



FORESTRY REPORT

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Timber Markets Slam Large Tree Prices In 2007



By Marshall Thomas

Pulpwood remained the lone bright spot for timber growers in 2007, as the dismal housing market depressed prices and demand for large and small sawtimber. This is particularly painful because these, along with poles, are the most valuable trees you have to sell.

Average prices for large pine sawtimber declined across our service region in the final quarter and for the year. (See graphs on page 2) The West Gulf region had the best performance for 2007 with an average of \$41/ton, although prices were down in the fourth quarter. The annualized average for the Southeast was \$39/ton, down 7 percent from the 2006 average of \$42/ton. (All prices rounded)

Prices for small sawtimber were depressed even more. For the year, average prices for chip-and-saw trees were down in three of our four

service regions, with only the West Gulf showing an annualized average price of \$19/ton for both 2006 and 2007. 2007 prices were down \$3/ton in both the Southeast, to \$20, and the Mid Atlantic, to \$18.

We are probably at the beginning of a fairly long period of depressed small sawtimber prices due to the "coming of age" of the CRP plantations of the 1980's. Just as the CRP surge in availability of pulpwood-size trees depressed pulpwood prices earlier, these same plantations are now causing a big increase in the availability of small sawtimber trees.

On a brighter note, pine pulpwood continues to show strength, reflecting good demand from pulp and paper manufacturers, with the cheap dollar boosting U.S. exports and mills requiring more whole trees to offset reduced chips from sawmills. At the same time, the CRP surge of pulpwood-size trees is about over. Average prices across our service region ranged from \$6 to \$10/ton, and the year ended with rumors

of increasing prices. In addition, a recent survey done by us indicates the percentage of wood harvested from natural stands in Florida may be significantly lower than believed. If so, as the CRP surge diminishes, current harvest levels will put pressure on prices, and any significant wet weather could cause price spikes.

Hardwood stumpage markets showed little change in 2007. Most noteworthy, pine pulpwood prices are now generally above those for hardwood pulp, a change from a few years ago.

With no end to the housing downturn in sight, prospects for an early rebound in sawtimber prices are not promising. However, I think we can anticipate a relatively good pine pulpwood market in 2008, with a stable to declining small sawtimber market. Pine sawtimber prices will follow housing starts and the weather. I'd rather not predict either one. ■

Marshall Thomas is president of F&W Forestry Services, Inc.

2007 Fourth Quarter Pine And Hardwood Stumpage Price Range*

Area	Pine Pulpwood	Pine Small Sawtimber	Pine Large Sawtimber	Hardwood Pulpwood	Hardwood Sawtimber	
Southeast	Phenix City, AL	\$6-9	\$16-24	\$30-44	\$5-8	\$22-28
	Gainesville, FL	\$7-11	\$15-21	\$32-41	\$2-6	\$10-18
	Marianna, FL	\$6-8	\$16-22	\$33-39	\$2-7	\$14-16
	Albany, GA	\$7-9	\$17-23	\$38-45	\$3-5	\$25-35
	Macon, GA	\$5-8	\$16-22	\$35-45	\$6-8	\$25-35
	Statesboro, GA	\$7-11	\$15-22	\$30-50	\$7-10	\$20-27
	Greenwood, SC	\$6-8	\$18-24	\$38-45	\$6-10	\$20-30
Central Hardwood	Chillicothe, OH	\$5-6	NA	NA	\$2-3	\$29-32
	Clinton, TN	\$4-9	\$10-16	\$12-20	\$2-5	\$18-40
	Paris, TN	\$5-8	\$10-15	\$20-25	\$4-5	\$36-52
West Gulf	El Dorado, AR	\$12-16	\$20-25	\$35-40	\$12-16	\$25-35
	Jackson, MS	\$7-12	\$18-23	\$38-43	\$4-7	\$15-25
	Huntsville, TX	\$5-9	\$12-14	\$34-38	\$5-8	\$15-26
Mid Atlantic	Charlottesville, VA**	\$5-10	\$14-20	\$26-42	\$4-8	\$12-35

*All Prices in tons, based on sales handled by F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions. To convert \$/ton to \$/cord multiply \$/ton price by 2.7. The actual range for our sales, depending on region, is from 2.6 to 2.8.

