

Good morning committee members. Thank you for the invitation to appear.

My Bennington County legislators, including Chairman Dave Durfee, have gotten used to seeing wildlife management updates from me on issues important to Vermont Sportsmen. I'm going to take off my wildlife manager's hat and put on my forester's hat for this update today. This is strictly FYI. I'm not asking for anything from you other than a few minutes of your time. A little on my background. I'm originally from Worcester, VT and graduated from UVM's School of Natural Resources in 1974 with a degree in Forest Management. I've worked continuously as a forester in Southern Vermont both as a consultant forester and as an industrial procurement forester. Over the past 20 years, I've worked with my son operating a log and timber marketing firm called Hollow Hill Forestry. We are based in southern Vermont and eastern New York. We work marketing logs for both loggers and private landowners in markets around the world. My experience of nearly 51 years in the business is invaluable partly because of my extensive group of contacts and markets. I lean heavily on them when trying to predict future swings in the log market...not unlike playing the stock market.

Over the past several weeks there have been conversations about the effects of tariffs on Vermont businesses. Here is an update as I see it on their effects on the Vermont forest products industry and in particular loggers, truckers, yards and sawmills.

Many of our Vermont logs (especially low-grade hardwood) are shipped to Canada. As of today, there are no tariffs on those logs from either country. Most US mills don't currently have the technology in place to saw large volumes of those small low-grade logs economically. When we lost Rutland Plywood several years ago to a fire, we lost our biggest manufacturer that produced high end products with lower grade materials...a great example of adding value to a low-end product. Many of those logs are now manufactured into pallet materials, flooring or railroad ties much of which is shipped north to Canadian markets both in log and lumber form. Most mills in Vermont and in fact the northeast ship a big percentage of their lower grade lumber into Canada. This outlet for approximately one third of hardwood lumber production has currently come almost to a complete halt. My sources tell me that they will discontinue the purchase of all small diameter and lower grade logs if lumber tariffs are increased. They can't purchase material that they can't sell. There are tariffs on lumber and finished lumber products moving in either direction but again not on logs. These tariffs could increase by an additional 25%. Negotiations are ongoing but it has caused major uncertainty and a sharp decline in some log and in fact lumber markets.

The same day that President Trump announced tariffs on Canadian products, he announced tariffs on China. China immediately countered by claiming improper inspection

by the USDA for harmful insects in containers of logs as the reason for totally banning logs from the Northeast. The exact same thing happened in the first Trump administration when he announced tariffs on Chinese products. Across the northeast and including Vermont, loggers and foresters had ramped up harvests of ash logs again this winter to salvage them before they were killed by Emerald Ash borer. The past several years the northeast had exported big volumes of ash logs to China. Mills and yards across the northeast continued to purchase large volumes of these logs and invested huge amounts of cash in anticipation of this continued business. The current ban means that these logs now can't be shipped out of the ports in a timely fashion. When purchased, these mills and yards based their purchase price on export pricing, not the domestic lumber market value. That pricing was fantastic for landowners looking to salvage emerald ash borer trees but ultimately could and would severely impact the same mills and yards that purchased them.

Our US trucking and shipping infrastructure had also been a problem in previous years. This year was no different. Many mills and yards couldn't find timely freight to the ports for export. Our logs generally go through New York or Boston. Port loading times have been slowed down for a variety of reasons. Normally this container backlog would gradually catch up during the slow spring season, but it won't this year. Even if this tariff issue was solved today with China, we've lost a month of time. These logs have a shelf life. They spoil rapidly if not manufactured. The other problem was at the same time tariff threats took effect, our annual spring mud season started. Domestic mills, after an excellent winter logging season, are filled to capacity with logs. Many also have a big inventory of unsold lumber that in a normal year would sell during the spring season. A downturn in the housing and industrial markets partially contributed to this.

Many mills have now stopped purchasing logs or slashed log prices due to the uncertainty in the log and lumber markets. A perfect storm, or you could say a recipe for financial disaster for mills, log yards, and loggers across the northeast. Mills and yards hold big inventories of logs they can't sell or will struggle to saw in a timely fashion. They have too much money in these logs to produce profitably and sell in the domestic lumber market. Those same mills are used to selling 20% or more of their lumber to a Canadian market that now could be charging a retaliatory tariff when the lumber crosses the border. That market is at least temporarily gone or at the least has incurred an additional expense. Loggers have lost some domestic log markets ... at least until mills can saw and sell the excess of lumber. Canadian mills still can buy US logs. As I said above, as of now there are no tariffs on logs. Canadian mills along Vermont's northern border depend on our logs. It will be a major disaster if loggers and landowners lose that market... competition from these mills holds prices for logs and stumpage up. Domestic mills may have a different opinion on this issue.

