

Economics and Competitiveness Changes

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Washington's forest products industries are predominantly

- Sawmills
 - 2.4 BBF logs consumed
- Log exporters
 - 0.9 BBF
- Veneer and plywood manufacturers
 - 0.5 BFF logs consumed
- Pulp manufacturers
 - 3.1 million tons of residues
 - 1 million tons of chips
 - 700,000 tons of wastepaper

2002 data from WA DNR mill survey

Demand factors in determining competitiveness include

- 0.6 to 1.0% per year growth
- 8.2 BFF growth in softwood lumber for U.S from 2000 to 2040 reaching 70 BFF by 2040
- North America and Japan are the largest newsprint consumers with negative to below average growth
- U.S. housing providing the major end-use for lumber

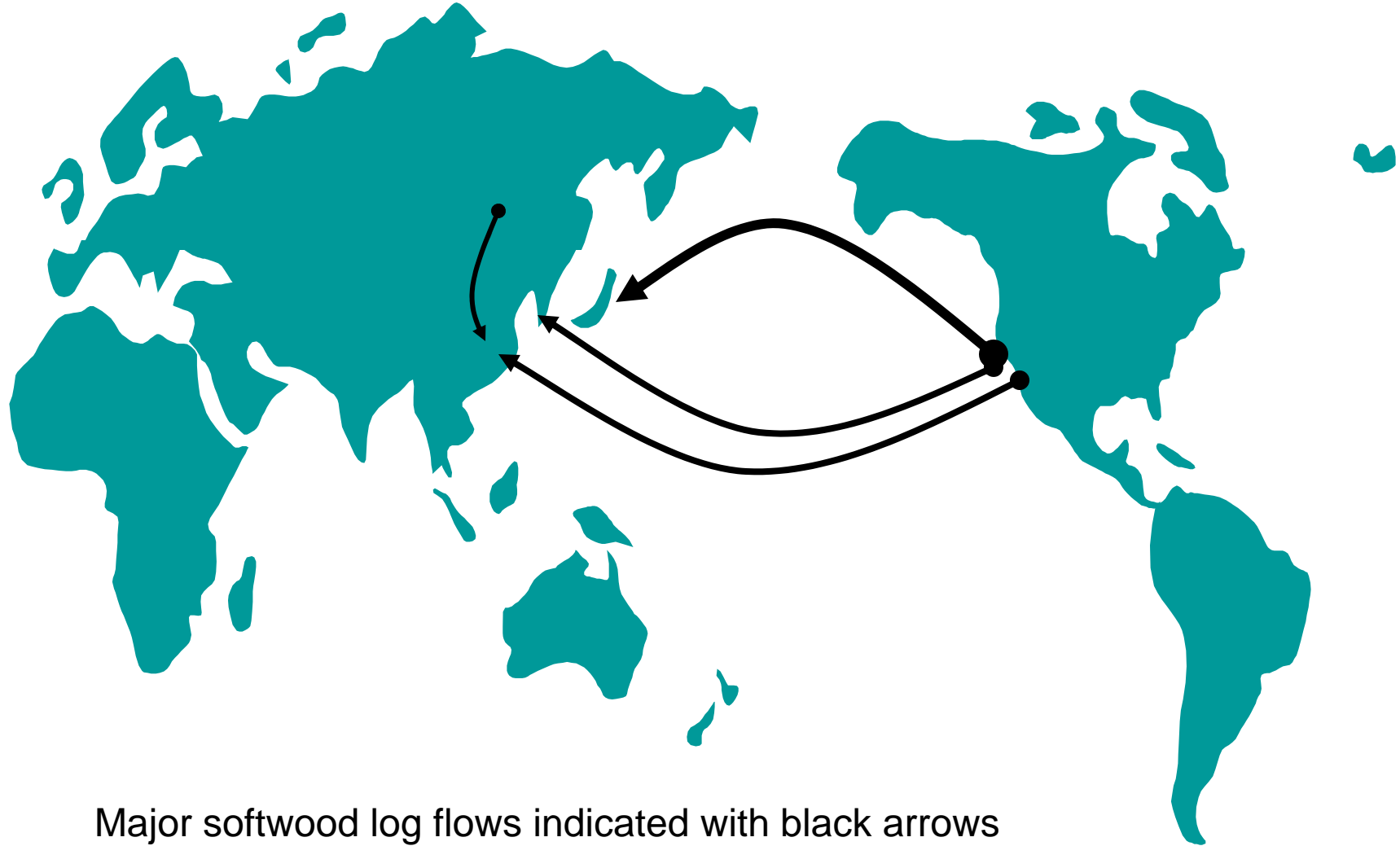
Data from various sources and CINTRAFOR projections

Supply factors determining competitiveness

- Softwood and hardwood log and lumber production has expanded in North America, mainly at the expense of Asian producers.
- Washington timber harvest levels have steadily declined since 1989 while U. S. South, Canadian provinces, plantations overseas, and European producers have increased their harvest levels.

