



WOOD LAND

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PROFESSIONAL FORESTERS**

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News for Family Forests

May 2017

May is here and it seems like we have finally turned the corner on winter. The long, wet period has delayed planting and road work. In some areas, we had some strong winds and blowdown, but now the roads are starting to dry out and we are getting ready to haul on some dirt roads.

Markets have been good this Spring, due to weather and now the countervailing duty on Canadian lumber. Prices at the mills are still good, although they always drop a bit as the roads dry out and the woods start flowing. The export log markets seem to have stabilized somewhat, perhaps even improving a bit. Demand at the ports is firm. And like always, there is a good market for timber that can be marketed as utility poles. Finally, we note that red cedar prices are still very strong.

I enjoyed meeting some of you at the Tree School at Clackamas Community College last month. I hope that you took the opportunity to say hello to our urban forester, Edie Dooley at the October Washington County Small Woodlands Association meeting and the recent Carbon Markets for Family Forest Landowners, in Molalla, OR.

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

- Brent



MARKET NEWS



SUBSIDIZING AND DUMPING: THE U.S./CANADA SOFTWOOD LUMBER TRADE DISPUTE

The U.S. Commerce Department (Commerce) ruled April 24 that Canadian Lumber exporters are subsidized by the Canadian government resulting in Canadian firms having an unfair advantage in the U.S. lumber market. Commerce imposed countervailing duties (CVD) effective immediately, and retroactive for 90 days on five of the largest firms that provided data to DOC. The retroactive nature of the ruling follows the finding of “critical circumstances,” stemming from an unusually large influx of Canadian lumber prior to the CVD announcement. The CVD is 19.88% for most exporters – the five companies each have a company-specific CVD.

The CVD ruling was immediately denounced by both the Canadian government and Canadian softwood lumber producers. “The government of Canada disagrees strongly with the U.S. Department of Commerce’s decision to impose an unfair and punitive duty,” said Jim Carr, Natural Resources Minister and Chrystia Freeland, Foreign Affairs Minister. Canada “will vigorously defend the interests of the Canadian softwood lumber industry, including through litigation,” the ministers said.



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Commerce Secretary Wilbur Ross said in a statement, that the Commerce Department determined a need to impose CVD of roughly one billion dollars, because of unfair Canadian subsidies to the lumber industry.

Commerce still needs to rule on the issue of anti-dumping duties on Canadian softwood lumber imports. Additional penalties could be levied if Commerce determines that Canadian lumber has been dumped into the U.S. [That ruling has been postponed until June 23rd]. (*Random Lengths*, 4/24/17 & *Financial Post*, 4/25/17)



LOCALS CELEBRATE CANADIAN TARIFFS AS A SIGN OF BETTER TIMES AHEAD

Steve Swanson of the Swanson Group believes this ruling will allow him to add a few employees -- 25 to 30 workers -- in each of their sawmills." He said, "This is all about jobs."

Andrew Miller, of Portland-based Stimson Lumber, is hopeful the U.S. trade negotiators can use the duty to extract a flat quota that would allow Canadians a maximum of 25% of the U.S. market. "We all have unused capacity," Miller said. "There are ample privately owned logs, most of which are going to China today. If we have the confidence we're not going to be overwhelmed with Canadian product, we can compete with anybody."

The tariff ruling even inspired a rare local bit of bi-partisan agreement. Democratic Sen. Ron Wyden supports the tariff and announced, "Unfairly traded softwood lumber from Canada has for decades hurt mill towns and American millworkers in Oregon and across the country...Today's announcement sends the message that help is on the way." Democratic Rep. Peter DeFazio credited Trump Commerce Secretary Wilbur Ross for making the lumber dispute a priority before the administration moves on to a wholesale renegotiation of the North American Free Trade Agreement. (*Oregonian*, 4/25/17)



WILL U.S. TARIFFS HARM U.S. HOMEBUILDER?

