

Intentional Growth or Assured Decline?

Check-offs Yield Millions for Product Research and Promotion

The American beef industry got an unwelcome present a few weeks before Christmas 2003 when mad cow disease was discovered in the U.S. It should have been the death knell for an industry that had been steadily declining since the 1980s. Stories about red meat's health consequences and the aggressive promotion and advertising of competing products filled the American psyche. Consumption was down and mad cow made it look like beef was out for the count.

But something odd happened on the way to oblivion. Confidence in the safety of American beef rose, while sales of steaks, hamburgers, rounds, and briskets increased.

It wasn't a mistake or an aberration. It was a reality that many industry insiders said came about through the strategic use of a U.S. Department of Agriculture (USDA) program for "Research and Promotion."

For decades the USDA has allowed commodity producers to collaborate through sector-funded programs designed to grow domestic and international markets for their products. In the early days, producers would "check a box" if they wanted to par-

ticipate in the program. Today's programs are mandatory in an industry segment if a majority of affected producers vote to approve the initiative.

In a memorable marketing pitch, the Cattlemen's Beef Industry created the slogan and brand, "Beef, It's What's for Dinner." Like the Milk Producers Board's "Got Milk?" campaign, it is the public face of a check-off.

With Endowment leadership, the forest products industry is poised to better market products through check-offs.

"Since early 2008 the Endowment has directly invested more than \$500,000 to study and catalyze the potential of commodity check-offs to help grow the market for the greenest of all products – wood and paper. Those funds have leveraged an additional \$1 million to help craft three check-offs currently working their way through the USDA system. If all are approved they would generate \$55 million annually and billions of dollars in markets for forest landowners and forest products producers while yielding thousands of family-supporting jobs in timber harvesting, manufacturing, sales, and construction."

Carlton Owen, U.S. Endowment for Forestry and Communities, Greenville, SC

A New Vehicle to Advance the Sector

In keeping with the Endowment's vision to be a catalyst for systemic, transformative, and sustainable change, the Board approved a 2008 study that led to a report "Commodity Check-off: The Potential for North American Softwood Lumber."

The Endowment conducted an informal survey that suggested that producers of at least 50 percent of softwood lumber in North America would consider a check-off. The Endowment then convened industry leaders to review possibilities. That led to creation of the Blue Ribbon Commission on Softwood Check-off. That body of 14 U.S. and 7 Canadian producers, independent of the Endowment, developed a plan to create an international softwood check-off on almost all softwood lumber consumed in the U.S.

The Endowment's work on check-off proved difficult at first, but industry

has now embraced the initiative. The Endowment's leadership and catalytic funding resulted in check-off campaign costs being covered by the Bi-National Softwood Lumber Council.

"We've seen ups and downs, but nothing this bad. Our industry must pull together to promote the benefits of softwood lumber."

Howard Hedstrom, Hedstrom Lumber Co., Grand Marais, MN

In May 2011, global softwood producers voted overwhelmingly to approve the first-ever national check-off for forest products. The paper and packaging sector and the hardwood industries approached the Endowment seeking advice and funding to help their sectors consider a check-off. Those initiatives are moving rapidly with votes possible in early 2012.

Forest Products: Where's the Beef?

Prior to 1996, USDA Research and Promotion programs were adopted through individual legislation. When Congress passed the Farm Bill, it adopted a "generic" program format and for the first time explicitly acknowledged that forest products were eligible agricultural commodities. This allows forest commodity

"Because of the Endowment's vision, the softwood industry has the opportunity to establish a check-off funded program to grow markets and improve operating conditions. That the Endowment is now helping two more sectors – paper/packaging and hardwood lumber – tells me they are committed to keeping forests as forests and advancing family-supporting jobs."

Jack Jordan, Jordan Lumber Company, Mount Gilead, NC

groups to establish their own board of industry representatives who conduct promotion, market research, production research, and new product development.

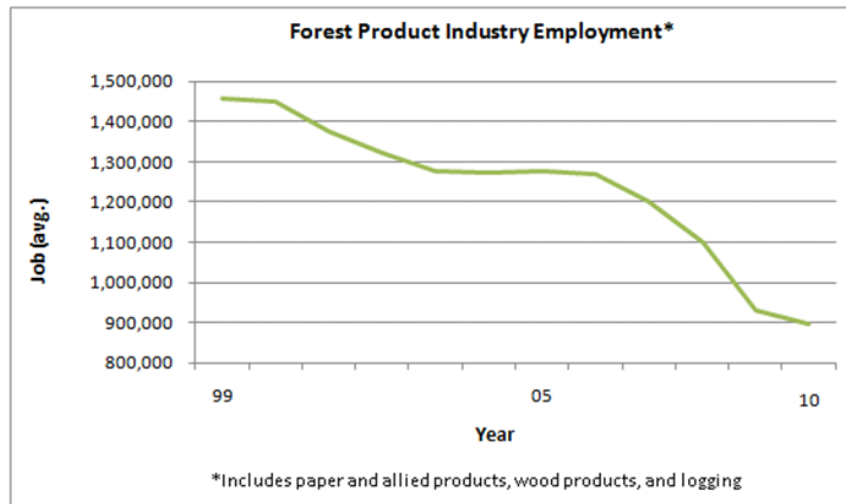
Even before the current economic downturn, the American

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forest industry was suffering. Successful promotional campaigns by the steel and concrete sectors eroded wood's market share, while building codes have favored non-wood products.