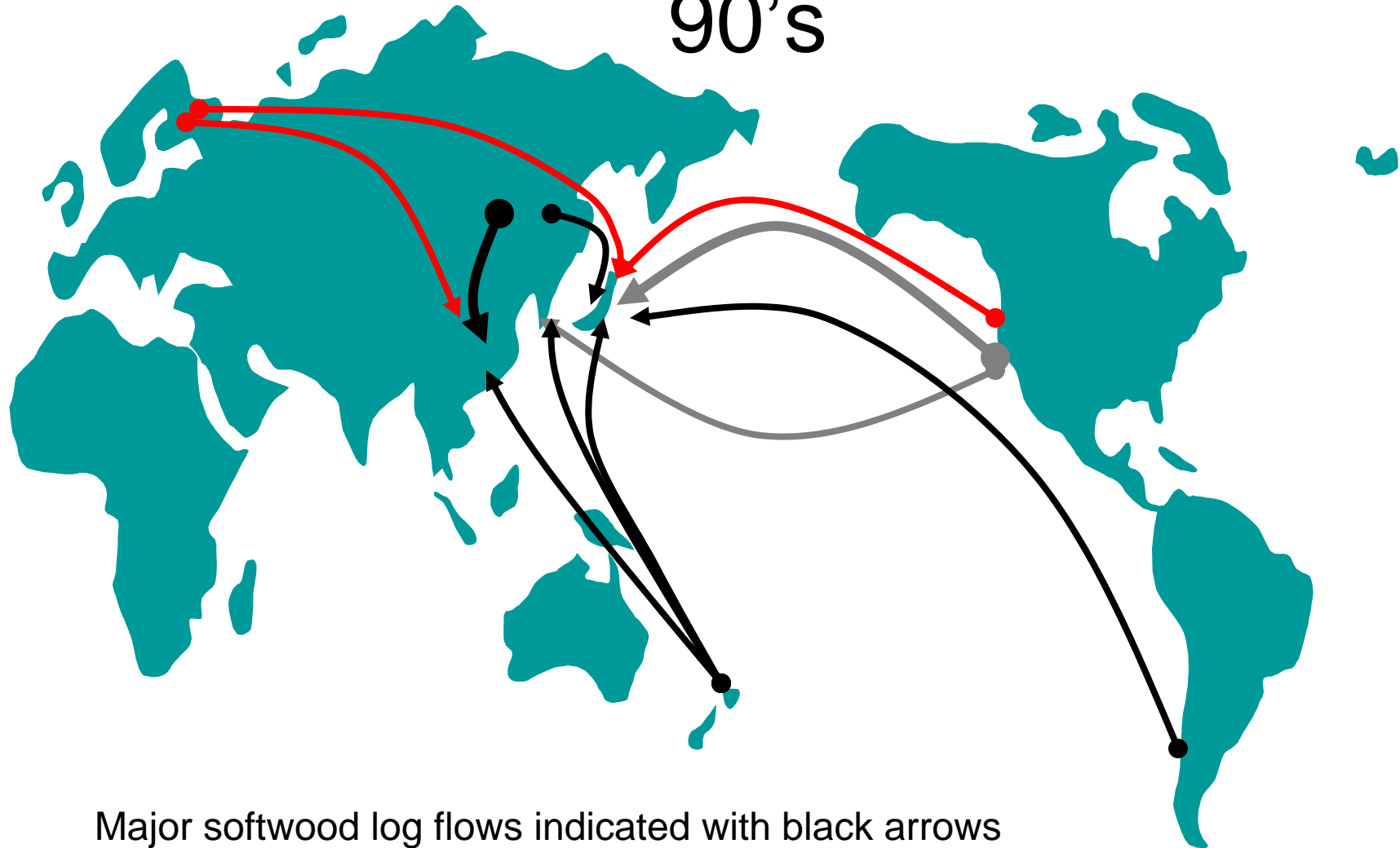
Data from FAOSTAT, US DOC, WA DNR

The Asian Wood Basket: Pre 1990



Major softwood log flows