

A Blandin Foundation Public Policy Initiative:
Vital Forests/Vital Communities

*New Perspectives and Alliances for Sustaining our Forests
and Renewing Local Economies*



Case Statement
(revised) January 2003

Blandin Foundation Public Policy Initiative: Vital Forests/Vital Communities

Case Statement

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New Perspective and Alliances for Sustaining our Forests and Renewing Local Economies

Executive Summary

Why Act?

Today, the ecological health of Minnesota's forests, the competitiveness of Minnesota's forest industry, and the effectiveness of Minnesota's forest policy are at risk:

- Funding uncertainties and a lack of sustained public and legislative interest are undermining the capacity of the state's natural resource management agencies and the forest policy process infrastructure charged with resource management and conservation.
- The forest policy debate in Minnesota is sharply polarized and burdened by insufficient trust, respect and cooperation.
- Since pre-settlement times, Minnesota's forests have undergone significant and pervasive changes in species composition and age class distribution, the long-term consequences of which are not adequately understood.
- Minnesota's forests are becoming less competitive as a fiber source in the global market, while markets for other products from Minnesota's forests remain under developed.
- Forest lands are becoming increasingly fragmented through development and parcelization into blocks of smaller and smaller ownership acreages.
- The structure of the state's forest industry is problematic:
 - Non-locally-owned primary manufacturing commands up to 70% of the state's annual timber harvest, while locally-owned value-added secondary manufacturing is much less connected to the local resource.
 - Mergers, acquisitions, and investment decisions by international actors that are unburdened by historical or cultural ties to place have become a major source of uncertainty for local economies.

Our Approach: Healthy Forests Support Healthy Communities

The Foundation's approach is based on the belief that growing and managing ecologically healthy forests makes both economically and environmentally sense.

The Foundation acknowledges the reciprocal relationship between healthy communities and healthy ecosystems. By linking forest ecological health to community economic vitality, the

Initiative supports the Foundation's commitment to partner with rural communities to create vital economies in which benefits are widely shared.

The Foundation believes that effective action will result only through the involvement and commitment of forest-based communities, our grantees and partners.

Program Goals

Program goals for the Foundation's Forestry Initiative link support for biologically sustainable ecosystems, economic diversification, and job creation. Through this Initiative, the Foundation seeks to:

- Help create a more diversified forest-based economy that rewards people for being good environmental stewards and increases wealth creation and retention in local communities.
- Promote ecologically-based approaches that take advantage of opportunities to diversify forest management to support a more diversified forest industry.
- Build public support for long-term investments in forests and in natural resource management agencies and programs.
- Improve the effectiveness of public engagement in natural resource management processes.

Strategies and Activities

The Foundation will accomplish these goals by designing, with input from key partners and stakeholders, a set of activities that build on our core competencies: *communication*, *convening*, *leadership training*, and *grant making*. The activities will be implemented over a period of three to five years and will build on the following key strategies:

- Fostering collaborative approaches to natural resource management issues.
- Leveraging local assets, expertise, and experience.
- Moving research and knowledge into practice through the development and promulgation of tools, resources, information, and incentives.
- Promoting public understanding and appreciation of the economic, social, and environmental benefits of both commodity and non-commodity values of the forest (watershed protection, carbon sequestration, wildlife habitat, recreation, aesthetics, quality of life.)

The Foundation seeks to partner with natural resource professionals, timber harvesters, researchers, industry representatives, educators, conservationists, business leaders, policy makers, and citizens to help identify, develop, and implement activities to achieve our goals.

“Our forests should be nurtured so as to serve the generations to come as they did the generations that are past.”

- Agnes Larson, History of the White Pine Industry in Minnesota

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Why Forests Matter to Minnesota

As Minnesota’s population grows and competing interests for land use intensify, how our forests are managed matters more than ever before. Covering over one third of the state, forests are the context for much of Minnesota’s history and culture, constituting a large share of its flora and fauna.¹ Forests are one of Minnesota’s key economic advantages, providing significant direct economic benefits to the state and its communities. While other sectors also are tied to the resource,² forest products manufacturing alone is an \$7.1 billion a year industry in Minnesota. Nearly 55,000 Minnesota workers (over 9 percent of the state’s workforce) derive all or part of their earnings from the forest products industry, making it one of the largest employers in the state. With half of the industry’s jobs located in the metro area, this impact is felt statewide.³ Forest-based tourism also contributes significantly to the state’s economy; over \$523 million was spent in Minnesota on wildlife watching and feeding in 2001. Overall, 65 percent of Minnesotans participate in hunting, fishing, or wildlife watching—typically forest-related activities.⁴ Forest environments also provide a wide range of non-market benefits critical to Minnesotans’ quality of life⁵ and help make the state’s forest-based communities more attractive to high income, highly mobile knowledge workers.

Threats to our Forest and Forest Industry

Social, economic, and environmental trends threaten the competitiveness of our forest industry and the vitality of our forest-based communities.

- Funding uncertainties and a lack of sustained public and legislative interest are undermining the capacity of the state’s natural resource management agencies and the forest policy process infrastructure charged with resource management and conservation.

