

HJR

55

# Alaska Forest Association, Inc.



GOVERNMENT AFFAIRS OFFICE:  
217 SECOND STREET, SUITE 206  
JUNEAU, ALASKA 99801  
Phone 907-463-3175  
FAX 907-463-5515

MAIN OFFICE:  
111 STEDMAN, SUITE 200  
KETCHIKAN, ALASKA 99901-6593  
Phone 907-225-6114  
FAX 907-225-5920

October 3, 1991

Dear Senator:

Enclosed you will find a copy of the recently completed report on the "Role of the Forest Products Industry in the Southeast Alaska Economy". The Alaska Forest Association commissioned the McDowell Group of Juneau to conduct this study to measure the current status of Southeast Alaska's forest products industry -- and how it fits into the regional economy.

The study reveals that the forest products industry accounted for 37% of the private basic economy in Southeast Alaska in 1990. Workers in the forest products industry earned approximately \$165 million in wages and salaries during 1990.

In addition to the picture of the industry in 1990, the study provides a brief historical background, a review of the current situation as well as an outlook for the future.

I hope you will find this report useful and informative.

Sincerely,

Thyes J. Shaub  
Government Affairs Director

enclosure



# Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035  
Phone 907/276-0700 Fax 276-3887

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April 21, 1994

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# of pages = 6

To	Bill Williams &	From	
Co.	House Resources	Co.	RDC
Dept.	Committee	Phone #	276-0700
Fax #	Members!	Fax #	276-3887

April 20, 1994

Representative Bill Williams  
House of Representatives  
State Capitol  
Juneau, AK 99801-1182

Re: HJR 55 (RES)

Dear Rep. Williams:

RDC supports Joint Resolution 55, "relating to the importance to the economy of Southeast Alaska of continued timber harvests on the Tongass National Forest."

RDC is a statewide, membership-funded, non-profit pro-development organization working on behalf of Alaska's basic industries, including oil and gas, mining, timber, fishing and tourism. RDC's membership includes the aforementioned industries, as well as the sectors which support those industries, such as construction, labor and other technical service providers, individuals, Native corporations, communities and a wide variety of Alaska interests.

The wood products industry in the Tongass National Forest is a critical element of Southeast Alaska's economy. The industry accounts for over one-third of private basic industry employment and provides the highest paying and best year-round industrial jobs in the region. Further restrictions on timber harvesting would force residents and local communities to rely heavily on seasonal fishing and tourism. Those who want year-round jobs will have no choice but to leave or apply to the government for work.

Over two-thirds of the commercial forested lands in the Tongass are now closed to logging, either through Wilderness designations or administrative decrees. Although up to 874 million board feet of timber can be harvested each year on a sustain-yield basis, current law allows for harvests of only 450 million board feet. Since 1987, however, total harvests have been averaging only 400 million board feet.

Law, regulation, attitude, and the creation of Wilderness and other highly restrictive land withdrawals have greatly limited timber

Page 2/RDC

harvesting. The result has been a very limited utilization of forest resources, while disease and insect attacks destroy wood, precluding beneficial uses. Natural mortality has, in many areas, surpassed growth.

Timber harvesting must be recognized as a legitimate multiple use in the Tongass and elsewhere in Alaska. It's important to encourage reasonable timber harvests and long-term jobs in the forest industry.

With its extensive laws and regulations to protect the environment, as well as massive set asides to preserve the vast majority of the forest's old-growth timber, Alaska has done more than any other state to protect its resources for future generations. Timber harvesting and value-added processing must be encouraged in the areas remaining open to logging to sustain the local industry and economy.

RDC supports Joint Resolution 55 and encourages the United States Congress to increase the amount of timber available for harvest in the Tongass National Forest.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL  
for Alaska, Inc.



Becky L. Gay  
Executive Director

City of Tenakee Springs

RESOLUTION 94-23

In the Council  
March 24, 1994

Introduced by  
Molly Kemp.

**A RESOLUTION FOR THE CITY OF TENAKEE SPRINGS, ALASKA,  
IN SUPPORT OF BALANCED MULTIPLE-USE MANAGEMENT OF THE  
TONGASS NATIONAL FOREST, AND OPPOSING HJR 55  
CURRENTLY BEFORE THE ALASKA STATE LEGISLATURE**

WHEREAS, the City of Tenakee Springs is located within the Tongass National Forest; and

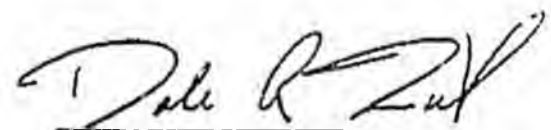
WHEREAS, the economy of Tenakee Springs is based on commercial fishing, tourism, subsistence, and value-added forest products manufacturing; and

WHEREAS, House Joint Resolution (HJR) 55 would ask the Congress of the United States to direct the U.S.D.A. Forest Service to give preference to timber harvest on the Tongass at the expense of fisheries, subsistence, tourism and recreation; and

WHEREAS, the policy proposed in HJR 55 would have direct and long-term negative impacts on the community and economy of Tenakee Springs;

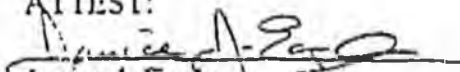
THEREFORE BE IT RESOLVED that the Common Council of the City of Tenakee Springs, Alaska, supports balanced, responsible, sustainable multiple-use management of the Tongass National Forest and opposes HJR 55.

ADOPTED UNANIMOUSLY THIS 24TH DAY OF MARCH 1994



Dale R. Ziel  
City Council President  
ex officio MAYOR

ATTEST:

  
Janice J. Eagle  
City Clerk

SUBMITTED FOR PACKETS BY AEL

# House Economic Task Force



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Vice-Chair:  
Rep. Jeannette James

State Capitol, Room 507  
Juneau, AK 99801  
Phone: (907) 465-4833  
Fax: (907) 465-2278

Members:  
Rep. Bettye Davis  
Rep. Joe Green

Rep. Bill Hudson  
Rep. Jerry Mackie

Rep. Carl Moses  
Rep. Al Vezey  
Rep. Bill Williams

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**SPONSOR STATEMENT HJR 55,  
RELATING TO THE IMPORTANCE TO THE ECONOMY OF SOUTHEAST  
ALASKA OF CONTINUED TIMBER HARVESTS ON THE TONGASS  
NATIONAL FOREST**

prepared for the House Economic Task Force  
by Rep. William K. Williams, Chairman, Timber Working Group

House Joint Resolution 55 asks the U.S. Congress to review the economic impact on Southeast Alaska and the forest products industry of the wilderness designations imposed by ANILCA, and the wilderness designations and changes in management practices brought about by the Tongass Timber Reform Act of 1990; it also requests that the Congress increase the amount of Tongass timber available for harvest, and provide sufficient funding to the USDA Forest Service to facilitate harvesting the maximum available under law.

Congressional action has, through wilderness designations, closed to timber harvest roughly two thirds of the commercial forest land in the Tongass National Forest: one third is designated wilderness, another third will not be opened for harvest. The remaining portion, about two million acres, is to be harvested according to the Tongass Land Management Plan, which establishes the allowable sale quantity. Reduced federal appropriations for Tongass timber sales in the last few years has caused a shortage in the timber supply, resulting in the loss, since 1990, of more than 600 forest products industry jobs in Southeast Alaska. Temporary layoffs during 1993 affected employees at pulp mills in Sitka (Alaska Pulp Corp.) and Ketchikan (Ketchikan Pulp Co.). The closure of the pulp mill in Sitka caused the loss of nearly 400 direct jobs. The USDA Forest Service has threatened to cancel one of the two 50-year harvest contracts that supports the region's timber industry.

The lack of an assured supply of Tongass timber available for harvest poses a great threat to the economic well-being of the region and the viability of the industry on which many Southeast communities are dependent. HJR 55 provides an opportunity for the Alaska State Legislature to urge Congressional action in order to avert economic disaster.

# FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. HJR 55

Revision Date: 2/21/94 Dept. Affected: none  
 Title: Tongass National Forest BRU: \_\_\_\_\_  
timber harvests Component: \_\_\_\_\_  
 Sponsor: Rls by request of the House Econ Task Force  
 Requestor: House Resources COMPONENT SERIAL NO. \_\_\_\_\_

Expenditures/Revenues: (Thousands of Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY2000
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE FUND SOURCE:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year ( <sup>FY</sup> 94 ) impact \$ 0

ANALYSIS: (Attach a separate page if necessary)

Prepared by: \_\_\_\_\_  
 Division: \_\_\_\_\_  
 Approved by: Rep. Bill Williams, Chairman  
 Agency: House Resources Committee

Phone: \_\_\_\_\_  
 Date: \_\_\_\_\_  
 Date: 2/21/94

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# Role of the Forest Products Industry in the Southeast Alaska Economy

September 1991

Prepared for:

Alaska Forest Association

Prepared by:



Juneau • Ketchikan

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## Introduction

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The 1980s were an eventful time for Southeast Alaska's forest products industry. The industry began the decade with strong markets, record high levels of employment and a bright future. But then the market for the region's forest products began to decline, primarily as a result of declining Japanese demand. Timber harvests on the Tongass National Forest dropped by 50% over the next five years. Employment in Southeast Alaska's forest products industry declined by 1,000 jobs.

