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**Challenges Facing United States Forests
and the Forestry Sector**

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CHALLENGES FACING UNITED STATES FORESTS AND THE FORESTRY SECTOR

By Mark Rey

INTRODUCTION

I am happy to be here even though I now represent another Big Ten school. I also grew up in Ohio and went to the University of Michigan, so my Big Ten loyalties are especially challenged.

As I look out among all of you, I cannot help but believe that I am overdressed. The truth is that I always wear a suit and tie now, no matter how inappropriate the circumstances.

This habit goes back to my early days of Executive Branch, government service at the Department of Agriculture. When I was in office for three months, I agreed to do a field trip for the Natural Resources Conservation Service in California. They were keen to have me look at some of the conservation work they were funding in California's Central Valley. So I agreed to participate, and I told them I would be in the Bay Area anyway, and to give me a rendezvous spot to start the trip. I would find my own way there.

As luck would have it, I got there early and the Bay Area traffic delayed everyone else. Our young, local Area Conservationist was excited about the opportunity to present his work to me and the other assembled guests. But he was nervous about having a tour that would start behind schedule. So he told everyone to get on the bus, and that we would just do introductions at the first stop. I thought, "Ok, fine" and we got on the bus and drove to the first stop. When we got there, in his enthusiasm he forgot all about introductions and launched right into the program which ended up going on too long. He panicked and told everyone we should get on the bus and go to the next stop.

At the next stop, he forgot about introductions again, and launched immediately into the next part of the program. During this second stop my cell phone vibrated, and the number was the Secretary's Office. So I went to the back of the crowd to take the call in a way that would not disturb anyone.

After finishing the call, I noticed that there was an older man — a very tall, older man — craning his head like he was looking for someone or something. Finally, not finding what he was looking for, he sidled up to me (as I was on the fringe of the crowd) and asked confidentially, "so which one is the new knucklehead from Washington, D.C.?" I decided then and there that if I always dressed in a suit and tie, no one would ever have to be potentially embarrassed by asking that

question again. It would always be obvious who the new knucklehead from Washington, D.C. was. And so here I am, although no longer new.

As Tom Steele (program emcee) indicated, I spent 18 years working as an advocate for the forest products industry in Washington, DC. Then, I spent 6 years as a senior staff member for the Senate Committee on Energy and Natural Resources.

When I made this career change, many of my friends were dubious about whether it was a good idea. Some of them were sure that I was not cut out for government work. "You are too impatient," one of them said. "The bureaucracy will wear you down," opined another. Actually, I found the transition very easy to make. Functionally, working for a congressional committee is almost exactly like working for a trade association. You work for committees made up of your members. They are competitors, and it is your job to help them find common ground, and try to implement whatever they can agree to. And I have discovered that multinational, corporate CEO's and United States Senators are both megalomaniacs.

Then, in 2001 I went over to the Executive Branch. The functionality of my job changed dramatically and the adjustment was much more difficult. My new job involved catching, rather than throwing, hand grenades. Instead of placing irate calls to the bureaucracy, I was receiving them. As Tom indicated, I spent 8 years as the Undersecretary of Agriculture for Natural Resources and the Environment under the United States Department of Agriculture. In that capacity, I oversaw the work of the United States Forest Service and the Natural Resources Conservation Service.

What that means is simply this. First, I exceeded the median time in office of a standard sub-cabinet official (twenty months). Second, I am now responsible for everything that has gone wrong, is going wrong, and that will ever go wrong in these agencies until I can figure out how to blame it all on my successors. Finally, I hold the indoor, world record for being a named defendant in environmental group litigation against the federal government. I doubt that my record will ever be broken. My name will remain on active court dockets for at least another decade.

Now I teach for Michigan State University in East Lansing, Michigan and in Washington, D.C. In Washington, I also work for selected clients by representing them before the federal government. Surprisingly, some of these clients are environmental groups. That is a source of amusement for many, and the cause of consternation for some.

Today I will talk about the key challenges facing United States' forests and the domestic forestry sector. There are, I think, five, key challenges that should be addressed. Obviously there are others, but you have asked me to give you my perspective, and I personally think these are the most important. I will also discuss opportunities that each of these five, key challenges present to policy makers and forest owners.

