



WOODLAND

**Forest Management Co.
PROFESSIONAL FORESTERS**

www.woodlandmgmt.com

News for Family Forests
June 2017

Well, it's June, which is a benchmark for many forest management activities. If you've got Scotch Broom in your plantations, now is the time to spray while they're in full bloom. It is also a good time for Pre-Commercial Thinning (PCT) before fire season gets into full swing.

Log prices remain strong for both domestic and export logs. Now would be a good time to sell your timber. Within a few months, regardless of the market, it may be tough to find a logger, as they get booked for work on dirt roads during the dry season.

I recently spent a day at a demonstration for the Cut-To-Length (CTL) method of thinning. CTL features a Harvester, which is a mechanized cutting machine, and a Forwarder, which transports the logs from within the stand to the landing. These machines can operate on virtually any terrain. In stands that are due for an initial thinning between 15 and 25-years of age, CTL provides the opportunity to pay for the treatment, and possibly generate a small profit, versus PCT where the trees are left on the ground and there is out of pocket cost. This type of forest management technique may be a perfect fit for your forestland.

Next month we'll see if the wet spring successfully delayed fire season in the Northwest.

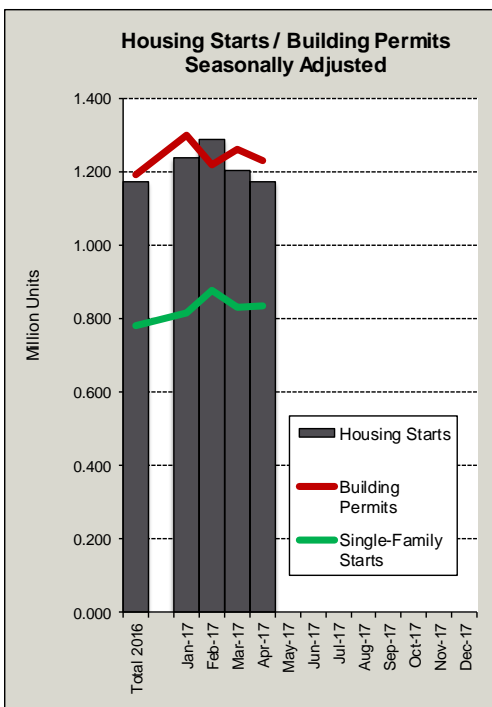
I look forward to talking with you, please don't hesitate to call me at (503) 654-2221.

- Brent



MARKET WATCH: HOUSING, LUMBER AND LOGS

HOUSING STARTS



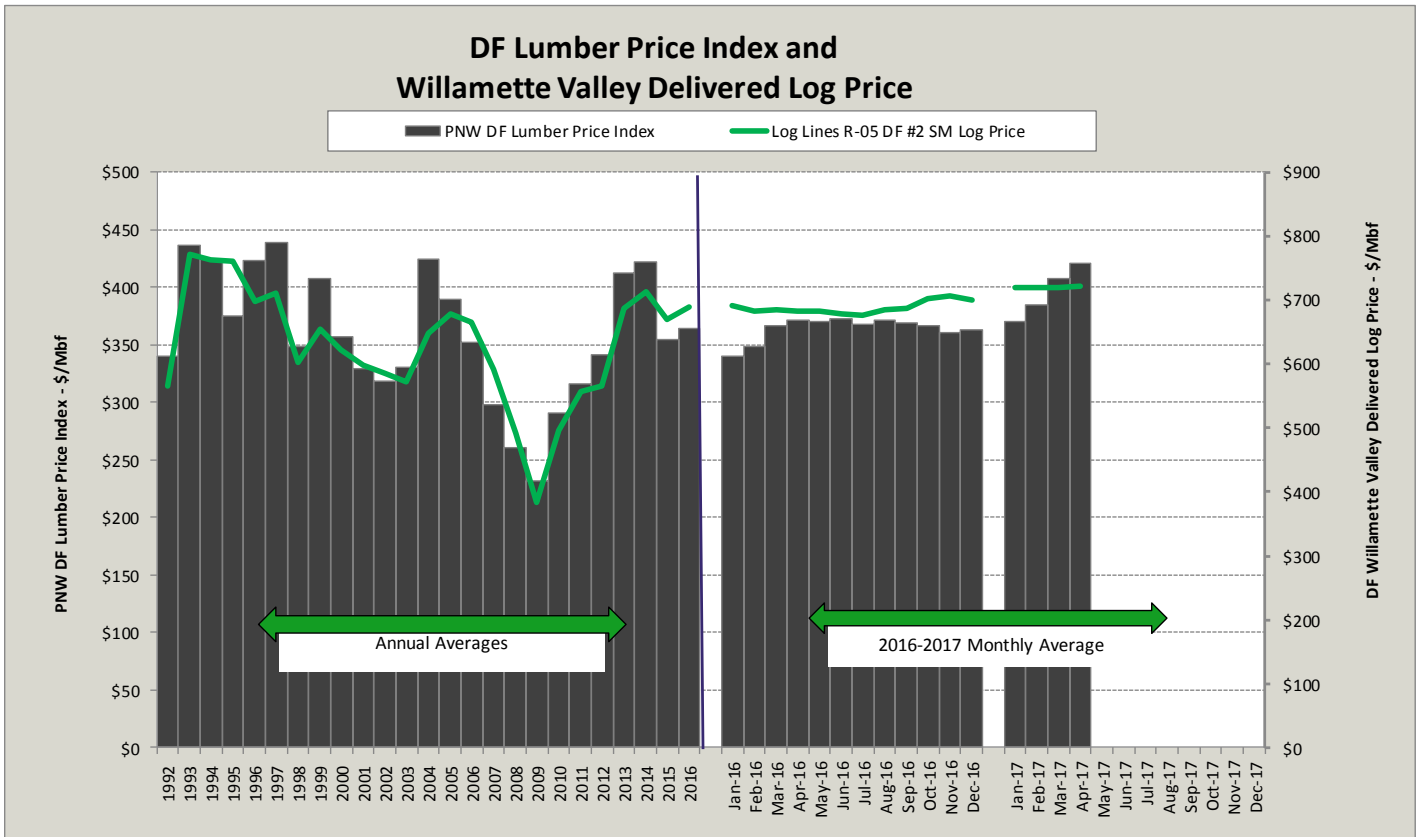
The housing market is an important indicator of the log and lumber market. When the housing market is booming, demand goes up and so do log and lumber prices.

