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The Future Supply of Timber from Public Lands: Recent Sales Will Not Support Competitive Processing

John Perez-Garcia and Bruce Lippke. 1991

Summary

Starting in late 1988, environmental litigation had a major impact on US Forest Service's timber sales from Westside Region 6 (the Pacific Northwest). Currently, the prices for most of the timber sold but not yet cut are above the price level that can be expected to be competitive in the market for the foreseeable future. In combination with a declining trend in softwood lumber demand, Pacific Northwest mills are facing a period of negative growth and restructuring. The reduction in forest industry output and the negative regional economic impact will be considerably greater than that being caused by the reduced harvest from spotted owl conservation. The quantity of uncompetitive timber is substantial. Between 1.5 and 3 billion board feet of the US Forest Service (USFS) inventory from Westside Region 6 is currently uncompetitive. Related problems exist on Bureau of Land Management (BLM) and state sales that will add to this volume.

Even though changes in contract terms were introduced after the timber buyout legislation in 1984, a setting for massive defaults on contracts has occurred again for the second time in just ten years. The social and economic costs associated with these problems are substantial, including lost revenue for the public sellers, bankruptcy losses by the processors and customers of the public sellers, substantial litigation costs, regional tax revenue losses, increased public assistance costs, and substantial costs to final consumers.

The current mechanisms in the timber sale contracts--stumpage adjustment clauses and early harvest discounts--have not prevented harvest price speculation and the occurrence of uncompetitive timber sales. Speculative or desperation bidding, as a result of the environmental litigation, has resulted in contracts for timber that will generate economic losses U the timber is harvested. Substantial increases in product prices would be needed to make these contracts competitive, which does not seem likely in the near future. A quick resolution of the current problems can reduce the magnitude of these negative impacts. More fundamentally, it needs to be recognized that the mechanics of current contracts are not conducive to making regional suppliers competitive or to allow stable marketing relationships with their customers, fundamental parameters in fostering a healthy and sustainable economic environment. Policy changes are required both for relief of the current problem and for the long term benefit of public sellers, producers and consumers.

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