Meanwhile, the emergence of Native corporations in the Southeast Alaska forest products industry prevented even more dramatic cuts in employment. Timber harvests on privately held lands increased almost ten fold between 1980 and 1985. This supported logging employment in the region, but because the timber was exported as roundlogs (with no value-added processing) it did not prevent employment in the forest products industry overall from declining further.

International markets began to improve in 1986 and the region's forest products industry began to recover. While the private timber harvest stabilized, the Tongass harvest doubled within three years. Employment in the industry increased by 1,400 jobs within those same three years. Another jump in Native-owned timber harvest in 1989, along with steadily increasing Tongass timber harvests, pushed employment in the industry to a record high of over 4,000 jobs by 1990.

Today, Southeast Alaska's forest products industry is at a critical point. The first harvest of private timber is near completion (subsequent harvest will not be available in the near future), and logging effort on private land is declining. Timber harvests on the Tongass National Forest have increased steadily since 1985, but there is the concern that timber availability on the Tongass is constraining the industry and may in fact be causing some employment decline. These issues have important implications for the region's economy, where the forest products industry is a leading economic force.

The purpose of this study is to measure the current status of Southeast Alaska's forest products industry - and how it fits into the regional economy. The primary measure of industry activity considered in this study is direct employment. Direct employment includes all labor involved in accessing the timber (road building), falling the timber and transporting it to tidewater, ship loading, transporting the logs to sawmills or pulpmills, and finally processing the logs into lumber or pulp.

Direct employment does not include labor involved in regular supplying of remote camps, other transportation support of logging communities (air taxi employment, for example), or labor employed in sales of logging equipment or contracted service

of such equipment. These and similar types of labor are classified as indirect or support sector employment.

This study presents a complete picture of forest products industry employment in Southeast. Measures of timber industry employment are published regularly by the Alaska Department of Labor (ADOL). ADOL estimates of timber industry employment in Southeast exclude important components of the industry such as logging road construction, log trucking, and marine transport of the logs to sawmills and pulp mills.

Most existing measures of Tongass timber harvest-related employment exclude any discussion of Forest Service employment. The USFS employs nearly 800 people in Southeast Alaska. A significant portion of this employment exists because part of the Tongass is managed for commercial timber harvest. Forest Service employment is an important component of the forest products industry and the regional economy and therefore is included in this analysis.

### Methodology

The employment and payroll data presented in the study is the result of a survey of about 40 businesses participating in the Southeast Alaska timber industry (a similar survey was performed in 1990). Businesses responding to the survey account for an estimated 90% of all Tongass timber-related employment. These businesses were asked to provide copies of the Employer's Quarterly Report forms which all Alaska employers are required to file with the Employment Security Division of the Alaska Department of Labor. On these forms, employers record the number of employed workers each month and the total wages and salaries paid for the three-month period. These are the same forms that ADOL uses to compile the employment and payroll data published in their *Statistical Quarterly* series.

Included in this survey were Southeast's two pulp mills, five sawmills, 18 logging companies, about 10 logging-related construction companies, and six towing companies, and a variety of other timber-industry related businesses.

## Summary of Findings

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- The forest products industry directly generated an annual average of 4,100 private sector jobs in 1990. The Tongass National Forest accounts for about 70% of these jobs, timber harvests on private lands account for the remainder.
- Workers in the forest products industry earned approximately \$165 million in wages and salaries during 1990. This includes payroll for loggers, road builders, stevedores, sawmill workers, and pulpmill workers.
- The forest products industry accounted for over one-third (37%) of all private basic industry employment in Southeast Alaska in 1990.
- Including timber harvest-related U.S. Forest Service employment, the forest products industry generated just under 4,500 jobs and \$180 million in payroll in 1990.
- Among all basic industry in Southeast Alaska, including government basic industry, the forest products industry accounts for 25% of all employment.
- In 1991, employment in Southeast Alaska's forest products industry declined sharply. This decline is due to reduced timber harvests on private land, and to curtailed Tongass timber harvests.
- With the first harvest from private lands nearly complete, employment from private timber harvests is declining and will continue to decline. Employment on the Tongass has declined in 1991, not because of market conditions, but because of reduced availability of timber for harvest.
- Preliminary Alaska Department of Labor data indicates that Southeast Alaska's forest products industry may have lost nearly 1,000 jobs since 1990. Because of declining forest products employment, the Southeast region economy is declining in 1991.
- Long term stability in the forest products industry will depend on international market conditions and on the availability of timber on the Tongass National Forest.

## Chapter I. Employment and Payroll in the Forest Products Industry

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Southeast Alaska's forest products industry includes two principal components, the Tongass National Forest component and the private Native corporation component. In terms of employment and economic impact, the Tongass National Forest plays the lead role. Timber harvests from private lands now account for over half of the logging activity in Southeast Alaska. But because most private timber is exported as unprocessed roundlogs, the private harvest has not had a great impact on the region's sawmills and pulpmills (though private timber has been a significant source of pulpwood over the last few years).

This chapter examines employment in these two components of the forest products industry. Separate analysis is warranted because they impact the region's economy in unique ways and they face very different futures.

### The Tongass Forest Products Industry

#### History of the Industry in Southeast Alaska

The forest products industry has a long history in Southeast Alaska, dating back to the late 1800s when timber was harvested for local construction purposes. The 16 million acre Tongass National Forest, the nation's largest national forest, was created in 1909. For the next forty-five years, only high grade stands of timber were harvested, almost exclusively for local use, including in support of the region's mining and seafood industry. Annual timber harvests averaged about 30 to 50 million board feet, though more was harvested during World War II to meet defense construction needs.<sup>1</sup>

The modern forest products industry has its roots in the 1950s, when the pulp industry was drawn to Southeast Alaska. In the 1950s, territorial officials recognized that Southeast Alaska's timber resources had the potential to stimulate significant growth in the region's struggling economy. But it was also clear that only 50% of the region's overmature timber would meet sawmill standards. It was evident that large-scale utilization of the region's timber resources (and therefore economic development for the region via its forest resources) could only occur through development of a pulp industry.

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<sup>1</sup>Rogers, George W., Alaska in Transition: The Southeast Region. Johns Hopkins Press, Washington, D.C., 1967.

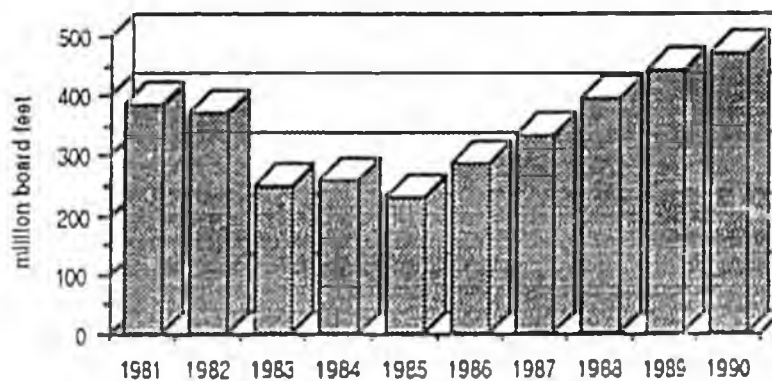
Development of Alaska's two pulp mills was the result of years of effort by Forest Service and territorial officials to attract pulp manufacturers to Southeast Alaska. For many years, distance from markets and shipping costs, high labor and construction costs and other factors had combined to frustrate prospective developers.

In the end, it was the assurance of long term timber harvesting contracts that induced pulp manufacturers to make the huge investment required in Southeast Alaska. In 1954, the Ketchikan Pulp Company completed construction of a \$52 million (the equivalent of about \$1.8 billion in 1991 dollars) facility near Ketchikan.<sup>2</sup> Five years later, Alaska Lumber and Pulp Company completed construction of a pulp mill near Sitka. That investment totaled \$65 million, or approximately \$2 billion in 1991 dollars.

Construction of these mills marked a turning point in the economic development of Ketchikan and Sitka, in particular, and Southeast Alaska in general. Each mill employed about 350 workers, and hundreds of additional jobs were created in the region's logging and sawmilling industries. Almost overnight, the forest products industry became Southeast Alaska's leading industry.

Since the 1960s, the forest products industry has played a leading role in Southeast Alaska's economy. The pulp mills remain the largest employers in Ketchikan and Sitka. The industry suffered through a serious market downturn in the early 1980s, but has since rebounded to all-time high levels of employment.

Tongass National Forest Timber Harvest  
1981 to 1990\*



\*Fiscal year harvest. Includes utility volume. Source: U.S. Forest Service.

<sup>2</sup>Rogers, pg 75.

### 1989 and 1990 Employment in the Tongass Forest Products Industry

In 1989, harvest and processing of Tongass National Forest timber generated an annual average of approximately 2,800 jobs. Payroll earned by workers in the Tongass forest products industry totaled \$110 million. In 1990 Tongass-related employment accounted for about 75% of all forest products industry employment in Southeast Alaska.

In 1990, Tongass-related timber industry employment apparently increased slightly, due largely to increased pulpmill-related activity. Among businesses that responded to both the 1990 and 1991 McDowell Group surveys (the surveys measured 1989 and 1990 employment), employment increased by about 100 jobs. The pulpmills, including their subsidiary operations employed 107 more workers in 1990 than in 1989.

