



**WOODLAND**

**Forest Management Co.  
PROFESSIONAL FORESTERS**

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# News for Family Forests

## July 2017

I hope everyone had a great Fourth of July. The new Oregon Stream Buffer rules are now in effect, which among other changes, added the salmon, steelhead, and bull trout stream classification—known as SSBT. This year there are also additional rules for operators during fire season, which is now in full swing across the northwest.

Log prices remain unusually strong for both domestic and export logs. Now would be a good time to sell your timber. As I mentioned last month, it may be tough to find a logger the further we get into summer, as they get booked for work on dirt roads during the dry season.

Hopefully next month we are talking about a ho-hum fire season and log prices that continue to climb.

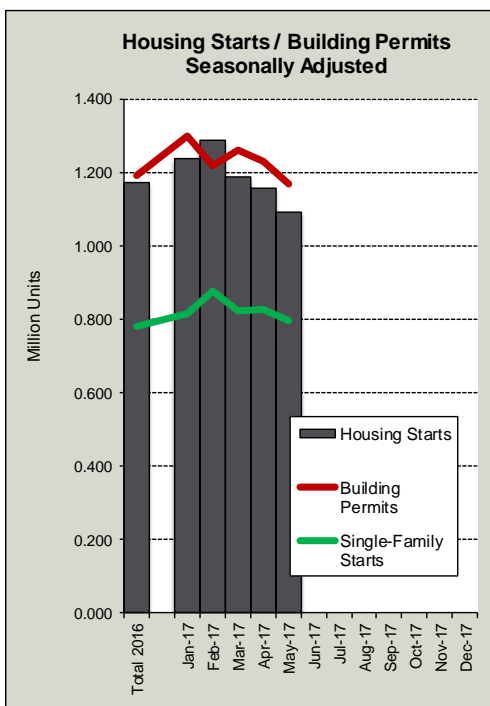
If you have questions about the new stream buffer rules, the new fire season rules, log markets, or general forestry, feel free to give me a call at (503) 654-2221.

