

MARYLAND FORESTS ASSOCIATION

WHY MARKETS MATTER

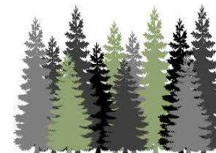
FINAL REPORT

January 15, 2021

Maryland's Rural Council (RMC) awarded a grant to the Maryland Forests Association (MFA) in 2019 – via the Maryland Agricultural Education and Rural Development Assistance Fund (MAERDAF) – to advance creative, consensus-driven market strategies that improve the economic competitiveness of Maryland's forest products industry ("industry"), aka *Why Markets Matter*. Herein are the findings/recommendations stemming from this study which, for the record, were publicly shared on October 10, 2020 at MFA's annual meeting. Notably, Maryland's nationally acclaimed **Sustainable Forestry Act of 2009** has played an important role in MFA's efforts to undertake the *Why Markets Matter* initiative (<http://mgaleg.maryland.gov/2009rs/bills/sb/sb0549t.pdf>)



Until the recent closure of the Luke Mill and the Hogan Administration's planned energy conversion of the Eastern Correctional Institution (ECI) from woody biomass to imported natural gas, the economic standing of the industry was set forth in the BEACON Report as a \$3.5 billion industry (link below). Today, any similar quantification would be much different for reasons self-evident; hence, the reasoning behind Maryland's recent application for and approval of a federal grant from the Economic Development Administration. Further, it has become clear that few Marylanders are cognizant of the industry's existence let alone their appreciation of the many measurable environmental benefits of sustainable forestry management, especially with respect to the Chesapeake Bay restoration effort. And, it is for these reasons and more, MFA is appreciative of RMC's willingness to enable it – in partnership with the Association of Forest Industries, et al – to develop a proposed net fiscal zero and non-controversial 2021 policy plan believed to enhance the industry's public profile and economic competitiveness. In short, the Administration can implement all of these recommendations on its watch without burdening the taxpayers.



[https://extension.umd.edu/sites/extension.umd.edu/files/_docs/Impact_of_Forestry_on_MD_Economy\(03.18\).pdf](https://extension.umd.edu/sites/extension.umd.edu/files/_docs/Impact_of_Forestry_on_MD_Economy(03.18).pdf)

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MEETINGS

The four policy recommendations included in this Report are predicated upon the comprehensive input derived from the briefings, meetings and tours noted herein.

July 29, 2019

Meeting at State House with Cabinet Officials

August 14, 2019

Eastern Shore Forestry Tour



October 3, 2019

Stakeholder Meeting in Western Maryland

October 10, 2019

Stakeholder Meeting in Southern Maryland

November 7, 2019

Stakeholder Meeting on the Lower Shore

January 16, 2020

Briefing before the House Environment & Transportation Committee

October 10, 2020

Annual Meeting of the Maryland Forests Association

Formal presentations were made at each of the meetings – attendance ranged from 25 to 75 participants – by organizations representing the Administration, academia, NGO’s and industry. Written testimony was also submitted by these groups relevant to the *Why Markets Matters* initiative. Especially noteworthy is the impressive line-up of witnesses who appeared before the House Environment & Transportation Committee on January 16, 2020. This was the Committee’s first known exclusive forestry-related briefing *per se*; and, one that was requested because of the *Why Markets Matter* initiative (ATTACHMENT 1)

FINDINGS

There is empathy within the General Assembly and the Hogan Administration per the April 30, 2019 announcement by Verso of the closure of the Luke paper mill in Allegany County which became effective June 30, 2019 and resulted in the reported loss of over 600 jobs. The same cannot be said of the energy-related conversion of the Eastern Correctional Institution (ECI) in Somerset County from woody biomass to natural gas. Efforts by the industry to persuade the Administration against conversion were unsuccessful. The importance of a new gas line to Somerset County – inclusive of UMES and ECI – proved overwhelming.

