APPENDIX G

Preserving Oregon's Working Forests: A Landowner's Perspective on Sustainability

Preserving Oregon's Working Forests:

A Landowner's Perspective on Sustainability

by

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About this paper

In January of this year, I was invited by the Oregon Task Force on Land Use Planning (commonly known as "the Big Look") to review the status and outlook of Oregon's forestry sector, including implications for land use.

Prescribed by Senate Bill 82, the Task Force was formed in January 2006 to chart the future of Oregon's land use planning system. Its ten members were appointed jointly by Governor Ted Kulongoski, Senate President Peter Courtney, and Speaker of the House Karen Minnis. Specifically, the Task Force is charged with studying and making recommendations on:

- the effectiveness of Oregon's land use planning program in meeting the current and future needs of Oregonians statewide;
- the respective roles and responsibilities of state and local governments in land use planning; and
- the land use issues specific to areas inside and outside urban growth boundaries and the interface between areas inside and outside urban growth boundaries.

A final report and recommendations for any needed changes to land use policy will be presented to the governor and the legislature by February 2009.

Following the January meeting, the Task Force requested that I submit a written report expanding on three topics addressed during the presentation:

1. The public values provided by Oregon's working forests
2. The economic trends driving forest land use in Oregon
3. Policy opportunities to preserve Oregon's working forests

This paper has been developed in response to the Task Force's request. I am grateful for the opportunity to contribute to this important effort, and hope my company's perspectives prove useful to the Task Force in fulfilling its mission of improving and strengthening Oregon's land use policies and protecting our forests for future generations.

Contents

Executive Summary

The forestry sector has changed in several important ways since the Oregon legislature passed Senate Bill 100 in 1973 to regulate statewide land use. Global competition has increased very significantly, causing prices for lumber, plywood, and paper to fall by 34%, 31%, and 45%, respectively since 1980 (adjusted for inflation). The state's manufacturing base has contracted, imposing downward pressures on timber prices, while the costs associated with forestry regulations and other social demands have climbed. As the state's population continues to escalate, pressures on forestry profitability encourage landowners to sell, fragment, and potentially convert forest land to alternative land uses—heightening calls to reform Oregon's land use system, as demonstrated by the success of Measure 37 in 2004.

Fortunately, the forestry sector has also progressed to present Oregon with several important opportunities: demand for renewable energy is creating new markets for timber products; demand for sustainably managed, certified forest products is growing; Asia's demand for building products and paper is rising; demand for non-timber resources (commonly known as "ecosystem services"), including sequestration of atmospheric carbon, is creating financial opportunities for forest landowners; and forest science is enabling foresters to grow more wood, more quickly, in a more environmentally responsible manner. With effective policy—capitalizing on these economic trends—Oregon can provide landowners with incentives that supplement and support our land use regulations.

As importantly, forest conservation continues to evolve in both concept and practice. The public values provided by working forests are increasingly understood—indeed, many prominent conservation organizations now actively manage working forests to support environmental, social, and economic objectives—and conservationists across the country are working with forest businesses and policymakers to protect working forests. In Oregon, conservation funding represents an untapped tool to further supplement and support our land use regulations.

Very critically, conservationists and businesses alike recognize that, to protect forests, the economic values of forest land use must equal, or preferably surpass, the economic values of non-forest land use. Given the changes under way in the forestry and conservation arenas—representing both threats and opportunities to the economic values of Oregon's forests—we propose a modernization of Oregon's land use approach to include four main strategies:

1. Increase Working Forest Values: Improve Timber Resource Economics
2. Increase Working Forest Values: Improve Non-Timber Resource Economics
3. Decrease Alternative Land-Use Values: Compensate/Incentivize Landowners for Forgoing Fragmentation
4. Decrease Alternative Land-Use Values: Regulate/Restrict Landowners to Prevent Fragmentation

Through diversifying and updating its approach to land use, Oregon has the opportunity to uphold the original objectives of our state's land use system while recognizing and responding to the substantial changes in both forest economics and conservation that have taken place over the past three decades.

The Public Values Provided by Oregon's Working Forests

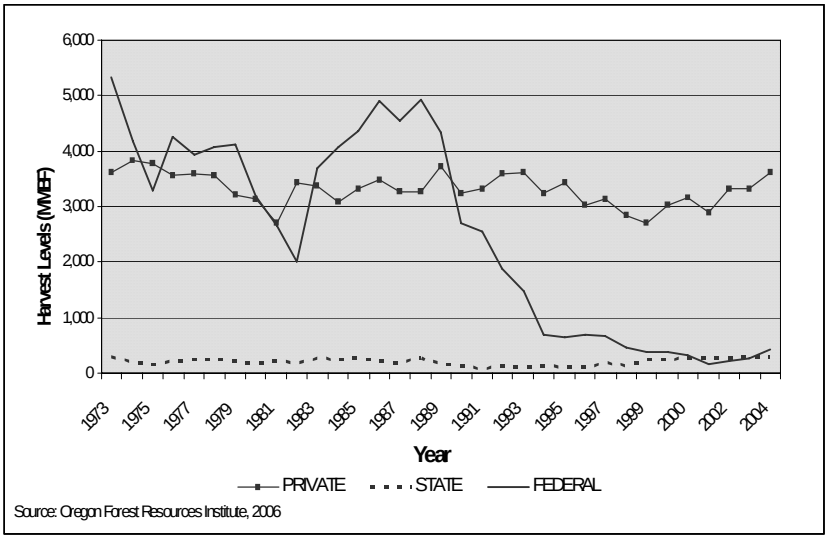
The Economic, Environmental, and Social Benefits of Working Forests

The term "working forests" is widely used to characterize actively managed forest lands that sustain a combination of resources: timber products; wildlife and fish habitat, clean air and water, carbon storage (collectively termed "ecosystem services"); recreational opportunities; and others.[1] Alongside other "working lands"—farms and ranches—as well as parks, preserves, and other green spaces, sustainably managed forests comprise an important component of a region's natural mosaic.

