



PHOTO: TYSON RITTER



PHOTO: JANI LEONARDO/LEONARDO LOGGING & CONSTRUCTION, INC.

The Humboldt County Export Economy: FOREST PRODUCTS

Prosperity! was developed with the direction of over 300 business and community people.

It's about growing and sustaining our community—our people, our businesses, our environment, our lifestyle. It's about competing—and winning—in an extremely competitive global marketplace. It's the North Coast strategy for economic development.

And it's working.

The export industries of Humboldt County grew wages 11.2% in the last two years... that's faster than the whole economy, and that's the point. These industries *drive* the local economy...and *thrive* on the quality of life that we all cherish.

Humboldt County is California's leading timber producer by a wide margin. The North Coast's unique climate and forests—the only place in the world where redwoods thrive—supply an industry that commands substantial capital assets, a deep knowledge base and a loyal workforce. The area's mills produce premium redwood products to fulfill a steady marketplace demand. That much has not changed.

But in virtually every other way, Humboldt's forest products industry hardly resembles its former self. Since its peak in the mid-1950s when it provided half of the county's private-sector employment, the industry has seen steady declines in employment, harvested timber and finished wood products.

Of course, much of the reduction was inevitable: Consolidation naturally followed the end of America's postwar construction boom, the likes of which will never be seen again; the predictable conversion from virgin-growth to sustainable second-growth forests has thinned out the steady log supply; and major improvements in technology and productivity, plus increasing foreign imports, have displaced many workers in recent decades—a trend common in all manufacturing sectors.

At the same time, there can be no denying that California forestry regulations, among the most strict in the world, have had a chilling effect on the industry. Most insiders go further than that, insisting that regulation has placed the industry's very future in jeopardy. ►

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Despite premature accounts of its demise, the forest products industry in Humboldt County is down but not out. In 2004, Humboldt's timber harvest of 396.5 million board feet worth \$169 million represented almost one quarter of the state's total harvest volume.

The Forest Products industry cluster supports about 4,300 jobs in the greater industry cluster, jobs that continue to boast some of the best wages and benefits on the North Coast, according to a 2004 study by SHN Consulting Engineers & Geologists Inc. of Eureka.

In recent years the industry has fueled the local economy with combined annual spending of more than \$300 million, including payroll, expenditures for local forestry and support services, charitable giving and payments to local government, which in turn supports another 1,800 jobs, the SHN study estimates.

About 1 million acres of privately owned land in the county are designated as timber production zones devoted to the growing and harvesting of trees—activity that employs a range of professionals from foresters and environmental consultants to loggers and truckers. Many nonindustrial landowners, particularly ranchers who also own forestland, maintain smaller holdings throughout the county amid larger corporate landowners that include Scotia Pacific Co., the timber harvesting arm of the Pacific Lumber Co. (Palco), based in Scotia; Sierra Pacific Industries, based in Redding; and Green Diamond Resource Co., a Seattle-based company with its California Timberlands Division in Korb.

Green Diamond owns approximately 420,000 acres in Humboldt, Del Norte and Trinity Counties, although the majority of its holdings are in Humboldt. The company directly employs around 220 people in the county throughout the year, but during the logging season it can also employ just as many contractors, who perform about half of Green Diamond's logging. Most of the company's sales—about 60 percent redwood, 40 percent Douglas fir—remain within the county. Simpson Timber Co., which maintains its California Operations division near Eureka, remains Green Diamond's largest customer.

After decades of environmental controversy, and despite a lingering negative image in the minds of many Californians, the industry has made a shift toward restoration and sustainable forest management that has even led to a successful "green" brand in the marketplace. Like the other major corporate landowners in the county, Green Diamond has undergone independent audits of its forestlands for certification under the Sustainable Forestry Initiative (SFI), a set of standards administered by the American Forest and Paper Association that ensures sustainable forestry.

SFI labels on wood products have begun to resonate with buyers. "Consumers have that awareness, and they ask for it in the marketplace," says a spokesperson at Simpson Timber Co. At the same time, ongoing forest and resource management, environmental assessment, stream restoration and related activities have provided hundreds of county jobs, including those at more than a dozen independent firms dedicated to environmental engineering.

