

LOG-EXPORTING PROBLEMS

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REPORT

OF THE

SELECT COMMITTEE ON SMALL BUSINESS  
UNITED STATES SENATE

ON

THE IMPACT OF INCREASING LOG EXPORTS ON  
THE ECONOMY OF THE PACIFIC NORTHWEST



MAY 13, 1968—Ordered to be printed

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## LETTERS OF TRANSMITTAL

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U S SENATE,  
SELECT COMMITTEE ON SMALL BUSINESS,  
*May 13, 1968*

HON HUBERT H HUMPHREY,  
*President of the Senate,*  
*U S Senate, Washington, D C*

DEAR MR PRESIDENT I have the honor to transmit a report prepared by the Subcommittee on Retailing, Distribution, and Marketing Practices of the Select Committee on Small Business, entitled "The Impact of Increasing Log Exports on the Economy of the Pacific Northwest"

This report has the approval of the full committee

Respectfully,

GEORGE A SMATHERS, *Chairman*

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U S SENATE,  
SELECT COMMITTEE ON SMALL BUSINESS,  
SUBCOMMITTEE ON RETAILING, DISTRIBUTION, AND  
MARKETING PRACTICES,  
*May 6, 1968*

HON GEORGE A SMATHERS,  
*Chairman, Select Committee on Small Business,*  
*U S Senate, Washington, D C*

DEAR MR CHAIRMAN Respectfully transmitted herewith is a report of this subcommittee entitled "The Impact of Increasing Log Exports on the Economy of the Pacific Northwest" It is based on 6 days of public hearings in January 1968, and on close attention to and study of prior and subsequent developments

The report has the approval of all members of the subcommittee

Sincerely,

WAYNE MORSE, *Chairman*

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Mr BYRD of West Virginia for Mr MORSE, from the Select Committee on Small Business, submitted the following

### R E P O R T

## LOG-EXPORTING PROBLEMS

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### CHAPTER 1 INTRODUCTION

#### *A The problem*

Purchases by Japan from the Pacific Northwest's annual softwood log harvest increased at an astonishingly accelerated rate during the first 7 years of this decade. In 1960, exports of unprocessed logs from Oregon and Washington to Japan amounted to about 100 million board feet, log scale. These exports reached 1 billion board feet for the year 1966 and, by late 1967, it became evident that the total volume for that year would approximate 1.7 billion feet, or a 1,600 per cent increase over the 7-year period.

Coincident with the increase in Japanese log purchases, depression conditions developed in a number of the timber-dependent communities of the two States. The frequency rate of mill closures was higher in communities where timber operators were wholly dependent upon Federal timber than in communities where operators derived their raw material from private lands. In 1966 and 1967, 25 plywood mills were closed in Oregon and Washington, causing the layoff of at least 4,230 mill workers and a decrease in total employment of 6,800 employees. Prices of logs sold from the National Forests and other public lands sharply increased during the period. Many businessmen and workers in the industry believed that the Japanese-demand pressure on a relatively fixed timber supply available for competitive-bid purchase was the principal cause of supply difficulties and subsequent failures of affected mills.

By late 1967, under increasing insistence from industry, labor interests, and the region's congressional delegations, the State Department arranged bilateral trade negotiations with Japan to examine the prob-

lem as a means toward solution. The first round of the negotiations, held in Washington, D C , in December was inconclusive. The second round was scheduled to be held in Tokyo in mid-February 1968 with industry and labor advisory participation.

### *B The hearings*

So numerous and varied were the complaints and demands emanating from the interested parties in the region during the late fall of 1967 that the chairman of your committee's Subcommittee on Retailing, Distribution, and Marketing Practices determined that a public hearing should be held to ascertain the facts. In this determination, Chairman Morse had the enthusiastic support and encouragement of Senators Hatfield and Bartlett of the full committee. The objective was to make a record that would assemble the fullest possible information and opinion about the nature and dimensions of the problem and feasible recommended solutions and to make the record available prior to the Tokyo meeting.

The hearings<sup>1</sup> were held in Washington, D C , on January 16, 17, 18, 19, 22 and 23, 1968. During the 6 days of hearings, more than 50 witnesses appeared before the subcommittee, representing the entire spectrum of economic interests as well as the five Federal departments most directly concerned with the problem.

Your committee is indebted not only to those witnesses, but to the Members of the Senate and House of Representatives, not members of the subcommittee, who, at the chairman's invitation, sat with the subcommittee and examined witnesses, filed statements, or both. Among these participating legislators were the senior Senator from Idaho, Mr Jordan, the junior Senator from Montana, Mr Metcalf, the junior Senator from Alaska, Mr Gruening, the Representatives from Washington, Mrs Hansen and Mr Adams, the Representatives from Oregon, Mr Ullman, Mr Wyatt, and Mr Dellenback, the Representative from California, Mr Clansen, and the Representative from Alaska, Mr Pollack.

The subcommittee owes a special debt of gratitude to two members of the full committee who, although not members of the subcommittee, gave unstinting cooperation to this study. The junior Senator from Oregon, Mr Hatfield, attended continuously every session of the lengthy hearings from beginning to end and contributed importantly to the development of witnesses' testimony. The senior Senator from Alaska, Mr Bartlett, while prevented by illness from personal attendance at the hearings, submitted a most helpful statement and made available throughout the hearings the attendance and assistance of his expert professional staff.

The Departments of State, Treasury, Commerce, Interior and Agriculture were represented in testimony and submitted statements and supporting data requested by your committee during and subsequent to the hearings.

The chairman established the premise and purpose for the hearings in his opening statement when he pointed out

<sup>1</sup> Hearings before the Subcommittee on Retailing, Distribution and Marketing Practices of the Select Committee on Small Business, U S Senate on the impact of increasing log exports on the economy of the Pacific Northwest, 90th Cong, 2d sess (1968), in 3 parts, hereinafter cited as "Hearings."

Because of the extreme interest and concern of hundreds of businesses and thousands of workers throughout the Northwest, because of the impending resumption of trade negotiations, because of confusion resulting from reports of apparently conflicting proposals emanating from different Government sources, I have initiated these hearings

Development of the hearing record, to serve as a reference resource for US negotiators at Tokyo and as an indication to the Japanese of the gravity of the log-export problem in the eyes of both the public and the Congress, was a painstaking task extending for long hours over the 6 days. The record will show that consideration was given to both proponents and opponents of unilateral US action with respect to export of logs from Federal lands in the Pacific Northwest and that all witnesses, both public and private, were encouraged to submit substantiating data for their views.

The hearings served as a backdrop or point of reference for the Tokyo negotiations and made it clear that the United States could not stand idly by ignoring its obligation to the segment of the Northwest's economy dependent upon Federal timber supply.

Most significantly, the hearings provided evidence which persuaded the US timber management agencies that they were empowered to undertake unilateral action on Federal timber which might stem the drain of logs from Government lands to Japan. The joint statement issued at the conclusion of the Tokyo negotiations demonstrated that the Japanese understood that this power existed, and prompted the expression by them of the hope that any action taken by the US would not result in harm to the Japanese industry.<sup>2</sup>

On April 17, 1968—less than 3 months after the conclusion of the hearings and less than 2 months after the issuance of the joint statement of the negotiators in Tokyo—the Departments of Agriculture and Interior took direct, unilateral action of precisely the type for which the hearings had most clearly demonstrated the need. The Department of Agriculture's press release described the concurrent action of the two departments in these terms:

Secretary Freeman, speaking for himself and Secretary of the Interior Stewart L. Udall, said that, because of the short supplies of timber in certain communities, they have directed the Chief of the Forest Service and the Director of Interior's Bureau of Land Management to require that the major part of the timber sold from Federal lands in the Northwest receive primary manufacture in the United States.<sup>2a</sup>

### *C Principal questions*

In calling the hearings, Subcommittee Chairman Moise announced three questions to which he expressed the hope witnesses would respond with the best information available to them. These were:

- (1) What are the essential facts of log exports in terms of the total regional economy, for example, jobs eliminated, jobs created, interests aided and interests injured?

<sup>2</sup> Joint statement of negotiating teams, Tokyo Feb 22 1968. The full text of the statement is contained in Department of State press release No 39 of Feb 23, 1968, which is reproduced in full at p 33, *infra*.

<sup>2a</sup> Department of Agriculture press release 1241-68, dated Apr 17, 1968 the complete text of which will be found in app 1, p 75, *infra*.

- (2) How and why do the Japanese pay the prices they do?  
 (3) What can and should be done by Government to minimize detrimental effects of log exports and maximize whatever benefits may be involved? What is your view of the proper, equitable balance to be struck between the conflicting interests? And what are the best methods for achieving balance?

As the hearings progressed, other questions were developed and posed to all witnesses in writing.<sup>3</sup>

The object of this report is to discuss *some* of the most important questions. Where the subcommittee has developed answers of its own to the questions, they will be given. In addition, some of the still controverted issues of fact, law and policy will be noted.

## CHAPTER 2 THE SOFTWOOD INDUSTRY

### *A Products and structure of the industry*

The world supply of softwood resources approximates 4.5 trillion cubic feet of growing stock essentially concentrated in the North Temperate Zone. Softwoods are essentially coniferous trees which are characterized by needles as opposed to leaves and which regenerate themselves through seed-bearing cones. The United Nations Food and Agriculture Organization, in its 1966 publication "Wood World Trends and Prospects," estimated that softwood growing stocks in the North Temperate Zone occurred on 3.3 billion acres.<sup>4</sup>

Approximately one-eighth of the volume and one-sixth of the acreage lie within the United States. U.S. softwood forests exceed, in both volume and acreage, the totals for all of Europe, and rank behind only the Soviet Union and Canada in national forest resources.

In terms of harvest, however, while running 61 million cubic meters behind the Soviet Union, the United States produces more than three times the volume produced by Canada.<sup>5</sup> The U.S. timber harvest is comprised of all species, but 70 percent of the total, based on 1963 data, was softwood. Softwoods make up slightly more than half of all growing stock on U.S. commercial forests.<sup>6</sup> The estimated actual cut of softwood timber in the United States in 1967 totaled 8.184 billion cubic feet, with 1.820 billion coming from Oregon and 983 million from Washington.<sup>7</sup>

Softwood lumber production in the United States in 1960, all species, totaled 26.7 billion board feet, with approximately three-fifths representing softwoods native to the Pacific Northwest. The 1967 total for all U.S. softwood lumber production rose to 27.4 billion board feet. Pacific Northwest production, however, declined 200 million feet during this period. In the same period, total U.S. softwood lumber exports rose from 688 million board feet to 954 million board feet while log exports to Japan from the Pacific Northwest accelerated from an annual rate of 100 million board feet log scale, in 1960, to an estimated 1.7 billion board feet in 1967. In effect, it would appear that despite increases in total production and exports the decline in Pacific North-

<sup>3</sup> Hearings, pt. 3, App. 1, pp. 1327-1376.

<sup>4</sup> Hearings, pt. 3, pp. 1128-1129.

<sup>5</sup> Ibid., pt. 3, table III, p. 935 and table IV, p. 936.

<sup>6</sup> Ibid., pt. 3, table V, p. 937.

<sup>7</sup> Ibid., statement of National Forest Products Association, pt. 3, p. 1354.

west softwood lumber production between 1960 and 1967 was influenced by the rapid increase of softwood logs to Japan from that region<sup>8</sup>

Log production in Oregon and Washington, comparing 1960 and 1967, rose from 13.1 billion board feet to 14.3 billion board feet. At the same time, log exports from the two States rose from 1 percent of production to 11 percent of production.<sup>9</sup>

The area west of the crest of the Cascade Mountain Range in Oregon and Washington known as the Douglas-fir region is the area primarily affected by log exports during the years 1960-67. During the last 6 months it has begun to appear that increasing amounts of logs will probably be exported from central and northern California where port facilities exist and also from the areas east of the crest of the Cascade Range.

The area principally affected—the Douglas-fir region—contains somewhat less than 500 sawmills, more than 100 plywood plants and 50 pulp and paper mills. The area produces one-fifth of the Nation's lumber and four-fifths of the Nation's softwood plywood. These industries employ 131,000 people and have a \$900 million annual payroll. One-third of the manufacturing employees in these two States work in the forest industries with about 85 percent of the industry on the west side of the Cascade Range. About two-thirds of the lumber from the region is shipped to the Eastern and Central United States. Half of the plywood goes to the East.

The Douglas-fir region is four-fifths forested and contains some of the choicest timber-growing land in the world. The area faces a constant struggle to maintain forest production at a rate capable of supporting manufacturing employment and income at existing levels. Timber supply is affected not only by the rapid escalation of log exports but in addition there is the increasing diversion of forest land from timber growing to other uses and the increasing difficulties of financing forest roads and timber management through Federal appropriations for the half of the forest land that is in Government ownership.

Softwood logs provide the basic raw material for thousands of derived products, running the gamut of American industrial production from the obvious primary products such as lumber, plywood, and pulp through more refined production items such as hardboard and particle board, paper and paper products, furniture, moulding and millwork, shingles and shakes, railroad ties, poles and piling, chemicals, and even pharmaceuticals. The changes which can be rung on the variations possible beginning with the basic log are practically incalculable since softwood occurs in products ranging from the simple lead pencil through transportation equipment and oil-well-drilling additives.

The essential market for Pacific Northwest softwood production, however, is housing. Residential uses of lumber have historically accounted for about 35 percent of the lumber consumed in this country. It is predicted that, if past use patterns prevail, lumber consumption, including that used for nonresidential construction in the United States, could reach 48 billion feet in 1970, 56 billion feet in 1975, and

<sup>8</sup> *Fingertip Facts and Figures*, February 1968, published monthly by National Forest Products Association, Washington, D.C.

<sup>9</sup> Hearings, pt. 3, app. 1, p. 1333.

62 billion feet in 1980 Consumption of softwood lumber in the United States in the past few years has held to about 32 billion board feet <sup>10</sup>

Dr John Muench, Jr, forest economist, National Forest Products Association, testified that limited access to domestic raw material could raise product costs He explained that projected increases in housing demand would raise demand for both lumber and plywood Without adequate domestic raw material access for existing capacity, he said, product costs would rise, housing costs would rise as a result, and use of forest products would ultimately decline for competitive reasons This in turn, he pointed out, would impose new-product demands upon other industries, burdening their capacities to an extent which would force predictable price rises for those items <sup>11</sup>

The American lumber and plywood industry exemplifies the classical description of the free enterprise system, being made up of a great many units which vary in number in direct relation to market conditions Estimates of lumber manufacturing operations, for instance, have ranged from as high as 35,000 producing units to as low as 16,000, the actual number in continuous operation probably falls somewhere in between the two extremes

The industry is marked by a high degree of competitiveness, with prices normally directly reflecting demand and availability of required species, sizes, and quantities of production runs While lumber and plywood companies tend to be grouped in timbered regions, for obvious reasons of access to timber supply, they frequently operate in rural communities where a single company may provide the basic payroll for the entire population Mobility is lacking in that the modern manufacturing facility cannot be moved to a new location Oregon and Washington are first and second among the States in timber production They, and California, are the only States whose total production of softwood exceeds the 1967 volume of log shipments to Japan There is direct US lumber market competition among west coast, Canadian, and southern softwoods

The general key to successful and profitable operation in the lumber and plywood industry tends to be ready access to a stable supply of timber at a price which enables competitive penetration of the market

Several of the west coast manufacturers own or control a sufficient amount of private forest land to grow their own raw material requirements, but this is so exceptional that for all practical purposes the entire industry is substantially dependent on Government-owned stumpage for continuous operation

### *B Japanese purchases of US softwoods*

During and subsequent to the hearings before your committee, witnesses provided detailed data on the rising magnitude of the log export problem and its effects on the economy of the Pacific Northwest Before presenting relevant excerpts from these data it may be well to observe that a consistent pattern is clearly shown Until the year 1961 Northwest log exports to foreign countries, particularly Japan, were of nominal volume From that year forward, exports of softwood logs to Japan have increased with breathtaking rapidity, from 328.1 million board feet in 1961 to 1.5 billion board feet in 1967 <sup>12</sup> Nor are these

<sup>10</sup> Hearings, pt 3 p 1024

• <sup>11</sup> Ibid, pt 3 p 1025

<sup>12</sup> Hearings, p 1057 The later estimate is nearing 1.667 billion feet, all species, from Oregon and Washington alone, tables, appendix, p 1331

cull logs, or marginal species, the following testimony of the Chief of the Forest Service, Mr Cliff, is illustrative <sup>13</sup>

Japan is now taking some log grades that are greatly in demand by the U S industry In the early years, it was the belief that this trade would take low-quality logs, not the grades preferred in our own domestic industry Now, however, the trade is taking a higher proportion of the upper grades of Douglas-fir and hemlock, particularly saw log grades, than occurs in the mix of logs used by U S mills located in the heavy export areas of western Washington and northwestern Oregon

Export of logs to Japan in 1966 accounted for around 8 percent of all the logs produced in western Oregon and western Washington This rose to 13 percent in 1967

The impacts in the Pacific Northwest of this export trade to Japan are especially severe for western hemlock and other species in the white woods group Over 80 percent of the exports are in these species

The price effects of this skyrocketing demand for logs upon a relatively fixed supply due to the limitations of log yield from Federal lands managed on a perpetually sustained basis, are also apparent from data furnished the committee Again quoting from the testimony of the Chief of the Forest Service <sup>14</sup>

Prices for hemlock timber more than doubled, rising from an average of \$8 90 per thousand board feet, log scale, in 1958-60 to \$20 50 in 1966, with a small decline in the first three quarters of 1967 Prices for Douglas-fir stumpage increased about 66 percent, from a 1958-60 average of \$29 90 per thousand board feet, log scale, to \$50 in 1966 It should be noted that in the first three quarters of 1967, Douglas-fir stumpage prices dropped largely because of a decline in domestic demand for lumber and plywood The average for these three quarters is \$41 40 per thousand board feet

The rise in stumpage prices of hemlock and Douglas-fir compared with the level of prices prevailing in the 1958-60 period was significantly greater than the increase in stumpage prices for ponderosa pine and southern pine These latter species have not been directly affected by log exports

### *C Public and private forests in the U S*

The United States possesses within its boundaries 508 8 million acres of land designated as commercial forest Commercial forest land is defined as "Forest land which is producing or is capable of producing crops of industrial wood and not withdrawn from timber utilization by statute or administrative regulations" <sup>15</sup>

Ownership of this commercial forest land is roughly divided in such a way that nearly 28 percent is under Federal, State, county, and municipal management, a little more than 13 percent is owned by the forest industry, nearly 30 percent by farmers, and the remainder

<sup>13</sup> *Ibid*, p 1057

<sup>14</sup> *Ibid*, p 1058

<sup>15</sup> *Timber Trends in the United States*, Forest Service, USDA, February 1965, app II, p 223

is in miscellaneous private hands. Almost 90 percent of the commercial forest lands in public ownership are federally controlled.<sup>16</sup>

In the Douglas-fir region one-half the commercial forest land is in Government ownership, with 30 percent administered by the Forest Service in the Department of Agriculture and 9 percent administered by the Bureau of Land Management in the Department of Interior. The State forests contain 8 percent of the forest land with the balance in miscellaneous Government ownership. The industrial ownerships contain 33 percent of the commercial forest land.

From a nationwide standpoint, the Forest Service is responsible for 96.8 million acres of commercial forest land and the Bureau of Land Management manages 5.4 million acres. Another 6.4 million acres come under Interior's Bureau of Indian Affairs, while 4.4 million acres are administered by various agencies of other departments of the Government.

*National Forests*—The U.S. Government Organization Manual 1967-68 describes Federal timber management function as follows: "The Forest Service administers 154 national forests, together with 19 national grasslands, land utilization project lands, experimental forests, and other lands aggregating about 186.5 million acres. The national forests, comprising over 182 million acres, are located in 39 States and Puerto Rico. The Forest Service improves them, protects them from fire, insects, and disease, and manages their resources for orderly and continuous service and *for the maintenance of stable economic conditions in national forest communities*. National forests are managed under the twin conservation policies of multiple use and sustained yield. Technical methods of forestry are applied to the growing and harvesting of timber." [Italic furnished.]

With respect to this aspect of Bureau of Land Management functions, the same manual says:

*Range and Forest Management*—\* \* \* "The Bureau also carries out sustained yield forest management on timber lands under its jurisdiction for the dual purpose of obtaining continuous timber production at the highest possible level, and *promoting the economic stability of dependent communities*." [Italic furnished.]

It is of extreme significance to the record of your subcommittee's hearings on the economic impact of log exports to Japan from the Pacific Northwest that note be taken of the stipulations italicized in these official descriptions of the timber management roles of both the Forest Service and the Bureau of Land Management. They clearly state that promotion of the economic stability of dependent communities is a primary function of the Federal agencies.

Much of the testimony from forest industry and labor during the hearings revolved about this point and the influence that export of logs for manufacture outside the timber harvest area was having upon the ability of industry, workers, and whole communities to survive.

The point was repetitively made that the Federal Government is a monopoly seller of timber in areas of both Oregon and Washington and if local manufacturing companies are unable to compete for available logs, due to inflated prices which prohibit economic manufacture

<sup>16</sup> Ibid., table 2, app. I, p. 142.

for the domestic market, there is no alternative source of logs and, consequently, no alternative to shutdowns<sup>17</sup>

The initial Government witness, Chief of the Forest Service Cliff, testified, " \* \* \* log export intensifies competition bringing on increases in stumpage prices to all mills heavily dependent on public timber " <sup>18</sup>

The dominant selling position of the Forest Service was, in fact, acknowledged by that agency in both its 1959 and 1963 testimony before the House Appropriations Committee

The Forest Service is by far the largest single supplier of raw material for the Nation's forest products industry. Many mills, both large and small, are primarily or wholly dependent on continuing or increasing purchases of national forest timber. Alternate sources for purchase of timber for major segments of the lumber and plywood industry in the Pacific Northwest have now been exhausted. This almost complete dependence on purchase of national forest timber for continued operations makes the conduct of the national forest timber sales program more significant than ever \* \* \*

Many mills must purchase timber to keep operating. The national forests are the one place where they can buy it. The job of selling it must be done by the Forest Service. This will keep mills going, provide jobs, and stimulate the general economy<sup>19</sup>

The Bureau of Land Management also acknowledged its position of dominance in some areas in both House and Senate Appropriations hearings. At various times, it has testified

Rapidly dwindling supplies of available timber from other than Federal sources is focusing attention on the 157,700,000 acres of public domain forest lands in the Western States and Alaska, and the more than 2 million acres of O & C lands in western Oregon, which are under the exclusive jurisdiction of the Bureau of Land Management \* \* \*

Demands for timber from these lands are increasing proportionately. BLM forest lands are managed for sustained-yield forest production to provide a permanent source of timber supply, protect watersheds, regulate streamflow, promote the stability of local communities and the timber industry, and for recreational and other multiple resource purposes<sup>20</sup>

<sup>17</sup> See, e.g. in the hearings the testimony of William D. Hagenstein, p. 20, tables 1-8, pp. 24-29, Publishers Paper Co. correspondence, p. 127, testimony of John C. Hampton, p. 134, pp. 138-139, testimony of Richard Bennett, pp. 151-152, text and tables, American Plywood Association pp. 177-183, testimony of Rollin Pratt, p. 196, testimony of Glen Park pp. 200-202, testimony of Arnold Ewing, p. 223, testimony of Aaron Jones, p. 246, testimony of John D. Ritchie, p. 282, testimony of Donald Fisher, pp. 509-510, testimony of Ray E. Johnson, pp. 520-521, 525, 527, testimony of Peter E. Terzick, p. 762, exhibits, pp. 766-773, 786, testimony of Julius Viancour, pp. 777-778, testimony of Kenneth Ford, pp. 792-793, and data submitted by Dean C. Brice, pp. 832-834

<sup>18</sup> Ibid., pt. 3, p. 1058

<sup>19</sup> Hearings before the Subcommittee on the Department of the Interior and Related Agencies of the Committee on Appropriations, House of Representatives, 88th Cong., first sess., p. 1343 (1963)

<sup>20</sup> Hearings before the Subcommittee on the Department of the Interior and Related Agencies of the Committee on Appropriations, House of Representatives, on Interior Appropriations, fiscal year 1962, U.S. House of Representatives, 87th Cong., first sess., p. 60 (1961). See also hearings before the Subcommittee on the Department of the Interior and Related Agencies of the Committee on Appropriations, Senate, on Interior Appropriations, fiscal year 1962, U.S. Senate, 87th Cong., first sess., p. 47 (1961)

BLM forest activities in western Oregon are of major national significance. While the BLM administers 8.5 percent of the total commercial forest land in the Douglas-fir region (2,176,538 acres), in fiscal year 1963 it offered 21.8 percent of the total lumber production from all ownerships in that area (1.7 billion board feet). The volume of timber harvested from BLM lands in western Oregon provides about 63,000 man-years of employment every year. Contribution to the gross national product is estimated to approximate \$750 million.<sup>21</sup>

There is a growing reliance on the part of the timber industry and local communities for timber sales from the public lands. This dependency requires the regular and predictable offering of timber volumes annually to provide industry and local economies reasonable stability. It therefore is incumbent upon the Bureau to determine the full allowable cut and to make it available to the installed capacity of industry.<sup>22</sup>

Your subcommittee, recognizing the necessity for determining the relative impacts of private and public log-export volume on Pacific Northwest economic stability, sought to establish relative proportions of the current outflow. Available statistics do not accurately reflect the mix, since both public and private logs are traded among manufacturers that specialize in specific end products, logs for export are also often sorted as to kind and quality, and there is no attempt to determine if logs originate on either private or Government lands. It was the consensus, however, of qualified industry and Government forestry witnesses that in 1966 the 1 billion board feet of softwood logs to Japan from Oregon and Washington represented an estimated one-third, or 350 million board feet, of Federal logs. The acceleration in 1967, however, to 1.7 billion board feet can logically be assumed to include a greater proportion of Federal logs because of their availability on the market.<sup>23</sup>

This doubling of log volume moving from Federal lands to Japan indicated to your subcommittee that the supply of logs available to Federal timber dependent companies and communities had been reduced too much and too fast within the span of a single year. Further acceleration of exports appeared certain to come from logs originating on public lands with consequent disruption of operations sustaining those dependent upon Federal timber.

