

Comments on SB32 - - Timber Sales on State Forests

Rebecca Knight
PO Box 1331
Petersburg, AK 99833
March 24, 2015

Hello Chairperson and Committee Members,

I perceive SB 32 (and its companion HB 87) as largely intended to benefit two timber companies, Viking Lumber and Alcan which both operate in Southeast. Viking operates out of Klawock on Prince of Wales Island. Alcan does not have a mill in Southeast and is mostly an "in the round" timber exporter. Alcan has offices in Ketchikan, Terrace BC, and Aberdeen WA and their parent company is TransPac.:

<http://www.grouptranspac.com/web2/page/forestry.htm>

My perception is based in part on the fact that the interior timber industry does not appear to have any burning issues; it is the SE timber industry, particularly Viking Lumber that has made the biggest fuss regarding timber.

Fiscal Note Inconsistencies

Review of the Fiscal Note for the proposed bill indicates that there will be "no" regulation changes adopted by DNR. However, there will indeed be significant changes:

1. The proposed legislation would outright repeal existing regulations AS 39.05.118(c) to allow DNR to offer negotiated timber sales (instead of by open bidding or auction) for up to 25 years statewide. Currently, per the 118(c) clause, such sales are restricted to areas of high unemployment, excess manufacturing capacity, and excess allowable cut, which limit them to remote areas. This reasonable requirement should not be abandoned. Further, timber would be sold at appraised value instead of to the highest bidder and in many places it may be difficult to get an appraisal that gives the state fair value for the timber.
2. The DNR commissioner would be granted the authority to determine which applicable sale method (competitive or negotiated) is in the best interest of the state for each timber sale. Currently, a sale of timber may not be negotiated by the commissioner under the 118(c) clause. As Tok timber operator, Mr. Stancliff, testified during the March 3 House Resources Committee meeting, this would be a "monumental change of authority".

3. The proposed legislation would allow DNR to negotiate sales to wood fiber users, including biomass energy producers, in addition to wood product manufacturers. Currently, sales to supply a chip biomass operation would not qualify for this type of sale as chips are not a “high value added” product.
4. Most importantly, for large negotiated sales, the legislation makes AS 38.05.118 and .120 “notwithstanding.” and repeals a requirement for “maintenance of the sustained yield principle.” It removes a prohibition on making more than one negotiated timber sale contract with the same purchaser within one year. Also, by removing the provision under 118(c) regarding excess allowable cut a second way of allowing sustained yield principles to be exceeded is provided. I am unaware of a provision that permits the sustainability requirements of our State constitution to be abandoned.

I also find the zero Fiscal Note “Operating Expenditures” to be highly questionable. Certainly, administration of 25 year contracts will require significant fiscal outlays, not to mention the costs of road construction (capital cost) and maintenance, inspection and monitoring to name just a few costs. To claim there will be no additional costs associated with this game changing proposed legislation is completely unrealistic.

Moreover, to hang your fiscally responsible hat on the statement that “revenues *should* increase as the industry diversifies”¹ with absolutely no supporting documentation or figures is irresponsible at best. These timber sales will be a money drain on the State coffers despite the optimistic statement included in the fiscal note.

Finally, it would be imprudent to enter into long term SOA timber contracts given the history of previous long term timber contracts in Southeast Alaska, and especially when there is no assurance that the funds to administer the contracts would be available down the road due to dwindling oil revenues. Contract cancellation and associated compensation costs is a certain risk when the contract runs up against sustained yield limitations - an inevitable situation with a long-term contract. The precautionary principle should be your guiding light regarding any decision to authorize this legislation.

Timber Supply

I remain unconvinced there is a timber supply shortage in Southeast Alaska. The State of Alaska alone is already selling large quantities of exportable timber Statewide. For instance, in southeast 245 million board feet are slated to be cut under the State’s DNR five year operating plan. Additionally, a number of other sales are proposed or underway

¹ HB 32 Fiscal Note p. 2.

on Prince of Wales, Gravina, Kosciusko, Mitkof and other SE Islands. I question the need to award a non-competitive timber contract to a single operator in SE Alaska when so much timber is already being logged on State lands. This does not include University, Mental Health and other private lands or federal timber.

