GOVERNMENT
Storage
1041
Y4
.C73/2
L97/2/PT. 1
KSU LIBRARIES
A11900 965787

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

IMPACT OF LUMBER IMPORTS ON THE UNITED STATES SOFTWOOD LUMBER INDUSTRY

PART I

APRIL 16, JUNE 14, 15, 18, 1962

(Additional hearings were held in Olympia, Wash., Lewiston, Idaho, and Portland, Oreg., and will be published as part II.)

Printed for the use of the Committee on Commerce

KANSAS STATE UNIVERSITY LIBRARY
SEP 10 1962
MANHATTAN, KANSAS

U.S. GOVERNMENT PRINTING OFFICE
85955 WASHINGTON : 1962

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

Y4
.C73/2
L97/2/PT. 1

COMMITTEE ON COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

JOHN O. PASTORE, Rhode Island
A. S. MIKE MONRONEY, Oklahoma
GEORGE A. SMATHERS, Florida
STROM THURMOND, South Carolina
FRANK J. LAUSCHE, Ohio
RALPH YARBOROUGH, Texas
CLAIR ENGLE, California
E. L. BARTLETT, Alaska
VANCE HARTKE, Indiana
GALE W. McGEE, Wyoming

JOHN MARSHALL BUTLER, Maryland
NORRIS COTTON, New Hampshire
CLIFFORD P. CASE, New Jersey
THRUSTON B. MORTON, Kentucky
HUGH SCOTT, Pennsylvania
KENNETH B. KEATING, New York

EDWARD JARRETT, *Chief Clerk*
HAROLD I. BAYNTON, *Chief Counsel*
JOHN M. MCELROY, *Assistant Chief Counsel*
JEREMIAH J. KENNEY, Jr., *Assistant Chief Clerk*
GERALD B. GRINSTEIN, *Staff Counsel*

KANSAS STATE UNIVERSITY LIBRARY
SEP 10 19 62
MANHATTAN, KANSAS

CONTENTS

Statement of—
Page
Altman, E. N., executive vice president, American Maritime Association, Washington, D.C. 263
Carver, Jr., John A., Assistant Secretary of the Interior in charge of public land management, Department of the Interior, Washington, D.C.; accompanied by Mr. Edward Zaidlics, Chief of Forestry for the Bureau of Land Management 138
Cliff, Edward, Chief, Forest Service, Department of Agriculture, Washington, D.C.; accompanied by Arthur W. Greeley, Assistant Chief, Forest Service; I. J. Mason, Director of Division of Timber Management, and Herbert Stone, regional forester, Washington-Oregon region 154–271
Doyle, Mortimer B., executive vice president, National Lumber Manufacturing Association, 1619 Massachusetts Avenue NW., Washington, D.C. 36
Dworshak, Hon. Henry, U.S. Senator from Idaho, Senate Office Building, Washington, D.C. 89
Dwyer, Robert F., Dwyer Lumber & Plywood Co., 6637 Southeast 100 Avenue, Portland, Oreg. 59
Edgett, G. Cleveland, West Coast Lumbermen's Association, 1410 Southwest Morrison Street, Portland, Oreg. 13–86
Fryburg, Russell G., Western Lumber Marketing Association, 411 Alderway Building, Portland, Oreg. 66–88
Johnson, Hon. G. Griffith, Assistant Secretary for Economic Affairs, Department of State, Washington, D.C.; accompanied by Douglas Coster 103
Miller, Hon. Clem, U.S. Congressman from California, House Office Building, Washington, D.C. 2–123
Miller, Joseph S., 1028 Connecticut Avenue NW., Washington, D.C., appearing for Western Forest Industries Association, 2319 Lloyd Center, Portland, Oreg. 81
Morse, Hon. Wayne, U.S. Senator from Oregon, Senate Office Building, Washington, D.C. 57
Murphy, Hon. Rupert L., Chairman, Interstate Commerce Commission, Washington, D.C.; accompanied by Clyde E. Herring, Commissioner; Dale W. Hardin, congressional liaison officer; Hiram H. Spicer, Legislative Counsel, and Walter L. Baumgartner, examiner 125
Neuberger, Hon. Maurine B., U.S. Senator from Oregon, Senate Office Building, Washington, D.C. 96
Pelly, Hon. Thomas M., U.S. Congressman from Washington State, House Office Building, Washington, D.C. 8
Statement submitted by—
Case, Hon. Francis, U.S. Senator from the State of South Dakota 271
Fox, W. Spencer, chairman, Southern Pine Industry Committee, 520 National Bank of Commerce Building, New Orleans 4, La. 55
Griffee, W. E., secretary-manager, Western Pine Association, Yeon Building, Portland, Oreg. 53
Letters, telegrams, miscellaneous:
Darling, Charles M., Wagner Lumber Products Co., Twisp, Wash. 212
Dutton, Hon. Frederick G., Assistant Secretary, Department of State, Washington, D.C. 27
Connaughton, Chas. A., regional forester, U.S. Department of Agriculture, Forest Service, San Francisco, Calif. 232
Edgett, G. Cleveland, West Coast Lumbermen's Association, 1410 South Morrison Street, Portland, Oreg. 213
Eide, Lars, president, Petersburg Chamber of Commerce, Petersburg, Alaska 118

Letters, telegrams, miscellaneous—Continued
Page
Fancher, Bradley D., attorney, DeArmond, Goodrich, Gray, & Fancher, Post Office Box 1151, Bend, Oreg., re Lundgren Lumber Co 215
Fantz, James M., National Longshoremen's & Warehousemen's Union, 150 Golden Gate Avenue, San Francisco, Calif 213
Foley, Eugene P., Deputy Assistant Secretary, Office of the Secretary of Commerce, Washington, D.C 191
Freeman, Hon. Orville, Secretary of Agriculture, Department of Agriculture, Washington, D.C 207
Lelco, Inc., Post Office Box 70, Bend, Oreg 216
Murphy, Hon. Rupert L., Chairman, Interstate Commerce Commission, Washington, D.C 69–91
The President, the White House, Washington, D.C., letters of June 11 and 12 signed by 17 and 40 Congressmen, respectively 192
Seattle Chamber of Commerce, Board of Trustees, 215 Columbia Street, Seattle, Wash 8
The Seattle Times, Seattle Post-Intelligencer, the Oregon Journal, and the Oregonian (editorials) 131
Western Governors' Conference, Anchorage-Westward Hotel, Anchorage, Alaska (resolution) 134
Western Pine Association, Yeon Building, Portland, Oreg 216

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

MONDAY, APRIL 16, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee was called to order, pursuant to notice, at 10:15 a.m., in room 5110, New Senate Office Building, Hon. Warren G. Magnuson (chairman of the committee) presiding.

The CHAIRMAN. The committee will come to order, because we do have several other Senators and Congressmen who are on their way, and we have a long list of witnesses for this morning, and we hope everybody will be brief.

The chairman has a short preliminary statement he wants to read for the record so that we may know what this meeting and hearing is all about.

We have called this morning's hearing to put into focus a pressing and urgent problem affecting immediately the lumber industries in not only the Pacific Northwest but nationwide, and also one which could take in all of the national consequences unless affirmative remedial steps are taken. I am referring, of course, to Canadian lumber imports which have taken over in excess of 60 percent of Atlantic coast markets formerly served by mills in Washington, Oregon, Montana, Idaho, and northern California.

This matter has grown daily in intensity while we have been working on possible solutions, but each proposal has been controversial with almost an equal amount of detractors as supporters. It is our hope—and I am glad to see so many of the members of the congressional delegations here today, and there will be others along—it is our hope that after hearings in Washington, D.C., and in the field, proposals agreeable to all concerned will be developed.

It is the purpose of the chairman of the committee to begin with this hearing today in Washington, D.C., and then proceed to hold hearings in some of the affected areas, depending upon the availability of witnesses and Members of Congress and the departments involved. We have set a further hearing on this matter in Olympia, Wash., this coming Friday, and expect to have further hearings in Portland, Boise, and in northern California. We hope to expedite those hearings and to conclude them as quickly as possible.

In addition to the congressional delegations, we have with us observers from the Departments of State, Commerce, Interior, and Agriculture as well as representatives from the Maritime Administation and the Interstate Commerce Commission. All of these departments

Staff member assigned to this hearing: Gerald Grinstein.

have in some measure an interest and responsibility in this situation and they will be called upon during the course of these hearings for an expression of their opinions and their recommendations.

In our discussions of the problem to date, a variety of causes have been cited: higher stumpage costs in the United States, an unfavorable exchange rate between Canada and the United States, higher American shipping costs, lack of freeholding time on our railroads, among others.

There have been an equally wide variety of proposals suggested, for instance, a shipping subsidy for ships transporting lumber that would be affected by foreign competition, repeal of the Jones Act, lower stumpage rates on Government sales, tariffs, quotas, and many others.

It is our purpose in the hearings today and in Olympia, however, to secure general statements of the problem so that the depth and seriousness of the impact on our domestic industry can be considered along with recommendations for the early relief of our companies and our region.

At the start, it should be recognized that the Canadians have large, untapped stands of timber in interior British Columbia just above the Washington-Montana line. In the not so distant future these stands will be an additional threat to the domestic lumber industry from Washington to Georgia. If 60,000 jobs are in danger now, at least 160,000 will be when the cut begins in the Canadian interior. We hope that the results of these hearings will be amenable to our Canadian friends as well as forward looking, so that both our industries can prosper.

Finally, to a large extent this problem may well serve as a testing grounds for the new proposals for freer trade, since the situation now confronting us could be typical of the ones that will be generated in the whole Atlantic trade community. The degree of success in handling this may be an indicator of how future difficulties could be resolved.

Our first witness this morning is Congressman Clem Miller from California's First District.

We will be glad to hear from you, Mr. Miller.

STATEMENT OF HON. CLEM MILLER, MEMBER OF CONGRESS FROM THE FIRST DISTRICT OF THE STATE OF CALIFORNIA

Mr. MILLER. Mr. Chairman, it is my privielege to be here this morning and appear before this committee.

I would like to say, Mr. Chairman, that we have been considering this problem for some months in northern California. We have not yet been subject to the real impact of this because we have not yet found the Canadian lumber to any great extent in our Los Angeles market. But this is coming about very rapidly.

The CHAIRMAN. Could I interrupt you, Mr. Miller?

I want to make it clear on the record that the fact we are holding the hearings here in the Senate Commerce Committee does not mean

that Members of the House and the Senate, not members of this committee, have not pursued this problem in an active and serious manner for a long, long time.

Mr. MILLER. That is correct, and I have been aware and have followed through the staff members of your committee the interest which has been continually demonstrated on this very subject and have had representatives of mine at the meetings that you have held in this regard; and I might say, Mr. Chairman, that just last week on Wednesday, we held a luncheon, attended by 61 Congressmen to consider just this matter; to get 61 Congressmen to attend anything, I think, is the best evidence that this is the gravest sort of problem which must be met. There is widespread concern on this matter of imports and what we will do about the lumber industry from all sources, east, west, and south.

And as these hearings progress, we will undoubtedly hear that timber costs are higher in our forests than in forests of British Columbia, that our lumber producers must use costlier means of transporting lumber to both west coast and east coast U.S. markets than the British Columbian producers do, and that Canada has tariff restrictions against our lumber products while we have none against theirs.

It is extremely difficult to explain to the timbermen and lumbermen of my congressional district why concessions should be granted to Canada with no compensating concessions granted to us. I may say that many of us are very deeply questioning the whole principle of the most favored nations as it applies to timber and agricultural areas.

It is, as I say, difficult to explain to the voters and constituents that I represent why others can get concessions and we are granted none in return.

I think we might well look into the State Department handling of various negotiations that go on in this matter of timber production and the attitude of the State Department in protecting citizens of this United States when they are so concerned with the citizens of another country.

Our Northwest lumber industry has been affected by a decrease in home construction. But the decrease in home construction does not adequately explain the larger decrease in markets that our lumber producers have faced.

Within the last decade, the peak years for housing construction have been 1950, 1955, and 1959. Both 1960 and 1961 construction figures show a decline from the peak in 1959, and with the permission of the chairman, I would like to introduce a table at this point to show that and demonstrate it.

The CHAIRMAN. It will be put in the record in full.

Mr. MILLER. In the last 10 years, imports of lumber products from Canada into the United States have increased by 45 percent.

Again I want the figures to be put in the record.

The CHAIRMAN. That will be done.

(The tables referred to are as follows:)

U.S. housing starts

[In thousands of units]

UNDER NEW METHOD OF COLLECTING FIGURES

	1959	1960	1961
Total, including farm, private and public	1,553.5	1,296	1,354.6
Nonfarm, private and public	1,531.3	1,274	1,327.2

UNDER OLD METHOD OF COLLECTING FIGURES

	1954	1955	1956	1957	1958	1959
Nonfarm, private and public	1,220.4	1,328.9	1,118.1	1,041.9	1,209.4	1,378.5

Source: U.S. Housing and Home Finance Agency.

Value of sawmill products imported from Canada

1952	$194.2	1957	$212.4
1953	208.7	1958	232.0
1954	223.6	1959	295.9
1955	285.7	1960	273.0
1956	268.1	1961	281.0

Source: U.S. Department of Commerce.

Mr. MILLER. The effect of this increased supply of Canadian lumber has been a decrease in sales by our domestic producer and in particular, of west coast lumber in the U.S. east coast markets.

At the present time, British Columbia and Canada export about a billion and a half broad feet. Within the immediate future, they intend to step that up to 7½ billion board feet per year.

Now, the reason for this is that the provinces are single use economies. Their entire objective is to aid their timber producers and their timber owners, whereas in our country, the Forest Service places emphasis on multiple use and on the consideration of other uses than timber production.

How to solve this dilemma of aiding our timber industry through Forest Service procedures, is one that we are wrestling with, as I know the chairman of this committee has been wrestling with for many months.

I would like to concentrate on the effect that it has had on our three lumber producing counties in my congressional district, Humboldt, Del Norte, and Mendocino. These are the three northernmost counties along the California coast and the economies of all three are heavily dependent on the lumber industry. These three counties, which I will use as a case history, are just one example of what has been happening generally in the Northwest.

Both Del Norte and Mendocino counties have been designated areas of substantial and chronic unemployment by the Department of Labor and as redevelopment areas under the Area Redevelopment Act.

In addition, current unemployment in Humboldt County is now being studied by the Department of Labor to determine if Humboldt County, also, should be designated a redevelopment area.

Following are unemployment statistics for the three counties.

Average annual unemployment as percentage of labor force

	Del Norte County	Humboldt County	Mendocino County	United States
1958	9.7	7.9	7.7	6.8
1959	5.7	5.0	5.7	5.5
1960	11.3	8.3	8.9	5.6
1961	15.3	10.2	10.0	6.7

Source: U.S. Department of Labor.

Del Norte County's unemployment was 102 percent above the national average in 1960 and 128 percent above the national average in 1961.

Unfortunately, many compatriots think of California as the land of milk and honey, but I represent constituents that prove the reverse of this case.

Recently, a number of lumber mills closed in Humboldt County and we fear that unemployment figures for 1962 will reflect this serious situation.

I do not believe that the entire blame for the lumber industry's present troubles can be laid to Canadian competition, but this competition is definitely a factor.

It seems to me in summary, Mr. Chairman, we should take an additional look at the procedures of the State Department in defending the citizens of this country as distinct from the citizens of another country and we should do something about the procedures of the Forest Service in order that we can expect increased assistance for our timber operators at home.

Thank you, Mr. Chairman, very much.

The CHAIRMAN. Thank you, Mr. Miller. I want the record to show that also present are the Senator from Oregon, Mrs. Neuberger, the Senator from California, Mr. Kuchel, the Senator from Idaho, Mr. Church, and the Senator from Idaho, Mr. Dworshak. Senator Morse, I understand, is on his way, and Senator Metcalfe will also be here, as will other Members of Congress.

Now, are there any questions for Congressman Miller?

Senator Kuchel, you may have something you might like to ask.

Senator KUCHEL. Congressman Miller, you and I represent the same area. I congratulate you on your statement. You mentioned the possibility of assistance to the American lumber industry which might flow from action which the State Department would be empowered under present law to take.

I agree with you. The American lumber industry is sick. The American timber industry is a basic American industry. This is an American Congress and an American Government.

We have a responsibility to assist that industry. How, in general terms, would you describe the State Department assistance which would be available to the timber industry of America?

Mr. MILLER. Certainly, possibly an amendment to the proposed trade bill might be offered wherein we would require that when concessions are granted to a nation, that we get reciprocal treatment in return. This has been pointed out as being possibly destructive of

the most-favored-nations clause. It has had a long and valuable history in our national tradition, but I think a lot of us are coming to something like this because we simply cannot explain the discrepancies to our citizens and the people in our areas who are hurt by the most-favored-nation principle.

So I think that is the first item, is that amendment to the trade bill providing that concessions be granted to one shall be granted to all nations and we will withdraw our concessions to any nation which does not grant similar concessions in return.

Senator KUCHEL. Let me ask you this: Under present law, would the executive branch of the Government—and I speak now particularly of the State Department—be authorized to make any recommendations to the Chief Executive relative to the importation of timber from Canada?

Mr. MILLER. That is correct, they would. I think, however, if I may say so, Senator, we should spell this out more definitely in the law. But it is true that that might be done. I don't notice, I might say, any reaction or concern on the part of the State Department when these matters are brought up.

In fact, I have had occasion in the past year and a half, since coming to Congress, to contact the State Department on various things, and I found kind of a shoulder-shrugging attitude. "Well, that is too bad, we have these national objectives. We have these matters of great national importance that must be dealt with, and if someone is hurt in the process, well, that is unfortunate."

This is going to change the attitude of some of us who have heretofore been the staunchest supporters of our foreign trade policies. I say this as one who has been committed to our trade policies for many, many years.

I bring a lifetime of concern for it and support for it, I bring to it today, vast suspicions as to how it works out in some of these smaller industries that perhaps are not of national significance, but I feel must be entitled to the same sort of consideration.

Senator KUCHEL. I want the record to show, Mr. Chairman, I agree completely with what my California colleague has said. So far as I am concerned, I would be prepared to cast my vote with respect to trade policies so that any appreciable segment of the American economy would not be frustrated or destroyed by whatever trade policy the Congress lays down.

I believe in foreign trade, as does my colleague from California. I believe it ought to be mutually profitable foreign trade. Here is one example where the reverse is true.

Mr. MILLER. I might say, Mr. Chairman, Senator Kuchel and myself are holding a conference in Eureka this Saturday, a multicounty project, to determine whether or not we may find some solution on a multicounty basis for the timber problems that we face.

It will be the first such multicounty proposal and there is a great deal of national interest in this on the part of the Department of Commerce and others.

The CHAIRMAN. I want to say, I wish I could be there with you on Saturday, but I have an important engagement in Seattle at that time.

Senator NEUBERGER. I would like to ask the Congressman this: Since your district abuts on my territory in Oregon, do you have

the same situation that we have in our forests where the lumbermen who buy from the national forest continually overbid or upbid the stated prices?

Mr. MILLER. Yes, that is correct.

Stumpage prices are at least one-third again as much as the appraised value put on them by the Forest Service.

Senator NEUBERGER. I don't mean that.

Do they compete and bid higher than the appraised price put on by the Forest Service?

Mr. MILLER. That is what I meant to indicate, that they do continue to bid higher. Very much so; if I made any other inference, I meant to indicate that was the case.

Senator NEUBERGER. Does that indicate, then, that stumpage prices are too high?

Mr. MILLER. It indicates two things according to the lumbermen I talk to.

First of all, their theory is that not enough lumber and timber is put on the market and therefore just to survive, they must bid very high for it or their mills are going under.

You see, there are a number of mills in my congressional district which depend now on the Forest Service for their stumpage and for their logs. When there are only a few number of sales, they have to get the timber, even if it costs them their economic life, they have to get in there and bid, $26, $28, $30 a thousand for Douglas-fir, when it has an appraised value of $17 or $18, and maybe even less.

The other reason that is given, and I mention this cautiously, is that some of the larger companies may, let's say, have uncharitable feelings toward the smaller companies, and if a large company can bid in one more sale, then perhaps a pesky competitor may go under. If this happens often enough stumpage prices can fall to their natural level.

The answer to it, according to the lumbermen is enough sales put on in sequence and in orderly fashion, so that stumpage prices will seek their natural level without such drastic results.

Of course, when you come to British Columbia stumpage, why we find that the Government is actually subsidizing the timber industry because it believes that its very prosperity and very economic life depends on the timber industry. Therefore, it frankly assist the operators. Whereas our Forest Service is deluged with requests by recreationists, protectionists, and others till their answer has become a term called "multiple use."

I told a Forest Service official Saturday that it will only be very shortly before they are going to regret they ever heard that phrase "multiple use."

Senator NEUBERGER. You know you are providing a chance for me to make a comment. When you said the Forest Service was busy with other things, such as developing seashore parks that really belong in the Department of Interior occurred to me.

The CHAIRMAN. Any further questions of Congressman Miller?

Thank you very much.

Mr. MILLER. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is my colleague from the State of Washington, Congressman Tom Pelly, who, along with the entire Washington delegation, has a continuing interest in this problem.

I want to put in the record a resolution just passed by the Seattle Chamber of Commerce in this matter.

(The resolution follows:)

RESOLUTION ADOPTED BY THE BOARD OF TRUSTEES OF THE SEATTLE CHAMBER OF COMMERCE, MARCH 20. 1962

The Seattle Chamber of Commerce commends the action taken by the Commerce, State, and Agriculture Departments of the U.S. Government in recognizing and initiating studies of the problems confronting the lumber industry of the Pacific Northwest.

Further, in view of the seriousness of the situation, the Seattle Chamber of Commerce urges the early completion of these studies and the development of remedial action which will eliminate the detrimental effects that the importation of Canadian lumber is having on the U.S. Pacific Northwest forest products industry and the general economy of the Pacific Northwest.

Further, the Seatle Chamber of Commerce recommends that the Senate Committee on Commerce institute studies in the following areas: (1) The effect of Canadian monetary practices, (2) the advantages of Canadian railroad diversion practices, (3) the disparity in United States versus Canadian manufacturing and cargo-handling costs, (4) the disparity in United States versus Canadian stumpage costs, (5) the inequities of import tariffs on U.S. forest products imposed by Canada as compared with those of the United States on Canadian forest products, (6) the intent of bills such as S. 2737 and H.R. 9760 introduced in the 2d session of the 87th Congress, relating to domestic water transportation.

BACKGROUND INFORMATION DEVELOPED BY THE MARITIME DIVISION, SEATTLE CHAMBER OF COMMERCE, RAY SEEFELDT, CHAIRMAN

1. In the last 10 years west coast lumber producers have lost to British Columbia over half of the U.S. Atlantic seaboard market represented by waterborne shipments. In 1951, west coast (Washington, Oregon, California) producers held 93 percent of the Atlantic coast market, British Columbia only 7 percent. In 1961, with little change in the size of the total market in the last 10 years, the west coast share fell to 43 percent with British Columbia rising to 57 percent.

2. The forest products industry is the largest source of income and employment in the Pacific Northwest. An Industrial Forestry Association report shows that in 1960 the forest products industry was worth $2,131,730,000 in value to Washington and Oregon and provided 147,395 jobs with a payroll of $787,225,763. Due to British Columbia's increased share of our Atlantic coast market the United States has lost the opportunity for 12,000 jobs in the Pacific Northwest during the past 10 years.

3. Many reasons have been cited by the U.S. lumber industry for their declining share of this important market. Five reasons are listed in the suggested study areas in the third paragraph of the accompanying resolution (items 1 through 5). A sixth reason is the high U.S. costs of transporting forest products by vessel. A number of bills have been introduced in this session of Congress as possible solutions, i.e., S. 2737 and H.R. 9760.

4. This resolution has also received the approval of the Seattle Chamber's World Trade Division and Forestry Committee.

The CHAIRMAN. We will be glad to hear from you.

STATEMENT OF HON. THOMAS M. PELLY, U.S. CONGRESSMAN FROM THE FIRST DISTRICT, STATE OF WASHINGTON

Mr. PELLY. Senator Magnuson and members of the committee, I first want to express my appreciation for this opportunity to testify in connection with the problems of the Pacific Northwest lumber industry.

Mr. Chairman, I should like to say first that we have a sick lumber industry in my State of Washington and other Northwest States. The causes of this condition are many.

There have been a number of proposals to alleviate the problems, but I think it fair to say that no single one would provide a complete solution. For example, a number of Members of the House, including Representative Durno, of Oregon, Representative Tollefson, and myself, and I think, too, the distinguished Senator from Oregon, Mrs. Neuberger, have introduced bills to permit the Secretary of Commerce to authorize use of foreign-flag vessels when after public hearings he has ascertained that section 27 of the Merchant Marine Act is causing the lumber industry to lose a substantial part of its business to foreign competitors.

Other distinguished Representatives from the Pacific Northwest States, including my colleagues from the State of Washington, Mrs. Hansen and Representative Magnuson, I believe, have introduced bills to provide for a subsidy to American-flag vessels to try to equalize costs of shipping lumber by U.S. vessels as against foreign competition.

I am frank to say that both these proposals offer problems because they invite equal treatment for other industries such as the oil industry, which has long sought to obtain equalization between United States and foreign tankers. So while water freight rates are about $7 a thousand board-feet of lumber cheaper on foreign ships from British Columbia than the American-flag rate from Washington State, I doubt if either bill could be passed.

Other members have sought relief through the agriculture program to allow American lumber interests to purchase Government timberlands on an equal basis that Canadian lumbermen can buy from the Canadian Government.

Altogether, Mr. Chairman, I know there are a number of suggestions and I can only say that I do not think any single proposal would equalize costs with the Canadians for delivery of American lumber on the Atlantic coast as against Canadian lumber.

Canadians through the British Empire preference have taken over a once substantial customer of Great Britain and, meanwhile, on account of lower costs now enjoy the bulk of the U.S. Atlantic market. The crippling effects of this low-cost foreign competition are due, as I said, to many factors. This constantly increasing competition has been so serious that quotas and/or higher tariffs have been studied although admittedly both are fraught with complications involving our whole trade relationship with Canada.

In the great forested areas of the Northwest, 60 percent of our working people are dependent upon the forest products industry for their livelihood.

My own State of Washington is one of the major lumber-producing States of our Nation, specializing in softwood production.

Practically all of U.S. softwood lumber imports are from Canada. In 1961, Canadian lumber imports were substantially in excess of the entire production of Washington State. Since practically all of our softwood imports are from Canada, these imports are directly competitive with the lumber produced in my State.

It is for this reason that the people of my part of the country are extremely disturbed by the fact that during the past year approximately 4 billion board feet of Canadian lumber has found its way across the border into our markets. This is an increase of more than 70 percent in the past 10 years, and almost a 900-percent increase since 1935.

At this point, with the committee's permission, I would like to submit for inclusion in the record as part of my statement a statistical table showing U.S. softwood lumber production, exports, imports, and consumption for the period 1926–61.

(The statistical table follows:)

U.S. softwood lumber production, exports, imports, consumption, 1926–61

[Million board feet]

	Production	Exports	Imports	Consumption
1926	30,469	2,424	1,777	31,000
1927	28,442	2,609	1,634	28,361
1928	28,345	2,739	1,372	28,781
1929	29,813	2,698	1,418	28,905
1930	21,323	1,912	1,148	21,475
1931	13,852	1,353	702	15,434
1932	8,746	911	354	10,647
1933	11,899	987	311	12,385
1934	12,736	1,063	244	12,774
1935	16,248	1,003	380	16,086
1936	20,242	947	570	19,824
1937	21,589	1,056	473	21,062
1938	18,293	710	459	19,180
1939	21,407	828	606	22,392
1940	24,903	748	607	26,169
1941	28,032	509	1,183	28,995
1942	29,510	281	1,397	34,555
1943	26,917	201	704	29,157
1944	25,160	234	819	26,401
1945	21,140	289	882	23,996
1946	25,856	516	1,020	25,766
1947	27,937	972	1,092	27,451
1948	29,010	462	1,652	28,976
1949	27,197	534	1,425	28,628
1950	31,528	407	3,140	34,664
1951	29,804	876	2,250	31,522
1952	30,234	566	2,267	32,795
1953	29,562	513	2,527	31,305
1954	29,282	585	2,855	32,608
1955	30,293	652	3,327	33,451
1956	30,661	571	2,131	33,346
1957	27,100	623	2,712	30,234
1958	27,379	550	3,155	30,833
1959	30,674	608	3,742	34,244
1960	[1] 28,334	593	3,631	[1] 31,173
1961 (preliminary)	[1] 27,500	[1] 590	[1] 3,995	[1] 30,933

[1] Subject to revision.

Source: National Lumber Manufacturers Association and Bureau of the Census, U.S. Department of Commerce.

Mr. PELLY. The tremendous increase in Canadian imports has naturally depressed the economy of the Northwest, where it is roughly estimated that some 300,000 people have been adversely affected. Almost all of the distressed labor areas in the Northwest are those which are dependent on a prosperous lumber economy.

During the past few years, approximately 100 lumber mills—both large and small—in the Douglas-fir region alone have ceased operations, attributing their closing down mainly to this large influx of Canadian lumber imports.

In this same region, over 600 million board feet of lumber production was lost during the past year by U.S. lumber mills. This amounts to a loss of 66,600,000 man-hours, or 8,325,000 workdays, which have been denied the labor force in our Northwest lumber region. This is certainly a critical loss to the Northwest communities which are dependent on the forest products industries for their survival.

About 30,675 Washingtonians are employed in sawmilling, logging, and planning—the activities directly affected by foreign cost discrimi-

nation. This figure was about 15,000 higher a decade ago. Total woodworking employment in Washington is about 65,000 and the whole of the woodworking industry, of course, feels the impact of the favored treatment afforded Canadian competitors.

The CHAIRMAN. Mr. Pelly, if I might interrupt. The employment figures which you have given, which of course are quite accurate, indicate to me that at least potentially we have a problem which now has attracted the attention of Congress, the administration, and the Nation. The problem is the existence of depressed areas almost completely dependent upon one troubled industry. I don't know how many bills are in the Congress designed to help them, which we certainly want to do.

This committee, on Thursday, is going to start a long hearing on transporting coal by sluicing it through a pipeline. As we all know, coal is the main product of one large depressed area. It seems to me that there is something of an analogy between coal in certain parts of the country and lumber in the Northwest. Our aim here is to find a solution before the problem becomes more serious.

Mr. PELLY. I agree, Senator. I think if we could find a simple, one simple solution within the normal free enterprise system, it would save a lot of the programs of so-called welfare programs which are necessary on account of the distress that we have.

As long as the Pacific Northwest forest products industry operates under handicaps, unemployment can be expected to remain acute in many western Washington communities.

The American lumber industry cannot meet Canadian competition for, besides the many advantages granted Canadian lumber producers by their Government, the Canadians have lower wage rates, lower shipping rates, and advantageous rail shipping privileges which give them a favored competitive position over American producers.

Personally, I greatly fear Government compensatory legislation to assist individual industrial plants adversely affected by foreign imports to transfer productive facilities into other types of business activity. This method could cause a wave of overproduction in areas not presently harmed by foreign competition. It could lead to Government planning and control. It could lead to political maneuvering.

Rather, I would urge substituting international agreements as the chief instrument to prevent disruption of an industry before rather than after the damage is done.

I would support a form of disaster insurance in the new tariff law so that after the Tariff Commission finds injury to domestic industry and employment, the President could elect, and so report to the Congress, to enter into an international agreement with the country concerned with respect to exports to the United States for the purpose of eliminating the disruption caused by such imports. The Tariff Commission, after a hearing and a finding of injury, could make recommendations as to any limit and quantity and type of goods to be imported to stabilize the domestic market. The President could be authorized to seek an agreement unless the Congress opposes it by concurrent resolution.

If a satisfactory international agreement, for any reason, cannot be reached, then I would favor the Tariff Act requiring the Tariff Commission to recommend duty and quota adjustments which would be mandatory on the President.

This latter provision would give the President a strong position on which to negotiate a voluntary international agreement.

In conclusion, let me say I was heartened to learn that the domestic lumber industry has taken an affirmative step to amicably resolve its import problems with Canada. A press release which came to my attention recently indicates that the industry has proposed a novel approach to the Canadian import problem.

Under the industry's proposal, present United States and Canadian softwood lumber tariffs would be repealed, permitting duty-free entry of shipments to each country until total imports equaled 10 percent of the annual domestic consumption. A duty of 10 percent would then be imposed on the value of each import shipment in excess of 10 percent of total domestic consumption. I firmly believe that this proposal is worthy of the consideration of Congress and the President.

The CHAIRMAN. Who made that proposal?

Mr. PELLY. The lumber industry itself.

I might say the lumber industry in trying to resolve their own differences have real problems because, for example, the southern pine industry certainly can't support some adjustment that would in turn work adversely to their competition.

Senator CHURCH. Congressman Pelly, doesn't that 10-percent figure represent the approximate Canadian participation in the American market over a period of years?

Mr. PELLY. I think, Senator, that you are correct, although I think at this point it would be proper to say that now on the Atlantic coast, in recent months, the Canadians have been enjoying 70 percent of the market, which normally belonged to our country.

Senator CHURCH. But nationwide, doesn't that 10-percent figure represent the approximate participation of Canadian lumber in the American markets? Isn't that the reason that the industry selected the 10-percent figure—to sustain established trade and yet to protect against increases in the movement from Canada?

Mr. PELLY. As I understood it, that was the reason that the lumber industry itself settled on that figure.

But this problem is so urgent in the Northwest——

The CHAIRMAN. I don't want to interrupt you, but I was just reminded by—off the record.

(Discussion off the record.)

Mr. PELLY. Speaking of the tuna problem, the foreign tuna, the Japanese people are dumping tuna in Europe in competition, we will say, with our tuna, while the United States, because of the present consideration to our tariff policy, I think they are behaving very well.

The CHAIRMAN. I just wanted to point out that this approach to lumber is somewhat similar to that of Kuchel, Magnuson, and others to the tuna problem.

Mr. PELLY. Senator, I again want to say that the need for a solution to the problem is certainly very urgent if the economy of our domestic lumber regions is to be preserved. I certainly would want to conclude by again thanking you and your committee for allowing me to appear here today.

The CHAIRMAN. We appreciate your appearing and I am sure you speak for other members of the Washington congressional delegation who couldn't be here. They all have the same general views.

Mr. PELLY. I think I speak their views.

The CHAIRMAN. Any questions of Congressman Pelly? Any further questions?

Thank you very much.

I want to invite the Members of Congress to come up here and listen to the rest of the testimony if they wish.

The next witness is Mr. Cleveland Edgett, West Coast Lumbermen's Association, from Portland, Oreg.

We are glad to hear from you.

Before Mr. Edgett testifies, I just want to comment a minute on the fine statement by Congressman Pelly and his approach to the problem. It seems to me—this is only my personal opinion—that those in Canada who have enjoyed trade relations with us on a reciprocal basis for some years, surely don't believe that the current situation as regards lumber can long go on without some retaliation. We are almost forced to it, and I think it is the sense of everyone here that this is something we don't want to do, if we can work this thing out as sensible, reasonable people of two countries that have had a long period of friendly relations.

Thank you.

Go right ahead.

STATEMENT OF G. CLEVELAND EDGETT, WEST COAST LUMBERMEN'S ASSOCIATION, PORTLAND, OREG.

Mr. EDGETT. Mr. Chairman and Senators, my name is G. Cleveland Edgett of Portland, Oreg. I am an executive of the West Coast Lumberman's Association.

The CHAIRMAN. Mr. Edgett, one more thing. We will put your statement in the record in full, and then as we move along, the people who are here may want to ask questions about a certain portion, but the record will go. The statement will go in the record in full in continuity, and then we will ask questions as we move along.

Mr. EDGETT. Thank you, Senator.

The CHAIRMAN. All right.

Mr. EDGETT. The association appreciates this opportunity to appear before the Senate Commerce Committee to submit evidence in support of the immediate implementation of a quarterly quota on softwood imports. It is believed that such action is needed as an emergency measure until solutions can be found for the complex competitive problems of the industry. Basically, the association continues to adhere to the principle of equal trade opportunity for both domestic and foreign lumber.

It is our intention to define during this testimony all of the problem areas where the industry is denied equality in the marketplace. Suggestions will be made for corrective measures which can be pursued in due course. Supporting factual data concerning the impact of softwood imports are provided as appendixes to this report.

The West Coast Lumbermen's Association was organized in 1911. It represents the Douglas fir lumber region of western Washington and Oregon and northern California. There are 161 member lumber companies representing approximately 60 percent of the total lumber production in the Douglas fir region. The membership

dropped by 41 mills in 1961 through mill closures and financial hardship due to depressed market conditions.

The membership rolls include many of the small- and medium-sized sawmills in the Douglas fir region, as well as the large integrated operations. The association is a cross section of the industry representing water shippers as well as rail shipping mills, dry as well as green mills. Some of the members depend entirely on Government timber for their raw material, while others own part of their timber and buy part, and still other mills own all of their timber in managed tree farms.

The association is continually striving to improve the product and to expand the market for west coast species. Half of the association's revenue is allocated for national advertising and promotion. Much of the balance goes into other types of trade promotion. Some goes into traffic to keep freight rates equitable; some into public relations and product publicity; some into technical services to develop new uses for wood and to improve building codes; some to a field service program to explain lumber uses; some into insurance work to maintain realistic fire insurance rates.

The CHAIRMAN. Right there, Mr. Edgett. It has been said on many occasions—I have heard it and we have all heard it—that the lumber industry is not keeping up with technological advances in this modern world. Research has been inadequate, and new uses of lumber have not been developed. The conclusion is drawn that this is why we are excluded from certain markets, aside from Canadian competition. Wouldn't it be fair to say that the amount of research in the lumber industry on the uses of its product would be as great or greater as in any other industry?

Mr. EDGETT. I am sure you are quite right.

The CHAIRMAN. Even the Government itself has been in this field.

Mr. EDGETT. Yes.

A large share of the association dues that are paid to the National Lumber Manufacturers Association is also spent for lumber promotion and for lumber code work. In addition, the membership contributes heavily, on a strictly voluntary basis, to a special advertising and promotion fund collected by the NLMA. This fund is spent primarily for product promotion at the consumer level in the form of magazine advertising, promotional literature, and technical field services.

In addition to the considerable sum of money spent in direct product advertising by the two associations, many of the lumber company members invest in national advertising programs of their own, stressing their own brand products. Several millions of dollars are spent annually in efforts to enlarge opportunities for lumber and to retain traditional markets.

Within the past few months, various members of the association have been in Japan, Australia, the United Kingdom, and continental Europe in search of new business. The pursuit of both old and new markets for our product is aggressive and determined. Export manufacturers have established trade connections throughout the world. Historically, we have been an exporting industry, but in recent years we have found it more and more difficult to compete for world markets because of economic advantages enjoyed by lumbermen from other nations.

How large is the industry? Last year, lumber produced by sawmills in the Douglas-fir region of western Oregon and Washington was valued at $626 million. This does not include Douglas-fir production of some 2 billion feet from northern California because those figures are intermingled with redwood and pine output.

How important is the industry to our region? It provides direct employment to 66,600 men and women. It pumps $375 million in wages into the economy and is the economic lifeblood of many independent communities. The industry accounts for 60 percent of all industrial workers in Oregon and a very high percentage in Washington and northern California.

This is not a dying industry, waiting for subsidies. It is a powerful and dynamic industry, fighting for markets at home and abroad. It is not an industry with obsolete equipment. Many investments are being made continually in modern machinery and research facilities. The industry also has some of the finest timber in the world and is spending millions each year to perpetuate the timber crop for future generations.

The Douglas-fir region has raw material in abundance; it has the finest sawmills and remanufacturing plants that American ingenuity can devise; it has excellently trained workmen skilled in their various trades; it has a worldwide and a nationwide acceptance for its lumber products; it has the marketing know-how and sales personnel; it is spending money in hard hitting lumber selling and promotion; it has faith in its future.

But the industry is faced with a competitive situation from foreign producers who are able to flood the domestic softwood lumber market. This is a situation not of its own making. It is a situation created by a succession of acts of our own Government. It is a situation created by the acts of a neighboring government friendly to business and determined to help it. It is caught in a cost-price squeeze which is intolerable, which has already forced the closure of a hundred or more sawmills throughout the region and the sharp curtailment of production in most of the large operations.

The CHAIRMAN. Now when you say it is a situation created by a succession of acts of Government, wouldn't it be better to say it is a situation that has been created by a failure of our Government to act?

Mr. EDGETT. I think both statements are true, Senator.

The CHAIRMAN. I don't think that the Government, regardless of who has been running it, has deliberately gone out and suggested or attempted to do things to create these conditions you are commenting on.

Mr. EDGETT. You are right, Senator, and that is not the implication in the statement.

How badly has it been hurt? The Douglas-fir region of western Oregon and Washington produced an average of 9.1 billion board feet of lumber in the 10 years from 1951 to 1960, inclusive. In 1961 it felt, for the second straight year, the body blow of steadily increasing imports of foreign made lumber. It was felt particularly during this period because domestic consumption had also declined.

A look at the figures will show how badly the Douglas-fir region has been hurt. In 1960, the industry produced 8 billion board feet, a drop of 1.1 billion board feet from the 10-year average. In 1961,

it produced 7.8 billion board feet, a sensational drop of 1.3 billion feet below the 10-year average.

Senator CHURCH. May I interrupt just there. Your figures here refer to the drop in production in western Oregon and Washington and northern California?

Mr. EDGETT. Northern California is excluded from these figures, Senator Church.

Senator CHURCH. Just Oregon and Washington?

Mr. EDGETT. Yes.

Senator CHURCH. I asked that question because the figures do not reflect the drop in production or the problem faced in the lumber industry in my State, although there we have a similar problem and high unemployment as a result. We are very much interested in your problem on the west coast because as your industry finds it more and more difficult to supply the eastern market, as you have in the past, owing to Canadian competition, then of course, it becomes necessary for your industry to encroach upon markets that have been customarily ours, and thus we are directly affected by your problem. I just wanted to emphasize, Mr. Chairman, that these figures, impressive as they are, are figures confined to the west coast of Oregon and Washington and don't reflect the full scope of the problem within the entire region.

Mr. EDGETT. How much lumber is 1.3 billion board feet? It takes 7,400 loggers, sawmill, and planing mill workers 1 full year to turn out that volume of lumber. These men would earn $40 million in wages. It is easy to figure the loss to both State and Federal Government in income taxes. It is easy to see how much cash money has been taken out of the economy of local communities throughout our three west coast States.

On the other side of the coin, it can be seen that the reverse situation is developing in British Columbia. Lumber production in this Province set an all-time record in 1961, with a significant increase over the previous year. The total volume of 5.5 billion board feet was made up of 2.9 billion from the coast region and 2.6 billion from the interior.

The biggest customer of the British Columbia mills was still the United States. The coast region shipped 1.3 billion feet to our domestic market, or 43 percent of shipments. The interior region sent 1.4 billion feet, or 56 percent of shipments. Of this total of 2.7 billion board feet, 65 percent moved by rail and 35 percent by water.

The CHAIRMAN. Do you have any figures, or can someone produce figures, on the difference in the rail rates between the interior of British Columbia and the eastern markets and the rail rates from, say, Idaho and eastern Washington and Oregon?

Mr. EDGETT. Senator, we have 11 tables appended to this report, and if I may I would like to submit them for the record.

The CHAIRMAN. This is where ICC comes into the act, if they are here. They are here. All right.

Mr. EDGETT. Total Canadian shipments of softwood lumber to the United States during 1961 amounted to almost 4 billion board feet. This represents 12.7 percent of our domestic softwood consumption—almost double the 1951 figure.

The outlook for the future is even more alarming and spells disaster for all lumber-producing regions of the United States. It has been authoritatively predicted that British Columbia will increase her soft-

wood production to a total of 8 billion feet by 1975. The British Columbia industry is well on its way to reaching this objective as production has increased by 152 percent during the past 15 years. The vast bulk of this projected increase—more than 2 billion feet—will be exported to the United States because of limited market opportunities for the British Columbia interior mills where much of the untapped forest resources are located.

Some of the responsibility for this tremendous growth can be attributed to the favorable business climate under which the British Columbia mills operate. The British Columbia government, for example, has a vested interest in most of the timber resources of the Province. It is basically interested in creating jobs, payrolls, and taxes, rather than extracting the ultimate return from stumpage.

The lumber manufacturers in British Columbia also receive substantial assistance from the Provincial and Federal Governments in helping to expand markets. Two years ago, 36 influential trade representatives from the United Kingdom were flown to British Columbia by the Government for a 3-week tour of the sawmills. The British Columbia government is now financing a trip for a similar delegation from the Common Market countries in May of this year. It is noteworthy also that the Federal Government sponsors various trade missions abroad and maintains lumber specialists in key markets. In addition, the Department of Trade and Commerce has exhibited Canadian forest products at several trade shows in the United States and is planning to step up the schedule this year.

The CHAIRMAN. In all fairness, we have been beefing up our program in this respect, too, as far as trade missions are concerned.

Mr. EDGETT. This is true, Senator, but I don't believe as far as the lumber industry is concerned.

The CHAIRMAN. I helped handle the Department of Commerce appropriation in the last 5 years and we have been extending them. I don't think that British Columbia has been doing that to any great extent.

Mr. EDGETT. The detailed tables which are appended to this report show the many economic advantages of the British Columbia mills compared to those in the Douglas-fir and western pine regions. Isolating the Pacific Northwest and British Columbia coast regions, which are quite comparable, it can be seen that our average stumpage price in 1960 was $22.13 per thousand while the British Columbia coast mills paid an average of $7.30. A comparison of average hourly earnings in sawmills indicates a differential of 34 cents in favor of British Columbia—$2.49 versus $2.15.

A further disparity in labor costs is also evident in the stevedoring trade. Although there is considerable variation between U.S. ports, it costs us an average of $4 per thousand more to load packaged lumber on a ship, and $6 per thousand more to load loose lumber, than it does in British Columbia.

The cargo mills in the Douglas-fir region, which represent 25 percent of our production, are at a further competitive disadvantage because of the requirement of using American bottoms in the intercoastal trade.

The CHAIRMAN. I want to go back to the last paragraph.

As a result of some of the meetings we have held, the U.S. Forest Service has been very active the past few weeks in gathering more complete and up-to-date statistics on the stumpage comparisons. We are very hopeful that the report will be here shortly.

Mr. EDGETT. I am sure that will be very helpful, Senator.

The CHAIRMAN. And also, to the credit of the lumber industry itself and the stevedoring trade, there have been some informal discussions to see if there can't be a better adjustment of contracts on the stevedoring disparity, so those two things are going on. I don't know what the result will be, but there is some activity in that field.

Mr. EDGETT. In the Atlantic coast market this has meant a difference of about $7.50 per thousand, half of which can be attributed to the use of foreign charters by the British Columbia shippers. The result has been that we only shipped 595 million feet to our east coast in 1961 compared to 794 million feet from British Columbia. This is an increase in volume from British Columbia of 93 percent, when related to the previous 10-year average. It is important to recognize that modifying the Merchant Marine Act to either provide a subsidy or to permit the use of foreign flags will only go half way toward curing this particular competitive problem because loading costs are part of the rate structure.

Although the total volume of lumber involved is considerably less in Puerto Rico, a change in the Jones Act could have a greater impact in this market than on the Atlantic coast. The only available shipping rate from the Pacific Northwest is so prohibitive that British Columbia mills completely dominate shipments to Puerto Rico. During 1961, their share of this 73 million feet market was up from a previous 10-year average of 79 percent to 100 percent. Despite our higher loading and manufacturing costs, we could probably manage a few deck cargos to Puerto Rico if our waterborne shippers could use foreign vessels in this trade.

Pacific Northwest cargo mills are being hampered as well in developing export markets as a partial counterbalance to rising imports of softwood lumber. In virtually every market our volume has declined while British Columbia shipments have shown an increase. One of the important factors in this situation is that our exporters are required by American law to ship lumber on published conference rates which are higher and less flexible than those available to British Columbia shippers. For example, the differential on shipments to the United Kingdom amounts to approximately $8 per thousand and only about $5 of this can be attributed to our higher loadings costs. Furthermore, regulations which were promulgated by the Federal Maritime Commission earlier this year tend to inhibit any deviation from the fixed rate to meet the open rate competition from British Columbia.

The various steamship conferences are aware of the gravity of the situation. They agree with us that U.S. softwood exports may completely disappear unless changes are made in the regulations to permit shipping rates on lumber to fluctuate with the market. This could be accomplished by amending Public Law 87–346 to exempt lumber from the regulations, as has been done already with other bulk commodities.

Senator NEUBERGER. I was interested in your chart, table 8, which does show no market in Puerto Rico, as you just mentioned in your statement. But if there has been a 70-percent increase in Canadian shipment to the Atlantic market and only a 10 percent over the whole United States, in spite of the difference in handling costs, wouldn't that indicate that the greatest part of it had to do with costs of shipping?

Mr. EDGETT. I don't believe that is quite right, Senator. Really half the differential in costs can be accounted for by loading and half by the use of foreign charters by the British Columbia shippers.

Senator NEUBERGER. Even if it is only $3 a thousand more, because of the millions and billions of board feet, that really makes quite a difference?

Mr. EDGETT. It makes a tremendous difference.

Senator NEUBERGER. And statistics show there has been a gradual decline in the number of people employed in our maritime shipping, which indicates that we are evidently not competing with Canada. Recently, Congressman Johnson of your State and I attended an interparliamentary meeting in Canada and we talked to the Canadian officials a great deal about this. I asked them about their merchant marine and their ships and they said they just simply couldn't afford to maintain a merchant marine and they have only one ship left. So the very fact that they have gone to foreign flags would indicate that is a very big factor in their competition.

Mr. EDGETT. Quite right.

Senator CHURCH. How much of the total softwood production in the United States generally speaking today is exported in terms of percentage?

Mr. EDGETT. The total production. Are you confining this to softwood or including hardwood?

Senator CHURCH. Just picking up your statement, Mr. Edgett.

Mr. EDGETT. We are down to 5 percent of our production that is exported.

Senator CHURCH. Thank you.

Mr. EDGETT. Western Canadian rail shippers enjoy a distinct advantage over our rail mills as the result of a 15-day freehold provision which applies on Canadian lines. This means a car may be willfully delayed enroute, without cost, giving the seller additional time in which to dispose of the shipment. The charges for a similar service in the United States would cost up to $96 per car.

Because it is wasteful of cars and harmful to the economy during periods of car shortage, this practice was discontinued on U.S. lines in 1960 by order of the Interstate Commerce Commission. The American railroads recently agreed to eliminate certain minor loopholes which were not covered by the regulations.

Manifestly, with the provision ordered canceled in the United States, it is discriminatory in favor of Canadian shippers to allow it to remain in effect in Canada on competitive shipments. The Canadian lines agree that the 15-day freehold is a wasteful service and have indicated that it will be removed when they have investigated and are satisfied with the new tariff revisions.

The Interstate Commerce Commission should have the authority to order U.S. lines to refrain from joining in through rates on lumber

from Canada on shipments accorded a 15-day freehold. If the matter is not adjusted on a voluntary basis, the Interstate Commerce Commission could then order American lines to cancel through rates and routes on lumber originating in Canada when cars have been held under the 15-day freehold provision.

The CHAIRMAN. In that respect, has the industry made formal application to the ICC in this 15-day hold matter?

Mr. EDGETT. Senator, the negotiations that have been going on between the American and Canadian lines occurred in January of this year. The Canadian lines are still studying the revised tariffs that have been submitted and I understand that word is expected within the next few weeks. If this is not forthcoming, such an approach should be considered.

The CHAIRMAN. You people have taken the position that you will await the conclusion of these negotiations in Canada, and that if the end is not forthcoming within a reasonable time, then you will consider making application to the ICC?

Mr. EDGETT. That is quite right, Senator. We hope this may also be an action that could be considered by the Senate Commerce Committee.

The CHAIRMAN. I think the members of the ICC are very cognizant of this situation and that they would probably take the same position right now that you people do.

Mr. EDGETT. An additional burden which was arbitrarily imposed last year on all softwood producers in the United States is the depreciation of the Canadian dollar. This was done with the announced intention by the Minister of Finance of increasing exports and curtailing imports:

This fiscal policy certainly has helped Canadian lumber manufacturers as they have gained about $4 per thousand on their large volume of shipments to the United States while U.S. mills have lost an equivalent amount on the small volume of business that we have had in Canada.

Canadian shippers also derive a similar benefit from lumber sales in all export markets so this is another obstacle that will have to be overcome before the industry can assist in the President's trade expansion program.

A comparison of the softwood tariff structure between Canada and the United States provides another unfortunate commentary on the respective competitive positions. Since 1948, the United States has permitted either rough or surfaced lumber from Canada to enter with a minimal duty ranging from 25 cents to $1 per thousand.

Canada, on the other hand, imposes a tariff on surfaced lumber ranging up to 10 percent ad valorem, or about $8 per thousand, although rough lumber is permitted to enter free of duty.

The CHAIRMAN. At that point, can you supply for the record the amount of export by us to Canada in this field?

Mr. EDGETT. Canada's consumption of softwood is approximately 3 billion feet.

The CHAIRMAN. Of surfaced lumber?

Mr. EDGETT. No, sir, all the lumber virtually that is shipped from the United States to Canada is largely rough or is ponderosa pine or redwood.

The CHAIRMAN. What I am trying to get at is that we have a duty on their surfaced lumber of $1 per thousand. They have a duty on our lumber, surfaced lumber, of $8 per thousand.

Mr. EDGETT. We are just not shipping any surfaced lumber.

The CHAIRMAN. Therefore we have no market with them; so in that particular case, the word reciprocity does not mean much, does it?

Mr. EDGETT. That is quite right, Senator. We are sharing in the Canadian market to the extent of 5 percent of their softwood consumption, but this is mostly rough lumber.

The CHAIRMAN. Although they do allow us to ship all the rough lumber we want to provide employment up there for their manufacturing?

Mr. EDGETT. That is quite right, Senator.

Senator DWORSHAK. Mr. Edgett, Mr. Chairman, it is difficult for me to believe this condition actually exists. Since 1934 we have had the so-called trade agreements program and as the chairman has indicated, the word "reciprocity" has been entirely eliminated.

Do you testify that these conditions have been permitted, if not encouraged to exist to the detriment of our lumber industry in this country under the policies which have been followed not only by this administration, but by previous Republican administrations and previous Democratic administrations?

Mr. EDGETT. Yes, sir.

Senator DWORSHAK. Has not your industry protested against this inequity?

Mr. EDGETT. We have, Senator, and this will be brought out further in our statement.

The CHAIRMAN. But it has been in vain.

Mr. EDGETT. The net effect of this, Mr. Chairman, as you have already indicated, is that the United States has been exporting jobs to Canada.

This felony which has been imposed upon American labor has been compounded further by past decisions of the U.S. Customs Bureau. Despite lumber industry protests, it has been ruled on several occasions that Canadian lumber which has been predrilled or edge glued or end glued can be classified as ordinary surfaced lumber and therefore free from a higher rate of duty. It seems inconceivable that anyone could claim that drilled or glued lumber, which has a higher intrinsic value, could enter the United States under the custom classification of "not further manufactured than planed, and tongued, and grooved."

The fallacy of this interpretation apparently has been recognized by the U.S. Tariff Commission because they have had the matter under study for a number of years.

The CHAIRMAN. I want to comment that that is about par for the course on many things down there. The average decision made by the Tariff Commission takes 18 months and this has been the case for a number of years. Of course this is again locking the barn door after the horse is gone in many industries, but I must say that one of the broad purposes in the trade program is to eliminate some of this regulatory lag that you have so well pointed out here.

Now I thought we had all the agencies involved in this matter before us, but here is another one, the Customs Bureau. But we will put them down too.

Mr. EDGETT. Thank you, Senator.

It is understood that legislation to effect a new recommendation of the Commission that groups drilled, glued and treated softwood lumber under a separate classification was passed by the House on March 14, 1962, and was ordered favorably reported by the Senate Finance Committee on March 29.

The only trouble is that a duty of 1.5 percent ad valorem has been proposed for Canadian lumber which is further manufactured.

This is only slightly above the normal U.S. duty for surfaced lumber while Canada imposes a duty of 20 percent for drilled or glued lumber from the United States.

Senator KUCHEL. What is the justification on the part of the executive branch? What is the justification that the executive branch gives for maintenance of that arbitrary discrepancy?

Mr. EDGETT. Senator, I wish I could give a reasonable answer to your question.

Mr. PELLY. Senator, I wonder if that might not be overall balance of payment between the two countries, whereas our voice is not heard, other industries that do sell automobiles and other things up in Canada, and the trouble is we are suffering because of the general picture.

Senator KUCHEL. The squeeze goes on the lumber industry.

Mr. PELLY. That is right. And fish, we import more fish from Canada than we produce in this country.

Senator NEUBERGER. By grooved, do you mean by wood?

Mr. EDGETT. Tongued and grooved.

Senator NEUBERGER. On table 10, there is a 20 percent duty on plywood, but I don't see the one you just referred to.

Mr. EDGETT. If you are referring to table 10, the third table on that page, you will notice that rough lumber has a separate classification in Canada of free. In the United States, it carries the same duty as surfaced lumber.

Now under surfaced lumber, this does include planed and tongued and grooved, in other words, boards that are tongued and grooved, and it carries the same rate.

But when you predrill or edge glue or end glue, this has now been proposed as a separate classification which will carry a duty of 1.5 percent.

Canada has a duty of 20 percent on this.

Senator NEUBERGER. What is c.i.f.?

Mr. EDGETT. That is cost, insurance, and freight.

You are looking at the duties for the proposed Common Market or the United Kingdom.

Mr. Chairman, this contrasting picture between Canada and the United States will have indicated to you that no single factor can be neatly labeled and set aside as being primarily responsible for the adverse impact of softwood imports. It can be concluded from this that no single solution exists that will miraculously solve this complex problem.

Gentlemen, all members of our association are united on this issue. We want to be allowed to operate our businesses without undue and unfair restraint or restrictions. We don't think American lumber workers should be unemployed while their counterparts in foreign lands are prospering from lumber sales in our domestic markets.

We don't think American sawmills should be permitted to face financial ruin while our domestic markets are being opened up to lumber from foreign countries where numerous cost advantages are enjoyed.

How can we achieve equality in the marketplace?

Perhaps it is essential to modify the Merchant Marine Act of 1920 and the Shipping Act of 1916.

Perhaps it is necessary to review the rail regulations of the Interstate Commerce Commission and the water regulations of the Federal Maritime Commission.

Perhaps someone should take a closer look at the cost differentials that exist in loading lumber at our various ports.

Perhaps the U.S. stabilization fund should be used to counteract any massive intervention by Canada in the foreign exchange field.

Perhaps it is appropriate that there be a realistic reappraisal of our reciprocal tariffs on softwood lumber.

Perhaps there is need for an extension of the Buy American Act principle covering domestic lumber in Federally financed or insured housing.

Certainly the policies of Federal Government timber sales agencies need to be changed to insure that we have a continuous supply of raw material at competitive cost.

The CHAIRMAN. I might say on the last suggestion that there have been, as you know, many meetings, and I do think that there are some possibilities for progress in that last suggestion, with the Forest Service and Department of Agriculture.

Senator DWORSHAK. Mr. Chairman, at that point, could I interpolate that a few weeks ago, when our Appropriations Committee, of which you are a member, had a hearing on the budget for the U.S. Forest Service, we had Mr. McCardle, who has resigned as Chief Forester, Mr. Cliff, his successor and other top officials. I asked that precise question—whether the Forest Service could not make some concessions to make available sustained quantities of stumpage at lower prices.

As I recall, the reply was that that was difficult to accomplish so long as competitive bidding brought the prices up higher all the time. And it was almost impossible for the Forest Service to maintain more attractive and competitive prices when the industry bidders themselves were responsible for getting prices up.

The CHAIRMAN. I think we find that condition pretty prevalent, but sometimes as pointed out here earlier, it is a law of survival in some cases. But we are hopeful that we will have better planning and other improvements to make for more stability in Forest Service policy.

Mr. EDGETT. Mr. Chairman and Senators, I think this comment you have made, sir, has merely indicated some of the very deep and very complex problems that the industry is facing.

Some of these are possible of solution, I feel sure, and this is basically our approach. We feel, sir, that all of these things need to be done now before it is too late.

But, how, Senators, can you implement corrective measures in all of these problem areas soon enough to prevent our industry from being further hurt? It seems to our association that it will require time, fortitude, and perseverance before you are able to succeed with this tremendous task.

We respectively suggest, therefore, that the President of the United States immediately declare the excessive import of softwood lumber a serious threat to the economic stability of the Nation. We respectively suggest that this emergency situation be dealt with now by imposing a quarterly quota on softwood imports amounting to a total of 10 percent of domestic softwood consumption for at least the current year. We further suggest that all of the necessary reforms that are required to achieve parity in the market be acted upon without delay.

We believe that this forthright approach will give a ray of hope to our industry, indicating that something is being done to remedy a situation over which we have no control.

We believe, as well, that our industry will be the first to suggest the removal of a quantitative limitation once we are satisfied that all artificial restraints which have been imposed on the industry by governmental decree have been removed.

Senators, we thank you for your indulgence and concern. We trust you will act on our suggestions as soon as possible. The need is urgent.

Mr. Chairman, if I may——

The CHAIRMAN. I want to suggest that when you used the phrase "governmental decree," it sounds a little like somebody sits downtown and issues an order to do these things. But I think your testimony itself has pointed out that a lot of this problem is legislative, a lot of it falls in the realm of independent agencies which are not a part of the executive department, and, of course, a lot of it falls in the executive department of the Government, and a lot of it falls in the industry itself, which you have talked about.

Mr. EDGETT. You are quite right, Senator.

The CHAIRMAN. But you do suggest that there might be some temporary or emergency governmental action until we can get all of these other things we are talking about somewhere near straightened out?

Mr. EDGETT. That is quite right, Mr. Chairman.

The CHAIRMAN. Any questions of Mr. Edgett?

I should say further questions.

We will put all this in the record in full before we go to that.

You have several tables, which we want to put in the record. I know that they are pretty much right up to date.

Mr. EDGETT. They are, Mr. Chairman, and I don't know at this point whether you want me to very briefly comment and point out the significant points on each of these tables. It would just take a few minutes of your time.

The CHAIRMAN. I think we can interpret them.

The table I, is the softwood production between the United States and Canada and sets forth all the imports.

Mr. EDGETT. You will notice there, Mr. Chairman, that our total production is down about 2 billion feet. This——

The CHAIRMAN. Then No. 2, is the production by regions——

Senator NEUBERGER. You did not use 1950 in table I, but you did use it in many other places—why?

Mr. EDGETT. Well, 1951–60 are the years that we have used to determine the 10-year average. In those places where we refer to a 10-year average, it is those years that are shown.

On table 2, Senator, you will notice that we have gone up in 5-year steps and compared this with 1961.

Senator NEUBERGER. It was quite a different situation in 1950; wasn't it?

Mr. EDGETT. That is quite right. You can notice in table 2, under Douglas fir region our production was 10 billion feet.

By 1961 it had decreased to 7.7 billion. You will notice the trend in the British Columbia coast region, in that short span of time—10 years—up from 2.5 to 3 billion.

The most spectacular increase has been in the British Columbia interior region, as you will notice from this table, 997 million up to 2 billion, 6. And as is indicated during these hearings, long-term predictions are that there will be an additional 2½ billion feet from British Columbia. And most of that growth will be from the British Columbia interior region.

The CHAIRMAN. On table 3—you might put in the record, I don't know this, but it might be interesting—the difference between what our procedures are on allowable cut and the British Columbia procedures are on allowable cut.

Mr. EDGETT. On the top half of table 3, Mr. Chairman——

The CHAIRMAN. We have the figures, but do they determine their allowable cut in a different way than we do?

Mr. EDGETT. No, much the same procedure exists except that there is one significant difference with British Columbia. These are spread out over a longer period because much of British Columbia is highly mountainous, is rugged terrain, and so that in these estimates which have been prepared by the British Columbia Forest Service, they have indicated what it seems practical to cut into this area that is classified as inaccessible.

You will notice there under "British Columbia coast," that it appears that they are overcutting now, 2.2 billion, as opposed to their current potential of 1.8 billion. But in actual fact, more intensive surveys and improved logging techniques have shown that they can get into some of this inaccessible area economically and bring the timber out.

The CHAIRMAN. Then you have the average hourly earnings in sawmills, and then you have rail, lumber freight rates.

Mr. EDGETT. This is the point you made previously, Mr. Chairman, which indicates the differential. It is not that we are complaining at all about these rates, but I think it should be recognized that in many of our rail markets, the west coast region is at a competitive disadvantage to the British Columbia interior region, where most of the rail shipments originate from in British Columbia. They are at a lower rate than us because of their proximity to the market.

Senator NEUBERGER. Mr. Edgett, are you familiar with the bill we have just passed regarding tariffs on textiles?

Mr. EDGETT. I am not that familiar, but I am aware such a bill was introduced.

Senator NEUBERGER. The State Department has negotiated this. I wondered if you felt since that was essential legislation for the textile industry, which seems to me to face problems analogous to those we have discussed here, similar legislation should be extended to the lumber industry. You might look at it.

You know, I am inclined to say, Mr. Chairman, that this overbidding in the forest has always bothered me. Maybe there are too many mills. That is one thing you could say, and yet we know the market

is here and Canada is taking the market. That is the thing you just cannot forego.

When we passed the housing bill here last year, I thought that it was going to help our lumber industry.

What we did was subsidize the Canadian lumber industry, because we see this tremendous increase in shipment to the Atlantic coast, where much of the building is going on. So the market is here.

Mr. EDGETT. Senator, the timber is also here in the United States and although the West Coast Lumbermen's Association does not become directly involved in forestry matters, our members are represented by other groups that will be testifying before this committee, and I think there would be an opportunity at that time to explore this subject further as far as forestry practices are concerned.

Senator NEUBERGER. And yet we are all looking at the balance of payment and the trade program. If we do clamp down on importations of Canadian lumber, what does it do to exports of other products?

Mr. EDGETT. Senator, if you will refer to our table No. 3, you will notice that we are still undercutting in the Douglas-fir and western pine region.

A conservative estimate of future development in each of these regions indicates 12 billion feet, whereas western pine is presently cutting 9 and we are presently cutting 10.5, and this includes pulp, plywood, and export logs, which again is another subject.

Senator NEUBERGER. We are also trying to sell apples to Canada, and they can retaliate here and on other products. It makes me wonder about the whole situation.

The CHAIRMAN. We have the overall problem, of course, of Canada as a whole, which, as Congressman Pelly pointed out, buys more from us than we buy from them.

Mr. PELLY. Senator, I was surprised to read the other day, that with all our surplus of wheat, we actually buy hundreds of thousands of bushels of wheat from Canada.

Senator NEUBERGER. She sells a lot of wheat to Red China.

Mr. EDGETT. On table 7, Mr. Chairman, if I may make brief reference to this.

The CHAIRMAN. May I ask you one question first, and this is quite important to us, in view of the trade program coming before Congress this session, we hope. On table 10, you have the proposed Common Market duties on softwood from North America. And you have rough lumber free from the United States and from Canada. Surfaced lumber and plywood are all the same.

Mr. EDGETT. That is correct.

The CHAIRMAN. Then you have United Kingdom duties on softwood from North America. Rough lumber from the United States, 56 cents; from Canada, free; surfaced lumber, 7½; from Canada, free; plywood, 10 percent on us, and from Canada, free.

What is the difference between those two?

Mr. EDGETT. Commonwealth preferences exist as far as Canadian shipments are concerned.

The CHAIRMAN. Canada being part of the United Kingdom would get that benefit.

Mr. EDGETT. You have just brought out a very interesting point, Mr. Chairman, because I think that it can be assumed that the United Kingdom will join the Common Market in the fall of this year.

It is interesting to speculate on what might happen as far as Commonwealth preferences are concerned. It seems that it is quite possible that the United Kingdom will have to adopt the same external tariffs that are part of the European Common Market, in which case, this would give the United States an opportunity of getting into a very large market in the United Kingdom, which we used to have many years ago.

But, at the present time——

The CHAIRMAN. I think we have to move along.

The chairman has a letter which was delivered last week from the State Department, which I want to place in the record in full.

And there is a representative from the Department of State present. They go on to say they share our concern, so on and so forth, but the significant statement is that:

> The Department of State welcomes the decision of the committee to conduct hearings on this subject, and it is confident the hearings will help clarify the situation that exists in the industry and contribute importantly to a public understanding of the policy questions involved.

They go on and give us some figures which they have compiled regarding the general trade situation, but the letter does show that there is some consciousness down there of the problem.

(The letter and enclosures are as follows:)

DEPARTMENT OF STATE,
Washington, D.C., April 13, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce, U.S. Senate.

DEAR SENATOR MAGNUSON: I am replying to your letters of March 22 and April 3 addressed to Secretary Rusk in which you informed us of the committee's intention to conduct hearings on the condition of the softwood lumber industry in the Pacific Northwest.

We greatly appreciate the background you have furnished us concerning the scope of the hearings and your notice that representatives of the Department will be invited to appear before the committee at a future date. We have noted that the hearings are scheduled to begin on April 16 with a presentation by representatives of the lumber industry, and a qualified representative of the Department will be present as an observer.

The Department shares your concern about the depressed condition of the lumber industry in the Pacific Northwest and has been giving the problem the most thoughtful study and consideration since the end of last year, in close collaboration with the Departments of Commerce, Agriculture, and Interior. We have met with representatives of the industry on several occasions and have discussed various aspects of the problem with congressional representatives from the Northwest area. In response to their requests for factual information, the intereted agencies undertook the preparation of reports outlining the dimension and general nature of the problem. Enclosed for information of the committee is a copy of the report which was prepared by the Department of State. It supplements a factual report on the situation by the Department of Commerce. A third report on the comparative cost of stumpage in the Northwest and British Columbia is under preparation by the Department of Agriculture and should be available in the near future.

The Department of State welcomes the decision of the committee to conduct hearings on this subject. It is confident the hearings will help to clarify the

situation that exists in the industry, and contribute importantly to a public understanding of the policy questions involved. At the convenience of the committee the Department will be glad at a future date to provide information and suggestions on aspects of the problem which fall within its area of responsibility.

Sincerely yours,

FREDERICK G. DUTTON,
Assistant Secretary.

DEPARTMENT OF STATE,
Washington, D.C., February 27, 1962.

IMPORTS OF SOFTWOOD LUMBER FROM CANADA

OVERALL UNITED STATES-CANADIAN TRADE

In 1960 the United States supplied 67 percent of Canada's total imports from the world and took 56 percent of Canadian exports.

Canada is our best customer, taking 19 percent of our exports. It is also our largest supplier, accounting for 21 percent of all our imports including many strategic minerals and most of our newsprint. At $6.8 billion in 1961, the total trade both ways was by far the largest between any two countries in the world. The value of trade in recent years has been as follows:

Trade with Canada

[Millions of U.S. dollars]

	U.S. exports	U.S. imports	Balance
1959	3,743	3,042	+701
1960	3,707	2,902	+805
1961 [1]	3,700	3,100	+600

[1] Projected on the basis of 11 months.

Canada has had a massive trade deficit with the United States during each of the past 10 years. Except for the period 1952–54 the deficit has not been compensated for by Canada's trade surplus with the rest of the world. Long-term capital investment from the United States has made up the difference, and U.S. investment in Canada now stands at approximately $18 billion.

Because of Canada's enormous forest and mineral resources relative to her population, 40 percent of Canadian exports to us consist of wood and paper products. Another 30 percent are minerals and metals. Conversely, 40 percent of our exports to Canada consist of machinery and vehicles. In 1960 lumber imports from Canada were valued at $273 million, about 10 percent of its total exports to us. This was about equivalent to our combined exports to Canda of coal ($129 million) and iron and steel mill products ($122 million). Our exports of fruits and fruit preparations were valued at another $110 million.

SOFTWOOD LUMBER SITUATION

British Columbia accounts for about 60 percent of Canada's total softwood lumber production. About one-half of the total is produced on the coast and is mostly shipped by water, while one-half is produced by interior mills and largely moves to market by rail. Output of softwood lumber in British Columbia has been rising fairly steadily for the past 8 years. Most of the increased annual production since 1952, on the order of 1 billion board feet, has been exported to the United States. In 1960 output totaled 5.5 billion board feet, of which 45 percent or 2.5 billion board feet was shipped to the U.S. market. About 700 million board feet of this moved by water to the Atlantic coast, Southern California, Hawaii, and Puerto Rico; about 1.8 billion board feet moved overland by rail to markets in our Middle West and East. Waterborne shipments to eastern Canada and other export markets totaled another 1 billion board feet.

Production of softwood lumber in the western region of the United States, on the basis of available data, appears to have increased up until 1952, when it leveled off at about 20 billion board feet annually. Within the western region, the five States of Washington, Oregon, California, Montana, and Idaho account for about 68 percent of total U.S. production and the three States of Washington,

Oregon, and California for approximately 60 percent. There has reportedly been some shift in production within the region during the past 8 years. In order to take advantage of proximity to markets in the Middle West and East, output by interior mills has grown by about 1 billion board feet while coastal mill production has declined by the same amount. The coastal mills have thus felt the influence of increasing competition from the interior mills in the western region as well as from British Columbia. In 1961 western region production is estimated at 19.2 billion board feet, the lowest level since 1951.

