



**NORTH CAROLINA CENTER FOR
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INCREASE IN CHIP MILLS RAISES CONCERNS ABOUT SUSTAINING FORESTS

The number of satellite chip mills operating in North Carolina has increased from two to 18 since 1980, raising concerns about the sustainability of the state's forests, says the N.C. Center for Public Policy Research in a report released today. The Center says North Carolina lags behind other states in its forest management practices and should adopt a goal of replenishing trees as fast as they are cut.

Currently, the only environmental permit routinely required of chip mills in North Carolina is a general stormwater discharge permit which deals with water runoff and erosion from the mill site. Rather than the mills themselves, off-site activities such as clear cutting of trees and increased truck traffic are of greater concern to the public.

Each of the state's 18 chip mills has an average capacity of about 250,000 tons per year and is capable of processing up to 2,600 acres of hardwood and softwood trees annually. These mills are distributed across the entire state, with four in the mountains, four in the coastal plain, and 10 in the Piedmont.

Chip mills usually employ a small number of people who oversee the placement of whole logs into a machine that strips off the bark. The logs are then fed into a grinder, which spits out little chunks of wood, each about as big as a potato chip.

"The era of Paul Bunyan is behind us. We're seeing an increase in the number of highly mechanized chip mills with a huge appetite for timber," says Mike McLaughlin, editor of *North Carolina Insight*, the Center's magazine in which the study appears. "The state must act now to make sure our forest resources are protected for future generations."

Center Recommendations To Promote Sustainable Forestry

The Center makes four recommendations toward a goal of sustaining the state's forests and replenishing trees as fast as they are cut. The Center recommends:

- (1) That the N.C. General Assembly eliminate a state tax credit for exporting wood chips that may encourage more harvesting of trees than would otherwise occur;
- (2) That state law be clarified to assure that the Best (Forestry) Management Practices are required on all timber harvests;

(3) That forest landowners be required to notify the N.C. Division of Forest Resources when they intend to harvest trees so that state water quality inspectors can help prevent erosion and pollution on site; and

(4) That the N.C. Division of Forest Resources develop a plan for enhancing its reforestation program to meet a goal of sustainable forestry.

(1) Eliminating the Tax Credit for Wood Chip Exports

In 1991, the N.C. General Assembly enacted a tax credit to encourage exporting through North Carolina ports. The credit program was expanded to include wood chips and other forest products in 1996. Originally scheduled to terminate in 1998, the tax credit now remains in effect through February 2001. A company can receive up to \$2 million in tax credits, and companies must increase their exports above a previous level to qualify.

Wood chip exports from North Carolina ports began in 1989 with 36,000 tons and increased to more than 1 million projected tons by the 1998-99 fiscal year – roughly 6 percent of the state's total pulpwood harvest. The Center says the tax credit provides an additional incentive to harvest that distorts market pricing and may undermine efforts to sustain the state's forest resource. "Increasing business for the state's ports may be a fine idea, but in this case, there is a secondary environmental impact," says McLaughlin. "The state is inviting an unintended consequence – over-harvesting of timber."

Tax credit supporters say the credit does not increase chip mill harvests, but keeps wood that would have been chipped anyway from being shipped out of competing ports in South Carolina and Virginia. The forest products industry is divided on the issue, with domestic manufacturers of finished wood products generally opposed to the tax credit because it effectively lowers the cost of manufacturing for foreign competitors.

For example, John T. Dillon, Chairman of International Paper Company, wrote Governor Jim Hunt in September 1997, "International Paper is committed in its opposition to the export of wood chips, roundwood, and whole logs. We firmly believe that it is not in the best interest of our employees,... of North Carolina taxpayers generally, and shareholders for the state to subsidize our foreign competitors, who ultimately compete with us for the sale of value-added products in the global marketplace."

(2) Mandating Best Management Practices in State Law

The Center's research also revealed a lack of clarity in state law regarding whether Best (Forestry) Management Practices are required on North Carolina timber harvests. Loggers must follow *Forest Practices Guidelines* as a condition for their exemption from the state Sedimentation Pollution Control Act. Following Best Management Practices assures that timber harvesters will be in compliance with *Forest Practices Guidelines*. Best Management Practices include maintaining streamside buffers, not leaving debris in streams that would obstruct flow, and keeping access roads and skid trails away from streams or using culverts or portable bridges where crossings are necessary. All this is to prevent sedimentation – a major source of water pollution.

Environmentalists argue that Best Management Practices are only voluntary under state law, while industry officials maintain they are already required. In the interest of safeguarding

the state's rivers and streams, the Center recommends that Best Management Practices be mandated explicitly in state law, as they are in Kentucky.

(3) Landowners Notifying State Before Harvest of Trees

As a further step to protect water quality, the Center recommends that forest landowners be required to notify the N.C. Division of Forest Resources before commencing a timber harvest so that state water quality inspectors can help prevent erosion and pollution on site. Similar legislation was introduced in the 1999 N.C. General Assembly but failed.

