

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

8710.1 HOUSE RESOURCES

TESTIMONY OF
FRANK AGE PACIFIC RIM CEDAR
FOR THE ALASKA STATE HOUSE OF REPRESENTATIVES
NATURAL RESOURCE COMMITTEE MEETING

WESTMARK CAPE FOX LODGE

KETCHIKAN, ALASKA

FEBRUARY 18, 1995

I would like to thank the House Natural Resources Committee Chairman Williams and Green and other invited panel members for this opportunity to present the concerns that surround our Small Business Administration (SBA) timber sale program on the Tongass National Forest.

My name is Frank Age. I am owner and President of Pacific Rim Cedar which owns and operates a sawmill facility in Wrangell, Alaska.

I came to Alaska in 1991 after my Oregon mill was forced to shut down following extensive timber reduction due to spotted owl legislation. I started Age Cedar Products in Wrangell, Alaska, with a small mill processing Cedar shakes and shingles. I started with 5 employees and operated profitably until the high delivered cost of my logs created an uneconomical situation for my mill. In 1993, after reviewing market trends and Congressional oversight to provide for an economical supply of timber to regional SBA timber operators, I created Pacific Rim Cedar with the purpose of manufacturing logs from the Tongass into marketable wood products. My employment base has grown since 1991 from 5 employees to 14 employees encompassing milling, log transportation and sort yard operations. Currently Pacific Rim Cedar is the only operating sawmill in the township of Wrangell.

Over the course of 1994, Pacific Rim Cedar has made numerous upgrades in an attempt to produce a better product for a lower manufactured cost. These upgrades to facility and heavy equipment have cost in excess of \$450,000. With these improvements, Pacific Rim Cedar was able to increase productivity approximately 15%.

Pacific Rim Cedars milling operation relies heavily on the USFS obligation to provide an economically viable timber supply of 80 MMBF for regional SBA timber operations use. Pacific Rim Cedar has a sawlog volume capacity of 10-12 MMBF per year annually. We are currently cutting spruce and hemlock but would prefer to be processing Western Red and Alaska Yellow Cedar should there be a shift in USFS policy surrounding cedar export provisions. This shift in policy would need to require primary processing of all cedar in regional sawmills; essential the same provisions as are found with hemlock and spruce. I think that we are all acutely aware of the timber supply problems facing all sawmills in SE Alaska. Our mill can flourish cutting only cedar which would leave the spruce and hemlock we are now cutting for other sawmills in the region. However, it is economically unfeasible to process these cedar logs and compete to sell the sawn product produced while cedar logs in their round form of similar quality are allowed to be exported. We must stop the export of Cedar in the round and keep these logs at home for manufacture in regional facilities.

Over the last 10 years industry has exported 430 MMBF of cedar¹ or an average of 43 MMBF per year. An average mill can process approximately 3.2 MBF of lumber per man per day. This represents 13,437 man days of employment exported to other areas each year. Converted to payroll, our SE Alaska communities lost \$2,526,000 in payroll last year alone and if we continue this process for the next 10 years, the region can expect to lose another \$25,000,000.

¹Exhibit I Cedar volume exported from Federal land

Pacific Rim stands able and willing to assist the USFS in any way possible to meet the 80 MMBF that is required by SBA timber operators and facilities in the Tongass National Forest.

Thank you for this opportunity to present my concerns regarding the Small Business Administration timber industry with you this morning.

TESTIMONY OF
THE ALASKA LUMBERMEN'S ASSOCIATION
FOR THE ALASKA STATE HOUSE OF REPRESENTATIVES
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We would like to take this opportunity to express our gratitude to the House Natural Resources Committee, Chairman Williams, Chairman Greer, and distinguished guests for allowing us the opportunity to speak on behalf of the Small Business Administration (SBA) timber operators and respected industry concerning the current timber situation on the Tongass National Forest.

In Southeast Alaska's Tongass National Forest, there exists four federally supplied and funded timber sale programs in which regional timber processors supply their facilities with fiber. These various programs consist of the long term contract currently held by Ketchikan Pulp Company, the SBA timber sale program, the independent timber sale program, and the Small Salvage Timber Sale (SSTS) program.

The long term timber sale contract was created in 1954 for the purpose of guaranteeing a supply of timber to the region's largest timber processing operations. The contracts were let to encourage large timber businesses to move into Southeast Alaska, build up social and economic levels, and aid in establishing a year round industry. Originally, the Federal Government released five long term contracts in Southeast Alaska. For the past two decades, there have been two active long term contract timber processing corporations on the Tongass; Ketchikan

Pulp Company in the Southern region and the Alaska Pulp Corporation in the northern region. In the last two years, Alaska Pulp Corporation was forced to cancel operations at its pulp manufacturing facility in Sitka and lumber processing facility in Wrangell due to cancellation of its long term contract. KPC remains the only long term contract holder in Southeast Alaska.