indicated with black arrows

Environmental Concerns: Early 90's

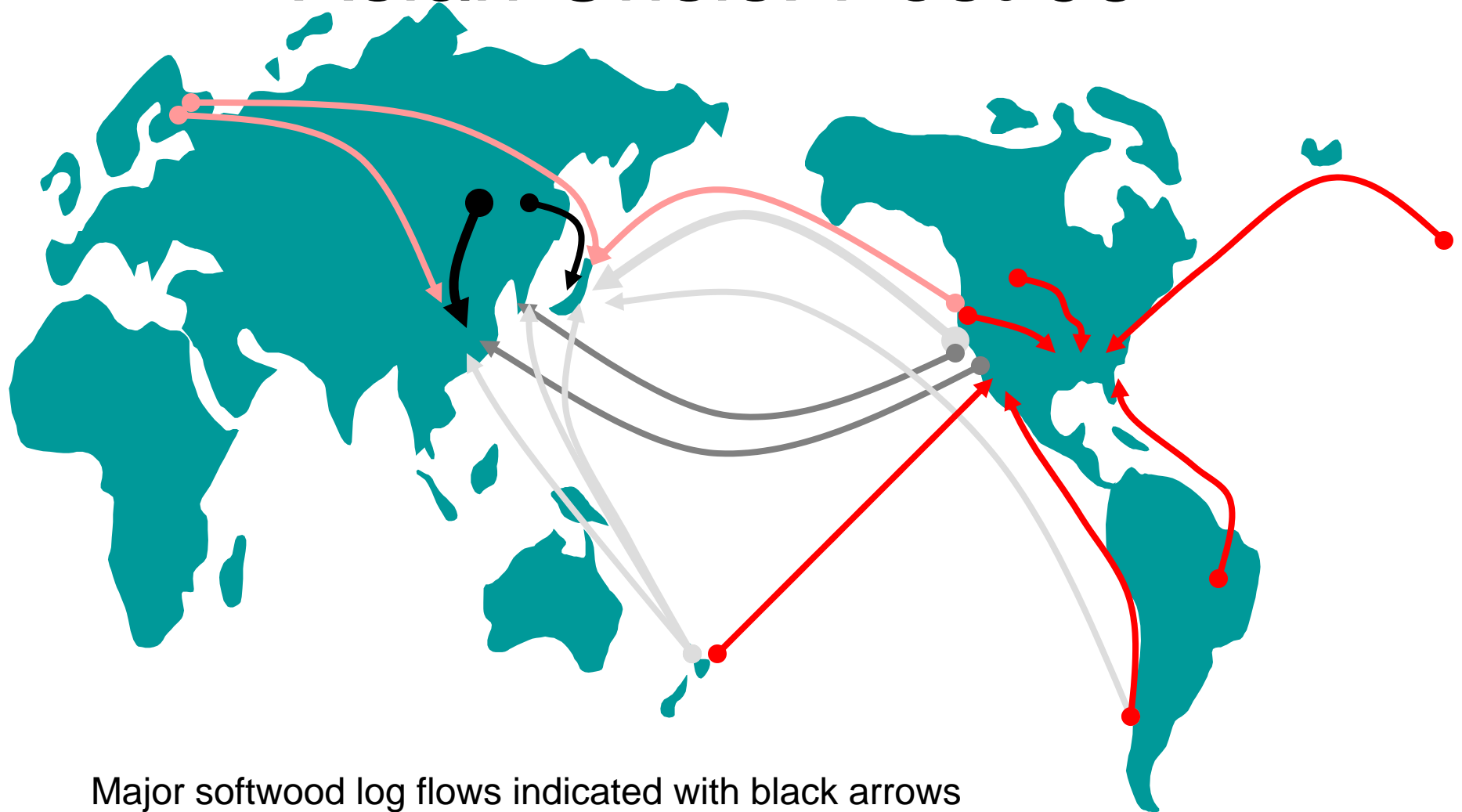


Major softwood log flows indicated