

SB

112

110.98

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE

BILL VERSION: CSSB 112(Res)

PUBLISH DATE: 3/5/87

REQUEST:

Revision Date: 2/19/87

Title: An Act Relating to Forest Management Agreements

Sponsor: Jones

Requestor: _____

Agency Affected: Natural Resources
BRU: Forest Management

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS :

An agreement with a timber operator could provide savings to the State and reduce manpower needs, while at the same time providing a long term commitment of timber to private enterprise.

Prepared by: James L. McAllister
Division: Forestry

Phone: 465-2491
Date: 2/19/87

Approved by Commissioner: [Signature]
Agency: Natural Resources

Date: 2/19/87

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

5-0567B
Bradley
2/25/87

Original sponsors: Jones and Sturgulewski

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 112 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to forest management agreements."

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 * Section 1. AS 38.05 is amended by adding a new section to read:

9 Sec. 38.05.122. FOREST MANAGEMENT AGREEMENTS. (a) Notwith-
10 standing AS 38.05.110 - 38.05.120 and 38.05.300, the commissioner may,
11 if consistent with a land use plan then in effect, enter into an
12 agreement with a purchaser doing business in the state for the sale of
13 timber from state land, including land within a state forest, on which
14 the right to harvest timber has not been specifically prohibited by
15 law. An agreement entered into by the commissioner under this section
16 shall be used to foster the development of the state's forest products
17 industry.

18 (b) The commissioner shall establish by regulation requirements
19 for the selection, harvest, and regeneration of timber on state land
20 that is subject to an agreement under this section.

21 (c) In an agreement for the harvest of state timber entered into
22 under this section, the commissioner may provide for

23 (1) the term of the sale and an extension of the term;

24 (2) the stumpage prices to be charged for the timber;

25 (3) incentives to the purchaser for the completion of the
26 agreement;

27 (4) compensation from the purchaser for the scaling ser-
28 vices required to account for the timber sold;

29 (5) the construction and maintenance of access roads

1 necessary to the harvest of the timber, including the sale of mate-
2 rials from state land for the construction of the access roads;

3 (6) timber harvest to be at a volume in excess of that
4 permissible under the nondeclining even-flow method of calculating
5 sustained yield;

6 (7) penalties for violation of the terms of the agreement
7 and termination of the agreement;

8 (8) areas sized to the capability of small purchasers;

9 (9) other terms, conditions, and limitations determined to
10 be in the public interest by the commissioner; and

11 (10) the preparation of reports determined necessary by the
12 commissioner.

13 (d) In entering into an agreement under this section, the com-
14 missioner shall consider

15 (1) the economic activity to be generated in the state by
16 the proposed operation of the purchaser;

17 (2) the technical and financial qualifications of the
18 purchaser;

19 (3) the stumpage payments proposed to the state by the
20 purchaser;

21 (4) the experience of the purchaser in the state.

22 (e) The commissioner shall consult with other agencies of the
23 state or with federal agencies when considering an agreement under
24 this section.

25 * Sec. 2. The commissioner of natural resources shall request proposals
26 for the management of state timber land under AS 38.05.122, as enacted in
27 sec. 1 of this Act, within one year after the effective date of this Act.
28
29

Alaska State Legislature

Senate Resources Committee



Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zhatoff
Sen. Dick Ehasen

Box V
Juneau, Alaska 99811
(907) 465-1007

February 23, 1987

MEMORANDUM

To: All Resource Committee Members

From: Committee Staff

Re: SB 112, Forest Management Agreements

Under SB 112, sponsored by Senator Jones, the Commissioner of Natural Resources is authorized to enter into forest management agreements. Also addressed are the criteria the commissioner may provide for in regulation when negotiating a management agreement.