NOTE: Once the industry realized the Administration’s decision was irreversible – notwithstanding the current MDE-issued wetland permit pending approval by the Board of Public Works as of this writing – the industry turned to and found new markets. This fact should not be construed as meaning the industry would not appreciate greater assistance rendered by the State, especially from a regulatory/policy standpoint akin to air emission requirements tied to wood boiler operations, retention of ECI’s dependence on wood albeit with an advanced wood combustion system, a more business friendly sediment and erosion control approval process, Next Generation forestry akin to farming, etc.; but, historically speaking, the industry’s reputation has not been one of aggressively seeking State financial help.

Speaker after speaker at the sponsored events spoke about their surprise about how little most Marylanders know of the environmental and economic benefits of sustainable forestry management in general and the industry in particular. Contrast with agriculture, and this is an alarming revelation given the fact existing law includes forestry within the definition of “farm product” (§10-601 of the Agriculture Article) and “agricultural operation” (§5-403 of the Courts & Judicial Proceedings Article), aka parity between agriculture and forestry. Any effort on improving markets for the industry would be strengthened from a stronger public perception, especially the industry/Bay nexus, when lawmakers consider pro-industry policies.

RECOMMENDATIONS

Recommendations shown below are intended to bolster public understanding of the industry from an environmental and economic perspective plus enhance industry competitiveness resulting in improved market penetration. Moreover, these recommendations have a zero fiscal impact and could be accomplished administratively with support from the Administration.

IMPOSE THE SAME PLANNING APPROVAL PROCESS FOR SILVICULTURE AS AGRICULTURE WITH RESPECT TO SEDIMENT AND EROSION CONTROL

With statutory parity afforded forestry and agriculture under existing State law coupled with equal consideration afforded preservation of “agricultural land and woodland” under the Maryland Agricultural Land Preservation Foundation (MALPF) -- §2-501.1 of the Agriculture Article – it is an inequitable presumption to impose two different sediment and erosion control planning approval processes for silviculture and agriculture. This one disparity puts the industry at a severe competitive economic disadvantage with its neighboring states.

If there was one dominant theme resonating throughout the input process, it was the fact that Maryland is not as “business friendly” to the industry as neighboring states per sediment and erosion control planning approval processes; namely, because neighboring states impose similar planning approval processes for agriculture and silviculture. This single change in Maryland will enhance the industry’s competitiveness; thus, facilitating greater market penetration.

NOTE: On July 31, 2018, the Departments of Environment and Natural Resources signed a MEMORANDUM OF AGREEMENT providing greater oversight by DNR’s Forest Service pursuant to sediment and erosion control planning approval for silvicultural operations; but, fell short in the eyes of the industry to achieve a level playing field with industry competitors in adjacent states.

ANNUALLY ALLOCATE MONEYS FROM THE 2010 TRUST FUND TO THE MEL NOLAND WOODLAND INCENTIVES FUND (“WIF”)

Chapter 121 of the Acts of 2008 created the *Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and Nonpoint Source Fund*, aka 2010 Trust Fund whose purpose is as follows:

“The purpose of the Fund is to provide financial assistance necessary to advance Maryland’s progress in meeting the goals established in the 2014 Chesapeake Bay Watershed Agreement for the restoration of the Chesapeake Bay and its tributaries, including the Patuxent River, and to restore the health of the Atlantic Coastal Bays and their tributaries, by focusing limited financial resources on nonpoint source pollution control projects in all regions of the State” (§ 8–2A–02, Natural Resources Article).”

Funding comes largely from a portion of the State’s gas tax and car rental tax (§ 2-1004 and § 2-1302.1, Transportation Article). Allocation of moneys – following approval by the General Assembly -- rests with the BayStat Subcabinet consisting of the Secretary of Natural Resources; the Secretary of the Environment; the Secretary of Planning; the Secretary of Agriculture; the President of the University of Maryland Center for Environmental Science; the Dean of the College of Agriculture and Natural and Resources at the University of Maryland, College Park; and the Chair of the Critical Area Commission (§ 8–2A–03).

