

# News for Family Forests

May 2018



**Forest Management Co.**  
**PROFESSIONAL FORESTERS**

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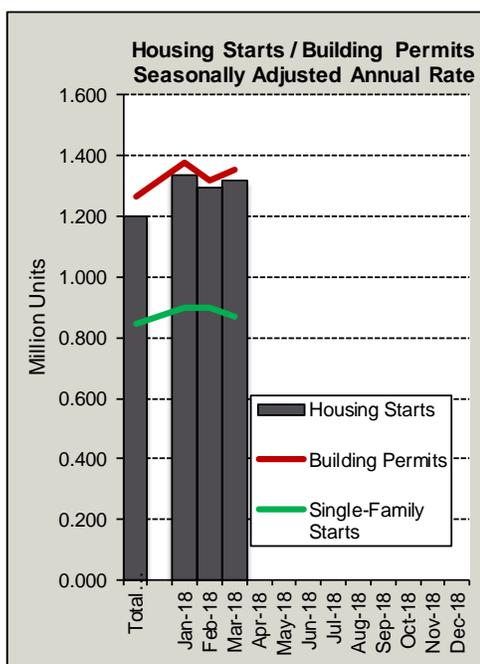
*Burning question for May: What kind of fire season will we have this year? Forecasters predict a harsh fire season for Oregon, based on late spring drought conditions in several areas, that are due in part to generally poor snowpack. We'll see. If fire season restricts log deliveries the log market will climb even higher, which is great for log sellers, if you're operating in a less restricted area and can get to market.*

*The other big question for May: Do I have any Scotch Broom issues? If so, now's the time to spray while they're in bloom.*

*If you want to plan a timber harvest, give me a call at (503) 654-2221 or email me at [bkeller@woodlandmgmt.com](mailto:bkeller@woodlandmgmt.com). In addition to timber harvests,*

*Woodland offers a variety of services – including reforestation, timber cruising, management plans, competition control in plantations, forestland valuations, and road maintenance. - Brent*

