



SOUTHERN GROUP OF STATE FORESTERS

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European Commission
Directorate-General for Competition
Directorate for State Aid
State Aid Greffe
B-1049 Brussels
Ref: State Aid Case SA.38760 (2016/C)

Re: European Commission investigation into United Kingdom Biomass Subsidies

To Whom It May Concern,

The Southern Group of State Foresters (SGSF) appreciates the opportunity to offer comment on the European Commission proceedings on *State Aid Case SA.38760 (2016/C) (ex 2015/N) — Investment Contract for Biomass Conversion of the first unit of the Drax power plant — Invitation to submit comments pursuant to Article 108(2) of the Treaty on the Functioning of the European Union Text with EEA relevance.*

SGSF represents the interests of the state-government forestry agencies from across a 13-State area of the southern United States. In each of their states, the state forester is a government employee charged by the state with monitoring and ensuring the sustainability and vitality of the state-owned and private forest resources. As an association, the SGSF mission is to provide leadership in sustaining the economic, environmental, and social benefits of the South's forests, and thus we are very interested in the potential impacts of a growing wood pellet industry on the forests and forest owners within our region. Of the 4.4 million short tons of wood pellets exported from the United States in 2014, the vast majority came from States within our region. As such, we have been actively engaged in policy discussions surrounding the growth of the industry both domestically and with international interests, including the European Union, United Kingdom and the Netherlands.

Biomass Subsidy

Because our area of expertise related to this investigation is in sustainable forestry, we will not comment on the appropriateness of the specific subsidy to Drax in question relative to market distortions for other wood products. However, we would like to share our thoughts on the important economic and ecological benefits that can arise from supporting new markets for wood products of any kind, including wood pellets in the present case.

Broadly, the intention of government subsidies is to provide market stimulus and direction to produce societal outcomes which might not arise on their own, but which are still perceived to be for the common good. This is explicitly noted relative to electricity generation and climate benefits at point 74 in the official summary of the investigation proceedings:

74. According to paragraph 90 EEAG, the Commission considers that aid for environmental purposes will by its very nature tend to favour environmentally friendly products (solid biomass meeting UK sustainability criteria, see recital 12 above) and technologies at the expense of other, more polluting ones. Furthermore, the effect of the aid will in principle not be viewed as an undue distortion of competition since it is inherently linked to its very objective.

As part of this process of favoring biomass as a renewable energy source versus other modes of electricity generation, the United Kingdom is also implicitly supporting the benefits of the biomass industry in the US South to the Earth's climate through carbon sequestration, as well as the other societal co-benefits that arise from sustainable forest management (clean air and water, wildlife species habitat, jobs and economic stimulus, etc). We support such efforts to achieve these critically important outcomes through policy engagement.

Southern Forest Fundamentals

To better understand the beneficial potential of the wood pellet industry on the US South, it is necessary to take a step back and look at the state of our southern forests. In a distinct difference from forests in the European Union, the majority (86%) of forest land in the South is under private ownership, with 66% of that owned by non-industrial private forest (NIPF) owners¹. Thus, any conversation on forest policy and environmental or sustainability outcomes on these lands must inherently center around of how those NIPF owners currently manage their land, and how incentives might change those management decisions. Southern forests' wood inventory and production have been increasing over recent decades, giving our region the reputation as the "woodbasket of the world." In fact, the South has been documented as sustainably producing more wood than any single country (other than the United States) in the world due to its rapid forest growth rates, private ownership, and active forest management.

Southern forests are also known for their natural reforestation after harvests. Tree removal does not lead to deforestation as can occur in other regions of the world, such as tropical rain forests. The South's forests regenerate naturally without planting, though planting and active management can increase wood production (and other forest values) and control species composition which can help landowners achieve their management objectives.

Looking to the future however, the recognized greatest threat to southern forests is conversion to other uses, most notably development and agriculture, with projected losses of between 11 and 23 million acres southwide by 2060². The economic reality is that private forest owners must constantly reassess the best value of their land. Forestry competes with agriculture, development and other uses for that land. Good forest policy must incentivize these private forest owners to keep their forests as forests, and support markets that return to them an investment return for their land. Recent modeling has shown that pellet markets can do just that, with a resultant increase in forested acres across the South³. In general, strong, diverse markets for wood products have historically led southern landowners to retain their working forests, leading to beneficial forest and environmental sustainability outcomes. Thus, supporting additional markets for biomass helps address the threat to southern forests from development and urbanization.