It was contended that logs from private lands moving to export were not normally available for purchase on the open market and were, largely, surplus to the production requirements of private timber owners. Much of the private timber exported comes from a few of the largest companies, and the logs would not normally be offered to small business, however, the largest company has been reported to be increasing its sales to small business. It was the consensus of your committee that attention should be concentrated upon the availability of logs to mills dependent upon public timber. Leading timber-owning companies had voluntarily offered assurances to your committee that

<sup>21</sup> Hearings before the Subcommittee on the Department of the Interior and Related Agencies of the Committee on Appropriations, House of Representatives, on Interior Appropriations, fiscal year 1965, U.S. House of Representatives, 88th Cong., 2d sess., p. 222 (1964).

<sup>22</sup> Hearings before the Subcommittee on the Department of the Interior and Related Agencies of the Committee on Appropriations, Senate on Interior Appropriations, fiscal year 1965, U.S. Senate, 88th Cong., second sess., p. 70 (1964).

<sup>23</sup> Hearings, p. 1057.

they would refrain from acquiring public timber to fill a log pipeline depleted by profitable export of private logs to Japan <sup>24</sup>

The Chairman had earlier stated his conviction that private companies, concerned as they are with a national resource, were "not exempt from a surveillance of the economic consequences as to what they do in exportation" if they are to have the privilege of bidding on Government timber <sup>25</sup>

#### *D The sale of Federal timber How prices are reached*

Sale of timber is authorized by various acts of Congress, which require that the timber normally be appraised, advertised, and sold at not less than the appraised value

Timber appraisals are complex and detailed analyses, involving the sampling of the quality of the timber, operating costs based on averages for efficient operators, and anticipated realization values based on product market prices adjusted for timber quality Appraisals to date have been based on U S domestic product markets even though the timber may be certain to be bid up to the Japanese market price The sale price of Government timber (except for a small amount of negotiated sales) will actually be determined by competitive bidding after advertisement

Federal timber-management objectives differ from the traditional objectives of the average buyer or seller in other lines of endeavor Maximizing dollar return has not been specified as an objective of Federal timber management To maximize returns where the Government is the primary or monopoly source of limited timber would not yield "fair market value" The Federal Government, as a timber grower and seller, does have the objective of getting a fair price

Witnesses repeatedly told your committee that, in the areas under heaviest export pressure, timber sales were being bid up several times the appraised or fair price In the meantime the Bureau of the Budget has been pressuring the Forest Service and the Bureau of Land Management to reduce the bid ratios—the spread between the appraised and the bid price—which in effect tends to push Federal timber prices closer to the Japanese market price, as compared to the prices related to the domestic product markets

#### *1 Basic sale authority*

Congress set the forestry wheels in motion on the national forests when it amended the Organic Act (June 4, 1897) decreeing

For the purpose of preserving the living and growing timber and promoting the younger growth on national forests, the Secretary of Agriculture \* \* \* may cause to be designated and appraised so much of the dead, matured, or large growth of trees found upon such national forests as may be compatible with the utilization of the forest thereon, and may sell the same for not less than the appraised value \* \* \* (16 U S C 476)

The Secretary of Interior is similarly authorized

\* \* \* under such rules and regulations as he may prescribe  
**[to]** \* \* \* dispose of \* \* \* vegetative materials (including

<sup>24</sup> Hearings, pt 3 statement of Senator Morse p 1133

<sup>25</sup> Ibid., pt 1, statement of Senator Morse, p 243

\* \* \* timber or other forest products) on public lands of the United States \* \* \*

and on revested Oregon and California Railroad and Coos Bay Wagon Road grant lands (30 U S C 601)

The Secretary shall dispose of \* \* \* [timber] to the highest responsible qualified bidder after formal advertising and such other public notice as he deems appropriate (30 U S C 602)

Regulations of Secretary of the Interior provide (43 CFR 5402 1) that "all timber \* \* \* to be sold shall be appraised and in no case shall be sold at less than the appraised value"

## 2 "Appraised price"

According to the Forest Service Manual

Fair market value or appraised value as used by the Forest Service is based on the operator of average efficiency and is aimed at a market value which will interest sufficient purchasers to harvest the allowable cut under multiple use and sustained yield principles In accomplishing this objective consideration must be given to providing an *adequate margin for profit and risk which will be sufficient to maintain operations over the long run and thus provide a stable market for National Forest timber* [Italics furnished ]

Forest Service stumpage appraisals are based on costs, returns, and profit margins which reflect average operator efficiency Appraisals do not guarantee to purchasers the profit margins or the costs and returns used in determination of fair market value Each prospective purchaser must determine his own estimated cost, return, and profit margin based on the timber sale contract terms and his operating facilities and efficiency The pricing policy is to obtain a fair market value and not to penalize efficiency or subsidize inefficiency

Stumpage appraisals are usually based on an analytical analysis of average returns, costs and profit margins to arrive at stumpage values *Returns are based on average product selling values at the earliest stage of processing where a free market price can be determined and where cost of production can be segregated to cover only the products on which returns are based* [Italic furnished ]

The Bureau of Land Management's manual outlines a similar procedure

With few exceptions, appraisal of O & C timber shall be based upon the current value, f o b , of the product ordinarily manufactured locally from the timber involved (*lumber plywood pulp etc*) Stumpage will represent the difference between these values and the sum of the processing costs plus the allowance for profit and risk In determining the estimated total costs of harvesting a particular tract of timber, use should be made of realistic up-to-date time and cost tables and charts for each phase of the harvesting job These charts and tables should ordinarily be applied uniformly through-

out western Oregon Likewise the value used for any particular manufactured product should ordinarily not be varied from district to district [*Italics furnished* ]

In the appraisal systems of both agencies, timber values are determined by subtracting processing costs plus a margin for profit and risk from domestically manufactured product values Timber prices on some sales fluctuate with lumber price indexes even though the logs will most likely be bought for export

### *3 Determination of sale price*

Following appraisal of a proposed timber offering by the administering agency, it is generally advertised for a period of 30 days Sales of less than \$2,000 may be sold by negotiation

Bidding may be by oral auction, following submission of initial written bids, or sealed bidding may be requested The Forest Service leaves the choice of bidding methods to the regional forester In the area west of the Cascade Range, oral auction bidding predominates

There are numerous factors which influence bidding aside from the export market and the amount an individual operator is able to pay for Federal timber A brief summary would include

(1) *Timber appraisals* are based on an "operator of average efficiency" An operator of more than average efficiency could bid more than the appraised price for the timber and still realize the appraised profit margin Examples of greater efficiency might include mill location (shorter haul from woods to mill), better equipment in woods and mill, better marketing opportunities for primary and waste products, or other operations in the area which should minimize manpower and equipment costs

(2) *Competition*—For most Federal timber in the Douglas-fir region there is more than one potential purchaser who has no alternate source of logs The installed mill capacity exceeds log supply

Because fixed costs continue whether a plant operates or shuts down, because skilled employees will be lost, and because there is no alternative source of timber in most Federal timber areas, the Federal timber dependent operator characterized his raw material choices as "buy or die"

(3) *Timber supply*—In recent years there have been increases in the sustained yield harvest from some areas due to intensified forestry and to increasing levels of wood utilization Generally, however, the allowable cut of a forest remains fixed and each agency tries to maintain an even flow of timber harvest from their forests For many reasons, timber offerings sometimes fall below the allowable cut Seldom is it exceeded

Failure to offer the allowable cut shuts off the economic blood essential for Federal timber-dependent communities and will normally cause an increase in up-bidding Timber supply is relatively unresponsive to market fluctuations for forest products It is most responsible to appropriation levels Road construction on the Federal forests is the single most important factor yield Road investments open up more forest area for harvesting, protection, planting, thinning, and salvage of trees killed by fire, insects, and windthrow Increased appropriations for timber management will allow silvicultural practices that increase the yield but intensive management in

the region is now handicapped by failure adequately to expand the road network. All witnesses on all sides of the log-export issue including the Treasury Department opted for increasing the intensity of management on the Federal forests. It was pointed out that larger road appropriations would be rapidly paid back to the Treasury in increased timber sale receipts.

Repeatedly, the expert forestry witnesses were asked if the yield could be increased under existing levels of financing. The consensus was that it could not without a direction from the Congress to give forest management a higher priority.<sup>26</sup> This view point is also upheld in a recently published study of the Douglas-fir region's forest resources by Dr. Albert C. Worrell, professor of forest policy, Yale University. He said:

The public forestry organizations, in general, already have the key personnel, knowledge, and other resources to manage the public forests more intensively than they are now doing. They do need larger appropriations for the construction of timber access roads. Salvaging the most seriously deteriorating old-growth timber and the current mortality in younger stands can add materially to the yield of these forests but is only possible with adequate road systems. Beyond this, their most serious problem is probably the resolution of the conflicts between pressure for other uses and the intensification of timber management. *If these public agencies were given a clear-cut mandate to manage most of the land in the public forests intensively for commercial timber they probably could do so with only modest increases in their budgets except for road construction where considerably increased appropriations are needed.* [Italic added]<sup>27</sup>

#### 4 Small business set-asides

The Small Business Act of July 18, 1958, declared it the policy of Congress that a fair proportion of Federal timber sales be made to small business concerns.

It is significant to note that the references in section 15 of that act and the declaration of policies prefacing the act are the consequence of amendments introduced by Chairman Morse on the floor of the Senate. In explaining his amendments, Chairman Morse made clear that one of the problems, if not the most important problem, he had in mind was that of securing for small business a fair share of Government timber sales. He said:

Mr. President, this amendment makes the Small Business Act applicable to sales of property by the Government. The present act deals only with procurement. The small businessmen need this assistance. As an example, the Government sells over 8 million board-feet of timber from public lands and national forests. The amount now equals about one-fourth of the wood used by our Nation each year. The smaller firms have difficulty securing bids and financing road construction. What we propose here is to extend the helpful aid of the

<sup>26</sup> Hearings, e.g., testimony of William D. Hagenstein, pp. 30-31, 90; testimony of Ralph D. Hodges, Jr., pp. 181-191; and testimony of Arnold Ewing, p. 226.

<sup>27</sup> Forest Resources, Private Enterprise and the Future. An Economic Study of the Douglas Fir Region, Albert C. Worrell, p. 58.

Small Business Administration to products sold by the Government

\* \* \* (T)he Interior and Insular Affairs Committee in 1955 heard testimony on the problems of timber procurement facing small timber operators. Subsequently, the Small Business Committee looked into this specific problem at the request of several Pacific Northwest Senators. Many of the witnesses appearing before these committees have expressed the need for gearing Government timber sales programs to better serve the free enterprise system by aiding small business in obtaining a fair share of the tremendous amount of timber sold by the Government annually.

\* \* \* \* \*  
 The way to assist in resolving this small business government matter is to amend this act, which is designed specifically to assist small business. There is no question that the amendment is germane. It would be generally helpful to small businessmen who buy from the Government.<sup>28</sup>

Under the authority of the act, as amended and reenacted, the Departments of Agriculture and Interior have entered into agreements with the Small Business Administration establishing guidelines and procedures for declaring certain Federal timber sales as set-asides for preferential award to small business concerns.

Amendment No. 5 of the September 1966 edition of the *Forest Service Manual* contains the following pertinent portions of the Agriculture-SBA agreement:

The Department, in developing sales programs suitable for bidding by small firms, agrees to consider, and will endeavor to develop timber and other forest products sales opportunities consistent with the recommendations, requests, requirements, and other information presented by SBA. The Department will consult with SBA concerning financial and other performance qualifications to be included in requirements for the award of contracts involving timber set aside for small firms.

The Department will afford the SBA an opportunity to review its proposed program of timber and other forest product offerings involving sales which have an estimated value of \$2,000 or more. It is agreed that the SBA will consider the forest management and other pertinent factors involved in such program and will review such matters with the contracting officer before requesting a set-aside. Following consideration and review of the said factors the SBA may request in writing that the contracting officer make certain set-asides for small business enterprises under authority of section 15 of the Small Business Act.

The contracting officers of the Department will agree to and will make set-asides when recommended by SBA unless he determines that such action is inconsistent with program requirements of the Department, in which case the Department will submit its reasons for refusal to SBA in writing.

<sup>28</sup> 104 Congressional Record 12805 (1958)

5 "Multiple use," "sustained yield" and "annual allowable cut"  
 "Multiple use" and "sustained yield" are forest management terms which have also been defined by statute

"Multiple use" means the management of all the various renewable surface resources of the national forests so that they are utilized in the combination that will best meet the needs of the American people, making the most judicious use of the land for some or all of these resources or related services over areas large enough to provide sufficient latitude for periodic adjustments in use to conform to changing needs and conditions, that some land will be used for less than all of the resources, and harmonious and coordinated management of the various resources, each with the other, without impairment of the productivity of the land, with consideration being given to the relative values of the various resources, and not necessarily the combination of uses that will give the greatest dollar return or the greatest unit output

"Sustained yield of the several products and services" means the achievement and maintenance in perpetuity of a high-level annual or regular periodic output of the various renewable resources of the national forests without impairment of the productivity of the land (16 U S C 531 )

Forest Service timber management and sale programs are specifically subject to the Multiple Use-Sustained Yield Act of July 12, 1960 Other timber managers, including the Bureau of Land Management, State agencies, and private forest landowners follow the same general management guidelines (1) more than one economic good or service can be produced in harmony, and (2) over the long run timber growth and harvest should be kept in balance

The "annual allowable cut," according to the Forest Service Manual, is "both a limitation on and an objective for the \* \* \* merchantable timber volume to be removed" during a planned period All material for which there is a reasonably steady market is included The cutting rate established for a plan period is an administrative decision made in consideration of the data gathered and interpreted, including the current physical, biological, and economic conditions and the most logical assumption of their long-range trends

In practice the allowable cut is usually expressed as an average volume to be cut from each national forest each year Actual sales in any one year, or the actual volume of timber removed may vary slightly from the announced allowable cut

The announced allowable cut is also a factor in industry investments and long-range planning It is the average volume of timber which can reasonably be expected to be available to the industry from each national forest area

### CHAPTER 3 THE POLICY ISSUES IN CONTENTION

#### A *The central question*

The basic point at issue in the hearings was whether the US Government, through its timber management agencies, had either the right

or the responsibility to restrict export of Federal logs to the extent necessary to meet the economic requirements of the Pacific Northwest forest economy

Chairman Morse contended that the Government had not only the right but the obligation to do so. He stated

We certainly cannot justify using our natural resources for exportation abroad to the detriment of our domestic economy at home. The Government can't possibly justify being party to that kind of economic liquidation of any segment of our economy.<sup>29</sup>

Earlier, the chairman had firmly established his conviction that the timber management functions of the Forest Service and the Bureau of Land Management were established by law to serve the timber needs of the people of the United States, and not those of any other country. He said

Let me emphasize again, as far as this chairman is concerned, that one of the major issues in this hearing and as to the formal report of this committee will be an analysis of the administration's actions or inaction in providing some relief to the industry in regard to Federal timber long before this.

As you know, and I will make only this passing reference to it now, the chairman has already expressed in the prior conferences the idea that at the cost of millions of dollars of the American taxpayers' money the Nation maintains a Federal forest land policy administered by the Forest Service and the Bureau of Land Management. I cannot read those statutes and reach any other conclusion than that the policy was set up to maintain a sustained yield program for the benefit of the American people in order to provide them constantly with timber resources necessary to meet their lumber needs in the United States. That is a major premise from which this chairman will proceed throughout these hearings.

And, to whatever extent we are not keeping faith with that obligation, then in my judgment we are misappropriating American taxpayers' money. That timber legislation was never put on the statute books of this country in my judgment, as I have analyzed that legislation, in order to maintain timber resources for the benefit of the people of any other country, when supplying them with timber would be to the detriment of the people of this country.

It has seemed to me that there has been a growing tendency for our Government, under both Republican and Democratic administrations, to forget the legislative intent of our legislation in regard to Federal timber. My view is that this timber was placed under the title of the United States, in order to prevent it from being used in a manner that will not provide the American people with a constant timber bank account on which they can draw to meet their timber needs.

That is why I think the legal issue in this hearing is of great importance, and I hope the State Department will never forget that our Federal forests are not maintained for

<sup>29</sup> Hearings, pt 1 p 241

the benefit of Japan or Timbuktu. They were created primarily for the lumber needs of the American people. That is the context in which issues such as the balance of payments should be placed, as far as this chairman is concerned.<sup>30</sup>

The question of the "legal issue" the chairman referred to in the foregoing was basic to the examination by the subcommittee of the facts surrounding appropriate Federal unilateral action with respect to the restraint of export of logs from Federal lands.

Prior to the hearings, the counsel of the Department of Agriculture had expressed doubts about the power of the Secretary of Agriculture to take positive steps to limit exports of logs from national forests. Subsequent to the hearings this position was reversed.

The entire question of congressional intent, applicable laws, and their significance is discussed in detail in chapter 6 of this report at page 69.

### *B Ancillary questions*

While the main issue before your subcommittee involved the statutory obligation of Federal timber management agencies to impose restrictions on export of logs for foreign manufacture, it was obvious to the subcommittee that differences of opinion existed on a number of pertinent matters. As a consequence, provision was made for extensive hearings which would enable all parties to present complete testimony and supportive evidence favorable to their position. The hearing record reveals clearly the wide variance of opinion and treats with specific questions at issue.

1. Is there a cause-effect relationship between increased Japanese log buying and higher Pacific Northwest stumpage costs?

It was testified that the lack of restrictions on logs for export from public lands in the area has enabled increased buying by Japanese log-export agents. The Japanese, it was stated, are able to pay high prices for logs, due to lower labor costs, higher utilization, and higher product prices, and, as a consequence, have bid up log prices three-fold since 1961.<sup>31</sup> The specific timber price rises by species during the period were testified to by the Chief of the Forest Service.<sup>32</sup> Subsequent questioning by the subcommittee indicates that because export sales limit the supply of logs for domestic manufacture, prices tend to increase on specific sales even when there are no export buyers bidding on such sales.<sup>33</sup>

2. What are the effects on employment that are directly and primarily attributable to Japanese log buying as it pertains to the logging industry, the sawmill and manufacturing industry and ports and longshoremen?

It was testified that 25 plywood plants were closed in 1966 and 1967 because of spiraling raw-material costs and that the decline of the forest products economy was indicated by a decrease in employment in Washington and Oregon totaling 6,800 employees from the third quarter 1966 to the same period in 1967. Correspondingly, there were increases in export activity and the employment of longshoremen attributable at least in part to log purchases by the Japanese. But the

<sup>30</sup> Ibid., pt. 1, p. 45.

<sup>31</sup> Hearings, pt. 2, testimony of Ray E. Johnson, p. 521.

<sup>32</sup> Ibid., pt. 3, testimony of Edward P. Cliff, p. 1058.

<sup>33</sup> Ibid., pt. 2, testimony of Ray E. Johnson, p. 524.

increased port employment was more than offset by the decreased employment in the forest products industry, it was stated <sup>34</sup>

Despite the above testimony, the subcommittee was told that more than 7,000 new non-timber-based jobs have been created by log exports and that \$106 million in new money was generated for the local economy in 1967 and moreover that "total estimated wood manufacturing employment has remained about constant" <sup>35</sup>

Under questioning, however, a representative of the Longshoremen's and Warehousemen's Union stated that if the level of exports remained at the 1967 level, there would be no loss of employment to the Longshoremen's Union, but that a rollback to the 1966 level would result in a loss of about 700 union jobs <sup>36</sup>

3 Why don't Washington and Oregon have the same export restrictions on logs as Alaska and Canada?

It was noted in testimony that the same export restrictions used in Alaska should be imposed upon Federal timber in Washington and Oregon, and that all Federal cutting contracts should include a proviso requiring first primary processing to be done in the United States <sup>37</sup>

Chairman Morse said he shares the contention that the Forest Service and Bureau of Land Management presently can impose such restrictions under existing law <sup>38</sup>

In other testimony it was recommended that Alaska be allowed to export some logs and that the level of log exports from Washington and Oregon be frozen at current levels. It was explained that exports were prohibited from Alaska in order to develop industry "and yet in the Northwest we are debating what policy derives the greatest labor benefit—log exports or wood products manufacturing." It was pointed out also that the Federal Government should not promote double standards between the States <sup>39</sup>

The subcommittee was told, however, that Alaska differs from Washington and Oregon in that virtually all forestland is under the control of the Forest Service and the Bureau of Land Management. Therefore, according to the testimony, Federal policy is of greater importance than that traditionally applied by the Forest Service prohibiting the export from Alaska of round logs "Without firm and unswerving adherence to the policy that requires some processing of lumber in Alaska before it may be exported we would indeed, except for logging have no industry at all," it was testified <sup>40</sup>

"Fortunately, the Secretary of Agriculture and the Forest Service agree with the Alaskans," the subcommittee was told <sup>41</sup>

4 Should restrictions apply to Federal, State, and private timber, or any, or all three?

The responses to this question reflected divergence and strong feelings for and against varying degrees of restrictions on log exports. However, the majority of the witnesses directly connected with the lumber industry in some capacity were united in their contention that the level of exports from Federal lands should be restricted to the 1966

<sup>34</sup> Ibid., pt 2, testimony of Ray E Johnson, p 522

<sup>35</sup> Ibid., pt 2, testimony of Henry E Soike p 541

<sup>36</sup> Ibid., pt 2, testimony of Donald W Van Brunt p 569

<sup>37</sup> Ibid., pt 2, testimony of Ray E Johnson, p 523

<sup>38</sup> Ibid., statement of Chairman Wayne Morse, p 523

<sup>39</sup> Ibid., pt 1 testimony of Aaron U Jones p 248

<sup>40</sup> Ibid., pt 2 statement of Senator Ernest Gruening, p 598

<sup>41</sup> Ibid., pt 2, p 599

level of 350 million board feet The land commissioner from Washington State took the position that a case for controls had not been proven but that if controls are needed they should be "based upon allocations that do not exceed the sustained yield of all forest lands"<sup>42</sup>

He noted that controls should be imposed uniformly with respect to Federal, State, and private timber, but that one result of controls would be lower stumpage prices which reduce timber harvest over the long run because of a reduced incentive to make long-range investments in intensified forest practices.<sup>43</sup>

A spokesman representing members of the plywood industry testified in favor of restricting log exports from Federal lands to 350 million board feet annually distributed geographically among the Northwestern areas dependent upon Federal land for their timber<sup>44</sup> There was speculation that two possible Japanese reactions to such a proposal might be the purchase of tracts of private timber through agents and the purchase of large quantities of "green veneer" on the open market which it was explained, "is in effect, a raw material for all or part of the production of many plywood mills"<sup>45</sup>

These views were not shared, however, by representatives of seaports providing public facilities for waterborne commerce including extensive traffic in log exports

Their testimony reflected opposition to Federal, State, or private restrictions on log exports and the contention that economic devastation could result if the proponents of log export restrictions are heeded<sup>46</sup> In testimony opposing restrictions, it was argued that restrictions would be in conflict with the General Agreement on Tariffs and Trade<sup>47</sup>

Similar testimony was given by a representative of the Longshoremen's Union He noted that the problem is not one of controls, but developing markets, and that there is no indication that if exports were restricted, the market for manufactured lumber would increase<sup>48</sup>

Millowners, however, were united in favor of restrictions on timber from Federal land One advocate suggested that the United States give immediate notice to Japan of a 5-year plan to eliminate the acquisition of raw logs from public lands During the first 2 years exports would be restricted to the 1966 level and forest management would work to provide a larger cut to help offset the drain In the next 3 years exports would be reduced at the rate of 30 percent a year until at the end of the fifth year "we would have stopped with a minimum of pain and pressure for all sides," according to the testimony<sup>49</sup>

Chairman Morse emphasized the difficulty in establishing a policy with respect to exports because of the dual ownership (private-public) of the resource He explained

All timber, public or private, is a great national resource in which the American people have an interest over and above the few simple interests of the owners of the timber It seems to me that there is no question about the power of the Gov-

<sup>42</sup> Ibid , pt 1, testimony of Bert L Cole, p 49

<sup>43</sup> Ibid , pt 1, testimony of Bert L Cole, p 50

<sup>44</sup> Ibid , pt 1, testimony of John Ritchie, p 283

<sup>45</sup> Ibid , pt 1, testimony of John Ritchie, p 284

<sup>46</sup> Ibid , pt 2, testimony of Henry E Solke, p 540

<sup>47</sup> Ibid , pt 2, testimony of Ray R Heinke, p 545

<sup>48</sup> Ibid , pt 2, p 562

<sup>49</sup> Ibid , pt 2, testimony of Kenneth Ford, p 795

ernment to place restrictions as to what can be done with the timber if a greater predominant public interest prevailed

\* \* \* I shall always support and only support whatever program is necessary to protect a predominant greater public interest with a guarantee to the private owner that the private owner is not going to have his property confiscated. His property is not confiscated if you find it necessary to say to him I am sorry, you cannot sell it to Japan in accordance with your terms. You can sell it to Japan in terms within the framework of a public policy that protects a greater public interest, but guarantees you a fair return for your property

"In other words," he declared, "it is a back-door application of a legal principle involved in the concept of eminent domain" <sup>50</sup>

"As I have made it very clear," the chairman added later, "I am not for stopping all export of logs to Japan, but I am taking the position that we have the duty to see to it that we don't export logs that are not excess, if there is a domestic need for them" <sup>51</sup>

5 Does the "installed capacity" in the Pacific Northwest now exceed the available timber supply or only the supply at "economic prices" in terms of domestic competition?

The subcommittee heard testimony pointing out that installed log manufacturing capacity in the region was established there because the owners and operators were counting on the fact that they could be successful in maintaining operations by acquiring much of their needed raw material from the national forests. It was further contended that as early as 1960-61, the time when the increased exporting of logs first came into focus, and ever since, the installed domestic manufacturing capacity has exceeded the available timber supply <sup>52</sup>

According to additional testimony, the prices bid up for the timber from Federal land cannot be compensated by increasing lumber prices because of the diversity of the industry and the fact that the truly open-market situation places a ceiling on lumber prices. It was pointed out further that the buyer is the one who determines what will eventually be paid for the lumber <sup>53</sup>

6 What is the effect of capital gains tax laws on sales for export of private timber by those who also bid on Federal timber?