Prior to the April 24 announcement of a counter-vailing duty (CVD) against Canadian lumber, there were a number of articles about the impact a CVD would have. Here is a sampling:

- The claim of harm to U.S. homebuilders from any tariffs on softwood lumber imports has been a frequent subject in the Canadian press for several months. An opinion in *The Hill* reports the expectation of an estimated 25% tariff on softwood lumber imports from Canada would raise the price of a new home by about \$1,000, and that would effectively put that new home out of reach for about 150,000 families.
- The NAHB says that estimate is an under-estimation. They claim recent lumber price increases have already added about \$3,000 to the cost of building an average, single-family home. Fearing further supply disruptions, the homebuilders' association has searched for lumber in other countries. Chile looked like one promising source and the homebuilders sent a delegation there in September to meet with producers. But recent fires this year have ravaged Chile's forests, making it unlikely the country will be a large supplier anytime soon.
- However, RBC Capital Markets homebuilding and building products analyst Bob Wetenhall told CNBC that the new tariffs will not affect the real estate market or housing prices. He likened them to "a papercut," on the market.
- Mattress manufacturers also prefer Canadian wood for box-mattress construction because the colder Northern weather creates a finer grain and it tends to cause less squeaking and warping over time. Mattress manufacturers are lobbying for an exemption from any tariffs on the low-grade Canadian wood they prefer. (*Bloomberg*, 4/19/17 & *CNBC*, 4/24/17)

MOMENTUM BUILDING IN NEW HOME SALES

Momentum appears to be building in the housing market, as new home sales have increased every month so far this year. March activity was reported to be 5.8% higher than in February and 15.6% above March 2016. The spring selling season is just beginning, and it is a good sign that the market is heating up. Economists expect new home sales to continue to increase this year as builders step up construction of single-family homes and more first-time buyers come back into the starter-home market. (*Wall Street Journal*, 4/25/17)

THREE SOURCES REPORT STRONG NORTH AMERICAN LUMBER MARKET

The Random Lengths North American Framing Lumber Composite jumped U.S. \$12 (3%) in the first week of April to \$414/Mbf – up \$67 (19%) from \$347/Mbf a year earlier. A Canadian producer's announcement that it would increase quotes on #2&Btr for May shipment by 30% to cover expected U.S. duties triggered a surge in futures, resulting in a trading pace described by Random Lengths as 'frenetic'. (*Random Lengths*, 4/9/17)



Northwest Farm Credit is predicting strong profitability for mills and timberlands in 2017. Profitability for mills is driven by improving lumber prices and lower-cost log inventory carried over from last year. Timberland producers' profitability is also anticipated to be strong as a result of robust fiber demand. In addition to framing lumber, the price of structural panel products – such as OSB (oriented strand board) and plywood – increased in lockstep with lumber over the recent months. (*Northwest Farm Credit Market Snapshot*, April 2017)

WWPA reports that sawmills in the U.S. produced 2.6 Bbf of softwood lumber in January, a year-over-year increase of 1.7%, and up 4.9% from December 2016. Western U.S. sawmills contributed 1.1 Bbf to January's production volume – down 0.7% from a year earlier, but up 3.4% from December 2016. Sawmills in the South accounted for 1.4 Bbf, a gain of 3.6% from a year earlier, and up 6.1% from December 2016. U.S. production as a percentage of practical capacity averaged 82% in January. January's softwood lumber consumption in the U.S. was up 3.0% over last year, and up 3.5% compared to December 2016. (*WWPA*, 4/13/17)

CHINA: ECONOMY AND WOOD IMPORTS SLOWING

Analysts doubt China's 2017 economic growth can match 2016. For instance:

- Exports are not expected to grow significantly and currency depreciation is expected to be offset by rising wages. China has lowered its expectation for economic growth to around 6.5% in 2017.
- China's log imports in January 2017 reached 4 million m³, a 9.24% growth year-on-year, but a decrease of 2.77% from December 2016. The import volume of softwood log constituted 66.3% of the total with 2.61% decline year-on-year.
- The average price of imported logs in January was U.S. \$168/m³, a 1.1% decline year-on-year and 1.7% decline month-on-month.
- China's lumber imports in January 2017 reached 2.4 million m³ with 7.9% growth year-on-year. However, the volume dropped dramatically by 19.55% compared to December 2016. In the same month, softwood lumber imports contributed 72% of the total with 4.5% growth year-on-year.
- The average price of imported lumber in January was U.S. \$250/ m³, a 3% decline year-on-year and 6.1% decline month-on-month. (*Canada Wood Group*, 4/12/17)

COHO SALMON: LACKING ADEQUATE PROTECTION IN OREGON?