Not under any form of formal contract with the Federal Government, the Small Business Administration (SBA) timber sale program was created to administer 80 million board feet (mmbf) of timber sales for the preferential bid of SBA classified timber operators on the Tongass. To qualify for SBA bid on Tongass timber, these firms must have no more than 500 employees in their operation and be recognized as a small business operation by the SBA. Further restrictions on this sale program state that 50% of the volume from each SBA timber sale must obtain primary processing by one of the regional SBA facilities on the Tongass, thus guaranteeing SBA timber processing facilities at least 40 mmbf of timber to supply their operations. Consistent with Federal timber export regulations, cedar is the only species classified as surplus and thus exportable to both domestic and international markets.

The independent timber sale program on the Tongass was the original parallel timber sale program to the long term contracts in which every timber operator on the Tongass could bid. This included bids from the largest facilities such as Ketchikan Pulp Company down to the smallest one man operation. In past years, this sale program has been identified by the industry as a "buffer" between the long term contract holder and all SBA timber operators. Once volume sufficient to supply the contractual obligations and market demands of both previously listed timber sale programs has been met, any additional sale volumes should be made available for all operators on the Tongass. Independent timber sales have no bidding restrictions but still require primary processing of timber, save cedar, to be completed in Southeast Alaska.

As an offshoot of the SBA timber sale program, the Special Salvage Timber Sale (SSTS) timber sale program can be divided into three headings: Ranger sales, Stringer sales, and salvage

sales. These are usually very small sales which range from 10 thousand board feet (mbf) up to 5 mmbf. The highest grossing sales, as maintained by the Federal Government, are the Ranger sales which can be up to 5 mmbf. These primarily consist of blowdown, slide caused, or bridge stringer sales. The only difference in restrictions on small salvage timber sales in comparison to the larger SBA timber sale program is that bidding can only occur by firms with twenty five employees or less.

Of particular concern is the current timber supply crisis that faces the SBA timber operators and the Federal timber sale program which they rely on to supply their mills.

Originally, there existed the long term timber sale contracts and a parallel independent timber sale program. The independent timber sale program was designed to offset the volume distributed by the long term contract and supply the 8 large exporting sawmills which were primary in Southeast Alaska at the time. It was not until the late 1970's that the SBA timber operator's demand of 80 mmbf was recognized by Congress and a Federal timber sale program was designed to help meet that demand. The reasoning behind this decision for an SBA timber sale program was to (1) build a previously non-existent timber sale program which would encourage SBA timber business and growth on the Tongass and (2) also act as a form of check and balance system for the long term contract holders. As currently stands, SBA timber sale receipts are used to define an average yearly appraisal cost on regional timber sales which in turn is used to adjust yearly appraisal costs of the long term contract holder.

The first formal agreement between the SBA timber operators and USDA Forest Service occurred in 1977 (see attached) when then-SBA representative Art Mason and then-Regional Forester John Sandor signed a joint agreement that 80 mmbf would be the target volume set for the SBA timber sale program by the Forest Service. The Small Business Administration felt this was a necessary agreement to ensure that a supply of timber would be achieved for the SBA timber operators on the Tongass while at the same time honoring the long term contract holders.

With the changing timber trends followed further amendments to this agreement. In 1987, SBA representative Joe Holder and then-Regional Forester Mike Barton further wrote that at the time, any sales that were over \$10,000 while the yearly volume was less than 80 mmbf would be offered for SBA bid only. This decision was determined beneficial due to depressed timber volume and offerings in the 1984 and 1985 timber harvest years.

In 1990, through the ratification of the Tongass Timber Reform Act (TTRA), Congress amended ANILCA so that the SBA timber sale program would gain more significance and be recognized as a solid foundation in the Tongass wide timber industry. TTRA achieved this by amending Section 705 (a) to read:

“.. the Secretary shall... seek to provide a supply of timber from the Tongass National Forest which (1) meets the annual market demand for timber from such forest and (2) meets the market demand from such forest for each planning cycle.”

And amended Section 705 (f) to read:

“Subject to appropriations, the provisions of this Act and other applicable law (including but not limited to the requirements of the National Forest Management Act of 1976) and in order to assure the continuation of the Small Business Administration timber sale program, the Secretary shall, in consultation with the extent consistent with providing for the multiple use and sustained yield of all renewable forest resources, seek to provide a supply of timber from the Tongass National Forest to those purchasers qualifying as ‘small business concerns’ under the Small Business Act as amended (15 U.S.C. 631 et seq)”.

In the process of determining that the Tongass National Forest Annual Sale Quantity (ASQ) was 420 mmbf, Congress made the conclusion that coupled with the two long term contracts requiring 340 mmbf, the SBA timber operators had a market demand of 80 mmbf. Which, when reviewing the capacity of the operational SBA mills in Southeast Alaska, one will note that the market demand for the regional SBA processing facilities in 1994 is at least the Congressionally mandated 80 mmbf/year.