¹ Dr. Alan R. Ek, Dr. Thomas R. Crow, Dr. Thomas E. Hamilton, “Lake States Region-Forest Research Report,” (7th American Forest Congress, February 1996), 5.

² Examples include: tourism, hospitality, recreation, special forest products.

³ Evergreen Magazine (Evergreen Foundation, Spring 2000), 26. Forest products manufacturing pays out \$3.2 billion a year in wages and benefits, accounting for 11.8% of basic income statewide. Only three sectors contribute more: services (excluding lodging and computer services), 21.7%; agriculture and fisheries, 14.2%, and high tech manufacturing, 11.4%. Minnesota IMPLAN Group.

⁴ Ken Finch, Audubon Minnesota Magazine ((Audubon Minnesota, Summer 2002), 2.

⁵ Examples include recreational opportunities, wildlife habitat, watershed protection, soil conservation, carbon sequestration, and aesthetics.

- The forest policy debate in Minnesota is sharply polarized and burdened by insufficient trust, respect, and cooperation.
- Since pre-settlement times, Minnesota’s forests have undergone significant and pervasive changes in species composition and age class distribution, the long term consequences of which are not adequately understood.
- Minnesota’s forests are becoming less competitive as a fiber source in the global market, while markets for other products from Minnesota’s forests remain under developed.
- Forest lands are becoming increasingly fragmented through development and parcelization into blocks of smaller and smaller ownership acreages.
- The structure of the state’s forest industry is problematic:
 - Non-locally-owned primary manufacturing commands up to 70 percent of the state’s annual timber harvest, while locally-owned value-added secondary manufacturing is much less connected to the local resource.
 - Mergers, acquisitions, and investment decisions by international actors that are unburdened by historical or cultural ties to place have become a major source of uncertainty for local economies.

The Need for Leadership and Investment

In the years ahead, Minnesota’s expanding population will place increasing demands on the state’s natural resources and its ability to manage them effectively.⁶ Forests are becoming fragmented as cities sprawl and second-home buyers head north. Conflicts are sharpening over competing visions of how our forests should be managed: commodity demands of a growing population, coupled with a decline in timber supply from public lands, are increasing pressures to manage forests for wood and fiber production on fewer acres, while a more urbanized population—distant from harvesting activities in rural areas—is concerned that forest management activities not threaten biodiversity, other forest values, and the sustainability of those forests.

Forest ownership patterns in Minnesota complicate the challenges of meeting industry resource needs while protecting habitats and biodiversity, and other non-commodity forest benefits. Over half of Minnesota’s timberland is in public ownership at the federal (12 percent), state (21 percent), and county (17 percent) level.⁷ Federal land management policy has become a source of concern for the industry due to decreased harvesting levels driven by budgetary constraints⁸

⁶ Minnesota Planning projects that the state’s population will grow by one million over the next 20 years.

⁷ “Minnesota Forest Statistics,” (USFS, 1990). Minnesota, Michigan and Wisconsin lead the nation in terms of area of timberland owned or managed by counties and local governments. Nationally, this public ownership group accounts for about 6 % of all timberland, but in the Upper Great Lakes, counties and local governments manage about 25 % of the timberland resource.

⁸ Holly Lippke Fretwell, “Public Lands: Is No Use Good Use?” (Political Economy Research Center, 2001), 6.

and environmentalist opposition. County land management, on the other hand, tends to be more narrowly focused on timber harvesting, in part because counties are bound by fiduciary obligations to local taxing authorities to generate revenue from lands acquired through tax forfeiture. State forest policy is the most comprehensive in scope, and state initiatives have been instrumental in promoting dialogue between industry and environmental interests.⁹

Approximately 43 percent of the state's forest lands are in private ownership; privately owned forest land is the state's greatest source of timber. Private forest landowners can be grouped as either industry landowners or non-industrial private forest (NIPF) landowners. Though few in number, industry landowners hold 11 percent (773 thousand acres) of the state's privately owned forest land. These holdings have remained fairly stable over the past 50 years, although recent trends are toward the development of industrial land sales in the Upper Great Lakes.¹⁰

Individual landowners hold slightly more than three-fourths (5.6 million acres) of all privately owned forest land in the state.¹¹ Ownership patterns are changing among this group: increasingly, private forest land is being subdivided into smaller and smaller parcels, thus increasing the challenge of maintaining a sustainable flow of economic, social, and environmental forest benefits. Although many owners report they hold forest land primarily for recreation or aesthetic enjoyment, more than two-thirds (69 percent) have harvested timber¹² (private owners are price sensitive with respect to harvesting timber).¹³ Regrettably, less than 20 percent of these NIPF landowners have forest management plans in place to ensure the sustainable management of these forests. Thus, effective communication to this group of sound forest management practices is a major challenge for ensuring productive and sustainable forest lands now and into the future.¹⁴

While many observers agree that Minnesota does possess an "effective and supportable" policy process for balancing multiple forest benefits, strong concern remains that insufficient trust and respect, lack of sustained public and legislative interest, and funding uncertainties pose major risks for the future.¹⁵

Because they require decades-long planning horizons ill suited to the cycles of electoral politics, forests present a particularly challenging public policy issue. Though broadly accepted as a goal, ecologically-based approaches remain the exception rather than the rule in Minnesota, due

⁹ "Northeast Minnesota Industry Cluster Study," May 2001, State and Local Policy Program, Humphrey Institute of Public Affairs, (University of Minnesota, Bureau of Business and Economic Research, University of Minnesota, Duluth), 20.