The growth in imports of softwood lumber from British Columbia has been a long-term development not related to any recent modification in our tariff treatment nor, as noted below, to recent changes in the exchange rate between the United States and Canadian dollar. The basic factors appear rather to be long-term changes in the comparative costs of lumber production and transportation costs. Recent events such as the drop in value of the Canadian dollar and the reduction in 1961 by about 100 million board feet in British lumber purchases from Canada have accentuated an existing trend, but have not in themselves been the root cause for the present situation.

TARIFF TREATMENT

Under the present customs treatment, most softwood lumber imports are subject to a duty of 25 cents per thousand board feet plus an internal revenue tax of 75 cents per thousand board feet. (Northern white pine, Norway pine, western white spruce, and Engelmann spruce are not subject to the internal revenue tax.) This is the same effective rate as was established by the Tariff Act of 1930 ($1 per thousand board feet).

Prior to 1930 softwood lumber entered duty free. The Tariff Act of 1930 established a rate of $1 per thousand board feet, but also provided for duty-free entry for imports from a contiguous country (i.e., Canada) on a reciprocal basis. Under this proviso, imports from Canada continued to enter duty free until 1932 at which time an import-excise tax of $3 per thousand board feet was imposed in addition to the statutory duty of $1 per thousand board feet. Between 1932 and 1936 the effective rate was $4 per thousand board feet. Under 1936 and 1939 trade agreements with Canada the duty was reduced to 50 cents and the excise tax to $1.50 per thousand board feet, while the Revenue Act of 1938 eliminated completely the excise tax on imports of the above types of pine and spruce. Under a GATT concession granted to Canada, in return for concessions of benefit to the United States, the duty was further reduced, effective January 1, 1948, to the existing level of 25 cents plus an excise tax of 75 cents.

Under the procedures established by Congress in section 7 of the trade agreements legislation, the existing tariff could be increased or an import quota imposed if the Tariff Commission finds, and the President concurs, that increased imports cause or threaten serious injury to the domestic lumber industry. In such event the maximum permissible duty increase would be 50 percent above the rate existing on July 1, 1934. The law provides that a specific rate of duty may be converted to its ad valorem equivalent during the year 1934 and the 50-percent increase applied on that basis. At present, Canadian imports supply approximately 14 percent of the domestic consumption of softwood lumber and, as noted, factors other than the tariff rate appear to be primarily responsible.

CANADIAN EXCHANGE RATE

The Canadian dollar has been on a fluctuating rate basis since September 1950, when Canada abandoned a par value and no longer undertook to keep the value of its dollar within any specified limits. The exchange rate was allowed to fluctuate freely in response to market forces, and intervention by the exchange authorities was confined to maintaining orderly market conditions including cross rates. After this system was adopted, the Canadian dollar appreciated from $0.90 in 1949 and reached par with the U.S. dollar in February 1952. With the exception of a brief period at the end of 1955, the Canadian dollar was consistently quoted at a premium until mid-1961. The average annual rates of exchange in recent years have been as follows:

1956	$1.02	1960	$1.03
1957	1.04	1961 (January–June)	1.01
1958	1.03	1961 (July–December)	.97
1959	1.04		

In June 1961, the Canadian Government announced a change in policy and stated it would seek to depreciate the Canadian dollar through market operations in order to correct the persistent deficit in its balance of payments on current account. Since that time, the Canadian dollar has been below parity with the U.S. dollar and has recently been at a level of about $0.95. While this depreciation may be expected to have an encouraging effect on exports and a discouraging effect on imports, it is too early to predict whether the change will have a major impact on Canadian trade. It may be noted that, with respect to lumber, imports from Canada have increased fairly steadily during the past 8 years, while the Canadian dollar was at a premium. Thus, the recent depreciation merely accentuates a long-term trend which has been underway for many years notwithstanding currency fluctuations.

Canada is a member of the International Monetary Fund (IMF), and its exchange rate policies are subject to review by the Fund. In general, the IMF has taken the position that members should establish and maintain appropriate par values, and conduct exchange operations within the specified limits on either side of the established parity. Normally, the IMF would expect that a country withdrawing support from a par value would institute a new par within a reasonable period of time, barring justification to the contrary. The Fund has taken the position that, if it reached a conclusion that a member's actions with respect to its exchange system were no longer justified, it would be its duty so to state and to decide whether any action under the Fund Agreement were necessary or desirable. In such examination of the Canadian system, the United States would have an opportunity to make its views known.

The United States has already indicated that, while it understands the economic considerations which led to the adoption of Canada's fluctuating exchange rate policy, it hopes that Canada will find it possible to agree on a new par value with the Fund in the not too distant future. The recent stability of the Canadian dollar and the lack of evidence of any massive intervention in the exchange market are encouraging.

RAIL TRANSIT PRIVILEGES

The Canadian railways presently permit 15 days free time for holding shipments of British Columbia and Alberta lumber in transit at Moose Jaw and Winnipeg. This arrangement permits lumber produced in those two provinces to be sold while in transit to markets in the eastern United States. A comparable amount of free time can be gained, it is understood, by U.S. lumber shippers through use of the circuitous routing privilege on U.S. rail lines. The Canadian railways regard the holding-in-transit arrangement as necessary to discourage the diversion of Canadian lumber shipments from their lines to those of the competing U.S. lines in order to take advantage of roundabout routing.

The Board of Transport Commissioners of the Canadian Government is currently reexamining the justification for continuation of the free time privilege, however, with a view to reducing or eliminating the privilege if it is shown that the practice of circuitous routing on the competing U.S. carriers is no longer an important consideration.

Although the holding privilege may be helpful to Canadian shippers in marketing their lumber in the United States, the Canadian Government states it is not maintained by the Canadian railways for this purpose. Thus, the railways refused last year to grant a similar privilege to Saskatchewan lumber shipments because there was no problem of circuitous routing competition from the U.S. railways on Saskatchewan traffic. Further, the Canadian railways have progressively reduced the free time privilege on their lines as the U.S. carriers have reduced the practice of roundabout routing. Following the ICC ruling in 1960 which barred free transit time for lumber shipments on U.S. rail lines and independent action by the U.S. carriers to further reduce indirect routing, the Canadian railways early in 1961 reduced the free time privilege at Moose Jaw and Winnipeg from 25 days to the present 15 days.

WATERBORNE SHIPMENTS

There is no question but that the 600 million board feet of lumber which moved by water from the U.S. Pacific Northwest in 1961 to the east coast was at a serious competitive disadvantage with respect to waterborne shipments from British Columbia as a result of higher transportation costs. The average margin of difference in 1961 is reported to have been on the order of $10 per thousand board feet for shipments to the Atlantic seaboard. Data are not available on comparative costs for shipments to southern California and Hawaii, but the margin of difference was probably proportionate. In the case of shipments to Puerto Rico, where Canadian lumber has also made inroads in 1960 and 1961, the difference is reported to have been about $26 per thousand board feet.

During the past 5 years, there has been a decline amounting to 400 million board feet per year in the level of waterborne shipments from the U.S. Pacific coast mills and a corresponding increase in the level of waterborne shipments from British Columbia mills. While other factors may have contributed to the shift, it appears that the substantial difference in freight costs has been principally responsible. There is no reason to believe that the trend will be reversed so long as the cost difference prevails.

As regards the proposal that the difference in freight costs be offset by means of Federal payments, it has been suggested that payment of the subsidy be made to the shipper as a measure of area relief, rather than to the vessel owner. This would have the advantage of localizing the assistance and would possibly simplify the problem of administration.

Mr. EDGETT. Mr. Chairman, I might comment on that; we have been pleased to notice in recent months that the State Department has taken a firm position on the manipulation of Canadian currency and this is a very encouraging thing. We hope that it will eventually lead to Canada pegging her rate.

The CHAIRMAN. This is one of the facets.

Mr. EDGETT. A very important one.

The CHAIRMAN. Thank you very much.

We appreciate your statement, it is well thought out. It is brief, but it pinpoints some of these problems.

Mr. EDGETT. Thank you very much, Mr. Chairman.

(The tables referred to are as follows:)

TABLE 1.—*U.S. softwood production, exports, imports, consumption*

[In millions of board feet]

Year	U.S. softwood production (1)	U.S. softwood exports (2)	Canada softwood imports (2)	Total apparent consumption (1)	Percent Canada imports of consumption
1951	29,804	876	2,080	31,522	6.6
1952	30,234	566	2,140	32,795	6.5
1953	29,562	513	2,410	31,305	7.7
1954	29,282	585	2,748	32,608	8.4
1955	30,293	652	3,226	33,451	9.6
1956	30,661	571	3,061	33,346	9.2
1957	27,100	623	2,645	30,234	8.7
1958	27,379	550	3,088	30,833	10.0
1959	30,674	608	3,662	34,244	10.7
1960	[1] 28,334	693	3,575	[1] 31,173	11.5
1961	[1] 27,079	[1] 596	[1] 3,939	[1] 31,055	12.7
1951–60 average	29,332	624	2,864	[1] 32,151	8.9

[1] Subject to revision.

Source:
(1) National Lumber Manufacturers Association.
(2) U.S. Department of Commerce.

KANSAS STATE UNIVERSITY LIBRARY
SEP 10 1962
MANHATTAN, KANSAS

TABLE 2.—*Softwood production in United States and Canada by regions*

[In millions of board feet]

Year	Douglas-fir region (1)	British Columbia coast (4)	Western pine region (2)	British Columbia interior (4)	Balance United States (3)	Balance Canada (4)
1950	10,091	2,512	7,612	997	13,869	2,598
1955	9,638	2,756	8,818	2,158	11,853	2,632
1960	[1] 7,982	[1] 2,808	[1] 8,967	[1] 2,600	[1] 11,385	[1] 2,117
1961	[1] 7,770	[1] 2,899	[1] 8,687	[1] 2,642	[1] 10,622	[1] 1,958

[1] Preliminary.

Source:
(1) West Coast Lumbermen's Association.
(2) Western Pine Association.
(3) National Lumber Manufacturers Association.
(4) Dominion Bureau of Statistics, Ottawa.

TABLE 3.—*Estimated allowable annual cut of sawtimber*

[In billions of board feet]

Region	Present utilization	Current potential	Future development
Douglas fir (1)	[1] 10.5	11.0	12.0
Western pine (2)	9.1	11.0	12.0
British Columbia coast (3)	2.2	1.8	6.0
British Columbia interior (3)	2.2	3.8	11.7

Volume of sawtimber by ownership

[In billions of board feet]

Region	Government	Private	Total
Douglas fir (4)	323.5	270.9	594.4
Western pine (4)	455.0	164.9	619.9
British Columbia coast (3)	482.5	54.5	537.0
British Columbia interior (3)	1,213.1	33.8	1,246.9

[1] Includes pulp, plywood, and export logs.

Source:
(1) Industrial Forestry Association.
(2) Western Pine Association.
(3) British Columbia Forest Service, Continuous Forestry Inventory.
(4) U.S. Forest Service, Timber Resource Review.

TABLE 4.—*Average stumpage prices for sawtimber in 1965*

[In dollars per thousand board feet]

Species	Pacific Northwest timber sales [1]	British Columbia coast timber sales [2]	Species	Pacific Northwest timber sales [1]	British Columbia coast timber sales [2]
Douglas fir	$32.04	$15.10	Spruce	$13.35	$5.67
Hemlock	10.52	5.58	All species	22.13	7.30
Cedar	14.59	5.20			

Species	Inland Empire timber sales [3]	British Columbia interior timber sales [2]	Species	Inland Empire timber sales [3]	British Columbia interior timber sales [2]
Douglas fir	$6.42	$6.93	All pines	$11.63	$14.03
Larch	7.19	7.45	All species	7.49	5.27
Spruce	6.54	5.48			

[1] Source: Industrial Forestry Association.
[2] Source: British Columbia Department of Lands and Forests.
[3] Source: Western Pine Association.

TABLE 5.—*Average hourly earnings in sawmills and planing mills*

Year	Douglas-fir region [1]	British Columbia coast [2]	Western pine region [3]	British Columbia interior [4]
1950	$1.77	$1.35	$1.78	$1.26
1955	2.17	1.75	2.20	1.63
1960	2.49	2.15	2.38	2.00

[1] Source, West Coast Lumbermen s Association.
[2] Source, Forest Industrial Relations, Ltd.
[3] Source, Western Pine Association.
[4] Estimated.

TABLE 6.—*Typical rail lumber freight rates, Oregon-Washington versus British Columbia*

[In U.S. dollars per 1,000 feet board measure S4S unseasoned Douglas-fir]

Destination	Pacific Northwest, Portland, Oreg.	British Columbia coast, Vancouver, B.C.	Inland Empire, Spokane, Wash.	British Columbia interior, Nelson, B.C.
Toronto, Ontario	$39.75	$39.75	$39.00	$39.00
Montreal, Quebec	40.25	40.25	39.50	39.50
Bismarck, N. Dak	27.00	27.00	25.50	25.50
Chicago, Ill	33.50	33.50	32.75	32.75
New York, N.Y	35.25	35.25	35.25	35.25
Jacksonville, Fla	38.50	38.50	37.75	37.75
Fort Worth, Tex	33.00	33.00	31.75	31.75
San Francisco, Calif	11.50	21.25	19.75	23.00
Los Angeles, Calif	16.25	22.75	23.25	26.50

NOTE.—Tariff authorities: TCFB 16-N, ICC 1658; TCFB 17-U, ICC 1654; TCFB 18-Q: ICC 1589; TCFB 28-P, ICC 1581; C.F.A. 113-C, CTC 680; PSFB 80-1, ICC 1536.

TABLE 7.—*Approximate costs of waterborne shipments of lumber*

[In dollars per 1,000 feet net board measure]

Destination	Rough or surfaced	Pacific Northwest	British Columbia
Atlantic coast	Surfaced	$36.00	$26.00
Hawaii	do	[1] 39.60	[1] 24.00
Puerto Rico	do	56.94	27.50
Australia	Rough	46.00	40.00
Japan	do	32.00	26.00
United Kingdom:			
Conference rate	do	40.40	34.40
Charter rate	do	37.80	32.20
Common Market	do	47.00	47.00

[1] Based on 1,000 feet board measure.

TABLE 8.—*Waterborne shipments of softwood lumber to various markets*

[In millions of board feet]

Market	Total, 1961	Pacific Northwest	Percent	British Columbia	Percent
Atlantic coast	1,389	595	42.8	794	57.2
Pacific coast	396	352	89.0	44	11.0
Hawaii	38	25	65.8	13	34.2
Puerto Rico	73	----------	0	73	100.0
South America	30	29	96.0	1	4.0
Australia	148	56	37.8	92	62.2
Japan	274	118	43.1	156	56.9

Market	Previous 10-year average	Pacific Northwest	Percent	British Columbia	Percent
Atlantic coast	1,369	957	69.9	412	30.1
Pacific coast	427	422	98.8	5	1.2
Hawaii	48	40	83.4	8	16.6
Puerto Rico	44	9	21.0	35	79.0
South America	44	36	80.8	8	19.2
Australia	172	77	44.6	95	55.4
Japan	36	32	87.9	4	12.1

Source: PLIB reports, 1951–61

TABLE 9.—*Exports of softwood to United Kingdom and Common Market*

[In millions of board feet]

Country	Total, 1961	Pacific Northwest	Percent	British Columbia	Percent
United Kingdom	438.4	15.5	3.5	422.9	96.5
Belgium-Luxembourg	32.7	1.4	4.1	31.3	95.9
France	18.9	7.8	41.4	11.1	58.6
Germany	15.1	9.1	60.1	6.0	39.9
Holland	24.5	10.6	43.4	13.9	56.6
Italy	25.0	19.1	76.4	5.9	23.6
Total, ECM	116.2	48.0	41.3	68.2	58.7

Country	Previous 10-year average	Pacific Northwest	Percent	British Columbia	Percent
United Kingdom	589.6	71.4	12.1	518.2	87.9
Belgium-Luxembourg	9.8	2.6	26.7	7.2	73.3
France	9.4	6.0	64.1	3.4	35.9
Germany	5.9	5.7	95.5	.2	4.5
Holland	8.3	4.3	51.4	4.0	48.6
Italy	6.9	3.7	54.0	3.2	46.0
Total, ECM	40.3	22.3	55.3	18.0	44.7

Source: PLIB reports, 1951–61.

TABLE 10.—*Proposed Common Market duties on softwood from North America*

Classification	From United States	From Canada
Rough lumber	Free [1]	Free.[1]
Surfaced lumber	12 percent, cost, insurance, and freight	12 percent, cost, insurance, and freight.
Plywood	15 percent, cost, insurance, and freight	15 percent, cost insurance, and freight.

United Kingdom duties on softwood from North America (1)

Classification	From United States	From Canada
Rough lumber	$0.56 per thousand [1]	Free.[1]
Surfaced lumber	7½ percent, cost, insurance, and freight	Do.
Plywood	10 percent, cost, insurance, and freight	Do.

North American duties on selected wood products

Classification	Into United States (2)	Into Canada (3)
Rough lumber	Same as surfaced 4 sides	Free.[1]
Surfaced lumber:		
Douglas-fir	$1 per thousand [1]	5 percent.
Hemlock	do.[1]	10 percent.
Redcedar	$0.75 per thousand [1]	Do.
Sitka spruce	$1 per thousand [1]	Do.
White spruce	$0.25 per thousand [1]	Do.
White pine	do.[1]	Do.
Ponderosa pine	$1 per thousand [1]	Free.
Redwood		Do.
Plywood	20 percent	20 percent.

[1] Principal commodity shipped.

Source: (1) Forest Products Division, Department of Commerce. (2) Schedule A—Classification of Imports. (3) Canadian Almanac and Directory for 1961.

TABLE 11.—*Typical example of foreign exchange advantage*

	From Pacific Northwest	From British Columbia
Average 1961 cost and freight value per thousand at Atlantic coast	$84.27	$84.27
Less shipping costs—estimated net measure	27.00	19.50
Less U.S. duty and excise tax on Canadian fir or hemlock		1.00
Plus 5 percent exchange advantage on shipping costs		.93
Plus 5 percent exchange advantage on free along side value per thousand		3.19
Average 1961 return per thousand to sawmill from Atlantic coast market	[1] 57.27	[2] 67.89

[1] United States.
[2] Canada.

The CHAIRMAN. All right, the next witness is Mr. Doyle, executive vice president of the National Lumber Manufacturers Association.

Mr. Doyle, we will put your full statement in the record, and then we will ask you some questions as you go along, or you can highlight the statement, as you wish.

There will, of necessity, be some repetition in some of these statements, but that can't be helped.

Mr. DOYLE. Where I find them, I will skip them.

STATEMENT OF MORTIMER B. DOYLE, EXECUTIVE VICE PRESIDENT, NATIONAL LUMBER MANUFACTURERS ASSOCIATION, WASHINGTON, D.C.

Mr. DOYLE. Mr. Chairman, gentlemen of the committee, my name is Mortimer B. Doyle. I am executive vice president of the National Lumber Manufacturers Association located here in Washington, D.C. Our association is a federation of 16 regional, species, and products associations representing the lumber manufacturing industry in all parts of the United States.

I should point out the programs and recommendations I am going to make to have the approval of our 16 associations. I always want to thank the chairman for his great interest in the problem and other members of the committee, including Congressman Pelly and 36 Members of the House that met with us last week.

Our industry ranks fourth among American manufacturing industries in the number of people employed. Employment in the forest products manufacturing industries and occupations directly

relating to the distribution of forest products, totals over 3 million employees and represents 6 percent of the total nonagricultural employment throughout the 50 States.

Our industry today is faced with serious problems created by constantly increasing imports of lumber and wood products. Total U.S. lumber production in 1961 was 31.7 billion board feet, or 4.2 billion board feet below a 13-year average for the period 1949 to 1961.

One of the major segments of U.S. lumber production, softwood production, with an estimated production in 1961 of 27.5 billion board feet was also down nearly 1.8 billion board feet below the 13-year average for this same period, 1949 to 1961. At the same time our softwood lumber imports from Canada were up from 1.4 billion board feet in 1949, to 4 billion board feet in 1961.

Canada is the major source of U.S. lumber imports, averaging about 95 percent of all our lumber imports. In 1961 alone, there was an increase of 400 million board feet in softwood lumber imports from Canada. In the 13-year period 1949 to 1961, Canada increased her lumber shipments to the United States by approximately 186 percent. In 1949, Canada supplied 5.2 percent of the U.S. consumption of softwood lumber. Last year she supplied approximately 14 percent.

On April 6 of this year, the Bureau of Labor Statistics in the U.S. Department of Labor advised that there are more than 200,000 men and women formerly employed in the lumber and wood products industries now drawing unemployment compensation.

Let me emphasize, this figure does not include unemployment in the retail and wholesale trade. As I stated before there are approximately 3 million employees in all the 50 States employed in the lumber and wood products industries. The forest products industries in only four States, Oregon, Washington, California and Idaho, provide over one-quarter of a million direct jobs, and if related services and community jobs are included, these industries provide over 1 million jobs.

Mr. Chairman, and members of the committee, these facts are of serious concern, not only to our industry, but to every forest-based community dependent upon a prosperous lumber industry.

It should be emphasized that this problem is not a localized problem. It is not confined to any one sector of our Nation. For during this same period, 1949 to 1961, we find that Southern pine lumber production for 1961 is 1.1 billion board feet below the average for this 13-year period.

The CHAIRMAN. Mortimer, I think we ought to clear this up. This shift to Canada, would some of that be that allowable cut in the United States over this 10-year period was less, the availability of material was less, or is that not the case?

Mr. DOYLE. I think it is a combination of many factors, Senator.

The CHAIRMAN. It is true that in practicing sustained yield and conserving our forests, the availability of the raw material has been restricted quite a bit?

Mr. DOYLE. Let me answer your question by saying that the pressures for making the raw material are less available or increasing all the time.

The CHAIRMAN. All right.

Mr. DOYLE. During the same period, waterborne shipments of lumber from British Columbia to the U.S. Atlantic coast have risen

from some 300 million board feet in 1949, to over 790 million board feet in 1961. At the same time, waterborne shipments of lumber to the U.S. Eastern Seaboard from our west coast States of Oregon, Washington and California have taken a nose-dive falling from over 1 billion board feet in 1949, to approximately 600 million board feet in 1961.

It is interesting to note that at the same time that our country's softwood lumber production is going down, Canadian production of softwood lumber has been on the increase—rising progressively higher from 5.8 billion board feet in 1949, to approximately 7.4 billion board feet in 1960, the latest year for which we have figures immediately available.

At this point, Mr. Chairman, I would like to insert in the record four charts showing for the period 1949 to 1961 total U.S. lumber production, total U.S. lumber consumption, imports and exports for the same period, and waterborne shipments of lumber from our west coast and British Columbia to the U.S. Atlantic coast, and Canadian production and estimated consumption of softwood lumber.

I would like next to review for you briefly the climate within which Canadian lumbermen operate. It is a climate which, in the opinion of the American lumber manufacturer, gives them a decided, and in some cases what appears to be, an unfair competitive advantage over American lumber manufacturers.

The CHAIRMAN. I think we ought to make it clear that, as I understand the lumber industry's position, you have no objection to the Canadians increasing their lumber production in any amount they wish, consistent with conservation, if we all can operate under the same rules of the game?

Mr. DOYLE. If the ground rules are the same, we are happy to compete with them under any circumstances.

The CHAIRMAN. I am speaking of exports.

Mr. DOYLE. That is right.

The CHAIRMAN. I think it is fine that Canada can produce more lumber, but the ground rules ought to be the same.

Mr. PELLEY. Senator, I think that Mr. Doyle will support the statement that the rules have been such that American capital has been forced to go across the line and invest up in Canada because they just couldn't make a go of it and earn a profit in the United States.

Mr. DOYLE. That is right. I suspect that might increase unless this matter is clarified.

The CHAIRMAN. Go ahead.

Mr. DOYLE. While it is impossible to isolate a single item which gives the Canadian lumberman a preferred position over the American lumber manufacturer in the United States and other world markets, one of the most important relates to the fact that governmental cooperation through realistic appraisal prices of Crown timber assists the Canadian forest industry to export. Raw material costs are kept in line with prevailing Canadian economic conditions—as a matter of Government policy. This is not the case in the United States where we believe timber sales from the national forests are conducted without sufficient consideration of market conditions and community stability.

In addition, the government of British Columbia which owns the provincial timber in western Canada assists with Canadian wood products promotion. The Canadian Government also assists in this effort with an effective trade missions program.

The mills of British Columbia which today are sending ever-increasing shipments of lumber and wood products into our country also have a regional advantage over the United States in the amount paid for salaries and wages. They lag behind in fringe benefits as well.

Our industry suffers also from the apparent manipulation by the Canadian Government of its currency. Such manipulation has given Canadian producers an unfair advantage over American lumber producers. The advantage derived from last year's exchange has been estimated as high as $3.15 per thousand board feet in favor of the Canadians on lumber selling for between $68 to $70 per thousand board feet in the United States. When a 25-cent difference in price determines who gets the order it is not difficult to see how serious a disadvantage the exchange differential provides.

In 1961, the Canadian Government artificially manipulated the value of the Canadian dollar at 95 cents as compared to the U.S. dollar. This single act had the effect of reducing the price to U.S. purchasers of Canadian lumber by 5 percent, or stated differently, this deliberate action on the part of the Canadian Government gave to Canadian lumber producers a 5-percent advantage in U.S. markets.

I would like, with the committee's permission, to submit for the record a chart showing the Canadian exchange rate for the period January 1949 to March 1962, illustrating the value of the Canadian dollar in terms of U.S. dollars.

Despite these grievances with respect to Canadian competition, however, our industry recognizes the benefit of the cordial relationships between our two nations, and has developed a program intended to eliminate these inequities so as to provide a fair opportunity for the sale of American lumber in the United States and its possessions. We wish to emphasize that we seek amity and equity in our relationship with Canadian lumber producers.

Because of recent sharp increases in the quantity of softwood lumber entering the United States from Canada, which can be attributed to specific advantages given to Canadian producers by their government, or disadvantages imposed on American producers by their Government, the lumber industry in the United States advocates the following program:

The CHAIRMAN. I think, too, we ought to constantly bear in mind, particularly when we talk about our own market, that we have a right to suggest the quality of ground rules.

Mr. DOYLE. There is a very good reason why I think your point is well taken, Senator. Right now I think another witness pointed out that we are spending millions of dollars promoting lumber and wood product markets in the United States as against competitive materials. We have the very ridiculous situation where we are spending American dollars creating this market and Canadians are taking it. This, to our people, just isn't equity; it isn't fair.

The CHAIRMAN. I am sure if the shoe were on the other foot, the Canadian Government would act quite quickly in this matter, and surely we couldn't have any complaint about it.

Mr. DOYLE. I think you are right.

I should point out for the record, however, in all fairness, that Canadian lumbermen support our program to a very modest degree, but nowhere in comparison with the total market that they have here in the country.

Senator, very quickly, I will give you our 6- or 7-point program which I think should be read.

We have requested that the U.S. Department of Commerce arrange an immediate conference between lumber industry representatives of the United States and Canada to discuss the serious problems created by excessive forest products imports into the United States;

2. The objective of this meeting would be the removal of existing softwood lumber tariffs between the two nations until such time as imports in either country reach 10 percent of its domestic softwood lumber consumption, after which a 10-percent tariff would be assessed by that country on further imports;

3. We strongly urge that appropriate agencies of the U.S. Government take prompt action to counteract the manipulation of their currency by nations with lumber products competing with the U.S. lumber industry in the U.S. markets;

4. We urge such implementation and extension of the Buy American Act principle as may be necessary to assure that all lumber and wood products used in construction, federally financed and/or federally insured—as in FHA-insured housing—is of domestic manufacture.

The CHAIRMAN. Now on that No. 4, the "Buy American" extension, has the FHA or Housing and Home Finance ever ruled on this or do you feel they are not doing enough by it, or what is the complaint?

Mr. DOYLE. I may not be correct on this, Mr. Chairman, but I think that they have a differential of costs there of 6 percent; in other words, if the product itself is not——

The CHAIRMAN. Don't mention 6 percent around here. To these west coast fellows, that is a bad word.

Go ahead.

Mr. DOYLE. In other words, if the price is competitive, they are allowed to work within a 6-percent variance, but we don't think it is enough in view of the other considerations.

The CHAIRMAN. The point is, the Housing and Home Finance Agency does apply the Buy American Act.

Mr. DOYLE. That is so.

The CHAIRMAN. But there should be, you contend, further adjustments and a longer look in relation to lumber.

Mr. DOYLE. Recognition of the problems.

The CHAIRMAN. I think that is a matter we can get at very quickly.

Mr. DOYLE. I think it is.

The CHAIRMAN. It would require an administrative ruling by the Housing and Home Finance Agency. They could very well do that.

Mr. DOYLE. No. 5. Direct action to invoke section 22 of the Agricultural Marketing Agreements Act of 1937, to obtain quantitative limitations in the importation of forest products into the United States should be undertaken; and

6. Inasmuch as exports are of such great importance to the American lumber economy, a thorough market study should be made with the specific objective of expanding the export of American forest products.

As one point in our program, we have requested that the Secretary of Commerce arrange an immediate conference between representatives of American and Canadian lumber industries to discuss the serious problems created by excessive imports into the United States. I would like to submit for the record a copy of our letter to the Secretary of Commerce requesting that such a conference be held.

The CHAIRMAN. That will be put in the record in full.

Mr. DOYLE. Although we have not received a formal reply from the Secretary, we had an informal conference with him and his advisers last Friday, April 13, at which time we pointed out the extreme urgency of the problem and he informed us that the problem of Canadian imports has been under active study and that his recommendations would be based upon the outcome of the review currently underway.

The specific objective of a meeting with Canadian softwood lumber producers would be the establishment of a marketing agreement that is equitable to manufacturers of softwood in both the United States and Canada. The American lumber industry proposes that both countries eliminate tariffs on softwood lumber up to 10 percent of the domestic consumption of the importing nation. Any number imported in excess of 10 percent of the consumption of the importing nation would carry a 10-percent ad valorem tariff.

The CHAIRMAN. In other words, as I understand this, you are suggesting that both countries do the same thing.

Mr. DOYLE. That is right, sir.

I would like to emphasize we are not proposing a quota, but merely a limitation on the amount of the free sharing of our market which we believe our Canadian friends should be permitted to enjoy.

The CHAIRMAN. It seems to me that is a reasonable request, because both companies are huge lumber producers.

Mr. DOYLE. That is right.

The CHAIRMAN. They both, I would suggest, in ratio to population would have the same type of eastern markets.

Mr. DOYLE. I would imagine that——

The CHAIRMAN. I don't know, but I would think it is pretty much the same situation. The Canadians have a big eastern market for their lumber in Canada.

Mr. DOYLE. More toward the center, I guess; I think you are right.

The CHAIRMAN. It would be about the same situation.

Mr. DOYLE. A quota envisages a limitation on imports. We are only suggesting, after giving the Canadians a free and reasonable share of our market, that any imports of Canadian lumber that might be considered as excessive to our market must climb over a small wall. The Canadians would, in turn, treat our lumber exports to Canada in a similar manner.

In 1959, were such an agreement in effect, the Canadians could have shipped 3.36 billion board feet of softwood lumber into the United States without any tariff or tax—10 percent of U.S. consumption. Since they actually shipped in 3.66 billion board-feet, there would have been 300 million board feet in excess of the first 10 percent that was free on which they would have been required to pay 10-percent ad valorem. This would have meant a payment of approximately $2.1 million on the last 300 million board feet imported, or substantially less than was assessed under existing tariff rates. Actually, over

the past 10 years, softwood imports from Canada have averaged slightly under 10 percent of our domestic consumption.

In 1961, with domestic consumption of softwood lumber at 28.2 billion board feet in the United States if the agreement were in effect, and if imports of Canadian lumber under the agreement were at the figure they actually reached, which was 3.94 billion feet, the Canadians would have paid approximately $7.6 million in tariffs on the last 1.12 billion board feet of their shipments into the United States. We, of course, would hope that the agreement and the 10-percent rate would reduce the total volume to not more than 10 percent of the total market.

These estimates were computed on the basis of an average value of lumber shipped into the United States from Canada of from $68 to $70 per thousand board feet. The actual value of imported lumber ranges from about $45 per thousand up to several hundred dollars per thousand board feet depending on kind and quality.

To make the program truly reciprocal the existing Canadian tariffs on U.S. softwood lumber also would be removed. Since Canadian consumption of softwood lumber amounts to approximately 2½ to 3 billion feet per year, some slight increase might be possible in the roughly 150 million board feet shipped annually from the United States to Canada.

Currently existing tariffs, incidentally, between the United States and Canada are as follows. Most U.S. softwood lumber of the highly competitive construction species when exported to Canada are assessed a tariff of 7.5 percent to 10 percent ad valorem, which would amount to an average of between $5 to $7.50 per thousand board feet.

On the other hand, most Canadian softwood lumber entering the United States bears a tariff and excise tax ranging from 25 cents to $1 per thousand board feet. The average on all softwood imports last year was 75 cents per thousand board feet or approximately 1 percent ad valorem.

As a second major point in our program, as I mentioned before, we are urging that appropriate agencies of the U.S. Government take prompt action to counteract the manipulation of currency by nations with lumber products competing with the U.S. lumber industry in the U.S. market.

With the Canadian dollar being artificially maintained at approximately 95 cents as compared to the U.S. dollar today, there is between 4 percent and 5 percent advantage for Canadian lumber manufacturers over U.S. lumber manufacturers. One method of counterbalancing this action would be to impose a flexible tariff that would fluctuate with the rise and fall in the value of such currency. We urge that serious consideration be given to making such adjustment mandatory.

The U.S. lumber industry urges legislative and administrative action to implement and extend the Buy American Act principle to assure that all lumber and good products used in construction, federally financed and/or federally insured, is of domestic U.S. manufacture.

Representative Walker Norblad, Republican, of Oregon, has introduced H.R. 11140 to amend the National Housing Act to accomplish this purpose.

Two additional bills have been proposed by the lumber industry—one amending the National Housing Act—and one amending the Buy American Act itself. I request that copies of these bills, the latter two in draft form, be made a part of the record.

And extension of the Buy American Act principle is to be found in legislation proposed by Representative Edwin Durno, Republican of Oregon, H.R. 11133, and Representative Julia Butler Hansen, Democrat of Washington, H.R. 11137, to require the marking of all imported lumber to reveal to ultimate purchasers the country of origin.

At present, most lumber manufactured in the United States and Canada bears a brand name or grade mark. Federal Housing Administration minimum construction standards require the grade marking of lumber used in FHA insured housing.

A requirement of labeling as to country of origin would impose virtually no additional costs on the producer—and yet would permit the identification of Canadian lumber in our domestic markets. We would like to request that these two measures which are somewhat different be made a part of the hearing record.

The CHAIRMAN. I think this problem of implementing the Buy American Act is a matter that we could get at very quickly and find out why or what is wrong.

I see that there are several House bills which are involved, and surely the Housing and Home Finance should immediately make a report on those bills to the House committees. Then we can see what their objection is, if any, or maybe they would correct their position immediately.

Mr. DOYLE. Absolutely, I agree with you thoroughly.

The domestic lumber industry believes that inclusion of lumber and wood products under section 22 of the Agricultural Adjustment Act might offer a vehicle for solution of its import problem. That act authorizes the President to impose quotas or fees in addition to the basic import duties on the importation of commodities which he finds materially interfere with a program relating to agricultural commodities undertaken by the Department of Agriculture or a related agency. Section 22 limits the additional fees to 50 percent ad valorem, and the quotas programed to not less than 50 percent of the quantity imported during a previous representative period, as determined by the President.

At the present time the term "agricultural commodities or products thereof" as used in section 22 do not appear to include lumber and wood products. Representative Julia Butler Hansen, Democrat, of Washington, has introduced a bill, H.R. 11136, to redefine the term "agricultural commodity or products thereof" to include lumber and wood products for purposes of section 22 only. I ask that it also be included in the record.

If lumber were included within the scope of section 22 the Secretary of Agriculture, on his own initiative, or upon application of any interested person, could conduct a preliminary investigation of the effect of softwood imports. If, on the basis of such investigation, he had reason to believe that lumber and wood products were being imported under such conditions and in such quantities as to render or tend to render inactive or materially interfere with the conduct of the Forest Service program, the Secretary would advise the President.

If the President agreed there was reason for such belief, he would direct the Tariff Commission to conduct an investigation, including a public hearing, and to submit its findings and recommendations. The President's decision, based on the findings and recommendations of the Tariff Commission would be final. Amendment of section 22 to include lumber and wood products would provide the Secretary of Agriculture with authority to determine that imports are harmful to the Federal forestry program.

EXPORTS

Inasmuch as exports are of such great importance to the American lumber economy we are urging that a thorough market study be made with the specific objective of expanding the export of American forest products. Our industry currently has under consideration a 28-point program to strengthen the exports of our products.

I am informed that in testimony before the House Ways and Means Committee last week, Secretary of Commerce Hodges suggested that the American lumber industry might obtain relief from import competition through research development and better use of its products. Gentlemen, the industry has long been cognizant of the fact that research is essential to its prosperity. In 1953 the latest year for which we have figures, estimated national expenditures for forest products research was $31 million. Recognizing that forest products research is most significant and urgent for our industry, spokesmen for the industry appeared before both the House and Senate Appropriations Committees requesting approval of sufficient funds to enable the Forest Products Laboratory at Madison, Wis., to continue operating at the most efficient level.

In our statement we advised both committees that it would be a particularly wise investment on the part of the Federal Government to permit the laboratory to expand and modernize its present facilities in order to meet current and future research needs. Admittedly, while more can be done in this area—and more will be done—this is not an answer to our industry's import problems. We believe that the answer and the solution lies in the program which we have just reviewed for the committee and we would strongly urge that you seriously consider the points which have been set forth, and we will welcome any support for our program from this committee.

Here we were talking about trying to get more assistance to help them in coming up with new uses for timber—products of the log—which could be used in bringing about a market, particularly for that stumpage sold by the Federal Government.

So in conclusion, gentlemen, I would like to say the principal reason for the lumber industry's plight today is not a lack of desire for our products by American consumers. The sharp increase in imports, however, has curtailed U.S. production, and in turn has eliminated thousands of jobs in thousands of forest-based communities in the United States. The American lumber industry does not appear before this committee seeking an unfair advantage over its competitors: only an opportunity to meet the competitive threat posed by countries which are aggressively competing for lumber markets both here and abroad.

Thank you.

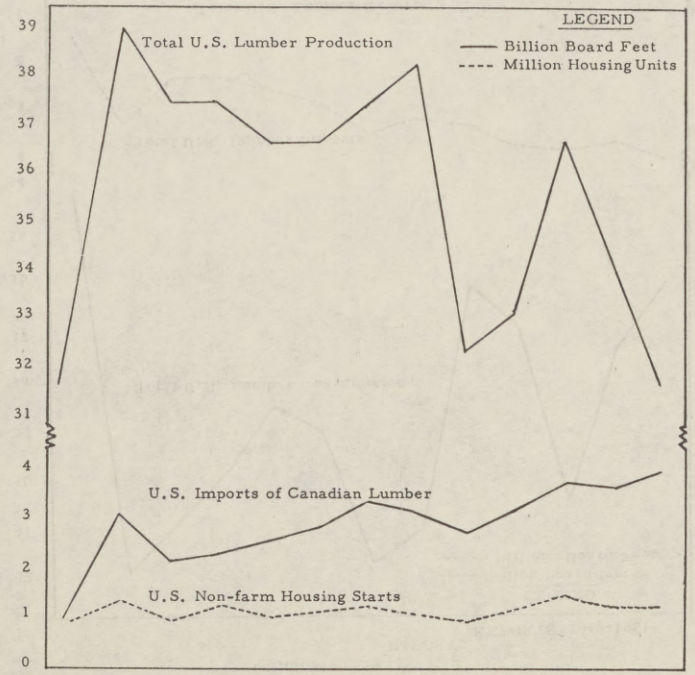
(The exhibits referred to follow:)

EXHIBIT A–1

U. S. LUMBER PRODUCTION

U. S. NON-FARM HOUSING STARTS

U. S. IMPORTS OF CANADIAN LUMBER
1949 - 1961



Source: National Lumber Manufacturers Association and U.S. Bureau of the Census

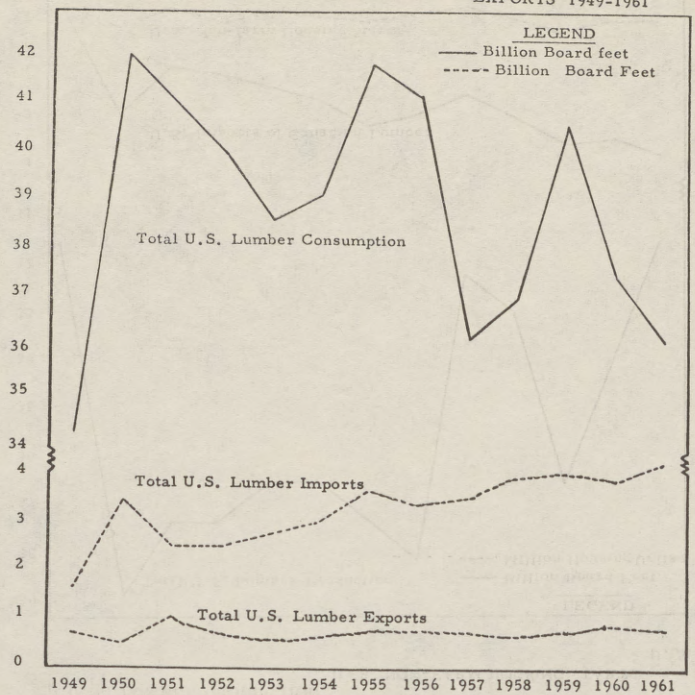
	U.S. Lumber Production (million board feet)
1949	32,901
1950	38,902
1951	37,515
1952	37,462
1953	36,742
1954	36,356
1955	37,858
1956	38,629
1957	32,901
1958	33,385
1959	37,373
1960	34,494
1961	31,694

	U.S. Lumber Imports from Canada (million board feet)
1949	1,404.5
1950	3,106.3
1951	2,248.6
1952	2,261.7
1953	2,551.8
1954	2,847.2
1955	3,353.7
1956	3,172.1
1957	2,757.9
1958	3,180.2
1959	3,790.2
1960	3,692.2
1961	4,040.4

85955—62—pt. 1——4

EXHIBIT A–2

U. S. LUMBER
CONSUMPTION
IMPORTS
EXPORTS 1949-1961

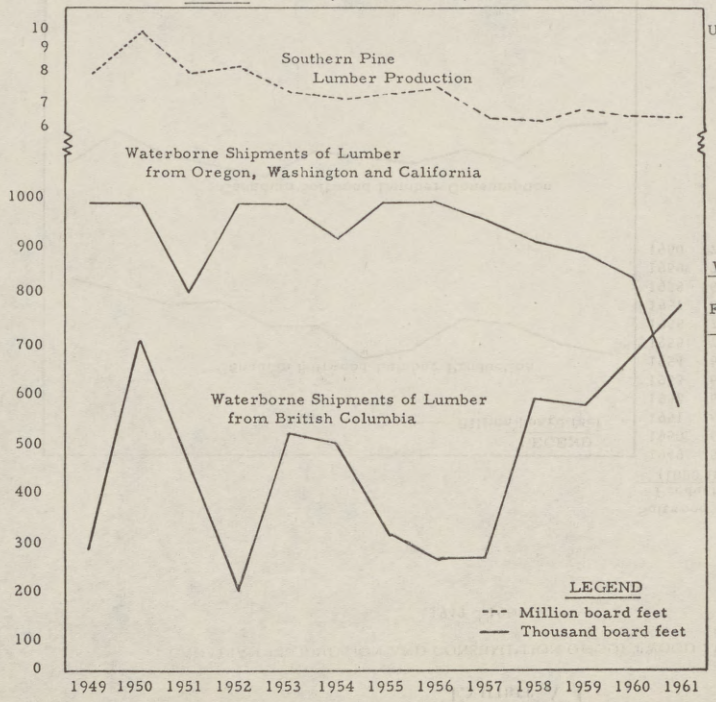


	Consumption (million board feet)	Exports (thousand board feet)	Imports (thousand board feet)
1949	34,327	667,201	1,574,245
1950	42,139	517,710	3,431,967
1951	38,560	997,577	2,520,290
1952	40,150	734,786	2,486,587
1953	38,699	643,621	2,770,505
1954	39,184	723,412	3,066,165
1955	41,932	844,260	3,597,051
1956	41,228	766,831	3,408,319
1957	36,349	811,407	2,961,796
1958	37,144	728,191	3,392,029
1959	40,644	787,531	4,067,838
1960	37,702	861,000	3,922,400
1961	36,272	755,000	4,248,100

Source: National Lumber Manufacturers Association and U. S. Bureau of the Census

EXHIBIT A–3

SOUTHERN PINE LUMBER PRODUCTION
AND
WATERBORNE SHIPMENTS OF LUMBER
FROM OREGON, WASHINGTON, CALIFORNIA, AND BRITISH COLUMBIA
TO
UNITED STATES ATLANTIC COAST
1949 - 1961



Southern Pine Lumber Production
(million board feet)

1949	8,259	1956	7740
1950	9,939	1957	6619
1951	8,495	1958	6420
1952	8,572	1959	6881
1953	7,581	1960	6572
1954	7,332	1961	6461
1955	7,360		

Waterborne Shipments of Lumber to U. S. Atlantic Coast

	From Oregon, Wash. and California	From British Columbia
	(thousand board feet	
1949	1,021,382*	303,525
1950	1,054,539*	730,522
1951	815,944*	61,298
1952	1,053,699	222,078
1953	1,058,869	534,965
1954	933,696	507,835
1955	1,031,139	344,920
1956	1,023,038	282,161
1957	973,398	275,433
1958	923,961	602,427
1959	902,836	594,218
1960	848,989	694,604
1961	594,046	794,338

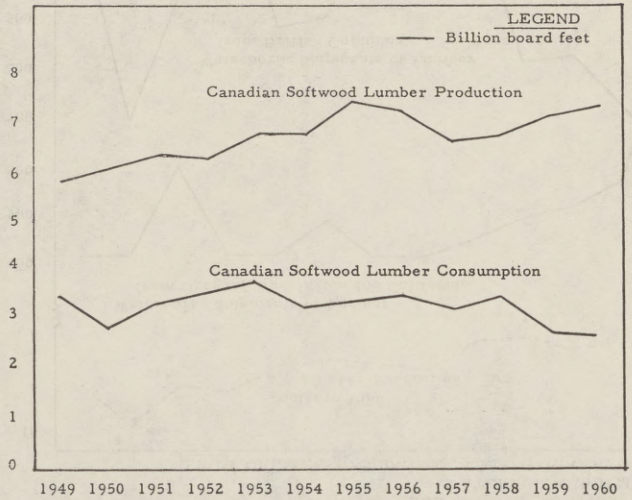
* Does not include California

Source: Reports of Pacific Lumber Inspection Bureau, Inc., and National Lumber Manufacturer's Association

EXHIBIT A–4

CANADIAN PRODUCTION AND CONSUMPTION OF SOFTWOOD LUMBER

1949 - 1960

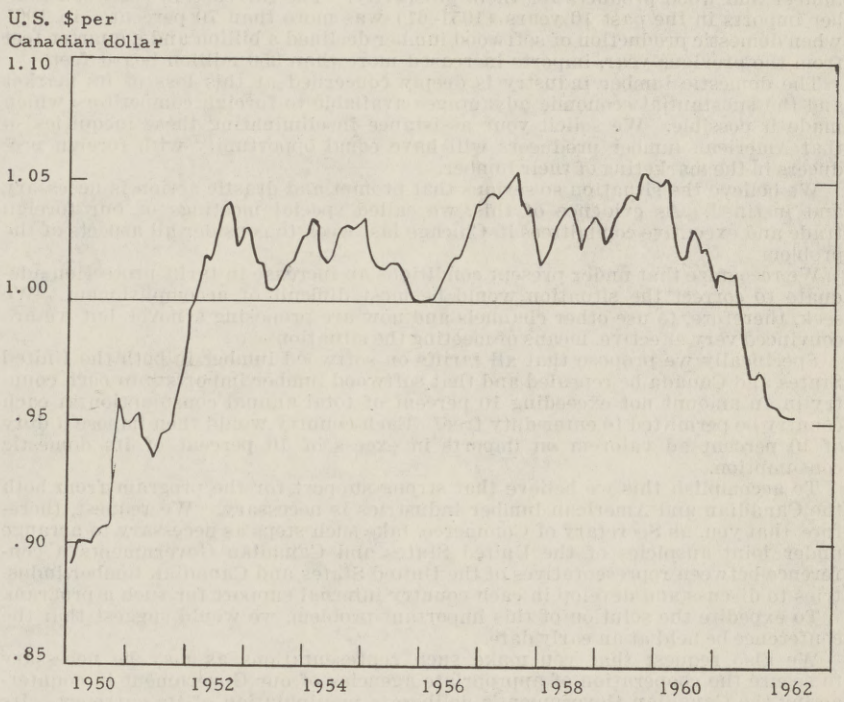


	Softwood Lumber Production (1000 Board feet)	Estimated Softwood Lumber Consumption (1000 Board feet)
1949	5,898,000	3,510,000
1950	6,106,506	2,884,844
1951	6,430,283	3,411,500
1952	6,297,902	3,593,700
1953	6,780,924	3,781,800
1954	6,817,020	3,247,200
1955	7,546,511	3,356,100
1956	7,279,243	3,514,500
1957	6,653,293	3,310,500
1958	6,799,776	3,059,100
1959	7,196,213	2,825,500
1960	7,348,000	2,651,000

Source: Yearbook of Forest Products and Canadian Lumbermen's Association

EXHIBIT B

CANADIAN EXCHANGE RATE



VALUE OF CANADIAN DOLLAR IN TERMS OF U. S. DOLLAR

1949	92.881*	1955	101.401	Jan. 1962	95.6776
1950	91.474*	1956	101.600	Feb. 1962	95.3352
1951	94.939*	1957	104.291	Mar. 1962	95.2773
1952	102.149*	1958	103.025		
1953	101.650*	1959	104.267		
1954	102.724*	1960	103.122		
		1961	98.760		

* "Free"

EXHIBIT C

NATIONAL LUMBER MANUFACTURERS ASSOCIATION,
Washington, D.C., March 22, 1962.

Hon. LUTHER H. HODGES,
Secretary of the Department of Commerce,
Washington, D.C.

MY DEAR MR. SECRETARY: Increasing imports of lumber and wood products have had, and are having, a serious impact upon the domestic lumber industry and are undermining the economic security of many communities dependent on lumber and wood products for their prosperity. The increase in softwood lumber imports in the past 10 years (1951–61) was more than 70 percent. In 1961 when domestic production of softwood lumber declined a billion and a quarter feet from the previous year, imports increased more than 350 million board feet.

The domestic lumber industry is deeply concerned at this loss of its market and the substantial economic advantages available to foreign competitors which made it possible. We solicit your assistance in eliminating these inequities so that American lumber producers will have equal opportunity with foreign producers in the marketing of their lumber.

We believe the situation so serious that prompt and drastic action is necessary and justified. As evidence of this, we called special meetings of our foreign trade and executive committees in Chicago last week to consider all aspects of the problem.

We recognize that under present conditions an increase in tariff protection adequate to correct the situation would be most difficult of accomplishment. We seek, therefore, to use other channels and now are proposing a novel, but we are convinced very effective, means of meeting the situation.

Specifically we propose that all tariffs on softwood lumber in both the United States and Canada be repealed and that softwood lumber imports into each country in an amount not exceeding 10 percent of total annual consumption in each country be permitted to enter duty free. Each country would then impose a duty of 10 percent ad valorem on imports in excess of 10 percent of its domestic consumption.

To accomplish this we believe that strong support for the program from both the Canadian and American lumber industries is necessary. We request, therefore, that you, as Secretary of Commerce, take such steps as necessary to arrange under joint auspicies of the United States and Canadian Governments a conference between representatives of the United States and Canadian lumber industries to discuss and develop in each country internal support for such a program.

To expedite the solution of this important problem, we would suggest that the conference be held at an early date.

We also request that you make such representations as may be necessary to secure the cooperation of appropriate agencies of our Government in counteracting the Canadian Government's deliberate manipulation of its currency. Its activities in this area have put American lumber producers at a competitive disadvantage in both domestic and foreign markets.

We would welcome an opportunity to meet with you at your convenience to discuss these matters and give you any further details you may desire as to our proposals.

Sincerely,

MORTIMER B. DOYLE.

EXHIBIT D

[H.R. 11140, 87th Cong., 2d sess.]

A BILL To amend the National Housing Act to provide that only lumber and other wood products which have been produced in the United States may be used in construction or rehabilitation covered by Federal Housing Administration insured mortgages

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title V of the National Housing Act is amended by adding at the end thereof the following new section:

"SEC. 517. Notwithstanding any other provision of law, no mortgage or loan shall be insured by the Commissioner under any provision of this Act after the date of the enactment of this section unless he receives satisfactory assurances that all lumber and other wood products used in the construction or rehabilita-

tion of the structure covered by the mortgage or loan will have been produced (and processed) in the United States; except that the Commissioner may, under rules and regulations promulgated by him, permit the use in any such construction or rehabilitation of lumber or other wood products which were produced (or processed) in a foreign country if he determines that neither the species of tree yielding the wood involved nor any species of tree yielding wood which is equivalent for the intended purpose is grown in the United States."

A BILL To amend the National Housing Act, as amended (48 Stat. 1246, 12 U.S.C. 1701), to require the use of domestic manufacture of lumber and wood products in the construction of housing federally financed and/or federally insured, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the National Housing Act, as amended (48 Stat. 1246, 12 U.S.C. 1701), is hereby amended by the addition of a new subsection to the first section thereof to read as follows:

"(r) The Federal Housing Commissioner is authorized and directed to require that only lumber and wood products manufactured in the United States of America be used in the construction, renovation, repair, or improvement of any building or property utilizing any moneys administered or insured by the United States under this chapter."

A BILL To require the use of lumber and wood products of domestic manufacture in all construction, alteration or repair of any public building or public work utilizing moneys of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 633, title VI, Act of October 29, 1949 (63 Stat. 1024, 41 U.S.C. 10d), is amended by the addition, at the end thereof, the following language: "Except that sections 10a and 10b of this title shall be construed in every event to require, without exception, the use of lumber and wood products of United States manufacture, unless the head of the department or independent establishment concerned shall determine, either that the species of tree yielding the timber or wood product involved is not grown in the United States or that there is no species of tree grown in the United States which is equivalent for the intended purpose."

EXHIBIT E

[H.R. 11133, 87th Cong., 2d sess.]

A BILL To amend the Tariff Act of 1930 to terminate the authority to suspend the marking requirements with respect to sawed lumber and timber, certain poles of wood, and bundles of shingles

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso to subdivision (J) of section 304(a)(3) of the Tariff Act of 1930, as amended (19 U.S.C. 1304(a)(3)(J)), is amended to read as follows: "*Provided*, That this subdivision (J) shall not apply to sawed lumber and timbers, telephone, trolley, electric-light, and telegraph poles of wood, and bundles of shingles".

SEC. 2. The amendment made by the first section of this Act shall take effect on the ninetieth day after the date of the enactment of this Act. No suspension of the effectiveness of the proviso amended by such first section shall apply on or after such ninetieth day.

[H.R. 11137, 87th Cong., 2d sess.]

A BILL To amend the Tariff Act of 1930 to require the marking of lumber and wood products to indicate to the ultimate purchaser in the United States the name of the country of origin

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subdivision (J) of section 304(a)(3) of the Tariff Act of 1930, amended (19 U.S.C. 1304(a)(3)(J)), is amended to read as follows:

"(J) (1) Such article is of a class or kind with respect to which the Secretary of the Treasury has given notice by publication in the weekly Treasury decisions within two years after July 1, 1937, that articles of such class or kind were imported in substantial quantities during the five-year period immediately preceding January 1, 1937, and were not required during such period to be marked to indicate their origin: *Provided*, That this subdivision shall not apply after January 1, 1963, to sawed lumber and wood products.

"(2) No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section."

EXHIBIT F

[H.R. 11136, 87th Cong., 2d sess.]

A BILL To amend section 22 of the Act of August 24, 1935, as amended (49 Stat. 773; 7 U.S.C. 624), to require the Secretary of Agriculture to include lumber and wood products as an agricultural commodity under the Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 22 of the Act of August 24, 1935, as amended (49 Stat. 773; 7 U.S.C. 624), is hereby amended by adding to the end of subsection (a) the following language: "For purposes of this section, 'agricultural commodity or products thereof' shall be deemed to include lumber and wood products."

Mr. DOYLE. I should add one final comment that I have heard a few references made to, bidding up of stumpage in the United States. I think we should point out that if you were operating a company that had been in business for over a hundred years and you were dependent on somebody else for your raw material—in this case the Federal Government—you must get the raw material to keep that plant going. You have a lot of employees, many of whom have been with you for 20, 30, 40 years, and you want to provide employment, so you go out and get that stumpage at whatever price you can get it, hoping for some miracle to pull you over the hump in future years and help you to make a profit. This is the major reason why you have overbidding of stumpage.

If enough stumpage had been made available, I don't think we would have this price. I think we should put this on the record so we have a thorough understanding of the problem.

Senator DWORSHAK. Mr. Doyle, would you suggest there is a possibility of the U.S. Forest Service making allocations on a negotiated basis for the sale of stumpage to lumber firms so that partially you could offset this unusual competitive bidding?

Mr. DOYLE. I don't think I would go so far as to recommend allocations; no. I think, if they would make available the total full allowable cut, I think most of our problems in this area would quickly disappear.

Senator DWORSHAK. They haven't been doing that?

Mr. DOYLE. Not to our satisfaction.

Senator DWORSHAK. Wouldn't you think one of the reasons possibly is the lack of access roads?

Mr. DOYLE. This is possible; yes. We have always, I think, supported any provisions made by the Congress for giving increased funds for access roads.

The CHAIRMAN. Now, you testified for the Forest Research Laboratory at Madison. But you didn't testify for more money for timber sales and road access in the House committee?

Mr. DOYLE. No; we did not.

The CHAIRMAN. And the House cut those timber sales down to 800,000 and the roads to 2 million. Is there any reason why you didn't testify for that as one of your problems?

Mr. DOYLE. I think our approach to the problem, Mr. Chairman, might be to take a good look at the whole Forest Service and make available the amounts that have been budgeted. If you will check over the last 10 years, I think you would agree——

The CHAIRMAN. I wish you fellows would look at this. This is an overall problem, and you know how I feel about this road access business, and I think that this might help this overall timber sale problem that he is talking about.

Mr. DOYLE. Our approach to that would be to take a look at the overall budget, and particularly as it has increased over the past 10 years, and make it available within the actual budget. I think it has increased substantially.

The CHAIRMAN. I don't think you should oppose that access road fund, but that is a matter of opinion.

I think that will help the whole program, I really do, in the long run.

All right. Any further questions?

Senator DWORSHAK. Just one, Mr. Chairman.

Mr. Doyle, it appears from the statements that have been submitted in this hearing so far, that there is general awareness of the many difficult problems confronting our domestic lumber industry. Now the conditions apparently have become worse over the past decade or even two decades. It is difficult for me to understand whether the overall representation of the lumber industry would prefer to continue to have these problems considered by the various executive agencies of Government, or would you prefer to place the burden of responsibility upon the legislative branch and insist that some remedial action be taken on Capitol Hill?

Mr. DOYLE. I think the latter.

Senator DWORSHAK. You prefer the latter?

Mr. DOYLE. Yes.

Senator DWORSHAK. And you do feel under the system which has grown up for many years, and been developed and expanded, that the lumber industry has been receiving less than fair and sympathetic treatment from the executive department of Government, whether it be under a Republican or a Democratic President?

Mr. DOYLE. If you put it under both, I would say, yes, I would agree with you.

Senator DWORSHAK. Thank you.

The CHAIRMAN. At this point I would like to have inserted in the record a statement of W. E. Griffee, secretary-manager of the Western Pine Association, and a statement of W. Spencer Fox, chairman, Southern Pine Industry Committee.

(The statement follows:)

STATEMENT OF W. E. GRIFFEE, SECRETARY-MANAGER, THE WESTERN PINE ASSOCIATION, PORTLAND, OREG.

Mr. Chairman, I am W. E. Griffee, of Portland, Oreg., secretary-manager of the Western Pine Association. This is the trade association for more than 400 sawmills of the western pine region, where, under average conditions, 8 to 9

billion board feet of lumber is produced annually, amounting to about 30 percent of the Nation's softwood lumber output. The mills are located in 12 States, as far east as the Black Hills of South Dakota, and west to the Cascades of Washington and Oregon and the Coastal Range in California; and from the Canadian border to Mexico. Employing in normal times about 70,000 workmen, western pine mills create direct payrolls of more than $300 millions a year while shipping upwards of 280,000 carloads of lumber to the domestic markets.

This large industry, an economic mainstay in hundreds of communities west of the Plains, has been hard hit by market conditions during the past 2½ years. Weakness that set in during the latter part of 1959 grew steadily worse during the next 2 years. Today, as a result, production is down about 13 percent from 1959, prices have declined to about 1947–49 levels while costs have stayed high. Many men have lost their jobs, there is hardship and a feeling of foreboding in the lumber towns, fear of worse ahead if present trends and policies continue.

We can't blame this long slump on less U.S. lumber use, for the fact is total consumption has held at fairly constant levels throughout this difficult period. No doubt increasing competition from other domestically produced building materials has made itself felt, but there is another major force at work in the market. It is imports. Large volumes of lumber have come in, displacing our own. Much of it has been Canadian lumber of species and grades similar to U.S. production. Produced at costs below U.S. levels, this swelling flow of imported lumber has not only captured a substantial portion of the American market but has been instrumental in forcing prices down to a point where U.S. mills are in real trouble.

Being an industry of the interior, Western Pine is most concerned over the competitive clobbering it is getting from its counterpart to the north—the Canadian interior industry. This element of import competition, though very large and growing, has had less of the spotlight than the spectacular rise of cargo imports. Nevertheless the two are closely interrelated. While this statement will deal chiefly with problems of the U.S. interior industry, western pine producers want to make it clear they stand shoulder to shoulder with the west coast industry and other U.S. mills in seeking workable solutions to all market problems arising from imports.

We want to make it plain, too, that our current problems are in no way due to any shortage of regional timber supply. The fact is that an abundant timber supply, estimated officially at 620 billion board feet, blesses the region with a solid foundation for what could be stability and growth. The fact that 73 percent of all commercial forest land in the region is Government controlled does, however, enter into the competitive relationship of United States and Canadian lumber.

Beyond the region's northern boundary, British Columbia has built up a productive interior forest industry with potentials matching or exceeding Western Pine's output. It manufacturers species alike or identical to ours. Enormous timber resources estimated at more than twice the western pine region's own huge backlog make further expansion of production there not only possible, but likely. Almost all the timber is Government held, and the Government believes in encouraging the lumber industry with favorable stumpage rates and in other ways. Today's production rate in the British Columbia interior is about 2.6 billion board feet; projections place it at 4.5 billion feet by 1975. The provincial forest service looks ahead still further to an allowable annual cut of 12 billion feet.

Like western pine shipments, interior British Columbia production goes to market largely by rail. Due to a combination of favorable circumstances, these shipments have moved into markets of central, eastern, and southern United States in great volume, to the competitive distress of the western pine industry and other U.S. producers.

What has happened is that total imports have risen from about 1 billion board feet in 1947 to about 4 billion in 1961. As recently as 1949 Canadian shipments of 1.3 billion feet represented 4.6 percent of the U.S. softwood market, while last year's 4 billion feet brought it up to more than 13 percent of U.S. consumption. (Four billion feet is approximately 130,000 carloads—enough to build 400,000 two-bedroom homes.)

In 1960 and 1961, both recession years in U.S. lumber manufacturing, Canadian imports continued to grow, both in total volume and percentage of the U.S. market.

The 4 billion feet of imports in 1961 represents, at our industry's efficiency levels, approximately 56 million man-hours of employment, or year-round work for 31,000 men.

Most noticeable and disturbing to our region is the trend in Canadian spruce shipments into the United States. These grew from 531 million board feet in 1949 to nearly 1,400 million feet in 1961. Spruce is the leading species in the timber resource of interior British Columbia, and it sells in direct competition with a number of western pine region species, including our own spruce. Spruce imports from the British Columbia interior now amount to nearly three times the spruce production of our own region, and have a potential of going much higher.

Advantages that make possible large-scale penetration of U.S. markets by Canadian lumber have been clearly defined by various spokesmen of the American industry. No purpose would be served in this statement by a detailed repetition. In general terms the dominant ones are lower timber, labor, and transportation costs, and a favorable rate of money exchange. Some of them are traceable to U.S. Government policy and can be changed, if the Government sees fit, to give American producers the opportunity to compete on more like even terms.

One of the most serious disadvantages with which the western pine industry is forced to struggle stems from timber pricing and allied policies of the U.S. Forest Service, which controls more than 60 percent of the commercial timber resource of the region. These policies are inflicting on Western Pine mills severe economic burdens of a nature not known to exist in British Columbia operations. The net result is that U.S. industry is paying substantially more for raw material than their competitors to the north, who at the same time have other trade advantages in plying the U.S. market. There is before U.S. officialdom right now a concerned last-ditch industry appeal for national forest timber sale policy changes. These would be outside the realm of Government trade agreements.

Our people have felt the steadily mounting pressure of Canadian competition for several years, and while we subscribe wholeheartedly to the good neighbor policy we believe the best way to keep that policy going is to assure, so far as possible, equal competitive opportunity for all operations in what we westerners call "one forest under two flags." Surely a wholesale transfer of U.S. forest industry jobs to Canada while U.S. policymakers are looking out the window is something not to be condoned, nor, in fact, to be relished by Canadians either as they strive for industrial growth.

There is full realization among our people of the complex difficulties involved in working out a just and fair and reasonable program under which the forest industries of the two nations will be able to operate with good results. We are convinced, however, that something must be done, and that existing inequities are to a great extent reparable by means of U.S. Government policy action.

We wish to emphasize a salient point in this statement, namely that interior British Columbia, under present competitive advantages, is capable of doubling or tripling its already large lumber shipments to the United States without overdrawing its sawtimber resource. If this is permitted to happen, large segments of the U.S. lumber industry including the western pine region industry as we know it today, will cease to exist, and the American Government will be able to reserve its huge western commercial timber stands for death and decay in the woods, while forested parts of the Old West sprout a new type of ghost town by the hundreds.

STATEMENT BY W. SPENCER FOX, CHAIRMAN, SOUTHERN PINE INDUSTRY COMMITTEE, NEW ORLEANS, LA.

The Southern Pine Industry Committee is a voluntary organization representing manufacturers of southern pine and hardwood lumber in the 12 Southern States of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Oklahoma, Tennessee, Texas, and Virginia.

This committee is authorized to speak for the more than 16,000 southern lumber-manufacturing establishments in the 12 Southern States enumerated above, on matters affecting the welfare of the southern lumber-producing region.

A matter of growing concern to southern lumber manufacturers is the increasing quantity of lumber being shipped from Canada into our domestic markets by rail and via waterborne cargo. Importation of Canadian lumber into the continental United States penetrates deeply into the areas where more than 75 percent of the southern pine production is marketed, and this is exerting strong pressures on the mills in our region.

In our considered opinion, the ratio of Canadian lumber imports to total domestic consumption has reached proportions which dictate the need for a careful appraisal of what the ultimate impact will be on our domestic producers unless remedial measures are taken.

Hisforically, the trade relationship between the U.S. Government and Canada has been regarded as ideal for nations that border each other. Our expression of conern is not motivated by any desire to disturb this good neighbor relationship by seeking to eliminate lumber produced by our Canadian friends from domestic markets.

On the other hand, with adequate domestic productive capacity to meet our Nation's lumber needs, we believe it is reasonable to suggest that a limitation on the quantity of Canadian lumber be worked out on a tariff-free basis between the United States and Canada until 10 percent of domestic consumption in either country is attained through foreign imports, following which a 10-percent tariff would be applied.

The record will show in the year 1961 approximately 45 million board feet of waterborne Canadian lumber were delivered through Florida ports for distribution throughout that State which is normally supplied by southern lumber operators located in Florida, Georgia, and other Southeastern States. The effect on our domestic producers, particularly in that region, is, therefore, very serious.

At a meeting of southern lumber operators in New Orleans, April 4, 1962, a resolution was adopted urging that appropriate steps be taken to eliminate inequities for the sale of its product in the United States and its possessions.

Our lumbermen are aware of certain legislation introduced in Congress earlier this year recommending changes in maritime legislation, as well as bills proposing subsidization of rates on waterborne coastwise shipments.

It is our considered opinion that such proposals do not represent a solution that would be mutually and satisfactorily acceptable to the lumber interests of the United States and its northern good neighbor.

Rather, we recommend consideration of an import-export formula to be worked out between representatives of the United States and Canada that would be least disturbing to the domestic lumber economies of both countries.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. Let's recess the hearings until 3 o'clock. Is that all right with the other witnesses? And we will come back at 3 o'clock and see if we can't finish some of the other witnesses who were scheduled for this morning, and I surely want the representatives of all these executive departments and the ICC that are here to be here, too, because I think it is very important that you listen to this testimony.

Mr. DOYLE. Thank you very much.

The CHAIRMAN. We will recess until 3 o'clock.

(Whereupon, the committee recessed, to reconvene at 3 p.m., this day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

There are some other members of the committee who will be over here, but we do want to hear these witnesses this afternoon that we couldn't get to this morning.

I want to say for the record, Senator Morse would have been here this morning, but I understand you had some plane trouble and couldn't get in.

Mr. Miller or Mr. Netzorg, of Western Forest Industries, Portland, and Robert Dwyer of Portland, and Mr. Heneghan of Portland, Western Lumber Marketing Association, will be the witnesses for today.

So, Senator Morse, if you have something you want to add to the record, we will be glad to hear from you. I wanted to tell you we did have substantial witnesses this morning and I think they covered a great deal of ground, and we had observers from all of the departments involved in this matter.

STATEMENT OF HON. WAYNE MORSE, U.S. SENATOR FROM THE STATE OF OREGON

Senator MORSE. Mr. Chairman, my statement won't take a minute. I want to say that I am sorry that I couldn't be here this morning, but there were two reasons. First, I couldn't have gotten here on time, but even if I had, I couldn't have come here, because I was presiding at the Foreign Relations Committee this morning. All of the Latin American foreign aid program is before our committee and I have to rush from here back to the committee to take charge of the presentation of that material.

I am going to file, with the permission of the committee, a statement as to the position that I hold in regard to the general problem that confronts the committee. I don't intend to take any time of these witnesses we have brought in from all the lumber areas, to be of help to us. I do have at my right, Mr. Robert Dwyer, of the Dwyer Lumber Co. of my State, who has probably forgotten more about this problem than I will ever know and that is probably true of others. But he knows that you and I and the rest of us from delegations who sit here as the legislative counsel of this group, must be given facts that will stand up. On the basis of those facts, we are going to do whatever we can to help them legislativewise and administrativewise on this problem.

I want to thank them for the help they have already been. I want them to remember, however, that if we are going to be effective legislative counsel, they have to pour the facts into us and we will work on those facts.

And to you, Mr. Chairman, in their behalf, I think this should be said: I thank you for the great help that you have been to us in our request for hearings here and hearings out in the field. You are going to start hearings in the State of Washington, and then they are going to come at a later date in Oregon and Idaho, so there will be another chance for them to get additional material in this record.

I am now very happy to present to you Robert Dwyer. And I am sure you will understand, Bob, that I can't be in two places at once. I have to go on this Latin American problem which is my primary obligation at the moment.

The CHAIRMAN. Yes, sir; you are the chairman of that subcommittee that handles this matter and it is very important.

I want to say, Senator Morse, that we announced today that the hearings here would be of a preliminary nature to lay this problem before the departments, who have all been represented here this morning and are here this afternoon. Then we would have the 1 day, Friday, out in Olympia, Wash., for the people in that area who are vitally interested, and then we would have hearings in Portland and in Boise. These dates have not been set, because they must accommodate the Senators and witnesses. We hope to do that very soon.

Senator MORSE. I close by asking that my full statement be incorporated in the record.

The CHAIRMAN. Without objection, that will be done.

(The statement follows:)

STATEMENT OF SENATOR WAYNE MORSE

Mr. Chairman and members of the committee, my statement will be brief because I wish to make the maximum amount of time available for witnesses who bring us expert knowledge as members of the lumber industry of the Northwest.

First, I wish to express my appreciation for the cooperation our Senators from the Northwest have extended to one another over the last several months in our efforts to achieve solutions to the problems the lumber industry has called to our attention.

It is my hope that today's hearings and those to follow in the Northwest, including my home State of Oregon, will serve to guide the executive agencies toward accelerated action on these problems.

It is my plan at this time to supply certain background material which I hope will be helpful because we must have an understanding of the historical aspects of the many issues facing the lumber industry if we are to resolve the problems confronting the industry today.

Since 1954 the wholesale price index for lumber has remained below average for all construction materials. Incidentally, structural steel has, as far as I know, shown the most spectacular rise. At first some might claim that lumber thus does not appear to have been badly disadvantaged because its wholesale cost has not risen perceptibly when compared to competing materials.