The U.S. housing starts in April decreased to 1.172 million units (SAAR), down 2.6% from the revised March estimate, and 0.7% above April 2016. Single-family starts decreased to 0.835 million units (SAAR), up 0.4% from March and 8.9% higher than April 2016.

April 2017 Housing Starts (million units, seasonally adjusted):					
	April 2017	March 2017	Change from Previous Month	April 2016	Change from Previous Year
All Starts	1.172	1.203	-2.6%	1.164	0.7%
Single-Family Starts	0.835	0.832	0.4%	0.767	8.9%
Building Permits	1.229	1.260	-2.5%	1.163	5.7%
Single-Family Building Permits	0.789	0.826	-4.5%	0.743	6.2%

Source: U.S. Census Bureau

LUMBER & LOGS



Lumber prices continued to increase in April while log prices remained stable. Lumber prices increased 3.1% and log prices had a slight increase of 0.42%. Both are still substantially above the figures from one year ago. (Note that lumber and log prices are on different scales)

- April DF #2S log prices, as reported by Log Lines, increased \$3 to \$722/Mbf, which is 5.9% better than April 2016.
- At \$420.58/Mbf, the DF lumber index price increased in April by 3.1% over the prior month and was an impressive 13.2% higher than one year ago. The lumber price increase is attributed to the ruling on the countervailing duty against Canadian lumber.

April 2017 Douglas-fir Prices:

	April 2017	March 2017	Change from Previous Month	April 2016	Change from Previous Year	5 Yr Annual Average	March 2017 compared to 5 Yr Annual Average
Logs	\$ 722.00	\$ 719.00	0.4%	\$ 682.00	5.9%	\$ 664.95	8.6%
Lumber	\$ 420.58	\$ 408.10	3.1%	\$ 371.50	13.2%	\$ 378.92	11.0%

Sources: Log Lines Willamette Valley DF #2S monthly average price & WPPA Pacific NW Coast Douglas-Fir monthly lumber price index.

MARKET NEWS

CARBON MARKETS FOR FAMILY FOREST OWNERS

On May 6th, our own Edie Dooley attended a workshop titled Forest Carbon Markets for Family Forest Owners put on by the Pinchot Institute for Conservation with partners from Camp Adams, EcoPartners, Ecotrust, Trout Mountain Forestry and Clackamas County Extension. They presented emerging opportunities for small forest landowners to get into carbon markets, including via aggregates of small landowners. The Pinchot Institute is working to create pathways for small forest landowners to participate in the carbon markets, which historically have been more accessible for large forested landowners. The extensive upfront inventory, and ongoing monitoring of forest carbon stocks required by the California Air Resources board, which oversees California's compliance carbon market, have typically been prohibitive for small landowners. A new USDA NRCS Regional Conservation Partnership Program managed by the Pinchot Institute is aimed at "Unlocking Carbon Markets for Family Forest Owners." Woodland Forest Management can write a forest stewardship plan which incorporates carbon credit benefits in conjunction with this program. Woodland Forest Management intends to stay on top of the developments of this market in order to best serve the needs of family forest owners. Stay tuned as we continue to report on this emerging market.