- Brent



### MARKET WATCH: HOUSING, LUMBER AND LOGS

#### HOUSING STARTS



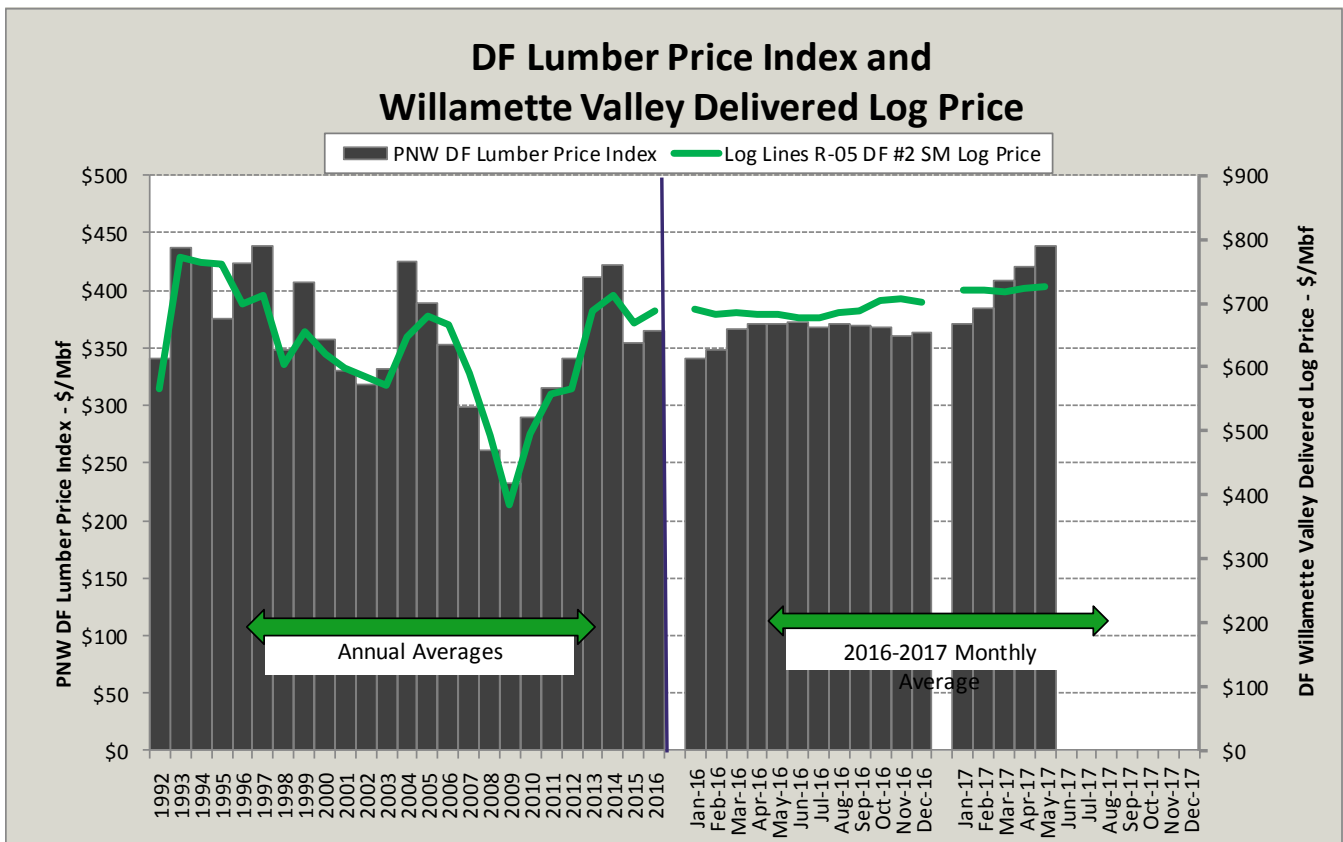
The housing market is an important indicator of the log and lumber market. -When the housing market is booming, demand goes up and so do log and lumber prices.

U.S. housing starts in May decreased to 1.092 million units (SAAR), down 5.5% from the revised April estimate, and 2.4% below May 2016. Single-family starts decreased to 0.794 million units (SAAR), down 3.9% from April and 8.5% higher than May 2016.

May 2017 Housing Starts (million units, seasonally adjusted):					
	May 2017	April 2017	Change from Previous Month	May 2016	Change from Previous Year
All Starts	1.092	1.156	-5.5%	1.119	-2.4%
Single-Family Starts	0.794	0.826	-3.9%	0.732	8.5%
Building Permits	1.168	1.228	-4.9%	1.178	-0.8%
Single-Family Building Permits	0.779	0.794	-1.9%	0.735	6.0%

Source: U.S. Census Bureau

#### LUMBER & LOGS



Lumber and log prices increased in May. -Lumber prices increased 4.3% and log prices had an increase of 0.69%. Both are still substantially above the figures from one year ago. (Note that lumber and log prices are on different scales)

- May DF #2S log prices, as reported by Log Lines, increased \$5 to \$727/Mbf, which is 6.6% better than May 2016.
- At \$438.96/Mbf, the DF lumber index price increased in May by 4.37% over the prior month and was an impressive 18.45% higher than one year ago. The lumber price increase is attributed to the ruling on the countervailing duty against Canadian lumber.