The big domestic producers who can supply their own timber, according to one witness, are not bidding against the small producers at Federal sales and then making up the difference by exporting their own timber. The threat of loss of capital gains treatment on sales for export has curtailed any such action, it was explained <sup>54</sup>

"\* \* \* capital gains tax," according to other testimony, "has no relationship whatsoever to this issue. \* \* \* Capital gains is applicable to anybody that owns timber for 6 months and then manufactures it or sells it and both private and Federal timber-dependent operators can utilize the capital gains tax," it was stated <sup>55</sup>

7 What are the international trade effects of present policies, the policy of restrictions to the US economy and balance of payments and to the Japanese economy and balance of payments?

<sup>50</sup> Ibid, pt 1, statement of Chairman Wayne Morse, p 144

<sup>51</sup> Ibid, pt 1, statement of Chairman Wayne Morse, p 242

<sup>52</sup> Ibid, pt 2, testimony of Ray E. Johnson, p 530

<sup>53</sup> Ibid, pt 1, testimony of Arnold Ewing, p 228

<sup>54</sup> Ibid, pt 1, testimony of Arnold Ewing, p 227

<sup>55</sup> Ibid, pt 3, testimony of Ralph Hodges, p 1028

It was testified that an embargo or partial embargo would result in a harmful effect on the Nation politically and that retaliation by Japanese embargoes on other material goods would ultimately tend to increase the U S balance-of-payments deficits "The total trade picture with Japan would deteriorate," it was said <sup>56</sup>

According to testimony, if U S log exports to Japan were restricted and Japan chose to purchase its lumber needs from Canada rather than from the United States, the balance of payments would be offset by a reduced flow of Canadian lumber into the United States, the U S logs, instead of going to Japan would be manufactured into lumber here and sold domestically to replace lumber now coming from Canada.

It was further contended that rumors that Japan would buy more logs from Russia should the United States restrict exports is untrue due to the inferior quality of Russian timber compared to U S timber and Russian marketing methods. It was pointed out that the Japanese are willing to pay even higher prices for American logs and are installing immense port facilities and manufacturing complexes to handle increased timber imports which they anticipate will come from Oregon and Washington <sup>57</sup>

It was said that the Japanese are aware that Canadian lumber imports into the United States places a ceiling on U S lumber prices. This prevents U S lumber manufacturers from paying higher prices for logs. And, that a result of imposing restrictions on log exports, it was contended, would be that U S manufacturers would sell increasing amounts of lumber, plywood, and other secondary products like wood chips to Japan <sup>58</sup>

8 What is the historic, the present, and the potential role of the small business set-asides in timber sales?

The subcommittee heard testimony explaining that in areas where Federal timber is in scarce supply, small business concerns often have a difficult time in obtaining a fair share of the timber sold "To alleviate this situation, SBA, together with the selling agencies, sets aside certain Government timber sales for small business concerns \* \* \* as a means of providing the firms with their historical share of the timber sold "

The subcommittee was told that Small Business Administration timber set-asides were not intended to control log exports. However, if all other actions failed, they could be used to protect small operators if private timber owners decided to export more of their timber and tried to replace that volume by purchases from public lands <sup>59</sup>

In other testimony it was proposed that all timber purchased at set-aside sales be processed domestically to avoid the temptation for buyers to dispose of the better grades of timber in foreign markets.

It was further proposed that the percentage of timber from a set-aside sale which may be sold to big mills should be modified to take into account the type of timber sold.

A third proposal would require a brand on all logs on a "set-aside sale to simplify identification" <sup>60</sup>

9 What increases can and should be made in the allowable cut and how soon? How will this help solve the export problem?

<sup>56</sup> Ibid, pt 1, testimony of Aaron Jones, pp 247-248

<sup>57</sup> Ibid, pt 1, testimony of Aaron Jones, p 244

<sup>58</sup> Ibid, pt 1, pp 245, 247

<sup>59</sup> Ibid, pt 1, testimony of Aaron Jones, p 248

<sup>60</sup> Ibid, pt 3, testimony of Robert C Moot, p 1222

Witnesses who took opposite views on many other facets of the log export problem were in agreement that "allowable cuts" from Federal lands could and should be increased

It was testified that the forests "are being managed by the Federal and State governments and by private industry on the basis of 'annual allowable cut' which is the estimated annual crop which can be obtained without endangering the even flow in future years" and that "the annual harvest has not yet reached that level"

In testimony quoting The Treasury Department Staff Report on the Pacific Northwest Log Export Problem, it was stated that

At present, roughly 35 percent of the annual growth of our forest inventories are lost to fire, disease, and other sources of timber mortality

\* \* \*

The scope of the forest-stand improvement measures and the harvesting of dead timber, could be expanded, if completion of the already planned network of forest access roads on public lands were to be accelerated.<sup>61</sup>

The Treasury staff report was further quoted that "inventories could permit some immediate adjustments of the allowable-cut rates" and that by accelerated cutting of timber already authorized under the "allowable-cut allocations," the supply would meet both domestic and Japanese needs until the late 1980's, by which time the Japanese can begin relying on native timber<sup>62</sup>

10 What is the role of the Jones Act in this problem overall?

The committee was told that the Jones Act requiring products to be shipped in US bottoms "is detrimental to forestry in the Northwest, including Alaska, inasmuch as we have estimated a variance of from \$10 to \$15 per thousand board feet of finished product being shipped to the east coast. This puts us at a disadvantage with our neighbors to the north, British Columbia, \* \* \* the developing southern industry, and plywood particularly. If the Federal Government would subsidize the maritime fleet," it was stated, "\* \* \* rather than the forest industry subsidizing it, we feel that it would be fairer legislation, and it would give us a competitive equality with Canada and the South"<sup>63</sup>

11 What bearing does the Export Control Act (50 app USC 2021) have on the problem and what is its possible solution?

It was explained to the subcommittee that the Export Control Act is administered by the Department of Commerce and provides the President with the authority to prohibit or curtail exports from the United States and its territories and possessions

It was noted that this authority has been delegated to the Secretary of Commerce

The committee heard testimony explaining that the act authorizes controls over exports for three purposes—national security, foreign policy, and short supply<sup>64</sup>

Short supply controls are used only when it becomes necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign

<sup>61</sup> Ibid, pt 2, testimony of Henry E Solke, pp 541-542

<sup>62</sup> Ibid pt 1, p 542

<sup>63</sup> Ibid, pt 1, testimony of Bert Cole, p 69

<sup>64</sup> Ibid, pt 3, testimony of Stanley Nehmer, p 1167

demand Three basic criteria must be met before the adoption of a short supply control, according to the testimony (1) The resource is in short supply, (2) current and expected future foreign demand is abnormally high, and (3) price indicators for the commodity show inflationary tendencies

It was contended by the Commerce Department spokesman in the face of opposition that the facts show the three criteria have not been met, thus the authority to impose controls on log exports under the act do not exist <sup>65</sup>

It was also argued that the balance-of-payments situation requires an increase in exports whenever possible and that "any proposed solutions to the softwood log export problem must be considered within this context" <sup>66</sup>

### *C Existing artificial barriers to free trade in logs*

Witnesses before the subcommittee who opposed any restriction on log exports from Oregon and Washington, notably the port authorities, longshoremen, and the witness for the Japanese trading companies, based much of their argument on the principle of free trade

A witness for the International Woodworkers of America, AFL-CIO, who opposed any restriction, in fact stated specifically, "Historically we have adhered to a position that sanctified the general principle of free trade" <sup>67</sup>

Witnesses urging Federal limitation on log exports from public lands however, contended that advocates of "free trade" in a "free market" had already lost the fight due to the combination of (1) restrictive measures imposed by the Canadian Government on the export of logs, (2) the influence of the Jones Act on US opportunities to compete even in its domestic markets, (3) the statutory limitations on export of raw logs from Alaska, and the (4) alleged cartelization of Japanese industry

#### *1 Canadian restrictions on log exports*

The facts related to Canadian practices limiting export of logs were discussed by a number of witnesses but more succinctly presented in a memorandum prepared in the office of the attorney general of the State of Washington in response to question 18 of the chairman's questionnaire distributed during the hearings to interested parties <sup>68</sup> The memorandum item read, in part

Logs headed for export from British Columbia are controlled by export permits, except for logs from private lands and a small percentage of logs off of Provincial lands that require no export permits This freedom on Provincial lands was granted prior to 1906

Export permits are obtained by a seller after the timber has been offered for sale three times The seller can then go before an export advisory committee, composed of people from industry and government After their review and approval an export permit is issued

<sup>65</sup> *Ibid*, pt 3, p 1168

<sup>66</sup> *Ibid*, pt 3, p 1167

<sup>67</sup> Hearings, testimony of A F Hartung, p 837

<sup>68</sup> *Ibid*, memorandum dated Nov 10, 1967 from Harold T Hartinger to Don Lee Fraser, p 1362

Even with the requirement for export permits attached to the timber on most of the lands in 1966, approximately one-third of the export volume fell under the "no export permit required category."

It was repeatedly testified that the net effect of Canadian restrictions on the export of logs was to oblige the Japanese to buy lumber in that country despite their preference to buy logs and conduct manufacturing operations in Japan

*2 Influence of the Jones Act (46 U S C 883)*

The Jones Act, intended to sponsor support of U S maritime service in intercoastal shipping, requires that domestic cargoes moving to domestic ports move in American bottoms. The act forecloses the opportunity for American lumber and plywood producers to compete on an equal basis with British Columbia producers for east coast markets since the Canadians are able to use cargo vessels of foreign registry at rates lower than those available to U S producers in either the Pacific Northwest or Alaska.

The "Treasury Department Staff Report on the Pacific Northwest Log Export Problem" mentioned the restraint imposed on "free trade" by the Jones Act. Advocating modification of current restrictive U S policies, the report cited "\* \* \* the Jones Act, or cabotage laws, which keep Alaskan lumber from competing with Canadian lumber on the U S east coast" <sup>69</sup>

Elaborating on the competitive restrictions imposed upon U S producers by the Jones Act, the same report said, "The cabotage laws make Alaskan *lumber* noncompetitive with Canadian lumber in the rest of the United States. As a result Alaska has been able to market only a limited amount of crudely processed logs, nearly all of which go to Japan" <sup>70</sup>

Specifically, the report stated

The U S cabotage laws make it uneconomic to ship Alaskan sawn lumber down to the rest of the United States, water rates from British Columbia are roughly \$12 to \$15 cheaper per thousand board feet of identical lumber, because the U S. cabotage laws do not apply to shipments from foreign points into the United States <sup>71</sup>

The Treasury staff report recommended

Cabotage laws affecting Alaska should be amended. Such an amendment would be of an advantage in several quite important respects

Alaskan lumber could become very competitive in U S markets, the resulting sawmill employment should be of help in getting Alaskans to accept limited exports of logs to Japan. Such exports are now opposed by the State government

The monopolistic hold of the Japanese on Alaskan timber resources would be broken by the natural operation of market forces. A better price on exports to Japan would result

<sup>69</sup> Ibid, Treasury staff report, p 634

<sup>70</sup> Ibid, p 635

<sup>71</sup> Ibid, p 637

The United States now is a net importer of high-quality lumber from Canada. A portion of these imports could be displaced from U S markets by Alaskan lumber, by the operation of market forces.

A more rapid economic development in Alaska, and a much more efficient utilization of our natural resources, would result.

No U S shipping interests would be adversely affected by such a change, at present there is no significant through service between Alaska and the U S east coast.

Precedents exist for such limited exemptions, when no significant shipping interests are adversely affected.

The exact size of the exemption will pose problems. If the exemption applies only to Alaskan lumber, rather than also the lumber from the U S Pacific Northwest, U S lumber interests in Washington and Oregon may experience a considerable disadvantage in east coast markets. But too small an exemption poses other problems.<sup>72</sup>

It was forcefully testified by a witness opposed to log export restrictions that the Jones Act limited competition. He said that the act—

Is detrimental for our forestry in the Northwest, including Alaska, inasmuch as we are required to ship our products on American bottoms, and we have estimated a variance of from \$10 to \$15 per thousand board-feet of finished product being shipped to the east coast. This puts us at a disadvantage with our neighbors to the north, British Columbia. It puts us to a disadvantage with our friends in the South, the developing southern industry, and plywood particularly. If the Federal Government would subsidize the maritime fleet with a direct appropriation rather than the forest industry subsidizing it, we feel that it would be fairer legislation, and it would give us a competitive equality with Canada and the South.<sup>73</sup>

Advocates of restriction on log exports also agreed that the Jones Act was a restrictive influence on "free trade" in a "free market."

Typical testimony stated:

\* \* \* in the neighborhood of 5½ billion board-feet of lumber come into the United States from Canada. This Canadian market is protected by our head-in-the-sand Jones Act, which allows them \$12 to \$15 edge on us in getting into the market. The reason I say it is a head-in-the-sand act is that we are not getting the shipping by the Jones Act anyway. We are not protecting a merchant marine. We don't have a merchant marine anymore. The reason is that we can't even haul our product from Alaska into competing markets. So we don't use the ships. Somebody else furnishes the ships. We don't haul to the east coast anymore to speak of. I think that in the last quarter of 1966, the Canadians took about 90

<sup>72</sup> Ibid , p 638

<sup>73</sup> Ibid , testimony of Bert Cole, p 69

percent of the east coast market. And so, in other words, we lose that much shipping, you might say. The Jones Act didn't insure that shipping to us.<sup>74</sup>

### 3 *Alaskan export restrictions*

The Chief of the Forest Service testified in detail as to the policy since 1928 of requiring timber cut from the national forests of Alaska to be given primary manufacture in Alaska. "This policy", he said, "recognizes that the manufacture of Alaskan timber in Alaska rather than its shipment in the raw state for manufacture elsewhere is for the best interests of Alaska. This policy has resulted in establishment of two major pulpmills and other wood-using plants. We are fostering plans for further installations. We believe that the policy must be continued to help develop Alaska."<sup>75</sup>

Witnesses representing Alaskan interests were unanimous in opposing revisions to policy which would enable the export of raw logs from that State. Their convictions were best summarized by Senator Gruening who declared:

Thus, in Alaska, the attitudes and official policies of the Federal Government toward management of the land and resources of our State assume exceedingly great importance and are possibly the most significant determinants of the extent and rate of growth of commerce and industry. Insofar as concerns the industries which are the subject of these hearings no Federal policy is of greater importance than that traditionally applied by the Forest Service, prohibiting the export from Alaska of "round logs." Without firm and unswerving adherence to the policy that requires some processing of lumber in Alaska before it may be exported we would indeed, except for logging, have no industry at all.<sup>76</sup>

While easing of Alaska restrictions against log exports was advocated by some witnesses opposed to restrictions on Pacific Northwest log exports, arguing that release of logs from Alaska would alleviate timber supply pressures in Oregon and Washington, the Department of Agriculture is on record as being opposed to any change. Secretary of Agriculture Orville L. Freeman responded to an inquiry by Senator Gruening, in part:

Much that is desirable could be lost by changing the prohibition against export from Alaska of unprocessed logs. Instead, it seems to us that if there is to be a change from present practices, it should be to obtain by agreement with the Japanese, shipment from Alaska of processed lumber rather than logs. This possibility is largely overlooked in the discussion in the Treasury Department report

\* \* \* \* \*

You have specifically asked if we intend to change the policy in Alaska and make it possible to export from Alaska, in unprocessed form, logs that have been cut from

<sup>74</sup> Ibid, testimony of Aaron Jones, p. 238

<sup>75</sup> Ibid, testimony of Chief Cliff, p. 1061

<sup>76</sup> Ibid, statement of Senator Gruening, p. 598

the national forests We do not plan any change in this policy <sup>77</sup>

#### 4 *Alleged cartelization of Japanese industry*

In successive meetings prior to the formal hearings conducted by your subcommittee it was charged that access to the Japanese market for US forest products was denied as a consequence of Japanese cartels This charge was denied by representatives of the Japanese who stated that US lumber manufacturers were unable to meet the specifications required by Japan

With respect to the ability of US manufacturers to meet Japanese finished products requirements, Aaron Jones gave the typical response of the industry witnesses

You've read in the papers that the Japanese would like to buy lumber from us, but they can't get the finished product they wish to buy I would like to say here, categorically, that in my opinion that statement is not true The American sawmill will make any product in lumber, as far as size, grade, or dimension, that the marketplace will competitively buy We have the machinery, the equipment, the know-how, and it can be done I've checked with several mills in the last 2 weeks and their answer is the same The Japanese, in the past few years, have not asked us to manufacture one stick of finished lumber <sup>78</sup>

The question of cartelization as a restraint to "free trade" was examined closely in an exchange between the witness for the Department of State and Chairman Morse Joseph A Greenwald, Deputy Assistant Secretary of State for International Trade Policy, introduced the subject in his formal statement

Spokesmen for the industry have told us that the Japanese market is closed to them, that they are unable to sell because of formal barriers imposed by the Japanese Government or, at least, informal barriers of equivalent effect

In a meeting with Japanese Government officials last month we raised this question These Japanese officials told us without equivocation that there are no formal or informal barriers to trade with them in forest products They stated that there are no restrictions or other barriers to imports from the United States Tariffs are either nonexistent or very low and will be getting even lower as a result of our efforts during the Kennedy Round The problem for American lumber producers interested in selling to Japan—they said—is that of adapting to the Japanese market and meeting the products specifications and quality requirements that Japanese purchasers are accustomed to They asserted that US mills are not producing competitively the product they wish to buy <sup>79</sup>

Chairman Morse returned to the matter in questioning Mr Greenwald and cited previous testimony which differed materially from the position reported by the Japanese and quoted by the State Depart

<sup>77</sup> Ibid , letter from Secretary of Agriculture of Jan 15, 1968, p 601

<sup>78</sup> Ibid , testimony of Aaron Jones, p 246

<sup>79</sup> Ibid , testimony of Joseph A Greenwald, p 1192

ment witness The chairman said, after quoting the formal statement cited above

Do they speak for the State Department? Do they speak for the Treasury, do they speak for Commerce? Do they speak for the Forest Service and for the Bureau of Land Management?

Why, those branches of the Government ought to be here at this hearing with their answers on whether or not there are any restrictions. If you had made a study of it, you would have brought in the restrictions, for there are many. In the record that is being made in this case, witnesses Hampton, Ford, and Jones testified in regard to the existing Japanese trade restrictions. Read them. But, why did you have to wait to read them in our hearing record? With all the appropriations we make to the State Department and the other agencies involved, why haven't you done your research on this issue? Why hasn't the paperwork been done before you witnesses get up here before this committee? This is simply a matter of finding the facts. In the informal conference that you attended earlier in the consideration of this issue, we had a former official of the Department of Commerce, Mr. Dan Goldy, talk to us. He told you about the restrictions. He laid it out.

Why in the world did you let the Japanese get by with it when they said there are no trade restrictions? There are restrictions. And we ought to make it very clear to the Japanese that there isn't free trade between the United States and Japan because there isn't complete reciprocity. Until you get complete reciprocity you have to face up to the question of restrictions.

So I want to say, Mr. Secretary, I am terribly disappointed in this statement of yours. We were entitled to have, even if you didn't know it before you talked to the Japanese, some assurance here tonight that you intend to limit log exports in the interest of reciprocity, as well as in the interest of fairness to our own. What we already have in the record as to the trade restrictions that exist imposed upon American trade by Japan justifies the restrictions we seek on log exports.<sup>80</sup>

#### *D Statutory bases for reasonable restrictions*

Early in your subcommittee's hearings it was established by the chairman that existing legal options for restrictive action would be carefully examined. He stated for the record and to all witnesses holding that legal authority already exists in the executive branch.

I intend to go in great detail before these hearings are over, in making a record on the views of the industry in respect to existing legal authority. It seems to me that the witnesses at this hearing can make a prima facie case that the Departments, that is, the Agriculture Department through its Forest Service and the Department of Interior through the Bureau of Land Management, have authority that they are not using, and the use of that authority would help resolve the problem.

<sup>80</sup> *Ibid.*, statement of Chairman Morse, p. 1215

that concerns the industry, this chairman shall request the Departments to show cause as to why they haven't used the authority <sup>81</sup>

The specific statutes to which the chairman had reference were reflected in the questionnaire distributed for completion by witnesses Question 22 related to the McNary Act of 1944 (16 U S C 583), question 23 related to the act of March 2, 1917 (16 U S C 491), and question 24 related to the Small Business Act (15 U S C 631) as amended in 1958 <sup>82</sup>

During the course of the hearings witnesses, members of the committee and participating Members of the House of Representatives variously discussed as well the potential applicability of the Export Control Act of 1949 (50 App U S C 2021) as amended and other existing or potential long- and short-term trade agreements

It was suggested as well that consideration might be given by your committee to recommending examination of cabotage laws as a means to alleviate current competitive pressures. <sup>83</sup>

Advocates of immediate restrictions under existing statutes argued strongly that both the Secretary of Agriculture and the Secretary of Interior had not only the authority but the obligation to act in compliance with the basic forestry statute of 1897 establishing the national forests and its subsequent amendments. It was further argued that the Export Control Act of 1949 and the Sustained-Yield Unit Act of March 29, 1944 (58 Stat 132), as amended (16 U S C 583-583i), familiarly known as the McNary Act, could be properly applied <sup>84</sup>

The basic statute of 1897 authorized the Secretary of Interior (later changed to the Secretary of Agriculture) to sell timber on national forests "to be used in the State or territory in which such timber reservation may be situated, respectively, but not for export therefrom "

Later amendments to the basic act assigned discretionary authority to the Secretary of Agriculture to permit export of timber and other forest products cut from the national forests "from the State or territory in which said forests are respectively situated" This authority was subsequently extended to national forest lands in Alaska but stipulated in that statute, codified and never amended, that exports were authorized when "in the judgment of the Secretary of the department administering the national forest, or the public lands in Alaska, the supply of timber for local use will not be endangered thereby "

This statutory concern for "local use" is reflected in law governing administration of O & C timber and lands passed in 1937 (50 Stat 874) which specifically charges the Secretary of Interior to manage the lands "for permanent forest production \* \* \*contributing to the economic stability of local communities and industries \* \* \*" Further, authorization for the establishment of sustained-yield forest units in the same statute cites their function as "a permanent source of raw materials for the support of dependent communities and local industries of the region "

<sup>81</sup> Hearings, statement of the chairman, p 44

<sup>82</sup> *Ibid*, formal responses to the questionnaire items concerning statutes are in app 1 Question 22, pp 1335, 1363, 1369, 1370, and 1375 Question 23, pp 1363, 1369, 1371, 1374, and 1375, question 24, pp 1335, 1349, 1363, 1369, 1374, and 1375

<sup>83</sup> The Jones Act is discussed in detail *supra* at ch 3(C) (2)

<sup>84</sup> Hearings, legal memoranda sustaining these positions, pp 91-103, and pp 107-122

The burden of the argument for application of existing national forest timber statutes to restrict log exports from Federal lands was based upon long-established national policy that export of such timber is permissible only when duly constituted authority made an affirmative judgment that the supply of timber upon which the economic stability of local communities and industries is dependent will not be endangered.

Relatively little emphasis was placed upon the potential application of the McNary Act as a means to stem the flow of logs from the Pacific Northwest to Japan, and the Secretary of Agriculture specifically declined to apply that statute in response to a request from the Save Our Logs Committee of Everett, Wash.<sup>85</sup>

While there had been earlier indications that the Forest Service doubted its authority to act in conformity with the interpretation of the statutes by industry, Chief Edward P. Cliff testified before your committee, "We have concluded that we have the authority to act insofar as the national forests are concerned to require domestic processing."<sup>86</sup>

Subsequently, while declining to commit the Department of Interior to a firm course of action, Boyd L. Rasmussen, Director of the Bureau of Land Management, did state

There is no doubt that the Oregon-California Railroad Act intended to have the western Oregon timber locally used. However, this is a discretionary authority.<sup>87</sup>

Opponents of restrictions on log exports took sharp issue with either the authority or propriety of the application of forestry statutes in this instance. It was argued that the proper interpretation of the act of 1897 was that "local use" meant local consumptive use rather than a supply for local mills which manufacture products for nonlocal markets. It was further argued that the statutory requirement of the act that the timber is for use by citizens of the United States had been invalidated by export authority in the succeeding section of the same act. Finally it was argued that foreign exports are in furtherance of, and not in hinderance of, intensive management programs and utilization of harvestable timber.<sup>88</sup>

The Export Control Act of 1949 may be imposed by the Secretary of Commerce, under authority delegated by the President, for three basic reasons: safeguarding national security, furthering foreign policy, or, preventing excessive exports of items in short supply. It was argued by advocates of log-export restrictions that the third criterion applied in the instance under study by your committee.

Federal officials have declined to impose export controls except on a very limited basis. It is argued by them that under the GATT agreements an exporting nation placing controls on exports of an exhaustible resource, as in the case of mature timber, must also restrict domestic consumption.<sup>89</sup>

<sup>85</sup> *Ibid.*, letter from Secretary of Agriculture dated September 17, 1965, pp. 104-106.

<sup>86</sup> *Ibid.*, testimony of Edward P. Cliff, pp. 1063-1064.

<sup>87</sup> *Ibid.*, testimony of Boyd L. Rasmussen, pp. 1260-1261.

<sup>88</sup> *Ibid.*, "Log Exports from Pacific Northwest," prepared for Japan Lumber Importers' Association, pp. 469-472.

<sup>89</sup> *Ibid.*, paper presented before the Western Technical Division of the American Pulpwood Association, Tacoma, Wash., October 11-12, 1967, p. 1384. Correspondence from the Secretary of Commerce to Senator Warren Magnuson, December 9, 1965 and August 8, 1966, pp. 1169-1172.

The Department of Commerce contended that its refusal to impose restrictions on log exports under the Export Control Act resulted from the determination that the criterion of "short supply" had not been met, but indicated that criterion might now be met as a consequence of the substantial increase in logs exported to Japan in 1967<sup>90</sup>

The subcommittee requested of the Department of State, and received for the record, an analysis of the relationship of the Export Control Act of 1949, as amended, to provisions of General Agreement on Tariffs and Trade<sup>91</sup>

The Small Business Act was amended in 1958 to provide for application in disposal of Government property as well as in procurement. The amendment, sponsored by Chairman Morse, specifically dealt with the means to provide small mill operators with preferential access to Federal timber supplies<sup>92</sup>

Advocates of restrictions on log exports generally concurred that small business set-asides were not a proper vehicle for restraining excessive exports. Opponents contended that set-asides might serve a useful purpose<sup>93</sup>

The position of the industry with respect to the successful application of set-aside procedures as a means to control log exports was negative. A careful expression of the reasons for such a position was entered in the hearing record<sup>94</sup>

Early in the hearings, Chairman Morse entered for the record, at the request of Representative Lloyd Meeds, of Washington, an exchange of correspondence between Mr Meeds and Robert C Moot, Administrator, Small Business Administration, relating to possible changes in SBA timber set-aside procedures as a means to assure an adequate supply of raw materials to the smaller, non-timber-owning mills in Washington State. Mr Moot indicated Mr Meeds' proposal was under study by appropriate departments and that agreed-upon changes would be published in the *Federal Register* for comment. In a statement filed with the committee he described alternatives SBA was contemplating<sup>95</sup>

The Small Business Administration subsequently indicated that it would defer action until after the Department of Agriculture and the Department of the Interior had acted under their existing authority. SBA intends, however, if the Agriculture and Interior Departments fail to act, to amend its procedures in accordance with the documents cited.

