

OREGON WOODLAND COOPERATIVE

March 10, 2008

BRIEF SUMMARY OF ACTIVITY OF COORDINATORS

1. Website: Photos have been received from Tom Nygren for the website. Photos from other members are more than welcome. There will be a bar on the right side of the web page with rotating photos. Please contact Kent Goodyear if you have photos for the website at kent@orwoodlandco-op.com
2. Further discussions will occur with Wilco this week to talk about options for OWC participation.
3. Anne and Richard Hanschu, Louis Leatherman, Kent Goodyear, and Tom Nygren met with Becky Soebel with AKT accounting last week and details were added to the basic system of accounts that have been developed for the Co-op. Becky thought she would have something ready by this week. The goal is to have the system ready to use on April 1.
4. Firewood Project:
The Co-op is developing a *bundled firewood program* with the assistance of Lyal Purinton and Liz Jacobs. Anyone who has interest in participating in the Co-op firewood program, please call 503-647-7425 to speak with the coordinators.
5. Tree School:
The Coordinators have the portable table display for Tree School which will be held at Clackamas Community College Saturday March 29th. A bundle of firewood will be available to display along with brochures. The Coordinators will “man” the booth all day. Members are invited to help as they are able throughout the day. Please contact Louis Leatherman at louis@orwoodlandco-op.com

Oregon Woodland Coop Market Report 3/9/08 By Scott Zimmerman

This last week provided the lumber market with some emerging developments that had been influencing the market previously, but have now become part of the spotlight in the ongoing struggle in the marketplace for logs and lumber products to find a pricing bottom in the short term or, at the very least, a stabilizing in the pricing of the representative demand and supply equation.

1. The price of chips increased \$10 per ton here in the Northwest region last week alone. The price per ton for chips now equates to \$330/m for logs. That could also be converted to reflect the price of 2x4 S4S STD&BTR grade green Hemlock or green Doug Fir at \$213/mbf. Random Lengths Publication, the industry price guide for finished lumber for the week ending March 7, 2008 showed that 2x4 S4S STD&BTR green Doug Fir was trading at \$175/mbf. Yes, you read that right, the price for 2x4, the primary volume item manufactured at the mill, is less than

one can get for chipping the log. The price for chips is projected to increase much more unless supply of those chips is increased substantially beyond today's ability to meet the increasing, as we speak, demand for those chips. Global demand [Asia and Europe] coupled with new paper production capacity [coming online in this region in the next couple of months] to feed the new monsters and the decrease of some integrated lumber and paper forest products companies in Canada and the USA in the production of finished lumber is decreasing their ability to get their usual allotment of chips from their own lumber production, thus forcing them to buy chips outside of their respective companies, thus putting tremendous pressure toward the increase in the price of chips.

2. At some point in the near future the above scenario, should it continue, will help to increase the price of finished structural commodity finished lumber products, particularly the small log that goes to make 2" dimension lumber. This could have the effect of a further decrease in the supply of structural dimensional commodity lumber available to the market place domestically and globally. In the short term only, due primarily to the near term seasonal growth in demand for spring and summer construction projects, the price of structural lumber products should lift off of the current new lows in the lumber market. I would caution that to have too great of an expectation of prices rising upwards very much and for very long in the short term though, in that there is overall presently and in the months ahead too much production currently chasing too few orders, thus keeping a lid on finished lumber prices to go higher. None the less, short term at the least, the prices of chips and finished structural lumber will compete with one another and leap frog price wise with one another.
3. The export market for hemlock logs tanked last week. Demand for the export grade logs plummeted in certain markets coupled with too much supply. Sound familiar. The price of export grade Doug Fir logs could also therefore be affected similarly in the near future in sympathy. This trend will not correct itself in the near future and possibly for some time to come. As usually is with market dynamics, there is no one reason or simplified answers as to why this is occurring and the details are too numerous to convey in this report.
4. This last week saw the very beginning of an increase in the sales of finished lumber at the retail and builder level. If you weren't paying close attention and looking for it you would not have seen or felt it. Over the next two to three weeks we should see a noticeable increase in that demand and a shift in perception psychologically within the trade from doom and gloom to one of acceptance of the market as is and thereby focusing on what we can do not what we can't do. It may be that the actual demand and supply stay essentially the same, but the attitude or collective consciousness of the marketplace could provide the willingness on the retailer and distributor to carry more inventory. Any relief brought by an increase in demand in the short term given the behavioral patterns over the history of the lumber trade will provide the individual decision makers that buy lumber to give themselves the emotional courage thus give themselves

permission to increase their purchasing and increase the volume of their yard inventory for lumber in some regions of the U.S. This should help to increase the price of structural framing commodity lumber by \$30/m to \$50/m.