TRENDING: HOUSE FLIPPING

A sign that the housing market is recovering: house flipping accounted for 6.3% of all home sales in 2016. This was up from 5.3% in 2015, and the highest level since 2006. The top flipping markets are: Las Vegas at 10.5% of all sales, Daytona Beach at 9%, Tampa at 8.4% and Fresno at 8.2%. (Washington Log Market Report, 2/17)

NEW FPA SMZ RULES TO BEGIN JULY 1

At the September meeting last year, we discussed proposed rule changes to the Oregon Forest Practice Act (FPA) regarding Streamside Management Zones (SMZs). The new rules will create slightly larger buffers along some streams. The Oregon Board of Forestry recently announced that it has completed the rulemaking process, and the rules will go into effect beginning July 1. (ODF Press Release, 5/2/17)

LUMBER IMPORTS EXPECTED TO INCREASE IN THE U.S.

U.S. lumber imports are expected to increase in 2017 due to increasing housing construction, a general growing demand for wood and high lumber prices. WRI expects that a CVD premium has already been anticipated by the market and that Canada is expected to remain a large and very important supplier of softwood lumber to the U.S. market. (Wood Resource Quarterly, 5/3/17)

OREGON'S WILDFIRE OUTLOOK

As Wildfire Awareness month began in May, ODF announced that it expects an average outlook for fire season this year. According to the Northwest Interagency Coordination Center (NICC), data from the last ten years indicates Oregon's average fire season begins around July 1 each year. An annual average of 4,100 wildfires burn almost 758,000 acres throughout the Northwest. In Oregon and Washington, most fires tend to be started by people, not lightning. For this reason, NICC's fire weather program manager, John Saltenberger believes that with the expected influx of about 1 million people to view the solar eclipse in August, Oregon may have an unusually high number of fire starts during that time. (KTVM, 5/1/17 & Oregonian, 5/18/17)

CANADIAN COUNTERVAILING DUTIES – A FEW DETAILS

- Preliminary Countervailing Duties (CVD) went into effect on April 28, 2017 for softwood lumber shipments to the U.S. from Canada.
- Preliminary CVD cash deposits are collected for four months after the ruling is published.
- To remain in effect, the duties need to be finalized by the U.S. Commerce Department and then confirmed by the U.S. International Trade Commission after an investigation that includes testimony from both sides.
- The final CVD determination is scheduled for September, but could be delayed until November.
- A preliminary anti-dumping (AD) determination is expected in June 2017.
- An affirmative preliminary AD ruling would create additional duties that would be collected for a maximum of six months.
- All duties are collected by the U.S. government, but the duties are not transferred to the Treasury until all investigations and appeals are completed.
- The Canadian government and private firms may file appeals through the U.S. Court of International Trade. Additionally, the Government of Canada could initiate an appeal with the World Trade Organization.
- It is not too late for a new Softwood Lumber Agreement to be approved by Canada and the U.S., although sources say that it is unlikely to happen this summer.

(*Random Lengths*, 5/5/17, & *Washington Post*, 5/9/17)

WILL CANADA TRANSFER SOFTWOOD LUMBER TRADE TO CHINA?

With the U.S. countervailing duties now imposed on Canadian lumber shipments, Canadian producers are likely to increase their efforts to expand in markets off shore. According to *Random Lengths*, however, it will not be easy for Canada to regain lost Chinese market share for softwood lumber, which is estimated to be 25% less than in 2013. Europe, Russia, South America, and New Zealand are all competing for Chinese market share of softwood lumber. Shipments from Canada to China peaked in 2013 at 3.4 Bbf, which represented 26% of B.C.'s output. This figure dropped to 19% in 2016 as exports to China from Western Canada totaled only 2.5 Bbf. (*Random Lengths*, 5/5/17)

THE ELLIOTT WILL NOT BE SOLD

On May 9, the Oregon State Land Board voted to keep the Elliott State Forest in public ownership, rather than to sell it after receiving a qualifying bidder. The potential divestiture had put Oregon at the forefront of a nationwide debate over publicly owned land.

Gov. Kate Brown has proposed using \$100 million in state bonding capacity to buy a portion of the sensitive areas of the forest and negotiate a new habitat conservation plan with federal agencies on the rest of the land, suggesting that future timber harvests would make up the remaining \$120.8 million of the land's assessed value under the conservation plan.

After the board voted not to sell, Lone Rock Resources warned the state of its plan to sue Oregon for \$3.3 million following the collapse of its deal to buy the Elliott State Forest. Lone Rock partnered with the Cow Creek Band of Umpqua Tribe of Indians to craft the only purchase plan for the forest that met

state criteria. In the claim, Lone Rock argues that it worked on the purchase plan since August 2015 and should be awarded \$1.3 million in out-of-pocket expenses and another \$2 million for lost opportunity.