Witnesses discussed with the committee, as did members and participating Congressmen and Senators, the feasibility of various long-term and short-term trade agreements. Speculation about various avenues available through negotiation was inclusive, but it was generally agreed that a long-term solution depended upon agreements which would afford broader market penetration for US manufactured forest products to the Japanese market. This was adopted as an element

<sup>90</sup> Ibid, testimony of Stanley Nehmer, p 1185

<sup>91</sup> Ibid, Department of State paper, p 1209

<sup>92</sup> The Small Business Act is discussed in detail supra at Ch 2, Sec D, 4

<sup>93</sup> Hearings, appendix, responses to question 24 pp 1335, 1349, 1363, 1369, 1374, and 1375

<sup>94</sup> Ibid, statement of Industrial Forestry Association, at meeting called by Siuslaw National Forest, Corvallis, Oreg, Dec 7, 1967, re proposal to sell 50 percent of timber sales scheduled during first 6 months of 1968 under set-asides procedures, pp 1352-1354

<sup>95</sup> Hearings, correspondence between Mr Meeds and Mr Moot, pp 15-16 statement of Robert C Moot, pp 1220-1222

of the Tokyo negotiations and is reflected in the following joint United States-Japanese press release issued in Tokyo February 22, 1968, at the conclusion of the bilateral discussions

DEPARTMENT OF STATE

FOR THE PRESS

February 23, 1968, No 39

SECOND ROUND OF UNITED STATES-JAPANESE DISCUSSIONS ON  
SOFTWOOD LOG TRADE CONCLUDED IN TOKYO

(Text of a joint United States-Japanese press release issued  
in Tokyo February 22 at 6 30 p m (4 30 a m est Febru-  
ary 22))

In accordance with the understanding reached during a meeting in Washington December 11-13, 1967, representatives of the Governments of the United States and Japan held a second meeting in Tokyo February 20-22 to discuss problems relating to the forest products trade between the two countries

The U S delegation was headed by Eugene M Braderman, Deputy Assistant Secretary of State for Commercial Affairs and Business Activities, and included representatives of the Departments of Agriculture, Commerce, and Interior The Japanese delegation was headed by Kiyohiko Tsurumi, Director of the Economic Affairs Bureau of the Ministry of Foreign Affairs, and included representatives of the Ministries of Agriculture and Forestry, and International Trade and Industry Observers from the related industries of both countries also attended the meeting

The U S delegation emphasized the urgency in developing mutually acceptable solutions to deal with the softwood log export problem in the Pacific Northwest The Japanese delegation, while maintaining that there are many factors other than the export of logs contributing to the difficulties of the forest products industries in that area, expressed willingness to cooperate to the extent possible with the United States in an effort to ameliorate those difficulties

The two delegations jointly examined cooperative industry and Government efforts to expand on a competitive basis trade in processed wood products and possible adjustment in the mix of forest products trade between the United States and Japan to better meet the supply and demand situation Parallel with the meeting, representatives of the private U S forest products industry mission visiting Japan held useful discussions with Japanese trade and industry representatives on the prospects for expanding U S processed wood products sales in Japan

The Japanese delegation stated that for the further expansion of forest products trade between the two countries it is

the intention of the Japanese Government to encourage imports on a competitive basis of processed wood products from the United States. The U S delegation and industry representatives responded that every effort would be made to expand exports of processed wood products on a commercially feasible basis by better meeting Japanese price and specification requirements and by improving collection and shipment procedures.

It was agreed that through cooperative efforts of the Governments and industries of the two countries there could be a substantial increase in trade of processed wood products.

The U S delegation explained the measures that were under consideration to assure to the forest products industry of the United States an adequate supply of softwood logs on a continuing basis. It indicated further that it would take into consideration the Japanese need for a continuing supply of logs at a reasonable level. The Japanese delegation, emphasizing the importance of log imports to Japanese economic well-being, expressed the hope that no measures would be taken that would seriously affect the position of its forest products industries.

The two delegations also discussed the feasibility of expanding sources of log supplies and agreed to the desirability of giving further attention to this subject. They also agreed to initiation of annual meetings of forestry experts of the two countries.

The two delegations agreed that the softwood log export problem in the Pacific Northwest and the rising import needs of Japan for logs and other wood resources require continuing and close consultation and cooperation between representatives of both Governments and their industries.

It was agreed, as well, however, by witnesses and the subcommittee that long-term solutions while desirable did not diminish the necessity for unilateral actions by the U S Government to relieve short-term timber supply problems in the Pacific Northwest.

## CHAPTER 4 THE CASE AGAINST FURTHER RESTRICTIONS

### *A Views of the port authorities*

Submissions from port authorities in Oregon and Washington generally contended that the channels of world trade should be free of artificial restraints such as unilateral restrictions on exports. They advocated negotiated agreements in preference to restriction by statute or administrative action.

They contended as well that export activities were of significant benefit to localities surrounding port cities and that restrictions on a major commodity would severely damage employment in the movement of that commodity without providing substantial relief to the log export problem of the Northwest.

It was further asserted that export of logs was less influential with respect to economic declines in the timber industries than other factors such as Canadian competition, Southern States competition, tight money, and the resultant slump in homebuilding<sup>96</sup>

Witnesses for port authorities specifically opposed log-export restrictions and insisted that consideration be given to the following factors

- 1 The importance of foreign trade to the Pacific Northwest economy
- 2 The millions of dollars of port plant investment
- 3 The thousands of jobs, and the millions of dollars in payrolls directly attributable to the log-export movement.
- 4 The economic devastation which would result if the proponents of the trade restrictions were heeded

They proposed that a solution to lack of raw material for the Pacific Northwest forest products industry could best be obtained by increased harvesting of timber<sup>97</sup>

### *B Views of the longshore unions*

The basic position of the longshore unions in opposing any restraint upon export of logs was that it would have an immediate effect on the economy of ports handling logs and would result in reduction of employment opportunities for 7,543 people employed as a direct result of log exports<sup>98</sup>

In lieu of log-export restrictions, which they contended would not materially improve the depressed condition of the timber processing industry, it was proposed that Government agencies take the following positive steps

- 1 The U.S. minimum wage could be raised in order to bring the southern U.S. competition closer to the northern wage standard
- 2 There could be an equalization of freight rates between the West and the East and the South and East
- 3 There could be a tariff placed on the import of lumber products from Canada which would give the Northwest a better chance at the east coast market<sup>99</sup>

### *C Views of the International Woodworkers Union*

The witness for the International Woodworkers Union, while lamenting the loss of employment for workers in small- and medium-size mills, declined to attribute primary responsibility for this depressed condition to Japanese log exports. There were, he said, other contributing circumstances which should be weighed by your committee before a final judgment with respect to recommended restrictions could be made.

Asserting the necessity for an international union to adopt sound policies which should not be susceptible to change for the sake of expediency, he said

As a consequence, we may well find ourselves in the position of being the only organization testifying before this commit-

<sup>96</sup> Hearings, app 2, submission of the Portland (Oreg.) Commission of Public Docks pp 1377-1378

<sup>97</sup> Hearings, testimony of Henry E Solke, pp 540-543

<sup>98</sup> Hearings, testimony of Donald W Van Brunt, pp 547-548

<sup>99</sup> Ibid, p 547

tee which frankly confesses that it is not convinced at this hour as to what is sound and fair to all parties involved—the industry's workers, with whom we are by definition most concerned, the employer community, which is clearly divided against itself by short-range self-interest considerations, and finally, although not lastly, public-interest considerations ranging from the long-term health of the regional economy and revenues, to counties for educational purposes, to our mushrooming population's need for adequate recreational resources for the future <sup>100</sup>

He agreed that log exports appear to entail higher stumpage prices but asserted that rising stumpage prices are the consequence of bidding practices unrelated to final disposition of the timber involved. A communication for the record from the Western States Regional Council No 11 of IWA supported this view as follows

We think it cannot be denied, nor should it be, that the export of logs to Japan has helped create part of this spiraling increase in stumpage prices. However, I am sure no one would seriously contend that it, by itself, is anywhere near responsible for the doubling of prices in a span of 4 years. We believe there are many other factors that become involved including one American company bidding against another merely to run the price of stumpage up. This, they will, of course deny. Company after company will bid, in many cases, beyond their ability to pay, trying to hang on hoping that something will happen that will prevent them from either closing, going broke, or taking out bankruptcy.

We could go on and cite many similar types of reasons but putting it simply, we believe the entire bid system should be abandoned and there should, in its place, be established, a reasonable and fair system and formula which would provide for lumber industry companies to purchase public owned timber at a fair and a reasonable price for stumpage in relation to the finished products derived therefrom <sup>101</sup>

After cataloging contributing factors to Pacific Northwest industry distress, such as tight mortgage money, depressed domestic markets, growth of Southern plywood facilities, regional wage differentials, and freight rate advantages enjoyed by the South, the witness stated

In brief, we do recognize that log exports may well play a role in the recent difficulties of the Northwest industry but it is a role that is deliberately exaggerated by certain interests while other factors of at least the same stature are discreetly ignored <sup>102</sup>

#### *D Views of the Japanese importers*

The witness for the Japan Lumber Importers Association of Tokyo stated the premise that the difficulties of the Pacific Northwest forest products industry are not attributable to log exports and that the overall effect of exports has been decidedly favorable for the Pacific Northwest economy

<sup>100</sup> Ibid, testimony of A. F. Hartung, p. 838

<sup>101</sup> Ibid, letter from Harvey R. Nelson, p. 870

<sup>102</sup> Ibid, testimony of A. F. Hartung, p. 839

In support of this contention he made the following points

1 The supply of timber is adequate for the present and future needs of the Pacific Northwest

2 The price impact of export is not substantial whether considered in terms of the whole Pacific Northwest region or localized areas

3 Absolute price levels and price increases during the period of the exports have been higher on the Pacific Northwest forests from which exports are not permitted than they are on the unrestricted forests

4 Official statistics show that in Washington, the prime source of exports, employment in the total timber products industry declined prior to the exports, rose since then, and increased more during the period of exports than comparable employment in Oregon and in the United States

5 The number of mills going out of business has not accelerated during the period of exports

6. There is no cartel operated in the Pacific Northwest or in Japan, in the purchase of logs, the Japanese compete among themselves, with the sawmills, pulp, and plywood mills, other US exporters, and the integrated firms

7 The Japanese market is not artificially restricted, either formally or informally, privately or governmentally No quota or license restrictions are maintained and virtually all of the processed wood product imports, except plywood, are free of duty In the Kennedy Round, the United States obtained a reduction in the Japanese plywood tariff from 20 to 15 percent

8 Japan does maintain general restrictions on direct capital investment

9 Japan does not contend that US firms cannot meet the quality and specification requirements of the Japanese for processed wood products, the point is they will not

10 The Canadians are meeting the Japanese specifications, their prices are sufficiently low, their loading costs are lower, and they ship in full boatloads to get the best freight rates

Examining the various proposals to restrict export of logs the witness for Japanese interests warned of possible consequences which could be anticipated

He stated that imposition of direct export controls at the 1966 level of 1.1 billion board feet, or at 350 million board feet from Federal lands, would not change the basic determining competitive factors that are now at work in the Pacific Northwest forest products industry Specifically he stated

1 Such controls would have an adverse impact on US foreign policy, the balance of payments, and the Pacific Northwest economy

2 In the face of US restrictions, and recognizing the social necessity for meeting Japan's housing needs, the Japanese would have no option but to turn to the Soviet Union

3 The policy implications of compelling Japan to depend on the Soviet Union for an item that is so vital to its political stability must be considered by the United States

4 Export controls would endanger U S exports to Japan of forest products other than logs

5 If the Japanese were compelled because of export restrictions to increase lumber imports they would, under present conditions, naturally turn to Canada because it is the Canadians and not the Americans that are meeting the quality, specifications, price, and shipping schedule requirements for lumber exports<sup>103</sup>

### *E Views of Federal departments*

In sum, the testimony of witnesses from the various executive departments cannot be categorized as being opposed to unilateral imposition of restrictions on the export of logs to Japan. At the same time the testimony was interlarded with doubts, reasons, and speculations about why restrictive action might be inimical to United States-Japan relations, the U S balance-of-payments position and long-range U S trade policy. It was manifest that the executive departments preferred negotiation with the Japanese as a means toward solution in preference to any imposition of statutory or executive restriction.

The Department of State witness, speaking of the attitudes of the two countries, effectively summed up as well the evident attitudes of the various U S executive departments in arriving at a unified negotiating position. He said, "And I think there may be a mutual desire on both our parts to see if we can't solve this problem without restrictive action on either side and without the kind of difficulties which might conceivably arise if there were unilateral actions \* \* \* And I think they recognize it is not in their interest, no more than ours, to have to end up with a restrictive and unilateral solution."<sup>104</sup>

Difficulties of establishing a firm executive department position were further made evident in subsequent testimony by the State Department when it was pointed out

One, it is not the State Department that is in charge of the determination of the U S Government policy with respect to forest policy in the United States

It is an administration determination. We happen to be the agency that is charged with the conduct of foreign relations and, therefore, someone from my Department will be the chairman of the U S delegation to the next meeting in Tokyo. The delegation's position will be an agreed administration position. It is not a State Department position. And I have no authority to say right now what that position is or should be. It isn't the State Department, it is the whole executive branch that includes the Department of Agriculture and all the other agencies that have a crucial interest in this matter.<sup>105</sup>

Evidence of the unwillingness of individual agency spokesmen to indicate a firm position with respect to restrictive action as the basis for negotiations with Japan was present in the earlier statement of the Department of Commerce, whose witness continually declined to comment pending testimony by the Department of State.

He did, however, establish that the Department of Commerce favored increased trade as a solution in preference to unilateral restric-

<sup>103</sup> *Ibid*, testimony of David P. Houltham, pp. 351-356

<sup>104</sup> *Ibid*, testimony of Joseph A. Greenwald, p. 1205

<sup>105</sup> *Ibid*, p. 1212

tive measures He emphasized that "the Department has been instrumental in the development of an aggressive export promotion program by the lumber and plywood industries, directed primarily to Japan."<sup>106</sup>

He subsequently explained this advocacy by stating that "a sustained promotion effort on the part of U S industry and Government could go far in the continued improvement of our products export to Japan," and buttressed the argument by adding

If the volume of log exports to Japan were reduced, and at the same time Japan's additional wood requirements were satisfied by increased product exports from the United States, the pressures on the Pacific Northwest mills should be considerably relieved Clearly under these circumstances, the U S balance of trade in this area would not be adversely affected

The present position of the United States with respect to our balance of payments requires strenuous efforts on our part in various sectors including an intensified program to increase exports Any proposed solutions to the softwood log export must be considered within this context It is important that whatever solution to this problem is reached, it should not contribute to the impairment of the U S balance of payments, and hopefully will contribute to its improvement.<sup>107</sup>

The question of the balance-of-payments position was carefully examined with the witness representing the Department of the Treasury and it was established in questioning that, even with restrictions on log exports, if the Japanese were to increase their purchase of manufactured wood products, the U S balance-of-payments position would be enhanced.

Representative Dellenback inquired

If we were to reduce log exports to a degree and, as a concomitant result, the shipment of finished lumber to Japan were to increase, we would find ourselves with an improved balance-of-trade factor, I assume Is this not so?

[Deputy Assistant Secretary of the Treasury] PETTY Yes, sir

Representative DELLENBACK Or if the result of our limiting log exports brought forth a situation where Japan bought more finished lumber not from the United States but from Canada, and this ended up with a reduction in Canadian exports of finished lumber into the United States, this could also react favorably to the U S. benefit so far as balance of trade is concerned

Mr PETTY I am going to sign you up as a balance-of-payments economist This is quite a correct approach

Representative DELLENBACK I appreciate your comment, but is this not also so, since we are building a record in this point?

Mr PETTY Yes, sir <sup>108</sup>

<sup>106</sup> *Ibid*, Testimony of Stanley Nehmer, p 1166

<sup>107</sup> *Ibid*, p 1167

<sup>108</sup> *Ibid*, p 1149

In a further exchange with this witness it was established that U S revenues would be improved by exporting finished products rather than logs

Chairman Morse inquired of Mr Petty

Under the present situation there is a decrease in the possible collection of taxes attributable to the shipping of logs to Japan, rather than finished products, because the former sales are taxed at 25 percent while the latter would return 48 percent Thus, requiring exports of processed lumber would change the tax situation in addition to assisting the balance of payments by exporting higher value items Isn't that so?

Mr PERRY Certainly in balance-of-payments terms, Mr Chairman, the corporate income tax of 48 percent coming from processed lumber which would be exported, I think in the example you cited, would certainly have both larger balance-of-payments receipts and larger taxes paid

Senator MORSE Is it not true that, if Japan were to purchase more lumber and fewer logs, the tax received would be higher and the balance of payments would at least not suffer?

Mr PERRY Yes, I think that is true <sup>109</sup>

The subcommittee explored the applicability of the Export Control Act with the Department of Commerce witness and was assured that consideration had previously been given to its invocation The witness first explained that before the adoption of a short-supply control it is necessary to establish that in the absence of export controls, (1) there will be a shortfall in supply which will make it impossible to meet essential domestic requirements, (2) there is a definite demonstration that current and expected future foreign demand is in fact abnormally high, and (3) an analysis of price indicators for the commodity clearly shows inflationary tendencies He then stated

The Department of Commerce has on several occasions in the past considered the adoption of a short supply export control program for softwood logs On each of those occasions, the Department decided that criteria which I mentioned previously were not met Whether in the light of present circumstances, with the substantial increase in log exports to Japan in 1967 and anticipated further increases, these criteria would now be met has not yet been determined <sup>110</sup>

The point was made by this witness that if the Export Control Act were to be applied "this would affect the exports not only from the Government forest lands, but from the private lands as well" <sup>111</sup>

In response to questioning he later explained the procedures under the Act in this circumstance

' \* \* there would perhaps be two stages to the kinds of controls which we are talking about In the first stage, an export license would be required, a validated export license to permit exports of a particular commodity to leave the United

<sup>109</sup> Ibid , p 1157

<sup>110</sup> Ibid , testimony of Stanley Nehmer, p 1168

<sup>111</sup> Ibid , p 1776

States Very often, we adopt this as a first step Perhaps sometimes we do not go beyond the first step, giving us an opportunity to exercise a sort of surveillance with regard to the quantity of exports and the distribution \* \* \* This would be followed in some cases by the second step, which would be imposition of quotas, which would be divided among exporters based generally upon a historic pattern for some base period Some time period would be used for that The exporters would be required to obtain a license before they could export No exports would be permitted without the showing of the validated document This would be enforced by the customs authorities <sup>112</sup>

## CHAPTER 5 THE CASE FOR RESTRICTIONS

### *A Views of industry executives*

Briefly stated, the forest products industry of Oregon and Washington, through its five major industry associations and with the support of the United Brotherhood of Carpenters and Joiners of America, representing logging and sawmill workers, urged interim immediate emergency action by the Federal land management agencies

The objective of this action would be to curtail export of logs from Federal lands to a sufficient degree to offer domestic manufacturers, dependent upon Federal timber, assurances of log supplies until long-term agreements with Japan could be worked out through bilateral negotiations

Industry concerns, in substance, centered about two main points

1 The economic consequences of unlimited export of logs from the Pacific Northwest to Japan is having immediate harmful economic impact upon employees, mill operators, and timber dependent communities,

2 Unless corrective measures can be negotiated promptly between the United States and Japan, the economic stability of the Pacific Northwest will be further and progressively damaged <sup>113</sup>

The industry organizations had achieved a unified position in November and again recommended in the hearings Federal administrative actions to include

(a) Establishment of a volume limitation on Federal timber available for export,

(b) Geographic distribution of such limitation among the Federal timber dependent areas of the Northwest, and

(c) Establishment of a volume limitation level at 350 million board-feet of timber from federally managed forests.

Justification for Federal action was enunciated by a spokesman for the overall forest products industry when he stated

We think the Departments of Agriculture and the Interior are both legally and morally required to take these actions Your remarks, Mr Chairman, on the legal issue at the con-

<sup>112</sup> *Ibid*, pp 1179-1180

<sup>113</sup> Hearings, testimony of Ralph Hodges, Jr, p 160

clusion of Mr Hagenstem's statement this morning, were most encouraging. We think that timber from Federal lands is, by law, intended to be reserved for the benefit of citizens of the United States, and that exports of logs from such sources, except to the extent that they exceed domestic needs, runs counter to basic national policy as repeatedly enunciated by the Congress.

We also think our Government has an overwhelming moral obligation to those who have based their economic existence on the processing of Federal timber.<sup>114</sup>

It was repeatedly emphasized that the industry did not seek total limitation of log exports to Japan. One witness stated the position briefly:

It must be emphasized that industry does not ask that all export be stopped, but instead that Congress recognize the need that a surplus of logs be determined before any logs from Federal timberlands be sold in the export market. Any log surplus must be determined by administrative methods.<sup>115</sup>

While the vast majority of industry witnesses subscribed to the limited unilateral actions noted above, two recommended what they considered even more stringent measures. One proposal recommended a 5-year plan which would eventually eliminate altogether the export of Federal logs to Japan through an immediate 2-year rollback of exports to the 1966 level and then three successive 33 percent reductions annually until the log drain was eliminated altogether.<sup>116</sup>

The other independent proposal suggested that an export limit of 10 percent be imposed on all Federal timber sales in Oregon, Washington, and California, that all logs be specially branded for detection of exports beyond the 10-percent limit, that violations be reported to the Justice Department, and that violators be barred from bidding on future Federal timber sales as well as being subject to penalties for violating a Federal law.

The witness stated, " \* \* \* I realize that what I have recommended is extreme but we need extreme measures for an extreme problem " <sup>117</sup>

The industry witnesses were unanimous in their contention that the Department of Agriculture and the Department of the Interior had not only the statutory authority but the statutory obligation to act to retain within the United States sufficient Federal logs to meet domestic manufacturing, employment, and community stability requirements.

It was testified that when Congress established the objectives of the national forests 71 years ago it said:

No public forest reservation shall be established, except to improve and protect the forest within the reservation, or for the purpose of securing favorable conditions of water and flows, to furnish a continuous supply of timber for the use and necessities of the citizens of the United States.

Further, the point was made, when Congress set forth the objectives of the revested O & C. railroad grant lands in Oregon in 1937

<sup>114</sup> Ibid, p 161

<sup>115</sup> Ibid, testimony of John C Hampton, p 134

<sup>116</sup> Ibid, testimony of Kenneth Ford, p 796

<sup>117</sup> Ibid, testimony of Donald Fisher, pp 510-511

it said they were to be “managed \* \* \* for the purpose of providing a permanent source of timber supply \* \* \* and contributing to the economic stability of local communities and industries \* \* \*”

The witness suggested, “So the dilemma the Government now faces is whether to continue to ignore these policies or to follow them by immediate imposition of some reasonable limitation on the amount of logs from Federal timber that can be exported so that the current unlimited and growing export of logs to Japan won’t force shutdowns of a lot more plants, throw a lot more people out work, and jeopardize further the basic economy of the Pacific Northwest ” <sup>118</sup>

This fundamental statement of legal requirements was buttressed by many witnesses and legal briefs summarized, in effect, by a single statement

This immediate relief is possible under our position that the Federal forests were created for the benefit of US citizens, and that existing Federal law requires that only the logs from Federal lands that have been declared surplus can be exported.