As I've said, all of this could change with no notice. The President's talk of cutting timber on National Forests is no quick fix nor a solution. The northeast softwood mills don't have enough standing resource to make up the slack from lost Canadian softwood production due to increased tariffs. The cost of building a new home will jump substantially, which will get passed on to the consumer. Western mills do need logs, but the infrastructure has been shuttered due to a long-term log shortage. They were built based on procuring their logs from National Forests, but harvest has gradually come to a slow crawl. Every sale is constantly appealed by environmental activists... as they are in Vermont. These appeals drive the cost to put the logs on the market to untenable highs. The same type of appeal happens with timber sales on our state lands. We could also replace some of that Canadian dimension lumber by increasing production from mills located in the South. Interestingly, many of these mills are owned by big Canadian companies. More muddy water. How are these issues handled? Some lumber from these mills actually goes to Canada. How are tariffs applied to products moving between companies that have mills in both countries? This is a fairly common occurrence even in Vermont. Without mentioning names, there are mills that ship hardwood lumber offshore to their own plants, manufacture the furniture, assemble it and ship it back. Will they pay tariffs on their own finished product? European union countries own mills in the US that buy high grade veneer logs from Vermont, move them to their US mill, process them and move the product overseas. Some of these products still aren't finished goods. Is the water muddy enough for you yet? All of these questions still don't have answers. The deeper I've dug into how these tariffs will work and when they are applied, only raises more questions and makes it more complicated for Vermont mills, yards and loggers. In my attempt to provide you with information I've raised more questions for which I can't provide you with answers.

Most of the above comments apply to hardwood timber and lumber markets in Vermont and across the northeast. Some do apply to softwood markets. Vermont has standing pine, spruce, cedar and hemlock scattered across the state but not in huge volumes compared to western or southern states. The pine market in the northeast is currently severely depressed as the big mills in the US are overstocked with pine logs and lumber. There are strength tests being run on eastern white pine to see if that species could be used to replace spruce/fir dimension lumber. If pine could be used as a replacement, it could have a significant impact. A new market and a new product would be fantastic news.

I could go into a long explanation about the tariffs the US has had on Canadian softwood lumber for years and in fact for much of my career. The US claims unfair competition and unfair Canadian government help to their lumber businesses. I disagree in part but that is a discussion for another time.

I've seen some big market swings in my 50+ year career but never like in the past month. I wrote a book about the changes in my career as a forester and wildlife manager. Change throughout my career is the common thread throughout the book. Mills have come and gone throughout my career for various reasons. Being able to plan ahead and always being able to shift your plans and your business on short notice was the important piece of advice I tried to pass on to future foresters and people in outdoor-based industry. I have never seen such turmoil caused by decisions made at the federal level in such a short period of time. My book now needs another edit. The impact on small businesses throughout our state could be significant.

There are several separate issues here. The issues with China and the tariffs with Canada are the two biggest ones. All will affect the Vermont forest product industry differently. My hope is that the Canadian issues will resolve soon. We have had tariffs back and forth between our countries on softwood lumber for many years. That won't be resolved in the short term. The potential for additional log or lumber tariffs would have far-reaching consequences and have huge short-term impacts on Vermont's forest economy. My hope is that our log and lumber markets won't be collateral damage in this much bigger fight. They haven't been singled out by either country as the cause of this fight. Personally, I'd like to let free trade sort the problem out. No doubt there are dissenting opinions on this.

My sources say the China issue will be much more difficult to solve. Some of these export logs are already being diverted to Vietnam but they don't have the milling capacity nor the infrastructure to handle the additional log volume now available. Vietnam is currently buying some of this log inventory but at a much cheaper price than when the logs were going to China. Ultimately much of this product ends up in China anyways because many of the mills buying these logs are owned by Chinese companies. As you see, it sure is a complicated issue. Northeast hardwood is a tiny piece of the Chinese economy but is a big percentage of lumber the same northeast mills produce. China is already moving to replace our logs with hardwoods from other countries. They already have access to volumes of our hardwoods through Vietnam. They can play hardball with this issue for a long time and can extend the export shutdown for an indefinite period.

Where does my crystal ball say we are headed and what can you do as legislators to help? In the short-term you folks are doing what you need to do. Listen and educate yourself on the issues. Learn how the log and lumber industry work. This is a worldwide problem not a problem at the state level ... at least in the short term.

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The Canadian tariffs and export log halt has already impacted Hollow Hill Forestry. March purchases were down 60% and sales were off 30% from a year ago. I'm projecting sales to be off at a minimum of 50% in April from a year ago. I would suspect this type of loss of markets and sales is the same across Vermont's forest products companies. Loggers and truckers will be affected as well if this continues as we come out of mud season. This drop for us is second only to when our record low sales and purchases in 2020 when Covid hit. We survived that and will get through this.

As always, feel free to call and ask questions. Thanks again for taking the time to listen. I apologize that I don't offer solutions. I'll make myself available going forward if you need to sit down and talk about more.