Included in your packet are:

Senator Jones' Statement
DNR Position Paper
Zero Fiscal Note
AS 38.05.110, 120, 300
Treatise by Terry Brady on FMAs
Statement of Paula Easley, Resource Development Council Before Western State Foresters, May 1985

ALASKA STATE LEGISLATURE


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Senator Lloyd Jones

M E M O R A N D O M

TO: Senator John B. "Jack" Coghill,
Senator Paul Fischer,
Senator Arliss Sturgulewski,
Senator Jim Duncan,
Senator Dick Eliason,
Senate Resources Committee

FROM: Senator Lloyd Jones, Member 
Senate Resources Committee

DATE: February 19, 1987

SUBJECT: SB 112, An Act relating to forest management agreements

I have introduced SB 112 to facilitate the development of forestry on state lands. At present the forest products industry is underdeveloped. It is my belief this bill could bring increased forestry and value added industry to our state through its implementation.

The main thrust of this bill would allow the Commissioner of Natural Resources to negotiate proposals for forestry development on state lands. Presently, the law only allows for the acceptance or rejection of bids.

By being able to negotiate, the Commissioner will have the necessary latitude of directing development towards state goals rather than reacting to bids presented. Also, our peers in Canada have been successfully using Forest Management Agreements for many years.

I respectfully request your support for Senate Bill 112.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801-1798
PHONE: (907) 465-2400

February 18, 1987

The Honorable Jack Coghill, Chair
Senate Resources Committee
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Senator Coghill:

Subject: SB 112 - An Act Relating to Forest Management
Agreements.

Response: The Department supports this bill with the change as
noted below.

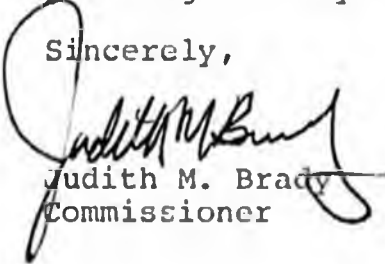
Discussion: The idea of private management of public lands for
commercial development is a good one. Such an agreement
with a timber operator could provide savings to the state
and reduce manpower needs, while at the same time
providing a long term commitment of timber to private
enterprise.

We do have some concerns with the wording in section (a).
Under section (a), we would prefer to have the word
primary substituted for the word exclusive in describing
the potential beneficial use.

Though this bill does not address lands designated as
State Forests, those lands are mandated to be managed
under the multiple use concept, and not exclusively for
timber development.

Recommendation: That section (a) be amended to provide for timber harvest
as a primary use while at the same time preserving the
ability of other land user groups to participate in
planning for any land management programs.

Sincerely,


Judith M. Brady
Commissioner

FOREST MANAGEMENT AGREEMENTS
WILL the Ontario System
Work in the United States?

by

Terry T. Brady

Forest Management 560
Graduate Studies Forest History & Policy

College of Forest Resources

University of Washington

August 1986

In partial fulfilment of requirements for
a Ph.D. in Forest Industries Management

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Forest Management Agreements -

cost effective manner, is a challenge to public land managers; and a challenge that has not been satisfactorily met on federal and public lands, in the west, to date.

This paper is an examination of one of the newest methods of overseeing public-private interests on the same forest land base. This is a system of *Forest Management Agreements (FMA's)* now in effect in the Canadian province of Ontario.

In its simplest form, a *Forest Management Agreement* is a contract, between a public land agency, and a private concern wishing to utilize a resource (timber) or resources associated with the land.

Because it is a contract an *FMA* predetermines rights and obligations of the participating parties.

The agreement spells out, in phrases and words, the goals of the contract, the term of the contract, considerations due each party, and the events that can lead to default, termination and even damages.

In these matters an *FMA* is similar to any other contract, but where it differs from a contract of sale, or even lease, as found in most U.S. timber disposal agreements, is the *FMA* squarely puts the management of the public land in the hands of the private party.

While resources, and particularly timber, may be sold through contract in the United States, the management of the land falls under the jurisdiction of a public agency, and the private party, in addition to being governed by the

Forest Management Agreements 4

presumptuous to suggest that the U.S. federal government, or any state or local government, should adopt the Ontario system in toto, it is strongly suggested that the system be studied, and perhaps even amended to fit into the American scheme of things.

