

Testimony of Henry Schienebeck

Before the House Subcommittee on Conservation and Forestry

Committee on Agriculture

Hearing on “*The U.S. Wood Products Industry: Facilitating the Post COVID-19 Recovery*”

July 21st, 2021

Chairwoman Spanberger, Ranking Member Lamalfa, and distinguished Members of the Subcommittee on Conservation and Forestry, my name is Henry Schienebeck. I am the Governmental Relations Committee Chair for the American Loggers Council, the Executive Director for the Great Lakes Timber Professionals Association (GLTPA) representing Michigan and Wisconsin, and a former self-employed logger who has worked in forest industry for the past 47 years. I appear before you today representing the American Loggers Council (ALC). The ALC is the only national trade organization providing exclusive representation for timber harvesting and timber hauling businesses across the United States of America.

I report to you the impact of COVID-19 is severe enough that for the first time in my life-long career as a logger, timber harvesters and haulers have found it necessary to ask the federal government for financial assistance. Except for toilet paper, tissue paper, face masks, and paper gowns, forest products manufacturers including sawmills, building material manufacturers, and printing paper producers, drastically curtailed or stopped production altogether when COVID-19 turned into a pandemic. While we are thankful the Department of Homeland Security determined timber harvesting and hauling as essential, it is understandable that with stay-at-home orders, product demand was unpredictable which had an immediate negative impact on industries ability to purchase raw material from timber harvesters.

Minnesota and Wisconsin were impacted further with the announcement that two of the region’s largest consumers of roundwood pulp would close their doors due to the impact of COVID 19. (Press release

attached). The announcement to close the Wisconsin Rapids, Wisconsin and Duluth, Minnesota paper mills owned by Verso, came to GLTPA's office on June 9th, 2020, at 8:45 A.M. By 9:15 A.M. the same day, all shipments of wood to these mills were completely halted. In fact, some producers were told that if their trucks were more than an hour away, they would be turned around and sent back with their cargo.

The regions timber harvesters and truckers were shocked and in disbelief that something like this happened. The Wisconsin Rapids mill alone, which employed between 800 and 900 workers, consumed approximately twenty five percent (25%) of the areas roundwood pulp. Ultimately these closures, coupled with the curtailment of lumber and building material production, created an oversupply of raw material. The imbalance of supply and demand resulted in reductions for the delivered price and the slashing of quotas for raw material added to the harvesters and haulers entered a state of panic. Timber harvesters and haulers are paid by production and only when raw material is delivered to the mill do they receive compensation. They must produce and deliver wood volume to generate income.

Stimulated by the pandemic, the sale of toilet paper and other household paper product purchases escalated to the point shortages occurred and purchases were limited to one product per customer per visit. Along with the paper shortage the appetite for homeowners to implement do-it-yourself projects increased sharply and demand for building material skyrocketed along with prices for this material.

Contrary to what many believe, timber harvesters and haulers have NOT benefitted from the record high finished product prices. This is especially true in Michigan, Wisconsin, and Minnesota where wood consumers have closed their doors because of COVID. It is important to understand that, like farmers and ranchers, these small, family owned, and operated logging and timber hauling businesses are capital intensive and generate a very modest 1% to 3% profit on an annual basis.

It is not unusual for a two- or three-person timber harvesting operation to have \$3.5 million worth of equipment on a bank loan. This does not include the daily operating capital needed for fuel, insurance, parts, and other consumables. Without COVID relief for these generational businesses to survive, the nation will be hard pressed to find individuals willing to make the investments required to supply wood fiber to manufacturers of products we all use daily.

Reduced prices for raw material coupled with increased operational costs, particularly fuel, has resulted in a 10% to 40% loss in revenue for many companies compared to the same 2019-time frame. Proof of this loss is supported in two ways. The American Loggers Council began an annual logging business survey on November 1, 2020 and followed up with an additional survey on January 15, 2021. The 2021 survey included general questions about how the COVID-19 pandemic impacted operations. Detailed answers from the questions are included as Exhibit "A" in this testimony.

