

# Assessment Highlights

## Oregon's Forest Cluster

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### First of three economic assessments in Phase II of the study: **Oregon Forest Sector Contributions & Potential**

Prepared for the Oregon Forest Resources Institute

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The Oregon Forest Resources Institute (OFRI) commissioned E.D. Hovee & Company in 2004 to conduct an economic study, *Oregon Forest Sector Contributions and Potential*. The study's goal was to identify steps that the sector could take to enhance its contributions to the state's economy, particularly in rural communities, while keeping its internationally regarded environmental commitments.

Based on 2000 data, Phase I of the study found that Oregon's forest sector provides 85,600 direct jobs, or a total of 190,400 direct and indirect jobs when multiplier effects are included. These direct and indirect jobs account for some 9% of jobs in Oregon and 10% of the state's labor income. The total economic output supported directly and indirectly by Oregon's forest sector is about \$22 billion, or about 11% of the total value of goods and services produced in Oregon.

The study also found that projected harvest levels of less than 4 billion board feet annually over the next 10 years were less than half of the harvest levels in the 1980s, due primarily to a change in management strategies on federal forestlands. While harvest levels on private lands have remained relatively stable, they now account for 85% of the total harvest. The study concluded that annual statewide harvest levels could be increased by 25% to 5 billion board feet (still well below the biologically sustainable level of 10 billion board feet), potentially providing more than 20,000 additional forest sector jobs. Experience this past year reinforces this long-term potential, as timber harvest in 2004 was up by nearly a half-billion board feet to about 4.45 billion.

Phase II of the study provides economic assessments focusing on *Oregon's Forest Cluster*, *Forest Tourism* and *Forest Growth & Mortality*. Following are highlights of the *Oregon's Forest Cluster* assessment. Highlights of the *Forest Tourism* and *Forest Growth & Mortality* assessments plus the full Phase I and Phase II study reports are available from OFRI.

## Oregon's Forest Cluster

A cluster approach is being promoted by the Oregon Economic and Community Development Department, the Oregon Business Council and others as a way a business sector can enhance its contribution to statewide economic development.

Oregon's forest sector typically is defined as comprising primary and secondary wood products plus forestry services. A cluster approach involves an expanded view of geographically concentrated and interconnected economic activities and linkages to customers and suppliers, focusing on current and prospective competitive advantages offered by a region and its networked economic activities.

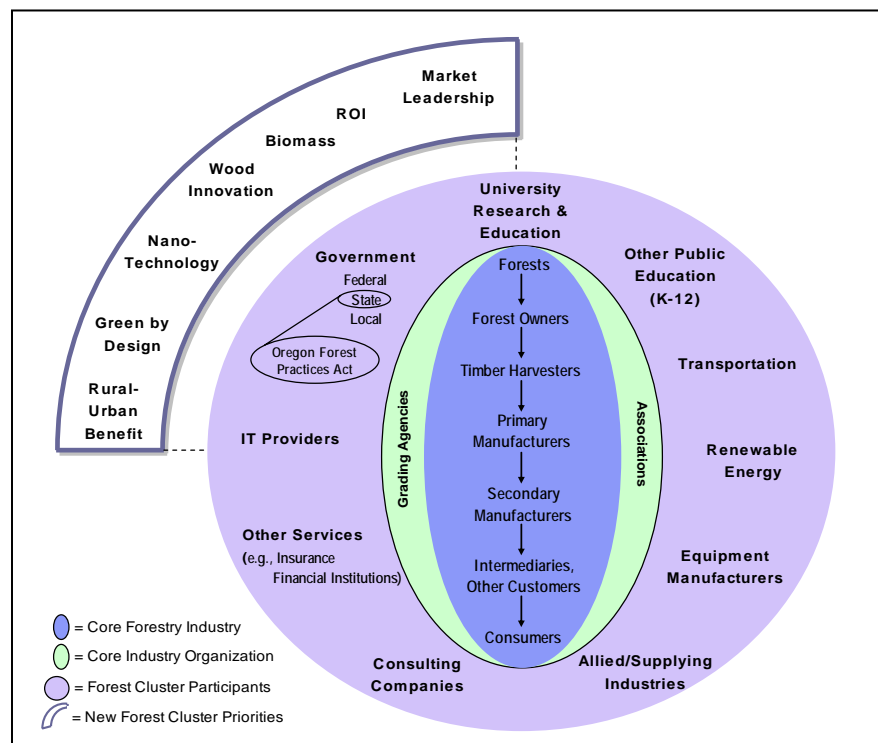
The forest cluster analysis represents the next step toward broadening the view of Oregon's forest sector to encompass an expanded cluster linked to existing and potentially supportive sectors throughout the state's economy.

