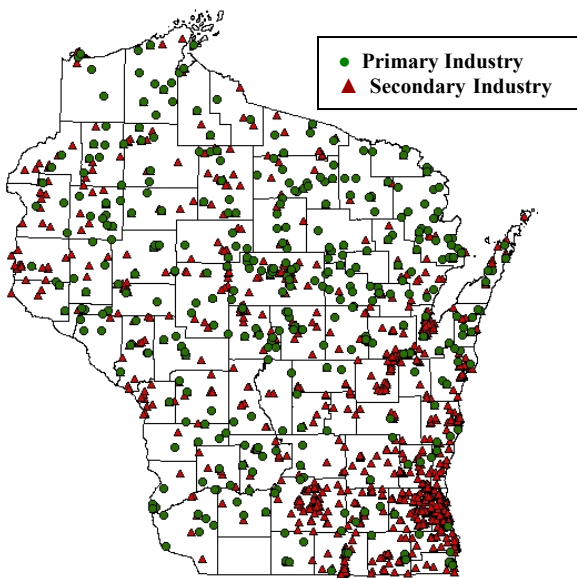


Wisconsin's Forest Products Industry - Business Climate Status Report

Wisconsin's forest product industries are a very important component of the state, regional and national economies. Because of intra-industry linkages, the forest product industries are often considered a cluster. These economies have undergone a recent recession. During this recession, **the forest product cluster suffered job losses disproportionate to most other industries.** Wisconsin's forest product industries appear to have suffered disproportionately more than in our neighboring states. Forest industry group fact-finding have identified **concerns with Wisconsin's regulatory enforcement and business climate**, above and beyond structural changes in the economy and industry.

Forest Industries are Important

Wisconsin is the **#1 paper making state** in the nation and has been for 50 years. Wisconsin forest industry also ranks **first in fine papers, first in sanitary paper products, first in high quality juvenile furniture, first in millwork, and third in hardwood veneers.** In Wisconsin, the wood products industry is the **State's second largest manufacturing employer.** And, Wisconsin forests are the state's largest land cover and by far the state's **largest land use.**



Primary forest product industries are those companies converting roundwood (logs) to wood products such as lumber or pulp & paper. The secondary industries are those making consumer products from the primary industry outputs.

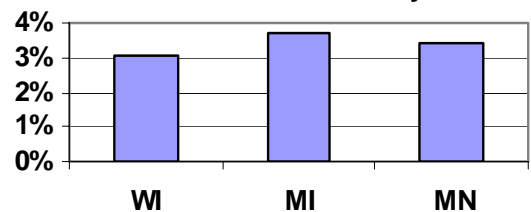
Wisconsin's forest products industry creates **high paying jobs** - average wages for forest industry jobs are \$38,000 annually, compared to the state average of \$30,000. Paper mill workers earn \$49,000 annually. And, these jobs are provided throughout the state. Additionally, they enable many Wisconsin farmers to stay on their farms by providing jobs, which include health benefits for one or more family members.

Industry Trends Show a Decline

This industry has been in a **state of change** due to foreign competition and general economic pressures, which have been exacerbated by a **negative business climate image**, specifically the impact of taxes and environmental regulations.

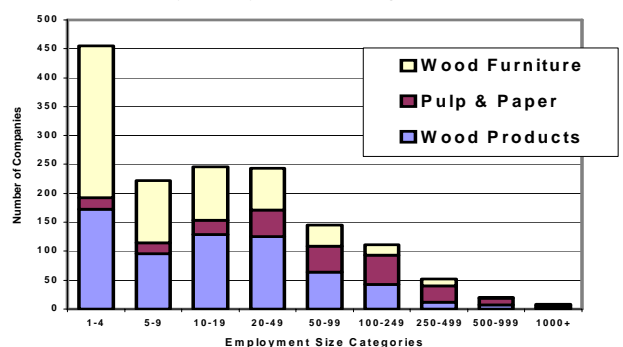
Jobs and companies have been **decreasing.** Wisconsin is not getting its share of **capital investment** in the forest products industry.

