

Executive Summary: Maintaining and Diversifying Markets that Allow Sustainable Forest Management

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Forests – A National Strategic Resource

The New World was settled in part because of the strategic importance of eastern forests to the navies of Europe. Toward the end of the 19th century, an alarm was sounded about the prospects of a “timber famine.” In the early 20th century, the National Forest System was created because of the importance of the fiber resource and concerns over watershed protection. Over time, non-timber forest products have increased in importance. Water, wildlife, wood and recreation are products which are dependent on the nation’s forests. The renewed interest in wood as an energy source, and the new interest in valuing ecosystem services, presents an opportunity to re-awaken the American public’s understanding that the nation’s forests are a **strategic national resource**. Some percentage of the landscape will, and should, be set aside for passive management to protect sensitive areas, ecological reserves, and wilderness areas. On the other hand, it is clear that active forest management must be practiced on most of the nation’s forest lands, if we are going to provide the range of habitats needed by the full spectrum of forest species, meet fiber needs, decrease dependency on foreign fuel supplies, reduce impacts of insect and disease, and decrease risk of catastrophic wildfire.

Why Markets are Important for Practicing Sustainable Forestry

Simply put, cost beneficial and sustainable forest management is **not possible** in the absence of diverse and robust markets. The absence of markets results in passive management, as well as depriving landowners of financial incentives for keeping forests as forests. Passive forest management can, in certain ecosystems, exacerbate insect and disease problems and fire danger. Limited markets – usually for only the highest value materials – means that only certain forest products will be harvested, and the others will be left behind. This can result in high-grading – taking the best quality material and leaving the least valuable material. These cutting practices will, in time, degrade the quality of the stand and its genetic composition. While they do not guarantee it, diverse and robust markets for the full spectrum of woody materials **allow** landowners and forest managers to practice sustainable forestry. In these regards, two types of markets exist and both have important roles in providing a reason to keep forests as forests, and to sustainably manage them.

One set of markets is for traditional forest products. These traditional markets (lumber, pulp, piling, poles, etc.) have provided the reason to produce timber through active forest management. Over the last few decades, markets have also developed for new types of forest products (e.g.,

mushrooms, floral materials, etc.) that have assumed increasing importance and enhanced returns to landowners.

Even more recently, a second kind of market has emerged for what are called “ecosystem services.” These are the values that forests provide above and beyond the traditional products. They include clean water, clean air, sequestration of carbon, wildlife habitat, and recreational opportunities. Some of these markets are projected to become very significant (e.g., the market for carbon is projected to become one of the largest commodity markets in the world).

As stated earlier, the markets for traditional forest products have provided the majority of the economic return to landowners, and has helped them justify keeping forests as forests. Furthermore, the active management required has produced the early successional habitats that many species require. For example, in the northeastern U.S., a significant percentage of mammal and bird species depend on early successional habitat (those provided by stands of seedlings and saplings) for part or all of their life cycles. This habitat type is declining across the region, and many species are showing concurrent, significant range-wide declines. Beyond this, forest product markets are needed for forests of all ages to provide a broad spectrum of healthy and diverse forest habitats.

Historically, the USDA Forest Service has been responsible for programs to maintain or diversify markets. These programs existed under several pieces of legislation, collectively known as the Economic Action Programs. However, over the course of the last decade, these programs have fallen into disfavor, received no funding except for congressional earmarks, and have been criticized as being duplicative of other programs administered by the U.S. Department of Agriculture – perhaps most notably, the Rural Development Program. Furthermore, as budgets for forestry programs have shrunk, the Economic Action Programs were seen as lower priority than other efforts, apparently because they were not perceived as clearly tied to keeping forests as forests and protecting forest values (e.g., forest fire protection or protection from insects and diseases). In addition, they were viewed by some as “corporate welfare,” or functions that should be performed by businesses themselves.

However, state forest agencies’ experience is that the USDA Rural Development is largely focused on nonforestry issues, such as community capacity and services. Further, the circumstances of the forest products industry in the U.S. have changed dramatically – more specifically, competition with low-cost, offshore producers has resulted in mill closings and loss of markets all over the country. Hence, in the collective judgment of the National Association of State Foresters’ (NASF) Forest Markets Committee, it is important to reestablish effective programs to maintain and diversify markets, even in challenging budget times. In the committee’s view, these programs are not just icing on the cake – they are essential if we are, as a nation, to maintain and sustainably manage¹ our forest resources. In these regards, these programs are particularly important for new markets, declining markets, and markets for low-value materials. Again, the absence of robust and diversified markets reduces or eliminated the economic incentives that landowners have to keep forests as forests; and can lead to forest degradation by making sustainable management cost, rather than reward, landowners.

