Forest Roundtable
Convened by the Vermont Natural Resources Council
August 19, 2009
Meeting Summary

Meeting Participants: Put Blodgett, Sean Barrows, Chris Bray, Doug Britton, Peter Condaxis, Paul Costello, Jamey Fidel, Paul Frederick, Ehrhard Frost, Jason Gibbs, Warren Hill, Matthew Hoffman, Ann Ingerson, Steve Long, Thom McEvoy, Jared Nunery, Chris Plumb, Carl Powden, Melissa Reichart, Mike Rainville, John Roe, Laury Saligman, Hervey Scudder, Jim Shallow, Steve Sinclair, Jeffrey Smith, Peter Upton, Bob Williams, and Jonathan Wood.

Introduction

Jamey welcomed everyone, and noted a change in the agenda. The panel discussion of constituents from the forest products industry was consolidated into one discussion.

Panel presentation – Status of the Forest Products Industry

The panel consisted of six constituents representing a variety of sectors within the forest products industry.

Warren Hill from *Warren Hill & Son* led off the presentation. Warren is a logger in Vermont, who also manages his own trucking business. Warren discussed multiple challenges his business is facing. Below is a list of the challenges that Warren described:

> -Low grade wood: There are no paper plants in Vermont. The low financial return for harvesting low grade wood makes it financially difficult to justify the harvesting. The fire wood market is steady.
> -Mill closers: The closing of lumber mills throughout the state results in increased transportation costs, as they now have to truck their wood out of state to get processed. Additionally, processing the wood out of state is a lost opportunity for Vermont, as more money goes out of state as mills can make an extra profit on value added products.
> -Transportation: The interstate weight limits. In New Hampshire and New York loaded logging trucks are permitted on interstate highways. In Vermont loaded logging trucks are curtailed with the weight limit, and most towns require a permit, increasing the complexity of transporting timber in the state while simultaneously burdening the loggers and truckers.
> -Weather: The weather this year has been a serious challenge for loggers.
> -Logger certification: The certification and training of loggers. Currently this process is redundant and repetitive and there should be a way to keep the certification without having to lose a day of work to go to the certification class. Regarding the issue of wood

certification, different rules for Forest Stewardship Council, such as Quebec versus Maine, complicates the certification process.
-Public opinion: The public opinion of logging is waning, and loggers should be asking how we change this negative image.
-Equipment costs: The lack of competition among equipment dealers results in increased prices of both equipment and parts.
-Regulatory costs: The difficulty of operating a mill in Vermont is high due to strict regulations. Increased costs in truck registration, permits, worker's compensation, and health care are all additive stresses to an already stressed business. Mandating health care for employees could add an additional burden.

Doug Britton from *Britton Lumber Company* was the second presenter. Doug's company has been in business since 1946, starting out with portable mills, and now running a small (10 million board feet) mill in Fairlee. Britton Lumber employs 60 people between two companies (a manufacturing company and a distributing company). Several key points noted by Doug were the increased competition from global markets, faults in forest certification, and that the future of the timber industry may be in the marketability of byproducts (chips, sawdust, etc.). Doug described the following challenges that his mill currently faces:

-The value of products has decreased to same price as 1996.
-During boom periods, mills purchase new equipment to sustain high levels of production and efficiency; however the purchase of this equipment requires higher volume of wood to process, which can be difficult during low periods like today.
-Regional, National and Global markets: Britton Lumber is now competing with regional and national mils and there is foreign competition. In order to compete in an international market, where values are set based on international competition, mills must specialize. Britton Lumber specializes in white pine, where they must compete with radiata pine from South America. There is also competition from composites coming from New Zealand.
-Sustainable yields: Concerns with cutting too much pine, above sustainable levels for the region.
-Land Fragmentation: A continuing concern for the industry.
-Labor: Aging workforce is a concern. Difficulty finding entry level (labor) employees.
-Overhead costs: High health care costs have forced Britton Lumber to restructure its business
-Worker's compensation: Vermont is not friendly for worker's compensation rates.
-High energy costs: As mills use a large amount of energy this can be a substantial cost for mills. Efficiency Vermont fees further exacerbates this issue, charging an additional fee of $1,200 on a $25,000 energy bill. In the future as Hydro Quebec and VT Yankee contracts expire, increased energy rates are expected.