Included in Tongass forest products industry employment are approximately 900 pulpmill jobs accounting for \$40 million in payroll. These figures do not include pulpmill employed loggers or sawmill workers. Pulpmill employment has increased steadily since about 1985 but is still below the peak years of the early 1980s when employment topped 1,000 jobs. Increased mill efficiency has reduced labor requirements since then. The pulpmills are the largest single employers in Sitka and Ketchikan and Alaska's largest manufacturing employers. Pulpmill employment did not change significantly between 1989 and 1990.

Sawmills generated the annual equivalent of 525 jobs during 1990, down about 15 jobs from 1989. Sawmill workers earned \$18 million in wages and salaries, about the same as in 1989. Sawmill employment apparently peaked in 1989 after five years of growth.

Logging on the Tongass National Forest generated an estimated 1,100 jobs during 1990. Tongass loggers earned \$45 million in wages and salaries. The Tongass timber harvest increased by about 25 million board feet in 1990 to approximately 470 million board feet (including utility volume), according to preliminary U.S. Forest Service data.<sup>3</sup> This is a 5% increase over the 1989 harvest of approximately 450 million board feet. Logging employment on the Tongass did not change significantly between 1989 and 1990.

Timber harvest-related road construction added 160 jobs (annual equivalent) to the Tongass forest products industry. These construction jobs accounted for about \$7 million in payroll earned during 1990.

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<sup>3</sup>The USFS reported a total Tongass timber harvest of 471 million board feet during FY 1990, which began October 1, 1989 and ended September 30, 1990. During this same period a year earlier, the total harvest was 445 million board feet. Calendar year totals for 1989 and 1990 may vary somewhat from these totals. The source of this data is a draft report of the 1990 Timber Supply and Demand Report, prepared by the USFS.

Other basic components of the Tongass forest products industry added another 140 jobs and nearly \$5 million in payroll. One hundred thirty-five towing and stevedoring workers earned \$4 million. Log scalers accounted for the remainder.

**The Tongass Forest Products Industry  
Employment and Payroll in 1990**

Industry Component	Annual Average Employment	Total Payroll
Pulpmills	900	\$37.5 million
Sawmills	525	\$18.4 million
Logging	1,100	\$44.6 million
Road construction	160	\$6.6 million
Towing, Stevedoring and Other	150	\$5.2 million
<b>Tongass Industry Total</b>	<b>2,835</b>	<b>\$112.3 million</b>

**Forest Service Employment Related to Tongass Timber Harvests**

It is not possible to determine exactly how Forest Service employment would be affected by a reduction in the Tongass commercial timber resource base. Reallocation of federal funding to other types of Tongass management activities could mitigate Forest Service employment reductions. But in the present situation a very significant portion of Forest Service employment in Southeast Alaska is the direct result of management of a portion of the Tongass as a commercial timber resource. This employment would decline with a declining timber resource base.

The Forest Service generates 780 full-time equivalent positions in Southeast Alaska. Workers in these positions earn an estimated \$37 million in payroll annually. Among these 780 workers, the Forest Service estimates that 344 are directly involved in timber sale preparation, implementation and management. If there were no Tongass timber harvest these jobs would not exist. These Forest Service workers earn an estimated \$15 million in annual payroll.

**Total Tongass Forest Products Industry  
Estimated Employment and Payroll in 1990**

	Annual Average Employment	Total Payroll
Private Sector Total	2,835	\$112.3 million
U.S. Forest Service	344	\$15.0 million
<b>Grand Total</b>	<b>3,179</b>	<b>\$127.3 million</b>

### Timber Harvest on Private Land in Southeast Alaska

Southeast Alaska's forest products industry entered a new phase with the 1971 Alaska Native Claims Settlement Act (ANCSA). ANCSA granted Alaska Natives surface and subsurface title to 40 million acres of land in Alaska, including over 600,000 acres in Southeast Alaska. ANCSA also provided for formation of regional and village corporations to manage these lands. Southeast Alaska's regional corporation and 12 village corporations gained title to some of Southeast Alaska's richest timber stands.

Because of delays in transferring title from the federal government to the Native corporations, it was not until about 1980 that timber harvest on Native-owned lands began in earnest. Within the next five years, timber harvest from these private lands increased to about 300 million board feet annually.

Fortunately for the logging industry, private timber harvests were increasing just as the Tongass timber harvest was declining due to weak market conditions. While private timber owners faced the same weak market, they nonetheless found it in their best interest to harvest. Further, timber harvested from private land in Southeast is not subject to the same primary manufacturing restriction that is placed on Tongass timber. According to federal law, Tongass timber cannot be exported out of Alaska in an unprocessed condition. Many international buyers find unprocessed "sawlogs" a more attractive commodity.

Throughout the 1980s timber harvests from private land in Southeast Alaska increased and by 1983, the private timber harvest exceeded the Tongass timber harvest. The private harvested had reached 520 million board feet by 1989, including 420 million board feet of export sawlogs.<sup>4</sup> The economic impact of this harvest included about 1,300 logging, road building and stevedoring jobs and an estimated \$52 million in payroll.

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<sup>4</sup>1990 Timber Supply and Demand Report, prepared by the USFS, pg. 10.

The years 1989 and 1990 will mark the peak of the private timber harvest in Southeast Alaska. The 1990 harvest totaled approximately 510 million board feet, including 440 million board feet of sawlogs. Economic considerations have made it impractical to harvest timber on a sustained yield basis, and some private land owners have already completed their first harvest of timber.

### Outlook for Southeast Alaska's Timber Industry

In 1990, Southeast Alaska's forest products industry accounted for about 40% of the region's private basic economy, measured in terms of employment. The industry employed approximately 4,100 workers in 1989, and accounted for a direct annual payroll of over \$160 million. The U.S. Forest Service generates another 340 timber-harvest related jobs in Southeast. Quite clearly, the future of the forest products industry is of great concern to residents of Southeast Alaska.

#### Total Southeast Alaska Forest Products Industry Estimated Employment and Payroll in 1990

	Annual Average Employment	Total Payroll
Tongass Total (Private Sector)	2,835	\$112 million
U.S. Forest Service	344	\$15 million
Private Timber Harvest	1,300	\$52 million
<b>Grand Total</b>	<b>4,479</b>	<b>\$179 million</b>

Source: Tongass-related and private timber harvest employment numbers are McDowell Group estimates. USFS numbers provided by the Forest Service.

The economic impact of private (Native corporation) timber harvests in Southeast is declining. It has been estimated that nine of the twelve village corporations will have cut all their merchantable timber by the end of 1991. One of the village corporations could harvest timber for another five years at current harvest levels, and the regional corporation can continue to harvest at current rates for another eight to ten years.<sup>5</sup> Employment in this sector of the forest products industry peaked during 1989-90, and is now declining and the long term outlook is for further decline.

There is much less certainty regarding the outlook for the Tongass forest products industry. The Tongass harvest in 1990, at about 470 million board feet, was the highest since 1979. Pulp and lumber markets have weakened in 1990 and 1991 but

<sup>5</sup>Knapp, Gunnar, Native Timber Harvests in Southeast Alaska, prepared for the U.S. Forest Service, October 1989.

are still good by historical standards and the long term market outlook is relatively good. Further, reduced supply from the Pacific Northwest states (due to Spotted Owl protection measures and other factors) could strengthen Alaska's position as an international timber supplier.

Of more immediate concern are Tongass National Forest management policies that are affecting timber availability. The 1990 Tongass Timber Reform Act placed additional timber acreage off-limits to logging and established 100-foot buffers along spawning streams.

The Act also eliminated the Tongass Timber Supply Fund. Section 705(a) of the Alaska National Interest Lands Conservation Act (ANILCA) authorized the Forest Service to spend at least \$40 million annually to make available for annual harvest a timber supply of 450 million board feet of timber. The fund was used for timber sale preparation and administration, reforestation, pre-commercial thinning, road construction, and engineering support.

Other provisions of ANILCA had excluded 5.5 million acres of the Tongass from timber harvest, including a significant volume of high value, old growth timber stands. The intent of Section 705(a) was to offset this loss by adding marginal timber to the available Tongass timber resource base by pre-roading. The trade-off was more profitable timber in environmentally sensitive areas for marginal timber stands, located in less sensitive areas, that would be made more economic through access improvements financed by the \$40 million Tongass Timber Supply Fund. The 1990 Tongass Timber Reform Act repealed Section 705(a) of ANILCA and placed an additional 1.1 million acres of land off limits to logging.

The net effect of ANILCA and the Tongass Timber Reform Act was to significantly reduce the available Tongass timber resource. Further, by placing off-limits high-value timber stands, these acts have also reduced the overall quality of the Tongass timber resource. Finally, the Timber Reform Act also mandated certain changes in Tongass management practices that (depending on how the Act is interpreted) could also impact timber availability of the remaining commercial forest land base.

Clearly, even with passage of the Timber Reform Act, the Tongass timber industry remains on unstable ground. In 1991, for example, harvest of approximately 250 million board feet of Tongass timber has been curtailed by a court injunction resulting from lawsuits against the Forest Service by special interest groups. In addition, there have been a number of administrative appeals of timber sales and other administrative delays. Several logging operations have been idled as a result and two major sawmills have closed.