In April, four conservation and fishing groups filed a formal notice of intent to sue the Oregon Department of Forestry (ODF) for poor logging and road-use practices on the Tillamook and Clatsop state forests. They claim these practices are harming threatened Coho salmon through landslides and erosion into streams. ODF developed a draft habitat conservation plan in the early 2000s that would have given them a permit to cause some harm to threatened and endangered species, including the Coho, marbled murrelet and spotted owl, in exchange for long-term habitat protections. However, it was never finalized. Conservation groups now assert that the reason for the holdup is because ODF did not want to enact the stream protections that scientists determined were necessary to ensure the Coho's survival. (*Press Release*, 4/6/17)

COOS BAY EXPORTS THREATENED BY SOD

The impact of Sudden Oak Death (SOD) on Curry County trees is starting to hit industry pocketbooks. South Korea refuses to take logs shipped from the Port of Coos Bay and some bulb retailers will not import lily bulbs from Curry County due to SOD.

All of Brookings and much of the south end of Curry county is in a quarantine area, meaning wood products cannot be taken from the area unless they are certified to be free from the waterborne pathogen that attacks tanoaks — and now, other conifer trees.

State Rep. David Brock Smith formed a SOD Task Force with U.S. Sen. Jeff Merkley to address the problem and perhaps obtain federal funds to stop the spread of SOD. So far, Oregon has not appropriated any funds to fight the disease. (*Curry Coastal Pilot*, 4/18/17)

SACRIFICING BARRED OWLS FOR SPOTTED OWLS: THE STUDY CONTINUES

Federal wildlife researchers killed 737 invasive barred owls in 2015-16 in an ongoing experiment to determine if removing them will aid the recovery of Northern spotted owls, the bird whose threatened status was at the center of the Pacific Northwest timber wars.

Scientists with U.S. Fish and Wildlife Services and U.S. Geological Survey, partnering with the Forest Service and Bureau of Land Management, agreed to an experiment: Kill hundreds of barred owls in the Cle Elum area of Washington, the Oregon Coast Range and Klamath-Union-Myrtle areas of Oregon and Hoopa Valley tribal land in Northern California.

In Oregon and Washington, field crews shot 642 barred owls using 12 gauge shotguns and captured one owl alive, turning it over to the Oregon High Desert Museum in Bend.

In Northern California, where early research by the late Lowell Diller of Humboldt State University documented that spotted owls reclaimed nesting areas after barred owls were removed, researchers killed 95 of the competitors.

And the research continues. (*Capital Press*, 4/18/17)

FOREST PESTICIDE SPRAY RULES UNCHANGED AFTER LEGISLATIVE ATTEMPT

A bill to impose new notification requirements for aerial pesticide sprays in Oregon forests was voted down in committee 3-2 in April. Timber industry representatives complained that the language of OR Senate Bill 892 would have unreasonably complicated the timing of pesticide applications, which must often be shifted due to weather events. In the original bill, timber companies would have to conduct spray operations within two days of the scheduled date submitted to a statewide notification system. In an attempted compromise, language was added to

delegate the length of the notification to the Oregon Board of Forestry and to eliminate the need of notification in uninhabited areas. However, the measure still did not pass. (*Press Release*, 4/19/17)

SHIPPING 'CANNED' LOGS TO ASIA

Formark, an Everett WA-based timber company changed its business model last year and is now getting recognized for the effort. They began exporting millions of board feet of logs to Asia in shipping containers. Usually, logs get transported overseas in bulk ships. Formark is packing logs into containers and putting them on container ships. Shipping containers come from Asia filled with goods and then are typically shipped back empty. By filling these containers with logs, Formark is able to make smaller shipments of logs, which are more appealing to smaller mills in Asia. It's also increasing the revenue of freight companies and ports while decreasing port congestion.