¹⁰ Earl Leatherberry, Resource Analyst, US Forest Service, "Private forest landowners: What about you?" BetterFORESTS Magazine (Preece Publishing, Vol. VII-1), 7. A 1982 Forest Service survey estimated there were 130,800 Minnesota forest land owners. By 1994 that number had increased by 13% to 147,400, although the forest land area has remained more or less stable.

¹¹ *Ibid.*

¹² *Ibid.*, 8.

¹³ Dr. Alan R. Ek, Dr. Thomas R. Crow, and Dr. Thomas E. Hamilton, "Lake States Region Forest Research Report to the Seventh American Forest Congress," (February 1996), 4.

¹⁴ *Ibid.*

¹⁵ "A Review of the Availability of Information About Minnesota's Forests," Report to the Minnesota Forest Resources Council (Irland Group, 10 April 2001), 57.

largely to economic barriers and gaps between knowledge and practice.¹⁶ Like medicine, forestry struggles with the challenges of shortening the length of time it takes to bring new knowledge—about the resource, forest dynamics, and ecosystem function—into practice. Forestry investments are capital intensive up front, must be held for long periods, and are subject to environmental risks. Good forest inventory—a requirement for all good forest management—is time and labor intensive. In addition, best practices must be coordinated among public and private resource management professionals and across ownerships. While monitoring best management practices for compliance and effectiveness is key to conservation and productivity improvement, neither the Minnesota Forest Resource Council nor the Department of Natural Resources (DNR) is adequately or reliably funded to carry out their statutory obligations regarding monitoring and evaluation.¹⁷

Minnesota’s current budget deficits are contributing to what one senior Department of Natural Resources (DNR) official has termed a “silent crisis” for natural resource management and protection that will have a profound impact on the state’s natural resources over the long term. “We will begin slowly losing the habitat that defines us as a state,” he warned. “What makes this so difficult is that the long-term impacts will occur outside the public eye.”¹⁸ Thinking and investing for the future have never been so important.

Concerns about the Ecological Health of Minnesota’s “Second Forest”

Although pre-settlement Minnesota boasted 60 percent forest cover, today only 33 percent of the state remains forested, a loss due largely to conversion of forests to agricultural use. During the past century, exploitative harvesting and high-grading, fire suppression, and deer herbivory have greatly altered the remaining forest’s composition and structure.¹⁹ The abundance of mature forests dominated by sugar maple, red and white pine, and other conifers has decreased, while the abundance of early successional species dominated by the aspens is on the rise. This “second forest” has matured, and natural succession along with fire suppression, harvesting practices

¹⁶ In remarks to the June 27-28, 2002, Mini-Summit for the Bear River Demonstration Forest, Keith Wendt, Manager for the Minnesota Department of Natural Resource’s Science Policy Unit reported the following profile of harvesting activities in Minnesota in 1996, based on a survey of harvesting methods conducted and published by the Minnesota Forest Resources Council:

Selective Logging – 1%
Seed Tree and Shelterwood – 2%
Thinning – 11%
Clearcutting – 86%

¹⁷ The MFRC survived a proposal to reduce its funding to \$200,000 instead of \$900,000 as originally proposed by the 2001 Minnesota Legislature for Fiscal Year (FY) 2003. The MFRC has a \$700,000 annual budget for Fiscal Years 2003, -04, -05. The MFRC’s budget declined 41% between FY 1997 and FY 2003, when adjusted for inflation. Dave Zumeta, Executive Director-MFRC, correspondence, 6 October 2002.

¹⁸ Minnesota Department of Natural Resources Deputy Commissioner Steve Morse, quoted in *Outdoor News*, 9 August 2002, 6.

¹⁹ Thomas R. Crow and Thomas L. From the description of a research project for the Forest Productivity Integrated Program, Schmidt, USDA Forest Service, North Central Research Station.

focused on maintaining soft hardwoods stock²⁰, pathogens, insects and climate change have created forests whose composition and structure do not match or reflect what preceded them, or in many cases, the underlying ecological condition at local and regional scales.²¹

By far the largest change has occurred in the distribution of the aspen-birch type; the species composition of many forest types today includes more aspen than in the past. While this species was present in Minnesota's pre-settlement forests, today aspen comprises a full 35 percent of timberland in the state, more than any other species, and is present in more forest cover-types. Recent research on changes in landscape spatial patterns suggests management of the aspen-birch type will have the greatest impact on future forest composition.²² At the same time, conifer cover types are diminishing,²³ and patch size is shrinking.²⁴

Some warn that these changes may be cause for concern. As one conservation organization explains, "Maintaining the composition and structure of ecosystems and the patterns of ecological processes within the range of natural variability maintains biodiversity within dynamic systems over time. Altering the species composition and age class distribution of tree species beyond the range of natural variability is a major threat to the integrity of forest systems."²⁵

