

**MONTANA WOOD PRODUCTS INDUSTRY INITIATIVE:  
RECOMMENDATIONS FOR ACTION  
August 21, 2008**

**ISSUE**

The State of Montana needs to implement an economic development strategy to retain its forest products industry. This strategy needs to include immediate actions to insure that our infrastructure is retained and long-term actions to address the critical need to increase the availability of timber and wood fiber from the National Forests from a current harvest level of approximately 90 million board feet (MMBF) in 2007 to an economically and ecologically sustainable level of 300 MMBF by 2011.

**WHY IS THIS NEEDED?**

1. Montana's forest products industry is facing an unprecedented situation involving downturns in the construction and housing components of the national economy, record high energy prices, limited timber inventory on private lands, and reduced availability of timber from National Forests.
  
2. The economic impact of the industry on Montana is significant, as illustrated by the following statistics for 2007 as provided by the Bureau of Business and Economic Research at The University of Montana:
  - a. Number of persons directly employed: 9,700
  - b. Number of persons indirectly employed: 10,000—30,000
  - c. Total labor income of the industry: \$400 million
  - d. Average annual earnings of employees: \$40,000--\$45,000
  - e. Annual personal income tax paid to the State of Montana by employees: \$10—13 million
  - f. The industry contributes significantly to state and local property tax revenue, especially in several Western Montana counties.
  - g. The industry generated a total of \$61.5 million from timber sales and forest management fees for Montana's Trust Land Management Division over a five-year period from 2002 through 2006.<sup>1</sup>
  - h. The purchase of timber provided \$250 million in stumpage revenue to non-industrial private forest (NIPF) landowners in Montana from 2002 through 2006.
  - i. Recent progress regarding collaborative efforts to overcome obstacles to forest management, such as the Beaverhead/Deer Lodge Partnership, is encouraging but will be futile unless Montana retains its wood products industry infrastructure.
  - j. Although the recommendations included in this document are intended to help the industry survive the current situation, there is potential for growth in the future. For each additional one million board feet harvested from the National Forest, approximately 11 new jobs would be created. The U.S.

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<sup>1</sup> Annual Report FY 2006, Montana Department of Natural Resources and Conservation.

Forest Service, the Bureau of Land Management, and the Bureau of Business and Economic Research concur that this is a reasonable estimate of the industry's ability to create new jobs if additional supply is made available.

3. The infrastructure of Montana forest products industry (facilities, workforce, and expertise) is essential to maintaining healthy forests, reducing fire hazards, and effectively addressing the problem of beetle kill. In FY 2008, the State of Montana spent \$45,244,662 for fire suppression.<sup>2</sup>

## **BACKGROUND**

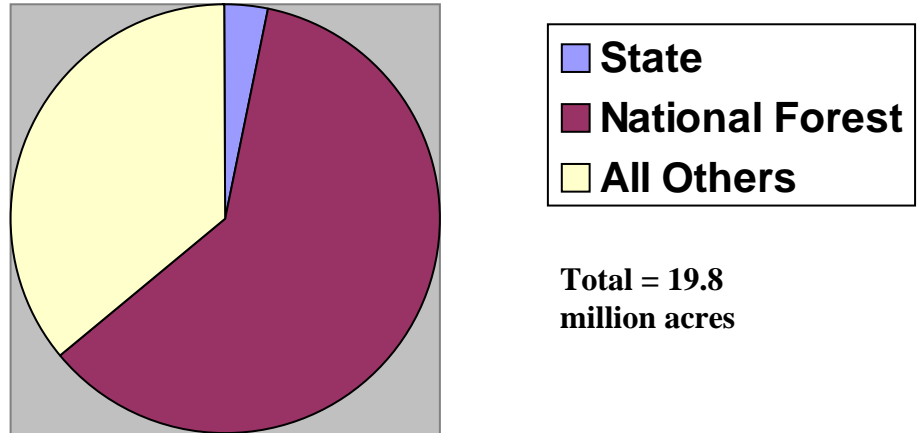
Montana's forests are a precious asset for the state. They are a key component in any definition of our "quality of life." They are also an important natural resource that support the state's wood products industry, water quality, and wildlife, and as such, they are vital to the state's tourism and recreation industries. Excluding forest lands that are reserved by statute or administrative designation, there are about 19.8 million acres of "nonreserved timberland" in Montana that are available for timber harvest. Of that total, the State of Montana owns 683 thousand acres, or 3.4 percent, and USDA's National Forest System, managed by the U.S. Forest Service, owns 12 million acres, or 60.4 percent (see Figure 1). In 2004, the timber harvest in Montana was 785 million board feet Scribner (MMBF). The contribution to that total from State forest lands was 60 MMBF or 7.6 percent. The National Forest System contributed 117 MMBF, or only 15 percent of the total, despite the fact that the agency owns six out of every ten acres of Montana forest land available for timber harvest (see Figure 2)<sup>3</sup>. Annual net growth on nonreserved Forest Service timberland is approximately 1.8 billion board feet.