I. PRIVATE LAND TENURE IN THE UNITED STATES IS MORE UNCERTAIN TODAY THAN AT ANY TIME IN ALMOST A CENTURY

Over 75 percent of industry-owned (non-family) forest lands have changed hands within the past 15 years. Let me repeat that. Over 75 percent of industry-owned forest lands have changed hands within the past 15 years. Turnover of this magnitude in any other area of capital asset management would be sending shock waves through the economic system.

But this has occurred steadily and quietly as a consequence of the discovery by Wall Street that, since the 1986 tax code changes, publicly traded companies pay a higher rate on capital gains for harvesting timber than more limited ownership corporate structures. Wall Street essentially forced publicly traded companies to sell off their timber lands, or to face the risk having their stock values take a beating on the Street. This market pressure resulted in the creation of new corporate land-owning entities called Real Estate Investment Trusts (REIT's), and Timber Investment Management Organizations (TIMO's). These entities have different structures and different priorities. Most importantly, they have a different outlook on the importance of forest resources. As a result, they will make, and are making, very different management decisions than the entities that preceded them.

They do not behave like integrated, forest products manufacturing companies because they have few or no manufacturing facilities. Consequently, they look at their forest assets through a different prism, with different investment horizons. They will look to their forest lands to produce returns over a shorter period of time which means, in part, that land sales are an important source of return. That, in turn, means that some portion of these lands is going to keep changing ownership hands to meet revenue targets through land sales.

Now let us talk about the private, non-industrial forest land owners. Today, the median age of a private, non-industrial forest land owner is 59, and that median age is rising. I would bemoan how old 59 seems, except that I am 59 and it doesn't seem so old to me any longer. I am sure that 59 will soon seem like the days of youth to me. At any rate, we know this number is going to go up, not down. We also know that land inheritance is severely complicated by our current

estate tax structure. The pressure driving fragmentation has already been intensive, and is increasing. The situation with private, nonindustrial ownerships is even more tenuous than the tenure stability with the REIT's and the TIMO's.

Still, there are a couple of real opportunities available to the forestry sector. The first of these opportunities involves state bond initiatives. What we have found is that, even in difficult economic times, bonds initiatives to acquire land have been exceptionally popular on state and local ballots. That is to say, people vote yes for land acquisition. This presents a clear opportunity for state forests to be created to provide revenue for various state purposes.

In general, state forests are more profitable and less bound up in conflicts than our national forests. The tie between forest management and the support of public education is the most developed at the state level. Many state forestry agencies already make a substantial financial contribution to primary and secondary education funding through forest management receipts. Why not seize the day and expand this in states where it is already occurring, and introduce it to states where it is not? This is an historic opportunity that may not come around again for a couple of generations.

Another opportunity that we should consider seizing involves community forest bonds. These bonds allow local communities to purchase forests on the basis of community-floated bonds. They require that the bond be paid down by active management of the community forests. I believe this is a great opportunity for the future. But it does require a modest adjustment to the tax code. It is a change that the forestry sector should aggressively pursue.

II. INDUSTRY GOVERNANCE HAS CHANGED DRAMATICALLY AS THE INDUSTRY HAS CHANGED

The unified voice of a fully-integrated forest products industry is no longer as clearly audible as it once was. The American Forest and Paper Association is now effectively broken into four different organizations: The American Forest and Paper Association (AF&PA), The National Alliance of Forest Owners (NAFO), The American Wood Council (AWC), and The Federal Forest Resource Coalition (FFRC). AF&PA essentially represents paper makers. The NAFO represents owners of private forest lands (primarily REIT's and TIMO's). The AWC represents manufacturers of solid or fabricated wood products. Finally, the FFRC represents those companies still interested in the active management of federally-owned forest lands.

For the time being, the members and staff of all four organizations are committed to working together to pursue common objectives. They are saints. Associations

by necessity, however, must reflect the industry they represent. The conversion of integrated companies into more segmented and specialized enterprises means that there will be inevitable conflicts in the future that will arise in a fashion that will challenge their collective ability to speak in a unified voice.

