

THE ROLE SMALL BUSINESS SHOULD PLAY IN MAINTAINING FOREST HEALTH

FIELD HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE ONE HUNDRED EIGHTH CONGRESS SECOND SESSION

FEBRUARY 19, 2004

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THE ROLE SMALL BUSINESS SHOULD PLAY IN MAINTAINING FOREST HEALTH

THURSDAY, FEBRUARY 19, 2004

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
Washington, D.C.

The Committee met, pursuant to notice, at 10:00 a.m., in the Taggart Room, Holiday Inn, 1701 Sheridan Avenue, Cody, Wyoming, the Honorable Mike Enzi presiding.

OPENING STATEMENT OF THE HONORABLE MIKE ENZI, A UNITED STATES SENATOR FROM WYOMING

Senator ENZI. I will call to order this hearing of the Senate Small Business and Entrepreneurship Committee on the Role of Small Business in Maintaining Forest Health.

I appreciate the nice turn out today. I want to welcome the students from Cody High School. I want you to know this is approximately what a hearing would be like in Washington, D.C. The room would be a little bit different, the tables would be a little bit different, but the attendance would be about the same.

I will be the only Senator at this hearing. Except for the little bit of press time that we have at the beginning of a hearing, that would be about the same as well.

The purpose of a hearing is to gather information to build a record in a specific way, so the Committee Chair approves hearing witnesses along the guideline of building a record.

The way we build a record is the testimony from the witnesses, questions of the witnesses, and then if there is time, questions from the people in the audience. We have some blank question forms for you to fill out. If you fill out a question, even if we don't have time, there will be an answer to that question in the record.

That is the way we get the information. It is then reviewed by other Senators and their staff, and is shared on the floor of the United States Senate and in the Committees when we are doing the markup.

I am really excited about today's hearing. There hasn't been any record built on the affect of small business on maintaining a healthy forest and this will be our opportunity to do that.

We have some very highly qualified panelists. We have two panels today. The first one is a panel from the Federal Government and the second one is called a panel from the community.

Of course, as all of you know, the community in Wyoming is the whole state. We are one community with very long streets. I think

Governor Sullivan first used that line and it really turns out to be true.

Any time you meet somebody from Wyoming, you are probably only about two people removed from somebody that they also know, whereas in the rest of the United States, you have to go through probably an infinite list before you run into somebody that the two of you know. I have had a lot of opportunity across the United States to try that out.

I will begin this morning with a few other brief comments. I should mention that while the participants, including myself, will be limited to 5 minutes on statements, that is a rather loose limit. We would appreciate it if you would try and condense the information down into 5 minutes and stay within the 5 minutes.

But anything that you have that you want to be a part of the record, will be made a part of the record, so you can have a full statement that is considerably more extensive.

I will mention again at the end of the hearing, we will keep the record open for 10 days for additional items that any of the panelists want to include, and also to provide an opportunity to get answers to the questions that may not have been asked during the hearing.

My goal in holding this hearing is to take a deeper look at the influence that Federal land management agency decisions have on the success of Wyoming's small business community—particularly as those decisions apply to management of our State's forest lands.

I also want to establish that we need more partnerships between Federal agencies and local small businesses to restore our forests to a point where all the many uses of our forest lands can exist free of the significant threat of destruction by catastrophic wildfire.

I also want to put to rest the notion that using our forest products industry to restore our forests to a state of health creates a conflict with any other use. The reality is that our forest products industry is not in conflict, but is in fact one of our best tools, to maintain and preserve the entire forest ecosystem.

There is no question in my mind that small businesses and small communities can and should play an important role in maintaining forest health on our Federal public lands. Unfortunately, both our forests and our forest communities are dying of neglect and under-utilization.

There are more than 100 million acres of Federal forest lands that now exist under an unnaturally high risk of catastrophic wildfires and large scale insect and disease outbreaks because of unhealthy forest conditions.

I have had an opportunity to tour forests in the State, particularly in this area. I had a great tour that was conducted by some of the folks near the boundaries of Yellowstone.

I was up there when the forest fires were raging near the east entrance a couple summers ago. The fire fighters up there explained to me what would happen if the fire jumped out of the park and into the beetle killed forest that was adjacent.

Of course, they had already had meetings with people from the Boy Scout Camp and every lodge down the valley so they had evacuation plans.

There is no question that fire is a part of the natural world. No one knows this better than the men and women of Wyoming who risk their lives each year to protect and save homes, lives, property and the environment from the terrible threat of catastrophic wildfire.

Catastrophic wildfires not only cause damage to the forests and other lands, but place the lives of firefighters at risk, pose threats to human health, personal property, sustainable ecosystems, and air and water quality, and burns good lumber.

So far Wyoming has been lucky in that some of our most dangerous areas have not yet caught fire. I am deeply concerned that our efforts may be too little too late and that we will have missed our window of opportunity to form the kind of small business/Federal agency partnership that could have saved our forests from destruction.

I want to say the reason I am placing the emphasis on small business is we know that small businesses are the most flexible, the most able to revise their business plan, so that it will fit with the situation. Also their business is limited to the area where they live and they are as interested in protecting that as anyone else.

I think I will condense my remarks to that point and put the rest of my information in the record and move on to the witnesses.

[The prepared statement of Senator Enzi follows:]

Statement of Senator Michael B. Enzi
Senate Committee on Small Business and Entrepreneurship
Field Hearing
“The Role Small Business Should Play in Maintaining Forest Health”
Thursday, February 19, 2004
Cody, Wyoming

My goal in holding this hearing is to take a deeper look at the influence that federal land management agency decisions have on the success of Wyoming’s small business community – particularly as those decisions apply to management of our State’s federal forest lands. I also want to establish that we need more partnerships between federal agencies and local small businesses to restore our forests to a point where all of the many uses of our forest lands can exist free of the significant threat of destruction by catastrophic wildfire.

I also want to put to rest the notion that using our forest products industry to restore our forests to a state of health creates a conflict with any other use. The reality is that our forest products industry is not in conflict, but is in fact one of our best tools to maintain and preserve the entire forest ecosystem.

There is no question in my mind that small businesses and small communities can and should play an important role in maintaining forest health on our federal public lands. Unfortunately, both our forests and our forest communities are dying of neglect and underutilization.

There are more than 100 million acres of Federal forests lands that now exist under an unnaturally high risk of catastrophic wildfires and large scale insect and disease outbreaks because of unhealthy forest conditions.

For years, we have tried everything we could to reduce that risk and to make our forests safer and more fire resilient. Every effort, however, has been met with the same response: more environmental reviews, more litigation and more trees that add to an even greater threat.

There is no question that fire is a part of the natural world. No one knows this better than the men and women of Wyoming who risk their lives each year to protect and save homes, lives, property, and the environment from the terrible threat of catastrophic wildfire.

Catastrophic wildfires not only cause damage to the forests and other lands, but place the lives of firefighters at risk, pose threats to human health, personal property, sustainable ecosystems, and air and water quality.

So far Wyoming has been lucky in that some of our most dangerous areas have not yet caught fire. One area I am particularly concerned about is just east of us in the North Fork area of the Shoshone National Forest. This area is considered critical habitat for wolves, grizzlies, whooping cranes, elk, bison, mule deer and other animals that spend part of their time living in

Yellowstone National Park. The area is also home to a very severe pine beetle infestation that threatens to ignite and cause extreme damage to the Park, the forest and surrounding communities.

I am deeply concerned that our efforts may be too little, too late, and that we will have missed our window of opportunity to form the kind of small business/federal agency partnership that could have saved our forests from destruction.

Why is this so important? Because both our forests and our communities are ripe for destruction. Our forests by fire, and our communities by economic decline.

Back when I was a boy scout, one of the requirements I had to complete to earn the rank of First Class on my way to earning my Eagle Scout award was to start a campfire using not more than two matches. I got to be very good at starting campfires and was well known for winning water boiling contests at scout camporees. There are a number of tricks people develop in starting campfires, and I had my own system that helped me win, but no matter who you are or what your trick may be there are three basic elements to every fire: oxygen, fuel and heat.

Oxygen comes from the air and is readily available. Fuel is found in the wood, particularly dry wood that burns easily when enough heat is applied. Heat comes from a spark, match, possibly friction. The best way to apply enough heat to start a successful campfire is to properly organize the wood in a way that allows the flames to climb up from the bottom of the firepit where you put the smaller, quick-burning sticks and tinder – to the larger, longer burning logs in much the same way as someone would climb a ladder, one rung at a time.

To start a successful fire I began by carefully putting my wood shavings at the bottom of the fire – this would be my light tinder or first rung of the fire ladder. I then built a small tee-pee of sticks over my tinder as my second rung and then added larger and larger sticks until I had my largest pieces of wood on top where they could draw the heat from the flames of the intermediate sticks below them. If I did everything correctly I could start my fire and get a can of water to boil before anyone else.

What does this have to do with the current state of our National Forests? If you go out on the ground right now and look at the density of our national forests you will see they are laid out, just like the campfires I was trained to set when I was a boy scout. At the bottom of every forest lies a collection of small, dried out bushes, leaves and fallen bark. Over this pile of tinder is the next rung of the forest fuels ladder which is made up of small to intermediate trees. These intermediate trees are then crowded in below the larger and older trees that make up the top rung or crown of the forest fuels ladder.

This problem wasn't always as bad as it is now. There was a time when mother nature and Native Americans took care of thinning our forests by regularly starting wildfires. Because the fuel loads weren't allowed to grow as dense as they are today the fuel ladder didn't reach all the

way up to the big trees. Fires would burn up the tinder and thin out the intermediate and dead and dying trees. This promoted biodiversity, kept the intensity of the forests down and, in times of drought the competition for limited water resources was dramatically less than it is today. We now have forests that historically had 40 or 50 tree stems per acres that are now over 200 stems per acre. This is a 300 percent increase.

When a fire starts in forests this dense it quickly climbs the fuel ladders and races out of control. These crown fires are all but impossible to stop. The heat generated from all rungs burning at once sterilizes the soil and leaves nothing but desolation in its wake. This is only made worse with the added factor of drought. By adding to the mix stands of dead trees that are as dry and volatile as the tinder on the forest floor you can just imagine the threat this kind of fire could have on the forests and their surrounding communities.

It is a much better conservation practice, therefore, to step in and duplicate the effect historic, healthy fires had on our forests by using what is called mechanical thinning. This is practice where our land management agencies can hire experienced timber companies to remove the dense underbrush and carry out the smaller and intermediate trees thereby leaving a forest that is healthier, more biodiverse, more fire resilient and with a better mix of older and younger trees.

The alternative is to allow mother nature to step in and conduct one of her catastrophic clear cuts, and when mother nature does a clear cut she doesn't respect riparian zones or raptor nesting sites.

If we are going to save our forests we must increase our number of timber sales. There is no reason, however, that these sales cannot be structured to improve forest health by including in the terms of the contracts a requirement to thin out the underbrush and leave our forests in a healthier, more sustainable condition.

In Wyoming, the need for forest thinning can be met by our small businesses. Wyoming's small businesses have the flexibility and the capacity to create innovative solutions to any problems that may arise on Wyoming's challenging landscape. But their innovation could just as easily be forced to leave the state to find other regions to develop. I am concerned that our federal agencies are not utilizing small businesses to the extent that they should. There is a larger role that can and should be played by our small businesses as we strive to create healthier forests.

We are going to hear testimony today that further explains this situation.

Senator ENZI. Our first witness today is Mr. Rick Cables, Regional Forester for the U.S. Department of Agriculture, U.S. Forest Service, Rocky Mountain Region.

He has been serving as the Regional Forester since January 2001. He is responsible for the administration of more than 22 million acres in 17 National Forests and 7 National Grasslands. His agency also works on a number of cooperative efforts with State and private landowners in Colorado, Kansas, Nebraska, South Dakota and eastern Wyoming.

He is a native of Pueblo, Colorado, and graduated from Northern Arizona University Forestry School in 1976. He has served in a number of forests, the Kaibab National Forest in Northern Arizona, the White Mountain National Forest in New Hampshire and Maine, and the Pike and San Isabel National Forests and Comanche and Cimarron National Grasslands in Colorado and Kansas. He has also served as Regional Forester of the Alaska Region, covering the Tongass and Chugach National Forests.

Mr. Cables.

**STATEMENT OF RICK D. CABLES, REGIONAL DIRECTOR,
U.S. FOREST SERVICE, ROCKY MOUNTAIN REGION 2**

Mr. CABLES. Thank you, Senator Enzi, for the invitation today and good morning to everyone. I would really like to thank the Committee for inviting us here and for holding this hearing. I am delighted to be here.

I think that the U.S. Forest Service, in this whole issue of forest health, needs to get in front of more Committees like this.

Traditionally, we speak to Committees—such as Agriculture and Natural Resources—and those are important, but this problem is larger than the purview of those kind of Committees just by themselves, and it is certainly larger than the U.S. Forest Service.

We need to talk about the state of our National Forests, and we have to solidify a partnership with communities and business.

It will take all of us working together to insure healthy forests for all Americans today and for those that follow us.

When I look at the problem that is in front of us today, and I think you outlined it very well, Senator Enzi, forests and grasslands in the Rocky Mountain Region are in vital need of efforts to restore their ecological health and reduce the effects of catastrophic wildfire which, unfortunately, we have experienced on a very large scale in the past few years in Wyoming, Colorado, and the Black Hills of South Dakota.

We, all of us, depend on forests in a variety of ways; for our water, for our recreation, and for our livelihoods.

Many of our forests are at risk. They are threatened by fire, disease and insects. They are threatened by invasive species, by the loss of open space on the edges of those forests which threatens the livelihood of ranchers and other members of the community, and by unmanaged recreation. As a result, people, communities and businesses are at risk too.

That is why being here today is so important. This is the first step, I think, in acknowledging and recognizing that we need much more help from a broader spectrum of society and the economic base to help us do this work.

Restoring the forest will take all of us working together. Critical to the success of our restoration efforts is the need for sufficient infrastructure—industry infrastructure to handle the biomass that is generated from these restoration treatments.

We need the help of the forest products industry to provide the means for restoring our forests. It is that simple.

To restore healthy forests we often need to remove smaller-diameter, low-value trees in addition to harvesting larger saw-log size trees.

In many areas of the Rocky Mountain Region, the forest industry infrastructure needed to help us accomplish this work does not exist to the extent it once did or does not exist at all.

This, of course, makes it much more difficult for us to accomplish our objectives.

In areas where a viable forest industry remains, I want to provide opportunities for the industry to expand its capabilities to utilize small-diameter, low-value trees as well as maintaining historic use of the larger trees.

I realize the importance of building on the existing forest industry infrastructure as much as possible because it will be a much tougher road for us to ever entice brand new companies to make investments in brand new facilities, so we have to hang onto what we've got.

Business, small business in particular, has a critical role to play. Businesses are part of the balance in our new approach to healthy forests. It is going to take promotion and discussion and whatever incentives are appropriate for business to fully join this long-term effort and I think Committees like this can really help us in that.

Fortunately, we have some new tools that will make it easier to expand and develop ongoing partnerships. End results—or so-called “stewardship” contracting, which began as a pilot program in 1999, was formalized in legislation late last year.

As a result, the Forest Service can enter into contracts for up to 10 years with companies. Contractors obtain forest and range land products in return for tree and brush thinning, removing dead wood, or a wide range of other services.

It is goods for services, and the end result is contracting that focuses on what's on the land when we are finished, not what we take from the land.

These longer contracting periods give business the means to buy and amortize equipment and infrastructure. We haven't had that tool in the past. It gives us 10 years, which is a huge advantage.

We have six stewardship projects underway or in the planning stages in Wyoming right now and there are more to come.

A second major tool that is going to help us is the Healthy Forest Restoration Act which the President signed in December. It is designed to reduce hazardous fuels and restore the health of the forest and range land.

The Healthy Forest Restoration Act is not a program. It does not provide more funding. It instead gives the Forest Service and the Bureau of Land Management, the Interior agencies, the authority to work in new ways to leverage tax dollars to accomplish our goals by working with the private sector. It offers opportunities for small businesses and entrepreneurs.

There are opportunities for consultants to work with communities in developing community wildfire protection as well, which is an element of this law. The law also streamlines the review process for projects that meet defined criteria.

