

Loggers and Truckers - The Connection between the Landowner and the Mill

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All aspects of the timber industry supply chain are vital. None can exist without the other. But the weakest link is the logging and trucking sector. Logging and trucking have become very capital-intensive elements of the forest products industry, with the most labor challenges and the tightest returns on investment. Trucking is getting more and more difficult with regulations, driver shortages, inflationary expenses, and insurance and maintenance becoming cost prohibitive. The price of a new truck is nearly \$200,000.

A review of publicly traded forest products manufacturers and landowners reveals strong, if not record, returns on investment over the past few years. Although forest product prices have fallen dramatically compared to the record prices, large forest products companies have posted strong stock value increases over the past couple of years. Two of the largest companies have reported stock price increases of 2 to 5 times 2022 prices. These companies have also reported annual net earnings of over \$1 billion.

Landowners, including Real Estate Investment Trusts (REITs) and industrial landowners (mills), have initial investment costs, but minimal annual costs. The return on investment for landowners, particularly REITs and industrial landowners, has been consistently positive, with an annual percentage increase in value of 25% over the past three years. Large industrial landowners have experienced similar increases in the value of their timberlands.

In contrast, it is obvious at times that the large manufacturer or landowner is unconcerned about paying a service contractor (logger) to harvest at rates that keep the contractor sustainable and their crews making a sustainable family wage. Too often, the large company succeeds in leveraging the smaller logging service contractor to harvest at unsustainably low margins. Why have the smaller service contractor loggers and truckers not experienced the same gains as the larger companies in the forest industry?

According to Forisk Timber REIT (FTR) Weekly, timber REITs as a sector realized a value increase/return of 25.09% based on appreciation and 30.12% on a total returns basis in 2021. These “snapshots” of timberland investment returns demonstrate an attractive return on investment for REITs and industrial landowners. However, many smaller private landowners have not seen comparable returns on their timberland investments.

There is nothing wrong with segments in the supply chain being profitable. In fact, they all should be profitable. It is the only way that the timber and forest products industry will be sustainable.

However, there is a major discrepancy between the return on investment of the landowner and mill compared to the logging and trucking sector. The logging sector invests millions of dollars in equipment that does not increase in value but instead continually depreciates in value. It is similar for the timber trucking industry.

Employment within the logging industry has steadily declined on average 2% per year. The infrastructure is eroding. A prior survey found that half of the logging companies in the U.S. operated at a breakeven or loss, while the greatest percentage of profitable logging companies operated at a 1%-3% profit margin. In most instances, the price paid for delivered wood has not kept pace with inflation over the past 10 years, while all costs (fuel, labor, equipment, insurance) have increased more rapidly than the Consumer Price Index (CPI) inflation rate.

Many forest landowners and mills subscribe to forest certification programs that require specific training and practices of the logger. Much of the implementation and expense of achieving these initiatives is primarily borne by the logger in the name of sustainability, without any tangible benefit offsetting their cost, realizing any market gain, or stability. Sustainability is important for the future of the forests and the timber industry, with certification programs emphasizing - ***“Sustainable Supply Chains”***

We do not see the same landowner or mill focus on the sustainability of the logging and trucking suppliers.

A discrepancy in the “certification criteria” is the requirement to “use written agreements for the purchase of raw material.” While this may be practiced between landowners and procurement entities, it is only figuratively practiced between loggers and facilities. The latter “agreements” volume and price can, and is, changed at the discretion of the facility. There are few if any, “binding” agreements between loggers and end users. This limits long-term investment security and business practices.

Current standards have demonstrated a failure to ensure that sufficient attention to supply chain sustainability exists and is maintained across all sectors of the timber and forest products industry.

Certification programs must include logging sector sustainability requirements if they are legitimately concerned about the long-term sustainability of healthy forests. Incorporating “fair trade” verifiable requirements for the service contractors in the certification process will fill a gap in the current sustainability criteria of forest and product certification programs.

Without the logger and trucker, the landowners cannot harvest their timber and realize the return on their investment. Without wood, the forest products industry cannot produce the products that generate income and profit. The logging and trucking industry values its key role in the timber and forest products supply chain. But, as has been demonstrated, the chain must be strengthened to ensure this link does not continue to weaken and eventually break. Without the logging and trucking sector, there would be no supply-chain connection between the forests and forest products mills.

Certification programs are the thread that stitches these sectors together. Certification programs need to ensure that all sectors of the timber and forest industry supply-chain are considered essential components to meet sustainability and certification objectives. Otherwise, forest sustainability will fail across all sectors, and “certification” programs will have proven ineffective in ensuring healthy, sustainable forest management.