At the same time, the number of forest industry companies with a Washington, D.C. office has shrunk to a just a handful, and those offices that remain are smaller, with fewer staff chasing increasingly more complex issues. Similar changes have occurred at the regional and state levels with a loss of organizations, smaller budgets, and lower membership support for those forestry sector organizations that do still exist.

However, opportunities do exist for new strategic alliances with organized labor, agricultural groups, and even some environmental groups that are out there. Remarkably, as the industry has been forced to look outward, it has discovered a world of community groups, collaborative groups, and nonprofits that are willing to make common cause to advance the interests of sustainable forest management. These alliances must continue to be pursued and expanded in the interest of maintaining an effective voice for forestry before all levels of government.

III. THE FORESTRY SECTOR WILL CONTINUE TO EXPERIENCE WEAKNESSES IN KEY, TRADITIONAL MARKETS

United States housing starts will not rebound to 1-million-plus levels annually any time soon. That's a fact. New house construction has probably peaked, and may not increase dramatically for a decade or more as we work our way through the re-occupancy of existing housing stocks.

Mobile communications and computing will finally start to affect the demand of some grades of fine papers. That's also a fact. The paperless office may, at last, be coming to pass as a consequence of the increased sophistication and portability of electronics.

Increased competition to supply some traditional markets is also accelerating. First, we have competition from other building materials like cement and steel. Second, we have competition from other wood-producing countries, not all of whom have the same legal infrastructure, regulatory scruples, or science-based management that we do.

Today, our forestry sector faces market-based challenges that make previous economic downturns seem quaint or benign by comparison. That these challenges occur in the midst of a broader economic downturn, complicates recovery even further.

But here again, new and exciting opportunities are there for the taking. There are emerging new markets for traditional building materials and products in both China and India. For example, India's upper middle class is larger than our entire population, and strong marketers are already thinking about how to exploit that fact. China is increasing its importation of United States forest products from our West Coast dramatically.

There are also new products that are entering and building expanding markets. These include laminated veneer lumber, biofuels, and environmental services. There is new thinking and new initiatives about how to market these new products and services. The marketing of environmental services could provide landowners of all sizes with important, new revenue streams to support forest management.

So, for example, we soon will have a new softwood lumber check off. This initiative, alone, could be a game changer, as the softwood industry taxes itself to support cooperative market promotion initiatives, following the lead of other agricultural sectors.

While I was at USDA, I marveled at the success of the "Beef – it's what's for dinner," "Pork – the other white meat," "the incredible, edible Egg," and the "Got milk" campaigns. All of these broad, product promotion efforts were funded through check off dollars from those agricultural sectors. All of these efforts enhanced the sectors and built markets. USDA collected the funds and helped coordinate the campaigns.

I remember my counterpart at USDA, Undersecretary, Bruce Knight, looking at the story boards for the latest "Got milk" effort and asking one of his cattlemen whether he could identify the young woman in the advertisement. After assuring us that he was "cool and hip," this grizzled rancher narrowed the picture down to a choice between Hannah Montana and Miley Cyrus. So he was almost cool.

But I, for one, can't wait to see the first "Got wood" advertisement produced from the softwood lumber check off. This will be the first non-food check off that USDA has ever approved. Both the hardwood industry and the paper producers are preparing similar requests. These are exciting efforts, with a great degree of potential.

IV. FINANCIAL SUPPORT FOR FOREST RESEARCH HAS BEEN SHRINKING AND FRAGMENTING

The restructuring of the forest products industry has had two very negative consequences. First, company research departments have been downsized or

eliminated. Second, corporate funds for cooperative research have diminished dramatically in recent years.

Much of the forest genetics research that resulted in the creation of high yield forestry during the second half of the last century was supported by cooperative efforts lead by fully integrated forest products companies committed to increasing the productivity of their land base. These efforts were formed as research cooperatives with government and academia because the task was too large and daunting for any one sector to handle alone.

The tasks that we confront today are still large and daunting. However, the number of participants in the endeavor has been winnowed as integrated companies split apart.