I think that we need, however, to examine this contention because there is other evidence which shows that lumber use in home construction is declining and we know that softwood lumber production has declined. While 1950 was the peak year for lumber consumption for building and construction during the last decade, a new peak was established in 1955 and we have had several years closely approaching it. The construction market accounts for three-fourths of lumber use. Lumber use for boxes and crating, while it has been fairly constant in the last decade, has recorded a decline from previous periods. Industrial uses for lumber have hovered at around 10 percent of consumption. The railroads have reduced their use for lumber to about one-fourth the 1929 level of consumption. Even more interesting is the substantial decline in the export of lumber when compared to the situation three decades ago, although in the last decade exports have averaged around 800 million board feet.

The production of lumber in Oregon had a rather steady growth until the very late 1950's. This is in contrast to the State of Washington where lumber production has been cut in half in the last two decades and in comparison with California, Idaho, and Montana which have shown a fairly steady increase in production which apparently has not yet reached its peak.

It is also interesting that within the last decade or so there has been a substantial decline in lumber production in the South, the Lake States, and the norheastern parts of the United States.

In the Northwest, two particular problems have affected us in the field of international trade. We have seen a significant increase in the exportation of logs to Japan, and we have experienced a substantial rise in competition due to the importation of lumber from Canada.

We have heard a great deal about the effect of the Jones Act on making our coastal lumber producers noncompetitive with the Canadians. However, three-fourths of the lumber coming in from Canada comes in by rail. Modification of the Jones Act may be both necessary and desirable, but I hope the committee will also explorffie the effect of Canadian rail competition on the larger volume shipped from the Northwest and Canada.

It is my hope, Mr. Chairman, that these hearings will develop the basic facts on the whole host of factors affecting our domestic industry.

A great number of legislative proposals have been made within the last few months. These would touch upon tariffs, shipping, marking incoming lumber, housing programs, Forest Service policies, and other Government activities. There have also been a host of suggestions which would involve only administrative action.

I fear that we are almost reaching the point where the number of proposed solutions exceed the number of problems. We may be in the position that there are so many solutions that have been advanced that it will be extremely difficult to get agreement on which ones should have priority.

In view of this situation, I would like to make two suggestions in the interest of orderly procedure:

First, I believe that we should bundle up all of the suggestions that have been made, both legislative and administrative, and lay them before the President with the request that he designate someone in the Executive Office of the President to be the central and coordinating point for action affecting lumber. This person should organize the various suggestions and obtain their evaluation as rapidly as possible and the President should be asked to transmit to the Congress a message containing his recommendations.

Second, I believe that the few facts I used for illustrative purposes, taken together with the other information I have received, demonstrate that so far too little has been done to analyze just what is happening and what the future may hold.

For the last decade in relation to the whole price index for lumber, data available to me indicate a trend which shows that labor and raw material costs have risen, while average net profits have dropped. There are many theories as to why, but so far we have not had the benefit of a definitive study of the situation. We need such a study, and even more importantly, we need some of our best economists to take a look at where this vital industry may be heading.

Therefore, I would suggest that we urge that the President have such an analysis commenced at once.

We are dealing with the future of an industry which, in its totality, affects the livelihood of 3 million wage earners. We are dealing with an industry which has historically proclaimed its opposition to Government assistance—but which is now urging varieties of assistance. Until we have the facts on the total dimension of the situation we cannot move with assurance.

I believe that a serious situation faces us. We need to act promptly and we need to act wisely. It is with this thought in mind that I make the foregoing suggestions. I am confident that the witnesses you will hear oday and in the days ahead will add much to the knowledge that is needed to select the best course.

The CHAIRMAN. All right, Mr. Dwyer, we will be glad to hear from you. I am sorry we couldn't get to you this morning, but it was one of those things.

STATEMENT OF ROBERT F. DWYER, DWYER LUMBER & PLYWOOD CO., PORTLAND, OREG.

Mr. DWYER. Not at all, sir, and I know how busy you are and I have a prepared statement which I was going to read, but I will present it for the record and make some comments because a great deal of it is repetition of what went on this morning. Mr. Edgett of the West Coast Lumbermen's Association gave you a very complete picture of what is wrong with the industry out there and what solutions they have.

I am here representing a group of employers of 40 companies. We have a name selected called the Lumbermen's Economic Survival Committee. This committee is composed of the executive members of David James, Simpson Timber Co., Seattle, Wash.; Donald V. Bellamy, Rainier Manfacturing Co., Rainier, Oreg.; Mel Prawitz, Georgia-Pacific Corp., Portland, Oreg.; James Whitty, Al Pierce Lumber Co., Coos Bay, Oreg.; and myself.

What I wish to talk about to you, rather than read this thing, is to comment on a few things that went before you here this morning.

This group of companies, many of them are interested in water shipments and they do have 29,000 total employees out there in the West.

Now, this morning Senator Dworshak talked about overbidding by the lumber industry and he asked that question. On this overbidding that we have out there, what is called overbidding, sometimes that is controlled by the method in which timber is put on the market. For instance, I know of this partcular case down in southern Oregon today where there is a forest that has a sustained yield capacity of some 368 million feet, which is the installed capacity by 350 million feet, and there is enough timber in this area to go around to all the installed capacity. This year the Forestry Service has advertised 315 million feet for sale in this area. There is a 25 million-foot shortage and you can see for yourself, Senator, what is going to happen in that area. There is going to be overbidding from the standpoint that they must stay in business and must support their community.

The Forest Service, in our opinion, is one of the great areas where we could have some equity with our Canadian cousins. And this committee that we are talking about and who I am speaking for is asking for one thing, and that is a fair competitive opportunity to compete in our own market here in America.

Another thing that I want to speak about——

The CHAIRMAN. Mr. Dwyer, are you familiar with the meeting we had some weeks ago with the Secretary of Agriculture down at the Agriculture Department in which we discussed at some length, and recommendations were made, as I recall, as to how these policies of the timber sales could be changed; are you familiar with that meeting?

Mr. DWYER. Yes; I was there at the meeting.

The CHAIRMAN. You were there?

Mr. DWYER. Yes, sir.

The CHAIRMAN. Do you pretty much concur with those recommendations?

Mr. DWYER. Yes; I do, Senator.

The CHAIRMAN. As I recall, and you can correct me if I am wrong, one of them was more planning of the timing of sales, so that the industry could gage and plan better itself relative to its supply.

Another recommendation was that the contract itself be looked over for some suggested changes, and the third important one, suggested by the Forest Service, was that they look at the overall economic effect in a given small area when they set the program of sales.

Mr. DWYER. Yes; that is correct, sir. I think that would be one of the great remedies that we could have out there, would be for the Forest Service to put up their timber up to their full sustained-yield allowable cut. This would stop a lot of this overbidding, so-called overbidding.

One other thing that I wanted to point out this morning—Senator Neuberger talked about Puerto Rico. Last year, as you know, there were 73 million feet of timber consumed in Puerto Rico and not one stick came from the United States. I still think it is an American possession. We are unable to participate in that market and I would like to read into the record here a letter from the Dant & Russell Lumber Co., of Portland, Oreg., addressed to Luther Hodges, Secretary of Commerce, Washington, D.C.; attention, Eugene Foley.

As it is absolutely impossible for America to secure any lumber business in Puerto Rico due to the American berth term rate of approximately $56 per thousand feet board measure which has eliminated the lumber ships from the Pacific

coast-Puerto Rico run and as this run is now served only by Waterman's Steamship Corp. with their container service, which is entirely unsuitable for bulk lumber and Waterman has no interest in lumber cargoes, we have an opportunity to sell our low-grade lumber in Puerto Rico market. At the present time the Canadians are monopolizing this market in volume of 70 million board feet in 1961 with foreign ships from British Columbia at approximately $27 per thousand rate. No American lumber has gone into Puerto Rico in the past several years. We urgently need a market for our low-grade and, as we must compete with the Canadians, we request permission and authorization to charter foreign ships enabling us to get back into the market we need. This movement would not be detrimental to any American line. This trade is not served by American vessels.

The date on this is the 17th of March, Senator.

The CHAIRMAN. What was that last statement you made there. I didn't hear that.

Mr. DWYER. The date on this is the 17th——

The CHAIRMAN. I meant prior to that, where you say the American operators are not hauling any now anyway.

Mr. DWYER. That is right. You mean—

This movement would not be detrimental to any American line. This trade is not served by American vessels.

The CHAIRMAN. Now, what do you suggest?

Mr. DWYER. Mr. Bishoprick of the Dant & Russel Lumber Co. in Portland was asking permission of Luther Hodges, Secretary of Commerce, to charter a foreign vessel to ship lumber from Portland, Oreg., to Puerto Rico.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. Let's talk about the Jones Act. The Secretary would have no authority to repeal the Jones Act.

Mr. DWYER. Senator, this was a letter or telegram that Stanley Bishoprick, the vice president of Dant & Russel, addressed to Secretary Hodges, and he asked me to read it into the minutes.

The point I was getting at is that although it is protected by the Jones Act, we don't have any service in there and if we did have service, we would be at a $28 disadvantage. That was one of the points that I wanted to get over to you, Senator.

One other thing that I don't think was brought up particularly here this morning, we were talking about the industry and we talked about drafts and charts. We talked about production, but I don't think we talked enough about unemployment. I have here a letter from Eldon Cohn, who is the director of the unemployment service of the State of Oregon, that shows in the past 2 years we have lost 13,700 employees in Oregon, Washington, and Idaho. And you multiply that by a factor of four, that is 54,000 people that are out of work out there. And to me that is so important and the reason I am back here representing these people is that we have to face the people in the morning looking for work.

To give a little background of our own personal company, in 1923 my father built our plant in Portland. It was the 18th plant there. There were 17 other very large plants. On the first day of January, this year, the last of the original 17 shut down. Our company is doing very well because we are the only one left. But the 200 people that were employed at this Jones Lumber Co. in Portland, which has been in business over 103 years, they have been out to our company looking

for work in the morning and, Senator, it has been almost 25 years since I faced a man with an empty lunch bucket, and that is why I am here and that is why I am concerned.

In this prepared statement that I have for you, which I will give you, I want to read the last page. This is what these gentlemen told me to ask you.

We shall welcome help of any kind. We need help and we need it now. All we are asking for is a fair competitive opportunity to compete in our own market.

Let me note in closing that there is a steady market for only about 30 billion board feet of softwood lumber in this country. Studies indicate that this can be increased only slightly. What is happening is that the very laws and regulations calculated to protect the shipping interests are now deliberately encouraging the capture of the American lumber market by Canada.

The people of the Pacific Northwest are asking that Congress tell us whether the Government is going to continue to encourage expansion of the Canadian lumber industry and the growing unemployment of thousands of our people; or is it going to act now to protect American labor and the American economy at its source?

When I speak of the shipping interests, I am also speaking of the railroads and that 15-day freehold that was mentioned earlier to you. It was, as you know, the 15-day freehold was removed——

The CHAIRMAN. You heard the testimony this morning on that. Do you agree with that conclusion?

Mr. DWYER. Yes, sir.

The CHAIRMAN. I think that is a matter that will come to a head very shortly one way or another.

Mr. DWYER. That is correct. And that is what we were urging, and I would like to close by saying, Senator, thank you for your time, but all we want out there is a chance to compete in our own market on an equal basis.

The CHAIRMAN. Same ground rules.

Mr. DWYER. Same ground rules, even. Even though Canadian labor is cheaper than our labor, give us the same set of ground rules and we will out-compete and out-sell them in any market in the world.

Thank you very much, Senator, for your time.

The CHAIRMAN. I wanted to ask you one thing. Would you agree that we should, on this timber sale matter, for one thing, appropriate enough money to permit allowable cuts and more sales and more access roads?

Mr. DWYER. Yes, I would, sir.

The CHAIRMAN. Because I see the House did some slashing on that matter and I think we need to bolster that up. That would help, I would think.

Mr. DWYER. Of course, the Forest Service cannot do a good job without adequate finances, Senator.

The CHAIRMAN. And the Government gets it back anyway.

Mr. DWYER. Yes, sir.

The CHAIRMAN. Now, everybody is concerned about the labor situation, but we run into two schools of thought. One concerns the Jones Act and holds that if we repealed it, then you would have the same unemployment situation in the maritime as in the lumber industry.

Mr. DWYER. Senator, my reply to that is this: We at one time had over 150 vessels in the intercoastal trade hauling lumber. Today we have 13. There are less than 500 seamen there——

The CHAIRMAN. I understand that. We have 13,700 people. If we are going to retrain the groups, let's retrain the sailors as well as the Swedes, Norwegians, and Irish. There are Swedish, Norwegian, and Irish sailors, too, but the point I am making is that we do have this problem, and of course the bill I introduced is in the hopes that where foreign competition caused this, such as lumber in this case, we might make a deviation and work out something. There might be subsidies, which would be a very small amount, to keep intercoastal shipping alive. This committee, the Commerce Committee, recommended that 2 years ago. We had a very extensive study on intercoastal shipping.

Now, there again, you have the railroad who doesn't like that, and, of course, those are problems for which we have to establish the ground rules. But there is a problem of employment both ways, because running or chartering a foreign-flag ship is much cheaper. That is why they can have this difference.

What do you think of the suggestion about the quota system?

Mr. DWYER. Which one? There were two presented this morning.

The CHAIRMAN. The 10-percent quota and the other one, that you might, as an emergency measure, place a quota on Canadian shipments to the American market.

Mr. DWYER. There were two proposals this morning, as I took it.

The CHAIRMAN. What was that, if they got above 10?

Mr. DWYER. Ten-ten proposition.

Frankly, Senator, I don't think it would help us a bit, if you want my personal opinion of it. I am not speaking for the rest of this group; I can only speak for myself. If you would figure that out on paper, you would find that on a $50 value you would have an additional 12 cents per thousand tariff. On a $70 value you would have 56 cents additional tariff over and above what you have today. And that could be taken care of very easily by Canadian Forest Service in adjusting their timber prices. You can say, when they devalue their dollar 1 percent, that could be taken care of very easily. I don't think it would have any effect. That is using last year's figures of 3,935 million which was shipped into this country.

The CHAIRMAN. So you would suggest, as I understand it, generally speaking, (1), that we do what we can about the transportation problem to the east coast, both railroad and ship?

Mr. DWYER. Both rail and ship.

The CHAIRMAN. No. 2, to attack the problem of the inequalities of stumpage.

Mr. DWYER. Correct.

The CHAIRMAN. Between the two. And No. 3, the labor costs which might be worked out a little better, say, stevedoring costs, for instance.

Mr. DWYER. Yes, sir.

The CHAIRMAN. As it relates to transportation.

Mr. DWYER. I put that stevedoring costs into the same category as transportation.

The CHAIRMAN. And the hope that we can get sufficient appropriations which come back for more allowable cuts as timber sales and access roads?

Mr. DWYER. Yes, sir.

The CHAIRMAN. Well, I think that covers it pretty well, and we will put in the record your statement in full.

Mr. DWYER. The statement in full, Senator, does cover that Jones Act quite well. I didn't think it was necessary to go into it again.

The CHAIRMAN. And we will be seeing some other members of your group next Friday in Olympia.

Mr. DWYER. That is correct.

The CHAIRMAN. Thank you very much.

(Mr. Dwyer's prepared statement follows:)

My name is Robert Dwyer. I am a lumberman from Portland, Oreg., appearing here as spokesman for the Lumbermen's Economic Survival Committee. This committee represents lumber mills in Oregon, Washington, California, Idaho, and Montana. There are presently 40 companies in membership, representing nearly 29,000 direct employees. The committee includes large, intermediate, and small manufacturers, some who are members of the various associations and some who are not. In this respect, we feel it as representative a group as you will hear. The executive committee is chairmaned by David James, Simpson Timber Co., Seattle, Wash. Other members are Donald V. Bellamy, Rainier Manufacturing Co., Rainier, Oreg.; Mel Prawitz, Georgia-Pacific Corp., Portland, Oreg.; James Whitty, Al Pierce Lumber Co., Coos Bay, Oreg.; and myself, Dwyer Lumber & Plywood Co., Portland, Oreg.

The word "survival" is not an overemotional approach to the Canadian encroachment of our markets in the United States, though on its face it may seem to be. There are communities who will collapse when the mills upon which they are dependent close. There are others who will be deeply troubled when unemployment and loss of tax revenue come along.

It is true that northern California, Oregon, Washington, Idaho, and Montana are a long way from here. And I don't doubt for a moment but that this tiny echo of distress from 3,000 miles away is little more than part of the great sound in this Capitol, but in those States it is a howl of anguish. And there is little doubt in our minds but that soon the lumber people of the upper Midwest and the Northeast and the South will be joining in the chorus and asking their Government to be allowed to compete on an equal basis in our market with the foreigners who are being encouraged to steal away our markets by our own laws and regulations.

The lumber market in the United States has gone through 2 poor years. In fact, last year was just awful. A State like my home State of Oregon is more than half dependent upon the forest products industry, so when we speak of damage to the economy by Canadian encroachment, we are referring not only to those of us who make lumber and are directly affected, but we are also talking about labor, about job loss, about hungry families and drain on unemployment funds, about tax loss to city, county, State, and Federal Government; about the diminishing secondary payrolls and the losses that follow there. In the last 2 years in Oregon over 8,000 lumber workers have lost their jobs and it has done them little good to drift south, north, or east, for the situation is the same there, and west lies the Pacific Ocean. There are, at the moment, 66,900 lumber workers left in Oregon. The 3 States of Oregon, Idaho, and Washington employ 120,000 people directly dependent upon this business and this is 13,700 fewer than 2 years ago. This last figure indicate that 54,800 people have been directly affected already, and how many have been indirectly affected we do not know. When you begin to look at these figures in terms of people—families and others dependent upon our payrolls—you begin to see the impact. May I remind you that these States are sparsely populated in comparison with the eastern seaboard and southern California. Consequently the impact of market loss is greatly amplified. When a man who has been in the lumber business all his life says, "I am the largest industry in my town, yet unless I get relief, I shall have to close up my mill. I don't want to, but if I do, then it would be only commonsense for me to use my Los Angeles lumberyard and sell Canadian lumber."

Let me review rapidly the basic advantages which have allowed the Canadians to gain a lumber advantage over us:

1. The Canadian cost of timber is cheaper.
2. They ship in foreign ships, which are cheaper.
3. They have a 15-day freehold in railroad shipment, which in effect, allows them to warehouse lumber free for half a month, plus a sales advantage to the customer.
4. Money rates of exchange favor Canada.
5. Canadian labor is cheaper.

Now let's turn from the negative to the positive and see what can be done to correct the situation. I stress that we are not looking for advantages. All we ask of our Government is that we be given equal opportunity with the foreign manufacturer. And I would venture this is a refreshing request.

Taking the Canadian advantages I listed, let's take a look at them:

No. 1, that Canadian cost of stumpage or timber is cheaper. Here we believe something can be done. A great amount of State and Federal timber has been sold at fantastically high rates. We must acquire a favorable attitude on the part of our Forest Service to start with, rather than a policy and attitude which seems to be designed to get the last penny out of the national forest with utter disregard for payroll and community stability. We recommend that the Forest Service put their full sustained-yield inventory on the market, using their new inventory figures, at prices commensurate to lumber values.

No. 2, that Canadians can ship in foreign ships, which are cheaper. We believe that this can be remedied immediately in one of two ways. The first is to amend the Jones Act. There are several bills before Congress now; any one of these would correct the lumber plight. The second is to subsidize American ships. With your permission I should like to expand just a bit on these proposals. The Jones Act was written in 1920, ostensibly to protect American labor. Now instead of being helpful, it has become hurtful to labor. The number of ships in intercoastal lumber trade has dwindled from 150 to 13. Thus the longshore people and the workers affected by the lumber industry are being hurt while the act favors the handful of sailors employed on 13 ships. These amount to less than 500 compared with the 13,700 already unemployed in the lumber industry. Canadian water shipments of lumber into the United States are up sharply and rising. About 25 percent of the Canadian lumber came in by water in 1961. In the last year Oregon's shipments to the Atlantic coast diminished over 24 percent, Washington's over 14 percent, and California's over 24 percent. The following is a comparison of the east coast cargo market from 1951 to 1961.

[In percent]

	Canada	United States
1951	7	93
1961	56	44
1st 2 months of 1962	72	

I think these figures speak for themselves.

Now the other half of the coin is this. It is reasonable that the Defense Department is desirous of having our shores surrounded by the American merchant marine and would take a dim view of altering the Jones Act because of this. If this is the wish of the Defense Department, then we say to the Defense Department, subsidize the merchant marine rather than have the lumber industry subsidize it, as it is, in effect, doing now.

No. 3, that the Canadians have a 15-day freehold on rail shipment of lumber. We say here, either restore the 15-day freehold for American rail shippers or invoke local rates at the border for Canadian shippers. The ICC could accomplish this immediately.

No. 4, that the money rate of exchange favors Canada. Though the rate of exchange is a disadvantage to our industry, we say it is too involved for us to make any recommendations.

No. 5, that Canadian labor is cheaper. Though this is true, we disregard this advantage, because American labor is better and more productive. We maintain that if Congress and the Government of the United States, puts American labor and industry on the same competitive basis with Canada as can be done in this case, we can outproduce and outsell them in any market.

Despite our recommendations, we shall welcome any kind of help. We need help and we need it now. All we are asking for is a fair competitive opportunity to compete in our own market. Let me note in closing that there is a steady market for only about 30 billion board feet of softwood lumber in this country. Studies indicate that this can be increased only slightly. What is happening is that the very laws and regulations calculated to protect the shipping interests are now deliberately encouraging the capture of the American lumber market by Canada. The people of the Pacific Northwest are asking that Congress tell us whether the Government is going to continue to encourage expansion of the Canadian lumber industry and the growing unemployment of thousands of our people—or is it going to act now to protect American labor and the American economy at its source?

I have here additional background material with which to answer questions, if you have any. May I thank you for your time and patience to hear me out.

The CHAIRMAN. We have Mr. Fryburg here who represents the Western Lumber Marketing Association.

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. Their headquarters is in Portland, but you come from Eugene.

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. We will be glad to hear from you.

STATEMENT OF RUSSELL G. FRYBURG, WESTERN LUMBER MARKETING ASSOCIATION, PORTLAND, OREG.

Mr. FRYBURG. My name is Russell G. Fryburg. I am a partner and sales manager for the Timberlane Lumber Co., Eugene, Oreg. I am also part owner of a western sawmill, which is located in the State of Montana, and participate in its management as well as being a full-time lumber wholesaler, serving customers throughout the Nation.

I have served under Government of Oregon Governor's Emergency Car Shortage Committee.

I am also the immediate past president and currently a director, of the Western Lumber Marketing Association, which is headquartered at 411 Alderway Building in Portland, Oreg., and which represents 44 wholesalers and sawmills in Oregon, Washington, California, Idaho, Montana, British Columbia, and Alberta.

Today, I appear as the representative of, and official spokesman for, the Western Lumber Marketing Association, whose members—collectively—cut, ship, and sell more than 150,000 railroad cars of lumber per year (roughly 4½ billion board feet) throughout the United States—approximately 25 percent of all lumber shipped East from the West by rail.

Wholesaler members of our association also represent, exclusively, as lumber merchandisers, another 86 Pacific Northwest sawmills, and do business with still an additional 1,000 mills. Twenty percent of our members are Canadian, but it must be pointed out 70 percent of all the lumber we cut and sell comes from the Pacific Northwest States, not Canada.

In this testimony we do not offer any cure-all for lumber's ills, but neither do we look across our national border for a scapegoat. Our industry's problems are complex and interwoven with the U.S. foreign

and trade policies and with the destiny and attitudes of our national transportation systems. Although there are no simple solutions to lumber's problems, there are areas of specific assistance to us in which various Government agencies can operate—assistance which we hope will be forthcoming as a result of this and subsequent hearings you intend to conduct in the Northwest.

What can be done to help the lumber industry? And by whom?

First, we reiterate, what is lumber's problem? We submit it is the narrowing ratio between profit and operating costs of the hundreds of small- and medium-sized mills which do not own gigantic stands of timber reserves and who cannot maintain gigantic marketing staffs; mills which are almost wholly reliant upon the Federal Government's policies for their supply of competitively priced raw materials, and which are wholly dependent upon public transportation for competitive and equitable freight rates and routing policies to merchandise their products.

This, then, is our problem: How can we keep lumber competitive with other building materials and areas?

What is the solution? First, more realistic Forest Service policies to make timber available to our small operators at prices competitive with prices paid by Canadian operators for their raw materials.

This can be accomplished by putting up full timber quotas and lowering the basic price of timber, and second, returning merchandising and shipping flexibility to lumber sellers through the reinstatement of traffic privileges originally granted by our railroads.

I might say basically our problem is not our selling price but our cost basis. Our selling price is adequate to meet the competition of other areas and other products, but our cost basis is the one killing us.

The CHAIRMAN. Let me ask you this, just for information. You probably can tell me.

An X number of square feet of lumber, say, is laid down in Baltimore, one part coming from British Columbia, and the other coming from the Pacific Northwest. Would the price to the consumer be much different?

Mr. FRYBURG. No, sir. The Canadian shippers charge the conference rate of $36 per thousand which on a net basis goes back to approximately $27.25 per thousand.

The CHAIRMAN. You are talking about rail?

Mr. FRYBURG. I am talking about to Baltimore by cargo.

The CHAIRMAN. I see.

Mr. FRYBURG. Were you referring to that?

The CHAIRMAN. Well, I am just wondering; there is a spread. Now, how can the Canadian sell all of this extra amount unless they charge less to somebody—the wholesaler or the retailer or the consumer?

Mr. FRYBURG. The overall supply and demand that we have seen in the market is set in the selling area and we are up against the competition from all different areas. We are up against competition from southern pine, as a westerner. We are up against competition from up in the Northeast, a little bit of lumber from the Northeast. The overall supply and demand sets the price for the man in Baltimore. He buys where he can do the best.

The CHAIRMAN. Even though the lumber he gets from the Pacific Northwest might cost him more to get it there as against the same amount of Canadian lumber, the market conditions might dictate he charge the same for both or there wouldn't be much difference; is that correct?

Mr. FRYBURG. That is true.

The CHAIRMAN. All right.

Mr. FRYBURG. May we now examine still other proposals, all germane to the stated purpose of this hearing, to help determine whether or not they would solve our industry's problems or compound them.

First—modification or repeal of the so-called Jones Act. We, as an association, have contended for years that mills which ship by rail, and I think this is important—and more than 90 percent of all western forest products move east by rail, not water—would be grossly discriminated against by any change in the Jones Act unless there was an equivalent and equitable change in our rail shipping policies.

The CHAIRMAN. Enlarge upon that a little bit.

Mr. FRYBURG. If the rail shipping mills, which represent 90 percent, if there were a change in the Jones Act, the rail mills would then be directly in competition with their fellow western water carriers. You see, already Senator, the water carrier has an $8 per thousand advantage to the east coast, let's say Baltimore, over the rail shipper.

For example, a car of 2 by 4's, the freight on that is $35.25.

The CHAIRMAN. If he has space available. But if there is no intercoastal shipping——

Mr. FRYBURG. Well, this would be, if we presume there is no shortage of space available for shipment of lumber to the east coast from the west coast.

The CHAIRMAN. By water?

Mr. FRYBURG. Yes, sir. We ship a small amount by cargo.

The CHAIRMAN. The testimony of some of the operators, or at least this is my understanding, is that the decline of intercoastal shipping has put them in a spot where there is not space available to ship by water.

Mr. FRYBURG. For example, the other day, we had over 600,000 feet sitting, this is Vancouver, Wash., not British Columbia, on the public dock there. We expected a boat in around the middle or end of May, Colmar Steamship Line, had extra space available and we were able to put 500,000 feet on that boat when it came into Vancouver, Wash.

The CHAIRMAN. Would that be true only in the Columbia River? Would it be true in Puget Sound, in Coos Bay, Eureka?

Mr. FRYBURG. I have lumber shipping out of Olympia, I am putting over 400,000 feet. I think it is the *Madison Friendship*, which is a States Marine boat, which comes in to Olympia. We buy products from all of the peninsula, Delson Lumber Co., Buchanan Lumber Co., and many others.

The CHAIRMAN. Your experience has been that there is space available for water shipments to the east coast?

Mr. FRYBURG. We have never had any trouble contracting space for our shipments to the east coast. And I started to mention, sir, that the rail rate on a 2 by 4, let's say for example, is $35.25 to Baltimore.

Cargo today is $27.25. This is from the west coast of the United States. They already have a $8 advantage to the east coast. Some of that, admittedly is taken up on back handling charges at the dock but at most around $2.75 to $3, so they still have a $5 advantage.

Now, if you didn't get an equal change——

The CHAIRMAN. That is by water?

Mr. FRYBURG. Yes, sir; this is strictly talking United States now. They have a, let's say, starting out with $8 advantage to the east coast. Plus the fact they have a back handling charge of $3, so it is a $5 advantage against the rail shipper, strictly U.S. production again. I am not speaking of Canadian.

The CHAIRMAN. Your point is that if anything was done to revive intercoastal shipping in this particular field, so it could be competitive with the British Columbia water shipments to the east coast, that it wouldn't mean too much to the whole industry unless you had an equivalent and equitable change in rail, because rail handles, as you say, 90 percent of all western forest products to the East.

Mr. FRYBURG. Of the total?

The CHAIRMAN. To our own markets?

Mr. FRYBURG. Yes, sir, United States to United States. Now, this includes all lumber in the West, and does not represent any one group.

Specifically, while changes in the Jones Act have been advocated to help a handful of cargo shippers, no real progress has been made in restoring the railroads' former 15-day hold and free diversion policies, which worked so well until their prohibition in 1960 by the Interstate Commerce Commission—even though Commissioner Walrath of the Interstate Commerce Commission, as a part of the Commission's final decision, stated:

> I agree with this report so far as it goes, but would add that in the event the record does not accurately reflect the facts regarding Canadian competition, or if the facts should change and the threatened diversion to Canadian carriers occurs, reopening here would appear to be indicated in the light of reality.

We would like to add this postscript to Commissioner Walrath's statement. The facts did not, during the final Interstate Commerce Commission hearing, accurately describe Canadian competition, and the facts at this time do indicate a threat from Canadian competition. All of the facts do indicate that it is time for a reversal of the Commission's stand in docket 7050.

The CHAIRMAN. At this point, we have a letter from the Interstate Commerce Commission dated April 11, 1962, in reply to a letter from Mrs. Neuberger, which we will put in the record in full, but I will read one pertinent paragraph on this matter.

(The letter follows:)

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., April 11, 1962.

Hon. MAURINE B. NEUBERGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR NEUBERGER: Your letter dated April 4, 1962, addressed to President Kennedy with respect to the reports of this Commission in investigation and suspension docket No. 7050, *Lumber, Free Time Allowance at Hold Points* (308 ICC 247; affirmed 310 ICC 521 (June 6, 1960)), yesterday was referred to us for appropriate handling. For your convenience, two copies of those reports are enclosed.

It will be noted from a perusal of the reports that the proposed schedules of the railroads were suspended on November 2, 1958; that after full hearing and careful consideration of all the sworn testimony together with the exhibits of record, the conclusion was reached that the railroads' proposal to allow the holding of cars loaded with lumber free of charge for 15 days each was not just and reasonable. The order to cancel those tariffs was affirmed by the entire Commission on June 6, 1960.

Also enclosed is a copy of the decision by Judge Edwin R. Hicklin in the U.S. District Court for the Southern District of Iowa, Western Division, dated March 28, 1959, granting the United States a permanent injunction against the practice of the Union Pacific Railroad Co. of providing, without filed tariffs, 15 days free holding of lumber in railroad cars. Summary judgment was ordered on April 3, 1959. On April 4, 1960, the Supreme Court of the United States affirmed, per curiam, 362 U.S. 327, and a copy thereof is enclosed.

In answer to your inquiry concerning a review of our decisions, any party aggrieved thereby may file a petition seeking reopening or reconsideration of the resulting orders. At this late date it would be necessary for petitioner to show changed conditions and new evidence which may warrant the action sought.

Recently I received a letter from Senator Warren G. Magnuson advising there would be hearings on this subject. The Interstate Commerce Commission will be invited to appear and offer alternative solutions to this problem. Perhaps, and merely as a suggestion, you may find that proceeding helpful in the interests of giving mature consideration to your constituents' difficulties.

Sincerely,

RUPERT L. MURPHY, *Chairman.*

The CHAIRMAN. Then I quote:

In answer to your inquiry concerning a review of our decisions—

meaning this decision—

any party aggrieved thereby may file a petition seeking reopening or reconsideration of the resulting orders. At this late date, it would be necessary for petitioner to show changed conditions and new evidence which may warrant the action sought.

This would cover what you suggest, would it not?

Mr. FRYBURG. Yes.

The CHAIRMAN. Changed conditions.

Mr. FRYBURG. Yes.

The CHAIRMAN. The Canadians, failure of the Canadians to repeal their 15 days.

Mr. FRYBURG. Yes, sir; I will go further on this subject.

This is a process, incidentally, as you realize, takes a long time and we need quicker action.

The CHAIRMAN. I don't think it would take a long time, a very long time, as far as we are concerned, if the Canadians do not repeal their 15-day provision. You heard the testimony this morning, and we can point that out. It seems to me the Commission invites us to come in.

Mr. FRYBURG. Yes, sir; I will go further. We want the 15-day hold provision.

The CHAIRMAN. Not me, I mean you people.

Mr. FRYBURG. Yes, our association wants the 15-day hold and free diversion regardless of what the Canadians do. We need it down here. As the section is now it is a definite competitive advantage to their advantage. We would like that advantage ourselves in the future.

The CHAIRMAN. We have had this matter up for some time.

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. And as I recall, sometime ago they were dickering whether again to repeal it. It was our contention here, particularly those western members on this committee, the Commerce Committee I am talking about now, that it should remain regardless. Now, if they repeal it and Canadians have it, it seems to me there is all the more reason why it should be, even regardless of the Canadian action. I thoroughly agree with you.

Mr. FRYBURG. There has also been mention of a Supreme Court case often quoted saying the Supreme Court outlawed the 7050, or the 15-day hold, and so forth. I would like to put into the record that the Supreme Court decision was in one case, with the Union Pacific Railroad, in essence, it said, "Because the Union Pacific Railroad did not have a tariff covering the holds they were given, they were not allowed to do it." But they pointed out because they did not have it in their tariff, it was illegal.

If they had had it in their tariff at that time, the case would have never arisen.

Gentlemen, the 15-day hold and free diversion are vital to the efficient marketing of western lumber by the smaller operator. Therefore, the deletion of Canada's 15-day hold policies could deal a mortal blow to our segment of the lumber industry. Such a proposed action has been described as "equalizing" rail transport policies between our two nations. The word "equalize" has been misused. If anything, Canada's elimination of the free hold would "equalize" discrimination against western lumber rail shippers, pitting the governments and economies of both nations against a major segment of the lumber industry.

What would true "equalization" constitute?

It would call for the restoration, by the Interstate Commerce Commission and our railroads, of free hold and diversion privileges. Without this latitude to hold or divert lumber in transit to eastern markets, more and more western sawmills will vanish because of prohibitive shipping costs. Lack of this privilege will eventually bankrupt many, and without relief, these important small shippers will be forced out of business because of prohibitive and noncompetitive shipping costs, not forced out as alleged by Canadian competittion.

I think at that point, sir, I would like to enter into the record an excellent article printed in the Tacoma Tribune by Corydon Wagner, a well known and well thought of lumberman in the State of Washington. This is a reprint of an article that he had in the paper which I think is excellent on the overall lumber situation.

The CHAIRMAN. We will be glad to put that in the record in full.

(The article follows:)

MORE EFFICIENT MILLS HELD LUMBER ANSWER

Proposals to control or cut down lumber imports from Canada by various means—higher duties, embargo, restrictions in its use or amendment to the Jones Shipping Act—are not answers to the depressed condition of the Douglas fir industry in Oregon and Washington. According to Corydon Wagner, long vice president of the St. Paul & Tacoma Lumber Co., and for 40 years both an operating executive and officer in regional and national lumber associations.

Wagner sees the problem complicated through a market loss from drastic changes in construction practices plus the Government policy with respect to labor and timber sales.

More efficient mills are needed, he declared, designed for present day trade and joint cooperation with Canadian mills to increase sales in worldwide potential areas. His statement follows:

"The daily press of late has had many reports and statements on the unhappy plight of one of the Pacific Northwest's basic industries—lumber. The problem is a complicated one combining loss of markets to drastic changes in construction practices and lumber uses and higher costs forced by competition within the industry itself in many cases, but aided and abetted by the philosophy and policies of our Government with respect to labor and timber sales.

"That the British Columbia Government may be more sympathetic or more aware of the needs of its lumber industry in respect to these same matters is generally believed. However, frustration and envy hardly seem valid reasons to clamor now for a higher duty, or an embargo, or any other campaign against the importation of Canadian lumber.

"Such agitation is a distraction from the main difficulty, and merely provides a convenient hobgoblin to chatise. Even if British Columbia shipments were completely eliminated from the U.S. market, it would still be doubtful whether the U.S. mills of the Pacific Northwest would find any consequential improvement. Lumber must continue to be offered at relatively low prices or the aggressive competition of alternate materials will be further stimulated.

"Lumber production in British Columbia has increased, certainly, but so has the production from virtually all the Western States outside of Washington and Oregon. The mills of the latter two States are the ones which are most seriously disturbed in this period of extreme competition for a reduced overall volume of business. They suffer from relatively high costs of both labor and stumpage costs which did not seem excessive in the boom period between 1946 and 1956. These mills no longer have the trade which formerly brought premium prices for quality stock particularly suited to their equipment and timber supply.

"The greatest inroads on lumber markets have probably been made by plywood from this very same timber supply, and by various new products of paper, paperboard, and synthetic boards, also made from the same timber supply. Today's volume markets pay no premiums, and are open to most species and producing areas with little regard for special values once held in high esteem.

"The need, surely, is for more efficient mills, designed for present day trade and more sales. It seems faulty psychology to accept present shrunken markets as fixed. Rather than pursuing the defensive moves that have been discussed, wouldn't it be better to first fully explore the possibilities of getting cooperation of the Canadian mills in an expanded joint promotional program to increase markets in all of the potential trading areas worldwide?

"The establishing of such contact would serve to explore and eventually resolve the petty annoyances of manipulated exchange and differing customs, duties, and railroad traffic rules."

The CHAIRMAN. Let's not get off this 15-day thing, so we can see what we can do about it.

Now, may I ask this question? Has your organization or anyone else petitioned the ICC on this matter since June 6, 1960?

Mr. FRYBURG. We have not because of an——

The CHAIRMAN. Is there a reason why you have not?

Mr. FRYBURG. Yes, sir; there is reason.

It is a legal technicality. When the original case came up, the original tariff was filed by the Chicago & North Western Railroad and several others. We did not know our way around legally too much in the case and we appeared as witnesses for the Chicago & North Western and other railroads.

We did not appear as actual, I don't know the legal term, we were not actively participating in the case as being for or against it. And on a legal basis——

The CHAIRMAN. You were not an intervenor.

Mr. FRYBURG. We were not an intervenor but witnesses. On the legal basis we have been told it would be difficult for ourselves, as a group, to ask to open the case because we would be told we were not intervenors in the first place.

We are still going into that to see if there is some way that we can.

The CHAIRMAN. Who were the ones, the railroads, of course, who asked for this tariff?

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. Because they said it was not fair to hold cars loaded with lumber free of charge for 15 days.

Mr. FRYBURG. Excuse me, the railroads gave us the privilege originally. The railroads gave us the 15-day hold and free diversion.

The CHAIRMAN. That is right, and then they want to take it way from you.

Mr. FRYBURG. No, sir; there was not one railroad in opposition to this tariff as hearings will show under 7050.

It was a western group that appeared against our free diversion and 1-day hold, not the railroads.

The CHAIRMAN. What group was that, do you recall?

Mr. FRYBURG. Yes, sir; I have a long list of them. Mentally, it was Weyerhauser Timber Co., Simpson Timber Co., the Western Pine Association, Booth Kelly, now Georgia Pacific, and if I could get the record of the hearing, I could tell you the people who were opposed to the granting of this tariff that was published for us for our group of lumbermen.

The CHAIRMAN. Get that and put it in the record.

Mr. FRYBURG. We can do it in Olympia and we will have it in the record for you.

The CHAIRMAN. So we are to understand that the intervenors, and the case was back in 1958, so I don't recall exactly the intervenors——

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. Finally decided on June 6, 1960 by the Commission.

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. It was certain timber groups that petitioned the ICC, not the railroads, to disallow the 15 days?

Mr. FRYBURG. Yes, sir; that is correct.

The CHAIRMAN. And that was taken to court.

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. And the Supreme Court upheld in effect that the 15-day freeholding should not be allowed?

Mr. FRYBURG. No, sir.

The CHAIRMAN. Clear me up on that.

Mr. FRYBURG. This issue was never taken to the Supreme Court. We filed a case in the Federal court in Portland, and we asked when the ICC's final order came out, the Interstate Commerce Commission after studying, came out with an order telling the railroads they would have to give up their tariff of the 15-day freehold and free diversion.

At that point we filed a court case with the Federal court in Portland, Oreg., asking for injunction against Interstate Commerce Commission so that they could not stop our tariffs.

Now I am not using the right legal words, but again at that time, the judge told us, he said you are not intervenors in the case, so you do not belong in court.

We were again more or less trapped by our own lack of legal knowledge when we went into it.

Now the Supreme Court case was a case of the Union Pacific Railroad, who was allowing a hold on their railroad line and did not have it in their tariff.

As I remember, it was their——

The CHAIRMAN. The case that came up from Iowa?

Mr. FRYBURG. Yes, sir, filed in Iowa court against Union Pacific.

The CHAIRMAN. Permanent injunction?

Mr. FRYBURG. Because they did not have it in tariff, it did not have anything to do with 7050 absolutely.

The CHAIRMAN. Well, now, I call your attention again to the ICC letter to Mrs. Neuberger and himself, suggesting that, I think, somebody come in and file a petition on this matter.

Mr. FRYBURG. That is correct, they have to be originally an intervenor in the case.

The only way we could do it, if we could have someone who was originally involved in the case ask for its opening.

The CHAIRMAN. I don't think you are going to get the petitioners or the—I don't know whether the railroads will do it.

Mr. FRYBURG. They were the ones who originally filed the tariffs and would be our best hope.

The CHAIRMAN. I have a suggestion—if the ICC has a representative here, they are listening very closely—that the ICC can initiate the case on their own.

Mr. FRYBURG. That is possible. We are going to ask for advice sometime in the next few days on how we could get around the fact that we were not originally involved as intervenors in the case.

Senator ENGLE. Mr. Chairman, may I ask a question there?

The CHAIRMAN. Yes, sir.

Senator ENGLE. Do you mean to say you cannot initiate a new petition? Why don't you just petition to have them change it back?

Mr. FRYBURG. That is what we would like to do in the petition to have it changed back, but our attorney so far felt we could not petition without being originally in the case as an intervenor or proponent or opponent.

Senator ENGLE. That is a strange situation.

If that is the case, if the Tariff Commission acts, then that action is frozen in perpetuity unless some party to the original action comes in and asks to change it.

That cannot be the law.

Mr. FRYBURG. We were not legally party to the original action.

We are witnesses.

Senator ENGLE. I understand that, but what you are saying is that you cannot move now because you were not in the original action. What I am saying is that that cannot be the law, otherwise, any time the Tariff Commission acted in a particular area or the ICC acted in a particular matter, the matter then would be frozen until somebody in the original action decided that they were wrong or wanted it reopened.

I would suggest your lawyers take another look at that.

Mr. FRYBURG. We are going to try to get more advice.

Senator ENGLE. Following the suggestion made by the chairman, it seems to me that the Commission could act on its own initiative.

The CHAIRMAN. I think they will find out upon examination that they can file a complaint.

Mr. FRYBURG. We are going to definitely do that.

The CHAIRMAN. I don't know, but this has been a very complicated matter and it has become more complicated in the economic sense by the failure of Canada, who keeps saying they are going to do something about their 15-day hold, and they have not done it.

Senator ENGLE. May I ask one other question, Mr. Chairman, before you get off the subject?

Now, from listening to the list of people you talked about, it looked to me like it was the big boys against the little boys out there on that particular matter. Is that right? The fellows who had warehousing, thought they would benefit because they would put the smaller operators at a competitive disadvantage inasmuch as this 15-day business in effect gave the small operator free storage during that period of time?

Mr. FRYBURG. Yes, sir, that is what we have contended for years.

I would say in all fairness——

Senator ENGLE. The big ones were eating the little ones, they thought.

Now do you think the big lumber operators who supported this change and who wanted the 15 days wiped out have any different idea about it now?

Mr. FRYBURG. From the statement that was read into the record today by Mr. Edgett, I don't think so.

The CHAIRMAN. Today, they recommended this be done.

Mr. FRYBURG. Sir, I think on page 9——

The CHAIRMAN. Here it is.

On page 9, they say—off the record.

Senator ENGLE. Give the small operators in this country both barrels instead of one.

Mr. FRYBURG. That is how we feel.

The CHAIRMAN. That is what he points out here in his statement.

Senator ENGLE. We might as well find out whose bull is being gored.

Mr. FRYBURG. That is what it gets down to.

It is the attitude of our association that none of the protectionists quotas, etc., will in any way reduce the volume of lumber coming into the United States.

This is based on our opinion, Mr. Dwyer expressed it very well, if you extended it out, it would amount to pennies any restriction they would have. These proposals would only build an inflationary umbrella under which few would benefit, an umbrella under which the Canadians could still eventually ship. We must watch carefully that lumber does not price itself out of the market by becoming less competitive with other building products.

It is our opinion that much of the talk about tariffs, quotas, etc. is simply a smokescreen, a device to bargain with on the part of the large integrated shippers and their associations.

Why do I say bargain? The group that has kept the small and medium mill from gaining much-needed relief from the rail carriers realizes that most of their proposals are impractical.

What is left? Only one thing, the 15-day hold in Canada. What they realy want to do is eliminate this hold so as to close another door on the small- and medium-sized mill who is requesting this much needed merchandising privilege in the United States.

Already the large integrated west coast shippers and their associations who oppose the holds and free diversions for the smaller mills have interfered in the internal policy of the Canadian railroads by putting pressure on them to remove their hold privileges.

We submit that these hearings should also probe in depth all internal U.S. shipping and ratemaking policies, the effect of log exports to Pacific rim nations. This is one item that has not been mentioned today, I think the WFIA mentions it. We feel one of the biggest factors in the exporting of logs to foreign countries can be controlled by exporting logs on the basis of grade.

There are certain low-grade logs which are of no use to the west coast, but we should not lose our high-grade logs.

A shipment on the basis of grade would certainly help this to go on.

The effect of Canadian currency regulations, and the common need to expand our country's own lumber exports by seeking more world lumber markets with the assistance of the many proficient advisers in Government employ.

We respectfully suggest the following remedial courses of action to this body and to the administrative or legislative branches of the Federal Government.

The CHAIRMAN. Before you go into those suggestions, I want to suggest to you when you say in your statement that we must probe in depth all internal U.S. shipping and ratemaking policies, that the Senate Commerce Committee is in that all the time, day in and day out. You know the complications; you are very familiar with them. The question of the common carrier, ratemaking policy—I guess we spend most of our time on that—so we have been probing in depth.

Now I don't suggest we have come up with a lot of answers. The administration sent up a transportation report about a week ago, and it gets down to some of the things we are talking about here. Of course, any suggestion that is made is fiercely controversial among the modes of transportation, and then we have the controversial problem of the common carrier and the private carrier, and so we are in that field pretty deep.

We don't have our way all the time, but we are trying all the time.

Mr. FRYBURG. These are our suggestions.

1. That these hearings be expanded and extended to allow us to give further, detailed testimony, substantiated by additional facts and statistical information to support the various contentions we have made;

2. That this committee recommend emergency action by appropriate Government agencies to reinstitute the 15-day hold time, to allow us to compete with Canada, and to eliminate the diversion charge on eastbound lumber shipments, coal, grain and produce have freeholds such as we were originally given by the railroads themselves.

The CHAIRMAN. Say that again. You say other commodities?

Mr. FRYBURG. Within the United States, coal, grain, and produce have freeholds and free diversions in their fields.

The CHAIRMAN. Because you know these facts better than anyone else, put in the record and we will leave it open, the other commodities that enjoy a freehold shipment and to what points. What general points?

Mr. FRYBURG. We will have that for you.

So that lumber can be treated equally with all other commodities. These two services were proposed, advocated, and supported by the railroads in the Interstate Commerce Commission's docket 7050 hearings.

3. That Forest Service policies concerning timber sales be reviewed in all their aspects, with a view to making timber available to the smaller and medium-size mill on a more sustained and stable basis and at prices competitive with prices paid by Canadian operators.

Senator DWORSHAK. Mr. Chairman, at that point may I ask a question?

How would you achieve this objective? You heard the testimony this morning when I called attention to the comments made by top officials of the Forest Service on their appropriation budget for next year, indicating that they, under the law, were compelled to sell stumpage at fair market prices and that the bidders themselves initiated so much competition that they ran the price up.

Now how are you going to accomplish this?

I mean I am in general agreement with your contention that the Forest Service ought to be very sympathetic and very reasonable in making stumpage available at prices that would enable the loggers to operate profitably, but how are you going to accomplish this?

Mr. FRYBURG. By putting up the full lumber quota for an area and also by lowering the original price to start with; we could actually look back and probably borrow a page from our competitors that are giving us fits up North, the fact is getting in to a working circle situation. They are very practical on their timber approach in Canada. And as far as putting up timber, the way the price is set, they call it the upstart or upshot price, which we call our basic bid price.

I have noticed up there many times, in fact, in the cases that I know of I should say, I have never seen the price of the timber bid above the upshot price or what they call it up-something.

Senator ENGLE. Mr. Chairman, may I comment right there. We went into this matter in great detail over in the House committee one time, because I found out that the Forest Service out there in one of our forests in northern California wasn't cutting but 1½ percent of the sustained yield cut. They said they weren't getting enough money. So we went in before appropriations, and as my distinguished friend knows, we kept upping the amount of money they could get to conduct these sales and to lay out the market. But they haven't gotten through their heads yet that harvesting trees is like harvesting a peach crop. If you don't get it when it is ready to be harvested, the bugs get it or it dies of old age, and falls down and becomes a fire hazard.

In other words, the use of timber resources is like using water. If you don't use it when it is going down hill, it is gone forever. And their marking practices have been bad. They go about and they mark the overage trees, they mark trees that are bug-eaten, and they don't establish a level at which you can really get at a heavy cut.

Their sustained yield level is probably twice what it ought to be. In other words, what you are saying, if I read you right, is exactly the conclusion our committee came to, and that is that their marking practices are entirely too strict and what they ought to do is keep

those trees going onto the market until the last tree was ripe and ready to be cut or would be cut and harvested.

Now is it your opinion if that occurs, then you are going to bring that stumpage price down and the Forest Service at the same time, is going to do pretty well anyway, because it would sell maybe twice as much timber. Isn't that right?

Mr. FRYBURG. And yes, sir; and to go further and answer both Senators' question, we are today cutting second- and third-growth in our country which should be saved for 200 years now, but because there was not enough timber put on the market, they have gone down in second- and third-growth areas and started harvesting that timber, while other trees were actually rotting in the woods.

Senator ENGLE. You are talking about the private owners.

Mr. FRYBURG. Going out and getting second- and third-growth which should be allowed to grow, meaning, sir, your bidding up of the price——

Senator ENGLE. The Forest Service always made that argument to me and I said to them, if you just keep enough timber, we won't be bidding each other out of the market, especially when you are not marketing enough trees and when the criterion under which you mark trees is entirely too tight.

You can run a sustained yield operation and double the amount of timber that they mark at the present time.

Mr. FRYBURG. One other thing comes up, also in all areas, because we don't have a cutting circle lag, a man can actually, I will use a bizarre example, a man could come 2,000 miles away and bid on your timber that you are bidding on and he could get it.

Senator ENGLE. We tried that cutting circle business, and I think, how many of them do we have, we had a couple of them, but we went around and around and around. So they do have the authority, I believe, to establish cutting circles.

Mr. FRYBURG. There is a situation in Oregon today, and in other areas, if we are bidding on timber, if a millman, I don't say we, because our mill is in Montana, but if the lumberman is bidding, the group around you again is bidding for trees off McKenzie River Watershed or off of the Coos area, a millman with probably impractical haul, say way back of Salem, he can come in and get that timber.

Here you have a man completely out of an area bidding on timber which you might say rightfully the timber of the local people and the fights they get on bidding up timber and it is just catastrophic. And the timber bids are verbal and you know, when five men get in the same room and they all start bidding on the same thing, I have seen people go up $10 and $12 below what they even thought they were going to start at in the first place.

Senator ENGLE. I know, too, that the modern types of transportation, trucking and what not, have revolutionized the way lumber companies have of getting the timber, and this cutting circle thing can get pretty sticky. We found out when we tried to set one up there in my old congressional district in northern California. I believe in sawing one log at a time, and if we could just get it through the Forest Service's head that the way to cut these stumpage prices is to go into a more realistic program of marketing their timber on the basis of the way they mark the trees, and on their estimate of what they need to save for sustained yield operation.

Now I am in favor of sustained yield operation, but we don't need to save all the trees and only cut those that are ready to fall down and those the bugs are already in and those that fires have already gone over in order to maintain a sustained yield operation.

That is the main point. This is why I want to get into this, because we had it hot and heavy with the Forest Service. Recently I wrote them a letter, Mr. Chairman, on the complaint of one of my friends up in Oregon, and this was when our friend who was there in the Forest Service, Chief McArdle, and he wrote me a long windy letter and cited some figures. But they still haven't come to chalk on this business of what do you do to get a realistic cutting program, and at the same time, as I say, maintaining a sustained yield operation for the national forest, which I am for.

I thank my friend for yielding.

Mr. FRYBURG. There is a gentleman here who will appear later today who has better knowledge of the forest situation than I do. I would like to go back and refer again to the big thing needed by small- medium-sized mill operators. It is our 15-day freehold and free diversion which we originally had.

Senator ENGLE. One other thing you need, too, when you talk about the timber-cutting operation, is to have these timber sales put up in small enough pieces so that the little fellow can get hold of them.

Mr. FRYBURG. Yes, sir.

Senator DWORSHAK. Mr. Chairman, for the record, I would like to insert at this point a statement made by Mr. Ed Cliff, the new Chief Forester, on March 12, 1962, before the Appropriations Subcommittee on the Forest Service budget. When replying to some questions that I asked concerning the possibility of lower stumpage prices and less competition, he said as follows:

> Now, as we understand our legal responsibilities, we are supposed to sell timber by competitive procedures at appraised price. The legal interpretation that has been put on that by our advisers in the Department is that appraised price means fair market prices. Suggestions have been made that we sell at less than fair market price in order to help the industry over some of these difficulties. We seriously doubt that we have that authority. If the Congress of the United States wants the national forest timber to be used or to be sold for less than fair market price, it may require additional legislation. As we interpret our authority, we must sell at a fair market price. Our appraisals must be at fair market price. We do not have authority to reduce them below that.

So it is obvious that the Forest Service officials contend that it is the responsibility of the Congress to formulate policies in regard to the sale of stumpage.

Senator ENGLE. Well, they are just beating the devil around the bush, if you want my comment on it.

Senator DWORSHAK. They passed the monkey over to us.

Senator ENGLE. I know that. We ought to hand it right back to them.

They have the authority to put up every tree that can now be cut within the framework of maintaining a sustained yield operation. Then the fair market value becomes the value of all that timber going on the market. Now I know what has happened.

In a good many instances in reference to this bidding, and the Forest Service rams this down our throat, the big operators come in and have bought out their stumpage over the years, and maybe it has

cost them a dollar or two for stumpage. And so they bid $87 on sugar pine, make that the value of their own stumpage, and then when they cut their own stumpage, they write it off in capital gains instead of going on direct income tax.

Mr. FRYBURG. That is absolutely true.

The CHAIRMAN. Does everybody understand this now? [Laughter.]

Senator ENGLE. I am sure, Mr. Chairman, some gentleman in the audience understood it.

Mr. FRYBURG. I have seen this for many years. There are many, like he says, twisting to the situation and why timber is held high and why it is bid high and different things that should come out at other hearings.

As you feel, they have the authority to put more timber up, we feel that the Interstate Commerce Commission has the authority to grant us what they took away originally.

Five, that the Lumber Advisory Committee, which is soon to be created under Under Secretary of State George W. Ball, should include a member of the Western Lumber Marketing Association, and that this Committee should pursue as many hearings as possible in the Pacific Northwest. It should be treated as an authoritative adviser to the Department of State, the U.S. Forest Service, the Bureaus of Land Management and Soil Conservation, and the Interstate Commerce Commission because there is apparently no similar factfinding body now in existence on a continuing basis.

I want to thank the members of this committee for the time they have offered. We appreciate the suggestions of what you would like entered in the Olympia hearing. I now remember more names of people that appeared against us, and we can get them in the record at Olympia.

The CHAIRMAN. Well, we appreciate your testimony, and I think you called our attention to some very pertinent points that are involved in this whole matter, and it is quite an involved matter when you get down to it.

I want to ask you one thing about the 15 days. You mentioned that you were a former member of the so-called Railcar Shortage Committee?

Mr. FRYBURG. Yes, sir.

The CHAIRMAN. Would the effect of the reinstatement of the 15-day freehold have any appreciable effect on the freight car shortage?

Mr. FRYBURG. No, sir. No. 1, the average small mill that we represent does not use the type of boxcar that is involved in serious car shortages. We used to call them floorless forties. We use anything we can get our hands on to put in long, green dimension lumber. We don't need sound, tight cars; we use anything. We actually have information during one of the worst car shortages I presented to this committee, they were turning cars back, but they were floorless forties, they were junky cars.

We are not going to create a car shortage. As long as this question has been asked, to expand on it, our opposition says that it creates a car shortage. But they have also said, "If they are willing to pay for this service, they can have it."

If it creates a car shortage, you can't pay for anything to get it. It doesn't create a car shortage. It doesn't hold water.

The CHAIRMAN. I don't know how many years this committee has held hearings and discussions over the yearly car shortages. But of course, mainly we have been involved with the grain problem in the West, as you will understand, and we haven't gone much into this.

Mr. FRYBURG. One other thing. If one case was so severe that it was adding to the car shortage, the ICC has the temporary power to step in and take the tariff, make the tariff invalid for a period of 30 days during the car shortage.

And in a serious car shortage, we in the industry, we are willing to go along with a 30- or 40-day temporary thing, to take the service away from us. We have always contended that.

The CHAIRMAN. I want to suggest that there probably wouldn't be any car shortage at all to worry about if we could get a bill passed that has been pending here for a long time, but we have had no success because every Senator east of the Mississippi votes against us, and every Senator west of the Mississippi votes for us, and we don't have enough. It is as simple as that.

But the western railroads have been very diligent about trying to do something about the car shortage that occurs in the West, and the fight has been between the East, as you know, the eastern roads and Middle West roads.

Mr. FRYBURG. We can go further to prove this car shortage argument, by having the lumber halfway to the market at the time the shortage hits, you will get a faster turnaround on your empty car and back than having the empty cars stored, let's say, out in let's say Chicago, and then when it hits, they have to rush them all out to the coast, empty. By the time they get them loaded and back, you have lost 30 days.

Again, this car shortage argument just doesn't hold water.

The CHAIRMAN. If there are no further questions, we thank you, Mr. Fryburg.

We next have Mr. Joseph Miller, representing the Western Forest Industries Association.

Do you want to put a statement in the record?

STATEMENT OF JOSEPH MILLER, WESTERN FOREST INDUSTRIES ASSOCIATION, PORTLAND, OREG.

Mr. MILLER. Mr. Chairman, I will cut this down pretty short here.

Mr. Chairman and members of the committee, I am Joseph S. Miller, 1028 Connecticut Avenue, Washington, D.C. I make this statement for Western Forest Industries Association, a trade association of about 100 softwood lumber and plywood manufacturers in the Western States, principally in the Pacific Northwest. Their common interest and their common concern is their heavy dependence on Federal timber for their raw material supply.

During the past couple of years there has been a sharply accelerated program of importation of Canadian softwood lumber into the United States. This intrusion of Canadian lumber has risen from a nominal figure to a point where it is now in the vicinity of 13 percent of the total of the national softwood lumber market.

The ability of the Canadians to mount this successful and increasing penetration of the American market does not stem from their ability to produce and sell a product that is better than ours. Our

products, we believe, are superior to theirs. The basic reason for the Canadian success in our market lies in the fact that the Canadians enjoy lower costs of raw materials and distribution. These lower costs enable them to sell their products in the United States at prices that return them a substantial profit but bring us no profit or even substantial loss.

The significant cost differentials, we are convinced, are attributable to discrimination against us by governmental acts.

The government of British Columbia, which controls better than 90 percent of the vast timber resources of that Province, has stated:

> In the cost picture government must be a partner in exercising intelligent cooperation (report of Sloan Commission to Prime Minister of British Columbia, vol. 1, p. 412).

The reason for this Canadian position was well stated by the late chief justice of British Columbia, the Honorable Gordon Sloan. At the request of the Prime Minister of that Province, he spent several years in a deep study of British Columbia timber policy. His conclusions are the basis of British Columbia timber policy:

> I think it is imperative that the efficient mills of this last category (dependent on timber purchased from the Province) should and will have a large place in our future economy, provided, of course, our forest policy recognizes as a basic tenet the fact that the Government, as the monopolistic owner of our timber resource, must, in the disposal of it, take cognizance of social and economic values far greater in long-term significance and worth than moneys received from timber sales alone. The (British Columbia) Forest Service has been, and is now, much like a storekeeper selling his goods to everyone who can afford to buy at the prices asked.
>
> It seems to me that the time has come when the sale and disposal of Crown timber must be the instrument and reflection of a governmental policy in which the indirect values, such as the general welfare of our people at large and competition in world markets, must be the dominating factors. Unless we accept the responsibility inherent in Crown ownership to see to it that the disposal of Crown timber is not merely a method of adding money to the Treasury, but is a powerful means of strengthening and stabilizing our present and future economy, then the only rational alternative that I can see is the orderly disposal of our Crown productive forest lands to private enterprise. The Government will then be out of the business of growing and selling timber and with none of the concomitant obligations which I believe should rest upon a government, as trustee, exercising a monopolistic control over the disposal of a natural resource (Sloan Commission report to Prime Minister of British Columbia, vol. 1, p. 341).

There are now four principal areas where Canadian costs are significantly lower than ours by virtue of governmental actions.

First, the cost of raw materials is significantly less for the Canadian lumber manufacturer than for the American lumber manufacturer. What the Canadian pays for his raw material involves two factors: First, the dollar price paid to the Province for stumpage and, second, the cost imposed by the Province for the construction of roads to move logs from the woods to the mills.

Our preliminary studies indicate that stumpage prices paid to the government of British Columbia are lower than the prices we pay to the U.S. Forest Service. And the costs imposed on us by the U.S. Forest Service for road construction are significantly higher than the road construction costs that are borne by the Canadian lumber producer.

Second, unencumbered by the provisions of the Jones Act (46 U.S.C. 883), Canadian mills on tidewater can move their products into our

eastern seaboard at rates varying from $7 to $10 less than the rates we must pay.

Third, Canadian sawmills that ship by rail have the advantage of a 15-day freehold en route to our eastern and middlewestern markets, whereas, for the past couple of years, the Interstate Commerce Commission has required the payment of substantial charges for delaying in transit American lumber that flows to the same markets. Because the Canadians can give final routing to their cars from freehold areas close to the markets, purchasers are able to have substantially greater assurance of quick deliveries made on schedule without bunching. To the mass of American sawmills that do not have their own large warehouse facilities through the East and Middlewest, the competitive disadvantage is apparent.

Fourth, the Government of Canada engages in dollar manipulations on the international money markets in order to depress the value of the Canadian dollar against the U.S. dollar, thereby affording Canadian producers a further substantial advantage in selling on the American market.

If these cost differentials can be eliminated, we are convinced that we can compete successfully with the Canadians in the American lumber market, even though Canadian wage rates are lower than ours. If our own Government will let us compete, our greater efficiency and better product will offset the Canadian wage advantage.

What can our Government do?

First, there is the matter of raw material costs. Our raw material costs are influenced heavily by two factors. The first factor is the supply of timber put on the market by the Forest Service. If we are to accept Forest Service statements of policy, then throughout much of the West the annual allowable cut of national forest timber is substantially understated. In the Douglas-fir belt this results from the fact that in calculating annual allowable cuts, the Forest Service is in fact using a rotation age that is substantially higher than the rotation age, which, on the basis of long and detailed study, the Forest Service says should be used. A few minutes of arithmetic by an ordinary forester would quickly make more accurate the statement of annual allowable cuts.

For example, on the Willamette National Forest in western Oregon, using exclusively the data and policy of the Forest Service, the presently stated annual allowable cut of 550 mm. board feet would go overnight to between 794 and 855 mm. board feet. They are presently using 130-year rotation age and Forest Service, by their own studies, say it should be between 80 and 90 years.

Looking further at timber supply, in a letter dated March 5, 1962, to the Secretary of Agriculture, nine of our western Senators pointed out the need to have the Forest Service announce well in advance its specific schedule of timber sales and then stick to that schedule. As the Senators said, and it has our warmest endorsement:

> There is good reason to believe that the two major factors which have compounded some of the spirited bidding that has characterized Forest Service timber sales for the last decade are failures to realistically set and describe the allowable cut and erratic performance on planned timber sale offerings.

Correction of this phase of the cost differential problem is plainly within the discretion of the Secretary of Agriculture.

Concurrently with improvement in the timber supply, attention must be given to the appraisal by the Forest Service of national forest timber. Such appraisals constitute the floor from which bidding starts. It has been suggested that in appraising national forest timber, the Forest Service should take into account the heavy unemployment that is resulting from the inability of many American lumber producers to meet the prices at which Canadian lumber is profitably sold on the American market. But the Forest Service responds, and has recently told the Senate Appropriations Committee, that as a matter of law in appraising its timber it may not consider unemployment.

It should be noted that the Forest Service had then received no formal legal opinion from the General Counsel of the Department of Agriculture in support of the view that was given to the committee. It may be added that we know of no statute that prohibits the Forest Service from taking into account in pricing its timber the heavy unemployment in the timber industry; indeed, we hold the opinion that the failure of the Forest Service to do so is in direct contravention of the requirements of the Employment Act of 1946 (15 U.S.C. 1021) and of section 24(b) of the Area Redevelopment Act (42 U.S.C. 2521(b)) that was passed by this 87th Congress.

The CHAIRMAN. I am glad you brought out that point, because that is something that has cropped out in the hearings. There are some directives that supersede the original authority of the Forest Service, even if we concurred with what they said.

Mr. MILLER. There have been several requests made to Mr. Cliff to provide legal opinion for his standard that passing the buck back to Congress and these requests have yielded nothing to date.

In any event, the Forest Service could partially alleviate the situation if it would simply price its stumpage, as the Canadians do, on the basis of current lumber prices. This is the very practice that the Forest Service followed for many years. But a couple of years ago, the Forest Service decided to price its timber based upon its guess as to what lumber prices would be 1 or 2 years thereafter. But the subsequent lumber prices were lower than the Forest Service had guessed, and we were trapped in a cost-price squeeze.

Now mounting unemployment adds final confirmation of the fact that the Forest Service is not gifted with any wizardly talent for forecasting lumber prices. Again, this is an area where the Secretary of Agriculture, in his discretion, could take immediate administrative action.

As for costs of road construction that must be borne by timber operators, it seems clear that these costs can be markedly reduced without impairment of either proper silvicultural practices or the multiple use of our national forests. This, too, is subject to administrative correction by the Secretary of Agriculture.

Turning to the next item that increases our costs over the Canadian costs—the Jones Act (46 U.S.C. 883). This act requires that intercoastal shipping be done in American bottoms. The Canadians have available to them for shipments from British Columbia to our east coast markets the entire world charter and tramp market.

Experts in the field inform us that the dollar differential on the delivered lumber runs from $7 to $10 or more per thousand board feet.

Members of the Northwest delegations have introduced in Congress a number of measures. These would exempt lumber from the requirements of the act or would shift from the lumber industry to the entire population the subsidy that is necessary to maintain this essential shipping service. If enacted, any one of these measures would help our waterborne mills to resume supplying their customary east coast markets; in turn, this would remove their production from the already compacted middle western rail market.

The adjustment of the rail shipping differential is in the hands of the Interstate Commerce Commission. When that Commission ordered an end to the freehold for American lumber, the Canadian carriers did not follow suit. This handed to Canadian railroads and Canadian lumber producers another substantial advantage over American railroads and American lumber producers. Here, again, is a governmentally induced cost discrimination that can be readily removed by administrative action.

The CHAIRMAN. I want to suggest you have made some real contributions on the stumpage problem with some new facets. Go ahead.

Mr. MILLER. The problem of Canadian dollar manipulation is troublesome to many others besides the timber industry. The Canadian Government devalues its dollar below the American dollar by sharp buying raids on the American dollar in the international money market. This tends to raise the value of American dollars in relation to the Canadian dollar. Retaliatory purchase by the United States of Canadian dollars on a couple of occasions would, we believe, convince the Ottawa Government that its further manipulation along this line would be fruitless. Here, too, is an area where a very substantial and unpredictable cost differential could be eliminated by the administrative action of our Government.

We are aware that in some segments of our industry there has been consideration of a proposal for a 10-percent ad valorem duty on the proportion of imported Canadian lumber that exceeds 10 percent of our national requirements. In the short time that has elapsed since this proposal has been brought to our attention we have not had an opportunity to complete our studies of it.

As a preliminary matter, however, we do not believe that the adoption of the proposal would have any significant adverse impact upon major Canadian exporters of lumber to the United States. Each exporter could average out the duty against all of his shipments.

For example, if 3 billion feet entered duty free and the next 3 billion feet paid a $9 duty per thousand, the annual average duty would be $4.50. This is less than the differential in merely the water shipping rates. Or the raw material costs. In any event, it is readily adjustable from the Canadian point of view by currency manipulations.

In some segments of our industry, it has also been suggested that use be made of section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624). This would seem to require, first, legislative action and, second, administrative action for the imposition of any meaningful duty or quota on the importation of Canadian softwood lumber.

We note that the few commodities to which this power has been applied are under severe regulation by the Government with respect

to such matters as price, domestic production quotas, grade standards and the like. Any extension of regulations of this type to the timber industry would, we think, be undesirable and not productive of the desired results. Nor do we believe that this would offer the same quick results as can be had with the program we offer for improving employment conditions in the American timber industry and restoring that industry to a healthy competitive condition.

In essence, we believe that our ability to compete successfully with the Canadians can be readily achieved if our Government will remove the adverse cost differentials it has fastened on us by equalizing our rail and water shipping costs, equalizing our raw material costs, and ending Canadian manipulation of the value of the American dollar in international monetary transactions.

The CHAIRMAN. Thank you, Joe. I think you have made some very good new points here in some of these matters and we appreciate your association's views on it. Are there any questions?

(No response.)

The CHAIRMAN. The committee agrees with me.

Mr. MILLER. Thank you.

The CHAIRMAN. Now, I understand Mr. Edgett wants to make a very brief statement on this 15-day freehold matter.

FURTHER STATEMENT OF G. CLEVELAND EDGETT, PORTLAND, OREG.

Mr. EDGETT. Thank you, Mr. Chairman for giving me this additional time. I felt it was appropriate to clarify the record because I think the implication might have been gained that this was a question between the bigs and the small.

This is not the case and I am sure it was not the intention of Mr. Fryburg to give that implication. Actually, what I would like to say is that in my earlier testimony today, I indicated that we have 161 members of our association.

I think it is only fair to point out that about six of these members could be considered big operators, so that we have a vast preponderance of our members who are small or medium mills and who have a declared policy on this matter.

And if I may just read into the record point 2 of our policy statement which was adopted by our board of trustees on February 7, and which has been circulated previously:

> That the Government establish a Federal transportation policy which will equalize costs on waterborne shipments of lumber between American and foreign vessels and which will eliminate the competitive advantage of foreign railroads and will encourage the efficiency of carriers.

May I repeat, Mr. Chairman—

> will encourage the efficiency of carriers.

I think this is very germane to the issue, so I might just carry on for a minute and give you a very brief background of the freehold and free diversion practices. Following World War II, the practice of shipping cars of lumber in transit without a buyer sharply increased. For competitive reasons, the U.S. railroads principally the Midwest lines, by one way or another, granted delays to the lumber cars in transit.

This was done by circuity on individual lines as well as circuity by use of combinations of several lines.

Through these delays, it was possible for a shipper to obtain up to 45 days transit time from the west coast to Chicago to enable him to find a buyer.

An example of delay on individual lines was that of the Missouri Pacific Railroad which authorized a car routed from Pueblo, Colo., to Kansas City, Mo., to move via Winfield, Kans., Alma, Kans., and to Topeka, Kans.

This took the car out of through train service and placed it in local service and added several hundred miles to the distance. An example of circuity by several lines was a route from the coast to Chicago that moved Southern Pacific, Ogden, Union Pacific, Omaha, Missouri Pacific, Kansas City, Missouri-Kansas-Texas, San Antonio, Texas and New Orleans, Shreveport, St. Louis Southwestern, East St. Louis, Chicago & Eastern Illinois, Chicago. The car would travel 2,307 miles moving from Omaha to Chicago versus a short-line distance of 488 miles.

In the interests of eliminating uneconomical routes that are wasteful of transportation and car delays, an application was filed with carriers to provide specific routing between western gateways and Missouri River crossings.

