



F&W
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Forestry Report

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Wild Year Ends With Robust Housing Market, Renewed Emphasis On Environmental Policy



By Marshall Thomas, President of F&W Forestry Services, Inc.

Housing starts hit 1.547 million units (annualized) in November, 12.8 percent above the same month in 2019. That is great news, but the better news is that 1.186 million of those starts were single-family units, the highest level since April 2007. Since single-family homes use more lumber than multi-family buildings, we are getting some leverage on demand through this important shift. It will be interesting to see if this is temporary due to COVID.

Pellet production was not impacted by COVID-19, with exports through October at 6.03 million metric tons, up from 5.6 million metric tons a year ago. Not surprising, given

that the virus probably hasn't reduced the need for power in Europe and the UK.

Perhaps the most interesting thing that we will see in 2021 will be the reversal of many Trump-era environmental policies, which of course were reversals of Obama-era environmental policies (page 4). One such policy may be the Waters of the United States (WOTUS) rule. You may recall that the Obama rule significantly expanded the waters regulated under the Clean Water Act, drastically expanding the area of private lands on which the government would have regulatory and permitting authority. These rules were never really enacted because of lawsuits to stop them, claiming they were an overreach of the federal government's authority. Expect the same reaction this time, and for water policy to stay the same for a while.

Another area likely to have a big impact on forest landowners is the Biden proposal to change tax policy for individuals making more than \$1 million annually. Biden wants those earning more than \$1 million to pay the same tax rate on all income, effectively eliminating capital gains. This could have a huge impact on tree growers, who may grow their forests for 30 to 50 years, making no money during that time, and then sell it in one year for \$1 million, losing their capital gains treatment (although the money was actually earned over a long period of time). This bears watching and could renew interest in installment sales and better planning of sales timing.

Several bipartisan coalitions involving the forestry sector have developed climate solution proposals to influence the Biden administration's climate change policies. These are private sector groups and the solutions proposed tend to be market-based. Let's hope they get some traction.

One area where Biden appears to be staying the course with Trump is a tough stance on China trade, although he proposes to form coalitions with other countries rather than go it alone, as Trump did. This remains a huge issue for the forest sector—trade with China is critical to maintaining healthy demand levels across the country and is critical in the South to help with the timber oversupply situation. In terms of short-term financial impact on tree growers, this is probably the single most important policy item to watch. 🌲

Southern Timber Prices

2020 FOURTH QUARTER PINE & HARDWOOD STUMPAGE PRICE RANGE* (TONS)

	PINE PULPWOOD	PINE SMALL SAWTIMBER	PINE LARGE SAWTIMBER	HARDWOOD PULPWOOD	HARDWOOD SAWTIMBER
SOUTHEAST					
LAFAYETTE, AL	\$6-12	\$14-21	\$19-27	\$6-15	\$22-40
GAINESVILLE, FL	\$10-23	\$23-29	\$27-35	\$1-11	\$12-32
MARIANNA, FL	\$10-14	\$17-19	\$29-39	\$6-9	\$27-29
ALBANY, GA	\$8-12	\$17-20	\$26-35	\$6-11	\$15-35
MACON, GA	\$7-10	\$16-20	\$23-29	\$6-9	\$18-40
STATESBORO, GA	\$13-23	\$18-25	\$25-33	\$8-13	\$22-38
FOUNTAIN INN, SC	\$8-10	\$14-19	\$20-24	\$7-9	\$18-35
CENTRAL REGION					
CLINTON, TN	\$5-10	NA	NA	\$3-5	\$35-55
PARIS, TN	\$7-8	\$7-8	\$10-10	\$3-4	\$40-60
WEST GULF					
EL DORADO, AR	\$4-8	\$10-12	\$24-34	\$5-9	\$32-60
CORINTH, MS	\$3-5	\$14-16	\$18-23	\$6-8	\$35-55
HUNTSVILLE, TX	\$5-7	\$8-10	\$19-23	\$4-5	\$28-32
TEXARKANA, TX	\$7-9	\$12-14	\$25-29	\$5-7	\$32-60
MID ATLANTIC					
CHARLOTTESVILLE, VA	\$7-12	\$14-18	\$17-23	\$3-8	\$14-36