### Summary

In summary, the future of the Tongass forest products industry is uncertain. The best case is probably one of stability. Any Tongass-related decline would only exacerbate the overall industry decline caused by declining harvest from private timberland.

Because of reduced private timber harvests and curtailed Tongass harvests, a very significant cut in forest products industry employment will be recorded in Southeast Alaska. According to preliminary Alaska Department of Labor (ADOL) data, employment in the lumber and wood products sectors (which excludes pulpmill employment) in Southeast declined by approximately 950 jobs between June of 1990 and June of 1991. That is a one-year decrease of approximately 30%. In Southeast Alaska's transportation sector, employment has declined by approximately 250 jobs (a cut of nearly 10%), apparently due to a reduction in forest products industry activity.

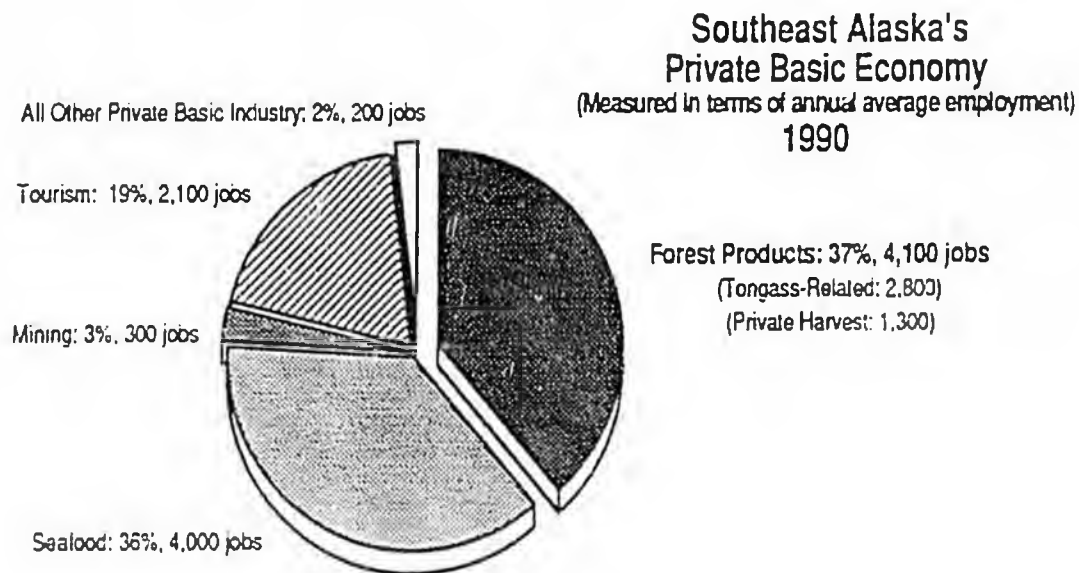
Because of declining employment in the forest products industry, the Southeast region overall will likely experience a net decline in employment in 1991. The long term outlook for the forest products industry, and to a large degree the outlook for the region's economy, will depend on the market for Southeast's forest products and on the volume of timber available for harvest on the Tongass National Forest.

## Chapter II. Overview of the Southeast Alaska Economy

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Generating the annual equivalent of approximately 4,100 jobs, the forest products industry accounts for more than one in three private basic industry jobs in Southeast Alaska. Timber harvest and manufacturing from the Tongass National Forest accounts for about 70% of the forest products industry in Southeast.

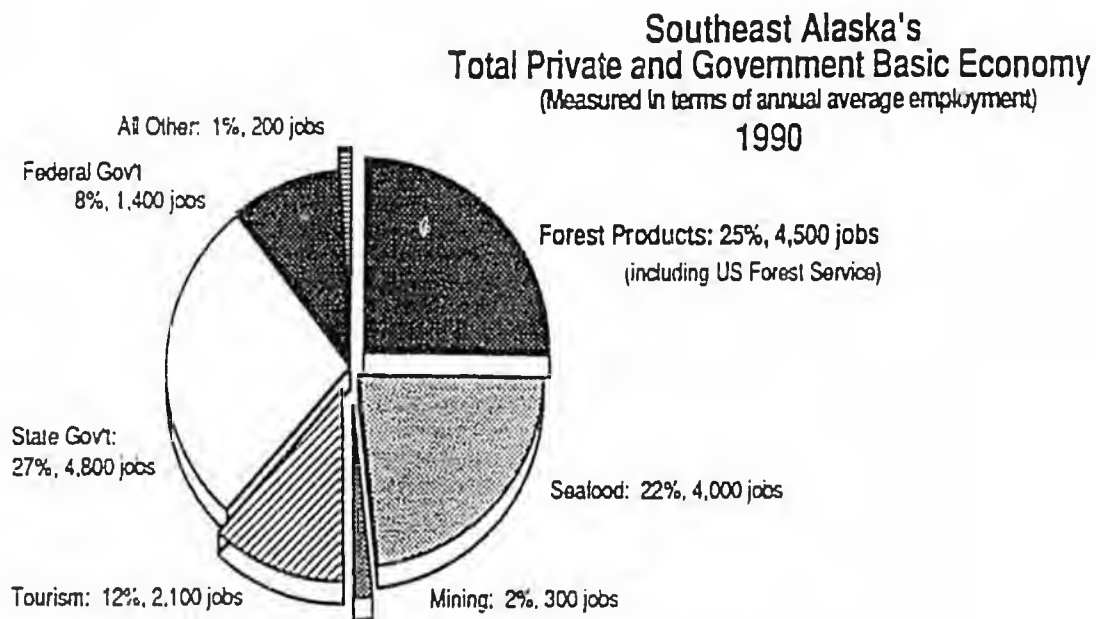
In Southeast Alaska, the seafood industry generates the annual equivalent of 4,000 jobs including 2,700 in seafood harvesting and 1,300 in seafood processing. Tourism adds an estimated 2,100 jobs to Southeast's basic economy. Mining accounts for approximately 300 jobs in Southeast Alaska.



State and federal government are also important components in Southeast Alaska's basic economy. State government is the largest basic industry in Juneau but plays a comparatively small role in the economy of the rest of the region. State government employs about 5,600 workers in Southeast, including about 4,600 in Juneau. For purposes of this study it is assumed that approximately 85% of state government employment in Southeast is basic industry. The remainder is considered part of the support sector.

Federal government accounts for about 2,800 jobs in Southeast Alaska. About 2,000 of these federal jobs serve the national interest and are therefore basic industry. All other federal jobs serve only the local population – such as postal workers – and are part of the support sector. The Forest Service and the U.S. Coast Guard are the largest federal basic industry employers in Southeast.

The role of the forest products industry among all basic industry, including government, is substantial. The forest products industry including related Forest Service employment accounts for nearly one-quarter (25%) of all basic industry employment in Southeast Alaska.



It is beyond the scope of this study to measure the indirect and induced impacts of the forest products industry on the Southeast economy. However, it is important to note that the industry does have important secondary impacts and that indirect and induced impacts vary from one segment of the industry to another. The pulpmills have by far the greatest impact. They provide hundreds of high-paying, almost entirely resident jobs which account for a high level of local spending.

Further, pulpmills represent an important property tax base in Sitka and Ketchikan. The pulpmills add millions of dollars to local government coffers either through property tax payments or through purchases of public utilities. These property tax payments and high volume purchases of public utilities help keep local government and public utility costs lower for residents of the communities.

All told, without the pulp mills, the economies of Sitka and Ketchikan would shrink by about one-quarter and some costs of living for remaining residents would increase significantly. Property values in Sitka and Ketchikan would decline sharply.

Sawmills have comparatively high indirect and induced impacts. They too have generally well paid, resident workforces and they too represent important industrial property tax bases. Among the various components of the forest products industry, remote logging camps have the lowest level of indirect and induced impacts. Still, remote logging operations do provide a significant market for many Southeast Alaska service and supply businesses.

# Role of the Forest Products Industry in the Southeast Alaska Economy

June 1993 Update

Prepared for:  
Alaska Forest Association

Prepared by:



Juneau • Ketchikan

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## Introduction

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For nearly 40 years the forest products industry has been a mainstay of the Southeast Alaska economy. Construction of pulpmills in Ketchikan and Sitka in the 1950's marked the birth of a large scale industry in the region. These mills were and remain Alaska's largest manufacturing operations. Through the 1960s and 1970s, the region's forest products industry prospered, enjoying a steady supply of timber and a relatively stable world market.

The 1980s were a turbulent and eventful time for Southeast Alaska's forest products industry. The industry began the decade with strong markets, record high levels of employment and a bright future. But then the market for the region's forest products began to decline, primarily as a result of declining Japanese demand. Timber harvests on the Tongass National Forest dropped by 50% over the next five years. Employment in Southeast Alaska's forest products industry declined by 1,000 jobs.

Meanwhile, the emergence of Native corporations in the Southeast Alaska forest products industry prevented even more dramatic cuts in employment. Timber harvests on privately held lands increased almost ten fold between 1980 and 1985. This supported logging employment in the region, but because the timber was exported as roundlogs (with no value-added processing) it did not prevent employment in the forest products industry overall from declining further.

International markets began to improve in 1986 and the region's forest products industry began to recover. While the private timber harvest stabilized, the Tongass harvest doubled within three years. Employment in the industry increased by 1,400 jobs within those same three years. Another jump in Native-owned timber harvest in 1989, along with steadily increasing Tongass timber harvests, pushed employment in the industry to a record high of over 4,000 jobs by 1990.