Additionally, Oregon's public-school boards are threatening to sue the state Land Board if it sells the Elliott Forest for an under-market price, as the funds from the sale would have benefitted Oregon's Common School Fund, which helps pay for K-12 schools.

If the land is retained by the state, it is unclear which agency will manage the land, what role logging and recreation will play in its future and how many acres of the forest will be protected with a proposed \$100 million investment from state taxpayers. (The Register-Guard, 5/2/17 & 5/20/17, Oregonian, 5/9/17)

DECLINING LUMBER PRICES FORECAST

RBC Capital forecasts declining lumber prices over the next six to nine months. Their rationale:

- Dealers built inventories early in the year in anticipation of a CVD, and they can now wait for lower pricing to restock.
- In 2001, lumber prices peaked when the CVD was announced and then fell soon after.
- The Canadian dollar has weakened, meaning more profit to Canadian mills - which means they can lower prices somewhat.
- Good building weather early in the year means that some of the U.S. housing activity was pulled forward, which would suppress demand later in the year. (*RBC Capital Markets, 5/12/17*)

U.S. LUMBER COALITION SUPPORTS NAFTA RENEGOTIATION

The U.S. Lumber Coalition has been in the news lately as it argued against unfair Canadian lumber imports into the U.S. Coalition efforts have led to the recent temporary countervailing duties on Canadian lumber imports and possible anti-dumping duties to be imposed in the near future. Now the Coalition has publicly voiced support for NAFTA renegotiation, stating four issues from within chapter 19 of the NAFTA agreement:

1. Chapter 19 of NAFTA prevents the U.S. from fully enforcing trade laws against unfair trade. The Chapter 19 panel mechanism has led to highly questionable settlements that are accused of having cost billions of dollars of unfairly traded goods to have entered the U.S. unimpeded.
2. NAFTA's ad hoc binational panels are partially made up of foreign nationals, who may represent their own national and professional interests -- yet they are rendering binding judicial decisions that allow no recourse.
3. Only a NAFTA Extraordinary Challenge Committee panel (which also is comprised of private citizens from both countries) can overturn an original NAFTA panel decision— this has never happened.
4. Unfair trade has been accepted rather than disciplined, disallowing U.S. industries a fair chance to compete, and costing U.S. workers their jobs.

[The Coalition would like to see the NAFTA Chapter 19 system eliminated.] (Woodworking Network, 5/25/17)

CHINA'S BILLION DOLLAR FOREST EFFORT

In the last decade, China has spent over \$110 billion as part of a nationwide campaign to expand their forestland. Chinese leaders boast of a gain of approximately 167K square miles of forest in that time. However, recent studies using high-resolution photographs indicate a gain nearer to 13K square miles of forestland. It was found that many of the new plantings were not trees, but shrubs. It seems that the discrepancy may be explained by differences in defining the term forestland, with criteria ranging from over 10 percent to over 30 percent tree cover. Additionally, it seems that trees were planted in areas that are not geographically desirable for trees, which has limited growth and canopy coverage. (New York Times, 5/3/17)

BIOMASS POWER PLANTS GET A HAND UP IN WASHINGTON STATE

Previously only mills with biomass facilities constructed after 1999 could sell renewable energy credits in Washington State. That excluded mills that have older boilers and furnaces. In May, Washington's Gov. Inslee signed a bill that will allow any biomass facility that has made significant upgrades to biomass plants after Jan. 1, 2010 to sell renewable energy credits. KapStone Paper and Packaging's Longview mill, which has boilers and furnaces dating back to the 1950s and 1960s, will now be able to profit from selling biomass renewable energy credits and they hope to earn hundreds of thousands of dollars annually under the new legislation. (The Daily News, 5/16/17)

BIOMASS PRODUCED POWER EMITS LESS CARBON THAN NATURAL GAS

The Biomass Power Association released a study demonstrating dramatic carbon benefits from using forest residue-based biomass fuel instead of natural gas in a power generation facility. They found that emissions from a biomass power facility using forest residue-based fuels were lower than those of a natural gas facility in one year. Over one hundred years, those savings would be estimated to be 98%, after accounting for emissions from logging activities. "Last week, Congress overwhelmingly voted to acknowledge the carbon neutrality of biomass, and the results of this study confirm the wisdom of that vote," said Bob Cleaves, president and CEO of Biomass Power Association. (Forest Business Network, 5/13/17)

TREES ARE MOVING NORTH AND WEST IN RESPONSE TO CLIMATE CHANGE

A Purdue University research team has found that over the past 30 years, most tree species have been shifting westward and/or northward in response to climate change. The northward shift was expected by the researchers, but the westward movement was a bit of a surprise and seems to be based on shifting precipitation patterns. This study was based on real data, and not modeling. (Press Release, 5/17/17)