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OUTLOOK FOR SOUTHERN FOREST PRODUCTS - AN OVERVIEW

Ben Slatin will discuss the pulp and paper side of the business, I'll confine my remarks to the outlook for southern wood products.

The biggest success story in solid wood products is the growth of the southern pine plywood industry. Between 1965 and 1976, production of southern pine plywood increased from 3.2% of U. S. production to 35% of total U. S. production. Over that period, western softwood plywood production remained about constant. All the expansion in U. S. softwood plywood production can be accounted for by increases in the South. Over that period, 1965-1976, U. S. softwood plywood production went from 12.4 billion square feet to 18.4 billion square feet.

For softwood lumber, there has been a somewhat similar story, but much less spectacular. Between 1960-1976, the South's share of the production pie increased from 21% to 26%. The total pie also grew during that period from 26.7 billion board feet to 30.2 billion board feet. For hardwood lumber, however, there's a somewhat different story - the South's share has dropped. Between 1960-1976, the South's share went from 53% to 48%, with total U. S. production remaining about the same. Similarly, the South's share of hardwood plywood production has dropped from 49% to 42% between 1960-1976. There's no clear trend with particleboard. The industry is still small enough that the opening or closing of a few mills is enough to shift regional rankings. But, the South's share has been shifting between 47% to 53% of total U. S. production, roughly half.

The reasons for these trends, particularly on the softwood side of the business, are pretty well known to you already, and I don't intend to go into any detail. There is the excellent timber growth potential in the South, favorable soils and climate and the private ownership pattern of land, which allows market responsiveness from
the private sector compared to what we expect from the public sector of land ownership. The private ownership pattern also allows for private investors to purchase land in order to acquire raw material security for their plant investments. The availability of the land for purchase and the open market situation timber buyers face here in the South favors investment. They've attracted investment both in plants and in tree growing.

There has also been very favorable economic growth here in the South, right in the industry's back yard, so to speak. Low transportation costs to growing regional markets favor the development of the region's forest industry. Although the South accounts for only 1/4 of the U. S. softwood lumber production, 70% of what it produces is shipped to consumers in the producing states. Yet, the South is a net importer of wood products, although rising transportation costs will tend to favor the region's producers and reduce the volume of western products in southern markets.

Now for the outlook. First, the outlook in U. S. domestic markets: This rising trend in transportation costs continues to be favorable, increasingly so, to southern producers. Western producers are already saying that they won't be able to ship to points east of Denver, which is somewhat of an exaggeration. They are looking increasingly to offshore markets. Some items, of course, will continue to be shipped from the West: the longer lengths and wider widths of lumber that are not available, or not easily available from the sizes of timber here in the South and specialty products like redwood and cedar lumber. But, most of the common lumber, dimension lumber, items from the West will be pushed out of the southern market because of transportation cost. This leaves the eastern market for wood products pretty much to the southerners and the Canadians. But even the Canadians are experiencing some problems with very sharply rising labor costs. In fact, with the way southern pine lumber has been moving in the past two or three years, into
traditional Canadian markets in the northeastern states and the midwestern states, the Canadians are now speaking of the "yellow peril" from the South.

Regional growth will continue at a faster rate in the South than the U. S. average. The recent study by the M.I.T.-Harvard Joint Center for Urban Studies says that between 1976 and 1985, population growth in the South will gain as much as the other three regions combined. For the northeast, northcentral and western states, they project about a 15.1 million population increase, and in the southern states alone a 15.3 million population increase. The Joint Center also projects that between 1976-1985, 43% of U. S. housing starts will be in the South. It is therefore clear that the outlook for southern wood products in domestic markets will be very good over the next ten years, probably even longer than that.

Now, for export markets: Fast timber growth rates and the existence of a timber industry infrastructure in the South would seem to suggest good export possibilities for southern wood products in world markets. Other exporting countries have had to rely largely on original growth and have had to build plants, transportation facilities and towns as they went deeper into the forest. The South has not had to do that. But the facts don't support an excessive optimism for increasing exports in southern wood products. Southern yellow pine lumber accounted for 13.6% of softwood lumber exports in 1960. That figure dropped to 8.9% in 1976. I think the principal reason is that the quality of products the South has to offer for export is not competitive with the products of other regions and other countries in world markets. Timber size in the South is dominated by the demands of the pulp and paper industry, where greater emphasis is put on volume than on wood quality. When I say quality, I mean lumber grades. Rotation ages are too short, by and large, to produce quality equivalent to that harvested from the Douglas fir region. Large volume exports from the U. S. to the large volume markets in Europe, Japan and Australia are now dominated by the West. Products being imported by other countries
from the U. S. are mostly clears and upper grades used in millwork and joinery, mostly for re-manufacturing. The common lumber grades that can be cut from southern timber are available to these importing countries from other nations or from local sources. The Scandanavians, the Russians and the Austrians are major factors in timber trade in Europe. To the extent European countries do import southern pine lumber, it is mostly in clear flitches and lumber in genoa prime and KD sap grades.

I don't know if those last two terms are familiar to you. They are grades specified in the Gulf Coast Conference of 1923 grade book. They are upper grades of lumber used in re-manufacturing, principally in European countries.