¹ As used here, the term “sustainable management,” is meant to include management as described by the Montreal Process and incorporated into the Santiago Declaration, adopted by the U.S. and 11 other nations. Sustainable forestry involves meeting the needs of society without sacrificing the needs of future generations, and is understood to include serving ecological, social, and economic needs.

This report was initiated in response to the recognition of these facts by the NASF, and has been financially supported by the USDA Forest Service.

Examples of successful projects to maintain or diversify markets exist from around the country, and can be found in the background materials referenced in the 5th section of this report.

What Kind of Program do we Need to be Effective in Maintaining and Diversifying Markets?

To be effective, a program to maintain or diversify markets must have elements which are focused on markets for products, as well as markets for ecosystem services. As mentioned earlier, both markets have important roles to play in encouraging efforts to keep forests as forests and managing them sustainably.

To be effective, such a program must be:

- Focused,
- Nimble,
- Innovative, and
- Coherent

Further, it must involve all levels of government.

For example, at the national level, it should track international developments in the forest products industry, and the competitive position of the various sectors of the industry in the U.S. National efforts should result in recommendations for maintaining or improving the competitive position of the industry in this country. These efforts should be informed by regional and state efforts and provide a framework for the more finely targeted initiatives at these levels.

At the regional level, efforts should focus on the issues most important to that region and form a bridge between national and state level efforts. For example, in the West, a logical priority would be to strengthen efforts to emphasize the use of small and low-value material which could be harvested from wildland urban interface areas; thus reducing fire danger. In the East, issues could include how to improve the competitive position of the region's furniture manufacturers, and enhancing the use of the region's woody biomass to reduce the use of fossil fuel.

At the state level, efforts would focus on the issues most important to the state involved. For example, in Maine, challenges to the state's pulp and paper industry are very important; as are promoting increased forest certification to create a niche for Maine's forest products, and increasing the use of biomass to replace home heating oil. Stable and expanded utilization and marketing programs can play a critical role at the state level.

For the traditional forest products markets, the Forest Market Committee recommends the following for each level of government. Analyze the existing situation, including information on trends and trajectories, and identify key actions that could improve these trajectories and enhance the competitive position of the forest products industries involved.

The strategies developed by each level of government need to inform, and be integrated with, the strategies of levels above and/or below it. For such a program to be effective, the sum of the parts must form a coherent whole.

Regarding ecosystem services, a similar analysis is needed for the issues most important to the development of markets for ecosystem services at the level of government involved. It is extremely important that state foresters, both individually and collectively, become actively engaged in shaping these emerging markets. For example, interest in carbon markets and the role that forests might play is growing rapidly. In the northeast, the Regional Greenhouse Gas Initiative (RGGI) is poised to auction allowances and is considering expanding the categories of acceptable offset projects to include forestry offsets beyond afforestation. Similar issues exist for carbon sequestration efforts in California and a coalition of western states is now engaged in this issue as well. Further, interest in a national cap-and-trade program is growing in Congress, and both presidential candidates support new initiatives to address climate change issues. State foresters should be actively engaged in these efforts, if, as a national and indeed global society, we are to capitalize on the potential that forests offer.

Previous efforts have estimated that the scale of an effective program with these objectives totals \$30 million.

How can State Foresters Build Support for an Effective Program of this Type?

The strategy to build support for the proposed program to maintain and diversify markets is based on input from an advisory committee comprised of stakeholders. Many other experts, including state foresters, state utilization and marketing staff, policy analysts, and program managers were also consulted. The committee outlined five broad areas where work was needed in order to gain the support and technical foundation for a national program:

- Build and expand coalitions;
- Assess and strengthen networks around program goals and objectives;
- Demonstrate the sort of results a markets program will produce and sustain;
- Develop consistent and concise messages; and
- Increase forestry's representation at important "tables" such as USDA Rural Development, energy, climate change, etc.

Six focused steps have been developed to build the capacity and knowledge as well as create demonstrations and pathways for promoting the markets program.

Step One: Define Forests as a Strategic National Resource

Discussions on the future of forestry in the U.S. need to be framed by defining forests as a strategic national resource. The forestry community needs to build the case for the importance of the forest resource to provide for the nation's fiber, fuel, water, carbon, and other ecosystem needs. We also need to develop a consistent message that resonates with the public on this topic and captures their attention. For example, wood to energy will play an important role in implementing a national strategy for energy independence, and should be showcased to make the

point. We need to speak with one voice regarding the importance of the forest resource and the need for an infrastructure necessary to effectively use and manage this forest resource. This must include diverse and robust markets, communities, and integrated transportation systems.

Step Two: Broaden and Strengthen the Network of Persons and Organizations that Support this Initiative

This step involves strengthening existing partnerships and seeking new partnerships with other government agencies, elements of the forest products industry that are not yet engaged, community interests, landowner groups, and forestry organizations. The objectives of this effort are to:

- a. Build an understanding that diverse and robust markets are essential to achieving sustainable forest management;
- b. Securing support for the initiative to create a new program to maintain and diversify forest markets; and
- c. Secure funding beyond the USDA Forest Service and state forestry agencies for this effort (e.g., the funding of pilot projects as outlined below).

