

Forest Products Modernization
Eastern Partner Feedback Session Notes- All Locations
October 12, 2018

Presenters: Dave Wilson, National Presale Forester and FPM Project Leader, USDA Forest Service (USFS); and Dave Cawrse, FPM Implementation Team Leader, USFS.

Virtual Facilitator: Ben Irely, National Forest Foundation

On-site Locations:

R8: RO, Atlanta, GA; Long Cane RD Office, Edgefield, SC; Apalachicola RD Office, Bristol, FL (canceled due to hurricane); OSFNF SO, Russellville, AR

R9: Superior NF SO, Duluth, MN; Hiawatha NF SO, Gladstone, MI; Ottawa NF SO, Ironwood, MI

On-site Facilitators: Jose Castro, Mae Lee Hafer, R8; Ricardo Rodriguez, Karl Welch, and Tory Hahka, R9

On-site Note-takers: Karl Welch, Victoria Hahka, Ricardo Rodriguez, Jose Castro

Registrants:

Jerry	Bednarczyk	USFS
Michael	Besonen	Glatfelter
Dave	Cawrse	USFS Washington Office (WO) Forest Management
John G	Church	USFS
Chris	Dunham	The Nature Conservancy
Bob	Edwards	Timber Products Company
Gary	Erickson	Sappi
Jeremy	Everitts	National Wild Turkey Federation
Brian	Gulseth	Louisiana Pacific - Two Harbors/Hayward
Tim	Hahn	West Fraser, Inc.
Jaden	Hoeft	PotlatchDeltic
Rick	Horton	Minnesota Forest Industries
Benjamin	Irey	National Forest Foundation
Ron	Jenkins	Virginia Loggers Association
Steve	Kariainen	Prime Time Forestry LLC
Ricky	Lackey	National Wild Turkey Federation
Donna	LaCourt	MI Department of Agriculture & Rural Development
Jon	Lamy	J Carey Logging Inc.
George	Landrum	Rex Lumber Co.
Doug	Little	National Wild Turkey Federation
Becky	Mandich	SCE
John	Marchand	Verso
Christopher	Mattrick	USFS Green Mountain National Forest

Debbie	McGlothlin	USFS
John	McLellan	West Fraser, Inc.
Chad	Morgan	Louisiana Pacific
Jana	Mott	The Nature Conservancy
Devon	Oesterling	The Nature Conservancy
Brett	Peterson	Sappi North America
Doug	Read	West Fraser
Scott	Robbins	Michigan Forest Products Council
Robert	Slesak	MN Forest Resources Council
Scott	Smith	USFS
Fred	Souba	Wisconsin DNR
Deann	Stish	MN Forest Resources Council
Diane	Vosick	Ecological Restoration Institute - Northern Arizona University
Matt	Weegman	National Wild Turkey Federation
Eric	Wixtrom	Expera Specialty Solutions

VIRTUAL SESSION

Questions and Comments on presentation

Q: Is there going to be a formal evaluation of markets around every forest? FS needs better understanding of markets and who is purchasing from you.

- A DC: Yes, we are trying to characterize markets around the agency. I am going to look it up over the break and get back to on exactly what efforts are underway.
- A DW: Issues around markets has popped up on all of these partner sessions. It is clear it is something we are going to have to focus on this and bring in economists. We probably have to have a focal meeting just on markets and economics. S&PF is doing some work around this. We will reach out to them on guidance on how to approach this because they have some expertise on staff that we do not.
- A DC: We are also looking at certification in this regard. State of WI already certifies everything on state and county land, so if we could certify wood coming off of federal land, the state of WI could market everything coming out of WI as certified. This may not be economically feasible in every market though.

Q: Why has it taken so long for the FS to adopt technological advances that have been used on state and private forests for years?

- A DC: With an organization of 30,000 people, we are just not nimble. We need to change our culture in order to be able to adopt emerging technologies. We got very comfortable with how we do business, we avoid lawsuits with the processes we have, so people have become risk averse. We need to get more conformable with taking risks and trying new things.
- A DW: We have been asked will we (WO) have employees' backs if they want to try new things. I would respond with a qualified yes. If it is within legal boundaries, we need to be trying new

things. An example is drones. We should be using drones for FM activities and we are meeting resistance on that while the rest of the industry is already using this technology.

- A DC: Fire and Aviation is very nervous about use of drones near fires, have suggested going through a third party operator or contractor to fly drones, but why go through the contracting process for that when you could just have a drone on a unit that people could take out to quickly fly over a stand to check on stand conditions?