## MARKET WATCH: HOUSING, LUMBER AND LOGS



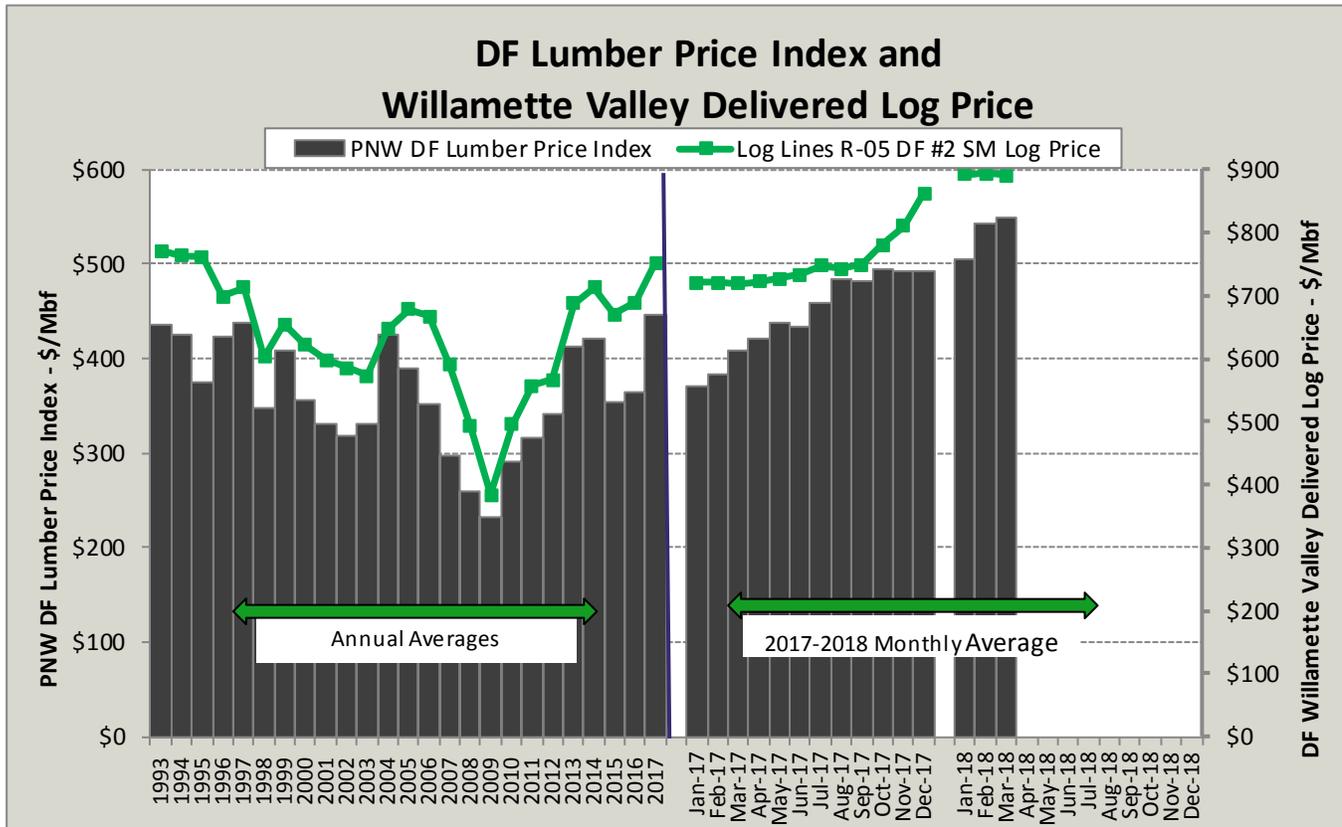
### HOUSING STARTS

U.S. housing starts increased 1.9% overall in March. Single-family starts decreased 3.7% while multi-family starts increased 16.1%. Building permits also increased 2.5%. Last month's decline was due to a drop in multi-family starts and the pundits declared a "glut" in that market. This month, pundits conclude that single family homes cost too much and multifamily is the wave of the future. Stay tuned for next month's insight. (WSJ, 4/17/18)

March 2018 Housing Starts (million units, seasonally adjusted):					
	March 2018	February 2018	Monthly Difference	March 2017	Annual Difference
All Starts	1.319	1.295	1.9%	1.189	10.9%
Single-Family Starts	0.867	0.900	-3.7%	0.824	5.2%
Building Permits	1.354	1.321	2.5%	1.260	7.5%
Single-Family Building Permits	0.840	0.889	-5.5%	0.826	1.7%

Source: U.S. Census Bureau

## LUMBER & LOGS



DF Lumber prices rose slightly in March, while logs ticked down a couple of dollars. Some observers think that this may be the top of the market. Many note that there is a lot of lumber in B.C. just waiting for railcars. (Note that lumber and log prices are on different scales in the chart.)

- March DF #2S log prices, as reported by Log Lines, decreased \$2 to \$891/Mbf, which is 0.2% lower than the prior month, 23.9% higher than March 2017, and 26.9% above the 5-year average.
- At \$550/Mbf, the DF lumber index price for March was up 1.3% above February 2018. It was also 34.7% higher than March 2017 and 38.6% above the 5-year average.

### March 2018 Douglas-fir Prices:

	March 2018	February 2018	Change from Previous Month	March 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 891	\$ 893	-0.2%	\$ 719	23.9%	\$ 702	26.9%
Lumber	\$ 550	\$ 543	1.3%	\$ 408	34.7%	\$ 397	38.6%

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

## MARKET NEWS

### NW FARM CREDIT FORECAST

Below we show the summary from the April 2018 NW Farm Credit Services quarterly wood products forecast.