Step Three: Select, Package and Pursue Funding for a Portfolio of Illustrative Projects

A number of states have submitted proposals for projects which would enhance sustainable forestry markets. The NASF Forest Markets Committee should select the best, and seek funding from multiple sources for immediate implementation. This portfolio of projects can illustrate the benefits of the markets program vision and further build a supportive coalition.

Step Four: Ensure Representation of Forested Landscapes, Landowners, and Forest Advocates in Climate Change Mitigation Solutions

NASF recently released a statement of principles regarding its approach to the issue of climate change and the role that forests could play. These principles will be used as the basis for NASF's comments on national and regional efforts to address climate change. The first of these systems to become operational in the U.S. is RGGI. RGGI is a cap-and-trade system designed to limit the emissions of greenhouse gases from electricity generation in 10 northeastern states starting in 2009. NASF's Statement of Principles will aid the RGGI process when it considers how to expand the category of projects eligible for "offset" status within RGGI. State foresters, and other advocates nationally, should continue to develop recommendations for the role of forests in carbon offset projects and the role for states, consulting foresters, and other entities. State foresters should also actively seek inclusion in national, regional, and state working groups and committees defining the parameters of carbon offset projects and cap-and-trade systems. The Forest Markets Committee proposes that monthly briefs highlighting progress and current action items be distributed through NASF.

Step Five: Coordinate Efforts to Launch the Community Wood to Energy Program

The Farm Bill authorized the broad framework for a Community Wood to Energy Program to support the technology and supply feasibility components of local projects. Funding limits are currently set at \$5 million annually, but leadership is needed to develop effective projects and deliver the assistance so that it compliments the markets program. NASF has drafted an action

plan that proposes delivery mechanisms for a national program (see separate report entitled, “*A Strategy for Increasing the Use of Woody Biomass for Energy*” by Innovative Natural Resource Solutions, 2008). This step serves as a tangible example of what “Targeted Federal Funding” can accomplish as described in the NASF Presidential Transition package.

Step Six: Include a “Maintain and Diversify Forest Markets” Category within the USDA Forest Service State & Private Forestry Redesign Criteria

The S&PF Redesign process began in 2008 with 15% of the budget allocated to states regionally through a competitive grants process. By 2013, 65% of the budget could be distributed competitively to states, as well as other entities based on three broad themes: 1) conserve working forest landscapes, 2) protect forests from harm, and 3) enhance public benefits from trees and forests. Broadening the criteria to include forest markets would allow for submission of state projects that showcase the type of accomplishments sought by the markets program.

Implementation

The work outlined in this report will not occur without recognition by state foresters that the existence of diverse and robust markets is an essential prerequisite to achieving sustainable forest management, and a decision that the efforts outlined need to be a priority for NASF. Successful implementation will require:

1. A shared effort between NASF and the USDA Forest Service to support at least one person working for NASF who is devoted to the implementation of these recommendations. The Forest Markets Committee recommends that each state which can contribute \$1,500 for its portion of this effort and request that the USDA Forest Service match these funds. Other sources of funding may also be needed.
2. Designation by the USDA Forest Service of three persons (one in each NASF region) to provide technical assistance to the forest products industry, assist in broadening and strengthening the network of supporters, and implementing these recommendations. More specifically, the three specialists will act as knowledge hubs by tracking emerging issues, market data and trends, evolving science related to service markets, and exemplary projects. They will play major roles in the foundational work for initiating the markets program by engaging in the recommendations outlined herein, as well as in building messages and a supportive coalition.

How this Report was Prepared

This report was prepared based on research and analysis conducted by Carla Harper of West 65, Inc., in consultation with a number of persons with expertise in this topic from around the country. A face-to-face meeting of 30 people was held in October 2007 in Denver, Colorado. This topic has also been covered in a number of conference calls and innumerable one-on-one conversations that Carla had with various folks from around the country. A draft of the report was prepared and distributed in July, 2008 and discussed via conference call with interested parties.

For more information

For more information on this topic, please see “*National Sustainable Forestry Markets Initiative Advisory Committee Overview, Scenarios, and Background*”; “*National Sustainable Forestry Markets Initiative: A Strategic Plan*”; and “*NASF Forest Markets Committee Brief*,” a report from a meeting of cooperators held in Denver. In addition, an earlier group assembled by the NASF prepared a report on this topic entitled, “*Integrated Natural Resource Management and Rural Community Assistance by Strengthening Economic Action Programs*” (2003). These materials are available from the Maine Forest Service, 207-287-2791.