NOTE: (1) Fiscal 2021 budgeted revenues to the 2010 Trust Fund – via the gas tax and car rental tax – amount to \$13.3 million and \$43.8 million, respectively; (2) DNR informed the General Assembly on February 26, 2020 “the three largest allocations in fiscal 2021 are the \$25.5 million for the Competitive Grant Program to fund cost-effective nonpoint source nutrient and sediment reduction projects, \$11.3 million for the Cover Crop Program, and \$6.0 million for Natural Filters on Public Lands Program to fund nutrient and sediment reduction projects such as forested buffers and stream and floodplain restoration”; (3) §8–2A–01 defines a nonpoint source pollution control project as a project “to improve water quality by a reduction of nitrogen, phosphorus, or sediment pollution...inclusive of a **“sustainable forest management practice, including a forest stewardship...”**”; and (4) §8–2A–04 requires the BayStat Subcabinet to distribute Trust Fund moneys “to the maximum extent practicable...on a competitive basis” **including “Mel Noland Woodland Incentives Fund (WIF) established under § 5–307 of this article”**.

Clearly, the BayStat Subcabinet has broad flexibility to allocate budgeted moneys from the 2010 Trust Fund. Existing law does not mandate any portion of the 2010 Trust Fund be used for specific purposes other than nonpoint source pollution control projects as defined in §8–2A–01. What is not clear is whether any 2010 Trust Fund moneys have ever been allocated to the Mel Noland Woodland Incentives Fund (WIF). Study after study has documented the harmful nutrient/sediment mitigation benefits attendant to sustainably managed forests, especially forestry’s role in mitigating nitrogen reduction still deemed insufficient under TMDL as reported in 2020 by the General Assembly’s Department of Legislative Services:

<http://mgaleg.maryland.gov/pubs/budgetfiscal/2021fy-budget-docs-operating-CHESBAY-Chesapeake-Bay-Overview.pdf>

Important to reiterate Maryland's *Sustainable Forestry Act of 2009* ("Act") declares sustainably managed forests as the State's preferred land use given the measurable nexus between a healthy forest and a healthy Chesapeake Bay, inclusive of the common denominator role played by a prosperous industry. This Act significantly expanded the purposes of the Mel Noland Woodland Incentives Fund ranging from strategies to help restore the Chesapeake Bay to strengthening the profitability of Maryland's forest products industry while helping Maryland comply with its progressive green energy goals. The BayStat Subcabinet could administratively allocate one million dollars each year to WIF to help facilitate compliance with the intent and purpose of the Act, albeit subject to budgetary approval by lawmakers. Such a decision would have a net zero fiscal impact; meaning, no new additional monies would have to be allocated to WIF, just a shifting of moneys within the 2010 Trust Fund to WIF.

NOTE: On December 17, 2020, Delegates Eric Luedtke and Dana Stein jointly signed a letter of support to the Governor seeking his support in requesting the BaySubcabinet to consider allocating \$1 million of 2010 Trust Fund monies to WIF in fiscal year 2022 (ATTACHMENT 2).

DIRECT THE MARYLAND ECONOMIC DEVELOPMENT COMMISSION TO PROMOTE MARYLAND'S FOREST PRODUCTS INDUSTRY

The Maryland Economic Development Commission oversees the State's economic development strategic plan required under § 2.5–202 of the Economic Development Article (Maryland Annotated Code). A review of the Commission's 2018 Report is silent about the economic benefits attendant to the industry as shown in the link below.

<https://commerce.maryland.gov/Documents/ProgramReport/MEDC-strategic-plan-progress-report-and-scorecard-2018.pdf>

The Commission is uniquely positioned to help elevate the importance and recognition of the industry (home and abroad), consistent with and responsive to the Act. The objective would be for the Commission to formally pronounce the importance of the industry as an economic engine worthy of State support; thus, in doing so, convert such public recognition into new markets for Maryland's forest products – primary and secondary – coupled with State financial assistance if industry interest qualified and/or was warranted.

NOTE: Maryland's industry takes great pride in its fiscal self-reliance; meaning, it wants to operate with as little government interference as possible but would not object to any help in finding new markets. Such posturing was witnessed with the Administration's decision to convert ECI's energy needs from woody biomass to imported natural gas. Rather than seek an equivalent offset of public funding after 30 plus years of ECI's reliance on the industry for customized wood chips, the industry found new markets, thus mitigating the detrimental impact.

