

**ASSESSMENT OF
ADEQUACY OF TIMBER SUPPLY
AND ANALYSIS OF
POTENTIAL EFFECTS OF ELIMINATING THE
LONG-TERM TIMBER SALE CONTRACT AREAS**

TONGASS NATIONAL FOREST

**PURSUANT TO SEC. 301(e)
TONGASS TIMBER REFORM ACT OF 1990**

Report to

USDA Forest Service, Alaska Region

By

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"seek to provide a supply of timber from the TNF which (1) meets the annual market demand for timber from such forest and (2) meets the market demand from such forest for each planning cycle" (Sec. 101). The Conference Report does not provide any expanded explanation of this concept.

In order to properly meet this mandate, the volume offered must be high in the next few years in order to bring the Current Timber Supply under the contracts closer to the contractual three year level. If this can be done, then the offer level can be managed each year to replace what has been drawn down by cutting. This seems to us to be in the spirit of the Congressional intent and is clearly workable. This approach would also allow for harvesting to meet the up and down cycles that will continue to characterize Alaska's markets for both pulp and lumber. Clearly, given the cyclical nature of demand, maintaining an adequate level of uncut volume under contract is in fact the only way that market demand can be met over the cycle.

Efforts to meet market demand by setting offer levels in an anticipatory way are doomed to failure. Both the optimistic forecasts of the late 70's and the gloomy ones of the mid 80's illustrate this. There has been little movement toward agreement on what market demand might be, despite all of the timber demand studies. Forecasting market cycles in lumber and pulp is not likely to be successful. And there is no purpose in allowing debates over demand to become proxies for more basic issues as they did in the 80's.

8.2 TOWARD A DEFINITION OF "MEETING MARKET DEMAND": A COMPLEX MANDATE

In order to determine how the TNF should meet market demand, the concept must first be clearly defined. We cannot simply equate market demand with past or present consumption. For example, there are indications that consumption of logs has been constrained by supply for at least a few mills. If current consumption were taken as a measure of demand, it would be an underestimate.

The Alaska Forestry Association has urged the Forest Service to provide enough timber to meet the needs of the long-term contracts, a competitive short term sale program, and potential mill expansions that could occur in the future. A competitive short term sale program is

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time, and export markets only want the very highest log or lumber grades. Proportional harvesting will increase the cut of these species and thereby move the mix of wood cut away from the needs of the region's users.

Third, meeting market demand has to include making available timber at delivered costs that allow for profitable processing over the market cycle. This means that volume must be available to meet peak demands at strong market periods. It also means that pricing of stumpage and other cost factors must recognize the need for profitable operation of the mills. If profits are not in prospect, then financing for modernization cannot be obtained, even normal operation is threatened, and the survival of mills is in doubt.

The concern for grade mix and for delivered wood cost ties directly to the need to provide for commercially feasible operation of the mills. The long-term economic development needs of the region cannot be met unless mills can operate at a profit over the economic cycles. For this reason, commercial feasibility of timber offerings is a public as well as a private concern. The pulp companies have repeatedly stated (most recently regarding the Kelp Bay DEIS) that over time, sale offerings under the contracts have failed to meet reasonable economic criteria.

Fourth, other considerations complicate the definition of market demand. Pulp mills and sawmills tend to gain capacity incrementally each year. This is because of ongoing replacement of equipment, improvements in controls, or other steps that help capacity inch upward each year. In the pulp industry this phenomenon is often known by the vivid term "capacity creep". Allowing for a slow, steady increase in requirements for this source of change in demand would appear to be prudent and well within anyone's commonsense understanding of the meaning of market demand. On the other hand, pulp mills and sawmills often increase their yields in conversion efficiency over time in a similar incremental manner. Over time this leads to more output being produced from the same measured volume of raw material. Increases in conversion efficiency would tend to offset the effects of capacity creep on raw material demands. These two forces can account for significant changes in raw material requirements over a decade or decade and a half between Plan revisions and should not be overlooked in long-term planning.

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....the irland group