

SCR

2

<TARGET><BILL>SCR 2</BILL><SUBJECT>SCR
2</SUBJECT><COMM>SJUD28</COMM></TARGET>

ALASKA STATE LEGISLATURE

SESSION

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SENATOR BERT K. STEDMAN

Sponsor Statement

SCR 2 – Acquire Tongass National Forest Land

The Tongass National Forest was created in 1907 by President Theodore Roosevelt. Today, it is the largest national forest in the United States with 16.8 million acres. In 1947 Congress enacted the Tongass Timber Act the purpose of which was to clear the way for long term timber sales on the Tongass. From the 1950's through the early 1990's, the commercial harvest of timber from the Tongass National Forest formed a major part of the economy in Southeast Alaska. Unfortunately, that's no longer the case because the timber industry does not have access to an adequate volume of timber supply that can be economically harvested from the Tongass National Forest. Interestingly, only 400,000 acres of the Tongass have been harvested between its creation in 1907 and today. In addition, there were more sawmills operating on the Tongass in 1900 than there are today.

The reasons behind the lack of timber supply began in 1980 when Congress passed the Alaska National Interest Lands Conservation Act (ANILCA) establishing 4.5 million acres of Wilderness and National Monuments in Southeast Alaska. In order to ensure that these land withdrawals from the available timber base did not harm the existing timber industry, ANILCA mandated that the Forest Service offer 450 million board feet of timber annually. Then in 1990, Congress passed the Tongass Timber Reform Act (TTRA) creating another 1.1 million acres of Wilderness and Roadless Area set-asides, further reducing acreage in the Tongass National Forest that could be used for timber harvest. In 1997 the Forest Service adopted a new land management plan for the Tongass National Forest and switched to "ecosystem management." Under this new philosophy, attention to timber sale economics was abandoned. However, in 2005 the 1997 Tongass Land Management Plan (TLMP) was set aside and nine major timber sale environmental impact statements were enjoined pending preparation of an amended Forest Land and Resource Management Plan. (See the 9th Circuit's Decision in *Natural Resources Defense Council v. United States Forest Service*, 421 F.3d 797 (9th Cir. 2005)). The 1997 Forest Plan was enjoined, not because of an environmental problem, but because of a Forest Service math error in computing the volume of timber needed to meet market demand.

Every significant timber sale the Forest Service has attempted to make since adoption of the 2008 Amended TLMP has been litigated. This litigation has caused annual Forest Service sales to be reduced to 30-40 MMBF, not nearly enough to supply the integrated industry advocated by the Governor's Timber Task Force.

District Q

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Moreover, the Secretary of Agriculture interfered with implementation of the 2008 Amended TLMP with his 2010 announcement of an "immediate transition from old growth timber to second growth timber." This announcement was made notwithstanding the fact that there is insufficient second growth timber on the Tongass that meets the definition of cumulative mean annual increment required by the National Forest Management Act (NFMA). Timber sales in old growth were delayed while Forest Service professionals have tried to make it clear to the Secretary that an "immediate" transition to second growth would violate the NFMA.

In March 2011 the Federal District Court for the District of Alaska set aside the Tongass Exemption from the 2001 Roadless Rule, which the State had negotiated with the Federal Government in 2003. This has resulted in 9.6 million acres of non-timber-harvest areas being created on the Tongass in addition to the 5.6 million acres of non-timber-harvest Wilderness areas. In addition, the Roadless Areas create a serious impediment to mining and to hydropower and other renewable energy opportunities on the Tongass.

The Tongass National Forest currently encompasses about 93% of the available timberlands in Southeast Alaska. However, only two percent of the Tongass National Forest is managed for the purpose of providing local communities with the opportunity to harvest timber. Consequently, the Forest Service has monopoly power over the timber supply. In the past four years, several efforts to revitalize the timber industry in Southeast Alaska have failed because a timber industry cannot exist without an adequate timber supply. Since the U.S. Forest Service is no longer able to provide enough timber in the Tongass National Forest to sustain a viable timber industry in Southeast Alaska, it is time for the Governor to intervene.