Issuance of a Gubernatorial Executive Order directing the Departments of Commerce, Environment and Natural Resources – in cooperation with representatives from the forest products industry -- to meet/confer with the Maryland Economic Development Commission could prove helpful in heightening the industry's standing within Maryland's Economic Development Strategic Plan consistent with and responsive to State law, especially the Act.

ENCOURAGE THE SUSTAINABLE FORESTRY COUNCIL TO ROUTINELY REPORT ON ITS EFFORTS TO OVERSEE THE REQUIREMENTS IMPOSED UPON IT UNDER §5-204 OF THE NATURAL RESOURCES ARTICLE BY THE *SUSTAINABLE FORESTRY ACT OF 2009*

The Act declares, among other things, that Maryland’s preferred land use is forestry evidenced by the importance of sustainable forestry management to Maryland’s EPA-mandated 2025 \$14.4 billion TMDL Chesapeake Bay restoration goal (aka, clean water), retention of green infrastructure (aka, open space) and renewable energy development separate and distinct from wind, solar and hydroelectricity (aka, woody biomass). The Act declares the importance of the industry and landowners working together to help achieve these goals, and more, because of the co-dependence – nexus – which exists between industry/landowner.

“These strategic plans – 5 Tri-County Councils – complement the statutory priorities of the Sustainable Forestry Act of 2009, having goals focused on forest industry retention to protect both our economy and environment.”
DNR Secretary Haddaway-Riccio
August 19, 2019

<http://mgaleg.maryland.gov/2009rs/bills/sb/sb0549t.pdf>

§5-204 of the Natural Resources Article vests broad authority with the 9-Member Sustainable Forestry Council to oversee administration of this Act as evidenced by the following:

“The purpose of the Council is to advise the Department (DNR) on all matters related to (1) sustainable forestry management in the State; (2) the expending of funds from the Mel Noland Woodland Incentives Fund under § 5-307 of this title; (3) existing regulatory and statutory policies that are perceived as economic barriers to a viable forest products industry; (4) new markets to enhance forest health, including renewable energy development through biomass energy, to offset fossil fuel consumption and reduce greenhouse gas emissions; (5) creative strategies to help privately owned forest lands better compete with real estate market values that are driving forest conversion and fragmentation; (6) the means to promote forest-based economies and processing capability that contribute to economic and employment growth; and (7) assigning a nutrient efficiency benefit to forest stewardship plans and other forest conservation management plans that can be measurably tracked and reported by the number of forested acres covered by the plans.”

Lack of formal public reporting by the Council leads one to question why. Admittedly, the Council’s role is to advise DNR; but, at the same time, there is no reason the Council could not formalize its reporting to DNR, albeit still on an advisory basis. With such an important mission – remember, the Act has been acclaimed nationally and many states have been sufficiently impressed to inquire about Maryland’s remarkable achievement -- issuance of such reports could translate into policy-related initiatives which underscore the original intent of Council’s creation. Of significance from a market-related perspective is the fact the Chesapeake Bay – by far Maryland’s leading economic engine -- will likely never realize its water quality goals absent a prosperous forest products industry and the retention of Maryland’s remaining forest lands, aka a healthy forest is a healthy Bay and a forest that pays, stays. The Council is uniquely qualified to help. It has the statutory standing to do so.

CONCLUSION

Markets matter to Maryland's forest products industry like any other industry. What is unique to Maryland's forest products industry, however, is its measurable benefits to the Chesapeake Bay, rural job attraction/retention and renewable energy development, facts little known to most. The State has invested billions of dollars in trying to restore the health/vitality of the State's most coveted natural resource and most powerful economic engine, the Chesapeake Bay.

State law designates the following jurisdictions as economically impoverished under ONE MARYLAND (§ 1-101 of the Economic Development Article): Allegany, Baltimore City, Caroline, Dorchester, Garrett, Kent, Somerset and Washington – places, except the City, where the industry is predominant and rural employment depressed.