TTRA also stated the need for the SBA timber sale program to act as a check and balance for the long term timber sale program by further modifying the long term contracts to read:

"...(8) assure that the price of timber offered under the contracts shall be adjusted to be comparable with that of independent national forest timber sales, with stumpage rates and profitability criteria comparable to those of independent purchasers in competitive sales..."

It wasn't until 1993 that the Forest Service and Small Business Administration amended their target volume agreement of 1987. In a new agreement, both parties acknowledged that the SBA timber sale program would be analyzed every six months to determine true demand by the SBA timber operators until the agreement termination date of September 30, 1995. The reason behind the need to analyze SBA demand was that at the time, two major SBA timber processing facilities were shut down and timber demand for that year had not reached previous levels. If the Forest Service had been consistently analyzing this sale program on a six month cyclical pattern, they would understand that SBA processing facilities have required the minimum 80 mmbf/year over the last two years. Yet the 1994-1995 timber sale schedule gives no confirmation of this "recognized" demand.

DEPLETION OF THE SBA TIMBER SALE PROGRAM

Over the last 3 years, the independent and SBA timber sale programs have had subsequent volumes depleted by the Forest Service to the point that there is no SBA or independent timber sale pipeline volume. This depletion has occurred by action of the USDA Forest Service through both incompetence in meeting long term contractual obligations and extensive preservation management which depletes further timber harvest acreage.

The primary depletion of volume has occurred when the Forest Service fails to meet its contractual obligation to KPC. Rather than face any form of breach or default due to lack of prepared long term sale volume, the Forest Service will remove prepared independent and SBA sales and delegate them to the long term timber sale volume. The Forest Service has made no effort to replace the volume taken from the SBA timber sale base, thus creating a depressed timber sale program for SBA timber operators and facilities.

Regulatory land management provisions, despite recurring statements by the Forest Service citing no detrimental effects to the current timber sale program, were also a major cause of the depressed 1994 and 1995 SBA timber sale program. Four SBA and independent timber sales, fully prepared and ready for advertisement, were canceled and multiple acres of harvest potential lands were deferred from any form of timber harvest. Aside from the 15.2 million acres currently set-aside for non-harvest means on the 16.9 million acre Tongass, the Forest Service is proposing to remove an additional 600,000 acres from the timber harvest base. This removal will come in the form of Habitat Conservation Areas (HCA) designed to protect goshawks and wolves. Further land set asides inhibiting timber harvest production are goshawk telemetry zones which are above and beyond the protectionary HCA's. Recent studies conducted by the Alaska Department of Fish and Game state that protectionary measures for both the wolf and goshawk are unwarranted.

This form of Forest Service land management will only lead to one conclusion; elimination of the SBA timber industry on the Tongass. The Forest Service will honor long term contractual commitments before supplying timber to the remaining SBA and independent timber sale programs.

RECENT STATUS OF THE SBA TIMBER SALE PROGRAM

Following the 2nd quarter of FY 1994, the Forest Service canceled the APC long term timber sale contract and began the early implementation of Habitat Conservation Areas throughout the Tongass. SBA sales that were slated for FY 1994 were deferred due to HCA's and the APC volume, which was supposed to be reoffered as independent and SBA timber sales, was cut in half with some sales being deferred or canceled. The revised timber sale program, implemented June 30, 1994, showed no SBA or independent timber sales scheduled for advertisement until the middle of September. The Forest Service had successfully delayed sales long enough (5 months) that the volumes offered and sold in the latter part of 4th quarter FY 1994 could not be utilized by regional SBA mills until Spring of 1995. This is the reason behind SBA mill closures during the winter months from December 1994 through March 1995.

What does 1995 have to offer the SBA timber sale program? Regional Forester Phil Janik has stated that the Forest Service plans a sale program of 320 mmbf for 1995 barring appeals and further lawsuits. This will place 220 mmbf of timber into the long term timber sale contract, 67 mmbf in open independent sales, and 46 mmbf into the SBA timber sale program. An SBA timber sale program of 46 mmbf is not sufficient volume for SBA preferential bid to meet regional operator and processing facility demands.

FUTURE OF SBA TIMBER SALE PROGRAM

The timber trends of the Federal Government appear to be shifting toward decreased timber sale programs on the Tongass. The Forest Service has had the funding since TTRA ratification to prepare and sell 420 mmbf region wide yet they have consistently failed to meet that quota. The 1995 SBA and Independent timber sale schedule (see attached) has enough prepared sales to make 80 mmbf available to the SBA timber operators. This represents a perfect example in which the independent timber sale program should be used as a buffer between the long term contract and SBA timber operators rather than impair one program's potential; once the volumes are met for SBA and long term usage, remaining volume should be offered for open independent bid.