The witness continued by pointing out that despite discussions of log exports as they relate to international trade with Japan and other countries, policy matters affecting expanded port activities, balance of payments and other matters, “WWPA is advised by its legal counsel that under existing law all of these matters are irrelevant because export of logs from these timberlands is forbidden except to the extent that it will not endanger the supply of logs needed for local processing ” <sup>119</sup>

Industry witnesses repeatedly castigated what they characterized as greater Government concern for international relations than for domestic crisis

After stating, “We are very upset in the industry and are getting more so each year because we feel that forest management is being downgraded as compared to other activities in the management of our Federal lands,” a witness declared, “I think there is a mistake being made here in our administrative branch, because I feel they do not appreciate our problem in the Northwest as much as they appreciate the international problem ” <sup>120</sup>

He stated earlier

Our present view is that the agencies and the administration do not fully realize the gravity of our domestic situation and are making a serious mistake in not implementing the Federal laws which we believe oblige them to take immediate emergency action to protect Federal timber dependent industries, labor, and communities <sup>121</sup>

A further criticism of the administrative agencies’ attitude involved the differentiation in administering the same laws in various States. A witness declared, “It is interesting to note that Alaskans prohibit log exports in order to develop industry and yet in the Northwest we are debating what policy derives the greatest labor benefit—log

<sup>118</sup> Ibid , Testimony of William D Hagenstein, p 17

<sup>119</sup> Ibid , testimony of John C Hampton, p 135

<sup>120</sup> Ibid , testimony of Ralph Hodges, Jr , p 191

<sup>121</sup> Ibid , p 164

exports or wood-products manufacturing As an Oregonian, I do not believe the Federal Government should promote double standards between States, regardless of whether we are talking taxes or log exports”<sup>122</sup>

It was alleged by witnesses that penetration of Japanese markets by US finished wood products was thwarted by artificial *trade barriers* The general industry contention was stated by one witness

We cannot compete with Japanese Government-backed cartels whose avowed aim is to make up a large portion of their nation's timber deficiencies from the coastal forests of the Northwest The Japanese are paying approximately \$25 per thousand board feet more, that is, approximately 20 percent more, than the average log value we use in our timber appraisals which gives us the maximum price we can bid at the timber auctions If we have to pay maximum price, we can only break even at the best Obviously, we can't bid the maximum on every sale and keep our 668 employees at work

Bohemia has in the past manufactured and sold wood products to the Japanese We are anxious to do so again The Japanese complain that we cannot manufacture lumber to their specifications That is not true All we need are orders at reasonable prices<sup>123</sup>

A witness who has visited Japan two or three times annually for several years on wood products industry business fortified the argument that penetration of the Japanese market was difficult, saying,

From my meager knowledge, most of the importing in Japan probably goes through a half a dozen large trading companies They, within themselves, have their own manufacturing concerns, and they in turn work very closely, as I understand it, with the Japanese Government, and through the small numbers that handle the high percentage, they are able to affect the control and conditions which they feel is necessary for the betterment of their country<sup>124</sup>

Advocates of continued log trade with Japan had held over a long period that the logs bought by the Japanese were, in effect, surplus to US needs since they were species and grades which are not normally processed in US mills Industry witnesses vigorously disputed this

We do wish to express one specific word of caution In 1961, when the Japanese first began to take logs in some quantities from the coast, their professed interest was only for pulp and other low-grade logs that industry did not utilize to the maximum Their professed interest now in the inland area is for lodgepole pine only, and in areas where industry is not utilizing this specie to the maximum Please bear this in mind, the loss of several thousand jobs in the metropolitan or urbanized areas in Washington and Oregon is disastrous to that segment of the forest products industry,

<sup>122</sup> Ibid, testimony of Aaron Jones, p 248

<sup>123</sup> Ibid, testimony of Donald Fisher, p 510

<sup>124</sup> Ibid, testimony of Kenneth Ford, p 806

in Idaho or Montana, the loss of several thousand jobs obliterates the forest products industry <sup>125</sup>

Other witnesses substantiated that prime logs are moving to Japan. One stated, "The very logs that the Japanese take are the prime logs and we get what is left. In other words, No 2 and No 3 saw logs, right in the middle of the range and the very clean No 3 saw logs are the type the Japanese wanted to take." <sup>126</sup>

Japanese practices in upgrading their requirements were described in response to a question raised by Representative Clausen. The witness said

I might add a comment for Congressman Clausen. He made mention this morning about the marginal logs in which the Japanese were interested in California. I would caution you, Mr. Clausen, that this is the way it began in Oregon and Washington. This is also the way it is beginning in New Zealand. Aaron Jones is in the back of the room and will testify later. Aaron told me on the way out on the plane that he had recently been visited by a gentleman from New Zealand who informs him that the Japanese are purchasing marginal quality logs, thinning, what-have-you. But this was the story that we got in 1961, 1962, and they began to accelerate their purchases, the quality of material went up, the size of the material went up. They continued to take some marginal material, but the vast bulk of their material is the finest quality material we have available. <sup>127</sup>

This industry testimony was substantiated by the Chief of the Forest Service who testified

Japan is now taking some log grades that are greatly in demand by the US industry. In the early years, it was the belief that this trade would take low-quality logs, not the grades preferred in our own domestic industry. Now, however, the trade is taking a higher proportion of the upper grades of Douglas-fir and hemlock, particularly sawlog grades, than occurs in the mix of logs used by US mills located in the heavy export areas of western Washington and northwestern Oregon. <sup>128</sup>

The drain of these quality logs is a matter of critical concern to the domestic industry. A small operator testified

\* \* \* if exports are not curtailed immediately, we will be forced upon completion of our present Forest Service contracts to follow the other mills that have ceased operations. We are completely dependent upon federally-owned timber, and therefore, are entirely at the mercy of the US Government. <sup>129</sup>

A plywood producer testified that his log supply had diminished as a consequence of excessive exports to Japan, saying

There was a time when the large pulp companies made available to us logs developed, but not sold, from their pri-

<sup>125</sup> Ibid, testimony of Richard Bennett, p 155

<sup>126</sup> Ibid, testimony of Arnold Ewing, p 140

<sup>127</sup> Ibid, testimony of John Hampton, p 140

<sup>128</sup> Ibid, testimony of Edward P. Cliff, p 1057

<sup>129</sup> Ibid, testimony of Rollin Pratt, p 196

vate holdings. But in the last 5 years we have been squeezed by a progressively tight log supply situation. The majority of the sources, both private and public, from which we were able to purchase raw material, are now selling logs to the Japanese. The timber in our own areas is bid by the Japanese or their agents beyond conversion, and consequently, the majority of it goes aboard ship \* \* \* it is not possible for us to operate our plant economically at the high level of log prices which exports have imposed on the small domestic manufacturer<sup>130</sup>

The overall and particularized significance of this log drain impact was summarized by an Oregon witness who stated

Since almost 75 percent of the saw timber volume in Oregon is owned by the Federal Government, you can well understand the almost complete dependence of all independent lumbering companies in Oregon upon public timber. Public records show that since 1950, no significant volume of public timber publicized for sale in the Northwest has gone unsold. In fact, we in the industry have often been reminded by the Government agencies handling public timber that we had an over-installed capacity, that is, more capacity to manufacture wood products from logs than there are logs available to manufacture under present allowable cut policies \* \* \* in Eugene there is almost twice the manufacturing capacity as available logs. In spite of this fact, logs are increasingly leaving the area for export to Japan. There is no record of surplus public timber in the Northwest<sup>131</sup>

This question of proper levels of allowable cut in terms of manufacturing capacity was examined by a number of industry witnesses. One from Idaho stated the essence of the current problem as follows

There has always existed in our area a quite delicate balance between the production capacity of the mills dependent upon public timber and the supply of such timber that the various agencies have been able to—or in some case, have chosen to—put on the market. This balance had existed until quite recently. Any pressures on this public timber supply, barring an unforeseen major increase in offerings for sale, would surely upset that delicate balance and cause severe economic dislocation in the rural areas of central and northern Idaho. As you know, all of this area is heavily dependent upon the forest-generated payrolls<sup>132</sup>

Without exception, despite the recognition of pressures for increased timber availability, the industry witnesses resisted abandonment of sound forest management practices as a means to increase the allowable cut. They did agree, however, that a far more aggressive approach to finding ways to increase the allowable cut was in order.

An industry association executive made the point that improved surveys of available timber, reduced fire losses, reduced losses from bugs, and that other administrative means could result in increased

<sup>130</sup> Ibid, testimony of F. MacRae Thomson, p. 274

<sup>131</sup> Ibid, testimony of Aaron Jones, p. 235

<sup>132</sup> Ibid, testimony of Richard Bennett, p. 152

allowable cut without doing violence to the concept of sustained yield forestry<sup>133</sup>

He urged upon the subcommittee consideration of recommended realignment of dollar priorities within the timber land management agency budgets, declaring that "With present levels of (dollar) inputs, allowable cuts could be increased, if Congress insisted on a realignment of priorities"<sup>134</sup>

Summarizing his views, he stated

A more important Government policy question is that of increasing the management input into the Federal forests. That means spending more money and looking at Federal forest management a little bit like we are now looking at recreation. For instance, pumping more money in terms of intensive management into the Federal forests will raise the allowable cut proportionately. It would seem to me that would have a higher priority maybe than doing something drastic in terms of deviating from the even-flow policies. But all of these things need to be carefully considered. I think that in some areas the rotation age could be lowered, and that it would be a smart move.<sup>135</sup>

The witness subsequently made clear, however, that the industry is firm in its determination not to sacrifice sound forestry procedures to short-term expediency, saying

We would not be in agreement with any suggestion the allowable cut be increased now anticipating that the future forestry work will be accomplished some time in the future.<sup>136</sup>

Industry witnesses leaned heavily upon the fact of mill closures as a measure of the economic impact of increasing log exports from the Pacific Northwest to Japan. In response to a question from Representative Wendell Wyatt, a witness affirmed that "it is fair to say that \* \* \* the log exports have had a substantial effect upon the closures and failures of the small- and medium-sized mill in the Northwest."<sup>137</sup>

The extent of closures was testified to at several points in the hearings. A general statement, however, was offered early and tended to be substantiated by succeeding witnesses. The first industry witness stated

\* \* \* in the last 2 years 25 western plywood plants, 21 of them in Oregon and Washington, have closed down, throwing some 4,000 people out of work. Since 1965, 46 sawmills in western Oregon and 25 sawmills in western Washington have given up the ghost. I do not have data on how many jobs these sawmills affected. No one has complete data for 1967 when the Japanese bought 50 percent more logs than in 1966 and thus put more pressure on timber and log prices. I will be greatly surprised if 1967 did not reveal a significant loss of jobs, however.<sup>138</sup>

<sup>133</sup> Ibid, testimony of Ralph Hodges, Jr, p 189

<sup>134</sup> Ibid, p 190

<sup>135</sup> Ibid, pp 188-189

<sup>136</sup> Ibid, p 1060

<sup>137</sup> Ibid, testimony of John Hampton, p 140

<sup>138</sup> Ibid, testimony of William D Hagenstein, p 21

A subsequent plywood industry representative testified that a recent Forest Service study showed that every exported thousand board feet of logs represents 16 man-hours of employment in a plywood plant, or 8 to 10 hours in a lumber mill

He testified further

An average of only 2 76 man-hours per thousand board feet are needed to load logs. And the Japanese are whittling down that work time with construction of special log carriers equipped to speed loading

During the past 2 years, the 2 5 billion board feet of logs exported to Japan would have produced 15,625 man-years of employment if they had been split equally between plywood and lumber mills. Unfortunately, these logs provided the ports with only 3,317 man-years of employment.

We effectively exported 12,308 man-years of employment from forest products-based communities that simply cannot afford that loss

Citing the findings of Mr. Minor Baker, vice president and economist of Seattle First National Bank, the witness continued

\* \* \* every million board feet of logs used in Washington State supports 11 jobs in wood-processing industries. He further estimated that the processing jobs support 25 more jobs in secondary activities

On that basis, the 2 5 billion board feet of logs exported during the past 2 years represents 90,000 jobs

Exporting those jobs, according to Mr. Baker's estimate, has cost us \$480 million in payrolls, \$370 million in wholesale transactions, and \$1 3 billion in total business sales volume<sup>139</sup>

It had previously been testified that in Oregon alone, some 70 percent of manufacturing employment outside the Portland metropolitan area is in lumber and wood products. In Oregon in 1967, it was stated, "there were 85,000 persons directly employed in forest industry jobs with an annual payroll of \$550,000,000"<sup>140</sup>

Not content with citing economic and employment statistics, however, the industry witnesses related the impact of mill closures to individual communities and workers. One man, whose claim that he operated one of the most modern and efficient sawmills in the United States today was attested to by members of your committee who had visited the mill, indicated that he was wondering whether he would be able to withstand the supply problem. But his concern was directed to the plight of his 150 workers rather than himself, when he testified "I could quit to be quite truthful with you but what would I do with them? This is where they are. I live with them."<sup>141</sup>

A subsequent witness supported management's concern for worker interest when he declared closing "is by no means an easy decision for any conscientious millowner, but it is especially hard for the independent, small millowner as he usually not only knows his men personally but many times the entire family and their financial problems or obligations."

<sup>139</sup> Ibid., testimony of John D. Ritchie, pp. 279-280

<sup>140</sup> Ibid., testimony of John Hampton, p. 133

<sup>141</sup> Ibid., testimony of Glen Park, p. 204

He had cited earlier the dependency of the small independent operator upon the policy decisions of the Forest Service and the BLM pertaining to timber supply. He said

This type of operator must be highly competitive and efficient because his very existence depends upon his ability to compete and outbid other operators for his raw material. Remodeling, installing new equipment, and testing new innovations are continual and an absolute necessity for mills dependent upon public timber to survive.

With the spiraling volume of logs taken by the Japanese and the resulting extremes in bidding to secure the needed logs some mills have already had to close. The remaining mills have a choice of two very hard decisions to make:

1. Whether to continue plowing money back into the mill to maintain its efficiency, or
2. To close the mill now and salvage what one can.

The decision to reinvest is a hard one at any time with the heavy competition and uncertainties within this industry, however, it is compounded by the ever-increasing export of logs to Japan and the resulting impossible prices one has to pay for logs and stumps in order to continue to operate.<sup>142</sup>

With respect to motivations for closures, one witness testified

There is only one reason a man with a mill shuts down: there may be many variations on this reason—imports, marketing problems, capital problems—but the basic and underlying reason is that he cannot operate at a reasonable profit on his investment. The only reason, gentlemen, that I know for a well-managed mill to not operate at a profit is traceable to the cost of raw materials in almost every instance.<sup>143</sup>

The high prices of stumpage and logs in the Pacific Northwest were, the industry witnesses held, directly attributable to export of logs to Japan.

The initial industry witness testified that an analysis of the 50,000 to 80,000 invoices reflecting log purchases during a year indicate that "No. 2 hemlock logs to the Japanese are bringing \$25 to \$30 a thousand more than the domestic price our people can afford to pay in relation to their costs and the realization that they can get from the products they can make from such logs."<sup>144</sup>

He subsequently further testified

When you get an additional abnormal demand over the normal purchases in the market, like we have with the Japanese coming in and buying a billion and a half feet of logs a year, it puts abnormal pressure on the price. The normal production and consumption of logs in the Douglas-fir region is around 12 or 13 billion feet a year. Now we have 12 percent more. We have an artificial limit from the standpoint of a free market because of the allowable cut of the timber that is on the open timber market, with which no one quarrels. I mean the allowable cut as a forestry concept is to keep us from running out of timber, so the

<sup>142</sup> Ibid., testimony of Arnold Ewing, pp. 222-223.

<sup>143</sup> Ibid., testimony of Kenneth Ford, p. 793.

<sup>144</sup> Ibid., testimony of William D. Hagenstein, p. 42.

additional demand for logs by the Japanese puts much more pressure on those supplies with more buyers in there and up goes the price

You have made the point that, the average operator, who is dependent upon public timber, hope springs eternal in his breast that the market cannot get any worse, and that it is going to get better, so there is a certain speculation and gamble on his part that he is going to come out. But the fact is that he buys that timber and pays a price he knows he cannot come out on, on the present market, but he has to buy it or shut down. He has no other place to go. It is a buy or die situation. Buy or die, because we do have more buyers, even before the Japanese came in, in some areas of our region, we have more buyers in the marketplace than there are supplies, because of the restriction of allowable cut, and so forth, it is just an economic fact.

You also made the point, which I would confirm, that it costs a man a lesser loss to operate and keep his plant going and try to get some depreciation out of it than to completely shut it down. That is true in every business, not only ours.

One other fact that influences this, as you know, many of the people who are mainly dependent upon public timber, but who have some private timber of their own, or supplement their needs through purchase of logs in the open market, these people really for this period in the last decade during this inflationary trend of stumpage prices have been subsidizing the United States. Subsidizing, I say, because they have been averaging down their costs with their own lower book value timber against those exorbitant prices they have had to pay for Federal timber because of the desperation market for public timber in many areas.

The private owners, many of them, have been subsidizing the United States, paying \$40 or \$50 a thousand for stumpage on the one hand, they have some \$5 or \$10 book value stumpage of their own. They use 20 percent of their own in a year and 80 percent public and so their average is somewhere down below the price they paid for public timber. But you run out of that private timber to average down with in time, and a lot of these people have run out because they were not substantial timber owners to begin with.<sup>145</sup>

Your subcommittee sought to clarify the recurring evidence that mill operators wholly dependent upon Federal timber frequently bid well in excess of the appraised value of timber. Opponents of log export restrictions had long made charges that the inflated timber prices were the direct consequence of unrealistic bidding by domestic operators. A witness offered a careful explanation of how and why bidding above the appraised price for a particular sale occurs.

I have a couple of comments I would like to make on the question of how an operator could overbid an appraised price one and a half times. About four very obvious items are involved in this overbidding as I see it. First, when a

<sup>145</sup> *Ibid.*, p. 47

Forest Service sale is appraised it includes a profit ratio of 12 percent. If the selling price of the finished product of a particular sale is assumed to be \$100, a profit ratio of 12 percent in the selling price means that there is a built-in \$10.70 as the normal profit for that timber sale. Depreciation is in addition. If an operator needs a sale very badly, he could very well bid away this \$10.70 immediately with the idea of sacrificing all his return except his mill depreciation.

The second thing, is that logging costs, milling costs, and road construction costs are based on the average operator's costs, not the most efficient nor the least efficient. Obviously when it comes to an individual sale, that sale might best fit three or four operators who are bidding on that specific sale. If they are more efficient than the average to which the sale was appraised this is a built-in factor that they can bid away.

Third, the appraisal is based on both plywood and lumber as the final product. As we have known, in the last 6 months plywood is at the very bottom of the deck and lumber has been at a fairly reasonable price. With the two mixed this way in determining the selling price of the finished product, plywood currently has a tendency to reduce the selling price and the appraised price of the stumpage. An operator is going to bid on a sale, based on what he can do with it in the market.

In the fifties the plywood people could bid much higher than the lumber mills because of the rising plywood markets. They had an additional margin built in over the appraised price. This last 6 months it was the reverse with lumber prices fairly good and plywood down so sawmills had this chance to overbid.

A fourth very important factor occurs when a fellow knows he needs a sale and must bid against X, Y, and Z. He will determine how much of that sale he can sell at a high price for export in order to outbid the other fellow and save some of it for his mill. Consequently, another thing built in this overbid is the portion—50 percent, 20 percent, or whatever—that is going to be exported. That is already built into the purchaser's bid price.<sup>146</sup>

Later questioned as to why the mills, if their costs continue to rise, cannot raise the price of their product and thus save their profit margin and continue operations, the witness replied:

Obviously the lumber industry happens to be in a very, very diverse ownership. Its producers are a diverse people, and the lumber market itself is truly an arm's-length dealing. It is truly an open-market situation. It is different than where you have just a few giants within an industry that could arbitrarily raise their price. We must, each one of us, say what we are going to attempt to sell our lumber for, and the buyer is the one who determines what will eventually be paid for it.<sup>147</sup>

<sup>146</sup> *Ibid*, testimony of Arnold Ewing, pp. 224–225.

<sup>147</sup> *Ibid*, p. 228.

That this "open market" does not pertain in Japan was testified to by another witness who indicated that "Japanese lumber prices have risen 60 percent since 1960, compared to a rise of only 10 to 15 percent in the United States, still another reason they can pay a higher price for raw material in the form of logs "

"If," he continued, "there should be any doubt about this higher price, it can be dispelled by a comparison of the value of a log in the export market and that same log processed in a western mill For November 1967, the average realization for all logs exported was \$89 22 per thousand board feet, while the same log realized only \$83 39 in the mills in the lumber firm " <sup>148</sup>

A representative of an organization of small Federal timber dependent operators was asked to comment on the likelihood of private timber owners bidding against operators wholly dependent upon Federal timber for the purpose of acquiring public timber to replace their own low-cost high-value logs which they would sell in export He replied

The people that own their own timber such as Weyerhaeuser and Crown, in most cases, in their areas are not bidding against our operators and selling their private timber \* \* \* My own individual members are not afraid that these people will sell their private stumpage to the Japanese and turn around and beat us over the head with that profit on public timber We just do not think this is going to happen <sup>149</sup>

Subsequently, the question was further examined in a colloquy between this witness and Representative Dellenback

Representative DELLENBACK Let me shift for just a minute to the other type of supplier which is not primarily represented in your membership The other type of producer, who does have supplies of his own He is in a position where he has sufficient timber supplies of his own so he cuts just those timber supplies and keeps on going his way This is a theoretical situation, because I do not think there are any, even Weyerhaeuser haven't that much So even these large timber owners do go into the market to buy some Some buy a great deal, some buy just a little bit But these people find themselves in a position where, since their stumpage cost is low, they could elect, with this market being inflated as it is with log exports, to make a great deal of money, if they sold a large amount of their raw material in the export market Is this not right?

Mr EWING This is very possible

Representative DELLENBACK And so it takes a certain high degree of public responsibility, if you will, on the part of these mills to say deliberately, "We are going to take this low-cost stumpage, on which we could make a great deal of money by selling in the export market, we are going to bring it into our own operations and use the dollar cost averaging procedure to end up with a final profit on our balance sheet," when they could very well be tempted to cut down on their own production under this set of circumstances, and in some

<sup>148</sup> Ibid , testimony of John Hampton, p 134

<sup>149</sup> Ibid , testimony of Arnold Ewing, pp 227-228

instances make more money, if they sold directly in the export market, is this correct?

Mr EWING This is correct They could do it and I think they should be commended, at least the one company that stated as public policy that they would not do this, at our last hearing

Representative DELLENBACK In this instance you are referring to Weyerhaeuser?

Mr EWING Yes, sir

Representative DELLENBACK This is part of what you also feel?

Mr EWING Right

Representative DELLENBACK I think they ought to be commended Any large mill which deliberately restrains itself on selling in a high-price situation, where it could make a good deal on raw materials that it could sell this way, but deliberately elects instead to realize its public responsibility and keep its production here in America ought to be commended for this sort of a stand I personally join in commending them for this And you join in commending not just one company by any companies that take this attitude of responsibility?

Mr EWING Right <sup>150</sup>

In response to further questioning on the potential hazards of "wash sales" to the detriment of small operators if restrictions were invoked, an industry association witness testified

The larger operator and larger private owners are so much in the spotlight that I don't imagine, whether they had an agreement or not, that they would try to conduct "wash sales" I mean by that, replacing their private timber with Federal timber in order to keep their plants running

I think that the law that says that Federal forests are created for the benefit of the citizens of the United States and two or three other laws give our agencies the authority to restrict the export of Federal timber and it would clearly be violated if a private owner conducted a "wash sale", that is, exported his private timber and bought Federal timber to replace it He would be violating the intent of that law

I would assume that when the regulation or the rules that are issued by the Forest Service and the Department of Interior are written, they would state the purchaser would have to agree that he would not do that

And furthermore, I think he would have to agree, if he did that, that he would be prohibited from buying any future Federal timber It seems quite plain to me that it would be a clear violation of the intent of the law <sup>151</sup>

Your subcommittee carefully examined the relationship between Canada's restriction against log exports, the willingness of Japan to purchase lumber from Canada, and the ability of the Canadian producers to sell effectively in the U S domestic market

It was established early in the hearing that one primary advantage enjoyed by Canadian producers and denied American producers is

<sup>150</sup> Hearings, p 230

<sup>151</sup> Ibid, testimony of Ralph Hodges, Jr, p 1029

“security of raw material supply” The point was further made by the witness that “ \* \* \* 92 percent of the timberland is owned by the British Columbia government They have adopted a timber sale policy, a merchandising policy, which virtually assures an operator in an area that he can purchase his material at the appraised price not at competitive auction They have established a quota system Their philosophy is that the community benefit, the benefit to the province is superior in terms of other collateral factors rather than in stumpage return alone ”<sup>152</sup>

It was suggested, with respect to the community benefit aspect, by a subsequent witness, that “\* \* \* in recent years, our Forest Service is a little more inclined this way than they were previously We would naturally like to see a similar sort of policy adopted, to a greater extent, by our Federal timber management agencies ”<sup>153</sup>

The ramifications of the combined advantages enjoyed by Canadian producers under Canadian policies were carefully detailed by one industry witness

Now, how were they able to ship more than 4 billion feet in our market, which some claim was too soft to support the domestic manufacture of our logs? They were able to outsell the American operators because they can sell cheaper The Canadian Government wants its forest products industry to prosper and provides a stable base to enable it to do so

Forest products are among our most basic raw materials for the American economy In the case of another basic raw material—steel—when the industry tries to raise its prices 5 percent or so, the roof blows off the White House and the President’s Council of Economic Advisers have some very harsh things to say about steel Where was the Council of Economic Advisers when our stumpage prices were jumping 46 percent in Oregon and Washington?

It is naive for us to say or think the Canadians can sell cheaper in our country because of any reason but one—they have cheaper stumpage, a cheaper raw material than we in the United States do, and they have the lower cost because the Japanese are not in their woods competitively bidding up the price of Canadian timber The Japanese are not there because a Canadian law forbids the export of all but surplus logs from Canada

With only their own mills competing on their timber and this on a cutting circle basis, the Canadian manufacturers can cut and ship and sell that timber at prices we in the United States cannot meet, so long as we must bid against the Japanese export market, a wood products market, and I want to add, in which we have no competitive marketing basis because the Japanese don’t want to buy our finished products and won’t buy them as long as they can get our logs

We hear from time to time that the reasons the Canadians are able to sell in the Japanese market is that they are able to cut to Japanese standards and somehow American mills

<sup>152</sup> *Ibid*, testimony of John Hampton, p 142

<sup>153</sup> *Ibid*, testimony of Ralph Hodges, Jr, p 192

either don't know how or would rather go out of business than meet these standards

It somehow seems ridiculous, an insult to the intelligence of the listener, for the Japanese to say, as they have said in talks on the west coast, that the Canadians cut to their standards, the Americans don't

Crown Zellerbach cuts in Canada. Weyerhaeuser cuts in Canada, and so does the United States Plywood and Georgia-Pacific. Does it seem reasonable to assume that their Canadian mills can outperform their American mills? No. Does it seem reasonable that they have competent and capable mill operators in Canada and keep the nincompoops at home to run our domestic mills? No.

The reasons the Canadians sell the Japanese lumber—more than 10 times as much of lumber as Oregon and Washington and California combined—is much more basic than that. British Columbia does not sell logs. In buying finished lumber in Canada from Canadian mills, the Japanese are not setting up the competitive mill base to bid against their own efforts to buy raw timber. To buy this lumber from our mills would mean they would be helping to create and keep alive a healthy American economy and mill structure which in turn, could meet the prices the Japanese are paying for our logs.<sup>154</sup>

Discussion of Canadian advantages led to consideration of the influence of the Jones Act on the ability of U.S. producers to compete. (Detailed discussion of the Jones Act and its implications is presented earlier at page 25 of this report.) A single industry witness' statement presents, however, the essence of repeated industry testimony on this subject. He said:

I do know as a layman that we are at a disadvantage with our Canadian competitors in that they can lay lumber down for somewhere between \$8 and \$15 a thousand cheaper on the east coast of the United States because they can use foreign bottoms and we are obliged to use American bottoms and this is the same reason why Alaska is not very competitive when they have to ship by water to the U.S. market, and that is why most of the lumber that is produced in Alaska except for that which is utilized domestically there is sold to Japan.<sup>155</sup>

As a corollary to the Jones Act influence on U.S. competition with other nations, your committee also explored with industry witnesses the significance of U.S. international trade policies and the applicability of small business set-asides in respect to the Japanese log export problem. (Both of these topics have been discussed in detail earlier. Balance of payments at page 21, small business set asides at page 14.)