This became TCFB docket 1279. On December 23, 1957, the ICC filed complaint in U.S. district court against the delayed lumber practices of the Union Pacific and Northern Pacific.

These were cases of delays on individual lines. The ICC gave its reasons that such delays resulted in carriers assuming the storage costs of the lumber dealer, created costly operating problems, avoided the proper payment of demurrage, and contributed to the creation of car shortages during peak shipping periods.

The U.S. Supreme Court upheld the district court decision ruling that delays were unlawful on April 4, 1960.

We submit, Mr. Chairman, that such practices are uneconomic and inhibit the efficiency of carriers. We have been led to believe that the Canadian railroads agree that these are wasteful services, and as soon as some of the circuity loopholes in the regulations are cleared up in the United States, Canada will remove her 15-day freehold.

The American railroads and the Canadian railroads met a short time ago.

The new revised tariffs were submitted to the Canadian lines. These are now being studied by the Canadian railroads; I believe that a decision will be made in the immediate future.

If Canada does not agree to the removal of the 15-day freehold, it is our contention thta the ICC, if it does not already have, should be given the authority to prohibit the joining in on cars that have been accorded the 15-day freehold in Canada.

Thank you very much, Mr. Chairman, for the opportunity of this brief statement.

The CHAIRMAN. I was going to ask you this question.

How would that affect—you are speaking now of 15 days—let me ask you this: Could a large shipper owning his own trunkline enjoy a so-called intransit rate based upon logs to the mill and lumber to the market? In other words, do some producers enjoy special rail rates

not available to mills which do not own standing timber that can be railed to the mill?

Mr. EDGETT. I am not a transportation authority, Mr. Chairman, and if you wish, we can have one of our traffic men appear before you in Olympia.

The CHAIRMAN. See if you can get some answer to that question.

Mr. EDGETT. Right. I would be very pleased to do so.

(The information requested follows:)

WEST COAST LUMBERMEN'S ASSOCIATION,
Portland, Oreg., April 19, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee,
Washington, D.C.

MY DEAR SENATOR MAGNUSON: Just before the conclusion of the hearing in Washington on April 16, you raised the question as to whether some mills enjoyed the privilege of moving logs into the mill by rail on a transit basis, the result being a lower ultimate transportation charge for their lumber than those operators who could not take advantage of such a privilege.

Upon investigation, I find that there are no such privileges available anywhere in the Pacific Northwest. In each instance the operator must use a common carrier rate or his own trucks, or a contract carrier, and pay the charges that accrue from the forest into the mill. He must then start anew with his lumber shipment out fom the mill and pay the full rate from the mill to ultimate destination.

It should be emphasized that as far as transportation rates and privileges are concerned, the size of the mill has no influence on the amount of charges paid. The small mill, the medium-sized mill, and the large mill are all on the same basis. No one has any special privileges in their freight rate charges.

This letter is being submitted to you so that it may be inserted in the record to clarify the matter.

Sincerely yours,

G. C. EDGETT.
Assistant to the Executive Vice President.

SUPPLEMENTAL STATEMENT OF RUSSELL G. FRYBURG, PORTLAND, OREG.

Mr. Edgett of WCLA was allowed extra time before the Senate Committee on Commerce.

1. He states, "I'm sure Mr. Fryburg did not want to imply that the argument over the 15-day hold and free diversion was a matter of big against little."

He had no right to answer for me. I feel this problem is created by the bigs against the littles.

2. Mr. Edgett quoted from a Supreme Court ruling trying to imply this ruling concerned the ICC hearing on Investigation and Suspension Docket No. 7050. This implication is untrue, the Supreme Court ruling concerned a case between the Federal Government and the Union Pacific Railroad for which the Court ruled only that the Union Pacific Railroad could not give the service unless it had a tariff to cover the service. After the meeting, a railroad man came up and reiterated what I had said—and felt we should make it a point to bring this fact out.

3. In an attempt to discredit my testimony, Mr. Edgett quoted from old records information about so-called circuitous routings which take as many as 45 days. These routes are no longer used because they have been removed from the railroad tariffs. Also, at no time did our organization support the old abuses of these long routes.

4. We contend that the 15-day hold does not contribute to a car shortage and if given the chance, we can prove it.

5. We feel that the stand taken by some witnesses against the 15-day hold and free diversion was merely an attempt by certain interests to interfere in our marketing of lumber cut by the small and medium-sized mill.

The CHAIRMAN. Now, Senator Dworshak has a brief statement he wants to put in the record.

STATEMENT OF HON. HENRY DWORSHAK, U.S. SENATOR FROM IDAHO

Senator DWORSHAK. Mr. Chairman, as I indicated in my letter of April 16, I appreciate the opportunity of appearing at this hearing to develop facts on the influence of Canadian lumber imports. It is not my purpose to go into detail on the impact of these imports on the Idaho economy, but I am pleased that your committee will delve into the problem.

I have been aware of the distressed conditions of Idaho's timber industry for the last 2 years. I have asked that Federal agencies involved make studies and furnish assistance to help alleviate this condition.

At my request the Forest Products Division, Business and Defense Services Administration, U.S. Department of Commerce, furnished me an analysis of the problem as well as figures of the production of Idaho softwood and of U.S. imports of softwood from Canada by species on December 28, 1961. The source of this chart was the Bureau of the Census.

(The complete letter and attachment follow:)

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
April 16, 1962.

Hon. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MAGNUSON: As indicated in your letter to me of April 3, I appreciate the opportunity of appearing at this hearing to develop facts on the influence of Canadian lumber imports. It is not my purpose to go into detail on the impact of these imports on the Idaho economy, but I am pleased that this committee will delve into the problem.

I have been aware of the distressed condition of Idaho's timber industry for the last 2 years. I have asked the Federal agencies involved to make studies and furnish assistance to help alleviate this condition. At my request the Forest Products Division, Business and Defense Services Administration, U.S. Department of Commerce, furnished me an analysis of the problem as well as figures of the production of Idaho softwood and of U.S. imports of softwood from Canada by species on December 28, 1961. The source of this chart was the Bureau of the Census.

I would like to make the analysis and lumber breakdown figures a part of the information at this hearing.

Sincerely yours,

HENRY DWORSHAK, *U.S. Senator.*

REQUEST FOR INFORMATION RELATING TO THE IMPACT OF IMPORTS OF CANADIAN LUMBER ON THE IDAHO LUMBER INDUSTRY

The enclosed publications, U.S. Lumber Imports 1947–59 and U.S. Lumber Imports 1960, show that imports of Canadian lumber increased from 1,118 million board feet in 1947 to 3,692 million feet in 1960. Softwoods, the principal species competitive with Idaho production, accounted for 949 million feet and 3,574 million feet in these years, respectively. The relative importance of the various softwood species in Idaho production and in the imports from Canada are shown in the attached tabulation.

Most softwood lumber entering the United States from Canada is subject to a custom duty of 25 cents per thousand board feet plus an internal revenue tax of 75 cents per thousand feet. Northern white pine, Norway pine, western white spruce, and Englemann spruce are exempt from the tax. Hardwood lumber of Canadian origin is duty free, but is subject to an IRC tax of $1.50 per thousand board feet. All of the foregoing duties and taxes are extremely low in relation to current prices of lumber and, therefore, do not inhibit the flow of lumber from Canada into the United States.

It is generally recognized that Canadian producers have certain cost advantages which permit them to undersell American producers in the U.S. market. For example, stumpage costs are lower in Canada. Much of the timber is owned by the Government, which allegedly sells stumpage to Canadian producers at prices calculated to permit them to compete in foreign markets. Canadian cargo shippers can use foreign tramp steamers for shipping lumber from the west coast of Canada to eastern U.S. ports, where as American cargo shippers are required to use American bottoms for intercoastal shipments. Foreign tramp rates are considerably lower than U.S. flag rates. Lumber stevedoring costs on the west coast of Canada are substantially lower than in the United States. Rail holdover privileges in Canada (15-day free demurrage at designated points) also are reported to favor the Canadian shipper versus the U.S. shipper from western producing regions.

Some aspects of the competitive relationship of the Canadian and United States lumber and wood products industries are brought out in testimony before the subcommittee on the Impact of Imports and Exports on American Employment, John H. Dent, chairman.

Canada is dependent on export markets for the disposition of more than half of its total lumber production. (In 1960 Canada exported 59 percent, or 4,563 million board feet of the total production of 7,719 million board feet.) This fact necessitates the vigorous export promotional effort on the part of the industry and accounts for the strong support of the industry's efforts by the government.

In contrast, the United States exports a relatively small part of total lumber production. In 1960, the United States exported 861 million board feet or 2.5 percent of the total production of 34,494 million feet. Exports to Canada in that year amounted to 250 million board feet.

Production of softwood lumber in Idaho by species, 1954 [1]

Species:	*1,000 board feet*
Ponderosa pine	342,128
Douglas-fir	316,728
White pine	218,062
True fir	212,902
Englemann spruce	150,696
Larch	54,999
Western red cedar	38,563
Lodgepole pine	18,431
Hemlock	4,571
Other softwoods	439

U.S. imports of softwood lumber from Canada by species, 1960

Species:	*1,000 board feet*
Douglas-fir	1,022,238
Mixed fir and hemlock	558,488
Other fir	72,997
Hemlock	296,655
Western white and Englemann spruce	1,007,048
Sitka spruce	20,505
Other spruce	177,324
Northern white and Norway pine	28,280
Other pine	103,573
Cedar	271,630
Other softwoods	15,669
Total softwoods	3,574,341

[1] Latest year for which species breakdown is available.

Source: Bureau of the Census.

Senator DWORSHAK. I also wanted to add, Mr. Chairman, that after being privileged to listen to the testimony of these well-qualified witnesses today, I am convinced that the State Department which has authority to adjust tariffs under the foreign trade program has had no inclination to recognize the distress of the domestic lumber industry.

Likewise, I feel that the Agriculture and Interior Departments, which have supervision over some facets of this problem have not displayed any particular energy or resourcefulness in providing remedial action or in attempting to solve some of these problems.

Therefore, it is my conclusion that much of the responsibility devolves upon the legislative branch, following studies and hearings, such as you are sponsoring, to consider all phases of preserving in an equitable manner the opportunities of our domestic lumber industry to handle the Federal timber in this country and to compete in a manner which will make it possible to have profitable operations and full employment in developing our rich natural resources.

Thank you.

The CHAIRMAN. All right, thank you, Senator Dworshak.

I want to say that I agree with you in part, but I do think there has been a great deal of cognizance and apprehension about this whole thing in the past few months and, of course, a lot of this was not called forcefully—different segments of it were—but the whole problem was not called to the attention of some of us until last fall, when the situation started to deteriorate. However, this committee examined the shipping aspects o2 years ago.

We have been hammering at the stumpage problem for a long time, and I think there is a cognizance of the whole problem, and I know that the Department of Commerce is about ready to do something. Some of the lumber people did testify this morning that they were a little more pleased than usual with the State Department and hoped they would take some action.

Of course, they can't tell anybody what to do in Canada and they can't direct them to do certain things, but they can point out the problem.

I think this all gets down to the fact that this is a situation that surely reasonable people in Canada must realize cannot continue without some retaliatory action being taken. We just can't sit and let this happen and go along. I have hopes that maybe the results of these hearings will finally culminate in some sensible solutions, some fair rules of the game.

Now, we recess to Olympia.

(Thereupon, at 4:30 p.m., the committee was adjourned.)

(The following supplemental information was received for the record:)

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., April 25, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN MAGNUSON: During the course of the hearing on the depressed lumber market, April 16, you expressed the desire to have made available to the committee figures showing the difference in rail rates on lumber from interior British Columbia and Idaho to points in the East.

We have selected various destination points, mostly in the East, and have set forth in the enclosure herewith the rates to each of these destination points from the same points of origin. If there are any other comparisons which the committee needs for either different points of origin or different points of destination, we will do our best to provide such information as we have available.

Sincerely,

RUPERT L. MURPHY, *Chairman.*

Lumber (almon, apitong, cuangare, duali, red lauan, tanguile, virola, or white lauan), the product of saw and planning mill plants not further advanced in manufacture than by sawing, resawing, and passing lengthwise through a standard planing machine, crosscut to length and ends matched; also pine and fir lumber, minimum weight 70,000 pounds when in cars not exceeding 42 feet in length and 75,000 pounds when in cars exceeding 42 feet in length

	Rates in cents per 100 pounds
To Chicago, Ill., from—	
Coeur d' Alene, Idaho	131
Revelstoke, British Columbia	131
Kamloops, British Columbia	132
To Minneapolis, Minn., from—	
Coeur d' Alene	114
Revelstoke	114
Kamloops	116
To Detroit, Mich., from—	
Coeur d' Alene	148
Revelstoke	148
Kamloops	148
To New York, N.Y., from—	
Coeur d' Alene	148
Revelstoke	148
Kamloops	148
To Grand Forks, N. Dak., from—	
Coeur d' Alene	104
Revelstoke	104
Kamloops	105

NOTE.—Rates shown above are those in effect on Apr. 17, 1962.

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

THURSDAY, JUNE 14, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to call, at 10:20 a.m., in room 5110, New Senate Office Building, Senator Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson, Bartlett, and Thurmond.

Also present: Senators Morse and Neuberger.

The CHAIRMAN. The committee will come to order.

The Chair has a short statement that he would like to make before we begin with the witnesses.

Our meetings this morning and tomorrow will conclude hearings on the trade problem caused by Canadian lumber production taking over an increasingly larger proportion of our domestic softwoods markets. Previous hearings were held in Washington approximately 5 or 6 weeks ago, and then it was decided we would hold heairngs in the field to get the testimony of people who were involved directly in this matter. Hearings were held by the chairman at Olympia, Wash.; by Senators Church and Bartlett at Lewiston, Idaho; and then recently at Portland, Oreg., with the senior Senator from Oregon and other members of the committee present.

Mrs. Neuberger submitted a statement, and her interest was apparent, though she had to stay here for other business, as I did.

The lumber industry in the United States, which is the Nation's fourth largest industry, has always had a delicate balance between production by its domestic mills and consumption by its domestic markets. Any foreign source of supply which disturbs this balance can have far-reaching effects on the internal economics of our forest products industries.

Three years ago Canada supplied 7 percent or less of our domestic consumption; at the present time they are supplying 14.3 percent. As this lower priced lumber replaces American lumber, it creates tremendous competition for the remaining portion of the market. In addition, the Canadians have taken over approximately 72 percent of the market for lumber which is susceptible to movement by ocean transportation.

And this story cannot be told in percentages alone. Throughout Oregon, Washington, Idaho, Montana, and northern California, there are hundreds of communities dependent in large part, if not in whole, on the success—economic success—of our lumber industry. Such diverse organizations as school boards and barbershops, banks and power companies, grocery stores and gasoline stations find their major

source of revenue in the thousands of men who cut logs or mill dimensional lumber for distribution throughout the United States.

This is not a local problem only. It is a national problem, because all parts of this country are interdependent—economically, socially, and politically. If the Pacific Northwest is feeling the effects of Canadian competition most acutely now, it will not be long before southern pine producers find themselves in a similar position.

Senator THURMOND. They already have.

The CHAIRMAN. And it has always been a fact in our country that commercial depressions in any major industry have a way of spreading throughout the rest of the Nation.

I have looked at the hearing records that were developed in Lewiston, Idaho, and Portland. They reveal an unparalleled unanimity of views cutting across both partisan and competitive lines. Witness after witness, whether from a lumber company or a union, or from a supplier, asked not for a subsidy but for an opportunity to compete on an equal basis with the Canadians, at least in the domestic market. Each pointed to various restrictive laws or policies which, though they may once have been valid, are now handicapping a vital industry. The records developed are excellent and I am certain that the record here today will be of great value to the Congress in our common effort to resolve this crisis.

Now the Chair wants to add this. There have been some suggestions—in some cases they have been somewhat critical—that we were holding unnecessary hearings on this matter, that we did not need any hearings because the facts were, they contended, plain, and there should be something started immediately to solve the problem. This matter was first called to our attention the early part of the session, and I at least thought it desirable to hear from the people in the field, and this was the reason for the hearings.

Now, we do not intend to have any further hearings after these two sessions this morning and tomorrow.

And everyone knows that there are many facets of this problem. There is the shipping aspect, the 15-day hold matter, stumpage practices, rail rates, and labor costs; and last, but not least, the recent Canadian move of devaluating their dollar to 92½ cents, directed solely, so they are saying up there, at least before next Tuesday, when they have an election, to help their export markets. And also affecting this problem is the number of American investments in Canada—companies that are involved on both sides. Now, no one is critical of that, but it poses another problem.

And we have, I think, been very consistent and surely very attentive, insomuch as we can, to this problem since it was called to our attention. We have had countless meetings with the U.S. Forest Service, both official and unofficial, on the stumpage matter, and I think we are making some real progress. Even day before yesterday, on the floor we came to grips with the access road problem. And we made some progress there, at least as far as the Senate is concerned.

We have talked on many occasions with the ICC, both before the committee and in formal discussions, about the question of railroads. This involved the 15-day hold matter, which we had on the books at one time but which some lumber people themselves succeeded in re-

moving by court action. Canada then put it on. It still exists up there, but the ICC practically invited a petition by someone interested in this matter—we could not petition them—to look at the 15-day hold and either put it back on as far as we are concerned or find out what Canada was going to do about it. I understand they have discussed it, and there is a possibility that the Canadians will remove it.

All of us that are vitally interested have had talks both in the Department of Labor and with the longshoremen relative to the differences in cost. And they have been quite satisfactory.

We have talked to Mr. Freeman, Secretary of Agriculture, about this matter, and pointed out to him some of these things. We have had some conversations only recently about the matter with not only Mr. Udall but with Mr. Rusk, because this involves some political problems with the State Department. Obviously we cannot pass a law down here prohibiting Canada from devaluating the dollar. We can try and be persuasive in the interests of good relations between the two countries.

There have been suggestions of repeal of the Jones Act, which everyone knows might have some bearing on one specific aspect in water transportation but would meet with great opposition from the whole maritime industry.

This has not been political in one iota. It has been a thorough bipartisan effort. It seems to me that the problem results from a long accumulation of practices that have been going on under both Republican and Democratic administrations.

And I heard this morning that last night out in my home town there was some suggestion that this was a political thing. This is not true. The solution is going to have to come from those of us who have an interest in this problem and an interest in the relations between the two countries.

Obviously, the State Department, among others, must be patient until the Canadians have an election up there next Tuesday so they know who they might have to talk to. That is one thing. And anyone who says this is the fault of any particular administration just does not know what they are talking about. It has been an accumulation of Forest Service practices, an accumulation of our problems on intercoastal shipping, which I have had before this committee for years; then a political move by Canada in devaluating their dollar for export purposes.

And I think if we are going to solve the problem, we must close ranks and not be pointing fingers at some administration or another.

Now, I want to have the record show that Senator Jackson will be here in a few minutes. He has got to start a hearing on his own. He is chairman of the Committee on Military Construction.

And we have here the Senators from Oregon, and Congressman Clem Miller; where are you, Clem?

Mr. MILLER. Right here.

The CHAIRMAN. And Senator Bartlett of Alaska, who has done yeoman work on this problem and who has a similar problem up in Alaska with their vast forests.

We are trying to approach this thing in a commonsense temperate way, and we intend to do that, regardless of any statements by anybody that this is a political thing.

Now, we have the Government witnesses today and tomorrow, and then we want to close the hearings. I would have liked to have closed them a month ago, but the legislative situation and the inability of certain Members of the Congress to get out into the field because of other matters that were important to the economy of the area, too, just would not allow it.

So we will proceed with the hearing of the Government witnesses.

Mrs. Neuberger has made some statements on this, but she has a further statement that she would like to make on the problem. We will be glad to hear from you, Maurine.

STATEMENT OF HON. MAURINE B. NEUBERGER, U.S. SENATOR FROM THE STATE OF OREGON

Senator NEUBERGER. The able chairman has given a very good overall picture of the situation that we face on the west coast, and my colleague and senior Senator from Oregon is most cognizant with this problem.

I was interested especially in the figures which Senator Magnuson quoted about the Canadian producers taking 72 percent of the eastern market of the lumber production, because it was this percentage that impelled me to put in a bill, which I am going to discuss today and to which the chairman has referred; namely, a repealer of a section of the Jones Act.

I have been talking to our lumber people in Oregon, and to some who came from Washington and northern California, during the last year, sort of with a holdoff attitude that perhaps the problem in lumber was a lack of consumption. I am on the Agriculture Committee, and I deal with the overproduction in wheat, in particular, and other agricultural products, and we talk a great deal about consumption. And I thought, well, maybe consumption is really the problem, and other building materials have usurped the place of lumber.

But in the face of the statistics and the fact that Canada finds a market here, it is clear that there is a market for lumber. People are using lumber. But what has happened is that Canada is selling on our own east coast market rather than our traditional suppliers from Oregon, Washington, northern California, as well as Idaho and Montana.

Last February the leadership asked me if I would go as a delegate to the Interparliamentary Union in Canada, and I went specifically to talk about the lumber problem, and I could hardly get a word in with the Canadians. They just sort of scoffed; they kind of laughed at us.

We have had a traditional good neighbor policy with Canada, and I feel a little embarrassed when we say things about Canada that indicate that this good neighbor policy does not persist. When I came back from that trip, I said to myself: We are two friendly nations with the border a mere line on a map, and it is up to us to compete with them.

And so, in the face of a great deal of opposition, I decided that one thing among many others we had to do to compete with Canada was in the shipping area.

I would like to give you a little bit of background. It was all on my own; I worked at it from many angles before I put the bill in, in April, after making up my mind in February to get all sorts of statistics, knowing that it was going in the face of some strong labor feeling and organizations. The chairman has said the maritime people are opposed to it. But the funny thing is they are not really as opposed to it as we thought they would be.

I talked to economists, to people in shipping and in labor unions, and they all admit that maybe the time has come to take a new look at the Jones Act. It has been 42 years, and it has sort of outlived its usefulness, as statistics which I will insert in the record seem to show.

A comparison of U.S. west coast and British Columbia waterborne lumber shipments to the U.S. Atlantic coast for the month of April 1962, shows Canadian producers took 72 percent of this prime market. Oregon and Washington lumber producers had 28 percent of the east coast waterborne lumber cargo market. This is almost an exact reversal of the market condition which existed in 1957 when Oregon and Washington had 77 percent of the market.

At the present rate of shipment, we can expect British Columbia to deliver in excess of 1 billion board feet of lumber to the Atlantic coast in 1962, while Oregon and Washington mills may deliver a little over 500 million board feet. In waterborne cargo shipments alone, Oregon and Washington mills will have lost more than 500 million board feet of the Atlantic market to Canadian operators. It is conservatively estimated that a half billion board feet of lumber production represents 3,500 prime jobs in the forest products industry.

Several months ago I became convinced that the primary factor contributing to Canada's favorable competition in the U.S. lumber market was the artificial and unjustifiable restraint placed upon intercoastal shipping by section 27 of the Merchant Marine Act of 1920, the so-called Jones Act. This act requires use of American-flag vessels in shipment of cargoes between ports of the Pacific, gulf, and Atlantic coasts. Thus, while British Columbia cargo shippers utilize chartered vessels, including foreign tramp steamers, for shipping lumber to eastern U.S. markets, American shippers are required by the Jones Act to use American bottoms for intercoastal shipments. The conference rate for lumber shipments from Columbia River ports to Brooklyn is $36 per thousand board feet on gross lumber scale ($37 for loose-loaded stock). A Canadian shipper is free to speculate in the highly competitive world charter market. Chartering costs have ranged from $4 to $11 per thousand less than the shipping costs of Oregon and Washington mills.

"Cabotage," the practice of reserving the coastal trades to national vessels, originated in the reign of Edward III of England (1327–77). The British have wisely long since abandoned the practice. Laws excluding foreign-flag vessels from the American domestic trades were first passed in 1808 and have remained in effect to the present day. While cabotage restrictions may have performed a useful function in the 14th, and even in the 19th century, such restrictions are not justified today.

In effect, the Jones Act forces producers of goods shipped in intercoastal commerce to subsidize the domestic shipping industry. Yet, under the Merchant Marine Act of 1936, domestic carriers engaged in foreign commerce are subsidized directly by the Federal Government.

Just recently in New York, they celebrated Federal Maritime Day, and I think it was rather revealing that the New York Times carried an elaborate story of all the new ships being built and which are being subsidized by the Federal Government, that some people have written me they thought were privately owned. So the shipping industry is subsidized, and I contend that our lumber people do not necessarily want this subsidy; they feel they can compete if we would remove this artificial restriction.

So on April 5, 1962, I introduced S. 3105 with Senators Frank Church and Ernest Gruening as cosponsors, to provide for repeal of the Jones Act with respect to intercoastal shipments. Mr. Chairman, I ask that the text of S. 3105 be included in the hearing record at this point in my testimony.

The CHAIRMAN. Without objection, it will be included in the hearing record at this point.

(S. 3105 follows:)

[S. 3105, 87th Cong., 2d sess.]

A BILL To provide that the law limiting the transportation of merchandise in the coastwise trade to certain United States vessels shall not apply to such transportation between a port on the east coast of the United States and a port on the west coast of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 27 of the Merchant Marine Act, 1920 (46 U.S.C. 883), is amended by inserting before the period at the end thereof a colon and the following: "*Provided further,* That this section and the first section of the Act of February 17, 1898 (30 Stat. 248), shall not apply to the transportation of merchandise between a port on the east coast of the United States and a port on the west coast of the United States, including the State of Alaska".

Senator NEUBERGER. The Jones Act has protected neither ships nor jobs. Since the Second World War, lumber ships in intercoastal trade have dwindled from 65 ships and 12 lines to a bare 13 ships and 3 lines, employing 455 men. This is what even some of the seamen themselves did not realize until we pointed out to them facts and figures on the effect of the Jones Act. Here was an act meant to prop up an important and vital industry and support seamen's groups and, instead, something has happened that it has declined.

It seems to me that the number of U.S. ships now operating between the Pacific and Atlantic coast has reached an almost irreducible level. It will take more than restrictions of the Jones Act to revive this segment of our shipping industry. In this conection, I ask consent to include with my testimony a chart prepared by the Maritime Administration showing the decline in seafaring employment in the domestic trades of the United States between 1941 and 1961.

The CHAIRMAN. Without objection, it will be included in the record at this point.

(The chart referred to follows:)

Seafaring employment (jobs)—Oceangoing merchant ships of 1,000 gross tons or over in the domestic trades of the United States

Operation	1941 (Sept. 30) shipboard jobs				1943 (June 20) shipboard jobs				1955 (June 30) shipboard jobs				1956 (Dec. 31) shipboard jobs			
	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total
Domestic trade	580	5,469	18,302	23,771	284	2,709	9,734	12,443	430	5,061	14,110	19,171	406	4,312	12,564	16,876
1. Coastwise	415	3,735	9,706	13,441					272	3,115	8,683	11,798	306	3,179	9,034	12,213
(*a*) Atlantic and gulf									234	2,687	7,493	10,180	266	2,772	7,904	10,676
(*b*) Pacific coast									38	428	1,190	1,618	40	407	1,130	1,537
2. Intercoastal	53	475	1,592	2,067					79	913	2,547	3,460	38	406	1,190	1,596
3. Noncontiguous	112	1,259	7,004	8,263					79	1,033	2,880	3,913	62	727	2,340	3,067
(*a*) Alaska									22	230	641	871	10	98	280	378
(*b*) Hawaii									28	459	1,281	1,740	25	324	1,206	1,530
(*c*) Puerto Rico									29	344	958	1,302	27	305	854	1,159

Seafaring employment (jobs)—Oceangoing merchant ships of 1,000 gross tons or over in the domestic trades of the United States—Con.

Operation	1957 (Mar. 31) shipboard jobs				1958 (June 30) shipboard jobs				1959 (June 30) shipboard jobs			
	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total
Domestic trade	396	4,790	13,356	18,146	357	4,287	11,951	16,238	374	4,037	12,102	16,139
1. Coastwise	266	3,062	8,535	11,597	231	2,672	7,448	10,120	228	2,387	6,805	9,192
(*a*) Atlantic and gulf	234	2,703	7,535	10,238	199	2,307	6,430	8,737	196	2,058	5,900	7,958
(*b*) Pacific coast	32	359	1,000	1,359	32	365	1,018	1,383	32	329	905	1,234
2. Intercoastal	53	609	1,701	2,310	56	645	1,798	2,443	69	729	2,159	2,888
3. Noncontiguous	77	1,119	3,120	4,239	70	970	2,705	3,675	77	921	3,138	4,059
(*a*) Alaska	13	120	336	456	16	192	421	613	15	149	413	562
(*b*) Hawaii	34	638	1,777	2,415	31	525	1,448	1,973	33	440	1,814	2,254
(*c*) Puerto Rico	30	361	1,007	1,368	23	253	836	1,089	29	332	911	1,243

Seafaring employment (jobs)—Oceangoing merchant ships of 1,000 gross tons or over in the domestic trades of the United States—Con.

Operation	1960 (June 30) shipboard jobs				1961 (June 30)[1] shipboard jobs				1961 (Dec. 31) shipboard jobs			
	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total	Ships	Licensed	Unlicensed	Total
Domestic trade	372	4,023	12,017	16,040	182	1,906	5,419	7,325	363	3,883	11,173	15,056
1. Coastwise	238	2,492	7,104	9,596	116	1,217	3,442	4,659	273	2,868	8,000	10,868
(*a*) Atlantic and gulf	202	2,115	6,061	8,176	93	980	2,797	3,777	239	2,516	7,244	9,760
(*b*) Pacific coast	36	377	1,043	1,420	23	237	645	882	34	352	756	1,108
2. Intercoastal	49	521	1,540	2,061	27	265	793	1,058	31	318	935	1,253
3. Noncontiguous	85	1,010	3,373	4,383	39	424	1,184	1,608	59	697	2,238	2,935
(*a*) Alaska	16	161	433	594	15	151	425	576	8	81	226	307
(*b*) Hawaii	38	493	1,963	2,456	14	159	444	603	22	285	1,101	1,386
(*c*) Puerto Rico	31	356	977	1,333	10	114	315	429	29	331	911	1,242

[1] Seafaring strike commenced June 16, 1961, on Atlantic, gulf, and Pacific coasts. (See normal employment potential shown for Dec. 31, 1961.)

Source: U.S. Department of Commerce, Maritime Administration, Office of Ship Statistics, Division of Labor Data, Mar. 23, 1962.

Senator NEUBERGER. I pointed out earlier in my testimony that Oregon and Washington mills producing waterborne lumber cargoes have lost to Canadian producers the equivalent of 3,500 jobs. Unemployed lumber workers whose jobs might be restored by elimination of Jones Act restrictions on intercoastal shipping must get small comfort from knowing that the Jones Act now protects 455 seafarers' jobs.

I hope that the committee will consider the impact of Jones Act restrictions on Oregon's lumber industry. It is my belief that approval of S. 3105 would give Pacific coast lumber manufacturers an opportunity to compete on equal terms with Canadian mills now using foreign ships to deliver their products to the east coast market.

Nowhere do I suggest that this would be the answer. All the other things that the chairman has discussed and presented are effecting various savings in the industry.

But I would like to turn now to another aspect of lumber industry problems—policies of the U.S. Forest Service. I believe that the role of the Forest Service in maintaining employment and economic stability of communities in the vicinity of national forests has been described admirably by the agency itself. In testimony before the House Appropriations Committee in 1959, a spokesman for the Forest Service had this to say when justifying the agency's budget requests:

> The Forest Service is by far the largest single supplier of raw material for the Nation's forest products industry. Many mills, both large and small, are primarily or wholly dependent on continuing or increasing purchases of national forest timber. Alternate sources of purchase of timber for major segments of the lumber and plywood industry in the Pacific Northwest have now been exhausted. This almost complete dependence on purchase of national forest timber for continued operation makes the conduct of the national forest timber sales program more significant than ever. Sale of timber at the maximum feasible rate within sustained yield cutting limitations is an indispensable link in maintaining employment, payrolls, communty stability, and an adequate supply of lumber and plywood for natonal consumptive needs.
>
> Many mills must purchase timber to keep operating. The national forests are the one place where they can buy it. The job of selling it must be done by the Forest Service. This will keep mills going, provide jobs, and stimulate the general economy.

It is apparent from these words that the Forest Service recognizes the relationship between its management policies and prosperity of the forest products industry. It is my hope, Mr. Chairman, that as a result of these hearings your committee will recommend to the Secretary of Agriculture methods by which the Forest Service can better achieve its objective to keep mills going, provide jobs, and stimulate the general economy.

The CHAIRMAN. Thank you, Senator Neuberger.

I think the record should show S. 3105, because there is a difference between suggestions for the general modification of the Jones Act, and specific changes relating to intercoastal shipping.

Senator NEUBERGER. Mr. Chairman, that is correct.

The CHAIRMAN. I mean there is a difference.

Senator NEUBERGER. Yes, the chairman is correct.

The CHAIRMAN. I want to say to the Senator from Oregon—and she has been there, too—that we have suggested about as violently as we know how to the Department of Agriculture on many occasions that they do some of the things that have been suggested by the 4 years of testimony about the forests. I think we made this clear fairly well day before yesterday on the Senate floor. I hope they

read the record down there. There have been enough letters and conversations with them.

Now, the next witness is Griffith Johnson, Assistant Secretary for Economic Affairs, Department of State.

Grif, glad to hear from you.

Mr. JOHNSON. Mr. Chairman, may I introduce Mr. Douglas Coster of my office, who has had a little more background in this area than I have myself?

The CHAIRMAN. We are very glad to have you before us.

STATEMENT OF HON. G. GRIFFITH JOHNSON, ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE; ACCOMPANIED BY DOUGLAS COSTER

Mr. JOHNSON. May I say I appreciate very much the opportunity to appear before you as spokesman for the Department of State to discuss the problems of our domestic lumber industry.

As you know, Mr. Chairman, representatives of the Department have had extensive discussions and communications with you and other Senators and Representatives from the interested areas who are not here today. We have also been collaborating closely with the Departments of Commerce, Agriculture, and Interior in the preparation of reports outlining the dimension and general nature of the problem.

The CHAIRMAN. I want to say for the record that Secretary Johnson has given much of his time to this matter and has been very cooperative in discussing the general problem.

And then I did forget to mention, in my opening statement, that the Secretary of Commerce, Mr. Hodges, and those in his Department are very active in thinking about this whole matter of trade.

Mr. JOHNSON. Thank you, Mr. Chairman.

A copy of the Department's report dated February 27 was submitted to the committee and made a matter of record, I believe, at its first hearing on April 16. Representatives of the Department have also met on various occasions with representatives of the industry and have discussed the problem at some length with congressional representatives from the Pacific Northwest.

We feel, as a result of these discussions and a study of the testimony before this committee, that we now have a better understanding of conditions in the industry. We are thus aware of the difficult employment situation in many communities dependent upon lumbering for their livelihood. We are most sympathetic to their problems.

As the chairman's opening statement so excellently described, the problems of the industry are very complex and appear to us to permit no quick or easy solution. Since at least five Government agencies have statutory responsibilities for various aspects of the overall problem, it seemed to us that the best way to approach the task of devising appropriate remedies was to create an interagency task force composed of all the interested agencies. The purpose of the task force, as we saw it, would be to analyze the basic factors at work and their interrelationships, and to consider possible solutions. And we suggested the establishment of such a group.

At the request of the White House, such a group was established under the leadership of the Department of Commerce on May 28. The executive agencies represented include the Council of Economic Advisors, the Department of Agriculture, Interior, Labor, Treasury, and State, the Interstate Commerce Commission, the Tariff Commission, and various units of the Department of Commerce including the Small Business Administration, the Maritime Administration, and the Area Redevelopment Administration. We expect the task force to examine the testimony given this committee and at an appropriate time to receive the views of the industry, other interested parties, and qualified experts on specific aspects of the situation. Until the task force has had the opportunity to analyze the implications of possible solutions, we feel it would be premature to reach conclusions as to appropriate courses of action.

In 1961 there were two foreign trade developments which affected the lumber industry, especially in the Pacific Northwest. The first was the considerable increase over the previous year in log purchases, in particular west coast localities, for export to Japan due to boom conditions in that country and its expanded import requirements. The second development had been in the making for several years. In 1961, for the first time, Canada shipped more lumber to our eastern seaboard by water from British Columbia than our own producers in the Pacific Northwest.

As regards the log export problem, large-scale purchases fell off sharply last fall after the Japanese Government took measures to dampen down its rate of economic expansion. In recent months Japanese purchase activity on the west coast has been at a low level, and is not expected to resume for at least the next 60 days. Current activity appears to be centered in British Columbia where the Japanese are reported to be purchasing considerable quantities of logs for shipment from Prince Rupert. At the present time, our Embassy at Tokyo is in touch with the Japanese Government concerning its import requirements for both logs and lumber for the next 3 years, so that everyone concerned can have a better idea of the future dimension of the trade. We also are directing Japanese attention to those species, sizes, and growing areas which would spread the local impact on domestic log supplies and at the same time take full advantage of the long-term export potential for a profitable trade in both logs and lumber.

With respect to lumber imports from Canada, I should like to try to put the matter in some perspective by pointing out that our imports have been increasing more or less steadily for the past 10 years—just as our exports of manufactured goods to Canada have been growing steadily. Our imports of woodpulp, newsprint, and lumber account for about 40 percent of Canada's total exports to us. Another 30 percent consists of metals and minerals. Overall, therefore, Canada exchanges the produce of its forests and mines for the wide variety of manufactures it buys from us.

In this regard it is interesting to compare the share the Canadians now have of our lumber market with our standing in their market for other prdoucts. Canada now supplies some 14 percent of our total consumption as softwood lumber. In comparison we supply a much larger percecntage of the Canadian market for a broad range of prod-

ucts; for example, 88 percent of their agricultural implements, and 36 percent of their iron and steel products. This suggests, I think, the difficulties we would have in proceeding on any principle that the two countries should be limited to a fixed share of the other's market. Especially between two neighbors with such basically similar economic systems as Canada and the United States, we think as a general proposition that governments should intervene as little as possible in the working out of market forces and market shares.

EXCHANGE RATE DEVELOPMENTS

There is one area—exchange rate policy—in which action by the Canadian Government, during the past year, has been felt especially keenly by our lumbermen. In view of the interest this matter has stimulated, I should like to review that development briefly for the committee.

For over a decade prior to last May 2, the value of the Canadian dollar had been allowed to fluctuate freely in response to market forces. During most of that period the Canadian dollar was quoted at a premium over the U.S. dollar, and went as high as $1.06. At the same time, however, Canada has had a deep-seated balance-of-payments deficit on current account with the rest of the world, which has amounted in recent years to $1.25 billion—the equivalent of a U.S. deficit of some $14–$15 billion. To correct this situation, the Canadian Government, in June of last year, announced a new policy of actively intervening in the market to bring the Canadian dollar below parity with the U.S. dollar. I might add that in taking this action, the Canadian Government rejected such alternative remedies for the problem as increased tariffs, export subsidies, or direct controls over imports and capital flows.

Subsequent to this action the Canadian dollar dropped to about $0.95, where the Canadian authorities sought to stabilize it. During the first 4 months of this year, the Canadian Exchange Stabilization Fund sold about $600 million in foreign exchange in support of the new $0.95 rate. Finally, to remove uncertainty about what the exchange rate would be in the future and to relieve the pressure on its reserves, the Canadian Government established on May 2 of this year a fixed par value of $0.925 in agreement with the International Monetary Fund. Canada has thus undertaken to maintain the exchange rate within the prescribed margin of 1 percent on either side of the new par value.

We have welcomed the Canadian decision to establish a fixed par value for its currency, since it removes the uncertainty which had prevailed since last summer. It is too early to predict, of course, what the longrun effect on lumber imports will be.

TARIFF TREATMENT AND IMPORT RESTRICTIONS

At this point it might be helpful if I reviewed for the committee the tariff treatment applying to softwood lumber. At present, most softwood lumber imports are subject to a duty of 25 cents per thousand board feet plus an internal revenue tax of 75 cents per thousand board feet. (Northern white pine, Norway pine, Western white spruce, and Engelmann spruce are not subject to the internal revenue tax.) This

is the same effective rate as was established by the Tariff Act of 1930, that is $1 per thousand board feet.

Prior to 1930 softwood lumber entered duty free. The Tariff Act of 1930 established a rate of $1 per thousand board feet, but also provided for duty-free entry for imports from a contiguous country (i.e., Canada) on a reciprocal basis. Under this proviso, imports from Canada continued to enter duty free until 1932 at which time an import-excise tax of $3 was imposed in addition to the statutory duty of $1. Between 1932 and 1936 the effective rate was $4 per thousand board feet. Under 1936 and 1939 trade agreements with Canada, the duty was reduced to 50 cents and the excise tax to $1.50, while the Revenue Act of 1938 eliminated completely the excise tax on imports of the above types of pine and spruce. The duty was further reduced, effective January 1, 1948, to the existing level of 25 cents plus an excise tax of 75 cents.

The tariff concessions given to Canada on lumber in 1936, 1939, and 1947 were included in agreements which have provided substantial benefits to U.S. exporters. The 1936 trade agreement with Canada was one of the first negotiated under the new reciprocal trade agreements program and brought to an end a period during which Canada and the United States had engaged for several years in a round of retaliation and counter-retaliation in the trade field. Our first agreement with Canada provided relief to U.S. exports from high Canadian tariffs, a pernicious system of arbitrary valuations, and special import taxes. It enabled this country to share in the benefits of rising levels of economic activity in Canada. This and the agreement negotiated in 1938 revolutionized our trade relations with Canada and set us on a course of close cooperation which is manifest in a variety of ways today.

In our tariff negotiations with the Canadians our approach has been to obtain improved access for those commodities which offer the greatest promise for market development and growth. Thus, we have not used our bargaining power to establish an identical tariff rate in each country on a product-by-product basis. Even so, since 1936 we have negotiated substantial reductions in the Canadian tariff levels on lumber from an average of about 25 percent ad valorem to about 10 percent. At the most recent tariff negotiations in Geneva, we negotiated a further reduction on Douglas-fir and white oak lumber from 7½ percent to 5 percent and on red oak lumber from 10 percent to 5 percent. These reductions will come into effect on July 1. I think it is fair to say that, overall, we have made good bargains with the Canadians and that there has been a high degree of reciprocity.

The purpose of our trade agreements with Canada is to maintain stability in our day-to-day trade relations, and both countries have undertaken not to impose restrictions on the other's efforts except in certain very carefully defined circumstances. The principal one is that neither will resort to the imposition of quotas or increased tariffs against the other unless such action is determined to be necessary to remedy serious injury due to increased imports. In section 7 of the Trade Agreements Act of 1951, Congress established the procedures which are followed in the United States to invoke the escape clause provision in our trade agreements. To complete the picture, I should add that, if resort is made to such escape clause action, our agreements

provide that the other party is entitled to compensation in the form of tariff concessions on other products or, failing that, the other party has the right to restore the balance of concessions by compensatory increases in its tariff. This means, in practical terms, that if we increase the tariff on lumber or impose a quota, we must offer some other product of equal interest to her or else risk a curtailment of our own trade with resulting injury to American producers and exporters.

Since other U.S. interests are inevitably involved in such an adjustment process, the Congress has wisely provided that escape clause action should be taken only after there has been a thorough investigation of the matter by the Tariff Commission, including public hearings. If the Commission determines that increased imports are causing or threatening serious injury, its recommendation then goes to the President, who is authorized to increase the tariff or impose quotas. We would be opposed to any proposal for restrictive action without recourse to this procedure established by Congress for Tariff Commission review and investigation.

CONCLUSION

Let me conclude by pointing out that our relations with Canada over the years have been marked by a high degree of cooperation and mutual understanding. In fact, relations between the United States and Canada are frequently cited as an outstanding example of what relations between nations should be. Defense matters have been closely coordinated since the days of the Hyde Park Agreement between President Roosevelt and Canadian Prime Minister Mackenzie King. Trade and investment in the economies of each other have increased significantly since Cordell Hull negotiated the first reciprocal trade agreement with Canada more than a quarter of a century ago. There has been an ever-growing flow of tourists across the international boundary. The discharge of our obligations under the United Nations Charter and the North Atlantic Treaty is largely marked by common action, and there is mutual respect for different points of view. The range of achievement of United States-Canadian cooperation is indeed impressive, and provides the framework within which our trade in lumber with Canada should be viewed. This being the case, we believe the urgency of the problem should not lead us into precipitous action which might prove harmful in the last analysis to the industry itself and the Nation as a whole. We feel that the executive branch task force should now be given an opportunity to follow up the valuable work of this committee.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. We appreciate your coming up here, Mr. Secretary.

Do I understand from your testimony that the administration's hands would be tied, say, on quotas or tariffs, under existing law until the industry files an appeal?

Mr. JOHNSON. I do not think it is necessary for the industry to file an appeal with the Tariff Commission. This can be taken by executive branch initiative, can it not?

Yes; but usually it is by——

The CHAIRMAN. It could be done.

As I understand it, the administration could take the initiative and ask the Tariff Commission to see whether the peril point has been reached. This has been done many times by the administration, an industry, or both. The best recent example has been on the lead and zinc and the tuna matters.

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Do you know how long it takes the Tariff Commission to make a finding on the average?

Mr. JOHNSON. No, I am afraid I do not. I know sometimes it has taken quite a while, and other times they have been able to move fairly quickly.

The CHAIRMAN. Well, sometimes they move quickly. We have a pretty sharp stick, though. But I handle their appropriation, and I am always appalled at the average case, which runs from 13 to 18 months. The regulatory lag is so bad that I have suggested—I guess I am alone in it—that maybe the Tariff Commission ought to be abolished until somebody could figure out some better procedure.

Now, sometimes the petitioners cause delay, too.

Mr. JOHNSON. Yes.

The CHAIRMAN. But the trouble is that you are locking the barn door after the horse is gone in many cases where there is violent or abrupt injury to an American industry.

Mr. JOHNSON. I believe the Tariff Commission is under an obligation under the law to come up with a report in 6 months. Is it not?

Mr. COSTER. Yes.

The CHAIRMAN. Well, they are asked to, but many times they do not. And this is only recently.

Now, what is your target date for this interagency group?

Mr. JOHNSON. Well, so far as I know, there is no target date as such. We are very anxious, of course, to have it move along as rapidly as possible.

The CHAIRMAN. Yes.

Mr. JOHNSON. The coordination and the administration of the task group is the responsibility of the Department of Commerce, and I am not familiar with what their specific schedule may be at this point.

The CHAIRMAN. In other words, you have not got any. I find when a group such as this is to make a report within 60 or 90 days, you find that the 90 days becomes the time when they make the report, although they could make it in a week or 10 days.

Mr. JOHNSON. No, there is no fixed time.

The CHAIRMAN. I am hopeful that this group can move very quickly, because I think all the facts are on the table. There is no question about that.

Now, it has been suggested—and I am sure all of us here will press this matter as vigorously as we know how, that many of the problems that you point out here are such that there is just not an overnight solution.

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. But that in the meantime there might be a recommendation made for a reasonable temporary quota until we can get at some permanent solutions in this problem.

You would have no objection to that if the facts bore that out, would you?

Mr. JOHNSON. Well, if the facts bore out the need for an approach of that nature——

The CHAIRMAN. Yes, I understand.

Mr. JOHNSON. I assume we would be governed accordingly.

I think there are a lot of problems in this approach and perhaps this is not the time to get into them.

The CHAIRMAN. There always is; but we did it on oil, after a long harangue.

Mr. JOHNSON. And after a Tariff Commission study.

The CHAIRMAN. Yes. And we are proceeding in the textile matter the same way.

When we make these agreements, reciprocal trade agreements, we are talking about the foreign exports of a country into a foreign market, let us say, or vice versa. But our lumber people are talking about their own domestic market, which puts a little different slant on the thing. And it has put a slant on quite a few cases where we have adopted temporary quotas. And I, for one, cannot believe that the Canadians are not intelligent enough to realize that this thing, if it continues, is going to bring some real retaliation. And that is no good for either country or for either industry.

Now, would it be helpful, in your opinion, if the industry filed immediately, because the facts can be gotten up very quickly, with the Tariff Commission on the peril-point situation?

Mr. JOHNSON. Well, I would say, Mr. Chairman, that is really a decision for the industry to make.

The CHAIRMAN. Yes.

Mr. JOHNSON. And I would hesitate very much to express an opinion.

The CHAIRMAN. Would it not help very much to get the facts up there faster?

Mr. JOHNSON. Well, we would hope that this task force would be the quickest, most expeditious way of getting all the facts on the table and arriving at some conclusion.

I think that the task force will undoubtedly want the help of industry representatives in this process. I feel this would be the quickest way to arrive at an end results.

But certainly the industry has every right to file with the Tariff Commission, and I would not want to advise them on that step.

The CHAIRMAN. Well, I knew you would not want to advise them. I was merely thinking out loud that it would be helpful if, along with administrative action, the industry was officially joined. They could present the facts more quickly than if they did it the other way.

It has been suggested that the United States impose a sliding tariff on foreign lumber imports to equalize the advantage that Canada gains by devaluating its dollar.

Now, would you consider that a possibility to discuss in recommending action? I am not saying that you think that this is——

Mr. JOHNSON. I would like to say quite candidly that we would not want to exclude any possible action from consideration here. I think we would be very reluctant to indicate now that we would prefer this or that course, or to indicate any priorities to be given to various possible solutions.

I think that, in general, we would suppose that it would be to the long-run advantage of the industry as well as the country to seek solutions in ways that reduce costs, rather than raise prices, to the extent that this is possible.

The CHAIRMAN. You say that—and I quote from page 9:

> If the Commission determines that increased imports are causing or threatening serious injury, its recommendation, then goes to the President, who is authorized to increase the tariff or impose quotas.

Mr. JOHNSON. That is right.

The CHAIRMAN. Now, I do not think at this time—I want this for the record—I do not think there is any doubt in anyone's mind who has had anything to do with this for the past 3 or 4 months, since it has been up here and out in the hearings, that that point has not already been reached.

I am sure that any objective body will find the same thing.

Mr. JOHNSON. Well, I think the facts as brought out by the committee have indicated that there has been a good deal of hardship in the area. On the other hand, you have also shown that there are a number of possible ways of helping the situation by improving the cost position of the industry. I think the stumpage cost area, where I understand we are making some progress, is particularly important.

The CHAIRMAN. Yes, we are making some progress on that, and we are making progress on the access road problem.

Mr. JOHNSON. That is right.

And I understand also that the Canadian authorities are definitely proceeding to eliminate the free-hold privilege.

The CHAIRMAN. Yes. I did not know that they had officially done that, but I understand that they are ready to. But I suppose, as I said in the beginning, that they are not going to be doing much of anything about these matters until after Tuesday.

Mr. JOHNSON. Yes.

The CHAIRMAN. Senator Bartlett, do you have some questions?

Senator BARTLETT. Yes, indeed, Mr. Chairman. I have so many that I have them all written down here.

But first, I would like to dwell a bit more upon this task force, Mr. Secretary.

You say it has already been constituted?

Mr. JOHNSON. Yes, Senator.

Senator BARTLETT. And I am wondering if the appointees are of the policymaking level.

Mr. JOHNSON. Well, I hesitate to testify on the structure and plans of the task force, since it is not the immediate responsibility of the Department of State. But I would like to say that the working level of the task force will consist, as I understand it, of responsible officials of the various departments who are thoroughly familiar with this area.

I would suppose that the work of this task force would be reviewed or generally supervised from time to time by a group of higher officials who are less familiar with the technical aspects of the problem but are interested in seeing the work get along and conclusions arrived at.

Senator BARTLETT. That is my fear. You may get a subordinate representing a department, and he gives what time he can to this undertaking and reaches a conclusion, and then he goes upstairs and the fellow in charge says: "No, no, no, this won't do at all."

I have a little concern about that.

And also, I am wondering whether this will not be a terrifically drawnout affair, because you commented to the effect that the task force will examine the testimony given by this committee and then at some appropriate time, unnamed, naturally, because you cannot name that time, will receive the views of industry, other interested parties, and qualified experts.

It seems to me this is going to be terribly repetitive and time consuming, because, as a matter of fact, I would like to say there can be very little added to the testimony which is being accumulated by this committee. Literally hundreds of thousands of words have been gathered by now, I suspect, and I do not think there is going to be much new to present.

So it seems to me that steps could be taken to streamline and expedite the work of this so-called task force.

Mr. JOHNSON. I would think that would be true, Senator. There is a great deal of the basic information that is available with respect to this problem.

I think that the further testimony of industry representatives and others might be focused more on the specific courses of action which the task group is thinking in terms of, rather than adding to the basic information on the problem. I would hope this would be able to speed up the process somewhat.

Senator BARTLETT. I think we ought to pass a law making it a sin, if not a crime, to use this word "task force," which gives a person the notion that here is a carrier force, for example, steaming out to sea and it is going to have a quick, decisive engagement and do something. And I am afraid task forces used in a civilian enterprise do not always operate that way.

Mr. JOHNSON. One of the earlier designations was the "special study group," and that was found to be even more objectionable.

Senator BARTLETT. Much better, though. If I introduce the bill——

The CHAIRMAN. I would rather call them, if we could—this should be a "quick action group." You can do this in 10 days.

Senator BARTLETT. If I introduce such a bill, will you promise a favorable report from the State Department; I mean to abolish the use of the words "task force"?

Mr. JOHNSON. I will promise a recommendation for a favorable report.

Senator BARTLETT. All right.

The task force now named here may make some recommendations too that will not be followed.

On page 4 of your testimony you suggested inferentially that, if the desires of the lumber industry are followed in every way, that perhaps we might hear something to the contrary from the steel people; because 36 percent of the iron and steel products consumed in Canada comes from the United States. Would this be an implication, Mr. Secretary, that this committee might have to speak sharply to United States Steel?

Since there is no answer to that question, I will go on to my next one.

The CHAIRMAN. Well, I think we ought to——

Mr. JOHNSON. I assumed that was rhetorical.

The CHAIRMAN. I think we ought to get this in perspective. When the Canadians talk to us about buying more than they are selling us, they are buying products that they do not necessarily make, and there is a little difference. But supposing the shoe was on the other foot and we were taking over all of their lumber market. They would act within 2 days; this is the difference.

And this big balance that we have with Canada comes from products that they do not make. Now, if we were not making lumber, we would be in the same position. I think that ought to be perfectly clear around here.

Senator MORSE. You might add, Mr. Chairman, that, if they could buy it somewhere else in the world more cheaply, do you think they would buy it from us?

The CHAIRMAN. No.

Senator MORSE. I do not like to place my own evaluation on this testimony, but I do not buy the argument that, because they buy 36 percent of the steel from the United States, that therefore we ought to sacrifice the American lumber industry.

The CHAIRMAN. No. And I am going to put in the record the article headed "MacMillan, Bloedel Earnings Skyrocket." This is from the western timber industry paper for May of this year. Apparently they are going to expand and keep on moving.

(The article referred to follows:)

MACMILLAN, BLOEDEL EARNINGS SKYROCKET

VANCOUVER, BRITISH COLUMBIA.—MacMillan, Bloedel & Powell River, Ltd., biggest Canadian timber industry firm, reported that its net earnings in 1961 rose some $2,820,317 over 1960.

The 1961 net was $27,395,968 against $24,575,651 the previous year.

The firm's statement said that the main reason for the increase was the discount on the Canadian dollar in relation to U.S. currency. The Canadian dollar is discounted at about 4½ to 5 cents.

The firm's gross income rose more than $10 million to $315,323,217 against $305,291,437 taken in in 1960.

Working capital showed a big increase to $81,170,000 from $67,848,000.

The giant Vancouver-based firm spent some $18,613,000 on plant construction and modernization during 1961.

On the currency discount, the firm's report said that an extra $2,797,500 was earned on U.S. sales. That compared with a 1960 figure of $4,361,800 less than the actual selling price of lumber received because the Canadian dollar was then at a premium.

In commenting on the firm's capital position, J. V. Clyne, board chairman, said,: "As in the past, a considerable sum has been retained in the business, which, together with the accumulated savings of previous years, will help to finance the very large expansions which are now taking place, and which, it is hoped, will augment the earnings of the company in the interests of the shareholders as well as affording employment in the community."

The firm has apparently given up its plans for construction of a pulp and paper mill in south Australia. Clyne commented, "difficulties have been encountered in making satisfactory arrangements for the supply of wood from private interest, and, in consequence, the outlook for this project is less interesting than it was."

The report gave the following general comment on market condition and outlook:

Lumber: Canadian shipments higher, prices steady. Sales to the United States up, but prices lower. Oversea demand light, except Japan.

Plywood: Canadian sales up, but prices forced down in November to lowest since 1947 by overproduction and competition.

Newsprint: Shipments slightly lower, prices steady.
Pulp: Sales a little higher, but competition forced prices downward.
Kraft paper and board: Sales generally satisfactory, linerboard prices lower.
Shipping containers and cartons: Intense competition and poorer business conditions in this field.

The CHAIRMAN. Go ahead. Excuse me, Senator Bartlett.

Senator BARTLETT. In commenting on the Canadian devaluation, Mr. Secretary, you said that the Department welcomed this, and gave the reasons. Then you went on to add that it is too early to say now what the longrun effect on lumber imports will be.

However that may be, the fact is that they have been devastating to date insofar as the American industry is concerned; have they not?

Mr. JOHNSON. That they have—I am sorry.

Senator BARTLETT. The devaluation has had a devastating effect upon the American lumber industry?

Mr. JOHNSON. Well, we certainly would want to recognize that there has developed a problem in the area of the American lumber industry and imports. The extent to which Canadian devaluation has affected this, frankly we do not know. I am not sure but what it is too soon to tell.

I would like to say that the American Government did not have anything to do with the decision as to the level of the new rate. This was a Canadian decision which was taken up with the International Monetary Fund.

Senator BARTLETT. I am sure the committee understands that.

Mr. JOHNSON. What we welcomed was a fixed rate.

Senator BARTLETT. Yes. I commented upon that especially because this committee was told by one or two witnesses at Lewiston, Idaho, not long since—witnesses who were very pessimistic, admittedly; and they had a good right to be, because they saw their business being pulled down, employees being thrown out of work; whole communities were left without any opportunity for survival at all. These people even went so far as to tell the committee that, if the freehold matter were taken care of, the forest policies were altered as they desired them to be, if the transportation costs were made equal, even so, with the devaluation of the Canadian dollar, it would be terrifically difficult for them to compete. And of course they realize too that the U.S. Government did not do this and perhaps there is little the U.S. Government can do concerning it.

But in that connection, Mr. Secretary, it is stated that this action on the part of the Canadian Government having to do with their monetary system also has had an adverse effect on other U.S. industries. And I wonder if you would be good enough to tell us what our Government, and particularly the Department of State, has done or intends to do or can do in this connection?

Mr. JOHNSON. Of course, it is not an unusual event for a country to change the par value of its currency or establish a new par value for its currency. These matters have been handled internationally through the International Monetary Fund where a country that is a member and is planning to make any change like this has to appear before the Fund and to make its case there.

I do not think that the change in the rate like that which the Canadians made, or the fixing of a new par value, provides any formal basis for other countries retaliating, so to speak, or getting com-

pensation in areas of trade. It does not remove our obligations under GATT and under other bilateral trade agreements. The new rate simply becomes a factor in the trade relationships between Canada and the United States and other countries, the effects of which are not clear yet.

I do not think this action on the part of the Canadian Government opens the door to any action on the part of the United States in the trade field specifically. This is quite a different matter.

Now, the Canadian Government, of course, did this because of the serious problems it had with its balance of payments, as the committee has heard on several occasions. Canada runs a substantial deficit with the United States, and they have been endeavoring to handle their financial affairs and their exchange rate policies in a straightforward and sound manner. And they have gone to great lengths to try to protect the level of the Canadian currency.

Senator BARTLETT. Acknowledging, Mr. Secretary in advance that no two economists are likely to agree on any one issue, have you heard whether there is any kind of consensus at all among these economists as to whether the Canadian action will speed up or serve as a brake on the exportation of American capital to Canada?

Mr. JOHNSON. I would have to really plead ignorance on that, Senator. The capital flow to Canada, you know, has been one of the major factors in the situation over the years. The current situation is markedly affected by matters other than the exchange rate, such as the stock market development and the like, and I frankly have not heard any professional opinion as to what the effect of the devaluation alone might be on this movement.

The CHAIRMAN. They will be talking about it this weekend up there.

Mr. JOHNSON. Yes, sir.

Senator BARTLETT. Now, it has been said that the tariff advantages to Canada on the same types of softwood lumber apparently give Canada an advantage of $6 or $7 a thousand. I have heard that. I do not know whether it is an absolute fact. What is the thinking of the State Department about this wide differential?

Mr. JOHNSON. You are referring to the fact that the Canadian tariff on our lumber going into Canada is that much higher than our tariff the other way?

Senator BARTLETT. Yes.

Mr. JOHNSON. Well, I must say that in past negotiations with Canada where we have been dealing with a whole range of products, the U.S. negotiators have naturally been interested in getting concessions where there are the greatest possibilities of increasing trade.

Now, I understand, although I do not know this personally, that much, if not most, of our exports to Canada are in types of wood which are not competitive with what is grown in Canada or manufactured in Canada.

So it might very well be that further reduction in this rates would not have as much potential for increasing our trade as would reductions in other commodities, as I am speaking as a general matter.

As you know, there were some further reductions recently. It was never felt that we wanted to or could afford to get into a situation where we bargained on a product-by-product basis.

Senator BARTLETT. Out at Lewiston, at the hearing there, Mr. Secretary, and perhaps elsewhere—I do not recall—the people from industry were very, very anxious that arrangements be made so that they might sit down and talk with their counterparts across the line to the north, our friends from up there. And they thought that this meeting should be arranged under Government auspices, without Government intervention. And for reasons that never were quite clear to me, I must confess, they thought that this might do a lot of good, to give them a chance to talk right across the table. And I thought then, and I think now, that this early meeting is something that might be easily arranged. What do you think about the Department of State talking with the appropriate officials in Ottawa so that such a meeting might be held at an early date with governmental blessings, both Canadian and American, but without Government supervision?

Mr. JOHNSON. Senator, I believe that the Department would have difficulty arranging such a meeting in a framework where the two parties could talk about what I am sure they want to talk about, which is prices and costs and other market factors. I believe the Department of Justice would have some difficulty with this proposition. On the other hand——

The CHAIRMAN. Not if you called it.

Mr. JOHNSON. Well, I think it might, even if we called it, if it were simply a private get-together of private groups. On the other hand, it may very well be that at some stage—and maybe at an early stage; I do not know—that some kind of informal discussions of this character might be a useful part of the approach. I would suppose that it would have to be discussions at the governmental level, rather than the private level, if it is going to get into the various economic aspects of the trade.

Senator BARTLETT. Well, I think it would be useful if you let them talk on a private basis first, maybe with Government observers, and let them talk a bit and see where you go from there. Maybe, perhaps—I would not be too sanguine about this—they could reach some accord. But at least it seems to me this is the minimum that our Government could do, because the other solutions, suggestions, are, as we know, in any case going to be rather time consuming.

The CHAIRMAN. You are going to have some participants that will have to stand with both feet on both sides of the border.

Senator BARTLETT. There are currently pending in the Congress, as you so well know, Mr. Johnson, measures, several of them that would require the marking of imported lumber to show the country of origin. Does the State Department have any views on these proposals?

Mr. JOHNSON. Well, I believe, Senator, that the Department has officially opposed this proposal in the past. I am not really informed enough to give you a clear reason as to why. But I am sure that this can be developed again for you.

The CHAIRMAN. Well, the committee, Senator Bartlett, could dispatch a query immediately to the Justice Department asking their opinion on the legal aspects if such a meeting might be called by State or Commerce or something like that.

Senator BARTLETT. I think it would be a very good idea, Mr. Chairman.

The CHAIRMAN. Yes. Without objection, we will send a letter down today.

Senator BARTLETT. Now, using those words again, "task force," has the State Department, to your knowledge, participated heretofore without formal designation in any interdepartmental meetings on this subject?

Mr. JOHNSON. On this particular subject?

Senator BARTLETT. Yes, lumber.

Mr. JOHNSON. Yes. I have not personally done so, any more than having conversations from time to time with other officials. But there have been several meetings on this subject at which I believe Assistant Secretary Dutton was present; at least one or two, together with other representatives of the Department of State.

Senator BARTLETT. Do you know if any recommendations were made and/or conclusions reached?

Mr. JOHNSON. No, sir.

Senator BARTLETT. Now, I think I know the answer that you are going to give to this question, but I am going to ask it notwithstanding.

It is my information that the Tariff Commission has formally acted upon about 133 petitions under the escape clause.

Mr. JOHNSON. I believe that is correct.

Senator BARTLETT. In which it recommended against relief in 92 cases; and of the remaining 41 which were sent to the President, he denied—he being the President, of course—relief in 26 instances and granted it in only 15.

With that as a background, Mr. Secretary, would you care to appraise the prospects the lumber industry might have if it were to seek escape-clause relief?

Mr. JOHNSON. Senator, I would have to beg off on that one. What you are really asking me is the conclusions which will come out of the task force study as to what the real difficulties of the industry are and what the appropriate methods of approaching them are. And at this point I really would not have any opinion as to how valid a case the industry might have in the context of an escape-clause action.

I do not think there is any question that imports have impaired the position of the domestic industry in the sense that their shipments are going down and imports are going up. But there is a question as to the reasons for this and the remedies.

Senator BARTLETT. If you had answered otherwise, it might have been advisable for you, as soon as you left here, to pack your bag.

Do you see anything, anything at all, in the picture, without Government intervention, that will change the trend of the increasing Canadian imports of lumber into this country?

Mr. JOHNSON. Well, I understand, sir, that the American lumber industry is, on the whole, a very efficient industry. Our costs of producing lumber up to the mill stage are highly competitive, by and large, and the problems the industry has lie perhaps beyond that point, rather than up to that point.

I know the industry is very active in promoting additional uses for lumber. Certainly this is one of the big areas where some progress could be achieved; also in improved distribution methods for lumber. These are all matters about which the industry itself can do something and, as I understand it, is attempting to do something. And I would think these measures hold promise for growth in the

basic demand for lumber and an increase in the extent of the use of lumber.

Of course, the housing market is a very important factor. What happens to that will have a considerable influence on total demand.

Senator BARTLETT. Well, I think that is right. It seems to me, from the testimony I have heard during these many hearings, that the American lumber industry, the American lumber employee, are highly efficient. They can be competitive under normal circumstances with any country in the world.

But obviously in this case, this distressing case, where we see whole communities dying, they are locked in on account of action taken or having failed to be taken by the U.S. Government. And I guess that is why we are holding these hearings, because Government is directly involved.

Now, in the past, Mr. Secretary, we all know that our Government has undertaken to find ways to secure marketing agreements with other nations concerning, oh, commodities such as textiles, mentioned by the chairman a while back, sugar, and so forth. And to many it seems that there is a reluctance to provide an orderly system for marketing of lumber from Canada.

And I am wondering if you would agree with that, in the first place, and if you would just give a little tiny bit of agreement, tell me why that should be so?

Mr. JOHNSON. Well, Senator, I would say that, in general, quotas and restrictions of this character have proven to be a very unsatisfactory way of conducting international trade, and the policy of the U.S. Government for years, particularly since the war, has been to encourage the elimination of these in other countries where it directly affects our exports.

Now, there have been a limited number of cases—oil has been mentioned, of course—where quotas have been used as a result of particular circumstances of the case; and only after considerable study and Tariff Commission finding with respect to serious injury.

The one exception to this is the one you mentioned—the textile case, which is considered by the administration to be a very special case.

The CHAIRMAN. And that came out of this committee too. And I might ask you there, is there anything further we can do up here to try and convince somebody, other than make a report and keep working? We had to work on the textile problem quite a while.

Mr. JOHNSON. Yes.

Senator BARTLETT. Well, Mr. Secretary, has the Department of State, to your knowledge, received any official or any unofficial reaction from Canada to the request of our lumber people for relief?

Mr. JOHNSON. To my knowledge, there has been no receipt of any official communication from Canada on this subject.

There have been conversations, informal conversations with representatives of the Canadian Government on this matter, but not with the idea of developing any action on their part or on our part.

Senator BARTLETT. Between our State Department and the Canadian Government?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. There have been talks.

Senator BARTLETT. Now, Mr. Chairman, I have no further questions, but I want to say that this problem is not an acute one in Alaska yet, but——

The CHAIRMAN. Bob, I hate to interrupt here, but I did want the record to show that Secretary Johnson is comparatively new in his post down there, so he may not have complete knowledge of some of the things in the past. He took another man's place.

Senator BARTLETT. I am not seeking to blame him for it.

The CHAIRMAN. No; but when he does answer, he has only been in the job just a little bit.

Senator BARTLETT. He is a very good witness, I might add.

Well, the problem, as I was saying, is not acute in Alaska yet, but the impact of importations from Canada is felt there, will be felt there, I fear, in increasing degree. And the concern of the Alaska Lumbermen's Association has been previously expressed in radiograms sent to all of us by Milton Daly, head of Ketchikan Spruce Mills, of Ketchikan, Alaska. And I supplied copies of that wire to the committee for the record.

And I have another one here now which I would like to go into the record, Mr. Chairman, from Lars Eide, president of the Petersburg, Alaska, Chamber of Commerce.

The CHAIRMAN. Without objection, it will be put in the record at this point.

(The telegram referred to follows:)

PETERSBURG, ALASKA, *June 13, 1962.*

Re Commerce hearing on lumber industries, June 14.

Senator E. L. BARTLETT:

Our members endorse and support the position of the Alaska Lumbermen's Association and the four basic proposals submitted by the National Lumber Manufacturers Association. Major handicaps to our local industries, are btock [sic] logging and road requirements. This combination of rules is the greatest handicap to loggers thereby putting many loggers out of business. Stumpage fees are too high as all other costs of logging in Alaska are extremely high and this should be considered to encourage logging rather than discourage. The two pulp mills operating have large stands which have been set aside at a much lower stumpage rate than the minimum offered now in timber sales. This works a hardship for the small independent logger which is the backbone of the economy in southeastern Alaska. Present logging sales are too small, sometimes only for 1 year. Cost of setting up is prohibitive and also type of equipment does not fit all timber. Sales thereby creating hardships for constantly moving camps. Sales should be in large quantities to permit an operator a minimum of 10 years in one location. Roadbuilding is costly and too few loggers are able to financially carry such a burden to build a road prior to production of logs. Also logging operators should not be forced to build roads to multiple-use standards because they are only granted logging rights on present stands of timber. The layout of roads do not consider the profitable removal of timber. Forest service policy of transferring personnel is constantly bringing in persons not familiar with local conditions. In addition present free flow of soft lumber from Canada is serious threat. Dollar exchange and low labor costs make Canadian lumber an attractive purchase against American production.

PETERSBURG CHAMBER OF COMMERCE,
LARS EIDE, *President.*

Senator BARTLETT. Thank you very much, Mr. Secretary.

The CHAIRMAN. The Senator from Oregon.

Senator MORSE. Mr. Chairman, first I want to thank you and Senator Bartlett and the other members of the committee for the courtesy that you have extended the senior Senator from Oregon to

participate in these hearings, both in Washington, D.C., and out in the field. These hearings mean a great deal to the economy of my State, because lumber is the chief source of income for my State.

I will take only a short time to evaluate the Secretary's testimony. And I think the Secretary knows that my evaluation is not offered in any way as personal criticism to the Secretary, although I find myself in complete disagreement with the entire approach that the Secretary has made here this morning.

I am well aware of his responsibilities and the limitations under which he has to work. In a real sense his function as an ambassador. And as an ambassador, he has to carry out the policies of the executive branch of the Government.

But I want to say to the Secretary and to the members of the committee that, in my judgment, there is nothing in the Secretary's statement here this morning that gives the lumber industry any hope. This is runaround testimony that we have become accustomed to on this lumber matter now for well over a year.

You remember, Mr. Chairman, you mentioned it this morning; we started out over a year ago dealing with the emergency problem created by log exports to Japan. The only thing that has improved the situation is that monetary problems developed in Japan and they stopped purchasing.

I was in Coos Bay, Oreg., just last week. I want the Secretary to know that we are not going to have to wait 60 days for that problem. The problem is on us already. There is already a great increase in the purchase of logs in this country by the Japanese, and again at exorbitant prices. American lumber mills and the Tideland mills cannot compete with these prices.

There has been no program worked out by this administration, as there was not by previous administrations. If we are going to encourage this trade with Japan, that will set aside logs for export and will also exclude from purchasing at Forest Service auctions and Bureau of Land Management sales logs by foreign governments in competition with American mills, that results in making it impossible for the American mills to compete. It has the effect of exporting American jobs abroad.

It has already become evident from the questions asked by Senator Bartlett as to the language on page 2 with respect to "task force"; that is what I mean by runaround language. It offers us no hope. It is the old stalling game in the executive branch of this Government, over such an expanse of time, Mr. Chairman, that I will tell you what you and I are going to be attending, along with Senator Bartlett and the rest of the Pacific Northwest—we are going to be attending an economic funeral of the lumber industry. And then sometime later the executive branch of the Government is going to want to conduct a coroner's inquest to dig up the body and find out who murdered it. I can tell them now who is murdering it. And my figure of speech can be pretty well documented.

I hold in my hand, for example, just a small part of the bundle of announcements of auctions of lumber mills in the Pacific Northwest introduced in the hearings. It is just a small fraction of them, because over 200 mills have gone down in the Pacific Northwest in the last year.