with black arrows

New lumber flows indicated with red arrows

Diminished log flows indicated with grey arrows

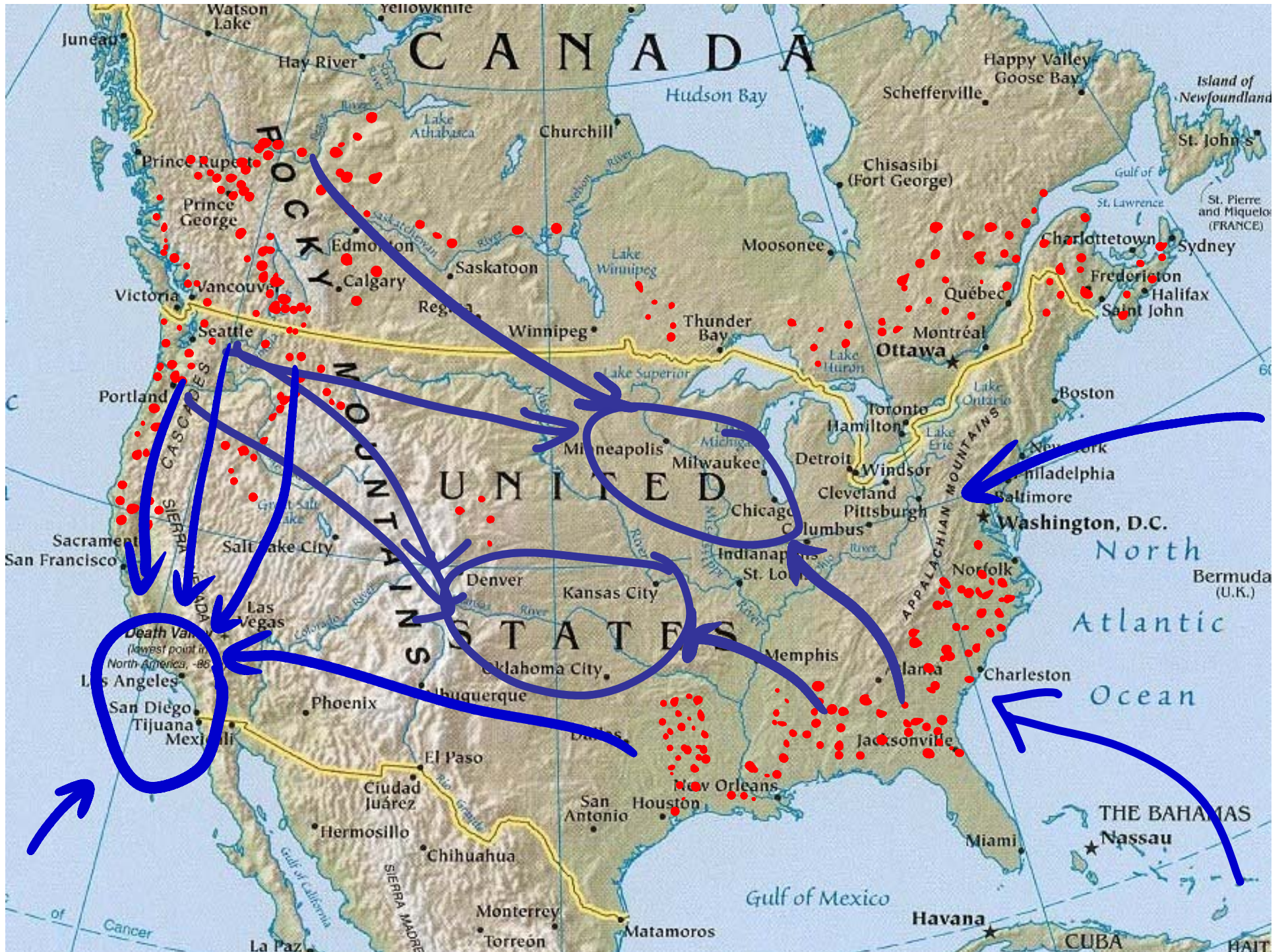