¹ Wear, D.N. and Greis, J.G. (2013) Southern Forest Futures Technical Report, pg. 106

http://www.srs.fs.fed.us/pubs/gtr/gtr_srs178.pdf

² Wear, D.N. and Greis, J.G. (2013) Southern Forest Futures Summary Report, pg.23

http://www.srs.fs.fed.us/pubs/gtr/gtr_srs168.pdf

³ Galik, C. S. and Abt, R. C. (2015), Sustainability guidelines and forest market response: an assessment of European Union pellet demand in the southeastern United States. GCB Bioenergy. doi: 10.1111/gcbb.12273

Southern Forest Sustainability

We would also like to address a number of items raised in the supporting documentation for the Commission's investigation that pertain to southern forestry, particularly with respect to point 46:

46. Moreover, the same company submitted that the conversion project would lead to unsustainable environmental practices noting that planting commercial trees in the US South East has been declining for 3 decades. Combined with increased pellet production, this might lead to negative forest grow rates in the region, unsustainable environmental practices and loss of biodiversity.

First, there is no data that suggests southern forests are in decline or are in danger of being harvested unsustainably at the regional level. On the contrary, Forest Inventory and Analysis (FIA) data shows that in the 9-state area where pellet mills have appeared on the landscape, forests are currently growing 60 percent more volume than is being removed through all causes including harvest, insects & disease, and wildfire⁴. The FIA program, conducted regionally by the US Forest Service Southern Research Station in partnership with the state forestry agencies, provides the backbone of data used to monitor trends in forests and forest products across the South. There is no more reliable source on the current state of southern forests.

Looking at current growth to removal ratios across the southern region compared to the amount of material potentially being removed for pellet production (at reasonable projections of pellet demand on southern forests, removals would account for only 0.3 percent of total forest inventory)⁵, it is not expected that biomass markets will lead to negative forest growth rates. Additionally, analysis suggests that the feedstocks going into pellet operations are filling a market space vacated by the closure of over 20 regional paper mills since the year 2000. Projections indicate that total peak pulpwood and chip use in 2019 and 2020 aligns with peak historic consumption in 1997 and 1998⁶. Pellet demand is in essence replacing "lost" demand from pulp & paper in the projection at a regional level.

With regard to the potential emergence of unsustainable environmental practices, state forestry agencies and other natural resource professionals are actively engaged in monitoring the sustainability of the forest resource on the 200 million acres (81 million hectares) of private land across the South. There is in place a robust monitoring system, including silvicultural best management practices, FIA data, and multiple forest certification methods (Sustainable Forestry Initiative, Forest Stewardship Council, and American Tree Farm System), that work in concert to assess stressors and changes in southern forests and inform policy modification as needed. We have attached our latest Policy Brief on southern forest sustainability and associated monitoring which provides greater detail on these efforts and the checks in place to ensure southern forest sustainability.

We would also like to address the topic of tree planting and commercial plantation forestry in the South. Over the past three decades, rates of tree planting in the South have been largely dependent upon federal government incentives programs for conservation activities, most notably the US Department of

⁴ Forest Inventory and Analysis Database (FIADB) version 5.1, <http://apps.fs.fed.us/fiadb-downloads/datamart.html>, accessed 09/29/2015.

⁵ Wood Supply Trends in the US South: 1995 – 2015, Prepared by Forest2Market Inc.,

<http://www.forest2market.com/uploads/Forest2Market/documents/US-South-Wood-Supply-Trends.pdf>

⁶ Forisk Consulting. "How Can Global Demand for Wood Pellets Affect Local Timber Markets in the U.S. South?", June 2, 2015, <http://www.forisk.com/blog/2015/06/02/how-can-global-demand-for-wood-pellets-affect-local-timber-markets-in-the-u-s-south/>

Agriculture Conservation Reserve Program (CRP)⁷. After peaking in the late 1980's during initial enrollment for CRP, the amount of planting ebbed until the CRP enrollment was renewed in the late 1990's when levels increased again. Planting decreased until 2010, but has been increasing during the current decade.