With the 1990s, however, there is once again uncertainty regarding the future of the forest products industry. Restricted access to timber supply, declining pulp markets and the declining Native timber harvest may all paint a bleak future for the industry. On the other hand, dramatic increases in lumber prices and declining timber supplies in the lower 48 states potentially bode well for Alaska's forest products industry.

### Purpose

The purpose of this study is to measure the current status of Southeast Alaska's forest products industry - and how it fits into the regional economy. This study updates two previous and similar research efforts conducted in 1990 and 1991. The primary measure of industry activity considered in this study is direct employment. Direct employment includes all labor involved in accessing the timber (road

building), falling the timber and transporting it to tidewater, ship loading, transporting the logs to sawmills or pulpmills, and finally processing the logs into lumber or pulp.

Direct employment does not include labor involved in regular supplying of remote camps, other transportation support of logging communities (air taxi employment, for example), or labor employed in sales of logging equipment or contracted service of such equipment. These and similar types of labor are classified as indirect or support sector employment.

This study presents a complete picture of forest products industry employment in Southeast. Measures of timber industry employment are published regularly by the Alaska Department of Labor (ADOL). ADOL estimates of timber industry employment in Southeast exclude important components of the industry such as logging road construction, log trucking, and marine transport of the logs to sawmills and pulp mills.

Most existing measures of Tongass timber harvest-related employment exclude any discussion of Forest Service employment. The USFS employs nearly 935 people in Southeast Alaska. A significant portion of this employment exists because part of the Tongass is managed for commercial timber harvest. Forest Service employment is an important component of the forest products industry and the regional economy and therefore is included in this analysis.

#### Methodology

The employment and payroll data presented in the study has been estimated using a combination of ADOL data, USDA Forest Service employment and payroll data, timber harvest figures, and information generated from a survey of businesses in the Southeast Alaska timber industry. ADOL data analyzed in this study reflects fourth quarter 1991 and the first, second and third quarters of 1992, and is therefore consistent with USFS timber harvest figures which are measured on an October through September fiscal year.

## Summary of Findings

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- The forest products industry directly generated an annual average of 3,600 private sector jobs in 1992. Tongass National Forest timber resources accounted for about 70% of these jobs, timber harvests on private lands accounted for the remainder.
- Workers in the forest products industry earned approximately \$146 million in wages and salaries during 1992. This includes payroll for loggers, road builders, stevedores, sawmill workers, and pulpmill workers.
- The forest products industry accounted for over one-third (34%) of all private basic industry employment in Southeast Alaska in 1992.
- Including timber harvest-related U.S. Forest Service employment, the forest products industry generated over 4,000 jobs and \$167 million in payroll in 1992. The Tongass National Forest accounted for 2,950 jobs and \$124 million in payroll.
- Among all basic industries in Southeast Alaska, including government basic industry, the forest products industry accounted for 24% of all employment in 1992.
- Over the last two years, employment in Southeast Alaska's forest products industry declined sharply. Southeast Alaska's forest products industry has lost more than 600 jobs and \$18 million in payroll since 1990. This decline is due to reduced timber harvests on both private land and on the Tongass.
- The first harvest of Southeast Alaska private timber is nearly complete (subsequent harvest will not be available in the near future), with an overall decline in annual harvest of 89 million board feet between 1990 and 1992. Timber harvests on the Tongass National Forest have also shown a marked decrease of 100 million board feet during this period.
- The long term outlook for the forest products industry is uncertain and will depend on international market conditions and on the availability of timber on the Tongass National Forest.

## Chapter I. Employment and Payroll in the Forest Products Industry

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Southeast Alaska's forest products industry includes two principal components, the Tongass National Forest component and the private Native corporation component. In terms of employment and economic impact, the Tongass National Forest plays the lead role. Timber harvests from private lands account for over half of the logging activity in Southeast Alaska. Further, because most private timber is exported as unprocessed roundlogs, the private harvest has not had a great impact on the region's sawmills and pulpmills (though private timber has been a significant source of pulpwood over the last few years).

This chapter examines employment in these two components of the forest products industry. Separate analysis is warranted because they impact the region's economy in unique ways and they face different futures.

### The Tongass Forest Products Industry

#### History of the Industry in Southeast Alaska

The forest products industry has a long history in Southeast Alaska, dating back to the late 1800s when timber was harvested for local construction purposes. The 16.9 million acre Tongass National Forest, the nation's largest national forest, was created in 1909. For the next forty-five years, only high grade stands of timber were harvested, almost exclusively for local use, including in support of the region's mining and seafood industry. Annual timber harvests averaged about 30 to 50 million board feet, though more was harvested during World War II to meet defense construction needs.<sup>1</sup>

The modern forest products industry has its roots in the 1950s, when the pulp industry was drawn to Southeast Alaska. In the 1950s, territorial officials recognized that Southeast Alaska's timber resources had the potential to stimulate significant growth in the region's struggling economy. But it was also clear that only 50% of the region's overmature timber would meet sawmill standards. It was evident that large-scale utilization of the region's timber resources (and therefore economic development for the region via its forest resources) could only occur through development of a pulp industry.

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<sup>1</sup>Rogers, George W., Alaska in Transition: The Southeast Region. Johns Hopkins Press, Washington, D.C., 1967.

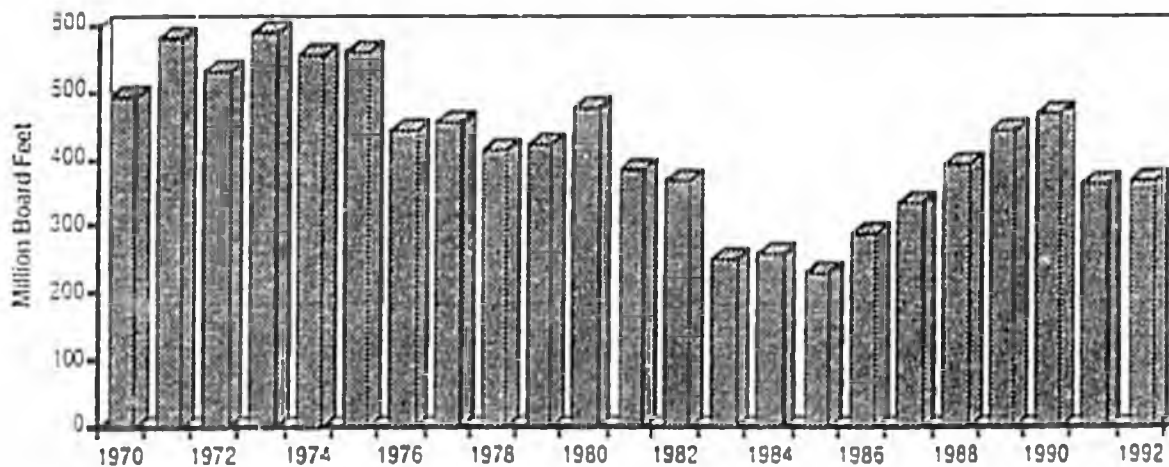
Development of Alaska's two pulp mills was the result of years of effort by Forest Service and territorial officials to attract pulp manufacturers to Southeast Alaska. For many years, distance from markets and shipping costs, high labor and construction costs and other factors had combined to frustrate prospective developers.

In the end, it was the assurance of long term timber harvesting contracts that induced pulp manufacturers to make the huge investment required in Southeast Alaska. In 1954, the Ketchikan Pulp Company completed construction of a \$52 million (the equivalent of about \$1.8 billion in 1991 dollars) facility near Ketchikan. Five years later, Alaska Lumber and Pulp Company completed construction of a pulp mill near Sitka. That investment totaled \$65 million, or approximately \$2 billion in 1991 dollars.

Construction of these mills marked a turning point in the economic development of Ketchikan and Sitka, in particular, and Southeast Alaska in general. Each mill employed about 350 workers, and hundreds of additional jobs were created in the region's logging and sawmilling industries. Almost overnight, the forest products industry became Southeast Alaska's leading industry.

Since the 1960s, the forest products industry has played a leading role in Southeast Alaska's economy. The pulp mills remain the largest employers in Ketchikan and Sitka.

#### Tongass National Forest Timber Harvest 1970-1992\*



\*Fiscal year harvest, includes utility volume. Source: U.S. Forest Service.

-Rogers, p. 75.

Tongass timber harvests began declining in the mid 1970s and bottomed out ten years later at under 300 million board feet, less than half the peak years' total. It was fortunate for the pulpmills that at this time Native harvests began supplying a significant volume of pulp logs. The dim prospect of increases in Tongass timber harvests to the levels of the 1970s, coupled with declining Native timber harvests, is a source of great concern about the industry's future.

In the 1980s and 1990s, legislative and resource management issues have been as important as market conditions among the forces shaping the region's forest products industry. For example, Section 705(a) of the Alaska National Interest Lands Conservation Act (ANILCA) authorized the Forest Service to spend at least \$40 million annually to make available for annual harvest a timber supply of 450 million board feet of timber. The fund was to be used for timber sale preparation and administration, reforestation, pre-commercial thinning, road construction, and engineering support.