Asian Crisis: Post 98



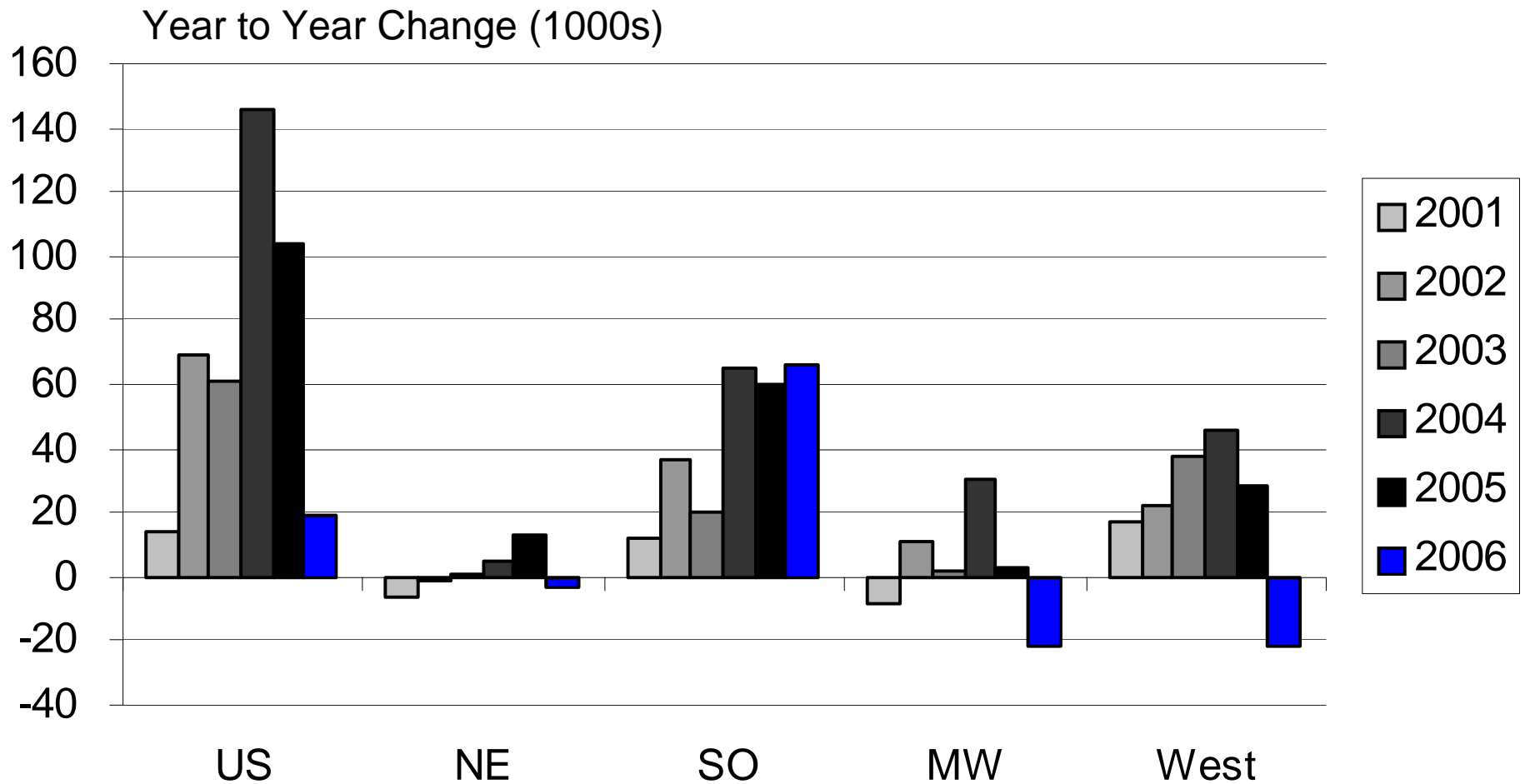
Major softwood log flows indicated with black arrows

