

## 6. FOREST PRODUCTS

Forest products is Oregon's largest industry, employing 75,000 Oregonians. This is about 38 percent of all Oregonians employed in manufacturing, or 5 to 6 percent of the state's total non-agricultural employment. Southern, central, and eastern Oregon, as well as the southern Willamette Valley are more dependent on the forest products industry than the state as a whole. More than 12 percent of the work force in these areas is employed in the forest products industry. Josephine County and central and northeast Oregon are more than 50 percent dependent on the industry.

Oregon has the largest inventory of standing sawtimber of any state in the United States, in fact, more than all 13 southern states combined. Unlike many raw materials, such as oil and metals, Oregon's timber resource is renewable and sustainable, providing continuing economic support for Oregon's future. This industry is going through a transition which creates challenges for both its members and the state as a whole.

- **Forest land available for commercial forestry is declining.** Increasing public demand for non-timber resources will result in significant declines in the amount of land allocated to growing and harvesting timber. Urban encroachment has resulted in the loss of approximately 63,000 acres of primary forest land during the period from 1973 to 1982. This will result in decreased availability of timber for the wood products industry.
- **Timber harvests will decline significantly in the near future.** Supply of timber from private timberlands (which represents about 40 percent of the state's acreage) will drop during the 1990s, before recovering in the next century. The industry has advocated higher harvest levels in federal forests to make up the deficiency. However, federal forest plans now in the process of being adopted may reduce public harvests by 10 to 15 percent or more. Many forest lands, both public and private, are not being managed as intensively as they could be.
- **The industry is in transition from dependence on old-growth timber to younger, smaller, second growth trees.** Old growth timber on private industry lands is almost gone. The amount left on federal lands is the subject of intense debate. Old growth Douglas fir and Ponderosa pine available for harvest will decline. Younger wood is not as strong and is less likely to be clear. Companies which require the strength or esthetics of old-growth Douglas fir for their products will face higher costs and dwindling supply as the remaining available old growth is harvested.

- **Declining harvest levels will lead to employment losses and mill closures over the next decade.** Modernization of mills will also lead to both short-term and long-term losses and closures. Sooner or later, the old growth trees currently available for harvest will either be cut or protected. Most mills which currently process old growth will either be modernized or closed down, with moderate to severe employment losses. Modernization has already improved productivity and reduced overall employment. Lumber and plywood production were both higher in 1987 than in 1979; however, sawmill employment dropped from 27,000 to 22,000, and plywood mill employment dropped even further from 24,000 to 17,000 (a total of 12,000). Productivity improvements of similar magnitude can be expected over the next ten years.
- **Log exports are exacerbating the log shortages felt by timber processors, as well as raising production costs.** In 1985, over 10 percent of all Douglas fir harvested in the state was exported as logs; the log export share may have reached 12 percent in 1988. The impact of exporters will be felt far into the future -- high prices encouraged private woodlot owners to cut now, further reducing future supplies. Many mill owners are paying higher costs for raw materials, as well as higher transportation costs as they are forced to bid on timber farther away from their production site. The combination of harvest reductions from private and public lands and the booming log export market has led some mills to close. Others will soon follow.
- **Oregon's forest products industry has not reached its full potential for development of specialized, value-added products, or for marketing of finished wood products globally.** The large outflow of raw logs illustrates the opportunities for jobs and income if Oregon could competitively add value to those resources before they leave the state.
- **Differences in competition and demand have made paper a much more profitable product than lumber.** Most lumber produced in Oregon is taking on the characteristics of a commodity, while paper products, due to steadily growing demand and product differentiation, command a higher margin. Not surprisingly, most industry investment and reinvestment is concentrated in paper.
- **Demand for Oregon lumber and plywood continues to be highly dependent on domestic housing starts.** Douglas fir plywood has been losing market share to cheaper substitutes. While plywood production has increased this decade, use of cheaper substitutes such as waferboard has grown even faster.

- **Industry restructuring has led to significant cuts in real wages in the lumber and wood products industry during this decade.** At the same time paper industry wages remain among the highest of all industries. Figure III-1 shows average annual wages corrected for inflation for sawmill, plywood and paper workers. Wages in sawmills have declined by over 17% from their peak in 1979, and wages in plywood mills have decreased by over 10% percent during that same period. Several large companies have shifted to contracting logging as opposed to employing loggers at union scale, resulting in sharply lower pay to those affected. Meanwhile, average wages in paper mills have increased by more than 16 percent.
- **Labor-management relations in the industry have been marked by bitter strikes that harm companies, workers, and communities.**
- **The Jones Act and current rail tariffs make Oregon less competitive for domestic markets than other wood producing regions of the United States.** The high cost of transportation to the eastern United States and Mid-West make Oregon less competitive than the southern States. Currently, Oregon competes well only in the Northwest and the Southwest. Good markets exist in the Northeast but transportation costs must be reduced.
- **Workers' Compensation costs continue to boost the costs that go into wood products manufactured in Oregon.**

### **Vision**

The Oregon forest products industry will produce high-quality wood products, adding more value to them and exporting them more widely over the next decades. Oregon will be recognized as a leader in wood design and wood engineering technology. Still, the next two decades will not be easy. The timber supply will decline over the next two decades and then increase. Productivity improvements and mill closures will cause job losses. The State, federal government, and the forest products industry will work together to maintain timber supplies consistent with sound forest land stewardship and to manage a massive transition in this industry.