Under the Alaska Statehood Act, the federal government provided Alaska with a 103,350,000 acre land entitlement. Of that original land entitlement, 5,500,000 acres still remain available for selection. SCR 2 urges the Governor to take steps necessary to select land in the Tongass National Forest as part of Alaska's statehood entitlement. However, section 6 of the Alaska Statehood Act limits the state's selection of land from the Tongass and the Chugach National Forests to 400,000 acres and further limits the use of that land to recreation and community expansion. The state should be entitled to select some of its remaining land entitlement from the Tongass National Forest without being limited to recreation and community expansion. This could be achieved through efforts by the Governor to negotiate the transfer or sale of timberland in the Tongass National Forest or by working with our federal delegation to amend the Alaska Statehood Act.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version CSSCR 2(JUD)
 Fiscal Note Number 1
 (S) Publish Date 3/10/14

Identifier (file name) _____ Dept. Affected _____
 Title SCR 2-ACQUIRE TONGASS NATIONAL FOREST LAND Appropriation _____
 Sponsor Senator Stedman Allocation _____
 Requester Senate Judiciary Committee OMB Component Number _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
			FY16	FY17	FY18	FY19	FY20
OPERATING EXPENDITURES	FY15	FY15	FY16	FY17	FY18	FY19	FY20
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1007	I/A Rcpts (Other)						
1156	Rcpt Svcs (DGF)						
		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							
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Estimated **SUPPLEMENTAL (FY14) operating costs** _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY15) costs** _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? _____
 If yes, by what date are the regulations to be adopted, amended, or repealed? _____ Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Version.

Prepared by Senate Judiciary Committee
 Division _____
 Approved by Senator Coghill, Chair
 Division _____

Phone 465-3719
 Date/Time 3/7/14 12:00 AM
 Date 3/17/2014

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SENATOR BERT K. STEDMAN

MEMORANDUM

TO: Senator Coghill, Chair
Senate Judiciary Committee

FROM: Senator Bert K. Stedman *B.S.*

DATE: February 21, 2014

SUBJECT: SCR 2 Questions

At the last Senate Judiciary Committee held on February 17, 2014, there were several questions posed to SCR 2. Here are the responses.

Q. Has the Statehood Act ever been revised, and if so, when?

A. Yes, the Statehood Act has been revised at least twice by Congress with the agreement of the State: In 1971, Alaska Native Claims Settlement Act (ANCSA) was enacted to settle Native Claims. This Act provided for 40 million acres of land selections by various Native groups as well as amending the State selections process. In 1980, Title IX of the Alaska Natural Interest Lands Conservation Act contained a major revision to the Statehood Act to further the selection and conveyance of State land selection. In each instance, the bills specifically dealt with specific land selection, conveyance and entitlement of lands selection under Statehood Act.

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Q. Has an Alaskan Governor attempted this before? Was it three years ago?

A. Yes, Governor Frank Murkowski worked with the Alaska delegation during the 110th Congress, second session (2008) and Representative Young introduced HR 6682. This legislation addresses many of the same issues as the proposed SCR 2. The bill would have amended the Statehood Act to allow land selections from the Tongass National forest, 1.8 million acres, as partial fulfillment of the original statehood entitlement. The proposed legislation also had a tie to educational programs in Alaska and the short title of the bill was: "Alaska Timber Management Areas for Education Land Selection Act".

Stepping back a bit further to the 144th Congress, HR 2413 was introduced in 1995. This legislation proposed to transfer the entire Tongass National Forest to the State of Alaska. The bill was entitled: "To Transfer the Tongass National Forest to the State of Alaska".

More recently in June of 2012, the Alaska Timber Jobs Task Force issued their final report per Administrative Order 258 from Governor Sean Parnell. Several specific recommendations in the report address Tongass National Forest management including high priority recommendations in Section 2, Task 2 and 5. The recommendations read "Southeast State Forest: add two million acres of National Forest System lands from the Tongass NF" and "Pursue state ownership and /or management authority of two million acres of National Forest System lands in the Tongass NF to support an

integrated timber industry in Southeast". The Division of Forestry has a reporting matrix on their website that tracks progress on all the recommendations in the Task Force final report, including the ones on additional land selections in the Tongass.

http://forestry.alaska.gov/aktimber_jobs_taskforce.htm

The administration has been working with the Alaska delegation to discuss options for accomplishing this recommendation and the Division of Forestry is actively engaged in the topic. This past year State Forester Maisch testified in front of the House on HR 1294 (Self-Sufficient Community Lands Act) and HR 818 (Restoring Healthy Forests) and in the Senate Energy and Natural Resources Committee hearing on challenges and opportunities for improving management of national forest land. Thru the National Association of State Foresters (NASF), Alaska is working to form a state and national coalition to advocate for national forest management changes, including Western Governors Association (WGA), Intertribal Timber Council (ITC), and other national organizations.

Q. Would Senator Stedman prefer to purchase or trade land?

A. We need a timber supply and the federal government has, since 1990, steadily reduced the amount of timber available from federal lands in Southeast. The federal

government has monopoly power over the timber supply in the region, where more than 94% of the land is under federal management (the Tongass and Glacier Bay).