The following year, 1996, has been rumored to be more volatile than any previous years with the President's budget projecting a Tongass wide timber harvest of 252 mmbf (see attached). Should a region wide sale program resume as projected, the Forest Service will meet the KPC contractual obligation of 220 mmbf while the SBA and independent timber sale programs will divide a total of 32 mmbf. Gradual elimination of the SBA timber operators on the Tongass will most assuredly occur should a sale program of 252 mmbf be implemented. Furthermore, the Forest Service has no projected or proposed timber sale pipeline volume available to supply the SBA timber operators and facilities with their 80 mmbf market demand

SBA TIMBER OPERATORS DEMAND

The Southeast Alaska SBA timber operators ask that the Federal Government advertise and sell 80 mmbf of timber for their preferential bid in addition to both the long term contract holder and a buffer of open independent timber sale volume. It is absolutely possible for the Forest Service to meet this demand without hindering the long term contract holder and without causing irreparable harm to the Tongass National Forest. With the processing facilities that currently exist on the Tongass, there is still a volume demand in excess of 400 mmbf including KPC facilities, SBA facilities, and the potential of the Wrangell Sawmill.

The Forest Service must build an SBA timber pipeline of both standing green and salvage sales that will be able to deliver a consistent yearly timber volume of 80 mmbf to the SBA timber industry throughout 1995 and into the future. Without the stability of a timber pipeline to supply timber, the SBA timber industry and its operators on the Tongass will disappear in 5-10 years rather than maintain prosperous and productive growth.

Thank you for this opportunity to share with you this morning the Alaska Lumbermen's Association concerns regarding the SBA timber sale program on the Tongass National Forest.

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Thank you for this opportunity to share with you this morning the Alaska Lumbermen's Association concerns regarding the SBA timber sale program on the Tongass National Forest.

Testimony of David Sallee
To the House Resource Committee
February 18, 1995

Members of the Panel and interested participants:

Since my time is short here, I've tried to get as much meat as possible into this and dispense with what can be deleted.

I am Dave Sallee, an ex-logger and small portable mill co-owner with my brother Mike. I was born here in 1941 and am a life-long resident of Alaska. I logged in the area continuously for about 35 years which included a period of owning an A-Frame/cold deck logging operation in the 60s and early 70s. I have held virtuously all logging jobs so I'm no neophyte at the trade. A point I want to stress here. I love the woods! It was and is my preferred lifestyle. I've cut, yarded and handled millions of feet of timber, watching the methods evolve allowing greater volumes of timber to be harvested. Even as a logger I'm not comfortable with that term 'harvested'. It isn't the appropriate term.

At the point I am not active in the industry. There's too much contention. I am old school in my logging philosophy. You don't just rip out everything and stand looking at nothing when you're done. That is how it is done today and I could get my ear filled with plenty of industry's 'good' reasons why this is the way it's done.

Insofar as to the scope and purpose of this gathering, I am firmly convinced that the timber industry has historically followed what I call the 'Great Alaska Takeout'. From the time the white man trickled into the country to trade baubles and beads for valuable furs right down through the gold rushes, the fish exploitation, mineral development, oil development, and timber, now tourism, our resource has been wrested from the land and removed with as little preparation as possible in this 'God Forsaken Place' to be sold, used, and developed in other states, other lands, other countries. 'Take the goodies and run'; the theme is the same today as it was in the beginning.

Where are the sash and door plants, cabinet shops, millwork plants, plywood plants, select wood outlets, OSB plants, presto-log plants, music wood plants, and specialty wood products we have to now import from other states? It is absolutely astounding to me that living in a wooden country, we see so little of our own wood product potential being realized, being snared by many, as many as possible, mini-industries, specialists in manufacturing our wood! Turning it into finished or near-finished products and selling them! But what have we got? Raw material leaving the place of origin made into a basic product by large companies based out of Alaska for overseas remanufacturing and we trade off priceless resources for cars, TVs, computers and other junk trinkets that don't last. They're expensive and are obsolete almost before they're on the market. We're becoming just like the Natives of old who traded their resource for a handful of trinket garbage. Well some of them did get axes and knives.



Southeast Alaska Conservation Council

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**Statement of Robert E. Lindekugel, on
Tongass Timber Supply
House Resource Committee
Alaska State Legislature
Remote Site Meeting in Ketchikan, Alaska
February 18, 1995**

Mr. Chairman, members of the House Resources Committee, and honored guests, my name is Robert E. Lindekugel and I am the Conservation Director for the Southeast Alaska Conservation Council (SEACC). Thank you for the opportunity to participate on one of the panels testifying before you today and I respectfully request that my written testimony and accompanying materials be entered into the official record of this Committee hearing.

The Southeast Alaska Conservation Council (SEACC)

Founded in 1970, SEACC is a coalition of fifteen local community, volunteer conservation groups in twelve Southeast Alaska communities, from Ketchikan to Yakutat. SEACC's 1200 individual members include commercial fishermen, Native Alaskans, value-added wood manufacturers, tourism and recreation business owners, hunters and guides, and Alaskan conservationists from all walks of life.