An industry witness testified that the influences of restrictions on log exports would have a minimal impact on U.S. balance of payments with Japan.

<sup>154</sup> Ibid, testimony of Kenneth Ford, pp 794-795

<sup>155</sup> Ibid, testimony of William D Hagenstein, p 58

About 700 million board feet of Federal timber was exported in 1967. So the cutback is probably in the nature of \$25 to \$30 million or about 1 percent of our trade with Japan or less than one-tenth of 1 percent of our total exports of about \$30 billion.

He further testified at the same point with respect to SBA set-asides.

Federal timber can be sold under SBA set-aside sales that restrict sale of the timber to manufacture by firms with less than 500 employees. We do not think SBA set-asides are a good way to deal with the problem caused by log exports to Japan because about half of the mill capacity dependent upon Federal timber could not qualify for SBA set-aside sales.<sup>156</sup>

Your subcommittee heard extensive evidence from industry witnesses that unrestrained export of logs from the Pacific Northwest could eventually result in serious impairment of the Nation's ability to fulfill its own wood fiber requirements.

The basic concern was expressed by a small operator, as follows:

Mr. PARK: My opinion is that, of course, the United States has got 200 million now. Some day it will be 300 million, we hope. The demand for lumber will become greater every year. It has to. It has from the day it started. It will take more timber and should housebuilding expand, which it will in time to come, these things take their toll. But the mills we have today and the timber we have available today for those mills could hardly furnish what we need if we could furnish it. That time will come. You have got to look into the future and might not mean tomorrow, but in years to come it will take all of our natural resources, all of our timber to furnish what we need for ourselves, and we are giving it away now.<sup>157</sup>

Concern with prospective future lumber and plywood requirements in the United States warranted investigation of projected housing demands as a principal market for these softwood products. Dr. Michael Sumichrast, chief economist, National Association of Home Builders, testified on housing demand, briefly, as follows:

\* \* \* by 1970, we will need annually about 2 million new housing units. By 1975 we will need probably about 2,270,000 new housing units, and by 1980 about 2.5 million housing units annually.

He indicated that of the 1970 requirement, about 1,100,000 units annually would be in single family homes, with the single family gradually increasing throughout the seventies to the 1980's when it will probably reach close to 1.5 million units annually.<sup>158</sup>

Translation of housing starts into lumber requirements was undertaken by Dr. John Muench, Jr., forest economist, National Forest Products Association, who testified to the following points:

1. Residential construction required about 14 billion board feet of lumber in 1962,

<sup>156</sup> Ibid, testimony of Ralph Hodges, Jr., p. 163.

<sup>157</sup> Ibid, testimony of Glen Park, p. 217.

<sup>158</sup> Ibid, testimony of Dr. Michael Sumichrast, p. 912.

2 It is estimated that residential construction uses of lumber will climb to 21.6 billion board feet in 1980,

3 Residential uses of lumber have historically accounted for about 35 percent of the lumber consumed in this country

He indicated that existing capacity and available timber could fulfill lumber demands with little difficulty in 1970, but warned that if log exports continue to increase the burden of supplying construction lumber will be thrown upon other regions, principally the Southern States, British Columbia, and possibly the intermountain region, including Idaho, Montana, and adjoining States. In this event, he indicated, new investors would have to be found, new mills will have to be built, new labor and management will have to be trained, and new timber access roads constructed into previously undeveloped timber areas wherever they happen to be. Pointing to increasing competition for timber in present producing areas, he said

In the event that the Government fails to stand behind its basic purposes for owning timberland, that is, community stability and a continuous flow of timber to domestic industry, potential investors will easily find better uses for their money

These considerations lead to the conclusion that if a major portion of the Nation's most productive timber-growing area does not contribute to servicing the Nation's demand for lumber, either or both of two things will happen

1 The price of lumber, and in turn, housing will rise, and

2 Use patterns will change so that consumers will use less lumber and more brick, stone, glass, steel, plastics, and aluminum. This shift will present new demands upon other industries. If they are unable to supply these demands, their prices too will rise

No matter how you slice it, it is difficult to see how the American consumer will benefit <sup>159</sup>

Evidence was also introduced by an industry witness to indicate the scope of the problem beyond the lumber and plywood aspects of future requirements. He submitted estimates for U.S. consumption of paper and paperboard rising from 46,242,000 tons in 1965, to 56,162,000 tons in 1970, and continuing to climb to 66,634,000 tons in 1975, and 77,930,000 tons in 1980

"Simply to supply this American lead will tax our capabilities as we now measure them," he said <sup>160</sup>

The witness indicated that his analysis of world wood requirements indicate clearly that Japan will be obliged to seek supplies from Siberia if it is to fulfill its requirements, and cited evidence that development of these sources was already underway

He said

There we have it. The Japanese are dealing with the U.S.S.R. A mechanism for negotiations has already been evolved and is functioning, it would seem, successfully

The foreign policy aspect of our problem can be simply stated. The present and anticipated wood demand is such

<sup>159</sup> Ibid., testimony of Dr. John Muench, Jr., pp. 1024-1025

<sup>160</sup> Ibid., testimony of Joseph McCracken, p. 925

that either Japan, the United States, or Europe must have substantial volumes of wood from Siberia or somebody must make do with a gross shortage. If Siberian wood is to help meet our needs, then clearly Japan rather than the United States or Europe should turn to that source of supply. Japan enjoys proximity and a course of trading already established. Surely it would be foolish for the United States to ship its domestic wood supply to Japan—almost the whole distance to Siberia—and then replace the exports with Siberian wood. If Canada were to withdraw from its European export market in favor of Japan, then clearly Europe would have to replace that wood loss with Russian wood. In other words, the facts seem to lead to only one choice—some segment of the non-Communist world will either derive a substantial supply of wood material from the U S S R or suffer a severe wood shortage.<sup>161</sup>

### B *Views of union officials*

Support of the domestic industry's views on the means to effect prompt resolution of the Pacific Northwest log export problem was substantiated in the testimony of officials of the United Brotherhood of Carpenters & Joiners of America. This organization represents some 780,000 members in the construction, logging, and wood products industry.

Evidence was presented that official 1966 figures for the State of Oregon showed that 73,062 people were engaged in the production of lumber and wood products in that State, while the estimate for 1967 places employment in the lumber industry at 68,000, a decline of 3,062. State of Washington figures for the corresponding period were 46,559 for 1966 and an estimate of 44,000 for 1967—a decline of 2,559.

The witness testified "These figures are substantiated by our own membership records. We suffered a decline of approximately 4,200 jobs during the past 2 years."<sup>162</sup>

The union official emphasized that while concern had been expressed about the mill closure as a consequence of log shortages and/or excessive log prices, equal attention must be given to the hardships suffered by workers through insecurity and fear.

He said

It is a difficult situation for a man to constantly fear that his job will be eliminated by a plant closure. He cannot commit himself to purchase a home. He cannot plan for the future of his children, and worry constantly gnaws at his family.

Furthermore, the ability of our members to improve their economic lot through collective bargaining is severely hampered when mills are squeezed by constantly increasing log prices which reflect themselves in decreased profits.<sup>163</sup>

When subsequently questioned as to the options open to displaced workers in sawmill communities, the witness stated

Generally, they are required to move to the more populous areas, which I think adds to the employment problems in the

<sup>161</sup> *Ibid*, pp 926-927

<sup>162</sup> Hearings, testimony of Peter E. Terzick, pp 761-762

<sup>163</sup> *Ibid*, p 762

cities I feel particularly strong about this, because many of the mills which are closing are located in small towns, and they are practically the only industry in that town, and when the mill closes, it creates real havoc not only for those people working in plants but for the merchants in that town and for all the people in the town who depend on the primary industry<sup>164</sup>

The union witnesses testified that they have protested the rate of log export since 1953 to the Congress, Agriculture officials, and other agencies such as the Department of Commerce and the State Department to no avail<sup>165</sup>

While agreeing that it was likely that some accommodation with the Japanese could be worked out for the long term through negotiations, the labor witnesses said their main point was "that an immediate stopgap relief is absolutely essential pending a long-range solution to exports" and recommended

\* \* \* a 90-day moratorium on all public land timber sales is vital at this time to save many mills and the jobs they provide for our members. If we fail to institute remedial measures promptly, we will only be locking the barn door after the horse has departed for parts unknown

Labor then took issue with the reservations expressed by Federal agencies and port authorities about the results of unilateral U S action to stem the outflow of logs to Japan

One witness stated

\* \* \* none of the concerns voiced by these agencies bear much merit. The United States is the largest market Japan has for its exports. The Japanese will do nothing to jeopardize the vast potential for exports to the United States. The concerns of the Treasury Department are without real foundation. If the Japanese cannot buy unlimited supplies of logs in the United States, they will buy lumber instead.

Since lumber products bring nearly twice the price of raw logs, the balance-of-payments situation should be improved rather than harmed by realistic limitation on log export.

Port authorities likewise would benefit materially from the export of lumber rather than logs since at least 5 hours of additional loading time is involved in loading lumber vis-a-vis logs. Consequently, we believe that any fears voiced by these agencies are unfounded and are actually short-sighted<sup>166</sup>

Elaborating on this latter claim, under committee questioning, the witness said

I really think that many objections from the port authorities are unwarranted, or even from the longshoremen in manning those ports, because certainly it takes at least 5 hours per thousand feet more to load a thousand feet of lumber than it does logs, and I am firmly convinced, and, I

<sup>164</sup> *Ibid*, p 784

<sup>165</sup> *Ibid*, p 763

<sup>166</sup> *Ibid*, p 764

think the British Columbia situation and even the Alaska situation bears out my contention that if the Japanese can't buy round logs, that they are going to buy cants or they are going to buy finished products

If there is going to be any deleterious effect insofar as longshoremen in the ports are concerned over the short haul, over the long haul, they are going to benefit materially, and in passing I want to say that I think the longshoremen are going to be dealt out of the log situation entirely. Presently the Japanese are developing ways and means of strapping logs together and floating them out to the ship, and instead of loading at a port winching them aboard out in deep water, which would eliminate the longshoremen altogether.<sup>167</sup>

Questioned with respect to the ultimate impact of log exports on U S ability to fulfill its own timber requirements, the labor witnesses favoring restriction without exception expressed concern. One stated

\* \* \* by the year 2000 we may not even be able to supply even our domestic demand, and this is why I say that no nation can afford to export a natural resource that they do not have in excess supply

I submit to you gentlemen that we do not have that excess supply of timber, therefore, we should act now to preserve it and to conserve it for the future for our own domestic economy and to provide the jobs first of all for the people engaged in a very important industry in these United States.<sup>168</sup>

The essentiality of the domestic timber resource and mill capacity was emphasized by another labor witness, who declared

\* \* \* I do know as a certainty that if the proposed housing program and the model cities program does start operating, that these two programs will require almost the total output of lumber from the mills that are in present operation.<sup>169</sup>

A third aspect of the raw material need was voiced by a labor witness in these terms

There is another facet to this thing that isn't serious now, but I believe within 2 or 3 years it is going to be a real matter of concern, and that is the fact that when you export the logs, you export a lot of chips, which are vital to the pulp industry, and there is tremendous trade now with the Japanese on chips

No one seems to be concerned too much about it yet, and perhaps I am a little bit pessimistic on it, but I really believe that within 2 or 3 years you are going to find that the chip situation is getting to be a real problem, because the parts of the logs which would naturally go to the chips are being exported to Japan when you export round logs.<sup>170</sup>

The overall recommendations of the Carpenter's Union, after consideration of all aspects, were

<sup>167</sup> Ibid , p 783

<sup>168</sup> Ibid , testimony of Julius Viancour, p 778

<sup>169</sup> Ibid , testimony of James F Bailey, p 779

<sup>170</sup> Ibid , testimony of Peter E Terzick, p 783

1 A 90-day moratorium on the sale of logs from public lands to Japan should be instituted immediately. This would enable domestic mills to bid more favorably on available logs from public lands. It would permit them to borrow money from lending institutions to start building roads and preparing for logging operations. Most important of all, it would allow them to make future plans secure in the knowledge that an adequate supply of logs will be available.

2 Following this moratorium, the export of logs from public lands should be limited to 1966 levels pending a comprehensive study of the entire problem and the establishment of a realistic long-range policy.

3 A policy should be developed requiring agencies to determine that logs are in surplus supply in any area before Japan would be permitted to bid on public lands sales in that area.

4 Safeguards need to be written into the long-range program to insure that private timberholders do not export their own logs to Japan and make up the difference by buying timber from public lands.

This is a relatively simple program—in our estimation—and requires neither legislation nor departure from existing authority.<sup>171</sup>

In a subsequent clarifying statement, the witness pointed out that the union recommendations would neither immediately stop the outflow of logs already contracted for to Japan nor drive the Japanese to other markets for finished lumber. He said:

I think there are a number of factors involved here. In the first place if you had a moratorium on sales for 90 days, that wouldn't mean that there would be any increased production of logs, let alone lumber for a long, long time. Usually there is a period of at least 6 months to a year between the time that a sale is consummated and the time that the logs come out of the woods, and that therefore there is no immediate problem in this regard.

Secondly, as it has been pointed out by previous witnesses here, particularly those from Alaska, that part of the problem is that as long as we export round logs to Japan, they are going to buy round logs in Japan, and if we place some realistic limitations, and I emphasize the word "realistic," that the Japanese will buy finished products from us just as they do from British Columbia, which has a limitation on the export of logs.

But I think the overriding consideration at this time is how are we going to save a large number of mills which are hanging in the balance at this time?

Then he added:

I think that the primary consideration ought to be to get some immediate relief to stop these mills from going

<sup>171</sup> *Ibid.*, p. 765

out of business, and that that ought to get real consideration<sup>172</sup>

C *Federal departmental support for restrictions*

As the agency principally responsible for administering Federal commercial timberlands, the Forest Service of the Department of Agriculture bore the primary burden of expressing the administration position with respect to the domestic aspects of proposed restrictions on log exports to Japan

The administration position throughout the hearing was directed toward negotiation as the preferable solution. It was stated succinctly by Chief of the Forest Service Edward P. Cliff:

We believe the forest management needs and forest industry needs can be best met by prevailing upon the Japanese to increase their take of sawn lumber products, including an increased volume of cants from Alaska. This should serve the double purpose of supporting the operation of domestic mills which would be processing the logs from export while at the same time permitting Japan to meet its expanding needs for wood products \* \* \* It seems apparent to us that this long-term answer can best be brought about through negotiated agreement with the Japanese Government and by business agreements between businessmen of the two countries arrived at by usual business methods.

Despite this view, however, he clearly established that the Department of Agriculture has the authority to act in the matter if such approaches were to fail. He stated:

It has also been proposed that the Department of Agriculture, together with the Department of Interior, take action to limit what happens to logs that are cut from the Federal forests. We have concluded that we have the authority to act insofar as the national forests are concerned to require domestic processing \* \* \* If negotiations do not appear to be reaching meaningful solutions, we are prepared to discuss with other agencies the actions to be taken under existing authorities.<sup>173</sup>

Chief Cliff was vigorously questioned by your committee about his interpretation of "meaningful solutions" which would warrant unilateral action by the United States. He replied:

I think an example of meaningful results would be informal agreement by the Japanese or a formal agreement that they would actively promote the purchase of some material in the United States in the replacement of a given amount, a determined amount or an agreed upon amount of round timber. Another example of a meaningful result is that they would attempt to exert such controls as they have to level off the export of round timbers to an agreed upon level similar, for example, to the level proposed by the forest industries in their testimony. It is a little hard to say right now what would be completely satisfactory. I think you

<sup>172</sup> *Ibid.*, p. 781

<sup>173</sup> Hearings, testimony of Edward P. Cliff, pp. 1063-1064

would have to assess what comes out of the meeting before you could determine whether it is meaningful or not. I think it has to represent, in my view, some progress toward getting a more satisfactory mixture of saw logs and manufactured material.<sup>174</sup>

He stated earlier in response to a question about his view of the law available

\* \* \* if the next round of negotiations with the Japanese do not result in meaningful results toward getting a better mix, a better proportion of sawn manufactured materials, then I am prepared to recommend to the Secretary of Agriculture that it be invoked in Oregon and Washington

Subsequently he added

Senator, I discussed this with my boss yesterday. At a meeting, which was not a closed meeting, with the Japanese delegation I heard him tell the Japanese that if results were not soon forthcoming that he felt he had to take some action. He authorized me to quote him. That is still the case.<sup>175</sup>

Doubts about the necessary authority to act had apparently been dispelled by the time Chief Cliff testified. Having already testified about the general necessary authority in his formal statement, he later examined specific legislation and stated

\* \* \* even without the 1926 act, we are concerned with the local employment. One of the major goals of the Secretary of Agriculture now is to increase employment in rural areas. He is sincere about it and this is not based on any law, it is based on administration policy. I am sure that our attorneys were aware of the regulation you cited. Under the 1897 act, of course, the Secretary has broad authority, and it is under this act that we feel that we could require primary manufacture if the circumstances justify it.<sup>176</sup>

This application of the 1897 act was further buttressed when Chief Cliff explained that in Alaska where primary manufacture is required

The Alaska regulation is not based specifically on the 1926 act. It is based on the general authority of the Secretary to manage the national forests in such a way as to benefit the development of the national forests and use of the forest resources. It is done under the general authority of the 1897 act which is very broad.<sup>177</sup>

The Chairman developed this position through questioning

Senator MORSE: Mr. Cliff, in adopting this restrictive policy in Alaska, your testimony makes clear that you consider that the Department had the legal authority to do it under existing law. Knowing you as I do, you wouldn't have done it otherwise. Before you imposed this restrictive policy, did you take the position in the Department that there ought

<sup>174</sup> Ibid, pp 1126-1127

<sup>175</sup> Ibid, p 1100

<sup>176</sup> Ibid, p 1100

<sup>177</sup> Ibid, p 1110

to be negotiations with Japan before you imposed the restrictions?

Mr CLIFF No, that wasn't a factor at that time

Senator MORSE But your legal authority at that time is the same legal authority that you have now

Mr CLIFF That is correct <sup>178</sup>

Taking note of the administration emphasis upon the negotiation route to solution, Senator Hatfield, citing the organic act amended June 14, 1937, interrogated Chief Cliff concerning the obligation of the Department of Agriculture to provide a continuous supply of timber for the use and necessities of citizens of the United States

Chief Cliff replied "The responsibilities spelled out under the organic act are our responsibilities" He then explained, however, that there were variations of opinion about the definition of what is for the benefit of the citizens of the United States <sup>179</sup>

Responding to a question as to whether the Department would act within its evident authority in the event that it is satisfied that log exports are having a debilitating effect upon the regional economy, Chief Cliff said

It is our understanding, under the interpretations that have been given us, that we do not have the authority under the statutes to take direct action to prohibit export It is clear, and I stated it in my testimony, that we do have authority to require primary manufacture in any place where it is determined to be necessary for the development of proper management and use of the national forests We have the authority to require primary manufacture as we do in Alaska We have that authority which would have the indirect effect of limiting exports of unprocessed logs from the national forests

\* \* \* \* \*

A primary manufacturing requirement would have this effect—it would protect the jobs in the communities and those mills which are dependent on the public land for timber

He went on to explain that existing contracts could not be changed and that

If such a provision were adopted, it would apply only to new contracts \* \* \* So it would not have an effect on logs from that source, but on the new contracts it would have a stimulating effect on those people who are primarily dependent on public timber and they wonder where they are going next <sup>180</sup>

Chief Cliff clearly stated the authority the Department of Agriculture does not have with respect to limiting exports He said

We have no authority and we are not seeking authority in the Forest Service to regulate the use of the marketing of timber from private land This is a responsibility of others,

<sup>178</sup> Ibid , p 1066

<sup>179</sup> Ibid , p 1075

<sup>180</sup> Ibid , p 1098

private landowners, States We do feel that our national forest assets should be used to help develop our own economy This is where our responsibility ceases right now <sup>181</sup>

In general, the testimony of Boyd L Rasmussen, Director, Bureau of Land Management, Department of Interior, closely followed the tenor of Chief Cliff, although he was unable to predict his Department's ultimate action if negotiations failed to produce meaningful results

Having stated in prepared testimony, "If for any reason negotiations do not appear to be reaching meaningful solutions, we are prepared to discuss with the Secretary of the Interior the actions to be taken under our existing authorities," he was later asked whether meaningful solutions would include restrictions of log exports levels He replied, "I think from my standpoint they do include certain restrictions "

Just prior to this question, Mr Rasmussen had been asked about the relationship between BLM and the future development of Oregon He replied

I believe on page 23 of my statement I said that there is no doubt that the Oregon-California Railroad Act was intended to have the BLM's Western Oregon timber locally used \* \* \* However, this is a discretionary authority It is discretionary illustrated by the fact that we had restrictions on the marketing areas for a number of years Then at the request of the industry, we removed them We have the authority to have some type of marketing areas again <sup>182</sup>

The third Federal agency indicating existing authority to act to relieve economic pressures resulting from log shipments to Japan from the Pacific Northwest was the Small Business Administration <sup>183</sup> The Administrator of SBA responded to an inquiry from the chairman that SBA presently has the authority to require that Government timber purchased at small business set-aside sales be processed in the United States <sup>184</sup>

#### D *Views on retention of Alaskan log export restrictions*

The question of exporting round logs from Alaska to meet Japanese requirements was not at issue in the Pacific Northwest situation until the Department of the Treasury in an informal staff paper, characterized as a "think piece" by Deputy Assistant Secretary of the Treasury John R Petty, <sup>185</sup> suggested replacing a 0.7 billion board feet reduction in logs to Japan from Oregon and Washington with Alaska logs

Except for that "hypothetical" endorsement the proposal was greeted with unanimous objection on the part of Alaskan industry State and local government, the shipping, building trades and manufacturing unions the port authorities, the chambers of commerce of various Alaska communities, private citizens, and the Forest Service which administers almost all of the public timber land in Alaska

<sup>181</sup> *Ibid.*, p 1133

<sup>182</sup> *Ibid.*, testimony of Boyd L Rasmussen, p 1263

<sup>183</sup> Applicability and intent of the Small Business Act with respect to timber sales is discussed in detail at Ch 2, D(4) of this report, p 14

<sup>184</sup> Hearings, letter from Robert C Moot and seq Memorandum, both dated Feb 2, 1968, pp 277-278

<sup>185</sup> Hearings, testimony of John R Petty, p 1138

An inquiry about Forest Service intentions with respect to its present policies in Alaska brought an unequivocal statement by letter from the Secretary of Agriculture

You have specifically asked if we intend to change the policy in Alaska and make it possible to export from Alaska, in unprocessed form, logs that have been cut from the national forests We do not plan any change in this policy <sup>186</sup>

In a statement for the hearing record, Senator Bartlett clearly stated the basis of Alaskan objections to any alteration of present Federal policy

It is clear as can be, despite the "findings" of the Treasury Department experts to the contrary, that the policy banning the export of round logs from Alaska has been a major factor in the development of a successful timber industry in Alaska

\* \* \* \* \*

All thoughtful Americans recognize the balance-of-trade problem and what that problem can mean to the strength of the dollar and, therefore, to the strength of the free world We all have an interest in improving our balance of trade, but in a way that is fair to domestic interests and does not increase pressures for increased trade restrictions which would be harmful to both Japan and this Nation, and within this Nation, perhaps especially to Alaska

\* \* \* \* \*

The (Treasury) report proposed that as part of the package to accompany a change in the log export policy in Alaska, the Nation's cabotage laws be amended to allow the shipment of Alaska timber to the east coast in foreign bottoms The report contends that such an exemption would make Alaska lumber competitive with Canadian lumber on the east coast, thereby opening new markets for Alaska processed timber

Ignoring the very real political difficulties involved in getting such an amendment approved by Congress, the facts do not support a conclusion that Alaska lumber will become competitive The report does not take into consideration that production costs are higher in Alaska than in Canada, that Alaska timber still would have to be carried 700 miles farther than Canadian lumber and that there is no east coast market for the types of timber harvested in Alaska In addition, the report makes no mention of the fact that our balance of trade would suffer if Alaska timber were carried in foreign bottoms

When these facts are considered, I think it is quite clear that this suggestion offers no help to the Alaska timber industry <sup>187</sup>

Senator Gruening stated with absolute simplicity the fact surrounding the Treasury proposal, when he said, "Without firm and

<sup>186</sup> Ibid, letter of Secretary of Agriculture Orville L Freeman, dated Jan 15, 1968, p 760

<sup>187</sup> Ibid, statement of Senator E L Bartlett, pp 614-615

unswerving adherence to the policy that requires some processing (of) lumber in Alaska before it may be exported we would indeed, except for logging, have no industry at all " <sup>188</sup>

Statements of the witnesses from Alaska wholly substantiated the opinions expressed by the Senators and additionally shed light upon the problems in Oregon and Washington where no log export ban presently exists, with the exception of restrictions on the export of logs from State lands in Oregon

The position of the State of Alaska was strongly expressed by the representative of the Governor who said

This information concerning the development of Alaska's resources is relevant at this hearing today because it involves a basic philosophy strictly adhered to by our State requiring primary manufacture of our resources Without such a policy Alaska could quickly be stripped of her vast resources and be left a naked country

\* \* \* \* \*

We believe Alaska's policy requiring primary manufacturing is a sound and proven approach to the development of our State <sup>189</sup>

\* \* \* \* \*

The State of Alaska wishes to go on record as supporting the stand taken by the 16 Alaska representatives in attendance and those testifying at this hearing Alaska will violently oppose any effort to alter or change the long-standing and historic policy of the U S Forest Service prohibiting export of round log spruce and hemlock from either national forest or Bureau of Land Management lands in Alaska <sup>190</sup>

The president of the Alaska State Chamber of Commerce strongly endorsed the philosophy of the chairman with respect to the intent of U S forest policy, but broadened the significance of its application, stating

I agree 100 percent with the chairman that the forests of the United States, the intent of the Forest Service policy, was to make available for the people of our United States and forest industry a supply of timber Well, that gets back to another thing

Part of that I think is it puts upon them the burden of seeing that the industry can buy this timber at a price it can pay, and stay in business

In other words, I don't think the Forest Service is charged with trying to wring the highest nickel out of the stumpage possible at the sacrifice of its own industry I think that the timber would return more to the public of the United States, if sold at a reasonable stumpage that would provide a healthy timber and manufacturing economy, and put the people to work, and added to the general welfare of our country first Then the products of this industry would go out and help the underprivileged people through our aid programs and in many other manners <sup>191</sup>

<sup>188</sup> Ibid , statement of Senator Ernest Gruening, p 598

<sup>189</sup> Ibid , testimony of Frank H Murkowski, p 731

<sup>190</sup> Ibid , p 735

<sup>191</sup> Ibid , testimony of Clarence F Kramer, p 729

The importance of availability of timber at an economical price was further fortified by the testimony of the president of the Alaska Lumbermen's Association who declared

Round log exports from Alaska will force the immediate and permanent closure of all sawmills in Alaska. The very same log price squeeze confronting the Oregon and Washington sawmills today will work with an even more ruthless efficiency on the Alaska sawmill economy than it has on that of Washington and Oregon. None of our sawmills presently have a long-term, high-volume timber sale contract, consequently, we would immediately be priced out of the market by the impact of round log export sales.<sup>192</sup>

He had testified earlier on the essentiality of retaining present Forest Service policies with respect to Alaska public timber.