In other words, the Healthy Forest Restoration Act enables us to respond quickly to situations and to our partners working toward shared goals.

The President and Congress have shown they recognize the problems in our forests. They have given us tools to help us tackle those problems.

I can't think of a time in my career where we have had more alignment around identifying the problem and having the tools to work on it.

We can't afford to treat all the land that needs it and we certainly can't depend on taxpayer dollars only to treat these lands. We need infrastructure, we need a healthy forest products industry, and we need balance.

This hearing and the discussions we have today could be a major step toward the goals we all seek—an ongoing cooperative effort that benefits everyone involved.

Thank you for the opportunity to comment. I look forward to the questions.

[The prepared statement of Mr. Cables follows:]

Statement of

Rick D. Cables, Regional Forester
Rocky Mountain Region
Forest Service
United States Department of Agriculture
Before the
Committee On Small Business and Entrepreneurship
United States Senate
Concerning
The Role Small Business Should Play in Maintaining Forest Health
Cody, Wyoming
February 19, 2004

Mr. Chairman, my name is Rick Cables and I am the Regional Forester for the Rocky Mountain Region of the Forest Service, headquartered in Denver, Colorado. First let me say that I am delighted to be here and I appreciate the committee's interest in the role that small businesses can play in restoring forest health. Forests and grasslands in the Rocky Mountain region are in vital need of efforts to restore their ecological health and reduce the effects of catastrophic wildfire. Thinning overgrown forests to reduce fire hazards, treating insect and disease conditions and improving growing conditions are all part of creating healthy forests.

Critical to the success of our restoration efforts is the need for sufficient infrastructure to handle the biomass that is generated from these restoration treatments. We need the help of the forest products industry to provide the means for restoring our forests.

To restore healthy forests, we often need to remove smaller diameter, low value trees, in addition to harvesting larger sawlog size trees. In many areas of the Rocky Mountain Region, a forest industry infrastructure to help us accomplish this work does not exist to the extent it once did. This makes it more difficult for us to meet our objectives. In areas where a viable forest industry remains, I want to provide opportunities for the industry to expand its capabilities to utilize smaller diameter, low value trees. I realize the importance of building on existing forest industry infrastructure as much as possible, because it is much more difficult for new companies to make the investments to build new facilities.

Thanks to the President's Healthy Forests Initiative and to recently enacted legislation, we have new tools available to us to address restoration efforts. These tools enhance our ability to take necessary steps for the long-term health of National Forests and Grasslands, with an emphasis on the condition of the resources, not on what we take from the land.

On December 3, 2003, President Bush signed the Healthy Forests Restoration Act (HFRA), legislation that supports the Healthy Forests Initiative. HFRA is a tool that provides us with opportunities to work with communities in reducing wildland fire risks. This legislation expands on current efforts to implement a collaborative process of planning, prioritization of and implementing projects with communities to improve forest health. Projects that meet the criteria defined in HFRA will have a streamlined analysis procedure and an expedited review process to allow critical treatments to be conducted in a timely manner. It gives us the authority to work in new ways with communities to accomplish mutual goals and to provide grants for biomass research.

The President's proposed Budget for Fiscal Year 2005 includes \$760 million to be used by the Department of the Interior and the Department of Agriculture for activities under HFRA, continuing implementation of the President's Healthy Forest Initiative. The budget proposal takes an integrated approach to reducing hazardous fuels and restoring forest and rangeland health. The President's Healthy Forests Initiative creates an ongoing commitment to the health of our forests. Stewardship contracting is another useful tool available to us. Stewardship contracting focuses on the end result and allows the Forest Service to contract with private companies, communities and others to obtain forest and rangeland products and offset the value of these products against payment for thinning trees and other services. The ability to offer long-term contracts fosters a public/private partnership to restore forest and rangeland health by giving those who undertake the contract the incentive to invest in equipment and infrastructure. This equipment and infrastructure are needed to productively use material generated from forest thinning, such as brush and other woody biomass, to make wood products or to produce biomass energy, all at a savings to taxpayers.

Stewardship projects are developed with community input and awarded on a best-value basis. Every national forest in this region has at least one stewardship project either in the planning stage or already underway. Some small businesses are already in a good position to be part of these new projects as they are proposed.

As important as the stewardship contracting projects are, I don't want to overlook other, established opportunities for small business. Through various programs the Forest Service provides small business with the three key things they need to do business. First, we offer access to resources, the forests and grasslands we manage. Second, we provide assistance through information and workshops that focus on topics like business management and forest products. Third, we facilitate retention, expansion and creation of business in forest based communities by offering small grants and technical assistance. We connect businesses with Small Business Development Centers and many other state and federal assistance programs to further community enterprises.

We stand ready to work with our local communities, industry and organizations in a partnership to improve forest health and create jobs. This is a truly win-win proposition. The economy wins. The forests win. And maybe most important of all, the future generations of Americans win, too. Thank you for this opportunity to address your committee and I will be pleased to answer any questions.

Senator ENZI. We will proceed to the second witness then, who today is Mr. Robert A. Bennett, Wyoming State Director of the U.S. Bureau of Land Management.

Bob has the fine distinction of being born in 1943 in Bremerton, Washington, about the same time I was born there. I noted though that you also have chosen to come to Wyoming to live and work.

Before moving to Cheyenne to become Wyoming State Director in 2002, Bob spent 16 years in Wyoming with the BLM as a Branch Chief for Environmental Coordination, Special Assistant to the State Director, Branch Chief for Solid Minerals, and Assistant to the Deputy State Director for Minerals.

In 1989 he became the Deputy State Director for Minerals. Bob served in this capacity from 1989 with the exception of a 10-month break when he served as the Acting State Director. In January of 2000, Bob was appointed to the position of Associate State Director for BLM.

Mr. Bennett.

**STATEMENT OF BOB BENNETT, STATE DIRECTOR,
WYOMING BUREAU OF LAND MANAGEMENT**

Mr. BENNETT. I appreciate it, Senator. I also have to point out that my blood is still a forester. I was a graduate from the University of Montana in Forestry and I got my advanced degree in Silviculture. So this is a fun hearing for me.

I would like to thank you for inviting me to participate in today's hearing on opportunities for small businesses in forest health activities on public lands. I am Bob Bennett, State Director for the Bureau of Land Management in Wyoming.

The Bureau of Land Management manages the public lands in Wyoming, some 18 million surface acres comprising approximately 30 percent of the State's land base.

It manages for multi use, not only forest management but also includes energy development, wildlife habitat, recreational opportunities, scenic vistas, wild horses, minerals, paleontological and cultural resources, and, of course, livestock grazing.

Because of revenues from mineral leases, royalties, bonuses, shared revenues from grazing fees, and economic opportunities from public land-based commodity development, Wyoming remains one of the few states in the country without a state income tax.

A couple of highlights: Wyoming leads the nation in coal production with approximately 29 states using coal from public lands in the Powder River Basin to generate electricity.

Trona, that is soda ash, mined from Federal and private land in the Green River Basin provides 90 percent of the nation's supply and 30 percent of the world's supply.

Coalbed natural gas development for electricity generation will increase dramatically as operators expect to drill more and more wells in the next decade.

Revenue sharing from energy activities on public lands in Wyoming brought \$467 million to the State in fiscal year 2003. Hunting trips and recreation-related activities on Bureau-administered lands in Wyoming generate more than \$126 million annually.

Scattered across the public lands in Wyoming managed by the Bureau are approximately 1 million acres of woodlands and forest-

lands. These serve as, for the most part, transition zones between rangelands and National Forest System lands. Many are isolated and, in some cases, difficult to access.

In Wyoming, as in other western states, there is an urgent need for action to restore the health of the public forests and rangelands. To reduce the risk of catastrophic wildfire on our public lands, President Bush, in the summer of 2002, established the Healthy Forests Initiative.

The Healthy Forests Initiative focuses on reducing the risk of catastrophic fire by establishing a framework for protecting communities and the environment through local collaboration on thinning, planned burns and other forest restoration projects.

The initiative builds on a 10-year comprehensive strategy for a collaborative approach for reducing wildfire risks to communities and the environment, adopted in May 2002 by Federal agencies in cooperation with western and southern governors, county commissioners, state foresters and tribal officials. On December 3, 2003, President Bush signed the Healthy Forests Restoration Act, Public Law 108-148, vital legislation that supports the Healthy Forests Initiative.

The President's proposed budget for fiscal year 2005 includes \$760 million to be used by the Department of the Interior and the Department of Agriculture to continue implementation of the Healthy Forests Initiative.

The budget proposal takes an integrated approach to reducing hazardous fuels and restoring forest and rangeland health. The fuels reduction program will be integrated with programs that support wildlife habitat improvements, watershed enhancements, vegetation management, and stewardship contracting to achieve more comprehensive and effective results on the ground.

Activities on the public lands to promote and restore forest and rangeland health present opportunities to small business and local communities. Recently enacted legislation, Public Law 108-7, Consolidated Appropriations Resolution, 2003, authorizes Federal agencies to contract with small businesses to perform forest health activities.

This stewardship contracting authority allows Federal agencies to enter into long term, up to 10 years, contracts with small businesses, communities, and nonprofit organizations to reduce wildfire risk and improve forest and rangeland health.

This authority allows contractors, community groups, and others to trade the value of forest and woodland materials as payment or partial payment for their service, while improving environmental conditions and adhering to applicable environmental regulations.

Long term contracts foster a public/private partnership to restore forest and rangeland health by giving contractors the incentive to invest in equipment and facilities needed to productively use material from forest thinning to make useful wood products or to produce biomass energy.

The Bureau has already begun to use this authority. On the BLM managed lands in Wyoming, three stewardship contracts are expected to be offered in 2004.

Among the expected benefits of stewardship contracting is production of biomass energy. The White House announced that the

authorities in the Healthy Forests Restoration Act of 2003 will, among other priorities, encourage biomass energy production through grants and assistance to local communities creating market incentives for removal of otherwise valueless forest material.

The President's Healthy Forests Initiative, the National Fire Plan and the 10-year Comprehensive Strategy all call for biomass and wood fiber use.

One problem has been that markets for biomass and small wood are sporadic and marginally economic in most western states. Long term stewardship contracting presents opportunities for a steady supply, new markets and product uses.

Just last month, the Departments of the Interior, Agriculture, and Energy joined the Western Governors' Association and National Association of Counties in sponsoring a conference to address the use of woody biomass as an effective restoration and hazardous fuel reduction tool that delivers economic and environmental benefits.

In conclusion, the Bureau of Land Management in Wyoming is moving ahead with activities to restore forest and rangeland health. In 2004, we expect to offer contracts for forest health treatments and hazardous fuels reduction, and to develop opportunities for using the by-products of such land and resource treatments. We are interested in working in partnership with other Federal, State, local, and tribal agencies as we continue to implement the President's Healthy Forests Initiative.

This concludes my comments and I will be happy to attempt to answer any questions.

[The prepared statement of Mr. Bennett follows:]

TESTIMONY OF
BOB BENNETT, STATE DIRECTOR, WYOMING
BUREAU OF LAND MANAGEMENT
BEFORE THE
SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
“ROLE THAT SMALL BUSINESS SHOULD PLAY IN MAINTAINING FOREST HEALTH”
FIELD HEARING, CODY, WYOMING
FEBRUARY 19, 2004

Thank you for inviting me to participate in today’s hearing on opportunities for small businesses in forest health activities on public lands. I am Bob Bennett, State Director for the Bureau of Land Management (BLM) in Wyoming.

The BLM manages the public lands in Wyoming (some 18 million surface acres comprising around 30 percent of the state’s land base) for multiple uses including energy development, wildlife habitat, recreational opportunities, scenic vistas, wild horses, minerals, paleontological and cultural resources, and livestock grazing. Because of revenues from mineral leases, royalties, bonuses, shared revenues from grazing fees, and economic opportunities from public land-based commodity development, Wyoming remains one of the few States in the country without a State income tax.

A few highlights: Wyoming leads the nation in coal production, with 29 states using coal from public lands in the Powder River Basin to generate electricity. Trona (soda ash) mined from Federal and private land in the Green River Basin provides 90 percent of the nation’s supply and 30 percent of the world’s supply. Coalbed natural gas development for electricity generation will increase dramatically, as operators expect to drill more and more wells in the next decade. Revenue-sharing from energy activities on public lands in Wyoming brought \$467 million to the state in fiscal year 2003. Hunting trips and wildlife-related recreation on BLM-administered lands in Wyoming generate more than \$126 million annually.

Scattered across the public lands in Wyoming managed by the BLM are approximately one million acres of woodlands and forestlands. These often serve as buffers between rangelands and National Forest System lands; many are in isolated stands which are difficult to access

In Wyoming, as in other western states, there is an urgent need for actions to restore the health of the public forests and rangelands. To reduce the risk of catastrophic wildfire on our public lands, President Bush, in the summer of 2002, established the Healthy Forests Initiative (HFI). The HFI focuses on reducing the risk of catastrophic fire by establishing a framework for protecting communities and the environment through local collaboration on thinning, planned burns and other forest restoration projects. The initiative builds on the “10-year Comprehensive Strategy for a Collaborative Approach for Reducing Wildland Fire Risks to Communities and the Environment,” adopted in May 2002 by federal agencies in cooperation with western and southern governors, county commissioners, state foresters and tribal officials. On December 3, 2003, President Bush signed the Healthy Forests Restoration Act (Public Law 108-148), vital legislation that supports the Healthy Forests Initiative.

The President’s proposed Budget for Fiscal Year 2005 includes \$760 million to be used by the Department of the Interior and the Department of Agriculture to continue implementation of the

Healthy Forests Initiative. The budget proposal takes an integrated approach to reducing hazardous fuels and restoring forest and rangeland health. The fuels reduction program will be integrated with programs that support wildlife habitat improvements, watershed enhancements, vegetation management, and stewardship contracting to achieve more comprehensive and effective results on the ground.

Activities on the public lands to promote and restore forest and rangeland health present opportunities to small business and local communities. Recently enacted legislation (P.L. 108-7, Consolidated Appropriations Resolution, 2003) authorizes federal agencies to contract with small businesses to perform forest health activities. This stewardship contracting authority allows Federal agencies to enter into long-term (up to 10 years) contracts with small businesses, communities, and nonprofit organizations to reduce wildfire risk and improve forest and rangeland health.

This authority allows contractors, community groups, and others to trade the value of forest and woodland materials as payment or partial payment for their service, while improving environmental conditions and adhering to applicable environmental regulations.

Long-term contracts foster a public/private partnership to restore forest and rangeland health by giving contractors the incentive to invest in equipment and facilities needed to productively use material from forest thinning to make useful wood products or to produce biomass energy.

The BLM has already begun to use this authority. On the BLM-managed public lands in Wyoming, three stewardship contracts are expected to be offered in 2004.

Among the expected benefits of stewardship contracting is production of biomass energy. The White House announced that the authorities in the Healthy Forests Restoration Act of 2003 will, among other priorities, encourage biomass energy production through grants and assistance to local communities creating market incentives for removal of otherwise valueless forest material. The President's Healthy Forests Initiative, the National Fire Plan and the 10-year Comprehensive Strategy all call for biomass and wood fiber use.

One problem has been that markets for biomass and small wood are sporadic and marginally economic in most western states. Long-term stewardship contracting presents opportunities for a steady supply, new markets and product uses. Just last month, the Departments of the Interior, Agriculture, and Energy joined the Western Governors' Association and National Association of Counties in sponsoring a conference to address the use of woody biomass as an effective restoration and hazardous fuel reduction tool that delivers economic and environmental benefits.

In conclusion, the BLM in Wyoming is moving ahead with activities to restore forest and rangeland health. In FY 2004, we expect to offer contracts for forest health treatments and hazardous fuels reduction, and to develop opportunities for using the by-products of such land and resource treatments. We are interested in working in partnership with other federal, state, local, and tribal agencies as we continue to implement the President's Healthy Forests Initiative.

This concludes my statement. I would be glad to answer any questions.

Senator ENZI. I thank both of you for your testimony. It has been very helpful. I do have a few questions.

The first question is for both of you. In order to utilize Wyoming's small business community, it is very important to know what resources are available. I am interested in how many small businesses in Wyoming your agencies are using to conduct forest health restoration work. Do your agencies conduct regular surveys to ascertain what the available resources are in the communities particularly of small business and, if not, when will a survey be done?