Personally, my interest in Southeast Alaska began during my work as a commercial salmon fisherman. I have also worked on Alaska Panhandle conservation issues since 1989. My professional background is in natural resources law.

SEACC is dedicated to preserving the integrity of Southeast Alaska's unsurpassed natural environment while providing for balanced, sustainable use of our region's resources. Southeast Alaska contains magnificent old-growth forests, outstanding fish and wildlife habitat, important "customary and traditional" or subsistence use areas, excellent water and air quality, unsurpassed outdoor recreation opportunities, and world class scenery.

SEACC's Comments on Present Tongass Timber Supply

We understand the purpose behind this hearing is to consider what can be done to solve what the timber industry and its supporters call a "timber supply problem." We believe, however, that the focus and format of this hearing precludes the House Resource

Committee from fully understanding the complexity of Tongass resource issues because the timber industry is not the only industry that is dependent on the Tongass National Forest, provides jobs in Southeast Alaska communities, or is concerned about the sustainability and stability of the resource base.

Although the Tongass is the nation's largest national forest, at 17 million acres, the critical, productive areas that we all depend on represent a much smaller area. Only 15 percent of the Tongass National Forest contains the medium-to-large trees that fish, wildlife, the timber industry and all other forest users depend on. The reason we have conflict is that we all need the same trees.

Because so much of the "Forest" is actually glacier, mountain, bog, or other areas where there are no trees, claims that "90 percent of the forest is off limits to logging" are extremely misleading. The vast majority of that area either doesn't have any trees or the trees are not worth cutting.

The Tongass is managed for multiple use. But historically, logging has concentrated in the highest-volume stands making up just 3-4 percent of the forest's acres. Unfortunately, these acres are also the most important for deer and other wildlife and some estimates show that over half of these acres--the biological heart of the forest--have been cut since 1900, most of that in the last 40 years. Because of the unsustainable rate of logging that has occurred, logging practices must change in order to sustain logging jobs, as well as all the other jobs that depend on a healthy forest.

In addition, since 1980, most logging in Southeast Alaska has occurred on private, Native Corporation lands. So much clearcutting has taken place that in 15 short years, many Native village corporations are reaching the end of their loggable timber. Nearly 5 billion board feet--an amount equal to the original Alaska Pulp Corporation 50-year timber contract--has been cut from Native corporation lands in just 15 years.

The most endangered species on the Tongass are the workers and families who depend on a healthy ecosystem for their jobs and way of life. Commercial and sport fishing, commercial guiding, subsistence and personal use hunting, tourism businesses, and local family recreation all depend on a healthy forest--as does the timber industry. The forest economy of Southeast Alaska is diverse. You cannot consider timber policy on the Tongass without considering all the other users of the forest.

For this reason, SEACC has invited representatives from the tourism, commercial and sport fishing, and small timber operators to share our panel with us. In addition, we have asked the Chairman of the Southeast Federal Subsistence Advisory Council to

make a presentation as to the importance of customary and traditional uses of fish and game to rural Southeast Alaskans and the significant role such uses have in the non-cash economy in Southeast Alaska. Any "solution" to the Southeast timber industry's alleged timber supply problem must take into account the impacts on other forest-dependent industries and users.

Times are changing and we believe the Tongass is at an important crossroads. We can continue to base our management decisions on the interests of a single industry, or we can begin the transition towards a sustainable and stable future for all segments of the Southeast Alaska economy. In the 1950's and early 60s, when the Ketchikan and Sitka pulp mills came on line, large-scale logging and pulp manufacturing became a dominant economic force in the region. According to the most recent data available from the Alaska Department of Labor, in 1994 employment in lumber, wood products manufacturing, and pulp mills accounted for 2200 workers, or 6% of the total wage and salary employment in Southeast Alaska. The Department of Labor also found that 48 percent of those employed in seasonal logging and lumber manufacturing were not residents of the State of Alaska; 19 percent of the pulp mill employees were also nonresident. For the benefit of the Committee, we are submitting a copy of a recent report prepared for the Alaska Rainforest Campaign by ECO Northwest, an economic and financial consulting firm from Portland, Oregon, entitled, The Potential Economic Consequences of a Reduction in Timber Supply from the Tongass National Forest. SEACC is a member of the Alaska Rainforest Campaign, a coalition of 8 Alaskan and national conservation groups who are working cooperatively to protect the Alaska rainforest ecosystem that stretches along the rugged Alaskan coastline from Ketchikan to Kodiak. Copies of the title page and executive summary of the report are included in the packet handed out to members of the Committee earlier.

Like other Southeast Alaskans, SEACC wants very much to minimize the job dislocation and economic disruptions that will occur as the era of industrial scale logging begins to change. In a time of competing demands for increasingly limited resources, and the shrinking federal budget, Southeast Alaskans need to work together to make a transition to a timber industry that pays its own way by adding value (and jobs) to each stick of timber logged on the Tongass. SEACC has already begun its efforts to facilitate information sharing and informed discussions by raising money and helping to conceive and plan the Small Business Opportunities for Forest Enterprises Conference, March 6-7, 1995 in Sitka.