In just the last decade more than 140 paper mills in the U.S. were permanently shuttered – double the loss of the prior decade. When counting the hundreds of sawmill clo-

sures, overall forest products employment declined 40% from 2000 to 2010 – from about 1.45 million jobs to less than 900,000. That's the equivalent of

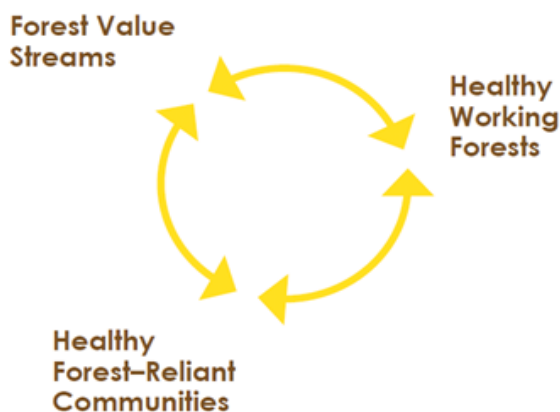


every person in Portland, Oregon, losing their job. Add these financial hardships and job losses to reduced markets for the nation's

nearly 11 million family forest owners, and the impact on the broader forest sector is devastating.

Check-offs: Benefitting Multiple Objectives

Check-off cuts across all aspects of the Endowment's Theory of Change, which plots specific direction to the Endowment's mission *"to work collaboratively with partners in the public and private sectors to advance systemic, transformative, and sustainable change for the health and vitality of the nation's working forests and forest-reliant communities."*



Improving forest health and creating family supporting-jobs is no small challenge. The Endowment is convinced, however, that the return and impact of check-off will result in significant, measurable results.

To the extent that the Endowment can aid in retaining and growing the wood and paper manufacturing sectors, we will serve our mission.

Healthy Working Forests - Providing robust markets for trees and wood fiber through vibrant production facilities is the single most important tool to promote both forest *retention* (without markets, landowners have little incentive to retain their forests as forests)

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and *restoration* (markets are the most viable tool to aid landowners in maintaining the health of their forests). A successful check-off program will create new and expand existing markets.

Forest Value Streams— Without vibrant traditional markets most landowners cannot generate enough income to pay the costs of forestland ownership. While the Endowment is working to advance ecosystem service markets and other strategies to expand value streams for forest landowners, traditional, high-value pulp and sawlog markets still provide the economic bedrock for the forest industry.

Healthy Forest-Reliant Communities: The greatest number of family supporting jobs will come through retention and growth of pulp and paper, and sawmill jobs. Even if the Endowment’s work in check-off only “extends” the viability of mills, return on investment is high.



U.S. Endowment Programmatic Investments (Through 8/31/2011):

	Award Date/ Project Type	Objective	Funding		
			Endowment	Matching Funds	Total
Completed	2008 <i>Report</i>	Commodity Check-off: The Potential for North American Softwood Lumber	\$147,000	-	\$147,000
	2008 <i>Convening</i>	Commodity Check-off: Potential for North American Softwood Lumber (DVD and Creation of Blue Ribbon Commission)	\$52,000	-	\$52,000
In Progress	2009 <i>Panel</i>	Blue Ribbon Panel on Softwood Lumber Check-off: Development of Draft Order	\$325,000 <i>(partner funds)</i>	\$375,000	\$700,000
	2010 <i>Panel</i>	Paper & Packaging Commodity Check-off Panel: Development of Draft Order	\$150,000	\$225,000	\$375,000
	2010 <i>Panel</i>	Blue Ribbon Committee on Hardwood Lumber & Hardwood Plywood Check-off: Consideration of Draft Order	\$150,000	\$150,000	\$300,000
TOTALS			\$824,000	\$750,000	\$1,574,000

The U.S. Endowment for Forestry & Communities, Inc. (Endowment) is a not-for-profit corporation established in late 2006, at the request of the governments of the United States and Canada in accordance with the terms of the Softwood Lumber Agreement (SLA) between the two countries. The Endowment’s mission is to work collaboratively with partners in the public and private sectors to advance systemic, transformative, and sustainable change for the health and vitality of the nation’s working forests and forest-reliant communities.