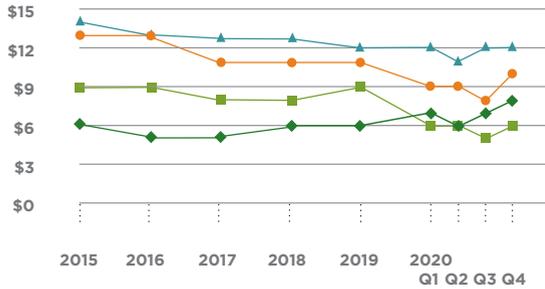
*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions.

Southern Timber Prices

TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S SOUTHERN REGION

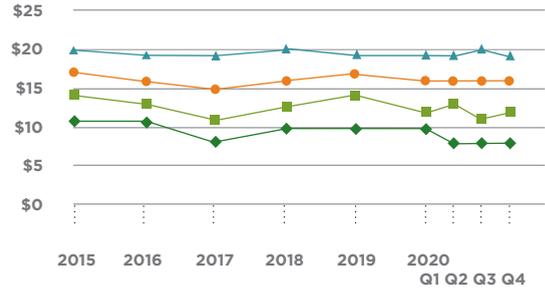
PINE PULPWOOD AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



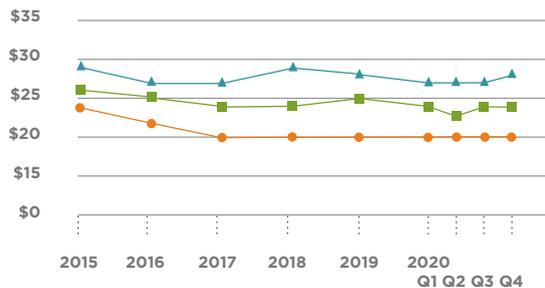
PINE SMALL SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



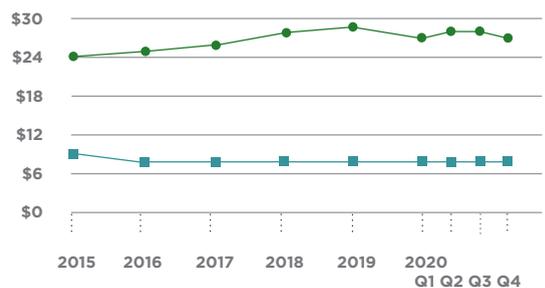
PINE LARGE SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ■ WEST GULF / ● MID ATLANTIC



SOUTHEAST HARDWOOD PRICES (TONS)

■ HARDWOOD PULPWOOD / ● HARDWOOD SAWTIMBER



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Forestry Report

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Northern Timber Prices

2020 FOURTH QUARTER STUMPAGE PRICE RANGE*

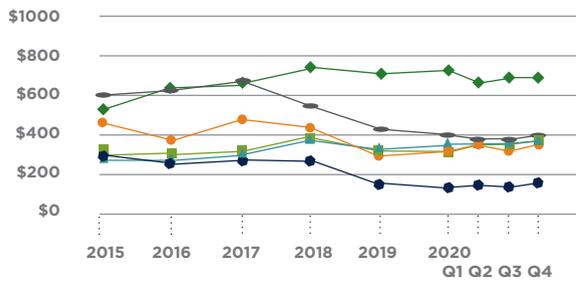
	RED OAK (MBF)	BLACK CHERRY (MBF)	HARD MAPLE (MBF)	SOFTWOOD SAWTIMBER (MBF)	HARDWOOD PULPWOOD (TONS)	SOFTWOOD PULPWOOD (TONS)
RUMFORD, ME ^I	\$275-400	NA	\$250-500	\$40-170	\$3-7	\$1-3
MONTPELIER, VT ^I	\$250-425	NA	\$250-500	\$40-160	\$2-7	\$1-3
GLENS FALLS, NY ^I	\$200-500	\$250-500	\$375-650	\$60-160	\$3-6	\$3-6
HERKIMER, NY ^I	\$225-500	\$325-550	\$425-675	\$50-200	\$3-6	\$2-4
TUPPER LAKE, NY ^I	NA	\$375-400	\$300-450	\$90-130	\$4-6	\$2-4
CLARION, PA ^D	\$575-720	\$675-900	\$625-725	NA	\$1-3	\$0-1
BLUEFIELD, WV ^D	\$150-200	\$150-185	\$200-300	NA	\$1-3	\$0-1