Another example of SEACC's efforts to protect important habitat and contribute to the development of a diverse, sustainable economy on Prince of Wales Island is our collaboration with local independent loggers, craftsmen of value-added wood products,

subsistence users, business people and conservationists to develop a reasonable and feasible alternative to the proposed Control Lake timber sale on Prince of Wales Island. The Control Lake Citizen's Coalition has proposed an alternative for this project that helps begin the necessary transition from the current industrial-scale logging and export of timber of Prince of Wales Island, to an economically sustainable resource use by:

1. Recognizing the contribution of a diversity of forest resources, including recreation, tourism, subsistence, wildlife and fisheries, as well as a sustainable, independent, value-added timber industry to the economy of and way of life on Prince of Wales Island;
2. Protecting important cultural and subsistence use areas;
3. Conserving sufficient habitat to provide for healthy populations of wildlife, including harvestable populations of subsistence species like deer and salmon;
4. Conserving the Honker Divide, one of the last and most important largely unroaded old-growth habitat blocks remaining on Prince of Wales, as well as an exceptional recreational area.

Southeast Alaska's economy is diverse. In the 1950s and early 60s, when the Ketchikan and Sitka pulp mills came on line, large-scale logging and pulp manufacture became a dominant economic force in the region. However, by 1993, before the recent APC mill closures, timber industry jobs had shrunk to just 7 percent of all Southeast Alaska jobs and roughly 11 percent of the region's total earnings. Between 1990 and 1994, timber industry jobs declined by 36 percent at the same time the Southeast job total *expanded* by 3.5 percent. Notwithstanding significant volatility in timber employment over the last decade and a marked decline in the timber industry in recent years (36% between 1990 and 1994), the economy of Southeast Alaska has grown and diversified. Clearly, other aspects of the Southeast economy are experiencing strong growth. Please note, these changes in the timber industry were a product of economic market forces and business decisions; there were no timber supply disruptions or lawsuits to blame.

Ketchikan's economy is also diverse. In 1992, timber industry jobs accounted for 14 percent of the total wage and salary employment--without counting commercial fishing or self-employed individuals. Ketchikan Pulp Company's employees accounted for 8 percent of the total jobs, and 12 percent of the total Ketchikan real earnings--again, without considering commercial fishing or self-employment. By contrast, when Alaska Pulp Corporation closed the doors to its Sitka mill, the mill accounted for 10

percent of Sitka's total jobs and 17 percent of total wages and salaries.

Basic economic diversity contributed greatly to the city of Sitka's ability to adjust after the Alaska Pulp Corporation closed the Sitka pulp mill on September 30, 1993. Six months later, when APC failed to submit a solid plan to reopen or convert the mill, the running of which was APC's primary obligation under its 50-year timber contract, the Forest Service canceled that contract. With transitional funding from the Forest Service and other sources, proactive planning, and by actively promoting alternative economic development, Sitka has so far not experienced the drastic extent of economic dislocation that some had predicted for that community. While job loss is always extremely difficult for the families and communities experiencing it, the housing market remains strong, property values haven't gone down, a year later the unemployment rate was nearly identical to the rate statewide, and segments of the community that had formerly battled each other are now working together towards a sustainable future for the community. No one should sell Sitka short.

The timber industry has an adequate timber supply. Recent mill closures were business decisions and were not related to supply shortages caused by conservationist actions. Alaska Pulp Corporation recently shut the doors to its Wrangell sawmill. The closure of the Sitka and Wrangell mills were corporate business decisions that were in no way related to conservationist actions immediately affecting APC's timber supply--nor did APC claim they were. Rather, APC cited low market prices for its product, dissolving pulp, as a major reason for the closure. Interestingly, at the same time APC's timber operations were losing money, the company's investment subsidiary made profitable investments and the Alaska Pulp's president and board chairman received a \$20.7 million bonus when this subsidiary was liquidated in 1993. The company's recent shutdown of its Wrangell sawmill came after APC elected not to bid on over 90 million board feet of available National Forest timber--roughly a year's supply at APC's normal cutting rates. APC claimed the timber wasn't worth bidding on, but that timber sold on the open market for over 35 times the cash price that APC paid for the timber it obtained in 1994 under the close-out of its 50-year contract. This suggests that while APC was willing to cut this timber when it only had to pay \$1.42 in cash (after deducting roadbuilding credits) per thousand board feet, it refused to participate in a competitive bidding process and pay fair market value for the timber, which sold for an average cash price of \$50 per thousand board feet.

Although it closed its mills, APC still has 11 million board feet of standing timber which we believe it will begin logging soon.

We believe this timber will be sold to the Ketchikan Pulp Company.