#### May 2017 Douglas-fir Prices:

	May 2017	April 2017	Change from Previous Month	May 2016	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 727.00	\$ 722.00	0.7%	\$ 682.00	6.6%	\$ 664.95	9.3%
Lumber	\$ 438.96	\$ 420.58	4.4%	\$ 370.58	18.5%	\$ 378.92	15.8%

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

## MARKET NEWS

### BUILDER CONFIDENCE AND HOUSING AFFORDABILITY

The monthly National Association of Home Builders survey indicates that builder confidence is still high in June, but slightly measured as it dropped 2 points from May's rating of 69. Builders continue to report a level of frustration over the lack of skilled labor and availability of buildable lots. However, they also report a lower rate of home-buying traffic. Could this be the result of the lowering housing affordability rate? Many markets are experiencing low inventory and rising home prices, reducing affordability. A recent Harvard study reported that in 2015, nearly 19 million U.S. households paid more than half of their incomes for housing. In 2016, income growth picked-up and lowered the overall percentage of income being paid for housing in the U.S., but the housing burden remains much higher than at the start of the last decade and it inched up again last month. (*NAHB, 6/15/17 & Harvard Press Release, 6/16/17*)

### U.S. ISSUES ANTI-DUMPING TARIFF ON CANADIAN SOFTWOOD LUMBER

A preliminary anti-dumping duty (AD) was announced by the U.S. Department of Commerce (DOC) June 25. Four companies were investigated and given individual AD rates: Canfor, 7.72%; Resolute, 4.59%; Tolko, 7.53%, and West Fraser, 6.76%. The Department of Commerce is currently scheduled to announce its final AD determination on September 7, 2017.

The weighted average of the four investigated companies, 6.87%, will be assessed against all other Canadian companies. The AD duties will not be applied retroactively to the four companies investigated. However, they will be applied back to late March for all other companies. DOC also announced that the provinces of Newfoundland and Labrador, Nova Scotia, and Prince Edward Island are exempted from the AD duties.

In April, the DOC issued preliminary Countervailing Duties (CVD) on Softwood Lumber imports from Canada. With both preliminary determinations now issued, the combined CVD/AD rate averages 26.75%. Countervailing duties target unfair subsidies, while anti-dumping tariffs go after the selling of softwood below market value.

The U.S. and Canada are still working to resolve this dispute with a new trade agreement. Canadian Ambassador David MacNaughton said last week U.S. Commerce Secretary Wilbur Ross told him it would be good to get a softwood deal before renegotiation of the North American Free Trade Agreement, due to begin as early as August. (*Random Lengths, 6/26/17*), (*Bloomberg, 6/19/17*)

### CANADA AIDS TARIFFED FOREST INDUSTRY

The Canadian government unveiled a significant support program for the Canadian softwood industry, to help blunt the pain of American duties on shipments bound for the U.S. Nearly 70% of the promised federal aid is in the form of loans and loan guarantees that two Crown corporations will extend to forest companies struggling to cope with a cash crunch caused by the need for duty payments.

"Canada is standing up to the U.S. Canada is standing up for Canadians," Natural Resources Minister Jim Carr said at a news conference to announce the assistance. The Canadian government insisted the new support does not breach international trade rules because the loans will be made on commercial terms and that the measures "will stand the test of scrutiny."

The U.S. Lumber Coalition, responsible for triggering the softwood lumber dispute, was quick to lash out at the Canadian aid package Thursday, calling it "a new government subsidy for Canadian softwood-lumber producers." (*The Globe and Mail, 6/1/17*)

### A GLOBAL LOOK AT SOFTWOOD TIMBER AND LUMBER

- The Global Sawlog Price Index (GSPI) was up 0.3% in 1Q/17, when compared to the prior quarter. This was only the second time in almost three years that the GSPI increased quarter-over-quarter. Over the past year, sawlog prices have generally increased in Latin America, Oceania, and North America, while they have declined in Europe.
- Globally traded softwood lumber reached an all-time high in 2016. WRI estimates that 118 million m<sup>3</sup> of lumber was traded last year, 10% more than in 2015. Imports to the U.S. account for about one-third of globally traded lumber and have almost doubled in five years. China accounted for about 17% of import volumes in 2016.
- Lumber production in North America in 2016 was up 6% from the previous year, reaching its highest level since 2007. The biggest rises in production were in the U.S. South and Eastern Canada, while the increases in western Canada and the western U.S. were modest.

