

Forest Products Industry Survey Project

West Central Landscape Region

Minnesota Forest Resources Council - Landscape Program

Prepared For:

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Purpose:

Forest resources provide significant opportunities for economic development in Minnesota. Forest harvest is one of our major tools for managing forest resources in the state. Each landscape region within the state has its own unique set of particular assets and liabilities for promoting and utilizing forest resources. The purpose of the survey project is to gain a better understanding of the challenges and obstacles as well as opportunities facing the forest products industry, from large to small, in Minnesota on a regional basis (MFRC landscape regions).

Methodology:

MRFC provided a list of possible respondents who were mailed the list of questions that they would be asked. Students from St Cloud State University then attempted to call all possible respondents, and asked the questions provided in the mailing to those they could reach. The students achieved an approximate response rate of 50%, with 13 of 23 possible people responding. Answers were then compiled into a single spreadsheet and composed into the following sections.

Review of comments:

1. Forest Products Industry Response Review:

Respondents that rely on the paper market, including Verso Paper (formerly International) and Dick Walsh Forest Products, report stable industry trends. The closure of some plants has increased aspen availability, which has lowered stumpage prices making it more viable to compete in the paper market. Pallet manufacturers such as Omega Hardwoods also report a stable market. Those in niche markets such as The Barrel Mill report a growth trend for their business. Biomass is currently on the rise and ethanol plants such as the Central Minnesota Ethanol Coop report growth trends, which are due to the demand for renewable energy.

Verso Paper has considered expanding into different types of paper beyond the publication paper they currently produce, with the main roadblock being availability of raw materials needed for the new paper types, as well as the cost of new equipment needed. Omega Hardwoods is not looking to expand beyond the pallet industry. Those looking to expand with the bio energy market, including Dick Walsh Forest Products and the Central Minnesota Ethanol Coop see opportunities arising. The main roadblock is costs of processing and transporting waste woods to the plants that will offer a return to those providing the waste woods.

For markets to become more profitable through adjustments in public agencies, more timber is needed to lower stumpage costs. Issues also arise with smaller businesses in covering for workman's compensation. Investment in Minnesota based forest products for use in public projects is another way that public agencies could help the forest products industry. The Barrel Mill has interest in producing wooden barrels for use as trash cans that would blend with the natural environment in National and State Parks.

Energy costs are a challenge to most respondents. Some utilize their biomass wastes at their own plant for heating fuel, some send it elsewhere. The possibility of more energy generation from waste woods through conversion of raw biomass to cellulosic ethanol is something that needs to be developed. The known bio energy project in the area is the Park Rapids plant, which is working with RDO to utilize biomass for energy generation. Some were not aware of what was happening in terms of bio energy, and felt that more needs to be done to use the waste products generated by the industry.

Suppliers included local, state, federal, private, and international sources. The issue facing many suppliers is the high cost of stumpage. More timber needs to be made available to lower stumpage costs. Another issue is fuel costs. Choice of timber is limited due to high transportation costs that limit market areas.

The most common challenges facing those in the forest products industry were either related to supply, labor, or market issues. Supply issues included high and fluctuating stumpage costs, transportation of supplies and raw materials, and rot in aspen stumpage. Labor issues included high labor costs and the difficulty of maintaining quality employees. Market issues included marketing of products and flat market demand for products. In the bio energy industry, there is need for public education on ethanol, and also for government incentives to encourage the use of biomass fuels.

The main way that we can help the forest products industry is by making quality and affordable stumpage available. For the bio energy industry, there needs to be more organization for the management of waste wood. A system to manage processing, transportation, and storage of waste wood could make it a more viable biomass source.

Participation in the DNR Utilization and Marketing Program ranged from no answers to probably participating. All respondents were open to being included and receiving more information.

2. *Economic Development Professional Response Review:*

The forest products industries that are part of the West Central market produce mainly paper, OSB, and stud board. The main businesses are Verso Paper (paper), Wausau Paper (paper), Wirehouse (paper), Ainsworth Engineered (OSB), Potlach Corp (stud board), and Norbord (OSB). According to the economic development professionals in the area, the main challenge is generally with transportation. Transportation issues include fuel costs and limited markets. Having products produced closer to their markets would be one possible solution. Other challenges were discussed such as mill closures, lack of forestland, downturn in the housing market, global competition, and competition with low crops for land.

The most prominently mentioned expanding market is the biomass industry. Cellulosic ethanol development is needed. One specific possibility for expansion in bio energy was mentioned by Dean Schmidt, who explained the possibility of using growth from stumps

of harvested hybrid poplars for use in the biomass industry. The growth is too thin for use as pulpwood, and giving the landowners a second crop to sell as biomass would encourage further expansion of the hybrid poplar industry. Other expanding industries that were mentioned include office paper, better use of hardwoods, and production of exterior siding.

Economic development organizations were either generally involved in bio energy projects or were open to getting involved. The WesMin RC&D would like to continue with the Wood Energy Scale Up Project, but lacks funding to assess the resulting harvest that the project produced. The West Central Initiative is involved in work on an ethanol plant outside of Fergus Falls. The Kandiyohi County/Willmar ED is heavily involved in using methane gas for electricity and other gasification projects. The Initiative Foundation is working with the MN Ethanol plant north of Little Falls. The Alexandria EDC points out that if any projects involving bio energy affect lake water levels or quality, they would not be wanted.

The WesMin RC&D people are working on a Conservation Innovation Grant with Three Rivers RC&D for the “Productive Conservation on Working Lands” programs, which offers a 50% cost share for landowners to grow non-conventional and non-annual products such as hazelnuts, switch grass, or hybrid poplars. The program, which works to encourage sustainable use of land for long term crops that will eventually filter down to the forest products industry, could use additional funding of its efforts.