Lumber flows indicated with red arrows

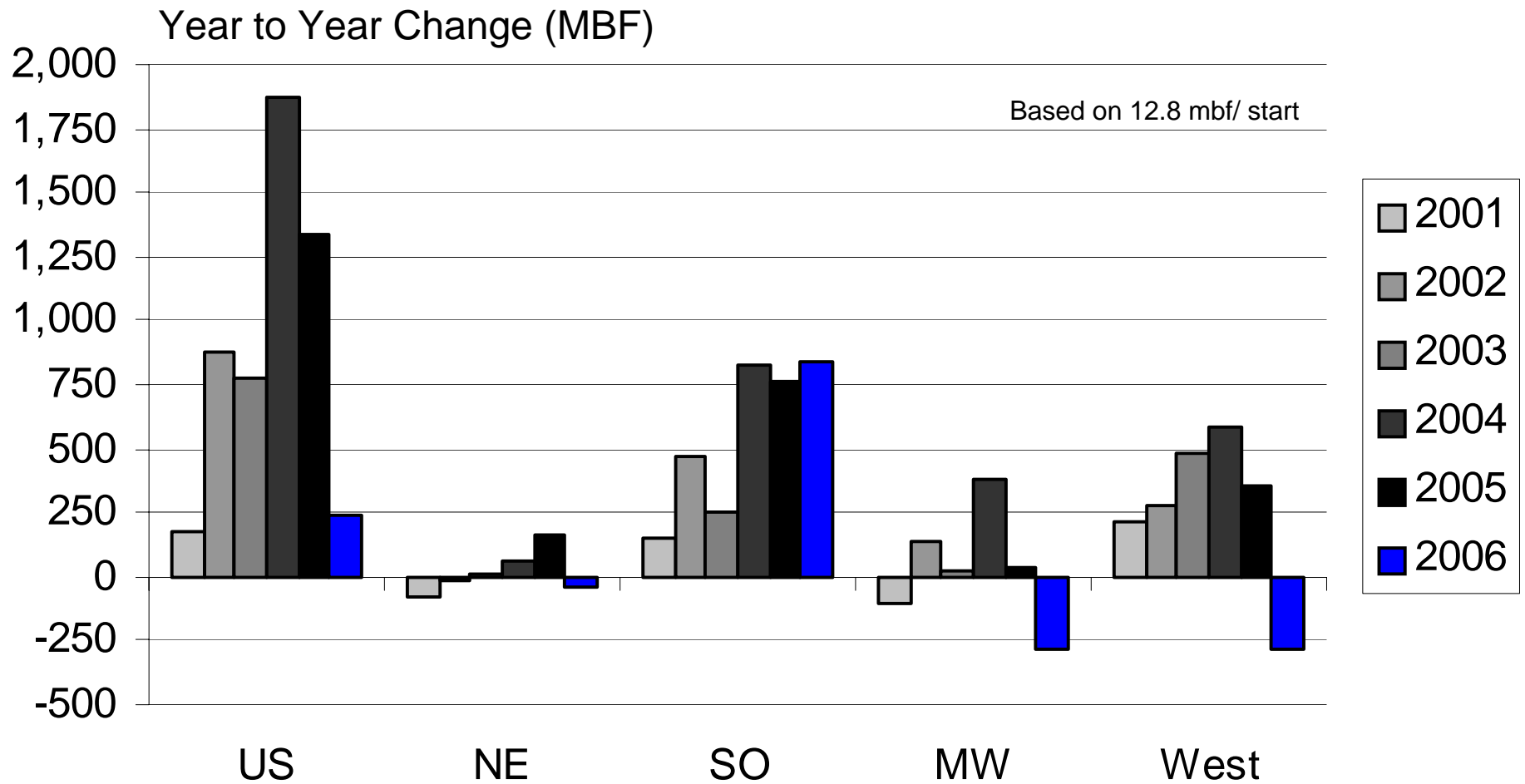
Diminished log and lumber flows indicated with grey arrows