(*Wood Resources International, 6/16/17*)

### KEEPING THE ELLIOTT STATE FOREST – AT A COST

When Oregon's State Land Board voted to stop the sale of an 82,500-acre swath of the Elliott State Forest, there was no mention of the sunk costs included in that decision. It has recently been reported that the state spent more than \$3.5 million on the proposed sale that the state scrapped. Now, the Department of State Lands is requesting an additional \$5.7 million to pay for continued management of the forest and the development of a long-term plan to protect the forest's habitat for endangered species. These costs will come out of the Common School Fund.

Alex Pulaski, a spokesman for the Oregon School Boards Association said, "As we have maintained throughout this process, we are concerned about any significant management expenses that drain money from the Common School Fund when at the same time logging in the Elliott has been limited...The net effect in recent years has been for the Elliott to take money from the fund rather than to contribute to it."

Finally, it's unclear how much the state may end up spending on legal costs. Officials face two possible court challenges: the one from the schools, and the other from Lone Rock Resources, the Roseburg timber company that was poised to buy the forest. (*Blue Mountain Eagle, 6/13/17*)

### LINN COUNTY JUMPS A HURDLE, BUT HITS A ROADBLOCK

The Linn County lawsuit brought against the Oregon Department of Forestry, on behalf of 14 counties and numerous taxing districts within them, argues that Oregon's forest management policies have deprived local governments of logging revenues from forests they donated to the state. In an attempt to thwart the lawsuit, Attorneys for Oregon claimed that federal environmental statutes, including the Endangered Species Act and the Clean Water Act, effectively prohibited state forest managers from maximizing timber harvests on that land. In June, Linn County Circuit Court Judge, Daniel Murphy, ruled those defenses are not valid, since the plaintiffs allege Oregon's forest protections surpassed the requirements of federal law. (*Capital Press, 6/8/17*)

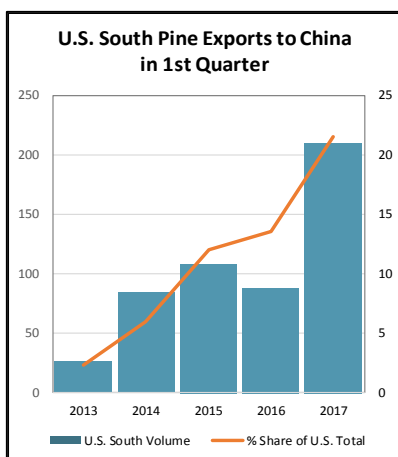


However, the same judge reversed an earlier ruling that creates a new roadblock for the counties' case. In the June 20th decision, Murphy has agreed with Oregon's attorneys that counties, as subdivisions of the state, cannot sue the state government for money. Murphy said he's "well aware this interpretation contradicts" his earlier opinion, but he will provide the plaintiff counties with "the opportunity to re-plead their case in such a manner that is supported by the law if they can." The judge has left open the possibility for the plaintiffs to seek an "equitable" remedy, such as an injunction or order that requires the state government to take certain actions without paying financial damages. John DiLorenzo, attorney for the counties, said his clients may decide to re-characterize their complaint or seek clarification from an appellate court regarding sovereign immunity and other issues. (*Capital Press*, 6/23/17)

### CLT EARNS SFI CERTIFICATION

Cross Laminated Timber (CLT) manufactured by Smartlam in Montana has become the first CLT manufacturer in the U.S. to earn SFI chain of custody certification. This certification will allow Smartlam to be a supplier in the green building market that is officially recognized by green building rating systems, like those with a LEED rating. (*Woodworking Network*, 5/26/17)

