
# A Forum for Market Solutions for Sustaining Washington's Working Forests

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**Society of American Foresters Annual Convention**
**Pittsburgh, PA**
**October 25-29, 2006**


# A Forum for Market Solutions for Sustaining Washington's Working Forests

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**Abstract**
The Northwest Environmental Forum at the University of Washington College of Forest Resources has begun a Working Forest Forum, to confront the conditions that cause the decline of working forests in the Pacific Northwest. Timber owners, nonprofits, tribal nations, and government officials are working on market-based strategies to discourage fragmentation of working forests and find value for landowners to stay in forestry despite the pressures to convert to other, often more lucrative, uses. The Washington State Legislature appropriated $1.0 million for five studies that will be the focus of the November 2006 Forum. The paper summarizes the concept of the Forum and the events and issues of the Working Forest effort.

**Key Words**: Forest Conversion, Market-based environmental solutions, Forum, Pacific Northwest, Science-Policy Collaboration

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## Forum Purpose

The Northwest Environmental Forum (NWEF) is designed to play a vital role in shaping the future of the ecological, economic and social environments of the Pacific Northwest by uniting scientists and decision makers to address a complex array of environmental and natural resource issues.

## Goals

- ✓ Integrate the science and policy capabilities of the University of Washington (UW) and other major regional institutions to help address public environmental and natural resource issues. Science-based decision-making is central to the Forum.

- ✓ Assist political leaders to better integrate science, technology, and social information so they can design sustainable natural resource initiatives and policies.

- ✓ Create a neutral and trusted collaborative problem-solving environment wherein scientific research can provide value to people making decisions about natural resources.

- ✓ Create an Educational Observatory where science and public policy unite in cutting edge collaboration. Collaborative research, teaching, and outreach opportunities should ensue when research needs emerge and case studies evolve from the interactions.

**Five Concepts for a Permanent Forum space**

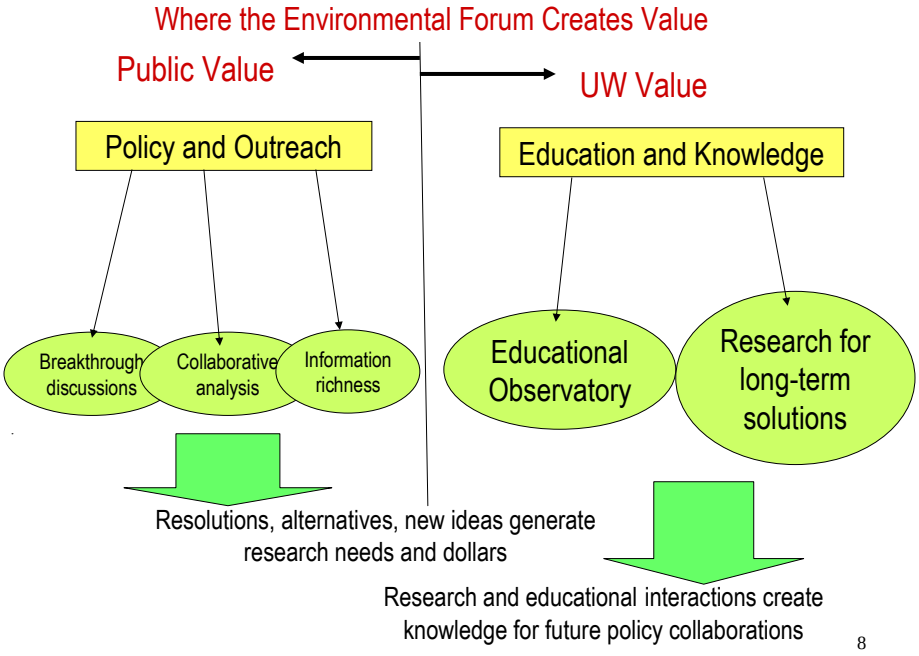
- ✓ **Build a neutral and information-rich setting**. A flexible meeting space needs to be adaptable for changing technical discussions and policy-level working meetings. Data visualization tools, decision support techniques and other presentation technologies will help participants compare ideas and solutions, understand and weigh trade-offs and move toward resolution of complex issues.

- ✓ **Create a space for collaboration**. Experts from diverse organizations will be able to compare data displays and information modeling tools.