In wood products manufacturing, the county maintains substantial mill operations, including those of Palco, which runs sawmills in Scotia and Arcata that produce redwood and Douglas fir lumber; Schmidbauer Lumber in Eureka; Sierra Pacific Industries, operator of a sawmill in Arcata as well as a dock on Humboldt Bay; and Simpson Timber Co., maker of redwood decking and dimensional lumber. Simpson ships its products to wholesalers primarily in California and the Western region, although the company does have a few limited markets on the East Coast.

The mill supports a variety of high-skill, high-paying jobs, but employment can vary throughout the year based on lumber demand and log supply—a common dilemma in the industry. "We try really hard to keep employment steady, because when you take off a shift, the people who have skills that are on that shift may decide to go somewhere else," says a Simpson spokesperson. At the same time, Simpson and other area mills are always looking for improvements in technology that can improve the product or lower costs. Although such upgrades can displace some lower-skilled workers, in the long run the efficiencies that often result can create new, higher-paying jobs.

Across Humboldt Bay in Samoa, Evergreen Pulp Inc. uses wood chips from area mills to supply 10 percent of the entire global market for unbleached Kraft pulp, according to the company. In fact, the pulp mill has to reach as far as southern Oregon to satisfy its hunger for wood chips, which it transports to Samoa at the rate of up to 150 truckloads a day, says Ed Crawford, vice president for resource management. ▶

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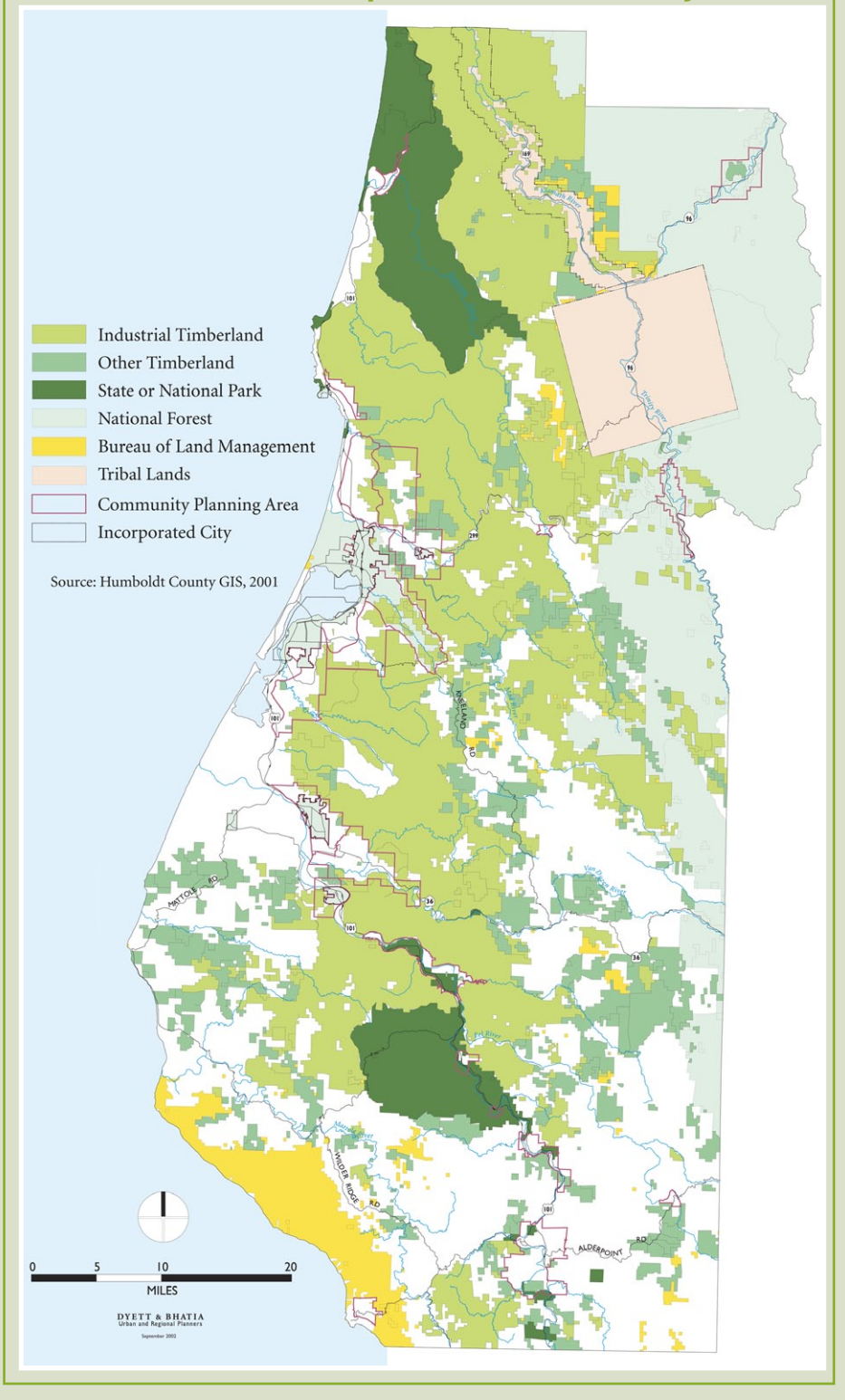
The company ships baled pulp by freighter from Humboldt Bay, or by container out of Oakland, to its primary markets in Asia, most notably China.