Q. How many acres does he want to acquire?

A. Two million. This is the amount of land required to sustain the timber industry and to allow access to mining, energy development and community access. The Alaska Timber Jobs Task Force report has additional information about the proposed State Forest (http://forestry.alaska.gov/aktimber_jobs_taskforce.htm)

Q. What would be the purchase price per acre and what would the operating cost be for that additional land?

A. The Division of Forestry (DOF) currently has staff located in Ketchikan that are actively engaged in managing state forest lands, including the Southeast State Forest (50,000 acres). While there would be some incremental cost to managing additional lands in Southeast, there would be corresponding offset of revenue generated by the timber sale program, thus the additional management costs could be covered by receipt authority. The purchase or sale of lands is generally at the appraised value and that level of detail has not been completed at this stage of the process. Should the project go forward as an outright purchase, then an appraisal of the lands would need to be made.

Q. What does 2% of Tongass really mean?

A. The Tongass encompasses 17 million acres. 10 million of those acres are timberland. About 5.6 million of those acres grow trees fast enough to be considered commercial forestland. Congress has set aside more than 6 million acres. The current Tongass Land Management Plan allows only 663,000 acres to be managed for timber production. The re-imposition of the Roadless rule places about half of the 663,000 acres off-limits to development. The remaining 330,000 acres represents about 2% of the 17 million acre Tongass.

Q. What is the percentage of old growth left and where is it?

A. About 450,000 acres of timber has been harvested on the Tongass. All of those acres have been reforested, but the trees on most of those acres are not yet mature. All of the remaining 10 million forested acres (or 5.6 million commercial forest acres) are covered with old-growth timber. Consequently, about 96% of the 10 million acres is old-growth and about 92% of the 6 million acres of commercial timberland is old-growth. This wasn't part of the question, but about 2 million acres of old-growth has been set-aside by Congress as Wilderness, National Monuments and legislated LUD-II (Roadless) areas. Additionally, about a million acres of timberland is within protected stream buffers.

Q. What is the rejuvenation potential of other harvested timber on mental health and native lands?

A. Mental Health, University, and other State and Native lands comprise about 6% of the land in the region. The total acreage of non-USFS young growth (YG) is approximately 280,000 acres. The age class distribution of the non-USFS young growth is about 20 years younger than USFS young growth and is not likely to provide much support to a rapid transition. Currently the State of Alaska and the University of Alaska have significant amounts of old growth timber resources available for harvest. However this available volume is not sufficient enough on its own to provide for the existing industries annual needs or to maintain a viable customer base for high-value old growth products. If the Sealaska Land Entitlement bill and the proposed Alaska Mental Health Trust – USFS land exchange are both enacted there will be an additional 100,000 acres of both old growth and young growth timber available for forest management. Again without a drastic increase (3 fold) in volume offered on an annual basis by the Forest Service or the transfer of 2,000,000 acres into State management; there are not sufficient timber resources available to sustain the current industry.

Taking average growth rate (MAI) and applying it to the projected young growth land base for all ownerships a total sustainable regional young growth harvest program

could approach 200 million board feet annual from all owners. Harvest could ramp up to this level over the next 30 years with short term harvest level being significantly less.

The table below shows the acres of young growth by decadal age class by ownership in southeast.

		Management by Owner									
		2000-2010	1990-2000	1980-1990	1970-1980	1960-1970	1950-1960	1940-1950	1930-1940	1930--	
State	no	14	5,822	765	1,143	3,575	4,761	1,985	916	24	19,006
State	yes	-	-	4	977	723	114	-	-	-	1,818
ANC	no	4,294	31,647	59,906	85,582	7,886	5,969	1,058	603	107	197,051
ANC	yes	-	104	15,954	24,589	8,380	2,722	289	-	-	52,038
USFS	no	-	6,722	63,055	55,635	34,048	49,410	19,261	3,903	1,851	233,886
USFS	yes	-	-	3,014	31,609	80,420	64,964	8,809	31	128	188,975
		4,308	44,295	142,698	199,536	135,032	127,941	31,402	5,453	2,110	692,774

State includes State of Alaska, Mental Health Trust and University lands

ANC includes regional and village native corporations

USFS is the Tongass National Forest

Q. Has this been done by other states before, and how much was the purchase price per acre?

A. According to Monte Williams, land specialist, Legislative Affairs Office, U.S. Forest Service, there have been some trades of small parcels of land between states and the federal government. Additionally there are some provisions under law for the exchange or sale of small tracts of land. However, to Mr. Williams' knowledge no trade or sale to date has been large enough to constitute or support a sustainable timber

industry.^[1] A key component of any such transaction is a determination that the exchange or sale of federal land is within the interest of the American public.

In addition to being in the interest of the wider public, land exchanges must reflect value for value. Further, all expenses associated with such trades—including, for example, surveys and environmental impact statements under the National Environmental Policy Act (NEPA)—would be borne by the entity requesting the trade.