The need for tenure and continuity are important in the American forest products industry is to fulfill its potential.

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licensee.

However, it is fair to state, that with few exceptions, little integration of these two activities were accomplished by private industry.

Also, while failure to accomplish true forest management generally can be attributed to reluctance on the part of industry, it is necessary to point out that professional land technical expertise to provide such management was just then under development.

This development primarily was being done by government foresters in the Crown Forest Management Units.

Also, at that time a significant portion of the northern forest land was just beginning to be inventoried for the first time, and much of the land was without access.

In the early 1950's reforestation in northern Ontario (the bulk of the forest land) relied primarily on experience gained in, and planting stock from, different soil and climactic zones in southern Ontario. Reforestation efforts were often failures, even when attempted with the best of motives.

By 1960 it became evident that industry was not adequately reforesting land it was cutting over, particularly in the northern areas.

In 1962 the *Crown Timber Act* was amended and the provincial government assumed full responsibility for forest regeneration.

Forest Management Agreements 3

the province, were made available to the private sector.

During 1978 and 1979 negotiations between the Ontario Ministry of Resources and the Ontario pulp and paper industry (the major consumer of government timber) resulted in the development of the *Forest Management Agreement* concept, taken partly from an Alberta system..

The announced purpose of the *FMA's* is to "provide for a continuous supply of forest resources to the agreement holder and to ensure that forests are harvested and regenerated on a sustained yield basis."

Forest Management Agreements in

prior to the commencement of operations.

The *FMA's* contain what is known as an *Evergreen Clause* which gives a licensee an automatic extension (usually five years) beyond the basic 20 year period, when in the opinion of the government, the licensee is living up to the contract, based on a review, usually every five years.

Under the agreements government pays the costs of all roading associated with the agreement. Government also pays reproduction costs, while the private sector both designs and builds the roads, and conducts regeneration activities.

Other sections of the agreements relate to stumpage prices, remedies for default, etc.

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binding on the companies to practice forest renewal."

Looking at benefits one sees much the same list as the negatives. Exclusive cutting rights (coupled with contractually binding management requirements) creates the tenure so important for long term financing.

The solution to the timber harvest/regeneration problem, is another major plus.

Looking at the Ontario experience, it does appear that the greatest benefit of the system, however, is the increased productivity of the forest, and the increased participation in forest management by the private sector, at net cost savings to the province.

Another benefit, related to tenure, is increased investment in the forest products industry. Ontario requires private parties to use the timber from license areas (a contract clause in *FMA's*) in a value added manner. This means investments in pulp and paper plants, modern sawmills, etc.

In 1983 the province reported that 80,000 persons were directly employed in the Ontario forest products industry, but only 15 percent of those were woodworkers. Another 80,000 support jobs were also reported.

During that year the industry generated more than C\$7 billion in cash flow, and some C\$300 million was paid by industry in stumpage fees and taxes.

During that year government spent about \$194 million on roads, regeneration and planning.

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by Jim Stratton, vice-president of the Alaska Conservation Foundation.

15. *Forest Management in Ontario*: paper prepared by the Ministry of Natural Resources, Province of Ontario, 1983.

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larch (*Larix*), pine (*Pinus*), birch (*Betula*), poplar (*Populus*), and in the south other hard and softwoods common to the temperate forests of north-central North America.

Ontario lies in the cool temperate climactic zone, characterized by warm summers and cool winters, with extreme cold not uncommon in the northern areas. The land is covered with a thick blanket of snow from four to six months of the year. Precipitation averages run from 64 cm/yr in the south to 51 cm/yr in the north, and is well-distributed throughout the year. Total land area of Ontario is some 415,900 sq. miles, of which about 63,000 sq. miles is covered with water. Some 310,000 sq. miles is covered with forest, of which 291,500 sq. miles is controlled by the government (The Crown). Out of this some 148,000 sq. miles, or 95 million acres, is considered productive forest land.