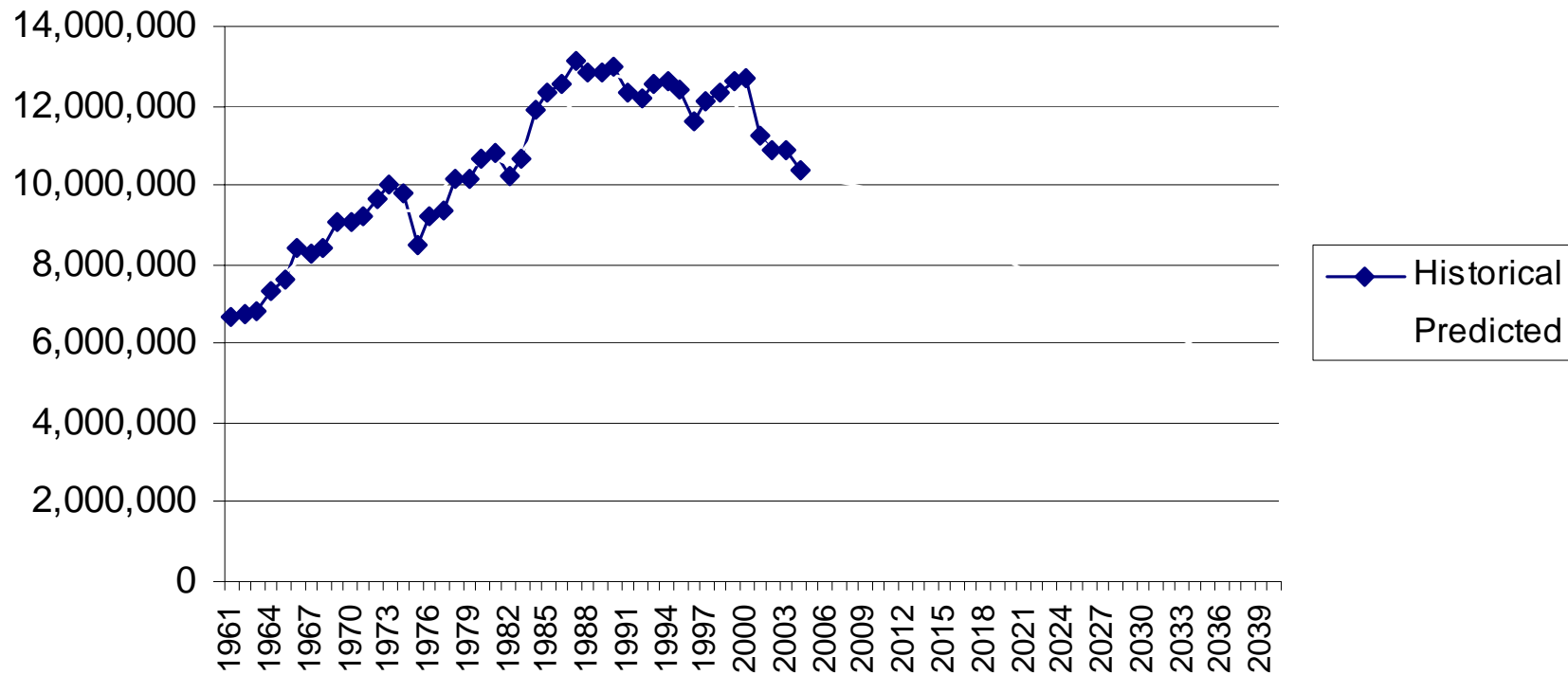
New Privately Owned Housing Units Completed in the United States



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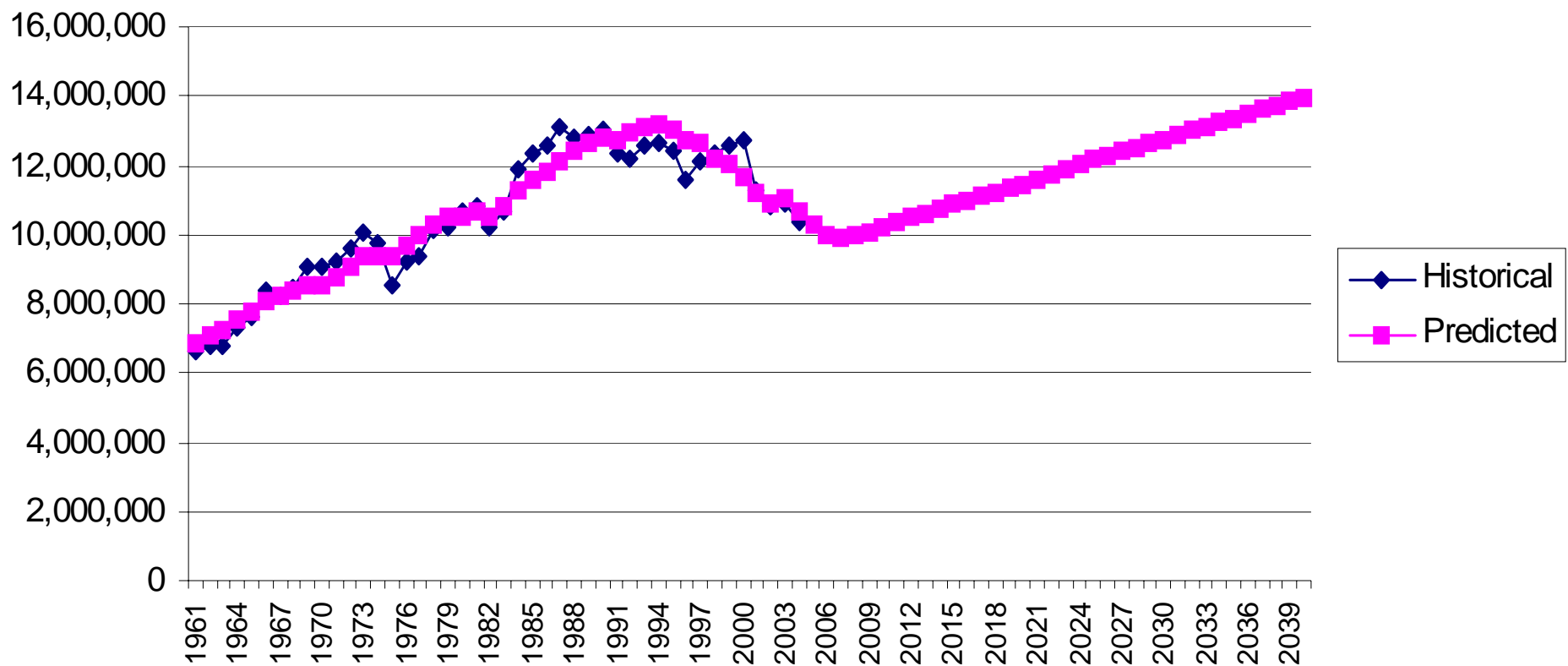


