

ENCOURAGING VALUE ADDED TIMBER PROCESSING OF STATE TIMBER

Most state timber made available through state timber sales remains in-state and is processed locally. Over the past six years, of the total statewide timber sale volume of 159 million board feet, just over 8 million board feet, or **5.1%, was exported**. It should be noted that all of the exports have been from the Southern Southeast area, where export markets and local manufacturing markets coexist.

Excluding timber sales conducted outside of the Southern Southeast area, over the past six years, roughly 13% of total timber sale volume was exported. Some of this volume was exported by the mills themselves, as they can maximize sale value by exporting specific logs that command premium prices in overseas markets.

Summary Six Year Sale History SSE Area Office, FY05 - FY10 ***In thousands of board feet (Mbf) and number of sales***

Domestic Sales	54	90.0%
Domestic Volume	54,525	89.7%
Export Sales	6	10.0%
Export Volume	6,262	10.3%
Export Volume by Mills ¹	1,806	3.0%
Total sales ²	60	
Total Volume	60,777	

1 Note: Export by AK mills in eight transactions as follows:

Viking Lumber, 6 export transactions
Icy Straights, 1 Export Transaction
Western Gold, 1 Export transaction

2 Note: These sixty timber sales made to thirty
different Alaska businesses

The most effective method for encouraging value-added timber processing is to provide a steady, reliable, and consistent timber supply. However, in instances where available timber might not be adequate to allow for timber export while meeting in-state manufacture needs, the state has a number of authorities to encourage, under certain circumstance, local manufacture of timber from state timber sales.

Although the U.S. Supreme Court decision in *South-central Timber v. State of Alaska* (available online at <http://supreme.justia.com/us/467/82/index.html>) imposes restrictions on the state's

ability to require primary manufacture of timber from competitively bid state timber sales, the state has developed criteria whereby primary manufacture requirements can be included in negotiated state timber sales. Of the following timber sale authorities, the 38.05.118 and 38.05.123 statutes can be applied under certain circumstances, namely underutilized manufacturing capacity, high unemployment, and/or high value-added processing. In most parts of the state, competitive sales go to manufacturers because export markets are not viable. In Southern Southeast, log exports are viable alternatives and thus the 118 or 123 authorities are sometimes used to encourage local manufacturing.

DNR Division of Forestry State Timber Sale Types

◆Competitive sales (AS 38.05.120)

- No volume limit within allowable cut
- No duration limit
- Requires best interest finding, advertisement, and public notice
- Price determined by auction, but not less than base price
- This is the standard sale type. Use of negotiated sales is limited to the specific conditions listed below.

◆Small negotiated sales (AS 38.05.115)

- ≤500 MBF
- ≤1 year duration
- No more than one per purchaser each year
- No best interest finding, advertisement, or public notice required
- Price determined by fair market value appraisal and base price (11 AAC 71.092)

◆Negotiated sales for value-added products (AS 38.05.123)

- Up to 10MMBF/yr (100 MMBF total over 10 years)
- Up to 10 years
- Requires best interest finding and public notice
- **Restricted to use for local manufacture that includes “high value-added” wood products.** By statute, wood chips are defined as a “value-added” product rather than a “high value-added” product.
- Operators must submit a business plan/operating plan for their processing facilities prior to negotiating a .123 sale. Processing facilities must be operational prior to harvesting timber sold under a .123 sale.
- Requires best interest finding and public notice.
- State typically uses RFP process to select winning proposal, especially where there is competitive interest in state resources.

◆Negotiated sales for areas with high unemployment (AS 38.05.118)

- No volume limit
- Up to 25 years with reappraisal every five years

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- Limited to areas with unemployment $\geq 135\%$ of statewide average
 - This sale type does not apply in some jurisdictions because their unemployment rates are close to the statewide average)
- Area must have underutilized manufacturing capacity
- Must have underutilized allowable cut or salvage timber
- Requires best interest finding and public notice
- Price determined by fair market value appraisal and base price (11 AAC 71.092)

◆ **Personal use sales** (AS 38.05.850)

- Not for commercial use
- No best interest finding, advertisement, or public notice required
- Up to 10MBF per purchaser per year
- Price determined by fair market value appraisal and base price (11 AAC 71.092)

Other Initiatives to Encourage Investment in Value Added Processing

- New Growth Prospectus for Interior Alaska

This publication provides summary inventory information including annual allowable cut and contacts for State and Native Corp lands in interior Alaska.

- Updated Forest Inventories

The division has been updating forest inventories in Southern Southeast, Tanana Valley, and Matsu valley and will proceed with updates in Haines and Kenai over next few years. Reliable inventory information is critical for investors interested in citing new facilities.

- Credible and Effective Regulatory Structure

The State's Forest Resources and Practices program (FRPA) is a model, credible in protecting public resources while not being overly burdensome on operators. Investors in manufacturing facilities need assurance that they can coexist with other forest users and FRPA helps provide that assurance.

Trends in Value Added Processing

The State's investment in the renewable energy fund is generating widespread interest in developing woody biomass energy facilities for heat and combined heat and power. Energy prices and state investments will spur an increase in value added for low quality wood to meet energy needs. DOF is working with existing timber sale authorities however there may be need for modifications to address the unique needs of these projects that include up to 25 year supply commitments.