Other provisions of ANILCA had excluded 5.5 million acres of the Tongass from timber harvest, including a significant volume of high value, old growth timber stands. The intent of Section 705(a) was to offset this loss by adding marginal timber to the available Tongass timber resource base by pre-roading. The trade-off was more profitable timber in environmentally sensitive areas for marginal timber stands, located in less sensitive areas, that would be made more economic through access improvements financed by the \$40 million Tongass Timber Supply Fund.

Then, the 1990 Tongass Timber Reform Act repealed Section 705(a) of ANILCA and placed an additional 1.1 million acres of land off limits to logging and established 100-foot buffers along spawning streams. The Act also eliminated the Tongass Timber Supply Fund.

The net effect of ANILCA and the Tongass Timber Reform Act was to significantly reduce the available Tongass timber resource. Further, by placing off-limits high-value timber stands, these acts have also reduced the overall quality of the Tongass timber resource. Finally, the Timber Reform Act also mandated certain changes in Tongass management practices that (depending on how the Act is interpreted) could also impact timber availability of the remaining commercial forest land base.

#### 1990 and 1992 Employment in the Tongass Forest Products Industry

In 1990, the date of the last update study, harvest and processing of Tongass National Forest timber generated an annual average of approximately 2,800 jobs. Payroll earned by workers in the Tongass forest products industry totaled \$112 million.

In 1992, Tongass-related timber industry employment decreased due to a significant decline in the annual harvest. The 1992 estimates indicate that Tongass National Forest timber harvests generated an annual average of 2,500 jobs with a payroll of \$103 million, a ten percent decline from 1990.

Included in Tongass forest products industry employment are approximately 900 pulpmill jobs accounting for \$40 million in payroll. These figures do not include pulpmill employed loggers or sawmill workers. Pulpmill employment has increased since about 1985 but is still below the peak years of the early 1980s when employment topped 1,000 jobs. Increased mill efficiency has reduced labor requirements since then.

The pulp mills are the largest single employers in Sitka and Ketchikan and Alaska's largest manufacturing employers. Pulpmill employment did not change significantly between 1990 and 1992 (again, due to the very limited ability of the mills to adjust production levels according to timber supply and market conditions).

Sawmills generated the annual equivalent of 537 jobs during 1992, and did not change significantly from 1990 (though there was some decline from the 1991 level as a result of closure of the Chilkoot Lumber mill in Haines). Sawmill workers earned approximately \$21 million in wages and salaries, about the same as in 1990. (More recent data is expected to indicate some decline in sawmill employment due to the closure of the Klawock sawmill operation).

Logging on the Tongass National Forest generated an estimated annual average of 840 jobs during 1992. Tongass loggers earned \$34 million in wages and salaries. The Tongass timber harvest decreased by about 100 million board feet from 1990 to approximately 370 million board feet (including utility volume) in 1992, according to preliminary U.S. Forest Service data.<sup>3</sup> This is a 22% decrease over the 1990 harvest of approximately 471 million board feet and a 2% increase over the 1991 harvest of approximately 364 million board feet. Logging employment on the Tongass decreased by approximately 260 jobs from 1990 to 1992, based upon McDowell Group estimates.

Timber harvest-related road construction accounts for approximately 120 jobs (annual equivalent) to the Tongass forest products industry. These construction jobs accounted for about \$5 million in payroll earned during 1992.

Other basic components of the Tongass forest products industry added an additional 110 jobs and nearly \$4 million in payroll. This includes log scalers, towing and stevedoring workers.

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<sup>3</sup>The USFS reported a total Tongass timber harvest of 369.7 million board feet during FY 1992, which began October 1, 1991 and ended September 30, 1992. During this same period a year earlier, the total harvest was 364 million board feet. Calendar year totals for 1991 and 1992 may vary somewhat from these totals. The source of this data is a draft report of the 1992 Timber Supply and Demand Report, prepared by the USFS.

The Tongass Forest Products Industry  
Employment and Payroll in 1992

Industry Component	Annual Average Employment	Total Payroll
Pulpmills	906	\$39.7 million
Sawmills	537	\$20.8 million
Logging	840	\$33.9 million
Road construction	120	\$ 5.0 million
Towing, Stevedoring and Other	110	\$ 4.0 million
<b>Tongass Industry Total</b>	<b>2,513</b>	<b>\$103.4 million</b>

#### Forest Service Employment Related to Tongass Timber Harvests

It is not possible to determine exactly how Forest Service employment would be affected by a reduction in the Tongass commercial timber resource base. Reallocation of federal funding to other types of Tongass management activities could mitigate Forest Service employment reductions. But in the present situation a very significant portion of Forest Service employment in Southeast Alaska is the direct result of management of a portion of the Tongass as a commercial timber resource. This employment would decline with a declining timber resource base.

The Forest Service generated 935 full-time equivalent positions in Southeast Alaska in 1992. Workers in these positions earned an estimated \$43 million in payroll annually. Among these 935 workers, the Forest Service estimates that 448 are directly involved in timber sale preparation, implementation and management. If there were no Tongass timber harvest these jobs would not exist. These Forest Service workers earned an estimated \$20.8 million in annual payroll in 1992.

Though timber harvest and forest products industry employment declined overall in 1992, USFS employment in the region increased by 155 jobs, with timber related USFS employment increasing by 114. According to the Forest Service, this increase from fiscal year 1990 to 1992 was generated by "Congressional direction to accelerate the timber sale preparations to meet the 3 year shelf volume requirement of long term timber sale contracts."<sup>4</sup>

<sup>4</sup>USDA Forest Service, Alaska Regional Office, Office of Program, Planning and Budgeting.

Total Tongass Forest Products Industry  
Estimated Employment and Payroll in 1992

	Annual Average Employment	Total Payroll
Private Sector Total	2,513	\$103.4 million
U.S. Forest Service	448	\$20.8 million
 Grand Total	 2,961	 \$124.2 million

### Timber Harvest on Private Land in Southeast Alaska

Southeast Alaska's forest products industry entered an important phase with the 1971 Alaska Native Claims Settlement Act (ANCSA). ANCSA granted Alaska Natives surface and subsurface title to 40 million acres of land in Alaska, including over 600,000 acres in Southeast Alaska. ANCSA also provided for formation of regional and village corporations to manage these lands. Southeast Alaska's regional corporation and 12 village corporations gained title to some of Southeast Alaska's richest timber stands.

Because of delays in transferring title from the federal government to the Native corporations, it was not until about 1980 that timber harvest on Native-owned lands began in earnest. Within the next five years, timber harvest from these private lands increased to about 300 million board feet annually.

Fortunately for the logging industry, private timber harvests were increasing just as the Tongass timber harvest was declining due to weak market conditions. While private timber owners faced the same weak market, they nonetheless found it in their best interest to harvest. Further, timber harvested from private land in Southeast is not subject to the same primary manufacturing restriction that is placed on Tongass timber. According to federal law, Tongass timber cannot be exported out of Alaska in an unprocessed condition. Many international buyers find unprocessed "sawlogs" a more attractive commodity.

Throughout the 1980s timber harvests from private land in Southeast Alaska increased and, by 1985, the private timber harvest exceeded the Tongass timber harvest. The private harvest had reached 520 million board feet by 1989, including 420 million board feet of export sawlogs.<sup>5</sup> The economic impact of this

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<sup>5</sup>USAF provided preliminary numbers that will be used in the 1992 Timber Supply and Demand Report, prepared by the USFS, pg. 10.

harvest included about 1,300 logging, road building and stevedoring jobs and an estimated \$52 million in payroll.

The 1992 harvest from private land totaled approximately 420 million board feet, including 333.3 million board feet of sawlogs which generated approximately 1,100 forest products industry related jobs and an estimated \$43 million in payroll. Economic considerations have made it impractical to harvest timber on a sustained yield basis, and some private land owners have already completed their first harvest of timber.

### Summary of Employment and Payroll in Southeast Alaska's Forest Products Industry

In 1992, Southeast Alaska's forest products industry accounted for about 34% of the region's private basic economy, measured in terms of employment. The industry employed approximately 3,583 workers in 1992, and accounted for a direct annual payroll of over \$146 million. The U.S. Forest Service generates another 448 timber-harvest related jobs in Southeast. Quite clearly, the future of the forest products industry is of great concern to residents of Southeast Alaska.

#### Total Southeast Alaska Forest Products Industry Estimated Employment and Payroll in 1992

	Annual Average Employment	Total Payroll
Tongass Total (Private Sector)	2,513	\$103.4 million
U.S. Forest Service	448	\$ 20.8 million
Private Timber Harvest	1,070	\$ 42.9 million
 Grand Total	 4,031	 \$167.1 million

Source: Tongass-related and private timber harvest employment numbers are McDowell Group estimates. USFS numbers provided by the Forest Service.

### Outlook for the Forest Products Industry in Southeast

The economic impact of private (Native corporation) timber harvests in Southeast is declining. Approximately nine of the twelve village corporations have cut off their merchantable timber as of 1992. One of the village corporations could harvest timber for another three years at current harvest levels, and the regional

corporation can continue to harvest at current rates for another eight to ten years.<sup>9</sup> Employment in this sector of the forest products industry peaked during 1989-90, and is now declining and the long term outlook is for further decline.

