COOPERATIVE EXTENSION SERVICE
UNIVERSITY OF KENTUCKY
College of Agriculture

UK Forestry Extension Office
T.P. Cooper Building
Lexington, KY 40546
(859) 257-7597
Fax: (859) 323-1031
www.ukforestry.org

Economic Impact of the Closing of the Verso Pulp and Paper Facility in Wickliffe, KY

Developed in response to requests associated with the announced idling of the Verso Mill in Wickliffe, KY.

As a part of Cooperative Extension Service work at the University of Kentucky, Department of Forestry we conduct annual economic analyses of the forest industry[1] including Kentucky's pulp and paper sector. Last year's analysis (an executive summary of the 2014 report is attached) indicated that the pulp and paper sector provided a total economic contribution of approximately $1.2 billion to the commonwealth of Kentucky.

The Verso mill in Wickliffe KY (Ballard Co.) has historically consumed approximately 1.2 million tons of pulpwood and wood chips annually, of which approximately 40 to 50 percent comes from Kentucky. In addition, the majority of the fiber used is pulpwood, cut and hauled by Kentucky based logging firms (approximately 100) that are largely small family owned businesses located in the western one-third of Kentucky.

The announced idling of the Verso facility (formally Newpage) will likely result in the discharge of 310 Verso employees[2] (our analysis indicates a total of 356 in Ballard County). The idling and potential closure will also significantly impact many of the family owned logging firms supplying the mill. The impact on logging firms is exacerbated by the lack of other substantial markets for pulpwood in region as the Domtar mill does not accept pulpwood but runs almost exclusively on by-product chips from sawmills. No other buyers of the quantity of pulpwood consumed by the Verso mill exist in the affected region.

Due to these factors, estimates of the economic impact of a closure are large. Initial economic loss analysis indicates a direct impact of $301 million to the county with an estimated impact of $360 to $400 million to the commonwealth. This includes direct, indirect and induced economic activity. In addition to the jobs directly associated with the mill and the logging firms that supply the facility, significant losses will occur in trucking services, energy, food, housing, health care and a host of other affected sectors as well as lost state and local tax revenues and the services that those provide.

While a thorough economic analysis of a closure would be required to determine the specific magnitude of economic loss and the impacts to sub-sectors, it is readily apparent that the loss of the Wickliffe mill will have a significant negative impact throughout the economy of Kentucky. The potential loss of $360 to $400 million without an off-setting economic opportunity to western third of the state will be most severe. Information to-date on the ultimate fate of the mill which is being idled is unclear. However, reductions in U.S. paper consumption, commodity paper imports, and current overcapacity of white paper production in the U.S. indicates an uncertain fate for paper facilities similar to the Wickliffe mill.

[1] FORFS 15-03 Kentucky Forestry Economic Impact Report 2014, Cooperative Extension Service, University of Kentucky, College of Agriculture, Food and Environment, Department of Forestry. Available at www.ukforestry.org.
[2] Based on publically available information on the idyling.

Kentucky Forestry Agriculture Economic Summary 2014

FORFS 15-01

Forest industry is the most significant agricultural revenue sector in Kentucky. The $12.8 billion produced by the forestry sector in 2014 was also significant compared to many economic drivers in the Commonwealth. This fact sheet provides an executive summary of this important industry; a complete report will be available at www.ukforestry.org in the spring of 2015.

2014 Economic Importance of Kentucky's Forest and Wood Industry

$12.8 billion total economic impact with $8.3 billion in direct revenue

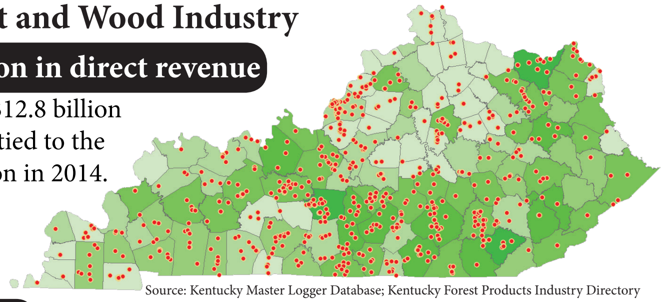
The $8.3 billion in direct impact represents revenue while the $12.8 billion reflects an additional $4.5 billion in economic activity directly tied to the forest and wood industry. Direct revenue increased $400 million in 2014.