5. What does that mean for log prices? Not much. As has been pointed out in the recent past reports, the price of logs although historically low, is still high enough that sawmills can not make a profit. Therefore, other than in the very short term possibly, the price of logs will not go up much. As we move through time, more and more mills will reduce their output, thus decreasing the demand for logs. Chips will save us you say. Not likely, even though more mills have gone to chipping rather than running lumber in the mill. If chips presently equate to \$330/mbf, then the price of chips would need to go up substantially for the comparative price for the logs to rise much higher than they are currently selling for. The decrease in demand for export grade logs could increase the supply of logs destined for the finished lumber market domestically. That would suggest lower log prices should one choose to harvest this year. As stated previously though in another recent past report, if the low price of lumber and a mills profitability were the main issue in the reduction of a sawmills willingness to produce finished lumber, then the mills would have shut down months ago. The large industrial lumber producers are running, not because of price, but because of the want to control the market share of finished lumber and more importantly to control the fiber base and thus limit the number of mills thereby controlling the price of logs they buy from you, the working forestland community. This is about the “last man standing” gets to control the market for logs and lumber. Consolidation is the name of the game. This goes for industrial forestland owners, industrial sawmilling, large distribution chains, retail chains, and builders such as D. R. Horton, Pulte Homes, Centex and so on.
6. The opportunity for the small woodland owners is to take the bull by the horns, choose to create more choices for themselves and get involved from an integrated point of view in the self custom cut manufacturing from a collaborative, collective and coordinated effort context and perspective. Choose to control your own destiny so to speak. At least provide and empower yourselves with the choice to do so. If the large industrial sawmill wants to buy your logs, yet you can run and mill them yourselves through collaboration with your fellow forestland owners, it will at the very least force the large industrial sawmill to play on a more level field to compete for the logs and thus raise the opportunity to increase the price of the log available to the open market. The other possibilities to increase the log prices that aren't dependant solely on the market increasing the demand by sawmills because of an increase in the general demand for finished lumber because more houses are being built is to become engaged in the discussions that revolve around revenue sources that are non-timber related. Examples abound. Currently, the real and presently traded commodities of carbon, water, developers pressure to find offsets for development of sensitive habitat due to policy regarding where one can and cannot build, the coming cellulose bio-fuel alternative energy programs being developed by President Bush's present and current decree backed by federal monies [EPACT 2005 energy bill and other

recent legislation] available for research grants and monies to build infrastructure to landowners for near term commercial application, and many more are not some future hope for revenue but in fact today's current revenue streams by those early adapters willing to look outside the conventional norms that are being tapped into by the industrious small woodland owner. If enough of these revenue streams are incorporated in the forestland owners management scheme and if as projected these non-timber revenue streams rise in value in the coming short term as well as long term projections stating the same, this will have the effect of competing with the price of timber thus dramatically increasing the prices of that timber. If the revenue for a ton of carbon were to reach \$50 per ton, the owner of the forest may be reluctant to harvest more timber than they have in the past because the more fiber the more tons of carbon sequestered, stored and avoided thus the more \$50 per ton available to that landowners presumably, thus the higher price that timber needs to be in order to compete with the price of carbon per ton. This is one of the issues that concerns the large industrial forestland owner and industrial sawmill owner. The large industrial forestland owner's present business model calls for shorter rotations in order to harvest more timber more often thus feeding the large industrial high volume high speed manufacturing facility. [Longer rotations should store more carbon therefore conceivably worth more money per acre than for the manufacture and price of 2x4?] Large mills have to feed the monster they built to control the consolidation process. The large industrial high speed high volume mill will suggest that to not be able to harvest with impunity the volume needed will somehow short change the growing overall future demand for finished lumber products domestically and globally. You sure couldn't prove that to me in today's market. But, we might give them the benefit of the doubt concerning the future.

If I was them I would say that too. It is one of those self serving, [can't blame them given the economic concern for their particular entity], myths. The other argument is that we in the region would again outsource manufacturing and consumption elsewhere in the world thereby missing out in the region the opportunities for our local economies to benefit. If one looks back in the recent past reports, you will find that issue being addressed. Again, a self serving perpetuation of a myth? The supply of forests for structural timber in the near future is stretched elsewhere in the world given present conditions and the region in the world with the healthiest supply of that kind of timber is in this region. It is increasingly urgent because of this to consider how we are going to manage our forests so that, if nothing else, we can be sustainable for the decades and centuries to come as to the supply of timber from this region. I would also suggest we get consensus on the definition of the word "sustainable", as there are different interpretations of this coming from different vested interests and sectors in our region.

The only requirement to benefit from these relatively new ventures is willingness on the part of the landowner to pursue the truths and debunk myth regarding these activities, the leap of faith to research vigorously the optimal strategies to incorporate them in the working forests portfolios and a commitment to become engaged and empowered with other landowners of a like mind.

Working toward consensus with other forestland owners toward this goal has many co-benefits including but not limited to having a stronger voice on policy issues that are near and dear to most small woodland owners. Economics usually and eventually dictates policy in my experience. Another huge co-benefit is the ability to get the attention of those interested in the intergenerational issue and/or bringing on the youngsters who are to inherit the family's acreage but currently may not have an interest in keeping that acreage as a working forest. Usually, profit motives if nothing else can modify that behavior in a hurry. [Can I get a witness, say yeah.]

Warm regards to all.
Scott Zimmerman
Coordinator of Marketing
Oregon Woodland Cooperative

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