Recent estimates state the annual allowable cut is some 36.6 million net merchantable cubic meters, of which slightly less than 50 percent is harvested annually.

FOREST MANAGEMENT AGREEMENTS

A New Canadian Approach-Will It Work In The American West?

Paula Easley, Executive Director
Resource Development Council for Alaska, Inc.

Before the
Council of Western State Foresters

Girdwood, Alaska
June 25, 1985

Good Morning. On behalf of our Council, welcome to the sunny north. I recently left Palm Springs where it was 120 degrees, so this cool, brisk weather is just as refreshing to me as I hope it is to you.

The Resource Development Council, which has been active for more than 10 of the 26 years of Alaska Statehood, is acutely aware of the problems that face public land managers. That's because we represent thousands of private-sector land users who are directly and immediately affected by every decision, every law and regulation made concerning these lands.

Your theme of "providing public services in an era of declining budgets" is one RDC has been addressing since late 1983 when the full impact of Alaska's declining petroleum revenue picture came into sharp focus. We took the approach that in Alaska's case, we had only three options for dealing with the reduction in petrodollars that have fueled both our public and private sector economies.

These options are (1) to spend less but spend more wisely, (2) generate new income, and (3) find more oil. We've been holding meetings with mayors around the state and devoted a major

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conference last year to looking at Alaska's economic priorities and what can be accomplished in the next five years to achieve economic goals.

We have explored a variety of options for providing government services at less cost. And we have considered positive programs for generating additional tax revenues and creating more jobs in the private sector.

Our Council believes Alaska's forest products industry holds great potential for doing both--increasing tax revenues and creating much needed private sector employment. A key element of this approach is cooperation. Cooperation between public and private interests charged with gaining the most economic and social value from our extensive, but nonetheless finite forest resources. While we are proposing this new program for Alaska, we see no reason why it can't hold intriguing possibilities for application in other Western states.

What we propose is to copy a program from the Canadian province of Ontario. Foresters and land managers in our Renewable Resources Division have studied this program, and the comments that follow reflect the results of their investigation. I'm sure some of you are familiar with the Ontario program and can offer additional insight as to why it is successful and is now being considered by both Alberta and British Columbia as a management scheme for their forests.

Forestlands and the timber industry are vitally important to Ontario, which has attempted for more than 135 years to find an equitable solution to allocating timber resources, and at the same time protect the environment.

Like many of our Western states, the land base of Ontario is predominantly owned by government. Ontario is somewhat smaller than Alaska, and contains around 310,000 square miles of forestland. The Province owns about 90 per cent of the forestland and some 148,000 square miles of potentially productive forestland. Commercial use of Ontario's timberland has been underway for some 200 years. The government enacted the first Crown Timber Act in 1849.

Until the early 1900s stumpage fees provided the largest single source of income to the province.

In 1953 the province enacted a new Crown Timber Act, that like the original, put the responsibility of both timber harvesting and forest regeneration onto the licensee. However, without oversight and cooperation, the industry basically "set its own course" and there was very little integration between harvesting and regeneration. In other words there was a lack of management by either the private or public sectors.

By 1960 the province determined that private licensees were not doing an effective job of regeneration. Accordingly, in 1962, the Crown Timber Act was amended, and the province assumed full responsibility for regeneration.

The 1960s were a stimulating period for government service foresters and forestry technicians. They developed many regeneration practices tailored for the northern Ontario forest conditions. At the same time, industry continued developing its harvesting techniques.

It turned out that what was most efficient for harvesting was

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not necessarily the best for regeneration.

This caused rising resentment against the timber products companies and demands for more regulation and tighter enforcement of the Crown licensing system.

In 1976 two important studies recommended that the responsibility for both harvesting and regeneration be returned to licensees so they could be integrated into total management.

Woz 1000 P01C
~~Three years later the recommendations were acted upon, by adopting a new Crown Timber Act that created ~~provisions~~ of Forest Management Agreements (FMAs) that allowed the government to contract forest management, including road building and reforestation, to private companies.~~

The FMAs replace the policing duties of the government with contractual agreements beneficial to both parties. The contracts contain stiff penalties for poor performance and incentives to stimulate good performance.