### **Strategy for Achieving the Vision**

Developing the forest products industry requires three broad directions:

- Oregon must seek acceptable resolutions to the declining land base available for growing and harvesting trees, protect and enhance management of its timber resources to fully utilize the available supply (consistent with other environmental and recreation values) and assure a steady volume of high-quality wood for specialized uses as long as possible.

- Oregon needs to establish itself as a leader in wood use design and engineering technology. Oregon industries need to find ways to add value to products for domestic markets and export more manufactured products instead of logs.
- The State should work with industry and labor to strengthen relationships which will promote productivity, increase job security, and maintain high wage jobs. This is particularly important as Oregon companies strive to add greater value to timber resources by producing value-added products that will compete in world markets.

### **Actions To Implement the Strategy**

#### **Land Base Protection and Forest Management**

- The Governor's Office should continue to review federal forest plans and take aggressive action to assure that this vital resource is managed to provide a stable long-range level of timber production with favorable impacts on society, the economy, and the environment. The Legislature should continue to fund positions for this purpose.
- The Department of Land Conservation and Development should complete the classification and rule-making revisions that affect forest lands under Goal 4 as soon as possible. The new classification and rules should encourage intensive management of forest land by non-industrial private forest landowners.
- The Department of Forestry and Oregon State University Extension Service should be strengthened in order to assist non-industrial private forest landowners to improve intensive management practices and increase harvest levels.
- The State should improve its tax incentive programs to more effectively promote intensive forest management and continued growing and harvesting high-quality tree species.
- The State should encourage the Forest Service to pioneer new methods for managing environmentally sensitive areas. One idea for a pilot project is to create a buffer zone around such areas, open to selective cutting, managed by a joint committee of Forest Service, industry, and environmental representatives.
- Working through the Department of Forestry, the State should strengthen

the partnership of forest landowners and forestry agencies in funding and implementing strategies to minimize damage from insects, fire, and other destructive agents.

- Oregon State University should complete its study to identify potential raw material shortages on the horizon to help the industry plan investment decisions, and to assure that the Economic Development Department has current data on raw material supply in its industry recruitment and retention efforts.
- Special attention should be given to assuring a limited, but stable long-term supply of old growth timber for use in veneers and other high quality specialized products.
- The State should expand its forest research at Oregon State University commensurate with the importance of this industry to Oregon's economy. The research should be aimed at increasing growth and yield of timber while simultaneously protecting Oregon's environment.

#### **Utilization and Promotion of Valued Added Wood Products**

- The Economic Development Department, jointly with the Forest Products Strategy Committee and the Department of Forestry, should develop a comprehensive strategy for the development of secondary wood products in Oregon and for marketing finished Oregon wood products globally.
- The Economic Development Department and the Forest Products Strategy Committee should work with the University of Oregon College of Architecture and Oregon State University colleges of engineering and forestry to develop curriculums in wood design. These curriculums should be wholly committed to wood engineering and design as the basis for expanding the utilization of Oregon wood products in both the domestic and international markets.
- The Economic Development Department, jointly with the Department of Forestry and the forest products industry, should complete the strategic marketing plan for expanding value-added wood product manufacturing in progress and work with the various segments of the forest products industry to identify ways to produce more value-added products in the state. This should be tied into the Regional Strategies Program and the Oregon Partnership Program where appropriate.
- The International Trade Division should sponsor a joint study with the industry on export opportunities for the industry.

- The Economic Development Department should convene a statewide conference of industry, labor, education, and government leaders to discuss opportunities for producing and marketing value-added wood products.
- The State of Oregon should support litigation or legislative measures that discourage exports of raw material from Oregon and encourage exports of value-added wood products.
- OEDD's International Trade Division should make a concerted effort to work with the Oregon congressional delegation and federal trade negotiators to address tariff and non-tariff barriers to exports of Oregon products. (Many countries create barriers which encourage importation of raw wood rather than finished wood products.)

#### **Increasing Industry Productivity**

- Through the Governor's Office, the State should sponsor a labor-management conference to bring together labor and management leaders to achieve mutually beneficial strategies in productivity, job security, and family wage income and benefits.