### LUMBER TRACK REPORT

As the chart below illustrates, lumber production and consumption are on the rise in the U.S. January lumber mills averaged production at 85% of capacity. Coast mills saw January production at 82%, which was 10.3% over January 2017. (WWPA, 4/12/18)

Lumber Production	Jan 2018	Dec 2017	Change from Previous Month	Jan 2017	Change from Previous Year
U.S. Lumber Production	2.90	2.50	16.0%	2.67	8.6%
U.S. Lumber Consumption	3.88	3.61	7.4%	3.83	1.3%
Western U.S. Lumber Production	1.27	1.06	20.1%	1.09	16.7%
Southern U.S. Production	1.49	1.32	12.8%	1.45	2.5%
Canadian Production	2.43	N/A	N/A	2.42	0.3%

Mill Capacity	Jan 2018	2017 Average	Change from Previous Yr Avg	Jan 2017	Change from Previous Year
U.S. Production as a % of Capacity	85%	87%	-2%	82%	3.0%
Coast Production as a % of Capacity	86%	82%	5%	78%	10.3%

All volumes in Bbf; Source: WWPA Lumber Track and Western Lumber Facts

## CHINA: BOOMING HOUSING MARKET & RISING PRICES

China's housing market has been booming with increasing prices for the last few years and they are expected to increase again in 2018. This has some worried about the level of debt carried by small and medium-size developers. In 2017, the Chinese government tightened monetary conditions in more than 100 cities to ease financial risks by those who would over extend. However, economists don't see any immediate danger, as larger developers have plenty of cash thanks to record sales in 2017, putting them in a strong position to consolidate the market if conditions arise. (Chuck Holland, 4/4/18)

## EXPECT HOUSING PRICES TO CONTINUE CLIMBING

Bloomberg featured an article about the rising prices of homebuilding materials and their expected effect on the housing market. The U.S. housing market has been experiencing increasing prices due to steady demand and limited supply. Now, the market is bracing for soaring costs for building materials. It's not just lumber, which is currently high. Everything from particleboard and plumbing to concrete and insulation - was up 5.1% in March from a year earlier, the biggest annual advance in nearly eight years. Read more on our Attachment 4. (Bloomberg, 4/25/18)

## CVD SIDE EFFECTS

The CVD on Canadian lumber and the strong markets are having impacts in lumber trading, according to *Random Lengths*:

- Southern Yellow Pine (SYP) markets are strengthening in the Midwest and the South, displacing Canadian Spruce-Pine-Fir (SPF).
- Western species are displacing SPF as well. One Inland producer reported selling increased volumes of White Fir into Texas. Western HemFir is getting more attention than usual.
- Sellers of Eastern SPF and European Spruce are making inroads on SPF as well.
- Western Canadian sawmills are anticipating a shift toward more Fir and Fir & Larch production as harvest of beetle killed Pine wanes.

## SWANSON PETITIONS

Swanson Group has filed a petition with the U.S. Trade Commission, asking for assistance to help workers that could be laid off due to Canadian lumber imports. Swanson estimates that it might have to lay off 36 employees as a result of cutbacks while it struggles to compete with Canada according to the News Review. The assistance would help Swanson's employees retrain in another field. (News Review, 3/21/18)

## GREENPEACE LEAVES FOREST STEWARDSHIP COUNCIL

Greenpeace was a founding member of the Forest Stewardship Council (FSC), an international non-profit, multi-stakeholder organization established in 1993 to promote responsible management of the world's forests. Greenpeace said in a statement on its website that the council has become a "tool for forestry and timber extraction." The tipping point for Greenpeace may have been when FSC gave certifications to

Korindo, a Korean-Indonesian joint venture that has been accused of clearing rainforests in Papua for logging and palm oil plantations. (AP, 3/27/18)

### **WASHINGTON STATE UPDATES BUILDING CODES & INCLUDES MASS TIMBER**

Washington Gov. Jay Inslee recently signed a law requiring the state's building code council to begin developing rules for the use of mass timber in commercial and residential construction. The measure paves the way for state and local building departments to start including mass timber in their building codes for buildings up to 18 stories tall.