That's why Eric Warren at Formark has been chosen as the Small Business Administration Exporter of the Year for the Pacific Northwest. He is one of 10 finalists for the Small Business Administration National Exporter of the Year. The winner will be announced in May. (*The Herald Business Journal*, 4/9/17)

COUNTERVAILING DUTIES TO BE IMPOSED ON CHINESE HARDWOOD PLYWOOD

In April, the U.S. Department of Commerce (DOC) preliminarily found that the Government of China unfairly subsidizes its hardwood plywood producers and imposed preliminary countervailing duties on Chinese hardwood plywood imports. The duties, or taxes, will range from 9.89% to 111.09%. Duties may be retroactive to January 2017. The Coalition notes that this is a preliminary ruling only. The investigations are ongoing, and additional subsidy programs have been alleged, which have not yet been fully investigated by the DOC, and which are not reflected in this determination.

The antidumping and countervailing duty cases were filed on behalf of the Coalition for Fair Trade of Hardwood Plywood, a group of six producers and manufacturers that include Columbia Forest Products, Commonwealth Plywood Inc., Murphy Plywood, Roseburg Forest Products Co., States Industries, Inc. and Timber Products Company. (*PR Newswire*, 4/19/17)

BALD EAGLE PROTECTIONS UNDER REVIEW IN OREGON

The recovery of the bald eagle is considered to be an endangered-species success story. The eagle was taken off the federal list of endangered species in 2007 and it was delisted by Oregon in 2012.

Bald eagles are still federally protected by the Bald and Golden Eagle Protection Act. The federal government imposes restrictions on human activity to minimize impacts on bald eagles, especially during nesting and roosting seasons. It does this through a permitting system.

Oregon is proposing to relax state protections for bald eagles on private land. A series of public hearings on the rule change are underway. Roughly half of Oregon's bald eagle nest sites are on or near private land. ODF proposes to keep the same habitat buffer around eagle nests, but reduce the additional aircraft and disturbance buffers and eliminate protections for roosting and perching sites. (*OPB*, 4/19/17)

DECEMBER ICE STORM DAMAGE AFFECTS 1ST QUARTER

In December, ice up to an inch-thick covered trees on the Oregon Coast. Many tree farms were damaged, with the worst damage seen on northern and eastern slopes at elevations above 700 feet.

Roseburg Forest Products owns about 75,000 acres in a triangle formed by Veneta, Mapleton and Lorane. Helicopters and drones have been busy looking for pockets of storm-damaged trees that are not visible from roads. So far, they've found about 100 locations with damage and harvesting has started in stands of 5-10 acres, with a

select few trees damaged to clear-cuts for stands with more severe damage. Roseburg reports to have already spent about \$100,000 clearing roads of broken limbs and trees since January. The company normally waits at least 40 years to log Douglas fir in the Coast Range, but the storm changed plans any many stands will be harvested five years ahead of schedule.

Giustina Land & Timber also reports damage from the ice. They are still assessing how much damage the ice storm caused and have adjusted their harvest schedule as well. (*Register-Guard*, 4/19/17)

SOME BIOMASS NEWS

The UK Department of Business, Energy and Industrial Strategy recently reported the positive impact of using biomass sourced in the U.S. This report looked at the carbon intensity of different supply chain models for the bioenergy industry and found that normal, widespread industry practices deliver major cuts in carbon emissions when compared to using coal for energy production.

In the last four months of 2016, U.S. biomass producers purchased 4.3 million tons of raw biomass feedstock, produced 2.4 million tons of densified biomass fuel, and sold 2.5 million tons of densified biomass. Domestic sales of densified biomass fuel were 0.8 million tons and averaged \$162.79 per ton. Exports were 1.7 million tons and averaged \$143.63 per ton over the same period. (*High Plains/Midwest AG Journal*, 3/27/17 & *Press Release*, 4/3/17)