Southern yellow pine dimension lumber that is exported goes mostly to the Carribean countries and Puerto Rico. Not only is the South at a disadvantage vis-a-vis the West in European export markets because of grades, but also because of shipping costs. The shipments of softwood lumber and plywood from the West go mostly in specialized cargo ships and they can be shipped from the West Coast to the Netherlands or to Belgium for about $70/MBF, whereas shipments from the South are made mostly in general cargo vessels and shipping costs to the same destinations from the South run from about $100 to $150/MBF. Furthermore, West Coast mills are usually located closer to the water than are the southern mills, and so the South has an additional disadvantage of transportation costs to dockside. As long as the old-growth timber is available in the West and timber size in the South is dictated by the economics of pulp and paper production, the South will be only a minor factor in all but the Carribean and Latin American lumber export trade.

There are no good statistics available on the softwood plywood exports by species. The government statistics don't break exports down by species. We are currently running a survey to get some information on what kind of softwood plywood is being exported: sheathing, sanded or specialty grades from the West, South and inland, to the major markets for softwood plywood. We are trying to get some definition on
what kind of U. S. products are being purchased by major importers. Government
statistics don't reveal this data at all. So, I can't say much about what's going
on in southern pine plywood exports. But, there's no reason to think that southern
yellow pine plywood wouldn't be welcomed in European markets, where plywood is used
mostly for containers and concrete form work. Not very much is used for construc-
tion sheathing in Europe like we do for home building in this country. But again,
the transportation costs from the South to Europe, being higher than the western
transportation costs, tend to favor softwood plywood exports from the West. There
is a possibility for expansion of plywood exports from all regions if timber frame
construction as we know it in this country were widely adopted in Europe.

For hardwood lumber, the outlook is not bright. In the South, hardwood sawtimber
removals are about equal to growth, whereas, in the North, removals are only about
half of growth. There is room for considerable expansion of hardwood lumber pro-
duction in the North. It is not a question of volume, but of timber quality. And
it is reasonable to think that in the North the timber quality is improving as the
volume accumulates. The South also faces acreage losses of hardwood land to agri-
culture. And as the southern economy grows, there are going to be some substantial
shifts of land out of timber use into non-timber use for highways, shopping centers
and similar uses. As volumes of timber accumulate in the North, and as production
of hardwood lumber in the North increases, this will tend to hold down the values
of hardwood timber in the South, and there will be further economic pressures to
convert hardwood timberland in the South to softwood production. For hardwood
plywood, in the future, the same general factors affecting hardwood lumber production
will affect hardwood plywood production, I think, probably the South's share of
hardwood plywood production will continue to drop. Production will be shifting
northward.
Not too much can be said about the outlook for particleboard that's really clear, as I think the picture is still too jumbled. The factor to keep in mind, however, is that particleboard's raw material is a residue. It's in demand for several uses. I got myself in trouble last year by telling some people that particleboard manufacturers were the "garbagemen" of the wood products industry. Someone who was trying to push that product took offense at what I said and I had to apologize my way out of it. But it is true, particleboard is made mostly from the leftovers of lumber and plywood production. There is some roundwood that gets into production, but a decreasing share of it. The raw material is also in demand for production of pulp and later today we will hear Jorgen Overgaard talk about the export market for that same raw material. Its also in increasing demand for fuel, as more and more companies begin to look for ways to cut their energy bills and to establish more reliable supplies of energy. That "garbage" is picking up value and its uses will face increasing competition for it.

There is also the factor that particleboard is an "inferior" product that will penetrate some markets only to the extent that lumber and plywood are not available at reasonable prices. I think the particleboard industry is already realizing that. There had been a good growth in particleboard production until the past two or three years. Then all of a sudden they find themselves with a tremendous overcapacity and are really searching for markets. They reached a boom time, however, back in 1972 when plywood prices were very high and people who normally use plywood were looking for some other material and tried particleboard. But in many of those uses of plywood is still favored. So, that's why I say particleboard is an "inferior" product - often it's not the first choice.

The time period I'm looking at in this overview is the next 10 to 20 years. The figures I gave on the M.I.T.-Harvard Joint Center study looked at only ten years, but I think probably that the trends I'm speaking of will prevail over the next 10-20 years. It's very difficult to be specific because there are some other things
you will hear about later that will bear on just what the rate of change will be. For instance, what's going to happen to National Forest policy? Perhaps Darius Adams later this morning will be able to give us some more information or things to think about there. And, what about the investment climate here in the South? Will the tax climate be favorable to further investment? Is there much investment opportunity? Maybe Tom Hart will be able to give us some things to think about there.

To summarize what I've said, in the last 10-15 years, the South has accounted for an increasing share of the nation's production of wood products. This share can be expected to increase further with projected population and economic growth in the southern wood industry's back yard. Higher domestic transportation costs for wood products shipments from competing regions, the natural productivity of southern forests and existence of an infrastructure for manufacturing would also suggest the South has an advantage in competing for markets in other countries. However, the wood product grades which the South is likely to produce will face much competition in export markets from other regions and countries whose transportation costs are actually lower. Domestic markets will remain the best opportunities, by far, for southern wood products in the foreseeable future.