- ✓ **Assemble an information repository**. Quick and virtual access to information will enable scientists and policy makers to question, analyze and identify possible solutions. Continuity of technical expertise, computing, information retrieval and management are critical.

- ✓ **Build an educational observatory**. Forum space will provide access for classroom interaction and student participation and work. Virtual access to environmental and natural resource projects will provide teaching, research and project opportunities. Collaborative work by many organizational participants will afford a window into other university and institutional cultures.

- ✓ **Stimulate research from the search for long-term solutions**. The collaborative working partners will introduce existing knowledge into deliberations. Information gaps will be identified, along with research that is needed for future decisions.




The Forum strives to address regional environmental and natural resource issues as a multi-college effort of the University. The College of Forest Resources will be pivotal in helping regional policy makers reach decisions about sustaining natural resource productivity in a socially acceptable manner. The College of Forest Resources will reach out to other University entities, including Ocean and Fisheries Sciences, Public Policy, Architecture and Urban Planning, International Studies, Engineering, Arts and Sciences, Information Sciences, Atmosphere and Oceans, Law, Business, Program on the Environment, and Marine Affairs.

The College of Forest Resources believes that environmental and natural resource systems must be managed sustainably by seeking the appropriate balance between ecological, economic and social factors. Finding such a balance is a complex task involving the analysis of tradeoffs across this "triple bottom line." The nature of the decision environment coupled with the presence of multiple stakeholder objectives, simultaneously operating across a variety of spatial and temporal scales, adds to the complexity of natural resource and environmental issues. Resolving conflicts in this decision environment is a daunting task, and cumbersome NEPA processes have often stymied collaborative thinking and information sharing.

An important point about the Forum concept is that it is not mediation. The Forum realizes the limitations of mediation – the dispute mode from which mediation evolves, the need to limit the terms of mediation based on the parties' willingness to negotiate, and the likelihood that mediation solves only short-term issues. Mediation has been employed with success as an alternative to drawn-out and contentious NEPA negotiations. The Forum attempts to convene parties that have mutual interests, get them to identify those interests, and find policy solutions that can help all the parties – prior to escalation of a dispute.

**Likely Users**

**Government**: Federal and state land managers; fisheries, wildlife and marine agencies; parks and recreation agencies; tribal resource managers; urban growth planners; water resources managers; federal and state environmental protection agencies

**Industry**: Agriculture and range operators, forestland managers and investors, oil and mining explorers, real estate developers, energy companies, horticulture, urban forestry planners

**NGO and others**: Land conservancy organizations, watershed councils, environmental groups

**Saving Washington's Working Forest Land Base Forum**

A group of people from the UW, USDA Forest Service, conservation and environmental groups, and other interests gathered at the UW in mid-2003 to discuss potential issues for the Forum, and decided that the loss of working forests to urban incursion should be the first Forum application. Saving Washington's Working Forest Land Base Forum was begun to provide a dialogue to confront the conditions that cause the decline of working forests in the Pacific Northwest. UW reached out to timber owners, nonprofits, tribal nations, and government officials to work on strategies to discourage fragmentation of working forests, and find value for landowners to stay in forestry, despite the pressures to convert to other, often more lucrative uses. The following is the finding that precipitated the Working Forest Forum.

**Background of the Decline in Working Forest Lands**

Sprawling suburbs, public environmental expectations, regulations, market conditions, disparate federal tax structure, and global competition have put immense pressure on forest landowners in Washington. Working forests – including large industrial holdings, family tree farms, tribal, state and federal forestlands – have long been critical economic drivers for Washington, the Pacific Northwest, and suppliers of products for the world. As Washington grows, forests along the urban fringes are increasingly viewed as important buffers to sprawling growth, and, by many members of the public, as recreational, wildlife, and watershed havens. These "fringe forests" are a relatively small component of timber output, but forest landowners have found that public expectations about forests near peoples' homes become extended to expectations about all forests. Despite aggressive adherence to state forest practices regulations, forest landowners are constantly subjected to scrutiny and acrimony, generally centered on unwillingness to have trees cut down or land cleared.