Washington lawmakers are also working on legislation that would require cross-laminated timber be used in any public building 12 stories or less. If passed, it would be the first law in the U.S. requiring the use of mass timber in construction projects. (Construction Dive, 3/28/18)

### **FEWER FIRE-FIGHTING TANKERS IN 2018**

A new Forest Service policy would reduce the number of on-call planes from 20 to 13 this season. Possibly causing response times to 48 hours. Last year U.S. fire managers requested 371 orders for air tankers which were not filled because tankers were already busy on other fires, according to the National Interagency Fire Center. (NW News Network, 4/25/18)

### **THINNING FORESTS TO SAVE WATER**

It is widely understood that prescribed forest thinning helps to reduce catastrophic wildfires fueled by dense forest fuels. But a new study shows that restoring forests through mechanical thinning or wildfire can also save the state billions of gallons of water each year.

There are too many trees in Sierra Nevada forests, say experts from UC Merced, UC Irvine and the National Park Service. Forested areas needing restoration in California are large, but potential changes in water availability could be significant. When the total effect of forest reduction from wildfire over a 20-year period was studied, it was concluded that forest thinning could increase water flow from Sierra Nevada watersheds by as much as 10%.

“The need for forest restoration is being driven largely by the need to lower risk of high-intensity wildfire and restore forest health,” said Roger Bales, director of UC Merced’s Sierra Nevada Research Institute and study coauthor. “However, downstream users who benefit from increased water yield represent an important potential revenue stream that can help offset some of the costs of restoration.” (Press Release, 4/24/18)

### **NORTHWEST HARDWOOD REVIVING MILL IN WASHINGTON STATE**

Northwest Hardwoods is expanding to North Bend, WA. The intended destination is an abandoned mill, owned by the Port of Willapa Harbor that sits on seven acres of land owned by Pacific County. The Port also owns dry kilns and a planer at a facility in Raymond, making the production of alder products within the area even more attractive. There is no target date for opening the mill, as capital improvements will

happen first. The Washington legislature approved \$1.5 million: \$553,000 to assist startup costs, \$500,000 for the new smaller log system, and \$345,000 to debt-secure the sawmill.

The Port also received \$100,000 to work with the Department of Natural Resources and The Evergreen State College to study the economic feasibility of creating an energy innovation district, which would allow businesses to share energy and reuse waste, such as wood waste from the mill, to create energy. (South Beach Bulletin, 3/30/18)

### **PG&E'S NEW FIRE POLICY**

Utility PG&E is facing potential financial liability in the billions of dollars in connection with the deadly 2017 fires in California's Wine Country. This, because fire inspectors determined power lines sparked two of the blazes.

- To prepare for the next fire season PG&E is taking these steps:
- Proactively shutting down power lines "in areas where extreme fire conditions are occurring"
- Establishing a Wildfire Safety Operations Center to monitor wildfire risks and coordinate prevention and response efforts with first responders
- Adding PG&E staff to respond to wildfires, protect poles, power lines and other electrical equipment during fires
- Installing a network of PG&E-owned and operated weather stations across the service area
- Adopting new standards to keep trees and limbs farther away from power lines

(Energy, 3/14/18 & Tribune, 3/30/18)

### **U.S. OPPOSES CALIFORNIA OVERREACH**

The U.S. Department of Justice filed a civil action against the State of California, seeking a declaration that California Senate Bill 50 ("SB 50"), enacted in October 2017, is unconstitutional and requesting an injunction to stop the implementation of this state law.

SB 50 establishes a state policy to discourage transfers of federal lands in California out of federal ownership. It would void federal land conveyances unless the California State Lands Commission is provided with a right of first refusal to arrange for transfer to another entity. It would also penalize (up to \$5,000) any person who knowingly files real estate records pertaining to a federal land transfer unless the California government certifies that the transfer complies with state law.

"The Constitution empowers the federal government—not state legislatures—to decide when and how federal lands are sold," said Attorney General Jeff Sessions. Sessions asserts that this is an "extreme state law attempting to frustrate federal policy."