-Capital equipment costs: Mid-sized mill has economic challenges keeping up with technologies due to economies of scale limiting what equipment they can afford.
-Certification: Currently Britton Lumber is not certified as the costs of certifications are not reflected in an increase in the value of the products. Also do not have time or personnel to handle certification.
-A major issue with certification is that most of the certified wood is sold in large box stores who benefit from the value added product by passing the burden of certification costs on to the manufacturers.
-Forest pathogens: Transportation of sawdust, lumber, etc. Having to heat wood as a means of killing forest pathogens is an additional cost.
-Vermont is not mill friendly. Strict regulations are added burdens to the logging industry. For example, two separate permits are needed for discharge relating to sprinkling of logs and stormwater runoff. In other states this is handled under one permit.

Mike Rainville of *Maple Landmark* and President of the *Vermont Wood Manufacturers Association* was the third speaker. In general, things are not great right now, but they could be a lot worse. Manufacturing of high end, custom furniture and other niche markets have held up better here than in other regions like the southeast. Mike represents a 30-year old company that employs 35 people. Maple Landmark makes small wooden toys. Contrary to most of the other speakers, last year's expose of lead in Chinese toys resulted in a boost in sales for his company. Mike pointed out how this is an example of how fickle the markets are.

-Mike discussed how the connection between wood products and local trees does not exist in our culture. This represents a lack of education in consumers who do not know where wood comes from. Mike also noted that the Vermont brand is very strong, and acts as an advantage for manufacturing foods in the state. Mike noted a shift in the discussion of source of wood products, where in 2003 people were interested in where the products were being made, however, now it is all about where the wood is coming from and companies are under pressure to certify where the wood is coming from.

-Mike discussed the difficulty in the certification process. Maple Landmark was certified, but they were unable to procure locally certified wood, and were forced to purchase certified wood from out of state. Mike said that it made more sense to buy wood from ten minutes away, versus in NH. Companies that are manufacturing goods for LEED certified projects need FSC certified materials, and in Vermont this can be very difficult to obtain. Mike pointed out that it is much easier to buy local wood in Vermont than certified wood. In Vermont, a certification program could focus on promoting local wood. One key point that Mike noted was that even if the market recovers, with all of the mill closures, it may be very difficult to supply timber to Vermont construction projects.

Bob Williams from *Ames True Temper* was the fourth presenter. Ames True Temper is a large company that manufactures garden tools. Their primary competitors are China for manufactured goods and Brazil and Mexico for wood. They started with 36 dowel plants and are now down to 4. Bob noted multiple challenges his company faces, which are listed below:

-Transportation: The Vermont road system: state road permits restrict the ease of travel, which increases the difficulty for Vermont mills to be competitive with other states.

-Employable labor: High turnover rates and difficulty finding employees. Things are better now, but it could be worse when the economy turn around.

-Certification: Five years ago Bob's mill was certified through Smartwood, however, the mill experienced difficulty procuring certified wood. As the mill only purchases one species, ash (which is 3 to 5 % of the timber base), it increases the difficulty of finding certified wood. For comparison, in other states where state forests have been certified (PA and MA) it is much easier to find certified wood. The state forests in Vermont should lead the way by certifying their own forests, and then provide incentives for private landowners.

-Wildlife management areas should be more actively managed.

Chris Plumb of *Plumb Lumber* was the fifth presenter. Chris runs a small sawmill that currently employees 3 people (down from the normal 7 to 9 employees). Chris noted that his mill was still in business because technology (scanners of wood grade/color) is not yet more advanced than the human eye, allowing a niche for his mill. Chris noted multiple challenges of operating a small sawmill in Vermont. Below is a list of these challenges:

-Markets have significantly dropped: Hard maple prices have been cut in half, and they do not appear to be returning to pre-recession values for some time.

-Stumpage pricing: Need to re-regulate stumpage prices, as they should be reduced to coincide with declining house values. Still, it is hard for landowners to sell their timber for lower prices. For many landowners the stumpage on their land is their 401k and now that is cut in half.

-Increased expenses: Extra expenses of logging operations increase the price of operations, further straining loggers/mills.

-Worker's compensation and health insurance: Worker's compensation to cover workers during their shifts is greater than the health care costs of an entire family of the workers. The high costs of these essential coverages are a serious strain on small companies.

-Certification: There is not enough FSC wood available in VT. Buyers have to go to NH or NY to get certified wood. Chris would like access to more local, FSC certified maple wood. Federal forestland and state owned land in Vermont should be certified. One option to increase certified lands is to incorporate FSC certification into the Use Value Appraisal program; this would stimulate private landowner certification. Need access to this certified wood if this is where the market is going.

-Pest restriction: No ash railroad ties can be shipped to PA because of the threat of emerald ash borer, further restricting available markets for wood products.

