The Forestry Landscape of the Future

F&W Forestry Services
Since 1962

A Sign of the Changing Times

- A few years ago, this talk would have been on whether our industry would ever recover
- Now it is on the impact of a potentially huge consumer on our markets for wood, effects on existing industry, and sustainability of the resource
  - Utilities
  - Pellet manufacturers

We live in a changing forestry world…

- Mill closures
- Strange new products
- Lower prices for pulpwood
- Increased foreign competition
- Uncooperative Canadians
- Currency fixing Chinese
- Too many trees
- Hurricanes

For Southern Forestry, are all the changes the end of our world???

Or… the beginning of great times?

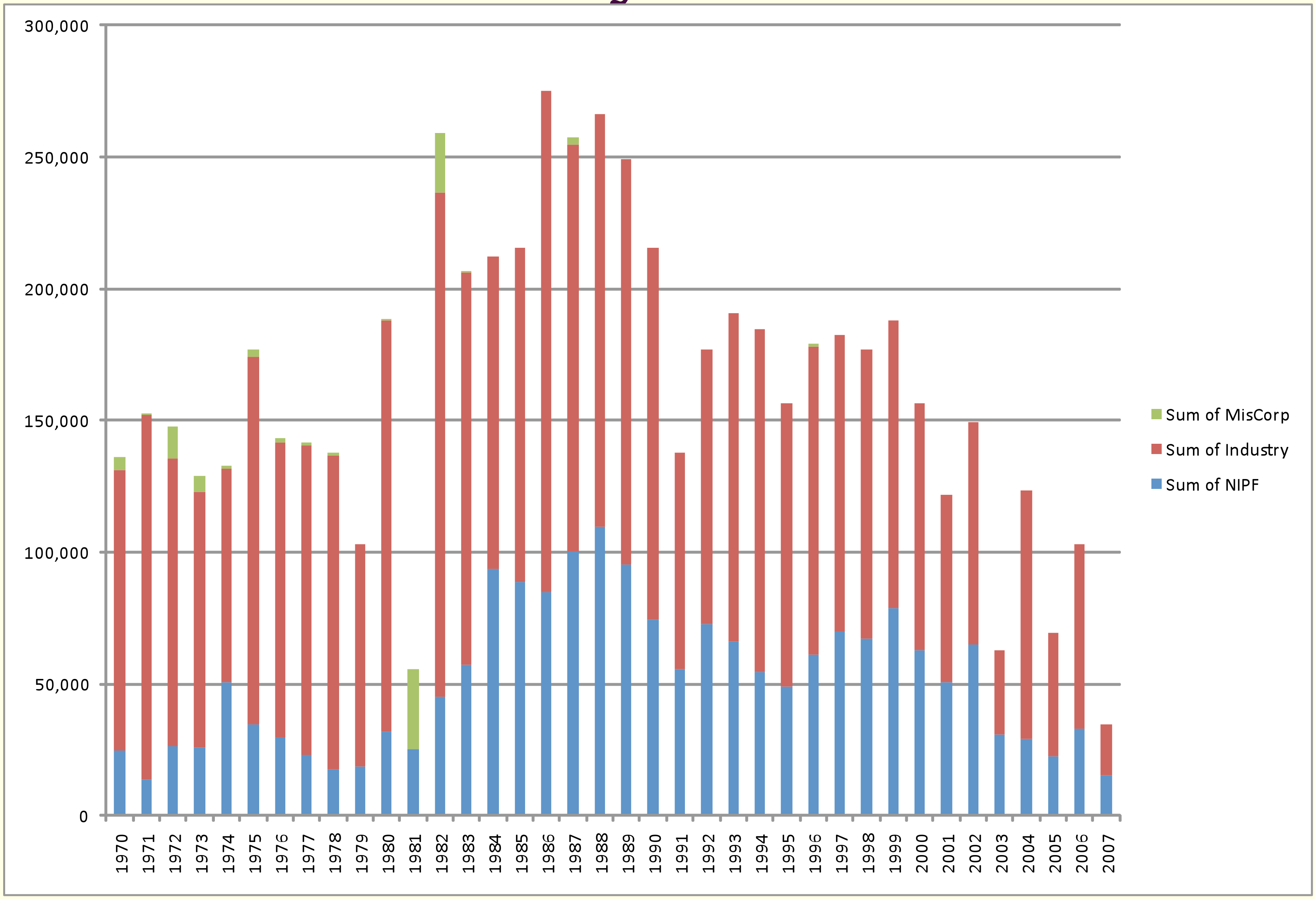
A Simple Forecast of the Future

- Pulpwood sized trees likely to sell at good prices
- Sawtimber prices may stay soft, but will be buoyed by chip prices
- American consumer may recognize “greeness” of southern forest
- Great reduction in harvests from natural areas
- A conflict could develop between demand for carbon storage and demand for biofuels

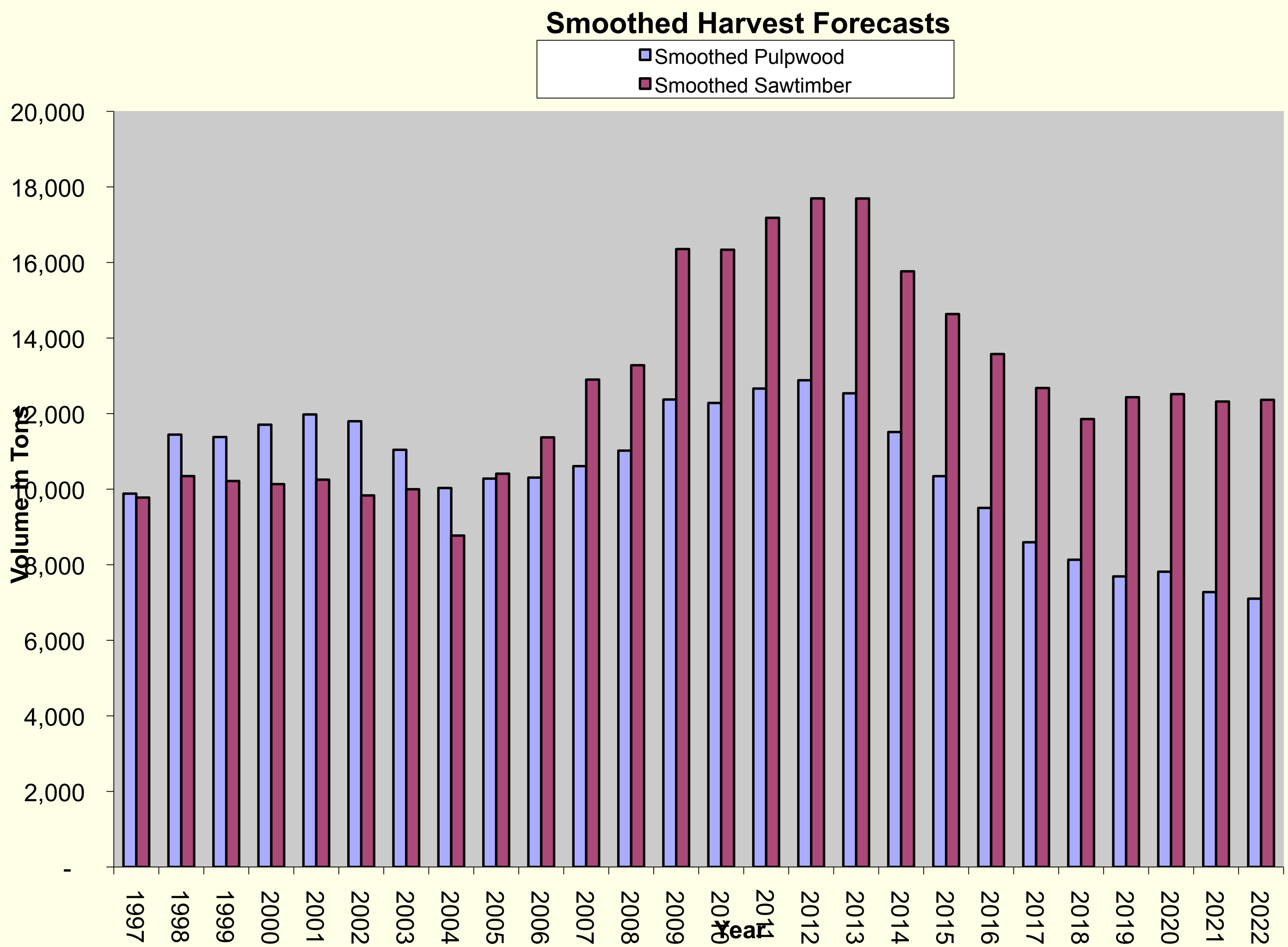
Pulpwood sized trees likely to sell at good prices