In general, the survey results show sixty nine percent (69%) of logging businesses surveyed reported the pandemic had either a somewhat or very negative impact on their businesses. Sixty one percent (61%) reported getting some relief from a federal relief program with the majority of those who participated stating relief funds came through the Paycheck Protection Plan (PPP). Twenty six percent (26%) of the businesses did not participate in any federal relief fund program as of December 31, 2020. Ninety-five percent (95%) of the businesses surveyed supported efforts to secure additional funding for timber harvesting and timber hauling businesses. Also, please know that timber harvesters and haulers are very appreciative of having PPP funds available and we are quite certain their lenders are as well.

In addition, the ALC contracted with Forest2Market to conduct a study on the actual losses incurred by the industry due to the COVID-19 pandemic. The study, attached as Exhibit "B" shows a loss of

approximately \$1.8 Billion dollars to the industry because of the pandemic related loss of markets for raw material.

On December 27, 2020, the Consolidated Appropriations Act became law and included language allowing the US Department of Agriculture to provide up to \$200 million dollars to assist those timber harvesting and timber hauling businesses that have lost 10% or more of their revenue from January 1, 2020, through December 1, 2020, compared to the same period in 2019. The lack of parity between agriculture and silviculture is the main reason for the delay to access of the \$200 million for timber harvesters and haulers. Through no fault of their own the Farm Service Administration (FSA) has no experience in dealing with timber harvesters and haulers however, USDA, USFS and FSA are working diligently to make these funds available, and we greatly appreciate their efforts. When available, these monies will aid timber harvesters and haulers in recovering from the pandemic induced losses and keep them from losing their businesses.

The Role of Forest Management in Addressing Environmental Concerns

Healthy forests are vital to addressing climate change. Healthy forests are those which have been sustainably managed for multiple use, and are growing live, healthy trees of all ages which sequester carbon. Dead and dying trees, caused by insect and disease infestation, and catastrophic fire, contribute to carbon emissions. Sustainably managed forests are a major contributor to carbon sequestration and climate change mitigation which is why the U.S. and much of the world have joined the Trillion Tree Initiative. In addition to clean air, healthy forests provide clean water, wildlife habitat and generate billions of dollars providing well-paying forest industry jobs and outdoor recreation in rural America.

The most effective way to maintain healthy forests is through forest management. This is proactively accomplished with trained logging professionals and land managers guided by fully vetted management plans. Timber harvesting provides the raw material to produce forest products such as paper, boards, biomass-based fuels, and other products used every day by all people. Forest products from harvested and processed timber “store” captured carbon well beyond the life of the trees that absorbed it. Healthy forests and a healthy forest industry go hand in hand. One cannot effectively exist without the other.

Forest management is a renewable, sustainable cycle of growing trees, harvesting trees, converting them into products and includes both natural regeneration and reforestation by planting. As seen with global imaging the United States now has more forested land than it did 100 years ago, and more trees are grown annually than are harvested. Of note, is that tree harvesting, and removal occurs on less than two percent (2%) of forest land annually as compared to Three percent (3%) of forest land disturbed annually by natural events such as insects, disease, and fire.

Increasing timber product utilization through new technology and product development can facilitate the Post COVID-19 U.S. Wood Products Industry Recovery. As an example, Cross Laminate Timber (CLT) “Mass Timber” construction technology has developed structural timber products comparable to steel and concrete products for use in multi-story building construction. Additionally, cellulosic forest-based bio-crude has been developed utilizing wood waste residuals, biomass and unmerchantable timber that can supplement or replace fossil fuel in refineries or boiler systems.

Infrastructure Bill Support for Wood Products Industry Recovery

The Post Pandemic economic recovery is being challenged logistically by limited transportation capacity. It is similar in the timber industry. The American Loggers Council continues advocating for safer, more efficient transportation with the introduction of the "Safe Routes Act". This legislation would allow for states to authorize truck weights on federal interstates equal to local and state road weight limits. When passed into law, this legislation will reduce the number of trucks on local roads and reduce driver hours by reducing the number of truck trips necessary to transport timber. Reduced truck trips will reduce fossil fuel consumption and exhaust emissions. Similar federal legislation has been enacted in Minnesota and Wisconsin for specific corridors.