The greatest reported gain from the FMAs is the integration of timber harvesting with regeneration, which is proving successful, and providing for a larger annual timber harvest in the future. Ontario officials told us this has been successful because the private manager now has a vested interest or incentive to regrow the forest.

They contain what is known as an "Evergreen" clause. The basic contract is for 20 years, but after each five-year period the results of private harvesting and regeneration are evaluated by the government, and if standards are met, the contract is given a five-year extension. This is one of the program's features we like the most.

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It is beneficial to the private party because financiers always know the firm has 20 years of raw material ahead of it. Obviously this makes it far easier to raise capital for the timber processing plants, required by the contract.

~~The Act requires~~ ^{FMA's would} that all timber cut, except that used domestically for fuel, building or other purposes, be manufactured ^{AK Alaska} in ~~Canada~~ into ties, poles, pit props, lumber, veneer or like products or into pulp. ~~Round logs or first-pass processed logs are prohibited from being exported.~~

From our initial analysis of this system, we are today recommending it be intensely studied for adoption, particularly in Alaska and states similarly situated, because evidence has shown it works; it creates jobs and industry, and results in better forest management and forestland amenities.

It is also saving the government of Ontario money. No longer need it hire as many foresters and engineers to pre-plan timber sales. (These folks are now in highly paid positions in the private sector.) No longer need government act as "policemen" to enforce a myriad of contradictory regulations.

All they do, in the words of K.A. Armson, the author of the 1976 report that advocated the contractual agreements, is "put a high priority on renewal and protection of Crown forests, but play only a limited role in determining the forest industry's financial future."

Can we, Alaskans and other Westerners, gain the public-private cooperation that those in Ontario have gained, by lessening confrontational activities, and substituting cooperation?

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And, will such programs increase public services in our western states, in an era of declining government budgets?

Can this, as in Ontario, be done by government providing access, reforestation costs, and most of all, long-term fiber supplies, which convert to private investment and jobs, the source of real wealth and growth in the economy?

Again, a look at the Ontario experience is worthwhile. Ontario contains about 148,000 square miles of Crown timberlands. This is about three times the acreage of commercial forestland (state, public and private) in Alaska.

As of the end of 1983 almost more than 30,000 square miles of this land had been placed under Forest Management Agreements and more is being added all the time.

This represents about 45 per cent of the Crown land under private licensed areas. New Forest Management Agreements are continually being negotiated.

What are the costs and benefits to the province utilizing this system?

In 1983 the Ontario government invested about C\$194 Million in forest management. This was spent primarily paying licensees to construct roads, and for direct reforestation costs.

I say invested, because industry only returned about C\$40 million back in direct fee and stumpage payments.

Yet Ontario lacks an organized "no-growth" voice decrying deficit timber sales.

Why?

Because for the C\$194 million investment, on three times the

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timber land base of Alaska, the provincial government collected C\$60 million in corporate taxes and C\$200 million in individual income taxes. The return to the government, then, was about C\$300 million-- including the stumpage fees--plus the capital improvements to its land in the form of roads and other infrastructure.

Also, 80,000 people were directly employed in the forest products industry, collecting some \$1.7 billion in wages and benefits. Another 80,000 were employed supporting the industry.

About 15 per cent of those directly employed by the forest products companies were in the woods. The remainder owed their jobs to timber conversion and manufacturing activities. And the private sector operating expenses for that year were C\$6.7 billion. More than C\$700 million was spent in capital and repair expenditures.

Also, the industry created almost 40 million tons of freight, to and from the mills.

This program, with the slogan "The Name of the Game is Cooperation" should closely observe what true public and private sector cooperation can do--not only in Alaska, but in other areas where government controls large blocks of valuable renewable resources.

Certainly the Resource Development Council for Alaska stands ready to join in expediting such cooperation.