Economic Values

In Oregon, private working forests are increasingly important to the total forest landscape. In 1973, timber harvests from private working forests represented 39% of the statewide harvest. As a result of dramatic changes in federal forest policy in the 1990s, private forests now account for 81% of Oregon's remaining forest products infrastructure (see Figure 1)—even though they represent just 35% of the state's forest land.

Figure 1. Oregon Timber Harvest (1973–2004)



Timber harvests from private working forests have increased from being 39% of Oregon's statewide harvest in 1973 to 81% in 2004, imparting greater importance to preserving private working forests to sustain Oregon's economic timber base.

The forest sector provides more than 85,000 direct jobs (and some 104,000 indirect jobs), or about 10% of the state's labor income. It contributes about $22 billion, or approximately 11%,

[1] "Keeping Forests in Forests," *American Forests*, Winter 2006, www.americanforests.org/productsandpubs/magazine/archives/2006winter/perspectives.php (accessed August 2, 2007).

to the state's economic output ("Oregon's Forest Cluster," 2005). In the rural areas where forestry activities are concentrated, its economic impact is, of course, even greater. Oregon's "forest cluster"—the geographically centered, economically interconnected web of forest-related companies and institutions—plays a central role in the Oregon Business Plan, which states: "While the restructured forest sector no longer is the state's largest employer, it is lean, resilient, and competitive, and it remains critical to economic diversity and rural prosperity." ("Oregon's Forest Cluster," 2005).

Other states have drawn similar conclusions and are implementing innovative policies (described later) to preserve their own working forests, specifically to maintain their economic diversity and rural prosperity.

Environmental and Social Values

Beyond their economic benefits, working forests provide a host of environmental and social benefits. In their excellent article "Green Infrastructure: Smart Conservation for the 21st Century," authors Mark Benedict and Edward McMahon of The Conservation Fund specifically identify "working lands—private farms, forests, and ranches that are managed for commodity production, yet remain in a predominantly open and undeveloped state"—as critical components of a region's "green infrastructure," or natural life-support system (see box) (Benedict and McMahon, 2002).

Green infrastructure is our nation's natural life-support system—an interconnected network of waterways, wetlands, woodlands, wildlife habitats, and other natural areas; greenways, parks and other conservation lands; working farms, ranches, and forests; and wilderness and other open spaces that support native species, maintain natural ecological processes, sustain air and water resources, and contribute to the health and quality of life for America's communities and people.

In order to be successful, these elements of a green infrastructure network need to be protected over the long term. This requires long-range planning and management, as well as an ongoing commitment.

— Definition developed by the Green Infrastructure Work Group, a group of government agencies and non-governmental organizations formed by The Conservation Fund and the USDA Forest Service to develop a program to help make the concept an integral part of local, regional and state plans and policies.

Source: Mark A. Benedict and Edward T. McMahon, "Green Infrastructure: Smart Conservation for the 21st Century," *Renewable Resources Journal*, Autumn 2002.

With Oregon's population expected to grow faster than the national average (the entire Pacific Northwest population is projected to grow by more than 50% by 2050), and as growing personal income drives more land developed per person, safeguarding our state's green infrastructure—including our working forests—will become increasingly important (Gray, 2006).

Here in Oregon and beyond, working forests are figuring prominently in strategies to combat global climate change. As repositories of carbon (in biomass, dead plant material, and soils),

forests "play a major role in the global carbon cycle"—and in offsetting greenhouse gas emissions (*Forests, Carbon and Climate Change, 2006*). Oregon forests per acre have among the highest potential for carbon storage in the world. Furthermore, research shows that the use of wood products also supports carbon sequestration, since these products not only store carbon but require less fossil fuel for their manufacture than other construction materials (for example, concrete). As similar research findings unfold, the urgent need to sequester atmospheric carbon may in fact prove the greatest motivation for preserving working forests.

Finally, working forests hold social benefits beyond their ecological importance. Areas such as the Pacific Northwest and the Rocky Mountains offer wide-open spaces that have become increasingly attractive to America's urbanizing population.

The public benefits of working forests are therefore both local (economic, environmental, and social) as well as global (environmental—specifically in sequestering atmospheric carbon).

Summary

Over the past several decades, the interests of forest businesses and conservationists have converged to a large degree. Forest businesses increasingly emphasize sustainability, validated through third-party certification. Conservationists, meanwhile, increasingly protect working forests, advocate responsible timber harvesting, and, indeed, conduct timber harvesting on their own holdings specifically to achieve conservation objectives. Priorities for policymakers are to recognize the substantial public benefits provided by sustainably managed working forests; eschew dated, polarized positions; and enact innovative policies to protect Oregon's working forests amid substantial economic incentives to fragment and convert forest lands to alternative uses.