We believe that Ketchikan Pulp Company also has an adequate timber supply. Despite the company's extravagant claims regarding the amount of timber it must have to keep going, the truth is that over the last 15 years, the company cut an average of 160 million board feet a year from the National Forest. From 1991 to the end of 1994, the Forest Service released 739 million board feet to KPC; KPC cut 613 million board feet. In FY 1994, the Forest Service released 194 million board feet and KPC logged only 136 million board feet. KPC finished the year with 252 million board feet released to them by the Forest Service but still uncut. According to news reports they also purchased 35 mmbf from APC.

If timber supply is the issue, the Committee should know that over the last five years KPC exported or sold for export approximately 150 million board feet of cedar in the round from Prince of Wales Island. To add insult to injury, between 1984 and 1992, the Forest Service gave KPC an average of 2.6 million board feet of "utility" cedar a year free of charge, while small-scale loggers and processors have to pay hard-earned money for the same quality of wood.

If Ketchikan area independent processors are having a hard time getting wood, it is in part because since 1993, the Forest Service redirected at least 5 timber sales, originally designated for the independent timber sale program, to the Ketchikan Pulp Company's 50-year monopoly contract. These five sales--Frosty Bay, Starfish, Shelter Cove, Twelvemile, and Santa Cruz--amounted to over 100 mmbf. The Forest Service is likely to continue to give priority to the Ketchikan Pulp Company, at the expense of independent timber operators, in putting up timber sales.

Habitat Conservation Areas are a step in the right direction. Southeast Alaskans rely on healthy and harvestable populations of deer, bear, marten, and salmon for jobs, food, and money. Maintaining minimum viable wildlife populations on the Tongass is a critical objective of the Forest Service. In 1989 and 1990, the Forest Service under President George Bush asked a committee of wildlife biologists from the Forest Service, the Alaska Department of Fish and Game and the US Fish and Wildlife Service to design a plan that would assure that Tongass wildlife remained viable and well distributed over the long term, in the face of an aggressive timber program, as required by the National Forest Management Act. This interagency scientific team evaluated threats to wildlife. They found that current wildlife management measures would have a "low" likelihood of protecting viable wildlife populations, and they produced the Habitat Conservation Area (HCA) strategy.

HCA's are not about the wolf and the goshawk. They are about conserving the deer, bear, and marten that Southeast Alaskans depend on for jobs, food and money.

The Forest Service can provide an adequate supply of timber while protecting wildlife with HCA's. Forest Service evaluations indicate that the implementation of HCA's would still permit an annual total cut of 356-368 million board feet. However, we do not agree that this level is a sustainable cut level because it does not incorporate "falldown," the discrepancy between acres of timber projected in agency computer inventories and what is actually available on the ground. In 1991, the Forest Supervisor's estimated that the attainable Allowable Sale Quantity was only 273 million board feet. Over the last 15 years, the average annual cut on the National Forest was 348 million board feet of timber--while Sitka's pulp mill was running. Last year, after the shut down of the Sitka pulp mill, the cut was 276 million board feet.

In recent weeks, the timber industry has been stating that HCA's would reduce the timber base by one-third. This is incorrect, because nearly 240,000 of the approximately 600,000 acres of HCA's and additional goshawk areas are not included in the scheduled timber base. Thus implementation of the proposed HCA strategy would only reduce the current timber base by one-fifth.

We support the implementation of HCA's and encourage the Forest Service to consider wildlife corridors and alternatives to clearcutting as well. A recent blue-ribbon peer review of the HCA strategy said it was a good start but needed to go further to ensure protection for Tongass wildlife. We agree that further steps are needed to assure healthy, harvestable populations of deer, bear, marten and other wildlife species are maintained to support the entire Tongass economy.

Finally, we wish to strongly oppose the "Landless Native Land Allocation Act," introduced by Senator Murkowski at the end of the last session. The bill--S.2539-- would undermine over 20 years of legislative compromise, from the 1971 Alaska Native Claims Settlement Act (ANSCA) to the 1990 Tongass Timber Reform Act. The bill is expected to be reintroduced early this year. The bill would jeopardize long-term community economic stability, sacrifice historical subsistence uses, destroy some of the richest wildlife habitat areas and commercial fishing watersheds, and ruin important community recreation areas dear to the hearts of Southeast Alaskans.

The Tongass Timber Reform Act passed the Senate by a vote of 99-0 and the House of Representatives by a vote of 356-60. Senators Stevens and Murkowski both voted for it. Permanent protection of key areas as legislated LUD II roadless areas was widely supported by Southeast Alaskans, including the Governor of

Alaska; Sealaska Corporation (the regional Native corporation); the Alaska Native Brotherhood; the Southeast Conference (a regional business and civic coalition); and many Southeast Alaska communities. Now, Murkowski's bill would cut those areas, gutting the Act and the balanced solution it represented.

We know people will attack the Tongass Timber Reform Act today. However, we think you need to know that the Reform Act was the product of tough compromise and was intended to bring a better balanced to management of all Tongass renewable resources.