Other observers maintain that the loss of forest land through conversion to agriculture and land development activities over the past 100-150 years may be of greater ecological significance than the changes in composition and structure of the remaining forest, although the latter are also significant. Opportunities exist for restoring forests and increasing long-term timber supply on at least some of this acreage (e.g., marginal cropland).²⁶

The impact of substantial long-term growth in timber harvest levels in Minnesota is another source of concern for some. Over the past several decades, harvest levels in the state have nearly quadrupled, from just over 1.0 million cords per year in 1960 to 1.5 million cords per year in 1970 to 2002 levels of 3.8 million cords.²⁷ These highs coincide with the expansion of the aspen-dependent oriented strand board (OSB) industry during the late 1980s and early 1990s.²⁸

²⁰ Peter Lavigne, "Revolutionizing County Forest Management in Minnesota: Aitkin County and Smartwood Certification," Community Forestry Handbook, 7-8. (Compiled and edited by Jonathan Kusel and Elisa Adles, Forest Community Research for the Seventh American Forest Congress Communities Committee), 2001.

²¹ Thomas R. Crow and Thomas L. Schmidt.

²² George E. Host and Mark White, Natural Resources Research Institute, "Abstract: Changes in Landscape Spatial Pattern from Pre-settlement Forests to the Present," presented at the 2nd Annual Forest & Wildlife Research Review Conference, Duluth, MN, 16 January, 2003.

²³ Ibid.

²⁴ In remarks at the 2nd Annual Forest & Wildlife Research Review Conference, Duluth, MN, 16 January 2003, George E. Host reported a two-fold reduction in patch size between 1930 and 1970 on 42 plots distributed across Northern Superior Uplands and Drift and Lake Plains Sections of Northern Minnesota.

²⁵ The Nature Conservancy, Internal policy document. Fall, 2002.

²⁶ Dave Zumeta, Executive Director, MFRC, correspondence, 6 October 2002. For example, the Minnesota Agroforestry Cooperative proposes to establish a fund to finance the diversion of at least 25,000 acres of marginal Minnesota agricultural land for hybrid poplar tree production.

²⁷ Minnesota Forest Industries Fact Sheet, 2002.

²⁸ "Northeast Minnesota Industry Cluster Study," May 2001, State and Local Policy Program, Humphrey Institute of Public Affairs, (University of Minnesota, Bureau of Business and Economic Research, University of Minnesota, Duluth), 14.

In response to questions about whether the increased local demand would push harvest of local timber to environmentally unsustainable levels, in 1989 the Minnesota Environmental Quality Board ordered a Generic Environmental Impact Statement (GEIS) to identify “sustainable” timber harvest levels. The study was designed to assess impacts of a baseline harvest level (4 million cords per year) and a medium harvest level (4.9 million cords annually). It concluded that these harvest rates could be sustained long term (over 50 years) as long as environmental mitigations were in place “reasonably soon.” Approved by the state in 1994, the GEIS now serves as an important benchmark for the long-term management of Minnesota’s forests.²⁹ Responding to recommendations in the statement, in 1995 the legislature adopted the Minnesota Sustainable Forest Resources Act authorizing the creation of the Minnesota Forest Resource Council (MFRC). The legislation also recognized the role of the Minnesota Forest Resources Partnership, which had been created prior to passage of the act, in coordinating partnerships in which landowners, managers, and loggers work together on implementing voluntary best management practices (BMPs).

Since its inception, the governor-appointed, 17-member MFRC has focused on two main activities—developing Best Management Practices (BMPs)³⁰ and establishing landscape level committees to develop desired future conditions. Specific Council initiatives in 2001 included analysis of economic conditions, initiating a forest spatial analysis, fine-tuning timber harvest and forest management guidelines, and researching site-level harvesting impacts, among other efforts.³¹

Nevertheless, concern persists that the voluntary guidelines promulgated by the Council are inadequate to restore and maintain the biodiversity integral to long-term forest health. Monitoring of existing (pre-guideline) practices on public and private forest land in Minnesota in 2001 revealed that only 44 percent of riparian management zones met guideline recommendations for width and residual basal area; only 4.5 percent of skid trail and road approaches to wetlands and streams had the appropriate water diversion devices installed; and 63 percent of clear cut sites met the ‘leave tree’ guideline recommendations.³²

²⁹ While most forestry professionals acknowledge that the model developed by Al Ek and Howard Hoganson of the University of Minnesota using 1990 forest inventory data is not perfect and accept it “the best thing we have.” (Interview with Bernadine Joselyn, 8 August 2002). Some environmentalists contend that key assumptions built into the model were so badly flawed, that it does not accurately represent what is happening in Minnesota’s forests today. (Jim Erkel, Minnesota Council for Environmental Advocacy, interview with Bernadine Joselyn, 12 July 2002.)

³⁰ The developed guidelines address six areas (water quality and wetlands, aesthetics, riparian, visual quality, wildlife, and soil productivity). In addition, MFRC is coordinating an ambitious effort to develop landscape level plans for each of the state’s eight bio-physical landscapes.

³¹ “Sustainable Forest Resources Act Implementation in 2001,” Minnesota Forest Resources Council Annual Report to the Governor and Legislature. Minnesota Forest Resources Council.