**Virginia Pine Sawtimber is \$90-100 MBF (I). (S) = Scribner, (I) = International, (D) = Doyle.

F&W FORESTRY REPORT

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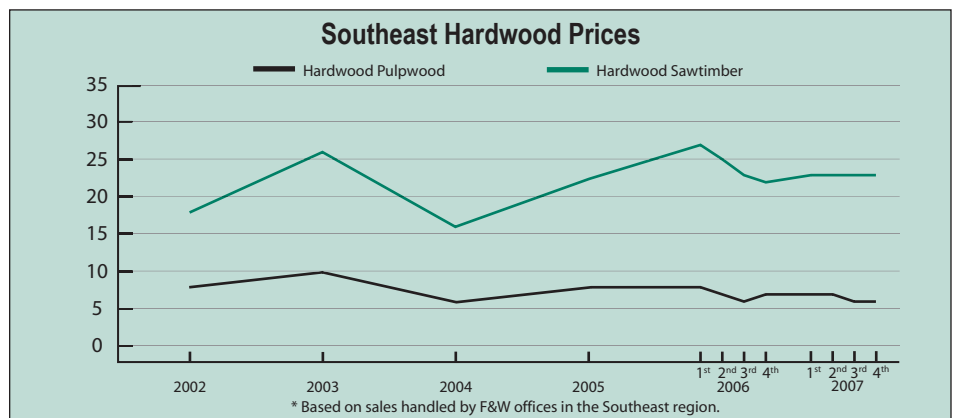
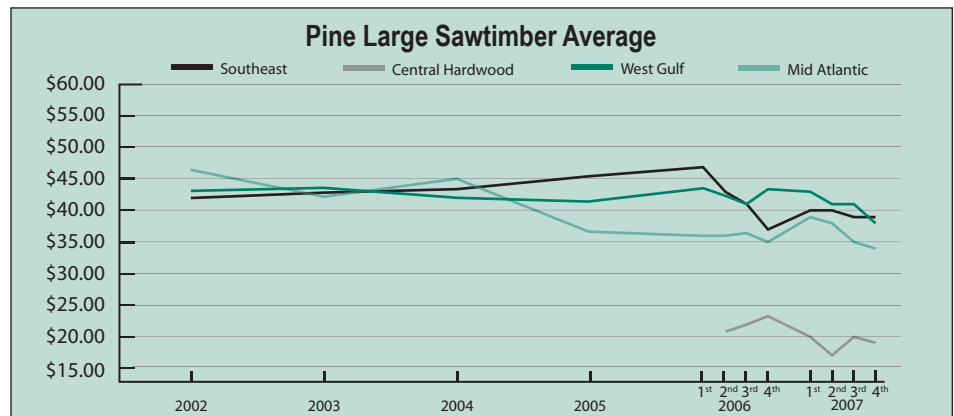
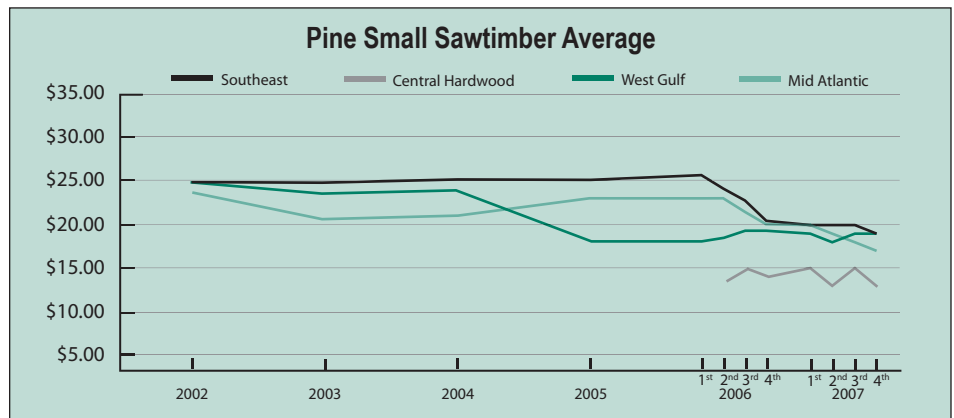
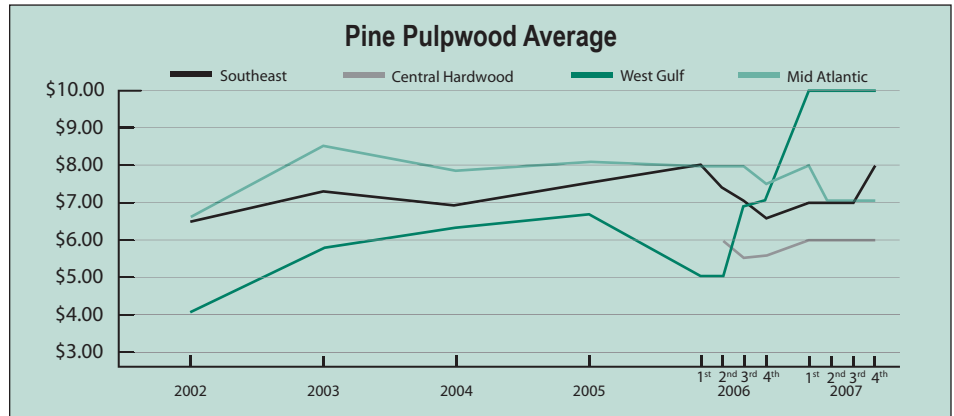
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Timber Stumpage Prices Across F&W's Service Region