There are several other programs offered by different economic development organizations in the West Central area. The West Central Initiative offers small business start-up financing and workforce training. The Kandiyohi County/Willmar ED offers financing and funding, help finding investors, and help with proper zoning and permitting for projects. The Initiative Foundation looks for environmental or economic impact studies that they can back with grant funding. The Alexandria EDC offers incentives through tax abatement.

There were more economic development organizations that did not specifically include the forest products industry in their plan than did include it. Those that did not either gave no reason why or pointed out that they do not have significant forest resources in their area. One example of the forest products industry being included in economic development planning would be the use of biomass for energy production. Kandiyohi County/Willmar ED was involved, and WesMin RC&D was looking to expand into that market. In the forest products industry, the Initiative Foundation is assisting in certification for sustainable forestry, and WesMin RC&D is involved in a study of the viability of growing hybrid poplars for pulpwood.

There were several emerging technologies that were recommended for further exploration. The main technology mentioned was biomass and cellulosic ethanol. There were also recommendations for expansion of value added forest products, harvest schedule modeling, GIS knowledge base expansion, and low quality hardwoods management. Red pine stands from the Soil Bank Program will be ready for harvest soon,

and the industry needs to be ready to utilize that resource. A new drying technology called thermo wood processing uses heat under a vacuum to dry the wood, removing any warping from the drying process. This technology could be used in the expansion of the value added wood products market.

The list was long for recommendations on information that would be useful to the economic development associations. Information on the quantity and location of waste products that are available would encourage the biomass industry. Neil Linscheid of the Region Five Development Commission would be happy to help create a cluster analysis of the forest products industry. Research and development data from the University of Minnesota should be made available to economic development professionals. Up to date information on emerging technologies such as thermo wood processing would be beneficial. There were also requests for what new economic development options are available in the forest products industry, for concrete demographic information, and to continue with updating county boards on the importance of the industry.

Having regular meetings between industry, agency, and economic development professionals was the most common request for information dissemination. Representatives from the forest products industry should attend meetings of economic development professionals to explain in person what part the industry plays in the area. One specific request in that area would be for someone to attend the Network 5 meetings, which occur bimonthly. Continuing the meetings with county boards was encouraged. There were also requests for market and demographic information. Information on long term market trends in the secondary forest product industry is needed so that harvests can be managed to provide for those markets.

Responses about the DNR Forestry Utilization and Marketing program ranged from those who were unsure about it and wanted to know more to those who rely on it regularly. Not a single respondent who was unsure about it said that they did not want to know more. Concise summaries of information are useful to those who do not have time to read through all that is there. Those who use it regularly greatly appreciate the information that is available.

Recommendations and Conclusions:

The main challenges in the forest products industry are stumpage and transportation costs. Making more stumpage available can lower the cost, easing some of the pressure brought on by the high cost of fuel. State projects should use Minnesota products. A system needs to be developed for processing, transporting, and storing wood wastes for use in the bio energy industry. Once this is in place, the bio energy industry can be further expanded by providing information on quantity and location of biomass stock.

There can never be too much communication between those involved in the forest products industry. Forest products industry representatives need to attend meetings of economic development professionals and county boards. Economic development professionals are interested in attending meetings of those in the forest products industry. Information

dissemination is equally important. It is extremely beneficial to those in the industry to have market and demographic research done and summarized for their use.

Appendix A

Forest Products Industry Questions

1. What are the products and/or services that your company produces? Market or service area?
2. Gross sales and number of employees (general range for each)?
3. What are the trends for the market your company is in – growth, stable, decline? Why?
4. Are there markets or products that you would like your company to expand into? What are the roadblocks to your company's efforts to expand into this area?
5. Are there markets that could become more profitable with certain adjustments by public agencies? If so, what adjustments are needed?
6. What emerging technologies or products do you think need more exploration or support? Is your organization involved in bio energy projects? If yes, what types or products? What major projects are being considered in your area?
7. Where do you get the materials/supplies for the products or services you produce? Who are your primary materials suppliers? Do you see changes or pressures facing suppliers?
8. What are the two biggest challenges or obstacles to the continued success of your company or organization?
9. How can we (regional landscape committee, MFRC, MN DNR Forestry, State of Minnesota) help your company or organization better meet or address those challenges?
10. Do you participate in the MN DNR – Division of Forestry – Utilization & Marketing Program surveys regarding primary and/or secondary wood products industry? Is your company listed in one or both of these two MN DNR directories? If not, do you want to be involved or included?

Economic Development Professional Questions

1. What are the major forest products industries in your work or service area? (company names, products, number of employees, etc.)
2. What are the two biggest challenges or obstacles facing forest products industries in your work area or region?
3. What markets for forest products do you see opening up or expanding in the next 3 - 5 years in your area or region? What new products (including "waste" product opportunities) do you think will be produced?
4. Is your organization involved in promoting or supporting bio energy projects? If yes, what types or products? What major projects are being considered in your area?
5. What programs can your organization offer to new forest products industries? Existing forest products industries?
6. Does your organization's economic development plan specifically address opportunities for promoting and/or expanding forest products industry? If yes, how or in what ways?
7. What emerging technologies or products do you think need more exploration or support? What forest products markets do you think that the State of Minnesota should explore?
8. What information would be useful to your economic development and marketing efforts of forest products industries?
9. What are other ways that we can help your organization promote forestry products industry?
10. Does your organization use documents or services provided by the MN DNR Division of Forestry - Utilization & Marketing Program? If not, would you like more information about the services and products the MN DNR - Division of Forestry provides?

Appendix B

List of Participants and Responses

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