The National Forest Townsite Act authorizes the Forest Service to sell land in the contiguous western states and Alaska to local governments for community purposes; however the limit to such sales is 640 acres and the land must be adjacent to the community that has applied. Land sales must serve the local community interest and the local objectives must outweigh the larger public interest that is served by retaining federal ownership. Under the law, the federal government must receive at least fair market value for the land.^[2]

^[1] Monte Williams, land specialist with legislative affairs, Forest Service, U.S. Department of Agriculture, can be reached at 202.205.1011.

^[2] National Forest Townsite Act, 16 U.S.C. 478a. Under the associated regulations, the value of land is estimated through appraisals that meet federal appraisal standards.

From the Alaska Forest Association

Alaska Timber Industry History

Southeast Alaska

Summary

From the 1867 purchase of Alaska until after the 1907 proclamation establishing the Tongass National Forest, only small amounts of the timber resources in Southeast Alaska were harvested for local use. Subsequent to 1907, the newly established Forest Service began offering 25-year timber sale contracts that included a requirement to construct a pulp mill. The intent was to establish a fully integrated manufacturing industry that would utilize all of the commercial timberland in the region. None of those early efforts were successful until the agency increased the term of the contracts to 50-years and added an assurance of an economic timber supply. Only two pulp mills were ultimately constructed, but they operated as intended from the mid-1950s until the mid-1990s. An illegal termination of one long-term contract and the imposition of unilateral contract changes that eliminated the viability of the other long-term contract brought an abrupt end to the pulp mill operations.

The Tongass National Forest currently encompasses about 93% of the timberlands in Southeast Alaska and, consequently, the Forest Service has monopoly power over the timber supply. After 1990, the Forest Service dramatically reduced the volume of timber offered for sale annually and in 1997 the agency imposed harvest constraints that resulted in large increases in the cost of harvesting national forest timber. These two management changes effectively wiped out most of the remaining timber industry. Current industry employment is about 15% of what it was when the pulp mills were operating.

1867-1947 Pre-Tongass Timber Act

From 1867 when Alaska was purchased from Russia until the early 1900s, the primary use of timber in Southeast Alaska was by the mining and fishing industries. Every significant mine in the region logged one or more hillsides to provide lumber and timber for the mine. The fishing industry used the biggest trees for fish traps, while local sawmills also kept busy sawing lumber for canneries and salteries plus crates for shipping salmon. Pole size timber was utilized for pilings. Most of the timberland in Southeast Alaska, then and now, is federal land and it wasn't until 1907 that the federal government established an agency to manage the timberlands.

In a 1982 history of the Forest Service appraisal system, Al Wiener, former Chief of Timber Appraisal, explained, "Foresters in the 1890's and early 1900's envisioned that the United States Forest Reserves, then being created, would provide a continuous supply of timber for the needs of local industry, under Federal control. Their vision has been realized in the National Forests, as the Reserves were renamed in 1907. Under the Forest

Service's sustained-yield principles, these Forests today furnish raw materials for one-third of the lumber and one-half of the plywood manufactured in the United States each year."

In 1905, Agriculture Secretary James Wilson created the Forest Service to manage the forests and the agency adopted three guiding principles:

1. Sustained yield
2. Multiple use
3. Protection of local communities

In 1911, the agency adopted the practice "clean cutting", which was later labeled "clear cutting", as the "best and most consistent silvicultural system". A 1972 Forest Service brochure further explains that removing all of the timber in an area allows sunlight to reach the forest floor. The added heat and light enhances the growth of both trees and deer browse. In contrast, partial cutting leaves shade that retards the growth of trees and browse plus, since hemlock is more shade tolerant than spruce, the young-growth in a partial-cut area will be predominantly hemlock. Further, leaving mature and over-mature timber standing will increase the risk of insect and disease problems in the young-growth.

Given this pragmatic attitude, the agency took an aggressive approach in attempting to foster a fully integrated timber manufacturing industry by offering long-term timber contracts that included a requirement to construct a pulp mill.

- In 1910, a Norwegian company proposed constructing a mill in the Thome Arm area but their proposed terms were not accepted by the agency (e.g. the company wanted a 99-year contract term, which was beyond the authority of the agency at the time).
- In 1912, the agency worked unsuccessfully with the San Francisco Chronicle on a large pulp timber sale.
- In 1913, the Forest Service offered a 300 million board foot timber sale on the Stikine River and a billion board foot timber sale in the Behm Canal area but received no bids.
- In 1920, a 100 million board foot timber sale was purchased by Alaska Pulp and Paper Company which constructed a small pulp mill at Port Snettisham; but, Alaska Pulp and Paper was able to operate for only a couple of years before closing, citing high shipping costs as the cause of the closure.
- In 1922, the Alaska Gastineau Company purchased a 1.8 billion board foot timber sale on Admiralty Island and in 1923 another large timber sale was advertised in Thomas Bay. Both of these timber sales were eventually cancelled due to financial concerns.
- In 1927, two more pulp sales were advertised. One in Juneau was purchased by a pair of newspaper companies and one in Ketchikan was purchased by Crown Zellerbach Corp. Both of these sales ended because bureaucratic delays in processing permits from the Federal Power Commission delayed operations until the onset of the Great Depression.