As California's last pulp mill, acquired from Stockton Pacific Enterprises in January 2005, Evergreen Pulp supports hundreds of local vendors and spends \$5 million a month, the majority of it going into the local economy, the company reports. It currently employs about 175 people and continues to hire. "It's an ongoing process as we increase the size of the company," Crawford says. Because the mill's longtime employee base is aging, Evergreen has undertaken extensive training for younger workers before it loses experienced employees to retirement.

While the local market has successfully supplied the mill's low- to medium-skilled jobs, the company often has to search out of the area to fill high-end supervisory and engineering positions, despite the proximity of engineering programs at Humboldt State University and a good relationship with HSU. "It's one thing to come right out of the university with an engineering degree," Crawford explains. "It's another thing to know how to fit into a full-production pulp mill."

Although for years the mill has earned accolades from the environmental community as North America's only certified totally chlorine-free facility, recent air quality issues prompted citizen complaints and, ultimately, a January 2006 agreement between Evergreen and government regulators. The company has begun multimillion-dollar improvements while regularly monitoring emissions. ▶

Forest Lands Ownership in Humboldt County



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CHALLENGES ON MANY FRONTS

Regulation in several forms, in fact, presents one of the greatest challenges to forest products companies doing business today in an increasingly competitive environment. A 2003 report by researchers at Cal-Poly State University

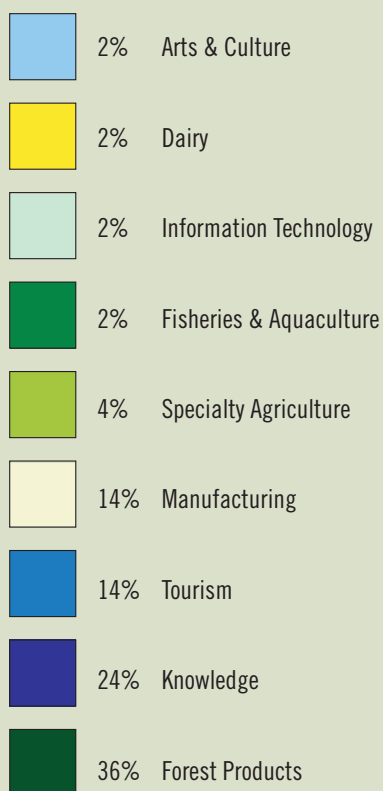
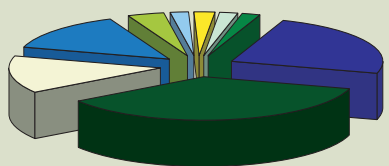
concluded that multiple layers of federal, state, county and local regulations make California forestlands some of the most legally protected privately owned forests in the world. Forest owners argue that overlapping and expensive regulations have slowed harvesting and made it more difficult to compete with imports from states or countries with fewer regulations. What's more, they say, the unpredictability of mandates from various corners of government make it nearly impossible to maintain a steady log supply and forecast a return on investment.