Here's what people had to say about the final compromise:

Senator Bennett Johnston, architect of the final TTRA compromise agreement said, The conference agreement is a fair and reasonable compromise, which carefully balances the many resources of the Tongass National Forest....I further believe that this agreement will allow Alaskans the certainty they need and deserve by resolving this issue once and for all. (Congressional Record October 24, 1990.)

Senator Murkowski of Alaska said, This legislation [TTRA] should lay to rest the long and divisive debate over land use and management on the Tongass. (Congressional Record October 24, 1990.)

Senator Murkowski said further, It is fair to say that while all Members of Congress and all special interest groups have not obtained 100 percent of their objectives in this legislation, this compromise represents the final solution for those who have worked diligently over the subject of Tongass reform....I call on all Alaskans to put their differences aside with the passage of this legislation and to work in harmony to produce a diversified and healthy economy in Southeast Alaska. " (Congressional Record October 24, 1990)(emphasis added).

In his floor speech Senator Stevens read from a handwritten note sent to him by Southeast Alaska Conservation Council (SEACC) executive director Bart Koehler: Alaskans are ready and willing to put this issue to rest. Senator Stevens said that he was willing to accept this request for peace. Concluding his floor statement, Stevens read and agreed with the final line from Koehlers note: Lets finally resolve this. (Congressional Record October 24, 1990.)

Rep. George Miller, former Chairman of the House Natural Resources Committee and a key player in garnering the final compromise said, Its been a long and tortuous trip. We believe we have put together a compromise that brings some finality to this issue, and that is based upon the fact that this is a good-faith compromise between members of this committee, the minority members of this committee, the Members of the Senate and all the

entities involved in this debate over the last 5, 6, 7 years. (Congressional Record October 26, 1990.)

Governor Steve Cowper of Alaska said, Southeast Alaskans who are directly affected can finally breathe a sigh of relief that this issue is behind us after so many years. (The Bill is) a compromise....But overall I think Alaskas timber industry can remain healthy while the environment, and other uses of the forest can be protected. (As recorded in the Congressional Record per Senator Stevens request: Congressional Record October 24, 1990.)

Bart Koehler, Executive Director of the Southeast Alaska Conservation Council, Its bittersweet. Senator Johnstons compromise protects many, but not all, important fish and wildlife areas and it brings about a balanced and fair resolution of this hard-fought battle. (As recorded in the Congressional Record per Senator Stevens request: Congressional Record October 24, 1990.)

Rollo Pool, spokesman for Alaska Pulp Corporation: "We certainly will not be donning our party hats and cheering. But we will have to find ways to live with it." Mr. Pool further said his mill will continue to operate.

Ketchikan Pulp Corporation: "Hopefully this bill will bring an element of peace to the Tongass so planning can be more organized for the continuous timber program."

Senator Murkowski's bill is not aimed at bringing justice to Alaska Natives. It is really a raid on public lands. In fact, it is an assault on our national forest legacy established by Teddy Roosevelt and a grave injustice to all concerned.

If a fair examination of this issue shows that redress is needed, it should be done in public, with a solution that involves all of the people of Southeast Alaska and respects all the users of the forest. Any valid Native claims should be addressed in a manner that maintains the integrity of the Tongass National Forest and all it stands for: multiple use and sustained yield; hunting and sport fishing; commercial fishing, recreation, tourism and subsistence.

The bill proposed by Senator Murkowski last session would:

Create five new Native village corporations in the towns of Ketchikan, Wrangell, Petersburg, Haines, and Tenakee;

Give the new corporations the right to select a total of around 645,000 acres from the Tongass National Forest--nearly doubling the current private corporation holdings;

Give each new corporation three to seven times the amount of land allocated to each Southeast village corporation under ANSCA;

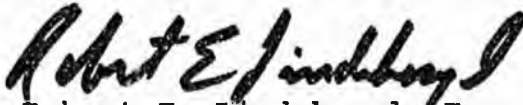
Limit land selections to areas of the Tongass currently managed as off-limits to logging by the Forest Service--including those "roadless" areas permanently set aside by Congress for their wildlife habitat, commercial fisheries, subsistence fishing and hunting values in the Tongass Timber Reform Act;

Allow the new Native corporations from one end of the Tongass to select lands on the other end of the Tongass--including areas traditionally belonging to another Native group.

If history is any guide, selected lands will be closed to public hunting, fishing, recreation, and subsistence, and extensively clearcut within 20 years. This will create another boom and bust timber cycle while at the same time devastating those areas most important to Southeast Alaskans--both Native and non-Native--for wildlife, fish, recreation, tourism, and subsistence hunting and fishing.

Please oppose any bill that uses Native claims to further clearcutting of the most important areas in the Tongass National Forest. Please insist upon full public consideration of this matter by all Alaskans.

Thank you for the opportunity to testify today.



Robert E. Lindekugel, Esq.
Conservation Director