And the executive branch of Government is talking about spending time for further investigation of this by a task force to make a report and recommendations at some appropriate time. As the Senator from Alaska has said, we have no indication as to what that time will be; we have no hope at all.

Now, Mr. Chairman and members of the committee, let me tell you about this bundle of auctions of mills—and these are not obsolete mills. You will find in here some of your most modern mills. Some of them have already gone bankrupt. Others are selling out because they do not want to go bankrupt; they are going to take what assets they have and run.

We have a great public policy question here as to whether or not it is in the interest of the economy of this country for the next century that you maintain a strong, healthy lumber industry. And as you pointed out, Mr. Chairman, we are talking now about protecting American lumber operators in respect to our domestic market.

The CHAIRMAN. That is right.

Senator MORSE. We are not asking for any favoritism to them in competition abroad. And we are not asking for any advantage for them over Canadian mills. We are asking only that those emergency steps be taken that will make it possible for them to compete with the Canadian mills on a plane of equality. Where? In the United States. In the Middle West, in the East.

Now, may I point out to simply say that the loss of this trade has increased from 7 to 14 percent does not tell the story either.

The CHAIRMAN. Well, I think the chairman pointed that out very well, or tried to. I tried to point it out.

Senator MORSE. The chairman did it. But I want to back him up. You have to find where it is hurting. When you get that kind of an increase, and its impact for the most part is in one section of the country shown by these auction sales, then you have to take a look at the human bodies involved. I am not talking about plants; I am talking about human beings, who take the human form of lumber operators, lumber workers, merchants on the Main Streets of the towns of the lumber industry area of this country.

And so I want to say most respectfully to the Secretary, and through the Secretary to the Secretary of State, and through the Secretary of State to the President of the United States: The senior Senator from Oregon does not intend to support you in the liquidation of the economy of my State.

And that means that I will not limit myself just to this issue. If I have to take on a fight in order to protect these human beings I represent, I am not going to limit my fight with this administration to just the lumber issue. Because I will proceed then to fight the administration on every front necessary to protect my State. And that includes, may I say, this whole matter of a trade program. Because I am going to take the President at his word—and I know his word is his bond—when he announced the trade program, he made very clear to the Senators—and there were men in this room who were in that briefing—that he intended to do no irreparable injury to an important American industry. And so we have to ask the question and give the answer: Is this a vital industry to the welfare of this country? And we can take judicial notice that it is.

The next question is: Is the policy now being followed doing irreparable injury to the lumber industry? We can take judicial notice that it is.

I want to say, Mr. Chairman, I am not at all impressed about a proposal for a continued study, because there is not a fact——

The CHAIRMAN. Well, I do not think the Senator from Oregon is alone in that.

Senator MORSE. I know that. There is not a fact that these departments need to know that they do not already know about this problem.

As I said, Mr. Chairman, on the floor of the Senate day before yesterday, the time has come for action. I am not at all interested in weeks of delay in regard to this matter. I want to know what my administration proposes to do now, not day after tomorrow, to use another figure of speech, in order to come to the relief of the lumber industry of this country.

I might point out that the Canadian mills are highly efficient, just as efficient as the American mills. In fact, some of the new Canadian mills are the most modern.

I also want to stress, Mr. Chairman, what you have already brought out in rebuttal, because this is the time to rebut this very unsatisfactory testimony of the Secretary. I want to point out that what we are up against is Canadian governmental support of the Canadian lumber industry—direct and indirect subsidies.

And all we are saying to our administration is: What do you propose to do to be of assistance to our lumber industry to meet the competition with the Canadian Government? Because this adds up really to governmental support in Canada of their forest industry.

And you get it in a whole series of programs. Cost of stumpage, as the chairman has mentioned; cost of transportation, as the chairman has mentioned. And he knows; he is the author and I am one of the cosponsors to that amendment of the Jones Act that would cause our neighbors to pick up that difference in freight rates that would be attributed to defense costs.

I do not know what the Department of Commerce is waiting for in regard to this matter. I do not know what the administration is waiting for in regard to this matter. We ought to have a "Yes" or "No" decision on it now. We do not need any more study on it. They have got all the facts. We have this whole problem that we will deal with tomorrow on the Forest Service, where the Canadian Government, through what corresponds with its forest service, assists the Canadian mills with one form of direct or indirect subsidy after another.

And what we want to know is what does our administration propose to do with regard to some reforms of the forest industry? As the Senator knows, we discussed it on the floor of the Senate yesterday. I stand on every word. And for the purposes of reference, I incorporate it in my remarks now without repeating it.

We have to do something to meet the governmental competition of Canada against the private interests of the United States in the lumber mills.

In my judgment, the time for action was yesterday, figuratively speaking; not tomorrow. Certainly today.

All I say to my administration is: We have inherited many of these problems from the previous administration, and from adminis-

trations previous to that. This has been a growing problem. But we now have an emergency.

Let me close by making a comment in regard to this Tariff Commission approach. I think it is a worthless approach to meet this kind of an emergency.

I think it may be true—I had hoped that it would not become necessary—it may be true that Congress is going to have to take back some of its delegated authority in the field of foreign trade.

The CHAIRMAN. You heard what the chairman had to say about that.

Senator MORSE. I know. That is why I am backing him up.

It may be that Congress is going to have to make perfectly clear to this administration that power already delegated will have to be recovered, because we cannot sit back here as the representatives of these people and permit their liquidation to continue.

I hope—I have hoped right along that we could work it out. I am not as hopeful as I was before the Secretary testified this morning. I hope that there will be some change. The administration must realize that there are some of us who do not intend to take it, and that there are some of us who recognize that we represent great interests in this country, that have the right to ask us to do exactly what the senior Senator from Oregon proposes to do. I intend to carry this fight to every crossroads necessary to try to get a fair solution in the protection of a very important segment of the economy of this country.

I find myself in almost complete disagreement with what would be the course of action if we follow what is proposed or implied in the Secretary's statement this morning.

I want to say to the State Department: This is not the answer to meet a critical need in the lumber industry of this country. The State Department and the Commerce Department and the Agriculture Department and the Interior Department and the Labor Department all have a responsibility in regard to this matter to act as of yesterday, which is the best way I can describe what I mean by the need for immediate haste in regard to this problem.

Because as we dillydally back here, more and more lumber mills go down, more and more men can go out of work, more and more jobs in fact are exported to Canada and Japan. And you cannot justify it when what you need to do is adopt those remedies necessary to just put us on equal footing with our competition with the Canadian Government.

The CHAIRMAN. I want to say that I am in long prior agreement with him that that is what we should be doing.

Senator MORSE. I am always glad to follow you.

The CHAIRMAN. I think I said to the Secretary earlier, in no uncertain terms, that this tariff approach just cannot be followed.

I do appreciate that the President of the United States will ask for some advice on this matter from Commerce, from you, and I think that we have attempted to sufficiently brief those with whom he is going to consult. We had to lay some foundation stones here, and we have done it.

We hope to complete these hearings tomorrow, and it is my intention to talk again with the Secretary of State—and I repeat the word "again"—and also, we have talked with the White House on this:

matter. And then I think we will have the facts, and the judge can make a decision. And this is what we intend to do.

In the meantime, I do understand—I think we are all appreciative—that there is a matter in Canada which will be decided on Tuesday; and that it is difficult, although there have been conferences on this matter, even with the legislators, until we know just who we have to talk to up there. We are going to do everything we can do up here.

I want to repeat: If any of the Canadians for 1 minute think that this can go on without some serious retaliation that may not be good for either side, I do not think they are correct, because it cannot.

Clem, do you have something you want to say?

STATEMENT OF HON. CLEM MILLER, U.S. CONGRESSMAN FROM THE FIRST DISTRICT, STATE OF CALIFORNIA

Mr. MILLER. Mr. Chairman, I appreciate the opportunity just merely to be here to try to help unravel this very difficult problem. And I certainly am not going to impose on this committee, but I would like to make just two observations, if I may.

I might say that my congressional district abuts the State represented by the senior Senator from Oregon, and I face the same problems. But more than that, Mr. Chairman; we in the House have been meeting as a group; those of the lumber-producing areas have been meeting as a group. We have held two major meetings, attended by over 50 Congressmen. And as you know, to get 50 Congressmen together on any occasion is a fairly remarkable feat—which indicates the depth of our concern on that side.

And I am here to listen to what has been said and to indicate that we in the House who have lumber problems in our districts are equally concerned. I share the concern of the senior Senator from Oregon for our lumber industry. I would like to indicate support for this idea of the interagency committee, but it seems to me it is very much like the intramural athletics that we had in prep school—there was very little result except the development of good sportsmanship. I fear that that is all that is going to come out of this interagency meeting.

This industry we are talking about is essentially an agricultural one. It is a raw material one.

Mr. Secretary, am I right in supposing that raw material areas all over the world, whether they are in Malaya or the United States or Canada or California or Alaska or Washington, are in trouble; raw material producing areas?

Mr. JOHNSON. Well, I would say, Congressman Miller, that for a number of years now we have been in a cycle of decline in prices quite generally in raw materials.

Mr. MILLER. And that means that those of us that are from raw material producing areas share this worldwide difficulty with raw material producing areas. And we have to pay tribute. And we are in bondage to the industrial sections of the world and of our country. I feel that very strongly from northern California.

Now, Canada solves its raw material problem, as the senior Senator from Oregon said, by subsidy and by subsidizing its industry; and we do not. Canada is able to compensate for its difficulties in the lumber industry by subsidization, whereas this is denied.

Now, it seems that it is high time that those who are in control of our national policies begin to consider why, and what we must do with respect to handling this question. The raw materials producing areas of the world are in trouble. Where they are being successfully treated it is being done by subsidy; treating the lumber industry and the timber industry with low stumpage prices and allowing overcutting, is in effect a subsidy for Canadian industry; whereas, in our country, because of our conservation policies, our sustained-yield policies, we do not take the same attitude.

Mr. Chairman, thank you very much for this opportunity to be here and to receive the courtesies of this committee.

The CHAIRMAN. The word "subsidy" is a bad word with the people in the trade that is hurt. And I do not blame them. We want to keep away from it, and if there are other ways to do it, we will explore them.

But I do not know; maybe a subsidy of some type is the answer. I just do not know. I am not qualified to say. We try and keep away from subsidies. In Canada almost every industry has some form of subsidy, direct or indirect, either through a monetary manipulation or some other means, called internal affairs friendship, or something like that. They have got a different name. Now, down here, it is intervention, Government intervention.

Well, I guess in some respects it is. What you point out about the raw material situation is true. This is our mining situation, when you get right down to it.

Senator BARTLETT. Gold.

The CHAIRMAN. Gold, yes.

Mr. MILLER. In other words, Mr. Chairman, the log stumpage prices that they have in Canada is one of the main points that the industry has raised, and what it wants to do is have the Forest Service reevaluate its arriving at appraised values and lower stumpage prices. The Canadians are able to do this, and possibly cut into their future conservation, their supply for the future. But if we do not take some comparable action in compensating for it in this country, we are going to be at an unfair competitive disadvantage. The industry representatives in this country can call it what they want: they have a four-point program and a six-point program, but what they are asking for is the ability to compete with a subsidized Canadian industry.

The CHAIRMAN. And I forgot to mention earlier that there is, Mr. Secretary, this very strong, vigorous group in the House that voluntarily got together on this matter, and they have had, as Congressman Miller points out, many meetings. And they are unanimous. There is no difference of opinion on this over there, except perhaps over methods.

On the stumpage matter, I reiterate that I think we are making some progress. Not as fast as I would like, but I think we are moving. But it has taken a lot of doing. And we will have the Forest Service up here tomorrow and see what they have got to say about taking a look at it.

I want to say that the Department of Commerce is going to send up within a week or 10 days a report, Senator Bartlett, on this whole matter. But it will not be a report in the sense that we are talking, because they have been briefed and they know the situation pretty well. I am sure of that. And that will be in here. And we will pro-

ceed forthwith with what we are going to do. All we want to do is be helpful to the State Department in this respect, if we can be helpful. But if we cannot move along together, we are going to have to part company.

Mr. JOHNSON. Well, Mr. Chairman, I would just like to say again——

The CHAIRMAN. But I know you do not want that to happen.

Mr. JOHNSON. No, sir. We do recognize the problem, and we understand the concern that has been expressed by you and Senator Morse and Senator Bartlett. And I hope that you will be pleasantly surprised in the results of the events in the near future.

The CHAIRMAN. Well, on that note, we thank you very much for your testimony.

Senator BARTLETT. One thing.

The CHAIRMAN. Wait a minute. Do you want to——

Senator BARTLETT. Just one thing, Mr. Chairman.

I am particularly glad that Congressman Miller made his statement. It is not only that he has a vital and abiding interest in this problem since it cropped up, but it is also that we may infer that he appears here as a representative, over on this side at the moment, of 50 Members of Congress. And that is quite a bloc of votes on any bill that may come before the House.

And I think the record should show, and you stated from the beginning that Congressman Miller was here. I want the record to show that he stayed with us throughout the entire morning, and his presence here will be very helpful. And I cannot forget what useful and valuable testimony Congressman Miller gave to this very committee just the other day in connection with your bill, Mr. Chairman, to restore medical benefits to a group of American fishermen, a bill which has now been passed by the Senate.

And I want to thank you, Clem, for being here.

Mr. MILLER. Thank you.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. JOHNSON. Thank you, Mr. Chairman.

The CHAIRMAN. We want to expedite these hearings, because we do not want to get in the position of being a task force.

All right, now we have another facet of this problem. And the Chairman of the Interstate Commerce Commission is here, Mr. Murphy. We will be glad to hear from him.

Off the record.

(Discussion off the record.)

The CHAIRMAN. All right, Mr. Chairman, you can go right ahead.

STATEMENT OF HON. RUPERT L. MURPHY, CHAIRMAN, INTERSTATE COMMERCE COMMISSION; ACCOMPANIED BY COMMISSIONER CLYDE E. HERRING; DALE W. HARDIN, CONGRESSIONAL LIAISON OFFICER; HIRAM H. SPICER, LEGISLATIVE COUNSEL; AND WALTER L. BAUMGARTNER, EXAMINER

Mr. MURPHY. Mr. Chairman, may I state that I have with me this morning my colleague, Commissioner Herring from the State of Iowa; and our Staff Liaison Officer, Mr. Hardin; and Mr. Spicer, and Examiner Baumgartner.

85955—62—pt. 1——9

The CHAIRMAN. We are very pleased to have you.

Mr. MURPHY. Mr. Chairman, and members of the committee, my name is Rupert L. Murphy. I am the present Chairman of the Interstate Commerce Commission and have served in that capacity since January 1 of this year. I am appearing today to offer testimony, on behalf of the Commission, with respect to the difficulties confronting softwood lumber producers in the Pacific Northwest in marketing of their lumber in the Atlantic coastal area of the United States in competition with softwood lumber produced in, and shipped from western Canada, principally the province of British Columbia.

Testimony already presented before your committee indicates that American producers in the States of Washington, Oregon, California, Idaho, and Montana are handicapped in several respects in their competitive race with Canadian producers.

A number of the problems with which this segment of the lumber industry is now faced seem to appear in fields lying beyond the jurisdiction of the Interstate Commerce Commission. As an agency of the Government whose functions relate to the regulation of domestic surface transportation, our views are necessarily limited to that portion of the overall problem falling within our province. Among the difficulties which domestic lumber producers face is the fact that much of the Canadian lumber moves through British Columbia ports to markets on our east coast in foreign-flag vessels. A great deal of our lumber also moves by water from northwest ports to the same markets.

However, under the provisions of the Jones Act (45 U.S.C. 883) our lumber must be carried only in American-flag vessels whose rate for the transportation nets approximately $5 per thousand board feet more than the rate of foreign-flag vessels from Canadian origins. In addition, the costs for stevedoring services in loading the vessels are about $4 higher per thousand board feet for packaged lumber (and about $6 for loose lumber) than for the same services at Canadian origin ports. These figures are based on information furnished by witnesses who have appeared at earlier sessions of these hearings.

Also of significance in the overall picture, has been the fact that Canadian shippers of lumber by rail enjoy a 15-day free holding-in-transit privilege en route at certain points in Canada. This, in effect, provides free storage in cars while the sales of the lumber to U.S. buyers are sought whereas the American shipper must pay up to $96 demurrage per car for such privilege, depending upon the time held. Prior to 1960 similar holding privileges were granted by Canadian railroads on lumber moving between points in the United States through Canada. This application of the privilege was canceled August 24, 1960.

The CHAIRMAN. Now, maybe the record will not be clear there:

Prior to 1960 similar holding privileges were granted by Canadian railroads * * *.

Then you say the privilege was canceled. You mean by Canada?

Mr. MURPHY. Not by Canada, no, sir; that was canceled by us.

The CHAIRMAN. By us, yes. I wanted the record clear on that.

Mr. MURPHY. I am sorry.

Previous witnesses have outlined other problems that are germane to the depth and seriousness of the difficulties facing this industry such as the lower wage rates enjoyed by Canadian competitors, the higher stumpage charges which American lumbermen must pay, the depreciation of the purchasing power of the Canadian dollar for the purpose of increasing Canadian exports and curtailing imports, the higher Canadian import tariff rates on lumber from the United States as opposed to our tariff rates on lumber imports from Canada, and the objective of the Canadian national and provincial governments to aid and promote the production of lumber, in contrast with the objective of our Government, which is to preserve, and promote multiple uses of, our forest areas.

Your committee has also been furnished with figures showing the production decline in the Pacific Northwest and a corresponding production rise in Canada.

The Jones Act, with certain exceptions, prohibits transportation of merchandise by water between points in the United States, either directly or via a foreign port, in any other vessel than a vessel built and documented under the laws of the United States and owned by persons who are citizens of the United States. Three remedies have thus far been suggested. The first is the repeal of this prohibition in the Jones Act so that the less costly transportation by foreign-flag vessels could be used. Another remedy would be to exempt from the prohibition only the carriage of lumber between ports in the United States. The third suggestion is that the Secretary of Commerce be authorized to waive application of the prohibition to the transportation of the merchandise of any industry located within the United States if he determines after notice and hearing that the requirements of the act are causing that industry to lose a substantial portion of its business to foreign competitors.

None of these proposals, however, would be very beneficial in meeting the problem that arises from the sale of in-transit lumber, which moves almost wholly by rail to the eastern markets. As a matter of fact, any of these proposals could very well, and most likely would, militate against the in-transit lumber interests and the rail carriers, unless the advantage gained by waterborne lumber were in some manner counterbalanced.

Under the circumstances the contention has been expressed that there should be a reinstatement of the privileges of the 25-day free hold and free diversion on domestic rail shipments so as to restore the flexibility in merchandising and shipping formerly enjoyed, thus reversing the Commission's ruling in *I. & S. 7050, Lumber, Free Time Allowance at Hold Points*, 310 I.C.C. 521, decided June 6, 1960.

Committee counsel submitted several questions to the Commission concerning I. & S. docket 7050. We are in receipt of information, as yet unconfirmed, that the Canadian rail carriers now plan to remove their 15-day freeholding time early in July. Lumber tariffs have been filed with the Commission for U.S. railroads which apparently propose, effective July 11, 1962, to restrict the routing substantially. We have not yet had an opportunity to determine precisely what these tariffs do. However, each contains a large number of pages of routing which have the effect of restricting the application of the rates to specified routing. This restricted routing apparently confines the applica-

tion of the rates to more direct routes, thus cutting out many circuitous routes. With the thought in mind that the 15-day freehold for some reason might not be removed, or might subsequently be reinstated, I will briefly answer the questions submitted.

(1) Could the Commission reopen I. & S. docket 7050 on its own motion? Under what circumstances could this be done?

The Commission may, either on its own motion or on petition, reopen docket 7050 for reconsideration, further hearing, or reargument and thereafter issue such new or different decision or order as it may find to be proper. Ordinarily, however, this is done by petition.

The proceeding may be reopened for rehearing, reargument, or reconsideration, on the Commission's own motion, under any circumstances that convince the Commission that to do so would be in the public interest. Since the evidence of record in this proceeding seems to fully warrant the conclusion therein reached, the Commission properly should act upon a proffer of evidence or other showing made by an interested party through the regular procedure of petition and answer.

The mere reopening of I. & S. docket No. 7050, however, would not put in issue the lawfulness of the practices of Canadian carriers. In order to reach the practices complained of, which are occurring in Canada, it would be necessary either for a party to file a complaint or for the Commission to institute an investigation on its own motion.

(2) If a petition is necesasry to reopen I. & S. docket No. 7050, who can file such a petition?

Any interested person, irrespective of whether he was a party to the proceeding, may petition for action. Section 4(d) of the Administrative Procedure Act states:

> Every agency shall accord any interested person the right to petition for the issuance, amendment, or repeal of a rule.

Since the time within which parties, as of right, may file petitions has passed, leave to file a late petition, upon good cause shown, would have to be obtained under rule 101 of the general rules of practice. Interested persons who were not parties to the proceeding would have to file a petition for leave to intervene, which is usually accompanied by the petition for reconsideration proposed to be filed if leave to intervene is granted.

(3) Could someone petition the Commission requesting that it disallow through routes and joint rates when a Canadian railroad is giving freehold time? What would be the effect of disallowing such through routes and joint rates under these circumstances?

Any interested person may petition the Commission for any relief he may desire and which he believes the Commission has the power to grant. The Commission may exercise only such powers as it has been given by the Congress and there must be an evidentiary basis to support any order the Commission may issue. An order beyond the Commission's statutory power, or without support of proper evidence, may be set aside by the courts. Any such petition that may be filed would be given most careful consideration with respect to both the law and the facts involved.

Section 1, paragraph (1), of the Interstate Commerce Act gives to the Commission authority to regulate transportation by railroad:

> * * * from any place in the United States through a foreign country to any other place in the United States, or from or to any place in the United States to or from a foreign country, but only insofar as such transportation takes place within the United States.

In view of this provision, the Commission has many times said, as in *Thermoid Co.* v. *B. & O. Railroad Co.*, 303 I.C.C. 743, 752, that:

> * * * We have no jurisdiction to prescribe international rates for application partly within Canada, as sought by the complainants.

The Commission, however, has many times held, as in the cited case, that where a U.S. railroad enters into through route and joint rate arrangements with foreign railroads, it will be held responsible for the lawfulness of the through rate, both with respect to reparation for past unreasonable rates and as to rates for the future. The decisions indicate that if the foreign railroads are unwilling to establish joint through rates on the basis found to be lawful, it is the duty of the U.S. carrier to withdraw from the joint rates and establish rates to and from the boundary which are just, reasonable, and otherwise lawful.

The CHAIRMAN. Well, what if the carrier does not do it?

Mr. MURPHY. You mean the——

The CHAIRMAN. Well, you say it is the duty of the U.S. carrier to withdraw from the joint rates and establish rates to and from the boundary that are just and reasonable and lawful. What if the carrier does not do it?

Mr. MURPHY. The Commission can, on a proper record, order them to do that.

The CHAIRMAN. The Commission can, if it is called to their attention, or whether they know it on their initiative.

Mr. MURPHY. Yes, sir. In this type of a situation described, we can act on a proper record. We will distinguish the difference between that and this freehold time later on.

The CHAIRMAN. All right.

Mr. MURPHY. In this position the Commission has been supported by the courts: *News Syndicate Co.* v. *N.Y.C. R.R. Co.*, 275 U.S. 179 (1927); *Lewis-Simas-Jones Co.* v. *Southern Pacific Co.*, 283 U.S. 754 (1931); *Great Northern* v. *Sullivan*, 294 U.S. 458 (1935); *Porter Co.* v. *Central Vermont R. Co.*, 366 U.S. 272 (1961).

We do no know of any instance in which the Commission has passed upon its power to hold a U.S. railroad, participating in a through route-joint rate arrangement with a foreign railroad, responsible for the action of the foreign railroad in allowing stopping in transit in a foreign country. Since this question may come before the Commission, we would prefer not to venture an opinion on this question until the case is presented and the parties have been heard on the subject.

We can point out, however, that there are decisions such as *Central R.R. of New Jersey* v. *United States*, 257 U.S. 247, which would be urged upon the Commission as authority for the view that the granting of such transit privileges is a responsibility only of the line granting them, and that a connecting line merely participating in the joint rate is not responsible for the granting of such privileges by another line. In *Lumber, Free Time Allowance at Hold Points*, 310 I.C.C.

521, in which the Commission required U.S. railroads to discontinue such privileges, the Commission had authority over the railroads granting the privileges. Here, however, we are discussing the privileges being granted by Canadian railroads in Canada. In the Central R.R. case the issue was whether a railroad participating in joint rates with other railroads which allowed transit privileges, was in violation of the preference and prejudice clauses of section 3 by participating in such joint through rates in connection with which other participating carriers were granting transit privileges at other points, while refusing to allow similar privileges at points on its own lines. The court held that there was no violation by the connecting carrier participating in the joint rate, and set aside the Commission's order.

The contention probably would be made that certain language contained in the court's opinion in *Barringer & Co.* v. *United States*, 319 U.S. 1, indicates that the Commission may take into consideration all the privileges allowed by all the participating carriers in determining whether a through rate is unjust and unreasonable, that is, in the present situation, whether the through international rate is too low in view of the privileges allowed by the Canadian lines in Canada.

There would also be raised, and considered, the question of whether the Commission may require U.S. railroads to withdraw from international joint rate and through route arrangements with foreign railroads on the theory that to continue such arrangements is an unreasonable practice, inconsistent with the national transportation policy where the practices of the foreign connecting line are such as to result in a preference of foreign shippers and carriers and prejudice to U.S. shippers and railroads. We are not aware of any prior decision on this point.

(4) Could the Commission reinstate free hold time pending a further decision in docket No. 7050?

The Commission has the power, if the proceeding in I. & S. docket 7050 were reopened, to vacate its order pending further hearings or reconsideration. The Commission should, however, act upon proper evidence tendered by proper parties and it should be shown that the Commission's decision was in error or that the public interest requires that the Commission's prior order be suspended pending the further hearing and reconsideration. A petition filed by any interested person will, of course, be given careful consideration.

In view of the possibility that the Canadian railroads may eliminate their 15-day free holding tariff provisions, further action with respect to I. & S. docket No. 7050, or with respect to the holding of cars in Canada, may not be necessary or desirable at this time. If, however, the Committee feels that a similar situation may arise again and it desires to make clear the Commission's power to deal, in the future, with these matters, we suggest consideration of an amendment to section 6(2) of the act by adding the following language at the end thereof:

The Commission shall have authority to require the cancellation by carriers subject to this part of any through route or joint rate with any carrier operating in any foreign country whenever it finds that any rate, charge, privilege, or privilege of such foreign carrier in connection with such through route or joint rate, or traffic handled thereunder, gives or confers upon any foreign shipper, locality, or

carrier an undue preference or advantage over shippers, localities, or carriers in the United States.

The CHAIRMAN. All right, Mr. Chairman, send up that bill.

Mr. MURPHY. Do you want it this afternoon?

The CHAIRMAN. Well, as soon as possible.

Mr. MURPHY. I think we can draft it and have it in your hands this afternoon.

The CHAIRMAN. All right.

Mr. MURPHY. Certainly by in the morning.

The CHAIRMAN. I will introduce it by request for the Commission; and it will get before the committee right away. We do not need to have you testify on it, because you already testified.

Mr. MURPHY. The cancellation of joint rates by the U.S. carriers would not prevent the movement of the lumber or the allowing by Canadian railroads of free time under their local tariffs. The cancellation of through route arrangements, in addition to the cancellation of the international joint rates, would prevent the through shipment and require reshipment at the boundary. It is our belief that control over the through routes and joint rates would be adequate. In any event, that appears to be all that could be done through the regulation of transportation. Further action, if necessary and desirable, would seem, necessarily, to be in the area of the regulation of international commerce, rather than transportation.

Mr. Chairman, this concludes my prepared statement. We appreciate this opportunity to appear and testify on the transportation aspect of the lumber problem. If there are any questions, I would be glad to try to answer them.

The CHAIRMAN. Well, I think you point out, Mr. Chairman, the Commission's legal capabilities in this whole matter, and it is good to know what to do or what we might suggest or what the Commission may or may not do.

It is somewhat complicated, but we appreciate the testimony.

I insert in the record at this point editorials from the Seattle Times, Seattle Post-Intelligencer, the Portland Oregonian, and the Oregon Journal. Each one of these editorials comments on the urgency for some relief in connection with the lumber problem confronting the Pacific Northwest. I also insert a copy of a resolution adopted by the Western Governors' Conference supporting our committee's efforts in connection with this problem.

(The editorials referred to follow:)

[From the Seattle Times, June 3, 1962]

SOME RELIEF FOR COAST LUMBERMEN IS FORESEEN

(By Ross Cunningham, associate editor, the Times)

Because of the amount of attention being given to the west coast lumber industry's problem of increasing Canadian inroads into the American market, optimism is rising that remedial action will be forthcoming.

What form such action may take or how soon our own Federal Government will act still is a moot question.

Yet the fact that the White House has ordered an interdepartmental study of the problem is a very hopeful sign. This is seen in some quarters as evidence that the national administration feels that lumber must be given the same attention in foreign trade as cotton and textiles.

The fact that 51 Congressmen—many of them from nonwest coast States—met recently in the national capital to urge action in behalf of the lumber industry is in itself significant—especially since some of them mentioned the relationship between problems of the lumber and other industries to President's Kennedy's foreign-trade bill, now before Congress.

The series of congressional hearings, one of which is scheduled for this week in Portland, has developed testimony that maritime and rail shipping has been affected adversely by the growth of Canadian lumber sales in the United States east coast markets.

Thus, what began as a problem of limited areas on the west coast, now is seen as much larger—and, in fact, now is seen as being related to the European trade situation.

Several of the European Common Market nations—supposedly our allies in all aspects of the cold war—have been increasing their imports of lumber from Russia. This has reduced Canada's market for lumber in such countries as Britain—resulting in Canadian producers moving more heavily into American markets.

On Dean Rusk's recent trip to Seattle, he set aside in advance time for a meeting arranged by Senator Warren G. Magnuson where the Secretary of State was filled in on the lumber industry's problem. Rusk evidenced a keen and penetrating interest and asked that concise information on major factors be prepared and delivered to him personally.

Yesterday, Canadian railroads announced cancellation of the 15-day freehold privilege on railroad lumber movements (available previously to Canadian, but not American, shippers). The freehold was cited by some American lumber interests as giving the Canadians an advantage. There are differences of opinion among American lumber producers on whether this would be desirable.

The lumber industry appears to have zeroed in on seeking a temporary quota for Canadian softwood imports. This would require an order by President Kennedy, and he naturally would be reluctant to do so in view of his policies for expanded foreign trade, policies which most of the lumber industry seems to support.

The President, however, recently demonstrated a willingness to limit imports where the circumstances dictate such action. He placed a limitation on imports of carpets and glassware from Europe. This has brought threats of retaliation from the European Common Market—a situation which is likely to become prominent in the news before very many days pass.

Obviously, it would be better for all concerned if the administration could work out a voluntary agreement with Canada to limit the movement of lumber into the United States, avoiding the harshness of an imposed quota which very well could bring retaliation.

Considerable assistance to the lumber industry could be accomplished through revision of U.S. Forest Service timber-selling policies—a subject which doubtless will be taken up by the White House's interdepartmental study group. And attention will be focused on steps to revive intercoastal shipping—which could be helpful to other west coast industries as well as lumber.

As to where all of this attention will lead, no one yet can predict. However, out of the many approaches to relief for the lumber industry, it is likely that something will be done.

[From the Oregon Journal, June 1, 1962]

Time for Action Near on Timber

The Senate Commerce Committee has heard so much about the problems of the Pacific Northwest lumber industry that it seems doubtful much that is new can be said.

Yet, since its final hearing is to be held in Portland's Federal Building Monday, operators might as well make it a good one, with a well-rounded presentation and an attendance that will include workers whose jobs have been lost by the squeeze on the industry here.

Then it will be time for the committee to act as quickly as it can on the information it has available, for remedies will not come easily, and the longer the delay the more the distress.

The evidence is clear that no single policy change or single piece of new legislation will be sufficient to solve the problem.

Pacific Northwest lumber operators are suffering from Canadian competition because the Canadians can ship more cheaply by water, because they enjoy delayed transit privileges by rail, because their wage costs are lower, because the prices they pay for Government-owned timber are lower, and because the money exchange rate sharply favors them in the Eastern U.S. markets.

Operators have, it seems to us, put a disproportionate share of the blame on the U.S. Forest Service, charging that it has not put sufficient timber on the market and that its appraisals are too high.

There is room for some criticism in that the Forest Service has not always offered timber for sale at a cutting rate permissible under its sustained yield planning. But the pressure is on now from within the Forest Service itself to keep up with its allowable cuts. Even this increased flow, however, will not provide sufficient timber to satisfy the needs of all operators, and the Forest Service cannot and should not go beyond its allowable cuts.

On the Mount Hood National Forest, one of the most competitive in the country, operators are bidding up to twice appraised values. It is hard to see how lower appraisals will change this situation. If the Forest Service is to sell on some other basis than competitive bidding, then changes in the law will be required.

It is difficult to talk about quotas on Canadian lumber at a time when the administration is pushing its trade expansion program and looking to a freer flow of products. But quotas would be permissible within the concept of the President's trade program, and with the problem as complicated as it is there may be no other answer.

At any rate, key Members of Congress and the administration are now fully alerted to the problem and loaded with information. Let's hope they can act to save an industry which is so vital to our region.

[From the Seattle Post-Intelligencer, June 1, 1962]

SEATTLE'S BUSINESS: TIMBER INDUSTRY PLEDGED U.S. AID

(By Fergus Hoffman, Post-Intelligencer business editor)

The ailing Pacific Northwest timber industry has been promised a clinical examination and long-term treatment, which it needs, but whether the patient can survive in the meantime is the troublesome question.

When Dean Rusk, the Secretary of State, was in Seattle recently he described the industry's problem with Canadian competition as one of those sudden economic upheavals which cannot be foreseen in trade. The industry, in turn, suggested to him that some equally swift Federal action should be taken to alleviate the condition.

Rusk promised an immediate top-level analysis of the current situation. He impressed the industry spokesmen with his obvious interest in the case, and they went away heartened.

The Canadian competition flared up abruptly 16 months ago when world shipping rates dropped, giving British Columbia shippers an extremely advantageous water rate to the U.S. eastern seaboard. This traditionally has been a major green timber market for Washington and Oregon.

However, forced to ship between American ports only in more expensive American bottoms, the Pacific Northwest industry found itself at a competitive disadvantage. More recently, the drop in the Canadian dollar has given the British Columbia suppliers even more of an advantage.

As was pointed out to Rusk, the Canadians would not long permit such a situation to continue if, for instance, their big pulpwood market in the Eastern United States, supplied by eastern Canadian forests, suddenly were taken away by some dramatic change in the economic factors. Quota or tariff restrictions would come into play. Some such short-term application on this side of the border now certainly would help the American patient.

For the long term, Senator Warren G. Magnuson has arranged a complete course of administrative action which will be headed by Secretary of Commerce Luther Hodges. As chairman of the Senate Committee on Commerce, Magnuson set up the Seattle conference with Rusk and the Government-wide study which will probe the problems of the lumber industry on a national scale.

Besides Commerce, the Departments of State, Agriculture, Interior, Labor, and Treasury all will be represented. The independent agencies involved in the study will be the Council of Economic Advisers, the Interstate Commerce Commission, and the Tariff Commission. The latter may prove especially significant if the Canadians do not in the meantime take some self-restricting action.

The Hodges study will investigate the problem of overcapacity, raw material costs, Canadian competition, west-east transportation differentials, and the other factors which have resulted in unemployment in the camps, mills, and factories of the industry and in reduced income and unfavorable profit pictures.

[From the Oregonian, Portland, Oreg., June 1, 1962]

ACTION AT LAST?

President Kennedy's setting up of an interdepartmental study commission to propose methods of relieving the severe economic problems of the Pacific Northwest lumber industry followed a personal appeal to him by the Lumberman's Economic Survival Committee.

It should not require much time for the Commission to come up with the facts. For months representatives of the lumber industry have been bombarding Washington departments and agencies with information on the inroads being made by Canada on the U.S. domestic markets. The buying of logs by Japan, which last year drove up the price many Northwest lumbermen had to pay, has been explored fully. Restrictions on the American lumber industry, such as the Jones Act which requires Northwest water shippers to pay much higher freight charges than do British Columbia shippers, have been explained time and time again to departmental representatives.

A telegram 2 weeks ago to President Kennedy listed some of the appeals that have been made on the departmental level:

"We have met with the Secretary of Agriculture, seeking modification of Forest Service policies that would be in keeping with modern timber practices and in seeking a change of attitude in the Forest Service approach to private industry. That was last February and we have had no response from the Secretary.

"We have urged the Secretary of Commerce to meet with the Canadians to determine a mutually acceptable solution, yet we have no reply from the Commerce Department.

"We have met with the Department of State which told us more study is needed."

All segments of the industry, large and small, have endorsed a temporary quota on lumber imports from Canada at 10 percent of U.S. domestic consumption. The devaluation of the Canadian dollar has indicated that Canada intends to push its exports with means at its command. An emergency quota would permit the U.S. industry to survive while methods are found to relieve it of restrictions placed on it by the U.S. Government.

The Senate Commerce Committee is holding hearings on the problem and will hold one in Portland next Monday. These may result eventually in legislation easing competitive problems.

More immediate action is called for. One wonders if the departments in Washington will bestir themselves, now that the President has taken a personal interest.

RESOLUTION ON CONGRESSIONAL SOLUTION TO AMERICAN LOSS OF ATLANTIC COAST LUMBER MARKETS

Western Governors' Conference, May 2–5, 1962, Anchorage, Alaska

Whereas Atlantic coast lumber markets are being lost to foreign suppliers bringing economic distress to western lumber States and seriously disrupting industrial activity; and

Whereas jobs in the lumber industry as well as the economic well-being of the area are being threatened and the industry jeopardized as a result of these market developments; and

Whereas the economic factors creating this market dilemma are oriented to solution at congressional level; and

Whereas the situation is threatening to become more pressing with the passage of time; and

Whereas the Senate Commerce Committee of Congress is presently conducting hearings to assemble all the facts involved; and

Whereas many other American industry and resources development problems are similarly affected, such as minerals, oil, etc.: Now, therefore, be it

Resolved by the western Governors, That, upon the recommendations of the Commerce Committee, Congress find an equitable solution to this economic problem and take steps to make American lumber producers competitive with foreign suppliers in U.S. markets; and be it further

Resolved, That Congress take advantage of this opportunity to strengthen the maritime service of the United States in connection with its solution of this lumber movement situation; and be it further

Resolved, That the Congress support the efforts of the President to develop the Common Market in the areas where benefits will result from active American participation; and be it further

Resolved, That Congress be continually aware of the effect trade agreements may have on particular industries within the Western States; and be it further

Resolved, That the U.S. Government support in every possible manner the increased sale of American lumber in domestic and foreign markets; and be it further

Resolved, That the western Governors are in complete accord with the importance of efforts to strengthen the competitive position of the U.S. lumber industry and will individually lend assistance at the State level in any manner believed necessary.

The CHAIRMAN. The committee will recess until tomorrow at 10 o'clock.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene to 10 a.m., Friday, June 15, 1962.)

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

FRIDAY, JUNE 15, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:25 a.m., in room 5110, New Senate Office Building, Senator Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson (chairman), Bartlett, and Engle.

Also present: Senators Morse, Church, Dworshak, and Kuchel.

Staff members present: Gerald Grinstein, professional staff member; and Robert Wolf, professional staff member, Interior Committee.

The CHAIRMAN. The committee will come to order.

Today's hearings will conclude the Government witnesses on the problem of lumber imports and other matters that we have been discussing.

The chairman has an opening statement but, in the interest of time, he will put that in the record.

(The chairman's opening statement follows:)

Today's hearing covers one of the specific areas where substantial corrective action can be taken by executive agencies.

The management of the timber on the national forests and the public lands has been left by Congress largely within the complete discretion of the Secretaries of Agriculture and Interior. They have a broad charter to conserve the resource so that it will be available in perpetuity. Outside of this admonition they may determine how much timber may be cut, how it may be sold, the price at which it will be appraised, and all of the other conditions of sale.

On top of this the record is clear that the Congress has been extremely kind on the matter of budget requests. While there may have been a few cuts made here or there, by and large the record shows that we have increased the budgets over the amounts requested almost every year for the past decade.

On the only matter where authorizations are written—access roads—the record is equally clear, as the senior Senator from Oregon so ably pointed out on Tuesday, between 1954 and 1960 $93 million was requested for authorizations, but the Congress approved authorizations totaling $242 million. Now this action by the Congress did a great deal to help get timber properly marketed.

I honestly believe that we in the Congress have shown a genuine recognition of what should be done.

Dr. McArdle appeared before the Appropriations Committee just before his retirement. He told Senator Hayden—"I just want the record to be clear that it is not the Forest Service or McArdle who has been improving the conservation of our natural resources for the benefit of all of our people. It is you, sir, and this committee."

Today, Mr. Cliff, we are going to do a little more pushing and we are going to try to do it constructively. I hope from here on out you will take the leadership and get done the job that should be done.

Throughout these hearings the Forest Service has been subjected to a great deal of criticism. If some of this criticism in your judgment is unwarranted and unfair, you have an obligation to correct the record.

For my own part I am not interested in raking over the distant or the recent past. I am interested in where we go from here. The past record has some bright spots and some dull ones. I am sure that by now you know that the Members in the Senate and the House, who have substantial public timber holdings in their districts and States, want to see some substantial improvements.

In the course of our inquiry, these questions have been raised:

1. What are you going to do to improve the spotty record on timber sale performance?

2. What do you propose to do to modernize allowable cuts, particularly where timber demand is high and community stability is in jeopardy?

3. Precisely how do you intend to respond to the request that you make genuine reforms in reporting to Congress and to the people the facts needed to assure sound land management?

4. Do you understand what I mean when I said on the Senate floor that there was a "condition" upon which funds are appropriated?

5. If you need to transfer funds to meet your timber sale obligations are you prepared to do so?

The Chair would like to note that in the hearings so far the criticisms have been largely directed to the Forest Service and only to a minor extent toward the Bureau of Land Management and the Indian Bureau in the Department of the Interior. Whether this comes about because the Interior agencies have less commercial forest land or because they may do a better than average job of management is not apparent from the record thus far. So that we may find out, we shall start this morning with Mr. John Carver, Assistant Secretary of the Interior for Public Land Management.

The CHAIRMAN. I want to say that today's testimony is going to cover, I am sure, one very important facet of this whole lumber matter. It involves, of course, the matter of stumpage policies and management of our timber resources.

Our first witness is John Carver, the Assistant Secretary of the Interior, in charge of Public Land Management.

We will be glad to hear from you.

Mr. CARVER. Thank you, Mr. Chairman.

Mr. Chairman, I would like permission of the committee to have join me at the witness table Mr. Edward Zaidlicz, who is the Chief of Forestry for the Bureau of Land Management.

The CHAIRMAN. We are glad to have you with us, Mr. Zaidlicz.

Mr. ZAIDLICZ. Thank you, sir.

STATEMENT OF JOHN A. CARVER, JR., ASSISTANT SECRETARY OF THE INTERIOR, ACCOMPANIED BY EDWARD ZAIDLICZ, CHIEF OF FORESTRY, BUREAU OF LAND MANAGEMENT

Mr. CARVER. Mr. Chairman and members of the committee, I am here today to bring to the committee information on the forestry program of the Department of the Interior, both management practices and plans for changing certain timber marketing regulations.

The Department of the Interior is a major supplier of sawtimber in the State of Oregon, particularly in the western part. But it is not the only supplier, or even the largest—the Forest Service is relatively far more important.

These two departments of the Federal Government share a common dedication to the highest standards of stewardship, commonly expressed as sustained yield management, or as multiple-use management.

The CHAIRMAN. Now, John, before you go on, you mentioned that you are here today to give us information, both on management practices and plans for making certain timber marketing regulations.

Could you state how long the same marketing regulations, timber marketing regulations, have been in effect?

Mr. CARVER. The timber marketing regulations——

The CHAIRMAN. What I am trying to get at, has there been any change in the past 8, 10, 15 years in the timber marketing regulations?

Mr. CARVER. Well, our marketing regulations are constantly under review and are constantly being changed.

The CHAIRMAN. Do you want to point out how they have been changed?

Mr. CARVER. In certain respects I am, Senator; and we will be glad to furnish the information on any specific aspect of it that the committee desires.

The CHAIRMAN. Yes, all right.

I do not say this facetiously, but would that be in contrast with the Forest Service regulations?

Mr. CARVER. Mr. Chairman, I could not say.

The CHAIRMAN. All right.

Mr. CARVER. It follows that both departments are keenly concerned about the Pacific Northwest timber situation—the depressed prices, the impact of imported lumber, export of logs, relative costs of transportation as between imported and domestic lumber, and the like.

Indeed, it is fair to say that we recognize our legal, moral, and practical obligations to maintain, or try to maintain, a healthy and efficient timber industry. As the Secretary of Agriculture recently said—the Department of the Interior also says—we are anxious to work with the industry representatives in solving mutual problems.

Our problems are mutual. Forest management in the commercial timber area, as distinguished from forest management in national parks, for example, are built around the ultimate harvest of the product by private enterprise, the timber operators.

From my own experience, Mr. Chairman, I know that the lumber industry is the key to the entire economy of many, many areas in the Northwest—in my own State of Idaho, in Washington and in Oregon. Our plans, that is, the plans of our Department, whether for a sale, for roadbuilding, or for regeneration and second growth management, depend upon efficient and timely harvest of the commercial forest stand. Our plans must be supportable, they must be publicized, and they must be open to public and private scrutiny.

Under good management, timber is a national resource which does not deplete.

For very many reasons, some within our control and some outside our control, some differences exist between the two major Federal marketing agencies—Agriculture and Interior. For mainly human reasons, each Department is vigorous in the defense of its own methods, and sometimes this vigor spills over into seeming criticism of the methods of the other.

So I would like to say at the outset that I would not like to be drawn into making value judgments as between historically different approaches. I have participated in an effort to acquire a greater measure of uniformity between the two Departments. Indeed I was criticized in an Oregon newspaper because, immediately after taking office, I undertook with my counterpart in agriculture to formalize Department approval of a study committee's pending recommendations for uniformity in forestry practices. The criticism was that I

was claiming credit for work accomplished by the previous administration, which indeed was the case. No credit was given for getting the project off dead center.

Senator MORSE. You say that was a criticism for an Oregon newspaper?

Mr. CARVER. Yes, sir. It was a valid criticism.

Senator MORSE. I am sure there would only be a valid criticism in an Oregon paper.

Mr. CARVER. That study concerned technical forestry. It didn't concern such matters as sales procedures, and only obliquely the matter of allowable cuts.

The Federal suppliers of timber, the Departments of Interior and Agriculture, can help the industry to regain or maintain health in only a limited number of ways. Pricing and marketing procedures affect the industry, the former directly and the latter indirectly by removing some of the competitive pressures which arise as the operators struggle to keep existing mill capacity in operation.

I might say that one of the problems that we must grapple with from time to time is the problem of overcapacity. Sometimes there is more capacity installed than paid for, or at least contracted for than there is allowable cut under any circumstances or theory.

So far as the Department of the Interior is concerned, I don't think our pricing methods are currently being criticized. In determining the appraised price for a sale, we work backward from current market prices of the end products, as reflected by frequent mill studies in the Northwest. We include a factor for sharing of the risk, so to speak, between the Government and the purchaser.

A further function of pricing policy is the play of the market. Competitive bidding procedure accounts for all but 10 or 15 percent of our sales. The procedures, that is the competitive bidding procedure, is applicable to all but 1 or 2 percent.

Sale price as a ratio of appraised prices has fluctuated from 1.48 to 1 in fiscal 1959, 1.39 to 1 in fiscal 1960, 1.34 to 1 in fiscal 1961, and it will probably be about 1.25 to 1 for fiscal 1962.

These ratios reflect no particular credit upon us. Since our pricing follows the market, albeit with a lag, but a minimal one, excess of bid over appraisals represents this competitive situation, and leads us to the question of our marketing practices apart from price. The question is whether we are putting timber on the market as fast as we ought, in size units suitable to the users, and relatively free of bureaucratic procedural superstructure.

We can start with whether we are putting the timber on the market fast enough; more usually this is expressed as whether we have properly computed the allowable cut.

The procedures for determining allowable cuts are technical. Historically, of course, we are proud of the fact that since the enactment of the Oregon and California Act in 1937 the Department has announced changes in allowable cuts on nine separate occasions, and the annual allowable cut has increased during this period from about 500 million board feet per year to 874 million board feet per year, and we contemplate making an additional announcement of an increase effective on July 1.

I have for the record a table showing the increases in the rates during this period.

The CHAIRMAN. Without objection, we will put that table in the record.

Mr. CARVER. Yes, sir.

(The table referred to follows:)

Revised annual allowable cut for Bureau of Land Management's 12 management areas in western Oregon is as follows:

	Thousand board feet
1. Columbia River	59,000
2. Clackamas-Molalla	34,000
3. Alsea-Rickeral	90,000
4. Sandiam River	61,000
5. Upper Willamette	77,000
6. Siuslaw	82,000
7. Douglas	135,000
8. South Umpqua	28,000
9. South Coast	173,000
10. Josephine	129,000
11. Jackson	86,000
12. Klamath	23,000

The allowable cut has progressed since 1937 as follows:

	Million board feet
1937	500
1947	523.5
1954	534.5
1955	588.2
1956 (February)	614.1
1956 (November)	660.7
1957 (September)	676.2
1957 (October)	692.2
1958	769.3
1959	874.2
1962 (including public domain lands)	977

Mr. CARVER. There may be honest differences of opinion as to whether we have increased it as much as the available data dictate. Foresters are trained to compute allowable cut, but I am sure they admit that determining it involves certain policy determinations.

For example, to decide to use a shorter rotation period is to make a judgement that industry will utilize smaller trees, not necessarily that trees in the future will grow bigger in shorter periods of time. When the Department announced its present system for determining the rotation period, 3 years ago, it was met with cries of consternation. Forestry experts said the rotation period was too short. Some of the same people now question us on the basis that the period is too long.

The CHAIRMAN. What is that period?

Mr. CARVER. Of course, the rotation period will——

The CHAIRMAN. It differs, does it not?

Mr. CARVER. Differ.

The CHAIRMAN. It is not exactly fixed?

Mr. CARVER. No, sir.

The CHAIRMAN. Yes.

Mr. CARVER. It varies on the——

The CHAIRMAN. This is the average; it would be an average, would it not?

Mr. CARVER. No, it is not an average; it is a function of determining allowable cut based upon its size, class and on the species, and so forth.

The CHAIRMAN. What would be the average number of years?

Mr. CARVER. About 90 years.

The CHAIRMAN. About 90?

Mr. CARVER. Yes, sir.

It is our policy continuously—and I emphasize "continuously"; that is, on a month-to-month, day-to-day basis—to review the data upon which the computations are made. These data include inventories, current utilization practices, and the best information we can get from industry on trends in utilization practices.

Now in all this, we know that our mistakes, if we make any, whether in determining allowable cuts, in misapplication of data, or in erroneous forecast of utilization, may have to be paid for by the next generation of operators or the next Government administrators. Certainly they will if we err on the side of liberality, and this tinges our judgment with conservatism. In other words, it is not inconceivable that the timber industry may some day suffer economic woes more serious than those it suffers today. Today we have the option of drawing upon our reserves. It may be that we should. But if our policy is to stay on a sustained yield basis, then the Government administrator has to act a little like a fiduciary.

The increase in allowable cut which we will announce effective July 1 carries forward the same approach which has resulted in virtually doubling the allowable cut over a quarter-century period. I doubt if technology in lumber utilization is going to rise like, for example, consumption rates of electric energy.

If they do, the Department will try to keep up with them. Our forest managers fully recognize and accept the responsibility of maintaining a uniform, constant flow of material consistent with the productivity of the lands—we cannot and will not condone overcutting. Conceivably we could shave some of our estimates of future risk such as the period of regeneration and increase our allowable cuts percentagewise. The net gain to industry, so far as the Department of the Interior is concerned, would be minor at this time, at any rate; the adverse effect on future generations could be major.

Another area of controversy, of course, is mensuration—the measurement techniques. Here, as I have mentioned, the Department of the Interior has its own approach. We cruise timber on the stump, apply the pricing techniques mentioned above, determine a total upset or appraised price, and hold a sale. It was said several times in the Portland hearings of this committee that our volumes didn't saw out.

This may be true. We can only say, first, that we use the same cruising techniques for putting timber up for sale as we do in determining allowable cut. If we are consistently off, then clearly we should go back and adjust our inventory figures. This will automatically result in a reduction, rather than an increase, in the allowable cut. We can't run our forestry work to give to industry the best of both worlds.

Failure of lumber scale to equal cruise on the stump we see as a function of utilization. Variation exists in the relative utilization efficiency of purchasers at any given time and one operator's utilization efficiency will vary over a period of time. I know from my own experience that many an efficient operator has been forced to run

high-grade logs through a gangsaw to meet urgent demands of his creditors.

In other words, to emphasize the points that a given operator may be forced to indulge in poor utilization practices merely because of the economic pressures that he faces.

Our volumes are based on a Scribner Decimal C 16-foot log; this system may not be standard in a given area but it is common enough in the West generally so that no operator is confused by it. We do not guarantee volume; every purchaser is strongly urged to make his own computations or cruise. We have to remember that our sales are from intermingled lands, from many thousands of separate tracts, and they tend to be small in total volume; but our books are open. We ask only that our prospective purchasers apprise themselves of the value of the material we offer, both to themselves and to their particular operation.

I recognize also that what appear to be discrepancies in log volume cause many administrative headaches to the operator. These I regret.

I know that when you have a certain volume of logs coming out of the woods, your general practice is to get a certain overrun. If you do not get an overrun, then you begin to inquire what is the reason for it. And certainly some of the people that may question it may be the tax people.

But we have to go on to say, as I do here, that we admittedly include low-grade material; in other words, economy or No. 4 common grades in Douglas-fir, and in certain grades and sizes of logs this can in certain situations be a material amount. However, as long as this item is sold on the open market and the values of this end product are reflected in the final appraised price, there is no deception. We split the risk with the operator in our pricing procedures, open and aboveboard. An alternative, of course, is to split the risk with the operator in overrun. The operator ought not expect both.

We prepare a yearly sale plan after a free discussion in public meetings in the communities in the area where the timber will be sold. These plans are reviewed by our advisory boards and once agreed to we live with them. No sales are dropped without an accepted substitution. Under the lump-sum sales system, the operator takes off everything he can economically extract since he pays for everything.

I assure you that the Bureau of Land Management is under the strictest instructions to make every effort possible to maintain accuracy in measurement and appraisal work. We may make mistakes, but the fact that we have made them or will make them in the future should not, it seems to me, necessarily require that we should guarantee that any given operator will be able to cut out the cruised volume in any given sale.

We think the following will be helpful to the industry:

1. Our allowable cut figures for July 1, 1962, represent an increase on the O. & C. lands of 25 million board feet.

2. We are now managing all three classes of lands; namely, the O. & C., the Coos Bay Wagon Road, and the public domain, as one, under a combined allowable cut computation, so that the relative figure moves up from 874 million up to 970 million or something like that.

3. We have signed an agreement with the Small Business Administration to permit our qualified purchasers to obtain road loans. This will alleviate the pressure for working capital where more costly road construction is required in our timber sale contracts.

4. We are going to initiate what I call, for lack of a better name, the Tillamook second growth project. Here we plan to study and manage our second growth forest more intensively. We realize in a very short time most of our old growth will be cut over, and we must be ready to provide the land's full productive capacity to an industry sorely tried by an inadequate raw material supply and the problem of retooling for smaller second growth.

5. To further ease the shortage of working capital we plan to revise our timber sale regulations. They will be—as a matter of fact, they are now, since I just signed them yesterday—in proposed rulemaking, which will be published in the Federal Register next week. Some of the changes will involve the following:

(*a*) Permit installment payments for timber sales over $500—at present sales under $2,000 must be paid in full.

The CHAIRMAN. Could I ask you, is that a new procedure, installment payments?

Mr. CARVER. We changed the breakoff point as to when it can be done to move it from $2,000 down to $500.

The CHAIRMAN. It extends it to smaller amounts?

Mr. CARVER. Yes.

The CHAIRMAN. A longer spread?

Mr. CARVER. Yes.

The CHAIRMAN. Would that be a fair statement?

Mr. CARVER. I do not know whether it is a longer period of time, but it makes——

The CHAIRMAN. The initial payment is smaller, or can be smaller?

Mr. CARVER. Yes; of course.

The CHAIRMAN. All right.

Mr. CARVER. It is an advantage to the smaller operator.

The CHAIRMAN. Yes.

Mr. CARVER. (*b*) Now, in felling and bucking in advance of instalment payment, as to that credit arrangement a bond may be posed to permit the operator to fall and buck a unit without cash outlay.

(*c*) We have eliminated the 60-day clause where the purchaser had to pay full contract value 60 days before the contract expiration.

(*d*) The contract period will be extended to 30 months as against the present 2-year limit.

And that is the point the chairman was raising.

The CHAIRMAN. Yes.

Mr. CARVER. That will automatically reduce the amount of the payment.

(*e*) We provide in our proposed rulemaking for the reduction of the performance bond at the completion of certain contractual obligations.

I want to say to the chairman, to the members of this committee, if we can do more, we want to. I want to emphasize that this matter is under continuous review. Our procedures for determining allowable cut are such that, if a given set of circumstances should come up to justify it, we can change it and change it on a moment's notice.

I am available for any questions the committee would like to place.

The CHAIRMAN. Thank you, Mr. Carver, for that very fine statement.

I want to ask one question. The Forest Service—and I do not want to draw, as you point out, comparisons—but they have had a so-called standard contract in the purchase of timber sales. There was some discussion of it in our meetings with the Department of Agriculture. Is your contract, the form of your contract, generally the same as is the Forest Service contract?

Mr. CARVER. I do not think the form of our contract is generally the same, because the pricing technique is different.

The CHAIRMAN. That is different?

Mr. CARVER. And so is the determination of the volume.

The CHAIRMAN. So there is a different general type of contract.

Well, let us say that you have more varied contracts. Would that be a correct statement?

Mr. CARVER. Well, that is a correct statement; but also, more to the point, I think, is that we come up with a price as our starting point.

The CHAIRMAN. Yes.

Mr. CARVER. And then it changes in price, as the bidding goes up, on the basis of the price, not by species, and it does not depend in the final analysis on the scale of removal. That is, there is land with a line around it, and that timber is for sale at a price which we have computed under ways which are open and available for inspection; then they can bid against that price. And generally they do, but we are working against a dollar figure.

The CHAIRMAN. Yes.

Senator Bartlett, do you have some questions?

Senator BARTLETT. Just one, Mr. Chairman.

Secretary Carver, on the opening page of your statement, you submitted that the BLM Interior, that is to say, has a legal obligation to maintain a healthy and efficient timber industry. Where does that legal obligation come from?

Mr. CARVER. That comes from the O. & C. Act of 1937, Senator Bartlett; Public Law 405 of the 75th Congress.

Among the purposes for which we manage the O. & C. lands is for—

> permanent forest production and the timber thereon shall be sold cut and removed in conformity with the principle of sustained yield for the purpose of providing a permanent source of timber supply, protecting water sheds, regulating stream flow and contributing to the economic stability of local communities and industries, and providing recreational facilities.

Senator BARTLETT. That is very healthy.

Mr. CARVER. Yes, sir.

The CHAIRMAN. Senator Morse.

Senator MORSE. Again, Mr. Chairman, I want to thank you for your courtesy in permitting me to participate in these hearings.

I have a few brief questions to ask the Secretary. Before I do that, I want to say, in behalf of the county courts in my State, that we all appreciate the way the O. & C. lands are managed in my State. We think a remarkably fine job is being done by the Bureau of Land Management in connection with our O. & C. lands, taken as a whole.

That does not mean, as you point out in your statement, that prob-

lems do not arise. But I do want to commend you; when problems do arise, we are always able to get an understanding hearing down at the Bureau of Land Management. And although it may not result in an agreement, it results in an understanding as to why agreement sometimes is not reached.

Mr. Chairman, I have a very high regard for the dedication to public service that I have always found in the Bureau of Land Management in respect to O. & C. lands.

On page 8 of your statement, Mr. Secretary, point 3, you say:

> We have signed an agreement with the Small Business Administration to permit our qualified purchasers to obtain road loans. This will alleviate the pressure for working capital where more costly road construction is required in our timber sale contracts.

In our hearings, there have been a good many witnesses who have testified with respect to the cost of road construction that the operators in the purchase of Government timber have to meet. One of the criticisms is that too frequently the cost of the road practically excludes the small operator from good, fair competition with the big operator.

In your opinion, Mr. Secretary, does this procedure that you have announced in respect to an agreement with the Small Business Administration increase the chances of the small operator to compete successfully in the bid for Federal timber when the sale that is put up is going to require the building of roads by the purchasers?

Mr. CARVER. Well, I think it tends in that direction, Senator, but it does not promise an all-out panacea. We have less trouble on this, as I point out.

I would like to say for the record that our beneficial relationships we have with the O. & C. lands, that the credit goes to Congress as well as to the administration, because the working of the counties into this relationship has been very beneficial.

But as to our roads, we cannot schedule roads; we do not schedule roadbuilding as a part of the sale price, in the same way we would if we had great large blocks of timber that we had to open up.

But to answer your question specifically, it will be very helpful to the small operators to compete.

Senator MORSE. In your sales of timber sometimes it is necessary for the purchaser to build the road?

Mr. CARVER. Yes; yes, that is correct; but it is not on the same big arterial kind of a basis as you sometimes have where you have larger blocks.

Senator MORSE. I understand that; but it may very well be such a costly operation unless he is assured of a loan at a rate that he can carry, which is true of small-business loans as a general policy, that he cannot bid at all.

Mr. CARVER. That is very true.

Senator MORSE. In these hearings, Mr. Secretary, there has been discussion on the part of some witnesses in regard to the standards on roadbuilding that the purchasers have to meet. They point out, for example, that they have to build roads that are not just logging trails to get their logs out; they have to build roads for multiple use purposes—recreation, fire prevention—and sometimes the road must go in fact into a public road that connects into an interstate highway. I do not think it has always been made clear that certainly part of that

type of road could reasonably be considered thereafter a permanent public road. Public bodies, the State and Federal Governments, and the purchaser should be required to make contributions to that cost of construction. Is that true or not?

Mr. CARVER. Well, that is true. Of course, it is taken into account in the price of the timber, so to speak. He is given credit; he does not have to pay twice.

Senator MORSE. No, but he has to pay the original outlay.

Mr. CARVER. It is a credit problem much more than anything else.

Senator MORSE. I want to clarify these hearings, Mr. Chairman, because I do not think it has been pointed up yet, and I think you can help clarify it.

I think the hearings would leave the impression, as far as the testimony of some witnesses is concerned, that when we have a requirement of building what amounts to a public road, I mean a permanent public road that is going to be used thereafter by the public for recreational purposes and for fire prevention purposes and for connection with other State and Federal highways, that the total cost of that kind of a high-standard road has to be paid for by the purchaser of the timber.

My question is: Is that true of false?

Mr. CARVER. Well, that is true; it is paid for by the people of the United States as a function of the price of the timber, so to speak. In other words, it is a method of financing roads which finances them out of the timber.

Now, that is a basic policy question.

Senator MORSE. We will use a hypothetical situation. Let us assume that the purchaser of the timber is going to have to build a road between points A and B, and point B is the terminal connection with a State highway; and the requirement is that he is going to have to build a road that will remain a permanent, public user road. Will the total cost of that road have to be paid for by the purchaser? Of course, he is supposed to be getting a consideration for the cost of that road by a lower price for his stumpage than he otherwise would have to pay. Or will he pay only a pro rata share of the cost of that road and the State and Federal Governments will contribute the rest?

Mr. CARVER. Well, I think that the former is presently the situation in some of these roads.

Senator MORSE. Yes; he has to pay the total cost.

Mr. CARVER. The total cost of it, in effect, comes out of those trees, rather than through other public sources, such as taxes or State or Federal contributions.

Senator MORSE. Staying with my hypothetical situation for a moment longer, he has bid on this timber, and we will say that he bid $29 a thousand. If he did not have to build a road, let us assume he would have bid $50 a thousand. He sometimes says that—if I interpret his testimony correctly—although he bid $29 a thousand, he still should have bid only $20 a thousand in order to have a fair chance to make a fair profit, because the cost of that road is going to be more than the $21—the difference between $29 and $50—and he really should have had the benefit of another $9; but competition being what it was, he had to either bid and get the timber or close down his mills. That is the way the testimony often goes.

Now, do you have any suggestions to make as to a procedure that might be developed for an appeal to some board of road review, that might give him an opportunity to have sort of a renegotiation with the Government? Because we have our own renegotiation board with our defense contractors working the other way. We say here somebody is going to build a missile base, and we feel that they get an undue profit, and we renegotiate it; at least, that has been the past renegotiation policy. I am speaking hypothetically.

What is wrong, as a procedure, in giving some possible consideration to the setting up of a renegotiating board to consider these matters subsequently, if they can show in fact that they really have assumed a bill on roadbuilding costs that ought to be paid for in part by all of the taxpayers of the country?

Mr. CARVER. Well, the problem on that, Senator, is this, at least as I see the problem. The device, as you put the timber operator in the roadbuilding business for other than timber purposes, and he may not know just exactly what he is doing; in other words, he says to the Government: I want this timber for such and such a price, and I will give you so much money and so much road.

Now, he has made a mistake; he just does not know that; he does not estimate correctly what it is going to cost him to build a road to the standards that have been fixed for him, and he loses.

Now, if we can show a public policy that indicates that we ought to protect the timber operator in this kind of an extended situation, that is, where other public purposes are involved, then I think it highly appropriate that we get a procedure to treat him fairly.

But I do not really think that I am in a position to deal with this departmentally or otherwise. I am just giving you an offhand response to the question which you have asked.

We are studying this question of other values being taken into account in the roadbuilding obligation, recreation, and other public uses.

But my analysis comes down to just what I have told you, Senator Morse, that it is——

Senator MORSE. I think it is helpful. I am not in a position to recommend a policy either; I am just trying to point up what has been brought out by some of these hearings, and it disturbs me very much.

There are a lot of bugs in even the tentative suggestion that I presented hypothetically. I realize that; and yet I cannot escape the fact that part of the plight of this industry is that they have gone broke or they have been operating at a loss because they ended up paying such a terrific road bill under the standards that the Government requires.

I realize that if you have this kind of a procedure that I am suggesting—you might just bid and bid and bid, thinking that they could get a renegotiation adjustment later. But I would see that there are checks and safeguards in there so that they would have no certainty of such a settlement. And if it could be shown that they just did not use good judgment in their bidding and they became capricious about it, they would be denied even a hearing on renegotiation.

Yet it seems to me a little unfair, if you are going to require private industry to build the roads, to lay down standards so costly that they have to take that into account on their bid on the timber and they end up in the red.

I only throw it out as something to think about.

Mr. Chairman, I have two or three more questions. I want to come to this appraised fair market value that the Bureau of Land Management follows.

The appraised fair market value that you follow is based upon present marketing conditions or on prospective future marketing conditions, or both?

Mr. CARVER. It is based upon the present marketing conditions.

Senator MORSE. Based on present marketing conditions?

Mr. CARVER. Yes, sir.

Senator MORSE. It is your understanding that that is also the principle followed by the Canadian Government in appraising the timber that it sells to Canadian mills?

Mr. CARVER. I do not know, Senator Morse, as to the Canadian practice.

Senator MORSE. In passing, I say that that is what the testimony thus far in the hearing shows.

The CHAIRMAN. Yes; it is.

Senator MORSE. Am I right, Mr. Secretary, that the Bureau of Land Management uses a cruise or so-called lump sum sale while the Indian Bureau uses scale sales?

Mr. CARVER. Yes; yes, that is correct.

Senator MORSE. Could you in a subsequent memorandum furnish the committee with costs per thousand feet for each sale method, along with any detail needed to explain differences due to timber types, and so forth?

Mr. CARVER. Yes; we will be glad to do that, sir.

Senator MORSE. What I am after there, Mr. Secretary, is to try to find what the facts are in connection with some very damaging testimony in the record thus far by way of complaints from lumber operators, in regard to our sale methods and our scaling methods and our cruising methods.

If I had to at the present time evaluate the testimony, I would say that the preponderance of the evidence would seem to indicate that the cruising method you use is at least better liked by the lumbermen than the scaling method that is used in the Indian Bureau and in connection with some other Federal forests. I would like to get this data for the record. I leave these questions with you.

The CHAIRMAN. I might suggest, sir, if you could get that up here by Monday—because we want to close these hearings and get——

Mr. CARVER. I think that data is all available.

The CHAIRMAN. Thank you.

Mr. CARVER. If we had a longer time, we could probably give you more.

The CHAIRMAN. Thank you.

(The material requested is included in the hearing record for June 18, on p. —.)

Senator MORSE. Mr. Secretary, some in the timber industry have expressed concern over the Attorney General's ruling on national forest access. Does this not really just apply to the national forests the same principle you have been using now for some years in the Bureau of Land Management?

Mr. CARVER. That is the reading I make of the Attorney General's opinion, yes; certainly that—we have had that application of the law for many years.

Senator MORSE. Can you tell us or furnish us a summary on how this program is worked?

Mr. CARVER. I have here a summary table which shows, at least as to western Oregon, that we have issued a total overall—mainly within the last 10 or 11 years—of 2,232 right-of-way permits. And of this number, reciprocal rights were acquired by the United States in 652; and we have acquired easements in the total number of 1,052; and of this number, only 60 have been by condemnation, and some percentage of those, at least, has been friendly condemnations.

There have been eight appeals on right-of-way matters, and none of our right-of-way appeals have subsequently gone to court, to date.

Senator MORSE. Sorry to take this time, Mr. Chairman, but you will find when you get through this record, that this is a very pertinent, important matter when we deal with the industry in connection with the allowable cut problem.

So this is my final question to you, Mr. Secretary.

Has this access policy not opened up a lot of timber that you probably would not have been able to otherwise market?

Mr. CARVER. Well, that has been the key to our intermingled type of operation in the O. & C. We could not manage without it.

Senator MORSE. Do you think you could supply us with how much last year's cut came over roads where you have reciprocal access arrangements?

Mr. CARVER. Yes, sir; I believe we can.

Senator MORSE. I would like to have that, because, Mr. Chairman, some of our industry are not very happy about the Attorney General's opinion, and it could be contested, which is, of course, their right. Yet I think here is a good example of where the industry can cooperate amicably too with the Government. As the Secretary has just pointed out, they have their appeal procedures. You have had some friendly condemnation suits.

I intend to fight as hard as I can to get the allowable cut up for the benefit of the industry; but I want to say most respectfully to the industry at this hearing this morning, that this matter of cooperation is a reciprocal responsibility, too. I see no reason why we cannot work out, at the Forest Service level, as the Secretary has just testified for some years we have worked out at the Bureau of Land Management level, a friendly cooperative arrangement that will provide for these reciprocal accesses to private timber and to public timber and across private lands and across Federal lands.

That is why I have asked these questions. And I hope the industry will take note of the senior Senator from Oregon's attitude about this matter. I would not for a moment suggest that we waive any of their legal rights. If they want to contest, they can contest.

But the data that the Secretary of the Bureau of Land Management will offer us, I think, is my answer to whether or not this kind of an arrangement in fact opens up timber that otherwise could not be opened up. And so when the industry cries to me about the need for more sales and more timber, I want to suggest that this is one way we can help. There are other ways, too.

Mr. CARVER. As to bringing out this, Senator, that the total volume over roads in which permits have been secured, I rather doubt we can get that information in final form by Monday; but if we cannot, I hope it will be agreeable to say that we cannot, and give what data we do have.

Senator MORSE. Well, at least have it available for me for future reference and use.

Mr. CARVER. Yes, sir; we will do that.

Senator MORSE. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Church.

Senator CHURCH. Mr. Chairman, the working relationship that I have had with the Secretary has extended back over a number of years. I am not surprised that his statement is a very cogent and excellent one. I want to commend him on it.

I think, however, it may be more pertinent to problems in Oregon than it is in Idaho.

Mr. Secretary, to what extent is the Bureau of Land Management engaged in the sale of public timber on Bureau of Land Management lands in Idaho?

Mr. CARVER. It is just nominal, Senator.

Senator CHURCH. It is very nominal; is it not?

Mr. CARVER. It is probably only about 25 or 26 million feet a year; it is a cleanup management job for us, rather than a sustained yield management task, such as we have in Oregon. And that is why we combined our statement pretty largely with the Oregon situation. We are not as major a timber supplier on public domain lands in any of the Western States as we are in the O. & C. areas in Oregon.

Senator CHURCH. Yes.

Now, the Indian lands in Idaho are not timber bearing, at least so far as Fort Hall is concerned. What about the Nez Perce?

Mr. CARVER. There is timber on the Nez Perce, but it is largely in the same pattern; that is, it is regrowth and small isolated tracts. It does not constitute a source upon which mills gain a reliance, mills with a bid for it. And we try to manage it properly, but it is just as they work in the general area.

Senator CHURCH. Well, would you say that it is the lack of activity in this field in Idaho that accounts for the fact that all the criticism in the complaint there relates to the Forest Service and not the Bureau of Land Management or the difference in your procedures as compared with the Forest Service?