Mandatory notification is required in Virginia as part of its Silviculture Water Quality Control Act. Virginia loggers must report the location of any harvest of more than 10 acres within three days of beginning work, and the state has set up a toll-free number where loggers can call and leave a message. So far, the Virginia number is receiving about 140 calls per month.

The Center says such a program would work well for North Carolina. The N.C. Division of Forest Resources employs only six water quality inspectors statewide, although Division Officers in each of the state's 100 counties assist with site inspections. "With thousands of timber harvests conducted annually in North Carolina and only a handful of inspectors, the state needs advance notice of timber harvests," says McLaughlin.

(4) Planning for Sustainability of Forests

Finally, the Center says the N.C. Division of Forest Resources should enhance its reforestation program by developing a plan to further sustainable forestry. The Center says the governor should include funding for such a reforestation plan in the budget proposed for 2001.

Currently, the only state policy that directly applies to sustainability and reforestation is the Forest Development Program. This program provides qualifying private landowners with up to 40 percent cost-sharing for replanting seedlings after a timber harvest. The Center recommends that the division first develop a strategy for assuring that all landowners know about the reseedling program, perhaps by requiring that before beginning a cut, loggers must notify landowners in writing of the program's existence. But further steps may be needed to preserve the state's forest resource, such as providing greater cost-sharing for landowners who agree to retain the majority of trees on a tract for 40-50 years. Missouri Governor Mel Carnahan has directed state agencies there to undertake a study of chip mills and associated forest harvesting practices and encouraged the development of forest management plans.

In 1996, Governor Jim Hunt instructed the N.C. Department of Environment and Natural Resources (DENR) to conduct a study of the economic and environmental implications of wood chip production in North Carolina. DENR later contracted for a study by the Southern Center for Sustainable Forests -- a consortium of forestry experts at Duke and North Carolina State universities -- but the department remains responsible for the study. The Southern Center for Sustainable Forests is scheduled to report to DENR and the governor in March 2000.

Some environmental groups, such as the Dogwood Alliance of Brevard, advocate a moratorium on any new chip mills in North Carolina until the studies are finished. Other environmental groups such as the N.C. Environmental Defense Fund of Raleigh and the Southern Environmental Law Center of Chapel Hill support requiring proposed new or expanded

chip mills to obtain individual permits from the Environmental Management Commission. The state of Washington requires permits for most types of timber harvests and forest road building.

However, the Center's research found mixed results on whether hardwood pulpwood harvest has increased as chip mill capacity has expanded. In the Piedmont, chip mill capacity increased by 149 percent between 1989 and 1997, while hardwood pulpwood harvest increased by 170 percent. In the mountains, however, hardwood pulpwood harvest actually decreased by 52 percent from 1994 to 1997, while chip mill capacity increased by 66 percent. Harvest rates varied in the east, showing no clear link to the rising number of chip mills. For this reason, the Center made no recommendation on whether to require permits for individual chip mills. Instead, McLaughlin says the Center's recommendations are geared toward the goal of developing a state policy of sustainable forestry practices as the forest products industry shifts its focus from the Pacific Northwest to the South.

"The significance of the chip mill debate is that it serves as a crowbar to pry open the issue of private forest management in North Carolina," says Lark Hayes, executive director of the Southern Environmental Law Center in Chapel Hill. "For the first time, citizens are beginning to ask whether our laws and subsidies are shaping the behavior of private forestry in a responsible manner with respect to the environment."

"There ought to be room for common ground between environmentalists and forest landowners," says Ron Bost, executive director of the N.C. Forest Landowners Association. "We both have the same objective of keeping as much land in forests as possible."

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit corporation created to study public issues facing North Carolina and to evaluate state government programs. The Center's research on wood chip mills in North Carolina was supported by grants from The Blumenthal Foundation of Charlotte and the Mary Norris Preyer Fund of Greensboro. The Center receives general operating support from the Z. Smith Reynolds Foundation in Winston-Salem, 13 other foundations, 190 corporate contributors, and almost 1000 individual and organizational members across the state.

In addition to publishing *North Carolina Insight*, the Center also publishes book-length research reports, a citizens' guide to the legislature, and a textbook for teachers of state and local government. The Center is currently conducting studies of public university governance in North Carolina and state lotteries. Recent studies also have examined Hispanic/Latino health issues, programs for children with special needs, and state job training programs.

Copies of the issue of *North Carolina Insight* containing the Center's research on wood chip mills and sustainable forestry are available for \$20, which includes tax, postage, and handling. To order, write the Center at P.O. Box 430, Raleigh, N.C. 27602, call (919) 832-2839, fax (919) 832-2847, or order through the Center's Website at www.ncinsider.com/nccppr.

For more information on the Center's study of wood chip mills in North Carolina, contact Mike McLaughlin, editor of *North Carolina Insight*, at (919) 832-2839.