IP To Sell Three More Lumber Mills—Only One Left

Three of the four Southern lumber mills remaining under **International Paper Co.** ownership and operation are being sold to **Simpson Lumber Co., LLC**, which will virtually complete the paper giant's historic transformation plan undertaken in 2005.

Simpson, based in Tacoma, Wash., is expected to take over the three mills early in 2008. They are located at Meldrim, Ga., near Savannah, S.C., near Georgetown, and Johnston, S.C., between Columbia and Augusta.

Of its once massive Wood Products Business encompassing some 30 manufacturing plants across the South, only a lumber mill at Franklin, Va., will remain in IP hands after the Simpson sale is completed. A spokeswoman at IP's headquarters in Memphis said options are being explored for the future of the Virginia mill.

Simpson, whose operations include

wood product plants and a pulp and paper facility in Washington state, is a newcomer to the South. It has been in the forest products industry since 1890.

"We've been interested in the southern pine business for some time," said Ray Tennison, president of Simpson Investment Company, parent of Simpson Lumber. "This acquisition diversifies our business and provides opportunity in a new geographic region."

Sale of the Georgia and South Carolina lumber mills brings International Paper to near the end of the road in its sweeping transformation from a many faceted forest product giant to a company focused on two platform business segments: uncoated paper and industrial and consumer packaging. In the process, it has sold off virtually all of its 6.5 million acre

timberland holdings and several entire business segments, including many manufacturing and processing facilities. It picked up upwards of \$12 billion cash in the process.

Fallout from the transformation continues. Another possible mill closing as a consequence of the restructuring was averted when IP announced in November it would invest some \$10 million to convert its mill at Bastrop, La., from production of uncoated paper to high-grade pulp. The decision continues the facility as a major employer and timber buyer in the region. It followed an earlier announcement that another IP facility in Louisiana, a container mill at Pineville, would escape possible closure as a result of a major upgrade in operating efficiency.

Other forest industry developments:

Louisiana-Pacific Corporation is on track to start up its new OSB mill at Thomasville in southwest Alabama early this year, according to a local media report. The mill manager cut the ribbon to receive the first loads of wood for the \$230 million facility in December. The Alabama plant will be the second new OSB mill in the Mid-South region to begin production despite the housing slump, following **Martin Companies'** start up of its mill at Oakdale, La., last year.

Fram Renewable Fuels, LLC, has begun production of wood pellets, a fuel product made from compacted sawdust and other tree wastes, at its new Baxley, Ga., plant. A company news release said it is the first of several such facilities Fram expects to construct in the U.S. The company said it will ship most of the pellets to Europe via Georgia ports.

Libra Natural Resources, a London-based concern, plans to build and operate a wood pellet plant adjacent to a wood chip mill it has purchased near Charlottesville, Va. The firm said it expects to be producing up to 75,000 tons annually by mid-year. ■

Some States Abandon Seedling Production

For years, state-operated tree nurseries were a major source of tree seedlings in the South, but some states are getting out of the business and leaving private industry and independent producers as the main seedling suppliers to landowners.

The Alabama Forestry Commission led the way in shutting down seedling production and began closing nurseries last year. It is now entirely out of the business. In October, the Mississippi Forestry Commission announced that the current tree planting season will be the last for its state-run nursery and seed orchard operations.

