



# MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: [madrep@shawcable.com](mailto:madrep@shawcable.com) ✦ Web: [www.madisonsreport.com](http://www.madisonsreport.com)

October 12, 2012

As the North American forest products industry continues to slowly pull out of the single greatest downturn in its history, new government regulations and new research continue to both change the playing field and to shed new light on recent circumstances. In mid-September, a lumber tax bill was signed into law in California, while in late September Oregon's Governor proposed forming a panel of forestry stakeholders to come up with ideas on how to open up more logging, and in early October a report commissioned by the Oregon Forest Resources Institute was released.

California's Governor, Jerry Brown, has approved a new bill placing a 1 per cent tax on construction lumber products. A draft regulation of Assembly Bill 1492 said that solid wood products such as lumber, fence boards, and wooden roof shakes would be charged. So would engineered and composite wood products such as particle board. Exempt would be furniture, paper products, indoor flooring, firewood, cabinets, and sporting goods, among other finished items.

The purpose of the legislation is to divert regulatory costs previously paid by manufacturers. According to Brown's office, under current law, California companies "pay multiple regulatory fees when harvesting timber, giving out-of-state companies a major competitive advantage. As a result, 70 per cent of California's lumber is currently imported. This new law eliminates regulatory fees and imposes a 1 per cent assessment on lumber sales to level the playing field with out-of-state timber companies." The new law also gives companies extra time to harvest timber without having to duplicate environmental compliance documents.

The timber industry backed the bill, while lumber retailers Home Depot and Lowe's were opposed, as were dealers that sell wood to home builders. The Howard Jarvis Taxpayers Association also opposed the bill.

The federal government owns 45 per cent of the land in California, and can seek large amounts of money if a fire starts on private land and spreads onto federal land—even if the fire starts due to a lightning strike or another reason that's not the landowner's fault," said Noelle Cremers, California Farm Bureau Federation Natural Resources Director. "That drives up insurance costs for everyone, and AB 1492 addresses that by putting an end to the federal government's excessive claims."

Meanwhile, Oregon Governor John Kitzhaber said September 21 that he will convene a panel of timber industry executives, conservation groups, and hard-hit county representatives to figure out how to allow more logging on 2.6 million acres of federal land while protecting key environmental features. Kitzhaber said an existing proposal to revise management of what are known as the Oregon & California Railroad timberlands (O&C Lands) is doomed by opposition from conservation groups, which felt left out of a bill backed by Oregon Representatives Peter DeFazio, Kurt Schrader, and Greg Walden.

Kitzhaber said he would like a group of 10 or 12 people to meet weekly in October and November to craft a proposal, and will present it to the state's congressional delegation by December.

The O&C Lands, laid out in a checkerboard pattern across 18 western Oregon counties, span some of the state's best watersheds, areas crucial for salmon habitat, and drinking water.

The decline of logging due to policy changes, endangered-species protection, lawsuits, recessions, and other forces has greatly reduced timber revenue to a number of Oregon counties. The last round of emergency cheques from the federal government, to offset revenue losses from restricted logging, was delivered to Oregon counties this year. Allowing more logging on O&C Lands alone won't replace those timber payments, but the model might be applicable to the 12 million acres of national forests in Oregon, providing even more revenue and jobs.

Not to be left out of the action, on October 1 Senator Ron Wyden sent the one-page framework to Governor John Kitzhaber's office touting a new framework aimed at solving the budget problems of Oregon's timber-dependent counties.

Elsewhere, the "*2012 Forest Report: An Economic Assessment of Oregon's Forest and Wood Products Manufacturing Sector*", released by a group comprised of economists and academics, estimates that: standing timber volume in the state, on all public and private lands, is about the same as it was in 1953. Oregon's federally managed forests account for approximately 60 per cent of all forestland in that state, but account for about 12 per cent of the statewide annual timber harvest. This occurs despite the fact that these forests are among the most productive in the world.

However, according to an October 1 guest editorial in OregonLive, "The best forestland -- low-elevation sites with deep soils and mild weather -- was claimed first, and it became the privately owned land. These privately owned forested sites generate so much timber volume today, in part, because they can grow trees quickly. [Not] acknowledging the overwhelming difference in timberland quality in Oregon establishes an unrealistic expectation about the potential long-term, sustainable timber harvests that can occur on US Forest Service lands in Oregon."

The "2012 Forest Report" continues; in western Oregon, harvest in federal forests is 11 per cent of annual growth. In comparison, harvest on private forests is about 60 per cent of annual growth. On the east side of the state, where the majority of forestland is under federal management, harvest from federal forests is 7 per cent of annual growth. Private lands provide more than 70 per cent of eastside annual harvest, and the combination of harvest and mortality has exceeded growth for the past two decades.

Across all ownerships, public and private total standing timber volume is about 87.9 billion cubic feet and growing — this is more than 95 per cent of the standing timber volume of 92 billion cubic feet present across all ownerships 50 years ago.

In 2011, harvest volume across all ownerships was 3.65 billion board feet — just 16 per cent below pre-recession harvest levels. More than 75 per cent of this harvest came from private land.

"Every million feet of timber supports 38 jobs," said American Forest Resource Council President Tom Partin. "That's almost 3,500 Southern Oregonians who are suffering from underemployment at a very bad time in our state's economy."

The forest sector accounts for about 6.8 per cent of Oregon's economic base statewide. However, outside the Portland metro area, the forest sector's contribution to the economic base is an average of 11 per cent — and in some rural areas as high as 20 per cent, continues the *Report*.

Oregon's forest sector employs about 76,000 people and provides about US\$5.2 billion in total income that underpins much of Oregon's rural economy. The sector accounts for about US\$12.7 billion in total industrial output, making it one of the state's largest traded sectors.

Oregon's forest sector pays about US\$250 million to US\$350 million in state and county taxes each year, or about 5 per cent of the state's total annual revenue.

About 14,000 jobs and US\$527 million of income have been lost since 2007 in forest-sector industries reported as covered employment.

Keta Kosman  
Publisher  
Madison's Lumber Reporter  
Madison's Timber Preview  
Madison's Investment Rx  
www.madisonsreport.com  
604 984-6838