Sean Barrows of *Mill River Lumber* was the last presenter. Sean operates a sawmill similar in size to the Britton Lumber Company (12 to 14 million board feet current production). Sean noted multiple challenges with the forest products industry described below:

-Insufficient workforce: Lack of trained employees, which reflects a larger gap in our current education system – lack of industrial arts education. This is exacerbated by a high turnover rate among employees. Short tenure of labor workers poses a serious safety risk, as less trained workers are available. Additionally, employees are not dedicated to their job. Finally, in general the industry consists of an aging workforce, as less and less younger generations are entering the field (partially a result of the large capital investment associated with logging).

-Worker's compensation: High rates (possible escalated by false claims) are a serious finical burden on operations.

-Health care costs: High rates are forcing the company to reduce the portion that the company can pay in employee coverage.

-Inheritance taxes: This is a large issue for second-generation companies.

-Energy costs: Mill River Lumber uses a de-humidification kiln which requires a substantial amount of energy. They used to generate their own electricity with a diesel generator, however, when the cost of diesel went up, they ceased the use of the generator.

-Over production: When the industry overproduces, it is its own worst enemy.

-Log quality: Premium quality logs move quickly and are easier to get rid of, but standard grade logs are much more difficult to sell.

-Byproducts: This is an opportunity for mills to make supplemental income. Mill River markets bark as mulch for landscaping, which is largely sold throughout CT and MA. Mulch processing requires additional energy, and the transportation of the final product to CT and MA requires additional fuel and increases the costs. Shavings (sawdust) are another feasible byproduct used for agriculture bedding. Chips have a viable market in the area, mostly sold to International Paper in Ticonderoga, NY. However, the state should be aware that if byproduct markets decrease, the potential for high grading increases. Another opportunity to diversify uses of byproducts is the potential opportunities with biomass. Biomass energy may have expensive startup costs, but it increases local energy production and energy security in the state. The pellet industry is another possible byproduct market, but chips need to be dried which takes a lot of energy and emissions. In general, the cost of transporting biomass is going up.

-Transportation: Interstate weight limits are a serious limitation the Vermont forest products industry. In western VT Route 4 works as an effective transportation corridor, the only problem is that it heads straight out of the state, which helps to steer wood out of the state. Permits are yet another hurdle keeping out of state wood from entering VT.

-Fragmentation: Forest Fragmentation is a problem. National Forests are holding onto inventory. Forest Service should release more wood to local mills. Fragmentation and lack of unity within the industry is also a problem.

-Certification: Currently there is no incentive to certify as all it means is added cost that do not benefit in sales due to lack of consumer education. Additionally, there are higher transportation costs of certified wood.

Discussion and questions following the panel presentation

Following the panel presentation the floor was opened to discussion and questions for the panel. The following are notes on the questions and answers from this discussion.

Q (*Steve Long*): What is the scale of the downturn (percentage down from two years ago) in production?

-*Doug Britton*: production has not decreased from two years ago very much. Over the winter decreased 5.5 hours of operation a week. “The more we produce the more we lose”, and the business is partially sustaining on past profits.

-*Warren Hill*: down 50% from a year ago, partially by choice due to low markets and to maintain a core work force. Presently, it is not worth wearing out equipment only to lose money.

-*Chris Plumb*: at 50% production, reduced because of reduction in markets. Wear on equipment not worth the low return.

-*Mike Rainville*: 12% down from last year (note: last year was an exceptional year driven by issues with lead in Chinese toys), but actually up from two years ago.

-*Bob Williams*: down 20-30%, and they are currently utilizing state partial unemployment compensation. We were doing well up until 2 months ago, now the warehouse is full, and company is barely breaking even. Currently, Ames True Temper is trying to increase production so as not to end year on a low. Presently, they are paying the same for logs as they were 20 to 25 years ago, which has allowed them to stay in business, also increased efficiency (use of byproducts to make money).

-*Sean Barrows*: cut back hours from 45 to 42.5 hours per week to maintain some overtime. In order to match marketplace, have to produce products that may be at much lower value than would want to sell at.

-*Doug Britton*: currently in the white pine industry there is too much production 20-30% above the available wood in the region

Q (*Ann Ingerson*): Comparison between agriculture and forestry, are there transferable policies/practices between agriculture and forestry?

-*Doug Britton:* In both, big size may be hurting right now. Smaller scale may be hanging on.

-*Roundtable member comment:* Agriculture gets more sympathy from the general public than forestry, and it also gets more subsidies that compensate for lost products.

-*Roundtable member comment:* Parallel with smaller producers in agriculture and forestry, and the larger industrial farms are having some success, as there are parallels between high efficiency/production and viability.