- On the supply side, we just aren't growing a lot of small trees (graph next slide)
- On the demand side,
  - it looks like we will have the same paper mills that we have now
  - And we have a lot of new small wood industry coming to the south
- Combining the demand from the new industries with current demand is likely to create some real price pressure on pulp wood sized trees.

Acres Planted by Year in Florida



Forecasted Available Supply



Pulpwood sized trees likely to sell at good prices

- That's good news for tree growers, but could cause some real problems for existing industry
  - especially since some of the new industries will be government subsidized
  - And it is likely they will have to use pulpwood sized trees as demand grows
- In fact, it is likely that we will lose a few pulp mills over the next 5 to 10 years due to increased competition from direct and indirectly subsidized manufacturers.

Sawtimber prices may stay soft, but will be buoyed by chip prices

- We are likely to face a surplus of sawtimber sized trees.
  - All of the plantations established in the 1980's and early 1990's are growing saw timber
  - due to poor markets we aren't cutting them.
  - It is going to take a long time and some good markets to absorb the inventory we are building.

Sawtimber prices may stay soft, but will be buoyed by chip prices

- Don't expect much price pressure from the supply side for sawtimber sized trees over the next 5 to 10 years.
- Increased demand for energy wood could positively impact sawmill profitability, also the stumpage price solid wood product manufacturers can pay
- A significant portion of sawmill revenue is generated through sales of by-products - chips
- If small wood prices get high enough, some of the smallest sawtimber trees will probably be used as small wood

American consumer may recognize "greenness" of the Southern forest

- Southern forests are among the greenest in the world
- Manufacturing industry operates at the high US standards for the environment and labor.
- But so far the American consumer hasn't recognized this.
- Seems like it should only be a matter of time until building codes like LEED give consideration to the fact that we grow wood in the south
  - using native trees, not exotics, and that the
  - relatively long rotations and thinning practices we employ create a relatively diverse ecosystem friendly to native animals and birds.

American consumer may recognize "greenness" of the Southern forest

- But as yet, certification systems don't differentiate between fast grown dense plantations of exotic trees and the slower grown native plantations we have in the south.
- Surely this will change, and if and when it does it should provide a boost to the southern industry and therefore to tree growers.
- And this is something we can influence!

Great reduction in harvests from natural areas in the South

- Over the next 5 to 10 years most harvests will come from plantations.
- most natural areas suitable for agriculture or trees are in fields or plantations.
- The remaining natural areas tend to be on properties that aren't being managed for commercial timber production.

Great reduction in harvests from natural areas in the South

- Forest Service projections of supply and demand still include a significant natural component,
  - we believe their estimates are overstated and that the pressure on pine plantations to produce the volume we harvest will be greater than forecasted. This could also serve to bolster prices as our economy recovers.

Conflict Between Demand for Fuel and Demand for Carbon Accumulation

- Greater demand for small trees will shorten rotations
- Only way to generate carbon to sell is to lengthen rotations or increase productivity
- It will be interesting to see which market wins!

Conclusion

- Reduction in supply of pulpwood should cause increase in price regardless of who uses it
- Sawtimber prices probably stay low
- We have real opportunity to influence our future by selling our "greenness"
- Probably won't store much carbon in our forests
- Some paper mills are replaced by (or convert to) energy mills