³² Michael J. Phillips and Richard Dahlman, “Monitoring the Implementation of the Timber Harvesting and Forest Management Guidelines on Public and Private Forest Land in Minnesota: Report 2001.” A report by the Minnesota Department of Natural Resources, DNR Document MP – 0902. It is important to note that all sites monitored in 2001, as in 2000, were harvested and/or their stumpage sold under contract prior to publication of the Council’s timber harvesting and forest management guidelines. Therefore, with the exception of water quality, wetland protection, and visual quality practices, where guidelines have existed for several years, the report describes baseline harvesting and management practices (i.e., those in use prior to the promulgation of Minnesota’s comprehensive timber harvesting and forest management guidelines).

Researchers caution that the full long-term social, economic, and environmental implications of these changes in forest composition and age-class and spatial distribution will have for the state and its forest-based communities are not adequately understood.³³ Historically, silviculture in the Lake States has focused on maximizing wood production; increasingly, however, resource managers are recognizing the need to attend to biodiversity and ecological complexity as a condition for sustaining a quality resource over the long term.³⁴

Lagging Competitiveness of the Resource

A recent study applying Michael Porter's "industry cluster" approach to analyzing the competitiveness of northeast Minnesota's forest product industry concludes that access to the local timber base has been, and remains, the most important reason for the industry's development in Minnesota, and its concentration in northeast Minnesota. The study also notes that the quality of the local timber supply is at least as important a source of competitiveness as the quantity of the supply.³⁵

The modern pulp and paper industry, which today dominates Minnesota's forest industry, is well suited to the current resource. Today, aspen constitutes up to 70 percent of harvested volume (but only 35 percent of timberland).³⁶ OSB production is particularly dependent on aspen, with 90 percent of wood inputs coming from this species, higher than for pulp and paper (55 percent) and lumber and specialty products (23 percent).³⁷ This high local demand for fiber, competition among local fiber-based industries, and reduced harvesting on public lands work to keep local stumpage prices high.³⁸

³³ Crow and Schmidt.

³⁴ Brian Palik, USDA Forest Service, North Central Research Station, "Abstract: Alternative Approaches to Traditional Silviculture for Northern Hardwoods, Aspen and Red Pine Ecosystems," presented at the 2nd Annual Forest & Wildlife Research Review Conference, Duluth, MN, 16 January, 2003. For example, UPM-Kymmene manages its Blandin Forest Lands according to a forest management philosophy it has trademarked as "Smart Forestry," described in a company brochure as "growing what grows best on each habitat."

³⁵ "Northeast Minnesota Industry Cluster Study," May 2001, State and Local Policy Program, Humphrey Institute of Public Affairs, (University of Minnesota, Bureau of Business and Economic Research, University of Minnesota, Duluth), 1.

³⁶ Jim Bowyer, Director of the Forest Products Management Development Institute, Dept of Wood and Paper Sciences, College of Natural Resources, University of Minnesota and John Krantz, former program supervisor for Utilization and Marketing for the Division of Forestry, Spring 2000, Evergreen Magazine (Evergreen Foundation) Spring 2000, 21.

³⁷ Northeast Minnesota Industry Cluster Study, May 2001, 14. Some industry experts believe this study's findings on OSB plants' use of aspen are too high. (Wayne Brandt, interview with Bernadine Joselyn, December, 2002).

³⁸ Stumpage prices across all Minnesota species have risen 300 percent in the last decade, to some of the highest levels in the nation. MFI reports that sales from Minnesota's national forest lands have decreased dramatically in recent years. In 2002, the Superior National forest sold 52 million board feet, down sharply from an annual average of 80 million board feet. Sales on the Chippewa National Forest in 2002 were 23 million board feet, down from 64 million offered in 1998. MFI estimates that up to 500,000 cords of wood were imported into Minnesota in 2002, which they translate into a loss of work for 20 full-size local timber harvesting crews. In the past, annual wood imports averaged about 150,000 cords. (Tim O'Hara, policy analyst with the Minnesota Forest Industries (MFI), interview with Kathleen Preece, January 2003.)

This supply and demand imbalance will only sharpen in the years ahead: As anticipated nearly a decade ago in the 1994 GEIS, industry today is facing a bottleneck in mature aspen, projected to last 10-20 years, as large existing stands of quality, harvestable aspen become increasingly rare, and younger stands mature.³⁹

The productivity of Minnesota's forests today lags that of other regions,⁴⁰ and with international trade rationalizing world wood production toward the highest and most land sparing yields,⁴¹ informed observers warn Minnesota's forests are not competitive as a fiber source in the global market.⁴² Competition within the wood products industry is intense; mills struggle to survive in what have become global markets for many products. Pulp and paper industries and reconstituted board mills were the first segments of the industry to face global competition for the products they produce. Mills in the Great Lakes region, including Minnesota, consequently compete with those in Canada, Europe, Asia, South America, and other parts of the world to produce and sell products at competitive prices.⁴³ Even wood pulp supply has become globalized with prices paid to logging contractors supplying local mills determined, at least in part, by the price of market pulp alternatives that can be purchased worldwide.