*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions. (D) = Doyle (I) = International (S) = Scribner

TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S NORTHEAST REGION

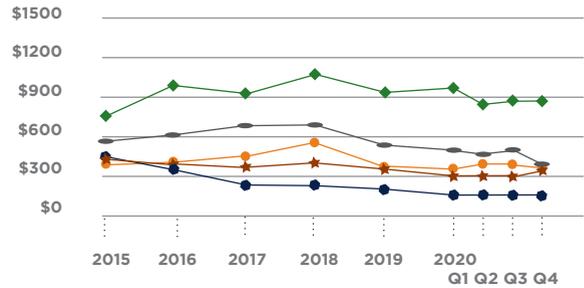
RED OAK AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV



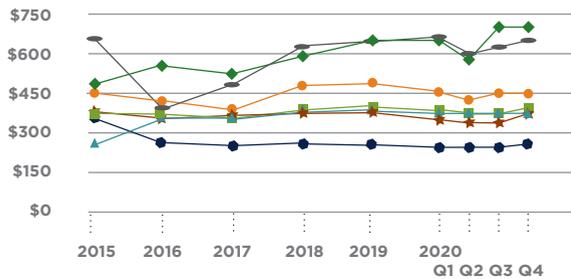
BLACK CHERRY AVERAGE (MBF)

● GLENS FALLS, NY / ● HERKIMER, NY / ★ TUPPER LAKE, NY / ◆ CLARION, PA
● BLUEFIELD, WV



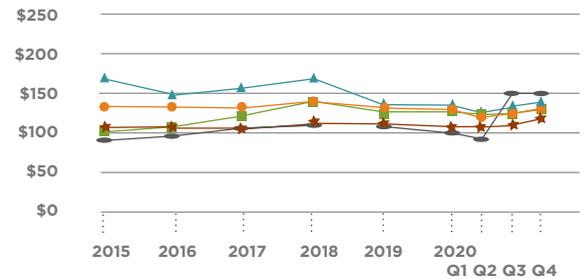
HARD MAPLE AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



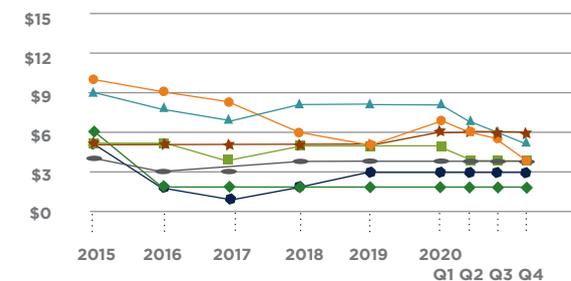
SOFTWOOD SAWTIMBER AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY
■ MONTPELIER, VT / ★ TUPPER LAKE, NY



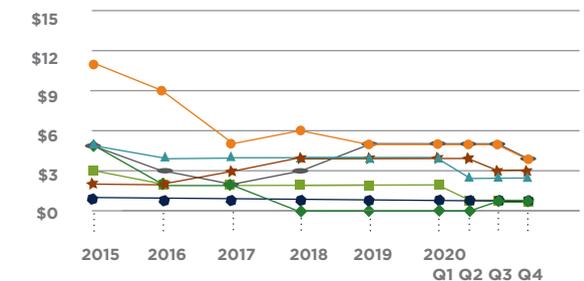
HARDWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



SOFTWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



Climate Change A Top Priority Of New Biden Administration, Forests Likely To Play A Key Role In Solutions

After the most divisive election in modern times, the incoming Biden administration is expected to devote the highest priority attention to the COVID-19 pandemic, the nation's resulting economic troubles, and climate change in the first few months of 2021.