In Texas, the state Forestry Service announced the closure of Indian Mound Nursery in East Texas, the state's primary softwood forest area. However, production will continue at the West Texas Nursery near Lubbock, which mainly grows hardwood tree and ornamental seedlings.

All three states said the closure of their nurseries was due to the available supply of high quality seedlings from the private sector. But other Southern states whose forestry agencies produce seedlings for sale to landowners report no plans to shut down their nurseries.

The Georgia Forestry Commission's seedling sales were up 30 percent last year, according to Russ Pohl, chief of reforestation. "We always recover enough in receipts to cover all our nursery costs," he said.

In Florida, Steve Gilly, manager of the Division of Forestry's Andrews Nursery said: "We actively participate in the University of Florida's Forest Genetics Cooperative to ensure faster growing, more disease resistant trees are available to all forest land owners in the decades to come." North Carolina said it plans to continue to operate its two nurseries. ■

Hunting Leases Provide Growing Stream Of Forest Income

Game hunting has long been a part of the history and heritage of the American South. It is now rapidly becoming an important revenue source for the region's private forestland owners.

"We've seen hunting leases become an increasing source of alternative income for our timber grower clients over the years," said F&W President Marshall Thomas. "Except for pine straw in the slash and longleaf regions, the leasing of hunting rights is probably the largest source of non-timber sales income for landowners throughout our service area."

Hunting leases have, in fact, become big business. There was a time when most landowners felt lucky to get enough hunting income from their lands to pay the property taxes. Nowadays, property taxes are more than likely the starting point for many hunting lease rates and many, if not most, hunting lease rates on F&W client lands exceed the per-acre tax rate.

Liability protection is considered a must by most forest landowners who lease their lands for hunting. Good liability insurance is available, but landowners need to be sure they know what they are buying because exclusions can materially change



Fred Youngblood / USFWS photo

or limit the amount of coverage that appears on the face of the policy.

At F&W, we see no conflict between good forest management and good hunting. Indeed, several of our managers noted that, while silviculture takes precedent over hunting, one often supports the other. As Greenwood, S.C., Manger Lewis Levy noted: "For the most part good intensive pine management goes hand in hand with good (wildlife) habitat."

The potential for income growth by using privately owned forestlands for hunting and other recreational purposes appears bright indeed, as urban sprawl continues to eat into lands that were once home to more wildlife than people. Now it's becoming the other way around. The breakup and fragmentation of huge forest industry land holdings into small "ranchettes" and home sites may also increase competition for available hunting leases and provide increased opportunities for landowners whose primary objective is growing timber—not development.

Russ Weber, the long-time manager of F&W's Gainesville, Fla., office, summed up the potential well: "Hunting leases are becoming more recreational, more of a getaway for the whole family, rather than just for hunting...they're providing a time and place to ride ATV's, camp, cook-out, teach young hunters to shoot, and just enjoy the outdoors and the forest."

To get a better perspective on leasing forestlands for hunting and recreational purposes, we asked our managers in 10 states a series of questions. Their composite responses appear on the adjacent page. ■



Henry Zeman / National Wild Turkey Federation

Forestland Hunting: An F&W Managers' Report

Q. What is the general dollar range per acre for hunting leases in your service area?

A. Following is the spread of hunting lease rates as reported by our 14 area managers in the Southeast, West Gulf, Mid Atlantic, and Central Hardwood regions:

Southeast	Phenix City, AL Dennis LeBleu	\$6-10
	Gainesville, FL Russ Weber	\$3-7
	Marianna, FL John deBrauwere	\$3-4
	Albany, GA Burke Walters	\$10-15
	Macon, GA Chad Hancock	\$6-15
	Statesboro, GA Wade McDonald	\$4-8
	Greenwood, SC Lewis Levy	\$7-9
Central Hardwood	Chillicothe, OH Peter Gayer	\$7.50 (min.)
	Clinton, TN Rick Sluss	\$3-5
	Paris, TN Tom Cunningham	\$2-7
West Gulf	El Dorado, AR Jim Reese	\$4-6
	Jackson, MS Keith Ward	\$4-6
	Huntsville, TX Ken Addy	\$4-9
Mid Atlantic	Charlottesville, VA Glen Worrell	\$3-10

Q. Are the hunting lease prices generally about the same, more, or less than prevailing property taxes?

A. Most of the lease rates are somewhat above or about the same as property taxes; "considerably higher" in a few, and a "little below" in still fewer.

