

Governor's New Hampshire Forest Products Industry Task Force Report August 2008

Task Force Members:

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Introduction

Governor Lynch met with 14 representatives of the forest products industry on April 29, 2008 to discuss significant challenges currently facing the future of this important industry. While driven by high diesel fuel costs, there was recognition that there are a number of current challenges facing the industry and barriers to ensuring future success. The result of the meeting was the Governor's creation of a Forest Products Industry Task Force and the appointment of 15 representatives from the industry. The charge to the task force was to "review the current challenges faced by the forest products industry in New Hampshire and make recommendations for possible state actions." At the first meeting, the task force members agreed that the focus would be on sawmills and the issues associated with logging that affect the supply of raw materials to the mills.

Key Points

Wood products are one of the most environmentally responsible resources. Wood products are a renewable resource that sequester carbon, offset petroleum based energy, and are produced locally. A healthy forest industry is essential to keeping New Hampshire's forests as forests. The markets and infrastructure provided by the mills and loggers are the primary source of income for landowners to support ownership and maintenance. These markets enable landowners to economically grow and harvest trees and maintain forestland for many other social benefits.

The forest products industry is present throughout the state. The direct annual contribution of forest-based manufacturing and forest-related recreation and tourism to the New Hampshire Economy based upon 2005 data is over \$2.3 billion.

Sawmills are essential to meeting future wood energy opportunities as the wood energy chips, firewood and wood pellets are primarily a byproduct of timber harvesting operations to produce sawlogs. Without sawmills, wood energy production can become uneconomical. There are also at least three major lumber distribution yards in the state that are becoming more dependent on local supplies due to the high cost of transportation.

The sawmill industry is facing unprecedented challenges and barriers to its future. Public policies have a direct impact on whether this industry will exist in New Hampshire in the future or not. However, there are real actions that can be taken to address those challenges and remove those barriers related to energy, transportation, regulation, log and lumber markets, and health insurance.

Actions to Address Challenges and Barriers

Energy

Communicate the impact of high diesel fuel costs to policy makers, in particular, the Congressional Delegation. Diesel fuel comprises 41% percent of the cost of trucking forest products from the woods to the mill. The costs of producing logs, chips and pulp wood in the forest has more than doubled in the last two years due to escalating diesel fuel costs.

- Request that the Governor send a letter from Governor Lynch to the Congressional Delegation describing impact of high fuel costs in the industry.

Ensure that energy conservation programs, tax incentives and other mechanism are readily available to the forest products industry and mills of all sizes.

- Structure program requirements so that they are not so burdensome as to hinder participation.
- Communicate the importance of the industry and specific needs and issues to the agencies providing assistance

Provide credit for the production of thermal energy in manner similar to the RPS established for electricity production. Using wood for thermal energy is an efficient way to reduce petroleum consumption and carbon emissions.

- Communicate industry support for thermal energy to the Climate Change Task Force.

Investigate the elimination of the sawmill rate and the opportunity to utilize the standby charge. An electric rate was established for sawmills to discourage self generation. With the high costs of fuel, alternative generation has become infeasible and the sawmill rate has been phased out. Sawmills are required to pay a demand charge based upon peak demand. A standby charge allows mills to come off the grid during periods of high demand for power.

- Research background on the sawmill rate and explore if there are alternatives.
- Hold a meeting between several sawmills and members of the PUC and PSNH & other utilities to research partnerships to reduce electricity costs.

Transportation

Review the impact of state and local E2 bridges on the industry, evaluate bridge conditions, and allocated adequate funding to improve the bridges to E1 status. Many of bridges that provide access to sawmill are rated E2 for up to 80,000 pounds. Many of the wood products trucks hold certificates allowing them to carry loads of up to 100,000 pounds.

- Establish a priority list for E2 bridge repair and upgrade from the forest industry standpoint. The Governor's office and DRED would communicate the list to DOT and urge DOT to work with the forest industry providing certified truck access to mills.
- Review criteria for initial designation of a bridge as E2 and communicate results of the review by the industry to DOT and local communities.

Ensure that funds from registrations, road tolls, and fuel taxes are put back into the road systems. The industry is willing to pay these cost to invest in the infrastructure that they use however, these funds are often looked to as a source of revenue to support non-infrastructure projects.

- Communicate need for investment in road infrastructure to the NH General Court and NH Department of Transportation during the budgeting process.

Ensure the equitable enforcement of bridge weight limits and bonding requirements for all trucking businesses.

- The forest industry work directly with New Hampshire Department of Safety and local road agents on bridge and weight limit enforcement issues. The industry should also communicate to Towns the full range of recourse for damaged roads including legal action and contractor insurance coverage.
- Continue work between the industry and Towns to establish appropriate bonding levels.
- Update and re-distribute the Forest Products Trucking Road Manual developed for Towns to selectmen, road agents and conservation commissions.

Review truck weight disparities between northeastern states and promote standardized trucking weight limits through cooperation between state and federal highway departments in the region.

- Communicate issue to Congressional delegation staff.
- Meet with DOT to develop strategy for implementation.

Regulation and Enforcement

Regulation of the forest industry is increasing. The current pressures on the industry mean that the incremental costs of regulation have an inordinate negative impact. Increased regulations increase the operating costs for NH businesses thereby creating an uneven playing field for them in the global market. These regulations also can have an adverse impact on a landowner's ability to retain their timber or farm land as open space. To reduce the negative impact of regulations on businesses rules should be kept simple, practical, easy to administer and enforceable.