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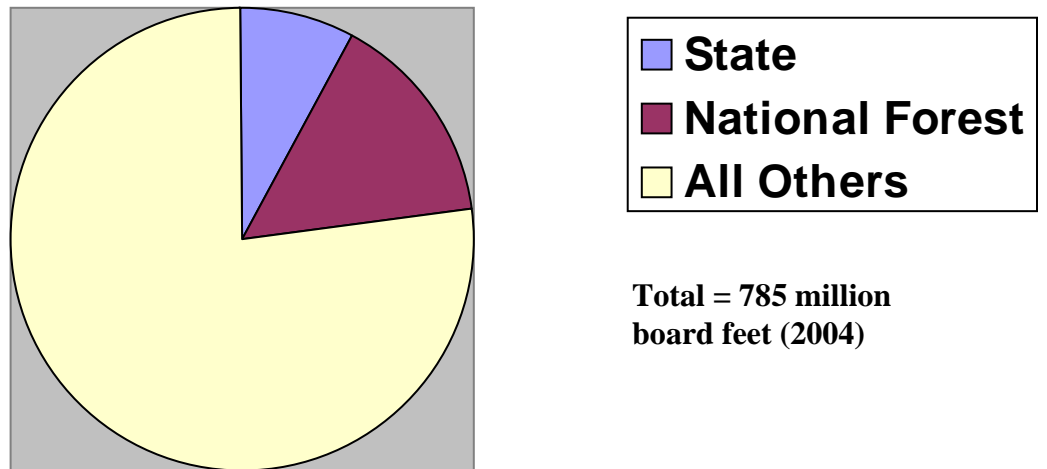
<sup>2</sup> <http://dnrc.mt.gov/forestry/fire/Statistics/FireCosts.asp>

<sup>3</sup> Montana's Forest Products Industry and Timber Harvest, 2004. USDA Forest Service, Rocky Mountain Research Station Resource Bulletin, March 2008. pp. 4-5

**Figure 1: Ownership of Nonreserved Timberland in Montana**



**Figure 2: Montana Timber Harvest by Ownership--2004**



## **RECOMMENDATIONS**

The following goal statement reflects the need for immediate action to retain the existing infrastructure of the forest products industry.

**GOAL:** Reduce operating costs for timber harvesting contractors and wood-products manufacturers, increase the volume of timber and other fiber harvested from state forest lands, and secure the release of timber from federal lands with timber sales currently in litigation.

### **RECOMMENDATIONS FOR IMMEDIATE ACTION**

1. Increase GVW allowances for trucks carrying logs, wood chips, hog fuel and manufactured wood and paper products (use maximums allowed by the vehicle manufacturer). If necessary, weight allowances can be increased on a seasonal basis.
2. Bring license and other vehicle registration fees for logging trucks into parity with agriculture (discount for agriculture is 25%).
3. Expand exemption on fuel tax for agricultural use to include logging trucks as well as other equipment.
4. Allow oral (open) bidding on DNRC timber sales.
5. Develop a forest management program for Fish, Wildlife and Parks lands that addresses beetle kill, fire mitigation, and wildlife habitat enhancement.
6. Accelerate timber sales on State lands to help address short-term supply needs of the industry for two years, and then reduce in following years.
7. Expand efforts to encourage more utilization of non-saw log material (such as pulp logs and other residue) made available through State timber sales.
8. Reduce business equipment tax on equipment used to transport, process, and harvest forest products and/or exempt existing facilities from property tax during the current crisis.
9. Optimize the location of DNRC timber sales to reduce purchaser's transportation costs.
10. Index DNRC timber sales to the market (perhaps 50% up and 50% down).

