

C I N T R A F O R

Working Paper 116

Economic Contribution

Ivan Eastin, Indroneil Ganguly, Daisuke Sasatani, Larry Mason
and Bruce Lippke. 2009

Executive Summary

Investment by value-adding wood industries is critical to sustaining forestland ownership. An increasingly complex array of forest owners and investors suggests a business climate that views forests as a financial, rather than an industrial, asset. However, maintaining the ecological, environmental and economic health of the forests in Washington requires a vibrant and competitive forest products industry. The lack of a diversified and competitive forest products industry to process the logs, small diameter timber and thinnings removed from the forest undermines the ability to manage forests in Washington in a sustainable manner and reduces the range of management options available to forest managers in the state. The lack of competitive markets for intermediate forest products derived from forest management operations undermines the economic rationale of forest management, adversely affects forest health and ultimately results in increased fire risks. At the same time, the forestry and forest products industries make significant contributions to the economy of Washington State, particularly in rural, timber dependent communities.

The analysis of the economic data suggests that the forestry and wood products manufacturing sectors have played an increasingly important role in the economy of Washington State since 2001. Not only did this sector provide over 45,000 jobs in 2005 but it also generated approximately \$16 billion in gross business revenue, paid out over \$2 billion in wages and over \$100 million in tax receipts. As a result, the forestry and wood products sector of the state economy employed 1.43% of the workers in the private sector in Washington, accounted for 1.8% of the total wages paid within the private sector and generated 3.2% of the gross business income within the private sector.

The sawmill industry in Washington state suffered through a tough period between 1987 and 1993, much of which can be attributed to the 1990-1991 recession and the loss of federal timber as a result of the listing of the spotted owl as an endangered species in 1989. Between 1987 and 1993 softwood lumber production in Washington decreased by 23.5% as 45 sawmills closed and almost 1,400 jobs were lost. Industry consolidation ensued throughout much of the past decade and by 2005 the number of sawmills had declined from 217 (in 1994) to 128. Much of this decline in sawmills can be attributed to the closure of older, inefficient sawmills that relied on the large, old-growth logs coming from the federal forests. Despite the huge drop in sawmills, employment in the sawmill sector actually increased from 7,721 to 8,565 between 1994 and 2005 as larger more efficient sawmills were built to replace the older mills being closed.

The plywood industry in Washington, previously one of the largest in the US, has been in decline since 1962. The number of plywood mills has dropped from 35 to 8 during this period although plywood production has only declined from 1.8 billion square feet (3/8 inch basis) to 1.1 billion square feet (3/8 inch basis). As seen in the sawmill industry, the closure of smaller, inefficient mills has been offset to a degree by the establishment of larger, more efficient plywood mills. Annual production per mill in 1962 was just 52 million square feet whereas this has jumped to 137 million square feet in 2005. It is important to note that as the end-use market transitions from plywood to oriented strand board (OSB), there are no OSB mills located in the state of Washington. The challenge for the structural panel industry is to successfully make the transition from plywood to OSB.

The Washington pulp and paper sector is the second largest following wood products manufacturing. In addition to its importance within the economy, this sector also plays an important demand role within the forest products industry. Pulp and paper companies are important consumers of lower quality pulp logs as well as providing a demand for by-products from other forest products industries such as sawdust and planer shavings from the sawmill industry. Given the cost structure of the sawmill industry, lumber manufacturers often break even at best with their lumber production and it is the sales of their by-products that provide them with an operating profit. Thus this industry segment is particularly important to the health of the sawmill and logging sectors. From a strategic industry perspective, it is extremely important that this industry remain healthy and viable within the state of Washington.

The regional inter-industry econometric model called the Washington Projection and Simulation Model (WPSM) has been used to estimate that in 1992 there were 7.7 direct jobs and 32.3 indirect jobs linked to each million board feet of timber harvest in Washington. In 1994, it was further estimated that 29.7 Washington jobs would be lost for every \$1 million in tax increases to replace lost trust revenue from reduction in timber harvests from the state forestlands. Further public benefits derived from DNR timber sales through the generation of state and local, and federal tax revenues were calculated to be 11% and 19% respectively, of the Gross State Product, in 1996.

Full Report \$50.00: [To Ordering Instructions](#)

Back to [Publications List](#)