Mr. CABLES. The answer is, I don't believe we do surveys. I am not aware of surveys that we do in any kind of comprehensive way that assess the number of small businesses we work with.

We have, in our organization, Senator Enzi, the National Forest System lands where we are managing the lands themselves, and then we have another whole branch of the agency—called State and Private Forestry—which funnels money through the States, and primarily the State Forester, to help with economic action plans and economic development and those sorts of things.

I believe we have some data from that part of our organization that can help do an assessment of the number of small businesses we work with.

I am not aware that we actually have a survey along the lines of the question you were asking.

Senator ENZI. How about the BLM?

Mr. BENNETT. I understand that the question actually is a compound question, and as with Rick, I am unaware that the Bureau has an inventory of small businesses that would contribute to the Forest Health Initiative that is, an identification or location for those.

However, I believe that virtually all of the contracts that we would offer or are offering, qualify as small business—that is that they meet the criteria for small business.

Those activities that we would fund, such as thinning or timber stand improvement or fire hazard reduction, those for the most part, would be offered and I think for the most part available and certainly encourage small business to take part.

I think most of those contractors would be classified as small business. I know there were a couple other aspects to that Senator Enzi. Do we have the listing, are we using them, and I apologize that I missed part of it.

Senator ENZI. That is okay. I think from your answers I have a feel for it. I, of course, am hoping the agencies will survey to see what small businesses are available to work on any of the forest projects that there are.

I just finished doing a procurement conference in Gillette and the purpose of that conference was to bring in Federal agencies to meet with small businessmen from the State of Wyoming to see what contracts they might be able to get.

In every Federal agency there is a requirement that there has to be a priority for small business, and I am just trying to do something to pull the small business communities into the discussion so they participate.

As I mentioned before, they are usually more flexible so they can shift to different ideas more quickly than others. They also live in the communities where the work is being done. They have to live with the community and with the forest and are often very good at working between the two.

I am expecting the individual National Forests in addition to the district offices to meet with local forest products companies to substantially discuss long range objectives, the industry's capabilities, their logging capabilities and strategies to help both the agencies and the forest products industry.

Mr. Cables, you mentioned in your testimony that The Healthy Forest Restoration Act does provide for consultants to help develop plans for communities. Could you give me a little more information on how that might work and would it work in conjunction with small businesses?

I am a little leery of a consultant coming in and being paid by the hour from some other part of the country and leaving small business out of the mix.

Mr. CABLES. Well, first of all, the Healthy Forest Restoration Act has a provision in there where we consult and work closely with communities to develop community wildfire protection plans.

That process actually helps define the area in and around those communities that we can treat to put the forest in a healthier condition.

It is unique and it allows the communities to help define the area that gets treated. Instead of just us, the Federal agencies are defining it, the community gets to define it.

Those plans have to be developed within the authorities described in the new legislation. I see an opportunity there for some consultants or other folks working with the State, a State Forester, and others to build those plans with the communities.

Now, I share your concern about who might do that. There is an example down in Albany County where a local volunteer fire department chief, a fellow by the name of Scott Davis, recently started his consulting business to write what we call "Fire wise" plans, which are stewardship plans for private landowners within the county and state.

The Wyoming State Forestry Division requires that landowners have an approved plan in order to get cost share funding through us.

There are examples in Wyoming where we do have local folks who have stepped into this role and are helping do some of these plans.

That is another dimension of small businesses that I think can benefit from some of these things.

Mr. BENNETT. Similarly, we also have examples where that has been the case and actually, I think that your point about the flexibility of a small business to change direction and to respond is actually well taken on what Rick said because in this case we have an example of an individual who had the expertise, could do the job, knew the local situation, knew the hazards, and knew the people. If we can, the Forest Service in this case, could capture all of those benefits and fortunately, in bidding the job, because he was

local, and because of his expenses, was probably a very competitive bid.

It seems to me like those kinds of examples, we ought to be able to capture. I know also, our fire control people had talked about similar examples.

It is out there and I think your point about local is actually one of the strengths of small business doing this kind of work in the local area.

Senator ENZI. Thank you. I guess what kind of brought all of this to my attention was finding out about a little project over in another state, Rapid City, South Dakota.

They have a forest that comes down, evidently, almost to the city and they decided they needed to kind of clean that up and prevent some fires. Great idea.

They hired one company to come in and take out the timber, which was the logging company, and then they hired another company to come in and take out the under brush.

Of course, the company that took out the timber explained to me that, had they known there were the two contracts available, they would have been able to do that much cheaper than having two separate contracts and having two different set ups.

I think that better coordination and a little better understanding sometimes helps to save some costs.

Mr. CABLES. Senator, can I just comment on that? That is why this end result/stewardship contract is written the way it is, because it defines the end result that you want on the land and then you can get a contract to produce that end result; instead of having multiple contractors come in at different points in time, the expenses of that, move in move out costs, and so on and so forth. This new authority really gives us the ability to do that.

Senator ENZI. I appreciate your saying that. I helped draft that part of it, specifically with that problem in mind.

Mr. Cables, last week at the Wyoming Legislature you said the biggest challenge was to engage the private sector to accomplish the needed management work on the National Forest.

The speakers on the second panel will explain their viewpoint on the Forest Service and the lack of a predictable and consistent supply of timber from the National Forests. That is their biggest problem.

With this apparent direct self-interest, that both parties have in coming together to make something happen, can you give me any insight on what the hold up might be? Why haven't the two positions come together more to form more partnerships?

You did mention the six partnerships in your opening statement and I am pleased at that, but is there something more the industry ought to be doing, or is there something more that Congress needs to do, or is there something more that your agency needs to do? Do you have any suggestions for us to bring people together?

Mr. CABLES. You bet, Senator. I think the industry is doing a lot already. I mentioned at that hearing you just referenced down in Cheyenne that I had the opportunity to tour one of Jim Neiman's mills in Hill City. I was so impressed with the investment he has made and their ability to utilize smaller material with laser guided

saws to get the most utilization out of a log, even if it is crooked and not very useable in our old technology.

He has also developed the ability to use the mill in Hill City for small diameter material and then the mill in Hulett for larger diameter material, which in turn subsidizes the small diameter material, and he needs both.

I think that illustrates one of the issues that we have and that we have to really help. We can't expect industry to only take material that is not economically viable, because that is not going to work.

I was talking to Ernie Schmidt earlier and he is going to speak on his operation there in Sheridan. He has a lot of new technology to use smaller diameter material and new technologies to create I-beams and floor joists and that sort of thing. I know Ernie's going to talk about that.

I think industry has done a lot. The Forest Service, we can do more. I would point out that we are trying already, and if you look at this graph over here on the right, this is the trend, in the 3 years I have been in this region, of the number of acres we are treating.

The volume that we have offered, for example, in the State of Wyoming has increased to 17 million this year and it is going to be 54 million next year. We are talking about a significant increase of wood available on the market. Some of it is small diameter and some is large diameter.

I think the real effect of stewardship contracting, which only passed a year ago, and the Healthy Forest Restoration Act, which is only 2 months old—we haven't felt that yet.

We have to have a little bit of time to really fully utilize those new authorities. We are working as fast as we can to make those reality, because there is a high sense of urgency on our part to get the land treated.

I know there is a high sense of urgency on the industry's part to stay viable because we need each other. I think part of our, the agency's, issue is the lag time to implement these new tools.

What can Congress do, the third part of that? This hearing is a very positive step here. As I said to you before the hearing, we need to spend time with Committees that aren't the traditional Committees we get in front of.

We have to talk about the effect of international trade on the wood products industry in this country. It is significant.

I think where Congress can really help us is by holding hearings like this and giving us an opportunity to have this dialog so there is a higher degree of understanding of just what the issues are.

Senator ENZI. I appreciate that. I also serve on the Foreign Relations Committee so maybe we can have some international trade discussions as well that deal with our forests. Mr. Bennett, did you want to make a comment on that?

Mr. BENNETT. I think I would echo much of what Rick says. I think there are some things that, at least from my position and not because of the acreage involved, you know, the Bureau is not a heavy player in the forest products industry certainly here in Wyoming.

I also think that we need to be thinking about a redefinition of forest products too. As a young forester, I was also looking at what was merchantable and comparing that to what the site could produce.

I think that we have to redefine that to total biomass as opposed to merchantability so we not only are measuring and planning for what is merchantable, but also what the total capacity and productivity of the land is so that we are thinking about biomass in terms of what new products and what new things can come out of that, certainly fuel itself.

I think we need to be somewhat more creative in terms of what products and it takes time to do that. Certainly, small business, they have a real role to play in that because they are creative. They do think outside the box and they seize opportunities and they can do it much more quickly.

I know that the Forest Service does have research facilities and I think that maybe emphasis should be placed on the development of more merchantable or more valuable products on what has traditionally been non-merchantable and then certainly outreach to the industry with the results. Those kinds of things. What are those products and what can business play in terms of using those products.

Again, I would certainly echo Rick's statements about the international aspect of this. It is my understanding, of what the United States could produce in terms of timber products, we are simply not getting everything out of it that we should be.

We are importing when in a large respect I think we could be relying on our own local industries and capacity.

Senator ENZI. Thank you. In our legislation we placed a rather limited number of acres in the category of needing to be cleaned up and it is not nearly all of what should be done.

Does the Forest Service have any estimates of the number of dollars that it will take to clean up the forest? Also is there a comparison between the number of dollars it will take if the Forest Service does it as compared to using the normal businesses that work in that area? Have there been any estimates on that?

Mr. CABLES. We certainly have not, at the regional level, estimated the total amount of dollars required to treat the lands we think need to be treated.

We do have one example on the Black Hills in South Dakota and northeast Wyoming where we have a 10-year plan. They have an advisory committee on the Black Hills, made up of a cross section of interested people, and there was a presentation to them about treating roughly 400,000 acres, at the cost of roughly \$300 million over a 10-year period..

Now, the more of that that can be done through using contractors, and either trading goods for services or having the contractors make a viable economic go of it, the less expensive it is for the taxpayer, clearly. I think that is part of what you are getting at.

In my mind, there is just not going to be enough money for us, with just appropriated tax dollars and all the other priorities in this country to treat the number of acres we need to treat, unless we can get the private sector engaged.

Look at a \$500-an-acre cost, for example, to do a fuel treatment project to reduce the risk of catastrophic fire. If it costs \$500 an acre of appropriated funds and you can sell a couple merchantable trees on that acre and subsidize that, we ought to be able to take that \$500 and treat two or three acres instead of one.

So, that kind of leverage I think we need to be thinking about and need to implement. In my mind it is clear because the scale of this problem is such that we are not going to be able to do it at the speed we need to do it unless we have the support and the leverage of those dollars with the private sector.

Senator ENZI. Thank you. At this time, my staff will collect any questions the audience has. Again, I will mention that there are slips of paper out there on which you can write questions for either panel.

We won't have time to ask all of them at this hearing, but we will get answers on them as a part of the record.

One of the questions from the audience, the BLM appears to be desperately understaffed in foresters and techs. Are there any plans to offer internships, temporary positions, using any kind of funding to reduce the backlog and bring the BLM and the Forest Service into a more effective time line for addressing the forest health problems?

Mr. BENNETT. Being a forester, I like that kind of question. You know, in reality that is a fairly accurate portrayal of what has happened in the Bureau in the last 20 years.

The number of staff foresters has diminished. I think for the State here in Wyoming, you know, we have a forester that actually does a number of jobs in the State office then and we have several out in the field.

That really isn't an adequate number to do the job correctly, in my estimation, in terms of working with the local people and offering forest products and simply even providing input into many of our land use plans relative to a forest program. So I would agree with that statement.

We have, in fact, a number of programs in place that we think we can, in fact, bring people of that discipline on. Certainly we have a step by step personnel process where we assist young people going through their education trying to develop them in those disciplines and then we offer them entry level jobs as they come on.

There are programs in place certainly. Now I am talking about Wyoming specifically.

I think out in western Oregon and northern California some of the more heavily forested states, they are probably doing a lot more and I must admit that I can't speak directly to those.

Specifically, we do have a number of programs for bringing people on. Funding those people and getting them on board is part of the issue, of course, but generally, I would also agree that here in Wyoming particularly, it would be nice to have additional forest staff.

Senator ENZI. I will expand that and ask if the Forest Service is using interns.

Mr. CABLES. We are using interns but the only intern program we have formally is the Presidential Management Interns, and that is a pretty small, select group at a high level.

We do though, typically, bring folks on through seasonal jobs, trail crews, firefighters, and that sort of thing and then, hopefully, we are able to keep the ones that are really doing well and ultimately convert them into permanent positions with the agency.

I would like nothing more than to be able to bring on a whole bunch more folks, and a lot of young people, because the demographic in our agency (and I know it is true in the Bureau of Land Management) is such that about 70 percent of our workforce is 50 years or older.

There is a huge bubble of employees like myself—Bob's a lot younger—who are going to be retiring before too long.

These kids back here in the back of the room, I hope they are paying attention because there are going to be some opportunities in 5 or 6 years and we are going to be hiring a lot of folks.

The only formal intern program is that one. We usually get it done, Senator ENZI, through seasonal employees that we bring on to work summer jobs and if they have got the right education requirements, we are hopefully able to convert some of those to permanent positions.

Senator ENZI. I think the question was along the lines of bringing in some college student expertise to help out some of the professionals and also have the students learn something at that time. We might have to look at getting some additional coordination out there.

This is an interesting question from the audience. How do you plan to clear forests that are inaccessible by roads but are probably still at risk to catastrophic fires?

Mr. CABLES. Well, this is where the economics of the project really come into play. First of all, if the area is designated in the land management plan as an area where we can build roads, then we have the capability to build roads according to the zoning of the forest.

Assuming that is the case, then it gets into an economic question. Is it economically wise to build a road, which can be expensive, or a road system into an area that will enable us to clear the forest through tractor logging or some other mechanical means?

The other option is to do it through helicopter work, but that requires extremely high value wood and large trees, because you can't afford to pay for that kind of operation when the trees aren't high value.

The forest plan allows us to either harvest timber, thin, or build roads, we just have to figure out if it is a wise use of the taxpayers' dollars to go in and do that, or if we are just going to lose so much money it would be better to put our money in acres where we can do the work in a more economically feasible way.

Senator ENZI. Thank you. I definitely had to ask that one and I think there might be some other potential ideas out there. One of the things I have discovered is that if you turn a problem over to the young people of this State, they can usually invent something that will provide a solution with a small foot print and allow continued accessibility. Since we have all those students here, I had to make that point.

The day before yesterday I held an inventor's conference in the State. I am encouraging young people to come up with ideas that

they can market around the world from Wyoming. We had a great turn out for that, although we didn't have as many young people as I had hoped we would.

As you outline your problems with the forest, I think you can trust the young people of this state to come up with some ideas for keeping it the kind of state we have always anticipated, and we have always enjoyed, and still be able to solve some of the problems like the one we just mentioned.

We do have more questions, but I do want to have some time for the other panel. I really appreciate your participation in this. We appreciate the work of all of the people in the Forest Service and in the Bureau of Land Management and know that their efforts can be expanded dramatically by making use of the innovation and ingenuity of the small business folks of Wyoming.

I really appreciate your testimony and will be providing you with some additional questions and would appreciate the answers to those.

Mr. CABLES. Thank you, Senator.

Senator ENZI. If I could have the other panel move up to the table, please? Again, we will have the testimony from all of the witnesses and then have questions of the panel all at the same time.

Again, those of you in the audience, if you have questions, write them down. I will have my staff pick them up as soon as we get to the question period. If you would direct the question to a specific person on the panel that would be helpful as well.

Our first witness on the second panel is Jim Neiman, Vice President and Manager of Devil's Tower Forest Products in Hulett, Wyoming.

The Neiman family owns three wood products companies that operate in the Black Hills area. They employ more than 300 direct employees and 150 indirectly through contracts.

The company produces industrial items for windows and door companies and lumber for wholesale and retail markets throughout the United States.

The Neiman family has been in the forest products business for three generations and in the ranching business for five.

Mr. Neiman graduated from the University of Wyoming in 1974 and currently serves as a Trustee for the University. He is also on the Hulett National Bank Board, the Hulett Airport Board, and is a member of other organizations.

Mr. Neiman.