The loudest protests in recent years have come from Palco, which fought new mandates from state and regional water boards that blocked Scotia Pacific from harvesting trees under plans already approved by other agencies. Palco, a subsidiary of Houston-based Maxxam Inc. that employs more than 500 people in Humboldt County, last year attributed workforce reductions and the closure of its

Fortuna sawmill to the regulatory action of the water boards. After its authority was upheld by the California Supreme Court, the regional water board continued to pursue waste discharge requirements for Scotia Pacific in the Elk River and Freshwater Creek watersheds, which Palco said could prove "calamitous." In May 2006 the parties reached a compromise, giving Scotia Pacific limited harvesting in the two watersheds under strict sediment discharge monitoring.

The industry also faces onerous workers' compensation premiums given the dangerous nature of many of its jobs. In fact, according to recent data from the U.S. Bureau of Labor Statistics, logging is the most dangerous occupation in America, with 92.4 fatalities per 100,000 employed in 2004. The high insurance cost is especially difficult for smaller contractors who might wish to add jobs but can't, yet even larger mills feel the pinch. One mill spokes- ▶

Humboldt County Base Economy, Wages by Industry Cluster



Source: EDD: Labor Market Information
www.labormarketinfo.edd.ca.gov

California's Leading Timber Counties, 2004

TIMBER RANK	COUNTY	TIMBER VOLUME (MILLION BD. FT)	TIMBER'S PERCENTAGE OF AG. ECONOMY
1	HUMBOLDT	396,500	58.5
2	SISKIYOU	239,349	28.3
3	MENDOCINO	109,548	27.6
4	PLUMAS	123,678	60.1
5	SHASTA	135,723	33.3

Source: Humboldt County Ag. Report, 2004. www.co.humboldt.ca.us/ag

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person has observed some relief, but not much, since state workers' compensation reforms became law in 2004.

Then there is transportation—not only the higher cost of fuel, but also the unique length restrictions that limit the type of trucks that can carry raw materials and finished products in and out of Humboldt County. “It’s an ongoing problem,” says a longtime mill executive. Because most of the county’s major lumber mills sit on or near the railroad, restored rail service in Humboldt County is one option that could reduce transportation costs and increase competitiveness, while at the same time offering opportunities for tourism and other industries.

As the price of land rises rapidly in the county, timberland owners believe that keeping land in sustainable harvest may be the only way to prevent forests from being subdivided and developed. “If we can’t profitably manage these lands for timber, they’ll probably go to other uses,” says one industry insider. “I for one don’t want to see ranchettes from here to Del Norte County.” Contrary to common belief, only a tiny fraction of the county’s harvest volume (0.25 percent in 2004) comes from public lands. Simply put, without the private holdings, there is no local industry.

In all, California consumes 9 billion board feet of wood each year, yet only about 20 percent comes from its own ►

Forest Products Workplan Goals

GOAL 1: APPLY EFFICIENT MITIGATION PRACTICES THAT BOTH PROTECT THE ENVIRONMENT AND ALLOW TIMBERLAND OWNERS SEE A RETURN ON INVESTMENT IN AN INTERNATIONAL MARKET.

- Strategy 1A: Articulate land use policies that support timber management, industrial development and enhance quality of life for residents.
- Strategy 1B: Pro-actively address regulatory complexity, its cost to industry and the environment

GOAL 2: SUSTAINABLE INDUSTRY PRACTICES AND LONG-TERM VITALITY.

- Strategy 2A: Add value to lumber before it leaves Humboldt County and market Humboldt lumber with an end-user, customer-driven strategy
- Strategy 2B: Develop bio-regional sustained yield policies and programs.
- Strategy 2C: Support and evolve environmental restoration practices.
- Strategy 2D: Encourage individual accountability for forest practice rules and regulations

GOAL 3: ENHANCE COMPETITIVE EDGE FOR SUCCESS IN AN INTERNATIONAL MARKETPLACE.

- Strategy 3A: Improve transportation in, out and around the County.
- Strategy 3B: Maintain and develop the port for shipping pulp, forest products, other products.
- Strategy 3C: Increase efficiency of workforce and quality of work experience.
- Strategy 3D: Work on collective solutions to reduce worker’s compensation insurance cost.
- Strategy 3E: Develop coalitions of representatives across clusters to work with Independent Physicians Association (IPA) and other sources for more cost effective medical services
- Strategy 3F: Re-develop sawmill sites to support mixed commercial and lighter industrial use.