Although the Forest Service continued to sell timber sales, there were no additional efforts to establish a pulp manufacturing industry in Southeast Alaska until after 1947 when Congress passed the Tongass Timber Act, which was primarily enacted to authorize the Secretary of Agriculture to sell *"timber growing on any vacant, unappropriated, and unpatented lands within the exterior boundaries of the Tongass National Forest in Alaska, notwithstanding any claim of possessory rights"*. However, in 1942 the Forest Service did establish the Alaska Spruce Log Program. The agency contracted logging, towing and rafting operations that consisted of several small logging operations and a 250-man camp at Edna Bay where flat rafts were assembled into ocean-going Davis rafts. The plan was to deliver 100 million board feet of high-grade spruce logs annually to Anacortes, Washington where they would be peeled for plywood for use in constructing British bombers. In 1944, the War Production Board announced that future planes would be constructed of metal and the Alaska Spruce Log Program ended after sending only 38.5 million board feet of high-grade spruce to Anacortes and 46 million board feet of lower grade timber to local mills. By the end of that year, all of the related logging camps had closed and the Edna Bay camp was practically a ghost town.

1947--1990 Pre-TTRA

During the long lull in long-term pulp contract offerings, the agency contemplated how best to overcome the financial concerns that were preventing the establishment of a pulp manufacturing industry. The primary economic problems were the economy of scale for an infant industry, an adequate length of time to amortize the immense investment involved in constructing a pulp mill and the uncertain cost of harvesting the timber. These problems were resolved in the following manner:

1. The Forest Service planned to sell five pulp timber contracts. These contracts, along with the normal timber sales, would provide around 800 mmbf of timber harvest annually. This was considered ample for a reasonable economy of scale.
2. The Forest Service increased the term of the timber sale offerings from 25-years to 50-years.
3. The Forest Service added contract clauses that assured the purchaser that the agency would not select timber nor impose conditions that put the purchasers at a competitive disadvantage. The Puget Sound Clause in the prospectus for the Ketchikan long-term sale was the first such clause:

"Insofar as the timber quality on the sale area will permit, the logging units to be designated periodically in the future for then current operations will not be inferior in timber quality to those being then commonly logged for pulpwood on other Alaska sales or on the northern coast of British Columbia, and the loggability of the included timber stands will be of such character that, so far as the delivered log costs are concerned the purchaser's pulp manufacturing operation will not be in a disadvantageous position in comparison with similar enterprises in the Puget Sound region".

In 1947, the Forest Service advertised a revised long-term timber sale near Ketchikan. The timber sale prospectus included a 50-year term, the economic timber clause and the following assurance:

“The chief, Forest Service, having due regard for the interests of the United States and for the protection of the natural resources of Alaska, wishes to facilitate the establishment of such new industry by the purchaser and the operation of the industry on a commercially sound and permanently economical basis.”

The 8.25 billion board foot sale received no bids during the first two offerings, but in 1948 the sale was offered a third time and the newly formed Ketchikan Pulp and Paper Company offered the only bid. After numerous delays, the final contract was signed in 1951 and three years later the mill was constructed and had begun operating. The 1954 opening of the Ketchikan Pulp Company (KPC) pulp mill drew optimism and excitement from many sources:

- A. W. Greely, Regional Forester, wrote: “One who is not a forester can hardly appreciate how much difference a local market for hemlock pulp logs makes in the management of the Tongass National Forest. Forests are managed not by being left to themselves, but by the direction and control of some action which man brings on”.
- B. Frank Heintzleman, Governor of the Territory, wrote: “Hereafter in Alaska the 14th day of July will be celebrated as the anniversary of one of the most important events in the Territory’s history—the dedication of the Ketchikan Pulp Co. This is not only the first plan of its kind in Alaska but also represents the largest single industrial investment ever made here. It is an important milestone on Alaska’s road to full industrial development”.
- R. E. McArdle, Chief of the Forest Service, wrote: “The Forest Service will continue to foster development of forest product industries in Alaska to the extent needed for full utilization of the sustained yield cutting capacity of the Tongass National Forest. Cutting of this timber will be so conducted both as to rate and manner to maintain permanently a supply of raw material for these plants”.

By 1956, just two years after the Ketchikan mill started operations, the mill reported more than a million dollar profit on twenty-five million dollars of sales.