Commercial industrial forest owners have had to make drastic changes in management and lower their economic expectations as the cost of management increases. Many industrial forest landowners have sold land and reinvested in other regions in the United States and in other countries. Some companies have reorganized into real estate investment trusts (REITs) or timber investment management organizations (TIMOs). All forest landowners, regardless of size or organizational structure, have recognized the reality of rising real estate development values and

the desire for housing in large lots in exurban areas. These values are often in sharp contrast with uncertain revenue from forest investments. Structural and cultural impediments to forestry profitability, including global competition, costly regulations, diminished processing infrastructure, ecosystem protection needs, and social expectations for non-market amenities, help to drive accelerated conversion and development of forest lands in Washington and many areas across the country.

Changes in ownerships and practices are indicating that traditional views of Washington's commercial forests as wood factories may be figments of the past. National forests in Washington produce only about 10% of the timber that was harvested during their heydays in the 1980's. Industrial and state lands that have not been unduly constrained by regulations are still highly productive and private family forest lands have immense potential for wood production, although they are typically not managed as aggressively as industrial lands. Non-industrial woodlots, about 25% of the forest base of Washington, are typically closer to cities and under the greatest pressure to develop. These lands are also often important habitat, especially in lowland riparian areas.

If it is correct, as some believe, that Pacific Northwest tree farms are increasingly less competitive in the global wood market, forest ownership could become less attractive. As forest production becomes more uncertain, investments in processing infrastructure will diminish and the relative value of Washington wood will decline. Obviously, not all forest lands in Washington are going to be developed in the next 20 or 30 years.

But every landowner of a forest woodlot must determine the likely rate of return from holding the land over time, including how much one must spend during the holding period. This is an increasingly difficult set of choices, given other financial options, for a smaller forest land holder and especially for a publicly-traded company or a state or private trust manager. Some large forest investors are changing to less intensive management regimes consistent with holding the land for intrinsic market rather than timber value. The costs of managing a growing tree farm are extensive, and the publicly-imposed costs add significantly. State forest practices regulations may require investment in the land, to protect water and habitat, regardless of income potential and as taxes remain unabated.

While some will argue that forests are best left alone and "unmanaged," reality argues otherwise. An unmanaged forest in the highly productive Northwest may become an unhealthy forest, and, in some areas especially east of the Cascade mountains, a forest that is rife with disease and beset by fire. Invasive species, pests, and pathogens all make forests more vulnerable to adverse weather, fire, and human foibles. Such vulnerability is higher in forests near suburbs. Government forest lands, especially federal lands, are conceivably even more threatened than private lands, as commercial uses decline and funding for active management diminishes. State trust lands, with a strong constitutional mandate to be managed for income for schools, face increasing pressure from many quarters to change this focus and manage for other public values. Such public values vary, depending on the location of the lands and the desires – if not whims – of the adjoining public. Any decline of forest conditions through inactivity could pervade private lands as well, if returns on investment don't warrant active management and landowners simply wait for developmental prices to rise.

## Strategies to Discourage Fragmentation of Working Forests

This brew of conditions has prompted various approaches to address the management of working forests. A growing sophistication among non-profit organizations, tribal nations, and government agencies is creating new alliances with timber landowners in support of a common goal – maintaining forested landscapes in an urbanizing world. Some organizations, most prominently land acquisition non-profits, have been working on strategies for long-term ownership to discourage fragmentation from development of forestlands.

Land trusts and other local organizations have purchased lands or development rights. Insurance companies and institutional investors have acquired land portfolios from industrial forest owners and allowed them in turn to monetize forest assets. The landscape of forest owners is changing rapidly, and the income expectations of the new owners are quite diverse. But this is not to say that these owners have no revenue needs. Even the non-profits have philanthropist-lenders to pay back and staff to maintain.

## Partnerships for Finding Value for Landowners

Great amounts of energy and funds are being devoted to green corridor acquisitions, development value buy-outs, and preferential zoning for forestry and agriculture practices. Some foundations have begun to direct funds for these purposes. Government agencies have made conservation acquisitions (although money for these purchases has dwindled in recent years), and enacted policies to protect the "right to practice" both forestry and agriculture. Yet all recognize that productivity cannot be assured by governmental action any more than markets and market prices can.