Q (*Jonathan Wood*): Forest products don't have the standing in the public's eye and the legislature. In the past the roundtable has focused on ecological aspects of UVA. The roundtable can play a role in helping to articulate the issues raised by panel, and bringing these issues to legislature.

- *Peter Condaxis:* There are five potential areas for the roundtable to focus on: transportation, labor, insurance, regulatory, and energy.

- *Jim Shallow:* Certification might be another area to focus on as and there are supply issues with certified wood.

-*Roundtable member comment:* Leave certification on list as something to discuss.

- *Jamey Fidel* – The certification study that was performed by the ANR for the legislature said there is not enough money to move forward with certification of state lands, but would the state do it, if the funding was there.

- *Jonathan Wood:* The administration questions the value of certification of state lands – the return may not be worth the expense. The state already has methods of maintaining high levels of forest management.

- *Bob Williams:* Still, there needs to be some level of paper work that proves this management by a third party, hence the role for certification.

Q (*Jeff Smith*): How do we deal with cyclical nature of the markets, what will the future be?

-*Doug Britton*: We have lost some markets to composites and offshore markets. Substitute markets exist for white pine, as we emerge from the recession it may be a whole new world.

-*Sean Barrows*: So much is based on housing. When housing takes a down turn, the industry is the first in line to get hit. It'll take a long time to return to pre-recession markets. Industry needs to be creative.

-*Warren Hill*: We'll never return to the pre-recession levels, as a result of the permanent loss of markets. If we are going to continue good forest management (not high grading) we will be forced to transport far away to markets.

-*Bob Williams*: It will never be the same, as markets are now global, competing with the Chinese buying wood from Russia, will keep the wood products industry suppressed. Global competition suppresses the market. Local mills are gone, so wood must be shipped elsewhere, meaning we are competing with Russia for overseas markets.

- *Jeff Smith*: We need to stop thinking about things in the traditional way, as have been discussing the same issues for the last 30 years. Let's move forward and try to think about things without the traditional form of thinking to solve these problems.

-*Mike Rainville*: Perform a sort of triage, recognize what you can solve (worker's comp, weight limits, etc), and do not focus on what you can't solve (global competition). We should also focus on the local aspect of VT products.

Q: Things that are growing in agriculture are CSA, localvore, and other branding techniques. Can forestry do this as well?

- *Doug Britton*: We have not a good job showing if you buy wood locally you are keeping Vermont sustainable. Competing with cheap New Zealand and South American radiata pine is difficult. The difference between food and wood is that food is what you put in your body, whereas a board is something you nail on the wall.

- *Roundtable member comment:* There is a difference in the magnitude of price differential between dollars for food and thousands of dollars for timber.

- *Roundtable member comment:* We haven't done as good of a job connecting buying local with keeping forests as forests. This has been done in agriculture with CSAs, but lacks in forestry.

-Jamey: Lets prioritize the issues, focus on what we can actually do with the roundtable. Maybe it's time for the roundtable to come up with a specific position on transportation. Energy issues are raging throughout the state, this afternoon we'll talk more about this. Marketing and regulatory might need more discussion on how to focus. Additionally, certification is an issue we might be able to focus on, and we have a legislative study on this.

- *John Roe:* We should not take marketing off the table, as it feels that we are a decade or so behind the agriculture department, which successfully used marketing as a means of preserving agriculture. The roundtable has a role to play to get the state involved in marketing.

- *Jonathan Wood:* We should make the roundtable rounder, be more inclusive of wood products industry. Jamey has attempted to do this, but it would be great to have participation from more industry reps like the panel members.

- *Paul Costello:* Several years ago the statehouse held an industry summit. The same issues were presented, we should re-visit that report. I suggest that we pick an issue, and focus on that issue and make it happen. I suggest the transportation-interstate weight limit.

-*Jamey Fidel*: We will put interstate weight limit on the table for next meeting. However, we should bring in more information from the rail lobby, and environmentalists.

Summary
Seven key issues were identified from the morning panel on industry. These issues were interstate weight limits, worker's compensation, regulatory, marketing, certification, and energy. Of these issues transportation was noted as one issue that the roundtable should pursue during the next meeting.

Afternoon session
The afternoon session began with an update on the Council and Summit on the Future of Vermont, given by Paul Costello of the Vermont Council on Rural Development. Paul first described the recent study conducted, and the key themes that were identified by Vermonters. The study found a strong sense of place among Vermonters, driven by a strong value of the working landscape. Additionally, the study found a stronger understanding of agricultural issues than forestry issues. Generally, Vermonters failed to recognize the incremental patterns that are currently undermining the preservation of the working landscape. The study identified that Vermont needs to clearly define a working landscape policy, one that promotes economic decision making and encourages the preservation of the working landscape. Paul is looking to build a working lands partnership or policy at the state level. This work should be united with the Forest Roundtable.