Q. Are any lease rates that you know about tied directly to property taxes? Are any indexed to property tax increases?

A. Only a few leases are directly tied to property taxes. One in Coastal Georgia is indexed to any annual

increases in property taxes on the owner's lands.

Q. What is the average lease length of hunting contracts in your area?

A. Generally one year. Some renew automatically. A few are for four or five years.

Q. Is Liability Insurance mandatory? Who pays premium: hunters or landowner?

A. Mandatory. Hunters or hunting group pay premium.

Q. Is there a lot or little demand and competition for hunting and recreational lands in your area?

A. Demand and competition for hunting land variously rated as "good," "very good," "high," "very healthy," "tremendous" throughout F&W service area with exception of eastern Tennessee and Kentucky where a high percentage of public lands and forests exist. ("Not a lot of competition at this point but expected to change over the next few years.")

Q. What factors drive hunting lease

fees in your area?

A. Proximity to urban areas; overall quality of land for hunting and useable hunting area; ponds, lakes, rivers and creeks; mature upland pine stands and hardwood bottoms; diversity of forest types; good access and road systems; some open land for food plots (utility easements are excellent); good mix of wildlife species.

Q. What can landowners do to make their lands more attractive for hunting?

A. Establish food plot openings; prescribed burning; adequate access and road and gate maintenance; clearly marked boundaries.

Q. What is the order of importance of game and fowl in your area?

A. White tail deer ranked first in all F&W areas. (One manager listed deer, deer, deer.) Turkey ranked second in all areas except Arkansas, where duck was the second favorite game. Wild boar ranked high in several areas and bear made the favorite list in a few. ■



K.A. King / USFWS photo

First Wood-Sourced Ethanol Plant Rising On Fast Track

The U.S. secretary of energy, the governor of Georgia, and a Silicon Valley billionaire were among those helping to break ground late last year for the nation's first commercial-scale wood-to-ethanol plant at the epicenter of the Southeastern pine belt.

More than 200 workers will be involved at various times in the fast-track construction of the Georgia plant. And other cellulosic ethanol plants may not be far behind.

If all goes as planned, within a year the quarter-billion dollar Georgia facility will be pumping out almost 60,000 gallons of fuel-grade cellulosic ethanol daily—20 million gallons annually—say officials of Denver-based **Range Fuels, Inc.**, the plant's owner/operator. Production will be phased up to 100 million gallons a year by 2009.

Construction of the Southern wood-based cellulosic plant comes as the Midwest-centered corn ethanol industry encounters criticism on several fronts. Meat and poultry producers complain of rising feed costs, food processors warn of rising costs of corn flakes and other food staples, environmentalists fear the corn belt's water sources may be depleted, and some economists argue that the whole concept of corn-to-fuel is simply flawed.

But there were no skeptics about the potential of wood-based ethanol to be found at the Range groundbreaking. Enthusiasm soared among the dozens of forest landowners in attendance, along with politicians and civic boosters from miles around.

Located at Soperton in southeast Georgia, deep in the heart of the thriving pine forests of the Southeastern Coastal Plain, the facility could be the prototype for other plants in the region with a combined annual capacity of a



Energy Secretary Bodman

billion gallons, Range officials have said.

Just days after the Range groundbreaking, Bob Dinneen, president of Washington-based Renewable Fuels Association, said in a *Wall Street Journal* article that at least 10 companies are developing the technology to produce non-corn based ethanol through cellulosic processes.

As if to make the point, a Canadian company, **Sun Opta, Inc.**, announced that it is teaming with a Minnesota concern, **Central Minnesota Ethanol**

Co-op, to develop a cellulosic plant utilizing wood chips to be located adjacent to the co-op's existing corn ethanol facility at Little Falls, Minn.

The gathering momentum to tap wood chips and forest residues as a feedstock for cellulosic ethanol received an additional boost from the sweeping energy bill signed by President Bush in December. The new law increases to 36 billion gallons the quantity of renewable fuels that refiners will be required to mix with gasoline to stretch the nation's petroleum supplies by the year 2022. Of that amount, 21 billion gallons of advanced renewable fuels must be from processes utilizing sources such as logging waste and wood chips—the sort Range Fuels will use at its Georgia plant.

There is concern in some forestry circles that the new law's definition of "renewable biomass" might place some future limitations on the use of thinnings of pine plantations that are established after the law's passage and used in federally-assisted projects. But existing "actively managed" plantations clearly meet the definition.