Three more pulp timber sales were subsequently sold on the Tongass:

- A 5.25 billion board foot timber sale near Sitka. This pulp timber contract was signed in 1957 and the requisite mill was operating two years later. This contract had an economic timber clause similar to the Puget Sound Clause that assured the timber provided to the purchaser would be economically comparable to the timber provided to other such timber sales in Alaska.
- A 3 billion board foot timber sale near Wrangell. This timber sale contract required construction of a small pulp mill and a 40 mmbf per year sawmill. The

requisite sawmill was constructed and operated, but not the pulp mill.

Consequently, in 1967 the contract was downsized to only 1 billion board feet.

- An 8.75 billion board foot timber sale on Admiralty Island near Juneau. This timber sale was turned back to the Forest Service when the purchaser—Georgia Pacific—decided to enlarge an existing mill at Samoa, California instead of constructing a new mill. The Juneau timber sale was offered again in 1965. The second offering was never awarded because the purchaser backed out, citing higher than expected construction costs for the pulp mill. In 1967, the timber sale was offered to the second high bidder from the second offering - US Plywood/Champion Papers - and the sale was awarded in 1968. The Sierra Club challenged the Juneau timber sale and after years of nuisance litigation, the sale was finally terminated by mutual agreement of the purchaser and the Forest Service.

Recognition of the need to control the cost of timber harvest was taken for granted in those early years of the Alaska timber industry. The 50's through most of the 70's were years of learning for both the timber purchasers and the Forest Service. There was a cooperative effort and the contracts operated on a bilateral basis. Disagreements for the most part were settled between the parties. The roads and cutting units for the long-term timber sales were laid out by the purchasers under the supervision of the Forest Service. Issues regarding fish stream management were addressed jointly by the Forest Service, State Fish and Game and the purchaser. Beginning in 1959, the Alaska Loggers Association established a standing committee that met regularly with the Forest Service to discuss appraisals, permitting issues, logging systems, road construction costs, timber sale designs and other items that impact costs. In the mid-1970s, the Forest Service took over the job of designing and marking cutting units for the long-term timber sales. At the same time, the agency adopted a 100-acre cutting unit limit. This limitation greatly reduced the volume of timber that was available to harvest from each mile of road that was constructed; consequently, the road amortization rate increased dramatically and thus limited both the amount of stumpage and the amount of profit that could be generated by harvesting timber.

Also during the late 60' and early 70's, the industry began developing markets for sawn products in order to improve the manufacturing integration and the financial returns to their operations, thus offsetting some of the added cost that resulted from the cutting unit size limitation. Spruce lumber was the primary sawn product prior to this period but hemlock is the dominant species in the region; therefore, the industry effort was focused on selling hemlock sawn products. The effort was successful and a market was developed for hemlock cants and flitches. This satisfied the Forest Service primary manufacture requirements and the Japanese desire to retain their sawmill industry by re-sawing the material from Alaska. Saw logs that were too small or too rough to make cants or flitches were generally chipped for the pulp mills.

Initially, the Forest Service believed that most of the timber would be logged direct to the water with A-Frame cable systems or skidders. Shortly after their startup, the KPC had aerial photographs taken of its sale area and then performed an intensive cruise of the

area. The results of the cruise showed that A-Frame logging would not be the primary method of logging as initially expected because most of the timber was too far from the shore. Truck logging with cable yarding to the roadside was the method that would dominate future logging operations. By the mid-70's, A-frame timber sales were phased out. Although there were a few A-frame loggers that had the financial strength and knowledge to transition to the more capital intensive road construction and truck logging operations, most of the small operators were simply bought out. The average A-Frame operation logged between 3-8 million board feet per year while an average truck operation would harvest 3-4 times that amount. The last A-Frame operation was Harbour Log at East Point near Wrangell in the early 80's. Helicopter logging became much more prevalent after the mid-1980s and as harvesting equipment evolves, mechanized logging systems are becoming more common.

In 1971, the Alaska Native Claims Settlement Act (ANCSA) was enacted. This Act established 13 Native regional corporations and 200 Native village corporations throughout the state, transferred \$962.5 million to these new entities and transferred more than 40 million acres of land, including surface and subsurface rights, to the corporations. In Southeast Alaska, the land grants resulted in fee-simple title to extensive timberlands (after a specified selection and conveyance process). Title to the majority of these timberlands was finally conveyed in the late 1970s and harvest on Native land began in earnest in the early 1980s.

