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Georgia's Forest Industry and the Role of Strong Markets

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The scope of Georgia's 24 million acres of forestlands and extensive forest products sector surprises many. Forest business activities contribute nearly $28 billion to the State's economy according to the Georgia Forestry Commission. However, in recent years, the forest industry in Georgia has been a tale of two trends:

1. Ongoing timberland ownership changes.
2. Continued strength of forest products manufacturing and wood demand.

The two trends are often confused. We read about market-shifting timberland sales and may infer that Georgia's forest industry is in decline. To the contrary.

Timberland transactions have captured the headlines. Since 2000, traditional forest industry firms have divested over 1.5 million acres in transactions totaling over $2 billion in Georgia alone. These firms included Bowater, International Paper, MeadWestvaco, Packaging Corporation of America, Temple Inland and Weyerhaeuser. Why?

Three often-cited drivers help explain recent forest ownership changes. One, forest industry firms earned poor returns in the 1990s and early 2000s relative to other industries, and selling timberlands was identified as one way to unlock value from firm assets. Two, forest industry firms had accumulated debt during a period of consolidation, and selling timberlands became a source for generating cash to pay down debt. Three, traditional corporations faced uneven tax regulations at both the federal and state levels on timber earnings and timberland ownership.

According to research in 2005 by former UGA forest economist David Newman (now Forestry Department Chair at the State University of New York), Georgia has both the highest and most variable forestland taxes per acre in the South for industrial timberland owners. At the other extreme, Alabama features the lowest average and least variable forestland taxes per acre in the South.

When I think about taxes, I ask myself three questions. One, how does it affect incentives? Two, is it simple? Three, is it fair? In Georgia, it seems clear that tax policy has been a disincentive to traditional, forest industry ownership of timberlands. Ironically, the firms who sold their Georgia forests are remembered fondly in media accounts as good neighbors who practiced responsible, long-term forest stewardship.

Beyond forestland ownership changes, a critical relationship exists between strong markets for wood and keeping forests in trees. In 2007, Forisk teamed with Timber Mart-South to profile and rank 17 timber markets across nine states in the South across a range of factors. How does Georgia stack up?

To put it mildly, North and South Georgia differ. North Georgia is the most densely populated timber market in the region (Figure 1). From a demographic perspective, this places it with markets in western North and South Carolina and North Florida. Even with all of these people, North Georgia still ranks in the middle of the pack for pine pulpwood markets.

Figure 1. North Georgia Rankings

Category	Rank	Measure
Population Density	1st	380 pop/square mile
Forestland Area	14th	6.1 million acres
Pine sawmills & plywood plants	10th	16 mills
Pine pulpwood consuming mills	6th	8 mills
Pine pulpwood consumption	8th	4.5 million tons/year

Source: Timber Market Profiles & Rankings: US South. 2007. Forisk Consulting and Timber Mart-South. 414 pages.

South Georgia, on the other hand, is a forest products industry and manufacturing powerhouse (Figure 2). It is a robust market with 71 of wood-consuming mills that remains attractive to firms considering new forest industry or wood-dependent investments.

In 2007, Klausner Group, a German-based lumber manufacturer, submitted air quality permit applications for proposed sawmills in Georgia and Alabama. The applications propose up to 800 million board feet sawmills and 265,000 ton per year wood pellet mills at each site. This would represent an approximate increase of 20 percent of Georgia's current lumber capacity.

Figure 2. South Georgia Rankings

Category	Rank	Measure
Population Density	12th	70 pop/square mile
Forestland Area	1st	18.6 million acres
Pine sawmills & plywood plants	1st	32 mills
Pine pulpwood consuming mills	1st	17 mills
Pine pulpwood consumption	1st	16.4 million tons/year

Source: Timber Market Profiles & Rankings: US South. 2007. Forisk Consulting and Timber Mart-South. 414 pages.

There are additional sources of new demand for wood related raw materials in Georgia. These include:

- Fram Renewable Fuels plans to build a wood pellet plant in Appling County, Georgia that will use approximately 280,000 tons of mill residues annually.
- Range Fuels broke ground on its ethanol plant in Treutlen County, Georgia. The plant will use approximately 320,000 tons of woody raw materials.
- Xethanol plans to build an ethanol plant near Augusta, Georgia that will use a variety of wood residues totaling up to 700,000 tons per year.

- Summit Energy announced plans to establish a mill at Fort Gaines that will sell power to Georgia Power.

In addition, other energy and private equity firms are assessing potential wood-using energy facilities in or near Georgia.

Understanding wood demand provides a valuable means for assessing and comparing current and longer-term prospects for Georgia's timber markets. From an economic and investment perspective, trees without markets have little value to landowners. And at the end of the day, we recognize key lessons from comparing Georgia and its forest industry to other states and timber markets across the US South. First, tax policy does affect investment decisions make by forestland owners. Two, Georgia – especially south of Atlanta – boasts a leading, powerful forest products industry with robust, long-term timber markets.

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