

Commentary by Pete Stewart

10 Predictions for Wood-Consuming Industries in 2015

Here are 10 predictions for the forest-products industry this year:

1. The sleeping giant will awake to biomass demand. For years, the pulp and paper industry's attitude toward bio-energy demand has shifted between head-in-the-sand and wait-and-see. In 2015, this sleeping giant will awaken as pockets of the US South experience significant price appreciation, the result of increased competition. (Download our free white paper, "Future Implications: Timber Inventory and Price Trends" for details: tinyurl.com/nah7g3q.)

2. Pine-fiber supply will be tight and get tighter. There will be no easy way out of

3. Conflict between new entrants and old companies will come to a head. New entrants are likely to face stiffer resistance to plans as forest-products companies take a more active role in protecting their supply.

4. The pellet industry will grow because demand is tied to regulation, not economics. The industrial wood-pellet industry will continue to grow, despite the availability of much cheaper oil and natural gas, because demand is tied not to these economic harbingers but rather to regulation. The extent of this growth will be determined once UK and EU requirements for sustainable biomass are

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tight pine-fiber markets in 2015. Pine-fiber demand from pulp/paper mills, OSB mills, small-log sawmills, and pellet manufacturers will ratchet higher. It will be at least a decade, when trees planted after years of delayed sawtimber harvests will be ready for a first thinning, before supply restrictions abate.

clarified. Based on missed deadlines for previous announcements on matters of sustainability, I have no prediction about when that might happen.

5. The strong US dollar will inhibit exports. Despite the feeling of many economists that the US dollar might be in

trouble in 2014, the dollar was actually in a strong position as 2014 closed. This will continue throughout 2015 and most of 2016. The downside, of course, is the crimp the strong dollar puts in the competitive position of US manufactured goods around the world.

6. Weakening world economies will mean increased imports of wood and paper products to the United States. Most other economies around the world are experiencing slower growth or contractions, and that means their manufactured goods will be good buys in the United States.

7. The lack of a rebound in solid wood, on top of increasing imports, will degrade the economics for lumber mills. The housing market has stalled at 1 to 1.1 million starts (SAAR) annually. And we don't see this getting significantly better in 2015 or 2016. Profitability at lumber mills will come under pressure as a result.

8. China still drives the train, but the train will have fewer cars. China's economy continues to dominate world markets, but its growth has slowed. It

will continue to slow in 2015, leading to lower demand for pulp, logs, lumber, and recovered fiber from suppliers worldwide. With European economies in the doldrums, these suppliers will look to the US markets as a place to off-load these commodities.

9. The Brazilian economy will weaken further in 2015.

Along with a weaker real and slack domestic markets, Brazilian solid-wood producers will look to the United States to move product. New hardwood kraft-pulp production coming online will seek a home in the United States, putting further pressure of the US hardwood pulp producers.

10. Wood-based biofuels and biochemicals markets will begin to toddle in 2015. These markets are currently in their infancy, equivalent to the size and shape of the pellet market in 2008. The fundamentals are favorable, however, so they may just find their feet in 2015.

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river, and it's got pretty much all of the steelhead and salmon species going upstream over the course of 12 months. If we're going to continue to log, then it needs to be done in a manner that's going to take into consideration all of the other interests," Benner said. "A forest is a multiple-use area. You manage the timber, and along with that you can manage for your wildlife, your fish habitat."

The Industry Rep

To SAF member Owen Graham, executive director of the Alaska Forest Association, timber has long been the lifeblood of the region. The area's timber industry once provided 3,500 to 4,000 jobs, but now supports about 500 jobs. The Big Thorne Project is crucial to retaining the timber jobs that remain.

"Our timber supply has been declining. Right now, it's down to the lowest level since before 1950. I think there's a total of something less than 70 million board feet under contract. We used to have two pulp mills and five midsize sawmills and a handful of small mills. We used to have a veneer plant. Today, we have one midsize mill left and a half dozen family-owned, 1- to 3-man sawmills," Graham said.

The Viking sawmill, which specializes in vertical-grain, shop-grade hemlock lumber, would likely run out of wood in 2015 without the Big Thorne sale, the only timber sale on the Tongass that is likely to provide logs in the near future.