Mr. Biden enters the White House with a policy agenda the polar opposite of the Trump administration on a wide range of issues, but particularly on how the federal government addresses environmental policy and regulation, trade, and taxes. How much progress the Biden administration will make on its policy goals remains to be seen.

While Democrats retain a slim

majority in the House, a tight or evenly split Senate will make it hard for a Biden administration to advance a progressive agenda. Control of the Senate hinges on the outcome of a Jan. 5 runoff election for two Senate seats in Georgia. If Democrats win both seats, the chamber will be evenly divided, with Vice President-elect Kamala Harris casting the tie-breaking vote. If Republicans remain

in control, the new president will be unable to pursue the more ambitious legislative goals that were outlined in his campaign platform. While it is possible that the White House and Congress can work together to pass legislation that accomplishes some of the president-elect's goals, it is more likely that a significant number of changes will be made through executive order and agency regulation.

Issues related to forestry and natural resources are not expected to garner serious national attention right away with the singular exception of the role of forests in climate change policy, one of four top priorities of President-elect Biden. As the new

administration takes shape, following are some of the key issues likely to come up that impact forestry.

CLIMATE CHANGE One of the most significant changes to expect from the new administration is a renewed focus on addressing the changing climate. Indicative of this commitment is President-elect Biden's pledge to rejoin the Paris Climate Accord on day one of his administration. President Trump withdrew the U.S. from the agreement, citing an unfair economic burden it imposed on American workers, businesses, and taxpayers.

During his candidacy, Mr. Biden said he wants to make massive investments in "green" infrastructure, buildings, transportation, and renewable power in order to put the U.S. on track to have a clean energy economy with net-zero emissions by 2050. In his first 100 days in office, Mr. Biden said he would convene a world summit to directly engage the leaders of major carbon-emitting nations to persuade them to join the U.S. in making more ambitious national pledges, above the commitment they have already made. The president-elect has tapped John Kerry as his special envoy for climate change. The former senator from Massachusetts, Democratic presidential nominee, and secretary of state in the Obama administration oversaw the U.S. negotiations on the Paris Climate Accord. The appointment will capitalize on Kerry's international relationships and communicate to foreign leaders that the U.S. is again taking the issue seriously, boosting prospects for global negotiations.

Mr. Biden has also signaled that he intends to take an all-government approach to address climate change and broaden the focus beyond the Environmental Protection Agency (EPA) to include other federal agencies such as Agriculture, Transportation, Interior, Treasury, and State. This approach reflects the new administration's certainty that addressing climate change is critical and consistent with growing the economy through green investments in technology and job creation.

It is widely accepted that forests make a significant contribution to climate mitigation through the ability



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(continued on page 5)

New Biden Administration *(continued)*

of trees to capture and store carbon on the stump and in wood products. A U.S. Forest Service report released in 2020 found that forest ecosystems account for more than 95 percent of the land carbon sink and offset more than 11 percent of U.S. greenhouse gas (GHG) emissions annually. The recognition of forestry in climate control policies should serve to strengthen existing forestry programs and foster new avenues to benefit landowners.

REGULATORY & POLICY

With a focus on climate change and net-zero emissions, one of the first targets of the new EPA administration is expected to be Trump's Affordable Clean Energy (ACE) rule, which provided guidelines for states to use when developing plans to limit GHG emissions from existing coal-fired plants. The ACE rule replaced Obama's Clean Power Plan, which set strict carbon dioxide limits for states but was never implemented due to court challenges.

A Biden EPA is also expected to make other rulings targeting GHG emissions. A top concern for the forest industry is the recognition of forest biomass as a viable renewable energy source in reducing emissions.

The Waters of the U.S. (WOTUS) rule is also likely to be another regulation revisited by the Biden team. The rule was originally proposed in 2015 by the Obama administration to extend federal jurisdiction over which waters are regulated under the Clean Water Act. Legal challenges to the Obama rule resulted in a regulatory patchwork of where it applied. Trump's EPA repealed the rule and replaced it with a new one in 2019 that scales back the reach of the federal government under the law.