Economic Trends Underlying Forest Land Use

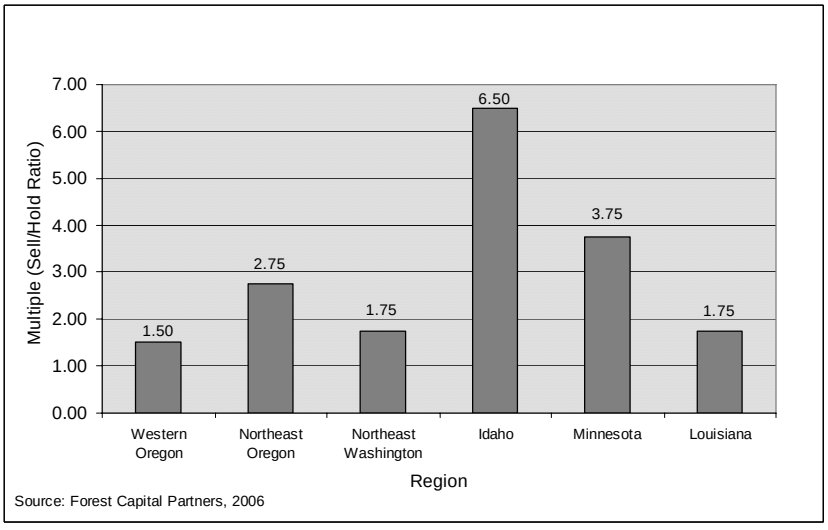
Landowner Incentives, Timber Resource Economics, and Non-Timber Resource Economics

Just as the *public* benefits of working forests are economic, environmental, and social in nature, so too the ownership objectives of most *private* landowners encompass these same elements of the "triple bottom line." Most forest landowners, we find, pride themselves as forest stewards challenged by the economic realities posed by a growing population, escalating real estate values, eroding commodity values, and increasing regulatory costs. As we believe most forest landowners are predisposed toward preserving working forests, and the challenges to preserving working forests are therefore primarily economic in nature, we turn our attention to the major economic trends underlying forest land use in Oregon.

Landowner Incentives

To illustrate land use decisions facing private landowners such as Forest Capital Partners, we compared the economic value of selling selected properties in the short term versus holding them for long-term, sustainable timber production. In Figure 2 below, "sell" values depict actual market values from our internal transaction records, while "hold" values depict the intrinsic value of forest land based on long-term timber production. Ratios greater than 1.0 indicate that an incentive exists to sell, fragment, and potentially convert forest lands to other uses.

Figure 2. Ratio of Forest "Sell" Versus "Hold" Values Throughout Forest Capital's Areas of Operation



Landowners face strong incentives driving sales, fragmentation, and potentially deforestation. Average sell values range from 150% to 650% of hold values.

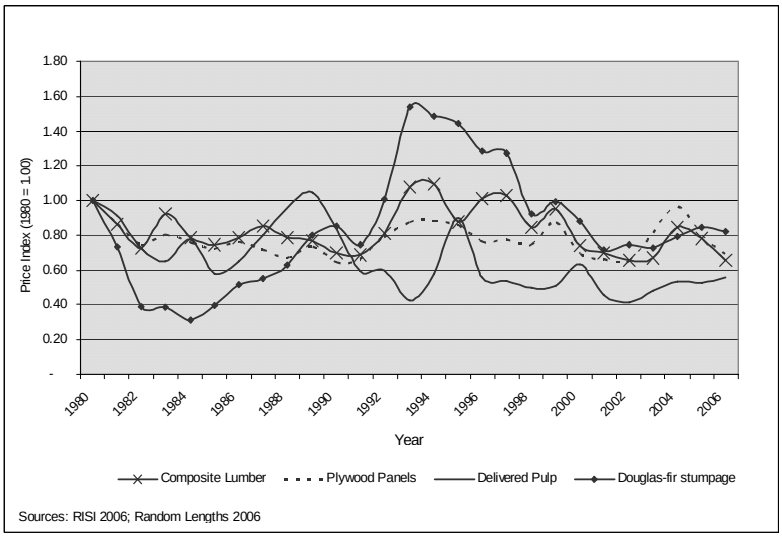
It is noteworthy that this illustration draws upon a limited sample of rural tracts with generally higher-than-average sell values (such as road frontage or proximity to development). These limitations notwithstanding, we introduce the concept of sell-versus-hold ratios as a meaningful tool for understanding landowner incentives driving sales and fragmentation. For the properties presented in Figure 2, sell values average 150% to 650% of hold values, signaling compelling incentives to sell. Moreover, even for average larger-scale forest properties, our experience suggests that sell values outweigh hold values (particularly if sell values can be increased through fragmenting properties). A central message of this paper is that policy makers can – and should – affect sell-versus-hold values through a variety of strategies and, in doing so, promote sustainable forest land use.

Timber Resource Economics

Oregon's timber producers, like most commodity producers, operate in an increasingly competitive global marketplace being redefined by technology. Figure 3 presents price movements in Oregon's primary forest products—lumber, plywood, paper, and timber. As shown, since 1980 the prices for finished products (lumber, plywood, and paper) have generally trended downward, with average prices below 1980 levels in most years. By 2006, prices for lumber, plywood and paper were below 1980 prices by 34%, 31%, and 45%, respectively. Combined with local supply reductions caused by federal timber policy, lower finished product prices have forced a contraction of Oregon's manufacturing base.