Mr. CARVER. I suppose, realistically, Senator, the former is more the accurate statement.

Senator CHURCH. I suspect it is.

Well, I will reserve my questions for the Forest Service.

The CHAIRMAN. We will have the Forest Service in a minute.

Senator Kuchel, do you have any questions of the Secretary?

Senator KUCHEL. No, sir. I imagine the activities of the Bureau in California are somewhat similar percentagewise to the situation in Idaho.

Mr. CARVER. We have quite a lot more, but then you have quite a lot bigger State in this sense, Senator. And it extends particularly up in the northeast section of your State, as you know, it becomes

quite a major thing; but it is still intermingled and scattered relatively as compared to what we have in Oregon.

Senator KUCHEL. I have no further questions.

The CHAIRMAN. Henry, do you have any questions?

Senator DWORSHAK. Yes.

Mr. Carver, to what extent does the Bureau of Land Management and the Bureau of Forest Service coordinate their efforts in outlining policies which will minimize conflict and controversy in handling timber?

Mr. CARVER. Well, we work on that at two different levels, Senator. The uniformity studies, which I mentioned earlier in my testimony, have been a continuing effort at the local level and among the technicians. I think I can say with some assurance that the relationships between my Secretary and Secretary Freeman now are much better than in past years they have been, in one administration and another.

The Secretaries, I will be frank to admit, have not applied themselves to the technical question of allowable cuts, and so on; but we do work closely, and we intend to continue to do so.

Senator DWORSHAK. Problems, then, that face the lumber industry today are mutual to the extent that the Bureau of Land Management and the Forest Service are confronted with these problems and the need of trying to provide some solutions?

Mr. CARVER. Yes, sir; that is correct, sir.

Senator DWORSHAK. That is all, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator MORSE. I have one more question, if I may ask it.

The CHAIRMAN. All right.

Senator MORSE. Mr. Secretary, are your management plans for public timberlands open to public scrutiny at all stages of development or only after approval by the head of the Bureau of Land Management or the Secretary of the Interior?

Mr. CARVER. We have an open-door policy. Our management plans are available for scrutiny.

Senator MORSE. I only wanted the Secretary to make a statement as to the Bureau of Land Management policy on this matter, Mr. Chairman. And I will not press it further at this time.

The CHAIRMAN. All right.

Senator MORSE. I shall discuss it with the Forest Service, but let the record show, so that the Forest Service will know, the question that I shall ask on this matter.

The testimony in these hearings has been to the effect that the Forest Service will not make available information in regard to their development plans, management plans, until the Chief of the Forest Service approves; and I am not so sure that it does not also require approval by the Secretary of Agriculture.

But the witnesses testified that they put their plans into effect, however, prior to final approval by the Chief of the Forest Service or the Department of Agriculture. If that is true, I want to know it; and an explanation as to why they will not make this information available to the parties in interest so that protests could be prepared along the way—the open door policy that the Secretary has just testified to in regard to the Bureau of Land Management commends itself to me.

The CHAIRMAN. We thank you, Mr. Secretary.

Senator CHURCH. Mr. Chairman, may I make one comment before Mr. Carver leaves? I did not want you to construe my remark with respect to the Bureau of Land Management overly much.

Mr. CARVER. No; I did not do so.

Senator CHURCH. I think you are fully aware that, although there has been little criticism with respect to Bureau of Land Management policy in timber in Idaho, there has been great criticism with respect to grazing on public lands. And I sponsored just last week with the distinguished Senator from Oregon an amendment to the appropriations bill which is intended to initiate a pilot program for rehabilitation of the grazing lands, which does affect Idaho, and which I hope represents a new departure in the effort to find some solution for the cattlemen's problems other than drastic cutbacks in allotments. And I am hopeful that the House will act favorably on the Senator's amendment.

Senator MORSE. We would not have had it, had it not been for the great assistance we had from the Secretary, Mr. Carver, and from Secretary Udall as well, and from the Bureau of Land Management

Senator CHURCH. Yes; I concur in that. And I want to thank you, John, for your help in the effort that has been made.

The CHAIRMAN. Mr. Secretary, just one quick question. What sort of independent forestry advice is available to you and the Secretary; that is, how many men on your staff analyze what you may recommend?

Mr. CARVER. Well, as the committee knows, several of the bureaus in the Department of the Interior are engaged in forestry functions.

The CHAIRMAN. Yes.

Mr. CARVER. The Park Service, the Bureau of Reclamation, the Bureau of Sport Fisheries, in addition to the Bureau of Land Management and the Indian Bureau.

Now, in one very important sense they tend to sort of exercise a control over each other; that is, there is always a competition for standards. The foresters sort of influence each other; the responsibility for technical forestry, the technical aspects of it—of course, it crosses several Assistant Secretaries' lines—is fixed by regulation in me, and I carry out my responsibilities in this regard by having on my staff, or have until today on my staff, a very respected and capable Government forester, John Shanklin, who has been in the business for many, many years, but who is transfering to the new Bureau of Outdoor Recreation.

I will, of course, fill that position——

The CHAIRMAN. Well, the point I am trying to get at is it is my understanding that you have an independent check down there with people on your staff.

Mr. CARVER. Yes. Our resources program staff also has competent foresters on it.

The CHAIRMAN. Yes. Thank you very much, Mr. Secretary. We appreciate your testimony.

Now, the Forest Service; Mr. Cliff is here.

Is Mr. Stone here? Let Mr. Stone come up, too.

I want to say that Mr. Cliff is Chief of the Forest Service, and the regional forester, Mr. Stone, who is in charge of the Washington-Oregon area, is here.

Do you have a separate area for Idaho and California?

Mr. CLIFF. Yes, sir. We have a separate region in California.

The CHAIRMAN. All right; we will be glad to hear your statement.

STATEMENT OF EDWARD P. CLIFF, CHIEF, FOREST SERVICE, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY I. J. MASON, DIRECTOR OF THE DIVISION OF TIMBER MANAGEMENT, AND HERBERT STONE, REGIONAL FORESTER, WASHINGTON-OREGON REGION

Mr. CLIFF. Mr. Chairman, I also have with me Mr. I. J. Mason, the Director of our Division of Timber Management.

The CHAIRMAN. Yes. Go right ahead, Mr. Cliff. Do you wish to read your statement? We will put it in the record in full. You had better go ahead. It is a short statement. Go ahead and read it and we will ask you questions.

Mr. CLIFF. I would prefer, Mr. Chairman, to read it, if I may.

The CHAIRMAN. All right. Then we will ask questions.

Mr. CLIFF. I am glad to be here today to discuss certain national forest policies in relation to lumber industry problems.

The Forest Service realizes that the lumber industry is experiencing serious difficulties. We are deeply concerned over this. At the field hearings of the committee many questions were raised over Forest Service timber sale policies. The statement which follows discusses what we consider are the major problems with which the Forest Service is directly involved.

Since the lumber market decline started about 2 years ago, the Forest Service has taken and is taking the following major actions which we consider will be helpful:

1. Appraised stumpage prices have been substantially reduced. Weighted average advertised prices for timber sold in the six western national forest regions, exclusive of Alaska, declined 30.6 percent from 1959 to 1961 to an average of $10.27 per thousand board feet. Average bid prices for the same area also declined 30 percent in this 3-year period to $13.78 per thousand board feet.

2. Appraisal procedure adjustments were made in December 1961 and January 1962 which resulted in further reductions in appraised prices of about $1.50 per thousand board feet for ponderosa pine and from $2 to $6 per thousand board feet for timber in the Douglas-fir region of Oregon and Washington.

3. Minimum rates for ponderosa pine in the Rocky Mountain and Southwestern States were reduced to $3 per thousand in December 1961.

4. In other parts of the West, minimum stumpage rates for ponderosa pine, Douglas-fir, and other high value species were reduced to $3 per thousand in April 1962.

5. In December 1961, the stumpage price adjustment procedure was modified to provide (*a*) a more effective method of amortizing road costs and (*b*) a more equitable offset for periods when further stumpage price decreases are restricted by minimum contract rates.

6. This week, Secretary Freeman announced discontinuance of the quartile feature of the appraisal system. He also made mandatory procedures heretofore discretionary to increase profit levels in appraisals for sales containing high value and low value species.

In this statement a special analysis is made of actions taken to meet industry needs on the 42 western national forests, all within the five Pacific Coast and Inland Empire States, where timber demand generally exceeds the supply available for purchase. This analysis shows for these 42 national forests:

1. An increase in annual volume sold of 1,714 million board feet, or 29-percent increase since fiscal year 1958.

2. An increase in annual volume cut of 2,272 million feet, or 51-percent increase in cut since fiscal year 1958.

3. An increase in annual allowable cut of 1,130 million board feet, or 19 percent since January 1, 1958.

4. For the fiscal year ending June 30, 1962, the estimate of volume sold is 1,500 million board feet above the volume sold in fiscal year 1961. Volume sold in fiscal year 1962 is estimated to be 428 million board feet more than allowable annual cut as adjusted to January 1, 1962.

The Multiple Use-Sustained Yield Act of June 12, 1960, directs that the national forests be managed for sustained yield and multiple use. In addition to being a major commodity use, timber harvesting is the principal means whereby forest growth is manipulated to maintain forest productivity and utility. Timber harvesting is practical only where there are mills to use the timber. Hence lumbering, as the principal wood-using industry, is an essential activity for fully productive multiple-use management. The Forest Service needs a healthy lumber industry for multiple-use, sustained-yield management of the 91.5 million acres of commercial forest land in the national forest system.

To put national forest timber production in perspective with the overall problems of the lumber industry, I think it is important to realize that:

(*a*) Fourteen percent of the national timber harvest for all purposes comes from the national forests.

(*b*) About 30 percent of the logs cut in the West exclusive of Alaska come from the national forests.

(*c*) In 1960 for the five Pacific Coast and Inland Empire States, 27.8 percent of the logs cut came from the national forests, and for the decade ending in 1960 the percentage is 22 percent.

The CHAIRMAN. Would you put in the record the percentage in the five Pacific Coast and Inland Empire States of logs from the national forests, from the State lands and from private lands?

Mr. CLIFF. Yes; we will do that, sir.

The CHAIRMAN. Have you got that in your statement here?

Mr. CLIFF. I do not have that here.

The CHAIRMAN. I am sure you have that.

Mr. CLIFF. I have it for the national forests but not for the others.

The CHAIRMAN. Yes; all right.

Mr. CLIFF. Statistics for the five Pacific Coast and Inland Empire States are shown in table No. 1.

(Table 1 follows:)

TABLE NO. 1.—*Log production for Pacific Coast and Inland Empire States by origin from national forest or other source*

[Million board feet]

State	10-year average, calendar year 1951–60, volume cut				Calendar year 1960, volume cut			
	National forest	Other	Total	Percent national forest	National forest	Other	Total	Percent national forest
California	970	4,585	5,555	17.5	1,324	3,813	5,137	25.8
Idaho	509	1,139	1,648	30.9	660	1,240	1,900	34.7
Montana	396	495	891	44.4	464	776	1,240	37.4
Oregon	1,848	6,913	8,761	21.1	2,315	6,070	8,385	27.6
Washington	975	3,545	4,520	21.6	1,181	3,546	4,727	25.0
Total	4,698	16,677	21,375	22.0	5,944	15,445	21,389	27.8

STUMPAGE SUPPLY AND LUMBER PRICES

Mr. CLIFF. It is generally agreed that the lumber industry is caught in a price-cost squeeze. Costs of lumber production during the last few years have not increased markedly. Rather, the inability of the industry to reduce costs in step with declining lumber prices is a major cause of difficulty.

Stumpage is one element in the cost of lumber production which has decreased in the last 3 years. This is particularly so for national forest timber.

The major problem of the industry is a drop in lumber selling prices. Lumber has numerous problems of competition with other materials and lately with increased imports of lumber from Canada. The soft lumber markets since the middle of 1960 and the concern of the industry over the increased volume of Canadian timber flowing into U.S. markets demonstrates that a major problem of the industry is in oversupply in comparison to demand.

If the lumber industry has a current overproduction problem, it cannot have an overall current shortage of raw materials. On an overall basis, therefore, it would appear that a stimulation of national forest timber sales at this time should result in increasing lumber production, which would further adversely affect lumber prices.

The problems of many individual lumbering operations in the West, however, differ from the overall problems of the lumber industry. There are many mills in the West which no longer have a backlog of private timber. They must obtain raw material supply by bidding on public timber. Where needs of such mills exceed the allowable annual cut from the public timber, vigorous competitive bidding results for the available public timber offerings. Mills in this situation want to have more national forest timber offered primarily to reduce local competitive bidding for timber. They evidently feel that the benefits from reduction in local competitive bidding for timber will outweigh adverse effects on lumber price levels which could result from the stimulation of production by increased availability of stumpage.

The most critical timber policy issues with the lumber industry are in the areas where we have vigorous competitive bidding. These issues arise primarily from the desires of timber purchasers to obtain

stumpage at lower cost. They are not necessarily indicative of a deterioration in the current stumpage supply situation. In one respect the stumpage supply situation for national forest timber purchasers has been improving over the last 5 years rather than deteriorating. This is shown in table No. 2 for the Oregon and Washington national forests, which report to our regional office in Portland.

(Table 2 follows:)

TABLE NO. 2.—*R–6 volume under contract*

[Millions of board feet]

	Cut	Uncut (under contract)
End of calendar year—		
1957	2,478	5,743
1958	3,098	7,048
1959	4,287	6,914
1960	3,428	7,441
1961	3,530	7,835

Mr. CLIFF. This table shows that the uncut volume under contract has increased by 2.1 billion board feet, or 37 percent, in the last 5 years. Uncut volume under contract at the start of calendar year 1962 was approximately twice the annual allowable cut.

One phase of lumber industry problems relating to Canadian lumber imports is the allegation that British Columbia Crown timber is priced lower than national forest timber in the Pacific Northwest.

Senator MORSE. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MORSE. I wonder if Mr. Cliff, going back to the previous paragraph, would enlarge his discussion again, and for the purpose of the record, and for those who read the record, explain to us what he considers to be the significance and implications of that paragraph? Because I think that is a very important paragraph.

Mr. CLIFF. Which paragraph, sir?

Senator MORSE. The one beginning: "The uncut volume under contract has increased by 2.1 billion board feet or 37 percent in the last 5 years."

Will you relate that vital statistic to what you think the economic problem in the lumber industry is?

Mr. CLIFF. It has several aspects; I think you could draw several conclusions from it. One is that we have, over this 5-year period, on the average been increasing the volume of timber that we have been selling. The volume of the cut, however, has not kept pace with the volume that we have been selling. It has not been in direct proportion. One reason is that, during this current slump in the market, timber which was purchased 3 or 4 years ago at high prices could not be cut, could not be sawed in the mills at a profit. Thus production was curtailed.

The CHAIRMAN. Of course, that figure does not mean a great deal, as some people can bid on the timber and keep it uncut. And other people cannot bid because of the high price.

Senator MORSE. That is the point I want to raise, Mr. Chairman. I want to ask: Does this mean that some people that have large stands

of private timber can buy large holdings of Government timber and put it in the deep freeze, so to speak, and proceed to market their private timber? This statistic does not include, does it, the cuts they make on private timber, or does it?

Mr. CLIFF. No, this does not include the cuts they make on private timber. This is just the public timber under contract.

What you suggest is a possibility. I do not know of any large amounts of Federal timber that is being held in that manner.

Senator MORSE. Some of it must be held for some purpose. If it is true that it has not been cut to the tune of 2.1 billion board feet, they have not cut it, if I interpret this correctly. That is why I want you to clarify my thinking on it. Somebody bought it, and they did not cut it. Now, what I would like to know is did they cut anything else?

And it is charged by some—and I want to check them as to their facts—that this is what has happened. Some company X buys Government timber at an unprofitable price, but hopes that the lumber industry will be better 10 years from now. They hold that in storage, and are operating their mills with a large ratio of their private holdings, which they got years ago at a very good buy; and they can, on the present market, sell that private timber and do pretty well. And also they find that a rather convenient tax arrangement.

The CHAIRMAN. Well, now, we will come back to that.

Mr. CLIFF. All right.

The CHAIRMAN. Let us get this statement out of the way, and then we will come back to that one point. I think that is very important. The record should be clarified and enlarged on.

Mr. CLIFF. One phase of lumber industry problems relating to Canadian lumber imports is the allegation that British Columbia Crown timber is priced lower than national forest timber in the Pacific Northwest. The Forest Service statement of April 24 on "Stumpage Prices and Pricing Policies in British Columbia" treats this matter in some detail. It develops that appraised prices for the five administrative districts of the British Columbia Forest Service when compared on a species basis and with recognition of size and quality differences are quite close to appraised prices for the same species in the most comparable national forest areas. The principal difference in stumpage costs of producers buying Crown timber in British Columbia and producers buying national forest timber in the Pacific Northwest or Inland Empire is due to little, if any, competitive bidding above appraised prices in Canada, on one hand, and substantial competitive bidding for national forest timber.

ALLOWABLE CUT

Forest Service policy on allowable cut is to increase sales up to full allowable rates. Our objective is to work toward more intensive management of national forests and to have the national forests make maximum contributions to the local economy.

Significant problems in connection with determination and development of allowable cuts under the present economy of the lumber industry are confined primarily to the areas where the demand for timber is in excess of volumes available for sale. There are 42 western

national forests where this situation generally prevails. In most instances, the excess of timber demand over supply available for sale results from shifts in dependency of mills established to cut adjacent private timber. These 42 comprise all of the national forests of Oregon and Washington, all of the national forests in California, except the 4 in southern California and the eastside Inyo National Forest, all of the national forests in northern Idaho (north of the Salmon River), plus the Boise and Payette National Forests, and in Montana the Kootenai, Flathead, and Lolo National Forests.

There are other western national forests which support a sizable and significant timber industry, such as the Black Hills National Forest in South Dakota, the Medicine Bow in Wyoming, the Arapaho and San Juan in Colorado, the Carson and Santa Fe in New Mexico, and the Coconino, Kaibab, Sitgreaves, and Apache in Arizona, where capacity is in reasonable balance with national forest allowable cut. There are other national forests particularly in Alaska and the Rocky Mountain States where additional mill capacity is needed to utilize allowable cut capacity. The operators on both kinds of areas are deeply affected by Forest Service timber sale policies in general, but they do not have the problem of trying to push up national forest timber offerings in order to cope with vigorous competitive bidding. This is the problem with which this section of my statement is concerned.

The record of allowable cut adjustments and of actual cuts for these 42 national forests is summarized by States in table No. 3.

(Table No. 3 follows:)

TABLE No. 3.—*Recent status of allowable annual sawtimber cut and actual cut on 42 national forests*

State	Number of forests	Commercial forest land (1,000 acres)	Allowable annual cut (sawtimber), million board feet as of Jan. 1—					Actual cut, by fiscal years				
			1958	1959	1960	1961	1962	1958	1959	1960	1961	1962 [1]
California	12	7,721	1,336	1,362	1,380	1,438	1,557	921	1,249	1,482	1,322	1,344
Oregon	[2] 13	12,781	2,303	2,387	2,480	2,599	2,758	1,741	2,544	2,847	2,409	2,841
Washington	7	5,670	1,372	1,379	1,387	1,389	1,425	945	1,191	1,433	1,236	1,319
Idaho	7	8,260	695	705	768	788	935	497	590	734	648	774
Montana	3	4,607	323	330	414	437	484	318	350	381	350	416
Total	42	39,039	6,029	6,163	6,429	6,651	7,159	4,422	5,924	6,877	5,965	6,694

[1] Estimated.

[2] 12 prior to addition of the Winema National Forest in 1961 when 41,000,000 board feet of cutting capacity was added to the national forest system from the major portion of the former Klamath Indian Reservation.

Since January 1, 1958, the allowable annual cut for these 42 national forests has been increased by 1,130 million board feet, or 19 percent. In the 5 fiscal years 1958 to 1962, inclusive, the highest cut was attained in fiscal year 1960. This was 2,455 million board feet, or 55 percent above the cut in fiscal year 1958. Reduction in rate of cutting in 1961 was due to lumber market conditions and not to lack of timber under contract. The expected cut in fiscal year 1962 shows recovery almost up to 1960 levels.

The adjustments in allowable cut calculations over the last 5 years for the 42 national forests are based primarily on the following considerations:

(1) Revised inventories which take into account the trend toward higher utilization standards which prevailed in the 1950's;

(2) Expansion of the areas considered commercially operable to reflect industry ability during the 1950's to harvest in more difficult terrain and in lighter and lower quality stands than had been feasible previously;

(3) Adjustment of safety factors used in previous allowable cut calculations. The expanded cutting experienced during the last 20 years has provided the basis for more reliable estimation of most factors affecting allowable cut determinations;

(4) Development of data on growth and mortality in mature uncut stands. Adjustments due to this factor are not yet completed but are in process;

(5) Reflection of advances in reforestation, stand improvement and sale area betterment on growth, productive commercial forest area, and periods of regeneration;

(6) Allowances for growth and harvesting in areas to be given special consideration for recreation and scenic purposes. Previously many such areas were not included in allowable cut calculations.

All of the foregoing considerations are generally now reflected in adjustments in allowable annual cuts. Additional adjustments from these sources are expected to be minor. Further allowable cut adjustments will come largely from two factors, one of which is a review and adjustment of rotation periods used in allowable cut calculations in working circles with large proportions of old-growth stands.

Senator CHURCH. Mr. Chairman.

The CHAIRMAN. Yes.

Senator CHURCH. Let me ask a question here, before you continue, Mr. Cliff. Because I am having some difficulty in reconciling the principal statement you make with the figures in your table No. 3.

At the top of page 8 of your prepared statement, you have said that in north Idaho and in south Idaho the demand for timber is in excess of the volumes available for sale. And you have listed the Idaho areas as among the 42 western national forests for which this is the case.

Mr. CLIFF. That is correct.

Senator CHURCH. Yes. Then in table No. 3, for 1962, this past year, you list 935 million board feet as the allowable cut, and show that the actual cut was only 774 million. How do you reconcile the figures with the statement?

Mr. CLIFF. This is one place where we have not been cutting the annual allowable cut.

Senator CHURCH. Yet the demand exceeds the supply.

Mr. CLIFF. That is correct.

Senator CHURCH. Well, the gap, then, due to timber put up and sold but which is then held and not cut because of market conditions——

Mr. CLIFF. That is one of the factors.

There is enough timber under contract in this part of Idaho, which, if the market conditions would permit and the operators desired, they could have cut more than the annual allowable cut during 1961. I think it is due primarily to it.

Senator CHURCH. To the market situation?

Mr. CLIFF. To the current bad market condition, rather than lack of timber under contract.

Senator CHURCH. Could access be another factor?

Mr. CLIFF. Yes, it could. It is a very definite factor in Idaho. We have some places where it is difficult to even sell the timber because of lack of road development. And this is a particularly serious problem in some of the back country areas in Idaho.

Senator CHURCH. Well, one further question. Taking 1962 as the year in question, was all the timber that you put up for sale sold?

Mr. CLIFF. I do not have figures available with me on that. There were some sales that were not sold, that were put up for sale.

Senator CHURCH. Practically all, however, was sold, was it not?

Mr. CLIFF. But virtually all of it was sold. In some cases we did not get a bid up on the first bidding.

Senator CHURCH. One other question. Do you have figures to show how much was put up and sold for the year as compared to the allowable cut for the year?

Mr. CLIFF. Yes. I think in table No. 4.

The CHAIRMAN. How much was not cut because of lack of access? Well, get that for the record.

Senator Church has a very important engagement in a few minutes, and there are some further questions I want him to ask you.

Mr. CLIFF. The answer to that question, Senator, is that in fiscal year 1962 in these forests in Idaho they sold 772 million board feet, and we could have sold, under the allowable cut limitations, 935 million. But the principal reason that this was not accomplished in Idaho, I would say, would be lack of access, lack of roads.

The CHAIRMAN. Lack of access. What about the extra money we gave you the other day; can you use that?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. Will you tell the House so?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. All right.

Senator CHURCH. I want to say in that connection, Mr. Cliff, that Senator Bartlett——

The CHAIRMAN. This is for access roads, in case you will be interested.

Senator CHURCH. Yes.

Senator Bartlett, at the request of the chairman and at my request, held hearings at Lewiston that you know about, I am sure, last month on this lumber problem in Idaho, and nearly all of the operators—we had nearly a hundred of them coming in to testify as to the severity of the probelm facing our depressed lumber industry, owing principally to Canadian competition. But nearly every operator, large and small, who testified pointed to the need for an expanded access road program as one of the things that the Government could do that would be helpful to the entire industry.

And as a result of those hearings, Senator Magnuson proposed, as you know, and I cosponsored, an amendment incerasing the amount to $6 million. The House provided no money at all. And I am very hopeful that we can get a sufficient figure to finance an adequate program for access roads. Because they are all in agreement on this, large and small operators alike, though the small operator would be the principal beneficiary.

Mr. CLIFF. We appreciate your support and interest, and that of the other Senators in this committee, in this matter.

The CHAIRMAN. How much did you ask the Budget Bureau for?

Mr. CLIFF. We asked for the same amount we had the preceding year, Senator, which was $2 million.

The CHAIRMAN. $2 million. And yet you testified——

Mr. CLIFF. Maybe I should correct that. I am not sure that the Department asked the Budget Bureau for that.

Can you tell me the answer to that, Art?

Mr. ARTHUR W. GREELEY (Assistant Chief, Forest Service). You are correct; it was $2 million.

Mr. CLIFF. $2 million.

The CHAIRMAN. And yet the testimony is that part of the problem—I know it is in Washington and Oregon—but in Idaho in particular—is that a lot of the allowable cut is there because of the lack of access roads. And you get it back in the long run. The taxpayers get it all back, and more.

I just do not understand why we have to come up here and fight to get the extra amount, when the Senator from Idaho has brought out the fact—and you testified, which is right—that one of the real problems in Idaho is the lack of access roads to the allowable cut.

Mr. CLIFF. That is correct.

The CHAIRMAN. And then Senator Dworshak is here. I think he will agree with me on that.

Senator DWORSHAK. Yes. But the House did not put in a single dollar.

The CHAIRMAN. I know it. But they only asked for $2 million.

Senator DWORSHAK. And got nothing.

The CHAIRMAN. And got nothing from the House.

Senator CHURCH. You have got $6 million from the Senate now, and between the two I hope we will come up with a program that will give us access roads in Idaho.

Now, I just have one other subject I want to raise, Mr. Cliff, that relates to Idaho. And this is a very serious problem. I hope, now that you are heading up Forest Service, that you address yourself to it, because I think it is terribly important for the expression on the face of the Forest Service to be changed.

Now, you know that I have a very high regard for the integrity of the Forest Service and for the personnel in it. And I do not think that that is subject to question anywhere; nor the dedication of the Forest Service. So please do not misunderstand what I want to say.

What does trouble people in Idaho—and I think elsewhere in the West—who are trying to live upon forest, to harvest the forest, and to seek the cooperation of the Forest Service and some understanding of the problems that face the lumber industry, is the general attitude that the Forest Service sometimes seems to look upon the lumber industry as some sort of enemy. The forests do not belong to the Forest Service; as you know, they belong to the people of the United States. And our economy in the West, to a large degree, is dependent upon a healthy lumber industry.

Now, I do not mean by that that the Forest Service ought not to follow proper sustained yield practices, and I know you will. But the procedures of the Forest Service often show not only indifference to these problems but sometimes something that closely approximates

arrogance. And I think you are in a position to change that, because I do not think it is an intended thing.

But the most recent illustration of it in Idaho—I have talked to you personally about it on the phone only yesterday or the day before—is a case, Mr. Chairman, where a scenic area has been established which involves part of Oregon and Idaho areas on either side of the Hells Canyon. This scenic area in total comprises 127,000 acres of public land. The Forest Service has announced that this scenic development area has been established. It has established a new priority with respect to the use in the area which subordinates lumbering and mining and other activities to recreational activities. I do not pass upon the merits of the plan, because I have not further examined it. It may be a very beneficial and worthy plan. I am not now in a position to pass judgment.

But I do strenuously object to the method by which this was done, for this was established without the benefit of any formal notice, without any kind of formal hearings in which the people affected had any opportunity whatever to come in and testify, by procedures that are hard to justify if we are going to operate a democratic form of government.

And I am sure, Mr. Cliff, that that is the kind of government you want to operate, and the procedures of the Forest Service ought to conform.

But public hearings, I think, where so much land is involved and so many economic interests are involved are necessary and proper. And none have been held. And I must say that this seems to me to be an example of unbridled license on the part of the Forest Service. And it is the kind of thing that leads to so much alarm and so much complaint in the woods of Idaho.

Now, I think that we should reexamine this Seven Devils Scenic Area and the procedures whereby it was established, and take the necessary steps to see to it that the people who are affected have a full opportunity to be heard.

I did not mean to commence a lecture from the podium, Mr. Cliff, but this does disturb me very much. And I should like to have your comment on it and hear what you have to say for the record on this matter.

Mr. CLIFF. Senator Church, in the first place, I appreciate your expression of high regard for the integrity of the Forest Service. I deeply appreciate it. I think it is merited, and we want to continue to merit that kind of a reputation.

I also appreciate your words of advice on our conduct of our timber business and our other business according to the best democratic principles. That is the way we want to operate. If we are not operating in that way, we want to correct it. I personally want to see it operated that way.

We do not regard the timber industry as an enemy. As I stated earlier in my statement, we recognize that we are interdependent; our program is dependent on having a timber industry that is healthy, to market the product that is grown in these national forests. If there is a growing feeling of enmity between the timber industry and the local forest officers, we should, both the industry and the Forest Service, do whatever is necessary to eliminate that feeling.

I would emphasize this is not entirely a one-way street. I believe that there is need for people, both in and out of the Service, to examine this problem and their own attitudes and conduct.

On the question of the Seven Devils-Hells Canyon Scenic Area, I have already expressed my regret to you that this was not discussed with you and other members of the affected delegations in advance. It was not intended that way. In fact, it was planned the opposite way. But it did not get accomplished.

The scenic area itself has been under consideration for a number of years. It has been a subject of discussion locally in public meetings. It has been discussed with our advisory boards in Oregon. We felt that this was a move that had wholehearted support by the local people. In fact, the reaction in some of the communities to this announcement has been good.

The scenic area designation does not actually change things very materially. As far as timber is concerned, there is very little commercial timberland in that beautiful scenic area. There are only about 5,000 acres of marginal commercial timberland involved.

Livestock grazing would be continued under the same policies that we have now. Mining would not be interfered with. Reservoir construction would be permitted.

The CHAIRMAN. You say mining will not be interfered with?

Mr. CLIFF. That is correct. This would have no effect on mining laws.

It does put the spotlight on the very impressive scenic quality of this area, and it puts into operation a plan for developing and capitalizing on those scenic and recreation values for the public benefit.

Senator CHURCH. All of this, Mr. Cliff, goes to the merits of the proposal.

Mr. CLIFF. That is right.

Senator CHURCH. Which I am not passing judgment on. And it may be that the proposal will have, when it is fully circulated and fully understood by the people, general support.

The thing I am objecting to is that where you have an area of this size, which does in fact involve some lumber and some possibility for lumber activity, which does or could involve mining, which does involve grazing, and where you have a plan that you are going to put into effect that changes the ordinary practice with respect to multiple use and establishes new priorities; that in such a case, involving the interests of the people and land of this area, I find it hard to justify the procedure. I think in such a case it should not be left to the surmise of the Forest Service that this has local approval, but that hearings should be held and people who would be affected should have a full opportunity, with notice, to come forward and comment upon the proposal. And it ought not to be done by the stroke of the pen by the Secretary as an edict, and then announced that it is done. This procedure is not a democratic procedure. And it is one of the reasons why the Forest Service causes antagonisms that could be avoided and should be avoided.

Now, here is a classic illustration of this failure to take into account the interests of the people and to give them the opportunity they should have to pass judgment upon these proposals through open hearings.

And as to that, nothing you can say with respect to the merit of the proposal answers the objection I raised.

Mr. CLIFF. I recognize your objection, Senator. I appreciate your viewpoint on this. And I assure you that we will take another look at the procedure for setting up scenic areas.

One of the reasons that we have not held public hearings on these areas as we do on wilderness, is that this is not a very restrictive type of classification. It does not really change the order of things in——

Senator CHURCH. I find that hard to reconcile with the statement that was sent to the newspapers of Idaho over the name of the Secretary. Because they did indicate that there would be a material change in priority.

And I think that this is the kind of area—it is not the case where you are setting up a little scenic area around the waterfall or something of that kind. This is a very big tract of land. And in a case of this kind I think that the proper procedures require hearings. And I think that hearings should be held in this case, before this becomes permanent and definite.

The CHAIRMAN. Senator, as long as we are on this—Henry do you have any questions?

Senator DWORSHAK. No. Thank you.

Senator CHURCH. We will have further conversations on this, I know.

The CHAIRMAN. What the Senator from Idaho is saying is that we know you are going to make mistakes, but do not make the wrong one.

Senator ENGLE. Do not make it in Idaho, he means.

The CHAIRMAN. All right.

I want to suggest, Mr. Cliff, if you do not mind, most of us have read this statement, and we will put it in the record in full. It is getting to be the noon hour, and I know a lot of the Senators have important engagements. But this is very important to them. I invited them here on behalf of the committee so that they might pose some questions to the Forest Service. If there is no objection, if you do not mind, we will put the statement and the graphs in the record in full, and we can proceed with some questions on some of the matters that the committee are concerned with.

(The prepared statement of Mr. Cliff, Chief, Forest Service, U.S. Department of Agriculture, follows:)

Mr. Chairman and members of the committee, I am glad to be here today to discuss certain national forest policies in relation to lumber industry problems.

The Forest Service realizes that the lumber industry is experiencing serious difficulties. We are deeply concerned over this. At the field hearings of the committee many qeustions were raised over Forest Service timber sale policies. The statement which follows discusses what we consider are the major problems with which the Forest Service is directly involved.

Since the lumber market decline started about 2 years ago, the Forest Service has taken and is taking the following major actions which we consider will be helpful:

1. Appraised stumpage prices have been substantially reduced. Weighted average advertised prices for timber sold in the six western national forest regions, exclusive of Alaska, declined 30.6 percent from 1959 to 1961 to an average of $10.27 per thousand board feet. Average bid prices for the same area also declined 30 percent in this 3-year period to $13.78 per thousand board feet.

2. Appraisal procedure adjustments were made in December 1961 and January 1962 which resulted in further reductions in appraised prices of about $1.50 per thousand board feet for ponderosa pine and from $2 to $6

per thousand board feet for timber in the Douglas-fir region of Oregon and Washington.

3. Minimum rates for ponderosa pine in the Rocky Mountain and Southwestern States were reduced to $3 per thousand in December 1961.

4. In other parts of the West, minimum stumpage rates for ponderosa pine, Douglas-fir, and other high value species were reduced to $3 per thousand in April 1962.

5. In December 1961, the stumpage price adjustment procedure was modified to provide (*a*) a more effective method of amortizing road costs, and (*b*) a more equitable offset for periods when further stumpage pirce decreases are restricted by minimum contract rates.

6. This week Secretary Freeman announced discontinuance of the quartile feature of the appraisal system. He also made mandatory procedures heretofore discretionary to increase profit levels in appraisals for sales containing high value and low value species.

In this statement a special analysis is made of actions taken to meet industry needs on the 42 western national forests, all within the five Pacific Coast and Inland Empire States, where timber demand generally exceeds the supply available for purchase. This analysis shows for these 42 national forests:

1. An increase in annual volume sold of 1,714 million board feet, or 29 percent since fiscal year 1958.

2. An increase in annual volume cut of 2,272 million feet, or 51 percent since fiscal year 1958.

3. An increase in annual allowable cut of 1,130 million board feet, or 19 percent since January 1, 1958.

4. For the fiscal year ending June 30, 1962, the estimate of volume sold is 1,500 million board feet above the volume sold in fiscal year 1961. Volume sold in fiscal year 1962 is estimated to be 428 million board feet more than allowable annual cut as adjusted to January 1, 1962.

The Multiple-Use Sustained Yield Act of June 12, 1960, directs that the national forests be managed for sustained yield and multiple use. In addition to being a major commodity use, timber harvesting is the principal means whereby forest growth is manipulated to maintain forest productivity and utility. Timber harvesting is practical only where there are mills to use the timber. Hence lumbering, as the principal wood-using industry, is an essential activity for fully productive multiple-use management. The Forest Service needs a healthy lumber industry for multiple-use, sustained-yield management of the 91.5 million acres of commercial forest land in the national forest system.

To put national forest timber production in perspective with the overall problems of the lumber industry:

(*a*) Fourteen percent of the national timber harvest for all purposes comes from the national forests.

(*b*) About 30 percent of the logs cut in the West exclusive of Alaska comes from the national forests.

(*c*) In 1960 for the five Pacific Coast and Inland Empire States, 27.8 percent of the logs cut came from the national forests, and for the 1951–60 decade 22 percent.

Statistics for the five Pacific Coast and Inland Empire States are shown in table No. 1.

TABLE No. 1.—*Log production for Pacific coast and Inland Empire States by origin from national forest or other source*

State	10-year average calendar year 1951–60 (volume cut, million board feet)				Calendar year 1960 (volume cut, million board feet)			
	National forest	Other	Total	Percent national forest	National forest	Other	Total	Percent national forest
California	970	4,585	5,555	17.5	1,324	3,813	5,137	25.8
Idaho	509	1,139	1,648	30.9	660	1,240	1,900	34.7
Montana	396	495	891	44.4	464	776	1,240	37.4
Oregon	1,848	6,913	8,761	21.1	2,315	6,070	8,385	27.6
Washington	975	3,545	4,520	21.6	1,181	3,546	4,727	25.0
Total	4,698	16,677	21,375	22.0	5,944	15,445	21,389	27.8

STUMPAGE SUPPLY AND LUMBER PRICES

It is generally agreed that the lumber industry is caught in a price-cost squeeze. Costs of lumber production during the last few years have not increased markedly. Rather the inability of the industry to reduce costs in step with declining lumber prices is a major cause of difficulty.

Stumpage is one element in the cost of lumber production which has decreased in the last 3 years. This is particularly so for national forest timber.

The major problem of the industry is a drop in lumber selling prices. Lumber has numerous problems of competition with other materials and lately with increased imports of lumber from Canada. The soft lumber markets since the middle of 1960 and the concern of the industry over the increased volume of Canadian timber flowing into U.S. markets demonstrates that a major problem of the industry is in oversupply in comparison to demand.

If the lumber industry has a current overproduction problem, it cannot have an overall current shortage of raw materials. On an overall basis, it would appear that a stimulation of national forest timber sales at this time should result in increasing lumber production, which would further adversely affect lumber prices.

The problems of many individual lumbering operations in the West differ from the overall problems of the lumber industry. There are many mills in the West which no longer have a backlog of private timber. They must obtain raw material supply by bidding on public timber. Where needs of such mills exceed the allowable annual cut from the public timber, vigorous competitive bidding results for the available public timber offerings. Mills in this situation want to have more national forest timber offered primarily to reduce local competitive bidding for timber. They evidently feel that the benefits from reduction in local competitive bidding for timber will outweight adverse effects on lumber price levels which could result from the stimulation of production by increased availability of stumpage.

The most critical timber policy issues with the lumber industry are in the areas with vigorous competitive bidding. These issues arise primarily from the desires of timber purchasers to obtain stumpage at lower cost. They are not necessarily indicative of a deterioration in the current stumpage supply situation. In one respect the stumpage supply situation for national forest timber purchasers has been improving over the last 5 years rather than deteriorating. This is shown in table No. 2 for the Oregon and Washington national forests, reporting to our regional office in Portland.

TABLE NO. 2.—*R–6 volume under contract*

[In millions of board feet]

	Cut	Uncut under contract
End of calendar year 1957	2,478	5,743
End of calendar year 1958	3,098	7,048
End of calendar year 1959	4,287	6,914
End of calendar year 1960	3,428	7,441
End of calendar year 1961	3,530	7,835

The uncut volume under contract has increased by 2.1 billion board feet or 37 percent in the last 5 years. Uncut volume under contract at the start of calendar year 1962 was approximately twice the allowable cut.

One phase of lumber industry problems relating to Canadian lumber imports is allegation that British Columbia crown timber is priced lower than national forest timber in the Pacific Northwest. The Forest Service statement of April 24 on "Stumpage Prices and Pricing Policies in British Columbia," treats this matter in some detail. It develops that appraised prices for the five administrative districts of the British Columbia Forest Service when compared on a species basis and with recognition of size and quality differences are quite close to appraised prices for the same species in the most comparable national forest areas. The principal difference in stumpage costs of producers buying crown timber in British Columbia and producers buying national forest timber in the Pacific Northwest or Inland Empire is due to little, if any, competitive bidding above appraised prices in Canada and substantial competitive bidding for national forest timber.

ALLOWABLE CUT

Forest Service policy is to increase sales up to full allowable rates. Our objective is to work toward more intensive management of national forests and to have the national forests make maximum contributions to the local economy.

Significant problems in connection with determination and development of allowable cuts under the present economy of the lumber industry are confined primarily to the areas where the demand for timber is in excess of volumes available for sale. There are 42 western national forests where this situation generally prevails. In most instances, the excess of timber demand over supply available for sale results from shifts in dependency of mills established to cut adjacent private timber. These 42 comprise all of the national forests of Oregon and Washington, all of the national forests in California, except the 4 in southern California and the east side Inyo National Forest, all of the national forests in northern Idaho (north of the Salmon River), plus the Boise and Payette National Forests, and in Montana the Kootenai, Flathead, and Lolo National Forests.

There are other western national forests which support a sizable and significant timber industry, such as the Black Hills National Forest in South Dakota, the Medicine Bow in Wyoming, the Arapaho and San Juan in Colorado, the Carson and Santa Fe in New Mexico, and the Coconino, Kaibab, Sitgreaves, and Apache in Arizona, where capacity is in reasonable balance with national forest allowable cut. There are other national forests particularly in Alaska and the Rocky Mountain States where additional mill capacity is needed to utilize allowable cut capacity. The operators on both kinds of areas are deeply affected by Forest Service timber sale policies in general, but they do not have the problem of trying to push up national forest timber offerings in order to cope with vigorous competitive bidding. This is the problem with which this section of my statement is concerned.

The record of allowable cut adjustments and of actual cuts for these 42 national forests is summarized by States in table No. 3.

TABLE No. 3.—*Recent status of allowable annual sawtimber cut and actual cut on 42 national forests*

State	Number of forests	Commercial forest land thousand acres	Allowable annual cut (sawtimber) million board feet as of Jan. 1—					Actual cut by fiscal years				
			1958	1959	1960	1961	1962	1958	1959	1960	1961	1962 [2]
California	12	7,721	1,335	1,362	1,380	1,438	1,557	921	1,249	1,482	1,322	1,344
Oregon	[1] 13	12,781	2,303	4,387	2,480	2,599	2,758	1,741	2,544	2,847	2,409	2,841
Washington	7	5,670	1,372	1,379	1,387	1,389	1,425	945	1,191	1,433	1,236	1,319
Idaho	7	8,260	695	705	768	788	935	497	590	734	648	774
Montana	3	4,607	323	330	414	437	484	318	350	381	350	416
Total	42	39,039	6,029	6,163	6,429	6,651	7,159	4,422	5,924	6,877	5,965	6,694

[1] 12 prior to addition of the Winema National Forest in 1961 when 41,000,000 board feet of cutting capacity was added to the national forest system from the major portion of the former Klamath Indian Reservation.
[2] Estimated.

Since January 1, 1958, the allowable annual cut for these 42 national forests has been increased by 1,130 million board feet, or 19 percent. In the 5 fiscal years 1958 to 1962, inclusive, the highest cut was attained in fiscal year 1960. This was 2,455 million board feet, or 55 percent above the cut in fiscal year 1958. Reduction in rate of cutting in 1961 was due to lumber market conditions and not to lack of timber under contract. The expected cut in fiscal year 1962 shows recovery almost up to 1960 levels.

The adjustments in allowable cut calculations over the last 5 years for the 42 national forests are based primarily on the following considerations:

(1) Revised inventories which take into account the trend toward higher utilization standards which prevailed in the 1950's.

(2) Expansion of the areas considered commercially operable to reflect industry ability during the 1950's to harvest in most difficult terrain and in lighter and lower quality stands than had been feasible previously.

(3) Adjustment of safety factors used in previous allowable cut calculations. The expanded cutting experienced during the last 20 years has provided the

basis for more reliable estimation of most factors affecting allowable cut determinations.

(4) Development of data on growth and mortality in mature uncut stands. Previously western national forest management plans were based on the assumption that for most mature timber stands growth and mortality were in balance. Repeated measurements of permanent plots have shown there is a positive increment on most uncut mature stands. Adjustments due to this factor are not yet completed but are in process.

(5) Reflection of advances in reforestation, stand improvement and sale area betterment on growth, productive commercial forest area and periods of regeneration.

(6) Allowances for growth and harvesting in areas to be given special consideration for recreation and scenic purposes. Previously many of such areas were not included in allowable cut calculations.

All of the foregoing considerations are generally now reflected in adjustments in allowable annual cuts. Additional adjustments from these sources are expected to be minor. Further allowable cut adjustments will come largely from two factors, one of which is a review and adjustment of rotation periods used in allowable cut calculations in working circles with large proportions of old-growth stands.

The Forest Service uses the age at which mean annual growth culminates, plus the necessary regeneration period, to establish rotations. This age will vary by as much as 30 years depending on the measurement units employed and the minimum sized tree and top diameter taken into consideration. Approximately a year ago the Forest Service decided it would be sound to base rotation determinations on volume tables computed on international ¼-inch scale to include trees 7 inch diameter at breast height and larger to a 6 inch top. This is approximately the current standard of inventory and utilization for southern and eastern second-growth softwoods. In the western working circles where this new basis for rotation determination is being applied, very few stands will be subjected to regeneration cutting at the rotation ages determined by this new procedure during the next 80 years. We feel it is a sound assumption that with the depletion of large overmature timber stands, the western lumber industry will adjust to standards of second-growth utilization at least comparable to those being currently practiced on southern and eastern softwoods. Application of this concept is already underway. It will result in some further upward adjustment of allowable cutting rates in certain areas.

The second factor which will be having significant impacts on allowable cutting rates runs in the opposite direction. Need for restriction on full commercial harvesting in certain areas, particularly at the higher elevations, is being reviewed. Restricted cutting or no cutting on areas now classed as commercial forest land may result from (1) additional needs for campgrounds or other recreational facilities, (2) scenic preservation, (3) critical watershed areas where present road construction and logging methods result in unacceptable soil disturbance.

A further additional consideration which may have significant impacts on allowable cut adjustments is the decline in timber utilization standards and shrinkage in operable areas which will result if present adverse market trends should intensify and extend over a prolonged period.

Altogether we anticipate that the effect of these factors may be an additional upward adjustment of around 450 million board feet in allowable annual cuts during the course of the next 2 years for these 42 national forests. We can see no basis for significant further upward adjustments beyond that point except as management and utilization is intensified.

Material reduction in the present commercial forest land area available for full commercial utilization could result in allowable cut reductions on some national forests.

The principal additional opportunities for the Forest Service to make available increased raw materials lie in salvage and thinning operations not included in allowable cut calculations. Large volumes of material can be made available if provision is made for advance roading.

TIMBER SALE PROGRAM

The development of annual sale plans to market the full allowable cut of a working circle requires consideration of many factors in addition to the specific allowable cut goal developed from the management plan. The most important requirement is provision for roads to the areas which are most in need of cutting.

A premise of the management plan is that it will be practical to get to every area when its cutting priority is reached. The transportation system and the cutting pattern must be laid out in a manner which will minimize conflicts with other uses. A road system is needed which will provide access not only to the areas most accessible but also to the areas at higher elevations where species with less desirable characteristics usually grow. A reasonable balance between high value and low value timber in the annual cutting budget should be maintained in order to avoid depletion of the highest value stands during the early phases of the rotation.

Lack of roads and insistence on sales at the full allowable cut rate lead to cutting of the most accessible timber regardless of its priority for cutting and regardless of effects upon other national forest uses. The Forest Service does not propose to cut in such manner.

The importance of the forest development road program in making it possible to have a stable sale program at full allowable cut rates cannot be overemphasized. The level of road funds provided for in the development program for the national forests would provide the means to overcome previous difficulties. In the pending Federal aid highway bill the administration has recommended substantial increases to $70 and $85 million for fiscal years 1964 and 1965.

With the development of pressures for giving consideration to every possible factor which will increase allowable cuts and for their attainment in annual timber sale programs it will be necessary to refine national forest timber management plans to state allowable cuts by species or timber type categories and to be more specific in the conditions of cutting which must be met to permit sale at the maximum allowable rate. Development of such detailed criteria will be given attention, particularly for the 42 national forests where demand-supply relationships for timber are critical.

Progress in building up rate of sales on the 42 forests during the last 5 years is shown in table No. 4.

TABLE No. 4.—*Volume sold by fiscal years on 42 national forests*

State	Number of forests	Volume in millions of board feet				
		1958	1959	1960	1961	1962 [1]
California	12	1,015	1,140	1,447	1,041	1,432
Oregon	[2] 13	2,825	2,749	2,705	2,518	2,972
Washington	7	1,139	1,611	1,181	1,370	1,877
Idaho	7	558	765	674	758	772
Montana	3	333	380	479	366	534
Total	42	5,873	6,645	6,486	6,053	7,587

[1] Estimated.
[2] Only 12 national forests prior to addition of Winema National in 1961.

The expected volume to be sold in the fiscal year ending June 30, 1962, is 428 million feet in excess of allowable cutting rate as of January 1, 1962. The increased rate of sales in 1962 will compensate for the shortage of sales in 1960 and 1961 which resulted in a decline from the previous high year of 1959. The total sales expected in fiscal 1962 is 98 percent of the financed sales quota of 7.722 billion board feet. For the fiscal year 1963 which begins on July 1, 1962, the tentative schedule of sales in these 42 forests totals 7,973 million board feet.

For the entire national forest system we expect that sales in fiscal year 1962 will total slightly more than 10 billion board feet which will be a new high record. This will be approximately 86 percent of the sales program expected when Congress was considering appropriations for fiscal year 1962. There are several reasons which make it difficult to maintain the sale program on schedule during periods of adverse lumber markets. Fiscal year 1961 proved to be a particularly difficult year in this respect. Sale preparation on numerous sales had to be done over again in order to present an economic offering. When sales were first laid out lumber prices were high enough to justify planned purchaser road construction. After the rapid drop in lumber prices, frequently sales had to be redesigned to either support the planned road system or to eliminate some of the purchaser construction by substitution of construction from appropriated funds or by elimination of areas where more than average road expenditures would be

needed. It proved to be particularly difficult to work out the additional road engineering work required in connection with this redesign of sales. In some areas consisting almost entirely of low value species, there was no possibility to develop alternate sale designs or substitute areas.

Stumpage price trends during the last 3 years on the 42 national forests are closely comparable to those for all western national forests previously cited. Average bid and appraised prices for each of the last 3 calendar years for the 42 national forests are shown in table 5.

Appraised prices dropped by 30 percent from 1959 to 1961. The spread between appraised and bid prices was approximately 35 percent in both years.

TABLE NO. 5.—*Advertised and bid prices for 42 national forests, calendar years 1959–61*

[Average price per thousand board feet]

Region	1959		1960		1961		3-year average	
	Advertised	Bid	Advertised	Bid	Advertised	Bid	Advertised	Bid
1	$8.80	$11.08	$6.31	$8.28	$4.13	$6.86	$6.44	$8.78
4	6.79	12.20	9.91	10.80	5.11	5.53	7.19	9.63
5	12.73	17.72	12.55	15.21	6.85	10.09	11.15	14.81
6	18.94	25.12	18.12	22.09	14.14	18.63	17.07	21.98
Weighted average	15.80	21.14	15.07	18.39	11.17	15.06	14.07	18.29

Region 1: Except Beaverhead, Bitterroot, Custer, Deerlodge, Gallatin, Helena, Lewis and Clark.
Region 4: Boise and Payette.
Region 5: Except Angeles, Cleveland, Inyo, Los Padres, San Bernardino.

Table No. 6 shows the proportion of timber which was purchased at advertised rates during the last 3 years on the 42 national forests.

While there have been variations between years and between regions, the characterization that on the average around 20 percent of the timber is purchased at appraised prices and 80 percent is bid above the appraised price is generally applicable.

TABLE NO. 6.—*Volume advertised sales sold at appraised rate and above appraised rate on 42 national forests*

Calendar year and region	Volume sold (thousand board feet)			Percent at appraised rate
	At appraised rate	Over appraised rate	Total	
1959—1	170,729	783,493	954,222	17.9
4	770	221,801	222,571	.3
5	234,552	951,799	1,186,351	19.8
6	518,741	3,415,564	3,934,305	13.2
Total	924,792	5,372,657	6,297,449	14.7
1960—1	205,048	625,790	830,838	24.7
4	28,949	149,056	178,005	16.3
5	339,495	908,022	1,247,517	27.2
6	677,038	3,037,479	3,714,517	18.2
Total	1,250,530	4,720,347	5,970,877	20.9
1961—1	237,760	694,486	932,246	25.5
4	40,258	149,464	189,722	21.2
5	293,597	546,790	840,387	34.9
6	667,498	3,156,676	3,824,174	17.5
Total	1,239,113	4,547,416	5,786,529	21.4
Grand total	3,414,435	14,640,420	18,054,855	18.9

Region 1: Except Beaverhead, Bitterroot, Custer, Deerlodge, Gallatin, Helena, Lewis and Clark.
Region 4: Boise and Payette.
Region 5: Except Angeles, Cleveland, Inyo, Los Padres, San Bernardino.

This discussion has been largely an analysis of the situations and the problems in the western areas of intensive competition for national forest timber. These important and special problems affect roughly 70 percent of the national forest timber business. Other issues have been raised by the National Lumber Manufacturers Association with Secretary Freeman. Orderly means to work out solutions of these issues with industry is proposed in Secretary Freeman's response of June 7. The Forest Service wants to work with industry in all areas to develop appropriate and equitable contract wordings which will fit on-the-ground conditions to develop on-the-ground relationships which will minimize disputes and to establish means for prompt and equitable settlement of such disputes which do arise.

Senator MORSE. Mr. Chairman, may I ask a procedural point?

The CHAIRMAN. Yes.

Senator MORSE. This is entirely gratuitous on the part of a nonmember of the committee, and I am hesitant to even ask it. But I am concerned about the time element and the procedure that may be followed in this hearing. It is true I read the statement. This statement is at such variance on so many points with the record of these hearings that I would like to respectfully discuss procedure with the chairman for a moment.

I do not see how, Mr. Chairman, you could possibly complete the hearing today with Mr. Cliff, who is entitled to every opportunity, it seems to me, to make a full and detailed statement on behalf of the Forest Service, and not to be rushed in that presentation, because he has a great responsibility in regard to the Forest Service. I would like to know the pleasure of the chairman with regard to this hearing. I respectfully suggest that we could come back later this afternoon, or come back Monday to examine Mr. Cliff further, or tomorrow, because each one of us, Mr. Chairman, holds great trust and responsibility to our State.

The CHAIRMAN. I have some more questions. I know the Senator from California does.

Senator MORSE. I would not want to feel I was under the time gun in examining Mr. Cliff. On behalf of the lumber interest of my State and the economy of my State, I could not complete my examination of Mr. Cliff in less than 30 minutes. You know what happens if I ever estimate how much time I am going to take anyway. But I could not do it in less than 30 minutes.

Senator KUCHEL. You are conservative, Wayne, when you say 30 minutes.

Senator MORSE. Oh, I am a conservative.

But we were right at the crux of this problem, Mr. Chairman. We have got the best qualified witness before us now.

The CHAIRMAN. Well, we are going to keep him here with all his dedication right in front of us. We are going to talk about, not dedication, but policies. And what is the pleasure of you gentlemen, my colleagues from the Pacific, who have all these questions? The chairman will be glad to accommodate you in any way.

Off the record.

(Discussion off the record.)

The CHAIRMAN. I want at this point to put in the record a letter sent on Tuesday to the President of the United States, signed by about 40 Congressmen on this matter. Congresswoman Hansen is the unofficial chairman of that group, and she sent it over here in behalf of the group and in behalf of Mr. Miller and the rest of them.

(The letter referred to is included in the hearing record for June 18, on p. 192.)

The CHAIRMAN. So if there is no objection, we will meet on Monday. Is that convenient for the Forest Service?

Mr. CLIFF. We will be here at the pleasure of the committee, Mr. Chairman.

The CHAIRMAN. All right. And do not let the regional fellow go; do not let him get back to the Pacific Northwest.

What about having the Under Secretary of Agriculture here Monday, if he can come?

Whom do you report to down at the Agriculture Department? That is a simple question.

Mr. CLIFF. I report to Assistant Secretary Welch.

The CHAIRMAN. Welch. Would you ask Welch if it is convenient for him? It might be well for him to be here, too, Monday.

Senator KUCHEL. A very good suggestion.

The CHAIRMAN. All right, without objection, we will recess until Monday at 10 o'clock, with the understanding that we are going to finish these hearings up Monday. And we will invite Under Secretary Welch to be here. I hope all you gentlemen can come Monday at 10 oclock.

(Whereupon, at 12:10 p.m., the committee was adjourned, to reconvene at 10 a.m., Monday, June 18, 1962.)

85955—62—pt. 1——12

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

MONDAY, JUNE 18, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:20 a.m., in room 5110, New Senate Office Building, Senator Warren G. Magnuson (chairman) presiding.

Present: Senators Magnuson (chairman), Bartlett, and Engle.

Also present: Senators Morse, Dworshak, and Kuchel, and Representatives Edith Green of Oregon and H .T. Johnson of California.

Staff members present: Gerald Grinstein, professional staff member; and Robert Wolf, professional staff member, Interior Committee.

The CHAIRMAN. The committee will come to order.

The chairman will resume hearings on the Forest Service, stumpage matters, and Forest Service practices.

At the last meeting we suggested that Assistant Secretary Welch, Department of Agriculture, come up here, too. But I am just informed by Mr. Cliff that he is ill this morning, or that he is not feeling very well—I hope it was not because of Friday's meeting—and so he could not be present. So we will proceed with the questions that the committee and the guests of the committee have on Forest Service practices.

And I note that also here this morning is Congresswoman Green from Portland. We are glad to have her here. She has had a deep interest in this matter for a long, long time and has worked with all of the delegations, both in the House and in the Senate, on the matter of the whole lumber situation.

The Chair first wants to put some material in the record. We asked the Bureau of Land Management, Interior Department, for some figures and further statements on Friday, and they have sent those up, and we will put them in the record at that point, with a letter from the Assistant Secretary.

(The documents referred to follow:)

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., June 18, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Interstate and Foreign Commerce Committee,
Washington, D.C.

DEAR SENATOR MAGNUSON: As requested in the hearings on June 15, 1962, we have analyzed the cost of cruise-type timber sales and scaled timber sales in the Northwest by the Bureau of Land Management and the Bureau of Indian Affairs, respectively.

The Bureau of Indian Affairs indicates a cost of $1.46 per thousand board feet for scaled timber sales in their Portland area. Bureau of Land Management costs for cruise-type timber sales in western Oregon amount to $0.34 per thousand board feet. In developing these costs, both Bureaus have used the actual timber sale costs; planning, protection, access, trespass, and other phases of the total

forest management program are not included. Fiscal year 1959 costs were used because this is the latest year Bureau of Land Management could provide detailed costs information. The Bureau of Indian Affairs is on cost accounting system whereas the Bureau of Land Management is initiating cost accounting in fiscal year 1963.

It should be pointed out that Bureau of Indian Affairs costs and Bureau of Land Management costs are not directly comparable because Bureau of Indian Affairs sales are primarily in eastside ponderosa pine, whereas Bureau of Land Management sales are primarily westside Douglas-fir. Among the variables are different silvicultural practices, volumes per acre, size of trees and logs, topography and logging methods.

However, in 1957 the Bureau of Land Management undertook a study to determine the costs of the two methods of measurement under similar conditions in western Oregon. In this study conditions were similar and we feel this to be a valid comparison of the two methods. The results indicated a 4-to-1 cost advantage in favor of the cruise-type sale. Although the study condition added to the cost of the scale sales involved in this study, it indicated that for the Bureau of Land Management timber sale program in western Oregon, cruise sales are more economical. The Bureau of Land Management regulations provide for scale-type timber sales and are used under special circumstances such as, sales to check cruising accuracy, sales of highly defective material and for other special studies.

In regard to Senator Morse's inquiry regarding reciprocal right-of-way agreements, such agreements provided access to 433 million board feet or 46 percent of the Bureau of Land Management's total offerings in western Oregon in fiscal year 1962.

We thank you for this opportunity to provide this information and are enclosing detailed analysis of costs for your further information.

Sincerely yours,

JOHN A. CARVER, Jr.,
Assistant Secretary of the Interior.

BUREAU OF INDIAN AFFAIRS

Analysis of cost[1] *of contract of timber sales in Portland area (Oregon, Washington, and Idaho) for fiscal year 1959*

I. COST OF BASIS OF CONTRACT SALES

Cost item [2]	Federal funds	Tribal funds	Total funds
Sale preparation	$75,149	$12,394	$87,543
Supervision	225,079	37,978	263,057
Marking	44,568	20,452	65,020
Scaling	75,047	43,389	118,436
Total	419,843	114,213	534,056

II. CONTRACT VOLUMES CUT

Species group:	*Volume,* M b.m.
Pine and associated species [3]	265,257
West coast species [4]	99,645
Total	364,902

III. COST PER M b.m.

$543,056/364,902 M b.m.=$1.46 M b.m.

[1] Costs are exclusive of cash permits, forest inventories, management plans, forest pest control, construction and maintenance of improvements, fire protection, and all other forest management costs not included in the items enumerated in footnote 2.

[2] Definitions of cost items:

Sale preparation: Cruises and surveys for immediate sale purposes, stumpage appraisals, forest officer's reports, advertisement of timber, execution of contracts and supporting papers, and other related activities.

Supervision: Inspection and enforcement of contract provisions, including silviculture, utilization practices, slash and snag disposal, prevention of damage to reserve stands of timber and other property, relocation of boundary lines, check scaling, checking compliance with marking rules, maintenance of records, collections, accounting, stumpage adjustments, closing sales, and other supervisory activities.

Marking: Marking timber to be cut.

Scaling: Scaling of logs and other products.

[3] Pine and associated species are "east side" forest types which are marked for cutting by individual tree selection.

[4] West coast species are "west side" forest types which are designated for cutting by block clear-cutting.

BUREAU OF LAND MANAGEMENT

Analysis of cost of study type timber sales in western Oregon in fiscal year 1959

I. Total cost:[1]

Cost item	*Cost*
Timber sale layout costs	$2,680.70
Contract preparation costs	181.04
Timber sale administration	648.80
Total	3,546.54

II. Contract volumes cut: 10,460 M.
III. Cost per M b.m.: $3,546.54/10,460 M=$0.34/M b.m.

[1] Definitions of cost items:
Timber sale layout: Sale reconnaissance.
Sale location, road engineering, 100 percent cruising and sale appraisal.
Contract preparation: Preparing contract, conduct of sales, and administration costs.
Timber sale administration: Contract administration, sale closure, and contract termination.

The CHAIRMAN. Now, Mr. Cliff, we left off with certain general questions on this whole matter. We have been geographically restricting ourselves a great deal in these hearings to Oregon, Idaho, and Washington. But as we all know, this problem extends into northern California and other parts of the West. And I thought maybe the Senator from California, Mr. Kuchel, would like to proceed at this point.

Senator KUCHEL. Thank you, sir.

The CHAIRMAN. Senator Engle will be here shortly.

Senator KUCHEL. Mr. Cliff, I represent a State which, as you know, has a tremendous interest in a healthy timber industry.

I have before me a copy of the June 1962 Western Timber Industry, and I want to read for the record just two or three of the paragraphs which are included in that issue:

> Nearly every county in the northern California timber zone has been declared by the Federal Government to have high sustained unemployment. Most of them are primarily dependent upon the timber industry. The problem has evoked enough concern that several U.S. Representatives gathered here recently for a conference with industry leaders and public forest officials to seek solutions.
>
> Considerable dissatisfaction was expressed earlier this spring at the Sierra Logging Conference in Redwood City. As in most of the areas of the West, the U.S. Forest Service is the largest controller of the industry raw material.

I do not think there is any question that the timber industry in California is economically sick. Is that not true?

Mr. CLIFF. It is true that they are having difficulties, yes, sir.

Mr. KUCHEL. Now, what I am going to try to help develop, along with my colleagues, is a basis on which the Department of Agriculture and your agency might revise or change some of its policies in order to resuscitate that industry.

I think all of us are aware of the problems legislatively. The Senators who are here this morning, all of us, voted in the Senate the the other day to provide moneys for access roads in the timber areas, for the quite obvious reason that, if there is no access to available timber, it becomes relatively meaningless so far as the industry is concerned.

You in your statement the other day suggested that the industry is apprehensive at the problem posed by the importation of timber and timber products into this country from Canada. That apprehension,

of course, is shared by you and the Department of Agriculture as well, is it not?

Mr. CLIFF. That is correct.

Senator KUCHEL. And a portion of the difficulty which arises from Canadian importation, I would assume, is by reason of the cost factor with respect to American timber products. Is that not correct?

Mr. CLIFF. As I have analyzed this situation, there are a number of factors involved. The one which is most directly under the control of the Forest Service—that of sale price of stumpage—I think has been overemphasized. As I testified Friday, the principal difference in the selling price of timber, as we have analyzed it in British Columbia and in the United States, is due to the competitive bidding, which is much less or comparatively absent in British Columbia as compared to this country. Our appraised prices are fairly comparable.

Senator KUCHEL. We have had testimony that where areas are made available for bidding, that the bidding has been so brisk by American interests that the price has risen to an unrealistic position. Do you agree with that?

Mr. CLIFF. In the past 2 years, the bid prices have averaged 35 percent over our appraised prices in the Western States.

Senator KUCHEL. Now, is that not some indication, Mr. Cliff, that there is not enough area offered by your Forest Service to the industry?

Mr. CLIFF. I think it is an indication, Senator, that the demand for timber exceeds the supply available for purchase. And as I testified Friday, we have made a real effort to place on the market the whole allowable cut, and in the 42 forests that I made reference to we have pulled more of the allowable cut this current fiscal year.

Senator KUCHEL. Would you indicate generally for this record how the allowable cut is fixed? How was that set?

Mr. CLIFF. The allowable cut is determined for each working circle in the national forests on the basis of timber inventories and a calculation of the amount of timber that can be placed on the market each year under good conservation practices on a sustained-yield basis.

Some rather complex and technical calculations of growth and drain enter into this. One of the key determinations is that of rotation age. Where we are working in old-growth forests, as we are in most of the West, our purpose is to apportion out the old growth to stretch it over the period of time until the second growth will become available in sufficient quantities to support the industry on a sustained-yield basis.

There has been considerable discussion over proper rotation ages. If you use a long rotation age, where liquidation of old-growth timber is involved, the allowable cut will be less; the shorter the rotation, the more rapidly the old-growth timber can be cut.

Those who advocate a shorter rotation in effect are advocating a speedup of the liquidation of the old-growth timer.

Now, in the determination of the allowable cut we have to consider other things besides technical timber management questions. There are some rather important policy questions involved.

We have instructions from the Congress to manage these national forests for multiple use. Allowance has to be made for timber that is not available for cutting because it is being reserved for scenic purposes or for recreation or it may not be available for harvest because

of soil and watershed conditions. We have to consider all of these factors. Naturally we expect to cut some timber in our recreation areas and in the areas which are managed for scenic purposes. But obviously we cannot have the same kind of a system of cutting with the same length of rotation in these areas. The more land that is devoted to those purposes, the larger the adjustment which has to be made on the allowable cut.

Determination of allowable cut is a very important matter and is not merely a mathematical calculation based on pure technical grounds.

I could go on and elaborate some of the problems involved in determining the allowable cut. One factor that is often overlooked is that adequate allowance must be made for regeneration. We have adopted a policy of basing our allowable cut on the culmination of mean annual growth, using for our calculations the international log rule. The rotation varies also with the site index. For high site index land; that is, the best growing quality land, you can use a shorter rotation. For the poorer lands, a longer rotation is needed.

Senator KUCHEL. These are all matters of judgment for the Forest Service to determine, are they not?

Mr. CLIFF. Yes; I would say it is a matter of professional judgment, plus the application of some technical formulas.

Senator KUCHEL. Now, are these matters of judgment in the Department, Mr. Cliff, under constant review or not?

Mr. CLIFF. Yes, they are; as stated earlier we have reviewed our basis for calculating allowable cuts and have announced, in February of this year, a change in the policy on calculation of our allowable cuts.

Senator KUCHEL. Does the Department, in your opinion, or the Forest Service, in your opinion, have any responsibility to consider the impact of its judgment on a particular area so far as the economic health of that area is concerned?

Mr. CLIFF. Yes, we do.

Senator KUCHEL. And is it not your feeling that it should have——

Mr. CLIFF. Yes.

Senator KUCHEL. A bearing on the problem?

Mr. CLIFF. Yes, absolutely.

Senator KUCHEL. Now, my colleague from Washington, Senator Magnuson, when we were discussing the situation in the Senate the other day on whether or not the Senate ought to approve moneys for access roads, read some very startling figures. He went on to say, in part:

> In fiscal year 1961, there was a terrible fall-down in national forest timber sale performance. Only 77 percent of the timber offered for sale was sold; in California only 62 percent of financed timber was sold.

Why was that?

Mr. CLIFF. Senator, there are several reasons. I do not want to appear to be alibying, but 1961 was a particularly difficult year for the industry, and it was difficult for us. Our policy is to sell the full allowable cut wherever we have demand for the timber and where we have access to it; but in 1961 we had prepared sales which were ready to put on the market. The preparation was based on a period prior to 1961 when the conditions were better, and some of these sales on

which we had done all the work proved to be uneconomic under 1961 conditions. They would not carry the cost of the road construction.

There were a number of areas—and this was true in California as well as other places—where we had to redesign a number of sales, which is one of the reasons we were unable to make the total sales program.

On a depressed market some of the materials we have to sell will not carry the road costs; this problem could be alleviated if we had a more complete access road system.

Senator KUCHEL. Now, until we get that for you—and I hope we do, and I salute my colleagues on this committee for leading the fight the other day—what can you do to improve the economic stability of the areas in which you operate by making available to the industry additional timber areas, which I assume at the moment have not been made available for sale or for contract?

Mr. CLIFF. Senator, I think the most significant contribution that we can make to these local areas, these local communities—is to sell the full allowable cut, the full amount that is possible to sell under good sound conservation practices and to do it in an orderly way.

Senator KUCHEL. Now, I agree with that.

Mr. CLIFF. As I have pointed out, this year we did oversell our allowable cut on the average in these western areas.

Let me hasten to say that these figures that I have given you obscure the weak spots, and they also obscure the places where we made an extraordinarily good record. So these averages do not tell the full story. There are some places where we have not been able to sell the full allowable cut this year, although our overall record is good.

We intend to try to improve on this situation.

Senator KUCHEL. And how do you intend to improve it, specifically?

Mr. CLIFF. Let me give you an illustration. I have only been on this job for 90 days today.

One of the first things I did when I was given this position was to ask the regional foresters to make an extraordinary effort to improve this timber sale record. They have responded, and the overall record is one that I am quite proud of.

Now, in your State we did not quite sell the full allowable cut; but the improvement in the situation since the first of January has been very, very good. You have an allowable cut in California of about 1.5 billion board feet, and by the end of this fiscal year we will have sold 1.4 billion.

Senator KUCHEL. And what is the allowable cut as determined?

Mr. CLIFF. 1.5 billion.

Senator KUCHEL. And how much was contracted for?

Mr. CLIFF. By the end of June, we will have sold 1.4 billion, or 100 million feet under the allowable cut.

Early in the fiscal year we were way behind but we have made a substantial improvement in that situation.

Senator KUCHEL. How did you effect that change or how have you changed either your judgment or your policy so that now you state that by the end of June this increase will have been achieved?

Mr. CLIFF. We know how much timber has been appraised and is being advertised, so we have been able to check up right now and estimate how much will be sold by the end of June.

The change that made this possible is a change in emphasis. I personally asked the regional foresters to see to it that these sales plans were more rigidly adhered to; and I think this is important.

As I said, I do not intend to alibi nor pass over a poor record; but there are strong factors affecting performance. One of the real handicaps in some areas is that the allowable cut includes a vast amount of timber that is of low value and has no market value or no demand in a slump; people just are not willing to buy it; it is not economic to move it, especially without a good road system to move it over.

An example of that is the Nez Perce Forest in Idaho. There is an overinstallation of mill capacity; there is plenty of mill capacity, but a lot of the timber is of low value; it is decadent, and it will not pay its way out of the woods when we have a market situation like we have now; it is not lack of desire on our part; it is just that the market will not carry that material.

Senator KUCHEL. Mr. Cliff, I am not acquainted with the problems of your timber industry; you are. I do, however, represent a State in which this is important, and I must say, from what you have just said, that your vigorous directives to your people to improve this situation merit commendation.

The questions which I asked are those of a Senator trying to determine how best you and the Members of the Congress and the Members of the Senate who are here can achieve improvement.

