

OREGON'S LOGGING INDUSTRY

Can't afford new taxes?

Even though prices have never been higher, and profits are soaring

BY ROB DAVIS

The Oregonian

Thirty years after Oregon lawmakers began giving the state's timber industry tax cuts that cost rural counties an estimated \$3 billion, industry lobbyists warned them not to follow through on efforts to reinstate the tax this year.

Legislators are considering whether to add to taxes paid by the logging industry after an investigation published last year by Oregon Public Broadcasting, The Oregonian and ProPublica found that timber companies, increasingly dominated by Wall Street real estate trusts and investment funds, benefited from the tax cuts at the expense of rural counties struggling to provide basic government services.

During hearings last week, a parade of industry lobbyists and supporters said now would be the worst possible time to reinstate the tax. What they didn't tell lawmakers: Lumber prices are at record highs. The huge demand for lumber and the accompanying high prices have helped to boost stock prices and profits for some of Oregon's biggest timber companies.

The COVID-19 pandemic and record wildfires, which burned hundreds of thousands of acres of private timberland last year, put the timber industry "up against the ropes," lobbyist Chris Edwards said in testimony last week.

Edwards is a former Democratic state senator who now represents the Oregon Forest & Industries Council, a lobbying group for the state's biggest timber companies. He suggested that if lawmakers restored the tax, companies might be forced to cut rural jobs or withdraw from a landmark accord struck last year with Oregon environmental groups to negotiate tightening the state's logging laws, which are weaker than those in California and Washington.

Despite the wildfires and the pandemic, lumber producers are "generating unbelievable margins right now, record margins and profits," said Brooks Mendell, president of the forest investment consultancy Forisk.

Small-scale timber owners who lost most of their timber in last year's wildfires suffered major financial hits. Others lost valuable equipment. But large corporations and lumber manufacturers are thriving, Mendell said.

A spokeswoman for the industry council, Sara Duncan, didn't directly address questions about record lumber prices. In an email, she instead pointed to the impact that restoring the tax would have not on the council's large member companies but on smaller forest landowners who also testified.

"There are over 65,000 forest landowners in Oregon, many of whom lost land in the Labor Day fires, and all of whom would be negatively impacted by new timber taxes," Duncan said.

The stock price for the largest timber company in Oregon, Weyerhaeuser, is sitting at a three-year high. The Seattle-based investment trust — which owns 1.6 million acres in Oregon, three times more than the next-largest landowner — saw 125,000 acres of its timberlands burn during the Labor Day wildfires that scorched more than a million acres across Oregon. The company didn't respond to requests for comment.

Despite losing \$80 million to the fires, the company reported net earnings of \$797 million last year, its highest mark since 2016.

Weyerhaeuser executives sounded bullish in their Jan. 29 earnings release. The company's CEO, Devin Stockfish, called its 2020 performance "remarkable" and said he was increasingly confident that demand would continue to bolster the housing market, which uses the company's lumber.

Charles Gross, a Morningstar senior equity



From left, Tony Wyse and Irven Newton secure a load of logs west of Sunriver in late September 2019.

Dean Guernsey/Bulletin file

analyst who follows Weyerhaeuser, said the company's earnings last year showed "a huge net increase. It's one of the best years they have on record."

Wildfire losses for Weyerhaeuser and other large investment companies "pales in comparison to how much they gain from high lumber prices," Gross said. "This is especially true for Weyerhaeuser," which not only owns forestland but also owns mills that turn logs into lumber and other products, he said.

Gross said he did not forecast any significant financial effect on the companies if lawmakers reinstated a severance tax of 5%, which would be assessed based on the value of trees at the time they're cut down.

For decades, private timber owners in Oregon paid a severance tax. But in the 1990s, lawmakers passed a series of tax cuts that phased out the severance tax, which in turn lowered the funding provided to schools and local governments. Then they eliminated the tax for all but the smallest timber owners, who can opt to pay it in exchange for reduced property taxes.

If the tax were reinstated, Gross said, companies would adjust prices and shift the cost to consumers.

Since cratering at the beginning of the pandemic last year, lumber prices have tripled, setting a record as wildfires reduced supplies and low interest rates helped fuel a strong demand from the housing market. Prices soared so high that in January home builders asked President Joe Biden for help as they struggled with lumber costs and delivery times.

High prices for lumber, wood that has been milled, have not boosted prices for logs in all of the country's wood-growing regions, like the South, where production is higher than it's ever been, said Rocky Goodnow, vice president of North American Timber Service at Forest Economic Advisors.

But the rise in lumber prices has increased the cost of trees harvested in Western Oregon, the state's dominant tree-growing region, Goodnow said, where log prices are up about 40% since the early days of the pandemic.

A severance tax would reduce Oregon's competitiveness with other timber-producing regions and "on the margin lead to less production," Goodnow said, particularly if the market for lumber weakens.

Mendell, the forestry consultant, said his firm forecasted Oregon's timber production to change little over the next 20 years, seeing a decline of perhaps 2% based on wildfire damage

and estimates of when most of the state's trees will be old enough to be logged.

Proponents of the severance tax told lawmakers that the industry's strong position means there's no better time to restore the tax.

Jody Wisner, founder of Tax Fairness Oregon, a tax watchdog, told state representatives that fires that burned 3% of the state's private timberlands were no reason to delay restoring taxes that could fund sheriff's deputies, mental health workers and economic development officers in rural counties that bore the brunt of the cuts.

Disagreement exists about where the money should go if a tax is reinstated. The current proposal to restore the tax, introduced by state Rep. Paul Holvey, a Eugene Democrat, would institute a 5% tax to be paid by timber owners. Half of the money would fund wildfire fighting and a quarter of it would return to the counties where the logging occurs. The rest would go

to the Oregon Department of Forestry and research projects at Oregon State University.

Counties want to see all of the money returned to them. But lawmakers have sidelined two early bills to restore a severance tax that would serve entirely as local government revenue, while Holvey's proposal received its first hearing last week.

Meanwhile, small landowners with less than 5,000 acres, which together own about a third of Oregon's private forests, have protested the use of tax revenue to pay to prepare private homes for wildfires.

"These costs should be shared by all citizens. We are very happy to support OSU forestry and the Department of Forestry and pay our share for fire," Sarah Deumling, whose company manages 1,300 acres in Polk County, told lawmakers, "but please think twice before trying again to tax us out of business."

The Association of Oregon Counties, representing the 36 counties that once received the tax revenue, echoed the timber lobbyist's statements about the timing being wrong to raise taxes and urged lawmakers to delay beyond the 2021 session.

Speaking on behalf of the association, John Sweet, a county commissioner from coastal Coos County, which has lost an estimated \$208 million in severance tax payments since 1991, told state lawmakers they should not restore the tax without taking time to study it. If they do act now, Sweet said, they should direct the money where it once went, to local governments and schools, not to state responsibilities like firefighting.

Sweet said in an interview that while timber companies are currently seeing strong returns, lawmakers still need to be careful in their efforts to restore the tax.

"This may be a reasonable tax," he said. "I don't want it to be imposed when we're shooting from the hip."

Sweet has received \$29,000 in campaign contributions, nearly 20% of what he's raised in nine years, from timber interests including Weyerhaeuser. He said the contributions did not influence his position.



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