However, a potentially more appropriate metric for gauging the interest in active planting and reforestation in southern forest management is to look at the number of acres in forest plantations. Pulling from the Southern Forest Futures Report, the go-to source for information on the state of southern forests, "*The area of planted pine has grown strongly over the past 50 years, from nearly none in 1952 to about 39 million acres by 2010, with a near doubling of planted pine acres from 1990 to 2010 alone.*"⁸ In addition, future projections suggest a continued growth of plantation forest acres in response to the combination of increasing demand for forest products and the strain of development pressure on a decreasing forest land base. Projections show between 7 and 28 million acres of additional plantation pine by 2060⁹. This indicates an ongoing interest by private landowners in investing in planting and reforestation.

It is important to keep in mind the role of strong markets in incentivizing planting and retention of forest land. Much of the growth in forest cover in the South has come from the conversion of erodible marginal agricultural land through the CRP and other programs. Without markets to support the retention of those forests, they are in jeopardy of returning to agricultural production. As mentioned previously, the retention of forests on these marginal acres is important for climate, wildlife, jobs, clean air, and clean water, particularly through the avoidance of erosion and runoff from agricultural fields into waterways.

There is also the perception in some circles that plantation forestry is not environmentally sustainable, particularly with respect to biodiversity. This notion is antiquated and science has proven otherwise. There are examples of species that have thrived on plantations, and even used pine plantation habitat to come back from population concern; for example, Swainson's Warbler – a songbird of conservation concern in the southeast¹⁰. Additionally, thoughtful consideration of activities in site preparation, rotation management and landscape layout can support plant and wildlife diversity. Research indicates that the vast majority (over 70%) of forest owners own land for reasons of nature protection and aesthetics¹¹ and are interested in managing their timber for wildlife. State foresters help landowners achieve these objectives and manage for both timber and wildlife simultaneously through Forest Management Plans and technical assistance.

Conclusion

In summary, SGSF supports the growth of any and all markets for southern forest products and the beneficial effects those markets have on forest retention and forest health. As discussed above, the greatest projected threat to our region's forests is from conversion to development and agriculture. Policy decisions that support additional markets for the wood fiber that comes off the lands of the 5 million private forest owners in the South are ecologically and economically critical. In line with recent history,

⁷ <https://www.fsa.usda.gov/programs-and-services/conservation-programs/conservation-reserve-program/index>

⁸ Wear, D.N. and Greis, J.G. (2013) Southern Forest Futures Summary Report, pg.12
http://www.srs.fs.fed.us/pubs/gtr/gtr_srs168.pdf

⁹ Wear, D.N. and Greis, J.G. (2013) Southern Forest Futures Technical Report, pg.79
http://www.srs.fs.fed.us/pubs/gtr/gtr_srs178.pdf

¹⁰ Graves, G.R. Recent large-scale colonisation of southern pine plantations by Swainson's Warbler *Limnothlypis swainsonii*. Bird Conservation International, 2014. doi:10.1017/S0959270914000306

¹¹ Butler, Brett J. 2008. Family Forest Owners of the United States, 2006. Gen. Tech. Rep. NRS-27. Newtown Square, PA: U.S. Department of Agriculture, Forest Service, Northern Research Station. 72 p.

more and diverse markets are projected to drive landowners to keep their forests as forests, continuing to provide climate and environmental benefits for the region, nation and world. The South's forest resources have been subject to many policy and economic drivers over the past decades, and have proven sustainable throughout. This is due in large part to the efforts of the many forest stakeholders engaged in monitoring sustainability and informing policy change as needed, as well as the private landowners who own most of the forest land and manage it well as a valuable asset for them, their families, and future generations.

Once again, we appreciate the opportunity to provide our perspective on the benefits of supporting emerging wood pellet markets for southern forests. We look forward to continuing our engagement with European Union and United Kingdom officials on this issue.

Sincerely,



Robert Farris
State Forester, Georgia
Chair, Southern Group of State Foresters

Enclosure: SGSF Policy Brief



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Southern Group of State Foresters Policy Brief: Forest Sustainability and Wood Pellets in the Southeastern United States

The Southern Group of State Foresters (SGSF) represents the interests of the state foresters from across a 13-State area of the southern United States. In each of their states, the state forester is charged by state government with monitoring and ensuring the sustainability and vitality of the state-owned and private forest resources. As an association, the SGSF mission is to provide leadership in sustaining the economic, environmental, and social benefits of the South's forests, and thus we are very interested in the potential impacts of a growing wood pellet industry on the forests and forest owners within this region, as well as any discussions surrounding southern forest sustainability.