"The cellulosic industry is poised to take off," Dinneen, a top Washington lobbyist for the ethanol industry, told

(Continued on next page)



Helping get work underway on the nation's first commercial scale cellulosic ethanol plant are U.S. Energy Secretary Bodman, fourth from left; Venture Capitalist Vinod Khosla, fifth from left; and Georgia Gov. Sonny Perdue, seventh from left. (Photo by Jonathon Finley / The Soperton News)

F&W's Group Certification Plan Reaffirmed

F&W's trail-blazing program for certifying that participating landowner clients are managing their forestlands in a sustainable and environmentally sound manner has been re-affirmed through a third-party audit of its American Tree Farm System® (ATFS) Group Certification Program.

The F&W group certification program, established in 2002 as the first of its kind by a forestry consulting firm, received ATFS's continued seal of approval following an independent audit by Natural Resource Systems of Atlanta, Texas.

Under the ATFS group certification process, participating forestlands are evaluated by an outside auditor to determine if they are managed in a sustainable manner and meet environmentally-friendly criteria that conform to Tree Farm® standards. The criteria calls for landowners to have forest management plans, reforest their lands after final harvest, comply with state Best Management Practices (BMPs), practice soil and water conservation, protect wildlife and endangered species, and follow other standards of forest

management.

"We are delighted and proud that F&W Forestry managers and landowner participants in our Group Certification program again have been found to be good environmentalists and good forest stewards," said Marshall Thomas, F&W's president.

Some 150 F&W clients representing more than 60 percent of the million-plus acres the firm assists landowners in managing are participating in the voluntary group certification program. F&W currently pays all costs of the program.

Valid certification that forests are managed in a sustainable and environmentally-sound manner has marketing implications for landowners. In addition to recognition as responsible managers, some major marketers of lumber and wood products and big paper users give preference to products from certified forests.

F&W identifies tracts and those who participate in the Group Certification program in timber sales bid documents and sales contracts. ■

First Wood Ethanol Plant Underway *(continued)*

The Wall Street Journal. "We expect to see significant volumes by 2010. It's a question of making the economics work."

The Range people believe they are there already. And their proprietary formula for converting forest materials—from logging wastes to pulpwood—into cellulosic ethanol is backed by a U.S. Department of Energy grant to the tune of \$76 million for the first two phases of the plant's development.

Energy Secretary Samuel Bodman flew in from Washington to take part in the Nov. 6 ground-breaking, calling the Soperton plant "an important step toward energy independence." He referred to the Soperton facility, and others using difference technologies that the DOE is also funding, as "bio-refineries."

Vinod Khosla, the wealthy California venture capitalist behind Range Fuels and other alternative energy projects, wowed the South Georgia natives with his modest, low-key approach and popular message: "We need to declare war on imported oil and cellulosic ethanol is the weapon we need for this war."

"The potential for cellulosic ethanol is much bigger than most people realize," he said. "We'll be cheaper than oil even if oil prices drop 50 percent from present levels." Crude oil futures traded above \$95 a barrel on ground-breaking day.

Georgia Gov. Sonny Perdue, who helped entice the first wood-to-ethanol plant to Georgia, said "history is being made here." He predicted "Range will be the first of many biomass energy facilities in Georgia." ■

Forestry Gains In Congressional Rush

In a burst of year-end activity before calling it quits for 2007, Congress passed—and the President signed—an omnibus energy bill, gave Senate Committee approval to the first step toward large-scale carbon sequestration, and cleared the way for final action in early 2008 on a new farm bill—all three containing long and short-term potential for forest landowners.

The centerpiece of the energy bill sets new mileage requirements for U.S. auto makers. It also contains a big boost for ethanol made from sources other than corn, including wood chips.