### SOUTHERN PINE EXPORTS SURGE IN 1Q17



With the assistance of record low shipping rates, 1Q2017 pine log exports from the U.S. South nearly doubled the previous first quarter peak in 2015. The share of U.S. log exports to China from the South increased from almost nothing four years ago, to 13% in 1Q2016, and 21% in 1Q2017 (roughly 200,000 tons), an all-time record (see chart). The surge may be short-lived however, due to expected increases in shipping costs. [Note: 200,000 tons is roughly equivalent to 35 MMBf, these are still small volumes.] (*Timberland Market Report*, June 2017)

### PLYWOOD MARKET SLUGGISH

Plywood sales are steady and should even improve over the summer, but western suppliers are slow, perhaps even lethargic, due to adequate inventories and a strong U.S. dollar. The strong dollar is allowing imported plywood to be sold at a discount and making it difficult to export any plywood at all. (*Freres Press Release*, 5/30/17)

### FIRE AT FRERES

A fire of unknown cause was reported at Freres Lumber Co. in Lyons Oregon on June 26. The fire was contained to building 4 of the veneer plant and quickly distinguished. All 34 employees were evacuated safely and will be offered temporary positions at other plants until the damages can be properly assessed and the building repaired. (*Statesman Journal*, 6/29/17)

### WILDFIRES ARE BIGGER POLLUTERS THAN PREVIOUSLY THOUGHT

Scientists have been using a NASA plane to plow through the plumes of wildfires and measure the chemicals and particles that are being released into the atmosphere directly above the fires. They found that summer wildfires boost air pollution considerably more than previously believed. Methanol, benzene, ozone precursors and other noxious emissions collected from wildfire plumes may make it sound like an oil refinery went up in flames. That's not so far-fetched, as oil and other fossil fuels derive from ancient biomass.

They also found that prescribed burnings prevent or reduce wildfires, and they appear to produce far less pollution per unit area than wildfires—perhaps six times less. (*Georgia Institute of Technology*, 6/13/17)

### PACIFICORP: WILDLIFE HABITAT PURCHASED

Utility Pacificorp purchased approximately \$3.2-million of timberland from California Fruit Growers Supply in Washington's Swift-Marble area, contiguous to the Mount St. Helens National Volcanic Monument.

"Conserving and managing this habitat on the southwest slopes of Mount St. Helens, where elk are threatened by forage loss from forest succession and habitat loss to development, is just a part of PacifiCorp's ongoing commitment to environmental stewardship," said Todd Olson, the company's compliance director.

PacifiCorp manages much of its lands to maintain a mosaic of late- and early-successional habitats throughout the watershed, with the goal of retaining big-game forage as long as possible. Planting is done less densely than timber companies to provide more sunlight to reach the forest floor and benefit browse species. The utility does not do widespread spraying of herbicides, but instead does hand spraying by backpack to just target specific species. The goal is to develop forests that mimic nature, rather than plantations of Douglas fir, which is the most valuable commercially. (*The Columbian*, 6/15/17)

### PARIS CLIMATE ACCORD AND THE U.S. WOOD PELLET INDUSTRY

President Trump announced the U.S. withdrawal from the Paris Climate Accord in June and set-off worries about the departure having catastrophic consequences for the U.S. industrial wood pellet industry, for European biomass power utilities, and even for the Canadian wood pellet industry. This is due to a proposed European requirement that wood pellets may only be sourced from countries that are party to the Paris agreement and have ratified the agreement. In 2016, the U.S. accounted for a large percentage of wood pellets used by European power suppliers: 4.6 million tons or 46%, followed by Canada at 1.9 million tons or 19%.

If Europe stops accepting U.S. sourced pellets, the European utilities would need other sources such as Canada, northern Europe, and Russia. In the short term, pellet prices would likely increase. However, it would be difficult for those countries to scale-up production fast enough to keep the power flowing. Without access to sufficient raw material, European power plants would be at risk. The fallout may adversely affect Canadian pellet producers despite Canada's support of the Paris agreement, as it is possible that U.S. producers would more aggressively seek to take away some of Canada's wood pellet market share in Asia. (*Canadian Biomass Magazine*, 6/6/17)