I think so far—and I do not want to take too much time—we have been able to agree on broad principle. I think it is a question of how much emphasis can be effected in applying those principles in a fashion that will assist a sick industry.

For example, I must say I was struck with the recommendation of representatives of the timber industry when they proposed to you and to your Department a regulation which would say in part:

> A prime objective of national forest management shall be an orderly program with timber sales designed to promote the regular harvest of the full timber growth potential from commercial forest areas in such a way that there may be community stability, continuity of employment, a continuous supply of improving wood products, and an economically healthy forest industry.

I think that you and I can agree that that language is admirable, a correct statement of sound policy; can we not?

Mr. CLIFF. We have agreed to the principle of that statement, Senator, and I have recommended to the Secretary that we incorporate those principles in a regulation with some amendments to point out that the attainment of this objective must necessarily depend on finances available, local market demand for stumpage, which I have just been talking about, and adequacy of transportation facilities. It also must be in accordance with policies for multiple use and sustained yield.

I would like to comment, if I may, on this question of community stability.

I think we need to understand—we need to have a better understanding among ourselves and with the industry as to what we are talking about when we talk about community stability. The advent of the modern logging truck and the modern highway has changed the pattern of community stability.

A number of years ago a certain community was dependent on a certain piece of national forest timber. The community was so situated that it could be stabilized; the outside competition was not very great, in many cases. That is all changed. There is an interrelationship between communities and in many places it is difficult or impossible to draw lines around one community and say: We are going to stabilize this community without at the same time unstabilizing some other community.

We do not agree in the Forest Service that we should attempt to pick out any particular operation or any particular community and say: We will stabilize this community without considering the effects on the other community. We think that the best contribution we can make to local economy is to, as I said before, make the full allowable cut available in a way that all of the possible bidders have an opportunity to buy or bid on national forest timber, and let the laws of economics decide which ones are going to be stabilized.

Senator KUCHEL. Does that mean, then, that you turn your back on the problem of a particular community with respect to economic stability, if you were to determine that you could not make any change without affecting the entire area?

Mr. CLIFF. No, I am not saying that, Senator. I am saying that there is an interrelationship between communities, and you have to consider the entire local picture and not just the picture of one community as against another.

Senator KUCHEL. But having done what you have just described, what is there available to you to assist the stability of that particular community which is damaged?

Let me ask it this way. Would the fact of economic sickness in community or area A be a reason for you to reexplore what the allowable cut ought to be in that area?

Mr. CLIFF. Well, we are constantly reviewing our allowable cuts. And of course we have to take a long-range view. We do not want to follow practices which will penalize the future of a community or future generations. We are revising and reanalyzing our allowable cuts.

The CHAIRMAN. Well, supposing you set a sale in a community or you have a projected sale for this particular community A for 1962 or 1963; I mean a year ahead or 2 years ahead—sometimes they are longer—and you find that that community has run into economic trouble. Would you review that particular plan solely because of some economic trouble there in a particular area?

Mr. CLIFF. Well, of course, we would try to help out any community that has a problem.

The CHAIRMAN. Or would you just leave it as it was because you have set the sales practices on the basis of reasonable general criteria?

Mr. CLIFF. Of course we consider the economic health of this community.

The CHAIRMAN. Well, have you ever changed the sale or an appraisal that you made subject to the general criteria, which is sound, because of the fact that, since you made it, the community found itself in economic difficulties?

Mr. CLIFF. Yes; we have.

The CHAIRMAN. You have?

Mr. CLIFF. Sure, we have.

The CHAIRMAN. Where?

Mr. CLIFF. In north Idaho there was a special problem—we were requested to revise the sale program—normally, we would not concentrate our sales on areas unless they came within the logical sequence of cutting on a sound basis.

The CHAIRMAN. That is the point I make here.

Mr. CLIFF. We had a lack of roads there; the communities asked us to make more sales on roads that were already existing in order to get the timber into use, and without the large expenditure of road money. Now, we could not do this as a standard practice—that it is not very sound practice, for if continued you would soon run out of timber down on the face.

We did make some modifications and permitted a procedure there that we do not think is really sound on a long-term basis, in order to get more timber on the market that they could use.

The CHAIRMAN. Well, these have been very rare instances, have they not?

Mr. CLIFF. No, I would not say so.

The CHAIRMAN. Have you done it in the past in California?

Mr. CLIFF. I cannot cite any instances in California; but a year or two ago, when the Klamath Termination Act passed and virtually took the timber out of sale on the Klamath Indian Reservation—it could not be sold because it was in a transition period—we increased the amount of timber we allowed to be cut on the adjoining forests in order to tide the Klamath Falls operators over.

The CHAIRMAN. Do you recall ever moving up the sales?

Mr. CLIFF. No.

The CHAIRMAN. Have you ever moved up the time of sale to keep communities going that you recall?

Mr. CLIFF. Yes, Senator; I am sure we have. I do not recall any specific instances now; but whenever you do these things, I know that you understand that there comes a time when you have to pay the piper; you cannot do these things for nothing.

The CHAIRMAN. I understand that.

Mr. CLIFF. Without making some offsetting arrangements later on.

The CHAIRMAN. Everybody understands that; we are talking about a community that has some dire economic troubles. And the point that a lot of us have been making at a lot of these hearings—and we have had plenty in the past 4 or 5 months with you and with everyone else, and I think we have been helpful in accounting for some change, if there have been some changes made. But the point we make, in the past it has been my experience that the Forest Service has set the so-called sales practices, timewise and with the criteria you mentioned with which no one has any quarrel. But they have never, or very rarely gone around and changed that schedule—and there are exceptions to all rules—when they found or were apprised of the fact that there was some great economic difficulty in a community. And I have had Forest Service people tell me that they had no responsibility for employment in a given community as long as they followed the so-called general criteria, this is the point we are getting at.

I do not know of many instances where they have done it; I am sure there are some pockets in Oregon where they have not done it; I know that.

Mr. CLIFF. In Oregon——

The CHAIRMAN. Now, I am talking about in the past, and I am not saying that we should go back; but I am wondering whether or not there should not be more emphasis placed on a review, within the general policy, of the certain pockets where you have this unemployment difficulty and dire economic troubles.

Mr. CLIFF. What you are asking for is greater flexibility in the sales program to meet these situations described?

The CHAIRMAN. And a greater review. Sometimes a man is dependent on a working circle of lumber in a particular area and the Forest Service gives him a schedule of sales so he depends upon that, and then the Forest Service comes back and changes the sales and puts them a way off in the future. This is the sort of thing we are talking about.

What we are trying to do is to make it as easy as possible on a person or community dependent upon the sales practices. And I do not know that the Forest Service in the past has done a great deal of that; I think they have ignored that.

Well, excuse me; I do not want to interrupt.

Senator KUCHEL. The chairman states the case very well, Mr. Cliff, because in the countries in northern California where timbering constitutes a great segment of a sound economy, the Federal Government itself has found that those counties and that area in my State are distressed; they are distressed; that is a finding; that is a fact. And I do appreciate the fact that you are new here; 90 days is not a very long tenure.

Could you indicate to this committee—and I use my own State as an example—that you intend to reexplore your operating policies in northern California with respect to the economic distress of the areas there?

Mr. CLIFF. Yes; and I will say that we will do it elsewhere, too.

Senator KUCHEL. Yes.

Mr. CLIFF. In addition to northern California.

Senator KUCHEL. Exactly; and I think that is most important.

Mr. CLIFF. But I do not think this committee is advocating or wants us to violate sound conservation principles in a way that we cannot recoup when the situation gets better.

Senator KUCHEL. No one on this committee would want the principles of sound conservation to be debauched or despoiled in any fashion; and the people on this committee represent pretty high-class conservationists.

Within that framework, however, since everyone concludes that community stability is a problem, I commend what you have just said.

Now, Mr. Chairman, I do not want to take any more time.

The CHAIRMAN. All right, Senator Engle is here, and we said to Senator Engle when we started that we devoted so much of the hearings to the problems in Washington, Oregon, and Idaho, that we thought maybe this morning first you people from California could inquire. Have you got any questions of Mr. Cliff?

Senator ENGLE. I just want to ask one question, and then I want to yield——

The CHAIRMAN. I want the record to note the presence of Congressman Johnson of California and Senator Dworshak, who came in after we started.

Senator ENGLE. So that some of our guests can ask some questions that are vital to them.

You have spoken, Mr. Cliff, of the conservation principle. It has always been my view that a timber crop is like a grain crop or a peach crop. If you do not get it off, it is just like water running downhill; you never have another chance to get it.

An what I cannot understand is why you do not turn this national forest timber loose that is ripe to be cut, and put it on the market, whether you get four bits a board foot for it or $56, but keep pushing it until it is out of there. It seems to me that if you do not do that, eventually you lose that timber, either to bugs or to fire, or it just gets overripe and falls down and messes up the forests.

Why do you not do that? Just say: We think there is this much timber and start selling it. I observed you say you only sold a percentage of your sales. Well, you did not have the price low enough, it seems to me.

Why do you not adopt the principle that you are going to regard timber resource as a crop and just keep selling it? Has that ever occurred to you?

Mr. CLIFF. Well, we have adopted the principle that the resource is a crop; and we do have the principle that we want to sell it in an orderly way in accordance with sustained yield.

We hear a lot about the desirability of putting it on the market when it is overripe; but the situation we have in many places in the West is that a preponderance of the timber is overripe; you cannot market it all at once or you are going to run out of timber and have a gap in the production cycle where you do not have the timber. So the old growth, even though you are going to sustain some losses, has to be stretched out until you have a young forest that can support an economy; otherwise, we would be mortgaging the future of these communities in order to——

The CHAIRMAN. What kind of a mortgage would there be on overripe timber?

Senator ENGLE. I will tell you what kind: "The Insect Logging Co." would take over and harvest it for you. Now, that is what would happen, and when timber gets ready to be cut, it ought to be cut—period.

And you can say you can stretch it, and that is a problem. I have seen your colleague from California mention conservation principles. I believe in those just as much as anyone else, but I assert that when your timber is ripe, it ought to be cut, and there is not any way to stretch it any more than you can stretch the peach crop. When it gets ripe, you take it off or you lose it.

And that is where the shoe has always bound the forest. The Forest Service has consistently undermarked these forests. They mark overripe trees and buggy trees and let the rest stand there, when good prime timber could be taken off with no great damage to the national forests.

I just simply say that the Forest Service has not implemented a policy of trying to harvest its crop in the way it ought to be. And you can argue that you want to stretch it, but you cannot stretch an overripe tree. A bug will not wait, nor will the fire.

That is all I have to say, Mr. Chairman.

The CHAIRMAN. Now, Mr. Cliff, I have two or three questions here, and then I will call on the other people.

One, I think I am safe in saying that a great number of us in Congress have been critical of this procedure within the administration of the Forest Service itself. Secretary Carver described the forest staff in his office when he was here. You heard the testimony. And it is one resource program staff of the Secretary of the Interior.

Can you tell us for the Forest Service what forestry staff is included in the Office of the Secretary of Agriculture to review and assess the programs, policies, and practices of the Forest Service and make recommendations to the people at the secretarial level; does the Secretary have any people that do that? I am sorry Mr. Welch is not here.

Mr. CLIFF. The Department of Agriculture does not have a comparable technical review staff to that in the Department of the Interior.

The CHAIRMAN. All right, you have answered my question.

The Senator from Oregon suggested that maybe we might take the Forest Service out of its private domain and bring it back into the Agriculture Department.

Senator MORSE. Just back into the Government.

The CHAIRMAN. The Government, yes.

But do you have any plans to suggest such a change in administrative procedures in the Agriculture Department?

Mr. CLIFF. I think this is a subject or decision that has to be made by the Secretary.

The CHAIRMAN. I think it is a decision that the Secretary of Agriculture must face up to, as the Secretary of the Interior did in the Bureau of Land Management.

But I hope that you will take a look at it, because I have heard constant criticism when we have a problem in the Forest Service, when it is taken to the Secretary of Agriculture, that it is sent back to the Forest Service and they answer their own questions, without any so-called independent review. Some of it may be justifiable, some of it may not be, but there is so much of that that I think this is a very pertinent question to ask.

Now, on page 2 you talk about a reduction in minimum stumpage rates. Can you tell me how this has helped, for example, the tidewater areas in Oregon and Washington, where the problems of unemployment and survival of industry seem so acute? Or further, can you tell me the areas in Oregon and Washington that you believe will be aided by this measure or have been aided?

Mr. CLIFF. Well, the minimum on stumpage rates represents the lowest value at which the Government will sell timber; but if——

The CHAIRMAN. Would this be necessarily above or below the appraised value, or would you appraise it lower? How does that operate?

Mr. CLIFF. This might be above the appraised value; it is conceivable, and it often happens, that stumpage will appraise out at a negative value. In that case, we have offered to sell stumpage at the minimum rates, which roughly approximates the cost of administration and sale area betterment. And on many occasions operators have purchased such timber but at a sacrifice of their profit margin.

The CHAIRMAN. What areas has that helped?

Mr. CLIFF. Well, it would help—I am sure that this will help out in eastern Oregon and Washington. The minimum stumpage rate is significant, too, because if it is set at a lower rate as we have set it, it gives more flexibility for downward escalation in the quarterly adjustment of prices.

The CHAIRMAN. You mean the lower you set it, the more this happens?

Mr. CLIFF. It gives more leeway for downward adjustment of prices; yes, sir.

The CHAIRMAN. Well, what about the Senator from California's proposition concerning certain cases when timber is ripe and should be cut? Would it make too much difference if it was cut at, say, around the appraised price or lower, rather than lose it entirely?

Mr. CLIFF. Well, we want to, of course, cut the timber when it is ready to cut. But as I tried to explain, we have a large quantity of timber that is overaged and overmature, and it is not possible to cut all of it at the time when, from a technical standpoint, it would be desirable to harvest it.

The CHAIRMAN. Well, what are you going to do with it, leave it alone?

Mr. CLIFF. Well, some of these trees, Senator, are hundreds of years old, and they are going to live for a while yet; I do not expect that all of them are going to die right away. We have been trying to cut the timber which is most in need of cutting, which is most overage, which is most bug susceptible, and get that saved.

If you cut some that is not in that category, or rather if you cut too much just because it is handy, you are going to lose timber some place; you are going to lose the bug susceptible timber in the areas you are not logging in.

The CHAIRMAN. Well, you are getting like a department store that never had a clearance sale, are you not? If this goes on, you are never going to catch up, are you?

Mr. CLIFF. Why, sure we are.

The CHAIRMAN. It seemed to me that way. The Senator from California seemed to make a point there.

Now, on page 11 you stated that rotation ages are being recalculated.

Mr. CLIFF. That is correct.

The CHAIRMAN. And you stated that to us in other meetings that we have had with you.

Mr. CLIFF. That is correct.

The CHAIRMAN. Correspondence I have seen from the California region states that you hope to finish the job there in about 6 months. Is that still the date?

Mr. CLIFF. Yes; we plan on completing the revision of our plans in California in 6 months.

The CHAIRMAN. Now, what target date do you have for the completion of this work in Washington and Oregon and Idaho, or do you have different dates for all three?

Mr. CLIFF. In north Idaho it is completed now.

The CHAIRMAN. It is completed in north Idaho?

Mr. CLIFF. In Montana and north Idaho, what we call our region 1, it is completed.

It is well on its way in Oregon and Washington, and we expect to have the review of our rotation ages and the revision of our allowable

cuts, at least on an interim basis, at least by the end of fiscal year 1963, a year from now; a lot of that work will be done before then.

The CHAIRMAN. But the whole thing, as we understand it, will take from 10 to 11 months further?

Mr. CLIFF. That is correct.

The CHAIRMAN. Now, on page 13 you mentioned the problem of access in the context of selling the full allowable cut. In what working circles in Oregon and Washington is that a problem at this particular time? What we would like to do is pinpoint where the problem is mainly, due to the problem of access in these two States. Could you give us that? And include California and Idaho.

Mr. CLIFF. I do not have those individually.

The CHAIRMAN. Well, could you put that in the record for us?

Mr. CLIFF. I would surely be glad to put it in the record.

The CHAIRMAN. So we can pinpoint where we do have an allowable cut, and the problem is access roads, which is a problem for the Forest Service, too.

Mr. CLIFF. I could name a few working circles, but I could not give you a full list from memory.

The CHAIRMAN. If you have them for all States, can you supply those to the committee and Senators from the Northwest?

Mr. CLIFF. Yes, sir. I will.

The CHAIRMAN. All right.

(The data requested follows:)

The 42 national forests where timber demand-supply relationships are critical are divided into three classes in respect to timber access road needs as follows:

(1) Critical forests where access roads needs are critical and allowable cut rates either have not been attained or cannot be maintained without major road construction or road acquisition.

(2) Moderate forests where substantial road construction or acquisition is required to round out or maintain allowable cut rates, but where progress to date in developing access has been good.

(3) Light forests where the major timber access is generally now installed, and additional requirements are relatively minor.

Timber access needs

State	Class 1 critical	Class 2 moderate	Class 3 light
California	Klamath	Eldorado	Modoc.
	Mendocino	Lassen	
	Sequoia	Plumas	
	Shasta-Trinity	Sierra	
	Six Rivers	Stanislaus	
		Tahoe	
Oregon	Malheur [1]		Malheur.[1]
	Ochoco [1]	Ochoco [1]	Deschutes.
	Rogue River [1]	Rogue River [1]	
	Wallowa-Whitman [1]	Wallowa-Whitman [1]	
	Willamette [1]	Willamette [1]	
	Siskiyou	Fremont	
	Siuslaw	Mount Hood	
	Umatilla	Umpqua	
		Winema	
Idaho	Clearwater		Coeur d'Alene.
	Kaniksu [1]	Kaniksu [1]	
	Nezperce		
	St. Joe	Boise	
	Payette		
Montana	Lolo	Flathead	
	Kootenai		
Washington	Mount Baker	Olympic	Colville.
	Okanogan		
	Snoqualmie		
	Wenatchee		

[1] Approximately half of forest in 2 classes as indicated.

The CHAIRMAN. Now, on page 14 you say that the Forest Service may have to be more specific in its conditions of cutting. What do you mean by that?

Mr. CLIFF. Well, it refers to this problem I am talking about with regard to the low value species and with regard to the location of timber in relation to the roads.

I have already touched on this subject. If we have an allowable cut that is made up on the basis of getting the full yield of both low value and high value species, and we continue to cut only the high value at the allowable cut rate, we are going to throw the thing out of balance and end up eventually with our high value species high graded and with a preponderance of low value material.

What I am referring to here is that we need to schedule our sales, our cutting, and our plans so as to maintain a balance over the long pull.

The CHAIRMAN. For my information—I should know, but I do not know this—after a contract is made for a sale, what is the average time in the contract for cutting? I mean, do you have a due date that they must observe to get the timber off?

Mr. CLIFF. The sales are made for a specific time; yes, sir.

The CHAIRMAN. For cutting, what would that average date be?

Mr. CLIFF. It averages 2 to 3 years in most places in the West. However, we do have longer sales where it is necessary to put up enough timber to amortize an expensive road or a new manufacturing plant. We sold timber in Alaska under a 50-year contract.

The CHAIRMAN. They can plan up there, can they not?

Senator BARTLETT. They have to.

The CHAIRMAN. Well, would not these economic pockets we are talking about, or working circles—would not the facts from all we have discussed here in the past 2 or 3 months sort of dictate a review of that and a longer time in which to cut—so to plan and space so that there will be no shortages?

Mr. CLIFF. Your suggestion is that we consider having the longer length of sale?

The CHAIRMAN. I am talking about a small area, where there is a one-mill operation. Would they not be better off if they had a longer period of time to survive the ups and downs, rather than say: "You have got to cut it all in the next 2 years," and then find that 2 years later they do not know where they are and are in trouble.

Mr. CLIFF. There are places where we can do that, Senator; there are other places where it would cause real difficulty. Where we have an overinstallation of mill capacity and extremely vigorous competitive bidding, if we put it up in longer sales and bigger sales, then the operators that were not successful in bidding would have to wait longer until they had another chance. I think you would hear a lot about that in western Oregon and parts of your State.

The CHAIRMAN. They would have no chance for the timber that was under the contract; that belongs to the person that made the contract, does it not?

Mr. CLIFF. That is correct; but if we put it up in bigger packages, it would necessarily mean that you would wait longer between sales in marketing your timber.

The CHAIRMAN. I am talking about once you make a contract on your sale, the time element this fellow has to get it off.

Mr. CLIFF. Well, we have followed a rather liberal extension policy; in fact——

The CHAIRMAN. Do they come in and ask for an extension?

Mr. CLIFF. Yes.

The CHAIRMAN. And there are a lot of instances of that, are there not?

Mr. CLIFF. Quite a number; yes, sir.

The CHAIRMAN. And then do I understand if the economic conditions are such, say in these smaller areas, the larger companies would have better planning; I understand that you would entertain a suggestion from them that they could plan better if the time was extended to 3 or 4 years.

Mr. CLIFF. We have followed a liberal extension policy, Senator. As a matter of fact, some segments of the industry have criticized us for not being tougher on our extension policies. And it has been suggested that we tighten up our extension policies in order to——

The CHAIRMAN. In order to put somebody out of business?

Mr. CLIFF. In order to eliminate speculation. People that realize that, if they get in a tight spot, can get an extension. The contention is that they are more inclined to speculate.

So there is a lack of unanimity of opinion on this question in the industry itself. We have followed what I would think is a rather liberal extension policy, so that we could extend sales when people get in difficulty on these downward price swings.

There are proposals being made to us that we revise the extension policy.

The CHAIRMAN. Well, once you make the contract, you are not necessarily through with the product you sell, but it seems to me that you ought to have as much flexibility as possible, as much equity as possible, to help the fellow who has bought the product.

Mr. CLIFF. I agree with that, as long as the interests of the Government——

The CHAIRMAN. Because it is his stuff; it does not affect other timber sales next to him, because they have not been sold.

Now, would you put in the record the amount of money you think you could reasonably or adequately use for access roads for 1963, 1964, and 1965? Could you calculate that?

Mr. CLIFF. Yes, sir; I am sure——

The CHAIRMAN. You know why I am asking that, do you not?

Mr. CLIFF. Well, I think so, sir.

The CHAIRMAN. It might be helpful to you with the budget.

Now, you can project that, can you not?

Mr. CLIFF. We have such projections in our program for the national forests.

The CHAIRMAN. Well, if we could have them ahead of time, then we would know what is going on.

(The requested information follows:)

Upon receipt of the development program for the national forests, the Senate Appropriations Committee requested a schedule of estimated budget requests by years for their use in considering financing for this program. The following road

and trail program projections were included in the schedule furnished this committee:

	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
Total forest roads and trails	$75,170,000	$95,970,000	$116,770,000
Financing:			
Roads and trails for States (10 percent)	11,700,000	13,300,000	14,600,000
Appropriation	63,470,000	82,670,000	102,170,000

The CHAIRMAN. All right, let me see; where did Mrs. Green go?

Senator MORSE. She had to leave for a conference.

The CHAIRMAN. All right, the Senator from Oregon.

Senator DWORSHAK. Mr. Chairman, I have to attend a meeting on the Joint Committee on Atomic Energy, and I should like to call attention to the fact that recently I wrote a letter to the President proposing that temporary quotas be immediately placed on Canadian lumber imports to alleviate distress in the industry.

The CHAIRMAN. Well, all of us have done that.

Senator DWORSHAK. I have a reply from the Department of Commerce, and ask permission to have the letter printed in the record at this point.

The CHAIRMAN. Without objection, that will be done.

(The letter referred to follows:)

THE ASSISTANT SECRETARY OF COMMERCE,
Washington, D.C., June 15, 1962.

Hon. HENRY DWORSHAK,
U.S. Senate, Washington, D.C.

DEAR SENATOR DWORSHAK: The President has asked me to reply to your letter of recent date concerning lumber industry problems in connection with imports of lumber from Canada.

We have been aware of these problems for some time. They have been brought to our attention from a number of sources, and have been receiving careful consideration.

On May 29, Secretary Hodges announced that, at the request of the White House, the Department of Commerce has taken the leadership in organizing a Government-wide study of the U.S. lumber industry and its growing problems. An interagency task study group has been formed, including representatives from the Council of Economic Advisers, the Departments of Agriculture, Interior, Labor, Treasury, and State, the Interstate Commerce Commission, and the Tariff Commission.

The study will cover the extent of Canadian lumber shipments and their effects on the U.S. lumber industry; the price of logs harvested by private industry from Federal lands; shipping costs and transit privileges; comparative labor costs; preferential and discriminatory tax features; and any other pertinent factors bearing on present conditions in the industry.

We will keep you informed of the results of this study.

Sincerely yours,

EUGENE P. FOLEY,
Deputy Assistant Secretary.

Senator MORSE. I want to congratulate you on getting that reply.

Senator DWORSHAK. I am somewhat amazed that I did receive such a prompt response, but I think probably it is due largely to the efforts of the chairman of this committee in focusing attention upon the tragic situation confronting the lumber industry in the West today. And I am sure he struck pay dirt in that particular effort, so far as the Department is concerned.

Senator MORSE. Not pay dirt for the administration.

Senator DWORSHAK. Pay dirt for his committee.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

At this point we will insert in the record two communications, dated June 11 and 12, 1962, respectively, to the President from our friends in the House, containing approximately 40 signatures in the first instance and 17 in the latter.

(The two letters referred to follow:)

HOUSE OF REPRESENTATIVES,
Washington, D.C., June 12, 1962.

THE PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: As Members of Congress representing districts across the Nation with substantial employment in the forest products industry, we are pleased with your order for a full study by all Federal agencies which can contribute to the correction of the economic problems confronting this industry.

Your action is an appropriate and most gratifying response to our appeals for assistance and those of the industry to various officials of your administration.

The problems, as you have recognized, are large, diverse, and complex.

Interagency cooperation in dealing with them is clearly indicated. The assistance of Congress has been extended as well, through current hearings of the Senate Commerce Committee and through the joint efforts of House Members who signatures appear below.

While the widespread ramifications and complexities of the situation demand careful study, the urgency of its increasing effect on employment and on the stability of major industry requires action of an emergency nature.

U.S. imports of Canadian softwood lumber were up 21.4 percent for the first 4 months of this year over the related period of 1961. In this same period, unemployment in the forest products industry increased more than 4 percent.

We earnestly request that changes proposed in the Department of Agriculture to assist lumber procedures be given your most serious consideration, attention, and review leading to stimulative lumber action. We enclose these suggestions presented to Secretary Freeman on February 21, and we further enclose the statement presented at the June 4 Congressional Conference on Lumber.

There are enough facts and evidence already amassed, in our judgment, for you to initiate action without further delay. This we hope you will do, for we want to impress upon you our genuine concern. We urge that the Tariff Commission be instructed under section 332 of the Tariff Act of 1930 to commence immediately to gather the necessary information upon which a decision may be reached on the question of whether a tariff or a quota should be applied to lumber importation. We recognize that the lumber industry has not yet applied for relief, and we understand it is because of fear that this action would close the door on more rapid emergent assistance. The industry has been told, however, that this is a necessary step but we Members of Congress do believe that there is a Government responsibility to gather information which can lead to a prompt determination when the industry files such a petition.

It is our hope that this action will not forestall other means of assistance. We earnestly recommend that you consider among other methods of assistance a temporary quota on the importation of softwood lumber, based on the average annual shipments into the United States over the past 10 years.

Such action is recommended only with the clear understanding that any quota would be lifted upon completion of the current study and the establishment of long-term solutions. We recommend this with every expectation of sympathetic understanding from our good neighbor Canada, whose friendship we value and whose motives we respect.

With our best wishes and deepest appreciation for your considered action, and with our fullest understanding of the complex problems before our Nation, we are,

Yours very sincerely,

E. Y. Berry, Dave Martin, John Dowdy, Clifford G. McIntire, Julia Butler Hansen, Clem Miller, Albert Rains, Ralph J. Rivers, John J. McFall, Ralph R. Harding, William G. Bray, Harold T. Johnson, Thor C. Tollefson, George Grant, Delbert L. Latta, Bernie Sisk, Don Magnuson, John J. Rhodes, Stanley R. Tupper, Harold McSween, Paul C. Jones, Don L. Short, Jack Westland, George Huddleston, Jr., Carl Elliott, John E. Moss, Richard H. Poff, Peter A. Garland, Thomas M. Pelly, Joe D. Waggonner, Jr., Durward G. Hall, Morris K. Udall, Silvio O. Conte, Walt Horan, Arnold Olsen, Gracie Pfost, Robert G. Stephens, Jr., Oren Harris, William K. Van Pelt, Catherine May, Harlan Hagen, Walter Norblad, Edwin R. Durno.

HOUSE OF REPRESENTATIVES,
Washington, D.C., June 11, 1962.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: As western Democratic Congressmen, we want to bring before you a problem of overriding magnitude for each of us. This has to do with the economic situation that is developing for the softwood and lumber industry of the West because of the increase in the importation of lumber from western Canada. Over the last several years there has been a significant decline in the number of lumber mills, particularly the smaller ones, and more recently even our larger mills have experienced severe difficulties.

There appear to be a number of factors which have made it possible for Canada to more heavily penetrate our softwood lumber market. These include the cost of materials, transportation charges and conditions, the availability of public and private timber, and other considerations.

We were, therefore, pleased that at the request of the White House, the Secretary of Commerce has been assigned leadership in organizing a Government-wide study of the lumber industry and its problems.

There are, however, enough facts and evidence already amassed, in our judgment, for you to take certain action without further delay. This we hope you will do. We want to impress upon you the genuineness of our concern. We would urge that the Tariff Commission be instructed under section 332 of the Tariff Act of 1930 to commence immediately to gather the necessary information upon which a decision may be reached on the question of whether or not a tariff or a quota should be appropriately applied to lumber importation. We recognize that while the lumber industry has asked a temporary quota, it has not yet applied for relief under existing machinery. The industry has been told, we understand, that this is a necessary step but we Members of Congress believe that there is a Government responsibility to gather the information which can lead to a prompt determination when the industry files such a petition.

A second essential step involves improvements in the sale of publicly managed timber. Last year, for example, the Forest Service offered for sale only 77 percent of the timber it was financed to sell. Immediate action should be taken to direct that timber sale programs operate at 100-percent efficiency. In addition, vigorous action is needed to determine whether annual allowable cuts are at the maximum level consistent with our policy of sustained yield timber management.

The Secretary of the Treasury is conducting a review on depreciation allowances. We would strongly urge that very careful consideration be given the question of whether the depreciation allowances affecting this industry are adequate.

We further urge that the full facilities of the Small Business Administration, the Area Redevelopment Agency, and the Forest Service be meshed into a task force to provide an intensified program of proper assistance to small business, many of whom have sustained great injury due to declining market conditions.

These are but a few of the steps we believe can be taken now and which will product measurable benefits immediately. We urge that these things be done at once.

In addition, there may be other steps which may occur to you that can be readily undertaken. For example, we hope you will also consider the possibility of the institution of a temporary quota or tariff prior to completion of the necessary studies.

You have our assurance that we desire to work cooperatively with you to attain for the lumber industry the state of economic health required in the national interest.

Sincerely yours,

Gracie Pfost, Arnold Olsen, Harold T. Johnson, Thomas G. Morris, Edith Green, Al Ullman, Clem Miller, Ralph R. Harding, Julia Butler Hansen, Morris K. Udall, Joseph M. Montoya, John E. Moss, John J. McFall, Don Magnuson, Harlan Hagen, Ralph J. Rivers, Bernie Sisk.

The CHAIRMAN. Now the Senator from Alaska; do you have some questions?

Senator BARTLETT. Just a few.

Mr. Cliff, on page 1, and again on page 5 of your statement, you point out that the Forest Service has lowered appraised stumpage prices, but the testimony in the field shows that the price has largely held to the higher rates. To the price of the trees must be added the cost of building roads to your specifications and on your routes. Have the number of dollars that operators must lay out for these roads gone up or down in the past year.

Mr. CLIFF. Senator Bartlett, I cannot answer the question for the past year. Maybe Assistant Chief Greeley could answer that. We do keep a record of the value, appraised value of the roads constructed by our timber operators, and I would be glad to supply that for the record.

Senator BARTLETT. All right, in case Mr. Greeley cannot answer it offhand.

Mr. GREELEY. Senator Bartlett, if the question goes to the matter of the average price per mile of road constructed by an operator, I do not have figures with which to answer.

Senator BARTLETT. Then why do you not furnish that information for the record?

Mr. GREELEY. We will try to get that, sir.

The CHAIRMAN. Fine.

(The requested information follows:)

There has been minor fluctuation but no change in the basic average level of purchaser road construction costs during recent years. Average road amortization rates per thousand board feet in appraisals for advertised sales in region 6 (Oregon and Washington) national forests for the last 3 years is shown below.

Fiscal year:	
1959	$7.46
1960	8.47
1961	8.05

The CHAIRMAN. Off the record.

(Discussion off the record.)

Mr. CLIFF. Mr. Chairman, on the record, if I might make the comment, Art Greeley was Assistant Chief for National Forest Protection and Development; just recently we have shifted him to the job in which he will be in charge of national forest resource management, which includes this timber management business we are talking about. I feel very good about this, because of my high regard for Greeley, and I have asked Art Greeley to take a close, critical look at our own timber sale policies and procedures. He has not heretofore been directly responsible for this activity. He will be now. And I have asked him to take a fresh look at the things we were doing; those that are good and sound we will continue, and those that seem weak or where we can improve, we want to improve. And this is one of the things that I have asked Mr. Greeley to give special thinking to.

Senator BARTLETT. Well, he looked a bit thinner to me than the last time I saw him, and now I know why. That is quite a job.

The CHAIRMAN. Off the record.

(Discussion off the record.)

Senator BARTLETT. Now, Mr. Cliff, the road information you are going to supply for the record.

Then there are logging costs. We heard testimony that the Forest Service is running up costs of operation by such things as requirements for handpiling with slash in areas where effective but less costly slash disposal methods have been in use. How much, more or less, have been the costs of slash treatment in the last year?

Mr. CLIFF. I think it is about constant, Senator. This is a problem that I think we and the industry both must analyze, and we have to face up to the problem of the job of conducting our timber sale activities on the ground so that it bears inspection.

There are a lot of people in these timber States who would like to see us cut timber less fast. I am sure you are acquainted with some of the pressures in this direction. They think we are liquidating the old growth too fast. They want larger areas preserved. They are very critical of the condition of some of our timber sales.

As a matter of insurance and as a matter of keeping timber management in its proper perspective, I think all of us have to do a good job of housekeeping, of cleanup, of erosion control, so they cannot point their finger at bad practices and use those as examples of why we should not be cutting timber.

We see examples of this every day where they are seeking out areas which they think look bad, taking pictures of it, and using this as a reason for asking us to cut less timber. And I think that this matter of cleanup, erosion control, of these things, that have been called polishing; I think we have got to do some of these things if we are going to keep timber management in the picture in the proper way.

We should not, and we do not want to, use inefficient methods. You indicated that we are asking for handpiling when other methods may be just as good, and may be cheaper. We want to use the best and most efficient methods. And I am sure you are aware that when we require

these things, we make allowances in the appraisal so that if we do our job properly it is not the cost to the operator, it is the cost to the Government.

Senator BARTLETT. The committee has heard, Mr. Cliff, that requirements are sometimes switched and more expensive forms of logging are imposed upon the operator. Well, for example, this might relate to cable logging. The changeover would be quite expensive, but the man in the field might require it. Do you have any comment to make on that?

Mr. CLIFF. We cannot change the conditions of the contract without the concurrence of the operator himself. There may have been some instances where there were some changes, but if they were imposed by us, they would have to be with the concurrence of the operator if we required more of him than the contract required.

Senator BARTLETT. Well, to your knowledge, have more——

Mr. CLIFF. I do not know of these specific instances. Perhaps I should, but they have not come to my personal attention.

Senator BARTLETT. You do not know, then, whether the requests that there be changes have mounted in number, even if they were not ultimately placed in effect?

Mr. CLIFF. No.

Senator BARTLETT. Now, are you willing, Mr. Cliff, to stand by that statement as to future contract changes that the operators' acquiescence is supposed to be had?

Mr. CLIFF. We cannot require him to do more than required by the contract without his acquiescence. I am sure that is correct.

Senator BARTLETT. Now, the committee naturally, and everyone else interested——

The CHAIRMAN. Bob, could I interrupt to ask one question there to clear the record?

There was a lot of discussion earlier in all of these conferences and meetings that the form of the contract, the regular contract, should be changed. Now, I understand that there has been a study made and that some technical changes and changes in the form are being made.

Mr. CLIFF. The basic contract that we are using now is the one which we reviewed in considerable detail with the industry in 1954. There have been some changes in this contract. For example, when we adopted the accelerated road amortization procedure, we have to make appropriate changes in the contract. There have been some other changes.

This basic form also has blanks in it, for use of optional clauses and there are provisions for adding clauses to make the contract fit a particular local situation.

The CHAIRMAN. I understood there have been some recent, but not basic, changes in the form of the contract. Have there not been some recent changes?

Mr. CLIFF. No, not that I know of, except on this accelerated road amortization, for example, we had to——

The CHAIRMAN. You remember the meeting when one of the recommendations by the industry was that the form of the contract needed to be changed?

Mr. CLIFF. Senator, the Secretary of Agriculture has agreed to this proposal by the industry that we join them in a review of this contract.

The CHAIRMAN. Yes, all right.

Mr. CLIFF. We are willing and ready and anxious to do this as soon as the industry is ready to name their representatives; we will sit down with them and go over this contract in detail.

The CHAIRMAN. I wanted to bring that out, because I remember there was some earlier discussion about this.

Go ahead.

Senator BARTLETT. We have been told many times, and at many places, Mr. Cliff, that the matter of stumpage rates is only one element in all this, that in so many different ways the Canadian Government is giving aid, comfort, and assistance to their lumber industry, and that that is one big factor which makes the position of our own producers so acute now. May I have your comment on that?

Mr. CLIFF. We prepared an analytical report comparing the Canadian system of selling timber with the system that is followed here. I think that it is available for the committee. I assume you have copies of it. This report does not lead us to believe that there are so many significant differences.

We are practicing in this country more intensive management, and we are practicing multiple-use management, which we must under the dictates of Congress. And we no doubt have requirements in our timber sale contracts that they do not require up there. As I stated, we try to make adequate allowances in the appraisals when we impose those requirements.

The Canadian Government does, I am sure, encourage their lumber industry in many ways.

Senator BARTLETT. Should our Government not do more, then, to balance this?

Mr. CLIFF. Our Government does do it. And as I have stated today, we want to be just as helpful in supporting our economy as we can with national forest timber.

Senator BARTLETT. Now, Mr. Cliff, on page 2 of the statement you made the other day, you indicated that the problem of stumpage supply is not equally pressing in all areas served by the national forests. Then on page 6 you pointed out that the total volume of stumpage put on the market in the 42 forests under discussion has increased. In order that we may evaluate your program in terms of the supply of communities, to go back to the subject originally raised by Senators Kuchel and Magnuson, will you tell us where, working circle by working circle, that this increase has been made, so that we can get some idea of the extent to which areas in the greatest need are receiving priority of attention and consideration and action?

Mr. CLIFF. Yes, sir; we will be glad to supply that for the record.

Senator BARTLETT. Thank you.

(The information requested follows:)

Allowable cut as of January 1, 1962, and the estimated volume sold for the fiscal year ending June 30, 1962, are shown for each of the 42 national forests.

[Millions of board feet]

State and national forest	Allowable annual cut as of Jan. 1, 1962	Estimated volume sold in fiscal year 1962
California:		
Eldorado	116	95
Klamath	185	155
Lassen	99	123
Mendocino	81	39
Modoc	51	43
Plumas	183	188
Sequoia	101	52
Shasta-Trinity	218	235
Sierra	114	150
Six Rivers	156	178
Stanislaus	123	116
Tahoe	130	58
Subtotal	1,557	1,432
Idaho:		
Boise	130	86
Clearwater	211	76
Coeur d'Alene	151	136
Kaniksu	140	162
Nez Perce	112	132
Payette	91	122
St. Joe	100	58
Subtotal	935	772
Montana:		
Flathead	137	121
Kootenai	185	211
Lolo	162	202
Subtotal	484	534
Oregon:		
Deschutes	136	153
Fremont	126	189
Malheur	171	109
Mount Hood	315	366
Ochoco	98	62
Rogue River	126	164
Siskiyou	179	176
Siuslaw	327	350
Umatilla	124	129
Umpqua	340	369
Wallowa-Whitman	160	171
Willamette	566	602
Winema	90	132
Subtotal	2,758	2,972
Washington:		
Colville	80	139
Gifford Pinchot	395	579
Mount Baker	201	194
Okanogan	90	82
Olympic	341	446
Snoqualmie	207	289
Umatilla	5	
Wenatchee	106	148
Subtotal	1,425	1,877
Total	7,159	7,587

Senator BARTLETT. Then on pages 3 and 4 of that same statement are figures showing, by States, the percentage of logs coming from National Forest lands and the percentage coming from other lands. Substantial blocks of the nonpublic timber lands are in the control, are they not, of a very few operators?

Mr. CLIFF. Yes, I think that is a good general characterization.

Senator BARTLETT. Well, then, as a result, so far as the rest of the mills are concerned, the Forest Service has a virtual monopoly of the raw material supplied, is that correct?

Mr. CLIFF. There are many places where the Forest Service has control of the major part of the timber.

Friday, the chairman asked that we supply for the record a tabulation showing log production for the Pacific Coast and Inland Empire States by origin from national forests or other sources. I have that table here to supply for the record.

The CHAIRMAN. We thank you, and we will put it in the record, then.

(The tabulation referred to follows:)

TABLE No. 1.—*Log production for Pacific coast and Inland Empire States by origin from national forest or other source*

10-YEAR AVERAGE, 1951-60,[1] VOLUME CUT[2]—MILLION BOARD FEET

State	National Forest	Bureau of Land Management[3]	Indian	State	Other	Total	Percent National Forest
California	970	18	33	20	4,514	5,555	17.5
Idaho	509	20	3	208	908	1,648	30.9
Montana	396	7	27	59	402	891	44.4
Oregon	1,848	759	118	192	5,844	8,761	21.1
Washington	975	10	260	345	2,930	4,520	21.6
Total	4,698	814	441	824	14,598	21,375	22.0

CALENDAR YEAR 1960,[1] VOLUME CUT[2]—MILLION BOARD FEET

California	1,324	19	49	27	3,718	5,137	25.8
Idaho	660	27	2	150	1,061	1,900	34.7
Montana	464	4	19	[4] 35	718	1,240	37.4
Oregon	2,315	1,052	90	204	4,724	8,385	27.6
Washington	1,181	7	256	272	3,011	4,727	25.0
Total	5,944	1,109	416	688	13,232	21,389	27.8

[1] "Other Federal" and "State" lands in Montana are by fiscal year; all other ownerships are by calendar year.
[2] BLM figures are "sold" volumes; all others are "cut."
[3] "Other Federal" includes Bureau of Land Management O. & C. lands and public domain.
[4] Fiscal year 1961.

Mr. CLIFF. This gives a picture of the source of timber from the national forests by States and the other sources of timber, the Bureau of Land Management, Indian service lands, State lands and private lands. And it shows the proportion.

Senator BARTLETT. All right. Now, concerning the supply, there was a quotation from your justification to Congress in support of the Forest Service budget for fiscal year 1960, and I will read that:

> The Forest Service is by far the largest single supplier of raw material for the Nation's forest products industry. Many mills, both large and small, are primarily or wholly dependent on continuing or increasing purchases of national forest timber. Alternate sources of purchase of timber for major segments of the lumber and plywood industry in the Pacific Northwest have now been exhausted. This almost complete dependence on purchase of national forest timber for continued operation makes the conduct of the national forest timber sales program more significant than ever. Sale of timber at the maximum feasible rate within sustained yield cutting limitations is an indispensable link in maintaining employment, payrolls, community stability, and adequate supply of lumber and plywood for national consumptive needs. Many mills must purchase timber to keep operating. The national forests are the one place where they can buy it. The job of selling it must be done by the Forest Service. This will keep mills going, provide jobs, and stimulate the general economy.

That concludes the quotation.

My question is this, Mr. Cliff. Does the Forest Service still agree with that statement?

Mr. CLIFF. Yes, sir.

Senator BARTLETT. Now, in relation to that question I asked about roads, I should pinpoint that a bit more by saying that what I desire is not the cost per mile, but the cost per thousand board feet of stumpage.

Now, I understood that you told Chairman Magnuson and Senator Kuchel that every effort is being made, and with some success, to step up the amount of allowable cut, put more timber on the market, and yet on page 5 of your statement you said this:

> The major problem of the industry is a drop in lumber selling prices. Lumber has numerous problems of competition with other materials and lately with increased imports of lumber from Canada. The soft lumber markets since the middle of 1960 and the concern of the industry over the increased volume of Canadian timber flowing into U.S. markets demonstrates that a major problem of the industry is in oversupply in comparison to demand.
>
> If the lumber industry has a current overproduction problem, it cannot have an overall current shortage of raw materials. On an overall basis, it would appear that a stimulation of national forest timber sales at this time should result in increasing lumber production, which would further adversely affect lumber prices.

Is this a contradiction, Mr. Cliff? Because you said you are doing now that which you stated Friday might not be advisable.

Mr. CLIFF. No. I did not state Friday that it would not be advisable. The purpose of that statement was to put this whole thing in perspective.

If you will read the rest of the statement, I pointed out that, nevertheless, the situation in localities where there is intensive demand for timber in order to keep industries going, is such that there is a need for full marketing and that the local situation does not necessarily correspond to the overall national situation.

Senator BARTLETT. But I still cannot understand where, if they are given more timber, they are going to sell it, in light of your statement that there is too much timber available now.

Mr. CLIFF. My statement was that part of the difficulty of the timber industry now is that there is not, on a national overall basis sufficient market for the supply; there is a supply and demand relationship and there is a soft lumber market. I think that is true. If we sell—and we intend to—sell our full allowable cut, increasing the amount of timber on the market might have a further depressing effect, unless the demand picture improves.

I hope that the demand picture improves. I will be the happiest man outside of the lumber industry, I think, if we get onto a good decent lumber market again.

The present outlook is not too encouraging, although some of the prognostications of housing starts are somewhat contradictory. There are more housing starts actually appearing, and the forecasters indicate a brisk housing business during the balance of this year. But the market trend does not yet reflect that. The market still has not picked up the way we hoped it would.

The CHAIRMAN. Housing starts do have a direct bearing on the lumber market. Has that been the experience?

Mr. CLIFF. Yes.

The CHAIRMAN. The number of housing starts.

Are you through?

Senator BARTLETT. All right, Mr. Cliff, thank you very much.

I have no further questions.

The CHAIRMAN. The Senator from Oregon, I know, has some questions.

I want to say that we have no particular protocol; we just go down the list as we come along.

Senator MORSE. Mr. Chairman, again I want to thank the chairman and members of the committee for permitting those who are not members of the committee to participate in the hearings.

Before I ask you my first question, Mr. Cliff, I want to read into the record two wires, one pertaining to your testimony.

At the Portland hearing, Mr. Chairman, Mr. Robert Dwyer, one of the lumbermen, was on the stand. I examined him as to whether or not the lumber industry had taken any steps at all to exercise its procedural rights under existing statutes, particularly in reference to seeking a hearing with the Tariff Commission to show that irreparable damage is being done the industry because of importations. I indicated that this had not been done, although in fairness to the lumbermen, I think that it should be pointed out that they had certainly been in consultation with their Government for a long time past, and certainly the Government was aware of their economic plight.

After his testimony that morning, he filed with us—it was put in the record—a wire that the various lumber groups represented at the hearing sent to the Tariff Commission shortly thereafter, asking for some emergency consideration in regard to getting some action in respect to this issue of a temporary quota.

I think the wire that the Secretary of the Tariff Commission, Mr. Bent, sent to Dave James, Simpson Timber Co., Seattle, Wash., in response to this request that these lumbermen made for some emergency action from the Tariff Commission is interesting and tells a good part of our procedural problem. It reads as follows:

> Tariff Commission has no emergency authority to impose suggested temporary quota. If escape-clause investigation is desired, interested members of industry must file application in accordance with Commission's rules. Copy of rules follow in mail. It is believed such investigation would require 6 months. President has established interdepartmental committee to study lumber industry's competition with Canadian lumber. Perhaps advisable to await outcome of that committee's report.

Signed by the Secretary of the Tariff Commission.

Which bears out, Mr. Chairman, the point you made at our first meeting the other day that there is so much redtape and delay in these matters procedurally, as far as meeting emergency situations is concerned, that it is really a form of runaround to tell the parties: "You have got to go through all this procedure of existing law"—while there are mills that are going down and men are losing employment.

Then we had the testimony of the Assistant Secretary of State for Economic Affairs, Mr. Johnson, the other day, which, in effect, added up to: "We will consider it further."

And then we had the letter of June 15 which Senator Dworshak read to the committee—the same runaround: "We must have some more study and consideration of it."

That is why I congratulated him for getting that kind of a letter, knowing that, in the interest of good government and politics, you just cannot justify the handling of the matter that way by this administration or any other.

The next wire I want to read is a wire that we received from the lumbermen:

The "task force" idea of the President—

that is his response to the Assistant Secretary of State's testimony through Secretary Johnson.

The "task force" idea of the President to study the distressed lumber problem is preposterous. What have these Senate Commerce Committee hearings that have been going on for the last several months been but factfinding bodies unless they are a sedative to lure the lumbermen to sleep? The facts have been developed by these hearings. The final one was understood was to be today. If all this time and effort have been wasted with a lot of talk, then we lumbermen have been led down the garden path. We know that the lumber situation has been completely covered and understood by the Commerce Committee and that no new facts will be brought out by any additional study group. We need action now—anything else is conclusive evidence that the administration cares nothing about our dilemma.

The 80-day cooling-off period of the Pacific maritime difficulties is about over—witness the tying up of several ships of Weyerhaeuser Steamship Co., one of the only three intercoastal lumber carrier operators left. If the settling of this western maritime difficulty results in high costs to the operators, then the intercoastal carriers are doomed to extinction, as increased rates to meet their rising costs are impossible. If this strike is resumed, it will result in (1) building up inventories of green lumber which is a perishable commodity, and (2) will force sawmill operators down causing (3) further unemployment and economic hardship to the west coast, (4) additional draining of our gold reserves for lumber purchased in Canada, and (5) make it impossible for many to survive the wait for effective relief, (6) result in dumping of American lumber inventories on an already Canadian-saturated American east coast market at ruinous prices.

It is imperative that a time limit be set for the solution to our problems. We are desperate.

What an opportunity for the administration to demonstrate its concern for the welfare of business.

Signed Stanley Bishoprick, of Dant & Russell, Inc.

The CHAIRMAN. Well, I have the same wire from the same individual, and I think that some of the statements he makes there are not quite borne out by the facts. He definitely understood the purposes of the hearings and agreed with them. He definitely understood that none of us agreed that there would be any Tariff Commission route on this matter because of the time element, which he pointed out. And I am sure he definitely understood that none of us, including several people in other places that might do something to help us here, had any idea that there would be any kind of protracted study on this matter.

The testimony was that they had no time limit, and we had suggested vigorously that they do not need much time at all.

I am glad to get his wire. He has been a witness on two or three occasions. I appreciate his concern. But I do not think that all of his statements are quite consistent with the procedural problems we have here.

Senator MORSE. I understand the chairman's point of view.

The CHAIRMAN. Yes.

Senator MORSE. But I submit the wire because the wire is a fact.

The CHAIRMAN. Oh, yes.

Senator MORSE. The wire is a very important fact. The wire represents the point of view not only of Mr. Bishoprick, but of a considerable number of lumbermen I met with over the weekend.

The only point I want to make, as far as the senior Senator from Oregon is concerned is that, in my judgment there is no justification for any further delay in the administration's making up its mind what its action is going to be. We need a yes or no answer on its policy.

The CHAIRMAN. No one disagrees with that, and I am sure this gentleman agrees.

Senator MORSE. The difficulty that the senior Senator from Oregon is faced with in my communications with each and every administrative official with whom I have talked about this matter is that their position, I think, can be summarized very much by saying that they are acting in futuro. And their futuro is so indefinite that you cannot even get them to talk in terms of dates.

Now, we are confronted, as the Senator from Washington knows and all of us in the Senate and House know, with what I think is a perfectly accurate statement in this wire—a desperate situation.

The CHAIRMAN. There is no question about it.

Senator MORSE. The other day, partly to dramatize the situation, I showed the committee this large package of auction announcements—and it is only part of the auctions—relating to a large number of mills that are being auctioned. These are not obsolete mills. In some instances they are bankruptcies, and in others they see the handwriting on the wall, and they are going to sell out as fast as they can. They are dismantling auctions, Mr. Chairman. They are dismantling these mills. Two hundred and some have gone down in the last year.

We are up against this problem—and I make this statement as a preface to a series of questions I want to ask Mr. Cliff, because I want to say, quite frankly, that I found, Mr. Cliff, among the lumbermen I talked with, no support for your statement whatsoever. I think I quote them very accurately when I say that the Forest Service has again, in their opinion, done a snow job. They challenged a good many of the alleged factual statements that you make in here, including some of your statistics. They think the time has come for a thoroughgoing congressional investigation of the Forest Service; and I do, too, Mr. Chairman, under the appropriate committee. I think we have a problem here of procedure for the handling of this great agency.

I am a friend of the Forest Service, as I have demonstrated time and time again. But I am a greater friend, may I say, of orderly procedure. And in my opinion, Mr. Chairman, you cannot justify the great procedural authority that is now vested in the Forest Service without adequate checks either in law or adequate checks in practice.

Now, you can say all you want to about the Forest Service being under the Department of Agriculture. It is under the Department of Agriculture, in my judgment, in name only. The control exercised by the Department of Agriculture over the Forest Service is a very nominal control. It has been true of Secretary of Agriculture after Secretary right down the line for years. We do not have, under this American system of checks and balances, the checking system upon this Forest Service that we have, for example, in the Bureau of Land Management.

The CHAIRMAN. Well, I think he answered that question to me just a few minutes ago.

Senator MORSE. I understand, but the senior Senator from Oregon wants this record to show what his position is. Because I do not intend to stop with this hearing today. I have just started on this matter, and I intend to continue. I am a devotee of this whole principle of our constitutional system of checks and balances upon administrators who are given the great control that the Forest Service has over billions of dollars worth of wealth belonging to all the taxpayers of the country. When you get an industry, including not only the mangerial part of it but the labor part of it, finding itself in such disagreement with the Forest Service as they find themselves in on point after point, the time has come that the Congress no longer can evade its responsibility. We must find out what the facts are.

The CHAIRMAN. He answered the question that they did not have the people down there like the Bureau of Land Management, which I think is deplorable.

Senator MORSE. You cannot help Chief Cliff, in my judgment, do the job that I happen to know that he wants to do. And my position is quite impersonal. I have nothing but the highest regard for the Chief of the Forest Service, Mr. Cliff. But I do not propose, as far as I am concerned, to leave unchecked the power that Mr. Cliff has in his hands.

I say the time has come when we must solve the problems that are before the Forest Service. There is what I consider pretty much an open revolt within the industry, to get some checks and procedures.

We sent, Mr. Chairman, to the Secretary of Agriculture, under date of March 2, a letter signed by a group of us—Magnuson, Mansfield, Church, Kuchel, Neuberger, Jackson, Metcalf, Engle, and myself. I ask that it go in the record, and I ask that Mr. Freeman's answer go in the record. I consider his answer completely unsatisfactory. I do not think the Secretary of Agriculture came to grips at all with the problems which as a group of Senators we raised in that letter. And I am not one that sits by and takes a runaround.

I want to say that, in my judgment, the problem is the same today as it was on March 2. The problem today is the same as it was on February 21, when we met down in the Department of Agriculture with the Secretary of Agriculture.

And the lumber industry itself, I thought, gave a very reasoned presentation of their case, characterized by understatement. In my judgment, neither the Department of Agriculture nor the Forest Service has come to grips yet with the problems we raised on February 21.

Now, I think it is only fair——

The CHAIRMAN. I think we put this letter in the record. If it is not, I will put it in the record, and the answer.

Senator MORSE. Yes.

The CHAIRMAN. I think we did some time back.

(The letters referred to follow:)

MARCH 2, 1962.

Hon. ORVILLE FREEMAN,
Secretary of Agriculture,
Department of Agriculture, Washington, D.C.

DEAR MR. SECRETARY: In your February 21 conference with Members of Congress and representatives of the lumber industry, several aspects of the timber policies of the U.S. Forest Service were discussed.

The purpose of this letter is to place before you our views on several key aspects.

ALLOWABLE CUTS

There is an urgent need for an immediate policy review to determine whether the allowable cuts accurately reflect the full potential for harvesting national forest timber. Certainly special attention should be given to those working circles located in areas where there is today a substantial demand for national forest timber and heavy mill capacity. It should be possible to set forth the ultimate or optimum allowable cut and to show clearly the extent to which lack of access, species or tree utilization and unfilled reforestation and stand improvement needs hinder placing on the market the optimum amount of timber consistent with sustained yield. There should also be a clear understanding of the reason for selecting various rotation ages and other scientific factors which go into the computation of the allowable cut. There are many suggestions to increase allowable cuts, some of which may overlook basic conservation responsibilities. The policy announcements on allowable cuts should also reveal why alternative suggestions may not be feasible.

We desire that this matter be given a top priority and request that you submit appropriate information to the Senate Committee on Appropriations, including a statement as to whether or not the proposed budget for 1963 will permit timely action.

TIMBER SALES

There has been concern as you know, over whether the Forest Service timber sale program is running as efficiently as it should. A distinct need exists to make absolutely certain that timber sales plans are carefully prepared and that they are offered on schedule. It should become policy to announce a general plan giving the size, the expected date of sale, location, and general information about sales scheduled for the forthcoming year. This plan should be given wide public notice and the Forest Service should subsequently offer either the sales announced or proper substitutes on the dates originally announced with what should become almost clocklike regularity.

There is a good reason to believe that the two major factors which have compounded some of the spirited bidding that has characterized Forest Service timber sales over the last decade are failures to realistically set and describe the allowable cut and erratic performance on planned timber sale offerings.

TIMBER APPRAISALS

The Forest Service has an obligation, we believe, to set a fair price upon the timber it is offering for sale. The large Government holdings of timber are becoming increasingly important, not only to the forest products industry, but also to the consuming public. In its position as a major purveyor of stumpage, the Government's interest should consider the maintenance of wood markets. If this is to be done, the price of stumpage must be kept within a competitive range that enables domestically produced products to compete with imports and with competing materials. While the first two steps we outline can have an appreciable effect on helping wood's competitive position, we would urge that a special review be made of existing pricing policies and the attendant factors which may affect sales bidding. There have been a variety of recommendations made to the Forest Service and each of these deserves a careful reevaluation.

The procedures used by other Federal and State agencies deserve to be studied so as to determine whether some revisions in sales procedure could prove beneficial. We would urge in any significant change in policy that careful consideration be given to the use of limited trials before embarking on wholesale changes. In view of the contentions made about forward pricing we particularly urge that attention be given to this question as the earliest opportunity.

ACCESS TO THE NATIONAL FORESTS

This was not a matter raised by the lumbermen at the February 21 meeting, but it is one which has received more than passing attention. Two aspects are of prime importance. The first is fully covered in the Attorney General's opinion of February 1, 1962, raised by the questions you submitted to him last August 2. The Department should proceed at once to implement a reciprocal access policy.

The guiding concepts are well stated in the similar policy developed 12 years ago by the Department of the Interior for the Oregon and California revested lands. We urge that you set up a task force in your office under instructions to proceed expeditiously to prepare and publish for comment, by a certain date, the necessary policy and regulations. Here is an area where it would be extremely desirable for the Departments of the Interior and Agriculture to work in close cooperation, and to make full and proper use of a special advisory group which represents not only the public interest, but also with a direct interest.

The second aspect is adequate authorizations which will assure that the goals of the developmental program for the national forests are met. We urge that in transmitting reports in connection with the Highway Act, this matter be given a thorough review. We will be glad to meet with you, the President, and the Director of the Bureau of the Budget should this be desirable to achieve a meeting of the minds.

In addition to enabling the national forests to meet their broad conservation role, the prompt construction of the needed roads will measurably assist the forest products industry in obtaining timber at reasonable prices. One of the most risky aspects of timber sale purchase is the cost of road construction. The changes in market structure between the time of the timber purchase and the date upon which the roads are constructed so that logging can commence has been a factor in intensifying the current hardship that many in the industry feel. These, and other equally compelling reasons, necessitate special attention to setting forest development road authorizations at substantially higher levels than now prevail.

APPEALS PROCEDURE AND REVISION OF FOREST SERVICE CONTRACTS

These matters deserve proper and careful review by both legal and technical experts. However, as we suggested in the meeting, many problems can be averted by better on-the-ground contact and administration.

One thread which ran through the presentations by the lumbermen was that many issues have been under discussion for some time without resolution. As a matter of policy there should be a high priority attached to the development of a mechanism which will enable all groups to place before you their detailed recommendations on policy and program revisions on the several points where concern has been expressed. Those suggesting revisions should be asked to give a priority designation to their suggestion. The Department should then proceed, using to the extent desirable such counsel as various groups wish to extend, to dispose of each issue with a clear statement of policy as the facts are developed. In the formulation of policy we believe it would be well to include in your announcement a recognition of the contending suggestions and a clear statement on why these that are not adopted, either in full or in part, were not, along with the reasons for the policy revisions being made.

We respectfully submit these two suggestions:

1. The Forest Service has long made use of advisory boards. There should be a concerted effort made to expand their use and to critically examine whether they are broadly representative of those with an interest in national forest affairs. Starting at the local level a strong effort should be made to assure that these boards can function in a fully advisory capacity in a meaningful way.

2. Within the last few years the Department has created in all of its agencies independent internal audit staffs in accord with the concepts set forth in the 1950 revision of the Budget and Accounting Act. We urge that you explore the

practicality of equipping the internal audit staff to serve also on a trouble-shooting basis in those situations where there is a difference over contract interpretation or requirements between a timber purchaser and a local sale officer when this cannot be resolved by the forest supervisor. In such a situation the troubleshooter's services could be requested by the contractor or supervisor and he would then come out on the ground with the contractor and go over the entire situation. Following this, he would meet with the local officer and then he would take both parties out on the ground to see if the situation could not be resolved then and there. In the process he would be authorized to accept written statements and he would be expected to report his views to both the local supervisor and the contractor in writing. Through the use of fully experienced independent personnel on the internal audit staff there could be developed men with broad backgrounds and specialized capabilities for the solving of problems right on the ground—which is where most of these so-called problems really should be settled. We would urge that the approach be given a fair trial to see if it produces the results that are sought. Placing such a program into operation on a trial basis might also aid in ascertaining the precise changes that might be needed both in the present appeals procedure as well as in the contracts.

PERFORMANCE EVALUATION

Several of the criticisms made strongly suggest that the performance of certain assigned functions may be below expectations.

We therefore, urge that you review performance and give careful consideration to publication at local, regional, and national levels of an annual factual statement, perhaps in the annual reports, which relates plans to accomplishments. This would not only assure a better understanding on the part of the public but also would make available to those charged with operating responsibilities better information to how effectively financed program goals are being met.

Some of the suggestions made in this letter may require funding. For such items we ask that you furnish us with your views and have the Forest Service prepared to advise the Senate Committee on Appropriations when it appears to testify on the 1963 budget.

For those items which involve legislation, such as the pending highway bill, we ask that a timely report be furnished to us. For those aspects which involve policy revisions that are within your discretion as Secretary of Agriculture, we ask that you give us your views at the earliest feasible date and consult with us on a timely basis.

We wish to assure you that we desire to work with you cooperatively and constructively to effect in an orderly and beneficial manner any changes that may be necessary in national forest policies.

Sincerely yours,

Wayne Morse, Maurine Neuberger, Warren Magnuson, Henry Jackson, Mike Mansfield, Lee Metcalf, Frank Church, Clair Engle, Thomas Kuchel.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., April 17, 1962.

Hon. WAYNE MORSE,
U.S. Senate.

DEAR SENATOR MORSE: This is in response to the letter of March 5, signed jointly by you and eight other Senators. We deeply appreciate your views and your constructive interest in important aspects of timber policies for the national forests. Your suggestions have been stimulating.

Enclosed is a copy of Mr. Cliff's memorandum of April 10, which gives his analysis of the items discussed in your letter, and states what the Forest Service proposes to do with regard to them.

I am approving Mr. Cliff's proposals and want to add my own thoughts on the items listed in your letter.

ALLOWABLE CUTS AND TIMBER SALES

We want to market the full allowable cut from every national forest working circle and to give priority to development of the working circles where there is substantial demand and heavy mill capacity, We feel the Forest Service has been making good progress in this respect. It is also making progress in clearing

up some of the controversies over methodology. Mr. Cliff recognizes the need to—

(*a*) Strengthen actions on informing all concerned on the full circumstances whenever full allowable cuts are not obtainable.

(*b*) Strengthen actions to inform interested persons on allowable cut methodologies and restrictions on normal cutting for protection of scenic and recreation values.

We want better adherence to previously announced timber sale schedules regardless of upward and downward swings in the lumber market. The Forest Service is being requested to make special efforts to do so in the future.

TIMBER APPRAISALS

We are reviewing a number of issues on timber appraisals in connection with consideration of the proposal No. 2 on appraisal procedure from the National Lumber Manufacturers Association. It is evident that this is an important but controversial field of activity. We agree with your sentiments that if significant changes in policy should appear advisable they require careful consideration and use in limited trials before widespread and sweeping changes are put into operation.

ACCESS TO THE NATIONAL FORESTS

We appreciate your offer to join in a meeting of your group with the President and Director of the Bureau of the Budget in the interest of adequate road authorizations to assure that the goals of the "developmental program for the national forests" be met. However, we believe the authorizations being proposed by the administration will constitute a long forward step in meeting these goals and that a meeting will not be necessary for this purpose. We agree there are many reasons why special attention should be given to setting forest development road authorizations at substantially higher levels than now prevail.

APPEALS PROCEDURE AND REVISION OF FOREST SERVICE CONTRACTS

You recommend prompt and careful review by both legal and technical experts of appeals procedures and revision of Forest Service contracts. This is being done. We are in agreement with your sentiments in this respect.

A number of the constructive suggestions in your letter relate to more adequate information, or publicity on the part of the Forest Service in conducting its timber sale program. The Forest Service has been engaged in a very large task in expanding its timber sale activities to the present level of around 9 billion feet, which is almost twice the rate of sales 10 years ago. In general, the Forest Service has been pressing for increased sale production rather than taking time away from productive activity to engage in elaborate documentation or publicity on the justifications of its policy. Quite possibly it has gone too far in this respect. Comments in your letter would be an indication that the Forest Service should develop better explanations and a more adequate public understanding of national forest timber sale policies.

Increased efforts along these lines unavoidably will require the use of more supervisory time in the conduct of the timber sale program for the national forests. We feel that this additional supervisory time is well justified and can easily be carried by the size, significance, and scope of the timber sale program. In terms of funds, the additional amounts required are relatively minor. In terms of positions in the regional office, Chief's Office, and the Division of Timber Management, these additions might be questioned by some congressional committees interested in holding overhead positions to a minimum.

We do not feel that additional funds above the 1963 budget estimates are necessary to take action along the lines indicated in this letter. However, restoration of the $800,000 reduction in timber sales administration and management funds, as would be required by the appropriation bill enacted by the House, is quite important if an expanded program of information and "troubleshooting" is to be gotten underway in fiscal year 1963.

The Department is indeed deeply appreciative of your joint action in giving us these constructive suggestions. It is our hope that we can continue to work constructively and progressively toward development of a sound program for maximum benefits from the national forests.

Sincerely yours,

ORVILLE L. FREEMAN, *Secretary.*

MEMORANDUM

U.S. GOVERNMENT,
FOREST SERVICE,
Washington, D.C., April 10, 1962.

To: Orville L. Freeman.
From: Edward P. Cliff, Chief.
Subject: External relations (NIMA, February 21 meeting).

In accordance with your request, the letter of March 5 from nine Senators of Washington, Oregon, California, Idaho, and Montana has been carefully reviewed. Our comments and recommendations on the subjects discussed are as follows:

ALLOWABLE CUTS

An immediate policy review is requested to determine whether allowable cuts accurately reflect the full potential for harvesting national forest timber, particularly in working circles located in areas where there is substantial demand and heavy mill capacity. The primary areas of substantial demand for national forest timber are in the five Northwest and Pacific Coast States. The basic modern inventory work and revision of allowable cuts is well underway in these five States. Problems and issues that have been raised in connection with allowable cut relate primarily to various proposals to increase the cut through use of different rotations or other modifications of methodology. In addition to these technical questions there are practical difficulties in developing sales for the ultimate or optimum cut because of lack of access, absence of a market for all species and tree sizes, or conflicts with other national forest uses.

Allowable cut calculations are developed on premises that access will be available so that stands in highest priority can be scheduled for cutting, and that the species and size classes in such stands can be marketed under timber sale requirements which will meet silvicultural, watershed, and other multiple-use coordination needs. When these premises cannot be met, it may not be possible and in some situations it may not be sound to sell the full allowable cut even though there may be strong demand for preferred species and size classes. Part of past difficulties over the allowable cut rates and their attainment every year in areas of heavy demand may be due to failures on the part of the Forest Service to get this concept understood and to state full and adequate reasons for impracticality of attaining allowable cutting rates.

Within the last year there have been several significant developments in methodology including rotation determinations for west coast working circles with large proportions of old-growth timber. These developments have been in the general direction of increasing allowable cut calculations and sharply reducing issues which have been raised in recent years on the part of industry groups. So far this fiscal year new allowable cut determinations have been approved at twice the rate necessary to maintain a normal 10-year replanning schedule. In the western working circles replanned this year, the allowable annual cuts have been raised an average of 25.9 percent and the estimated commercial forest acreage has been increased 3.9 percent.

Additional efforts will be made to develop a fuller understanding on the part of both the forest products industry and the general public of the basis for selecting rotation ages and the other factors which bear on the computation of allowable cuts. In particular, there must be an appreciation of the effect of preservation of timber for scenic and recreation purposes.

TIMBER SALES

The practical problem on timber sale performance has been maintenance of sales during the periods of adverse market conditions. In 1959 and 1960 when market conditions were good, timber sales were 109 and 117 percent of planned schedules. This compares to 77 percent in fiscal year 1961 when market conditions were adverse. For the 3 years together they average 99.47 percent of financed objectives. A number of factors make it difficult to keep sales up to previously estimated levels during periods when lumber market levels and industrial activity are declining. In spite of the disappointing sales record in fiscal year 1961, national forest timber cut in calendar year 1961 was 3 percent more than in 1960 as compared to estimated total lumber production for the United States in calendar year 1961 of 8 percent less than for 1960.

Allowable cuts should be stated on a realistic and sound basis. These allowable cuts are either goals or limitations depending on whether or not they are above or below market demand and a feasible and sound sale program. The announced annual sale program must also be on a sound and realistic basis. It should consider local market demand, accessibility, silvicultural requirements, and multiple-use coordination. Consideration of these factors may result in planned sale programs at a lower level than full allowable cut. Once a planned sales program has been announced, every effort will be made to offer timber according to the indicated schedule.

TIMBER APPRAISALS

National forest timber is sold under the provision of 16 U.S.C. 476, which provides that timber shall be offered at not less than appraised value. Appraised value in this context means fair market value. The Forest Service has been attempting to establish fair market value in its timber appraisals.

We recognize that the determination of fair market value in many situations, particularly in areas where the amount of timber available for current purchase is less than the local demand for such stumpage, is a difficult, complicated, and controversial matter.

An initial review of procedures for appraising and selling timber in British Columbia has recently been made. This information clearly indicates that timber appraisals in British Columbia are also being made to the concept of fair market value and are not, as has been inferred in some quarters, made to give Canadian operators an advantage in foreign markets. The effects of Canadian competition or competition from competing industries within the United States in the long run is reflected in the selling value of lumber and other end products which in turn is reflected in appraisals of national forest timber.

We plan to discuss the issue of forward pricing in the detail necessary to put it in proper context in connection with the consideration of the National Lumber Manufacturers Association's proposal No. 2. At this time, we feel that it is sufficient to point out that the national forest stumpage is typically purchased for cutting and processing in a period of 1 to 3 years in the future. In determining fair market value of a commodity which is sold for such future use, judgment is required on the part of both the buyer and the seller. Our present practices in respect to such use of judgment have been designed to systematize and minimize speculation on the prices anticipated at the time the timber is cut and utilized. We are quite willing to consider alternative methods for applying such judgment but not to agree that no judgment should be used.

ACCESS TO THE NATIONAL FORESTS

We are working vigorously on the revision of right-of-way policies in the light of the Attorney General's opinion of February 1, 1962. With the assistance of the General Counsel's Office, we are working with our counterparts in the Department of the Interior.

Concerning the suggestion that a task force be set up to prepare and publish for comment the necessary policy and regulations by a certain date, the people now responsible for this activity in the Forest Service already are giving these matters their full attention. We plan to arrange opportunities to receive suggestions from groups that are directly interested and will try to develop ways to do the same thing with a few individuals who have a general public interest rather than a direct interest as a property owner.

APPEALS PROCEDURE AND REVISION OF FOREST SERVICE CONTRACTS

The Senators express concern over the existence of issues with timber purchasers for long periods of time without resolution. The nature of the timber sale business makes it inevitable that there are continuing differences of viewpoint on a good many matters between timber purchases and the organizations that conduct sales of public timber. Part of the cause for recurrence of the same issues is refusal of industry representatives to accept decisions which the Forest Service considers to be the resolution of an issue.