57,753 total jobs with 28,202 directly employed

Total forestry related jobs represent 2.4% of employment.

Leading producer of hardwood sawlogs in the South

762 million board feet of logs and 1.365 million tons of pulpwood.



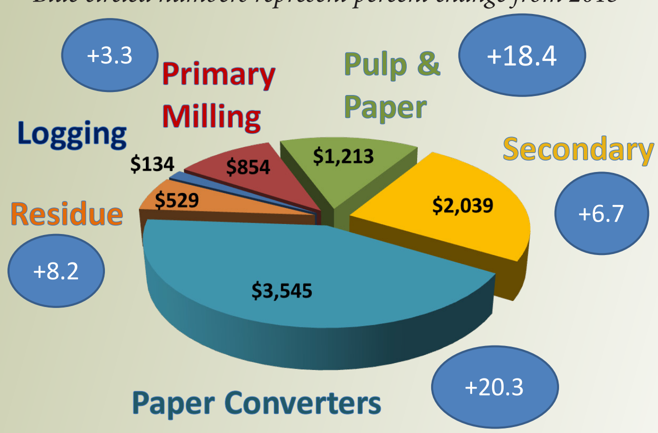
Source: Kentucky Master Logger Database; Kentucky Forest Products Industry Directory

Kentucky Wood Industries and Master Logger Distribution 2014

Dots represent the 703 wood industry facilities in Kentucky. Intensity of county shading indicates the relative density of Kentucky Master Loggers. The darker the county the more Master Loggers.

Forestry Sectors $Millions (direct)

Blue circled numbers represent percent change from 2013



Source: IMPLAN Analysis of 2012 data adjusted for 2014 using 2014 forestry sector employment

Forestry Sub-Sectors

The forestry sector is comprised of a range of industries including logging, primary that includes sawmilling, secondary industries that manufacture finished wood products; pulp and paper production; paper converters that manufacture paper products; and residues such as bark mulch. In 2014, sub-sectors increased from 3.3 to 20.3% with the exception of logging that remains highly volatile.

2013 to 2014 Grade 1 Delivered Log Price

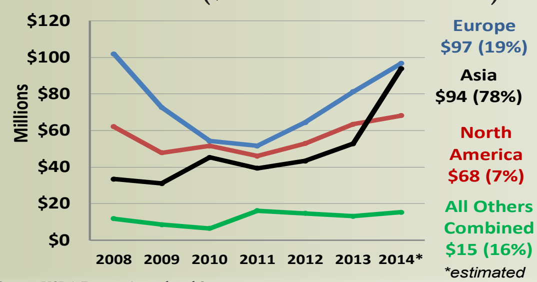
Species	2013 (Q 3)	2014 (Q 3)	Change
	$ per MBF (Doyle)		%
Ash	456	597	+24
Hickory	396	519	+23
Hard Maple	718	1,013	+29
Red Oak	593	850	+30
White Oak	700	1,006	+30
Walnut	1,256	1,419	+11
Yellow-Poplar	418	488	+14

Source: Kentucky Division of Forestry Growing Gold

Commodity Pricing

In 2014 all primary commodities with the exception of logs for railway cross ties increased compared to 2013. Stave logs for barrels increased 10%, pulpwood was up 1%, and the bread and butter of Kentucky's primary products, logs for lumber production, increased 24% over 2013. While tie logs decreased 7.5% demand was stable.

Export Destinations 2008-2014* (%increase from 2013)



Source: USDA Foreign Agricultural Service

Kentucky's Forest Products Exports

Kentucky's forest products exports grew to over $273 million, a 30% increase compared to 2013. The leading exports were wooden barrels and barrel parts at more than $97 million. Europe and Asia were the top export destinations for Kentucky's forest products at $96 and $93 million respectively.

COOPERATIVE EXTENSION SERVICE

UK UNIVERSITY OF KENTUCKY

College of Agriculture, Food and Environment

Authors: **University of Kentucky, Department of Forestry Extension** - *Jeff Stringer, Extension Professor of Hardwood Silviculture and Forest Operations; Billy Thomas, Extension Associate for Family Forest Education; Bobby Ammerman, Extension Associate, Secondary Forest Industry; and* **University of Kentucky, Department of Agricultural Economics** - *Alison Davis, Associate Extension Professor*

FORESTRY EXTENSION

www.ukforestry.org

859.257.7597

FORFS 15-01