**STATEMENT OF JIM D. NEIMAN, NEIMAN ENTERPRISES, INC.;
NEIMAN TIMBER COMPANY, LLC, HULETT, WYOMING**

Mr. NEIMAN. Thank you Senator Enzi. Good morning, everyone. As the Senator stated, my name is Jim Neiman. We own three operations in the Black Hills—Devil's Tower Forest Products, Rushmore Forest Products, and Mountain West Mill Works.

My duties today were to talk about the state of the forest products industry, and land some perspective on how existing and prospective business ventures may fit into the maintenance of forest health in Wyoming.

Lucky for you, I can sum up this thorny subject with one yarn from Mark Twain who said: "All good things arrive unto them that wait—and don't die in the meantime."

Last December, President Bush signed the most significant piece of environmental legislation since the National Environmental Policy Act, the Endangered Species Act, and the National Forest Management Act.

Many of the honorable members of the United States Senate, our own Senator Enzi, many of us on this panel and many others in this room had a hand in the passage of the Healthy Forests Restoration Act.

For those of us who haven't "died in the meantime" and for the agencies who will administer it, the Healthy Forest Restoration Act represents a whole new horizon. This new horizon is a welcome shift for those of us who, against the odds, have managed to endure the hardships of diminishing resource supply for public lands over the past decades.

We who remain, the good business people sitting at this table, consider ourselves the best vehicle to transport our National Forests from their currently unhealthy and at-risk condition, into the healthier, safer condition we all desire.

There is a good degree of consensus among the agencies, scientists, foresters, and the industry on what exactly characterizes that healthier, safer condition and on how to get there from where we are.

From the perspective of industry, implementing these goals must begin by ensuring that our existing infrastructure shrinks no further than it already has. Furthermore, industry must be able to maintain itself in an economic condition which allows us to make the investments and technological innovations that will expand our operations to encompass forest health and wildfire management goals.

This means broadening our horizons to include new kinds of forest products for which markets do not currently exist. The horse that must pull this cart, however, is the consistent accomplishment of Forest Plan program commitments by National Forests in the State, which in turn imparts business people and their investors with the certainty the need to push the envelope.

Now I just said what I consider the three most important words: Consistency, Commitment and Certainty. These are the greatest challenges to building the necessary partnership between communities, governments and industries that will bring our new horizon of forest health and wildfire management objectives to fruition. Consistency, Commitment, Certainty.

In other words, we must integrate the objectives of wildfire resistance, forest health, community protection, and local collaboration along with meeting existing management programs and caring for our natural resources over the long term. I mean the long term.

I could not in good conscience tell you the outlook for success on our new horizon is anything but bleak without these three words. Consistency, Commitment, and Certainty.

Let me reiterate that we live in a time of opportunity and excitement, and I mean true excitement. I feel it myself and I see it around the room this morning. We are all blessed to be players on

this stage who will help act out the course of public lands management for the next generation. I am please to see another generation sit behind us.

To be successful, we need to build on what we know best. We need to have consistency, commitment and certainty from the Forest Service. We need to push the envelope into new and unexplored waters.

We have identified the problem and the desired condition. We know what our goals are. Now it is time for action. Time is of the essence.

Reflecting to the younger generation, my dad many times when I was young, reflected on this statement—do something even if it is wrong. To do nothing is failure and learn from your mistakes.

I look forward today and in the future to sit down and work progressively in very candid discussions with Congress and the Forest Service to create not discussions and just planning, but action so we can move ahead.

Senator I am honored to be a part of this operation and process. Again, thank you very much.

[The prepared statement of Mr. Neiman follows:]

JIM NEIMAN

REMARKS

BEFORE THE SENATE SMALL BUSINESS COMMITTEE FIELD HEARING:

Thank you Senator Enzi.

Good morning. I'm Jim Neiman, owner and operator of three wood products facilities in the Black Hills. My duties today were to talk about the state of the forest products industry, and lend some perspective on how existing and prospective business ventures may fit into the maintenance of forest health in Wyoming. Lucky for you, I can sum-up that thorny subject with one old yarn from Mark Twain, who said: "All good things arrive unto them that wait - and don't die in the meantime."

Last December, President Bush signed the most significant piece of environmental legislation since NEPA, the ESA, or NFMA. Many of the honorable members of the US Senate, our own Senator Enzi, many of us on this panel, and many others in this room had a hand in its passage; it was called the Healthy Forests Restoration Act. For those of us who haven't 'died in the meantime' and for the agencies who'll administer it, the HFRA represents a whole new horizon. This new horizon is a welcome shift for those of us who, against the odds, have managed to endure the hardships of diminishing resource supply from public lands over the past decade.

We who remain, the good businesspeople sitting at this table with me, consider ourselves the best vehicle to transport our National Forests from their currently unhealthy and at-risk condition, into the healthier, safer condition we all desire. There is a good degree of consensus among agencies, scientists, foresters, and industry on what exactly characterizes that healthier, safer condition and on how to get there from where we are.

From the perspective of industry, implementing these goals must begin by ensuring that our existing infrastructure shrinks no further than it already has. Furthermore, industry must be able to maintain itself in an economic condition which allows us to make the investments and technological innovations that will expand our operations to encompass forest health and wildfire management goals. This means broadening our horizons to include new kinds of forest products for which markets do not currently exist. The horse that must pull this cart, however, is the consistent accomplishment of Forest Plan program commitments by National Forests in the state, which in turn imparts businesspeople and their investors with the certainty they need to push the envelope.

Now, I just said what I consider the three most important words of the day: Consistency. Commitment. Certainty. These are the greatest challenges to building the necessary partnerships between communities, governments, and industries that will bring our new horizon of forest health and wildfire management objectives to fruition. Consistency. Commitment. Certainty. In other words, we must integrate the objectives of wildfire resistance, forest health, community protection, and local collaboration along with meeting existing management programs and caring for our natural resources over the long term. I could not in good conscience tell you the outlook for success on our new horizon is anything but bleak without those three words. Consistency, commitment, and certainty.

Let me reiterate that we live in a time of opportunity and excitement. I feel it myself, and I see it around the room this morning. We are all blessed to be players on this stage who will help act out the course of public lands management for the next generation. To be successful, we need to build on what we know best. We need to have consistency, commitment, and certainty from the Forest Service. And we need to push the envelope into new and unexplored waters. Thank you

Senator ENZI. Thank you. Our second witness on this panel is Ms. Kathleen Jachowski, Public Relations/Government liaison for Cody Lumber located here in Cody.

Kathleen represents Cody Lumber as a member of the Wyoming Timber Industry Association and I can tell you from experience that she lobbies effectively in Washington, D.C. on forestry issues. She lobbies with the Federated Women in Timber, a capacity in which she and I have met and discussed these issues many times, but I am even more impressed with the networking she has done around Washington and the diverse group of people that she has been able to meet there.

She is an excellent spokesperson for the many uses of our Federal public lands. She has addressed the United Nation's Heritage Committee delegation in Yellowstone National Park regarding mining issues and the UN's North American Conference on World Forests in Vancouver, British Columbia. She has testified before the U.S. House Resource Committee on the socio-economic effects of UN Heritage Sites on surrounding communities, and has participated in the contentious issues of grizzly bear, wolf reintroduction and other endangered species.

She is the Past Chair of the Business Retention and Expansion Committee for Cody's Economic Development Council and also works as a writer for statewide and local papers on a wide variety of topics.

She is also on the radio weekly and we thank her for graciously preempting that radio appearance to be with us here today.

**STATEMENT OF KATHLEEN P. JACHOWSKI, REPRESENTING
CODY LUMBER, INC.**

Ms. JACHOWSKI. Thank you. Senator Enzi, I wish to extend my company's thanks to you for conducting this field hearing on the role small businesses should play in maintaining forest health. Please extend our genuine appreciation to Chair Senator Olympia Snowe and your fellow Committee colleagues for making this effort to have the voice of small businesses heard through this more effective and unfiltered mechanism.

I have served in the capacity of Public Relations and Government Liaison for Cody Lumber for the past 10½ years. My previous and direct involvement in economic development and in access issues on public lands laid the foundation for this work. I am a graduate geographer whose special interest is in how public policy affects large regional landscapes.

Getting right to the heart of the question posed by this hearing, which is what role should small businesses play in maintaining forest health, is not difficult and the answer is applicable in many private, State and Federal forest situations.

The collective and results-oriented answer is that small businesses should be harvesting sold timber and manipulating those same landscapes by sound silviculture prescription methods intended to create a continuously vigorous growing environment which will slow the ravages of insect and disease, mitigate the effects of adverse climate conditions and produce quality lumber for the American consumer.

Small forestry-related businesses can play a significant role in achieving forest health objectives by using the latest and best equipment possible. Advances in technology can be brought to bear on a landscape if a company has the financial wherewithal to buy or lease such equipment.

You can't, however, buy or lease equipment with words and promises of timber sales on the horizon. Consequently, when a company's cash reserves are depleted and borrowing power is marginalized by delay after delay, the role that company can play in enhancing forest health is drastically minimized and not infrequently literally shutdown.

The geographic distribution of small forestry-related businesses plays a significant but often overlooked role in maintaining forest health. How so? Such businesses located throughout large landscape areas enhance flexibility to deal with many problem areas at the same time.

Having sawmills and forestry service enterprises go out of business drastically reduces response time and the cost effectiveness in dealing with forest health problems.

Rapid response time is as important to maintaining healthy forest resources as it is in preventing and addressing many other types of crisis. Rapid response time is also equally important in having timber worth bidding on for business enterprises.

Make no mistake—millions and millions of acres of dead forests with little or no business capacity to match the magnitude of the problem is not a windfall for anyone. It is a deadfall, a downfall of devastation with poor quality wood and health and safety problems almost beyond imagination.

It is neither the goal nor the role of small forestry business enterprises to produce poor quality wood.

These simply stated words contain both the problems and the solutions to the agonizing debates that swirl around forest discussions.

Small businesses in the Federal forestry context should be helping to maintain a high standard of forest health on the designated suitable timber lands in as vigorous a state of health as is possible to control: (1) desired species composition; and (2) density of trees on the designated suitable timber landscapes.

Small forestry-related business can and should achieve this through harvesting, thinning overcrowded timber stands and reforestation where needed. These manipulations working in concert with nature repeatedly produce high quality trees and forest landscapes that protect watersheds, provide wildlife habitat, and a safe and viable environment for the public to enjoy.

Small forestry-related businesses serve the role of actually implementing all the talking and all the planning that precede timber sales on Federal landscapes. Theirs is the role of making the words come alive for the long-term benefit of the natural resources and the attainment of many values which communities hold dear.

Through their investments in equipment, experienced manpower, and their purchasing capacity to buy timber sales, they are the key element in turning all the talking and planning into actual and beneficial results. The role of small businesses is not a whole lot more complicated than that.

Complications to that role set in, however, when talking and planning and more planning are all that are brought to bear on forest health. Trees can, in fact, be talked to death.

Small businesses can also be talked to death or so economically marginalized by delay after delay that their bankers become very skiddish—to use a logging phrase—about the future and the soundness of lending money to a business enterprise that produces words but not much in the way of product nor profit.

I look forward to answering any questions you might have regarding specific examples of how my company has endeavored to fulfill these roles and the significant problems we have repeatedly encountered. Thank you.

[The prepared statement of Ms. Jachowski follows:]

WRITTEN STATEMENT OF
KATHLEEN JACHOWSKI REPRESENTING CODY LUMBER, INC.
BEFORE THE
SENATE COMMITTEE ON SMALL BUSINESS AND
ENTREPRENEURSHIP
ON THE ROLE SMALL BUSINESSES SHOULD PLAY IN MAINTAINING FOREST HEALTH
FEBRUARY 19, 2004
CODY, WYOMING

Senator Enzi I wish to extend my company's thanks to you for conducting this field hearing on the role small businesses should play in maintaining forest health. Please extend our genuine appreciation to Chairperson Senator Olympia Snow and your fellow committee colleagues for making this effort to have the voice of small businesses heard through this more effective and 'unfiltered' mechanism.

I have served in the capacity of Public Relations/Government Liaison for Cody Lumber, Inc. for the past ten and a half years. My previous and direct involvement in economic development and in access issues on public lands laid the foundation for this work. I am a graduate geographer whose special interest is in how public policy affects large regional landscapes.

Getting right to the heart of the question posed by this hearing, which is, what role should small businesses play in maintaining forest health, is not difficult and the answer is applicable in many private, state and federal forest situations.

The collective and results-oriented answer is that small businesses should be harvesting sold timber and manipulating those same landscapes by sound silviculture prescription methods intended to create a continuously vigorous growing environment which will slow the ravages of insect and disease, mitigate the effects of adverse climate conditions and produce quality lumber for the American consumer.

Small forestry related businesses can play a significant role in achieving forest health objectives by using the latest and best equipment possible. Advances in technology can be brought to bear on a landscape if a company has the financial wherewithal to buy or lease such equipment. You can't, however, buy or lease equipment with words and promises of timber sales on the horizon. Consequently, when a company's cash reserves are depleted and borrowing power is marginalized by delay after delay the role that company can play in enhancing forest health is drastically minimized and not infrequently literally shutdown.

The geographic distribution of small forestry related businesses plays a significant but often over looked role in maintaining forest health. How so? Such businesses located throughout large landscape areas enhance flexibility to deal with many problem areas at the same time. Having saw mills and forestry service enterprises go out of business drastically reduces response time and the cost effectiveness in dealing with forest health problems. Rapid response time is as important to maintaining healthy forest resources as it is in preventing and addressing many other types of crisis. Rapid response time is also equally important in having timber worth bidding on for business enterprises.

Make no mistake—millions and millions of acres of dead forests with little or no business capacity to match the magnitude of the problem is not a wind fall for anyone. It is a deadfall, a downfall of devastation with poor quality wood and health and safety problems almost beyond imagination. It is neither the goal nor the

role of small forestry business enterprises to produce poor quality wood.

These simply stated words contain both the problems and solutions to the agonizing debates that swirl around forest discussions.

Small businesses in the FEDERAL forestry context should be helping to maintain a high standard of forest health on the **designated suitable timber lands** in as vigorous a state of health as is possible to control (1) desired species composition and (2) density of trees on the designated suitable timber landscapes.

Small forestry related businesses can and should achieve this through harvesting, thinning overcrowded timber stands and reforestation where needed. These manipulations working in concert with nature repeatedly produce high quality trees and forest landscapes that protect watersheds, provide wildlife habitat, and a safe and viable environment for the public to enjoy.

Small forestry related businesses serve the role of actually implementing all the talking and all the planning that precede timber sales on federal landscapes. Theirs is the role of making the words come alive for the long-term benefit of the natural resources and the attainment of many values which communities hold dear.

Through their investments in equipment, experienced manpower, and their purchasing capacity to buy timber sales they are **the key element** in turning all the talking and planning into actual and beneficial results. The role of small businesses is not a whole lot more complicated than that.

Complications to that role set in, however, when talking and planning and more planning are all that are brought to bear on forest health. Trees can in fact be talked to death. Small businesses can also be talked to death or so economically marginalized by delay after delay that their bankers become very skiddish----to use a logging phrase----about the future and the soundness of lending money to a business enterprise that produces words but not product nor profit.

I look forward to answering any questions you might have regarding specific examples of how my company has endeavored to fulfill these roles and the significant problems we have repeatedly encountered.

End of comments by: Kathleen Jachowski, Cody Lumber, Inc. P.O. Box 757, Cody, WY 82414 (307)587-3723.

Senator ENZI. Thank you, very much. Our next witness is Mr. Ernie Schmidt, President and General Manager of Wyoming Sawmills, Inc., in Sheridan, Wyoming.

He began his career with Wyoming Sawmills as chief forester and has been with the company for 26 years.

Wyoming Sawmills has been a locally managed lumber facility in Sheridan, Wyoming, since 1964. Today, it is Sheridan's largest manufacturing firm and produces construction grade lumber to help meet the needs of our nation's home building industry. By operating a stud mill and a finger jointer, Wyoming Sawmills has developed a number of ways to use the low quality as well as high quality logs in a tree.

I look forward to Mr. Schmidt's testimony. We have met a number of times to discuss the need his company has to gain access to Federal lands in order to both restore our forests to a state of health and to allow his company to continue developing its innovative processes.

Mr. Schmidt.

**STATEMENT OF ERNIE SCHMIDT, PRESIDENT,
WYOMING SAWMILLS, INC., SHERIDAN, WYOMING**

Mr. SCHMIDT. Thank you, Senator. I appreciate the opportunity to testify before the Subcommittee. Our approach to the forest health problem has been to focus on new and better lumber products that can better utilize our forest resources.

We have been very successful in this effort. In fact, we have been successful in competing and winning several small business innovative research grants from both the U.S. Department of Agriculture and the National Science Foundation.

Let me tell you about some of the successes we have had in developing new products. The lam-stud was our first product that we developed. It involved taking low-grade lumber and creating high-strength structural lumber.

This product has evolved into other related products using the same technology. Examples of that are lam-lumber and lam-heads, all of which are presently on the market.

Probably the most exciting research that we are working on right now is one funded through the National Science Foundation where we have developed the technology to take wood waste material that presently goes into chips and creating an innovative new wood product we call Structural Strand Lumber that can be made into an I-joist like this—

The implications of this technology is that 22 percent more of every log coming into a sawmill can be produced into a useable structural lumber.

This technology will create a major paradigm shift that will revolutionize the lumber industry. This was developed by a small business working with a large equipment manufacturing company, COE Manufacturing.

This joist is stronger than comparable joists that are presently on the market as it is made from low strength wood by-products from a sawmill. It is revolutionary and a great idea.

The next step in the development is to build a pilot plant to prove out the production process. This is where we as a small business are having some problems.

You see, our main timber source closest to our sawmill is the Big Horn National Forest. The timber program has been so undependable in the last 10 to 15 years that no investor will invest the \$7 million needed to build a pilot plant in Sheridan.

The results could be that an idea developed by a small business being implemented by large businesses where private timber supplies can be guaranteed. I believe that would be tragic to all of us.

This is where small businesses like ours need the help of the Forest Service to forward this technology and ultimately benefit Federal lands and forest health.

We need a secure long-term timber supply to guarantee private investors an opportunity for their investment to mature.

The Forest Service has talked about 10-year guarantees for new technology. I say now is the time. We need something like a large scale stewardship contract, say 20,000 acres, that is in suitable timberland that would guarantee a 10-year timber supply to move this technology ahead.

The results would be that new technology available for us all to use to help the industry can help the Forest Service maintain forest health.

Once fully developed, the SSL technology will enable existing sawmills to utilize more fiber and expand into smaller diameter trees in the future. The up side is our Federal forests will be worth 22 percent more.

I see this kind of activity that I am proposing at this scale being done on other vegetative management projects.

Just recently, an 18,000-acre vegetation management project was approved on the Big Horn National Forest. What I am proposing is something very similar only on suitable land and with harvestable timber.

I believe it is time for the Forest Service to think outside the box and become more of a partner with industry to solve our national forest health problems.

I hope my ideas can help this Committee accomplish this goal. Thank you, Senator.

[The prepared statement of Mr. Schmidt follows:]

Testimony of
Ernie Schmidt
President, Wyoming Sawmills, Inc., Sheridan, Wyoming
Before the
Senate Committee on Small Business and Entrepreneurship
February 19, 2004
Cody, Wyoming

Thank you, Senator Enzi for the opportunity to testify before the Senate Committee on Small Business and Entrepreneurship about the role small business should play in maintaining forest health. I am Ernie Schmidt, President of Wyoming Sawmills, located in Sheridan, Wyoming. We are a small sawmill that produces about 40 million board feet of 2x4-stud lumber a year. We employ about 100 people directly and have up to 50 contract loggers.

Our approach to the forest health problem has been to focus on new and better lumber products that can better utilize our forest resources. We have been very successful in this effort. In fact we have successfully competed to win several small business innovative research (SBIR) grants from both the US Department of Agriculture and the National Science Foundation. These grants have enabled us to formulate beneficial partnerships with the University of Wyoming, Montana State University, the USDA Forest Products Laboratory in Madison, Wisconsin and large businesses like COE Manufacturing, one of the largest sawmill equipment manufacturing companies in the United States. Let me tell you about some of the successes we have had in developing new products. The lam-stud was our first product, it involves taking low-grade lumber and creating high strength structural lumber. This product has evolved into other related products using the same technology. Examples include lam-lumber and lam-headers, all of which are presently on the market. We continue to expand on this technology and are currently working on a modular building product based on the lam-stud technology.

We recently completed a project funded by the National Fire Plan through the USDA Forest Product Laboratory. This project researched the use of our lam-stud technology to help utilize small diameter crooked trees. The results are now published and are being presented worldwide by the Forest Products Lab. In fact this research was recently featured in the November 2003 Evergreen Magazine under an article titled "Giant Minds, Giant Ideas".

Probably the most exciting research we have worked on is the one through the National Science Foundation where we have developed the technology to take wood waste like material going into chips like these, and creating a innovative new wood product that we call Structural Strand Lumber (SSL) that can be made into an I-joist like this. (see sample) The implementations of this technology is that 22% more of every log coming into a sawmill will produce usable structural lumber. This technology will create a major paradigm shift that will

revolutionize the lumber industry. This was developed by a small business working with a large equipment manufacturing company, COE Manufacturing. This joist is stronger than the comparable joists presently on the market and it is made from low strength wood byproducts from a sawmill. It is a revolutionary idea. The next step in its development is to build a pilot plant to prove the production process. This is where we as small businesses are having some problems.

The main timber source closest to our sawmill is the Bighorn National Forest. The timber program has been so undependable in the last 10 to 15 years that no investor will invest the 7 million dollars needed to build the pilot plant in Sheridan. The results could be an idea developed by small business being implemented by a large business where the private timber supply can be guaranteed. I believe that would be tragic for all of us.

This is where a small business like ours needs the help of the Forest Service to forward this technology and ultimately benefit federal lands and forest health. We need a secure long-term timber supply to guarantee private investors an opportunity for their investment to mature. The Forest Service has talked about 10 year guarantees for new technology, so now is the time. We need something like a large stewardship contract; say 20,000 acres in suitable timberland that could guarantee a 10-year timber supply to move this technology ahead. The results would be new technology available for use to help all industry help the Forest Service maintain forest health. Once fully developed the SSL technology will enable existing sawmills to utilize more fiber and expand into smaller diameter trees in the future.

I see this type of activity at this scale presently being done on other vegetative management projects. Just recently an 18,000-acre vegetation management project was approved on the Bighorn National Forest. What I'm proposing is something similar only involving suitable timberland.

I believe it's time for the Forest Service to think outside the box and become more of a partner with industry to solve our national forest health problems. I hope my ideas can help this committee accomplish this goal.

Thank you for your time.

Senator ENZI. Thank you, very much. Our next witness is Gary Erickson, Manager of Bighorn Lumber in Laramie, Wyoming.

Mr. Erickson has more than 25 years experience in the forest products industry and has a degree in forest management and forest products from the University of Minnesota, College of Forestry. For most of his career, Mr. Erickson has managed small, family-owned sawmills in the Western United States.

The Bighorn Lumber Sawmill site was first occupied in the early 1940's by a planer mill that used the lumber produced at the portable sawmills that were sawing railroad ties for the Union Pacific Railroad.

In the early 1960s, a sawmill was located on site where the logs were sawn, the lumber dried, planed, graded and shipped.

In 1971, Frank Cook, a lumberman with a sawmill in Ft. Collins, Colorado, purchased Bighorn Lumber. Today, Frank's son, Finley Cook, owns Bighorn Lumber.

The modern sawmill employs more than 60 people at the mill who produce more than 20 million board feet of lumber per year. They specialize in producing high quality boards that are used throughout the country for paneling and interior trim.

Mr. Erickson.

**STATEMENT OF GARY M. ERICKSON, MANAGER,
BIGHORN LUMBER COMPANY, INC.**

Mr. ERICKSON. Thank you, Senator. Bighorn Lumber is a family-owned sawmill. We provide management activities on about 3,000 acres of forest land every year.

For the last several years, our company has been working primarily on private ground. One of the reasons has been that Forest Service land, that we are working on private ground rather than Forest Service land is that the private landowners are responding very quickly to a mountain pine beetle epidemic in northern Colorado.

The gist of my message is that the Forest Service is not responding nearly as quickly. It is taking much longer. One of the things I want to get through today is that the Forest Service needs to respond much more quickly to forest health problems.

The second reason Bighorn Lumber has been working on private ground is because of the quality and price of the timber sales the Forest Service is preparing. The Forest Service continues to try to push up timber sales that are loaded with small diameter, poor quality wood, restrictive operative requirements, and onerous financial burdens.

This is exemplified by the no bid timber sales that have been occurring in this state. Mr. Cables very carefully stated that the Forest Service offered 17 million feet of timber last year in Wyoming.

I believe the facts would show that the industry only purchased a little over 4 million feet of that timber. The balance was no bid because of a variety of issues.

I believe the Forest Service line officers, the District Rangers, Forest Supervisors, and Regional Foresters must provide stronger leadership and demand better performance and better quality projects from their staff.

As Mr. Cables noted, the Forest Service has tried some stewardship contracts that have been very expensive. I am aware of several that have cost at least \$800 an acre to treat and it is primarily because those lands produced very little merchantable timber.

I think as Mr. Cables also stated, there is not enough money in the Treasury or the Forest Service budget to deal with the number of acres they want to treat. To get these forested acres treated, they must produce viable timber sales with products that we can use.

The Forest Service is asking industry to develop new markets and invest in new infrastructure. We have done that. It is important that you understand that companies like ours have invested lots of money in the past based on Forest Service commitments and we have lost lots of money when the Forest Service failed to perform.

In the mid-1990s, the owner of Bighorn Lumber invested millions of dollars in a sawmill in Escalante, Utah based on Forest Service commitments to provide the timber needed to run the mill and because the Forest Service also experienced a major spruce beetle outbreak in southern Utah that they failed to respond to in a timely way.

Based on those failures, the owner of our company was forced to sell the mill in Escalante, Utah, and lost over \$1,500,000. We can't afford more problems like that. We will be very cautious about investing money when the repayment depends on the Forest Service to perform.

Forest health problems are best addressed before the problems occur, before the bugs and fires show up. In testimony last week in front of the Wyoming Legislature, Forest Service entomologists said that once bugs get there, there is little managers can do to solve the problems but that the key is to be proactive and manage healthy stands to maintain green healthy forests.

As Ernie noted, the Forest Service has already demonstrated that they can think about projects at a much larger scale. There are several examples down in Colorado where they have looked at an EIS's management areas of 75,000 acres plus.

One is the Green Ridge analysis area on the Routt National Forest and the other is the South Platte project on the South Platte water shed above Denver. They looked at several hundred thousand acres.

We think that the Forest Service must move quickly on landscape scale projects. I propose that the Forest Service in Wyoming prepare at least four large landscape scale projects, 50,000 to 100,000 acres each. One on the Big Horn, the Black Hills, the Medicine Bow, and the Shoshone.

The NEPA analysis and a signed decision must be completed by the end of this year. They have already shown that they can accomplish that on the Green Ridge analysis that they prepared in a little over a year with the old rules. With the new Healthy Forest Restoration Act rules, they should be able to act much quicker than that.

The objectives of those projects should be to enhance the forest health of water sheds. The desired future condition of the project

should be to maintain healthy green forests and important watersheds in Wyoming.

The projects should produce long-term contracts for small business, a minimum of 10 years. The Forest Service should use the new stewardship contracting authority that will give them the flexibility to use new contract terms and new financial requirements.

That will give industry the incentive to safely invest in new equipment, processes, and products, and it will maintain important manufacturing jobs in our communities. Thank you.

[The prepared statement of Mr. Erickson follows:]

WRITTEN STATEMENT FOR THE RECORD
OF
GARY ERICKSON, MANAGER
BIGHORN LUMBER COMPANY, INC.
BEFORE
THE SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
FEBRUARY 19, 2004

I appreciate the opportunity to speak to the Committee today. I am Gary Erickson, the manager of Bighorn Lumber Company, Inc. Bighorn Lumber is a family owned sawmill in Laramie, Wyoming. Bighorn Lumber purchases timber in southern Wyoming and northern Colorado from national forests, state forests and private landowners. We provide management activities on about 3,000 acres of forest land every year.

For the last several years, our company has been working primarily on private ground. One of the reasons we have been working on private ground rather than Forest Service land is that the private landowners are responding **quickly** to a major outbreak of mountain pine beetle in northern Colorado. The private landowners want to try to keep their forests green, healthy and valuable. The Forest Service does not appear to have the same concerns. The Forest Service has tens of thousands of acres of lodgepole pine timber that has been infested by mountain pine beetle and they just completed the planning process to try to deal with it. The first timber sales in response to the mountain pine beetle outbreak are scheduled for later this spring. **The Forest Service responds too slowly to problems.** The Forest Service must become more proactive to maintain healthy, green stands rather than salvaging bug-killed or fire-killed timber.

The second reason Bighorn Lumber has been working on private ground rather than Forest Service is because of the quality and price of the timber sales the Forest Service is preparing. The Forest Service continues to try to push out timber sales that are loaded with small diameter, poor quality wood, restrictive operating requirements and onerous financial burdens. A lot of the problems on Forest Service land are created by their own specialists - wildlife biologists, hydrologists, etc. - who insist on overruling their own foresters. What then comes out as a Forest Service timber sale is frequently bad forestry that does not really deal with forest health problems. Private landowners are much easier to work with and they are performing better forestry. I would be happy to show members of the Committee the work we have done on private land and on Forest Service land and let you make your own judgement about the quality of the work and the health of the forest. **Forest Service line officers - district rangers, forest supervisors and regional foresters - must provide stronger leadership and demand better performance and better quality projects from their staff.**

Forest Service timber sale contracts have very severe financial requirements that are best met by performance bonds and payment bonds. The insurance and bond market has been impacted

severely by such recent events as the 9/11 tragedy and the collapse of Enron and K-Mart. Our company has not been able to secure new bonds because of this. But the Forest Service is only concerned about their own financial security and could care less about small business's ability to bond contracts. This means we will have to use cash to bond any Forest Service contracts which severely limits how much we will be able to work on Forest Service timber. **The Forest Service must modify it's contractual requirements to reduce the need for bonds or small business will find it difficult to finance work on Forest Service contracts.**

The Forest Service has trouble understanding that the marketplace determines what companies like Bighorn Lumber can utilize. Our marketplace is willing to pay **more** for a wider, longer, high quality board and **much less** for a narrower, shorter, poor quality board. That fact drives what we can afford to pay for small diameter, short, poor quality timber. The reality is that we cannot afford to buy the type of timber the Forest Service is trying to put on the market today. And that is from their regular timber sales - not the even poorer quality timber that will come from the fuels management or forest health projects that they have begun to talk about. The trial stewardship projects that the Forest Service has performed to date have been **very expensive**. The Winnegar Ridge project in Colorado cost over \$800 / acre to treat - in part because there was very little timber of commercial value in the area. The Forest Service is trying to develop energy markets for wood products from land management, but they are competing with low cost energy from coal. To compete with the cost of coal energy, the Forest Service will have to subsidize all of the cost of the on the ground work. **The Forest Service and the Treasury do not have the money to treat many acres when it costs \$800 per acre to get the work done.**

The Forest Service is asking industry to develop new markets and invest in new infrastructure to deal with their forest health problem. It is important that you understand that companies like Bighorn Lumber have invested lots of money in the past based on Forest Service commitments and lost lots of money when the Forest Service failed to perform. In the mid-1990's, the owner of Bighorn Lumber invested millions of dollars in a sawmill in Utah based on Forest Service commitments to provide the timber needed to run the mill. Because the Forest Service failed to sell enough timber and because of a major spruce beetle outbreak that the Forest Service failed to deal with, our owner was forced to sell the mill at a loss of over \$1,500,000. **Based on experience, Bighorn Lumber will be very cautious about investing money when the repayment depends on the Forest Service to perform.**

In much of Wyoming, the lodgepole pine and spruce forests on National Forests are past their peak growth - they are getting too old. History teaches us that our forests will turn over in drought cycles. The fires in Yellowstone in 1988 are an example of this. Our forests are primed to turn over again. The question is how it will happen and when. The best and most active forest management cannot protect our forests from all bug and fire problems. But it certainly can provide a positive influence and possibly prevent some major problems. There is plenty of on-the-ground evidence of the positive effect from active management that we would be happy to show you. In testimony before the Wyoming legislature last week, Forest Service entomologists said that once bugs or fire get started there is little managers can do to solve the problem. The key is

to be proactive and manage stands to maintain healthy, green forests.

The most serious resource damage that I have seen in my career has been from wildfires. The serious damage is not just the burned timber, but frequently the watersheds that have burned get blown out by floods after the fires. If we think strategically and locate our management activities to protect valuable resources - such as municipal watersheds - I believe that the limited work that companies such as ours can perform can have a significant positive impact over the next five to ten years. But it won't happen by taking small diameter, poor quality wood in small patches near cabins. To truly protect our watersheds, **the Forest Service must harvest landscape scale blocks out of important watersheds to give firefighters a chance to save those watersheds from large scale fires.** This will also produce products that are in demand in the market place. Companies like ours will pay for the timber that comes from this type of management, which means it can and will happen. No subsidies will be needed because a valuable product will be produced. In addition, this supports the existing industry infrastructure.

To deal with the landscape scale bug and fire problems the Forest Service is experiencing, **the Forest Service must quickly begin to think and act differently.** Rather than asking industry to retool without any assurance that the investment can be repaid, they must develop large scale, long term projects that will supply a substantial volume of marketable product.

The Forest Service has already demonstrated that they can think about projects at a much larger scale than what they typically have in the past. The Medicine Bow / Routt National Forests just completed the Green Ridge EIS that looked at over 76,000 acres in northern Colorado that has a major outbreak of mountain pine beetle (the same area where Bighorn Lumber has been working on private land dealing with the mountain pine beetle for the last two to three years). But the proposed action is to implement a number of salvage timber sales over the next five years. The problem with the proposed action is that it reacts to the problem rather than proactively working to prevent more problems, relies on annual appropriations to complete and produces a product that is of marginal value.

With the large bug and fire problems facing them, the Forest Service **must** move forward quickly on landscape scale projects. In 2003, the Forest Service sold only 4,100 mbf on approximately 600 acres in Wyoming outside of the Black Hills. That level of work does not begin to address the problems facing the forests or come close to maintaining what is left of the forest industry in the state.

I propose that the Forest Service in Wyoming prepare at least four large, landscape scale projects - 50,000 to 100,000 acres - one each on the Bighorn, the Black Hills, the Medicine Bow and the Shoshone National Forests. The NEPA analysis and a signed decision must be completed before the end of 2004 - which they should be able to accomplish with the new Healthy Forest Restoration Act rules (the Green Ridge EIS mentioned earlier was completed in a little over one year). The objective of the projects should be to enhance the forest health of watersheds - the desired future condition of the projects should be to maintain healthy, green forests in important

watersheds. The projects should produce long term contracts for small business - a minimum of ten years. The Forest Service should use the new stewardship contracting authority that will give them the flexibility to use new contract terms and financial requirements. This will give industry the incentive to safely invest in new equipment, processes and products and it will maintain important manufacturing jobs in our communities.

Senator ENZI. Thank you, very much. I think everyone will notice the difference in the biography of the next person who will be testifying. I met him on a tour that I had of his ranch and of some demonstration projects that were being done there on the forest. I appreciate him being here today.

Our final witness today is Mr. Robert Model, President and owner of Mooncrest Ranch which is located here in Cody, Wyoming.

In addition to the ranch, Bob works as a leading conservationist in the community. He is the Chairman of the American Wildlife Conservation Partners and the Director of the Theodore Roosevelt Conservation Partners. He is also a member of the Clove Valley Rod & Gun Club of America, the Philadelphia Gun Club, and the Camp Fire Club of America. He is also currently President of the Boone & Crockett Club, as well as a member of the following organizations: The Rocky Mountain Elk Foundation, Izaak Walton league, Safari Club International, Foundation for the North American Wild Sheep and also Quail Unlimited.

He is a native of Greenwich, Connecticut. Mr. Model attended the Browning School and Elon College. He is currently the Vice President of Stillrock Management and Vice President of Elmrock Capital, both based in New York. He previously served as a Director on the board of CapMAC, Overhills, Inc., and Piggly Wiggly.

Mr. Model.

**STATEMENT OF ROBERT MODEL, OWNER,
MOONCREST RANCH**

Mr. MODEL. Thank you, Senator. I am please to be here today and I thank you and your Committee members for this opportunity.

I am pleased to have this opportunity to speak before you regarding the vital role citizens and business owners in Cody, Wyoming, play and must play in developing and maintaining healthy forests.

We are privileged to live next to several national forests, primarily the Shoshone. I own and maintain approximately 20,000 deeded acres in northwest Wyoming. At many areas, I am adjacent to a national forest on many of these deeded acres that we own.

Over the last several decades, I have witnessed the decline in forest management either by lack of funding, lack of direction, or both.

Our area is infested with pine bark beetles. We have overgrown conifers taking over the deciduous ecology in the area. We have severe fire fuels which are the remnant of past wildfires over the past decades.

Anyone taking a drive into our forest lands can see the dead and dying trees and the catastrophic conflagration waiting to happen because we do not effectively manage this precious natural resource.

When President Bush signed the Healthy Forest Restoration Act into law in December, and I was privileged to be at that signing at the USDA, we finally had, at the agency levels, the mechanism needed for management of the lands through sustainable and scientific stewardship which has the very important benefit of helping create an economy that flourishes when we work to achieve forest health.

I was pleased to see our government at the highest level take action on this issue which is key to our way of life in the West not only for the livestock ranches but for the local timber industry, the outfitting industry, and most importantly, the jobs that will be created through the new mechanisms created by the legislature in the Forest Health Restoration Act.

Senator Enzi, I would like to mention that the Forest Service has the wonderful attribute and good people working at the Forest Products Lab in Madison, Wisconsin, and nobody has recognized the work that they have done over the last almost 100 years, creatively finding new ways to use timber products.

The present Director, who is a Boone and Crockett member and a friend, Chris Ristburg, is, I think, doing a wonderful job finding ways for the timber industry to—in partnership with the timber folks as well as the academic community—in finding new products that hopefully will create a breath of fresh air for that industry.

In addition, creating a healthy forest system provides the forage and habitat for our wildlife populations as well as sustaining a viable livestock industry.

Those of us who live and ranch and work in these areas adjacent to the national forest, we can't wait for decades any longer to take care of the deteriorating health of our forests.

I would just like to interject at this time that the delays that the litigation bring upon us are devastating and we have a timber sale going on on Rattlesnake Creek right now and had that timber sale taken place 10 years ago, had they got the timber out, it would have been a better lumber, better product, we would have had healthier land sooner.

I hope that we can find ways to build common ground and take care of the land because if you have healthy land you are going to have healthy wildlife populations, you are going to have excess forage for livestock.

If you don't have livestock on these mountain ranches, you have subdivision and land fragmentation and that defeats what we all appreciate and love about Wyoming.

We are now living with the devastating result of that policy and the price tag will be significant if we hope to reverse the damage done by inaction.

It is critical that our District Ranger Offices work with the citizens and businesses in their local area to establish a strategic plan that is viable within the communities. I am talking about stewardship contracting here and the opportunities that it presents.

By thinking outside the box, there are going to be creative ways in which we can find ways to make these contracts economically viable, at least I hope that we have people smart enough to figure that out.

We have a wealth of experience in our local communities which includes an overlooked resource and that is our Forest Service and BLM retirees who live and work in their second careers in the towns and cities that they retired in after years of dedicated service to our great treasure, the public lands of the United States.

I believe that by utilizing the significant brain power with impressive experience on the ground, we can establish a workable

plan that encompasses mechanically treating the timber resource as well as effective use of fire.

Senator Enzi, I would just like to close by saying, as I grow older and the horizon out there is getting shorter, I would sure like to see work done, so that when I am on a cane and old and tired, I will see that something has been done for the land.

We were blessed with the tradition of our public lands and we need to take care of them and that is our responsibility for the future generations of Americans.

Thank you for giving me this opportunity to testify for you and your Committee. I am very grateful.

[The prepared statement of Mr. Model follows:]

SENATE COMMITTEE

February 19, 2004

Cody, WY

"The Role Small Business Should Play in Maintaining Forest Health"

Testimony presented by:

Robert Model

Owner

Mooncrest Ranch

Cody, WY 82414

Senator Enzi and Committee Members. I am pleased to have this opportunity to speak before you regarding the vital role citizens and business owners in the Cody, Wyoming area can, and must play, in developing and maintaining healthy forests. We are privileged to live next to several National Forest lands, primarily the Shoshone National Forest.

I own and maintain approximately 20,000 deeded acres in northwest Wyoming. At many areas, this acreage is adjacent to National Forest land and Bureau of Land Management land. Over the past several years, I have witnessed the decline in healthy forest management, either by lack of funding, lack of direction, or both. Our area is infested with the pine bark beetle; we have overgrown conifers taking over deciduous tree areas; we have severe fire fuels, which are remnants of wildfires over the past few years. Anyone taking a drive into our forest lands can see the dead and dying trees, and the catastrophe waiting to happen if we do not effectively manage this precious national resource.

When President Bush signed the Healthy Forest Restoration Act into law in December 2003, we finally had at the agency levels the mechanism needed for management of the land through sustainability and scientific stewardship, which has the very important benefit of helping create an economy that flourishes when we work to achieve forest health. I was pleased to see our government at the highest level take action on this issue which is key to our way of life in the west, not only for the livestock ranches, but for the local timber industries, outfitters, and the jobs that are created as a result of managing rather than not managing. In addition, creating a healthy forest system provides the forage and habitat for our wildlife populations, as well as sustaining a viable livestock industry. Those of us who make our living via the land have witnessed first hand the damage caused by forest encroachment/non-management. In the 1990's there was a bureaucratic view that did not advocate active management. We are now living with the devastating result of that policy, and the price tag will be significant if we hope to reverse the damage.

It is critical that our district ranger offices work with the citizens and businesses in their local areas to establish a strategic plan that is viable within the communities. We have a wealth of experience in our local communities, which include forest service retirees. I believe that by utilizing the significant brainpower, with impressive experience "on the ground", we can establish a workable plan that encompasses mechanically treating the timber resource as well as an effective use of fire.

Thank you for allowing me this opportunity to speak.

Senator ENZI. Thank you. I appreciate also you introducing me to the National Forest Foundation. It was interesting to find out that most of the money they take in is put into demonstration products to show how the forest could work. I got to see some demonstration projects that had been done on your property.

Could you tell me a little bit about how easy or difficult it was for the Foundation to be able to do those projects and if you have noticed any results?

Mr. MODEL. Well, thank you, Senator Enzi. First of all, I want to thank the folks back in the early 1990's that had the foresight to put together a Forest Foundation.

I think that Senator Domenici was largely responsible working in concert with folks at the agency in writing that legislation which is very broad.

I guess what I would like to say at that point is that the Foundation is probably not doing as much as it could do and, hopefully, that can be corrected.

Senator we do have projects that are pinpointed in different parts of the forest, the National Forest system and it is on a competitive basis.

I would also like to say that the matching funds, the private funds that are raised by the Foundation are matched by agency funds and then projects are picked as demonstrations.

While I have the opportunity to speak to this, Senator, I would hope that as the Foundation matures and some changes are contemplated in how they could become more effective not only raising private money but also using the challenge cost share money from the agency, that we would again use the expertise of retirees.

I think with the pending centennial celebration in 2005 of the agency, we have an opportunity to connect through the Foundation the communities that are changing in the West with the influx of people moving in here to have celebrations that really point out the significance of the agency and how it ties back to the community.

That is something that I have seen over the last 40 years slowly breakdown. As you get more people in the West and newer people in the communities, the agency has not been as in the spot light, if you will, or as well recognized as I think it should be.

This is a real opportunity for the Foundation to do some interesting and, hopefully, creative work to bring the general public to understand more about our management of public lands.

Sorry I rambled there, Senator, but it is a complex question and I hope I answered part of it anyway.

Senator ENZI. I appreciate that and I particularly appreciate your mention of the expertise of retirees too. They are a part of the community of Wyoming that could lend a very valuable hand to us.

A question for both Mr. Neiman and Mr. Schmidt. I want to congratulate you on your innovation in being able to use small diameter trees. I was astounded to hear the price of \$7 million for one of the machines to do the projects.

My question is—Mr. Cables described the Forest Service's need to harvest the small diameter trees—How long do you think it would take the forest product companies to gear up to handle the number of small diameter trees that the Forest Service would be likely to cut?

Mr. SCHMIDT. That is a good question. One of the things that Mr. Cables and Mr. Bennett talked about was that small businesses can act fast and I think that is true.

Small businesses have to be successful too. If they are not successful, as Gary pointed out, they die. I think we need to learn to walk before we can run and that is why we have tried to design a product that will utilize more fiber from very low cost sawmill waste. We can get that up and going and then we can move into thinnings.

It is important that we take these things a step at a time. We all want to head down the road of being able to use a real small diameter timber. As small business we need to make sure that we don't fail and we need to make sure that we are successful.

We have this perfected now ready for the investment. You give us a 10-year supply, by the end of that 10-year supply, we will give you the tools to treat the rest of the forest.

Senator ENZI. Mr. Neiman.

Mr. NEIMAN. Thank you again, Senator Enzi. We are in a little different situation in the Black Hills. We have only lost about half of our industry there so we have been able to at least maintain.

It is really important for industry to look out and create innovative ideas, like Wyoming Sawmills has, to make sure that we focus on first making sure that our ASQ is achieved so the mills can stay healthy or get healthy again and then proceed in developing towards innovative ideas to reach down below into the smaller sizes from 2 to 6 inches which we do not have ways to process those right now.

It is kind of a two-pronged fork here. We have to make sure our existing industries are healthy by making sure that we get them back up to production.

There are a lot of operations around the West that are running single shifts that have the ability to go back to two shifts and really cut their costs and get healthy again.

In turn then, they can bring a small amount of the small wood into their operation and blend it in—raising their costs, but balanced out by the cost reductions they have created by new efficiencies.

Then there is money available to start doing the research like Ernie has done and some of the projects we are working on right now.

We are in the middle of a project. It is very unique, but we are taking all of our saw dust and testing to see, we are grinding it into wood flour and mixing it with plastics to extrude and we have designed some playground equipment. It is in the very preliminary stages but we are testing it.

We are just looking at someplace to start. We have already invested somewhere in the neighborhood of \$300,000. The estimates in our initial studies, which will be done in the next 6 months, show that a full blown plant to handle just the saw dust off our two mills would cost somewhere in the neighborhood of \$10 to \$12 million investment.

The marketing side of it alone, the initial estimates, particularly if we decide to brand it, costs \$2 to \$4 million additional dollars.

There is a lot of neat ideas out there, but we are nervous. We don't know whether to plunge or not until we know there is a stable, consistent supply and Ernie's suggestion of 10- to 15-year contracts would be very much of a foundation.

You know, you will relate to this a little bit. One of the big concerns we have had is our bankers used to ask questions about how much money did you make, what are your projections for profitability next year, how much money are you going to invest next year? Our average is \$2 to \$3 million a year between the two mills. We cut that over half.

Now their questions are how much do you have under contract? Our bankers are now educated on what ASQ is. That is surprising and it shocks me.

Senator ENZI. I am going to stop you right there and have you explain what ASQ is. This is a Small Business hearing, so most of these people have not had any contact with the forest terminology or numbers. If we could get that in the record as well and your experience with that?

Mr. NEIMAN. In the forest plan, to also help the students understand the question also, in the forest plan when the study to find out what is the productivity of the forest, there is a major plan that comes together to determine how much that forest is growing and then they determine what is the allowable sale quantity in saw logs and POL. It is how much they have determined that they are willing to sell off of that forest.

Senator ENZI. POL?

Mr. NEIMAN. Some of that product other than log. Sorry I keep coming up with all these acronyms.

Senator ENZI. It is a real thing in Washington. They will adopt these very quickly and use them but, first, they have to have a basic understanding of them.

Mr. NEIMAN. You thought you were dealing with the Army, didn't you?

Senator ENZI. Well, the Federal Government is very good at it too. I think maybe that is where the Army got the idea.

Mr. NEIMAN. I apologize for diverting the question, but it all fits together there and it is interesting. It is a very complex issue when you start looking at small business, how are they going to finance it, how are they going to find the money, and the first thing they are going to look at is stability and consistency.

The Forest Service and the BLM have to take some risk and step forward and help understand that they either have to share the risk or provide the opportunities so the financial world will step forward with small business and be able to move ahead.

Senator ENZI. Thank you. Could each of you also comment on the affect that the allowable versus the actual, how close that comes in and what the affect has been?

Mr. NEIMAN. Are you talking about the allowable sale quantity issues?

Senator ENZI. Yes.

Mr. NEIMAN. Okay. I will refer to the Black Hills first. The Black Hills is the oldest mountain range in Wyoming and I think it has a chance, I have heard once it was really geologically the oldest mountain range in the United States.

We have a very prolific forest. It has much higher growth than a lot of forests. There are billions of board feet under inventory. They have just re-evaluated the growth of the Black Hills National Forest. It used to be approximately 155 million board feet of growth per year.

The new numbers of what I am hearing could be up as high as 170 to 190. That is of saw timber.

We went through a battle over the last 15 years trying to get our forest plan done and we finally agreed on an ASQ of 83.6.

Unfortunately we have been selling less than about 50 or 60 over the last 5 years. Fortunately, the Forest Service is stepping forward and has an interim plan until the new forest plan comes out. We are in Phase 2 of that right now.

We hope to get back up to the full ASQ or something higher. 83.6 or higher. Reflecting on that number, recognize that is only half of what is growing out there in saw timber.

Senator ENZI. Thank you.

Ms. JACHOWSKI. On the Shoshone, it has been very interesting and very disappointing. Around 10 years ago, the short version is, we had around 11 million board feet as the allowable sale quantity.

After the Yellowstone fires, there was a major amendment done to the forest plan because the fire burned into our suitable base and for the public, that is the area designated as areas that you can harvest for commercial timber legally. That amendment reduced it to 4.5.

The short version, Senator Enzi, is that, at this time, the Shoshone does not keep track of an ASQ. When we ask them about that, charging their saw timber against their ASQ, their commercial-sized timber, they said they don't harvest enough to make it worthwhile now and it is folded into other numbers.

This is a very disconcerting thing for us in terms of being able to assess saw timber from products other than logs and so forth, but it does reflect the lack of timber sales and the composition of the few timber sales that there have been.

As Ernie said and some of the other speakers, it is more of a janitorial service in terms of quality of product right now. That is unfortunate for us.

Mr. SCHMIDT. We have a rather unique story that I think could tie in how this ASQ plays into a small business and investments.

The Big Horn National Forest had a forest plan that was formulated in 1985. It just so happened that our sawmill burned to the ground in 1984.

Our owners said, "Why don't we wait and see what the forest plan is going to say and see what the ASQ is and that will tell us whether we are going to have a future timber supply."

The forest plan in 1985 came out at 16.5 million board feet a year that they were going to harvest. Our owner said, "Okay, that is adequate. We will rebuild the mill."

I would say to you that within the last 10 years they haven't even averaged 2 million board feet per year. Had they known that, they wouldn't have invested into rebuilding the mill and there would be no sawmill in Sheridan.

It is interesting that we are at the same crossroads right now. We are trying to find investors to put in \$7 million to forward this

new technology and it just so happens the Big Horn National Forest is revising their forest plan right now.

We are not sure how to look at ASQ. If they come up with 16 million, does that mean that they will actually sell 2? I don't know.

It is a real quandary that we have right now and that is probably why we are saying to you that rather than having a forest plan that says an ASQ, what we need is some assurance, we need some timber sales, stewardship contracts, something that will give us a fixed volume, at least for a period of time, that we can put a return to the investor on invested money.

Senator ENZI. What is the rejuvenation of the Big Horn Forest? Do you have some numbers on it?

Mr. SCHMIDT. Well, it is interesting. When you look at the acres that the Big Horn says that is suitable for timber management that will grow timber, they could actually harvest 20 million board feet a year for ever and ever and ever on a sustainable basis.

It is not the land. The land is there. The land will grow timber. It is actually getting it done.

Senator ENZI. Mr. Erickson.

Mr. ERICKSON. On the Medicine Bow, the Medicine Bow is approximately 1 million acres. The revised forest plan says that 323,000 acres is suited for timber production.

They set the allowable sale quantity at 23 million feet. On the 325,000 acres of suited land, they are growing about 80 million feet a year on just the suited lands.

Their projections in the forest plan based on some of their constraining items are that they might only sell 12 million feet a year for the next 5 years. In fact, since 1995, they have actually averaged less than 5 million a year.

Bighorn Lumber did not purchase a Forest Service timber sale contract last year and the majority of the timber that the Medicine Bow/Routt sold last year was sold on the Routt side, I believe.

The Medicine Bow/Routt combined forest had a budgeted target of approximately 16.5 million board feet last year. They claim that they exceeded that because they offered more than that. In fact, they sold less than 7 million feet of timber.

Senator ENZI. You mentioned in your testimony this difference between what is offered and what's sold. What are some of the reasons for the difference in the numbers? They are not economically feasible?

Mr. ERICKSON. That is the primary reason. The price, the quality, the restrictions, the bonding requirements, there's all sorts of reasons why.

Senator ENZI. Okay.

Mr. Schmidt.

Mr. SCHMIDT. Senator Enzi, I could comment on a sale that just happened last week that we did not bid on and one of the main reasons we didn't bid on it was that the sale was laid out to prohibit any mechanical equipment.

Not only are our sawmills modern, but our loggers have been modernized and they all have very sophisticated mechanical equipment. For the Forest Service now to come up and say, you can't even use that, was totally prohibited, I would say it's very much

like telling the Forest Service, you need to do your EIS's using manual typewriters.

People just don't do that any more, and I would say it's some of those kinds of restrictions that keep us from being able to bid on some of the sales that are offered.

Senator ENZI. Ms. Jachowski.

Ms. JACHOWSKI. Senator Enzi, this pattern has been repeated and it was repeated. An example on the Shoshone would be on Carter Mountain which is only about 25 miles from here and, of course, it has heavy beetle infestation.

If the Forest Service had been able to put up a timber sale 3 to 5 years earlier, that wood would really be, perhaps, worth something.

We, as an experienced mill right here, did not bid on that sale. However, when we see a timber sale coming up, we are interested.

Our owner and our Forester, Mike Hanson, the owner, and Gene Hall put pen to paper many times on the Carter Mountain sale and we could not make it cost effective for us 25 miles away when we looked at the quality of the timber that comprised the sale, the mix of the timber, and the time constraints on it, and what value the end product would have.

Now we are as close as any mill can be, shall we say, 25 miles. There was a bidder on that sale from Montana who did do it. We don't know, more power to them if they can make it. They are a larger operation but they have huge traveling times.

We also experienced, that is an example that where if the timber had been put up at an earlier time, more rapid response, the composition of the sale, and we did talk to them about this ahead of time that try to put the right mechanism on the sale.

By that I mean specifically, if the timber is of such poor quality, use a service contract, which, in fact, we would still have to bid on. It wouldn't be handing us a contract.

That is a legal mechanism in the Forest Service where if the timber is so bad and they need to get rid of it, they can have a company come in, they actually pay that company to do it.

They could approach it out of the box so that you could put a timber sale on the better quality stuff and a service contract on the other and not put a \$225,000 road package in it that blew it out of the water. It is a serious problem on how they are constructing the sales.

I do want to put into the record that it is my company's contention that one of the reasons the Forest Service is so reluctant to perhaps use the proper mechanism, be it a service contract in this case, it looks better if they are putting up a timber sale.

I think they feel that it looks bad on them, it reflects badly, we don't. If they wait so late that the only thing to really do is get rid of the junk, which is what they have on the North Fork.

Now a lot of stuff is getting folded into stewardship contracts but there will be problems with those in terms of cost effectiveness.

We also ran into the same problem that Wyoming Sawmills did. We had made investments in machinery, we had a \$168,000 filler buncher and skidder that we were involved in and then on the Big Horn they turned around and told us, we want to have chain saws.

They know as well as we do the caliber of the chain saw operators today. It's extremely hard to find good ones. You don't just go buy a chain saw at the Home Depot and come back and be a chain saw operator.

They seem to be having trouble understanding that young people are not coming into the industry to get really good quality saw chain operators. What you don't do is encourage a company to put out \$68,000 on a processor and another \$168,000 on a filler buncher and then turn around and tell us, now, you all get after it with arts and crafts forestry. It doesn't work.

Senator ENZI. Besides the equipment costs, you spoke about bond difficulties for small businesses before.

Ms. JACHOWSKI. Indeed.

Senator ENZI. Could you tell me a little bit about some of the timber sale financial requirements and payments of the bonds and maybe how that is changed since September 11th?

Ms. JACHOWSKI. It used to be that you use could bonding insurance. Since 9/11 life has changed for many of us and in this regard, it is more harder now for a timber company to get a bond on a timber sale.

Then you could use that as a down payment so you weren't dipping into your cash, and that was basically so we would perform.

When we try to explain to the Forest Service now that it is far more difficult to get a bond to carry forward—a bond might cost us \$1,500, that is just an example—but it guarantees we are going to fulfill our obligation.

When we tell them that the insurance companies are really shutting down on the length of bonds and the extent of bonds, the response that we have been getting is, well, go get a letter of credit, irrevocable letter of credit.

It does not seem to compute with them that when you do that, for a banker, that is put up against your debt. That kind of a mechanism, a financial document is totally different for a banker than we bring a bond to it.

We are having trouble doing that so that makes it a little harder for us to bid also on a sale if we know we have to go out and try to do that. Then we are trying to make investments in equipment which has a thread to it because you want to keep your equipment up to date and if you have got a debt load sitting there on a bonding requirement and you couldn't get the bond so you had to go get that letter, you are in serious trouble then when you turn around and say, "I need X hundred thousand dollars for either equipment or I want to buy this timber sale."

What the general public doesn't understand is a company, even a small one, and we are considered a small mill, 5 million board feet a year, you can have hundreds of thousands of dollars tied up in a timber sale before you ever harvest a tree.

That kind of complication and us not being able to get the bonding like we used to be able to which didn't dip into our cash flow is really quite a problem for us.

Senator ENZI. Does anybody else want to comment on that or other small business problems that we might not be aware of?

Mr. ERICKSON. Since 9/11 Enron, K-Mart, bonds are not available to companies our size. Bonds are required for or are a very important option in Forest Service contracts.

There's a performance bond that guarantees performance of the contract that is for the life of the contract. There are payment bonds that when we want to begin to harvest timber, the Forest Service wants to be guaranteed that they are going to be paid.

Without a payment bond, we have to just, essentially, put cash on the timber sale to pre-pay for whatever timber we are going to use.

Now those logs might not be delivered to our mill to be sawn and moved out in the market place for several months at the shortest time and longer than that. I mean, we have to build a log deck to get through our break up season and we have to carry inventory. We might not recapture that cash for 6 months.

It is, essentially, a cash flow problem and it's going to limit our ability to purchase Forest Service sales unless there's a change in that particular problem.

Senator ENZI. About 3 weeks ago, I guess, I got an article that came out of Canada and they recognized their pine beetle problem up there and, apparently, they are allowing companies to have the timber, the pine beetle timber for approximately \$100 a truck. How would that compare with average prices in this part of the country on one of these contracts? I don't have any relationship as to what a truck load of lumber is worth.

Mr. SCHMIDT. That is very interesting and we know that is going on. The Canadian government owns all the timber up there and they are very concerned not only to get the timber harvested and utilized but they are also concerned about the jobs of the industry that is up there. They are, basically, giving that timber to the industry to get in there and salvage it. \$100 a truck load is comparable to—a current timber sale right now is probably \$500 to \$1000 a truck load.

Senator ENZI. Okay. How frequently does the Forest Service meet with your company to discuss the plans and proposed timber sales and requirements and your capabilities?

Mr. NEIMAN. We do have an opportunity to meet once a year with the Regional, sometimes twice a year with the Regional Supervisor in Denver under a coordinated effort.

We have occasional meetings with the Forest Supervisor of the Black Hills National Forest. Most of the time, those are generated and initiated by us. More comes from our end.

There is a degree of cooperation to go ahead and have those meetings, but we would like to see a mutual effort under the new horizon, that I talked about in my speech, recognizing that we need each other and it is a partnership that we are hoping we are going forward with.

It should be a 50/50 deal in trying to contact and get together. Ours, a lot of times, are out of necessity, need and desperation. We hope to get through that and get to a point where we are having business partnership meetings on a regular basis to design and move ahead. Thank you.

Ms. JACHOWSKI. It's a very interesting question, Senator Enzi. It's a delicate question too. On the Shoshone, the policy meeting

that Mr. Neiman referred to, I am sad to tell you that we traveled down to Denver for that meeting last year, well we do it every year.

This year there was zero representation from the Shoshone. Last year there was minimal, and the year before that there was zero representation from the Shoshone.

Our own personal opinion of that is that it does reflect, whether or not they agree with it, our perception is that it reflects a lack of relevancy to the role of industry in the management of the forest.

Indeed, we are one mill up at this end but we are the tool that has the experience to work on this. We have in the past ourselves initiated a number of meetings with the Shoshone and we have met with them.

We have had the unfortunate experience of going into a timber meeting for that purpose to talk about ASQ's and we were shocked when we got there and the timber numbers weren't even brought to the meeting.

Here we were having a meeting on timber and the people at the meeting did not have the timber numbers with them. That was a very unfortunate thing for us. It was another indicator that as timber sales have declined on the Shoshone, the importance of really profiling those kinds of numbers and caring about it seems to have faded. Thank you.

Mr. SCHMIDT. I think we probably have similar experiences on meetings, but I would say to you that some of the no bid problems that Gary referred to that are prevalent in the region and some that are especially particular, as Kathleen has mentioned, to small businesses where small businesses have not been able to bid, where maybe a large business has come in from out of state, some of those things are symptomatic of the problem that the Forest Service is not talking to us.

If that talking would be happening, I don't think we'd see the symptoms. That has to change.

Mr. ERICKSON. The last timber program meeting on the Medicine Bow, I believe, was in 1997. I have personally met with the Forest Supervisor at my request on the ground to look at sales.

I have invited the Forest Supervisor and staff to tour my mill. Their office is approximately 2 miles from my mill. They've never toured my mill.

Senator ENZI. One of the things that I think everybody considers to be part of a healthy forest is getting rid of dead and dying trees. When I was living in Sheridan there was a huge blow down up there and there's been a blow down over in South Dakota. There still have been difficulties in getting in to do anything with those trees in a timely manner while they are still good.

Have you encountered problems with being able to, and do you have any suggestions for ways that we can, get some of those problems taken care of—fires, blow downs?

Mr. ERICKSON. Senator, based on my experience with the Forest Service over a long period of time trying to promote salvage which I believe, if it's done promptly, is good forestry and if you salvage a valuable product then you help the forest green up more quickly and I can show you examples on the ground in the Black Hills in

Wyoming and in Colorado to exemplify that you want to go out on the ground.

However, it takes too long in today's Forest Service to produce a salvage sale that is of much value to the industry. One of the things that we are facing on the Medicine Bow is that the majority of the sales coming up are dealing with timber after it's dead.

The product value is much less, and I would contend that after 2 or 3 years they are not salvaging to prevent a beetle problem because the beetles have already flown into the adjacent green stands.

I think that we could all show you examples of why that is not good forestry to take that long of a time period to get the salvage done.

If the Forest Service cannot move more quickly in salvaging, I believe we are much better off, both the forest and the industry, to thin and try to maintain healthy green stands adjacent to either where the fires or the bugs are.

That is what's going to help solve and prevent the problem of continued bug and/or fire problems. Otherwise, what we are going to do is exactly what happened in Utah. All they are doing is continuing to salvage timber after it dies and they just keep chasing dead timber.

Mr. SCHMIDT. I can give you a good example of some comparison of how different things can happen. Today, over in Sheridan we are cutting burned timber that was burned last summer up on the Northern Cheyenne Indian Reservation.

It was burned last summer and they put it for sale in the fall. We are out there logging it and we are cutting it today.

Adjacent to that, back in I believe 2000, the 2000 fires on the Custer National Forest, which is just adjacent to the reservation, the same terrain, the same timber, they had a huge fire up there.