At an economic development forum in Grand Rapids, Minnesota, in October 2002, 75 private sector business leaders voiced concern about a range of pressing issues and global trends affecting the region's forest products industry. Asserting that Minnesota fiber costs are the highest in the country, industry representatives also expressed concern over significant competition from foreign sourced fiber; environmental pressures that have significantly reduced federal land harvests; and the need to develop special products or niche markets. Speakers noted the continued consolidation within the industry that is contributing to a loss of local ownership and creating an uncertain investment environment. Global paper capacity continues to outpace demand despite 39 mill closures and 204 paper machine shutdowns worldwide since 1998.⁴⁴

³⁹ Bowyer and Krantz.

⁴⁰ Annual wood growth comparisons: cords/acre/year

Uruguay, eucalyptus - 8
New Zealand, Radiata Pine - 4
Southern USA, Pine - 2.5
Finland/Sweden, Mixed Forest - 0.78
MN Mixed forest - 0.34

50 year history of annualized productivity gains:

Agricultural lands: 1-2%
Finnish forests - 1%
MN forests - 0.45%

John McCoy, "Can Minnesota Forestry Compete?" (Presentation to Grand Rapids Chamber of Commerce), 3 December 2001.

⁴¹ David G. Victor and Jesse H. Ausubel, "Restoring the Forests" (*Foreign Affairs* Nov/Dec 2000), 79-6: 136.

⁴² The average Minnesota annual yield of timber is 13 cords/acre, with harvest cycles of a minimum of 40-50 years. New England averages yield rates two to three times greater, with shorter harvest cycles; yields are even greater in the American southeast where production continues to rise on private lands. (Lee Frelich, Research Associate, Department of Forest Resources, University of Minnesota, interview with Bernadine Joselyn, 4 June 2002.)

⁴³ Jan J. Hacker, "Use of Small Diameter Hardwoods," (December 2002), A Report for the Bayfield County Economic Development Corporation. 12.

⁴⁴ "CONTACT," a publication of Itasca Development Corporation, Fall 2002, 1.

Most researchers and industry experts agree that the present imbalance of supply and demand for local timber (particularly aspen)—and the subsequent market price increases—is jeopardizing the competitiveness of the forest products industry in the region.⁴⁵ Industry officials who argue that Minnesota’s forests are competitive as a fiber source nonetheless acknowledge that significant changes in forest policy, investment levels, and management practices—along with increased harvesting on public lands—are sorely needed for them to remain so.⁴⁶

Challenges to the Competitiveness of Minnesota’s Current Forest Products Industry

Over the past century, Minnesota’s forest products industry has adapted to the change in the composition of the forest on which it depends, transitioning from a white pine dominated saw timber industry to an aspen dominated pulpwood industry. In 1900 and for several years thereafter, Minnesota led the nation in lumber production, but by 1930 the resource was drastically diminished and the saw timber harvest was inconsequential.⁴⁷

Today, Minnesota’s \$7.1 billion a year forest products industry includes logging, milling, pulp and paper, wafer board, secondary wood products production, and special forests products (non-timber forest products). Primary forest product firms—like paper and OSB mills—which command up to 70 percent of the state’s annual timber harvest, represent the “drivers” of the industry, even though secondary products manufacturers—like cabinet shops—actually represent a larger share of employment statewide (9,000 workers in primary processing compared to 52,000 in secondary processing).⁴⁸

In comparison to primary wood processing, secondary wood manufacturing operations tend to be small and locally owned. These businesses are the main source of the sector’s diversity in the state. Industry experts report that in 2000, Minnesota was the home to more fast-growing wood products companies than any other state in the nation.⁴⁹

Minnesota leads the nation in wood-frame window manufacturing (Andersen and Marvin rank first and second respectively), second in the manufacturing of kitchen cabinets, and third in the production of store fixtures and architectural millwork. The metro area and southeast and central Minnesota are the center of the state’s secondary processing industry, although northeast Minnesota does have a variety of secondary wood processing industries.⁵⁰ As a rule, these secondary manufacturers do not rely on local resources.⁵¹ Although they are declining in number, about 700 small sawmills still operate across the state. Of these, the largest 100 mills account for 80 percent of the lumber production statewide.

⁴⁵ Northeast Minnesota Industry Cluster Study, May 2001, State and Local Policy Program, Humphrey Institute of Public Affairs, (University of Minnesota, Bureau of Business and Economic Research, University of Minnesota, Duluth) 17

⁴⁶ McCoy.

⁴⁷ Minnesota Department of Natural Resources Commissioner Allan Garber reports that today sawtimber constitutes 11 percent of the state’s annual harvest.

⁴⁸ Northeast Minnesota Industry Cluster Study, May 2001, 19.

⁴⁹ Bowyer and Krantz.

⁵⁰ Ibid.

⁵¹ Exceptions exist, including such locally-owned businesses as Chiseled Edge and Snowy Pines Restoration, both in Browerville, MN.

The US-based forest products industry is, on the whole, less competitive internationally today than in the past.⁵² While nationally the forest products industry is showing slow or negative growth, the industry in Minnesota has experienced only slight employment decline in the past decade.⁵³ However, global trends bode uncertainty for the future.