Another Trump administration rule expected to be scrutinized closely is the change to the Endangered Species Act (ESA). The changes put restrictions in place on assessing

future threatened or endangered species and provided new procedures and standards for the designation of critical habitat for listed species.

TRADE

Mr. Biden has said he plans to take aggressive trade enforcement actions against China and any other country seeking to undercut the U.S., including such activities as currency manipulation, anti-competitive dumping, state-owned company abuses, or unfair subsidies. He also said he would confront foreign efforts to steal American intellectual property and address state-sponsored cyber espionage against U.S. companies. Rather than go it alone, Mr. Biden said he plans to rally U.S. allies in a coordinated effort to pressure the Chinese government and other trade abusers to follow the rules and hold them accountable. The president-elect said he plans no early reversal of the Trump tariffs, though it could come later.

TAXES

Mr. Biden consistently said on the campaign trail that his tax plan would not raise taxes on anyone making less than \$400,000 but that it would require corporations and the wealthiest Americans to pay more. Elements of the plan include raising the corporate tax rate to 28 percent, imposing a 15 percent minimum tax on book income for corporations, raising the top individual income tax rate back to 39.6 percent, and requiring individuals making more than \$1 million to pay the same tax rate on investment income that they do on their wages. The latter provision would eliminate the preferential treatment of capital gains and dividends for high earners. Tax legislation is one of those areas that hinges directly on control of the Senate. If Republicans remain in control, expect the Biden tax plan to be a non-starter. 🌲

2021 Ushers In New Leadership

Every new president and Congress ushers in changes in the leadership of agencies and congressional committees. Following are a few notable changes that touch the forest sector.

AGRICULTURE SECRETARY:

President-elect Joe Biden tapped Tom Vilsack for a second stint to lead the Department of Agriculture. Vilsack, a former Iowa governor, served as ag secretary for eight years under former President Obama. Vilsack's deep experience in running the \$153 billion agency means he will be ready to get to work on day one. Mr. Biden has said he wants U.S. agriculture to be the first in the world to reach net-zero emissions, including expressing support for programs to pay farmers for climate-friendly practices like capturing carbon in their fields and forests. Mr. Vilsack will play a key role in the development and implementation of these climate mitigation strategies.

EPA ADMINISTRATOR:

Michael Regan, North Carolina's top environmental regulator, has been tapped by Mr. Biden to lead the Environmental Protection Agency (EPA). The president-elect has promised to push power plants, oil and gas producers, and auto makers to drastically reduce their greenhouse gas emissions and the EPA will be the lead agency for climate-change regulation. Regan spent nearly a decade at the EPA early in his career before moving to regional positions at the Environmental Defense Fund and has led the North Carolina Department of Environmental Quality since 2017.

CLIMATE CZAR:

President-elect Biden plans to appoint Gina McCarthy, who headed the EPA under Obama, as domestic "climate czar" in charge of coordinating climate policies across federal agencies. Mr. Biden selected former Secretary of State John Kerry to serve as his global climate czar, making him part of the U.S. national security team and charging him with coordinating with other countries on the environment.

(continued on page 7)

Partnerships Promote Forests And Forest Products As Natural Climate Solution

On the day he became president-elect, Joe Biden named climate change as one of his top priorities.

To be effective, climate mitigation strategies must focus on numerous fronts, including decarbonizing the global economy, reducing carbon emissions, pulling more carbon from the atmosphere, adopting more sustainable practices in the use of natural resources, and much more.

U.S. forests already provide a significant carbon sink and are a valuable engine for sequestration while also providing sustainable forest products, clean air and water, wildlife habitat, and jobs. The U.S. Forest Service reports that the American forest ecosystem accounts for more than 95 percent of the land carbon sink—or how carbon is stored in natural systems—and offsets more than 11 percent of greenhouse gas (GHG) emissions annually.

With a goal of expanding the role of forests as a natural climate solution in a comprehensive climate strategy, several bipartisan coalitions have been working long before the November election to develop unified, consensus policy proposals to guide lawmakers as they take action on climate change.