Prices for standing timber have been far more volatile than prices for lumber, plywood, or paper. Nonetheless, from 1999 to 2006, landowners generally received around 20% less for their timber than they would have in 1980, and 50% less compared with peak 1993 prices.

Figure 3. Commodity Price Movements, (1980–2006)



Commodity price movements reflect increased global competition and technological changes in forestry and manufacturing.

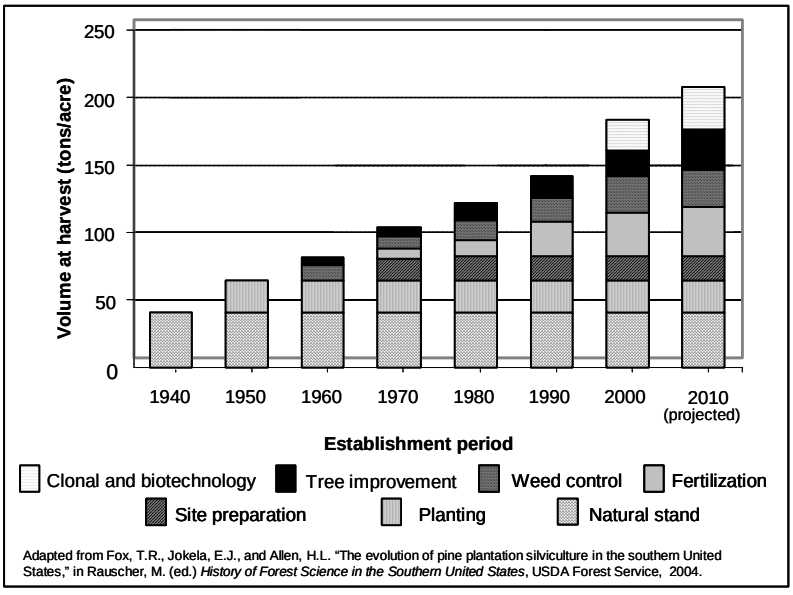
Among the many diverse factors shaping global forest products markets, we wish to highlight three prominent themes relevant to Oregon's working forests:

1. **Globalization**. Competition from non-U.S. producers continues to intensify. Between 1990 and 2007, the U.S. share of global lumber capacity decreased from 27% to 23%; its share of plywood capacity decreased from 42% to 25%; its share of oriented strand board (OSB) decreased from 69% to 46%; and its share of pulp decreased from 23% to 17% (RISI). By contrast, growth has occurred in globally competitive regions with limited regulations, fast forest growth rates, and favorable cost structures.

   We believe the implications of globalization to Oregon are twofold. First, with competition increasing and U.S. market share declining, Oregon must commit itself to remaining globally competitive. Regulatory policy, tax policy, workforce development, and investments in transportation and technology should be crafted with this objective in mind. Second, with the development of offshore economies—specifically, China and India, whose housing markets remain primarily based on steel and concrete construction—Oregon may find attractive, growing markets for its sustainably managed, renewable, and energy-efficient wood building materials.

2. **Forest Technology.** R&D investments continue to pay dividends through improved harvest yields from fast-growing forest "plantations." In the southern United States, for instance, technology now enables timber growers to increase yields by as much as fourfold over earlier levels (see Figure 4). As the acreage cultivated into intensively managed forest plantations has doubled since 1980 (to nearly 38 million acres in 2006), technology investments have produced a multiplicative impact on the South's timber supply.

Figure 4. Forest Technology Gains in the Southern United States



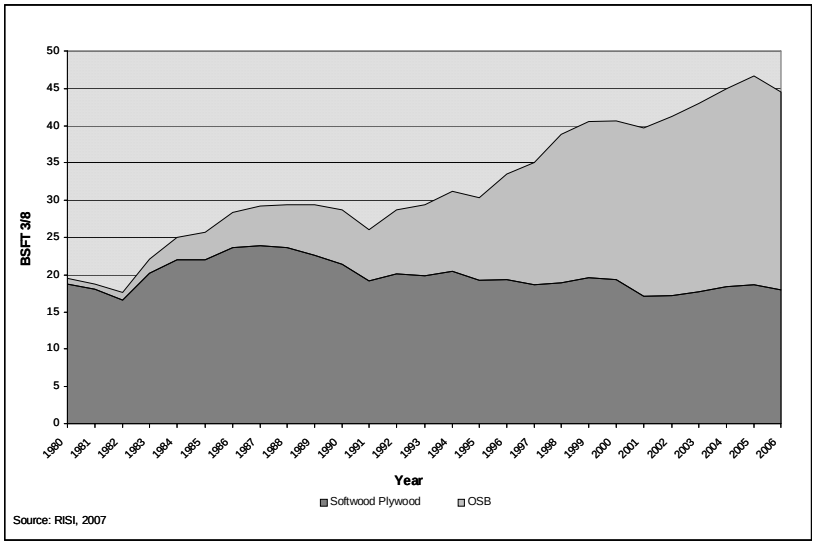
Adapted from Fox, T.R., Jokela, E.J., and Allen, H.L. "The evolution of pine plantation silviculture in the southern United States," in Rauscher, M. (ed.) *History of Forest Science in the Southern United States*, USDA Forest Service, 2004.