OREGON ADDS WOODY BIOMASS TO ITS GREEN ENERGY PLAN

Senate Bill 634 passed the Oregon state senate unanimously in April. It adds woody biomass as a fuel for space or water heating or as a fuel for combined heat and power systems in the state of Oregon. Oregon currently has 17 woody biomass power facilities, most are in the wood products industry, but there are also 21 other facilities - including schools and hospitals, which use woody biomass to provide heat. "We need to reimagine energy policy and modernize it so our regulations reflect it is 2017. We should be leveraging our current resources to achieve the greatest outcomes possible," said Senate Republican Deputy Leader Tim Knopp, of Bend. Currently, Oregon law requires 1.5% of the total price of a public improvement contract for new buildings and major renovations to be spent on green energy technologies. (*Press Release*, 4/13/17)

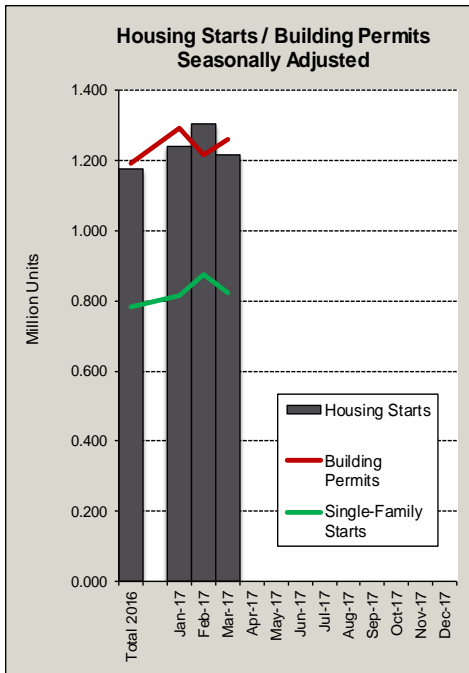
WASHINGTON MILL CURTAILMENT UPDATES

Last month it was reported that the Nippon Paper Plant in Washington had been sold to McKinley Paper and was expected to change hands at the end of March. The sale price to McKinley, the American subsidiary of the Mexican paper giant Bio Pappel, was \$20.6 million, according to Clallam County Auditor's Office and Treasurer's Office records. Most employees have since been laid-off and the plant will be closing for up to 18 months for retooling to manufacture liner paper for cardboard boxes. The mill previously manufactured lightweight paper such as newspaper stock and telephone-book paper. (*Peninsula Daily News*, 4/10/17)

In December, it was reported that Washington's Mary's River Mill was being sold to Fox Lumber after it had been closed earlier in the year. Now, four months later, the mill is employing 29 people. Five are returned workers. Mary's River worked in cedar, but the re-opened Fox Lumber produces wood packing material.

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.

