

## Market Crisis in the Forest Economy

Submitted by: The Vermont Department of Forests, Parks and Recreation April 18, 2018

Beginning in the summer of 2015, global forces bore down on the forest economy of the northeast with severe impacts that have affected the entire region. Maine has historically been home to a large number of papermills and are fed by pulpwood that is harvested in forests across all the New England states and Quebec. Pulpwood is a product that is not high enough quality to be sawed into boards and can be used interchangeably as a wood energy product i.e. firewood, wood chips to heat schools and buildings or wood pellets for efficient and automated heating systems. Pulpwood is typically harvested in greater volumes compared to other forest products in a system best described as being similar to weeding one's garden. Removal of trees that are diseased, infected or otherwise have poor form or low economic value promotes the health and economic value of the residual stand of trees and the forest as a whole. In Vermont, low grade forest products made up 72% of the total harvest in 2016.

The strength of the US dollar and investment in new mills in other countries with lower labor and regulatory compliance cost is driving the processing of forest products out of the country. The declining use of paper, particularly for magazines, catalogs and newsprint, is another contributing factor because these products have been the bulk of the production in Maine. In 2015, five paper mills succumbed to these forces and were shuttered in quick succession along with cutbacks in production and the price paid for pulpwood at the remaining mills. At the same time, biomass power plants shutdown in the region due to the large supply of low cost electricity, made possible by fracked natural gas and subsidies for other renewable energy sources. Low fossil fuel prices are also competing with Vermont's efforts to increase the use of wood as an energy source, particularly advanced and efficient wood heat. The cumulative lost annual market capacity in Maine is approximately 4.5 million tons, which equates to 140,000 tractor trailer loads of pulpwood.

Healthy forests provide ecological services and cultural benefits that can't be outsourced, and timber harvesting is an important tool in managing healthy forests. The Use Value Appraisal program, with 2,000,000 acres of Vermont's forestland enrolled, reduces the tax burden on working land and as a tradeoff, forest management activity is required to remain eligible for the program. While not the only reason for owning forestland, having a market and income from the forest products grown on that land is a significant contributor. A major tool in combating fragmentation, parcelization and development of forestland is a robust market for the commodities grown on that land. Without profitable markets for forest products, the supply chain is weakened and at the beginning of the chain is landowners. Hundreds of thousands of the tons previously marketed in Maine were originating in Vermont's forests, harvested and hauled by Vermont loggers and truckers for Vermont landowners.

Table 1. shows that Vermont has significantly fewer markets for forest products when compared to the region. We must truck our products greater distances to markets. This creates a financial disadvantage, more miles driven on more roads, burns more fossil fuels and reduces employment and economic opportunity.

**Table 1. Sawmills, Paper Mills, Pellet Mills and Biomass Plants Purchasing Raw Forest Products\***

	Sawmills	Paper and Clean Chip Mills	Pellet Mills	Biomass Electricity Plants
Maine	42	6	5	6
New Hampshire	49	6	3	8
New York	77	2	8	3
Pennsylvania	82	7	11	2
Quebec	131	6	8	7
Vermont	19	0	1	2

Compiled from the most recent data available from each region. \*Sawmills using over 1 million board feet annually. Note that *individual* mill sites in Quebec process up to 150% of the cumulative production of all of Vermont's sawmills.

Using the market collapse as an opportunity to take stock of our strengths and weaknesses, many have concluded that growing the existing markets in Vermont is what is needed to buffer against global forces impacting local landownership

patterns and our rural economy and simultaneously meeting our energy needs. However, the businesses that process forest products into consumer goods find the cost of compliance and doing business in Vermont to be increasing to a point that investment in growth or new facilities is openly discouraged in the forest economy. Act 250 has enhanced Vermont's landscape in incalculable ways and conserved large blocks of undeveloped "working land." As society has become less accustomed to the needs and logistics of the businesses that work the land around us, permit conditions, costs and restrictions on operations have become unnecessarily onerous.

Testimony has been taken from small family run businesses that have spent over \$100,000 as part of their Act 250 permit process with the outcome being little more than having gone through the process. They were not found to be violating any environmental standards and only their hours of operation were limited, yet their products are not worth more money and they've incurred a substantial cost. Testimony has also been taken regarding just one of the conditions imposed regarding hours of operation that have cost Colton Enterprises, Vermont's pioneer in firewood processing and kiln drying, \$1,300,000 in lost revenue over sixteen years. With the discovery of Emerald Ash Borer in Vermont, kiln dried firewood operations are critical to limiting the spread of this invasive species. Colton Enterprises testified in the House Ag and Forestry Committee on February 23<sup>rd</sup>, 2018, five days before the discovery of EAB, that they are prepared to expand their operation, in New Hampshire or a community where Act 250 will not have jurisdiction, because of the onerous conditions placed on their operation. Despite appealing the conditions, they have had pages of limitations imposed on their operation and Committee members are encouraged to read through the documents and judge the outcome for themselves.

Forest products must be harvested when the ground conditions are appropriate, and our winters are less predictably frozen, and our summers are less predictably dry. The appropriate conditions often occur at night during the early and late winter and can be any day of the week and this does not match up well with boiler plate hours of operation and trucking limitations at a mill receiving the harvested products. The forest products industry is very seasonal with surges in activity based on ground conditions. For contractors that produce many truckloads of products per day, the corresponding transportation and delivery of those products to a market is critical. The market must be able to stockpile raw materials when they are available to keep products flowing through the mills and employees employed year round. Act 250 permit conditions that heavily restrict hours of deliveries to purchasers of forest products works against logging contractors making the decision to be on the land with heavy machinery when the ground conditions are best.

Vermont prides itself on high and increasing standards for environmental protection, such as those employed by the Act 250 process. These standards must be acknowledged as a significant cost to business and when they are competing in a global market where commodities, such as forest products, are sought where they can be sourced at the lowest cost regardless of the production standards. We encourage the legislature to provide relief in some form if we expect the supply chain of the forest economy to remain intact, maintaining our high standards, all the way back to landownership. The Department of Forests, Parks and Recreation seeks input and welcomes discussion of the issues and solutions by the Committee and other interested parties to reach an outcome that enables both the success and vision of Act 250 and subsequent environmental protections, but also recognizes and reconnects with the necessary logistical needs and global pressures impacting our working landscape at a critical juncture.