actual mill closures</u>
2012-2016	21
2007-2011	14
<u>2002-2006</u>	<u>7 a/</u>
15-year total	42

a/ Notes:

- Rough & Ready Lumber; Warm Springs FP; Marys River Lumber; Westrock; Sierra Pine; Westwood; Prairie Energy

E. Eastern Oregon Forest Sector Distressed

The impact of all the aforementioned obstacles is even more dire in Eastern Oregon, where the forest sector capacity has diminished in scope, scale, and geographic availability. Distant markets and forest management opportunities are inconsistent and unreliable, largely due to the 75%+ dominance of the public forest ownership and its waning commitment to forestry. Lacking future forest policy changes, the continued harmful erosion of the forest sector is predictable there.

There are many geographic areas where private forestland owners simply have no viable market to conduct forest management--due to either a mill refusing their timber sale, or uneconomical distances, or unavailable contract capacity. Non-industrial private forest and ranchlands experience increasing pressure to change land use to non-forest land uses.

There remain just nine primary forest product mills on the Eastside. At first glance this may appear sufficient to manage the forestlands. However, the distance between, specialization of each mill, and stifled capacity/investment renders the current milling capacity and forestland management tenuous at best... and likely unsustainable.

F. “Federal-Private Interface” Injures Non-Federal Neighbors

Along the thousands of miles of Oregon federal forest boundary shared with non-federal neighbors, current federal forest policies increasingly adversely impact their neighbors--and transfer risk from the federal lands to the non-federal neighbors. For example, the long-term average of US Forest Service-borne wildfires burn 80% of the annual forest acreage of wildfires--even though the USFS protects only half of Oregon’s forest acreage. This disproportionate impact demonstrates how federal forest policies extend beyond their federal boundaries--to those forestlands which the Board has jurisdiction to protect.

G. Idled Federal Forest Management Impacts All Oregon

We urge your future consideration of the impacts of increasingly harmful public forest policies—as outdated or conflicting policies impact all Oregonians and impair the sustainable practice of forestry on both private and public forestland.

For example, this year’s largely federal forest-borne smoke pollution and wildfire damage demonstrate how federal forest policies transcend well beyond their federal boundaries... and impact assets valuable to Oregonians:

- Social quality of life and human experience (clean air and fire safe)
- Shared forest management infrastructure for rural Oregon-based forest sector economies
- Non-federal forest fire protection expense and resource losses impacted by federal fires
- Federal-private forestland interface (federal transfer risk to non-federal forest neighbors)

I make these recommendations in respect for the Board’s decades-long commitment to effective Oregon forest polices, which make Oregon a good place to grow and harvest trees.

Thank you for considering our suggestion regarding your renewed commitment toward improving the public and private forest policies that now stifle the sustainable future of all Oregon forests.

