

Forest Cluster Economic Development Strategy

Forest Cluster Vitality

Strategy Recommendations

- Promote development of market opportunities and removal of market barriers for wood products, non-timber forest products and ecosystems services.
- Promote increased funding for integrated research programs that directly benefit the forest cluster through improved management systems, technologies, and higher value wood products.
- Promote state and federal laws and policies which provide economic incentives for biomass energy research and industry development.
- Promote ways to improve Oregon's forest sector innovation system to increase competitiveness and synergies among the forest sector, higher education, and other Oregon business sectors.
- Strengthen relationships between Oregon's forest cluster and green building cluster.
- Ensure the Governor's *Investing in Infrastructure and Communities* Initiative meets the transportation and energy needs of the forest cluster.

The Oregon Innovation Council (Oregon InC) is supporting an OSU proposal for: (1) enhanced forest transportation research and development to reduce costs, (2) developing comprehensive silviculture technologies through the Center for Intensive Planted Forest Silviculture, and (3) strengthening the commercialization support capabilities of the Oregon Wood Innovation Center. The Oregon Forest Biomass Work Group and the Board of Forestry's Federal Forestland Advisory Committee have already developed recommendations for needed policies and laws and, at the state level, much has already been accomplished through the Governor's 2007 renewable energy legislative agenda. The Agency Request Budget for OECD addresses Oregon InC initiatives, cluster support, industry sector outreach, and the Governor's Strategic Initiatives Fund.

Immediate Actions Needed

- Fund the Established Industries Project proposed to the Oregon Innovation Council (described above).
- Work to lower log transport costs. Explore ways of reversing the loss of short-line rail and other transportation infrastructure and increased log haul costs arising from higher fuel prices and longer haul distances.
- Improve coordination among state agencies with the goal of developing a 'one stop shop' system to support forest cluster economic development. Develop an information infrastructure for timber and non-timber products, biomass and ecosystem products and services.
- Continue to support research and develop policies and incentives that will drive the growth of the biomass/ bioenergy/ bio-based products industry in the state.
- Address Oregon state government policies and regulations that may be placing Oregon's forest cluster at a competitive disadvantage to forest clusters in other states and regions.

Why the actions are important

Oregon's diverse forest lands contribute much to its economy and culture. Historically, Oregon's natural resource clusters, including forestry and the production of forest products, were the foundation of the state's economy. These endeavors still dominate economic activity in many rural areas. However, the future ability of the forest cluster to contribute to the social, economic, and ecological well-being of Oregonians at historical levels is uncertain.

Oregon's forest cluster remains highly productive and could enhance its contribution to state and local economies and provide infrastructure for needed restoration of federal forestlands. Competitive strengths include the State's highly productive forests, an effective timber tax system, strong industry infrastructure in western Oregon, proximity to rapidly growing markets, excellent forestry and wood science research and teaching, a stable forestland base, and effective laws regulating forest practices.

However, the forest cluster faces both short and long run challenges, nationally and here in Oregon. Nationally, leading the decline in demand for Oregon's wood products was the credit crisis which hit with force a year ago with rising defaults in the market for subprime mortgage loans. The credit problems have since spread from subprime loans, mortgages provided to borrowers with weak credit histories, to other types of mortgages and other kinds of loans. Mortgage market troubles have spread to even the most risk-adverse lending institutions, with big credit unions reporting large losses on housing related securities and the bankruptcy or government bailout of well-known institutions. This gloomy scenario has resulted in a downfall in housing-related industries much more severe than previously forecasted. The collapse in housing starts and prices is particularly bad in California, the largest market for Oregon wood products, consuming 30% of the lumber produced in Oregon. Recovery is now forecasted to take longer than previously anticipated. Making the outlook for recovery worse are tightened lending standards, a growing inventory of homes for sale, declining housing prices, and a sluggish remodeling market. In Oregon, abandonment of rail lines and the inability of federal land managers to successfully implement forest restoration activities or timber sales make the situation acute.

Forest cluster contributions to local, especially rural, and state economies and the resulting social and potential ecological benefits are at risk. For example, Oregon timber harvests have fallen from 4.5 billion board feet in 2004 (well below sustainable harvests and historical harvest levels of 8 billion board feet) to an estimated 3.4 billion in 2008. Forest cluster employment in rural forest-dependent communities has declined dramatically in recent years. These trends have implications for the sustainability of Oregon's private forests and the economic viability of rural communities.

Time is of the essence. Oregon, particularly some areas of eastern Oregon, faces both deteriorating forest health and disinvestment in forestland ownership and manufacturing capacity. Allowed to continue, recovery from these losses will be very difficult. Family forestland owners are particularly affected. As nearby mills close, log transportation costs increase and the value of their timber goes down as a result. Alternative investments become more attractive and the incentive to actively invest and manage lands as working forests begins to evaporate.

Implementing the above recommendations will lead to the development of products and markets that will ensure the long-term competitiveness of Oregon's forest cluster and ensure retention of working forests in the state. Most forest cluster firms in Oregon are small enterprises that lack the internal capacity to devote resources to research and development. Diverse markets are needed; efforts need to be focused on traditional products as well as 'new' markets such as those for biomass, ecosystem services and products and green building products.

Needed private sector actions

- Communication – Maintain open channels of communication: 1) with participating organizations in the Forest Cluster Economic Development Strategy Project (ODF, OECDD, OFRI, and OSU) to keep these agencies informed of industry and company needs, 2) with state decision makers to keep them informed of the importance of, and needs of private firms in the forest cluster, and 3) participate in dialog between universities, state agencies, and the green building sector.