Additionally, in 1980, Congress passed the Alaska National Interest Lands Conservation Act (ANILCA). Outgoing President Jimmy Carter signed the bill into law just before he left office in January, 1981. ANILCA established additional Wilderness and National Monuments in Southeast Alaska, further reducing the area of the Tongass that could contribute timber to the local economy. In order to ensure that these land withdrawals from the available timberland base did not harm the existing timber industry, the Act mandated that the Forest Service would offer 450 million board feet of sawlog timber annually. Since much of the Native and wilderness withdrawals were concentrated in high volume timber stands, the Act also established a fund that the Forest Service could utilize to construct roads and facilities to compensate for the economic impact of the land withdrawals.

Shortly after 1980, the Native corporations began harvest operations on their private timberlands. Most of the sawlog timber from these private timberlands was exported overseas, but there were also a lot of pulp-grade logs that were harvested and the two pulp mills – at Ketchikan and Sitka – were able to purchase most of this fiber. These additional pulp logs helped sustain the pulp mills through a worldwide depression in timber products prices in the early to mid-1980s. During this depression, the Ketchikan Spruce Mill was permanently closed; but by the late 1980s, the markets had rebounded and private pulp logs were still available. This abundance of pulp fiber allowed the two long-term timber sale purchasers to divert even more saw logs to the sawmills, thereby further enhancing the manufacturing integration in the region. KPC added a small-log side to the mill it was leasing at Annette Island and also constructed a new small-log sawmill in Ketchikan.

1990--Present

As intended, the Tongass timber sales sustained thousands of year round jobs and a strong economic base in an otherwise economically depressed region. Sadly, in 1990 Congress passed more legislation - the Tongass Timber Reform Act (TTRA) - that established additional Wilderness and roadless areas that were allegedly important for subsistence users but were "missed" in the 1980 package of land withdrawals. The politicians at that time promised that no jobs would be lost as a result of the legislation, despite the elimination of the guaranteed annual timber supply mandate that ANILCA had established as a compromise when the first round of Wilderness, Monument and Roadless Area set-asides were established (the guaranteed timber supply level was 450 million board feet - net scribner -annually).

After 1990, the industry struggled to maintain operations despite the shrinking timber supply and as a result, the volume of timber-under-contract was not replenished with new timber sales and quickly plummeted from over 2,000 million board feet in 1990 to about 100 million board feet in 2007. Most of the initial decline in timber-under-contract was from long-term timber sale volume; but, the industry had been fully integrated and the long-term timber sale saw logs were commonly traded for pulp logs and chips or simply sold to the other sawmills in Southeast Alaska. Consequently, all of the mills were affected by the loss of the long-term timber sale volume.

TTRA also gave the Forest Service authority to make unilateral contract modifications to the two long-term timber sales. The changes that the agency ultimately imposed on these contracts eliminated nearly all potential for profit.

In 1994, the purchaser of the Sitka long-term timber sale closed its pulp mill and announced plans to construct a medium density fiberboard plant in its place. The purchaser was negotiating its contract terms with the Forest Service when the agency abruptly and illegally cancelled its contract.

The market price for dissolving pulp reached an all time high in 1995 and Canadian mills began bidding more aggressively for native pulp logs from Southeast Alaska, thus driving the price of pulp logs from about \$180/MBF to over \$350/MBF. KPC, with the sole remaining pulp mill in Southeast Alaska, had been denied access to its full contract volume in the years leading up to this market event and thus was compelled to chip sawlogs plus pay the unprecedented high pulp log cost in order to keep its pulp mill operating in 1995. The combined cost of diverting sawlogs to its pulp mill and purchasing high-priced pulp logs to replace the shortfall in fiber from its long-term timber sale mooted any benefit from the all-time high market prices. In 1996, after the pulp market had already declined, the Forest Service appraisal system picked up the high pulp prices from 1995; and, based on procedures developed pursuant to the unilateral contract changes that the agency had imposed in 1990, increased the stumpage rate for KPC from \$54/MBF to \$144/MBF. This additional stumpage caused an enormous loss

for KPC. The lack of adequate pulp fiber combined with the staggering stumpage increases made it clear that there was no longer any opportunity for KPC to be successful in the future.

In late 1996, Ketchikan Pulp Company completed the last of the pollution control improvements for its pulp mill and then negotiated an early end to its contract. The pulp mill permanently closed in March 1997; but, KPC attempted to facilitate a future for its logging and sawmill employees by installing a veneer plant that could utilize the small low-grade logs that had previously been converted to pulp mill chips. In the months leading up to this final long-term sale termination, the Department of Agriculture agreed to a three-year continuation of the long-term timber sale in order to provide adequate timber for a seamless transition into a future without the long-term commitments. Unfortunately for the industry and most of the communities in Southeast Alaska, the seamless transition never happened.

