

Initiative to Maintain and Diversify Markets “No Mills, No Markets, No Management”

A Proposal from the National Association of State Foresters, Forest Markets Committee

**June 21, 2009
R. Alec Giffen, Chair**

Purpose

Forests are a strategic national resource that can serve a number of important national objectives including, but not limited to, mitigating climate change, reducing our dangerous dependence on foreign oil, maintaining biodiversity, and providing the backbone for rural economies. **Realizing the potential that forests offer** in these regards **requires the existence of diverse and robust markets that allow sustainable forestry**, rather than high grading, to be practiced.

This is a proposal to demonstrate what projects aimed at maintaining and diversifying markets, including but not limited to markets for ecosystem services, can accomplish in the face of unprecedented global competitive pressures on the nation’s forest products industry, and rapidly changing markets for forest products. Maintaining, and indeed diversifying, these markets in the face of these challenges is critically important at this time; as, if we lose the infrastructure represented by our mills and logging capacity, it would be extremely difficult to recreate.

If funding can be found to implement this proposal, a **critical component will be that projects have a real and tangible link with improving the prospects for sustainable forestry** (e.g., creating early successional habitats in areas where they are lacking); thus, valuable as it may be in its own right, this initiative is not solely aimed at supporting the industry; but rather, in addition, for what it can do to support sustainability as well.

History

Approximately five years ago, the National Association of State Foresters requested that its Forest Markets Committee review the “Economic Action Programs,” determine if there was a reason for State Foresters and the USDA Forest Service to be involved in the issues these programs were designed to address, and, if so, to propose a course of action to reenergize and focus efforts in these regards. The Forest Markets Committee examined the statutes authorizing the USDA Forest Service action in these areas and the track record of these programs. The Committee concluded that **there is indeed an important reason for State Foresters and the USDA Forest Service to be involved in efforts to support the development of markets for forest products – that is, so that sustainable forestry can be practiced.** However the Committee concluded that this rationale either had not been clearly understood, or that the programs had gotten off track. History demonstrates that in the absence of diverse and robust markets, only the higher quality material can be harvested economically, and that high-grading – which reduces the quality of residual stands and future timber supplies – results. Figure 1 shows the results of 50 years of high grading in the USDA Forest Service Penobscot Experimental Forest in Bradley, Maine. Since the time that the Forest Markets Committee concluded that it is important for forestry agencies to be engaged in these issues, it has been working to launch an initiative demonstrating what projects to maintain and diversify markets can accomplish in

today's complex, competitive, and rapidly changing global markets. This proposal is the culmination of those efforts.

Figure 1

The results of 50 years of selection management on the Penobscot Experimental Forest



This stand was managed selectively with light harvests every 20 years. The financial return from this management (measured as the net present value of all income and costs) is approximately \$534.

The results of 50 years of diameter limit cutting on the Penobscot Experimental Forest



This stand was managed using a diameter limit (all trees above a given diameter were harvested). The financial return from this management was \$976 (net present value).

Proposed Approach

In essence, **the approach suggested here is to model an initiative to maintain and diversify markets for forest products after the successful State and Private Forestry competitive redesign process.** Using this model, a **national competition** aimed at selecting the best projects from around the country would be conducted in the fall of 2009. Projects could come from states, National Forests, non governmental organizations, universities and others, but all would require endorsement by at least one State Foresters. The types of projects which are known to exist at present are compiled in Attachment A. The range of projects which could productively be undertaken run the gamut from policy efforts aimed at improving the competitive position of forest products industries, to developing markets for ecosystem services, solving problems with infrastructure that disadvantage elements of the forest products industry, promoting the increased use of biomass, enhancing the competitive position of manufacturers of traditional forest products, and promoting emerging markets. We propose that this blue ribbon **selection committee** consisting of representatives of the USDA Forest Service, state forestry agencies, and experts from academia would decide which projects to fund. The selection committee would be informed by **input from a technical review panel** made up persons with real-world experience from the profit and nonprofit sector with expertise in these matters. Subject matter experts could also be hired to assist with the review of specific projects where special expertise is needed.

To insure focus, the selection committee could specify 4 or 5 focal areas for this initiative (e.g., projects which create markets for ecosystem services, projects which enhance the prospects for markets that address specific regional problems (e.g., uses for materials coming from fuel reduction projects), etc.

We propose that the **criteria for selection** include the following:

- **Whether or not the project addresses a significant issue identified in the state's resource assessment** (or comparable analysis).
- **Probability of success** including the proposing institution's track record on similar projects.
- The **magnitude of results** expected.
- **Linkage with sustainable forestry** – e.g., providing a missing habitat type or some other ecosystem service.
- Whether or not the project will result in **synergies** with other related efforts – e.g., success will increase the benefits from other efforts.
- Whether or not the project is **replicable**.
- Whether or not the project is **innovative**.
- The expected **longevity** of the benefits.
- Whether or not the project **addresses a problem not addressed by other projects** – e.g., creates an ecosystem service market for service x that no one else has addressed.
- Whether the project is **regional** in scope

Note: Successful projects need not score high in every criterion – e.g., a project with significant, long-lasting benefits may be selected even if it is not innovative as it can be effective in applying a known solution to a problem.

Note also: We propose that a portion of the funding would be used to assist states in developing good ideas into high quality proposals.

Results would be compiled and reported in a consistent and coherent way, and a unified report on the accomplishments of the program would be available.

Schedule

- Projects would be solicited in the fall of 2009.
- The first round of funding would be awarded in the fall of 2009
- Project period would be fall of 2009 through winter 2011
- Project reporting on results would be spring 2011
- Compilation of results and summary report would be summer of 2011

Results Anticipated

The results from these projects will be **important to managers of both public and private lands** as they will be aimed at maintaining and diversifying markets that allow sustainable forest management to be practiced. They will also result in maintaining and creating jobs in the forest products industry, encouraging new investments in forest product manufacturing facilities, reducing costs for forest products manufacturers, developing new markets for forest products, and stabilizing markets for traditional forest products. The success of selected past efforts in these regards is documented in Attachment B to this proposal.

Addressing National and Regional Issues and Providing Context

To insure that important national and regional issues are addressed, and to provide context for state projects, funds will be set aside (amount to be determined) to conduct a national analysis of the status of the various sectors of the forest products industry and federal actions that could be taken to maintain and diversify markets in the US as a whole (e.g., changes in the tax code). Companion analyses would also be undertaken for the five major regions of the country. The national effort could be modeled after the 1933 Copeland Report which laid the basis for policy changes such as current use taxation. Regional efforts could be modeled after the Future Forest Economy Project conducted by the State of Maine (see <http://www.maine.gov/doc/mfs/fpm/ffe/>), but for a broader region.

Budget Requested

\$5 million per year for 2 years. Implementation will occur via three methods: 1) regional/national implementation/coordination; 2) project development; and 3) competitive grants to states. A small percentage will be used for implementation, development, monitoring, and reporting. Another small percentage will be used for project development, review, and to flesh out bold new solutions. The bulk of funds will be used for the specific projects awarded based on a national prioritization and ranking.

Federal Funds

\$400k	NASF Implementation / National Coordinator / NASF indirect
\$200k	Review team, Subject matter experts and data required for project evaluation
\$400k	Project development / scoping
<u>\$9 million</u>	Sustainable Forest Markets Competitive Grants
\$10 million	Total Federal Funds

State Matching Funds

\$10 million	State Matching Funds
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