- Information Infrastructure – Provide information to policy makers and researchers to help establish baseline information about the current status and capabilities of Oregon’s forest cluster (e.g., species used, products purchased and used, employment, services provided, capacity and capabilities). This includes information related to timber, non-timber forest products and ecosystem services and will require maintaining open channels of communication between buyers and sellers in the cluster.
- Funding – Participate in and provide funding for research.
- Cooperation - Actively participate in cooperative activities such as industry associations, landowner cooperatives and forest cluster marketing initiatives.

Role for state government

- Conduct and communicate periodic assessments of the condition, trends and needs of the forest cluster.
- Assess barriers to and opportunities for improving the vitality of the cluster; in particular, explore the implications resulting from the loss of short-line rail and other transportation infrastructure and from rising fuel prices. Explore methods to decrease log haul costs resulting from increasing fuel costs and longer haul distances caused by loss of industry infrastructure.
- Address Oregon state government policies and regulations that may be placing Oregon’s forest cluster at a competitive disadvantage to forest clusters in other states and regions.
- Fund and develop information infrastructure for timber and non-timber products, biomass and ecosystem products and services.
- Provide support for higher education to expand research and development of improved products, processes and markets for wood, for paired watershed studies and for integrated research programs that directly benefit forest landowners through improved management systems and technologies.
- Improve coordination among agencies with the goals of developing a ‘one stop shop’ system to support forest cluster economic development and improving intra-organizational communication.
- Improve coordination with a broader cross-section of entities involved in the forest cluster such as secondary wood products manufacturers and bio-based products producers.
- Increase capacity to coordinate interactions between the forest cluster and the green building community.
- Fund the Established Industries Project proposed to the Oregon Innovation Council (described above).
- Continue to support research and develop policies and incentives that will drive the growth of the biomass/ bioenergy/ bio-based products industry in the state.
- Work with private sector partners to develop a revolving loan fund for landowners to borrow from to market carbon.
- Support private sector actions related to collaborative activities such as industry associations, landowner cooperatives, and forest cluster marketing initiatives.
- Promote dispersed recreation opportunities on public and private forestlands.
- Work to implement the Oregon Forest Biomass Working Group and Board of Forestry’s Federal Forestland Advisory Committee recommendations.
- Conduct research and provide outreach and technical assistance to help improve economic returns to firms in the forest cluster.

Agency assignments

- Each agency - create a liaison to participate in the ‘one stop shop’ concept described above; participate in an annual meeting among agencies to maintain momentum of this initiative.
- ODF/OSU – in coordination with the USFS PNW Research Station, assess current condition, trends, and needs of industry as well as barriers to and opportunities for increasing competitiveness. Evaluate current innovation system strengths and weaknesses.

- OECD – work with other agencies to provide a staff person to administer and maintain ‘information infrastructure’ described above.
- OSU - provide support for potential entrepreneurs (technical assistance, market assessments, etc.) and conduct integrated research.
- ODF – continued support of Board of Forestry’s Forest Vitality Work Plan.
- OFRI – provide information and public education needed to meet the above goals and objectives.

Additional resources needed

- Funding to support integrated research and maintenance of information infrastructure.
- Capacity to: 1) Continue leadership of forest cluster economic development strategy, 2) act as liaisons in each agency for ‘one stop shop,’ 3) develop and administer the information infrastructure, and 4) conduct periodic industry assessments.
- Turnover of personnel in state agencies and a dilution of responsibilities between and within state agencies have limited continuity of cluster strategies in the past – Consider dedicated forest cluster liaison personnel funded by state revenues targeted for economic development but perhaps housed within OSU or ODF.

Milestones

- Beginning in 2009, conduct biannual assessments to identify industry trends, needs, barriers, and opportunities.
- Develop legislation to implement recommendations of initial industry assessment for 2011 Legislature.
- Beginning in 2009, hire personnel to continue leadership of Forest Cluster Economic Development Strategy, liaisons for ‘one stop shop’ in each agency, administrator for information infrastructure, and for conducting biannual industry assessments.
- Begin development of industry information infrastructure in 2009.
- Oregon Innovation Council funding for Established Industries proposal in 2009.
- Draft legislation prior to 2011 to further implement recommendations of the Forest Cluster Economic Development Strategy.

Deliverables

- Draft legislation related to recommendations contained in Forest Cluster Economic Development Strategy and in industry assessment.
- Biannually produce industry assessment report.
- Report results to industry leadership and state government of biannual industry assessment.
- Conduct annual meeting of industry and agency personnel to ensure continued coordination of efforts directed towards economic development.
- Conduct periodic assessments of impact of information infrastructure.

Measures of success

Measures of success will be developed that link to Oregon Indicators of Forest Sustainability and other benchmarks tracking the viability of Oregon’s forest cluster. Examples include:

- Indicator B.b. Forest-related employment and wages
Metrics:
 - Forest-related employment in rural and urban areas and in forest-dependent communities

- Forest-related wages and salaries in rural and urban areas and in forest-dependent communities
- Direct, indirect, and induced employment and personal income resulting from forest cluster activity
- Indicator B.c. Forest ecosystem services contributions to society
Metrics:
 - Recreation use value
 - Passive use value
 - Carbon sequestration value
- Indicator B.d. Forest products sector vitality
Metrics:
 - Sales value of wood products and forest industry equipment from Oregon manufacturers
 - Cost of production compared to other areas
 - Production capacity, condition, technology, and investment
 - Capital expenditures in wood product and paper manufacturing
 - Net foreign and domestic exports of Oregon wood products
 - Wood volume harvested/product value ratio
 - Increased funding dedicated to research and innovation in the forest cluster
 - Product innovation