There is much less certainty regarding the outlook for the Tongass forest products industry. In the near term, the industry is faced with weak World markets for pulp and continuing concern over timber availability. At the same time, the industry is enjoying record high prices for lumber (brought about by increased demand as a result of Hurricane Andrew recovery efforts in Florida, increased housing starts nationwide, and by supply constraints in the Northwest).

In the long term, constraints on timber supplies from the Pacific Northwest states (due to Spotted Owl protection measures and other factors) could possibly strengthen Alaska's position as a domestic and international timber supplier. Again, however, the issue of land and timber availability will play a determinant role in how Southeast Alaska responds to increased demand for forest products.

There is renewed concern regarding the ability of Southeast Alaska's pulp mills to maintain operations in the midst of weak international markets and reduced timber supply. Pulp mills do not have the ability to scale their operations according to timber supply or market conditions. Mills must operate 24 hours a day or not at all.

While the mills have survived market declines in past years without extended shut downs, there is concern that the combination of weakening markets and timber supply constraints will force the permanent shut-down of the pulp mills. The result would be the loss of over 900 jobs in Sitka and Ketchikan, plus hundreds of support jobs. Month-long shutdowns of both the Ketchikan Pulp Corporation mill and the Alaska Pulp Corporation mill this last spring have fueled these concerns regarding the health of the Southeast Alaska forest products industry.

It is difficult to anticipate how additional Congressional action regarding the Tongass National Forest will affect future management and timber harvests. For the present it is clear that Southeast Alaska's forest products industry employment is threatened.

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<sup>9</sup>Knapp, Gunnar, Native Timber Harvests in Southeast Alaska, prepared for the U.S. Forest Service, October 1989.

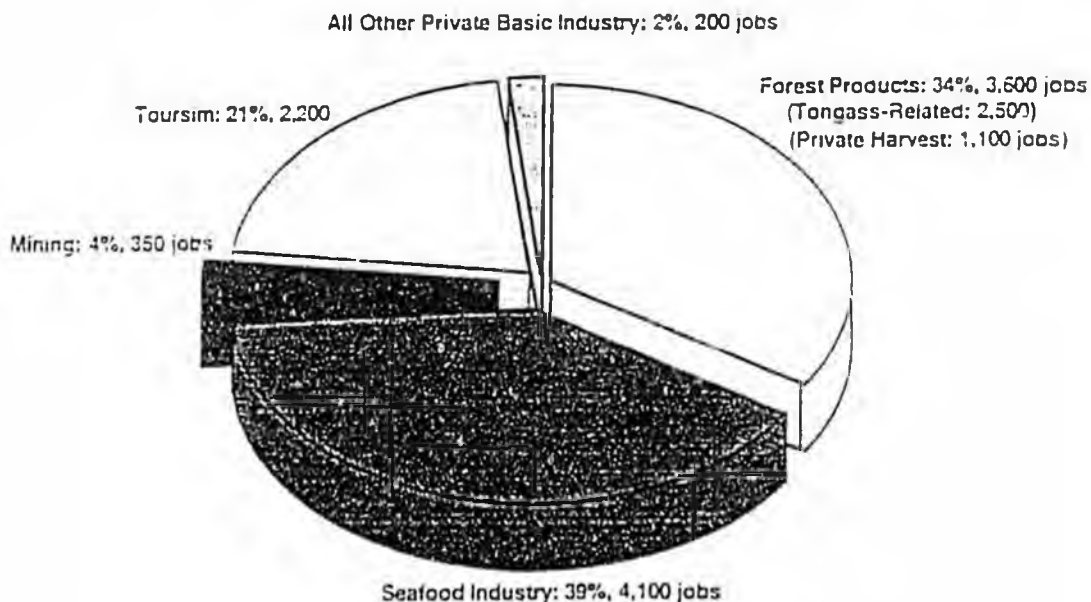
## Chapter II. Overview of the Southeast Alaska Economy

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In 1992, the forest products industry generated the annual equivalent of approximately 3,600 jobs, and accounted for more than one in three private basic industry jobs in Southeast Alaska. Timber harvest and manufacturing from the Tongass National Forest accounted for about 62% of the forest products industry in Southeast.

In 1992 Southeast Alaska's seafood industry generated the annual equivalent of 4,100 jobs including 2,700 in seafood harvesting and 1,400 in seafood processing. Tourism added an estimated 2,200 jobs to Southeast's basic economy. Mining accounted for approximately 350 jobs in Southeast Alaska in 1992 (the Greens Creek Mine closure will reduce mining employment in Southeast Alaska by 200 jobs in 1993).

**Southeast Alaska's  
Private Basic Economy**  
(Measured in terms of annual average employment)  
1992

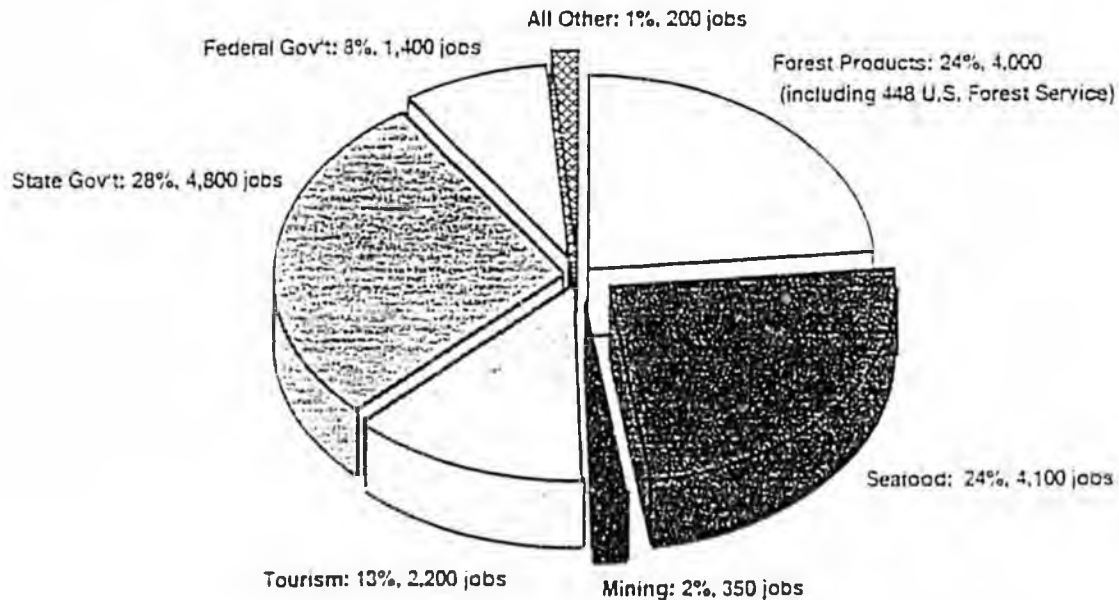


State and federal government continued to be an important components in Southeast Alaska's basic economy in 1992. State government was the largest basic industry in Juneau but played a comparatively smaller role in the economy of the rest of the region. State government employed about 5,600 workers in Southeast in 1992, including about 4,600 in Juneau. For purposes of this study it is assumed that approximately 85% of state government employment in Southeast was basic industry in 1992. The remainder has been considered part of the support sector.

Federal government accounted for about 2,800 jobs in Southeast Alaska. About 2,000 of these federal jobs served the national interest and were therefore basic industry. All other federal jobs served only the local population - such as postal workers - and were part of the support sector. The Forest Service and the U.S. Coast Guard were the largest federal basic industry employers in Southeast.

In spite of recent declines, the role of the forest products industry among all basic industry, including government, was substantial in 1992. The forest products industry including related Forest Service employment accounted for nearly one-quarter (24%) of all basic industry employment in Southeast Alaska.

**Southeast Alaska's  
Total Private and Government Basic Economy  
(Measured in terms of annual average employment)  
1992**



It is beyond the scope of this study to measure the indirect and induced impacts of the forest products industry on the Southeast economy. However, it is important to note that the industry does have important secondary impacts and that indirect and induced impacts vary from one segment of the industry to another. The pulpmills have by far the greatest impact. They provide hundreds of high-paying, almost entirely resident jobs which account for a high level of local spending.

Further, pulpmills represent an important property tax base in Sitka and Ketchikan. The pulpmills add millions of dollars to local government coffers either through property tax payments or through purchases of public utilities. These property tax payments and high volume purchases of public utilities help keep local government and public utility costs lower for residents of the communities.

All told, without the pulp mills, the economies of Sitka and Ketchikan would shrink by about one-quarter and some costs of living for remaining residents would increase significantly. Property values in Sitka and Ketchikan would decline sharply.

Sawmills have comparatively high indirect and induced impacts. They too have generally well paid, resident Workforce and represent an important industrial property tax bases. Among the various components of the forest products industry, remote logging camps have the lowest level of indirect and induced impacts. Still, remote logging operations do provide a significant market for many Southeast Alaska service and supply businesses.

# Sitka woes could help small mills

## Pulp mill closure may open up timber supply

THE ASSOCIATED PRESS

**ANCHORAGE** - The U.S. Forest Service decision to cancel Alaska Pulp Corp.'s long-term timber contract may be a financial disaster for the Sitka company, but it could be a godsend for some small sawmills.

The cancellation will cost the Japanese-owned company 2.1 billion board feet of Tongass timber remaining under the contract and threaten more than 700 jobs.