One of the major sources of uncertainty is the impact of the new global marketplace on the state's dominant pulp and paper industry. Minnesota's industry increasingly is exposed to exogenous economic factors, such as merger and acquisition activity, over which local communities have little control.⁵⁴ With interests in managing and using resources in more than one country, the new international and transnational owners of Minnesota-based facilities can more easily rationalize their investments to take advantage of the lowest commodity prices, transportation and labor costs, and other input factors in a variety of markets globally, unburdened by abiding cultural or historic ties to place. Similarly, the state's OSB manufacturing facilities are increasingly becoming part of larger national corporations that have the reach to make strategic investment decisions based on the competitiveness of a variety of local commodity markets. Obstacles Minnesota-based operations report in facing in the competition for parent-company investments include noncompetitive resource (too expensive and not of high enough quality), punitive permitting policies, and an unfavorable tax environment.⁵⁵

In the words of American Forest & Paper Association Vice President John Heissenbuttel, "if Minnesota's primary forest products industry doesn't become more competitive, it'll move."⁵⁶

Another challenge for the pulp and paper industry is the difficulty it faces in building new capacity that embodies new technologies.⁵⁷ As UPM-Kymmene's Senior Vice President and General Manager Joe Maher acknowledged in announcing the cancellation in summer 2002 of Rapids Power's plans to construct a new combined-heat-and-power facility for the company's mill in Grand Rapids, "the paper industry is facing some of the toughest economic times in recent history."⁵⁸ Those "toughest (of) economic times" were exemplified by the ensuing January 2003 announcement by Blandin Paper Company of the permanent closure of two paper machines. In making the announcement, Maher stated that global paper production overcapacity continues to be a "business reality," and that if the company wanted to be globally competitive it had to focus on its more productive and most efficient assets.⁵⁹

⁵² J. Heissenbuttel.

⁵³ Northeast Minnesota Industry Cluster Study

⁵⁴ Recent examples include the purchase of Blandin Paper by UPM-Kymmene of Finland (1997), Consolidated Papers Duluth Mill by Stora Enso (2000), Potlatch's Cloquet mill by Sappi of South Africa (2002).

⁵⁵ Craig Lincoln, "Mills must compete globally," Duluth News Tribune, 20 January 2002.

⁵⁶ J. Heissenbuttel.

⁵⁷ Ken Skog, Project Leader-Timber Demand and Technology Assessment Research, Forest Products Laboratory, Madison, WI, interview with Diana Daigle, 31 July 2002.

⁵⁸ Rapids Power press release, 6 August 2002.

⁵⁹ Rapids Power press release, 8 January 2003.

In all, over 1,500 jobs have been lost in the northland paper industry during the past few years.⁶⁰ This places a heavy toll on communities, where paper mills often pay among the highest wages and best benefits in town. But job loss in primary forest product industries is only part of the picture; manufacturing is down in many sectors across the state and across the nation. In Minnesota, the 39,000 manufacturing jobs lost over the past two years has essentially negated the 40,000 new manufacturing jobs created since 1990. Nationally, manufacturing jobs decreased 30 percent during the 1990s.⁶¹ Continual productivity increases and increased automation enable US manufacturers to increase production while down sizing payrolls,⁶² an imperative of survival in the new global economy.

While global competition clearly is challenging Minnesota's forest-based industry (primary manufacturers especially), opportunities exist to improve the contributions of forest markets to local livelihoods, while ensuring forest resource sustainability.

The expansion of value-added processing of local trees is an attractive strategy for diversifying Minnesota's forest products industry because it supports local entrepreneurship, job creation, and is compatible with forest management practices that balance wood productivity and ecosystem sustainability. Although high wood costs drain profitability from these value-added sectors just as they do from primary manufacturers, value-added specialization and product differentiation can allow secondary manufacturers to compete successfully in both local and global markets.⁶³ Other globally competitive opportunities for small-scale producers include commodity wood, high quality timber, industrial pulpwood, and certified wood.

Non-timber forest products (sometimes called special forest products) offer another attractive strategy for diversifying our forest-based economy. Sustainable management of forest products other than timber can provide full- or part-time employment opportunities for people living in or near the forest. Many non-timber forest products can be processed in a "cottage industry" setting, meaning more local jobs and relatively low capital investment requirements.⁶⁴ Local employment options that allow people to work where they live and maintain a higher quality of life are particularly important. Also, development of a wider array of products from the forest helps communities support forest management practices that seek to balance wood production with sustainability of other ecosystem goods and services. Specific market niches are emerging where large numbers of low-income producers have, or could, develop a competitive advantage.

⁶⁰ Craig Lincoln.

⁶¹ Dave Senf, "Business Forums: Have Manufacturing Jobs in Minnesota Peaked?," Star Tribune, 19 January 2003.

⁶² Dave Senf.

⁶³ Some illustrative examples of successful innovative enterprises of this kind in Minnesota include: Chiselled Edge, a quality custom furniture shop in Browerville that primarily uses wood from local sources in central and northern Minnesota; Snowy Pines Restoration, also in Browerville – a service-oriented forestry business that produces 60,000 to 70,000 board feet of top quality local lumber each year, complementing the family's reforestation-focused forest management business; Hiawatha Sustainable Woods Coop, a timber management, value-added processing and marketing cooperative of local forest owners; Minnesota Wild, a McGregor-based company that manufactures over 100 food products from Minnesota's woodland fruits and honeys and markets them nationwide; and Staggemeyer Stave Company of Caledonia, which runs a sawmill that produces the staves for nearly one-third of the wine barrels made in California.