Viking Lumber Employment Figures

During the House Resources Committee meeting on March 3, Kirk Dahlstrom of Viking Lumber asserted during the Alaska State House Resources Committee hearing that, "*We employ about 140 people year 'round.*" I doubt, on the basis of his 2010 declaration in the Tongass NF Logjam timber sale litigation², that he employs nearly that many on the full-time year 'round basis he implied. Of 130 workers he cited then, Viking had only 35 year 'round jobs at the sawmill. The other jobs in logging, trucking and barging are, it would seem, seasonal or occasional. For example, logging usually stops during winter; the 30 longshoremen who load Viking product work only for 3-4 day periods several times per year; and the Boyer Towing barge crew likely was not continually working for Viking. Realistic employment figures are an important consideration, especially when the potential ramifications of 25 year timber contracts could significantly harm other existing uses on a long term and irrevocable scale.

Long Term Contracts and Small Operators

During the March 3 Committee meeting, two individuals from Tok testified that the bill would harm their businesses. I believe those are valid concerns. This includes the fast track nature of the legislation which they and their peers just recently became aware of. They also questioned why, in Governor Walker's new era of transparency, the rush to push through what they termed "monumental" legislation, when the potential impacts are substantial and have not been thoroughly vetted.

Smaller operators' concerns about competition with bigger companies are certainly a valid concern. In Southeast, it is likely that much of the volume will get scooped-up in large 25-year contracts, and when the cut interferes with sustained yield requirements, either through volume limitations or impacts to other multiple uses, the small operators will get the short shrift. This was exactly the situation during the former long-term contracts heyday of yesteryear in Southeast and prompted the now infamous 1983 Reid Brothers lawsuit that resulted in a district court's award

² Available on request.

of \$1,489,881 to the Reids:

<http://openjurist.org/699/f2d/1292/reid-brothers-logging-company-v-ketchikan-pulp-company>

The 25-year contracts the bills would authorize would repeat the horrible mistake of the similar long-term pulp mill contracts in Southeast. The problems these 50-year contracts created could not be foretold at the time they were put in place, and the environmental damage and social strife they caused still resound through the region decades later. SB32/ HB87 would repeat the mistake of making a monumental decision that can't be reversed.

Sustained Yield and Allowable Cut

State Forester Chris Maisch also testified during the March 3, House Resources Committee hearing that, *"Just to remind you, the problem in Southeast Alaska is the section that currently requires us to have an excess allowable cut and in Southeast after the next two years we will no longer have that excess allowable cut..."*

His wording was obtuse, but I think the "section" he referred to was the sustained yield mandate:

*"Sec. 41.17.220. Management of state forests. Land within a state forest or within a unit of a state forest shall be managed under (1) the sustained yield principle;"*³

The prohibition on exceeding the allowable cut (sustained yield principle) is managed on a 10-year period. If some years are less than the allowable average, other years can exceed (the "excess") the allowable average so it balances out for the period. If I recall correctly, Governor Parnell allowed DNR to "borrow" timber from the future from within the 10-year period, and now they are in a bind.

Timber Export

Finally, I could find no export prohibition under the "118 authority" (Sec. 38.05.118.) for negotiated sales. Bill sponsors tout that the bill would result in more retention of timber for local processing but this does not seem to be the case. In the absence of an export prohibition, when the smaller operators are unable to handle larger volumes

³ According to AS 38.04.910 (12): "sustained yield" means the achievement and maintenance in perpetuity of a high level annual or regular periodic output of the various renewable resources of the state land consistent with multiple use;"

(another inevitable situation) or are simply not offered volume from the contracted operator,(the “negotiated” purchaser)will export as much as possible. In reality, it will essentially be “business as usual” with the added benefit to the negotiated purchaser of having a guaranteed 25 year, corner on the market. How does this benefit the State?

I respectfully request that your Committee to not allow this flawed bill to advance for all the reasons I cited above.

The bottom line is that SB-32 and HB-87 are not in the best interest of the State of Alaska or its people.

Sincerely,

Rebecca Knight
Rebecca Knight

*cc. Governor Walker
Rep. Kreiss-Tomkins*