Q: Doug Reed from West Fraser has a question about base period prices and market adjustment. How are they calculated and is there a map showing markets where the data is coming from?

- A DW: There are not maps, but this is something we could look at implementing.
- USFS uses standard market analysis from timber prices' monthly index. USFS adjusts prices up or down based on a standard calculation. This is shared with USFS field units for contract pricing. USFS also takes into account local market issues on a case-by-case basis. Base-period prices in Region 8 for saw timber (issue being more about pine than hardwood) come from the past history of sales in the system, using volume-weighted hybrid averages. The market adjustment comes from random links – if there is more than a \$10 change, then USFS will make a new change to the market adjustment. That is the source of base period prices and market adjustments in Region 8.

Discussion Questions:

How do the priorities we've shared today resonate with you?

Steve Kariainen: Selling timber should be priority #1. Markets will determine value. Feed the market!

- A DW: Methodologies and processes to get as much volume as possible out there as quickly as possible. From an appraisal standpoint, and how to reduce the number of no-bid sales. Those no bids are a cost to both the FS and industry.

If you could do one thing to improve FS business practices and delivery of forest products, what would you do?

DW: Should we use more G&A, use more stewardship contracts, more weight scaling? What could we do to improve efficiency in the East? It may not be the same as in the West.

<No responses from partners> From NFF: USFS could use more Good Neighbor Authority or stewardship contracting. Maybe more scaled sales, weight-scaling as way USFS could deliver products faster in the East. USFS needs Eastern Region-based concerns and ideas.

What practices or processes from state and private timber operations should the FS consider in order to achieve forest restoration objectives?

John Marchand Verso Corp: The adoption of local consumer scaling systems (like those used in industry). This would bring the National Forests in line with other public and private ownerships. In Minnesota, state policy enables use of a consumer scale agreement that allows company to bring forest products across a scale (all pertinent information is captured on that load and then reported back to the agency on a weekly basis, by weight).

- A: From a policy standpoint, we are trying to loosen it up so we can do more scaled sales and use new methodologies of scaling so that regions and forests have authorities to implement those processes where appropriate.
- Carl Maass: We are working diligently in R9 to establish scaling protocols. What exactly do you mean by consumer scaling? That term shows up in our directives, and we do not support it. But we do support having weighing services agreements with purchasers to allow weight scaling to occur. So what is the difference between weighing services agreements and consumer scaling? We can talk about it offline to see if we can work something out.

The nuances of the USFS process make its policy on scaling different from other government agencies and the private sector. Counties, states and industry are now in closer alignment on weight scaling and the ticket system they are using and separation of tickets and pairs. USFS has a unique ticket system. USFS cannot seem to align with the other agencies and their load removal receipts and what's required at the scale shack.

- A: Carl: The slate is clean, we could develop a system that works up there. DW: R9 does have a couple of pilot projects that are starting. One of the major issues we've had is separating products and species, so that is a challenge for traditional weight scaling, but we should definitely have continued conversation about it.

Andrew Arends, MNDNR: We can facilitate discussion between mills and FS. MNDNR maintains the consumer scale system for the state.

Other questions or suggestions? Do you think we are on the right track with training? Are there training-related things we need to improve on?

Duluth: Regarding consumer scale systems, include allowing two-scale methods on a single sale, for example, pulpwood by weight and logs or firewood sticks scaled on the landing, we're concerned about a sale sold by ton when there are opportunities to deliver those products to other locations that don't have scales. Scales are not available everywhere. We have been able to mix scaling methods, but this practice is not acceptable to USFS. All measurements have to come back by the ton.

- A: One option is to do deck-scaling of pulpwood and firewood sticks, but that cannot be done on the same scale – whether deck or weight-scaled. Product types cannot be mixed. This is an area that USFS to investigate further and try to resolve by working with the Region. USFS is working on deck-scaling method since not every place has weight-scales available. Regarding mixing the two methods – USFS is open to hearing more and to try to move dialogue forward.

In Minnesota, the industry is reviewing Transaction Evidence Appraisal (TEA) roll back of 15% in areas with competition. It would like to allow the competition to generate fair market value. In modernization of the appraisal process, there is so much concern about setting those minimum rates, seeking that fair market value when you have areas of competition. Using a larger rollback factor would allow better capture of downturns in the market, and competition ensures that in an upturned market that you still receive fair market value.

If you have a track record of having 3-4 bidders out of a USFS sale program, why does USFS remain so concerned about setting an advertised rate within 25% of the selling rate?

