

**ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672**

**8752 HOUSE RESOURCES**

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Doug Roberts, Wrangell Mayor

Elaine Price, Coffman Cove Mayor

Gary Paxton, Sitka City Administrator

**JOHN A. SANDOR**

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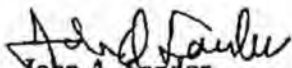
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April 2, 1996

**TO: Representative Bill Williams, Co-Chair of the Alaska House Resources Committee**

**FROM:**   
John A. Sandor

**SUBJECT: Statement on HJR 64**

Thank you for the invitation to testify at the House Resources Committee hearing on House Joint Resolution No. 64 dealing with community stability in Southeast Alaska and the proposed extension of the Ketchikan Pulp Company's timber sale contract.

I regret I must be in the Seattle area because of the grave illness of a close relative. Although I will not be in Juneau at the time of your hearing, I have enclosed a copy of my statement for the record.

I appreciate the Alaska Legislature's concerns about the economic stability of the communities in Southeast Alaska, and believe the State, communities and Forest Service can work together to assure the economic vitality of communities dependent on the Tongass National Forest.

Thanks again.

**Enclosure: Statement on HJR No. 64**

**FILE:TONGASS4**

**Statement by John A. Sandor, For the Alaska State House Resources Committee Hearing on HJR No. 64, Juneau, Alaska, April 1, 1996**

I am John Sandor, of 3311 Foster Avenue, in Juneau, Alaska. I have been a resident of Southeast Alaska from 1953 to 1962 and 1976 to the present time. I retired in August of 1984, after 37 years with the U.S. Forest Service in Alaska; the Pacific Northwest; Atlanta, Georgia; Milwaukee, Wisconsin and Washington, D.C. From 1990 to 1994, I served as Commissioner of the Alaska Department of Environmental Conservation; am now retired, and am representing myself at this hearing.

Thank you, Mr. Chairman, for the invitation to participate in this hearing on House Joint Resolution No. 64 and the related issue of the stability of communities dependent on the resources of the Tongass National Forest. There are already serious unemployment and dislocation problems associated with the closure of processing plants in Southeast Alaska, and the Legislature is to be commended for looking at steps which could be taken to revive and strengthen the economic base of Southeast Alaska communities.

HJR No. 64 notes Ketchikan Pulp Company is required to invest \$155,000,000 in capital expenditures to meet changing federal environmental quality standards and operating needs. Because of this requirement, it is reasonable the KPC contract termination date be extended to allow the amortization of this investment. Thus I support the extension.

**Background associated with the development of the long-term timber sale contracts:**

Alaska's National Forests have long been recognized as one of the most productive forest ecosystems in the world. The soils, climate and abundant rainfall have produced dense forests with an extraordinary habitat for fish and wildlife and a high potential for sustained yield forest management to support the communities within and adjacent to these forests.

The first Chiefs of the Forest Service recognized the potential of Alaska's forests. Gifford Pinchot gave detailed directions for reconnaissance work in Alaska and provided great latitude to local administrators in the administration of the new forest reserves. Henry Solon Graves who replaced Pinchot as Chief in 1910, personally took a keen interest in Alaska's forests, and made a special trip to Alaska in 1915 traveling throughout Southeast Alaska, the Chugach and to interior forest lands. With this first-hand view, and subsequent field reports, Graves approved the separation of the administration of Alaska's National Forests from Portland, Oregon, and Alaska became a separate District in 1919. The next Chief, William B. Greeley also traveled to Alaska for firsthand examination of its forests. The potential for the development of a pulp or paper industry was recognized, and efforts to encourage investments in a paper mill began in the early 1920's. As early as 1921, a sale was made to the Alaska Pulp and Paper Company for 100 million feet of timber and a hundred-ton pulp mill, that was located at the head of Snettisham Inlet. This mill failed because of high shipping costs and poor financial conditions.

Page two - Statement for the Alaska House Resources Committee

Many other proposed pulp timber sales were considered up to the start of WW II; but the Great Depression of the 1930's discouraged such investments during that decade. With WW II, the War Production Board sent a request to the Forest Service for air-plane quality spruce for the production of planes needed for the war effort. The Alaska Spruce Log Program was set up in 1942 as an agency (administered by the Forest Service and financed by the Commodity Credit Corporation), with the objective of producing 100 million feet of airplane lumber per year. This successful operation was headquartered at Edna Bay on Kosciusko Island (west of Prince of Wales Island). With the development of metals for airplanes, the Alaska Spruce Log program came to a close by October, 1944.

The efforts to establish pulp mills in Southeast Alaska continued, and were successful in 1948 when the largest manufacturer of rayon in the U.S., American Viscose Corporation, joined with Puget Sound Pulp and Timber of Bellingham to form the Ketchikan Pulp Company. On July 26, 1951 the final, fifty-year contract was signed with the company agreeing to purchase 1.5 billion cubic feet of timber for the manufacture of pulp at a price of 85 cents per cubic foot for wood cut for pulp. The company was to pay \$3.00 per thousand for spruce, \$1.50 for cedar, and \$2.00 for other species, with prices redetermined every five years of the fifty year contract. The potential sites to be examined for the pulp mill were Sitka, Ketchikan and Wrangell, with the Ward Cove site at Ketchikan finally selected. The Tongass Timber Act of 1948 provided the authorization for the long-term contracts.

With Japan losing a large part of its timber resource as a result of WWII, Japanese groups sought to obtain timber sales in Alaska in 1951, but the Forest Service refused because it wanted to utilize Alaska timber locally. In early 1952, Japanese interests filed a formal petition with General Douglas MacArthur, the Supreme Commander of Allied Forces in Japan, asking for softwood timber from Alaska to be harvested by Japanese workers to relieve the timber deficit for housing and fuel within Japan. This plea was jointly heard by representatives of the Departments of Defense, Agriculture, Interior, Labor and Secretary of State, but denied. In the fall of 1952, a Japanese mission came to the United States to investigate the possibility of establishing both a sawmill and pulpmill in Alaska. The mission was told that the establishment of any mills would have to comply with national and regional timber sale requirements, meet sustained-yield standards, be an American Corporation and have to aid in the economic development of Alaska. In 1953, Japanese technical experts came to Alaska to further promote these ventures. They were well-received by the communities, Territorial government and media. By September of 1953, an Alaska Pulp Development Company was formed and partially financed by a loan from the Export-Import Bank. The contract was finally approved, with the mill-site located in Sitka. The Alaska Lumber and Pulp company was in operation by 1959.

Page three- Statement for the House Resources Committee

Conditions have dramatically changed since the long-term contracts were awarded in the 1950's. World markets for the dissolving pulp produced by the two pulp mills changed. Cellophane and nylon replaced rayon in many manufactured products. Environmental controls have changed to meet higher water and air quality standards. It has long been recognized that it may be desirable to modify or replace one or both long-term manufacturing processes to produce a more competitive product that could better meet higher environmental quality standards. The possibility of developing some type of fiber product at the Sitka pulp mill seemed promising, and I was frankly disappointed that this opportunity was not more fully explored with the State and open for public discussion.

The decline of Southeast Alaska's fisheries during the 1930's, coupled with the need for a stronger, more diversified economic base prompted substantial support for the long-term timber sales that were established in the 1950's. In my view, the long-term sales met the objective of strengthening communities and providing stable employment in Southeast Alaska. In some instances, new communities like Thorne Bay were formed and an infrastructure of State Highways and services that now link communities, facilities and recreation sites on Prince of Wales Island were made possible by the long-term sales. Access for hunting, fishing, recreation and tourism has increased as a result of the transportation systems developed.

At the same time, protection and enhancement of the fisheries, wildlife, recreation and other resource values coordinated with state agencies, communities and the private sector, led to additional benefits from the forest management activities of the past four decades. The recovery of many of our fishery resources demonstrates that timber harvesting with protection of fishery and watershed values is practical. The multiple benefits of our rich forests are maximized when Forest Supervisors and District Forest Rangers are provided the authority, flexibility and tools to implement the forest plans developed with the public.

Since I retired from the Forest Service in 1984, I have not been involved with the implementation of the Tongass Timber Reform Act of 1990 and other statutes. However, it has become increasingly apparent that the various laws and regulations of the past decade have increased requirements for multi-agency planning and decision-making with more costly and redundant processes. This has to be very frustrating to Forest Service personnel who must follow these procedures carefully or be subject to legal challenge. It must be intolerable for the many publics who are awaiting final decisions and conclusions that seem to be deferred again and again. States and communities that are dependent on the National Forests should participate in the Forest Service's decision-making process and that process should be timely. Alaska Native Regional and Village Corporations should also participate in decision-making processes which impact their lands and resources.

A number of measures could be taken to help assure community stability in Southeast Alaska, and I would offer the following recommendations for your consideration.

Page four- Statement for the Alaska House Resources Committee

**Recommendations to Assure Community Stability in Southeast Alaska:**

1. Alaska and other states which have large areas of National Forests and other federal lands should be treated as full-partners in the development of decisions which have significant impact on the state, regions or communities within that state. As a member of the Governor's Cabinet from 1990 to 1994, I appreciated Forest Service officials in Alaska meeting with our Resource Cabinet to deal with issues and pending decisions impacting the state. The Alaska Legislature and the individual communities should also be involved in the development of National Forest decisions impacting the state and communities.
2. Community-based industries (fishing, hunting, mining, timber, tourism, etc) which can be sustained by the National Forest should be encouraged. With such closures as the fish processing plant in Pelican, the sawmill in Wrangell and the Pulp plant in Sitka, the Forest Service, State, communities and private sector should work together to consider opportunities to restore, broaden and diversify the economic base of these communities. Alaska Native Regional and Village Corporations can also be key leaders and participants in such efforts. For example, the Wrangell "land-less natives" could be a major influence in reviving and strengthening the economic base of Wrangell if their land claims were validated. These and other pending land claims should be resolved.
3. Forest planning and project planning should be better coordinated and streamlined to avoid redundant processes that are costly and lead to extensive delays in decisions. Overlapping environmental laws should also be better integrated to avoid waste and better protect the environment. Where more than one federal agency is involved, a single federal agency should be designated as the lead to reach a coordinated decision that represents the combined position of the federal government.
4. The US Department of Agriculture plan that would have centralized accountability and decision-making in Washington, D.C., by closing the Regional Offices in Juneau, Alaska and Missoula, Montana was fortunately blocked by Congress. Forest Service officers in Regions, Forests and Districts should be reinvested with the accountability and decision-making authorities that would enable them to work more effectively with States, communities, native organizations and the public.
5. The Forest Service should jointly work with Alaska and communities dependent on the Tongass National Forest to develop a specific schedule of resource targets that will best meet the needs of communities and people within Southeast Alaska. For example, the 420 Million Board Foot timber harvest level for the Tongass developed in consultation with the State and communities in the early 1990's was reasonable and sustainable, recognizing that a component of that should be allocated for the Small Business Sector as noted in item 6 below. The Forest Service should also recognize the State Department of Fish and Game as having the primary expertise on the resident fish and wildlife within Alaska, and the State should be involved in developing fish and wildlife targets.

Page five - Statement for the Alaska House Resources Committee

6. The Small Business timber sale operators should have a sustained level of timber sale offerings by the Forest Service, to encourage small business operations in Southeast Alaska. I believe a 100 million bd ft allocation for the small business sector is reasonable.
7. Incentives should be developed to encourage secondary and value-added manufacturing of forest products in Southeast Alaska. Consideration should be given to modifying or repealing the Jones Act so that this Act will not be a barrier to making Alaska timber products economically available to other states.
8. Congress should give consideration to establishing a Task Force to review developing federal forest ecosystem management policies and provide recommendations to assure States' and private forest land owners' rights are protected.

The Tongass National Forest is the dominant "land component" of Southeast Alaska. Policies and practices in the administration of the Tongass directly impact the communities, Alaska Native regional and village corporations and individual citizens of Southeast Alaska. Increasing numbers of fishermen, recreationists and tourists can also be expected to utilize or enjoy these multiple use - sustained yield resources.

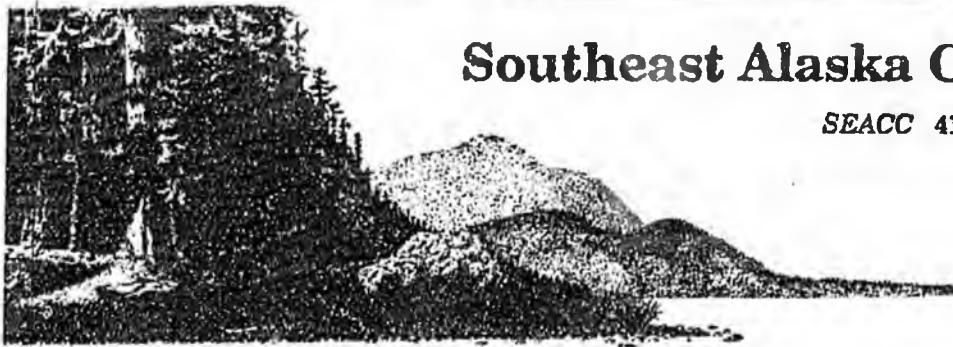
The Tongass is clearly essential to the economic strength, vitality and recreation of every community in Southeast Alaska. The State, communities, Alaska Native villages and the Forest Service should work together as major decisions are made which impact the Forest. This can best be done by making certain Forest Service decision-makers in Alaska be given the authority and responsibility to represent their agency as they administer the areas for which they are responsible. This autonomy was recognized when the Alaska District (Region) was first established in 1919. This process was followed in the development of the first Tongass Land Management Plan, and will assure protection of all resource values and provide for a diversified and healthy economy.

Many Southeast Alaska communities face serious unemployment and dislocation problems associated with the closure of processing plants. It is important that existing or improved pulp or fibre processing facilities be available so that pulp logs and low-grade, or by-product materials from timber harvesting and other operations can be effectively utilized. The Ketchikan Pulp Company plant should be modernized to meet air, water quality and other environmental requirements, and I believe the contract termination date should be extended to allow for the amortization of investments to meet these new requirements.

I also believe other measures, such as those outlined above, are necessary to improve and sustain the economic vitality of communities dependent on the Tongass National Forest. Such actions can, in fact, assure the protection of our unique resource values, increase productivity and lead to a brighter future for Southeast Alaska.

Thank you, Mr. Chairman, for the invitation to testify.

file:TONGASS5



# Southeast Alaska Conservation Council

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1/2/96

Mr. Chairman:

It's absolutely amazing how easily some Alaskan legislators can be bamboozled into believing something that is clearly not true. It's sad to witness that when big timber and our Senators and Congressman in Washington, D.C. chant the same untruth the same way long enough, the untruth takes on its own reality and amazingly starts to get swallowed -- hook, line and sinker.

In a display of shameful decision-making on April Fool's Day, the Alaska Senate Judiciary Committee approved a proposed substitute to SJR 40 which was faxed over at the last minute by Alaska Forest Association's attorney, Jim Clark. It was full of untruths, and it wasn't a joke.

At the heart of the new resolution was the baldfaced falsehood that claimed that the Forest Service had failed to provide "420 million board feet of timber a year needed to meet the jobs protection promises made by those who sought passage of the Tongass Timber Reform Act". Almost daily we hear the wrongheaded claim that this 420 figure was promised by Congress, and by people who sought passage of the TTRA -- like me. Big timber & their allies are not telling Alaskans the truth.

After Congress protected key watersheds and salmon stream buffer zones with the Tongass Timber Reform Act, the Forest Service had a scheduled timber base that had the potential of providing up to 395 million board feet a year (not 420). 395 was more than 100 million board feet above the annual average cut in the 1980s. This figure was not "promised, no matter what". The authority to offer Tongass timber for sale was only allowed "to the extent consistent with providing for the multiple use and sustained yield of all renewable forest resources,"...and all other laws which govern the management of our National Forests. That's the truth.

Congress recognized that the Forest Service would be revising the Tongass Land Management Plan, and would establish a sustainable timber cutting level in this new plan. Furthermore, the Congressman who spearheaded passage of the law noted that, "it is important to note that the areas which have not been protected by Congress remain subject to the Tongass Plan revision and may be placed off-limits to commercial timber cutting." That's the truth.

Big timber and its allies in Juneau and in Washington, D.C. never want to see a real revision of the Tongass Management Plan see the light of day. They want to lock in an *unsustainable level of* logging (420) just like Ted Stevens has tried to do with his Alternative P Riders in D.C. They want to give KPC a contract extension worth a billion dollars in spite of the facts that KPC is a chronic lawbreaker, and its parent company (Louisiana Pacific) had the highest return on assets of any forest products company in the world, in 1994. They want to re-instate Alaska Pulp's operations in Wrangell and Sitka even though APC breached its contract by shutting down its mills and throwing people out of work, even while they had plenty of timber. They want to give the Tongass to the State of Alaska and then sell it off to corporate interests. It is clear that these timber barons and their allies want dominion over the Tongass. And even worse, they want the Alaskan people to believe the outrageous untruth that somehow -- all this was promised to them.

*Burt Kaehler / Executive Director*

TESTIMONY OF THE METLAKATLA INDIAN COMMUNITY  
IN FAVOR OF THE  
HJR 64

Presented on behalf of Mayor Jack L. Booth  
by

SOLOMON D. ATKINSON

Mr. Chairman:

On behalf of the Metlakatla Indian Community, I am here to express support for HJR 64, a resolution relating to the extension of the United States Forest Service timber sale contract with the Ketchikan Pulp Company. First, let me thank Representative Bill Williams for his kind invitation to participate on the Mayor's panel on behalf of Metlakatla.

I also want to state at the outset that it's time for the State Legislature to recognize that something must be done for the timber dependent communities in Southeast Alaska that are being ignored in the rush to "save" the environment. Metlakatla is for sound environmental policy but we are for jobs, people and families as well. We applaud this effort to move the Congress to do something to bring some stability to our economy.

The Metlakatla Indian Community is a federally recognized Indian Tribe. About 2,000 people live on Annette Island Reserve. Metlakatla is a timber dependent community; a timber dependent community with an unemployment rate over 50%. A stable timber supply from the Tongass National Forest is essential to our welfare. In the last few years, in an effort to improve our economic situation, we successfully established a Small Business Administration timber sale purchase program and started a small sawmill to provide jobs and revenues. We have operated our mill profitably for about three years now. It provides between 20 and 40 jobs. We also

depend on the lease of our big mill to KPC for additional jobs and revenues. So, we have become timber dependent. But, our new economic program is now threatened by lack of timber. That is why we support HJR 64.

Frankly, under ordinary circumstances, Metlakatla would not support a system that singles out one business for the benefit of the timber from our public's forests. It would rather encourage the free market system so that all timber related businesses could compete for timber and seek the markets for logs and timber products that would be most economically beneficial. Under the present circumstances, however, we just do not foresee any alternative but to encourage the extension of the long term contract for KPC. It has made the investment of capital that justifies assurances that it will have a timber supply. It provides the rest of us timber operators with markets for logs and it provides jobs that would not otherwise be available.

In a perfect world, all timber operators would compete for a steady and reasonable supply of timber from the vast resources of the Tongass National Forest. Natural market forces would separate the good operators from the bad and a stable, reliable timber dependent economy would evolve. Operators could plan for appropriate capital investments for plant improvements and marketing expenses. Reasonable environmental protections would be a cost of doing business. Under the present conditions, however, with environmental preservationists protesting the harvest of every tree and with a Forest Service unwilling or unable to overcome legal and bureaucratic inertia, few alternatives are left to us.

A few weeks ago, the head of the Forest Service said, basically, that a stable timber supply from the forests of Southeast Alaska is impossible. While Metlakatla

does not agree with Mr. Thomas' words in a literal sense, his forecast might be correct in a real sense.

One thing is certain for now. Small, independent operators cannot count on any supply and without that fundamental variable in the marketing equation, they must support extraordinary measures that are essential to their survival. The extension of the long-term contract for KPC is one of those measures. The rest of us, who would like to be able to compete for timber if it were available, simply cannot risk losing the last strong economic force in our industry. In our view, if the long-term contract for KPC is not extended, we are looking at the last years of the timber industry in Southeast Alaska. We cannot be happy about that.

Metlakatla's economic history is rooted in the seafood industry. We cannot change the markets, however, and our seafood enterprise does not provide the revenue that we formerly enjoyed. In fact, it has been a money loser in the last few years. And, it is getting worse. Most of our fishermen don't even plan to fish for pinks this year because of the anticipated price. Our cannery stopped production of pinks before last season because it cannot make any profits on canned pinks.

Tourism is not the final answer either. We do not deny its potential. However, while others profit from tourists, we have not yet determined how we can benefit from this part of the economy. We know tourism's seasonal jobs are important, but we need something to depend on year round.

In Metlakatla, we believe Southeast Alaska can sustain the timber supply without permanent harm to the environment. We believe the timber industry holds the

most potential for long-term economic stability. By its presence here, Metlakatla is declaring its commitment to stand with all right thinking people in Southeast Alaska to find a solution to our economic problems. Part of that solution must be proper utilization of our forest for the good of all, which includes a stable timber supply. We encourage any effort to move toward that goal. HJR 64 is a step in the right direction. Thank you.



*South Coast Inc.*

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4049 Tongass Avenue  
Ketchikan, Alaska 99901

To: Representative Bill Williams

From: Alan G. Coffin, President South Coast, Inc.

Subj: Comment Regarding 15 Year Extension to Ketchikan Pulp Co. Contract

House Resource Committee

Mr. Chairman (Co-Chairman), and members of the committee:

My name is Alan G. Coffin, and I am the President of South Coast, Inc. I would like to comment in favor of the resolution from the Alaska Legislature regarding the 15 year extension to the Long Term Contract which Ketchikan Pulp Company is currently operating.

South Coast, Inc. supports a 15 year extension to the Long Term contract between Ketchikan Pulp Company and the United States Forest Service so that social and economic stability may be maintained for South Coast, Inc. and its' employees, and families of employees. In addition we wish to show this support so that other businesses in Ketchikan and Southeast Alaska which are partially dependent on our business are not adversely impacted socially or economically.

South Coast, Inc. is an Alaskan owned construction company which was incorporated in the State of Alaska 38 years ago. The company was originally formed as South Coast Forest Products. Our company has very extensive ties to the timber industry in Southeast Alaska and in particular with Ketchikan Pulp Co. Our first project with Ketchikan Pulp Company dates back 31 years. Since that time a major percentage of our business has been associated with the timber industry. In years past this percentage has been as high as 80 percent of our total gross revenues.

HEAVY CONSTRUCTION

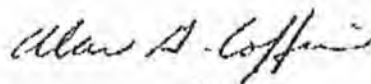
In today's economy, and as in the past, we are dependent upon the stability of having an operating pulp mill in Ketchikan. This is critical to the livelihood of our company and its' many employees and their families. Many of these employees have been with the company for 20 years or more. These people have dedicated their lives to the company, and Southeast Alaska. They and many others like themselves have helped create the social and economic base of Southeast and Ketchikan as we see it today. This would not be possible without an operating pulp mill in Ketchikan.

Having a viable pulp mill in Ketchikan allows South Coast, Inc. to maintain Ketchikan as its' headquarters. Last year South Coast, Inc. deposited payments of more than \$3,500,000 directly into businesses in Ketchikan. In addition payroll exceeding \$6,000,000 was deposited into the economy of Ketchikan and the Ketchikan Borough. This payroll was generated by our company employing more than 150 employees that live within the Ketchikan Gateway Borough. These are real world dollars that you can write home about. They do not include any secondary or tertiary impacts to the employers, employees, and families members associated with the business that we support in Ketchikan. By the time these dollars turn themselves over in the economy the real impact is several times more than the roughly \$10,000,000 stated previously. The real magnitude is in excess of \$30,000,000.

As previously mentioned, we are a major employer and contributor to the economy in Ketchikan and one of several employers that see having a viable pulp mill in Ketchikan as a necessity. Facts are often quoted regarding direct impact to Ketchikan Pulp Company and its' subcontractors, but not much is said regarding the real impact to the subcontractor. The real impact to the community is not just the direct timber dollar. It is also the dollar that is contributed to the economy because a business is associated with the timber industry, and therefore chooses to be based in Ketchikan.

Mr. Chairman, Ketchikan Pulp Company has had a long term stabilizing relationship with Southeast Alaska and in particular Ketchikan. Let's hope that this relationship can not only be maintained but also nurtured.

Thank You,



Alan G. Coffin

# Silver Bay Logging, Inc.

Cube Cove #2

Juneau, Alaska 99850-0360

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## Statement of Brian S. Brown Silver Bay Logging

My name is Brian Brown and I am the chief Logging Engineer for Silver Bay Logging Company. We are a small, independently owned and operated logging company headquartered right here in the Juneau area. We are involved in contract logging, road building, towing and aviation, all related to the logging industry. We support the proposal by Representative Williams and the long term contract extension.

I was an employee of Alaska Pulp Corporation at the time of the unlawful cancellation of their contract and experienced firsthand the chances of success that a company in Southeast Alaska has in operating a pulp or sawmill without a timber supply. I also remember the promises made by the federal government to the owners and workers of APC about their commitment to provide enough timber for the company to continue to operate.

At Silver Bay Logging we have invested heavily in the most environmentally friendly logging that exists. Following national trends in low impact logging, the USFS has apportioned large amounts of the timber they sell as helicopter only. Silver Bay has accordingly (and against most advice I might add) invested heavily in this mode of the industry because of Mr. Buhler's commitment to operating in Alaska. Currently however, we only have one helicopter working on the Tongass and that is only because it is logging for KPC. We are fortunate to have the KPC contract in that it forces the USFS to provide at least some timber that we can count on to log. We could not justify operating without a large entity like KPC providing us with some of their contracts.

We are also buyers of USFS timber sales. In fact we are the only company who has purchased independent sales in the Chatham region since the APC contract cancellation. We sometimes compete against KPC in this respect. Regardless of this fact they still provide us an outlet for the low end log that we cannot market to anyone else.

I have heard a lot of reference to the term "value added" over the course of these hearings. I would like to state categorically that we are willing to sell any timber we buy to anyone willing to pay the going rate for it. However, I find it difficult to correlate the reality with this buzzword. Taking an Alaska Cedar log worth \$2,000 and investing a \$1,000 worth of labor to create a \$500 product does not create any value that I can see. And while it seems that the majority of value added proponents seem perfectly willing to use logs of the high grade variety they have no solution to the question of the majority of logs on the Tongass. In fact what they seem to be advocating is the very "high grading" of the forest that they accuse the timber industry of. We obviously need a market for the low grade logs as well as the high end logs or we will not be buying SBA sales on the Tongass.

The people objecting to the KPC extension are fond of saying that they are not opposed to logging, just to the long term contracts. We heard that saga at APC hundreds of times while there was testimony in Sitka. Look at Sitka now: The AWRTA suit has SBA timber tied up in court with no end in sight, the lunatic environmentalists spend every Monday in front of the Sitka SO protesting a yet to be released sale with promises of litigation when it is released, and the few proposals that have surfaced to get a timber industry started there have met with venomous objection. They are even opposing Sitka's attempt to sell water. I think we need to save Ketchikan from a similar fate.

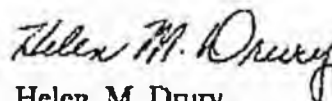
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due to constraints -  
add to record*

April 1, 1996

Bill Williams, Co-chair  
House Resources Committee

I wonder how in the world ANY legislator can face his constituents and say he supports renewal of the Ketchikan Pulp Company (KPC) contract. For years this company has been responsible for breaking laws through their toxic water pollution which has been extremely harmful for untold numbers of citizens. In addition, they were found guilty of monopolistic practices such as price fixing, collusive bidding and forcing independent timber companies out of business. The Forest Service has found that the anti-trust practices of KPC and the Alaska Pulp Corporation (APC) have cheated the government out of \$68-80 million dollars. In addition to many questionable logging practices I once again ask, "How can the legislature even consider extending this contract?"

The enlightened thing to do is replace KPC with those honest ALASKAN entrepreneurs and independent timber companies who will provide a variety of value-added jobs which will support the idea of a sustainable future for our Tongass forest.



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## CITY OF WRANGELL SNAPSHOT OF THE ECONOMIC PICTURE

Population: 2,758 (Alaska Department of Community and Regional Affairs, 1995)

### UNEMPLOYMENT RATES

The following table of unemployment rates for the City of Wrangell compares the months of December (APC mill closure in Wrangell) through May of 1992, 1993, 1994 and 1995. Wrangell always has higher unemployment in the winter months due to the seasonality of many jobs. The City estimates that current unemployment is close to 30% based on historical information and additional business closures.

<u>Year</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>
1991-1992	—	14.8%	14.2%	13.0%	12.3%	9.9%
1992-1993	8.8%	11.4%	13.4%	9.4%	7.2%	6.7%
1993-1994	9.1%	13.4%	15.3%	14.1%	9.6%	7.5%
1994-1995	18.3%	21.6%	20.7%	19.6%	16.2%	****

\*\*\*\* The State has ceased collecting unemployment figures for communities outside borough areas.

### CITY COLLECTED SALES TAX

The City Finance Director recently did a comparison of the sales tax collected for the quarters of 1994 and the quarters of 1995. There has been a -13.54% drop in collected sales tax revenues from the merchants. This has serious implications not only for the local businesses, but also for the City's budget. Current sales tax levied on all goods and services is 7%.

Drop in sales tax collected between 1994 and 1995:

1st qtr	2nd qtr	3rd qtr	4th qtr
-12.52%	-8.32%	-6.68%	-10.43%

## ANNUAL EMPLOYMENT AND PAYROLL

The following table shows the growth in *annual* employment figures and payroll (sum of number employed each month, and sum of payroll figures each month) for Wrangell since 1990. The Wrangell sawmill closed mid December 1994. The Alaska Department of Labor does not include commercial fishermen in its employment count. The reports regarding employment from Alaska Department of Labor are delayed at least 6 months.

### ANNUAL EMPLOYMENT AND PAYROLL: 1990 - 1994

<u>YEAR</u>	<u>TOTAL EMPLOYED</u>	<u>TOTAL PAYROLL</u>
1990	10,690	\$23,409,618
1991	11,004	\$24,814,297
1992	11,603	\$27,766,923
1993	12,528	\$31,621,059
1994	12,672	\$31,176,659
1995 (thru 3rd qtr)	7460 *	\$16,780,120 *

Source: Alaska Dept. of Labor

Note: The APC mill officially closed December 15, 1994. Layoffs started occurring in the two months prior to the closure.

\* Through third quarter (January - September 1995) only. Based on these figures so far, Wrangell is back to 1990 earning levels.

Most noticeably in the mix of industries is the dramatic change in the manufacturing and government sectors of the economic base. In 1994, manufacturing jobs comprised 29% of the available jobs, today it has dropped to 11.4%. Likewise, government jobs comprise 47.4% of the economic base compared to 32% two years ago.

## UTILITIES

The electrical utility in Wrangell is owned by the City. The mill received a low cost interruptable power contract from the Tyee Hydroelectric project. With the mill in operation, typically they would use approximately 1 million Kwh per month. They are currently down to 100,000 kwh per month. From their utility payments, the City keeps 45% of the payment. At the time of operation of the mill, the City netted approximately \$240,000. The net for 1994-5 is estimated to be only \$135,000 (half the year APC was in operation).

## HOUSING MARKET

During the summer of 1994, Wrangell had a 0% vacancy rate in rental units. A recent survey (Jan 96) of primary landlords revealed that out of 316 units, 54 or 23% were vacant. House sales have continued to take place, but they have remained on the market for several months, unlike the summer of 1994 when it was a "who you know" and 24 hour sale.

## SCHOOL ENROLLMENT

School district had enrolled in October of 1995 555 students for the formula funding count. Currently there are 532 students and the school is anticipating a drop to 520 students for next year.

## PROPERTY TAX ASSESSMENTS

Alaska Pulp Corporation's real and personal property tax collected was approximately 20% of Wrangell's tax revenue. The City just completed a citywide reassessment of real and personal property. The mill's property valuation has dropped by \$2 million.

TESTIMONY  
GREATER KETCHIKAN CHAMBER OF COMMERCE

HOUSE RESOURCES COMMITTEE  
ALASKA HOUSE OF REPRESENTATIVES  
Ketchikan, Alaska, April 2, 1996

APR 02 1996

Chairman Williams and Members of the Committee:

Thank you for taking testimony on House Joint Resolution No. 84. My name is Dick Coose. I am the Chairperson for the Greater Ketchikan Chamber of Commerce Timber Issues Committee. The Ketchikan Chamber of Commerce has approximately 400 business and individual members representing over 4000 jobs. Our members represent the three primary industries that sustain our community, timber, fishing, and tourism. We sponsor community events and support active committees through which we address issues which are important to economic development.

There is no single issue of greater importance to our members than a strong economy. There is no greater threat to our economy than the reduction of the timber industry in our community and in SE Alaska. Each year we poll our members to determine where to focus our efforts. Our number one issue continues to relate to maintaining a strong timber industry.

The Greater Ketchikan Chamber of Commerce supports a 15 year extension of the Ketchikan Pulp Company long term timber sale contract. Ketchikan Pulp Company (KPC) has initiated a 200 million dollar investment program to upgrade facilities to remain competitive in the world pulp market and to meet new and ever changing environmental requirements. For any business to commit to an investment of this size, they must be reasonably assured that a raw material supply will be available, the long term timber sale contract is this assurance.

I know you have or will receive many facts and figures concerning the economic impact of the KPC operation on the City and Borough of Ketchikan, but let me state just a few.

- KPC assessed value equals 8.62% of the Ketchikan Borough assessed value for 1995 or \$78.9 million.
- KPC property taxes to Ketchikan Borough for 1995 was \$675,000.
- KPC payroll with benefits for 1995 was \$53.6 million.
- KPC total employees in March 1995 was 670.

You know that for each employee of a major industry like KPC there are 3 additional jobs in the service and supply sectors and that the income for these indirect jobs is 4 times the payroll. This is an additional 2010 jobs and \$214.4 million of income benefit to our community.

Should Ketchikan Pulp Company cease operations in Ketchikan, which other businesses will have to close, which and how many teachers, store clerks, doctors, service persons, lawyers, and others will have to look for work elsewhere. I believe each of you know and understand what happens to a community when a third of the jobs disappear.

We believe that Ketchikan Pulp Company has been and will continue to be a responsible business, neighbor, and citizen in this community.

We believe you realize that harvesting enough timber from National Forest lands to sustain the timber industry in SE Alaska is not an environmental, conservation, or scientific issue. It is an issue of personal philosophy and politics.

We have initiated a petition to Governor Knowles requesting his support of the KPC contract extension. Over 1600 signatures have been collected in 3-1/2 days of effort in Ketchikan.

The Ketchikan Chamber of Commerce supports and urges your approval of House Joint Resolution No. 64.

Thank You.

Annual fish streams in heavily logged areas no longer  
 contain enough water in mid-summer to provide access for  
 spawning streams - or provide much wet area for juvenile  
 fish rearing.

Public lands!  
 is a direct loss of public use of a public resource and  
 there are because of low deer numbers due to logging. This  
 lakes island will be closed to sport hunting about the  
 impact. Also, it has been said by the USFS that volume of  
 returns that deer hunters are depending on to logging  
 subsistence capability of the land is diminished as the USFS  
 of southern southeast Alaska unsuitable for any other use.  
 earlier logging done under contract has left many areas

our public lands in the Tongass.  
 allows availability to subsidize further destruction of  
 Furthermore, U.S. Tax payers would have to spend 10% of  
 for public use than any other item ever cut by congress.  
 public resources, public land and future use of the land  
 the two original contracts which did make damage to local  
 availability supported extending the KPC contract. This is one of  
 I was very disappointed to hear that the legislative

Denne Legislative  
 Comments: KPC contract extension  
 4-2-96

SILVER KING MARINE  
 Mike Bethers  
 P.O. BOX 21003  
 AUK BAY, ALASKA 99821  
 (907) 789-0165

AS FOR TOURISM- YOU'VE OBVIOUSLY NEVER TRIED TO SELL VISITORS A TRIP TO AN AREA THATS BEEN LOGGED. THE MOST COMMON QUESTION ASKED BY POTENTIAL VISITORS IS - "IS THE AREA NATURAL OR HAS IT BEEN LOGGED?" VISITORS DON'T COME TO S.E. AK TO SEE LOGGING- THEY COME TO SEE WILD NATURAL COUNTRY. THEY CAN SEE MILES OF LOGGED OFF COUNTRY IN THE LOWER U.S. - THATS WHY THEY LIKE TO COME TO S.E. BECAUSE IN SOME AREAS IT STILL HAS TALL TREES STANDING.

MY EMPLOYMENT DEPENDS ON WILD-NATURAL LANDSCAPES AND SPRING DEPENDABLE FISH RUNS. I AM TOTALLY OPPOSED TO THE EXTENSION OF THE KDC TIMBER CONTRACT AND URGE YOU TO DO THE SAME. ITS TIME FOR THE LOGGING INDUSTRY TO SCALE BACK TO A FRACTION OF HISTORICAL LEVELS. THAT WAY, A WELL BALANCED MULTIPLE RESOURCE MGT. APPROACH TO THE PUBLIC RESOURCES ON THE TONGASS WILL PROVIDE FOR ALL USER GROUPS.

ONCE AGAIN, I URGE YOU TO OPPOSE EXTENSION OF ANY FEDERAL CONTRACT ON ANY PUBLIC RESOURCES.

THANK YOU!

Mike Bethers

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4/2/96

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ELODIA WILBER 465-3578

KIM LEON 465-2108

JERRY SMITHS 465-3476

2219 Sawmill Creek Highway  
Sitka, AK 99835  
907-747-7448

I am writing to appose the resolution to extend the life of the Ketchikan Pulp Company (KPC) timber contract. The resolution contains several serious misstatements. KPC has had some of the highest return on assets of any forest products company in the world, according to the Price-Waterhouse Forest Products Survey. KPC does not need a contract extension to make the improvements in environmental protection they should have been doing since their beginning. The citizens of Alaska will be paying the costs of their environmental degradation for a long time into the future in lost fisheries and tourism resources. EPA has ranked the Ketchikan mill as the worst water polluter of the Pacific Northwest. Not only does the mill pollute, but logging practices have been very destructive of wildlife and fisheries habitat. There are lake systems on Prince of Wales Islands that once produced thousands of fish and now produce very few. We should learn from the lessons of the Pacific Northwest and the loss of fisheries habitat there.

The resolution implies that the passage of the Tongass Timber Reform Act caused the Sitka pulp mill to close because the 420 million bd feet of timber was not made available. Over the life of the contracts the mills never harvested that much, and left some sales unbid upon. The pulp mill closed in Sitka because of the low price of pulp on the world market and business decisions made by a Japanese company which made millions on their incredibly cheap purchase of national lumber and took those profits out of the U.S. As a Sitka resident I can attest that our economy has done remarkably well following the closure of the mill. Our industries of the future are service and fisheries and we must protect the habitat that sustains those industries. I do not want to see timber sales from the Sitka area going to support Ketchikan Pulp, ruining our chances for a value-added timber industry here, and the growth of tourism and fisheries.

Over the previous contract years, KPC has highgraded the forest, taking out the high-volume first. There is very little volume class 6 & 7 left anyway in the Tongass. The timber industry as we have known it in S.E. Alaska is no longer viable, due to their own destructive practices. If they would have done less high-grading in the past, they could have kept the industry at a more sustainable level and it would have been viable much longer. Our challenge now is to make a transition to a different forest industry, one which is more selective, and does not take the profits out of S.E. Alaska. If we do not begin that transition now, not only will KPC have a very short future of gobbling up the little remaining valuable forest, but they will destroy our other resources and leave our economy nothing to be based upon in the future.

Sincerely,

*Page Else*

Page Else

Testimony of John Sisk on House Joint Resolution Relating to the Extension of  
the United States Forest Service timber sale contract with the Ketchikan Pulp Company  
April 2nd, 1996

My name is John Sisk, and I would like to thank this Committee for allowing me to present testimony today on this resolution. I am a fourteen year resident of southeast Alaska with a degree in Environmental Biology and a Masters Degree in Forestry. I have worked in the lumber business, in building construction, as a wildlife biologist and as a professional wilderness guide. I am a hunter, sport fisherman and a kayaker who lives in a wooden house with a wood burning stove. I am a past Executive Director of the Southeast Alaska Conservation Council, a co-owner and past manager of a local tourism business, and a long-time shareholder in Louisiana-Pacific, the parent company that owns Ketchikan Pulp Company (KPC).

I am here today to endorse the positions of the Southeast Alaska Conservation Council and the Alaska Environmental Lobby with regard to the proposed resolution to support a fifteen year extension of the Ketchikan Pulp Company's long term timber contract; both organizations stand in strong opposition to the resolution. Beyond that, I am speaking today on my own behalf and appreciate very much the opportunity to share some of my personal concerns and recommendations with regard to the KPC contract, the economy and the Tongass National Forest. While I don't claim to have all the answers I can testify that Alaskan conservationists care deeply about our people, our communities and our forests. That is the spirit in which I speak today.

I want to state, right up front, that there are practical, long-term alternatives to dependence on dissolving pulp mills in the southeast Alaska timber industry. A market-oriented approach to value-added manufacturing and re-manufacturing of solid wood products, sawing as much as possible of as many logs as possible, considering an integrated timber supply that includes all timberland owners without subsidizing public timber, and new approaches to utilization of wood waste and lowest quality logs and log pieces are some of the components of long-term alternatives that might work for southeast Alaska.

I believe strongly that this resolution to extend the KPC contract is the wrong move for the legislature. This is also the wrong time for the legislature to make this type of endorsement to any interest. We have more time to look at the KPC situation; their 50-year contract doesn't expire for eight more years. We need more information--certain specific information--before committing the Tongass to KPC or anyone else through the year 2019. We need to devote more legislative and public attention to what our economy might look like, and what we will need here in southeast Alaska, in the first several decades of the 21st Century.

KPC's Parent Company: Louisiana-Pacific

KPC's parent company, Louisiana-Pacific (LP), is one of the most successful wood product companies in the entire world. In 1994 LP recorded sales of over \$3 billion and net earnings of \$347 million; LP had the highest return on assets of any forest products company in the world at 12.8%. LP is primarily a solid wood product company that now operates internationally, producing lumber, oriented strand board, wafer wood, and composite materials from solid wood stock. One of LP's latest ventures is the construction of five new manufacturing facilities in Venezuela. The company operates three pulp mills in California, British Columbia and Ketchikan. The Ketchikan pulp mill is, by KPC's own admission, antiquated. And, it is LP's worst polluter by far. Clearly, LP has the ability and the investment capital to run a clean, modern, high value added mill that utilizes diverse log types to manufacture a variety of solid wood products. LP does not need government subsidies or regulatory waivers. With the company's expressed interest in investing \$160 million to \$200 million in its Ketchikan operation, it is feasible for them to shift from a polluting dissolving pulp mill that requires 150 million board feet of public timber each year to a cleaner, smaller, high value added operation that manufactures a variety of solid wood products out of many of the logs that today are

being turned into pulp. Such an operation could still be a major employer in Ketchikan and Metlakatla, it would put less pressure on the forests of the Tongass National Forest, and it would leave us with cleaner air and water.

This year LP is in the midst of a major change in management. Last year the Board of Directors fired notorious CEO Harry Merlo after a series of fundamental problems threatened the company. Huge pollution fines and expensive settlements with the EPA affected many of LP's operations. In Ketchikan the company admitted to felony violations of Clean Water Act regulations. The quality of certain LP products was challenged by a number of very large buyers and may lead to very expensive with purchasers of LP's oriented strand board. CEO Merlo already had a stormy history with organized labor and some of his own employees. The Board decided Merlo's entrepreneurship had run its course and a complete management change was necessary.

Today LP is engaged in appropriate management reviews, including a look at the future of their Ketchikan operation. Rather than simply pass this resolution to write the company a blank check to continue business as usual, I think Alaska should follow LP's lead and do our part of the job: evaluate KPC and assess what kind of timber industry is most desirable--in Ketchikan and in Southeastern-- in the first part of the 21st century.

#### Some credits and complaints regarding KPC's historic operations

Clearly, KPC has brought year round employment and prosperity to many since its inception in the 1950s. While there was a thriving, small scale timber industry before KPC, the pulp operation triggered development of additional infrastructure and business activity in Ketchikan and on Prince of Wales Island. KPC has many supporters who will present these attributes forcefully and with eloquence.

There are also many Alaskan environmentalists, subsistence resource users and small community residents who eloquently present the down side of KPC. Chronic pollution, including discharge of toxic and carcinogenic polychlorinated biphenyls (PCBs) and Dioxins. Expanding clearcutting of forests people depend on for hunting, fishing and tourism endeavors. Conflicts with employees and unions. Monopoly control of Tongass timber supply to the extent that other loggers and wood manufacturers cannot start new businesses or stay in business. A federal court ruled that in the 1970s KPC and Alaska Pulp conspired to control timber supply and log prices to such an extent that over 100 Alaskan timber businesses were either taken over or forced under. Many believe that the KPC long-term timber contract gives the pulp company so much leverage over the Tongass timber supply that it is exceedingly difficult for competitive new wood manufacturing businesses to get started, and very little incentive for KPC to respond to changes in international markets for wood products. In other words, the innovation that could keep our timber industry competitive in a dynamic market environment is limited by supply guarantees, de facto price subsidies and commitment to a single product, dissolving pulp, as top priority.

I am concerned that dissolving pulp (DP) is not a strong product for the future. It has an inconsistent financial track record and we should not anchor our timber industry to dissolving pulp. Ideally, we should find ways to get top dollar out of every log first, and then match a fiber-plant to the remainder of the wood supply. There is also serious question that the Tongass National Forest cannot supply KPC with 154 mmbf/year for the long haul while still taking care of other industries and forest users, and while providing a timber supply for independent and small community operators.

### Alaskan leaders should take a hard look toward the future.

Before considering whether or not to endorse extension of the KPC contract or any other big commitments, southeast Alaskans need to take a hard look toward the future. Here are some key steps we need to take.

1. Complete the Revision of the Tongass Land Management Plan (TLMP). The TLMP process is nearing completion after more than five years, with community roundtable meetings and public review slated in May of this year. Based on the best available Forest Service information, community priorities and general public comment we will have a better idea how well the Tongass can provide opportunities for all the users of the forest, and what timber supply levels are feasible. For example, it might be helpful to identify a modest but significant timber supply level that most interests can either live with or support. That would become the base timber supply an investor could "bank on." Greater annual timber supply would admittedly lack consensus and would be acknowledged as less predictable and more speculative for timber purchasers. This two-tiered approach could be more advantageous for timber investment than demands by timber advocates for 350, 400 or 450 mmbf of timber from the Tongass. "Shooting for the moon" tends to engender opposition to the whole timber program and thereby make every sale uncertain even when there might be some supply levels folks could agree to.
2. Clarify the "landless Natives" issue and get a ballpark idea how much Tongass timberland, if any, is likely to be transferred to private, Native corporation ownership. This could become a significant component of the regional timber supply and would affect the sustainable cut from the Tongass National Forest.
3. Clarify the economic, social and environmental criteria for a future timber industry that are important to southeast Alaskans and, in the case of the Tongass National Forest, concerned Americans outside Alaska. See what companies are interested in meeting these criteria and cooperating with Alaskan communities in a sustainable, diversified economic partnership. For example, this might or might not include KPC (LP), Sealaska Corporation, Viking Lumber in Klawock, Seley in Ketchikan, and others.

### Some Important Criteria for a Future Timber Industry Using Tongass Timber

In the course of assessing our longer term options many good ideas and criteria would be suggested for a strong, sustainable timber industry. I offer these recommendations for your consideration at this time.

- Avoid sudden changes that could displace workers and hurt communities. Where significant changes are desirable or unavoidable, develop sound transition plans that support our communities and the prosperity of our neighbors.
- Excellent air and water quality should be fundamental requirements. A clean and healthy environment is imperative, and is an important economic development attraction when recruiting new businesses to locate in Alaskan communities.
- Full compliance with all federal laws should be demanded. No waivers; no exceptions.
- Cedar export should end, with red and yellow cedar logs either manufactured in Alaska or sold directly to an Alaskan manufacturer, thereby adding value and creating new jobs in the Panhandle.
- Provide special, small scale federal timber contracts for high value added operations in local communities.
- Support a chipping facility in Wrangell and a demonstration high value added facility that approaches total wood utilization.
- Manufacture and re-manufacture of sawn wood products that add value and employ Alaskans should be a criteria for access to Tongass timber. The Province of British Columbia recently announced that access to Crown timber will be contingent on job creation and value-added manufacture in B.C. Alaska must pay attention to this trend.

- Base the future industry on an integrated approach to regional timber supply that includes lands under different ownership. The Tongass should not be called on to supply all of the timber industry's needs. Proven sources of log supply, in varying quantities, include: ANCSA Native corporation lands throughout coastal Alaska, the Tongass National Forest, State Forests and general State Land, University of Alaska timberland, Mental Health Trust Land, other private land and log imports from British Columbia and south central Alaska. We need policies that provide incentives to timberland owners to put their logs to work creating jobs and high-value-added products for Alaska, rather than exporting those jobs and opportunities.
- Future timber businesses should be market driven rather than contract driven or subsidy driven.
  - Products manufactured should be matched to viable markets that maximize the value of the raw material, log by log if possible. This would promote the careful sorting of logs and the allocation of particular log grades and types to their highest value product through market transactions.
  - No stumpage price breaks would be offered. Tongass stumpage would be sold at prices commensurate with current markets and the price of wood supply from private Alaskan timberlands. This would have several benefits. Private timber would be more likely to be sold to Alaskan manufacturers, thereby easing the pressure on the Tongass supply. In addition the Forest Service would generate more revenue from a given timber sale volume, and local Alaskan governments' 25% share of that revenue would increase
- Support investments in intensive management of federal, state and Native corporation second growth lands to maximize future timber yields as part of an integrated, multi-ownership timberland base for the future.
- Seek federal investments on the Tongass in restoration forestry and other programs that provide jobs in the woods for Alaskans.
- Tongass National Forest timber supply levels must be compatible with, and constrained by:
  - the Tongass Land Management Plan;
  - balanced compatibility with other industries such as tourism and commercial fishing, and other uses such as subsistence, recreation, sport fishing and hunting;
  - a sound, scientific strategy for maintaining viable populations of animal species and protecting important fish and game habitat areas such as Honker Divide on Prince of Wales Island and the Cleveland Peninsula;
  - continued protection of the National Monuments, Wilderness Areas, minimum 100 foot salmon stream buffers and Legislative "LUD II" Areas established by the Alaska National Interest Lands Conservation Act (ANILCA) and the Tongass Timber Reform Act (TTRA);
  - basic forest stewardship including conservation of soils and watersheds;
  - long term sustainability of the timber cut level and the basic ability of the forest to keep on providing clean water, wood, wildlife, fish, and opportunities for recreation and subsistence.

Does this add up to an extended presence in southeast Alaska for Louisiana-Pacific and Ketchikan Pulp Company? It is way too early to tell whether a long term KPC presence would be in the best interest of southeast Alaska, or L-P and KPC, or the many people who have a stake in the Tongass National Forest. But in any event, just as KPC is letting Alaskans know what commitments they want from our public forest--the Tongass--we have a right and a duty to let KPC know what expectations we have for companies considering long term investment in Alaska timber. This will result in a stronger end result than rushing to extend KPC's contract now. We should not commit our long term economic future or the future of our forest to perpetual support of a given set of machinery installed in the 1950s, simply because it is there and we are unable to cope even with beneficial change.

### But Won't We Still Need a Pulp Mill?

Not necessarily. We can saw a significantly greater portion of Tongass wood than we are today. Forest Service data tell us we are now pulping 68% of the #3 spruce sawlogs, almost all of which could be sawn with available technology, and are pulping 75% of the #3 hemlock logs, which existing businesses in British Columbia and the Pacific Northwest are sawing into good lumber and re-manufacturing into finger jointed and laminated boards and trim. Doing more of this in Alaska means more jobs per tree cut down and more value added to the wood. In the 1950s the rule of thumb was "saw 40% of the logs into cants or lumber and pulp the other 60%." Today we could potentially saw 60% to 85% of the logs from a given Tongass sale. This is due to new manufacturing technology, changing labor cost differentials between Alaska and other Pacific rim locales, and the fact that Alaska has some of the best old growth softwood in the world. Altogether this means that potential reliance on a wood fiber plant like a pulp mill could be reduced substantially.

Another big change is the emergence of wood chips as a viable manufactured product made from low grade logs and some sawmill waste. Although the chip market, like the dissolving pulp market, is volatile, during strong market cycles and on the spot market chips are a market-based alternative to dissolving pulp.

For years we have known that wood waste could be burned to generate power and also dispose of a potential headache to sawmill operators. We need to examine the obstacles to co-generation using wood waste and help get a pilot project started so that value added sawmills are not stymied by waste disposal problems.

If a fiber plant is needed over the long haul we should still re-think our approach. The region might be better off if such a plant were smaller than the current mill, and we should take a hard look at a variety of fiber products, including oriented strand board, wafer-wood, MDF, particle board and the like in addition to pulp. If we are successful in capturing top value from logs we will not need such a large facility or be able to feed it, and some experts are convinced dissolving pulp will be less competitive over time.

A sudden, unplanned pulp mill shut-down would clearly be undesirable and would create big employment and community problems in Ketchikan. But would it result, as some claim, in the closure of all of southeast Alaska's sawmills because there would be no place to sell their pulp logs? Not necessarily. Un-saw-able logs and cull could be chipped in Wrangell or Ketchikan and exported. The Forest Service could consider limited, temporary, emergency relaxation of the primary manufacturing requirement and timber sale utilization standards, thereby allowing truly un-saw-able logs to be exported and cull material to be left in the woods until a better alternative is developed. With these short-term procedures in place, sawmills might pick up the timber sales KPC would have operated and carry on nicely. At the same time, of course, community and business leadership would have to hustle to address the effects on Ketchikan and the options for new investments in timber and other industries to compensate for the closure. Although I do not think this is a desirable situation, I present it to show that we should not let our worst fears frighten us into giving away too much, too soon, before we really know what kind of timber industry will suit southeast Alaska and the Tongass National Forest best in the 21st Century.

Thank you for the opportunity to testify here today, and thank you for considering these views and suggestions. Please do not endorse the Resolution to extend the KPC contract with the Forest Service at this time.

# STATE OF ALASKA

TONY KNOWLES, GOVERNOR

## OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET  
DIVISION OF GOVERNMENTAL COORDINATION

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April 1, 1996

The Honorable Bill Williams  
Alaska State Representative  
Co-Chair, House Resources Committee  
State Capitol, Room 128  
Juneau, AK 99801

SUBJECT: State of Alaska Position on HJR 64

Dear Representative Williams:

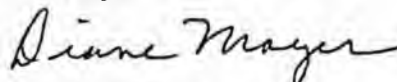
The Knowles Administration recognizes the important role Ketchikan Pulp Company (KPC) plays in the timber industry, including employment in Ketchikan and Southeast Alaska. The responsibility and statutory authority to extend the KPC contract lies with the U.S. Department of Agriculture and Congress.

Our Administration is promoting sustainable, responsible economic development of Alaska's natural resources. In Alaska we can do it right. As KPC develops its business plan to present to the U.S. Department of Agriculture for a contract extension, Alaskans will be interested in KPC's commitment to fully address: 1) long term jobs for Alaskans; 2) the use of Alaska businesses, both in harvesting and value-added processing; 3) provision of a solid tax base for Ketchikan and other Southeast communities; 4) responsible environmental management; 5) participation in and support of the Tongass Land Management Planning process that ensures sustainable uses of our forest; and 6) consideration of other forest users, including those dependent on timber production, tourism, commercial and sport fishing, seafood processing, mining, subsistence and personal use.

We hope the legislature will address these important matters in its deliberations.

We look forward to the Department of Agriculture providing Alaskans the opportunity to review proposals regarding the contract extension. We stand ready to work with Alaskans and Ketchikan Pulp Company to achieve these goals.

Sincerely,



Diane Mayer  
Director

Testimony Before The House Resources Committee  
On  
House Joint Resolution No. 64  
An Extension of the U.S.F.S. Timber Sale Contract With Ketchikan Pulp Company

By  
Shirley F. White  
5153 Shoreline Drive  
Ketchikan, Alaska 99901

Honorable Bill Williams and members of the House Resources Committee, thank you for the opportunity to testify on House Joint Resolution No. 64. My name is Shirley White. I came to Ketchikan, Alaska in 1959 and have resided here since. I was fortunate enough to raise six children in this wonderful community.

Since 1959, my husband and I have owned or own the following businesses in Ketchikan, White Enterprises, Inc., Ingersoll Hotel, White Commercial Rentals, Merchants Supply, Vitamilk Dairy, Crystal Dairy, S.E.A. Construction Co., Togs & Toys, Fashion Faire, Heritage Restaurant, Alaska Fisheries Co., F/V Sara Dawn, F/V Jessica Rose, F/V Colleen, Seawatch Construction Rentals, and Salmon Falls Resort. All of these businesses and the jobs created by them were possible due to the year round employment of employees of Ketchikan Pulp Company.

I would like to state my support for a contract 15 extension between the U.S.F.S. and Ketchikan Pulp Company of at least 15 years. Also, 192.5 mmbf per year would be necessary for the operation of Ketchikan Pulp Company and should be allowed to them. Without year round employment of Ketchikan Pulp Company Employees, Ketchikan's economy would be devastated.

I urge the Governor to please listen to the timber industry works as well as the rest of us who's livelihood is also affected indirectly by what happens to the timber industry and give his support to Resolution No. 64.



BILL WILLIAMS  
HOUSE RESOURCES COMMITTEE

DEAR MR. WILLIAMS:

A SENATE JOINT RESOLUTION, PERTAINING TO THE EXTENSION OF THE KPC CONTRACT, DOES NOT SERVE THE BEST INTERESTS OF SOUTHEAST ALASKA'S PEOPLE, COMMUNITIES, OR ECONOMY.

WE DO NOT NEED ANY FURTHER MANDATED TIMBER HARVEST LEVELS, WE DO NOT NEED ANY MORE MONOPOLIES ON OUR TIMBER, AND WE DO NOT NEED ANY MORE HIGH-VOLUME TIMBER CUTTING FOR INDUSTRIES THAT DO MINIMAL PROCESSING.

THE LONG TERM INTERESTS OF OUR COMMUNITIES WILL BE BEST SERVED BY LOWER VOLUME TIMBER HARVESTS AT A SUSTAINABLE LEVEL, AND HIGH VALUE-ADDED PROCESSING. WE SHOULD CUT FEWER TREES AND DO MORE WITH THEM, TO MAXIMIZE THE INCOME FOR EVERY TREE REMOVED FROM OUR FOREST.

I OPPOSE THE RESOLUTION ENDORSING A 15-YEAR CONTRACT EXTENSION FOR KPC.

RICHARD NELSON  
Box 2808  
SITKA, ALASKA 99835

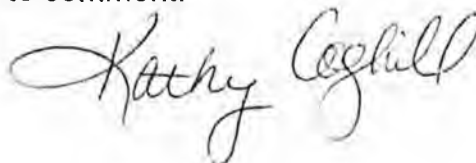
Apr 3, 1996

Good afternoon, and thank you for this opportunity to speak. My name is Kathy Coghill and I am here today on behalf of the Juneau Chapter of the National Audubon Society to present our position on the proposal to extend Ketchikan Pulp Company's long term contract for another 15 years. Although we support the presence of a timber industry in southeast Alaska, we are opposed to this proposal for the following reasons.

1. We are no longer living under the same conditions which lead to signing the original contract in 1954. Our economy here is healthy and growing as we head into the 21st century.
2. Extending the contract is not a good way to create or preserve jobs. If more jobs are desired, the emphasis should focus on creating a better environment for small timber contractors, and fostering value-added operations. Extending special favors to KPC will only hinder any positive movement in this direction.
3. The Tongass National Forest will release its latest revision of the Tongass Land Management Plan within the next month. As a part of this process, a panel of fishery experts were asked to evaluate the impacts of the alternative plans, on the health and productivity of salmon. Their consistent response was that roads are a serious cause of damage to fish habitat, and that as more miles of road are constructed, the danger to fish increases. We didn't know this 40 years ago. We do know it now. How can we continue to operate as if roads are inherently good and award KPC credits for creating them? Over the last 40 years we have learned that logging roads are more of a burden than an asset. If anything, KPC should be paying a penalty for building roads that damage fishermen's livelihoods and cost the Forest Service millions of dollars to maintain.
4. The timber industry is heavily subsidized in southeast Alaska, and the Federal government can no longer afford this expense, particularly when you consider that we pay three times for this subsidy. First we pay with road credits, virtually giving away the trees in exchange for new roads. Then we pay in lost opportunity for tourism, fishing, subsistence, and recreation. Finally we pay for restoration when the logging roads get old and begin to fail.
5. KPC has not been a good corporate neighbor. In 1995 KPC pled guilty to 14 criminal violations for intentionally polluting the waters of southeast Alaska.

In closing, I want to re-emphasize that times have changed since 1954, and the sweetheart deal that KPC has been enjoying since then is no longer appropriate. In addition, KPC has repeatedly proven itself irresponsible, negligent, and particularly unworthy of special favors. Extending the 50 year timber contract with KPC is not in the best interest of Alaskans, and in fact it would do them a great disservice.

Thank you for the opportunity to comment.



Why is more value  
placed on timber jobs?

APR 11 5, 11 16

Bill Williams

House Resources Committee

Dear Mr. Williams:

I oppose the resolution endorsing an extension of the KPC long term contract. KPC has irresponsibly polluted the air and water in Southeast Alaska. Their terrible record for pollution is a good reason to deny ~~an~~<sup>an</sup> extension of their contract. Furthermore the high volume monopolist timber cutting practices ~~of~~ done to support the mill are archaic and harmful to the long term health of Southeast Alaska.

Thank you for your time.

Roger Schmidt

Box 1110

Sitka, AK 99834

To whom it may concern,

This letter is in regards to the extension of Ketchikan Pulp Corporation's (KPC) contract. I am strongly opposed to this 15 year extension. If anything the present contract should be canceled because of KPC's long history of polluting the environment and antitrust violations. In addition, KPC's request for 420 million board feet is grossly excessive. I will specifically categorize my objections as follows:

1) The request for 420 million board feet makes a joke of the soon-to-be released Tongass Land Management Plan-Revision (TLMP-R). The TLMP-R has been several years in the making and has cost millions of dollars. TLMP-R uses the best available science to determine how much wood should be cut from the Tongass per year, and at the same time protect the multiple uses of the Tongass as well as wildlife. The resolution to extend KPC's contract undermines the several years of incredibly hard work undertaken by the interdisciplinary TLMP-R team. This is just one of many examples of political pressure exerted on the TLMP-R process. This political pressure is immoral and unethical. God only hopes that it doesn't influence the decisions made by the TLMP-R team, decisions that are based on sound science. The timber-first mentality is illegal and has to stop.

2) KPC has been found guilty of monopolistic practices. In its history KPC and Alaska Pulp Corporation (APC) drove over 100 small independent timber contractors out of business, and they were convicted for this. The Forest Service estimates the price-fixing and cohesive bidding of KPC and APC cost the federal government 60 to 80 million dollars. This resolution just continues KPC's legacy of monopolistic practices. KPC instead needs a transition plan to convert it to a high-value added facility that produces many more jobs per log cut. KPC's consumption of wood has to be greatly reduced so other Southeast communities have the opportunity to have high-value added facilities. Only 14 percent of the Nation's wood-products needs come from our National Forests. The Nation can meet domestic wood-product needs (and those of other countries) without cutting at all in our National Forests by simple recycling, increased efficiency, nonwood products, regulations to decrease excessive packaging of consumer products, etc.. It is past time the Nation enacted such measures if this Nation is to be considered a leader in responsible stewardship of Mother Earth. The Tongass, and its people, do not need KPC, but KPC needs the Tongass.

3) KPC is ranked by EPA as the worst polluter of water in the Pacific Northwest. KPC has a 40 year history of polluting Southeast Alaska's air and water. As recently as 1995 KPC was fined \$6 million for hundreds of clean water and clean air violations. KPC currently operates in violation of air and water quality permits. Ward Cove, where KPC operates has been converted from a vibrant ecosystem to a toxic waste dump. These are just a few examples of irresponsible stewardship of Mother Earth.

4) KPC has constantly threatened to go out of business if they didn't get the timber they want, at the price they want, and if they weren't allowed to pollute in excess of state and federal standards. In effect, time has proven that KPC was crying wolf to gain unfair concessions. Enough is enough!

5) KPC blamed the Forest Service not supplying timber for the closing of the Ward Cove sawmill. This decision was a cold-hearted economic decision. KPC fails to mention that while pulp prices doubled in 1994, the average market price for saw timber dropped by 33 percent. This is why KPC closed the Ward Cove sawmill. KPC uses lies and propaganda to get its way just as the Senate Joint Resolution to extend KPC's contract by 15 years is a piece of propaganda.

*Caroline Davis*  
*Nick Goodwin*

Nick Goodwin and Caroline Davis  
PO Box 2552  
Sitka, AK 99835  
(907) 747-8073

House Resource Committee

Testimony for Contract Extension

April 3, 1996

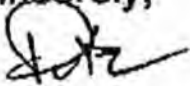
To Whom It May Concern:

I have worked for Ketchikan Pulp Co. (KPC) since 1969. During this time I have seen and have been personally involved with the installation of new equipment and the operational changes designed to minimize any adverse effects on the environment.

Now KPC is committing to spend millions of dollars to comply with further environmental regulations.

It only seems appropriate that if KPC is going to make this type of long-term commitment to protect the environment, the Federal Government should be willing to make a commitment to extend KPC's long-term timber contract.

Sincerely,



J. A. "Pete" Raitanen

/lat

cc: Governor Tony Knowles  
Representative William Williams  
Senator Robin Taylor

4/3/96

Bill Williams

House Resources Committee

Dear Mr. Williams:

I oppose the resolution supporting an extension of the Ketchikan Pulp Corporation. KPC has an abysmal pollution record. Sitka's mill shut down hasn't been a cataclysmic event for Sitka's economy. I don't support monopolized timber + believe that timber should be harvested at a sustainable level. Please vote against the resolution. Thanks.

Laura Schmidt  
2332 SMC  
Sitka, AK 99835

April 2, 1996

Bill Williams, Co-chair  
House Resources Committee

House Joint Resolution 64 endorses a 15 year extension for the Ketchikan Pulp Corporation (KPC) timber contract.

Now why would Alaskans be considering a contract renewal for convicted felons cited for dumping toxic sludge into the waters of their community?

The Environmental Protection Agency's Toxic Release Inventory for 1991 and 1992 ranks Louisiana-Pacific's Ketchikan pulp mill as *the number one toxic water polluter in the entire Pacific Northwest*. In 1993, the most recent report completed, the KPC mill was ranked second. This does not sound like a neighbor whose residency health-valuing people would want to prolong.

In 1995, KPC pled guilty to 14 criminal violations for intentionally polluting the waters of Southeast Alaska. The U.S. Government alleged hundreds of federal clean-water and clean-air violations in a civil case. In addition to KPC's criminal and civil violations, the Alaska Department of Environmental Conservation (ADEC) has reported hundreds of additional violations. In May 1995 ADEC acknowledged that the KPC mill's air pollution may represent a "high human health risk" to local residents, cited the company for permit violations and refused to renew a key permit.

Hasn't anyone listened? Despite consistent violations of air and water quality permits designed to protect public health from harmful discharge of pollutants, KPC has continued to operate, and now seeks a minimum 15-year extension of these practices.

It is the ultimate in absurdity for KPC to claim the need for a contract extension so it can afford to spend the \$150 million needed for pollution-prevention upgrades while posing the extension as critical to environmental well-being. The language of the Resolution (SJR 40) states: "Be It Resolved...such an extension is critical to the *environmental*, social and economic well-being of the Tongass National Forest timber workers, their families and timber-dependent communities in Southeast Alaska..." [emphasis added]. There is nothing about the continued existence of the KPC mill that is beneficial to the *environmental well-being* of anyone. Nor are the communities claimed to be timber-dependent definitively so, as has been exemplified in Sitka, Wrangell and others. The Resolution focuses exclusively on the well-being of timber workers while denying well-being of the many Alaskans whose livelihood depends on fisheries, wildlife, subsistence, scenic and recreational uses, whose health is in direct conflict with the operating practices imposed by the KPC mill over the last 40 years.

Instead of a pulp contract extension, conversion of the KPC mill to a high value-added facility should be explored, providing more jobs for each tree cut from the forest.

I say an emphatic NO to any extension of the Ketchikan Pulp Corporation contract, and to the Resolution which endorses it, including it's inappropriate proposal for 420mmbf of timber made available in the TLMP revision.

ANITA LANGE  
PO Box 6307  
Sitka, ALASKA  
99835

April 2, 1996

Representative William K. Williams (Saxman)  
Alaska State Legislature  
Fax 907-465-3793

Representative Williams:

The timber issue for Ketchikan, Metlakatla and Prince of Wales Island is paramount to its citizens. How can healthy economies continue for our communities when faced with such immediate economic peril? How can we maintain our positive attitudes towards investing, living and raising families in these communities when such a large component of our economy remains unsure?

I urge you to support KPC's contract extension with the federal government. Your actions to further this contract will reassure your district of your commitment to our communities. It is all too easy for those with very little history and even less duty to our area to oppose any resolution extending KPC's contract. It will be equally as convenient for them to leave our area when job availability becomes scarce and our communities begin to suffer.

I invite you to be an advocate for continued stability to our region and support the contract extension. Thank you for your time and your continued hard work and attention to this issue.

Yours in earnest,

*- Bill*

Bill Bolling  
3828 Evergreen Avenue  
Ketchikan, AK 99901

**BRUCE H. BAKER**

P.O. Box 211384  
Auke Bay, Alaska 99821-1384  
(907) 789-9354

April 2, 1996

Representative Bill Williams  
Alaska House of Representatives  
Alaska State Capitol  
Juneau, Alaska 99801  
Fax: 465-3793

Dear Representative Williams:

**Please make this letter a part of the record for the House Resource Committee's April 2 & 3 hearing on House Joint Resolution 64, which endorses a 15-year extension of Ketchikan Pulp Company's long-term contract with the U.S. Forest Service.**

**I strongly recommend that members of the Alaska House of Representatives vote against this resolution.**

I understand that KPC has (1) repeatedly been ranked by the federal Environmental Protection Agency as one of the worst water polluters in the entire Pacific Northwest, (2) pled guilty in 1995 to 14 criminal violations for intentionally polluting the waters of southeast Alaska, (3) been guilty over the past 40 years of air pollution violations, and (4) been convicted of price fixing, collusive bidding, and forcing independent timber companies out of business.

This being the case, a vote in favor of HJR 64 is an endorsement of criminal behavior, civil violations, and monopolistic anti-trust violations - corporate behavior that is unlawful, unethical, and counter to the basic values that many of us subscribe to.

Instead of a KPC contract extension, southeast Alaskans need a transition from today's highly extractive logging and milling practices to a regional timber industry that:

1. provides sustainable timber harvest that is more compatible with the protection of fish and wildlife habitats and human use of fish and wildlife populations,
2. provides sustainable employment within the region,
3. provides for the processing and manufacturing of value-added wood products,
4. provides for efficient wood fiber utilization so that a maximum number of local jobs are created by each log cut,

5. includes re-opening of the chipping plant in Wrangell.
6. includes conversion of the existing pulp mill facility to a high-value added sawmill operation with a smaller facility to handle truly low-quality wood,
7. includes conversion of KPC's contract volume to an annual harvest of 50 million board feet of timber that would be sold to independent timber operators.

I encourage you and your fellow legislators to vote against HJR 64 and to instead craft a resolution that embraces these seven principles.

Thank you for the opportunity to provide hearing comments.

Sincerely,



Copy: Governor Tony Knowles (Fax: 465-3532)

04/04/96

08:57:23

TCN: 60646

DATE & TIME: 04/02/96 16:00 TO 19:00 STATUS:6 ADJOURNED

\*\*\*\* ORDER SUMMARY \*\*\*\*

SPONSOR: HRES HOUSE RESOURCES CHAIRS: GREEN  
 PURPOSE: PUB PUBLIC HEARING LEGISLATIVE WILLIAMS  
 CONTACT: PETER EKLUND TEL#: (907)465-3424  
 CHAIRING SITE: JUNEAU CAPITOL CAP124  
 TOLL FREE: (800)478-7612 DIAL-UP: LIO:(800)478-9908

SPONSOR REMARKS(PUB): TESTIMONY:I INVITATION ONLY 15 MINUTE LIMIT  
 SEE COMMITTEE SCHEDULE IN BASIS  
 TESTIMONY WILL BE BY INVITATION ONLY.

SPONSOR REMARKS(LIO): BACKUP MATERIAL:Y MEETING IN PROGRESS:N MAX. SITES:15  
 OTHER SITES MAY ADD THRU THE JNU LIO.  
 BACK-UP = SIT BACKUP SENT DURING TC  
 TCN REQUESTED ON 04/02/96 AND HAS 4 UPDATES

\*\*\*\* AGENDA \*\*\*\*

1 HJR 64 EXTENSION OF KETCHIKAN PULP CO. CONTRACT

\*\*\*\* PARTICIPATING LIOS \*\*\*\*

* JNU JUNEAU	CAPITOL	CAP124	LOCATION STAFF
KTN KETCHIKAN	352 FRONT STREET		LOCATION STAFF
SIT SITKA	210 LAKE STREET		LOCATION STAFF

\*\*\*\* VOLUNTEER & OFFNET SITES \*\*\*\*

PSG WRG WRANGELL LTC	LONGSHOREMEN'S	MABEL FENNIMORE	(907)874-3013
SIT COF COFFMAN COVE	UNDETERMINED	PAT ROWLAND	(907)329-2216
SIT CRA CRAIG	CITY HALL	VICKIE HAMILTON	(907)826-3277
SIT TNB THORNE BAY	CITY HALL	GINNY TIERNEY	(907)828-3380
ZZZ OF1 OFFNET 1	ANCHORAGE	TINA LINDGREN	(907)561-5733
ZZZ OF2 OFFNET 2	ANCHORAGE	STEVE KALLICK	(907)274-7246
ZZZ OF3 OFFNET 3	METLAKATLA	SOL ATKINSON	(907)886-4441

PARTICIPANTS IN:JUNEAU

JNU

1 REP	B	WILLIAMS		TSFY. HJR 64
			AK	(907)000-0000
2 REP	J	GREEN		TSFY. HJR 64
			AK	(907)000-0000
3 REP	S	OGAN		TSFY. HJR 64
			AK	(907)000-0000
4 REP	P	KOTT		TSFY. HJR 64
			AK	(907)000-0000
5 REP	J	DAVIES		TSFY. HJR 64
			AK	(907)000-0000
6 REP	E	MACLEAN		TSFY. HJR 64
			AK	(907)000-0000

PARTICIPANTS IN:KETCHIKAN

KTN

1 MR.	JIM	CARLTON	KTN. BOR. MAYOR UNABL	HJR 64
	344 FRONT ST.		KETCHIKAN	AK 99901 (907)228-6605
2 MR.	DICK	COOSE	KTN. CHAMBER COM	TSFY. HJR 64
	PO BOX 5957		KETCHIKAN	AK 99901 (907)225-3184
3 MR.	BILL	MORAN	FIRST BANK	TSFY. HJR 64
	PO BOX 7920		KETCHIKAN	AK 99901 (907)228-4202

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HJR 64

Title: "Relating to extension of the United States Forest Service timber sale contract with the Ketchikan Pulp Company."

Dept. Affected \_\_\_\_\_  
BRU: \_\_\_\_\_

Sponsor: HOUSE RESOURCES COMMITTEE  
Requestor: HOUSE RESOURCES COMMITTEE

Components: \_\_\_\_\_  
Serial # \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	00	00	00	00	00	00

CAPITAL	00	00	00	00	00	00
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REVENUE	00	00	00	00	00	00
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**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	00	00	00	00	00	00

**POSITIONS:**

Full-Time						
Part-Time						
Temporary						

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

see attached analysis

Prepared by: HOUSE RESOURCES COMMITTEE  
Representative William K. Williams

*W.K. Williams*

Date: April 1, 1996

Phone: 465-3715

Phone:

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

04/04/96

08:57:23

TCN: 60646

DATE & TIME: 04/02/96 16:00 TO 19:00 STATUS:6 ADJOURNED

\*\*\*\* ORDER SUMMARY \*\*\*\*

SPONSOR: HRES HOUSE RESOURCES

CHAIRS: GREEN

PURPOSE: PUB PUBLIC HEARING

LEGISLATIVE

WILLIAMS

CONTACT: PETER EKLUND

TEL#: (907)465-3424

CHAIRING SITE: JUNEAU

CAPITOL

CAP124

TOLL FREE: (800)478-7612

DIAL-UP:

LIO: (800)478-9908

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SEE COMMITTEE SCHEDULE IN BASIS

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OTHER SITES MAY ADD THRU THE JNU LIO.

BACK-UP = SIT BACKUP SENT DURING TC

TCN REQUESTED ON 04/02/96 AND HAS 4 UPDATES

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- 1 HJR 64 EXTENSION OF KETCHIKAN PULP CO. CONTRACT

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SIT CRA CRAIG	CITY HALL	VICKIE HAMILTON	(907)826-3277
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			AK (907)000-0000
6 REP	E	MACLEAN	TSFY. HJR 64
			AK (907)000-0000

PARTICIPANTS IN:KETCHIKAN

KTN

1 MR.	JIM	CARLTON	KTN. BOR. MAYOR UNABL HJR 64
		344 FRONT ST.	KETCHIKAN AK 99901 (907)228-6605
2 MR.	DICK	COOSE	KTN. CHAMBER COM TSFY. HJR 64
		PO BOX 5957	KETCHIKAN AK 99901 (907)225-3184
3 MR.	BILL	MORAN	FIRST BANK TSFY. HJR 64
		PO BOX 7920	KETCHIKAN AK 99901 (907)228-4202

Kalleck

Alaska Rain 375 Campaign  
1016 W 6th Ave  
Anchorage 99501

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HJR 64

Title: "Relating to extension of the United States  
Forest Service timber sale contract with the  
Ketchikan Pulp Company."

Sponsor: HOUSE RESOURCES COMMITTEE

Requestor: HOUSE RESOURCES COMMITTEE

Dept. Affected \_\_\_\_\_  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_  
Serial # \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

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Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	00	00	00	00	00	00

CAPITAL	00	00	00	00	00	00
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REVENUE	00	00	00	00	00	00
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**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	00	00	00	00	00	00

**POSITIONS:**

Full-Time						
Part-Time						
Temporary						

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

see attached analysis

Prepared by: HOUSE RESOURCES COMMITTEE  
Representative William K. Williams

*W.K. Williams*

Date: April 1, 1996

Phone: 465-3715

Phone: \_\_\_\_\_

# Alaska State Legislature



Representative William K. Williams

## Committees:

House Resources  
Co-Chairman  
World Trade &  
State Federal Relations  
Transportation  
Rules  
Oil & Gas

*During Session:*  
State Capitol  
Juneau, AK 99801-1182  
(907) 465-3424  
Fax (907) 465-3793

*In Ketchikan:*  
352 Front Street  
Ketchikan, AK 99901  
(907) 247-4672  
Fax (907) 225-8546

## SPONSOR STATEMENT

### **HJR 64 - Relating to extension of the United States Forest Service timber sale contract with the Ketchikan Pulp Company.**

The Majorities in the Alaska Legislature have called upon the Governor to work with the Legislature and the Alaska Congressional Delegation to resolve Tongass issues. Our goals very simply are, at a minimum, to maintain the existing industry and to require the Forest Service to provide sufficient volume to allow the industry to grow back to the level contemplated in the 1990 Tongass Timber Reform Act (TTRA) compromise.

This resolution to extend the Ketchikan Pulp Company (KPC) contract is critical to maintaining the existing industry. In order to meet various environmental and related requirements, KPC will have to make major capital expenditures. No company can justify this level of capital expenditure to investors without showing that it has the ability to pay off the investment.

In this case, investors quite reasonably need confidence that there will be sufficient timber made available. Given the Forest Service's continuing failure to provide adequate volume, only a contractual commitment will provide the necessary investor assurance of sufficient timber. Thus, it is clear that an extension of KPC's long term contract is necessary.

It is particularly important here to understand that the federal government plays two roles. It is the monopoly holder of the timber supply needed to maintain KPC and the timber industry in Southeast. It also sets the environmental requirements for permits without which these plants, including the KPC pulp mill, cannot operate.

Because of these competing roles, the federal government has a special obligation in this case to provide a sufficient guaranteed timber supply to KPC by contract to justify the expenditure of millions of dollars which the federal government is requiring KPC to invest to keep operating. If there were other sources of supply, maybe the situation would be different, but there is not. When the supplier also sets the regulatory standards, as the federal government does here, it has a special obligation to the public to coordinate its policies. It can do that here by extending the contract.

Louisiana Pacific has made it clear that unless a contract extension begins taking shape this year, it will face extensive uncertainty inconsistent with making a significant portion of the required capital expenditures.

We, as Alaskans, really need to think about what it would mean if we had no pulp mill in Southeast Alaska. Since the 1920s, the Forest Service recognized the need for pulp mills in order for there to be any industry in Southeast Alaska. The sawmills cannot buy timber sales unless they have a means of disposing of the pulp logs and the high product chips from sawmilling operations.

In other words, if the pulp mills go, the sawmills go too.

The impact on Southeast Alaska will be devastating. On a Southeast area wide basis, we will lose the stumpage receipts program which has poured millions of dollars into our school and road system throughout Southeast Alaska for many, many years.

In addition, there will be a cataclysmic impact on the City and Borough of Ketchikan with the loss of its largest employer. This will affect countless others throughout the region who are suppliers and contractors to KPC.

We have a robust, healthy environment which has 6.9 million acres which will never be harvested. When one considers that only one-tenth of one percent of the Tongass would be logged at the 450 million board feet per year basis and even less under current circumstances, granting this contract extension will not jeopardize the other users of the Tongass. It is our economy that is fragile and this resolution is designated to protect our economy. That is why the Legislature, the Governor and the Congressional Delegation need to act together to get this contract extended. The purpose of House Joint Resolution 64 is to show the support of the Alaska Legislature for this proposition.

# Alaska State Legislature



Representative William K. Williams

During Session:  
State Capitol  
Juneau, AK 99801-1182  
(907) 465-3424  
Fax (907) 465-3793

In Ketchikan:  
352 Front Street  
Ketchikan, AK 99901  
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Committees:  
House Resources  
Co-Chairman  
World Trade &  
State Federal Relations  
Transportation  
Rules  
Oil & Gas

## SPONSOR STATEMENT

### **HJR 64 - Relating to extension of the United States Forest Service timber sale contract with the Ketchikan Pulp Company.**

The Majorities in the Alaska Legislature have called upon the Governor to work with the Legislature and the Alaska Congressional Delegation to resolve Tongass issues. Our goals very simply are, at a minimum, to maintain the existing industry and to require the Forest Service to provide sufficient volume to allow the industry to grow back to the level contemplated in the 1990 Tongass Timber Reform Act (TTRA) compromise.

This resolution to extend the Ketchikan Pulp Company (KPC) contract is critical to maintaining the existing industry. In order to meet various environmental and related requirements, KPC will have to make major capital expenditures. No company can justify to investors the level of capital expenditure which KPC requires without showing its investors that it has access to the raw materials it needs to process to pay back the investment.

In this case, investors quite reasonably need confidence that there will be sufficient timber made available. Given the Forest Service's continuing failure to provide adequate volume to the industry, only a contractual commitment will provide the necessary investor assurance of sufficient timber. Thus, it is clear that an extension of KPC's long term contract is necessary for financing purposes.

In addition, KPC's contract economics need to be restored from the unfortunate unilateral changes made in the TTRA. Alaska Pulp Corporation (APC) cited these changes as a significant factor in its decision to close. The need to restore the contract economics is as vital as the extension.

It is particularly important here to understand that the federal government plays two roles. It is the monopoly holder of the timber supply needed to maintain KPC and the timber industry in Southeast. It also sets the requirements for many of the permits without which these plants, including the KPC pulp mill, cannot operate.

Because of these competing roles, the federal government has a special obligation in this case to provide a sufficient guaranteed timber supply to KPC by contract to justify the expenditure of millions of dollars which federal legislation is requiring KPC to invest to keep operating. If there were other sources of supply, maybe the situation would be different, but there are not. When the supplier also sets the regulatory standards, as the federal government does here, it has a special obligation to the public to coordinate its policies. It can do that here by extending and modifying the contract.

Louisiana Pacific has made it clear that unless a contract extension and modification process begins taking shape this year, it will face extensive uncertainty inconsistent with making a significant portion of the required capital expenditures.

We, as Alaskans, really need to think about what it would mean if we had no pulp mill in Southeast Alaska. Since the 1920s, the Forest Service has recognized the need for pulp mills as the cornerstone of a timber industry in Southeast Alaska. The sawmills cannot buy timber sales unless they have a means of disposing of the pulp logs and the high product chips from sawmilling operations. The pulp mill converts low value material into high value material. Indeed, it is the most significant example of ongoing value added processing in the timber industry in Alaska. While the sawmills could arguably chip up pulp logs and send those chips along with by-product chips from their sawmill operation to the Lower 48, it would be more expensive and involve more risk. Higher Alaska logging costs and transportation costs would make Alaskan chips more expensive and thus, less competitive in Lower 48 markets. It is riskier because of the uncertainty of being able to sell into the Lower 48 market. In other words, if the last pulp mill goes out of business, the sawmills will be under much greater financial pressure.

The impact on the economy in Southeast Alaska of losing the timber industry will be devastating. On a Southeast area wide basis, we will lose the stumpage receipts program which has poured millions of dollars into our school and road system throughout Southeast Alaska for many, many years.

In addition, there will be a cataclysmic impact on the City and Borough of Ketchikan with the loss of its largest employer. This will affect countless others throughout the region who are suppliers and contractors to KPC.

In addition, it must be remembered that the pulp mill is a major contributor to forest health and good conservation by serving as a processor of over-mature timber and chips which are a by-product of sawmilling operations.

We have a robust, healthy National Forest which has 8.3 million forested acres which will never be harvested. Of the 1.7 million acres in the timber base, only 400,000 acres have been harvested since the turn of the century. Thus, the Forest Service should make 420 million board feet per year available as promised by the TTRA and as proposed in the February 1993 Tongass Land Management Plan (TLMP) Record of Decision (ROD). As ex-Regional Foresters Sandor and Barton testified last year at Wrangell at Senator Murkowski's hearing, this is a sustainable, allowable sale quantity consistent with sound fish and wildlife protection. Granting this contract extension would not jeopardize the other users of the Tongass and there would be sufficient timber for small businesses and independent operators.

For the foregoing reasons, the Legislature, the Governor and the Congressional Delegation need to act together to get this contract extended. The purpose of House Joint Resolution 64 is to show the support of the Alaska Legislature for this proposition.



# Alaska State Legislature

## HOUSE RESOURCES COMMITTEE

State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-3715

### HOUSE RESOURCES COMMITTEE MEETING

April 2, 1996

#### Invited Speakers

##### Ketchikan Pulp Company

- ✓ Ralph Lewis
- ✓ Ernesta Ballard
- ✓ Kent Nicholson

} 25 minutes

##### Southern Southeast Mayors

- ✓ Jim Carlton, Ketchikan Borough Mayor

- 5 minutes

##### Administration

- ✓ Diane Mayer, Director, Office of Management and Budget

- 5 minutes

##### Economic Impacts

- ✓ John Anttonen, SERCC, Timber receipts and education
- ✓ Dick Coose, Ketchikan Chamber
- ✓ Bill Moran, 1st Bank
- ✓ Bill Brock, McDowell Group, regional impacts

} 20 minutes

##### Environmental

- ✓ Steve Kallick, Campaign Director, Alaska Rainforest Campaign
- ✓ Kelly Nollen, Attorney, Sierra Club Legal Defense Fund
- ✓ Wayne Weihing, President, Tongass Conservation Society
- ✓ John Sisk, former director, SEACC

} 20 minutes

##### Independent Operators

- ✓ Brian Brown, Silver Bay Logging
- ✓ Jack Phelps, Executive Director, Alaska Forest Association
- ✓ Kathy Lietz, Black Bear Cedar Products
- ✓ Kirk Dahlstrom, Viking Lumber Company
- Steve Seley, Seaborne Lumber

} 20 minutes

*Let us in early...*

*public relations*

*Wing... [unclear]*

*20 minutes*

*20 minutes*

*20 minutes*

*✓*

*(Silver Bay)*

*6:30 minutes*

**Alaska Visitors Association**

- ✓ Tina Lindgren, Executive Director, Alaska Visitors Association - *5 minutes*

**Southern Southeast Mayors**

- ✓ Alaire Stanton, (Kate Tesar will read statement)
  - ✓ Sol Atkinson, Metlakatla Council
  - ✓ Jeff Meucci, Petersburg Mayor
  - ✓ Doug Roberts, Wrangell Mayor
  - Elaine Price, Coffman Cove Mayor
  - ✓ Gary Paxton, Sitka City Administrator
- 30 minutes*

*the first  
 2:00  
 2:00 minutes  
 10:00  
 2:00  
 2:00*

9-LS1812C  
Utermohle  
4/2/96

**CS FOR HOUSE JOINT RESOLUTION NO. 64(RES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE RESOURCES COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): HOUSE RESOURCES COMMITTEE**

**A RESOLUTION**

1 **Relating to extension of the United States Forest Service timber sale contract with**  
2 **the Ketchikan Pulp Company.**

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **WHEREAS, for the last 40 years, the timber industry operating on national forest land**  
5 **in Southeast Alaska has been the largest private employer in Southeast Alaska; and**

6 **WHEREAS the United States Forest Service strategy for creating permanent year-**  
7 **round employment through a timber industry in Southeast Alaska has been to offer long-term**  
8 **contracts to attract pulp mills to use, and add value to, low-grade and by-product materials**  
9 **from timber harvesting; these pulp mills serve as a market for pulp logs and chips from the**  
10 **sawmills in Southeast Alaska; and**

11 **WHEREAS pulp mills assure full utilization and protect forest health by using that**  
12 **significant portion of the Tongass National Forest that consists of dead, dying, and over-**  
13 **mature timber; and**

14 **WHEREAS, since passage of the Tongass Timber Reform Act of 1990 (TTRA), a**  
15 **pulp mill and a major sawmill have closed, and more than 40 percent of the timber industry**  
16 **has been lost due, in part, to the failure of the United States Forest Service to make available**

1 the approximately 420,000,000 board feet per year needed to meet the jobs protection  
2 promises made by those who sought passage of the TTRA, all of which has created severe  
3 social and economic harm to the timber industry, its workers, and timber-dependent  
4 communities in Southeast Alaska; and

5 WHEREAS another of the reasons for the closure of the Sitka pulp mill was the  
6 adverse economic impacts of unilateral changes to its long-term contract made by the TTRA,  
7 those unilateral changes also adversely impact the economies of the Ketchikan Pulp Company,  
8 (KPC) contract; and

9 WHEREAS KPC, which obtained a long-term contract to help create year-round jobs  
10 in Southeast Alaska, is the sole remaining pulp mill in Alaska, a major employer in Southeast  
11 Alaska, and the market for pulp logs and chips from all the other sawmills in Southeast  
12 Alaska; and

13 WHEREAS the loss of the KPC pulp mill, <sup>[would cause]</sup> could lead to the loss of the entire industry  
14 now operating on the Tongass National Forest with devastating social and economic effects  
15 on families and communities throughout Southeast Alaska; and

16 WHEREAS the KPC pulp mill faces an uncertain future, not of its own making, as  
17 a result of the continuing log shortage created by the failure of the United States Forest  
18 Service to meet its volume requirements under KPC's contract and the TTRA, <sup>[, the result]</sup> as a result of  
19 the adverse economic impacts to its long-term contract caused by the unilateral TTRA  
20 changes, and as a result of the requirement that more than \$155,000,000 in capital  
21 expenditures be made over the next few years to meet new and ever changing federal  
22 environmental standards and operating needs; and

23 WHEREAS, as a matter of economic common sense, KPC cannot make all the  
24 necessary expenditures without the federal government extending its contract for a sufficient  
25 period to amortize those expenditures, without an adequate supply of timber, and without  
26 modifying those portions of the unilateral TTRA contract changes that have adversely  
27 impacted the contract's economics; and

28 WHEREAS the legislature finds that an additional 15 years is a minimum reasonable  
29 period to extend the KPC's timber sale contract to allow such amortization; and

30 WHEREAS the legislature finds that the 420,000,000 board feet promised by the  
31 TTRA must be made available in order to provide sufficient timber to maintain the KPC

1 contract, to provide for the contracts to small business, and to reopen the Wrangell facility and  
2 a by-product facility in Sitka;

3 **BE IT RESOLVED** that the Alaska State Legislature respectfully urges the Alaska  
4 delegation in Congress and the Governor to take all steps necessary, this year, to extend the  
5 Ketchikan Pulp Company long-term contract for an additional 15 years and modify those  
6 portions of the contract which the TTRA unilaterally impacted, because such an extension and  
7 modification are critical to the environmental, social, and economic well-being of the Tongass  
8 National Forest timber workers, their families, and timber-dependent communities in Southeast  
9 Alaska and because such an extension is in the public interest of the State of Alaska; and be  
10 it

11 **FURTHER RESOLVED** that the Alaska State Legislature also respectfully urges the  
12 Alaska Congressional Delegation, the Governor, and the United States Forest Service to take  
13 action this year to assure that a minimum of 420,000,000 board feet per year is made available  
14 as part of any revision of the Tongass Land-Use Management Plan.

15 **COPIES** of this resolution shall be sent to the Honorable Bill Clinton, President of the  
16 United States; the Honorable Daniel R. Glickman, Secretary of the U.S. Department of  
17 Agriculture; the Honorable Bruce Babbitt, Secretary of the U.S. Department of the Interior;  
18 the Honorable Newt Gingrich, Speaker of the U.S. House of Representatives; the Honorable  
19 Strom Thurmond, President Pro Tempore of the U.S. Senate; and to the Honorable Ted  
20 Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young,  
21 U.S. Representative, members of the Alaska delegation in Congress.



United States  
Department of  
Agriculture

Forest  
Service

Alaska Region

P.O. Box 21628  
Juneau, AK 99802-1628

File Code: 1300/2400  
Date:

Representative William K. Williams  
Co-Chair, House Resources Committee  
State Capitol  
Juneau, Alaska 99801-1182

Dear Representative Williams:

Thank you for your letter of March 28 inviting the Forest Service to comment on HJR 64. This resolution relates to the extension of the United States Forest Service timber sale contract with the Ketchikan Pulp Corporation (KPC).

The content of the proposed resolution includes matters which relate to the subject of current litigation between KPC and the United States. We have otherwise not developed a position with respect to any extension of the KPC contract term, and it would be premature to do so until at least after the completion of the Tongass Land Management Revision. Accordingly, it would not be appropriate for us to comment on the proposed resolution or to appear at the April 2 hearing.

We thank you for the invitation. We will continue to work with you on Tongass National Forest issues.

PHIL JANIK  
Regional Forester

cc:  
Senator Robin Taylor  
Washington Office, Legislative Affairs  
Office of the General Counsel  
Tongass Forest Supervisors



Caring for the Land and Serving People

**TESTIMONY BY**

**Ralph D Lewis  
President  
Ketchikan Pulp Company**

**BEFORE**

**Alaska House Resources Committee**

**CONCERNING**

**The Long-Term Timber Contract Between the United States Forest Service and  
Ketchikan Pulp Company**

**Juneau, Alaska**

**April 2, 1996**

Mr. Chairman and members of the Committee:

Thank you for this opportunity to testify. My name is Ralph D Lewis, and I am the President of Ketchikan Pulp Company (KPC). I have lived in Ketchikan, Alaska, and have been a KPC employee for 30 years. KPC employs over 1000 workers in our timber facilities, our Annette and Ketchikan sawmills, and our Ward Cove pulp mill and administrative offices. These workers produce a number of value-added timber products, including sawn lumber and our high-quality Tongacell dissolving pulp. We are the largest private employer in southeast Alaska.

As a long-time, permanent resident of southeast Alaska, I am sincerely concerned about the economic health of the timber industry and Ketchikan's economic stability. Since 1990, Alaskans have lost over 42 percent of the timber jobs in the Tongass National Forest. The currently robust Ketchikan economy was built, in large part, by KPC employees and long time Ketchikan residents, and a strong KPC is absolutely critical to maintaining the region's economic health. KPC is committed to continuing to provide the well-paying, year-round employment it has supplied for over forty years. To succeed, we need a stable timber supply. We depend on our long-term contract to provide that stability. I come before you today to ask that you give legislative consideration to a 15-year extension of this contract, as well as to modifications necessary to cure the U.S. Forest Service's breach of our current contract.

Accompanying me today are Troy Reinhart, KPC's Employee Affairs and Public Relations Manager, and Owen Graham, KPC's Timber Manager, to assist me in answering any questions you might have.

**Ketchikan, KPC, and the United States Government**

In 1947, when President Truman signed the Tongass Timber Act into law, Ketchikan, Alaska, had streets paved with wooden planks. In the years since the April 29, 1952, *Ketchikan Chronicle* headline read "Pulp Contract Let," Ketchikan has changed a great deal. The vibrant, modern community we live and work in today is the direct result of that initial \$54 million investment that Puget Sound Pulp and Timber and American Viscose Corporation made to build the KPC pulp mill at Ward Cove. This joint venture would not

have made the investment were it not for the long-term contract they signed with the U.S. Forest Service. The contract guaranteed a stable timber supply at sufficient quantities to recoup their investment.

As far back as 1920, the federal managers of the Tongass believed that pulp production represented the best use of southeast Alaska's extensive timber resources. Those forest managers recognized that a high percentage of Tongass timber consisted of overmature and decaying trees, material useful only for pulp. In 1928, the Chief of the U.S. Forest Service stated, "The establishment of new wood-using plants should be fostered energetically, as Alaska is badly in need of more industries."

After the Second World War, the federal government ardently broadened its efforts to attract a timber industry to southeast Alaska, in order to provide stable, high-paying, year-round employment to this economically underdeveloped territory. Despite its abundant resources, southeast Alaska was a land of boom and bust. Before the war, the economy depended on mining and fishing. After the war, fishing was in decline, and the mining base was depleted. In an effort to establish a stable economy and population in America's "Northern Ramparts," the Forest Service offered long-term timber harvest contracts to entice investors to the area. Regional Forester B. Frank Heintzelman wrote that the Forest Service's "timber management policies provide that the timber resources of the Tongass National Forest shall be used for the upbuilding and the support of permanent, modern communities throughout Southeastern Alaska."

In 1948, in response to this federal effort, Puget Sound Pulp and Timber incorporated Ketchikan Pulp and Paper Company, which submitted a bid to the Forest Service. The government accepted the bid. Under its terms, the Forest Service would provide a 50-year timber contract, and Ketchikan Pulp and Paper would be obligated to build a pulp mill at Ward Cove. In 1951, Ketchikan Pulp and Paper Company became Ketchikan Pulp Company, a joint venture between PSPT and American Viscose Corporation, and financing proceeded for the construction of a mill to produce dissolving pulp.

This was a risky venture, one embarked upon only because of the guarantees inherent in a long-term contract. The federal government requires primary domestic manufacturing of all but a very small part of the timber we harvest. Because of this, in order to support the financing necessary to build a pulp mill in an isolated region separated from the nearest state by 600 miles of foreign border, the Forest Service promised to supply KPC 8 1/4 billion board feet of timber over the 50-year term. Construction began in May 1952; logging began on Prince of Wales Island in July 1953; and the mill dedication took place on July 14, 1954. After 30 years of a concerted federal effort and a \$54 million private investment, the modern Ketchikan economy began.

KPC has met its end of the bargain with the federal government to provide a stable job base for the Ketchikan area. I testify before you today to ask you to ensure that the government meets its part of the bargain, and makes available the timber supply necessary for us to continue to provide the employment which is the cornerstone of our economy.

### **KPC Products and the Ketchikan Economy**

In the years since the pulp mill began operating, KPC has expanded its job base by operating sawmills in addition to the pulp operation. Sawmills allow better use of the

resource by recovering high-quality logs for uses other than pulp. KPC currently operates two sawmills, Ketchikan Sawmill (KSM) at Ward Cove, and Annette Hemlock Mill (AHM) on Annette Island, which we run pursuant to a lease with the Metlakatla Indian Community. Assuming an adequate supply of raw materials, the sawmills have the capacity to process 130 million board feet of lumber annually. Both mills could run three-shift operations, if they had an adequate timber supply.

AHM produces large-diameter, rough-sawn spruce and hemlock cants and flitches which are sold and subsequently processed to form such items as decorative doors, window frames, staircases, and piano sound boards. KSM is a high speed log merchandizing facility which manufactures logs of smaller diameters which are typically processed into high-quality, metric-dimension, planed lumber products. Approximately 90 percent of KSM sawn products enter the worldwide structural lumber market as finished merchandise. The balance of the sawn material from KSM is used for tight-grain cut stock or studs, sold in domestic markets. The sawmills also chip low-grade logs for use at the pulp mill which allows for recovery of lumber grade material which would not otherwise be possible.

Throughout its history, the primary product of KPC's pulp mill has been ultra-pure dissolving sulfite "Tongacell" pulp, produced principally from hemlock fiber. Our customers process "Tongacell" into viscose and cellulose for use in the manufacture of a variety of products including rayon fabric, carpets, draperies, sponges, cellophane packaging, pharmaceutical goods, food additives, rope, brush and broom bristles, insulation, cosmetic products, rayon cord tires, paint, and furniture lacquers.

The pulp mill has an annual production capacity of over 190,000 tons of 90-plus percent pure cellulose pulp. Our pulp is sold both domestically and to foreign buyers. Our foreign sales go to 32 countries. China accounts for 25 percent of foreign sales, Taiwan for 21 percent, Indonesia 19 percent, Europe 15 percent, and Japan accounts for 12 percent of this international trade. Eight percent of KPC's production is sold to the domestic market. KPC is one of only eight stable suppliers of dissolving pulp worldwide.

When the Forest Service provides an adequate supply of raw materials, we employ about 1,000 people to harvest, transport and manufacture these lumber and pulp products. Throughout the Ketchikan-Metlakatla-Prince of Wales area of southeast Alaska, our pulp, sawmill, and timber operations directly support the employment of an additional 1,500 people outside our company: contract loggers, road builders, longshoremen, and tugboat operators, among others. Overall, approximately 25 percent of the region's payroll is involved, directly or indirectly, with KPC operations. A 1994 study by the Ketchikan Gateway Borough government determined that KPC "generates more than 38 percent of total employment in southeast Alaska." The bulk of the service and support industry depends on KPC's continued viability.

In 1995, the average full-time KPC employee earned approximately \$45,000 in wages, not including benefits. In that year, KPC paid wages totaling over \$40,000,000, again, not including benefits. We have enjoyed a very stable work force, with the average duration of an individual's employment being close to ten years. We hire over 90 percent of our employees locally, and the KPC work force reflects southeast Alaska's population diversity. Approximately one-third of our employees are Alaska Natives.

KPC puts more than \$5,000,000 monthly into the Ketchikan-Metlakatla-Prince of Wales economy. Our operations are the cornerstone of southeast Alaska's timber industry

in general, providing an assured outlet for residual chips and pulp-grade logs from independent sawmill and logging operations, when those companies themselves have sufficient timber to operate.

KPC's manufacturing operations are as essential to southeast Alaska's economy today as they were in the 1950s. Again, we have fulfilled our end of the bargain we made with the Forest Service to provide year-round employment and bring prosperity to the Ketchikan area. KPC is the foundation of our local economy. If KPC collapses because of an inadequate timber supply, southern southeast Alaska collapses along with us.

### **Federal Government-Monopoly Timber Supplier**

KPC may be in a unique position in the United States. It is the only operating large wood fibre manufacturing facility totally dependent upon a single federal source for the vast majority of its supply. The USFS is the monopoly provider of timber in the Tongass National Forest. Clearly many of its actions regarding timber supply and contract pricing would have been objectional under federal antitrust laws if the USFS were subject to them.

This statement is made to define one issue: As the only supplier of timber to KPC, the federal government has a special obligation to insure that its actions are consistent with contractual goals of timber supply to KPC. We have no other sources. When the USFS doesn't supply us timber, we rarely can replace that timber with state or private timber. It usually does not exist. For example, the KPC pulp mill would have been shut down 130 days in 1994 and 1995 except for the cannibalizing of timber from the APC operation once it closed. The mill would have been shut down 164 days in 1995 and 1996 were it not for a rare lifting of the export ban on British Columbian timber caused by a labor dispute which could be solved at any time.

This is no way to run a railroad or a pulp mill. At this point, KPC is often reduced to a beggar man role of looking for one time opportunities to replace the timber which the USFS cannot or will not provide to us. We are even reduced to running higher value sawlogs through the pulp mill because the economics of a pulp mill shutdown are so drastic that it is better to lose money on the sawlog value than to shut down the plant. (The federal government/monopoly supplier still gets its full value of the sawlog. The economic hit fall 100% on KPC.)

### **The Preservationists, the Tongass, and KPC's Commitment to the Environment**

When I review some of the recent congressional debate about the Tongass, I am appalled at the rhetoric used to describe our industry. We are accused of "gutting the environment," "ravaging our environmental heritage," "denuding our precious national forests," and "destroying our natural resource legacy." They call us "timber barons." One member of Congress who claims to have been to the Tongass asks if "we are going to continue the decimation of our forests." I can't imagine where he could have set foot in the Tongass and come to that conclusion.

I find this kind of misrepresentation intensely disappointing. I feel compelled to respond and provide you with the facts about the Tongass National Forest and KPC's harvest history. The Tongass National Forest covers almost 17 million acres of southeast Alaska. 9.9 million acres of the Tongass is naturally forested. Of the forested acreage, 8.2 million

acres are permanently set aside in areas where harvest is forbidden. 83 percent of forest land in the Tongass is closed to harvesting. This leaves 1.7 million acres available for harvest under the Forest Service's 150-year harvest plan. In the 42 years since KPC began logging operations in the Tongass, we have harvested fewer than 400,000 acres. Only 3.9 percent of the forested acreage in the Tongass National Forest has been harvested since 1954.

This rate of harvest hardly amounts to "denuding" or "decimation." Over the past decade, the average annual total harvest from the Tongass has been less than 300 million board feet. Compare this to 750 million board feet annually in Arkansas, 1.8 billion board feet in New York, and 4 billion board feet in Texas. The Tongass, in relation, is a huge and virtually untouched resource.

Additionally, we live in an extremely productive forest. The trees in the Tongass regenerate themselves naturally, and rapidly, after harvest. Within 20 to 30 years after an area is harvested, new trees grow in dense stands of up to 20,000 trees per acre. When flying over the forest, it is often nearly impossible to distinguish between previously harvested acreage and adjacent areas that have never been logged.

As for "ravaging our environmental heritage," well, I'm not sure what that means exactly. I am sure that Ketchikan Pulp Company has made a vigorous commitment to environmental quality. From the beginning, KPC has operated under the principle of minimizing its impact on the environment. This standard was established in the initial design of our pulping process. KPC was the first mill in North America built with a pulping system which fully recovers cooking acid chemicals. The industry norm at the time our mill was constructed was simply to discharge spent cooking liquor. KPC's recovery system conformed to a state-of-the-art design for environmental controls in order to meet the pollution prevention requirements of our Timber Sale Agreement with the Forest Service. Since we began processing pulp in 1954, KPC has been a leader in environmental responsibility.

Much has been made of the permit violations which led to our plea agreement last year with the U.S. government. In no way do I intend to understate our responsibility, or minimize the mistakes which led to this business decision of pleading guilty to violating the terms of our discharge permit. But our decision to plead was just that, a business decision, and business decisions must prevail.

The facts of the case bear little resemblance to the rhetoric used by many to describe our actions. In 1990, we discharged wastewater containing recovered solids through an outfall, in violation of our National Pollution Discharge Elimination System (NPDES) permit. On other occasions between 1991 and 1993, without an EPA permit, we mistakenly allowed wastewater to overflow two manholes and go into Ward Cove. Nowhere in the plea agreement does the government allege that we intentionally discharged "toxic sludge," as some of our environmentalist opponents have creatively described the wastewater. Nor does the government show that we caused any actual environmental damage. This entire matter is about permit violations, not environmental harm.

Again, I do not intend to minimize our mistakes. We were wrong, we admitted it, and we are putting in place procedures to ensure the mistakes aren't repeated. The plea agreement notes that we are "conducting an ongoing and comprehensive program to improve the quality of wastewater discharges," and that we "will spend in excess of \$1.75 million" to make these improvements.

In fact, we plan to spend at least \$200 million over the next five years on environmental and operational upgrades, including a transition to producing Elemental Chlorine Free pulp, spill-containment and water-treatment improvements, an outfall extension, and a variety of extensive and costly operational improvements. The bulk of this expenditure will be for environmental improvements.

### Federal Environmental Standards-Costs and Effects

All plants need upgrading. The KPC pulp mill is no exception. The difference here again is that our sole source of regular supply is provided by the regulator as landowner. When the landowner is requiring multimillions in capital costs upgrades, but is not providing you with a supply of your source to run your plant, you have a problem. That is what is happening here.

KPC has recently instituted a program to upgrade and improve its pulp marketing facilities to produce elemental chlorine-free pulp (ECF). This effort is in direct response to the world's increasing desire for chlorine-free products and is the first step in the effort by KPC to develop an entirely chlorine-free pulp process. KPC intends to commence production of elemental chlorine-free pulp (TCF) as the technology becomes available.

Our goal is to be most environmentally sound dissolving sulfide pulp facility in the world. The time is right to do it with technology and upgrade timing merging in the next few years. But we cannot do this without a reliable timber supply. This brings us back to the United States and landowner/timber supplier.

The regulating arm of the United States is enormously efficient prodding KPC to move toward the ECF/TCF goal. We are going there as quickly as possible. However, the timber supply arm of the United States is enormously inefficient (and on a bad day, I would say hostile) in its goal of supplying us the timber necessary to achieve the goal of the regulatory arm.

Because of our precarious supply situation with the United States, it is critical that the timber supply effort catch up to the regulating arm. If KPC had other sources of timber supply, it might be different, but it doesn't.

### Capital Improvements and the TTRA Squeeze

We need to make money in order to make those capital investments necessary to ensure we comply with our environmental responsibilities. Which brings me back to why I'm here. We're in a box. On one side, we have a commitment to one federal agency to spend a tremendous amount of money to make improvements to our facilities. On the other side, we have another federal agency denying us the means to earn that money.

The 1990 Tongass Timber Reform Act (TTRA) drastically affected the long-term agreement which forms the basis for KPC operations. Not only did this legislation further reduce the available commercial timberland base which underpins the Forest Service's long-term volume commitment to KPC, it unilaterally altered a bilaterally agreed-to contract. The operational delivery scheme mandated by the TTRA has resulted in a Forest Service inability

to meet its volume commitment to KPC, as well as irrationally altering the contract's pricing structure.

It costs us a fortune to shut down and restart our pulp mill, which is why we require a steady, certain supply of raw material. Since the passage of the TTRA, the Forest Service has consistently failed to meet its contractual requirement to make timber available in a timely fashion. Delays at every step of the timber-delivery process are now the rule rather than the exception. During calendar year 1993, the Forest Service released only 45 million board feet (mmbf) of new timber to KPC. In calendar year 1994, the Forest Service released 176 mmbf to KPC, but 40 mmbf is still held up by an injunction in a case brought by the Sierra Club. Shortly after the Forest Service canceled Alaska Pulp's contract in April 1994, they presented KPC with a revised timber release schedule. They further revised the KPC release schedule a year later. This is causing major problems for our operations. We have been forced off of our Primary Sale Area, and the planned release volume has been substantially reduced.

New harvest restrictions imposed since 1990 have slowed and disrupted our rate of harvest. It now takes us an additional year (two years total) to build access roads and harvest the timber on a typical timber offering. The pipeline of timber made available has averaged far less than that called for by the contract. As a result of this failure by the Forest Service to meet its contractual obligations, we have experienced a cumulative shortfall of approximately 120 mmbf in recent years, which has resulted in periodic shutdowns of the pulp mill and both sawmills. To make matters worse, these shutdowns have occurred during periods of high market demand for our products, and we were unable to take advantage of the high prices. We have been unable to make up the shortfall through independent Tongass sales or other timber purchases.

Prior to the 1990 TTRA, the Forest Service presented us with specific 5-year timber offerings and with general plans outlining the sources and sites of the timber to be supplied throughout the remaining period of the long-term sale. We were able to formulate rational, efficient operating plans based on a predictable timber supply. Now, the Forest Service provides timber in small individual offerings, revises their offering schedule at least once a year, and consistently fails to meet its own deadlines set forth in the offering schedules. We cannot plan and operate efficiently under this erratic system. We must relocate logging camps and related facilities much more frequently than in the past. These costly, time-consuming moves further delay timber harvest, and greatly increase its cost. This reduces the residual stumpage value available to the government. Worse, many of our employees are no longer able to commute daily to work, but instead must live in remote bunkhouses separated from their families for extended periods.

Some of the most troublesome changes the Forest Service has implemented in response to the TTRA involve unilateral modification of our pricing structure. First, the Forest Service excised from the contract all of the price projections which formed the bargain under which KPC expended enormous sums of money to build its facilities as required by the contract. Again, all predictability and stability is eliminated. Second, the Forest Service instituted a provision requiring a quarterly upward rate adjustment, purportedly based on rates paid on smaller independent timber sales in the Tongass National Forest.

These changes run directly counter to the contract. The government agreed to supply economically viable timber for the contract term. Based on this promise, KPC spent, and continues to spend, vast sums of capital on our facilities. All of our capital investment

decisions rely on this contractual promise. Protections included in the contract (the "Puget Sound" clause and the test for equitable and competitive rates vis-à-vis other long-term pulpwood sales on the Tongass) were important to the original investors, and continue to be important to KPC.

The recent pricing changes not only violate our contract, they are irrational because they compare KPC, with its enormous capital requirements, to small independent operators. To meet its contractual obligations, KPC had to spend tremendous amounts of money to construct a pulp mill. SBA and independent operators have no such obligation. Short-term sale purchasers have the freedom to bid or not bid. KPC has no such flexibility.

The quality of areas offered in long-term and short-term sales also differ significantly. The Forest Service has admitted, in prior congressional testimony, that "short-term sales are generally of better quality, contain a greater proportion of higher-value species, and have less difficult access, camp, and roading requirements." Yet they persist in raising our long-term sale prices based on short-term sale comparisons. The most irritating aspect of this particular contract violation is that when KPC's appraised rates are lower than the comparison rates, KPC's rates are raised. But when KPC's appraised rates are higher than the comparison rates, our rates remain unchanged.

KPC believes that, under well-established and fundamental legal principles, the government is not at liberty to revise its contracts unilaterally. Contracts with the United States are the same as other contracts in that they give rise to private contract rights. The government is liable for breaches of its contracts. That liability will require the government to put KPC in as good a position as if the contract had been performed. This liability exposure is quite large, running into the hundreds of millions of dollars. As a citizen and a taxpayer, I invite your careful consideration of these issues.

Furthermore, with only seven years remaining on the initial term of our contract, we do not have a sufficiently extended timber supply guarantee to recoup the investments we must make to improve our facilities. Nor are we likely to be able to borrow the money necessary to make the investments. Just like any other consumer, KPC must show the bank we can repay our loan within a reasonable amount of time.

A 15-year extension, at the current average annual offering level of 192.5 mmbf per year, should be sufficient for us to meet our capital requirements and allow us to continue to provide economic stability for the Ketchikan area. This extension period is well within industry norms for borrowing the \$200 million we will need. The requirement for an extension was also recognized in the terms of the original contract. On April 14, 1994, then-Regional Forester Michael Barton stated that "the preamble to the contract explicitly states the parties' intent that the government supply timber to support the 'permanent operation of the enterprise which may be established under the terms of the contract.'" The contract, therefore, presupposes a perpetual arrangement between KPC and the Forest Service for timber sales.

#### Socioeconomic Effects

If KPC were forced to close its doors, the average Alaskan would pay a huge social and economic price. This can be observed simply by looking at our sister cities, Wrangell and Sitka.

Wrangell, in barely a year, has seen unemployment rise to 25%+. It would be greater if many workers hadn't left to seek jobs outside Wrangell and probably outside Alaska. The last full service restaurant is closing. Even the bars are closing. Nobody has the money to support these institutions. The town is dying on the vine with nothing to replace timber.

Fishing, long touted as the replacement/competitor for timber is also on the ropes. The processing plant in Pelican has closed after 50 years of operation - no market for its product. The market for Southeast Alaska salmon is fiercely competitive and with so much product around Alaska and the world, no reputable economist would look to fishing to take up any slack for the closure of the KPC mill.

Tourism is growing, but it is a seasonal industry incapable of supporting the \$45,000, year around jobs supplied by KPC. Government, the final large employer in the region, is also being cut. The issue there is how much the cut will effect local communities. There is simply no replacement in Ketchikan for KPC, either short term or long term.

### Conclusion

Over the upcoming eight to fourteen months, KPC and our parent company, Louisiana-Pacific, must make decisions which could alter the economic health of southeast Alaska forever. We must decide whether or not we can afford to make the investment required to keep KPC operational, or whether the uncertainty is so great that we will have to shut down the business that is the economic foundation of southern southeast Alaska.

In order to make the necessary decisions, we require prompt resolution of the following issues:

- The Forest Service must be compelled to meet the terms of our current long-term contract, including volume and pricing provisions.
- Congress must amend the unilateral changes imposed on our contract by the Tongass Timber Reform Act of 1990.
- In recognition of the current contract's intention of a perpetual sales arrangement between the Forest Service and KPC, a revised version of the KPC long-term contract must be extended a minimum of 15 years at an average offering level of 192.5 mmbf per year.

KPC has met its contractual obligation to develop the economy and provide permanent, year-round employment for southern southeast Alaska. All we want is for the government to meet its contractual obligation to provide a sufficient volume of economically viable timber in a timely fashion. This is the only way that KPC can continue to operate its production facilities and continue to provide jobs and economic stability for the communities of this isolated region.

We are at a critical point, a crossroads requiring swift and certain decisions. Our pulp mill is over 40 years old and requires improvements to meet market demands and environmental regulations. We need to go into the next century with the knowledge that the timber base will be available. There is a real fear in Ketchikan that the timber supply will be cut off, KPC will shut down, and the vibrant, robust community we know will cease to exist.

We at KPC have been, and will continue to be, responsible users of the forest. We want the resource to go on forever. We want sustainability. We want a future for our children in southeast Alaska. I have three children who grew up in Ketchikan, and who now live in Washington state. They consider Ketchikan their home, but they're waiting to see what will happen. They're waiting to see whether we will continue to have a stable economy. They don't want to risk being the last workers to enter the job force, and end up being the first workers laid off when the local economy collapses.

I ask you to consider southeast Alaska's unique economic situation. We are located a great distance from the lower 48 states. We are remote. We are isolated. We cannot diversify into a broad-based, stable economy which does not include a substantial timber industry. Timber is the one year-round renewable resource we have. All I ask is that we be given reasonable access to this abundant resource. A 15-year extension of, and Forest Service compliance with, our long-term timber contract will ensure this access and save our community.

Thank you again for this opportunity to testify. I would be happy to answer any questions.

**HR**

**7**



Official Business

COMMITTEES  
Labor and Commerce  
Transportation

# Alaska State Legislature

Chairman - Economic Development Committee

REPRESENTATIVE  
**JERRY SANDERS**  
District 19

Anchorage  
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## SPONSOR STATEMENT

HR 7

The proposed treaty by the International Maritime Organization that would reclassify coal as a hazardous and noxious material would require producers of coal to contribute to a fund that would be used to cover compensation claims arising from the environmental catastrophes involving other materials. This is a carefully crafted tonnage based tax on the coal industry that would raise the cost of coal three to four dollars each time it is handled either at the loading or unloading ends of transportation. The net result of this would have a devastating effect on the production of Alaska Coal.

## IMO still to tax coal as hazardous waste

Moves to reclassify coal as a hazardous waste continue to cause concern in the coal industry. Under International Maritime Organisation (IMO) proposals, coal would be included in the Hazardous and Noxious Substances Convention from 1996, meaning that users of the material would be forced to contribute to a fund to cover compensation claims arising from environmental catastrophes at sea.

Those in the coal community say there is no justification for including coal in the list and that the industry will suffer through having to subsidise damage caused by more obviously hazardous materials in its sector, such as ammonium nitrate. However, many feel that it is the huge amounts of coal shipped by sea that make it attractive to those collecting the tonnage-based tariffs.

Under the proposals, coal parties would have to pay \$3-4 per tonne for each time the coal was handled, covering exporting and receiving ports. Transhipped coal would therefore carry a treble levy of at least \$12 a tonne.

The proposal is due to be discussed in detail at the IMO's interim meeting this April in London, having been opposed by a host of coal bodies and governments, most vocally from Japan, Italy and the US.

Dominic Maiello, a leading member of the European Union Coal Committee and the United Nations Coal Working Party said "There has never been a case of sea, beach or human contamination that has exceeded normal insurance cover. If people are made to fear this tax on top of proposals to levy a carbon tax and a little help from the gas industry's propaganda machine, coal is going to be killed off forever."

## Why did the chicken cross the road? To fuel a power plant...

Farmers in the United Kingdom are being urged to save their chicken manure and to plant trees on surplus land to provide new fuels for power stations, in a scheme announced by the UK's Department of Trade and Industry (DTI).

The scheme is part of a programme to set up renewable-energy power stations driven by a variety of methods, which also includes straw and household waste-firing, wind and water power.

Charles Wardle, junior minister for industry and energy said the UK government was anxious to foster technologies of the future as part of its Non-Fossil Fuel Obligation (NFFO) which is intended to ensure diversity of power supply.

Three projects requiring a total 20,000 acres of tree planting to feed the furnaces of three power stations would produce electricity at 8.45 pence a unit, more than three times the cost of coal.

Farmers in England and Wales will be paid to plant genetically engineered poplars and willows, which grow so fast that harvesting of the wood can begin in two years. The 90,000 tonnes of wood



Is wind the fuel of the future?

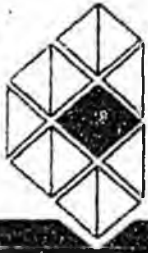
produced each year would be turned into gas in special furnaces before being piped into power stations.

Power from chicken manure or straw (occasionally mixed with waste wood) is another boom area and a cheaper option at around five pence a unit. The prices are expected to drop as the technologies improve.

Landfill gas is such a proven generator that it is the cheapest renewable resource for producing electricity. Forty-two such schemes were approved by the DTI.

More controversial schemes for producing electricity by burning household and industrial waste are likely to be encouraged by the government's Landfill Levy, which will make local authorities more inclined to send their rubbish to power-generating incinerators.

Some of the schemes are expected to fail because of planning objections, since to be economic they often have to be sited in residential areas. In England and Wales there were 520 bids, of which 141 projects were approved.



# COAL news

December 19, 1994 • No. 5218

The Weekly Newsletter of The National Coal Association

## C O L U M N I

By V. Sam Lewis

### IMO activity regarding HNS has potential for severely impacting U.S. coal exports

Those of us active in the international marketing of U.S. coal become so focused on demand and prices that we often overlook activities in international forums that have the potential for severely impacting U.S. coal exports.

One such activity is the International Maritime Organization (IMO) protracted drafting of a regime for the liability and compensation for damage caused in connection with the carriage of hazardous and noxious substances by sea. Before you skip to the next page of the newsletter, the Hazardous and Noxious Substance Convention (HNS), as currently drafted, includes coal and has the potential for adding significant costs to coal.

#### What is the HNS?

Since 1987, the Legal Committee of the IMO has been drafting the HNS and using the 1969/1971 Conventions on Oil Pollution Liability and Compensation as its models. It is IMO's intention to hold a diplomatic conference in 1996. If successful, the HNS Convention will have to be approved by Congress.

The convention defines HNS to include "solid bulk materials possessing chemical hazards covered by Appen-

See COLUMN 1, page 2



## Republicans push administration for moratorium on regulations

The White House last week rejected a Republican proposal to impose a regulatory moratorium, calling it a "blunderbuss that could work in unattended ways."

Eight Republican leaders in both houses of the newly elected GOP-controlled Congress — including Senate Majority Leader Robert Dole (R-Kan.) and House Speaker Newt Gingrich (R-Ga.) — sent a Dec. 12 letter to President Clinton, requesting a moratorium on all federal rulemakings through the first 100 days of the 104th Congress.

During that time, the lawmakers requested federal agencies provide Congress a list of current and proposed regulations with costs to society that outweigh intended benefits, as well as recommendations for eliminating any unnecessary regulations and providing flexibility for local governments in



White House calls proposal a "blunderbuss"

meeting U.S. mandates.

"Excessive regulation and red tape have imposed an enormous burden on our economy," the GOP letter said. "Private estimates have projected the combined direct cost of compliance with

all existing federal regulations to the private sector and to state and local governments at well over \$500 billion per year."

In a response to the GOP leadership, Sally Katzen, a White House official who handles regulatory affairs, said while "burdensome regulations need to be cut back," the Republican proposal "would stop rules from being issued regardless of their merit."

Some observers said even though the administration decided against the moratorium, Congress could impose it legislatively, a move which might be politically damaging to the White House.

One House Republican staffer said the new Congress is going to "do some fairly significant things" with risk assessment and cost/benefit analysis legislation.

Meanwhile, a news conference was held on Capitol Hill last week announcing the creation of Project Relief, a nationwide coalition formed at the request of incoming House Republican Whip Tom Delay (R-Texas). The group seeks reform of the way the government develops regulations.

### NCA, CEA oppose ECE draught survey proposal

NCA and the Coal Exporters Association (CEA) said they oppose adoption by the International Standards Organization (ISO) of a draft international standard for the performance of draught surveys of coal cargoes, as proposed by the Economic Commission for Europe (ECE).

"We fail to understand why coal is being singled out as the only bulk cargo requiring an ISO standard for the performance of a draught survey," the groups said in comments filed with the U.S. Coast Guard.

"If ISO is going to adopt a standard, it should be a standard setting out draught survey procedures for all bulk cargoes."

In addition, the ECE Code "does not

See DRAUGHT SURVEY, page 4

### Inside

Applicant Violator System .....	3
Chun, Bechtel receive awards .....	2
Lawson at POWERGEN .....	3
Reporter's transformation .....	4
Clinton tax cut plan .....	4

# C O L U M N I

(Continued from page 1)

dix B of the Code of Safe Practices for Solid Bulk Cargoes, as amended." The appendix includes coal as a hazardous material when in bulk (MHB).

The current draft is based on a post-event system of collection. It establishes a two-tier system of strict liability for damage. The first tier is comprised of the shipowner, who will be required to carry compulsory insurance to cover liability up to a yet determined level. The shipowner liability, or first tier, is supplemented by a second tier establishing a scheme or fund to provide additional compensation when the damage exceeds the shipowner's liability.

The second tier currently is comprised of two sectors: Sector 1) solid, liquid or gas; and Sector 2) high volume, low hazard (Appendix B of the Code of Safe Practice for Solid Bulk Cargoes, as amended). Appendix B includes substances of very diverse properties. For instance, coal, wood chips and ammonium nitrate are included in the list. Coal and wood chips are not hazardous and noxious substances while ammonium nitrate can be very explosive.

As currently outlined, Sector II would have a "0" rating until an accident occurred with a Sector II substance in which the liability exceeded the shipowner, or first tier, liability. At that point, the second tier would be responsible for the additional liability. Once Sector II is "activated," it and Sector I would be responsible for providing funds to cover additional liability associated with any future incidents requiring compensation from the second tier.

*It is very important to note that even if coal does not have an accident requiring funds from the second tier, but a substance in Sector II does have an accident requiring compensation, all substances in Sector II become active and must contribute.*

A limited number of separate accounts would be specified in the convention and these accounts may cover oil, LNG and possibly LPG. Finally, as currently proposed, the HNS Convention also would apply to domestic coast-wise trade as well as international trade.

### What is the Coal Industry Doing?

NCA and its affiliate, the Coal Exporters Association, oppose the inclusion of coal in the HNS. In letters sent to the U.S. Coast Guard, the

lead U.S. agency to the IMO, NCA/CEA have pointed out that it was not the original intent to include materials such as coal, which are high volume but not hazardous and noxious substances. NCA/CEA maintain that the selection of materials to be covered in the convention should be based upon known, accepted guidelines that clearly show that the included materials are hazardous and noxious substances. Criteria do not exist to include coal in the convention; in fact, criteria do exist to indicate that it *should not* be included.