But when the news came a week ago, Dan Fanning said he was celebrating ~~right~~ alongside the environmentalists.

Fanning operates a small sawmill in Hoonah that cuts about 500,000 board feet of timber a year from the Tongass National Forest.

He makes it over into lumber and finely grained wood for musical instruments.

Fanning said he isn't an environmentalist. Rather, he calls himself pro-industry.

"I am pro-industry because everyone has to work," he said. "If they don't have jobs, then they are on welfare and that don't benefit America."

But Fanning said he's had trouble getting enough wood for his sawmill because the Forest Service has told him the timber supply in his part of the forest was dedicated to Alaska Pulp.

According to Fanning, cancellation of the contract will usher in an era of enlightenment for the timber industry - and he may be one of the beneficiaries.

"Starting off, it will be economic disaster," said Fanning, expressing concerns for workers who may lose their jobs with Alaska Pulp.

"But after people relocate and find other jobs, I think there will be new opportunities for independent loggers and the wood-products business," he said. "It won't be on the same scale. But it will support the economy for the people who live here."

For Fanning, it may mean a steadier timber supply that would allow him to double the size of his operation and hire a few employees.

Many see the Forest Service decision as a disastrous blow to the economy of Southeast Alaska, where more than 2,500 people make their living off the forest. But other small mill operators join Fanning in his optimism.

Less timber probably will be cut from the forest overall and total employment may fall, they said.

But small mills should sprout and prosper, fostering a more diverse wood-products industry that could cushion the Southeast economy from doomsday predictions and sustain the region's economy indefinitely, they said.

Alaska Pulp and Louisiana-Pacific Corp.'s Ketchikan division have dominated the timber industry through 50-year contracts, signed in the 1950s. Huge volumes of timber, approaching 350 million board-feet a year, are dedicated to the two companies.

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Their domination of the forest has lasted so long that smaller businesses with the potential for employing nearly as many people have been stifled, the small mill operators said.

Alaska Pulp lost its contract for Tongass timber because it closed its Sitka pulp mill Sept. 30. That action laid off about 400 workers. The company still has a Wrangell sawmill employing about 240 people.

The company is thinking about replacing the pulp mill with a more efficient and less polluting fiberboard plant. But the Forest Service said it can't continue providing timber under the long-term contract without a firm commitment to build the new plant.

If the company wants more timber, the Forest Service said, it will have to compete with other bidders under the timber-sales program the agency uses in every other national forest.

Bob Loescher, vice president for natural resources at Native-owned Sealaska Corp., said Native-owned enterprises are ready to do business with the Forest Service.

~~"We have the capital to invest and we'll be able to employ many in the stand logging operations."~~

Alaska Pulp had 17 years left on its contract. During that period, the Forest Service would have been obligated to provide it with 2.1 billion board feet of timber at rates that independent purchasers say are running about half of what they pay - when they can get the trees.

"I don't mind paying a fair price," said Jerry Jones, a small operator on Prince of Wales Island in the heart of Louisiana-Pacific's cutting area.

"But when they give it away to the contract holders and they won't sell it to me, it really hurts," Jones said.

Without a steady supply of timber, Alaska Pulp is weighing what to do with its Wrangell sawmill. Also hanging in the balance of that decision is the fate of about 500 loggers who cut Alaska Pulp's trees.

John Haugh, an Alaska Pulp director, said no decision will be made until company officials review their options in the aftermath of the Forest Service decision.

Alaska's all-Republican congressional delegation has blasted the Forest Service action as an economy-killer for the Panhandle and a betrayal of President Clinton's commitment to jobs.

Sen. Ted Stevens said though small logging operations may prosper in the void left by Alaska Pulp's contract cancellation, they won't make up for the potential job losses.

But Ronald Jones, a natural resources professor at Sheldon Jackson College in Sitka, said he expects the Forest Service decision to be a boon to Southeast.

"Small business creates more jobs than big business and small business has been run out of the forest," Jones said.

"The long-term contract created all the reasons for market failure," Jones said. "It created a monopoly and eliminated competition. What I see is a more robust and diverse forest economy - and that's the best thing that could happen."

~~Matt Berman, associate economics professor at the University of Alaska Anchorage, said the contract cancellation doesn't necessarily mean ruin for Alaska Pulp, either.~~

"If APC can put together a fiberboard plant that doesn't use as much timber, it probably will be more profitable than a lot of small mills," he said. "I don't think it needs the long-term contract. APC could actually emerge much stronger."

## Sitka pulp

*What does the future hold?*

When the two big Southeast pulp mills were built in the 1950s, they weren't so much industries as they were social experiments. The goal was year-round logging jobs to stabilize the Southeast economy. As the means to reach that goal, the federal government gave the pulp mills unprecedented 50-year contracts for cheap timber from the Tongass National Forest.

Social experiments don't always work as planned. In the case of the pulp mills, markets changed. So did values.

The Forest Service last week canceled the contract for the Japanese-owned Alaska Pulp Corp., saying the contract required year-round operation of a pulp mill. The company shut down its Sitka mill last September because of slumping world pulp markets, laying off about 400 workers. A guaranteed supply of timber didn't guarantee a market — or jobs.

The pulp mill also faced rising production costs, driven in part by increased environmental regulation — a reflection of a change in values about how the Tongass should be managed.

Those changed values could be seen in the 1990 Tongass Timber Reform Act, which directed the Forest Service to follow the same multiple-use mandate it follows in every other national forest and take into account not just timber but wildlife, water quality and recreation. While the mill complained that the law made timber more costly and less available, the mill's critics countered that reform was needed to keep the forest healthy and to protect other Southeast industries that depend on a healthy forest, like fishing and tourism.

More than environmental values have changed since the 1950s. Local mills getting a guaranteed amount of timber from a national forest at guaranteed low prices didn't go over so well in these days of federal deficits. The reform act reflected changing economic values in directing the Forest Service to tie timber sales more closely to market demand.

One value that hasn't changed is the value of work. Employment in Southeast remains a concern, especially now that Alaska Pulp Corp. is saying the lost contract means it may have to shut down its Wrangell sawmill, putting another 700 mill and logging jobs at risk. Alaska Pulp had wanted the Forest Service to continue honoring the 50-year contract while the company explored converting its closed Sitka pulp mill to a fiberboard plant. The Forest Service said that without a stronger commitment to build the new plant, it couldn't do so.

Maybe it's time for a new experiment.

We hope Alaska Pulp Corp. continues exploring the fiberboard plant, which is after all a response to the changing marketplace. And we hope it doesn't shut down its Wrangell sawmill, choosing instead to continue operating by competing to buy timber like every other mill in the country. After all, the market for lumber is much better than pulp right now.

But most of all, we hope a lengthy court battle doesn't put the Southeast economy on hold by tying up the Forest Service decision in the courts. Because what Southeast needs is a new plan, not an old social experiment. It needs a plan made for the 1990s and beyond, not the 1950s.

New jobs can be created in response to changing markets and values. Smaller mills and value-added wood product industries may stand more of a chance without the mill monopoly.

The loss of the contract is an opportunity to step back and do the planning needed to take Southeast into the next century. This is where Alaska's leadership can help, not by trying to keep things the way they were 50 years ago.

# Tongass report gets nod

THE ASSOCIATED PRESS

**ANCHORAGE** — An expert panel commissioned by the Forest Service has given high marks to a report stating that wildlife species may disappear from the Tongass National Forest unless a timber-management plan is revised.

The review concentrated on a report by state and federal biologists in 1992. That report, which received a cool reception by officials and never was released formally, challenged timber harvests proposed in a 10-year management plan.

The Forest Service said it received the peer review last week.

The biologists favored scattering 40,000-acre blocks of old growth throughout the Tongass, to keep migration corridors for wildlife. The recommendation would have required a change in harvest plans.

The Forest Service put its management plan on hold and requested review from a team including biologists, a forester, a lawyer and a resource economist. Experts from Canada and the Lower 48 states spent more than a year on the review.

The Forest Service is required to maintain viable populations in each forest. The review group concluded that some species required large tracts.

"We ought to accommodate them and harvest in special arrangements that will allow them to survive," said William Lidicker, a review panel member and an integrative biology professor at the University of California-Berkeley.

Lidicker said he believed the biologists' report did not go far enough. The review panel called for other changes in harvest prac-

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## Report...

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tices, as well as studies of wildlife population and genetics.

Gary Morrison, a Forest Service supervisor, said it would be up to the agency to decide what changes — if any — should be made.

"Whether we accept the recommendation is still two or three steps away," Morrison said Friday. The agency will weigh the timber industry's thirst for Tongass logs against recommen-

dations for wildlife protections.

Logging is a mainstay of the Southeast economy, generating thousands of jobs. Timber industry officials say they are able to log the forest without significant harm to fish and wildlife.

Morrison said annual harvest could drop by as much as 25 percent, if recommendations in the 1992 report were carried out. The report said populations of brown bear, marten, flying squirrels and other species could be damaged if logging was done at the scale pro-

posed.

Lowell Suring, the Forest Service biologist who led a committee that wrote the wildlife report, has said certain species could disappear from large areas of the Tongass. Disappearance could contribute to eventual extinction, Suring said.

Preserved tracts within the forest would reduce the chance that wildlife would seek isolated islands of old growth, crowding each other and eventually dying out, Suring said.