The American Timber Industry grows and harvests trees similar to how other agricultural commodities are grown and harvested. However, it is not always classified or afforded the same benefits other agricultural commodities receive.

As an example, standing timber is considered an agricultural commodity, yet timber harvesting and hauling timber is not considered an agricultural activity. A Virginia Pine can be harvested as a Christmas tree and receive recognition as an agricultural activity. If the same tree is harvested and transported to a pulp mill or sawmill it does not qualify as an agricultural activity. The ALC requests consideration be given to provide parity between silviculture and agriculture.

Wisconsin is the first state to establish a Co-op of timber industry stakeholders to purchase closed mills and reopen them. This structure would be like farmers and ethanol Co-op's and allow for the vertical integration of the logging and trucking supply side within the entire forest products process. Federal support and assistance for the timber industry to implement this new business model will contribute to the stabilization and recovery of the American timber industry.

To maintain and improve America's forests for maximum social benefit including climate change mitigation, sequestration of carbon, support of rural economies and recreation, sustainable forest management must continue to improve. Forest management is possible only with a secure, professional logging work force to perform the work. To have such a work force, forest products industry is needed to absorb the vegetation being grown in the nation's forest. Every consideration must be given to provide new technologies such as laminated and cross laminated timber, and the emerging biofuels industry, the ability to acquire raw material. This in turn will promote investment in facilities to produce value-added products.

These recommendations will have minimal to no governmental fiscal impact but are simply policy and legislative changes that will support climate change initiatives, reduce fossil fuel consumption, improve forest health, address supply chain disruptions, improve transportation safety, and contribute significantly to the post COVID-19 wood products industry recovery.

Again, thank you for allowing the ALC to provide testimony regarding the impacts of the COVID-19 pandemic on timber harvesters and haulers. We look forward to working with members to ensure a speedy post pandemic recovery for the timber harvesting and timber hauling sector.

I am happy to answer any questions.

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Verso Paper Mill

Pandemic Induced Closure

Press Release

Verso Announces Necessary Actions to Offset Unprecedented Market Decline Due to COVID-19

MIAMISBURG, Ohio, June 9, 2020/[PRNewswire/](#) -- Verso Corporation (NYSE: VRS) today announced that it is taking immediate actions to offset unprecedented market decline due to the COVID-19 pandemic and to reposition the company for future success.

Verso will indefinitely idle paper mills in Duluth, Minnesota, and Wisconsin Rapids, Wisconsin, while exploring viable and sustainable alternatives for both mills, including restarting if market conditions improve, marketing for sale or closing permanently. The decision to reduce production capacity is driven by the accelerated decline in graphic paper demand resulting from the COVID-19 pandemic. The stay-at-home orders have significantly reduced the use of print advertising in various industries, including retail, sports, entertainment and tourism. According to Fastmarkets RISI, North American printing & writing demand fell by 38% year-over-year in April, and operating rates are expected to drop well below 70% during the second quarter.

"It is critical that we maintain a healthy balance sheet and focus on cash flow, while balancing our supply of products and our customers' demand," said President and Chief Executive Officer Adam St. John. "After a comprehensive review of post-pandemic demand forecasts and capacity, we made the difficult decision to idle the Duluth and Wisconsin Rapids mills. We expect the idling of these facilities to improve our free cash flow. The sell through of inventory is expected to offset the cash costs of idling the mills."

Verso expects to idle the Duluth Mill by the end of June 2020, and the Wisconsin Rapids Mill by the end of July 2020, resulting in the layoff of approximately 1,000 employees. Verso will continue to supply graphic and specialty papers in roll and sheet form, as well as packaging papers and pulp.