The growth of the Alaska sawmill industry which I have outlined could not have taken place without the protection and encouragement of the longstanding and historic policy of both the Forest Service and the State of Alaska which prohibits the export of round log spruce and hemlock from either national forests or State lands.<sup>193</sup>

Of particular note in the hearings was the expression of opinion by a Japanese national engaged in management of an industry enterprise in Alaska. He fully shared the anxiety of other Alaska spokesmen. He said

Should the export of round logs be permitted in Alaska, we are most positive that we would be confronted with the similar experience which Oregon and Washington are now undergoing and that we would be forced to shut down our mills within less than 6 months. The impact of this to the United States will be loss of US dollars.

I am also positive, as one of the operators in Alaska, that the loss of the primary manufacture policy which has been maintained for almost 40 years in Alaska will be a great detriment to the United States.<sup>194</sup>

A spokesman for banking interests in Alaska introduced evidence of economic disaster which would haunt Alaska if forest policies were to be changed, stating

We are cursed by seasonality, which is accentuated by severe winters. We are striving to overcome these problems through development of winter tourism. The key is spreading of payrolls throughout the year rather than confining them to the summer months. Year-round employment brings people to Alaska as permanent residents, who build homes, schools, commercial buildings, and pay taxes and contribute to general economic growth.

For too long Alaska has had to contend with boomers and exploiters, who come in, earn high seasonal wages, then leave our State, without contributing anything. To allow round log export would only contribute to seasonality prob-

<sup>192</sup> Ibid, testimony of John O. Daly, p. 655

<sup>193</sup> Ibid, p. 654

<sup>194</sup> Ibid, testimony of A. Momma, p. 667

lems, not relieve it Pulpmill and sawmill operations continue year round Logging must shut down for a minimum of 2 months each year

Log export is job export Alaska is just beginning to emerge from colonial status In order to continue and sustain a standard of living and thus become economically self-sustaining, we must increase the manufacturing process within the State in order to get the added value of the processing

The U S Forest Service has had the foresight to prohibit log export and require primary manufacture and the determination to stand by this very wise policy in spite of much opposition Any relaxation of this attitude would not only be the eventual ruination of Alaska's lumber and pulp industry—it would be disastrous to the local economies of the communities of southeastern Alaska<sup>196</sup>

## CHAPTER 6 THE CONGRESSIONAL MANDATE IN FEDERAL TIMBER MANAGEMENT

### A *The issues restated*

It became evident to your subcommittee during the hearings that the statutory guidelines to the Federal timber management agencies for the sale and use of the priceless natural resource they control are not wholly clear The questions that seemed most frequently to be sources of confusion and controversy were these (1) What are the powers and responsibilities of the Forest Service, Department of Agriculture, and the Bureau of Land Management, Department of the Interior, regarding exportation of Federal timber? (2) What is the priority among the several—sometimes conflicting—interests to be considered in shaping policy for the exercise of those powers and responsibilities? (3) What role, if any, have Federal departments other than Agriculture and Interior in shaping policy on timber exports?

On the first question, forest industry witnesses, with near unanimity, held to the view that the clear power of the Forest Service and the BLM over the lands they respectively manage includes not only the right to place restrictions on the exportation of unprocessed logs sold therefrom, but the duty to do so under present circumstances Testimony of Government witnesses on the point was more guarded and less certain

On the second question, industry spokesmen steadfastly maintained—with consistent support from the subcommittee chairman and his colleagues at the hearings—that first priority is required, by law, to be given to the needs of local timber-dependent industry Official testimony, at least in part, cast some doubt on that premise

On the third question, the Chief of the Forest Service testified

\* \* \* this problem is one that involves the responsibilities of about four other major departments, and the feeling that one department cannot move unilaterally to take direct action It

<sup>196</sup> Ibid, testimony of Jack Reekie, p 711

has to be and should be a matter of teamwork, within the administration. At least we have not seen fit enough up to now for the Department of Agriculture to take unilateral action.<sup>196</sup>

Industry witnesses, in contrast, asserted that until and unless the timber-managing agencies affirmatively find and declare a surplus of logs to be available for exportation, the interests of other Federal departments concerned with export expansion and the balances of trade and payments are irrelevant and those departments have no jurisdiction in the premises.

If those three questions were in contention as the hearings ended, it is important to note two other points, no less weighty, on which there was not any real disagreement. Your subcommittee believes that the testimony of all witnesses who touched the points supported these propositions: (1) Where there is a surplus of volume in one or more species, up to and including the entire volume of any particular species, those logs should be available for export without processing. (2) Given agreement (which unfortunately does not yet fully exist) on specifications and price, the needs of the Japanese wood products market could be taken care of adequately, even during times of scarcity of logs in the Northwest, out of the primary products manufactured from them. The witness for the Japan Lumber Importers' Association may be startled to learn that your subcommittee heard his testimony as supporting that premise, but we believe that, on balance, it did. There was frequent and consistent comparison by almost all witnesses of the Japanese purchases from the Pacific Northwest with those from British Columbia and Alaska.

#### B *The issues resolved—in part*

Concurrent action announced by the Forest Service and the Bureau of Land Management on April 17, 1968, was—if not fully and certainly a “happy ending” for the crisis story with which our hearings were concerned—at least a “happy beginning to a happy ending.” A question at which your subcommittee’s chairman had hammered away throughout the hearings was: Why one rule for Alaska, another for the other timber-dependent States? Responding to that question, Chief Cliff of the Forest Service had said:

\* \* \* the manufacture of Alaska timber in Alaska rather than its shipment in the raw state for manufacture elsewhere is for the best interests of Alaska.<sup>197</sup>

Chairman Morse and his colleagues had repeatedly made clear their belief that a similar policy would be no less beneficial, and was no less authorized, for other States whose timber economies were endangered by the rapid outflow of raw material. The April 17 action of the Forest Service and the BLM demonstrated that they had, whatever their prior doubts about their authority or justification, come to accept that belief.<sup>198</sup>

In essence, the directives of the Secretaries of Agriculture and Interior extended to western Oregon and Washington, and to a few national forest areas reaching into eastern portions of the two States, a policy of primary processing of most Federal timber, comparable to the policy that has always obtained in the case of Alaska. Authority

<sup>196</sup> Hearings, testimony of Edward P. Cliff, p. 1073.

<sup>197</sup> Hearings, testimony of Edward P. Cliff, p. 1061.

<sup>198</sup> See apps. 1, 2, and 3 of this report, *infra*.

for the action was found, in the case of the Forest Service, in the act of June 4, 1897 (30 Stat 35, 16 U S C 475), in the case of the BLM, in the O & C Act (act of Aug 28, 1937, 50 Stat 874, 43 U S C 1181a)

Your subcommittee's gratification that these actions have been taken is tempered by distress that they were taken so belatedly, and after so much economic damage had already been done. Since the directives apply only to sales advertised after April 22, 1968, there will be a considerable time lapse before the restorative effects are felt in a significant way. In the meantime, export of unprocessed round logs from the Northwest to Japan, under sales heretofore made, appears to be running thus far in 1968 at an annual rate of about 2.6 billion board feet—another mammoth jump over the 1967 level of about 1.6 billion feet. Notwithstanding that fact, the reaction of the Japanese to the U S action has been immediate, intense and hostile.<sup>199</sup> Only the naive will suppose that the problems which gave rise to the hearings are now nearing an end.

It is a source of regret to your subcommittee, therefore, that the actions of the Agriculture and Interior Departments failed to resolve a vital issue of statutory construction which the hearings had clearly delineated.

The issue—which was joined in the written opinions of legal counsel to the industry on the one hand<sup>200</sup> and an opinion of the General Counsel of the Department of Agriculture on the other<sup>201</sup>—is this: Can the exportation of round logs be reasonably restricted by the U S timber management agencies *only* upon a finding of some express injury to the U S forests and forest industry (the Government position), or *must* exports be limited only to logs expressly determined to be surplus to U S needs (the industry position)?

In the opinion of the General Counsel of the Department of Agriculture (which was written in 1964 for purposes not connected with the Japan export problem), as in the opinions of industry lawyers, the following language in the act of April 12, 1926 (16 U S C 616) is at the nub of the controversy and is extensively discussed:

Timber lawfully cut on any national forest, or on the public lands in Alaska, may be exported from the State or territory where grown if, in the judgment of the Secretary of the

<sup>199</sup> The following article appeared in the Japan Times (English-language Tokyo daily) of Tuesday, April 23, 1968:

"LOG PROTEST NOTE WILL BE SENT TO U S"

"The Government will present a written protest to the United States shortly against new U S restrictions on exports of logs from the public forests of western Oregon and western Washington.

"This was decided at a Cabinet meeting Monday.

"The protest is expected to be made by the Foreign Office, the Agriculture Forestry Ministry and the International Trade and Industry Ministry after unifying their opinions.

"U S Secretary of Agriculture Orville Freeman recently announced in Portland, Oreg., a new measure for reduction of log exports from the areas to 1,570,000 square meters between April 22 and July 1 next year to control lumber prices.

"Japan imported 3,000,000 square meters of logs from the areas in 1967.

"The Government believes that the new U S measure will not effectively check log price increases in the U S as Japan will be importing logs from private and state forests in the United States to make up the shortage.

"The Japanese side maintains that the new measure violates a Japan U S agreement reached in Tokyo in February. Under the agreement, the U S is not to control its log exports to Japan but Japan must consider controlling imports of timber from the areas."

<sup>200</sup> Hearings, memorandum of law prepared by Norman J. Wiener of the firm of King, Miller, Anderson, Nash & Yerke, Portland, pp. 91-103, opinion of James P. Rogers of the firm of Davies, Biggs, Strayer, Stool & Boley, Portland, pp. 107-118, Circular No. 167 of the Western Wood Products Association, pp. 120-122.

<sup>201</sup> *Ibid.*, opinion of the General Counsel (John C. Bagwell) of the Department of Agriculture, No. 126, pp. 1076-1097.

Department administering the national forests, or the public lands in Alaska, the supply of timber for local use will not be endangered thereby, and the respective Secretaries concerned are authorized to issue rules and regulations to carry out the purposes of this section

At some risk of oversimplification, it may be said that the industry lawyers read this to impose upon the Departments of Agriculture and Interior a duty to find a surplus of raw material in excess of the needs of domestic industry and, absent such affirmative finding, to prohibit export. The Government counsel maintain that the language applies to local consumption uses (firewood, fenceposts, and the like), not to industrial raw material needs.

Your subcommittee will not here assume the judicial function and attempt to resolve such important opposing views of a statute as these, but it is well worth noting that the emergency which led to the hearings might never have come to pass had this controversy had the opportunity to be judicially examined. If the export to Japan of logs taken from national forest lands is unlawful unless and until the Secretary finds that those logs are surplus, it seems probable, on the record made in the hearings and summarized earlier in this report, that no such finding of surplus could have been made, as to much of the exported timber, after about the year 1965.

The recognition by the Departments of Agriculture and Interior that they can require primary processing, not just for Alaska but for other export-affected areas, under the 1897 and 1937 acts will be of great benefit, but your subcommittee concurs with industry that the benefit—in terms of negotiating with the Japanese—would be immeasurably greater if the controverted significance of the 1926 act were tested, and if industry's interpretation were found to be the correct one.

It is clear that Japan's growing demands on the American forest resource, and the American problems created thereby, will continue. The actions taken by the Government thus far are a useful and important stopgap remedy, a minimal response to the demonstrated need. It is your subcommittee's hope and expectation that the timber management agencies will remain vigilant to the possibility of further action, broader not only in geographic but in legal scope. The continuing oversight responsibility of the subcommittee—and the full Senate Small Business Committee—in this connection is expressly acknowledged and ungrudgingly accepted.

## CHAPTER 7 CONCLUSIONS AND RECOMMENDATIONS

### *A Conclusions*

1 The log-buying elements of the forest products industries in the West face a crisis of raw material supply which must be resolved to avoid permanent impairment of the timber-dependent economies of the affected areas.

2 The timber-management agencies of the Federal Government have the statutory authority to act to require primary U.S. manufacture of logs originating on Federal timberlands.

3 The situation in other Federal-timber-dependent areas should not be permitted to deteriorate as it had in western Oregon and western Washington before April 22, 1968, when the directives of the Secretaries of Agriculture and Interior became effective. To that end, the Secretaries could usefully give further consideration to industry's legal argument that they have powers and duties they are not fulfilling under the act of April 12, 1926 (16 U S C 616), indeed, they might most helpfully join with industry in seeking a means for judicial construction of that statute, which has such immense potential importance.

4 It is possible, through direct action by the forest industries of the United States and Japan, to achieve a better "mix" of logs and finished products for export from the Pacific Northwest which will not harm ports or longshore unions and will help forest products companies, their employees, and the communities in which they operate and live.

5 The Small Business Administration, by implementing the authority it has to require domestic manufacture of logs purchased under small business set-aside timber sales, could provide some relief to the qualifying manufacturers that employ about half the workers dependent on Federal timber.

6 The U S forest products industry has the technological and marketing skills to fulfill a greater proportion of Japan's requirements for lumber and plywood products and has the obligation to seek aggressively the opportunity to do so.

7 The Japanese, so long as they are able to obtain unlimited supplies of raw logs from Federal timberlands in the United States, will resist purchasing manufactured products.

8 Arguments that direct action to relieve economic distress in Oregon and Washington is unnecessary or undesirable are untenable in the face of existing restrictions against log exports from both Alaska and Canada, and in view of the market restraints imposed by the Jones Act.

9 All interests concerned with America's forest resource—public and private, domestic and foreign—will be served, and none disserved, by more intensive management on the Federal forests. Timber supply is relatively unresponsive to market fluctuations for forest products, it is most responsive to appropriation levels. Road construction on the Federal forests is the single most important factor for yield, opening up more forest area for harvesting, protection, planting, thinning, and salvage of trees killed by fire, insects, and windthrow. Larger road appropriations would be rapidly paid back to the Federal Treasury in increased timber sale receipts.

### *B Recommendations*

Your committee, on the advice of its subcommittee, recommends—

1 *To the Forest Service and the Bureau of Land Management*—Use the statutory authority with which the Congress has provided you. Use it aggressively but flexibly to meet changing conditions, but do not wait until foreign interests have bid stumpage prices out of reach of domestic manufacture before you act. Remember at all times that the Federal forests were established, first and foremost, "to furnish a continuous supply of timber for the use and necessities

of citizens of the United States" (30 Stat 34, as amended, 16 U S C 475)

2 *To the Department of Commerce*—Remain vigilant to the emergence of conditions that would require use of the Export Control Act and, when the criteria are met, exercise the power of that act swiftly

3 *To the Small Business Administration*—Continue to exercise, with the cooperation and assistance of the Forest Service and the Bureau of Land Management, small business set-aside powers to relieve inordinate raw material pressures on the qualifying segment of the forest industry dependent upon Federal timber, at the same time being careful not to shove the problem off on the nonqualifying segment of the industry

4 *To the Department of the Treasury*—Remain constantly aware that the public forests under Federal jurisdiction exist to serve the purposes of the citizens of the United States and are not mere pawns on the international and fiscal chessboard

5 *To the Department of State*—Sponsor the continuation of negotiations with Japan looking toward amicable resolution of existing wood supply problems for both Japan and the United States, but emphasizing that US policy is that Federal forest lands in the United States must fulfill the domestic requirements before their raw product is available for foreign manufacture

6 *To the forest products industry*—Aggressively use some of the industry's excellent marketing and promotional resources, as well as its technological and innovative capabilities, to increase the percentage of US wood which moves to Japan in processed form Demonstrate your versatility of production to meet all Japanese requirements

7 *To the Congress*—Consider whether the Jones Act is fulfilling its central purpose of sustaining the US merchant marine, or whether—at least insofar as lumber is concerned—its effect today is to impose handicaps upon the US forest products industry with no real countervailing benefit for the US maritime industry Should this prove to be the case, a carefully drawn amendment of the act would appear to be in order

8 *To the Congress*—In the interests of the US timber-dependent industries, of conservation, of recreation, of employment, of community stability, of balance of payments, and of trade with Japan and other countries, Federal expenditures on the Federal forests for road-building and increased silvicultural management should be increased Larger appropriations for intensified management on the Federal forests will rapidly be paid back to the Treasury in increased timber sale receipts

## APPENDIXES

### APPENDIX 1 DEPARTMENT OF AGRICULTURE PRESS RELEASE OF APRIL 17, 1968, ANNOUNCING CONCURRENT ACTIONS BY THE DEPARTMENTS OF AGRICULTURE AND INTERIOR ON PRIMARY PROCESSING OF LOGS

U S DEPARTMENT OF AGRICULTURE,  
*Portland, Oreg , April 17, 1968*

#### NEW TIMBER POLICY FOR PACIFIC NORTHWEST

A new policy concerning the primary processing of Federal timber in the Pacific Northwest was announced tonight by Secretary of Agriculture Orville L Freeman. It becomes effective with sales advertised April 22.

Secretary Freeman, speaking for himself and Secretary of the Interior Stewart L Udall, said that, because of the short supplies of timber in certain communities, they have directed the Chief of the Forest Service and the Director of Interior's Bureau of Land Management to require that a major part of the timber sold from Federal lands in the Northwest receive primary manufacture in the United States.

An exemption of 350 million board-feet of Federal timber in Oregon and Washington from the primary processing restrictions of the new policy will be allowed. In addition Port Orford Cedar will be exempted and offerings receiving no bids may also be exempted.

"This action is to help the domestic forest products industry by assisting them in obtaining adequate supplies of logs," said Secretary Freeman. "A market situation has developed that has made an increasing proportion of timber from the Northwest unavailable for domestic primary manufacture, leading to unemployment and to some mill curtailment in communities dependent on Federal timber," he added.

Forest Service lands affected by the policy include timberlands in western Washington and western Oregon and a few National Forest areas in eastern portions of the two States. The only BLM lands affected are the O & C, Coos Bay, Wagon Road, and public domain lands in western Oregon. The O & C Act of 1937 states that the purpose of managing such lands is to provide a permanent source of raw materials for the support of dependent communities and local industries of the region.

Secretary Freeman said that this action will bring Federal forest policies in the Northwest more into line with those of other producing areas such as British Columbia, where they impose domestic manufacturing requirements on raw logs.

The Secretary pointed out that "Because existing contracts will not be affected, we expect log exports to continue at current levels for the period immediately ahead. Our expectation is also that lumber

exports will increase so that the overall export of forest products will continue to increase. Thus, this action will not adversely affect our balance of payments."

The program will be reviewed carefully on a continuous basis to determine the appropriateness of the level of exemption, the forest areas included, and other related factors affecting the health of domestic forest products industries. It will terminate July 1, 1969, unless there is a determination that it should be continued.

USDA 1241-68

APPENDIX 2 DOCUMENTS IMPLEMENTING THE ACTION OF THE  
DEPARTMENT OF AGRICULTURE

A MEMORANDUM FROM THE SECRETARY TO THE CHIEF OF THE FOREST  
SERVICE

DEPARTMENT OF AGRICULTURE,  
*Washington, D C April 16, 1968*

To Edward P Cliff, Chief  
From The Secretary

By a "determination" signed today, I have determined that the market situation in the Pacific Northwest threatens maintenance of a domestic wood-using industry capable of processing the sustained yield of timber from the national forest areas hereinafter listed

At the same time, I recognize that the domestic forest industry does not need to have available for processing every stick of timber that is cut from the national forests. Some logs may be used elsewhere when consistent with good forest management and the need to maintain a forest products industry in the Pacific Northwest.

To meet this situation, I am directing that you institute immediately a policy which requires that new national forest timber offerings in the localities described below be given primary manufacture in the United States except for a general volume which is described in the "determination" and except for the specific situations and species described hereafter.

This directive is applicable to new timber sale offerings to be made on and after April 22, 1968, in the following national forest areas

*State of Washington*

- 1 Mount Baker National Forest
- 2 Snoqualmie National Forest
- 3 Olympic National Forest (except Grays Harbor Federal sustained yield unit and Shelton cooperative sustained yield unit)
- 4 Gifford Pinchot National Forest
- 5 Cle Elum and Lake Wenatchee Ranger Districts, Wenatchee National Forest

*State of Oregon*

- 6 Mount Hood National Forest
- 7 Willamette National Forest
- 8 Siuslaw National Forest
- 9 Umpqua National Forest
- 10 Siskiyou National Forest
- 11 Rogue River National Forest
- 12 Sisters, Bend, and Crescent Ranger Districts, Deschutes National Forest
- 13 Klamath Ranger District, Winema National Forest

This directive shall not apply to the following situations or species

- 1 Timber sales with an appraised value of less than \$2,000
- 2 Subject to your determination in individual cases, sales advertised for at least 30 days on which no bids are received, but which are readvertised
- 3 Subject to your determination in individual cases, timber settlements and land exchange agreements or defaulted sales which may be reoffered
- 4 All sales in the Grays Harbor Federal Sustained Yield Unit and Shelton Cooperative Sustained Yield Unit
- 5 Port-Orford-cedar

You will provide, during the tenure of this directive, that each applicable prospectus, advertisement, and contract shall state that primary manufacture within the United States is required except as noted herein. You will also provide, that in sale offerings which provide for volumes not required to be domestically processed, there will be proper notice in the prospectus and advertisement and appropriate language in the contract.

In accordance with the "Determination," you are to establish a system and issue instructions that will accomplish the objectives here described, including provision for a "general volume" exempted from the requirement for domestic processing, and including a control system which will permit compliance checks.

This instruction will terminate June 30, 1969, unless I have determined before that date that there is need to continue it, or to modify and extend it.

I ask that you be alert to find ways this Department can be helpful in fostering increased trade in manufactured forest products between this country and our principal customers for logs. I further ask that you require from the domestic forest industry, from time to time, information and progress reports on effective efforts being made, and results being obtained by this industry to sell increased volumes of manufactured forest products in the countries that are now the principal customers for unprocessed logs.

ORVILLE L. FREEMAN,  
*Secretary*

#### B DETERMINATION BY THE SECRETARY OF AGRICULTURE

*A determination by the Secretary of Agriculture concerning primary processing of timber from national forests of the Pacific Northwest*

One of the purposes for which the national forests in the Western States were established is "to furnish a continuous supply of timber for the use and necessities of citizens of the United States" (30 Stat 34, 35, 36, as amended, 16 U S C 475)

To fulfill this purpose, it is necessary that there be a viable, domestic wood-using industry. To be effective, this industry should comprise an array of wood manufacturing plants ranging in size from small operations to large integrated ones. In total capacity, such industry should be capable of processing and using the sustained-yield of national forest timber in a range of products that best meets (a) the needs of citizens of the United States and (b) the resource management

and harvest needs of the national forests To maintain its viability, it is essential for the domestic wood-using industry to maintain capability for primary manufacturing

A market situation has developed in the Pacific Northwest under which an increasing proportion of the national forest timber is becoming unavailable for domestic primary manufacture If there is no change, this situation threatens the continued existence of numerous wood-processing plants that are wholly or partially dependent upon manufacturing logs originating on national forest lands The industry is capable of processing most of the sustained yield cut of the national forests into products needed by citizens of the United States, and it is contrary to the public interest for the existence of this industry to be eroded away through loss of available raw material

Consequently, I hereby determine that there now exists in the Pacific Northwest a situation requiring immediate action on my part Accordingly, until July 1, 1969, timber offerings in western Washington and western Oregon, as well as in selected areas east of the cascade Divide which are closely related to the western areas, shall specify, with appropriate exceptions, that such timber be given primary manufacture in the United States

I am instructing the Chief of the Forest Service to take the steps necessary to implement this determination These instructions are to provide that timber cut from the National Forests in the affected area receive primary manufacture in the United States, except for Port Orford cedar and certain other exceptions noted in my instructions, and except for a general volume that may be available for other disposition at the discretion of the timber purchaser

I hereby determine that the general volume to be available for other disposition from the National Forest land in the affected area is to be at the annual rate of 290 million board feet, subject to review prior to July 1, 1969

Instructions are to be promulgated by the Chief of the Forest Service to provide for periodic redetermination of the necessity to continue the program, and a control system which will assure that an adequate proportion of the annual timber offerings will be for domestic primary manufacturing

ORVILLE L FREEMAN,  
*Secretary*

APRIL 16, 1968

C PLAN OF THE FOREST SERVICE

*Plan for Requiring Domestic Primary Manufacturing of Logs From National Forest Land in the Pacific Northwest*

This is a plan to put into effect, until June 30, 1969, a requirement that a major part of the timber sold from certain designated national forests in the Pacific Northwest receive primary manufacture in the United States Its objective is to assist our local forest products industry in obtaining adequate supplies of logs from the national forests to meet their processing needs The plan includes a provision that will exempt from this requirement a portion of the total timber volume in the annual program Upon a determination by the Secretary of Agri-

culture that its continuation is necessary, the plan will be reviewed and renewed annually

The area covered by this plan includes national forest areas in the Douglas-fir region of western Washington and western Oregon and a few additional national forest areas in the eastern portions of these two States. These additional areas are included because of their economic relationship to the timber economy of the western areas. The national forest areas covered by the plan are as follows:

*Washington*

- 1 Mount Baker National Forest
- 2 Snoqualmie National Forest
- 3 Olympic National Forest (except Grays Harbor Federal sustained yield unit and Shelton cooperatives sustained yield unit)
- 4 Gifford Pinchot National Forest
- 5 Cle Elum and Lake Wenatchee Ranger Districts, Wenatchee National Forest

*Oregon*

- 6 Mount Hood National Forest
- 7 Willamette National Forest
- 8 Siuslaw National Forest
- 9 Umpqua National Forest
- 10 Siskiyou National Forest
- 11 Rogue River National Forest
- 12 Sisters, Bend, and Crescent Ranger Districts, Deschutes National Forest
- 13 Klamath Ranger District, Winema National Forest

A similar plan is being proposed by the Secretary of the Interior for lands administered by the Bureau of Land Management in western Oregon.