The forest landscape in the southern United States is markedly different from that found in the European Union. The crux of this difference lies in the fact that the majority (86%) of forest land in the South is under private ownership, with 66% of that owned by non-industrial private forest (NIPF) owners¹. This means that any conversation on forest policy and environmental or sustainability outcomes must inherently center on discussion of how those NIPF owners currently manage their land, and how incentives might change that management into the future. Research indicates that the vast majority (over 70%) of NIPF owners own land for reasons of nature protection and aesthetics². This indicates a strong desire to be good stewards of the land and for their forests to be well-managed, making it in their best interest to make informed decisions about their land before any active management.

The United States, and in particular the South, has a strong system of monitoring, reporting and regulating the sustainability of its forest landscapes. The Clean Water Act, Clean Air Act, Endangered Species Act, and many other federal and state regulations are in place to guide sustainable outcomes on private forest landscapes. Additionally, through Federal, State and Tribal investments in forest inventory monitoring, harvest tracking, public lands conservation, and State-driven efforts at Best Management Practices and State Forest Action Plans, monitoring is ongoing regarding the impacts of all harvesting activities, including bioenergy harvesting, as well as processes for addressing any sustainability challenges if they emerge. Monitoring data and reports from the national Forest Inventory and Analysis program and other efforts are subject to ongoing quality assessment and are publicly available, allowing robust real-time public dialogue and policy responses to advance the sustainability of forest management.

Forestry Best Management Practices (BMPs)

BMPs exist in every southern state to minimize impacts to water quality and other resources from silvicultural activities. Categories of activities for which BMPs exist in most states include harvesting, site preparation, forest roads, stream crossings, and streamside management zones. State forestry agencies developed BMPs starting in the 1970s, and they have been actively evaluated, tested, revised, and adapted over time. The Clean Water Act recognizes BMPs as the most viable

¹ Wear, D.N. and Greis, J.G. (2013) Southern Forest Futures Technical Report, http://www.srs.fs.fed.us/pubs/gtr/gtr_srs178.pdf

² Butler, Brett J. 2008. Family Forest Owners of the United States, 2006. Gen. Tech. Rep. NRS-27. Newtown Square, PA: U.S. Department of Agriculture, Forest Service, Northern Research Station. 72 p.

pathway to address nonpoint source pollution that originates from various land management activities. Each state implements BMP programs according to its unique landowner characteristics, ecological conditions, forest industries, and socio-political norms, and conducts BMP effectiveness monitoring to track environmental outcomes. The approaches range from regulatory (forest practices law or silvicultural BMP legislation) to non-regulatory (voluntary adoption and promotion of the use of BMPs through training and education); however, research has shown that all program structures are equally successful at achieving environmental outcomes.³

SGSF and its members track BMP implementation rates on a state-by-state basis, as well as rolled up at the regional level. The most recent synthesis report in 2012 indicates that BMP implementation across the South is very high at 92%, and that implementation has been steadily increasing over the past two decades⁴. In particular, logger training and certification programs have proven to be a key element in strengthening the acceptance, adoption, and use of forestry BMPs. The ongoing process of BMP monitoring is something that SGSF and its partners are committed to in showing implementation of sustainable harvest practices, and will continue to use to track environmental outcomes into the future.

Forest Inventory and Analysis (FIA)

The FIA program, conducted regionally by the US Forest Service Southern Research Station in partnership with the states, provides the backbone of data used to monitor trends in forests and forest products across the South. Through a network of on-the-ground plot measurements (1 plot every 6,000 acres) and rigorous data processing and analysis, FIA is able to answer the tough questions that scientists and policymakers alike ask about the South's forest resource – Is it growing or shrinking in size? Are there changes in species composition or geographic distribution? Are there issues with regeneration? FIA is the go-to source for information on these questions. Annual state-level reports and the ability for any member of the public to access the most recent field data on-line create a robust, transparent, and timely structure for monitoring changes in southern forests.

Data analysis is consistently being done by USFS analysts as well as state and private entities to monitor the sustainability of forest resources, forest use, and forest health. Dozens of southern region FIA publications can be found at the SRS website (<http://srsfia2.fs.fed.us/>) which when taken together show current regional sustainability. FIA data shows that in the 9-state area where pellet mills have appeared on the landscape, forests are currently growing 60 percent more volume than is being removed through all causes including harvest, insects & disease, and wildfire⁵. As an industry grows, such as is predicted for the wood pellet industry, FIA analysis is able to track changes on the landscape and highlight if there are specific regions of concern for the forest resource. FIA data is also used by industries and states in siting a facility to ensure that there is the forest supply base to economically and ecologically support it in advance of beginning operations. This capability of FIA program data to paint a clear picture of the present status of forests, as well as to look forward and backward with respect to forest trends, makes the potential development of new sustainability tracking systems redundant.

