Who Will Buy My Pulpwood?

James E. Henderson and P. David Jones

Given the recent economic recession and the reduced level of home building, no doubt many forest landowners are concerned about future markets for their timber products. Our economy has experienced such downturns in the past and has recovered, resulting in increased demand for our timber products and better timber prices for landowners. For example, when the housing market eventually improves, we can expect increased demand for sawtimber, which is used to produce lumber, plywood, and other building materials. However, one timber product that may be facing the most uncertainty and the greatest potential for changes in use is pulpwood.

What is Pulpwood?

Generally, pulpwood is produced from trees of smaller diameter or from large trees with defects that render them unsuitable for other higher valued products. For many forest landowners, particularly those practicing even-aged silviculture, pulpwood is essentially a byproduct in the growing of the larger and more valuable sawtimber-sized trees. Thus, pulpwood is produced in great volumes during thinning operations designed to reduce the number of trees per acre to increase growing space for future sawtimber-sized trees.

Who Used to Buy Pulpwood?

Traditionally, one of the primary consumers of this product has been the pulp and paper industry; however, starting in the last quarter of 2008, this industry began to contract sharply as the global recession reduced orders for pulp and paper products. In October of 2008, demand for newsprint had fallen by some 20 percent, and by November, demand for containerboard (cardboard) had reduced by nearly 9 percent from the previous year. These declines in demand for paper products have forced companies that produce paper products to scale back production and, in some cases, permanently close mills.

Over 20 pulp and paper mills have closed recently, and a number of mills announcing permanent or temporary closures are increasing at an alarming rate; those mills not closing are running lower production volumes using a reduced production schedule. These closures and production curtailments have resulted in a reduction of over 3.5 million tons of pulpwood consumption as of the 4th quarter of 2008 with more closures and production curtailments expected. Forest landowners may be justifiably concerned not only about future pulpwood markets but for their local economies as impacted by contraction in the pulp and paper industry.

Changing Markets

The pulp and paper industry has been the primary consumer of small trees for many decades; it is for this reason that small merchantable trees are called pulpwood. However, times are changing and timber markets are changing as well. Concern over global climate change has resulted in increased focus on wood and other environmentally friendly renewable energy sources. The popularity of using wood as an energy source is growing and particularly so for signatory countries to the Kyoto Protocol. The Kyoto Protocol establishes legally binding commitments for the reduction of certain greenhouse gases. The United States did not ratify the Kyoto protocol; however, reducing greenhouse gases is an apparent priority of the Obama Administration and the new Democratic Congress.

Wood Pellets

One of these greenhouse gases is carbon dioxide, a byproduct of internal combustion engines (automobiles, etc.) and most industrial production processes. Wood pellets and other forms of wood energy fit into the Kyoto protocol carbon reduction strategy because they are considered carbon neutral, since trees harvested for wood energy are presumably replanted and thus sequester carbon from the atmosphere. Demand for wood energy in the U.S. is expected to greatly increase in the coming years, and due primarily to export opportunities, wood energy has been growing over the past several years. For example, wood pellet mills are on the rise, and there are currently more than 60 mills in production in the U.S. with more mills expected to come online soon. These mills are producing pellets both for domestic usage and for export. The exported pellets are being delivered to a number of countries who have signed the Kyoto Protocol. Wood pellet mills are only one type of alternative pulpwood consuming mill. Pulpwood can also be chipped and used to reduce emissions at coal-fired power plants. This technique is called co-firing; the chips are introduced into the burner at the same time as the coal, thus reducing carbon emissions.

Wood for Energy

President Obama's Energy Plan for America is expected to put tremendous emphasis on renewable sources of energy, and wood is one of the most readily available renewable energy sources. Some estimates suggest that President Obama's energy stimulus would generate an increase in demand for wood for energy amounting to 25 million tons by the year 2011. While 25 million tons sounds like a staggering amount, consider that the U.S. pulp and paper industry consumes an annual average of over 200 million tons.

Conclusion

Given the recent downturn, one might wonder if the pulp and paper industry will make a comeback. As our economy recovers from the current global recession, demand for paper and paper products will increase. How much of that increased demand will be met by paper production in the U.S. versus oversees production is yet to be realized. However, we can expect growth in the wood energy sector of our economy, which, along with our pulp and paper industry, should ensure future demand for pulpwood timber products and an increased competition for pulpwood timber products resulting in prices at or above historical averages.

In the future, pulpwood may not even be called pulpwood anymore and may be known as fuelwood or even energywood. The question is not will there be a market for pulpwood in the future, but who will the primary consumer of pulpwood in that market? Time will tell, and the markets will decide. But forest landowners can remain confident that the long-term outlook for timberland as an investment remains very favorable.

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