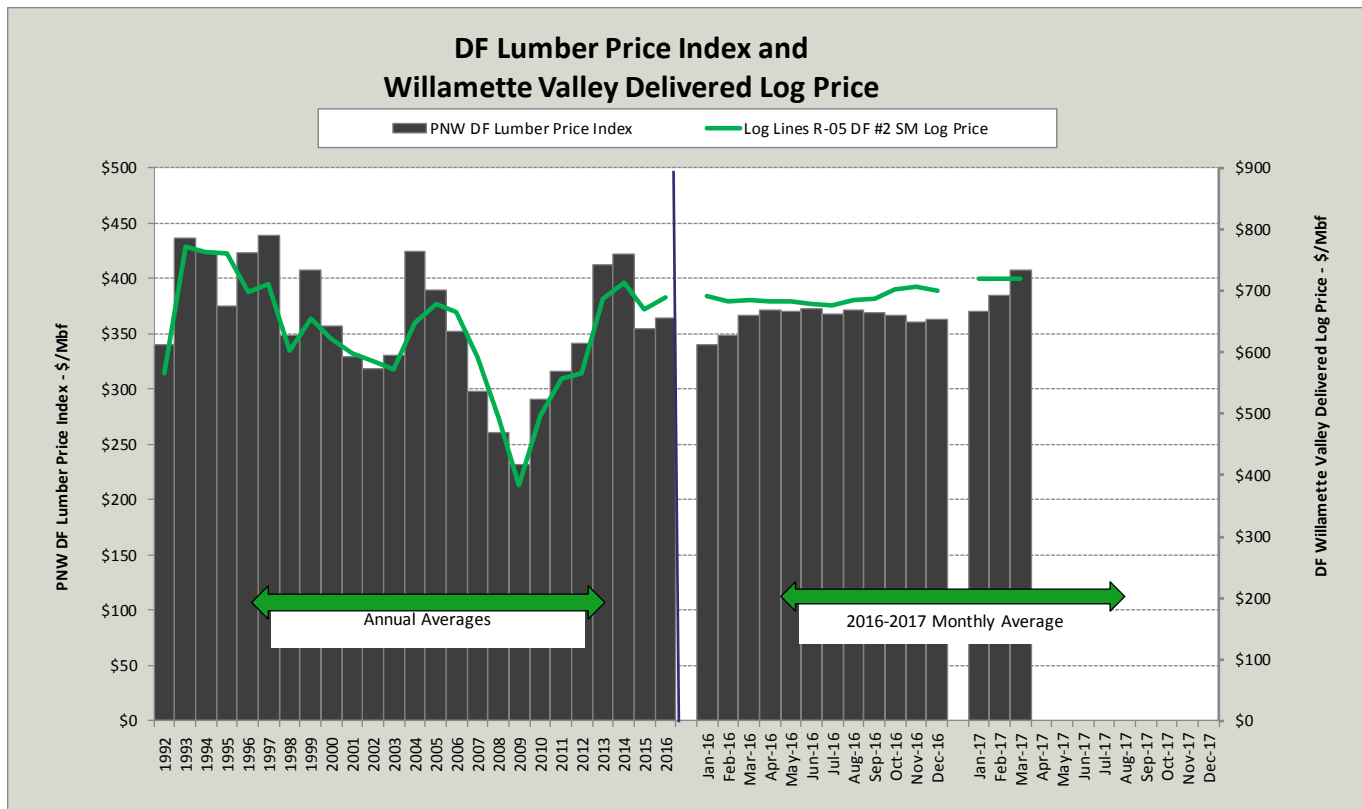
The U.S. housing starts in March decreased to 1.215 million units (SAAR), down 6.8% from the revised February estimate, and 9.2% above March 2016. Single-family starts decreased to 0.821 million units (SAAR), down 6.2% from February and 9.3% higher than March 2016. Permits were up 3.6%, suggesting that the March decrease was just a hiccup.

March 2017 Housing Starts (million units, seasonally adjusted):

| | March 2017 | February 2017 | Change from Previous Month | March 2016 | Change from Previous Year |
|--------------------------------|------------|---------------|----------------------------|------------|---------------------------|
| All Starts | 1.215 | 1.303 | -6.8% | 1.113 | 9.2% |
| Single-Family Starts | 0.821 | 0.875 | -6.2% | 0.751 | 9.3% |
| Building Permits | 1.260 | 1.216 | 3.6% | 1.077 | 17.0% |
| Single-Family Building Permits | 0.823 | 0.832 | -1.1% | 0.725 | 13.5% |

Source: U.S. Census Bureau

LUMBER & LOGS



Lumber prices continued to increase in March while log prices remained steady. Lumber prices increased 6.2% and log prices barely changed, with a 0.1% decrease. Both are still substantially above the figures from one year ago. (Note that lumber and log prices are on different scales)

- March Douglas-fir #2S log prices, as reported by Log Lines, decreased \$1 to \$719/Mbf, which is 5% better than March 2016.
- At \$408/Mbf, the Douglas-fir lumber index price increased in March by 6.2% over the prior month and was an impressive 11.4% higher than one year ago. This was in anticipation of a Countervailing Duty ruling on Canadian lumber.

March 2017 Douglas-fir Prices:

| | March 2017 | February 2017 | Change from Previous Month | March 2016 | Change from Previous Year | 5 Yr Annual Average | March 2017 compared to 5 Yr Annual Average |
|-----------|------------|---------------|----------------------------|------------|---------------------------|---------------------|--|
| Log Lines | \$ 719.00 | \$ 720.00 | -0.1% | \$ 685.00 | 5.0% | \$ 664.95 | 8.1% |
| Lumber | \$ 408.10 | \$ 384.36 | 6.2% | \$ 366.40 | 11.4% | \$ 378.92 | 7.7% |

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