³ National Association of State Foresters. 2015. Protecting Water Quality through State Forestry Best Management Practices. http://www.stateforesters.org/sites/default/files/issues-and-policies-document-attachments/Protecting_Water_Quality_through_State_Forestry_BMPs_FINAL.pdf

⁴ Southern Group of State Foresters (SGSF) – Water Resources Committee. 2012. Implementation of Forestry Best Management Practices: 2012 Southern Region Report. <http://www.southernforests.org/resources/publications/SGSF%20BMP%20Report%202012.pdf>

⁵ Forest Inventory and Analysis Database (FIADB) version 5.1, <http://apps.fs.fed.us/fiadb-downloads/datamart.html>, accessed 09/29/2015.

The Southern Forest Futures Project

The Southern Forest Futures Report, as well as associated subregional outlooks, examines potential futures of southern forests in response to a variety of factors, both natural and anthropogenic. This report represents the most comprehensive analysis of how southern forests could change on the macro-level. Using computer modeling and cutting-edge scientific analysis, the report presents a range of plausible futures or scenarios for the South's forests based on a variety of influences such as urbanization, bioenergy, climate change, land ownership changes, and invasive species. It does not attempt to predict the singular path forward, but instead delivers a range of possible outcomes to inform policy and land management decisions.

Regarding forest biomass-based energy, the report⁶ finds that “*While woody biomass harvest is expected to increase with higher prices, forest inventories would not necessarily decline because of increased plantations of fast growing species, afforestation of agricultural or pasturelands, and intensive management of forest lands*” (Technical Report, pg. 213). While the report recognizes the potential for high demand for woody biomass energy to affect harvest levels and create impacts to ecosystem services such as water and wildlife, research findings indicate that these effects can be mitigated at the local level through management considerations and use of BMPs (Technical Report, pg. 250).

In addition to documenting the current status of forests in the South, the resources highlighted above also emphasize future threats. It is important to remember that the greatest threat to southern forests is conversion to other uses, most notably development and agriculture. The current economic reality is that the majority of private forest owners have to constantly reassess the best value of their land. Forestry is competing with agriculture, development and other uses for that land. Good forest policy must incentivize these private forest owners to keep their forests as forests, and support markets that return to them an investment for their land. Recent modeling has shown that sustainably managed pellet markets can do just that, with a resultant increase in forested acres across the South⁷. Policy that instead creates financial and procedural hurdles for these owners to access markets and actively manage their lands can be counterproductive to the end goal of forest health and forest retention across the South.

Summary

Taken collectively, the information presented here conveys two important points. First, there is no data that suggests southern forests are in decline or are being harvested unsustainably at the regional level. On the contrary, FIA data shows that in the 9-state area where pellet mills have appeared on the landscape, forests are currently growing 60 percent more volume than is being removed through all causes including harvest, insects & disease, and wildfire. This reality negates the need for an aggressive policy response to solve a problem that doesn't currently exist. Second, while some modeling suggests that a growing biomass industry could indeed stress the southern forest resource in the future, there is in place a robust monitoring system, including silvicultural BMPs, FIA data, and multiple forest certification methods (Sustainable Forestry Initiative, Forest Stewardship Council, and American Tree Farm System), that work in concert to assess those effects and inform policy modification as needed. In short, we don't believe in enacting preventive policy at the expense of non-industrial private forest owners. Encouraging those forest owners to keep their land in forests, including through supporting strong wood products markets, is the chief concern in the South today.

⁶ Wear, David N.; Greis, John G., eds. 2013. The Southern Forest Futures Project: technical report. Gen. Tech. Rep. SRS-178. Asheville, NC: U.S. Department of Agriculture Forest Service, Southern Research Station. 542 p.

⁷ Galik, C. S. and Abt, R. C. (2015), Sustainability guidelines and forest market response: an assessment of European Union pellet demand in the southeastern United States. GCB Bioenergy. doi: 10.1111/gcbb.12273