Table 1. Satellite Chip Mills in North Carolina

Mill type 1: stand-alone facility used to chip roundwood for sale to other wood processors

Mill type 2: located at a solid wood processing facility such as a sawmill or pallet mill; commonly installed to chip low-quality saw logs for sale of chips to other wood processors but may also be used to process pulpwood for resale to chip buyers.

Mill Name, Location	Mill Type	County	Start-up Year
Anson Wood Products, Wadesboro	1	Anson	1970
B&B Chip Mills, Inc., New Hill	1	Wake	1990
Bristol Industries, Inc., Morganton	1	Burke	1985
Broad River Forest Products, Inc., Union Mills	1	Rutherford	1998
Bunn Hardwoods, Inc., Bunn	2	Franklin	1996
Cotton Creek Chip Co., Star	1	Moore	1991
Edwards Wood Products, Marshville	2	Union	1978
Edwards Wood Products, Laurinburg	2	Scotland	1990
Godfrey Lumber Co., Statesville	2	Iredell	1988
H&M Wood Products, Mars Hill	2	Madison	1991
International Paper Co., Snow Hill	1	Greene	1990
International Paper Co., Norlina	1	Warren	1995
North Carolina Chip Co.	1	Wilson	1990
Parton Lumber Co.	2	Rutherford	1985
Shaver Wood Products Inc., Cleveland	2	Rowan	1981
St. Laurent Forest Products, Elizabeth City	1	Pasquotank	1986
Suncrest Land and Timber, Waynesville	2	Haywood	1985
Valwood, Cherokee	1	Cherokee	1986

Source: Data prepared by James Gregory, Department of Forestry, N.C. State University, Raleigh, N.C., August 11, 1998. Compiled with the assistance of David Brown, utilization forester, N.C. Division of Forest Resources, and Bradley Bennett, N.C. Division of Water Quality, Water Quality Section.

Table 2. Number of N.C. Chip Mills and Level of Timber Harvest by Region, 1989-97

Region	Number of Chip Mills	Level of Timber Harvest
Mountains	4	Decreased*
Piedmont	10	Increased**
East	4	Varied***

* Between 1989 and 1997, chip mill capacity increased in the Piedmont by 149 percent, while hardwood pulpwood harvest increased by 170 percent, from 247,328 cords in 1989 to 669,102 cords in 1997. A cord equals about 2.8 tons of hardwood pulpwood.

** Between 1994 and 1997, chip mill capacity increased in the mountains by 66 percent, but hardwood pulpwood harvest decreased by 52 percent, from 307,158 cords in 1994 to 148,586 cords in 1997.

*** Between 1994 and 1997, chip mill capacity remained unchanged in the East. However, hardwood pulpwood harvest declined 11 percent from 1994 to 1995 (from 1,312,764 cords to 1,166,079), declined 25 percent from 1995 to 1996 (from 1,166,079 cords to 877,357 cords), and increased 33 percent from 1996 to 1997 (from 877,357 cords to 1,164,724 cords).

Source: Unpublished summary of annual series of reports on Southern Pulpwood Production issued by the Forest Service, U.S. Department of Agriculture. Prepared by Rex Schaberg, Southern Center for Sustainable Forests, for the advisory committee of the North Carolina Wood Chip Study, January 26, 1999, pp. 14-22.

Table 3. Top Ten Timber-Producing N.C. Counties by Stumpage* Values, 1995

County	Softwood Stumpage* Values (\$)	Percentage of Total Softwood (%)	Hardwood Stumpage* Values (\$)	Percentage of Total Hardwood (%)	Combined Stumpage* Values (Softwood + Hardwood) (\$)	Percentage of Combined (%)
Columbus	18,317,312	4.0	1,331,711	1.0	19,649,023	3.4
Beaufort	17,497,600	3.8	2,090,224	1.6	19,587,824	3.3
Bladen	16,517,376	3.6	1,901,053	1.5	18,418,429	3.1
Moore	13,994,718	3.1	1,992,414	1.5	15,987,132	2.7
Bertie	12,192,075	2.7	2,608,199	2.0	14,800,274	2.5
Craven	13,576,436	3.0	1,135,869	0.9	14,712,305	2.5
Johnston	11,228,383	2.5	3,368,702	2.6	14,597,085	2.5
Anson	13,591,235	3.0	844,393	0.6	14,435,628	2.5
Pender	13,170,594	2.9	1,330,223	1.0	14,500,817	2.5
Robeson	12,474,821	2.7	1,710,946	1.3	14,185,767	2.4
Total All N.C. Counties	456,556,763		129,256,541		585,813,304	

* Stumpage values are the payments to forest owners for trees as they stand in the woods, that is, prior to processing or transportation.

Source: P.B. Aruna, Frederick Cabbage, Rick A. Hamilton, "Table 1. 1995 Timber Harvest Stumpage Values by County in North Carolina," *Economic Impacts of Forestry on North Carolina*, North Carolina State University, Dept. of Forestry, College of Forest Resources, Raleigh, N.C., April 1998, pp. 10-11.