Intensively managed forest plantations increase harvest yields and revenues. Oregon lags other timber regions in forest plantation research; eastern Oregon further lags western Oregon.

The implications of forest technology to Oregon include greater competition from regions investing in technology (e.g., the southern United States, Brazil, Chile, and New Zealand) and opportunities to make similar investments here in Oregon. As home to the nation's top-rated forestry school, Oregon State University, Oregon would be particularly well positioned to gain from investments in forest productivity.

3. **Milling Technology.** R&D investments in manufacturing have given birth to "small-log" technology, enabling mills to convert small and previously noncommercial trees into profitable building products. The most prominent example of this trend has been the growth of OSB, a panel product manufactured from small, inexpensive trees that competes directly with traditional plywood manufactured from large, expensive trees (see Figure 5).

Figure 5. North American Softwood Panels Consumption



Since 1980, OSB has risen from a negligible market share to more than 60% of the North American panel market. No OSB sites are located in Oregon, as the state is a high-cost source of the small-diameter timber utilized in OSB manufacturing.

To date, the advent of small-log technology has proven disadvantageous to Oregon's working forests. Because of its noncompetitive cost structure (owing to high logging and road costs commensurate with its steep terrain) Oregon does not produce small trees cost-effectively and therefore has not attracted a single OSB plant. Relying on expensive, large-diameter timber, Oregon's plywood facilities have struggled to compete against OSB, effecting mill closures and downward timber price pressures. Further, as OSB often utilizes trees that had previously been nonmerchantable, OSB mills have opened a new, inexpensive source of global timber supply against which Oregon's wood producers must compete.

Milling technology, in other respects, presents potentially attractive opportunities for Oregon. Energy-related technology, including conversion of forest biomass into cellulosic ethanol and electric power, may create new markets for mill residues (improving overall mill profitability and long-term sustainability), small-diameter timber, and other harvest products. Energy-related markets may thereby increase the health of Oregon's manufacturing base and directly improve the bottom line of the state's landowners. In addition to creating new markets such as energy, advancements in milling technology also serve to improve efficiency in the manufacture of existing products—enabling Oregon's mills to better compete globally.

On balance, manufacturing technology will continue to present Oregon with both threats (e.g., OSB) and opportunities (e.g., energy, improved efficiency). The long-term well-being of Oregon's working forests will depend heavily on successes realized through investments in milling technology.

Looking ahead to this paper's policy recommendations, the three trends identified in this Timber Resource Economics section figure prominently in preserving Oregon's working forests: competing globally, investing in forest technology, and investing in milling technology.

Non-Timber Resource Economics

Oregon's forest lands provide abundant non-timber resources, including public recreation, wildlife habitat, clean air and water, and carbon storage. While public demand for such resources provides positive economic value in other states (promoting forest land use over alternatives), in Oregon these demands have, to date, largely resulted in regulations and other voluntary measures that increase cost, reduce forestry profitability, and discourage forest land retention.

The implementation of important laws, regulations, and voluntary programs since 1970 has cumulatively raised the cost of practicing forestry in Oregon (*Oregon Forestry in the 21st Century*, 2006). Important legislation includes the federal Clean Air Act (1970), Clean Water Act (1972), Endangered Species Act (1973), and the Oregon Forest Practices Act (1971). In addition, the lawsuit over federal forest management of northern spotted owl habitat (1989) and the subsequent Northwest Forest Plan (1994) and Interim Eastside Screens and PACFISH guidelines (1994) were designed to preserve old-growth forests on federal land. Voluntary programs have included habitat protection programs such as the Stream Enhancement Initiative (1991) and the Oregon Plan for Salmon and Watersheds (1997), along with forest certification programs such as the Sustainable Forestry Initiative® and Forest Stewardship Council. Without in any way disputing the intended objectives of these programs, we nonetheless make the point that their cumulative impacts have been to lower working forests' profitability, which in turn encourages alternative land uses.

In principle, however, and in practice elsewhere across the United States, the demand for non-timber resources, rather than reducing working forest profitability, can in fact enhance revenues and create landowner incentives to protect working forests. Through both private markets (e.g., recreational leases) and public programs (e.g., tax rebates to reward public access) a number of mechanisms have evolved that provide financial opportunities from non-timber resources.[2]

Among the non-timber resources generated by forests, carbon storage may present a significant growth opportunity. Seeking cost-effective means to reduce atmospheric carbon, emerging carbon markets are weighing the benefits of paying landowners to store additional carbon in their forests. Under such a design, in exchange for planting trees, growing trees longer than they would otherwise, or avoiding deforestation, landowners would receive payment from polluters seeking to offset carbon emissions. While still under development, markets for carbon sequestration could present a vast pool of sustainable capital to promote and retain working forests.

Summary

Financial incentives, as measured by the ratio of long-term hold values versus short-term sell values, generally encourage forest fragmentation and conversion to non-forest uses. Long-term hold values reflect an increasingly competitive, global forest market witnessing substantial technological advancements. Long-term hold values also reflect the diminution of forestry profitability resulting from regulations. Fortunately, globalization, technology, and non-timber resources, including carbon, all have the potential to strongly increase Oregon's working forest values—through the enactment of modern, incentive-based policies as have proven successful in other states.