There is increasing interest in private-public partnerships to craft strategies for minimizing the disaggregation of productive land. Much debate centers on how forest "stewardship," that protects water supplies, wildlife values, and other desirable conditions, can persist if there is not a sufficient price for timber cutting. These discussions are examining market and non-market factors that influence land use changes. Ecosystem services economic values (e.g., watershed protection or carbon storage) are huge, yet are generally not priced or exchanged in markets, so landowners are given few incentives to provide them. Pricing and compensating landowners for non-market values could help counteract other market factors and raise forest revenues. Financing innovations are needed for existing and potential landowners and to attract a diversity of investors.

## The Working Forest Forum

The University of Washington College of Forest Resources sponsored a two-day forum in November 2004, to examine these issues. Prominent leaders in Pacific Northwest forestry and natural resources management, finance, land trust management, environmental policy, academe, science, government, and indigenous tribes participated. In April 2005, a Roundtable session was held to set the stage for another two-day Forum in November 2005. The Forum is funded by University and College seed money, and generous contributions from participant organizations.

The proceedings of these meetings and participant lists are available at: www.nwenvironmentalforum.org.

As a result of the Forum, the Washington State Legislature appropriated $1.0 million for the College to do a series of studies on: timber supply and forest structure; economic contribution of the industry; competitive position of the industry; land conversion and forest viability; and State granted lands returns. In late October 2006, the College and Washington DNR will jointly convene a Roundtable to examine the findings of these studies and determine the most critical issues. These will be forwarded to the Forum in late November 2006, for assessment of the critical findings and determination of policy implications to be proposed to the 2007 Washington State Legislature.

We have begun to address such questions as:

- How can we ensure a viable working forest land base in Washington in 2035?
- Who can profit from working fringe forests, and what are the options for new ownerships?
- Are there incentives that can be established for landowners to capture non-timber forest values?
- What financing and purchasing options might be developed for non-timber values and for other ownership rights?
- How we can improve the current regulatory structure to better sustain forest investment?
- Are there technological innovations that need special State attention for investment and for infrastructure development that capitalize on productive working forests (e.g., future mills or bio-energy plants)?

In the Forum, we focus on trends, economics, research into non-market and land protection values, and innovations in financing. The participants spend the first day in a mutually "educative" environment, recognizing that each participant comes with certain knowledge and no one comes with the knowledge of all. This sets the stage for the second day, where participants endeavor to develop focused strategies and set directions for actions that benefit those who endeavor to invest in, hold, and manage Washington's forest lands in the future.

The combination of factual analysis and collaborative evaluations is powerful. There is great potential from the cohesiveness of forest owners, environmental and tribal leaders, government decision-makers, and university researchers when they collaborate to address critical problems. We think we have created the catalyst for such collaboration and certainly we have a great issue on which to collaborate – the future of the great private and public forests of the State of Washington.

## Participant Organizations

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| *Audubon Washington* | *Hancock Timber Resource Group* | *Rayonier Timber* | *Washington Forest Protection Assoc* | |
| *Cascade Hardwoods LLC* | *Lanoga Corporation* | *R&A Investment Forestry* | *. Washington Forest Law Center* | |
| *Cascade Land Conservancy* | *Longview Fibre Company* | *Seattle-Northwest Securities Corporation* | *Washington Environmental Council* | |
| *Colville Confederated Tribes* | *Mason, Bruce and Girard* | *The Bullitt Foundation* | *Washington State University* | |
| *Conservation Northwest* | *Merrill & Ring, Inc* | *The Conservation Fund* | *Washington Dept. of Revenue* | |
| *Ecotrust* | *Murray Pacific Corporation* | *The Nature Conservancy* | *Washington Dept. of Fish & Wildlife* | |
| *Family Forest Foundation* | *Northwest Indian Fisheries Commission* | *The Pacific Forest Trust* | *Washington Dept. of Natural Resources* | |
| *Forest Capital Partners* | *Olympic Resource Management LLC* | *The Trust For Public Land* | *West Fork Timber* | |
| *Forest Legacy Investments* | *Plum Creek Timber Company* | *The Tulalip Tribes* | *Weyerhaeuser Company* | |
| *Green Crow Management Services* | *Port Blakely Tree Farms* | *USDA Forest Service R. 6* | *Weyerhaeuser Foundation* | |
| *Green Diamond Resource Company* | *Preston Gates & Ellis LLP* | *Washington Alder, LLC* | 15 | |