GOAL 4: LOCAL COMMUNITY UNDERSTANDS THE QUALITY OF FOREST HARVEST PRACTICES IN HUMBOLDT COUNTY, WORKS WITH THE LOCAL INDUSTRY TO RESOLVE CONCERNS, AND APPRECIATES THE CONTRIBUTIONS OF THE INDUSTRY TO THE LOCAL ECONOMY AND COMMUNITY.

- Strategy 4A: Educate the public on the quality of forest harvest practices in Humboldt County.
- Strategy 4B: Educate the public on industry contributions to the economy and community.
- Strategy 4C: Develop local industry cluster capacity to collaborate within the local industry and across industry clusters for common solutions

Developed by Forest Products industry leaders in their Prosperity! industry cluster work-plan.

HIGHLIGHTS

Source: Dennis Mullins, EDD:
www.labormarketinfo.edd.ca.gov

In 2005 there were 178 establishments within the Forest Products cluster. This number decreased by 10% from 2003, while the number of employees has dropped by 4%. During this same period, total wages rose 8% to more than 180 million. Average wages also rose by 12.6% to \$44,044 per person. The Forest Products cluster represents 12% of the total economy and 36% of the base economy in Humboldt County.

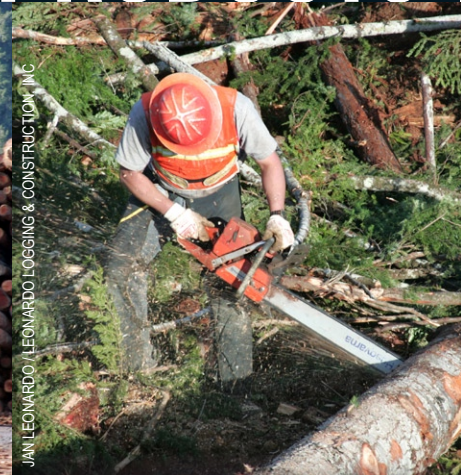
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productive forestlands, according to the California Forest Products Commission. Local advocates say that importing so much wood from other states or countries sacrifices jobs and a viable industry at home, all so that Californians can

be comfortable knowing that trees are falling somewhere else. A final challenge for the industry, they say, is educating citizens and lawmakers about modern forestry practices, which most people would find pleasantly surprising. Tours

of contemporary mills and forests, for example, may be one way the industry that touched so many lives in Humboldt County not long ago can reconnect with them once again. ■

Forestry Products Assets and Opportunities

ADVANTAGES

- Redwood: Is a premium niche product; grows fast; large percent of value; Redwood 2nd/3rd fastest growing plant.
- Trees/lumber is a renewable resource; visible in lifetime; lot of it here.
- We have big, anchor businesses in this industry located here in Humboldt (PALCO, Simpson); trickle down to support the local economy of smaller businesses
- Three running sawmills; this an absolute minimum capacity... affects buying price, less sawmills, less competition and when price is low, land owners are willing to invest less in their timber lands
- Climate grows trees well
- Substantial capital assets: sawmills, trucking, pulp mills, water district impact
- Scientific data collection; the industry is investing creating new scientific knowledge
- LWP companies give money to community... Sponsorships, donations, scholarships, etc.
- College of the Redwoods—workforce training
- Economic Development community
- National Forests—Six Rivers Forest has trees growing that could be harvested
- Valuable land, increasing in value
- Potential for more/various age classes of trees
- Lots of land to restore, knowledge base in restoration
- Lots of support from community and industry to move forward in environmental restoration and improved management
- Workforce. Employees in industry are:
 - long term and committed
 - volunteers in the community
 - concerned about the industry and community
 - eager to contribute to the business
 - knowledgeable
- Labor Unions are a partner; mechanical/maintenance trades need strengthening
- Goods and services purchased by forest products employees fuel local economy

- Lifestyle here; low crime; weather; open space; slower pace of life
- Open space provided by private landowners
- Beautiful, natural vistas
- Company's investment capital in lands for management
- Community and timber industry operations interest/acceptance/willingness to invest in environmental restoration
- Provides tax base for the county
- Co-Generation infrastructure to generate local energy... if ran all we would export power, use biomass facility to handle waste and help defuel forests

OPPORTUNITIES

- Voracious appetite for wood products in California
- State and federal parks collaborations
- Environmental restoration and improved science on timberlands and management

Developed by Forest Products industry leaders in their Prosperity! industry cluster work-plan.