- A: USFS is looking at how to improve that process where there is enough competition.

TEA is method USFS uses to conduct all their appraisals. It is a review of sales over the previous four quarters to determine the base period price for current sales.

<CONCLUSION OF VIRTUAL SESSION>

ON-SITE DIALOGUE SESSIONS

R8 Russellville:

Tim Hahn wanted to state West Fraser position that they are a saw timber company and that they did struggle to move pulpwood that we were selling in our timber sales.

Everyone agreed that we need a better / new market for pine and hardwood pulpwood.

Tim Hahn stated that an agreement / letter / statement from the Forest Service saying that the USFS was committed to providing the current or an increased amount of pine saw logs over the next decade would help them feel better about improving the Russellville mill with upgrades that would increase their output production and allow for the better utilization of smaller trees as logs.

The current capacity of the West Fraser mills is about 160 MMBF at Russellville and 113 MMBF at Mansfield which is equivalent to about 1 million tons of logs.

Tim Hahn states that the use of Random Links was not a good indicator for stumpage value.

West Fraser said that National Forest sales that they bought made up 25% of the saw logs for their two mills in this area, and guessed that gate wood that came from National Forest kicked it up to about 30%.

Tim Hahn stated that West Fraser appreciated the Forest Service efforts, and wanted to continue the good working relationship that we currently have.

R9 Superior NF Duluth:

- All efforts should show results of more acres treated
- Forest Products modernization should focus on leadership and performance accountability rather than gadgets and gizmos
- Find and remove self-imposed internal barriers
- Contract is a good tool. It's the NEPA mitigation measures and restrictions imposed that are more troublesome; Leadership needs to recognize the ramifications of their decisions
- Technology adoption can be substantially improved. QR codes on Sale Area Maps to load them directly on smartphones at advertisement
- Modernize consumer scale regulations; stop driving to mills to pick up tickets accept what others do (state, counties)

- Focus first on restoration of areas with markets available, get your house in order before working on the yard. Put your resources in areas that you can use existing tools to treat now, rather than spending resources developing new tools to create treatment options
- We have a viable existing industry and all solutions should keep this in mind. Lake States maintain strong pulp markets and this should be considered. All solutions first and foremost need to assure that access to products
- Pulpwood driven industry
- Low Value is not a reasonable metric. If a mill closes and haul distance triples everyone is low value.
- NEPA is the biggest impediment followed by accountability of leadership.
- Educate Foresters how industry views economics. Forest Service needs to recognize up front when they are investing in projects with little viable acreage
- Communicate more frequently with industry
- Adopt local scaling procedures rather than dictating another procedure that industry must accommodate
- Low value cruising, sale layout, subject to agreement, DxP but must make scaling regs compatible
- Incorporate no-bid sales into TEA databases (industry suggests zero value for these)
- Transparent appraisal points
- Industry does not care about advertised rates in relation to bid prices. They will bid what the timber is worth. Why use 15% roll back.
- If you can show competitive past bids stop spending so much time appraising
- Why is the Forest Service still held accountable to appraisal performance?? Does the agency care about acres treated or appraisal performance. Why does the FSH indicate that 15% of offerings should be anticipated to go no-bid. Who does that help?
- Forest Service must maintain expertise in Contracting Officers to help purchasers understand contracts and operate. They appreciate straight answers in short term.
- Need to develop quicker responses, NEPA through Contracting, for Salvage events.

Duluth participants really believed that this small group discussion had much larger value than the WO session. They would like to continue this type of dialogue on more frequent basis, one to two times annually. They would appreciate local leadership presence who can enact change. More industry/Forest Service involvement in the field. Require Forest Service staff to be educated in capabilities of equipment. What does marking look like from the cab. What kind of residual can be feasibly worked around? Etc

Educated experienced foresters need to be involved in project planning to insure salable outcomes.

Focused sessions on one or two topics should be explored.

R9 Hiawatha NF Gladstone:

No participants stayed for afternoon dialogue session, but one partner who attended virtual session sent a follow-up email with the following comments:

When the Forest Service is talking about Forest Products Modernization the focus should be the first goal listed on the fact sheet “Align practices, policies and guidance to be more agile, flexible and adaptable to better meet current and future forest improvement goals”. Focus on this and the rest of your goals will follow.

I often felt the NEPA process was the most significant impediment to forest management project implementation. It appears it is not NEPA but the Forest Service over interpretation and overkill on its parts, leading to mountains out of mole hills scenario. Follow the law but back off of the overkill. Where does Code of Federal Regulation fit in and how much of an impediment will this be for Forest Products Modernization changes?