[2] "Sustainable Forest Incentive Act," Minnesota Revenue, Property Tax Fact Sheet 9, www.taxes.state.mn.us/property/publications/fact_sheets/html_content/sust_forest_fact_sheet.shtml (accessed August 2, 2007).

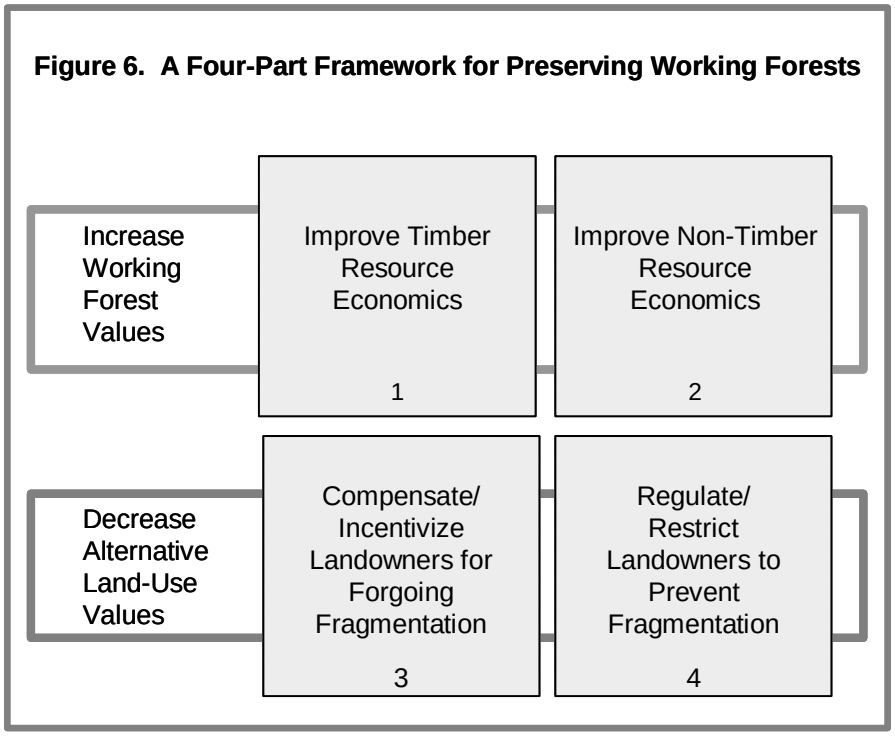
Policy Opportunities for Oregon—A Strategic Framework

Updating and Diversifying Oregon's Land Use Approach

The challenges facing working forests are not unique to Oregon—or, for that matter, to forests. States across the country are striving to protect their working forests, farms, and ranches amid escalating population pressures. As Oregon looks to update its 1973 land use planning system, we see opportunities to implement innovations that have proven successful elsewhere. We have organized these opportunities within four broad strategies.

The underlying principle of this four-part framework is to narrow the gap between forest and alternative land use values through a combination of strategies: strategies that both *increase forest land use values* (through improving timber resource economics as well as non-timber resource economics) and *decrease alternative land use values* (through a mix of measures, some that compensate landowners for forgone values, others that do not). Figure 6 shows the framework and its four component strategies.

Figure 6. A Four-Part Framework for Preserving Working Forests



Strategy 1

Increase Working Forest Values: Improve Timber Resource Economics

This strategy largely seeks to increase Oregon's global competitiveness through investments in the state's forest cluster. Current opportunities include:

- **New Timber Market Development**
  Examples: Invest in the state's biomass energy infrastructure as a component of its clean energy mandate. In addition, promote Oregon's forest products in international markets such as China and India.

- **R&D Funding for Wood-Based Manufacturing, Forest Productivity, and Environmental Science**
  Examples: Provide funding for Oregon State University's Wood Innovation Center[3] and forestry research programs[4]; provide tax incentives for private enterprises to invest in R&D.

- **Oregon Forest Practices Act**
  Examples: Periodically update forest practices to conform to current scientific knowledge and research, including reevaluating the cost-efficiency and effectiveness of existing regulation (as is being done in the Hinkle Creek Paired Watershed study, which is examining impacts of forest operations on water quality and fish habitat).[5] We believe the state should conduct cost/benefit analyses of regulations to ensure they do not create perverse incentives (such as making forests less attractive to endangered species to avoid the associated regulatory burdens) or otherwise impair Oregon's global competitiveness and the economic viability of its working forests.

- **Green Building Standards**
  Example: Given the stringent environmental standards of Oregon's forest products—compared with competing regions and competing building materials such as concrete and steel—we believe green building standards provide an opportunity to "level the playing field" and increase the global competitiveness of Oregon's forests. In its selection of a green standard, Oregon should prioritize the environmental benefits of wood over alternative products such as steel and concrete, products that are not only unsustainable but that are also far more energy-consumptive than forest products. The state should also give consideration to its own strict environmental laws when determining appropriate sources of wood products. We have concerns that the Leadership in Energy and Environmental Design (LEED) standard does not recognize the advantages of wood over alternative construction materials and gives preference to one certification authority (the Forest Stewardship Council) that is not commonly used by Oregon landowners. We request that the state give strong consideration to competing standards, such as Green Globes, that better recognize the environmental benefits of Oregon's forest products.