In 1997, the Forest Service adopted a new land management plan for the Tongass and the agency announced that it intended to switch to "ecosystem management". Under this new philosophy, timber sales became a by-product of ecosystem management and attention to timber sale economics was abandoned. The new land management plan included extremely costly timber sale design constraints that raised the cost of harvesting timber enormously. These constraints included mandating that 30-50% of the timber be left standing in most previously developed areas. The harvesting costs in these areas should have been very low because the roads were already in place; but, the partial-cutting requirement instead made these some of the highest cost areas to operate. The partial cutting requirement also raised grave concerns about worker safety. Other costly constraints included oversize buffers on non-fish streams, a greatly expanded beach fringe no-cut buffer and a system of old-growth reserves that set-aside over a million acres of the highest value, lowest cost timberlands.

As the pre-1997 timber sales were harvested and the newly designed timber sales were advertised, the economic impact of the 1997 land management plan became apparent and despite good markets for hemlock, spruce and cedar lumber many of the timber sales that were advertised during this period appraised enormously deficit due to the high cost impact of the 1997 land management plan. The region's sawmills initially purchased only the economic timber sales, but as the mills depleted their volume of timber-under-contract, they began worrying about mill closures and losing their customers. In desperation the mills began purchasing marginal and deficit timber sales and by 2001 the bulk of the timber-under-contract was comprised mostly of deficit timber sales and the mills were losing money. About this time, Congress began prohibiting the agency from offering timber sales that did not appraise with a full profit and risk allowance. In 2003 and 2004 many of the deficit timber sales that had been purchased were mutually terminated when the purchasers, the agency and Congress all recognized that those high-cost timber sales could never be economic. This legislation eliminated most of the deficit timber sales, but the agency planners did not have an economic mandate and they

continued to prepare NEPA documents (Environmental Impact Statements) for timber sales without regard to economic common sense. Consequently, only a small percentage of the post 1997 NEPA-approved timber sales were actually ever offered. Environmental activists recognized a new opportunity to obstruct timber sales - they began dividing the cost of the Environmental Impact Statements by the small volume of timber that was actually sold and then urged Congress to stop funding timber sales in Alaska arguing fiscal prudence. Others more rationally argued that it made more sense to fix the economic problems than to end the timber sales.

As a result of the changes in management of the national forest, the federal timber sale program has shrunk by about 90%; and, since the Tongass National Forest encompasses about 93% of the timberlands in Southeast Alaska, the timber industry has similarly declined. Manufacturing integration, the economy of scale and a supply of timber adequate for normal sawmill operations were all eliminated as the timber supply declined.

The most recent TLMP Amendment, announced in early 2008, must eliminate these unworkable prescriptions if there is to be a timber industry in Southeast Alaska. The Forest Service vows this new plan will support an efficient and sustainable industry. With minimal timber remaining under contract and with a land management plan that looks a lot like the failed 1997 plan, the future of the timber industry is uncertain.

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*First Things First
Alaska Foundation
is a 501(c)(3)
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dedicated to
preserving the
economic
viability and
future of Alaska
through
education*

The Honorable Bert Stedman
State Capitol Building
Room 30
Juneau, Alaska 99801

RE: Senate Concurrent Resolution 2, Acquire Tongass National Forest Land

Dear Senator Stedman,

The First Things First Alaska Foundation (FTFAF) wishes to express our support for SCR 2 and our appreciation for your raising this important issue to Alaskans. The First Things First Alaska Foundation is dedicated to preserving the economic viability and future of Alaska through education. There is a clear need to educate the public on the benefits of responsible economic development and natural resource management.

SCR 2 Seeks to acquire additional forested land in the Tongass National Forest for the State of Alaska with the intent of using it to provide available timber to support economic sustainability in Southeast Alaska. This would provide an opportunity for the struggling timber industry to secure access to timber and provide jobs for Alaskans.

The US Forest Service has unilaterally decided to close off 92 percent of the Tongass National Forest by implementing new roadless rule regulation, which will be applied to future development, including timber harvests, mining, and hydroelectric and other renewable energy projects.

The Forest Service admits in the 2001 Roadless Final Environmental Impact Statement (FEIS) that the total direct and indirect job and income losses from timber harvest restrictions would be 864 to 895 jobs and \$37.3 to \$38.7 million. The Forest Service acknowledged that the immediate prohibition on road construction would eliminate 95% of the timber harvest from the affected areas. The Forest Service concluded that "the long-term ecological benefits to the nation of conserving this inventoried roadless areas outweigh the potential economic loss to those local communities..."

Continued management of the Tongass National Forest as a pristine sanctuary for those who will never depend on the reasonable use of this resource should come to an end. Federal ownership and management of Alaska lands has led to one extreme of locking it up or the other extreme of over utilization. We believe

that Alaska has a strong record of responsible resource development, providing economic benefit and maintaining the the sustained usability of the resource.

We believe SCR 2 should be adopted by the Alaska State Legislature.

Sincerely,

Neil MacKinnon
President