At the same time, federal and other public funding for forest research has been flat. Its continued availability, even at reduced levels, is highly uncertain. In the present federal, fiscal environment, it is unrealistic to believe current levels of federal financial support for forest research can be maintained, let alone increased, to address new and emerging challenges.

There are new opportunities to engage new, potential sponsors for forest research. First, we should explore international forest research cooperatives. Increased interest for these new initiatives should flow from increased international trade and increased concerns over invasive species. In addition, these cooperatives could be written into bilateral and multilateral trade agreements, and paid for with a dedicated portion of the tariff reductions that those agreements make possible.

Beyond this, there are also new players available to help in what is clearly a changing game. If the industry enjoys check off dollars, some portion of those dollars could be devoted to research. If the Bilateral Softwood Lumber Council supports programs of material benefit to United States and Canadian softwood lumber producers, some of those programs could be related to research.

If The American Forest Foundation supports research through its endowment, it could try to be a major forest research partner. And finally, if the United States Endowment for Forests and Communities is truly interested in both forests and communities, they could support forest research as an integral part of what they do.

V. THE HEALTH OF FIRE-PRONE FEDERALLY-OWNED FORESTS WILL CONTINUE TO BE PROBLEMATIC AND CONCERNING

This is not a big issue in the Lake States region. However, it is a big issue in forest management, and it is an existential challenge for sustainability and good governance. It is essential to continue to make the public aware about how much needs to be done. I think that we have succeeded in this regard, because most people are now aware that forest thinning will reduce fire risk.

The epiphany about the level of public awareness came to me in the Spring of 2004. I was sitting at my desk at USDA early one evening when I received a call from Dana Perino, now a Fox News analyst, and then the Director of Communications for the White House Council on Environmental Quality. She said, “you won’t believe what I just saw on television.” She was channel surfing waiting for the network news and clicked on the game show “Jeopardy.” Before she could change the channel, she heard Alex Trabeck say, “the final Jeopardy answer is that a November 2003 federal government report held that this natural disaster could have been avoided by better trimming of trees.” Well then she had to stay with the program to see whether the contestants provided the right question. Remarkably, all three contestants scribbled on their white boards some variation of the question: what are catastrophic wildfires? Imagine breaking through to a level of public awareness, that your issue becomes a final Jeopardy question. Unfortunately for these particular contestants, the correct question was: what was the Northeast power blackout of August 2003? You may remember that the blackout was caused by trees falling on a high-tension, power line in Ohio which started a chain reaction that shut down the whole power grid. My point is that, while we cost those poor souls thousands of dollars in prize money, we nevertheless clearly had their attention.

All that being said, it is still a constant fight. The new management and legal tools that we have developed as part of President Bush’s Healthy Forest Initiative are helpful, but continuing funding is essential. New markets for low-value wood fiber are critical. The most important thing about this is that the old conflicts about cutting trees or not doing so must be resolved before precious dollars to fund these activities are squandered.

The opportunity to meet this challenge through the Healthy Forest Initiative and through the mechanisms of cooperative conservation seems to be underway. In this sense, we can hope that we are reaffirming Winston Churchill’s famous view of America and Americans. Churchill, having been born of an American mother, was a great admirer of our country. He once noted that Americans could always be counted upon to do the right thing — after they have tried everything else first. In this area, we have tried everything else already, and cooperation toward a

common destiny must continue to be the order of the day.

CONCLUSION

I am told that the Chinese characters for opportunity and for danger are identical. I do not know if that is right or not. It could be complete baloney. But for those of us closer to the end of our careers in forestry than the beginning, it is important that we make those entering or considering joining the field of forestry understand that, in forestry, opportunity and danger have always been linked.

A former Wisconsin conservationist – and former Forest Service employee — Aldo Leopold, wrote long ago that “conservation must not merely be a negative exercise of abstinence and caution, but must as well be a positive exercise of optimism and action.” We actually had many authors in the Forest Service – Leopold, Edward Abbey, and Gary Snyder. It shows what you can accomplish when you put someone alone in a fire tower for a summer or two. At any rate, nothing that has happened in the seven decades since Leopold wrote that statement has changed this wisdom.

Thank you so much for having me tonight. I would be happy to respond to or evade your questions.