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ISF's Recent Study Shows the Long-Term Financial Advantages of Community Forestry on Maxxam's Scotia Pacific properties: Despite up-front costs, ecologically-responsible management returns higher economic rewards than industrial forestry model over 60 year period.

Redway, CA – January 2007 – Institute for Sustainable Forestry

Much of the current debate surrounding Pacific Lumber Company (PL) and Scotia Pacific's (Scopac) recent bankruptcy filing is focused on the funds extracted from the company and environmental considerations in elements of its Headwaters deal. This debate is a losing strategy for Humboldt County.

PL management takes the position that approval of key THPs by the California State Water Board (SWB) will provide access to additional inventory that will enable PL to sustain its operations and retire the company's debt. Yet increased harvest of standing inventory on the Scopac properties will do nothing to increase the future yields necessary to make payments 10 or 20 years from now. This strategy is unsustainable in both environmental and economic terms.

In their efforts to defend the terms of the Headwaters agreement and the SWB's rulings on PL THP's environmental groups like BACH, EPIC and HWC take the position that PL's financial difficulties arise from its highly leveraged financial position and profit taking by PL's parent company Maxxam.

Both sides in the current debate express a commitment to long-term financial and environmental sustainability. Neither side articulates an economically and ecologically viable strategy to create a profitable and sustainable financial structure for PL properties.

It's time for efforts to resolve this dispute to focus on creating the financial mechanisms, policy instruments and ownership structures that will enable new owners and investors, committed to conservation values as well as long-term productivity, to make the necessary financial commitments.

ISF's "Limited Appraisal and Valuation of Scotia Pacific Timberland and Timber" (<http://newforestry.org/council/FinancingSustainability.htm>)

A recent study released by the non-profit *Institute for Sustainable Forestry* (ISF) makes it clear that neither the Community Forestry Model nor the Traditional Timber Management Model has the potential to retire PL's current bonded debt over the next 30 years.

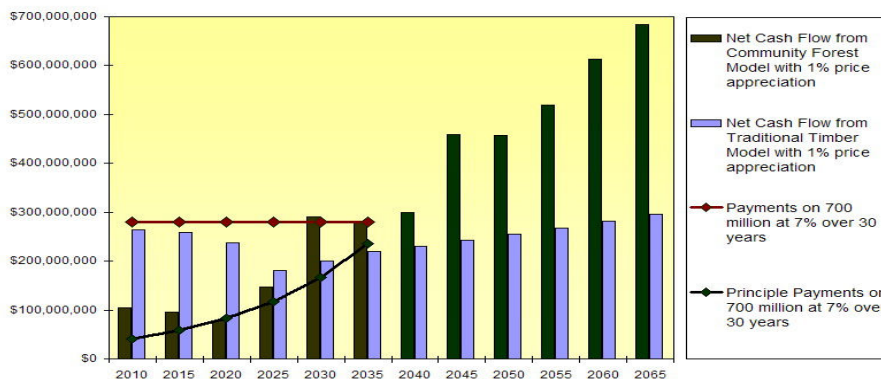


Figure 1: The difference in harvest revenues over time between traditional industrial forestry and the ecologically-responsible 'community forestry' model.

ISF's appraisal values the Scopac properties three different ways: it evaluates comparable sales of similar timber properties and it compares discounted cash flows based on traditional timber management as well as environmentally friendly "community forestry" standards.

ISF's evaluation demonstrates the long-term financial advantages of an ecologically-responsible "Community Forest Management Model." Using the Maxxam's Scotia Pacific properties as a case study, forestry consultants at BBW Associates found that this balanced, environmentally-sensitive approach to forestry would generate \$1.1 billion more income than traditional industrial timber management over a 60-year period, but will also require significant up-front capital investment to ensure fiscal sustainability over the first 20 years.

Managing Scopac properties based on community forestry standards offers significant benefits in both economic and ecological terms:

- Increased *late seral stage* stand conditions from 12% to 54% of the overall acreage in the first 30 years, 100% in 60 years.
- *\$3 billion in long-term debt-free income over the second 30 years* – double the long-term income and local economic impact of the Traditional Timber Management Model in the same period.
- Steady increases in forest inventories and productivity throughout 60+ years that will position Scopac properties to maximize their biological capacity to meet a significant proportion of California's lumber needs on an economically and environmentally sustainable long-term basis.
- Steady increases in the provision of ecosystem services throughout 60+ years including carbon storage, water quality and in-stream and upslope wildlife habitat.

However, strategies aimed at that rebuilding an economically and ecologically viable operation will require a reduction in harvest volumes, and income, over the next two decades.

Now is the time for efforts to resolve these issues to focus on creating the financial mechanisms, policy instruments and ownership structures that will enable new owners and investors, committed to conservation values as well as long-term productivity, to make the necessary financial commitments.

For further information contact ISF at 707-923-7004 or at <http://www.newforestry.org/>