A common theme of these policy proposals is that in order to tap into the full carbon potential of forests, actions must be taken to keep forests as forests, improve the management of existing forests, reforest and plant more trees, promote wood markets by using more forest products which store carbon, and encourage the cycle of investment in trees. They also recognize that improving forests for carbon also bolsters other critical benefits such as improved water quality, better wildlife habitat, reduced wildfire risk, and more jobs and support for rural communities.

The following three coalitions with forestry interests recently released their policy platforms.

FOREST-CLIMATE WORKING GROUP (FCWG)

Formed in 2007, the FCWG members represent forest landowners, forest products, conservation, wildlife, academic, government, carbon finance, and other forest sector organizations. The FCWG policy platform, released on Nov. 9, provides guidance on how to increase the ability of forests and forest products to address climate change with a focus on four main goals: maintain and expand forest cover; improve forest practices for carbon, adaptation, and resilience; advance markets for forest carbon, forest products, and skilled labor; and enhance climate data and applied science. The platform details five policy proposals to meet those goals, including the creation of a new forest conservation easement program; removing the cap on the Reforestation Trust Fund; a landowner tax credit for private forest carbon actions; creation of a low carbon footprint building tax credit; and expanding funding to the Forest Inventory and Analysis Program. The platform is endorsed by 43 CEOs and organizations including American Forest Foundation, American Forests, Environmental Defense Fund, Forest Landowners Association, National Association of State Foresters, National Alliance of Forest Owners, National Wildlife Federation, The Nature Conservancy, and many more. Read more about their platform at <https://forestclimateworkinggroup.org>.

CEO PRINCIPLES

The CEO Principles encourage incentive and market-based approaches to increase the carbon benefits of working forests and forest products. They recognize the important role that private sector participation, investment, and partnerships can play in expanding carbon benefits from the forest sector. The principles underscore the importance of safeguards that promote positive outcomes for forests and the

climate, healthy markets for forest products, and investments needed to strengthen rural communities. They also emphasize the need for robust science, data, and life cycle analysis to guide policy. The principles are signed by the CEOs of American Forests, American Forest Foundation, Environmental Defense Fund, National Alliance of Forest Owners, The Nature Conservancy, and the CEOs of forestry businesses, primarily TIMOs, representing more than 46 million acres of working forests across the U.S. Read more at <https://nafoalliance.org/ceo-principles>.

FOOD AND AGRICULTURE CLIMATE ALLIANCE (FACA)

FACA is comprised of organizations representing farmers, ranchers, forest owners, the food sector, state governments, and environmental advocates. The group notes that climate policies will impact farmers, forest owners, ranchers, rural and limited-resources communities, wildlife and natural resources, and must be thoughtfully crafted to account for any potential inequities, consequences, and tradeoffs. FACA's more than 40 recommendations are based on three principles: agricultural and forestry climate policies must be built upon voluntary, incentive-based programs and market-driven opportunities; they must promote resilience and adaptation in rural communities; and they must be science-based. For forestry and wood products specifically, FACA recommends developing a carbon accounting framework that can be applied to multiple policy mechanisms, including a tax credit for carbon sequestration and carbon crediting program; and establishing a new construction tax credit for building with materials that have a lower carbon footprint. Read more about the recommendations at www.agclimatealliance.com. 🌲

U.S. Wood Pellets Trade To EU Have Net Positive Effect On Forests

A first-of-its-kind study conducted by an international research team finds that wood pellets produced in the Southeastern U.S. for the European Union's (EU) renewable energy needs have a net positive effect on American forests.

The EU's 2009 Renewable Energy Directive established goals for member countries to produce more energy from renewable sources, triggering exponential growth in wood pellet demand. By 2018, more than 18 million tons of wood pellets were being traded around the EU, with a third of those pellets imported from the Southeastern U.S.

Prior to the adoption of the EU policy, wood pellet manufacturing capacity in the Southeastern U.S. did not exceed 0.3 million tons but by 2018 it had grown to more than nine million tons. This rapid growth in wood pellet manufacturing has raised concerns over the potential impact on forests.