Other national forests are not now covered by this plan. Prompt consideration will be given to circumstances on individual national forests, such as those in eastern Oregon, eastern Washington, northern California, and the Inland Empire, that may be presented by forest industry or other who are interested in this policy matter. Additional national forests, contiguous to the area covered by the directive, can be included upon a showing that a problem exists comparable to that which exists for the area described above, and that it is in the public interest to do so.

*The plan in general*

National forest timber transactions in the area described above (hereafter called "the area") will be subject to contractual requirements that logs receive primary manufacturing in the United States. The requirement will be applied to all advertised sales with an appraised value in excess of \$2,000 and to timber settlements and land exchange cutting agreements when appropriate.

This requirement will not apply to Port Orford cedar. It will not be retroactive to existing contracts or to sale offerings being advertised. It will not apply to transactions that are already subject to the primary manufacturing restrictions of the Grays Harbor Federal unit or the Shelton Cooperative sustained-yield unit.

Whenever any sale offering is made in the area and there are no bidders, the sale may be readvertised with no domestic processing requirement

This action will be taken as soon as possible upon issuance of an order by the Secretary of Agriculture. It is desirable that the timing be coordinated so that the Secretary of the Interior may act simultaneously with respect to timber sold from lands in western Oregon administered by the Bureau of Land Management.

A key part of this plan is a procedure which specifies the timber volume in individual sales that may be exempted from domestic primary manufacture. Management of national forest timber requires maintenance of a viable forest industry. The Secretary of Agriculture has determined that maintenance of such a domestic timber industry depends upon the availability of timber supplies from national forest land in the area. The exemption system hereinafter described recognizes that a viable forest industry can be maintained without processing domestically every stick of timber that is cut from the national forests. For the period ending June 30, 1969, the objective will be to exempt, on an annual basis, approximately 350 million board feet (Scribner long-log scale) of the timber sold from the Bureau of Land Management and Forest Service lands in the area. Likewise, a representative proportion of the 350-million-board-foot annual target will be exempted in sales advertised during the balance of fiscal year 1968.

Annually thereafter, the Secretary of Agriculture will determine the volume, from the national forest lands, that can be exempted without being detrimental to the maintenance of a healthy and viable forestry industry.

Both the requirement for domestic processing for timber cut from national forest lands and the exemption system will expire for new timber sale contracts issued after June 30, 1969, unless the requirement is extended by the Secretary of Agriculture.

#### *The Exemption System*

The exemption system will be implemented through provisions in timber contracts. Contract will state the volume that is exempted from domestic manufacturing. Such volumes not required to be processed in domestic mills may be disposed of as the purchaser desires. Purchasers will be required to keep appropriate records and adequately identify logs. Purchasers may be required to certify as to final disposition of all logs.

Allotment of the exempt volume will be based on an agreed to division of it between the two Federal agencies. It is a combined judgment determination of the volume that could be excepted from domestic manufacturing. The national forest portion will be divided between producing zones, taking into consideration (1) the historical proportions of timber that received processing in the different localities in the area, (2) proportion of species in timber offerings that are most in demand for domestic processing, and (3) the volumes of timber available from private land.

Based on the above considerations, the following tables show distribution of the annual exemption target between the agencies and between producing zones of the national forests.

TABLE 1—*Annual exemption target*

[Millions of Board Feet, Scribner long log scale]	
National forest .....	290
Bureau of Land Management .....	60
Total .....	350

TABLE 2—*Annual exemption target*

[Millions of Board Feet, Scribner long log scale]	
National Forest Zones	
Puget Sound .....	174
Mount Baker National Forest	
Olympic National Forest (excluding sustained yield units)	
Snoqualmie National Forest	
Wenatchee National Forest (Cle Elum and Lake Wenatchee Districts)	
Gifford Pinchot National Forest (north)	
Columbia River .....	110
Gifford Pinchot National Forest (south)	
Mount Hood National Forest	
Willamette National Forest	
Siuslaw National Forest	
Deschutes National Forest (Bend, Sisters, and Crescent Districts)	
Southern Oregon .....	6
Umpqua National Forest	
Siskiyou National Forest	
Rogue River National Forest	
Winema (Klamath District)	
Total .....	290

For the National forest area, the volumes shown will be allocated to National forests and to selected offerings. Such allocations will be made by the regional forester.

During the balance of fiscal year 1968, a representative proportionate amount of the 350 million board foot annual target will be exempted from domestic primary manufacturing. Its distribution among producing zones will follow the general pattern set forth in table 2 above.

#### *What Constitutes Primary Manufacture*

Primary manufacture will be defined in timber contracts as follows:

1. Converting logs, bolts, or other roundwood to
  - (a) Cants or squares that are eight (8) inches or less in thickness
  - (b) Smaller sawed products
  - (c) Veneer
  - (d) Pulp
  - (e) Chips

2. Manufacturing a product for use without further processing such as structural timbers, piling, or poles within the United States or for use elsewhere under written approval by the Forest Service.

#### *Regulation of Restrictions*

To implement the exemption provisions of a contract, the purchaser will be required to apply in writing if he desires to sell for use elsewhere all or a portion of the stated exemption volume in a sale, and to furnish the following information needed by the Forest Service in administering the contract:

1. The volume of exemption sought

2 The species involved

3 A satisfactory log-control plan to avoid overrunning the contract exemption limit

Subsequently, the purchaser may be required to maintain or furnish the following information needed by the Forest Service to check on compliance with contract provisions with regard to either exemption or primary manufacturing

1 Copies of purchaser's executed sales invoices showing points of log delivery, and volumes by species and brands involved

2 Bills of lading covering log sales or trade transactions

3 In the event purchaser sells or trades any of the domestic logs, he will be required to condition such transactions by requiring each buyer, exchangee, or recipient to execute an agreement which shall provide for primary manufacture in the United States. The agreements will be filed with the Forest Service

4 Retain for 3 years the records of all sales or trades of logs

5 A certified statement showing the disposition details of all logs removed from the timber sale contract area. Such statement is to be filed with the Forest Service prior to termination of the sale contract

Prior to starting operations, the purchaser will be required to arrange for selecting and segregating exempt logs and domestic logs before they are hauled, unless the Forest Service agrees to an alternate plan. The domestic logs will be branded with an approved brand and painted with highway yellow paint. Exempt logs will not be painted, but would bear a distinguishing brand.

For timber to be measured after cutting, the scaling record used for computing stumpage charges will be used as the basic accounting record for compliance with the domestic primary manufacturing requirement. Accordingly, the record would be divided and subtotaled respectively for domestic and exempt log volumes. The Forest Service will arrange for this if the Forest Service performs the scaling. If not, the purchaser will arrange for the appropriate record to be made by an approved scaling bureau.

For timber to be measured prior to cutting, the purchaser will be required to arrange for scaling of the exempted logs. This arrangement could be with the Forest Service or with an approved scaling bureau, depending upon circumstances. In either event, the purchaser would pay for the scaling service. This measurement must be in Scribner long-log volume—not Brereton.

The exemption limit stated in a contract will not be subject to adjustment up or down, as a consequence of the total volume cut overrunning, or underrunning contract volume estimates. It would be the purchaser's responsibility to supervise operations so that the exemption limit is not violated. It is recognized that it is impractical to sort exempt logs so that their total volume coincides exactly with the exemption limit. Therefore, contracts will provide an overage tolerance of 6,000 board feet.

If the primary manufacturing requirement of a contract is breached during its life, it can be terminated unilaterally by the Forest Service. In event of contract violation, the Forest Service may refuse to award, or may debar or suspend the purchaser or his log buyers, exchangees,

or recipients of logs from purchasing future Forest Service timber offerings

*Other Operating and Administrative Details*

Other details of the plan are as follows

- 1 Port Orford Cedar will be exempt from the domestic primary manufacturing requirement
- 2 The plan will not apply to sales with an appraised value less than \$2000
- 3 The plan may be made applicable to land exchange cutting agreements and timber settlements, depending on circumstances
- 4 The plan will not apply to Grays Harbor Federal sustained-yield unit or the Shelton Cooperative sustained-yield unit
- 5 The plan in no way will be retroactive to sale contracts already made
- 6 If timber sales are offered and there are no bidders, such sales may be reoffered without the primary manufacturing requirement
- 7 Volumes exempt from primary manufacture will not be adjusted as a consequence of sales over or undercutting sale estimates
- 8 It is recognized a purchaser cannot identify the volume of exempt logs at precisely the exemption limit stated in a contract. Because of this, there would be an overage tolerance of 6,000 board feet. Otherwise, it is the purchaser's responsibility to comply with the stated limit
- 9 The plan will be applied to sales set aside under the Small Business Act. The exemption will not exceed the volume that may be processed by firms not qualifying as small businesses

APPENDIX 3 DOCUMENTS IMPLEMENTING THE ACTION OF THE  
DEPARTMENT OF THE INTERIOR

A MEMORANDUM FROM THE SECRETARY TO THE DIRECTOR OF THE BUREAU  
OF LAND MANAGEMENT

U S DEPARTMENT OF THE INTERIOR,  
OFFICE OF THE SECRETARY,  
*Washington, D C , April 15, 1968*

To Director, Bureau of Land Management  
From Secretary of the Interior  
Subject Requirements for regional primary manufacture of Bureau  
of Land Management timber

A market situation has developed in the Pacific Northwest under which an increasing proportion of BLM timber in western Oregon is no longer available for regional manufacture. Further, no improvement is foreseen within the immediate future. Forecasts now indicate that inroads into the regional supply are expected to more than double by 1970 unless positive steps are now taken to correct the situation.

The O & C Act of August 28, 1937, states that the purpose of managing such lands is to provide a permanent source of raw materials for the support of dependent communities and local industries of the region. However, it is evident shortages in supply have led to unemployment and to some mill curtailments. Accordingly, measures are now needed to maintain or improve present supply balances. Therefore, I hereby direct that all timber from lands administered by the Bureau of Land Management which are in Oregon and west of R 8 E, shall be sold subject to the requirement that such timber shall receive primary manufacture within the dependent communities wherein the timber is located, provided that a purchaser shall be deemed to have complied with this requirement if the timber sold receives primary manufacture within the States of Washington, Oregon, or California. If primary manufacture is to be done other than in the States of Washington, Oregon, or California, the purchaser shall be required to show to the satisfaction of the officer issuing the contract that primary manufacturing will be done in a dependent community of the region wherein the timber sold is located. However, this general primary manufacturing requirement should also provide exceptions to permit a reasonable volume and mix of species and grades to meet demand for transfer of logs outside of the three-State area. Such exceptions shall provide for meeting BLM's allocable share of the total Federal commitment for such logs, periodically determined, and distributed uniformly through western Oregon directly proportional to both district allowable cuts and individual timber sale volumes.

Furthermore, special provisions should be included to except from primary manufacturing restrictions Port Orford cedar and to allow partial or total removal of such restrictions in the case of readver-

tised no-bid offerings Timber sale contracts now in force, pending contract execution, or in advertising should not be subjected to retroactive primary manufacturing requirements A system of reasonable accountability should be developed for primary manufacture restricted and excepted log volumes

Should evidence be gathered that a problem exists or is developing elsewhere, similar to the one in western Oregon, an expansion of the area covered under measures described above may be necessary

The requirement for regional primary manufacturing will expire July 1, 1969, unless it is determined prior to that date that it should be continued

I further direct that you shall take all appropriate actions to carry out the intent of this memorandum at the earliest practicable date

STEWART L UDALL

B BUREAU OF LAND MANAGEMENT PLAN OF IMPLEMENTATION WITH OPERATING PROCEDURES AND FORMS

APRIL 15, 1968

*Plan for Requiring Regional Primary Manufacturing of Logs From Bureau of Land Management Timber Sales in Western Oregon*

#### *Objectives*

1 Help maintain adequate public log supplies for wood-processing industries in communities of Oregon, Washington, and California dependent on timber from Bureau of Land Management forest lands in western Oregon by requiring that approximately 95 percent of all BLM timber sold in western Oregon shall receive primary manufacturing within the three-State region

2 Distribute timber volumes excepted from the primary manufacturing requirement in a uniform manner consistent with providing a mix of species and grades in demand for log trade outside of the three-State region

3 Establish a simple, basic system of log accountability and reporting that will enable a reasonably accurate tabulation of log utilization from BLM lands by the purchaser

4 Accomplish the above objectives with a minimum of administrative complication and situations involving subjective decisionmaking

#### *Relationship to Forest Service Plan and Volume Distribution*

The BLM primary manufacturing plan is complementary to a generally parallel Forest Service primary manufacturing plan for western Oregon and western Washington The overall target of the two agencies it to reserve all but approximately 350 million board feet of BLM and national forest timber annual timber sale volume for primary manufacturing within the region

Distribution between FS and BLM of volume excepted from primary manufacturing restrictions will be as follows

	[Millions of board feet, Scribner long-log scale]	
National forest -----		290
Bureau of Land Management -----		60
<b>Total -----</b>		<b>350</b>

### *Bureau of Land Management Operating Procedures*

#### *A Primary manufacture requirement and exception system*

1 All western Oregon timber sale contracts of 100,000 board feet or larger will require primary manufacture of approximately 95 percent of contract volume to be done within the dependent communities of the region in which the timber is situated (Manufacture in the State of Oregon, Washington, or California considered prima facie compliance) To avoid any possible confusion between cruise and recovery volume, the actual thousand-board-foot volume excepted from the primary manufacturing restriction will be stated Sales of less than 100,000 board feet will require primary manufacture of all sale volume within dependent communities of the region Exception allowances stated in contracts shall be fixed and not subject to adjustment either upward or downward

Primary manufacture restrictions will not be retroactive to existing contracts or pending contract execution or sales already in advertising Additional BLM forest land areas not included in the present plan may be subsequently included under primary manufacturing restrictions should evidence be gathered showing that a problem exists or is developing to the point that it is in the public interest to take action

2 Volume exceptions totaling 60 million board feet (Scribner long-log scale) will be distributed throughout western Oregon on a basis of equal proportionality to district allowable cuts This distribution breaks down as follows

	<i>Millions</i>
Salem -----	14 2
Eugene -----	9 2
Coos Bay -----	12 1
Roseburg -----	10 0
Medford -----	14 5
<b>Total -----</b>	<b>60 0</b>

Within each district exception volumes will be distributed uniformly proportionate to contract volume on all sales of 100,000 board feet or larger

#### *B Exceptions and waivers*

1 Port Orford Cedar shall be excepted from primary manufacturing restrictions and shall not be tallied against overall exception level targets

2 In the event of a no-bid sale the parcel may be reoffered for sale with primary manufacturing volume restrictions removed in whole or in part Even though primary manufacturing requirements are waived, however, reporting and accountability provisions will remain in force for each sale

#### *C Primary manufacturing definition*

Primary manufacture will be defined in timber contracts as follows

1 Conversion of logs, bolts, or other roundwood to cants or squares

that are 8 inches or less in thickness, smaller sawn products, veneer, pulp, or chips

2 Manufacture of a product for use without further processing (such as structural timbers, piling, or poles) within the State of Washington, Oregon, or California or for use elsewhere under written approval by the authorized officer

*D Accountability and control*

1 Sale contracts will include a provision which will permit administrative checks by requiring the purchaser to segregate excepted logs from primary manufacture logs prior to hauling, marking logs subject to primary manufacture with an approved ownership brand and special paint while marking excepted logs with an approved ownership brand, no special paint, but with other suitable marking where needed. BLM will make administrative checks of excepted volumes, including use of separate BLM scaling at its option

2 In the event the purchaser elects to sell any or all of the timber designated for primary manufacture in the form of logs or bolts, the purchaser shall require each party buying, exchanging, or receiving such timber or their successors in interest, to execute a "Certification as to primary manufacture of timber" on an approved BLM form and file it with the authorized officer

3 Purchaser shall file with the authorized officer a "Notice of intent to sell excepted logs" at least 10 days prior to any transaction involving shipment of unmanufactured logs from the specified primary manufacturing region. This notice shall be completed on an approved BLM form giving a breakdown of volume by species and identifying buyer and destination

4 Prior to contract termination, purchaser shall furnish to the authorized officer a certified statement executed by signing officers of the company, giving the disposition of sale volume between primary manufacture utilization and unprocessed log shipments from the region by species and volume

*E Enforcement and penalties*

In the event of noncompliance with the "primary manufacture" provisions or accountability stipulations, suspension or contract termination actions may be taken under section 10 of the contract. Furthermore, a contract violator may be declared ineligible to receive future awards of Government timber for a specified period of time

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*Proposed Language for Legal Advertising and Timber Sale Notice*

Except Port Orford Cedar and ----- thousand board feet of the other timber species offered for sale, all timber must receive primary manufacturing within a dependent community of the region wherein the timber is located. Manufacture within the States of Washington, Oregon or California shall be deemed, prima facie to satisfy this requirement. Purchasers who intend to primary manufacture nonexcepted timber other than in the States of Washington, Oregon or California must show to the satisfaction of the authorized officer of the Bureau of Land Management that such timber will receive pri-

mary manufacture in a dependent community of the region wherein the timber is situated before the purchase contract will be issued

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*Proposed Language for Use in Timber Sale Prospectus*

Except Port Orford Cedar and ----- thousand board feet of the other timber species offered for sale, all timber must receive primary manufacturing within a community of the region wherein the timber is located. Manufacture of nonexcepted timber within the States of Washington, Oregon or California shall be deemed *prima facie* to satisfy this requirement. Purchasers who intend to primary manufacture such timber other than in the States of Washington, Oregon or California must show to the satisfaction of the authorized officer of the Bureau of Land Management that such timber will receive primary manufacture in a dependent community of the region wherein the timber is situated before the purchase contract will be issued. "Primary manufacture" is defined to mean (a) the conversion of logs, bolts, or other roundwood to cants or squares that are 8 inches or less in thickness, smaller sawn products, veneer, pulp or chips, or (b) the manufacture of a product for use without further processing (such as structural timbers, piling or poles) within the States of Washington, Oregon or California or for use elsewhere under written approval by the authorized officer. In the event the purchaser wishes to sell any or all of the nonexcepted timber in the form of logs, bolts, or other roundwood, the buyer, exchangee or recipient shall be required to comply with the contractual provisions of "primary manufacture."

Special reporting, branding, and painting of logs will be included in the provisions of the contract

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*Contract Language to be Added as a Special Provision  
to Section 38 of Contract Form 5430-3*

Except Port Orford cedar and -----M board feet of the other timber species, the primary manufacture of all timber sold to the purchaser under the terms of this contract shall be done in a dependent community of the region wherein the timber sold is located, provided, however, that primary manufacture within the States of Washington, Oregon, or California shall be deemed *prima facie* to satisfy this requirement. If primary manufacture of nonexcepted timber is to be done other than in the States of Washington, Oregon, or California, the written approval of the authorized officer must be received specifically designating the dependent community in which such primary manufacturing shall be done. Such approval shall be attached hereto and become a part of this contract and the Purchaser agrees to do such primary manufacture within the community designated in said written approval. For the purpose of this contract, "primary manufacture" is defined to mean (a) conversion of logs, bolts or other roundwood to cants or squares that are eight inches or less in thickness, smaller sawn products, veneer, pulp or chips, or (b) the manufacture of a product for use without further processing (such as structural timbers, piling or poles) within the States of Washington,

Oregon or California or for use elsewhere under written approval by the Authorized Officer

In the event the Purchaser elects to sell any or all of the non-excepted timber sold under this contract in the form of logs, bolts or other roundwood, the Purchaser shall require each party buying, exchanging or receiving such timber to execute a "*Certification As to Primary Manufacture of Timber*" The original of such certification shall be filed with the Authorized Officer

In the event the Purchaser elects to sell any or all of the timber excepted from primary manufacture, he shall file with the Authorized Officer a "*Notice of Intent to Sell Excepted Logs*" at least ten days prior to any transaction involving shipment of unmanufactured logs from the specified primary manufacturing region

Prior to the termination of this contract, the Purchaser shall submit to the Authorized Officer a "*Certification of Disposition of Timber Sale Volume*" which shall be executed by the contract signing officer (s)

Unless otherwise authorized in writing by the Authorized Officer, the Purchaser (a) for timber designated for primary manufacture, shall prior to its removal from the contract area Brand with the Purchaser's registered brand both ends of each log, bolt or other roundwood and identify each of these by painting with highway yellow paint and (b) for timber excepted from primary manufacture, shall prior to its removal from the contract area Brand with the Purchaser's registered brand both ends of each log, bolt or other roundwood and segregate excepted logs from those requiring primary manufacturing at locations on or adjacent to the contract area, provided, however, such excepted logs shall not be painted with highway yellow paint

In the event of the Purchaser's noncompliance with the "primary manufacture" provision of this contract, the Authorized Officer may take appropriate action as set forth in Section 10 of this contract In addition, the Purchaser may be declared ineligible to receive future awards of Government timber

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*Contract Language to be Added as a Special Provision to Section 37 of Contract Form 5430-4*

Except Port Orford Cedar and ———M board feet of the other timber species, the primary manufacture of all timber sold to the Purchaser under the terms of this contract shall be done in a dependent community of the region wherein the timber sold is located, Provided, however, That primary manufacture within the States of Washington, Oregon or California shall be deemed *prima facie* to satisfy this requirement If primary manufacture of non-excepted timber is to be done other than in the States of Washington, Oregon or California, the written approval of the Authorized Officer must be received specifically designating the dependent community in which such primary manufacturing shall be done Such approval shall be attached hereto and become a part of this contract and the Purchaser agrees to do such primary manufacture within the community designated in said written approval For the purpose of this contract "primary manufacture"



ment if the timber sold receives primary manufacture with the States of Washington, Oregon or California. If primary manufacture is to be done other than in the States of Washington, Oregon or California, the purchaser shall be required to show to the satisfaction of the officer issuing the contract that primary manufacture will be done in a dependent community of the region wherein the timber to be sold is situated. Within the terms and conditions of this contract, "primary manufacture" is defined to mean (a) the conversion of logs, bolts or other roundwood to cants or squares that are 8 inches or less in thickness, smaller sawn products, veneer, pulp or chips, or (b) the manufacture of a product for use without further processing (such as structural timbers, piling or poles) within the States of Washington, Oregon, or California or for use elsewhere under written approval by the authorized officer.

As a buyer of logs, bolts or other roundwood originating from the contract area of said timber sale contract, (I) (We) agree to abide by the terms and conditions of said contract with respect to the primary manufacture of nonexcepted forest products

-----  
 (Name of firm)  
 -----  
 (Signature of signing officer/s/)  
 -----  
 (Title)  
 -----  
 (Date)

(Instructions Whenever the purchaser of timber sold under a Bureau of Land Management contract wishes to sell or exchange any or all of the nonexcepted timber in the form of logs, bolts or other roundwood, he shall require each party receiving such timber to execute this certificate. The purchaser shall forward the original copy of the certificate to the authorized officer.)

-----  
*Notice of Intent To Sell Excepted Logs*

(I) (we) plan to sell logs excepted from primary processing requirements under section ----- and in accordance with terms and procedures set forth in sections -----, -----, and ----- of Timber Sale Contract No 14-11-0001 ( ) ----- dated ----- between ----- of ----- and the United

(Name) (Address)

States of America, acting through the Bureau of Land Management, for purposes of primary manufacture outside of the region composed of the States of Washington, Oregon, and California.

The species and volume of excepted logs to be sold are

<i>Species</i>	<i>Volume (Scribner long log scale)</i>
-----	-----
-----	-----
-----	-----
-----	-----

---

**Total**

Buyer of excepted logs

-----  
(Name)

-----  
(Address)

Log destination

-----  
(State or country)

Planned date of execution of log sale -----

Anticipated period of removal of excepted logs sold from the contract area ----- to -----  
(Date) (Date)

-----  
(Name of firm)

-----  
(Signature)

-----  
(Title)

-----  
(Date)

*Certification of Disposition of Timber Sale Volume*

(I) (we) certify that the following disposition was made of timber removed from Timber Sale Contract No 14-11-0001 ( ) ----- dated ----- between ----- of -----  
(Name) (Address)

and the United States of America, acting through the Bureau of Land Management

1 Timber receiving primary processing as defined in said contract, by the timber sale purchaser within the States of Washington, Oregon, or California

<i>Species</i>	<i>Volume (Scribner long log scale)</i>
-----	-----
-----	-----
-----	-----
-----	-----

**Total**

2 Timber sold to a third party for primary manufacture within the States of Washington, Oregon, or California under terms of section ----- of this timber sale contract

<i>Species</i>	<i>Volume (Scribner long-log scale)</i>
-----	-----
-----	-----
-----	-----
-----	-----

**Total**

3 Excepted timber sold or transported for primary manufacture outside of the region composed of the States of Washington, Oregon,

and California under terms of section \_\_\_\_\_ of this timber sale contract

<i>Species</i>	<i>Volume (Scribner long-log scale)</i>
-----	-----
-----	-----
-----	-----
-----	-----
-----	-----

Total

I certify that the above statement is true and that it is, to the best of my knowledge, a complete statement of the volume of all logs removed under said contract

If individual or partnership,      If corporation, sign here  
sign here

(Name of firm)	(Name of Corporation)
(Name)	(Name)
(Address)	(Title)
(Name)	
(Address)	
(Name)	
(Address)	

If purchaser is a corporation the following certificate must be executed by the secretary or assistant secretary of the corporation

I, \_\_\_\_\_, certify that I am the \_\_\_\_\_ secretary of the corporation named as purchaser herein, that \_\_\_\_\_ who signed the certification was the \_\_\_\_\_ of said corporation, that said certification was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers

[CORPORATE SEAL]

Title 18 U S C , section 1001, makes it a crime for any person knowingly and wilfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction