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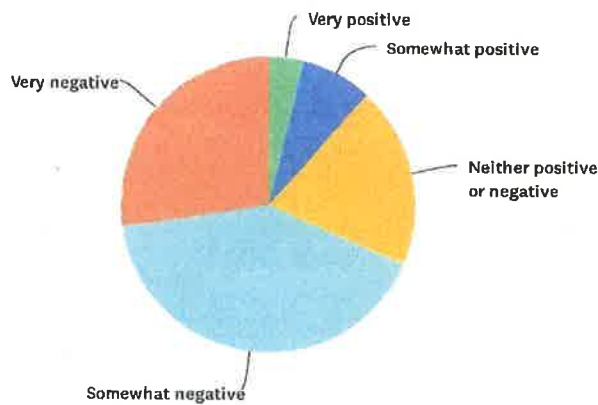
Exhibit “A”

American Loggers Council 2020 Logger Survey

American Loggers Council 2020 Logger Survey

Q30 Has the coronavirus pandemic had a positive or negative impact on your overall business operations?

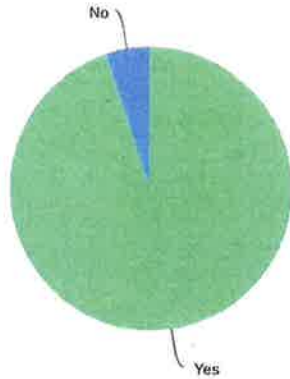
Answered: 404 Skipped: 4



ANSWER CHOICES	RESPONSES	
Very positive	3.71%	15
Somewhat positive	7.92%	32
Neither positive or negative	19.80%	80
Somewhat negative	41.09%	166
Very negative	27.48%	111
TOTAL		404

Q31 Do you support the American Loggers Council's or other logging association's efforts in seeking relief for the logging and log trucking industry during the pandemic?

Answered: 404 Skipped: 4



ANSWER CHOICES

Yes

No

TOTAL

RESPONSES

94.80%

5.20%

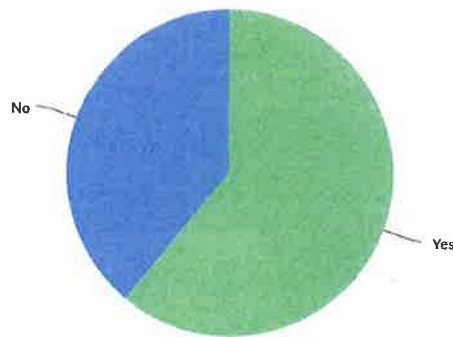
383

21

404

Q32 Did you receive any type of COVID related relief from a federal program for your business in 2020?

Answered: 402 Skipped: 6



ANSWER CHOICES

Yes

No

TOTAL

RESPONSES

60.95%

39.05%

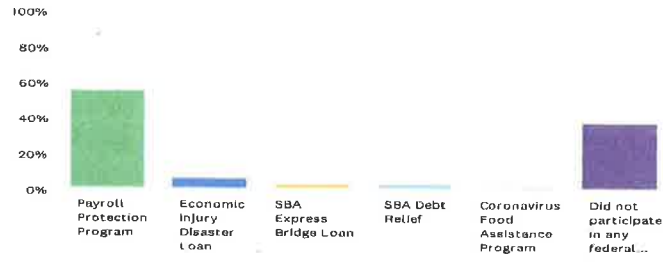
245

157

402

Q33 What federal relief program did you participate in?

Answered: 398 Skipped: 10



ANSWER CHOICES

Payroll Protection Program
Economic Injury Disaster Loan
SBA Express Bridge Loan
SBA Debt Relief
Coronavirus Food Assistance Program
Did not participate in any federal assistance program
TOTAL

RESPONSES

54.27%	216
4.77%	19
2.01%	8
2.01%	8
0.50%	2
36.43%	145
	398

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Exhibit “B”

Forest2Market Analysis



FOREST2MARKET

United States Economic Impact: Forest Product Consumption

American Loggers Council

August 28, 2020

BETTER DATA. BETTER INTELLIGENCE. BETTER DECISIONS.

Forest2Market

Our mission is to empower participants in the global forest, wood products, paper products, biochemical and bioenergy industries to make exponentially better decisions through the strategic application of industry expertise and unique datasets.

What We Believe


We believe the only way to achieve a true measure and understanding of the market is to collect transactional data.


Our Mission

Forest2Market's mission is to empower participants in the global forest, wood products, paper products and bioenergy industries to make exponentially better decisions through the strategic application of industry expertise and unique datasets.