US Newsprint Consumption 1961-2004



US Newsprint Consumption 1961-2040

$$\ln(\text{Newsprint Consumption}) = -2.294 + 0.63 \ln(\text{GDP}) - 2.42(\text{Internet Users})$$



Land Ownership Taxation

	Layers of Taxation	Capital Gains	Max Tax Burden
TIMO	Single	No	0-20%
REIT	Single	Yes	20%
C-Corp	Double	No	58%
S-Corp	Single	Yes	20%

- REITs are required by law to distribute *at least* 90 percent of their taxable income to shareholders as dividends.
- TIMOs and REITs are very similar.
- TIMOs often invest funds for endowments or trusts which are in turn tax exempt, so they would not face even the listed capital gains rate.

Federal Tax Comparisons

Assumptions:	Land Base	Acres		\$/MBF
	Acres	Harvested	MBF/Acre	(net sales price)
	125,000	2,500	40	\$ 252
	TIMO	REIT	C-Corp	S-Corp or LP
Gross Revenue	\$ 25,200,000	\$ 25,200,000	\$ 25,200,000	\$ 25,200,000
Revenue minus operating costs	\$ 21,420,000	\$ 21,420,000	\$ 21,420,000	\$ 21,420,000
Timber Severance Tax	\$ 1,058,400	\$ 1,058,400	\$ 1,058,400	\$ 1,058,400
Property Tax	\$ 224,089	\$ 224,089	\$ 224,089	\$ 224,089
B & O Taxes	\$106,722	\$106,722	\$106,722	\$106,722
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Revenue after State Taxes (Taxable Federal Income)	= \$ 20,030,789	\$ 20,030,789	\$ 20,030,789	\$ 20,030,789
Maximum Corporate Income Tax (%)		0%	0%	35%
Corporate Income Tax	= \$ -	\$ -	\$ 7,010,776	\$ -
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Revenue after Corp. Income Tax	= \$ 20,030,789	\$ 20,030,789	\$ 13,020,013	\$ 20,030,789
Net Revenue/ Share	\$ 0.20	\$ 0.20	\$ 0.13	\$ 0.20
Maximum Capital Gains Tax Rate applied to Dividend Income	15%	\$ 0.03	\$ 0.03	\$ 0.02
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After Tax Revenue/ Share	= \$ 0.17	\$ 0.17	\$ 0.11	\$ 0.17

International Competitive

- Income taxes in most competing nations are more favorable for investments in papermaking and timber production than U.S. income taxes

Domestic taxation of domestic production in:

		Papermaking	Timber
Least Taxed	Russia	21%	Indonesia 8%
	Brazil	28%	Russia 9%
	China	30%	China 17%
	Indonesia	34%	Brazil 22%
	Finland	43%	Germany 30%
	Germany	48%	Finland 31%
	USA	51%	USA 37%
Most Taxed	Canada	63%	Canada 51%

Competitiveness Issues

- For west coast mills it's mainly a timber supply/regulations issue but there are other concerns.
- For forest landowners returns to timber today are much lower. In the prior 10-20 years timber values increased based on export values, rising yields and wood utilization and secondary manufacturing. While sawmills have actually expanded recently, they service a commodity market.
- For Eastside, its "Can we make bioenergy work"?