Historically, Oregon’s forest sector has been concentrated in or near the forest, with supportive industries (e.g., equipment suppliers, product distributors, etc.) more likely to be located in urban areas. While the historical linkages are still important, an updated cluster analysis is important to assessing opportunities for: 1) re-establishing linkages for improved individual company performance, innovation and statewide economic impact, and 2) identifying new partnerships with other new and emerging business clusters that have become critical to Oregon’s continued prosperity.

Today the forest sector has restructured in response to changing timber supply and global competition and is now concentrated closer to major transportation corridors. It produces innovative products with an educated, technologically sophisticated workforce using research and high-tech equipment and processes. While the restructured forest sector is no longer the largest contributor to the state’s economy, it is lean, resilient and competitive and remains critical to the prosperity of rural communities.

## A New Vision for Oregon’s Forest Cluster

To compete more effectively in the 21<sup>st</sup> century global market, Oregon’s forest sector needs to embrace an updated, expanded forest cluster vision. The Forest Cluster Analysis recommends a new vision that encompasses: 1) strengthening a core forest sector with enhanced networking capability, 2) positioning Oregon as a global leader committed to both market and non-market objectives, 3) pursuing commodity and value-added niches and 4) benefiting rural and urban communities.



Source: Eric Hansen, FP Marketing Solutions, as modified by E.D. Hovee & Company, LLC

A key question for the future involves a strategic choice between a competitive approach prominent in other U.S. business sectors (taking advantage of quick-moving opportunities in a world of hyper-competition, customization and rapid technological innovation) and one common in China and other countries (investing in relationships that provide a long-term strategic advantage). Oregon’s forest cluster historically has operated more by the latter model. The

question now is whether to stay the course or adopt a more *cutting edge*, rapid-fire business paradigm for global competitiveness. The strategic direction chosen could combine elements of both approaches by: a) providing the regulatory incentives necessary to sustain long-term investment in healthy Oregon forests while b) offering the flexibility for businesses, non-profits and public agencies to be nimble in creating and sustaining market leadership yielding economic contributions to the state for generations to come.

## Summary of Forest Cluster Recommendations

### A. MARKET LEADERSHIP

- *Sustainable, predictable* harvest, increased from 4 to 5 billion board feet per year
- Transition from commodity to more value-added *mass customization*
- *Cooperative legislative agenda* with other key Oregon business clusters
- Commitment to a statewide *green agenda*
- Moving the forest cluster *front & center* on the state's economic development agenda
- *R&D brokered* through OSU & cooperating institutions
- *Wood marketing* as the renewable, environmental & energy friendly alternative

### B. ROI VIA STRATEGIC MANAGEMENT

- *Timely, reliable* forest growth & mortality data
- *Ecosystem services* tailored to diverse forest & landowner interests
- Potential *state acquisition* of over-cut lands for long-term schools funding as working forests
- Tradable monetary credits for *carbon sequestration*
- Mechanisms for voluntary purchase or donation of *conservation rights*
- Maintenance of *large log* milling & marketing capacity

### C. BIOMASS CONVERSION

- *Statewide commitment* to biomass for renewable energy
- *Biomass* inventories & 10-15 year supply assurances – with eastern Oregon priority
- *Bio-energy* cost write-downs & encouragement of utility participation
- *Bio-fuels* encouragement with minimum in-state ethanol standards & potential public corporation vehicle for facility financing
- *Bio-products* research & development via the Wood Innovation Center coupled with nanotechnology linkage

### D. WOOD INNOVATION

- Globalized *information* dissemination & networking
- Real-time *buyer-seller* networks

- Customized, *rapid-fire* business & product research
- Forest cluster *business & finance* education
- Product design, testing & packaging *services*
- *R&D linkages* to biomass & nanotechnology commercialization
- Cooperative forest cluster *marketing*

### E. NANOTECHNOLOGY

- *Partnership* exploration with ONAMI educational institutions & industry
- Forest nanotechnology *research leadership* with OSU & cooperating institutions
- Reach-out to *venture capital* partners
- Funding identification for *joint forest cluster/high-tech* nanotech research initiative

### F. GREEN BY DESIGN

- Continued application of internationally recognized *criteria & indicators* for forest sustainability
- *Peer-to-peer* dialogue & education between Oregon's forest products and architectural/engineering communities
- Business-led approach – backed by *consensus-based* public policy
- *Cooperative initiatives* – for large log & nontoxic engineered products, life-cycle standards for materials selection, use of sustainable wood in urban construction
- Consideration of *statewide* forest certification

### G. CLUSTERING FOR RURAL & URBAN BENEFIT

- *Active management* appropriate to wood production, multi-resource & reserve forests
- *Timber harvest* consistent with Northwest Forest Plan
- Scheduling to facilitate *multi-season* in-forest employment
- Incentives for *micro-business* including specialty species utilization
- Encouragement of forest-related *recreation tourism*
- *Investment* in rural transportation, infrastructure, rural industrial sites, affordable housing & Enterprise Zone opportunities