Between 2005 and 2017, researchers from the Swedish University of Agricultural Sciences, University of Missouri, and Resources for the Future (RFF) conducted a systemic assessment of forests in the procurement areas of

123 wood pellet facilities. Researchers identified the following trends:

- Overall, there was a net expansion in the amount of carbon stored in Southeastern forests. The study said this likely reflects land management practices that promote tree growth through more intensive silviculture treatments.
- The amount of carbon stored in the soil of forests decreased with each year of milling operations. This may be related to the increased use of fiber coming from biomass that has little to no commercial value—i.e. bark, logging residuals, and unmerchantable wood—which had previously been left on the forest floor.
- There were no significant changes in the amount of carbon stored in live or standing-dead trees, but the carbon was concentrated in fewer but larger trees.
- There was a downward trend in the number of standing-dead trees, which the study said may also be an indication of more intense management practices to reduce the risk of wildfires.

"All in all, our analysis suggests

some positive areas but possible concerns if some trends were to continue. We examined 12 years of data, but that is only a small window of time to assess sustainable forestry," said lead author Francisco Aguilar of the Swedish University of Agricultural Sciences. "Monitoring using the best-available data shall continue. And it must be observant of other co-localized factors that can significantly alter forest conditions."

The researchers noted that the U.S. Department of Energy's projection of a 21 percent increase in domestic electricity generation using wood by 2030 may signal a further increase in demand.

"This research provides the first comprehensive assessment of changes to U.S. timberlands induced by demand in the EU for pelletized wood for energy production," said Dallas Burtraw, a co-author and RFF senior fellow. "The findings provide cautious support for the sustainability of U.S. forests, with ongoing monitoring, as demand for wood pellets is likely to increase."

The study findings were published in *Scientific Reports*. 🌲

New Leadership (continued from page 5)

McCarthy, who currently serves as president of the Natural Resources Defense Council, was a key architect of Obama's Clean Power Plan and would serve as the domestic counterpart to Kerry.

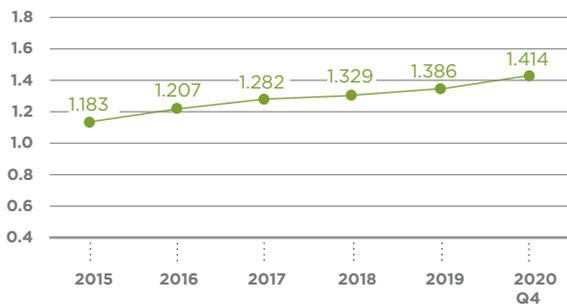
U.S. TRADE REPRESENTATIVE: Katherine Tai, an international trade expert who formerly served as Chief Counsel for China Trade Enforcement in the trade office and is currently the chief lawyer on trade for the House Ways and Means Committee, has been tapped to lead U.S. trade relations. In announcing the nomination, Mr. Biden noted Ms. Tai's experience as enforcer against unfair trade practices by China, saying

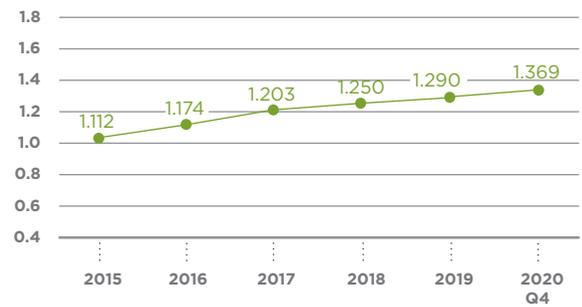
it is a top priority for his administration. If confirmed, Ms. Tai would be the first Asian American to serve in this position.