They actually burned up 80 million board feet in that one fire that one summer. That was enough timber to run us for 4 years.

We couldn't harvest it all before it would go bad but they never salvaged one stick of that timber. It's just amazing to contrast to somebody, the Bureau of Indian Affairs, who saw the problem, wanted to get their land back into production and got it done.

Very much like Canada got it going and it happened. Some of the bureaucracy of the Custer National Forest never even let it happen. They never salvaged anything, it's sad to say. Once that stuff is dead and if it decays too far, you can't use it.

Ms. JACHOWSKI. I think it would be timely to mention something that is very more relative to this. I was encouraged today to hear Regional Forester Cables refer to saw timber in his remarks as part of what one should harvest.

On this small stuff and on the dead stuff, Senator Enzi, what is absolutely critical is that we not lead the young people, like the ones in the back of the room, to think that forestry is about the harvesting of just small and dead and dying stuff.

There is that role for thinning, but what I am sensing in the Forest Service is they are taking on too much because it's a comfortable arena politically to talk only about small diameter wood as though that will sell with the public.

The part of the message that they are not incorporating, and they do have an opportunity to do, is why should large forests with large trees be cut down.

In the values product for small businesses, yes, we can get busy and do the small business stuff, but one of the realities of the forest industry is that your better lumber comes off the larger trees.

Especially in our situation where you have trees drop their limbs normally as they age as they are putting on wood. That is where they lose the knots. As the tree is older, it's a more valuable tree.

We can have plenty of the small stuff, but mills need to have big trees because those big trees produce fine quality lumber which for us would make a better product in the end.

We do need for the Forest Service to message consistently, that good forestry is about harvesting large trees as well as janitorial. Senator ENZI. Thank you.

Mr. NEIMAN. In defense of the Forest Service, they've had a very touchy situation with the Endangered Species Act and you used to have an agency that was based on science and their decisions were based on science.

Our whole process here is the Forest Service has become politicized and their decisions are so political instead of scientific, and there's some new actions and tools that you gave them last year, but you have got to seek and look and figure out ways so the Forest Service can get out of the political arena and get back to a bigger percentage of scientific decisionmaking.

When you have factions out there that just basically want a hand rail around the forest and zero cut, and they have to listen to everybody in all avenues and everybody in the country, it becomes a very political decision instead of a scientific-based decision.

When you have a sale they are trying to put up from fire or from wind damage, they've got to go through the process and it's devastating.

No way can any business survive under the restrictions they've got. We have got to figure out a way to get them back to a science-based decision.

When that happens, they know, we know, and most of the public knows, that we need to get it and remove it. If there's only one other faction I would look at is we have misinformed or have an uneducated public on why we are doing things.

You go back to the way the Forest Service used to do a very good job with the Smoky Bear education program. We need to support some kind of an educational program so they can help educate the public and understand why we are doing some things and understand that cutting a forest is kind of like a difference between a good hair cut and a bad hair cut.

It's only 2 weeks between a good hair cut and a bad hair cut. Be patient with the forest. It's going to look a little ugly for a while and then let nature take it's course and it's going to look beautiful in a year or two. Thank you.

Senator ENZI. Thank you. That fits in a little bit with the next question from the audience. What measures are being taken considering legal appeals to agency decisions? The current environment is one where Federal Judges are setting policy even after collaboration and study. Is that your experience?

Ms. JACHOWSKI. Would you read that again, Senator?

Senator ENZI. What measures are being taken concerning legal appeals to agency decisions? That may well be a question more for me than for you.

Ms. JACHOWSKI. Right, that is true. I would cite, I think Jimmie referred to it in terms of the categorical exclusions, Senator Enzi, and that has been an absolute crucifixion for the Forest Service in terms of trying to make a faster decision.

They did get new standards last year, criteria I should say, for categorical exclusions under the Endangered Species Act. I see that as a very positive effort. I really do.

Senator ENZI. Let's switch to a different question. How much damage will this removal cost the forest as a whole? Will it do more damage than it's worth? Why even bother with removing dead timber if it's never been a problem?

Ms. JACHOWSKI. Well, I am not the forester on this panel, but I will tell you since I have spent 10 years beside a professional forester, and I will let the other guys say it, if sound silviculture is applied, and silviculture, for the general public, is really just a step above general forestry.

It is where the prescription—just like a doctor, they go out, the forester or silviculturist goes out into the forest and determines scientifically, and this is a field that has over 100 years of science behind it, what type of cut will bring that timber stand back to full regeneration.

That is the whole purpose of the harvest. The damage, if it is done wrong, if any cut is done wrong and for the wrong reasons, you can damage water sheds, you can damage habitat, if you do it right, there is not long-term damage and the worse damage comes from your catastrophic fires that seal off those soils and do not allow moisture to penetrate when it's left like that. It destroys the entire wildlife habitat.

Forestry is like putting braces on children. You do what is right now for the long term. As Mr. Neiman said, you might not necessarily like how it looks but it is for those future generations and those ones sitting in the back of the room and applied forestry is a science that you can't beat.

If you do it right and you worry about the resource and not about whether or not you like looking at a stump, just like I might not like looking at braces on children. I love what it's going to do for them in the future and that is where forestry is.

Mr. NEIMAN. I will take a little different turn and there's a lot of people that don't accept or understand what healthy forest is or what we can provide from a forestry standpoint.

If you just focus on one area and look at water shed and the demands for water in this state, I can give you some examples in the Black Hills—where one very simple one—where when my granddad first had the ranch and the stream from the Black Hills dried up, we cut a timber sale and all of a sudden the stream starts running all summer long, we establish a trout stream, and plant some trout. Then all of a sudden the forest starts growing back up again and it dries up for another 10 years.

We cut three or four sales and we established a live stream again. You don't find this in the bigger mountains. It's a little unique in the Black Hills. We have done that three times now.

There's a direct correlation of water consumption, water production. The city of Cheyenne had this huge opportunity to get involved in this act, and what this act provides because the water for Cheyenne comes off a national forest. It's very important. Probably the biggest impact to any city in this state is on Cheyenne itself to make sure they have a healthy forest.

Look what happened in Denver, Colorado. They destroyed—had huge water issues. I look at a healthy forest and you look at fisheries and recreation. Water comes into mind again.

If there's a huge forest fire, the water shed is destroyed sufficient population for a number of years. If it's unhealthy, you can destroy the fish population to by over growth. But, as Kathleen said, "the snow doesn't get to the ground. It dissipates."

It doesn't get down into the underground. Part of it doesn't run off and go underneath. I am very concerned about the water tables and the effect.

You go down—one of the most historical areas I go to is when I come down through to Laramie I will sometimes go through Medicine Bow. They used to float logs by Medicine Bow. It's unheard of now. The stream does not even come close to flowing logs like it used to.

There's some history there. We can learn from the way it used to be and the way it is now.

People need to look and understand what influence, not only on a healthy forest, but help and protect communities and fires in the forest but, focus on water. That is a huge issue that we are overlooking here.

The Forest Service has focused on it, but as communities really need to understand, the ranchers need to look and see. The water shed that can come off and provide for other reasons for irrigation. The North Platte, what comes down out of the Medicine Bow clear to Torrington, there's influences here that are far reaching beyond just what we are talking as an industry here. Thank you.

Senator ENZI. Anyone else? We do have a few more questions. They are related to questions that I have asked and we will ask you to answer those as well. We will then get those answers back to the people that asked them.

I want to thank all of you on both panels today for the testimony that you have given. I think the biggest job I have in Washington is teaching the East about the West.

There is no concept at all of the space that we have out here, the forests that we have out here, grasslands, energy, particularly people. They can't conceive of a state as large as this with less than half a million people.

It's worked out pretty well for us. We keep trying to figure out ways that we can have a better economic base and you are a part of that. You have provided some ideas. I appreciate the cooperation we have had from the Forest Service and the ideas they gave us that we have been able to put into law. Those may speed up the process a little bit and provide for healthy forests.

My hope, of course, is that we can have discussions even throughout Wyoming about what a healthy forest is and how to get there and what the impacts of doing that are.

I can tell from my visits around the State that there are a lot of misconceptions on that and there's very little agreement. Of course, if we can't get agreement in Wyoming what chance is there for the East?

Their forests are completely different. You can't see the forest for the trees out there. They are the hardwood forests. In fact, look at the fall leaves, which everybody says are beautiful. You actually have to find someplace where you can look down on them to get the perspective.

Mr. NEIMAN. Senator Enzi, can I make one closing comment real quick?

Senator ENZI. Sure.

Mr. NEIMAN. Just one additional comment. We are really—all of us here—here on earth for a very short time and we are really here for the children. I very much appreciate your coordination in having the high school and the students here to join up with us.

I would just offer, if they've got questions on my testimony, I put my e-mail and phone number and stuff, please don't inundate me too much, but if you have got questions, I would love to help if you have got questions that we can help further their process because they are the next generation that is going to take the State a further step. Thank you.

Senator ENZI. Thank you. I do appreciate the participation of the students earlier today and each of the people here. In Wyoming we are a land of opinions and some of those are pretty strong opinions. Hopefully, through some hearings and having everybody work together, we can work these issues out. I have found that if people talk to each other, there's only about 20 percent disagreement and usually we can make a lot of progress with the 80 percent of agreement. Hopefully, we will be able to do that.

We will allow for additional testimony and also additional questions so the record will remain open for 10 days. The hearing is adjourned.

[Whereupon, at 11:25 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

**ADDITIONAL COMMENTS TO THE TESTIMONY OF KATHLEEN P. JACHOWSKI,
CODY LUMBER, INC. TO THE**

United States Senate Field Hearing of the Senate

Committee on Small Business and Entrepreneurship

“The Role Small Business Should Play in Maintaining Forest Health”

Senator Mike Enzi, Hearing Chairman

February 19, 2004, 9:00 AM

Cody, Wyoming

Submitted February 28, 2004

These supplemental comments address topics, questions and perspectives posed throughout the February 19 hearing.

Small diameter materials and the economic sustainability of a sawmill the size of Cody Lumber, Inc. (random length mill, approx. 5mbf annual)

Can a sawmill the size and configuration of Cody Lumber, Inc. sustain itself and prosper over the long haul by focusing on the handling of small diameter materials and the products that can be produced from them?

The answer is no. Why? Production costs are higher when handling small diameter materials. There is far more time, more handling, more processing and the end products that are finally produced do not carry the higher values of better grade and larger size materials. Time, utility costs, handling costs all serve to diminish profits and over the long haul the company cannot continue to spend more to produce lower grade products which bring lower prices.

Investment-wise, a mill such as ours would have to keep the current operation running as it is, to pay off the huge investment costs needed to retool for conversion to small diameter materials as our main thrust. However-----as already stated, products from small diameter materials have lower values and higher production costs and it takes substantial investments to build such facilities.

Only if the sawmill has a significant component of higher grade raw materials of larger size with which to produce higher valued end products could a mill this size prosper over the long haul.

Just as this government does not ask or require the energy industry to focus on production of low grade fuels and related low grade products, it is our opinion that the forest industry should not be asked to focus on low grade forest materials and lower value products.

High quality energy resources are what really pay the bills and provide for investment in

technologies and maintenance of facilities. The lower grade energy products are 'asides' or collateral revenue streams.

Things work the same way in the forestry industry. Better grade (healthier) trees produce better grades of lumber. The lower grades of lumber are also 'asides' or collateral revenue streams.

Current 'flavor of the month' focus on small diameter materials and the science side of forestry.....problems brewing with such a singular approach and message.

In the opinion of this company, the United States Forest Service & Bureau of Land Management are so focused on trying to deal with the fuel loading and catastrophic fire risks on our forested lands, that they are unintentionally but definitely under-informing (under educating) the public about the scientifically based need to harvest LARGE, middle and small diameter materials in order to have a vigorous forest for future generations.

It is very important to recognize that the problems with an over abundance of small diameter materials is a far more serious condition on the front range of Colorado. Wyoming's situation is better expressed as an abundance of over-mature large trees that are on the way out. Huge difference. Yet, we are seeing this small diameter management approach be extrapolated to all of Wyoming's forests.

However, this 'over focus' on small diameter materials is really leading the public to think that the way you grow a healthy forest is to only take out the small trees. This is laying the foundation for more unnecessary legal, political and emotional battles about how to manage designated suitable timber lands.

Yes.....small stuff is an easier sell right now, and yes we do need to remove it. However, the message should be a dual one about the scientific correctness for sound silviculture prescriptions to regenerate the various tree species. If we do not do this NOW and in a CONTINUING fashion, we will reduce the public's long term understanding of forest management to the level of an 'arts and crafts' exercise.

A direct fallout of this under educating will be more legal battles which delay harvests and destabilize the economics of local sawmills. There is a cause and effect here that doesn't make the six o'clock news, but is a devastating reality on the ground and at the 'bank'. Our forests and mills have already suffered from a poorly informed public.

How the synergy of leadership problems, combined with: a vastly diminished nuts and bolts understanding and/or appreciation of lumber markets; the composition of timber sales, contract constraints, bonding requirements, and the significance of no bids by small mills are all serving to negatively impact agencies' business relationship with mills and 'partnership' possibilities.

The words above represent a distilled version of the business dynamics for some mill operations in Wyoming. They are being presented in one paragraph because they are so interrelated, and seldom is any one item the sole source of the problem.

It is our perception that (generally) below the Supervisor's level there seems to be a lack of respect for the business partnership between mills and the USFS. Our attempts to offer suggestions, insights and possible solutions or new approaches have left us with the impression that at best we are first tolerated and then ignored. We certainly do not expect to 'call the shots', but we also do not expect our concerns and suggestions to be so easily and routinely bureaucratically blown off—for lack of a better phrase.

All of the mills testifying at this hearing have made changes over the years to try and respond to changing markets and political climates. We submit that especially the USFS needs to also make some changes internally. It needs to assess and respond to the resource crisis we are facing by exploring and initiating changes in contracts, bonding requirements, restrictions in timber contracts to make sales even approach economic viability for sawmills in Wyoming.

While these are 'experienced timber professionals' they seem very narrow in their perception of what it means to 'partner with industry'. We are troubled by a consistent attitude that their role ends once a sale has been offered. It appears irrelevant to them who does or doesn't bid or buy a sale. They seem more concerned that they meet their internal goals or targets without much interest in the quality of the contract or the significance of no bids.

In those parts of Wyoming where sales are going 'no bids' there are no land management goals achieved or economic benefits realized.

In those parts of Wyoming where sales are not bid on by small mills, but sell to distant larger operations, timber staff people don't seem at all interested in why. The general tone is that it sold, so what's the problem. A clear sign of 'de-linking' and no interest in what does that really say and what are the long term ramifications.

It is our contention that such resource professionals should ask themselves why are mills close to sale opportunities not bothering to bid when they need the resource. There are important underlying reasons, some of which have been articulated and none of which should be blithely ignored.

This is not about Cody Lumber, Inc. or any other company wanting sales to be structured for them. It is about all partnership entities carrying their own weight. It about them genuinely trying to solve the forest resource management problems we now face and taking hard business looks at what is transpiring and why.

While these comments refer to the situation in Wyoming as we see it, we would be surprised if things were all that different on other federal forestland situations. Similar frustrations and concerns surface in conversations with other industry colleagues.

We have asked ourselves why has this atmosphere or approach developed? In our view, the largest part of the answer centers on unintentional but wrong assumptions by folks in leadership (Forest Supervisors and higher) positions. We think these folks are assuming that 'experienced staff' share their respect and larger vision of how the USFS and private

industry really do work together. This understanding was far more true 20 years ago than it is today. There has been an unrecognized 'de-linking' of how these two entities really do partner. The current agency culture seems to see their role as 'put up a sale and move on to the next thing'.

In the past, and among many higher management levels in the USFS there still seems to be a 'full circle' partnership and respect for the dynamics of managing a 'timber program'. In many staff folks, however, it seems to be 'put up a timber sale' and I have met my goals and objectives for performance review purposes. There is a compelling difference between these two.

Our company sees these problems as solvable-----but first they must be recognized as problems. Our sole intention here, in offering these straightforward comments, is to help to bring into focus the frequently overlooked human resource dynamic that can, if addressed, be a key ingredient in successful forest resource management.

End of comments.

Kathleen P. Jachowski

Cody Lumber, Inc.

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