It is reported that California opposes the transfer of two Navy properties in the San Francisco Bay area to developers and the transfer of 388 acres in West Los Angeles from Department of Veterans Affairs to other entities for the purpose of providing permanent supportive housing and related services for local veterans. (Press Release, 4/2/18)

## CALIFORNIA REDWOOD FORESTS: GOING TO POT

Years ago, conservation activists dislodged corporate logging in Humboldt County California in an effort to protect the area's redwood forests. Now, another industry is setting up shop in the closed lumber mills that dot the area and those same activists have a new and unexpected foe. The industry is cannabis, and despite the industry's liberal leanings, marijuana interests are positioning themselves to shape regulations that protect the industry, not the environment. The growing popularity of pot, along with increasing legalization, has turned marijuana cultivation into big business.

At best, cannabis farmers loosely adhere to regulations while they operate in a legal gray area. At worst, inconsistent enforcement encourages illegal cultivation, often with the use of large amounts of dangerous and banned pesticides. In addition, the plants require a high-water yield, lots of sunlight, and access. Providing these things can have serious consequences on the surrounding ecosystems. California produces 60 to 70% of all the marijuana consumed in the U.S., which means the state is shouldering most of the environmental cost. (The Washington Post, 4/15/18)

## IT'S NOISY OUT THERE!

In what is thought to be the first study to estimate hearing loss within the agriculture, forestry, fishing and hunting industry sector (AFFH), researchers identified industries with the highest number of noise-exposed workers who have hearing loss and an elevated risk of hearing loss:

- Forest Nurseries and Gathering of Forest Products (36%), which entails growing trees for reforestation or gathering barks, gums, fibers, etc. from trees;
- Timber Tract Operations (22%), which entails harvesting standing trees to make timber.
- Fishing for finfish (tuna, salmon, trout, etc.) had a 19% prevalence.

In general, workers in the aquaculture (fish farms or hatcheries) and logging industries are at higher risk for hearing loss than other AFFH industries. (Insurance Journal, 4/3/18)

## FIRE SALVAGE

West Fraser will be processing logs salvaged from the 2017 fires for three years, according to a recent press release. Milling burned wood costs more as equipment must be cleaned more often, and chips with any char cannot be used for pulp manufacture. So far, West Fraser has delivered 3,350 truckloads of burned wood to two mills. So far, much of the burned wood has been Douglas-fir, alive prior to the fire. (Williams Lake Tribune, 3/26/18)

## LOG EXPORTS UNPOPULAR WITH NDP

BC's NDP government is taking aim again at log exports. One in three logs harvested in Coastal B.C. is exported – about 6 million cubic meters (about 900 MMbf). The NDP's goal is to get more jobs out of every log and is considering ban on log exports from old-growth forests and a higher export taxes on second growth log exports. Currently, logs can only be exported if the local mills do not block the export by purchasing the logs. (Nanaimo News Now, 3/25/18)

## **THE FEDERAL OMNIBUS LEGISLATION: A LOCAL PERSPECTIVE**

Douglas County Commissioner Tim Freeman is encouraged by the passage of the Omnibus funding legislation that passed in March 2018—especially the inclusion of rules allowing for more timber management on federal lands. While the new rules don't mandate additional timber harvests, Freeman said they do give federal agencies additional “tools in the toolbox” that could make such harvests easier. The omnibus rules allow the Forest Service to harvest for wildfire resilience, allowing harvests to create firebreaks. It also allows for analyzing not just the impact of taking action, but also the impact of doing nothing. Another provision in the bill allows for federal timber money to be used to repair county roads and bridges that are used to access federal lands.

Freeman also pointed to a “fix” for what's known as the “Cottonwood” decision in the new regulations. Formerly, if a new species was listed as threatened or endangered, the most recent forest management plan would have to be reopened to address the newly listed species. This sometimes led to an additional five- to eight-year planning process. The newly passed omnibus rules say as long as the plan is 15 years old or newer, it doesn't have to be reopened. And the new rule applies not just to Forest Service land, but also to the O&C timberlands.