The Governor should look critically at any new rules or legislative actions that affect the forest products industry.

- NHTOA will communicate to the Governor's office and Director of Forests and Lands new rules and regulations that negatively affect the industry.

When new regulations are proposed, ensure full communication and engagement between agencies, at both the state and federal level, and with the Governor's office.

- Establish a formal or informal consultation process between agencies.
- Explore using the Council on Resources and Develop (CORD) as a vehicle to coordinate regulatory actions between agencies.
- Ensure adequate review by agency leadership (department commissioners and directors) before promoting regulations and implementing the rulemaking process.

- Ensure federal exemptions for forestry and agriculture are consistent and applied in all state and federal regulations.
- The state's fiscal impact statements need to capture actual cost of compliance to businesses and forestland owners.

Regulatory agencies should communicate directly with the regulated community up front regarding new regulatory initiatives.

- Utilize existing advisory boards including the Forest Advisory Board to review regulations early in the development process.
- Conduct public listening sessions when needed prior to the formal rule making process.
- Ensure regulations are based on sound science.

Log and Lumber Markets

Bring attention to the impact that international trade policies have on the forest products industry and the inequities that place New Hampshire mills at a competitive disadvantage. China, Canada, Mexico, Brazil, all export wood products to the US market. Each country has different cost factors (labor, raw material, and energy) which allow them to compete successfully with US companies to produce goods for the world market. For example, China is the world's largest importer of logs and the second largest importer of hardwood logs and lumber from the US. By 2004, 54% of US furniture was imported from China and other countries. The furniture industry in the US went from using 3 billion board feet of lumber in 1996 to less than half that (1.3 billion) by 2005.

- Request that the Governor send a letter to the Congressional Delegation emphasizing the importance of the forest industry and the impacts of trade policy on the health of the industry.
- Support federal efforts to prevent illegal logging globally.
- Meet with Congressional Delegation staff regularly to review the current market situation, provide specific impacts of global trade and other federal policies on the industry, and review results of the task force report.

Establish promotional programs for lumber produced in New Hampshire similar to state's agricultural promotion programs and lumber promotion in other states. The Department of Agriculture has an Ag promotion program that is viewed as being very successful.

- Meet with Department of Agriculture officials to see how their programs operate and determine if something similar will work for the forest industry
- Request that DRED and UNH Cooperative Extension research promotion programs in other states.
- Incorporate resource, staffing, and budgetary needs into promotions strategy.
- Explore new market opportunities (International Trade Resource Center, port in Portsmouth, green certification, inter-business network, marketing cooperatives, state and federal purchasing programs).
- Work with NH tourism agency and organizations.

The state should more actively explore green certification to support green markets for lumber by exploring green certification of state lands through the Sustainable Forestry Initiative, the Forest Stewardship Council or both.

- Proponents of green certification and public land managers working on certified lands should meet with Forests and Land staff to explore the pros and cons of green certification and potential funding sources.

Ensure that new markets for wood energy are in balance with availability of sawlogs for sawmills.

- Communicate relationship between sawmill industry and wood energy industry to OEP, SEC, PUC and other policy makers and incorporate message in DRED meetings with wood energy developers.

Communicate to foresters, landowners and loggers the relationship between lumber quality and species and log quality and incorporate results in current use valuations.

- Meet with the Forests and Lands Forest management bureau to review log specification and the expectations for what does and does not make a log on state land sales.
- UNH Cooperative Extension should continue to conduct several “logs to lumber” field sessions.
- Convene a work group to review relationship between FIA tree grades and current market specifications.

Promote the NH Native Lumber Law under the Department of Agriculture RSA 434:59 which allows NH registered sawmills to certify their lumber. UNH administers the educational component of the law.

- UNH Cooperative Extension to establish a communication plan working with the Department of Agriculture to educate local code enforcement officers and sawmills about the legislation and the process to use NH Native Lumber.

Health Insurance

High health insurance costs are deterring mills from expanding production and services. Small companies are at a disadvantage in securing the lowest cost health insurance.

- Allow and promote employers taking advantage of large-group rates through industry or group associations.
- Explore a regional health insurance program for the industry to capture sufficient premium base.
- Increase the number of insurance carriers and plans to choose from.

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Dear Governor Lynch:

The members of the Forest Products Industry Task Force would like to thank you for focusing attention on this industry during a time of increasing challenges. The task force met numerous times and developed what it believes is a meaningful and realistic action plan to support the industry.

Attached please find a copy of the report. While the actions are not prioritized, the group focused much of the discussion on the need for state agency regulators to consider the ramifications of their rule making actions, for agency leaders to understand what rules and regulations are proposed within their own agencies, and to improve communication between agencies as regulations are being drafted.

Additional key actions include the need to enhance the state's transportation infrastructure, particularly bridges; to promote the state's forest products; and, mitigate the impact of high fuel and energy costs on the forest products industry.

Again, we appreciate your interest and attention to New Hampshire's an industry that is a significant part of our economy and essential to maintaining our working forest landscape. The members of the task force ask that they meet with your staff again in 6 months to revisit the recommendations and review progress on implementing the action plan.

Sincerely,

Philip Bryce, on behalf of
The NH Forest Products Industry Task Force