"Viking says they have great markets for spruce and western red cedar and Alaska yellow cedar, but they don't have enough wood," Graham said. "They been operating one shift for about the last eight years or so, because they don't have enough timber supply to run two shifts. They employ about 50 people in the mill and maybe another 50 in the woods doing logging and road building. So we desperately need the Big Thorne sale."

Yet even the expected 10 million board feet per year from Big Thorne isn't enough to keep the Viking mill, with a one-shift capacity of 25 million board feet, operating.

"So the Forest Service needs to continue selling other sales. They have three sales that are of interest to the Viking mill, but all of them have been delayed by several years and won't be ready anytime soon. Maybe they'll

Big Thorne Project Area Forest Plan Land Use Designations and Acreages

| Land Use Designation (LUD) | Acres | % of Area |
|------------------------------------|----------------|-------------|
| Non-Development LUDs | | |
| Research Natural Area | 1,621 | 1% |
| Old-Growth Habitat | 74,949 | 32% |
| Scenic River | 14,180 | 6% |
| Recreational River | 2,932 | 1% |
| Subtotal | 93,682 | 40% |
| Development LUDs | | |
| Timber Production | 60,686 | 26% |
| Modified Landscape | 58,885 | 25% |
| Scenic Viewshed | 4,426 | 2% |
| Subtotal | 123,997 | 54% |
| Total NFS Lands | 217,679 | 94% |
| Non-NFS Lands | 14,169 | 6% |
| Total (NFS + Non-NFS) Lands | 231,848 | 100% |

Timber harvest or road construction is generally not permitted in Non-Development LUDs. Timber harvest and road construction is allowed in Development LUDs under certain conditions. Data: Big Thorne Project Final EIS.

have one of them ready this year," said Graham.

Graham said the industry can't survive on too-small logs. "We always planned for [the transition], but we wanted to do it when the trees were mature," he said. "The CMAI—the culmination of mean annual increment—is something like 90 to 100 years, on average, on the Tongass. The Forest Service wants to start cutting these trees at age 70, and there are problems with doing that. The trees are too small to be profitable. The volume per acre will be cut down to less than half of what it would be if you let them grow to maturity, because their peak growth period is between 60 and 90 years old. And we don't have enough acres of young-growth to support a small-log mill. Most of the successful small-log mills these days are highly automated and process a lot of tiny logs—you're talking about maybe 100 million feet a year. But all of the land we've got might produce 50 million a year, and half of the young-growth is currently off-limits—they're in places

where the Forest Service has said that they're not going to harvest timber.

"The Forest Service has been diverting their timber-sale preparation money into young-growth sales that aren't going to help the Viking mill, that aren't going to help anybody who isn't heavily subsidized, because those small logs are just not profitable," Graham said. "Most of the young-growth that the Forest Service has sold so far has been exported to China. There's a pretty good market over there that pays 400 to 600 bucks a thousand. And we have a pretty good competitive advantage over Oregon and Washington, because we're closer [to China]. So the young-growth transition would work if we were just going to export logs to China, but it's not going to supply our manufacturing facilities."

An Environmental Group's View

Andrew Thoms, executive director of the Sitka Conservation Society (SCS), was named to the Tongass Advisory Committee as one of three representatives of national or regional environmental and/or conservation organizations. The SCS's website explains that the group has "dual goals of protecting the coastal temperate rainforests of Southeast Alaska and developing economically, socially, and environmentally sustainable communities within the Tongass National Forest."

Thoms said southeast Alaska is still feeling the effects of the timber-harvesting heyday.

"As a community, I think we learned a lot from that pulp-mill experience," he said. "We did a lot of logging and had a lot of jobs associated with that logging, but the long view wasn't taken, and too much wood was taken too fast. We never achieved a sustainable yield, where the wood that we took was replaced by new timber resources that grow back in. So now, unfortunately, the old-growth resource isn't there, or it's not where it's economic to harvest, or it's not in places where anyone can feel good about the ecological impacts of harvesting it. The second-growth resource hasn't quite come in, or it's just starting to come into what can be used."

As for the Big Thorne Project, Thoms sees the area's old-growth as too heavily impacted by past sales to sup-

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