[3] The Oregon Wood Innovation Center, Oregon State University, owic.oregonstate.edu/index.php (accessed August 2, 2007).
[4] Center for Intensive Planted-forest Silviculture, Oregon State University, College of Forestry, Forest Research Laboratory, www.cof.orst.edu/frl/ (accessed August 2, 2007).
[5] Hinkle Creek Research and Demonstration Area, www.oregon.gov/ODF/PRIVATE_FORESTS/hinklecrk.shtml (accessed August 7, 2007).

- **Forest Certification**
  Example: As with green building standards, forest certification presents a market-based opportunity to recognize the values of Oregon's high environmental standards, level the playing field with competing regions, and increase the global competitiveness of Oregon's forest sector. As markets increasingly demand certified forest products, Oregon may have the opportunity to facilitate "group certification" for its timber producers. Under such a scenario, the Oregon Department of Forestry would provide a service to landowners, leveraging compliance with Oregon's Forest Practices Act to streamline the certification process. The end result would be to lower the costs of certification, improving access to markets demanding environmental certification.

- **Land Exchanges**
  Example: A number of land exchanges between private and public landowners could substantially advance Oregon's economic, environmental, and social objectives. By consolidating ownerships, such exchanges would improve both habitat connectivity and landscape-level forest management. Currently, national and local barriers preclude exchanges of potentially high conservation and economic value; policymakers should actively seek to remove such barriers and promote mutually beneficial land trades.

- **Timber Supply**
  Example: Work to ensure adequate timber supply exists to sustain a viable mill infrastructure. In eastern Oregon, for example, reductions in federal timber supply threaten mill viability, and with this the market for private timber as well. Without a viable mill infrastructure in eastern Oregon, financial incentives to sell, fragment, and convert forest land will increase amid rising populations.

Strategy 2
Increase Working Forest Values: Improve Non-Timber Resource Economics

This strategy seeks to provide financial incentives for the production of non-timber resources, augmenting timber production as the economic engine encouraging forest land retention. Current opportunities include:

- **Carbon Sequestration**
  Examples: Use cap-and-trade and/or carbon tax revenues; pay landowners to either reforest or alter management regimes to increase carbon storage; pay landowners to not convert forest land to non-forest uses (potentially structured as conservation easements, as described in the section on Strategy 3 below). As other states develop carbon markets, Oregon should promote its forests as qualifying carbon offsets.[6]

[6] "Governor Schwarzenegger to Reduce Carbon Footprint Using Emissions Offsets from Forest Conservation Project," press release, March 12, 2007, The Pacific Forest Trust, www.pacificforest.org/news/GovernorOffsets.html (accessed August 2, 2007).

- **Public Recreation**
  Examples: Provide tax incentives (reductions, exemptions, rebates) for landowners who offer public access for hiking, ATV and snowmobile use, hunting, fishing, etc. In addition: establish cooperative access fee programs, forest recreation fees, and wildlife habitat enhancement funds; and offer water-yield payments.

- **Wildlife Habitat, Wind, Water, and Other Non-Timber Resources**
  Example: Provide tax incentives (reductions, exemptions, rebates) for maintaining forest land versus non-forest land uses (Dixon, 2007).[7]

Strategy 3
Decrease Alternative Land-Use Values: Compensate/Incentivize Landowners for Forgoing Fragmentation

This strategy seeks to compensate landowners for forgoing forest fragmentation and/or land conversion to keep large-scale working forests intact. Widely employed throughout the United States, it involves a voluntary transaction in which property rights are sold at market value. Transactions may be limited to the sale (or lease) of development rights, or extend to other rights, including public access or restrictions on management practices. Relative to outright public land purchases, this approach is far less expensive and maintains private land ownership, thus protecting property tax revenues. Current opportunities include:

- **Development Rights**
  Example: Compensate landowners for permanently extinguishing development rights without affecting forestry practices.[8]

- **Conservation Easements**
  Example: Compensate landowners for altering forest management regimes to provide public benefits.[9]

Strategy 4
Decrease Alternative Land-Use Values: Regulate/Restrict Landowners to Prevent Fragmentation

This strategy seeks to limit forest fragmentation and land conversion largely through regulations and legal restrictions. The most common example is:

[7] "Sustainable Forest Incentive Act," Minnesota Revenue, Property Tax Fact Sheet 9, www.taxes.state.mn.us/property/publications/fact_sheets/html_content/sust_forest_fact_sheet.shtml (accessed August 2, 2007).
[8] Snoqualmie Tree Farm (information sheet), Cascade Land Conservancy, www.cascadeland.org/conservation-program/gallery/snoqualmie-tree-farm (accessed August 7, 2007).
[9] "Agreement Would Protect 50K Acres of Minnesota's Working Forest," press release, June 14, 2006, The Trust for Public Land, www.tpl.org/tier3_print.cfm?folder_id=482&content_item_id=20714&mod_type=1 (accessed August 7, 2007).

- **Land Use Zoning**
  Example: Extinguish or restrict development rights through regulations.

  (We support the widely held view that Oregon's heavy reliance on this one tool, amid significant marketplace changes over the past three decades, has in part contributed to the public demand for reform, as demonstrated by the success in 2004 of Measure 37. While we advocate continued, strong land use practices, we believe Oregon's conservation objectives may be better accomplished by diversifying its approach.)