Maryland's renewable energy goals – statutory mandates set forth in the Renewable Portfolio Standard (§7-701, Public Utilities Article) and Greenhouse Gas Reduction Emissions Act (§2-1201, Environment Article) – are driving new markets the industry has yet to fully capitalize. Arguably, these green power goals cannot be met through solar, wind, geothermal and hydro alone given their respective capacity factors (wind must blow, sun must shine) whereas woody biomass – abundant, affordable and available throughout Maryland -- will be required, an inferred acknowledgement made in the Act as shown below.

SECTION 9. AND BE IT ENACTED, That Maryland's green power goal for procurement of renewable energy by State government be met, to the extent practicable, through the provision of financial and other incentives intended to promote in-State production of renewable energy, with due consideration afforded to biomass-fueled facilities.



IN THE FINAL ANALYSIS, this Report identifies policy-related initiatives that can be pursued immediately, all of which will help Maryland's forest products industry not only help mitigate the loss of Luke Mill, the closure of many sawmills statewide and the soon-to-be conversion of the Eastern Correctional Institution from wood to fossil energy, but bolster market opportunities in order for Maryland's forest products industry – plus the many forest landowners dependent upon its continued viability – to prosper.

The Maryland Forests Association, in consultation with the Association of Forest Industries and in cooperation with its many partners in this *Why Markets Matter* initiative, stands prepared to be of any assistance deemed appropriate by the Hogan Administration, and the General Assembly, to help ensure compliance with the recommendations set forth herein.



Maryland Forests Association, Inc. (MFA), is Maryland's voice for forest, wildlife and natural resource management (mdforests.org)



HOUSE ENVIRONMENT & TRANSPORTATION COMMITTEE

FORESTRY BRIEFING

January 16, 2020

INTRODUCTION

Bill Miles (Advocate, Association of Forest Industries)

PANEL 1
(State Government)

The Honorable Jeannie Haddaway-Riccio (DNR Secretary)

PANEL 2
(State Organizations)

Ann Swanson (Executive Director, Chesapeake Bay Commission)
Jonathan Kays (Forestry Extension Specialist, UMD Extension)
Donnelle Keech (Resilient Forest Program Director, TNC)
Gary Allen (President, Maryland Forestry Foundation)

PANEL 3
(Private Sector)

Beth Hill (Executive Director, Maryland Forests Association)
Lin Spicer (Forest Landowner/Logger)
Danny Sines (President, Western Maryland Loggers Group)
Rusty Leonard (Secretary, Western Maryland Loggers Group)
Tommy Johnson (President, Eastern Shore Forest Products Company)

CLOSING COMMENTS

Bill Miles



December 17, 2020

The Honorable Lawrence J. Hogan, Jr.
Governor of Maryland
State House
100 State Circle
Annapolis, Maryland 21401

Dear Governor Hogan:

We write to respectfully request that you fund the Mel Noland Woodland Incentives Fund in your proposed fiscal year 2022 state spending plan. During this turbulent economic period when we are experiencing sizable reductions in state revenues, making these funds available would help allow the state to uphold its commitment to protecting the Chesapeake Bay without increasing spending.

Sustainable management of the State's remaining 2.4 million acres of publicly and privately-owned forest lands will enhance Maryland's environmental goals. Regretfully, the Mel Noland Woodland Incentives Fund has lacked funding to meet its statutory mandate to facilitate forest and tree stewardship in the State. We request that you encourage the BayStat Subcabinet to allocate \$1 million to the Mel Noland Woodland Incentive Fund from the fiscal year 2022 appropriation for the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund as authorized under §8-2A-04(c)(2)(iv) of the Natural Resources Article.

The *Sustainable Forestry Act of 2009* declares sustainably managed forests as the State's preferred land use given the measurable nexus between a healthy forest and a healthy Chesapeake Bay. Despite this and numerous studies that have documented the nutrient mitigation benefits of sustainably managed forests, it is not clear whether any 2010 Trust Fund monies have ever been allocated to the Mel Noland Woodland Incentives Fund. In fact, our state has experienced escalated conversion of forest lands as our population has grown.

For these reasons, we believe that there is both a clear urgency and ability for funding the Mel Noland Woodland Incentives Fund through the 2010 Trust Fund. We hope that you will take this request into consideration as your office develops the 2022 state spending plan.

Sincerely,

Delegate Eric Luedtke

Delegate Dana Stein