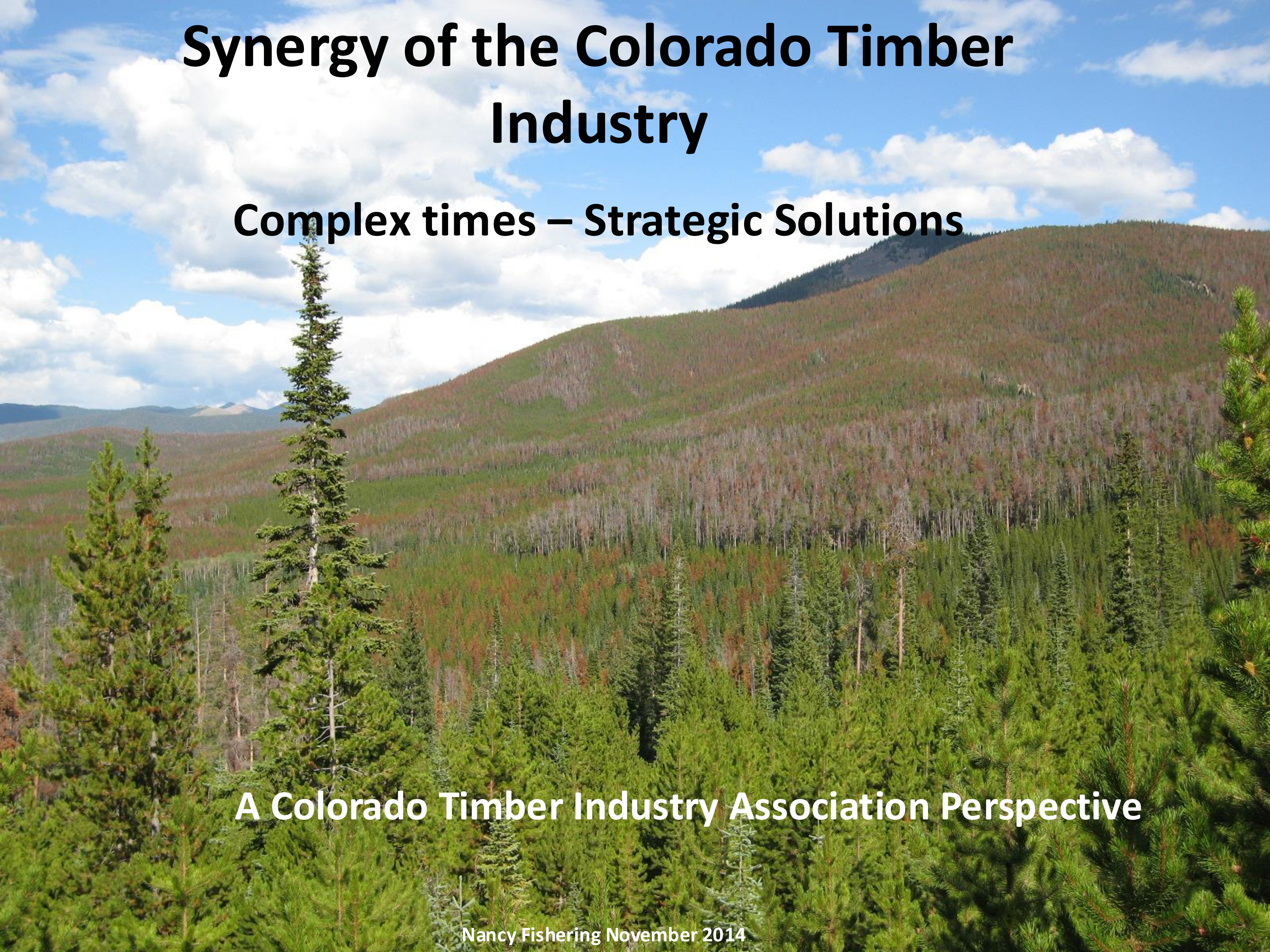

Synergy of the Colorado Timber Industry

Complex times – Strategic Solutions

A Colorado Timber Industry Association Perspective

Nancy Fishering November 2014

“Since 1982, total Colorado timber harvested and processed has dropped 40%”

Mike Retzlaff, Regional Economist, 2007 Proposed Land Management Plan for the GMUG, March 2007

- “A structural change in the forest products industry has been (an increased) degree of interdependence among firms…”
- The Montrose mill is the largest Colorado mill and is a lynchpin for today’s industry
- “Driven by increased specialization and scarce timber supplies, logs of all types and sizes criss-cross the state as mills seek to maintain financial viability”