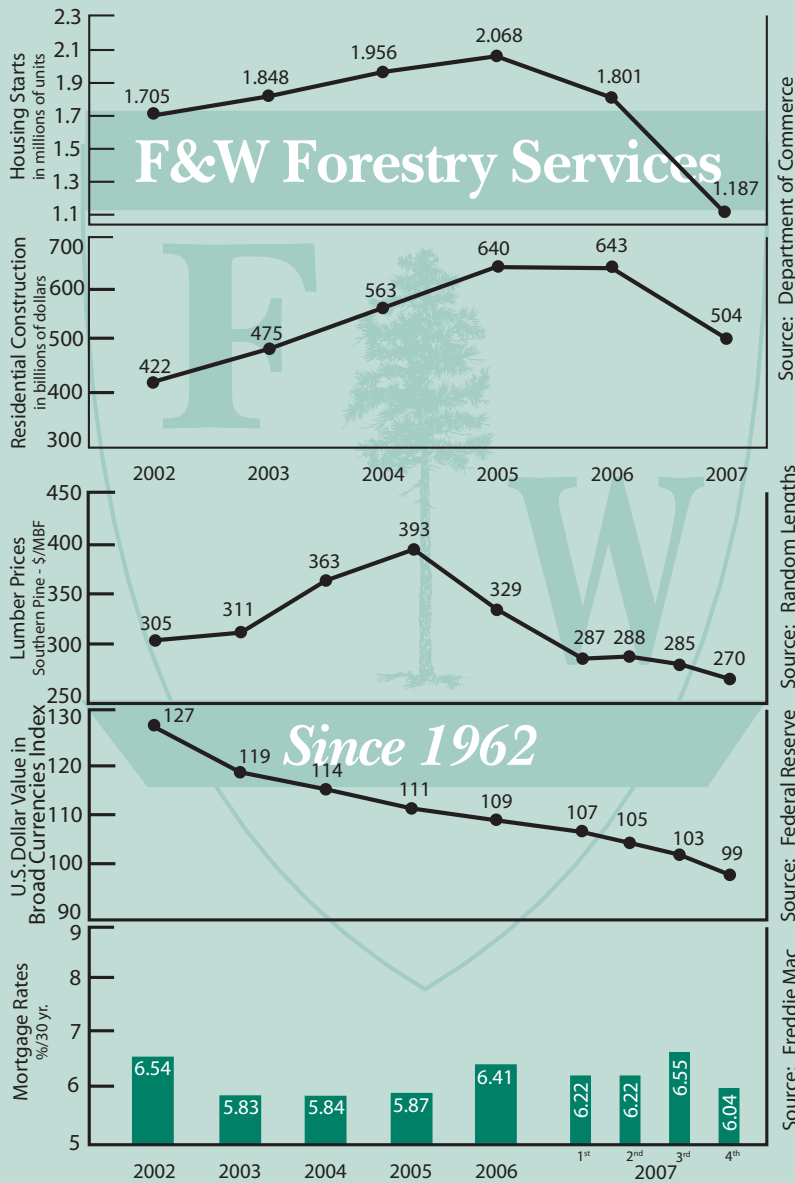
With pressure mounting at home and abroad, the Senate Environment Committee took the first step in December toward establishing legal limits on greenhouse gas emissions in the U.S. and establishing by law a cap-and-trade system for carbon credits—including those generated by trees on privately-owned forestlands. The bi-partisan bill faces a long and torturous road ahead, but controls on U.S. greenhouse gas emissions appear inevitable.

After agreeing to a temporary extension of current farm law, Congress will try to hammer out differences between House and Senate versions of a new bill when it reconvenes in January.

At stake is the future of such existing programs as the longleaf initiative and provisions in both bills that would dramatically increase opportunities for NIPF landowners to participate in the farmer-dominated, well-funded Environment Quality Improvement Program (EQIP). ■



Timber Market Indicators



A Down-And-Up Year

For forestry, 2007 will be remembered as a down-and-up kind of year.

Every month brought depressing statistics underscoring the depth of the housing turmoil. One of the bleakest reports showed new home sales down by a stunning 9 percent in November, the lowest rate since April 1995.

But on the very last day of the year, another showed existing home sales in November up a fraction. No sane person would say a .4 percent rise signals the end—or even the beginning of the end—of the housing recession. But, hey, it was an upbeat way to end the year.

The prolonged housing slump has done a number on lumber and OSB prices, and that's a downer for sawtimber and chip-and-saw prices. On the upside, pulpwood prices showed surprising strength in 2007, due partly to lower chip supplies from struggling lumber mills.

Oil prices continued to spiral in 2007—threatening at year's end to break through \$100-a-barrel—bad news for loggers especially and an added depressant on timber prices. Yet 2007 saw construction begin on what is hoped will be the first of many commercial wood-based ethanol plants in the Southern pine belt to augment fuel supplies and provide new forest markets.

We could go on, but you get the point. Yes, there were lots of downs for forestry in 2007. But there were ups as well.

Here's hoping 2008 will have lots more ups than downs. ■

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