Of course, another widely reported change is the reinstatement of the Secure Rural Schools (SRS) funding. Freeman reports that not only was funding reinstated, but there will also be an expansion of allowed uses for SRS funds. Before, those funds could be used for search and rescue operations, but not for training, equipment or patrols. Now all those uses will be allowed. (News-Review, 4/4/18)

## **FIREFIGHTING DRONE SWARMS**

Swarms of firefighting drones could one day be deployed to tackle hugely destructive megafires in Europe. Multiple autonomous drones dropping 600 liters of water every minute during the night while other unmanned vehicles refill to repeat the attack on a raging fire is the vision of Spanish company Drone Hopper. But, there is a regulatory obstacle. At the moment, it hasn't been proven that drones can reliably act autonomously, so national rules generally require each one to have a human remote pilot. Dr. Nazim Kemal Ure, an assistant professor in the aerospace department at Istanbul Technical University in Turkey is developing a way of coordinating drones that he hopes could contribute to a change in regulation. By the end of the year, Dr. Ure expects to be field testing autonomous drones and their swarming algorithms. (Horizon Magazine, 3/20/18)

## **EPA DEEMS BIOMASS CARBON NEUTRAL**

In the meeting with members of the forestry community, EPA Administrator Scott Pruitt announced that future regulatory actions on biomass from managed forests will be treated as carbon neutral when used for energy production at stationary sources. The Agency will also be assessing options for incorporating non-forest biomass as carbon neutral into future actions.

“Today's announcement grants America's foresters much-needed certainty and clarity with respect to the carbon neutrality of forest biomass,” said EPA Administrator Scott Pruitt. “Managed forests improve air

and water quality, while creating valuable jobs and thousands of products that improve our daily lives. This is environmental stewardship in action.”

The Sierra Club disagrees with the carbon neutrality of using biomass for power generation and immediately released this press release: “Today, embattled Environmental Protection Agency (EPA) Administrator Scott Pruitt again ignored science and announced that burning trees from managed forests will be considered carbon-neutral. This announcement comes in spite of the fact that biomass emits large amounts of carbon dioxide and exacerbates the worst effects of climate change.”

This debate is likely to continue. (EPA Press Release, 4/23/18 & Sierra Club Press Release, 4/23/18)

### **RED ROCK BIOFUELS COMING TO OREGON**

All hurdles have been cleared for Red Rock Biofuels to construct a new renewable energy biofuels plant in southeastern Oregon. Red Rock had its sights set on Lakeview County since 2013 as a target location to build its first operational facility, identifying the location for its proximity to rail, highways, the Ruby natural gas pipeline and an abundance of forest bi-products to be collected and converted to jet fuel. Here is a summary of planned project outcomes:

- Convert 136,000 tons of waste woody biomass into 15.1 million gallons/year of renewable fuels.
- World class process design will incorporate three known technologies – gasification, Fischer-Tropsch, and hydroprocessing. Yields ASTM-approved fuels currently in use globally.
- Fuel Offtakes: Southwest Airlines and FedEx as offtake partners.
- Project funded by a combination of bonds and equity.
- Provide 30 direct jobs and up to 75 more in supporting fields
- Positive financial effect on local region

(H&N, 4/15/18 & Redrockbio.com, 4/26/18)

### **THE CHANGING FOREST CLIMATE**

Over the past few decades, forests in the southeastern U.S. have experienced warmer and drier conditions as a result of climate change. A recent study showed that in response to changes in the climate, some water-loving trees have become less common in these areas and slower growing drought tolerant trees have become more abundant. The study illustrates that as climate alters forests, those same forests then have an effect on the climate. Here’s their explanation: Carbon dioxide in the atmosphere contributes to climate change. Trees suck up carbon dioxide. But forests with those slower-growing, drought-tolerant trees absorb less carbon dioxide. Much like a feedback loop, climate change makes forests drier, which means the forests take up less carbon dioxide, leaving more carbon dioxide in the atmosphere, which means more climate change. (WABE.org, 3/17/18)