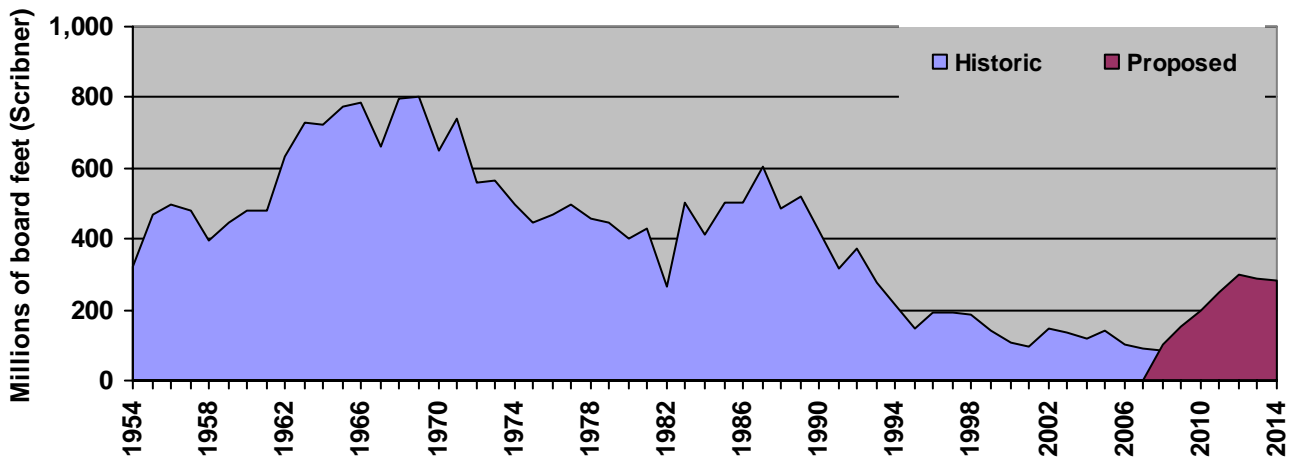
11. Create a state program to pave log yards at mill sites to enhance recovery of bi-products and wood fiber, improve air quality and reduce the volume of material taken to landfills.
12. Review the workers compensation process for the forest products industry to find ways to reduce costs and adopt an “apportionment” system for workers with prior injuries who file claims and evaluate rates compared to other states.
13. Develop a state revolving loan fund program that supplements private sources of financing that timber harvesters and wood processors could use to obtain working capital needed to maintain and modernize their existing operations.
14. Investigate best practices across the country and adopt an incentive program for existing wood processing facilities to recover bio-mass from forest lands.
15. Amend Senate Bill 415, which provides for graduated renewable resource procurement standards for public utilities in Montana. The statute (MCA 69-3-20) should be amended to allow up to 15 megawatts calculated nameplate capacity instead of the current limitation of 5 megawatt. The 5 megawatt limit renders some projects unfeasible, particularly bio-mass co-generation associated with sawmills due to economies of scale.
16. Negotiate an agreement with the organizations that have filed litigation to stop timber sales on National Forests to secure release some of these sales (currently, about 300 million board feet of timber proposed for sale by the Forest Service are impacted by litigation), and encourage the Forest Service to activate timber sales that have been shelved due to concern regarding potential litigation.
17. Encourage the Forest Service to develop pilot projects for resource recovery that include multi-year timber sales, thinning projects, and removal and dead and dying timber.
18. Support The Nature Conservancy’s efforts to maximize the amount of Plum Creek land that will be transferred to State of Montana ownership as result of the Montana Legacy Project.

The intent of the recommendations listed under the first goal is to help Montana’s forest products industry survive the unprecedented challenge of current market conditions and record high energy prices. To thrive, however, the industry needs assurance that more supply will be made available on an annual basis. Meeting this need is beyond the capacity of the State’s forest management program, which has strong support within the industry. Simply put, the U.S. Forest Service must increase harvest

levels. This is achievable through a combination of stewardship programs, timber sales, hazard reduction, and removal of dead and dying pine beetle trees. The following goal includes a target for annual harvest that can easily be achieved with cooperation by stakeholders.

**GOAL:** Ensure the preservation of the existing wood products industry in Montana by increasing the sustainable supply of timber and wood fiber from Montana's National Forests from the current level of about 90 MMBF in 2007 to a minimum of 300 MMBF. This would be a modest harvest level compared to historical harvest from nonreserved National Forest lands in Montana (see Chart 3).

**Figure 3: Historic & Proposed Timber Harvest on Nonreserved National Forest Lands in Montana**



Source: Bureau of Business and Economic Research, The University of Montana

## RECOMMENDATIONS FOR IMPLEMENTATION

1. Secure Congressional support for an agreement between the U.S. Forest Service and the State of Montana assigning management responsibility to the State for approximately 10% of National Forest land in Montana.
2. Encourage the Forest Service to develop long-term (such as 10-year) stewardship, fuel reduction and hazard reduction contracts.
3. Coordinate timber sales on Federal and State lands to support the need for a reliable fiber supply for the industry while reducing transportation costs.
4. Develop an incentive program (such as an exemption from State capital gains taxes or a special property tax classification) for non-industrial private forest management with the purpose of increasing timber supply, encouraging healthy forest lands, and maintaining existing land use.

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Economic data as well as information on the wood products industry and Montana forest lands furnished by the Bureau of Business and Economic Research at The University of Montana.

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