How my organization can assist the Forest Service in any of the areas of Forest Modernization is yet to be determined, but continued conversation is the first step.

The most important goal and the logical first step of the Forest Products Modernization to me are improving the efficiency of forest products delivery. Achieving this goal will automatically increase the pace and scale of restoration and improve forest health.

State forests and timber industry set goals for timber output and management and do a reasonable job in hitting those targets. It seems to me that the Forest Service should look at any and all processes others use for forest management and really give some hard consideration in experimenting with or using any process others use successfully. At this point for the Forest Service to really change all options have to be explored.

The biggest change to timber sale appraisals for the Forest Service would be to minimize time and human resources spent on this action. The Forest Service should be managing the resource and not trying to be a Forest Economist or Timber Marketer. The industry and consumers of the forest products will set that market or appraisal rate. Forest Service personnel’s time is better spent prepping the next sale rather than trying to calculate a value of product when they so far from the end product and do not have a means to access real live market data. If a walk line or minimum value must be set much less time could be allocated to meet any regulatory requirements.

I’m not sure what is meant by timber sale contracting so I will assume everything. Are bid bonds necessary? There are other means of holding bidders accountable that are used by other agencies and entities. Primary roads that enter large areas need engineering, but secondary and temporary roads have a lot of over engineering, definitely some room for improvement here. Sales that have units scattered across a large area where there are adjacent stands that could be treated. More sales need to be type specific or maybe by silvicultural application (i.e. heavy percentage hardwood or softwood or aspen, single tree selection, shelter wood, even-age). This gives opportunities for loggers or mills to concentrate on their specialty and will be reflected in the bid prices. With performance bonds in place there shouldn’t be the need for Timber sale administrators to write so many field notes and require so many signatures. The sale is either being harvested within the contractual requirements or is not, and when harvesting is not in line then notes are necessary and in almost all cases should not need so many signatures. I have read to many dissertations on field inspection reports that are unworthy and tie up a lot of forest service personnel time. These administrators seem to be trained well and if they have earned the role they should be trusted.

The biggest thing I would change in timber sale layout was touched on my previous comment. Timber sales that have a net cutting area of 200 acres and scattered across 8,000 gross acres are not in anyone's best interest. Costs go up quickly for all aspects of a timber sale that has 20 small units scattered across twelve square miles.

R9 Ottawa NF Ironwood:

New ways of doing business seem to be well received in the Potlach organization and other industry/private organizations. The goal would be to allow space for change on the ground and the willingness to be flexible on both sides. Provide understanding for mistakes and understand that they need to happen in order to grow.

- The example was GNA and scaled sales. There was much excitement from Jaden and Potlach about GNA and the ability to use local County and State representatives to administer sales.
- Rather than to provide more trainings to individual resources within the Forest, combine interdisciplinary trainings. Ex. Educate sale administration staff to where they can make the call for certain resources (soils) rather than having to wait for the opinion and need for the soil staff to get on the ground. Another example, would be for State and County Foresters they would be the soil person also. To combine efforts and interdisciplinary training.

There needs to be a balance of utilization and resource protection. This is in relation to sale area boundaries and Payment Units being scattered. Make reserve areas large and connected, rather than small and scattered.

Ensure that our appraisal process becomes a priority for work in the Forest service and a higher priority in the Forest Product Modernization effort.

- Use Consumer Scaling and look at the timber theft that happens on State and County Sales.
- WE could use the model of FSC certified loggers and the chain of custody to understand how to make sure timber theft is minimal.

Virtual boundaries are something to consider on Forest Service land locked timer sales.

Provide training for industry and partners on authorities and new initiatives (DxP) like we are our own employees.

Separate the Forest Products Modernization efforts priority ranking (internal vs external) benefits. Appraisals may be lower on internal FS lists, but high on the external industry/partner side.

Look at State and County operations to gain the most efficiencies for operation.

Consider looking at electronic bidding processes.

Focus on better using authorities given in the house version of the Farm Bill (?). He could not provide clarification on this.

Provide trainings for FS timber sale prep and admin staff on market and utilization. Have FS understand how the timber markets work.

Make contract term adjustments for market related things regional or sub-regional indices, rather than national.

Region and Forest Specific:

- Have all timber sale contract maps geo-referenced and available to use with Avenza maps.
- It appears that some of our Forests do this and some do not.
- Using IPAD in the fields for sale prep, cruising, admin, etc.