This presentation was followed by an open discussion where roundtable members discussed the findings of this study. It was noted that this summer marks the third year the roundtable has been operating, and throughout its existence the roundtable has been driven by the overarching theme of keeping Vermont forests as forests, a theme that is parallel to the preservation of the working landscape. It was also noted that the study showed that Vermonters value the working landscape, yet Vermonters working the landscape do not feel valued. This prompted a discussion as to the causes of this issue, identifying public education and operational scale. Current efforts by federal programs, state programs, and NGO (Northern Woodlands) are available to help educate youth on the value of the forested landscape and the timber industry, and these programs should be supported. Additionally, it was noted that the public should know that a synthetic, and cooperative group exists that is currently addressing the variety of issues associated with keeping Vermont's forests intact- the Forest Roundtable.

Update and Discussion on the Biomass Energy Development Working Group
Representative Chris Bray from New Haven led a discussion/update on the Biomass Energy and Development Working Group. The group consists of 15 members representing landowners, loggers, foresters, electrical generators, environmentalists, working to look at Vermont's opportunity to create more biomass energy while maintaining forest health. Chris noted that all materials associated with the working group are available online at the legislature website. Chris gave an overview of last week's meeting, where the group held a general information session on the current status of biomass energy in Vermont. He then described the timeline for the working group, which will produce three reports; one in November of 2009, one in November of 2010, and a final report in January of 2011. As part of the bill that created this working group the roundtable was explicitly mentioned as a body of informed individuals in the state to share draft reports with and vet proposed ideas.

A general discussion followed the presentation, where multiple questions were proposed to the roundtable. The following is a summary of the dialogue.

Q: Are there similar opportunities in forestry as in dairy with commodity markets?

-*Roundtable member comment:* There is the same spectrum in wood products as there is in dairy.

-*Roundtable member comment:* We have a very small population, smaller than most large cites, so inherently we can produce much more than we can consume. Both large and small scale production are important and play a significant role in the larger economy.

- *Jeff Smith:* Beyond carbon, we should look at the spectrum of ecosystem service that forests provide.

- *Jonathan Wood:* Climate Collaborative, Biomass Working Group, and others are working on similar issues and collaborative efforts should be made

Q: How do you connect people to the forests, possibly build connection through recreation (hunting, fishing, sugaring, etc)?

- *Sean Barrows:* West Rutland harvested a property 99% for biomass, and applied for a trail grant. The town used this site as a demonstration of forest management, and included planting of red oak to establish regeneration. The state should use demonstration forests on state lands to help promote education on harvesting practices. For biomass, the most important thing is to determine what is available.

-*Chris Bray:* The idea of the working group is to incorporate as much knowledge as possible about the current state of the understanding of biomass potential in the state of Vermont.

Discussion on the Current State of the Use Value Appraisal Program
Jamey provided the roundtable a quick update on the current state of the Current Use program. Last year UVA was targeted as a potential way to save money in the state budget, but a large coalition of stakeholders joined together and was able to hold off any major cuts to the program. However, at this point legislation requires finding $1.6 million in savings for next year's budget. Recognizing that this will be a major issue next year, we should prepare for budgetary cuts in the program, which merits preemptive discussion about this issue. A roundtable member then noted that the study Paul Costello presented showed that 97% of Vermonters value the working landscape, and this study should be used as a means of illustrating the importance of preservation of the working landscape in Vermont. A variety of possible options for saving money from the program without losing the program were discussed. In closing it was decided that the roundtable should reconvene in mid October to specifically address this issue, prior to the November joint fiscal committee meeting.

Next Steps
The roundtable will reconvene in October to discuss the Current Use Program. If possible any ideas for reducing the cost of the Current Use program should be disseminated prior to the October meeting to offer roundtable members time to look them over. Additionally it would be helpful to include the proposed ideas from last year as to avoid re-inventing the wheel. The roundtable should also consider other parties that we might want to partner with (Rural Vermont, the Farm Bureau, and the Agricultural Agency). Another consideration is possibly writing a letter in support of the Current Use program signed by all of the roundtable members and their respective organization, in order to illustrate the vast support throughout the state for the program. In addition to Current Use, the roundtable should also consider furthering the discussion on transportation issues and interstate weight limits in Vermont, as this was recognized by the industry representatives as a major problem and one that is most easily rectified. The roundtable will also get an update on the ANR's ongoing forest block assessment work.