2001 Capital Expenditures as a % of Shipments (Production) in the Forest Products Industry



The forest industry cluster is comprised of a very **large number of small firms.** Over 90% of small firms in Wisconsin find it impossible to know or be in compliance with regulations. And, it costs small firms more than twice as much per employee as large firms to meet regulations; over half of this cost is for environmental purposes.

Number of Forest Product Companies by Employment Size Range, 2001



The Role of Incentives

In the competition for capital investment, all states provide incentives. They often serve as a **"tiebreaker"** when considering different locations.

Wisconsin is at a disadvantage in providing tax incentives because of its Constitutional prohibition of tax abatements. Wisconsin needs to look at other techniques, not the least of which is image. The perception and workability of regulations are major parts of business climate.

State Direct Financial Incentives

State	Grants or Forgivable Loans	Low Interest Loans	Reduced or abated state taxes	Reduced or abated local taxes	Investment or Job Creation Tax Credits	Job Training Grants	Large Project Incentives
MI	Yes	Yes	Yes	Yes	Yes	25%	Yes
MN	Yes	Yes	Yes	Yes	Yes	Loan	No*
WI	Yes	Yes	No	No	Yes	50%	No*

*Not as large relative to Michigan

Business Climate Improvement Recommendations & Actions

Business Taxes - Single factor apportionment in the corporate income tax and a sales and use tax exemption for energy used in manufacturing have been enacted making Wisconsin's multi-state forest product and pulp & paper companies more competitive for capital investment. Comparative taxes need to be continually monitored as other states become more aggressive.

Incentives - The possibility of state Forest Certification and a Forest Product Diversification Grant Program (similar to Agriculture's) are recommended in order to respectively, capture market share and to provide capital to grow small forest products companies in value-added niche markets. Other incentive programs should also focus on forest products.

Energy - In recognition of Wisconsin's weak energy policy and energy generation deficit, legislation has been enacted providing incentives for power plant siting and streamlining the location of transmission right-of-ways.

- Efforts to promote and subsidize renewable energy projects are urged to examine the important role of wood in providing energy.

Small Business Regulatory Reform - Small business are the bulk of Wisconsin's forest product industries. Explicit consideration of the disproportionate cost impact of regulations on small businesses by state agencies is recommended, as is amnesty for noncompliance when the situation is corrected. These needs have now been enacted into law.

Environmental Regulatory Reform - Environmental regulatory reform has been advocated by a broad group of proponents. These groups have requested efforts to streamline, standardize, clarify, make collaborative, be science-based, be cost-effective, identify accountability and provide for an internal appeals process within the regulations. The current regulatory reform Act does much of this. Minnesota and Michigan will provide useful prototypes for some of these changes.

Information/Education/Advocacy - There are resources available to help business deal with the ever increasing scope of government regulations, but they are difficult to find. Those institutions providing the services have to consider education and information as a never-ending process. Similarly, trade association and/or ad hoc industry groups need to undertake information discovery and dissemination as major projects. There are some very successful industry-wide pilot projects available. Five useful information resources are:

- *WDNR's Permit Primer-web based environmental guide to the regulations. General Permit Primer Information: 715-365-8936*
- *Wisconsin's Business Wizard-web based list of all non-environmental requirements. (1-800-435-7287) (or 1-800-HELP BUSIness as a reminder)*
- *WDNR's Bureau of Cooperative Environmental Assistance-industry sector expertise. Wood Products Sector Specialist: 715-365-8936*
- *Wisconsin Commerce's Small Business Clean Air Assistance Program-checklists and industry fact sheets, plus general information. Clean Air Ombudsman: 608-267-9384*
- *WDNR's Regulatory Performance Report and Permit Tracking Report on their internet site and Customer Feedback Line (608-266-0158)*

Technology and information transfer is the logic behind the proposed *Center for Sustainable Forestry Business*, another good idea.