

Timber Industry's Newest Player - Southcentral Alaska

by Brian N. Rae

Compared to the Southeast timber industry, the Southcentral timber

industry is a relatively new kid on the block. The Chugach mill, the region's first large-scale capital investment, came on line only last year. While the potential supply of timber is considerable, demand now outpaces the supply of timber on-line for harvest.

To say that the timber industry is new to Southcentral is not totally accurate. Several small sawmills have operated in the area for years. They provided rough-cut lumber to nearby residents, but not as large scale producers. Several years ago, the state proposed entering into a long-term timber sales contract with any company willing to locate a plant in the Mat-Su Borough. While negotiations progressed with a company interested in building a plywood plant in the area. These plans never came to fruition.

Not much changed in the area until Chugach Alaska Corporation began construction of the Seward sawmill. The company has large holdings of timber in Prince William Sound and the Kenai Peninsula, as do many Native village corporations. In the past, most of the timber in the area was sold to Japanese markets as round logs. Very little processing took place in Southcentral Alaska. The increasing costs of processing in other countries, particularly increasing labor costs, and the increased efficiency of newer mills reversed this trend.

The completion of the Seward mill made an alternative to shipping round logs to foreign markets available. More and more, processing facilities ship semi-finished products from Alaska. Additionally, Alaska builders can use locally produced building materials instead of having to import them from other states.

Several issues need to be decided before the industry can prosper in the region. The greatest problem facing the industry in Southcentral is timber supply. With the construction of the Seward mill came the need for a steady supply of logs to feed into it. For the mill and the industry to survive, many of the private land owners will have to harvest their timber. Some people, however, oppose these harvests.

Proposals to buy timber holdings to prevent their harvest are now being studied, such as the Kachemak Bay State Park proposal. The settlement between the state and federal governments and Exxon could also affect supply. Some want to use settlement monies to purchase timber holdings, thereby preventing logging in Prince William Sound. If this occurred, large scale operations such as the Seward mill might not have enough logs to continue production.

To increase the efficiency and profitability of the industry, additional types of facilities need to be located in the region. A single large sawmill cannot efficiently use all types of timber resources. The mill can process larger timber into lumber. Smaller or less perfect timber, however, could be better used in some other product. Waste materials and small timber is now being chipped. Chugach has shipped wood chips to Japan, but a plant producing some type of pressed board could turn these chips into a finished product.

Improvements have occurred in the manufacturing and quality of products such as wafer board, medium density sheathing (MDS board), oriented strand board and plywood. These products have continued to increase their share of the building



Brian N. Rae is a labor economist with the Research & Analysis Section, Administrative Services Division, Alaska Department of Labor. He is based in Juneau.

market, and any such mill could put to use the lower value timber or waste products from a sawmill.

The future is uncertain. The continued existence of the Southcentral timber industry is still tenuous. Chugach Alaska recently filed for Chapter 11 bankruptcy. While the Seward mill was not the sole cause of their monetary woes, it was not a money-maker for the company. The mill came on line at the end of a rising market, and the downturn has hurt it. Some have said the mill may be too large to be efficient given the current capitalization in the Southcentral timber industry. They point out, however, that the mill would fit nicely into a complex of several different timber facilities.

Such a system of manufacturing facilities might, however, be more than a way to save the Seward sawmill. The Seward mill should be seen as an initial investment in the industry. Monetary woes aside, its existence might make the area more attractive to others looking for alternative ways to invest in the Southcentral timber industry.

Whether other facilities are built or not reflects on the overall viability of a timber industry in Southcentral. The industry is in an embryonic state. For it to live, additional development will have to occur. Without it, the prospects for an industry which can weather both the highs and lows of the forest products economy are questionable.