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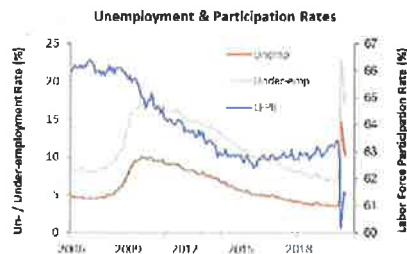
Solutions

- 
 - Pricing Data
 - Benchmarks
 - Product Forecasting
 - Advisory Services
 - Analytics

- 
SilvaStat360™
 - Price Benchmarks
 - Madison's Lumber Reporter
 - The Beck Group's Sawmill TQ
 - Timber Supply Analysis
 - Global Economic Data

US Economic Impacts

- Production curtailments due to safety concerns and economic uncertainty
- Severe decline in labor force participation and spike in unemployment
- Decrease in commercial paper demand due to school and business closures
- Decrease in forest product exports due to tariffs, European salvage roundwood exports, and virus-related supply chain constraints

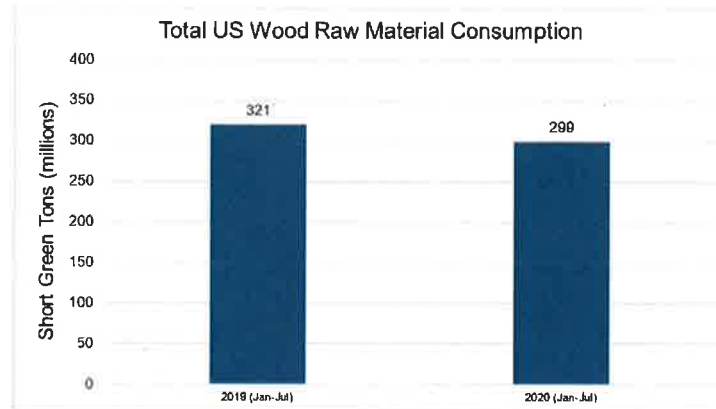


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Impact to Wood Raw Material Consumption

Production curtailments have led to significant changes in total US wood raw material consumption. Deliveries from January to July 2020 are 6.7% below January to July 2019 levels.



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Impact to Delivered Wood Raw Material Value

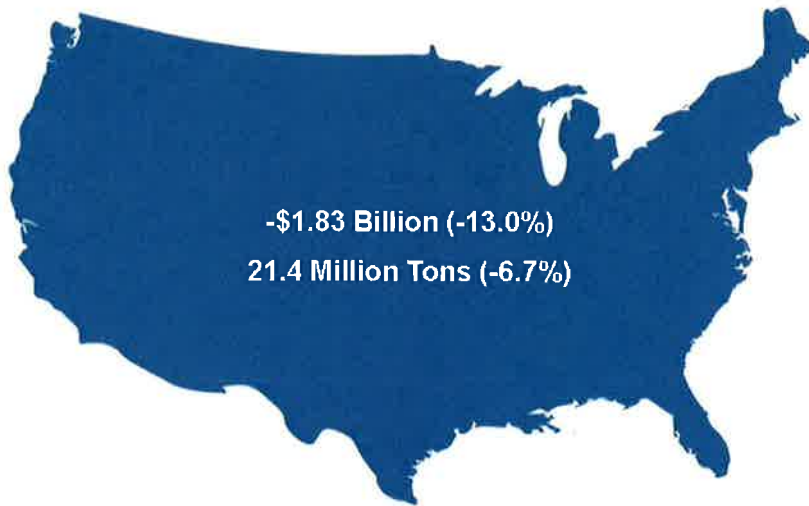
A decrease in wood raw material consumption and delivered prices resulted in a 13.0% drop in total US delivered value from January to July 2020 compared to the same period in the prior year.



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5

Impact to Delivered Wood Raw Material



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BETTER DATA. BETTER INTELLIGENCE. BETTER DECISIONS.

Forest2Market is a global provider of timber pricing, cost benchmarks and in-depth analytics for participants in the wood raw materials supply chain. Our data-based solutions provide insight into complex business issues and support fact-based decision making and planning.

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