

TO: Forrest Cole, George Woodbury, Shelly Wright, Jim Calvin, Ray Granvall, Joe Balash, Mike Curran, Richard Haynes, Alan Brackley, Cynthia West, Lee Kramer, Jan Lerum, Ed Fogels, Chris Maisch, Mark Rey, Kate Williams, Nathan Bergerbest, Dan Kish

FROM: Owen Graham

DATE: August 15, 2007

RE: Summary of the 8-6-07 Demand meeting

The Alaska Forest Association (industry), the Southeast Conference, the USFS-PNW Station (PNW) and the State of Alaska met on August 8, 2007 in order to gain a better understanding of the Timber Sale Demand issue (agenda attached). Cynthia West agreed to draft a report for the group, but she has been out of the office since the meeting. Consequently we are providing this report to insure the issues are understood by the USFS decision makers immediately because of the pending TLMP decisions. The next step is to insure that this information is incorporated in the TLMP decision so that the industry has an opportunity to survive and prosper in the future.

The points were clarified and generally agreed upon by the group:

1. The PNW uses a derived demand model, in PNW words “in Southeast Alaska demand is a result of desire by producers to purchase timber that can be manufactured into products that can be sold locally and in the global marketplace”
 - a. Since the demand for the products that can be produced in our sawmills and veneer plant enormously exceeds the capacity of the Tongass, the demand for timber is limited only by the supply of economic timber. This was also noted by the Irland Group in their 1991 report to Congress and the USFS.
2. PNW agrees that there are realistically no alternative timber supplies available to the mills in Southeast Alaska.
3. PNW agrees that the volume requirement for a Medium Density Fiberboard (MDF) facility is 80-100 million board feet (mmbf) annually. PNW also suggests that 2 MDF facilities should be planned in order to stabilize that segment of the industry.
 - a. In the draft TLMP EIS (page 3-421) PNW projects a scenario where the first MDF facility begins operating in 2008 and a second facility in 2012, but the harvest level indicated on that chart for 2008 and 2012 is too small to supply even one MDF facility – see point #4.

4. PNW and industry have a different fiber supply assumption for the manufacturing facilities;
 - a. PNW assumes that as the timber supply increases, the existing, currently operating sawmills will begin operating at a two-shift capacity and all other growth in the industry will be in MDF, not additional sawmills. This presumption leads them to assume that about 75% of the #3 sawlogs will be chipped for a MDF facility.
 - b. The industry believes that the sawmills and veneer facilities will produce a higher return to almost all of the #3 sawlogs than a MDF facility. Consequently, the MDF facilities will rely primarily upon residual sawmill chips and utility logs. (In the Pacific Northwest, MDF facilities typically rely exclusively on residual chips, sawdust and planer shavings; they normally do not chip sawlogs or even utility logs). In addition, industry recognizes that the veneer plants will produce only about one-tenth of the chips that are produced by the sawmills.
 - c. The industry assumptions indicate that the harvest level needed for a fully integrated industry is 20-30% above the PNW depicted in the TLMP DEIS.
5. PNW and the TLMP DEIS (page 3-422) both agree that the harvest levels since at least 1997 have been artificially constrained and cannot be used as an indicator of demand.
6. PNW and industry agree that a logic error is presented on page 3-423 of the TLMP DEIS;
 - a. The DEIS improperly adds the following short-term, assumptions:
 - i. 138 mmbf for the largest existing mills,
 - ii. 30 mmbf for the veneer plant and,
 - iii. 80 to 100 mmbf for an MDF facility
 - iv. In the DEIS these are summed to 248-268 mmbf.
 - b. The error is that the veneer plant utilizes veneer log, not any logs. Similarly, the MDF facility will utilize residual chips, perhaps some shavings and sawdust and utility logs. The TLMP authors' technical error indicates a serious misunderstanding of the fiber supply and demand issues.

7. The industry and the PNW also agreed generally on the answers to the following focus questions:
- a. Why do we need a fully integrated manufacturing industry?
 - i. To achieve the highest possible value from each log.
 - b. What mix of facilities constitutes a fully-integrated manufacturing industry?
 - i. At a minimum we need sawmills, veneer mills and one or more facilities that can profitably utilize utility logs and residual chips.
 - c. What are the volume and log specification requirements for each type of facility?
 - i. Generally, larger sawlogs for the sawmills, smaller sawlogs for the veneer plants and utility logs and chips for the MDF or equivalent facilities.
 - d. What harvest level is needed in order to generate the specific log requirements for each type of facility?
 - i. 360 mmbf if the MDF facility utilizes only utility logs and residual chips.
 - e. What volume of timber under contract is necessary to sustain the harvest level indicated in question #3?
 - i. A three-year supply.
 - f. What facilities must be constructed in order to achieve full manufacturing integration?
 - i. We need an MDF facility or equivalent and some additional sawmill and veneer mill capacity.
 - g. How large must these facilities be in order to be competitive and what is the estimated cost of such facilities?
 - i. The PNW estimate of 80-100 mmbf appears adequate for an MDF facility.
 - ii. Potentially, a mix of cogeneration or pellet plants plus OSB plants could work as well as MDF facilities. OSB requires flaking of whole logs and cannot utilize residual chips, hence the OSB facilities would utilize only utility logs and another type of manufacturing would be needed to utilize the residual sawmill chips.
 - h. How many years of timber must a prospective investor have in order to borrow money to construct and operate such facilities?
 - i. This is a financial question that must be answered by a lender looking at a specific investment proposal. The group noted that 10-years is the administrative limit for the USFS and discussed having several 10-year timber sales in place and a potential fiber agreement between several of the 10-year sale purchasers and an MDF operator.

Timber Demand Meeting AGENDA

August 6, 2007

9am-11:30am

Juneau Federal Center

(Regional Forester's Conf Room , 5th floor)

9:00am Welcome, Introductions & Overview of Meeting Facilitator

- Meeting Objectives
- Agenda Review
- Meeting Focus Questions:
 - Why do we need a fully integrated manufacturing industry?
 - What mix of facilities constitutes a fully-integrated manufacturing industry?
 - What are the volume and log specification requirements for each type of facility?
 - What harvest level is needed in order to generate the specific log requirements for each type of facility?
 - What volume of timber under contract is necessary to sustain the harvest level indicated in question #3?
 - What facilities must be constructed in order to achieve full manufacturing integration?
 - How large must these facilities be in order to be competitive and what is the estimated cost of such facilities?
 - How many years of timber must a prospective investor have in order to borrow money to construct and operate such facilities?

9:10am Overview of PNW current timber demand scenarios Brackley & Haynes

- Short presentation to provide an overview of PNW current timber demand scenarios and to provide a response to meeting focus questions.

9:35am Timber industry & Southeast Conference perspective on timber demand for Southeast AK Calvin and Granvall

- Short presentation to address why the Forest Service should adopt the restoration of a fully integrated timber manufacturing industry as the demand for Tongass timber, including answers to the meeting focus questions.

10:00 Discussion All

11:15am Meeting Summary
11:30am End of Meeting

Facilitator

Anticipated Meeting Attendees:

Jan Caulfield – Facilitator, Sheinberg Associates
George Woodbury – Southeast Conference
Shelly Wright – Southeast Conference
Jim Calvin – McDowell Group
Ray Granvall – Cascade Appraisals
Joe Balash – State of Alaska
Mike Curran – State of Alaska
Owen Graham – Alaska Forest Association
Richard Haynes – USFS, PNW Station
Alan Brackley – USFS, PNW Station
Cynthia West – USFS, PNW Station
Lee Kramer – USFS, R10
Jan Lerum – USFS, R10