⁶⁴ *Non-Timber Forest Products: Economic Development While Sustaining Our Northern Forests*, Saskatchewan Environmental Society, June 2002.

Mickman Bros. of Minneapolis is one example of a small producer who has obtained a foothold in the marketplace by specializing in a non-traditional forest product. Mickman Bros. is one of four major wreath makers in Minnesota that obtains its natural resource (balsam boughs) from “gatherers” involved in a balsam boughs cottage industry. Wreath industry sales in Minnesota in 2002 were over \$20 million with sales reaching a global market.⁶⁵

Our Approach: Vital Forests/Vital Communities

The Blandin Foundation is committed to creating environments that foster economically viable communities; the Vital Forests/Vital Communities Initiative is part of this commitment, and is designed to help Minnesota’s rural communities address the challenges summarized above. The Foundation believes that we can make a difference only in partnership with others who share our vision of vital forest-based economies sustained by a healthy resource.

The Foundation’s Vital Forests/Vital Communities Initiative links healthy forest ecosystems to community vitality and supports our commitment to partner with rural communities to create vital economies in which benefits are widely shared. The Initiative is based on the belief that growing and managing healthy forest ecosystems makes economic *and* environmental sense.

The relationship between vital local economies, community well-being, and forest ecosystem health is particularly important in rural communities where economic prosperity is dependent on extracting the resource. Local communities dependent on the wood products industry require an ecologically sustainable resource to thrive. For forest-based communities, in the long run, the environment *is* the economy. At the same time, because economically and socially healthy communities have a greater capacity to make long-term investments in system health, forestry policies and practices that focus exclusively on ecological goals—while ignoring the economic and social needs of forest communities—also jeopardize long-term forest health. Acknowledging this reciprocal relationship between healthy communities and healthy ecosystems is central to the Foundation’s approach to maximizing forest benefits while ensuring better forests for the future.

Program Goals

Program goals for the Foundation’s Vital Forests/Vital Communities Initiative link support for ecologically-based forest management practices,⁶⁶ economic diversification, and job creation. Through this Initiative, the Foundation seeks to:

- Help create a more diversified forest-based economy that rewards people for being good environmental stewards and increases wealth creation and retention in local communities.
- Promote ecologically-based approaches that take advantage of opportunities to diversify forest management to support a more diversified forest industry.

⁶⁵ BetterFORESTS, (Summer 2002), 14.

⁶⁶ “Ecologically-based” forest management is understood by the Blandin Foundation as silvicultural approaches that balance wood production with sustainability of other ecosystem goods and services, including biological diversity and ecological complexity.

- Build public support for long-term investments in forests and in natural resource management agencies and programs.
- Improve the effectiveness of public engagement in natural resource management processes.

Strategies and Activities

The Foundation will accomplish these goals by designing, with input from key partners and stakeholders, a set of activities that build on our core competencies: *communication*, *convening*, *leadership training*, and *grant making*. The activities will be implemented over a period of three to five years and will build on the following key strategies:

- Foster collaborative approaches to natural resource management issues and build on existing efforts. The Foundation will look to the Minnesota Forest Resources Council, state agencies, tribal governments, county land managers, and environmental groups, among others, as key partners in these efforts.
- Leverage local assets, expertise, and experience.⁶⁷ Develop the leadership capacity of local citizens committed to promoting sustainable forest management in their own communities.
- Move research and knowledge into practice through the development and promulgation of tools, resources, information, and incentives.
- Promote public understanding and appreciation of the economic, social, and environmental benefits of commodity and non-commodity values of the forest (watershed protection, carbon sequestration, wildlife habitat, recreation, aesthetics, quality of life).

To help assess which activities present the best opportunity to achieve the Initiative’s goals, the Foundation will convene stakeholder groups to provide general feedback and discuss the issues and program ideas presented in this case statement. Natural resource professionals, timber harvesters, researchers, private forest landowners, industry representatives, educators, conservationists, business leaders, policy makers and others will be invited to react to this list of possible action programs, and to brainstorm others. Participant interest in forming partnerships or collaborations around particular programs will be further explored. The Foundation will convene a project advisory team to provide ongoing input and guidance throughout the Initiative’s development, implementation, and evaluation.

⁶⁷ Northeast Minnesota and the Grand Rapids area, in particular, boast a “knowledge cluster” in forestry, with the presence in the area of numerous public and private forestry organizations, including the U.S. Forest Service’s North Central Forest Sciences Laboratory, U.S. Forest Service Headquarters of the Chippewa National Forest, Regional Headquarters (Region 2) of the Minnesota Department of Natural Resources, University of Minnesota Agricultural Experiment Station, University of Minnesota North Central Research & Outreach Center, Minnesota Forestry Association, Itasca Forest Resources Network, base to three major forest products companies (Blandin Paper, Potlatch Corporation, and the Rajala Companies), Minnesota Forest History Center, DNR Forestry Resource Assessment office, and the Minnesota Interagency Fire Center.

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