Summary—Immediate Priorities

There is no "silver bullet" for overcoming the financial incentives driving forest fragmentation and conversion. Effective protection will require *an ongoing commitment to ensuring that forest values compare favorably with alternative land use values.* Among the many opportunities presented here, we offer four immediate priorities for consideration:

1. **Modernize and diversify Oregon's existing land use tools.** Relieve the pressure on Oregon's land use regulations through additional incentive-based programs and conservation funding.

2. **Commit to keeping Oregon's forest products industry globally competitive**. On an ongoing basis, promote investments in new technologies to keep Oregon's forests and manufacturing base globally competitive. Pursue new markets (e.g., renewable energy, products for the Asian building market) that provide outlets for Oregon timber products. Ensure that policies with respect to taxation, green building standards, forestry regulations, forest certification, timber supply and land exchanges collectively serve to increase Oregon's global competitiveness. Governor Kulongoski has requested that the Board of Forestry and the Oregon Economic Development Commission develop a forest sector strategy for the State of Oregon, with an appropriate emphasis on sustainability, global competitiveness, carbon mitigation, and energy renewability. The State of Minnesota recently developed its own forest sector strategy, an effort in which Forest Capital participated, and we believe a comprehensive strategy for Oregon's forest sector is also needed.[10]

3. **Increase public funding for conservation projects.** Supplement land use regulations with conservation funding that respects private property rights and values.

4. **Promote the development of forest carbon markets.** As carbon markets develop over the next several years, it is important that Oregon's forests qualify as carbon offsets. Oregon's forests have among the highest carbon storage potential anywhere in the world, making Oregon a logical choice for polluters looking to offset emissions cost-effectively.

[10] Laurel Beager, "Forest Products Industry Focus of Recommendations," *International Falls Daily Journal*, July 20, 2007, www.ifallsdailyjournal.com/node/4033/print (accessed August 2, 2007).

Conclusions

To recap this paper's main points:

- **Working forests provide substantial public benefits requiring preservation.** Along with our parks, preserves, farms, ranches, and other green spaces, working forests comprise a critical component of Oregon's natural mosaic. Working forests provide economic, environmental, and social benefits, both within Oregon (e.g., jobs, clean water, wildlife habitat, and outdoor recreation opportunities) and globally (the sequestration of atmospheric carbon—a leading approach to mitigating global warming).

- **Economic forces encourage forest fragmentation and conversion to alternative uses, requiring effective public policy to preserve working forests.** The forces driving forest loss and landowner demands for land use reform in Oregon—increasing global competition, increasing population pressures and real estate values—should continue, if not accelerate, going forward. These are national trends prevalent in both the forestry and farming sectors.

- **Oregon has the opportunity to update and diversify its land use approach.** Recognizing the changes that have occurred within both the forestry sector and the conservation arena since 1973, Oregon has the opportunity to improve its timber resource values and non-timber resource values, and to establish meaningful conservation funding to supplement its land use regulations.

It is noteworthy that, in virtually every state in which Forest Capital operates across the United States, efforts similar to Oregon's "Big Look" are under way to protect working forests. Compared with other states, Oregon's advantages are many: forests that are world renowned for their productivity, timber quality, and carbon storage capacity; a premier forest cluster, including the nation's top-ranked forestry college; a robust economic development infrastructure; and well-established, credible conservation organizations. Forests are deeply ingrained in Oregon's heritage and culture, and Oregonians hold a strong connection between forests, green spaces, and their sense of identity. Given Oregon's innate advantages, updated, effective policies can position Oregon as a national leader in forest resource sustainability.

Finally, we would observe that, in conversations with other forest landowners (including families, forest businesses, and conservation groups) we are struck by the commonality of themes we hear with regard to loss of forest land. The most prominent of these themes is the fervent desire to continue to own and manage working forests—despite the escalating economic and regulatory incentives to sell and convert forest land. Given this strong predisposition toward the preservation of working forests—perhaps nowhere stronger than in Oregon—we are optimistic that, through modernizing and diversifying its approach to land use, Oregon can effectively protect this valuable component of its natural landscape.

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Mr. Donegan is a professional forester who studied forestry at the University of Florida before earning an MBA with concentrations in forest industries management and finance from the University of Tennessee. Before starting Forest Capital Partners with his partner in Boston, he co-founded US Forest Capital in San Francisco to advise conservation organizations and private families acquiring forest land. Prior to that, he worked for the Hancock Timber Resource Group in Boston as an investment analyst and portfolio officer, and Georgia-Pacific Corporation in Atlanta as a forester and investment analyst.

Mr. Donegan relocated to Oregon from Boston in 2005 after Forest Capital Partners acquired the former Boise Cascade forest properties. He currently serves on the board of directors of the Oregon Business Council, the board of directors of the Oregon Forest Resources Institute, the board of directors of Big Brothers Big Sisters Columbia Northwest, the Business Advisory Team of the Oregon Department of Education, and the National Council of the National Park Conservation Association. In 2006, he served on the steering committee of the Portland Metro Measure 26-80 campaign, a successful ballot initiative to raise $227 million of conservation funding in the greater Portland region. He is a long-time member of several conservation organizations and a lifelong outdoor enthusiast.