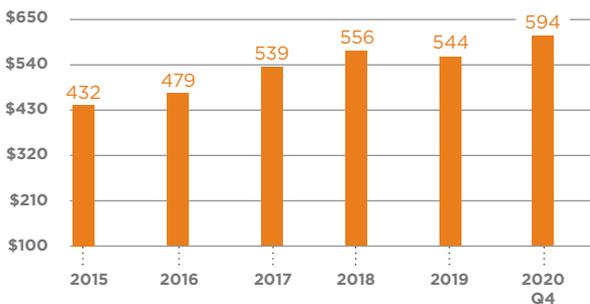
HOUSE NATURAL RESOURCES: Rep. Bruce Westerman (R-Ark.), the only forester in Congress, has been chosen to serve as the top Republican on the Natural Resources Committee. Westerman has become the go-to person on Capitol Hill on forestry issues and policy and is the author of the Trillion Trees Act, legislation introduced in 2020 that promotes tree planting as a long-term climate solution. The Natural Resources Committee has oversight of federal forest management legislation and the Endangered Species Act policy,

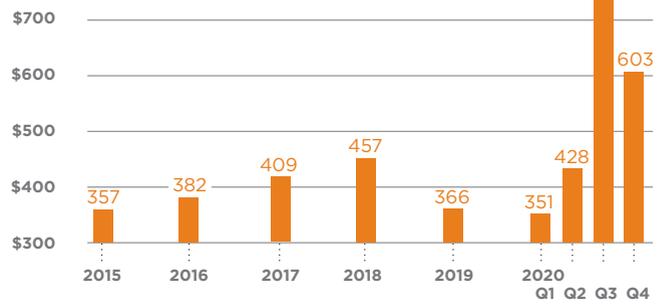
among other issues.

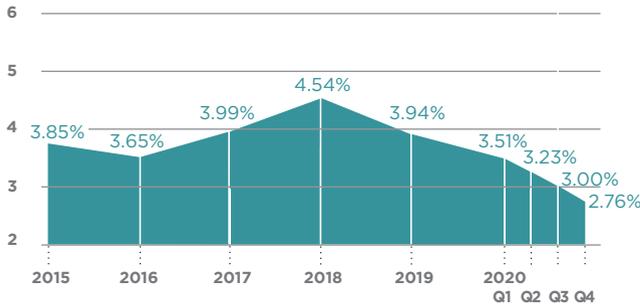
HOUSE AGRICULTURE: Rep. David Scott (D-Ga.) is slated to become the next chair of the Agriculture Committee, the first Black lawmaker to hold the position. Scott, who's home state of Georgia has more than 24 million acres of timberland and a forest sector with an annual economic impact of \$36.2 billion, is expected to be a strong voice for forestry. In addition to agriculture, the committee has oversight of forestry, conservation, rural development, and energy programs and is responsible for writing the Farm Bill that must be reauthorized every five years. 🌲

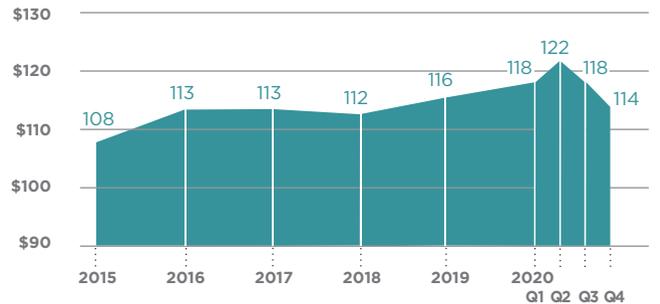
TIMBER MARKET INDICATORS
HOUSING PERMITS

 IN MILLIONS OF UNITS (ANNUALIZED) THROUGH NOVEMBER
 Source: US Department of Commerce

HOUSING STARTS

 IN MILLIONS OF UNITS (ANNUALIZED) THROUGH NOVEMBER
 Source: US Department of Commerce

RESIDENTIAL CONSTRUCTION

 IN BILLIONS OF DOLLARS (ANNUALIZED) THROUGH NOVEMBER
 Source: US Department of Commerce

LUMBER PRICES

 SOUTHERN PINE—\$/MBF
 Source: Random Lengths Southern Pine Composite Index

MORTGAGE RATES

 30-YEAR FIXED RATE
 Source: Freddie Mac

US DOLLAR

 US DOLLAR VALUE AGAINST 26 MAJOR TRADING PARTNERS
 Source: Federal Reserve