The IMO's Marine Environment Pollution Committee specifically asked the GESAMP EHS Group to evaluate the potential marine pollution hazards from the discharge of solid bulk cargoes. In July 1992, the GESAMP evaluated the hazardous properties of coal. Coal was given a "C" rating for bioaccumulation and tainting, hazard to human health (oral intake and skin contact) and for reduction in amenities. It was noted: coal dust may cause mild skin irritation if it comes in contact with the skin; coal, with regard to damaging living resources, is not hazardous but it may blanket the bottom of the sea; and coal, with regard to the reduction of amenities, may be slightly objectionable but will not interfere with the use of beaches. It is clear from these hazard factor rankings that coal is not a hazardous and noxious substance with environmental/property risks that prompt its inclusion in the convention.

With regard to coal's inclusion in Appendix B, NCA/CEA have pointed out that the purpose of Appendix B is to provide guidelines for the safety of vessel and crews as solid bulk cargoes are loaded, during ocean transport and unloaded at the port of destination. Coal's ranking of MHB (materials hazardous only in bulk) is defined by IMO as "materials [which] when carried in bulk, present sufficient hazards to require specific precautions." Specifically, the Code of Safe Practices addresses two possible hazards (oxygen reduction in the cargo space and self-heating) in connection with the transport of coal. The Code carefully outlines guidelines to be adhered to which should significantly reduce or eliminate the hazards.

### What is the Current Status of the HNS?

The next meeting of the Legal Committee is scheduled for early April 1995. At the last meeting in October, several countries raised the issue of excluding coal from the HNS. It was tabled for possible discussion at a future meeting of the Legal Committee or the Diplomatic Conference in 1996. It is expected that the issue to exclude coal from the HNS will be formally raised at the next meeting by Japan with the support of several other countries.

The U.S. government currently is developing its position on the inclusion of coal. It is extremely important that the U.S. coal industry as well as those in the shipping community express opposition to the inclusion of coal in the HNS. Also, as contracts for 1995 are negotiated, it is vital that we bring the HNS to the attention of our customers and strongly encourage them to contact the appropriate

government offices to register opposition to the inclusion of coal. Both coal exporting and importing nations should unite in widespread and strong opposition to including coal in a convention covering HNS damage.



*Criteria does not exist to include coal in the convention*

**NCA and its affiliate, the Coal Exporters Association, oppose the inclusion of coal in the HNS.**



**USIBELLI COAL MINE, INC.**

## MARKETING

122 First Avenue, Suite 302  
Fairbanks, Alaska 99701  
(907) 452-2625 FAX (907) 451-6543

January 18, 1995

Honorable Ted Stevens  
United States Senate  
522 Hart Building  
Washington D.C. 20510-0201

Dear Senator Stevens:

Attn: Kristen Richmond and Trevor McCabe  
U.S. Senate Commerce Committee

The Coal Exporters Association of the United States (CEA) is very concerned that the current draft of the International Maritime Organization (IMO) Hazardous and Noxious Substance (HNS) Convention includes coal. As a member of the Board of CEA representing Usibelli Coal Mine, Inc., I am soliciting your interest and involvement in this issue. There is absolutely no evidence to suggest that coal should be included in the Convention, and to do so would constitute a means of increasing the costs of doing business. Since the HNS Convention is a treaty it would eventually require ratification by the US Senate - we would obviously like to see coal excluded completely from the Convention.

Enclosed is a copy of NCA's latest newsletter that includes a "Column One" written by Sam Lewis, CEA's Chairman. The Interagency Working Group comprised of several government agencies (MARAD, Dept. of Justice, State Department, Dept. of Energy, Dept. of Commerce, etc.) is developing its position on the inclusion/exclusion of coal. It appears the Working Group is split. The Interagency Working Group was slated to meet again on January 17.

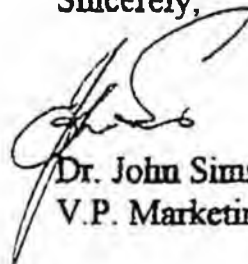
I have also included a letter written by NCA President Richard Lawson and Sam Lewis, Chairman of CEA to the Coast Guard detailing the coal industry's opposition. I should point out that, in addition to the arguments outlined in the letter, the US Coast Guard does not include coal in its listing of hazardous marine pollutants (CFR parts 171 & 176) as published in the Federal Register November 5, 1992.

Senator Stevens  
January 18, 1995  
Page 2

This is an issue which falls within the jurisdiction of committee(s) on which you serve. I would like to suggest that you express your concern to the Commander of the Coast Guard and the Secretary of Transportation and I would further ask that you track this issue and oppose inclusion of coal in the version of the HNS Convention that the US Senate may eventually approve.

I appreciate any assistance you can render in this regard.

Sincerely,



Dr. John Sims  
V.P. Marketing

JS/me

Enclosures

cc: Moya Phelleps - CEA

**USIBELLI COAL MINE, INC.**

MARKETING  
122 First Avenue, Suite 302  
Fairbanks, Alaska 99701  
(907) 452-2625 FAX (907) 451-6543

March 6, 1995

Honorable Ted Stevens  
United States Senate  
522 Hart Building  
Washington, D.C. 20510-0201

Dear Senator Stevens:

Thank you for your action regarding inclusion of coal in the I.M.O. draft Hazardous and Noxious Substance (HNS) Convention. I have learned that MARAD officials Fran Mardulo (MARAD representative on the Interagency Working Group), Cher Brooks (Congressional Liaison) and Joan Bondareff (General Counsel) met with National Coal Association executives Susan Carver and Moya Phelleps last week. The MARAD delegation had received your letter, which clearly prompted the meeting, together with copies of my letter to you on the subject and the NCA/CEA letter to the Coast Guard.

The meeting, I am informed, was inconclusive with MARAD failing to indicate its position. MARAD explored the possibility of seeking to categorize coal within a separate account (currently coal is included in the draft together with other commodities of a diverse nature).

The idea of a separate account category for coal in the HNS Convention is opposed by the National Mining Association (NMA) and the Coal Exporters Association (CEA) and by USIBELLI COAL MINE, a committed member of these industry associations. This opposition is rooted in the following reasons.

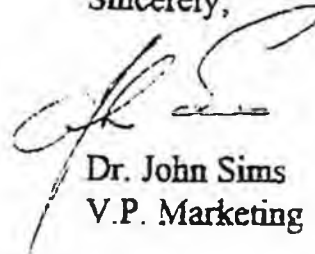
1) Coal is not hazardous material. This convention addresses the environmental and safety hazards of hazardous materials. U.S. Coast Guard does not list coal as hazardous material and it was not included as such in the International Convention on Prevention of Pollution from Ships (MARPOL 73/78 and subsequent modifications) not in the International Convention for the Safety of Life at Sea (SOLAS 1974 and subsequent modifications). Furthermore coal is not included in the International Maritime Dangerous Goods Code.

Senator Stevens  
March 6, 1995  
Page 2

2) By including coal in the HNS Convention it would be assumed that coal is indeed hazardous by nature and that of itself could result in changes in insurance ratings to be borne by industry.

Again thank you for your interest and involvement in this issue.

Sincerely,



Dr. John Sims  
V.P. Marketing

JS/me

cc: Senator Frank Murkowski  
Congressman Donald Young  
Susan Carver  
Moya Phelleps  
Joseph E. Usibelli, Jr.

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## United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, DC 20510-6025

January 30, 1995

Dr. John Sims  
 Vice-President Marketing  
 Usibelli Coal Mine, Inc.  
 122 1st Avenue, Ste. 302  
 Fairbanks, Alaska 99701

Dear John:

Thank you for letting me know about your concerns with the inclusion of coal in the current draft of the International Maritime Organization Hazardous and Noxious Substance Convention.

In an effort to address the concerns you have raised, I have contacted the Department of Energy, the State Department and the Maritime Administration and requested that they address this matter. Once I receive their responses, you can be sure that I will share them with you.

With best wishes,

Cordially,



TED STEVENS



National Mining Association  
Foundation For America's Future

March 3, 1995

TO: John Sims, Usibelli Coal Mine  
FROM: Moya Phelps *M. P.*  
RE: Draft HNS Convention -- Meeting with MARAD

As follow-up to our telephone conversation yesterday, Susan Carver and I met with MARAD on Wednesday to discuss our position regarding the inclusion of coal in the draft HNS.

We met with Cher Brooks (Congressional liaison), Fran Mardulo (MARAD representative on Interagency Working Group) and Joan Bondareff (General Counsel). MARAD has not taken an official position on the inclusion of coal. MARAD received a letter from Senator Stevens with your letter and the NCA/CEA letter to the Coast Guards as attachments. The letter from Senator Stevens is what prompted this meeting.

We discussed our opposition to the inclusion of coal in the HNS. Questions were asked about the safety of coal and I said the Code of Safe Practices and other mechanisms address that issue. Coal is not a hazardous material from either the safety or environmental aspects. Mr. Mardulo agreed that the current structure is not correct and our concerns regarding the cross-subsidization, etc. were correct. He asked how we felt about a separate account. I told him we opposed a separate account because 1) coal is not a hazardous material; 2) current insurance levels for coal are among the lowest and being included in the Convention could increase rates and open coal up to be included in other regulations, etc. that currently do not apply to coal because it has not been classified as a hazardous material.

MARAD indicated they would be preparing a response to Sen Stevens. They did not indicate MARAD's position. However, both Susan and I felt that they may be inclined to support the idea of the separate account. It is a compromise position as they see it:

- 1) Coal would be responsible only for coal claims above the first-tier or shipowner level.

2) If we are as safe as we say we are and claims will not be enough to trigger the second-tier, then we have nothing to worry about.

3) It doesn't jeopardize the integrity of the convention by carving out coal and opening up the convention to materials that could make claims similar to those made by coal. (In my opinion, this is a major problem for the Legal Committee. In the haste to find an existing list, Appendix B was not the one to choose. The materials on the list are too diverse.)

As we discussed, it would be helpful if Usibelli wrote to Senator Stevens to let him know that NIMA/CEA met with MARAD. The idea of a separate account was discussed at the meeting and we oppose it for the following reasons:

1) Coal is not hazardous material. This convention addresses the environmental and safety hazards of hazardous materials. It is not a hazardous material. Coast Guard does not list it as one. It is not in SOLAS or MARPOL.

2) By including coal in the Convention, it would be assumed that coal is a hazardous material and could change insurance ratings and how it is treated in other IMO or domestic codes for bulk or hazardous materials.

I am sending you the joint UMWA/BCOA letter. As always, we appreciate your assistance. I will keep you informed of developments.

Attachment

cc: Susan Carver  
Tom Altmeyer

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## United States Senate

COMMITTEE ON APPROPRIATIONS  
 WASHINGTON, DC 20510-6025

March 10, 1995

Dr. John Sims  
 Vice-President Marketing  
 Usibelli Coal Mine, Inc.  
 122 1st Avenue  
 Suite 302  
 Fairbanks, Alaska 99701

Dear John:

Enclosed is a copy of a letter I received from the Department of Energy in response to my inquiry on your behalf regarding the inclusion of coal in the current draft of the International Maritime Organization Hazardous and Noxious Substance Convention. I will let you know when I receive a response from the Maritime Administration and the State Department.

I hope you find this information useful.

With best wishes,

Cordially,



TED STEVENS



## Department of Energy

Washington, DC 20585

March 3, 1995

1995 MAR -7 AM 10 30

The Honorable Ted Stevens  
United States Senate  
Washington, D.C. 20510

Dear Senator Stevens:

This is in response to your letter of January 30, 1995, on behalf of your constituent, Dr. John Sims, regarding the issue of including coal in the current draft of the International Maritime Organization (IMO) Hazardous and Noxious Substance (HNS) Convention.


Member countries of the IMO, which includes the United States represented by the Coast Guard, included coal in the draft HNS Convention. We believe this classification of coal as an HNS is not warranted. Since the drafting of the HNS list, several countries, most notably Italy, Canada, Australia, and Japan, have either expressed their objection to this classification of coal, or have indicated they may reconsider their previous positions.

Reflecting its concern over this issue, the Department of Energy (DOE) prepared a position paper supporting the exclusion of coal from the HNS list. This position paper was coordinated with representatives of the National Mining Association. The DOE position has been transmitted to the HNS Interagency Working Group for its consideration. It is our understanding that one of the options being considered, besides the complete exclusion of coal, is to set up a separate account for coal. This means that it would not be lumped with other substances such as wood chips, wood pulp, and ammonium nitrate. At this time, no final U.S. position has been adopted.

The treaty is in the final stages of negotiation, with a final draft to be produced in April 1995. The final text will then be forwarded to the Diplomatic Conference for possible adoption in early 1996.

We appreciate your interest in this matter.

Very truly yours,

  
Patricia Fry Godley  
Assistant Secretary  
for Fossil Energy



MARK O. HATHFIELD, OREGON, CHAIRMAN

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# United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, D.C. 20510-6025

J. KEITH KENNEDY, STAFF DIRECTOR  
 JAMES H. ENGLISH, MINORITY STAFF DIRECTOR

March 22, 1995

Dr. John Sims  
 Vice-President Marketing  
 Usibelli Coal Mine, Inc.  
 122 1st Avenue  
 Suite 302  
 Fairbanks, Alaska 99701

Dear John:

Enclosed are copies of letters I received from the Maritime Administration (MARAD) and the State Department in response to my inquiries on your behalf regarding the inclusion of coal in the International Maritime Organization Hazardous and Noxious Substance Convention. It appears that MARAD is aware that the NCA/CEA rejects the separate account approach.

I hope you find this information useful.

With best wishes,

Cordially,



TED STEVENS



U.S. Department  
of Transportation

Maritime  
Administration

Administrator

400 Seventh Street, S.W.  
Washington, D.C. 20590

1995 MAR 1 4:29

03 MAR 1995

The Honorable Ted Stevens  
United States Senate  
Washington, D.C. 20510-6025

Dear Senator Stevens:

Thank you for bringing to my attention the concerns of your constituent, Dr. John Sims, Vice President Marketing, Usibelli Coal Mine, Inc., with respect to the proposed inclusion of coal in the International Maritime Organization's (IMO) International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS Convention).

We expect the issue on whether coal will be included in the HNS Convention will be considered at the next session of the IMO's Legal Committee, to be held in London from April 3-7, 1995. In preparation for this London session, there is scheduled a Shipping Coordinating Committee (SHC) meeting on March 16, 1995, from 1:00 p.m. to 3:00 p.m., at Coast Guard Headquarters, Room 2415, 2100 Second Street, S.W., Washington, D.C. The United States is still developing its position on this issue and the purpose of the SHC meeting is to solicit public comment on the various issues set for discussion at the Legal Committee session. The overall goal of the United States is to encourage an HNS Convention which is comprehensive and ensures predictability in collection of damage claims and includes a reasonable level of maximum liability faced by defendant shipowners and cargo interests. With numerous varieties of liability laws among the many maritime countries, the international forum can often provide consistency and stability.

There are pros and cons to including coal in the HNS Convention. Those who argue for including coal maintain that coal can be considered a hazardous substance on board vessels because of a history of safety problems (injuries and loss of life and damage to property). On the other hand, some, like your constituent, argue that coal should be excluded because of economic and scientific considerations, such as the large amount of coal exported and that coal is not a "noxious and hazardous" substance, or at least it is not as dangerous as other HNS substances. With special reference to the General Fund/sector approach, discussed in detail in the October 6, 1994 National Coal Association/Coal Exporters Association of the United States

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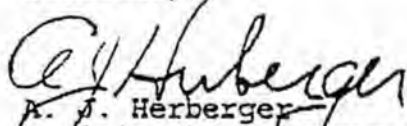
(NCA/CEA) joint letter, the industry has stated that it is unfair for coal to "cross-subsidize" damages which may be caused by more hazardous materials grouped within the high volume/low hazard definition, e.g., ammonium nitrate.

A possible middle ground is to have coal included in the HNS Convention but treated in a separate category, called a Special Account. This would mean that each industry covered by a Separate Account would be a "self insurer," i.e., it would not contribute to or be covered by the General Fund but, instead, would be responsible for paying claims that exceed the carrier's insurance liability limits when incidents occur involving the industry's product. Separate Accounts will not be finally determined until a scheduled 1996 Diplomatic Conference.

It is our understanding the NCA/CEA rejects the Separate Account approach and prefers coal not be included in any liability regime covering claims for loss of life, personal injury or property damage stemming from HNS incidents. My staff has invited representatives of the NCA/CEA to brief them on the coal associations' views regarding the HNS Convention. I assure you that the Maritime Administration will work to achieve a reasonable and fair solution to this issue.

As you know, the Coast Guard is the lead agency for IMO issues and you may wish to contact them for further information.

Sincerely,

  
A. J. Herberger  
Maritime Administrator

cc: Admiral Robert E. Kramek, USCG  
Commandant, U.S. Coast Guard



United States Department of State

Washington, D.C. 20520

1995 MAR 16 PM 4:27

MAR 14 1995

Dear Senator Stevens:

We are pleased to provide the following information in response to your letter regarding the concern of your constituent, John Sims, about the inclusion of coal in the draft International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS Convention) being developed under the auspices of the International Maritime Organization (IMO). Your letter and that of Mr. Sims will be shared with members of the U.S. interagency working group on the HNS Convention and will be given careful consideration.

The basic purpose of the draft HNS Convention is to establish liability and provide compensation to victims of accidents involving hazardous and dangerous cargo transported by sea. The draft Convention sets up two tiers of liability and compensation. The first tier establishes the limit of ship owner liability. The second tier provides for an international fund to pay compensation up to an overall Convention limit (not yet determined) in the event damages exceed the shipowner's limit or the shipowner is unable to pay. The international fund will be financed by fees paid by importers or receivers of HNS in a contracting state. Substances are included within the definition of HNS, *inter alia*, by virtue of their appearance on other IMO codes of dangerous or hazardous materials. As currently structured, coal is included as an HNS substance because it appears on a list of "solid bulk materials possessing chemical hazards".

Recently, there has been some strong sentiment favoring the exclusion of coal from the HNS Convention. The main concerns underlying this view focus on the perceived inequities to the coal industry and major coal importers, and the resulting economic effects of including coal in the HNS Convention. Specifically, it has been argued that because contributions to the international fund will be calculated, in part, on annual tonnage received, large coal receivers or importers would pay a disproportionate share of contributions relative to the risk of personal injury or damage to the environment posed by coal

The Honorable  
Ted Stevens,  
United States Senate.