COLORADO BACKGROUND

Historically the GMUG has played a major role in vegetation management

- The GMUG area contains a third of all forest products firms in Colorado
- ¾'s of Colorado's mill capacity and over half of it's mill production occur in the GMUG area
- Historically the GMUG NF has been a major source of timber supplies among all national forests in Colorado
- The GMUG NF has averaged a quarter of total national forest harvest in Colorado since 1982
    - **Mike Retzlaff, 2007 Proposed Land Management Plan for the GMUG**




THE FACES OF THE INDUSTRY

Colorado Timber Sales Driven by Forest Health Salvage

- 2002 – 2000+ fires burn over ½ million acres
  - Montrose mill purchases 95% of the timber from the Hayman Fire sales
- 2002 -2010 mountain pine beetle epidemic grows
  - Montrose mill increases north zone harvest from 200 acres in 2004 to over 20,000 acres on National Forests and private by 2009

FOREST HEALTH ISSUES MUSHROOM

- **The spruce beetle outbreak is the second largest conifer issue affecting over 508,000 acres**
- 70,000 new acres of spruce mortality detected in 2009

- **Grand Mesa had a large increase for 2009**
- Since the spruce bark beetle has a two year reproductive cycle, we expect an exponential effect by 2011

SPRUCE BARK BEETLE ISSUES

Photos by Montrose Press,
Uncompahgre Plateau, 2006


DO NOT LEAVE TRUCK UNATTENDED ON SCALE
80020
DRIVERS MUST WEAR HARD HATS WHEN LOADING AND UNLOADING
DRIVERS NO SMOKING OUTSIDE OF VEHICLE
xm 088
xm 088


Potlatch


KEEP CLEAR

Shift in federal timber management dollars has unintended consequences for private industry

- **Capital investment in sawmills are fixed in place**
- **75 % of sawmill capacity in SW Colorado**
- **Economic projections and viability of logging projects based on complicated factors including geographic locations, cost of fuel, and home bases for loggers**

Montrose Forest Products Sawmill

THE ISSUE

ECONOMIC VIABILITY

- Intermountain's business model relies upon several critical factors:

- A balance of species
  - This results in a balance of prices for finished lumber
- A reasonable working circle
  - This allows for averaging haul costs, a significant issue with today's fuel costs

- Sales Prices for studs in the Intermountain West

Date	Dec	Jan*
Dry Doug Fir	$210	$185
Green Doug Fir	$180	$145
Dry Hem Fir	$195	$175
Spruce/ LP	$240	$208
Ponderosa Pine	$155	$135
Subalpine Fir $195	$175	

***January 25, 2008 Random Lengths**

BIOMASS on the LANDSCAPE

Hazard Tree removal and log decks

Air Pollution and Burning Slash

INTERMOUNTAIN BIOMASS

The Opportunity for Biomass

- Intermountain produces over 300 green tons of biomass per day
- DMEA and Intermountain partnered in a Renewable Energy Feasibility Study which found:
  - Power generation capacity = 5.33 MW
  - 5 MW Steam engine CHP* plant capital cost of $10-15 million and a $500,000 operation and maintenance cost
  - A CHP system is capable of meeting the heat and power demands for both DMEA and Intermountain
  - Economic viability is possible

*** Combined Heat and Power**

Sawmill residues include shavings, chips, and sawdust

Caliber of incoming logs creates a variety of lumber lengths

Forest products companies use every part of the timber

Market Environment

- Intermountain economic stability relies upon a balance of supply from across the state
  - Balance relies upon a source of sales close to the sawmill to balance the reach across the state - assuming a 300- 400 mile working circle
- Intermountain economic stability relies upon a balance of <u>species, diameters, and integrity</u> of wood fiber
- Intermountain capital investments and banker information needs to reflect ‘consistency’ and ‘predictability’

NATIONAL BUDGET

OPPORTUNITES AND THREATS

OPPORTUNITIES

- Expand Montrose mill capacity
- Invest in expanded biomass opportunities
- Add loggers and truckers as other states reduce logging
- Work with Colorado legislature to provide incentives for using wood manufactured from beetle ravaged forests
- Lobby the Colorado Congressional delegation to focus on National FS budget issues

THREATS

- National Forest Service budget priorities and allocation among Colorado forests have direct effects on Intermountain operations and business plan