It is quite possible that over the years such consideration as has been given to many of these perennial issues has not been fully documented and publicized

to the extent desirable. We question whether there is need for any special mechanism to invite or organize requests for policy changes. On the other hand, we agree that there should be better organization and more adequate publicity on the actions taken on suggestions for policy changes. Procedures to take care of this point will be developed.

We want to strengthen the activities of multiple-use advisory committees. The Forest Service has approximately 75 percent of the total advisory committees in the Department of Agriculture, and better than 2 percent of the total for the entire U.S. Government. The national forest multiple-use advisory committees are, as a matter of policy, composed of people who have broad knowledge and interest in the major uses of these forests. They represent viewpoints of the grazing, recreation, timber, water, and wildlife users as well as civic and educational organizations. Thus, the broad cross section of public opinion and offsetting interests gives added strength in achieving a balanced multiple-use point of view on the part of a total committee. We have found the advice of these committees very helpful in many situations and will continue to use them. We shall organize additional advisory committees where there is a need for them and revitalize those that have become inactive.

Use of the internal audit staff for troubleshooting purposes would be contrary to the premises on which internal audit activities are organized. Internal audit is not a managing, supervising, or directing function. It is an arm for managerial control which functions by measuring and evaluating the effectiveness of other controls. If internal auditors become involved in solving problems with timber purchasers, they would not be in a sufficiently disinterested position to measure and evaluate the effectiveness of controls for the conduct of timber sales. The internal auditor does this through independent objective analyses, reviews, and appraisals of financial, operational, and administrative functions; by reporting conditions found; and where conditions warrant by making appropriate recommendations for consideration by management.

We will give renewed attention to utilizing experienced and responsible personnel for troubleshooting purposes in each region. Several possible techniques will be tried out before it is determined what procedures are most effective.

PERFORMANCE EVALUATION

Undoubtedly a more systematic summarization, distribution, and possibly publication of timber sale performance would be desirable. Practically all of the figures on this subject are now made publicly available and most of them are put into circulars of trade associations or in trade publications' articles. Such use of this material serves the purposes of these particular organizations rather than to be broadly informative and present an overall picture of Forest Service activities. Hence we shall plan to make our own comprehensive statements on this subject.

Senator MORSE. I have a couple of matters I want to put in the record before I ask——

The CHAIRMAN. Wayne, could I do this just briefly? I want to add to the record in this matter.

People in the industry, particularly smaller operators, have, I think justifiably, made some complaints about the appeals procedure. For instance, I have a wire from a small company in my State, which says:

Goat Creek apppeal started July 1958. Final decision by Secretary March 1962. Cost to us in prosecuting appeal approximately $8,700.

And they were turned down on their appeal; so I suppose the cost was even bigger—even looked bigger to them than it was—as bad as it was. But I think this all gets down to a reevaluation of the appeals procedure again. And I hope you look into that. I just want to put this in the record.

(The wire referred to follows:)

TWISP, WASH., *June 14, 1962.*

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Goat Creek apppeal started July 1958. Final decision by Secretary March 1962. Cost to us in prosecuting appeal approximately $8,700.

WAGNER LUMBER PRODUCTS CO.,
CHARLES M. DARLING.

The CHAIRMAN. And then I would like for the lumber industry—I presume they are working on the version of the form of contract or the changes that they are suggesting—if we could have that furnished us, we would know a little about changes they are definitely and specifically suggesting. We will ask them for that.

Thank you.

Senator MORSE. On that appeals procedure matter, Mr. Chairman, I think that is one of the things in our investigation of the Forest Service which I hope will come about in the not-too-distant future, if we can go in and work out a program cooperatively with the Forest Service.

We have, for example, in the handling of our Taylor Grazing Act a national advisory council which really has a voice in determining policy. I think we need the kind of a check on the Forest Service in which policy is not determined by the Forest Service, which in my judgment is what we are faced with now; but that we get industry, that we get public groups, that we get conservation groups, we get wildlife groups, we get oil groups, and give them—as we had suggested in our letter of March 2, by the way—some voice at least in determining what ultimate policy is going to be.

We are dealing with forests; we are dealing not only with lumbering; you are dealing with all these multiple uses, as Mr. Cliff himself is stressing, and rightly so. And I think you are going to have to have a procedure that places an effective check on the decisionmaking power of the Forest Service.

My complaint, I suppose, can be summarized in a nutshell by saying I object to so much unchecked policy on the part of the Forest Service as it works out in practice.

At the Portland hearing, we got into a discussion of the American investments in Canada, Mr. Chairman, in connection with the competition from Canada. And I asked Mr. Edgett, executive vice president of the West Coast Lumbermen's Association, who was a witness at the time, to supply the record with a memorandum that would show the American controlled investments in the lumber industry in Canada. He has done that.

Take the coast region; it is 35 percent controlled.

Southern interior, 10 percent; northern interior, 10 percent; Cariboo, 25 percent. Total, 25 percent of the total operation of 5.3 billion feet.

He says there is an additional 2.5 billion feet of softwood lumber produced in other Canadian Provinces, but the extent of American investment is insignificant.

We would guess, therefore, that the total U.S. investment in the Canadian softwood lumber industry is less than 20 percent.

I ask that it be included in the record.

The CHAIRMAN. That will be placed in the record; yes.

(The letter referred to follows:)

WEST COAST LUMBERMEN'S ASSOCIATION,
Portland, Oreg., June 13, 1962.

Hon. WAYNE MORSE,
U.S. Senate, Washington, D.C.

DEAR SENATOR MORSE: During the Senate Commerce Committee hearing at Portland on June 4, 1962, you asked several representatives of the industry for information on the volume of softwood lumber production in Canada that is American controlled. We have been able to develop an approximate estimate as follows:

	British Columbia production (billion board feet)	American controlled (percent)
Coast region	2.9	35
Southern interior	1.1	10
Northern interior	.8	10
Cariboo (PGE)	.5	25
Total	5.3	25

There is an additional 2.5 billion feet of softwood lumber produced in other Canadian Provinces but the extent of American investment is insignificant. We would guess, therefore, that the total U.S. investment in the Canadian softwood lumber industry is less than 20 percent.

The foregoing data has been obtained from reliable sources but it should be recognized that the percentage figures are only approximations. It is my personal opinion that they are on the high side, particularly in the British Columbia coast region.

One additional significant factor is that a company representative of the largest American-controlled sawmill in Canada is on our board of trustees where our import-export policies have been unanimously approved.

Very truly yours,

G. CLEVELAND EDGETT,
Executive Vice President.

Senator MORSE. I would like to put in the record a letter from the longshoremen on United States versus Canadian costs.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The letter referred to follows:)

INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION,
San Francisco, Calif., June 12, 1962.

Hon. WAYNE MORSE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MORSE: The information you asked for (overall costs of loading lumber in Northwest ports in comparison with British Columbia ports) is not very easy to state without making some explanation.

The costs vary even on identical ships loading identical lumber depending on such factors as weather conditions and the makeup of the loading gang. There are also other factors affecting overall loading costs that do not show up on wage figures, such as delay to ships' time. Presently in Canada the day work shift is 8 hours with 1 hour extension for sailing, whereas the U.S. contract calls for 8 hours with 2 hours' extension for shifting and 3 hours' extension for sailing. The night shift in Canada is a maximum of 6 hours, whereas in the States they work the same as the day shift.

Inasmuch as ships generally pick up their load at three or four docks or mills this accounts for several moves in port and consequently the time in port is many hours longer in British Columbia than in the United States. American ships cost $200 or more per hour so it is important to loading costs.

No work is performed on Sunday in Canada and double time is paid on holidays (10) which adds to the dead time on ships in Canada.

As far as productivity on the job, I believe the men are about equal in their productivity on the job, however, with the present excess of work in British Columbia, they are using many extra or "green" men which no doubt cuts down loading efficiency.

Furthermore, our regional director in British Columbia estimates their degree of mechanization is much less than here. According to him about 40 percent of lumber is still loose hand stowed and 60 percent is packaged. In this area virtually all east coast lumber is packaged. Packaged lumber stows over twice as fast as hand stowed lumber and uses a reduced size gang here; however, in Canada they maintain standard gangs regardless.

All of the above still doesn't answer your question. The best answer, I believe, was given me by Stanley Bishoprick, vice president of Dant & Russell, Inc., who loads a great deal of lumber in both areas. He told me the day of the hearing in Portland that he recently loaded a ship in the lower Columbia River. They knew what their recent costs were in British Columbia and had asked the Astoria men for cooperation and was pleased to tell me that the men did good work and the loading costs here were no more than they were in Canada. I am convinced that this is true generally.

Following is a comparison of what the longshoreman receives under the PMA contract here with that in British Columbia.

UNITED STATES	CANADA
Eight-hour day shift, $25.92 (6 hours straight time, 2 hours overtime).	Eight-hour day shift, $22.52 (8 hours straight time).
Night shift, $4.32 per hour.	Night shift, $4.41 per hour.
Holidays, $4.32 per hour.	Holidays, $5.88 (double time).
Pension, 23 cents into fund also an additional charge of 24½ cents per thousand presently into a "mechanization" fund.	Pension, 16 cents into fund.
Vacation, 17 cents adjusted at end of year.	Vacation—men receive up to 6 percent of gross annual earnings.
Welfare, 17 cents per hour.	Welfare, 6 cents per hour. Men also receive free hospital covered by 5 percent sales tax.

I hope this information will be helpful.

Very truly yours,

JAMES S. FANTZ,
International Representative.

PORTLAND, OREG.

Senator MORSE. Mr. Cliff, I am going to give you a copy of material sent to the committee on behalf of the Leonard Lundgren Lumber Co.

Part of it deals with a matter on which we have had correspondence, and since it is not before the committee, we will handle this by further review by the Comptroller General.

There are attached a number of papers, apparently from the Western Pine Association. These look like a fairly comprehensive set of objections to various Forest Service policies. They cover the quartile appraisal method—which, since you are dropping it, probably needs no comment—road construction, standard costs, and amortization and scaling costs.

I would like to leave these with you so that they can be put in the record, and you can supply the committee with the appropriate information.

The CHAIRMAN. Without objection, they will be inserted in the record.

(The material referred to follows:)

DEARMOND, GOODRICH, GRAY & FANCHER,
Bend, Oreg., June 6, 1962.

Hon. WAYNE L. MORSE,
U.S. Senator,
Senate Office Building,
Washington, D.C.

Attention: Senate Committee on Lumber Industry, meeting June 11, 1962.

DEAR SENATOR MORSE: I would appreciate your presenting to the Senate Committee on Lumber Industry at the June 11 meeting this letter for their consideration concerning the Lundgren-Round Mountain contract over which we have had prior correspondence.

Leonard Lundgren in 1955 entered into a contract cutting agreement with the U.S. Forest Service for what is known as the Round Mountain area in the Deschutes National Forest. This contract contained the normal provisions being used at that time which provided that the price to be paid by Mr. Lundgren for timber cut would be subject to periodic, quarterly, retroactive adjustments. These adjustments were to be based upon the average price for stumpage as determined by the Western Pine Index. The parties proceeded under the contract making adjustments for the price when the Western Pine Index was received for the timber scaled in the preceding quarter. This procedure was followed throughout the life of the contract. By the terms of the contract the right of Mr. Lundgren to cut timber terminated June 30, 1960. However, the right to remove timber from the area extended for an additional quarter. The scaling of the timber, by terms of the agreement, throughout the contract was done at Lundgren's sawmill in Bend, Oreg., and the payment was based upon scale under the adjustment formula during the quarter in which the scaling was performed. After the third quarter of 1960 the price for the stumpage scaled during the third quarter was adjusted in accordance with the determined Western Pine Index for the third quarter and payment upon that basis was made to the Forest Service.

Some time later the Forest Service advised Mr. Lundgren that the price for the third quarter's scaled timber should have been the price prevailing during the second quarter of 1960 because cutting rights under the contract terminated at the end of the second quarter. We do not feel the position of the Forest Service upon this matter is correct under the terms of the contract or in accordance with the practice followed during the life of the contract. We have attempted through the Forest Service and through the good office of Senator Morse to convince the Forest Service that the procedure followed during the cutting period was the procedure that should have been followed throughout the entire life of the contract and that the stumpage rates as originally charged were correct, but have been unsuccessful in this effort.

We realize that this is a legal question concerning interpretation of a contract, but feel this matter should be brought to the attention of your committee because of the effect such policy of interpretation has upon the lumber industry in general.

Basically the Forest Service price adjustment formula is a good one in that it allows a timber operator to purchase under a long-term contract at market rate as determined periodically during the life of the contract. Interpretation though, of the final quarter of a contract as now required by the Forest Service in this instance, defeats this policy in that it would require a payment for the third-quarter stumpage at a different rate than established by the Western Pine Index for the quarter. This, of course, leaves an operator such as Mr. Lundgren with a serious economic disadvantage in a competitive market. Here the requested price of the Forest Service for the third quarter is greater than the Western Pine Index price for such quarter. Enforcement of such interpretation requires payment by Mr. Lundgren of greater than market price for such stumpage. On the other hand, if stumpage prices are rising due to the market conditions, enforcement of the Forest Service interpretation would mean that the Forest Service would not be receiving fair market value when an operator should be in a position to pay such value. As stated above, the price adjustment formula is a good formula and should be applied without question throughout the entire life of any cutting contract.

Your attention to the problem and consideration would be appreciated.

Very truly yours,

BRADLEY D. FANCHER.

LELCO, INC.,
Bend, Oreg., June 6, 1962.

For Senate hearing on lumber industry June 11, 1962.

Senator WAYNE MORSE,
Washington, D.C.

DEAR SENATOR MORSE: We have a small mill in Bend, and in Sisters, Oreg., and are forced—along with many other small mill operators—to face possible extinction due to present conditions.

Basically, we feel the problem lies in putting up the allowable cut, and at fair appraised prices. For several years we have tried locally to solve the problem, to no avail.

Last year we tried to get the SBA to establish the set-aside program for our area, but were informed we were not eligible due to lack of competition, yet figures on sales in 1962, and in 1961, taken from the Forest Service records on advertised timber sales we feel disprove this point.

Of some 11 million offered this year, our large competitor has obtained all but about 900,000 feet.

If the small mill operators were protected such would not be the case and we would not be in this dilemma. We urge that immediate steps be taken to institute the SBA set aside program in our area.

We feel also that the Forest Service has disregard for the financial burden it puts on small mill operators in demanding deposits as they presently do, and ask that smaller deposits be made more frequently. Lumber is shipped on the basis of payment 10 days a.d.i. The Forest Service has received a deposit with bid, plus a performance bond, requires a suspension balance and over and above that, a deposit ahead of cutting—when they are already protected by a performance bond. This creates an extreme hardship on the small mill, who is primarily interested in making jobs for his community. It is apparent that moneymaking is not his prime objective or many more mills would be out of existence now.

We ask also, that a broader interpretation of contracts be initiated. With change of personnel in the Forest Service too often we find that a different man deems necessary other roads, etc., and those that have been built at great expense are not used, thus more expense which has not been planned on. This point has been most ably stated by Mr. Dwyer in testimony you have on file from him.

If the operators were treated more as fellow businessmen and mutual goals were established at the start of a sale, time and money could be saved thus in the end relieving the lumber industry's problems.

In summary, we ask fair appraisals, full allowable cut (including operators privileg of cutting salvage as it becomes necessary, provided he is willing to do so at his own expense), SBA set-asides for our area, smaller deposits and fairer interpretation of contracts.

Very truly yours,

LELCO, INC.

WESTERN PINE ASSOCIATION

ROAD AMORTIZATION RATE DEFICIT AND ESCALATION PROBLEMS

Accelerated amortization of development costs was originally adopted as a means of reducing risk to the purchaser and the Government from the effects of variation between the volume estimated and the volume cut from a timber sale.

The increase-decrease method of handling accelerated amortization served to simplify the problem of keeping track of the amount of amortization recovered, and had the effect of minimizing inequities to the purchaser or the Government as a result of errors in volume estimates between species.

However, the increase-decrease method of handling accelerated amortization clearly illustrated the fact that in many cases timber purchasers were not receiving justly due amortization decreases because of escalation having reduced stumpage prices to base, in which case decreases could not be applied.

The Forest Service would not agree with the above statement, as they held that road amortization decreases were deducted before escalation with the result that escalation was prevented by the stumpage price reaching base. The

effect on the purchaser's profit and loss statement was about the same regardless of which way it was stated.

The increase-decrease method further brought out the fact that purchasers commonly were failing not only to recover the accelerated portion of amortization but they were also failing to recover part, if not all, of the regular straight-line amortization allowance. The loss of these recoveries did not prevent stumpage prices from being increased by the amount of the amortization rate at such time as the development costs had been theoretically amortized.

The new "Road Amortization Deficit and Escalation Procedures" were established by the Forest Service to:

1. Increase the probability that estimated road costs will be completely amortized through fluctuating markets.

2. Delay increases in stumpage rates from escalation and/or completing of amortization when downward adjustments have been limited previously by the base rates. ("The Road Amortization Rate Deficit Procedure," U.S. Forest Service R–6, Mar. 28, 1962.)

The following will briefly explain the operation of the new method:

1. Road deficit is the amount by which the base rate exceeds the appraised stumpage rate, up to the amount of amortization charged against the particular species.

2. In quarterly adjustment of stumpage prices, the tentative rate is adjusted for the change in the index, and from this result the road deficit is deducted.

3. If the final adjusted rate is less than the base rate, the difference between the two is the rate used in computing a credit to the purchaser which will apply against future increases.

4. Stumpage prices will not be increased above the base rate until adjusted rates above the base rate will develop an accumulated dollar total equal to that accumulated from previous quarterly adjustments when adjusted rate was below the base rate.

5. Accumulated deficits will carry forward at regularly scheduled rate redeterminations, but not at the time of contract extension except under special conditions.

6. In no event will stumpage be sold for less than the base rate set forth in the contract.

Although the new procedures were set up in an attempt to protect the purchaser by increasing the possibility that road costs will be fully amortized; for no apparent reason certain provisions have been included in the regulations which seem to mitigate some of the purchaser's protection and actually increase some of the risk elements. The points to which we object are as follows:

HIGH BASE INDEX PROCEDURE

When an appraisal or reappraisal develops appraised rates which are less than base, the purchaser is only protected under the new procedure if the deficit is the result of road amortization. Obviously there will be many sales where one or more species will appraise at less than base price even though there is little or no charge for amortization. In these cases the protection of the high base index has been taken away, and an increase in the index will result in higher stumpage prices even though the species still shows a substantial deficit. We see no reason for this inequitable provision being forced upon timber purchasers in order to give them some measure of protection on another similar problem.

ACCUMULATION OF DEFICITS BY SPECIES

This again is an arbitrary provision that creates a definite possibility of unnecessary loss to the purchaser. As quoted previously, one of the purposes of the new regulation is to "increase the probability that road costs will be completely amortized. * * *" The requirement that deficits be accumulated and recovered by species lends little strength to the sincerity of this statement as it is obvious that a purchaser can frequently be deprived of the opportunity to recover deficits on one species while paying a substantially increased stumpage rate for one or more other species.

ONLY STUMPAGE RATES ABOVE BASE, OCCURRING AFTER THE ACCUMULATION OF DEFICITS, CAN BE OFFSET BY DEFICITS

This provision seems somewhat illogical. If it is legal and justifiable to allow deficits to be applied to rates in excess of base occurring at a later date, it would certainly seem reasonable that a purchaser should be entitled to have deficits carried back to prices in excess of base paid for stumpage prior to the time that deficits were accumulated. This also seems like a case of granting a purchaser a benefit, and at the same time qualifying that benefit or making a calculated gamble that maybe due to a quirk of the market he won't get the benefit of anyway.

We recommend that the provision for road amortization rate deficits and escalation procedures be revised as follows:

1. That national forest stumpage be appraised at the gross rate, i.e., without development costs.
2. That development costs be calculated separately, such costs as accumulated to become a credit against the total stumpage owed to the Government.
3. That road amortization be separated completely from escalation.

Road Completion Approval Problems

Numerous complaints have been voiced by operators throughout the pine area of region 6 of the past few years because they have been unable to receive written approval of finished system roads prior to sale closure, or because they have had to face prolonged and costly delays in receiving written approval. In view of these complaints, a survey of the pine industry in Oregon and Washington has been made in an attempt to isolate the problem and to find a solution.

There appears to be no set rule for giving written approval of completed road construction which has been required in timber sale contracts. Approval seems to hinge on section 10F of the contract, which reads as follows:

"Unless otherwise provided herein, or in the operating plan, construction may be progressive during the period of this contract and bridges and sections of roads shall be completed prior to their use for hauling timber other than timber cut in clearing the right-of-way: *Provided*, That the purchaser may be relieved of this requirement if it is determined to be impractical under existing conditions or would cause undue hardship to the purchaser."

As nearly as can be determined, there is no definitely stated regional policy concerning written approval of roads prior to sale closure. The regional office feels that local conditions and situations vary and flexibility is a requisite in practical enforcement of contract provisions.

When requested, it is the duty of the district ranger, as officer in charge of the sale, to give written approval of roadwork which has been completed as required under terms of the sale contract. He cannot give this written approval, though, until the forest engineer has inspected the work and notified the district ranger that the work is all satisfactory from an engineering standpoint. These two men are aided in making their decisions by reports and recommendations from sale administrators, area engineers, and resident engineers.

Judging from the answers received in our survey, there appears to be no consistency to methods of handling written approvals. There appears to be about as many operators satisfied with the handling of approvals as are dissatisfied.

In some areas, approval problems are due largely to local personnel and policies. The greatest problem seems to stem from the reluctance of any one of the many inspectors to recommend approval of any portion of the construction work until all of their superiors have had a chance to inspect the work, too. Some inspectors do not appear to have a clear-cut understanding of what they are authorized to approve on the ground. This, coupled with the fact that only the forest engineer can give final approval, leaves much to be desired.

Verbal approval of various stages of the work is often given on the ground, but later on after a shift or two in personnel or another inspector comes along, the work may not meet approval. Often verbal approval is given when a road is completed but is never formally accepted until sale closure, which may be 2 or 3 years later, and much additional work is required.

Road approval policies are not always consistent between districts within a forest. On one forest, for instance, one operator says that written approval is always given upon road completion prior to sale closure. Another operator on a different district says he has never had a letter of acceptance for road construction prior to sale closure. On another district of this same forest an operator graveled a road 3 years ago as required in the sale contract. The sale was not logged until this year. The work was done to the satisfaction of the District Ranger, TMA and Resident Engineer and their verbal approval was given. Now, 3 years later, after a complete change of district personnel and hard usage by loggers, cattlemen, hunters, fishermen, Forest Service and others, the engineers are out digging test holes and saying that there is a shortage of gravel in spots. They say they cannot find any record of anyone ever having inspected or approved the work so they have no recourse but to inspect it now.

In another case an operator says he has all kinds of difficulty in obtaining written approval. He has a large array of inspection sheets covering different roads and portions of roads, each one recommending that the road work be accepted. Most of these inspection reports are dated August and September 1961 and as yet he has received no written approvals. In the meantime, heavy elk hunter traffic raised havoc with many of these roads in the fall and no doubt additional work will now be required. This same operator called the District Ranger and requested a man to look over and approve a surfacing pit that was being opened up. Three men showed up in three different pickups, all agreed that the material was excellent but not one of them had the authority to approve it. Yet, another operator working on these same forests is satisfied with the way approvals are handled.

Others complain of the difficulty in getting the Forest Engineer out on the job in order to get approval. The time lapse is too great and operators are faced with the choice of letting equipment set idle while awaiting approval, or moving it out and taking a chance on having to move it back to do additional work. Either way, unnecessary, additional expenses are incurred.

Many other complaints have been voiced but they all follow along these same lines. Needless to say, the foregoing paragraphs point up the need for some sort of corrective measures and the Oregon-Washington Joint Timber Appraisal Subcommittee recommends:

(1) That the regional office of the Forest Service issue manual instructions setting forth procedures for approval of road jobs, naming responsible personnel and setting forth the duties and authority of subordinates.

(2) That such instructions will be so stated that there will be continuity of actions between forests and within forests.

(3) Set a time limitation of 10 days after written request for approval of roads completed according to contract specifications.

(4) That a standard approval form be designed which would relieve the purchaser from further responsibility with the exception of maintenance made necessary by his own use.

Cooperative Scaling Charges

INTRODUCTION

Preliminary investigation by this subcommittee indicates some problems exist in the functioning of cooperative scaling agreements and charges made thereunder. In a meeting with region 6 officials last year this matter was brought up and the subcommittee recommended reduction of minimum scaling volume from 800,000 to 500,000 for a 10-day period.

The Forest Service responded that they were unaware previously "that the industry considered that any inequities existed in our scaling volumes." They expressed a willingness to look into the matter further.

The Forest Service September 7, 1961, reply to the committee raises a number of points we wish to discuss further for clarification of the problems and for the purpose of devising satisfactory solutions.

MINIMUM VOLUME

It seems that the primary problem deals with the fundamental question of the minimum scaling volume. A preliminary industry survey indicates sizable scaling charges have occurred at truck scaling stations as well as at the mill deck. It is believed that scaling volumes less than the minimum happen at truck stations and mill stations about with equal regularity.

Apparently the Forest Service believes it is the lowered mill deck scaling production that is causing our request for a lower minimum. They have stated further that scaling minimums will need to continue to be set on woods production rather than mill production. This policy seems to be based on the assumption that mill deck scaling is arranged solely for the purchaser's convenience and advantage.

The committee points out that often there also is advantage to the Forest Service in assigning scalers to mill deck stations. These advantages frequently may include reduced costs to the Government in that:

(1) Scaling demands are more likely to require full-time employment. Improved continuity of job should attract higher caliber men and provide incentive for doing a better job.

(2) Location of work closer to residence and center of activity, requiring less travel.

(3) Closer to supervisory force and easier and quicker to reach.

(4) No shutdowns due to whether conditions.

(5) Usually have superior working conditions.

(6) Better opportunity for more precise scaling.

OVERTIME CHARGES

Committee inquiry reveals discrepancies in the manner in which overtime charges are made. There seems to be unaccountable differences in the rates used and the period of work subject to overtime assessment. Part of the problem also may involve lack of understanding or lack of proper communication in the matter of requesting the starting or stopping of scaling service on a given operation.

RATES CHARGED FOR SCALING SERVICE

The committee feels there is evidence of misunderstanding and apparent unfounded inequities in the rates charged for scaling service to various companies. Also, rates include prorated charges for employer expenses, employee benefits, clerical service, travel and other overhead items which are a cost to the Forest Service regardless of hours worked. Many of these assessments seem to the committee to be inequitable procedures which take advantage of the situation.

SUMMARY AND RECOMMENDATION

Although the committee has been unable to conduct an intensive investigation, preliminary surveys indicate that cooperative scaling charges present some problems which have received little attention from industry or the Forest Service. Specific items warranting study include minimum volume, overtime charges and policy, discrepancies in rates charged for scaling service, and the policies and procedures for determining scaling rates charged.

In some cases the committee found situations where scaling charges against a company provided up to 70 percent of the total gross wages required for scaling during a given period. The committee feels that such situations are inequitable and cooperative investigation should be made to determine accurately the circumstances which are causing the charges.

The committee feels that the Forest Service in policies and procedures concerning the scaling of the timber commodity does not recognize adequately its obligation as seller and extracts an excessive amount of scaling costs from the purchaser. The recommendation that the region 6 minimum scaling volume be reduced from 800,000 to 500,000 therefore is urged again.

The willingness of the Forest Service to look into the matter, as expressed in the September 7 response of the committee, is encouraging and appreciated. The committee recommends that the Forest Service correct the inequities in their cooperative scaling program.

Cooperative Scaling

The committee presented previously a brief asking that the Forest Service assume the cost of scaling their own logs as practiced prior to 1956.

In answer the Forest Service stated:

(1) We don't know what circumstances are causing the excessive charges on cooperative scaling.

(2) Our studies show our scalers can scale more than the 800,000 minimum used.

(3) We feel lowered mill deck scaling production has caused your request.

We think the Forest Service has lost sight of the fact that they somehow have to scale timber sold and that duty, to the people, is not a cooperative expense to the purchaser. Because of the Civil Service standards of a 40-hour week, industry originally agreed only to pay one-half time on overtime scaling. The extent of the interpretation, has now shifted a large portion of the scaling cost to industry without recognition as a cost in appraisal, and includes scalers' pension, health benefits program, district overhead, transportation, night differential, holiday time. and salary increases.

The committee recommends that all scaling contracts be canceled and a new minimum of 500,000 be approved for immediate use, without any other charges except the penalty scale at a reasonable rate. Reports from the mills show there is no difference in mill deck scaling and truck station scaling.

Tabulation of questionnaire on cooperative scaling agreements for 1960 by Oregon-Washington Timber Appraisal Subcommittee

State	Mill No.	Mill deck	Truck station	Amount scaled (M)	Amount paid, 1960	Co-op rate	Minimum scaling volumes	Sawmill cut, 8-hour
Oregon	1		X	27,849	$4,142.70	$0.41	800	85
Do	2		X	1,072	500.00	.283	800	75
Do	3	X		15,792	868.19	.34	800	70
Do	4		X	24,000	1,868.80	.35	800	65
Washington	5		X	20,903	723.00	.324	800	140
Oregon	6	X	X	110,068	3,014.81	.28	800	100
Do	7	X		14,000	1,400.00	.28	800	70
Washington	8		X	21,498	1,525.19	.28	800	73
Do	9		X	12,000	1,000.00	.28	800	65
Do	10	X		33,502	1,970.74	.28	800	90
Do	11	X		13,333	1,434.55	.28	800	70
Oregon	12		X	28,000	3,000.00	.30	800	60
Do	13		X	13,000	2,100.00	.41	720	70
Do	14	X		32,728	1,459.04	.32	800	65

Analysis of cooperative scaling deposits as required by U.S. Forest Service from Chelan Box & Manufacturing Co.

This analysis is based on the period of May 28, 1961 through December 9, 1961. During this period there was approximately 8,700,000 board feet of U.S. Forest Service timber scaled on the mill deck by the U.S. Forest Service scaler. However, the volume was approximately 7,400,000 below the Forest Service minimum volume of 80,000 per 8-hour shift. At $0.28 per thousand for this below minimum volume, the cost to the company was $2,063.88.

Also charged to the company was the premium for overtime pay and the night differential. There were four overtime shifts, two of which were time and one-half and two of which were double time, for a total charge to the company of $52.80. This amount was based on an hourly wage of $2.20 but the local ranger district claims that the most any scaler made was $2.11 and the low was $1.95 per hour. A U.S. Forest Service scaler worked 565 night shift hours for which the company was charged a night differential of 10 percent, or $0.22 per hour, for a total charge to the company of $124.30. However, in checking with the local ranger district it was found that the night scaler actually received $0.04 per hour additional pay for nightwork, or a total of $22.60. Therefore, the company was overcharged 450 percent for this item. The U.S. Forest Service explanation for this is that a scaler with a G.S. rating receives a 10 percent differential but the scaler on this job does not have such a rating. Even so, if the scaler had such a rating, the night differential is to be charged for hours worked only after 6 p.m. This would mean a charge for 6½ hours per shift, but the company was charged for a full 8-hour shift.

There was also a charge for overhead. This amounted to a total cost to the company of $130.92. The Forest Service stated that this charge was based on 13 percent of the net expenditures. This apparently refers to expenditures made for clerical, administration, and equipment services rather than actual scaling expenditures. It was found that this charge amounted to $0.02 per thousand board feet of scaled logs.

In checking the local ranger district it was found that the combined gross wages of the scalers working during this period was approximately $3,403.15. The company made payments totaling $2,386.74 to the cooperative scaling fund during this period. The Forest Service scalers did not scale any private logs for the company, only U.S. Forest Service logs. Therefore, the company paid 70 percent of the scalers' wages in order to have the Forest Service scale their own timber. The below minimum scale (less than 80,000 per 8-hour shift) charges paid 61 percent of the scalers' wages, with the additional 9 percent being paid by other charges.

The most recent cooperative scaling agreemnt in effect, despite the fact that the company refused to sign it, does call for the company to make all of the above-mentioned payments for services rendered. This agreement went into effect in September of 1960 and is authorized by the act of April 24, 1950. The agreement prior to the present one went into effect in December of 1958 and was also authorized by the act of April 24, 1950. However, this agreement did not allow for a charge to be made for night differential. This would seem to indicate that the Forest Service under the act of April 24, 1950, can, at any time, add new charges to the cooperative scaling agreement without cooperator's approval.

For comparison purposes, during the period of April 24 to November 26, 1960, the company was charged a total of $1,677.10 for below minimum volume payments at $0.26 and $0.28 per thousand board feet, overtime, wages, and overhead payments. No charge was made for night differential as there was no night shift during this period. The total wages of the scaler was $2,431.94. Therefore the company paid 69 percent of the scalers' wages during this period in 1960 as compared to 70 percent during a like period in 1961.

In conclusion, it is felt that the above mentioned facts and figures disclose an existing situation which is causing a distinct hardship on all companies in region 6 that purchase U.S. Forest Service timber on a log scale basis.

Comparative analysis of cooperative scaling deposits of C. A. Harris & Son, Inc. and Chelan Box & Manufacturing Co., region 6

Between the period of May 28, 1961, and January 6, 1962, C. A. Harris cut approximately 7,000,000 board feet of U.S. Forest Service timber but were penalized for a below minimum (80,000 per 8-hour shift) volume of 10,883,000 board feet. This amounted to a penalty cost of $2,597.84, or an average of $0.2387 per thousand board feet. Chelan Box & Manufacturing Co. during a similar period in 1961 was charged $0.28 per thousand board feet for this same item.

C. A. Harris & Son was charged for night differential at a rate of 10 percent of the scalers' wages, or $0.22 per hour, which is the same as Chelan Box & Manufacturing Co. was charged. However, Harris was charged for only the hours after 6 p.m. while Chelan Box & Manufacturing Co. was charged for the hours after 6 p.m. and also the 1½ hours before 6 p.m.

All the other charges were comparable, other than the scaling of private logs for which Harris was charged $0.28 per thousand board feet while Chelan Box & Manufacturing Co. had no private logs. The total payments made by Harris to the U.S. Forest Service for this cooperative scaling fund amounted to $3,092.18, of which only $15.40 was a charge for private logs, the remaining $3,076.78 was charged by the U.S. Forest Service for scaling U.S. Forest Service logs.

SUMMARY

Today under the designation of special scaling stations and services, our industry pays (without appraisal recognition) large annual costs of U.S. Forest Service scaling services on Forest Service timber.

Recent increases in cooperative agreements were stated as being due to increased costs of the scaler's pension, health benefits program, district clerk work, overhead, transportation, and the salary increases of July 10, 1960.

In the period prior to 1956, the Forest Service paid for scaling its own logs. Due to the necessity of some overtime logging, an agreement was arrived at by consultation in Washington, D.C., whereby industry agreed to pay the one-half time, if the scaler would work additional hours.

By 1960 scaling deposits in region 6 were $150,000. Title 2400, "Timber Management," now has 13 pages of detailed charts and rules of instruction for the extraction of this amount from the purchasers of U.S. Forest Service timber.

There is no uniform charge in relation to production or location of the scaling

station. In many cases the scaling station is close to the local Forest Service office and does not require the expense of making frequent trips to the timber sale area.

The cost of scaling under both penalty and overtime scale in one instance paid over 50 percent of the scaler's salary.

The subcommittee proposes that minimum scaling volumes in co-op agreements should not be greater than 500,000 for the 10-day period.

The Quartile System

INTRODUCTION

In 1961 the Forest Service introduced a new technique for determining the base index for initial stumpage appraisal which they termed the "quartile system." (FSH 2,423.22 June 1961 and amended April 1962.) The western pine industry protested the use of this system at the outset.

The quartile system, the Forest Service said, recognizes market price cycles and reduces the effects of extreme highs and lows. Adoption of the system at the time of a falling market is significant in that the system raises the appraised stumpage rate when the market is low. Industry protested that appraisals at the quartile level are not representative of true market value and the Western Pine Association recommended a current pricing procedure using the index from the most recent calendar quarter.

We now have the experience of the operation of the quartile system for a period of over 1 year. A comparison of selling value adjustment by the current pricing system versus the quartile indicates how the procedure in effect has added a speculative value to the current market value of national forest timber.

Sample of selling values for ponderosa pine

Quarter	Assumed base period selling value	Adjusted selling value per quartile method	Adjusted selling value per current quartile method	Difference
January–March 1961	100	95.68	91.32	4.36
April–June 1961	100	95.09	90.55	4.54
July–September 1961	100	95.09	92.62	2.47
October–December 1961	100	95.09	92.92	2.17
January–March 1962	100	93.39	91.20	2.19

DISCUSSION OF THE QUARTILE SYSTEM

Between 1950 and 1956 several procedures were used by the Forest Service to bring their stumpage rates up with the lumber market. It was during this period that the current pricing method of adjusting base period lumber selling prices was applied, tried, modified, and eventually was considered an equitable and workable procedure for base period lumber selling price adjustment. During these years, various current periods were employed to up date base period lumber selling prices. The current preceding calendar quarter, the preceding 3 months, the previous month, along with other apparently appropriate periods were used. The immediate preceding month was finally used to try to keep stumpage rates in line with rising lumber prices.

In mid-1956 the lumber market began a $10 downward skid. At that time the Forest Service shifted from the immediately previous month to the currently preceding calendar quarter for adjusting base period lumber selling prices. Naturally, appraised stumpage rates increased. Many purchasers of Forest Service timber got badly burned since this lumber price slump continued until about August 1958.

It was not until lumber prices began leveling out in 1958 that resistance to lowering of appraised stumpage rates began to slacken. Then current pricing based on the current preceding quarter began to be used regularly for adjusting base period lumber selling prices. This method applied when lumber prices still tended downward, gave stumpage rates somewhat higher than current lumber prices indicated. Through 1959 the Forest Service cautiously proceeded with the current pricing procedures. The fairly sharp, but short price rise in late 1959 and early 1960 was adequately kept up with.

By 1960, the Forest Service had a rolling quarter index to adjust base period lumber selling prices. In mid-1960 lumber prices again began to drop at an alarming rate. By locking this rolling quarter in July of 1960, the Forest Service again set their stumpage above fair market value.

This "locked" quarter procedure was most damaging to Forest Service customers. It could not be defended on a technical and logical basis.

The quartile system supposedly recognizes price cycles and then according to the Forest Service reduces the effects of extreme highs and extreme lows in the price cycle. Actually, the Forest Service can do nothing to change the effect of low or high prices on the lumber industry. All they accomplish with their quartile system is to ignore the "peaks and troughs" of the lumber price cycles, thereby creating advertised stumpage prices which are closer to the average over a long period of years. In low markets their stumpage prices are too high, while in theory the converse would be true during periods of high market prices.

The Forest Service asks us to accept three basic premises in order to understand the concept which is behind the quartile system.

1. That lumber prices have fluctuated in a cyclic manner, that their plotted pattern approximates a sine curve, and that their highs and lows repeat every 3, 3½ years.
2. That a 3- to 6-month lag exists in data used by the Forest Service in timber appraisals.
3. That the normal length of Forest Service timber sales is 3 years. Thus appraisals which are current at a low point in the market will reflect lower markets than will be encountered during the periods when the sale is actually cut. Similarly, sales which are current at a high point in the market will reflect markets which are too high.

A look at a plotting of lumber price indexes since 1951 will show that they do not form a sine curve and that the Forest Service's first premise is not valid.

A sine curve is plotted mathematically along a horizontal axis, rising above and below the zero point identical amounts and at equal intervals. Such movements up and down are based on proven mathematical theorems. They are mathematically computed. These fluctuations of a sine curve are mathematically predictable. This cannot be said for the notoriously erratic lumber cycle curve. A plot of lumber price indexes does show short term ups and downs, but it also shows longer range trends upward and downward. This movement of indices upward or downward usually results in short term lows and highs of varying magnitudes, thus making it impossible to establish reliable or equitable quartiles. As an example, the low of 1957–58 was $84.74, while the low of 1960–61 was $79.72. Obviously a quartile system cannot counteract the impact of a $5 drop in market. It can only ignore it and effectively increase stumpage at a time stumpage prices should be lowered.

If this time lag in appraisal data is so serious, then let the Forest Service speed up processing and preparing such data. They have the manpower and electronic computers to bring data to within 30 days of being current. Western Pine Association, by adjusting index logs, has done much to help in having appraisal data more current. As for the current pricing system of base period selling price adjustment necessitating variations in the profit ratio, the quartile system will not change this. The Forest Service frankly admits that jockeying of profit ratios will still be necessary.

The third premise of the Forest Service is problematical. Proper escalation methods would come much closer to solving this problem of market changes during sale life than the quartile system. Here again, the fact that a low or a high in the market is ignored does not make for a correct stumpage price 3 years hence.

Example of the "quartile's" effect on stumpage price during depressed lumber markets

The most recent calendar quarter (first quarter 1962) has an average WPA price index for ponderosa pine of $80.47. The Forest Service has its lower quartile presently pegged at $82.26 for ponderosa pine. When the average quarterly price index for any species is below the low quartile, as it is today for ponderosa pine, the inherent inequity of this quartile system works its greatest injustice in a timber appraisal. To demonstrate, let us run through a sample adjustment of a ponderosa pine lumber selling value. Such an adjusted selling value is the starting point for Forest Service appraisals. First, we will adjust the same selling value by the quartile system, then by the current pricing method.

The quartile system

An appraisal of a timber offering proposed for sale in the second quarter of 1962 would use 1961 lumber price data. The resulting estimated lumber selling value for the timber in question would be adjusted to current market by the quartile system.

Assume an unadjusted lumber selling value of $89.25 for ponderosa pine. The 1961 yearly average WPA ponderosa pine index is $80.98. The unadjusted lumber selling value of $89.25 is to be adjusted to the market level of the first quarter of 1962, which had an average ponderosa pine index of $80.47. Since the first quarter's index is below the low quartile of $82.26, the low quartile is used instead of the first quarter's average index. The adjustment then is as follows: Low quartile (82.26) divided by 1961 average index (80.98) equals 1.0158 multiplied by $89.25 equals $90.66 for estimated lumber selling value adjusted to first quarter 1962.

The current pricing method

This is the method of adjustment that the Forest Service used prior to the adoption of the quartile system.

When using this method to adjust the estimated lumber selling value of $89.25 to the market level of the first quarter of 1962, we use that quarter's average WPA ponderosa pine index of $80.47. The adjustment then is as follows: first quarter 1962 average index (80.47) divided by 1961 average index (80.98) equals 99.37 multiplied by $89.25 equals $88.68 for estimated lumber selling value adjusted to first quarter 1962.

Thus we see that by using the quartile system we get $1.98 more in lumber selling value with which to start an appraisal.

Quartile results	$90.66
Current pricing results	88.68
Amount lumber selling value is increased by quartile system	1.98

This $1.98 is reflected on through the entire appraisal thereby, directly raising the advertised stumpage rate $1.98 when actually present market conditions warrant a stumpage price which is $1.98 less.

STUMPAGE RATES AND POLICY

A reason for the quartile system

To those of us working in the lumber industry, the Forest Service is a monopolist. It is difficult to refute the fact that in our region the Forest Service is the major owner as well as seller of stumpage and in this sense a monopoly cannot be avoided. Even so, the significant fact is not that the Forest Service is the one major seller of timber, but rather how the Forest Service conducts itself in this role. What are the fundamental objectives of the Forest Service? What part does stumpage appraisal and the resulting stumpage price play in carrying out the fundamental policies of the Forest Service?

Economists point out that prices are functional. Prices get goods produced and distributed. Prices get productive resources organized for the production of goods, and they provide income to owners of the producing enterprises. So long as prices do this we have an effectively working economy. When prices fail to reflect product demand and changing costs to the point they become suspended, then they fail to fulfill their function. Since prices are functional in nature, they can become an effective tool to implement fundamental Forest Service policies. This is probably what we see happening when the Forest Service periodically adjusts appraisal techniques and appraised value levels. The lumber industry is on the receiving end of Forest Service policies to:

1. Sell given volumes of timber in given periods of time and still
   (*a*) Accomplish silvicultural objectives.
   (*b*) Forest land management objectives.
2. Provide a supply of basic raw material for the forest products industry while attempting to—
   (*a*) Provide a satisfactory level of profit to the purchasers.
   (*b*) Mold the shape, size, and development of the industry to a desired situation for the future sales of forest raw materials.
   (*c*) Maintain industry at a definite capacity for national defense needs.

In short, the Forest Service tries to price its stumpage just low enough to—

1. Harvest the calculated allowable annual cut.
2. Leave the industry in a condition permitting survival as a purchaser, but not in such good condition as to encourage overinstalled capacity.

The stumpage must be high enough to permit the—

1. Forest Service to facilitate their administration of the national forests through the collection of:
   (*a*) Timber stand improvement money (K–V deposits).
   (*b*) Planting funds.
   (*c*) Slash disposal money.
   (*d*) Erosion control money.
2. Construction of multiple-use roads which are over and above the standards required by a prudent operator.

Administratively, the Forest Service has come to rely heavily on such budgetary supplements for the fiscal means of keeping adequate ranger district staffs. In the Forest Service's program, timber sales and the multiple-purpose roads they build are a must if the national forest's recreational capabilities are to be expanded.

SUMMARY

1. The quartile system cuts off the extreme lows and extreme highs of lumber price cycles, but does not reduce the impact of these market conditions on the industry.
2. The quartile system very effectively and automatically reduces profit ratios in depressed lumber markets. In the example on page 3, a 10-percent profit ratio would allow $9.07 for profit and risk under the quartile system. However, this represents only 9 percent under current pricing as there is a $2 overcharge for stumpage using the quartile. In effect this is a second reduction in profit ratios by the Forest Service since its stated policy is to reduce profit ratios during lows in the market.
3. The total effect of the quartile system on stumpage pricing over a period of time will be to raise the average stumpage price. It cannot be expected to equate the overpricing on the extreme lows with underpricing on the extreme highs because—
   (*a*) The highs are of shorter duration than the lows.
   (*b*) Ponderosa pine in particular is experiencing a continuous downward trend. The short-term cyclic highs and lows have been progressively lower.
   (*c*) The lower lumber prices go, the higher they must rise to offset the pricing inequities of the extreme lows.
   (*d*) The history of Forest Service manipulation of procedures to determine "fair market value" gives no assurance that the quartile system or any other system will be kept through a complete price cycle or for an extended period.
4. The quartile system is now used on all timber sales. It is admittedly geared to 3- to 4-year sales. Many offerings with reduced profit opportunity must of necessity be cut out before the theoretical period of increased returns arrives.
5. The higher advertised prices resulting from the quartile technique reduces the chances for survival of smaller business.
6. The quartile system adds a speculative value to the current market value of Forest Service timber appraised at low market levels.

Recommendations

1. Abolish the quartile index system.
2. Establish current pricing system. The appraisal base index used for adjusting lumber selling values should be the WPA index for the most recent calendar quarter.
3. The system should not be modified at various levels of the market price cycle.
4. The system should provide for free escalation unencumbered by amortization of road development costs.
5. Base rates should permit full escalation response to actual market conditions in order to achieve full fairness to buyer and seller. (Deficit accounting methods established recently in the escalation procedure may provide a satisfactory solution. Opinion is reserved until after greater experience with its function.)

ROAD CONSTRUCTION PROBLEMS WHICH CONFRONT THE PURCHASER OF NATIONAL FOREST TIMBER

The sale area development item in the appraisal of Forest Service timber has for some time now been the greatest single item of expense and risk with which the purchaser of national forest timber must contend in the course of logging. In fact, the contender for national forest timber is now cast first in the role of the road construction contractor; second, to his business of logging and lumbering. Thus, he finds himself bidding primarily a road job, and actually bidding against the efficiency of the professional highway contractor. However, the timber purchaser bids his road job against much greater odds than does the road contractor who bids his unit cost against actually measured quantities and who is paid, generally, as he progresses with each phase of the construction through its completion.

The timber purchaser, on the other hand, must put forth large capital outlays for long periods of time before receiving any return on his investment. Contingent as it is upon market trends and realistic engineering estimates, a return on an investment is often quite unattainable. In fact, the operator often finds himself subsidizing the Government road program at his own expense.

The very nature of logging road construction being, as we are told, incidental to logging creates many problems and conflicts with which the professional road contractor is not confronted. The timber purchaser, due to the high costs and capital investment in roads, is often faced with the necessity of building and logging concurrently, sometimes with the same equipment and generally at the expense of road construction efficiency. This contemplates road construction incidental to logging in accord with the authority granted to the Forest Service and is compatible with the prudent operator concept. Imperative also, if calculated profit ratios are to be attainable, are realistic unit costs which reflect average timber purchaser efficiency.

Factors which contribue to the national forest timber purchasers' road dilemma are as follows:

1. The tendency toward more and more roads of higher and higher standards aimed at satisfying many uses and whims of individuals concerned with other than logging of timber, too often results in development costs in excess of that which the timber can bear. Thus, these excessive road requirements are in many instances pricing timber off the market. In many instances, however, when such a situation arises devious means are undertaken by the appraisers to come up with a positive value so as to put the timber up for sale; devices such as ignoring solid rock quantities, locally adjusting regional average cost below those obtainable, and the outright ignoring of certain items that are actually necessary in the removal of timber.

2. Errors in classification and measurement of materials constitute one of the greatest sources of error in Forest Service construction estimates, and in the case of sales which do not contain reappraisal provisions these errors result in an outright loss without recourse to the purchaser.

To rectify this situation, and in all fairness to the purchaser, the contract should contain a provision for the reclassification of materials upon completion of the roads, with an adjustment in the stumpage rate to adequately compensate for these errors in estimates.

3. Unit cost allowances as put out by the regional office are for the most part reasonable and adequate if competently applied. These unit costs were obtained from road contracts let upon the national forest for similar type roads and are assumed to have borne a profit to the contractor.

In many instances, however, the engineers upon the various forests have taken upon themselves to adjust these averages downward in an effort to place timber upon the market at a predetermined price level, while at the same time satisfying their desires for road development in excess of that which the timber will actually support.

It is our contention here that if costs compiled as regional averages did generate a 12-percent profit, then it is unfair to downwardly adjust these unit costs twice at the forest level—once as an arbitrary gesture and the second time as an additional 12-percent assumed profit factor. Certainly, if this profit factor did exist in the regional average costs, it is not still present in those which have been arbitrarily reduced.

4. Inconsistency of unit cost allowances exists between forests and within forests. The following tabulation is an example of unit cost variances with the regional average between forests and within forests. To cure this ill it is recommended that zones or subregions should be established on the basis of their

similarity, and within these zones unit costs should be established which are consistent throughout the zone. Region 6 would lend itself to four broad zones; namely, the west side of the Cascades, south central and northeastern Washington, southeastern Washington and northeastern Oregon south to the John Day or Prineville area, and southeastern Oregon. These it would seem would provide zones within which road construction conditions would be quite similar.

Unit cost variance with regional average

Diameter culvert	Regional average	Wallowa Whitman	Umatilla Pendleton	Umatilla Walla Walla
15	$3.96	$3.43	$3.50	$3.24
18	4.36	3.94		3.75
24	6.95	6.94	7.00	6.65
30	8.80	8.35		
36	12.89	13.64		
42	14.50	15.95		
48	20.37	18.00		
Excavation		(1)		
Common/CV	.37	.25		
Solid rock	1.12	1.00	(2)	
Unclassified		.40	.40–.60	.40–.60
Clearing		(3)	(4)	(5)
East side 1960	710.50	416.00	600.00	750.00
Rock haul per yard mile	.25	.17–.23		

[1] Wallowa Whitman formula: (Com. 0.25) (S.R. 1.00) plus 0.026 per station yard for dirt haul. Average haul approximately 300 feet will never reach R.O. average assumed to be 500 feet. Results in an unclassified excavation item seldom over 0.40.
[2] Due to poor classification usually results in 0.40–0.60.
[3] 3-sale average.
[4] 2 sales.
[5] 1 sale.

5. Factors contributing to excessively high road costs:

(*a*) Poor design: Designers through inexperience are not taking proper advantage of topography in the adjustment of grades and alinement thereto. More on-the-ground checking of location by experienced and capable personnel is necessary.

(*b*) Engineering costs: Engineering costs in many instances are entirely too high. It is our recommendation that only SH12 and higher standard roads be given the class I survey. This would generally be roads costing in excess of $15,000 per mile. All others consisting of SN12 and lesser can well be accomplished with the class II survey.

(*c*) Road location: Too much timber sale road location is being attempted by inexperienced Forest Service personnel, resulting in locations improperly suited to terrain and logging. This increases construction costs and logging costs to the operator. It is suggested that the Forest Service confine itself primarily to mainline location, and that the timber purchaser be allowed to locate his own secondaries and logging spurs, subject of course to Forest Service approval.

(*d*) Construction tolerance: Construction costs could be further reduced by the instigation of an allowance for vertical and horizontal tolerances; also there should be less forced rigid adherence to staking, but rather an emphasis upon an acceptable road to required specification as being the mutual aim. A provision for tolerances similar to that used by the BLM is recommended.

(*e*) Culverts: Inaccurate culvert estimates contribute further uncompensated costs to the roadbuilder. Culvert length measured exactly from cross sections generally run from 3 to 7 feet short under larger fills. It often happens that some culverts are overlooked, and the purchaser is later required to furnish those so omitted at his own expense. Office locations of culverts should be field checked.

(*f*) Completion approval: Additional costs are incurred to the operator, when upon completion of road sections the builder cannot get immediate inspection for approval by the authorized individual. Oftentimes it becomes necessary to move equipment in and out several times to satisfy the whims of several individuals involved with approval and acceptance. (More complete coverage of this subject will be given in another presentation.)

6. Cost factors not recognized nor included in road cost estimating:

(*a*) Full utilization of equipment: It is recognized that operator-built roads in the past have returned roughly 3 to 1 per dollar spent over roads built under contract to the public agencies. If this is to continue, it must also be that to

achieve this end the logger roadbuilder must utilize his equipment to the fullest possible extent. This is done in the pine region by operating throughout a 9- to 11-month period, and by often being able to utilize the same equipment concurrently upon logging and construction.

Operating in this manner means that the logger roadbuilder must operate during adverse construction conditions approximately 60 percent of the time, thus unit costs which contemplate the ideal in every instance are lower than these actually experienced.

(*b*) Building and rebuilding because roads are incidental to logging. The logger roadbuilder is often faced with building and rebuilding two or three times when steep terrain precludes landing off the road with timber directly above, which results in considerable damage to roads in the course of such logging. This is something with which the professional road contractor does not have to contend, and therefore such factors do not become a part of cost averages.

(*c*) Interference from the public. No consideration is given by Forest Service appraisers to the effect upon the roadbuilder by the traveling public. Construction in areas subjected to heavy public use incurs additional cost due to having to make way for this traffic.

(*d*) Interest costs on capital invested in roads. Whereas expenditures for timber sale development generally result in a long-term capital investment, as apart from other logging costs which are in the nature of current expenditures, it is felt that interest on such investments should be considered in the appraisal as a direct cost of operation. The handbook does provide for the consideration of interest and we quote the following:

Handbook 2423.02 "II. Interest" (in part) : "Where conditions of a sale require an unusual investment, perhaps a mainline logging road which will be outstanding over a considerable period before it is amortized, recognition of the added capital requirements and consequent interest liabilities should be made by an adjustment in the profit margin (FSH 2423.54). Such adjustment in the profit margin should be supported in an appraisal by a calculation showing the annual interest charge due to such unusual contract requirements."

Handbook 2423.62 "IV. Risk" (in part) : "The use of road amortization methods such as accelerated amortization or the writeoff method further reduces the risk in the road cost estimates."

Handbook 2423.54 VII (in part) : "Where a build-as-you-go construction schedule for development is practicable, there is no particular need to draw up an investment schedule for developments. Where an extensive tap road must be constructed to reach the sale area or where for good reasons it is necessary to install practically the entire main and branch road system in the early years of a long sale, the appraiser should draw up a schedule of development investments so that the average investment in development can be determined for the extraordinary investment and given consideration in connection with the profit margin calculations. Table 4, 'Investment schedule for development' illustrates how average investment is to be calculated, but fails to show how an increase in profit margin to compensate for this investment is to be calculated."

Inasmuch as the calculation of the profit ratio is contingent upon so many variables that it is nebulous at best, we believe it only fair to ask that an outright cost allowance is made for this interest factor, which to our knowledge has been otherwise ignored.

7. Unrealistic appraisal procedures that reduce road cost allowances:

(*a*) Insufficient spur road mileage: The allowance of less spur road mileage than is necessary is more often the rule than the exception. This results in the purchaser having to build the necessary additional mileage over that which was allowed, which further has effect of eroding the already meager profit allowances calculated in the appraisal.

(*b*) Substandard secondary roads: In some instances, secondary roads are now being set up as SL–10 and SL–12 roads for appraisal purposes. This has the effect of reducing the appraisal allowance through a reduction in the yardage of material but with no actual reduction in costs to the purchaser.

This is because it is virtually impossible with roadbuilding equipment of the size generally employed to build a 10- or 12-foot road. If it were possible, the road would be inadequate from a logging standpoint. The minimum width road which can be built with roadbuilding equipment of the type required from an efficiency standpoint is 14 to 16 feet, and this, too, is the minimum width upon which heavy hauling equipment and log loaders may safely operate.

(*c*) Improper calculation of base rock quantities: In some instances it has been found that base rock has been calculated in the appraisal upon its compacted depth. This has the result of reducing the rock allowance by about one-third over that which the roadbuilder must actually apply when measured correctly. Such calculations should be based upon loose yards and estimators so informed.

(*d*) Arbitrary adjustment of regional average unit costs at the forest level can cause a road project cost estimate to appear adequate when, in reality, such is not the case. Thus, a sale may engender hidden costs, the burden of which falls upon the purchaser who must bear the added costs of construction over the allowance out of a fictitiously calculated profit ratio. Such practices create an inequality between purchasers of national forest timber from one area to another. This gives a competitive advantage to one purchaser over another within the region.

In a known instance when the unclassified excavation based on regional average figures for rock and common resulted in 55 cents per cubic yard material, the desired road was found to price itself out of range with regard to the volume of timber to be removed. Whereupon S.O. Engineering evolved a system whereby they could justify to themselves 35 cents per cubic yard excavation of material running 20-percent rock, and this upon a 20-percent side slope. The manner in which this formula was derived is as follows:

The regional office was contacted and asked what the actual average free haul was considered to be in the contracts from which the regional average cost figures were computed. S. O. Engineering was informed that while the 1,000-foot free haul was recognized, no analysis had been made to determine actual practice, but a guess was made that perhaps 500 feet would be appropriate.

With this information at hand S. O. Engineering proceeded on the assumption that a portion of the material within this 500-foot distance should move for the 25-cents-per-cubic-yard regional average side-cast allowance for common material. The difference between the regional office balanced design common allowance of 38 cents per cubic yard and the 25-cents-per-cubic-yard side-cast figure, or 13 cents, was divided by 500 feet to obtain a figure of $0.026, which was considered to be the station yard cost of moving material which was not considered to be in the side-cast category but within the free-haul distance.

Applying these assumptions to the specific road which had an average end movement of about 350 feet, as obtained from the mass diagram, they applied the $0.026 per cubic yard to that portion of the material which moved over 350 feet, and when they finished the result was 35 cents per cubic yard, unclassified cost estimate for the material.

This made it seem possible for the timber to bear the cost of the road, and the purchaser must bear the additional burden out of a meager and fictitious profit allowance.

There are several things which can be readily seen to be wrong with these assumptions. First, people bidding on Forest Service jobs looked at the actual distance that the material is to be moved and so bid prices bear no relationship to a theoretical 1,000-foot free haul (others in the road construction field use a 500- to 600-foot free haul). They bid what they think they can move the material through the actually required distance for. Consequently, if the regional average results in 38 cents per cubic yard for common, it is logical to assume that this was over the actual distances involved, not over the theoretical extreme which in reality seldom is attained on most roads.

Secondly, "side cast" material is just what the name implies and does not involve a two-phase operation; for example, excavate, and haul or push, as in the case of balanced-design construction involving end hauls. Side-cast construction is characteristic of the contour type of road where a tractor breaks out and swings the material over the side. Costs thus resulting are proportionate to the percent of side slope, and/or type of material excavated. The assumption that 25 cents per cubic yard is representative of a portion of the material involved in the bid jobs from which the regional average for balanced-design, common material was calculated, is completely fallacious.

(*e*) Road maintenance cost allowances: Road maintenance cost allowances as used in appraisals are still being entered at 5 cents per thousand per mile in most instances, whereas regional average costs for SL to SN roads are indicated to be 9 to 10 cents per thousand per mile. It would seem equitable that the same cost allowances should be used for appraisal purposes and the actual number of miles that must be maintained should be considered; this has not been done in many instances to arrive at total allowance.

(*f*) Omission of base rock: In many areas base rock is a necessity if the operator is to conduct a continuous operation throughout the operating season. Only through continuous operation can efficient logging costs be experienced, and the omission of a rock allowance in the appraisal results in forcing the purchaser to place this rock at his own expense.

8. Suggested corrective measures:

Reinstate the excavation overrun allowance as was formerly used in Forest Service appraisals and as is the accepted practice in the construction field. In so doing there will be provided some cushion to allow for the unforseeable and inevitable contingencies which arise out of human error and the elements.

More thoroughly acquaint engineering personnel with the Timber Management Handbook and with the effect of the road cost estimates upon the total conversion return indicated in the appraisal. This involves effective communication between all levels of the Forest Service from the regional office on down to the district level.

Regulatory control over forest engineering by the region is needed. It is imperative that regional direction be exercised over the various forest engineers in order to maintain consistency between forests, and within forests, for similar type of work. Cost studies should be conducted upon a subregion or zone basis, rather than by individual forests.

A realistic and practical attitude must be developed by estimators toward the end that the final stumpage figure and the calculated profit ratio resulting represent as near as possible a true picture of the facts as they are.

The very nature of timber sale road development, engendering as it does many permanent values to the Government and other users, by analysis will often concede 50 percent of the total use to other than the purpose of removal of the timber over a 20-year period. This fact coupled with the capital investment aspects of the expenditure as distinguished from operating costs should entitle road development preferential treatment in appraisal procedure. We believe that the purchaser should be expected to recover average logger-efficiency costs expended in the construction of a permanent road system which is above and beyond his immediate needs. To attain this end we suggest the following procedure:

(1) Divorce the amortization of road cost from escalation, and restrictions due to the base rate.

(2) Instigate procedure for revision of the base rate and tentative rate so as to exclude road amortization charges. Thus, when stumpage falls to the base rate, there would be no reduction in deduction for the accelerated amortization, which could be accomplished by either a flat reduction from total stumpage payments on each cutting report or reduction by species.

(3) Refrain from increasing stumpage rates until the purchaser has recovered the full contract allowance for development.

(4) When escalation places stumpage below the base rate, make KV and slash also bear a share of the reduction to affect the reduced amortization allowance.

The effectiveness of these procedures would be contingent upon realistic engineering information as regards quantities and classification. To be compatible with present Forest Service engineering standards it would further be advisable that—

(1) Appraisal road costs should be tentative at the outset.

(2) Stumpage rates should provide a margin between advertised rates and minimum rates sufficient to absorb possible differences between the presale tentative allowance and the actual allowance based upon measured quantities developed by a post construction survey.

(3) Stumpage rate adjustments would subsequently be made on the basis of the postconstruction survey, using appropriate unit costs reflecting average efficiency.

We state here that industry is not against road construction nor engineering as a requirement of the timber purchaser. It is, however, essential that certain prerogatives of timing and completion be that of the purchaser in recognition of the primary purpose of lumber production and timber management.

This is necessary to effectively meet production schedules and to overcome the many variables encountered with the elements of weather and economic conditions over which there is no control.

A favorable economic climate must be provided if our industry is to progress and endure, for we cannot continue to invest more and more in facilities with which to earn less and less when we operate Federal stumpage.

Toward this end it is imperative that costs used in pricing Federal timber be realistic and practically attainable to the purchaser, and that contract interpretations become bilateral in scope.

Senator MORSE. Then I have a letter which is addressed to the Western Forest Industries Association on allowable cuts. It is signed by Chas. A. Connaughton, regional forester, California region. In California they intend to change their basis on computing rotation ages to the international goal. I understand that this in effect reduces the rotation age.

Do you plan to do this in Oregon and Washington; and, if so, when?

Mr. CLIFF. It is being done now, sir; we have already completed the change on two forests, and we are reviewing the others.

Senator MORSE. Tell me what you think will be attained by such a change.

Mr. CLIFF. It will result in the lowering of the rotation age to about 90 years in most of the west coast forests. This will vary, as I stated before, with site classes, but it will result in a lowering of the rotation age.

Senator MORSE. This bears out my next question.

The CHAIRMAN. Wayne, is that the same question that I asked concerning the 6-month study?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. And you are working on the others now?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. And Idaho is through?

Mr. CLIFF. Yes, sir; north Idaho.

The CHAIRMAN. All right; we will put the letter in the record.

(The letter referred to follows:)

U.S. DEPARTMENT OF AGRICULTURE,
FOREST SERVICE,
San Francisco, Calif., June 12, 1962.

WESTERN FOREST INDUSTRIES ASSOCIATION,
Portland, Oreg.

(Attention Mr. Wayne W. Gaskins.)

GENTLEMEN: In response to your request we are sending you under separate cover a copy of the timber management plans for the following working circles: Goosenest, Yreka, Scott Valley, Seiad, and Salmon River. Fortunately, we had mimeographed copies available for these working circles.

As you know, we have combined the former Happy Camp and Somes Bar units into a new working circle. We have decided to call the new unit the Happy Camp Working Circle. The management plan for the new unit is now being typed for submission to the Chief for approval. By the end of this calendar year we expect to have completed the preparation of all plans in the region, using modern-type inventories. We have started the next 10-year cycle of reinventory work leading toward revision of plans. A number of the older plans are based upon rotations set at culmination of mean annual increment in Scribner board feet including material 11 feet in diameter at breast height and up—other more recently prepared plans have rotations based upon culmination of international board feet including material 7 feet in diameter at breast height and up. All of the plans we are sending you are on the Scribner 11-foot diameter-at-breast-height basis.

We are making interim amendments to the older plans to shift them from Scribner to international based rotations. This shift should be accomplished in the next 6 months or so.

Sincerely yours,

CHAS. A. CONNAUGHTON,
Regional Forester.

Senator MORSE. I am going into this question, Mr. Cliff, because every time I meet with a lumbermen's group this is one of the complaints and the beefs, as we say.

You have had a study made a year ago by Professor Graves on the Willamette National Forest. He contends that with a 90-year rotation the allowable cut could climb from 550 to 794 million board feet. This would be a 45 percent increase—244 million board feet.

You have a petition asking for action in regard to the Graves recommendation, I understand, from various lumber groups.

What is the Service doing about this petition?

Mr. CLIFF. Senator, Professor Graves was engaged by Lane County——

Senator MORSE. A group of Oregon counties, I think.

Mr. CLIFF. To make this study. We have not been furnished officially with a copy of his report and have not had a chance to analyze it.

Senator MORSE. You have not had a copy of the Graves report? Are you aware——

Mr. CLIFF. Just a moment, please.

Senator MORSE. It is my understanding that the Forest Service has had it for a year.

Mr. CLIFF. Mr. Mason informs me that Professor Graves furnished one of our men a personal copy; we have never been furnished a copy by the group that employed Mr. Graves to make the study.

Senator MORSE. Well, I have so many other questions that perhaps I should do this in an interview later; but I would want to say this: Do you have any reason to doubt that the Forest Service is unaware of the recommendations of the Graves study?

Mr. CLIFF. No; we are not unaware of the recommendations.

Senator MORSE. Professor Graves discussed an 80-year rotation but appeared to recommend a 90-year rotation instead of the present 130 years. Is this 90-year period, in your opinion, a feasible period to carry out your sustained yield criteria in the areas where he recommends that it be applied?

Mr. CLIFF. I think it will bear some analysis. We did adopt a 90-year rotation on the Umpqua Forest and Suislaw with a 10-year regeneration period, and the conditions in general are quite comparable. I would imagine that we would come out with similar conclusions, sir.

Senator MORSE. This Graves study, which has been raised with me for a long time past, and raised with members of the congressional staff here—is the study that many of your critics within the lumber industry used in their various rebuttals to some of the policies of the Forest Service. Are you in a position, if the chairman of this committee should ask for it, to supply this committee with the Forest Service analysis of its views on the Graves report within the next couple of weeks?

Mr. CLIFF. I think we could do that in 2 weeks, Senator; we do not have a copy of this report right now in Washington.

Senator MORSE. I certainly think you are entitled to it. Do not think for a moment that I am underwriting the procedure that was followed in getting the report to the Forest Service.

On the other hand, I find it so difficult to understand that the Forest Service would not be perfectly aware of this report, because it contains so much of the argument that is used in conference with me when lumbermen sit down and say: Something has to be done about the Graves findings in relation to the Forest Service's policy.

I am quite surprised, but I just took it for granted that you were aware of it and that you had been working on it, and that you were probably set for bear, as we say, in regard to your reply to it.

I have a copy of it. I understand, Mr. Counsel, that I am authorized to turn it over to you, so you will not have to call for it from the field.

Mr. CLIFF. Thank you.

(Comments from the Chief of the Forest Service on the Graves report follow:)

FOREST SERVICE REVIEW OF "ANALYSIS OF TIMBER MANAGEMENT POTENTIAL AND ALLOWABLE ANNUAL CUT FOR FOUR PUBLIC TIMBERLAND UNITS" BY P. F. GRAVES

This review covers the three working circles of the Willamette National Forest which are in Lane County, Oreg., and are included in the report.

The report is well organized. The issues raised merit discussion. We are in agreement with the general orientation which is an advocacy of more intensive timber management. We do not agree with some of the emphasis and some of the author's judgments of what is immediately practical. In the comments on the major report recommendations which follow, parenthesized numbers are the report page numbers pertinent to the item under discussion.

Rotation and allowable cut (12, 18, 25, 29, 38–56, 64–71)

The report recommends the use of shorter rotations. In reaching the specific recommendations a number of factors such as assumed current utilization standards, growth as indicated by empirical and normal yield tables, progress toward normal stocking of understocked stands, mortality in old-growth stands and rates of financial returns on growing stock values were used. After such discussion, rotation age recommendations of 90, 95, and 100 years for the three national forest working circles were made on a judgment basis.

Forest Service instructions on fixing rotations were being revised during the time this report was in preparation and thus were not available to Mr. Graves. These instructions were issued in handbook form in February 1962 (FSM, FSH 2413.2). For essentially old-growth areas, such as the Willamette, they provide for establishment of minimum rotations for the managed second growth which will be established as old-growth conversion is accomplished. The major assumptions are that at this time utilization and opportunities for intensive management will be equivalent to conditions now existing in the East and South.

The process now used is, briefly:

1. Set rotation (cutting age) at the point of culmination of mean annual growth of trees 7 inches in diameter at breast height and larger, measured in international one-fourth-inch rule volume units.
2. Add the required regeneration period, to indicate the planning rotation.
3. Round the planning rotation down to the nearest 5-year age if old-growth occupies most of the commercial forest land.
4. Tabulate cut by age classes to the rounded rotation age. An indicated cut may be derived by formula for a first trial tabulation, but the cut as finally tabulated is controlling.

The statements (p. 53) that little or no regeneration allowance is necessary and that regeneration periods conflict with Forest Service regeneration policy are not supportable. The technical rotation is the average second-growth cutting age. The planning rotation is the technical rotation plus the regeneration period. Regeneration must be established and free to grow before mean annual increment begins. For example, where trees are established immediately after

regeneration cutting, either naturally or artificially, and deer browsing is prevalent; growth losses of 15 years are not uncommon. Insects, rodents, poor rainfall distribution, and weed competition also cause losses. Typically, the earliest practicable planting date is two growing seasons after felling in the Douglas-fir region. Harvesting of this large timber requires an operation of such severity as to preclude methods of cutting which will provide advance reproduction. Under any foreseeable conditions average cutting age and planning age will be different. We now use a 10-year regeneration period in the Douglas-fir type. We are not everywhere achieving such a short average period but assume that the problems involved will be solved soon enough to support this period. If our expectations are exceeded we will reduce regeneration periods.

Application of this system indicates the following rotations as compared to those recommended in the report:

	Working circle		
	Lowell	McKenzie	Oakridge
Site index (height at age 100):			
From old inventory	150	140	130
From new inventory	145	132	130
Rotations:			
Forest Service:			
Technical (cutting age)	83	87	88
Regeneration period	10	10	10
Indicated	93	97	98
Rounded for tabulation [1]	90	95	95
Report recommendation	90	95	100

[1] To provide for more flexible management some working circle combinations may be made in the new plans. However, if this is done rotations will be adopted as here illustrated.

Older inventory stratification biased samples toward the better sites. The new, and more accurate, average site indexes are lower but their depressing effect on rotations is more than offset by the smaller stand components included in the increment base.

Noncommercial use (*13, 23, 83–86*)

The report quotes our acreage and volume statistics for the Three Sisters Wilderness Area and Diamond Peak and Mount Washington Wild Areas and estimates a "potential" yield from them, and raises questions over the wisdom of these withdrawals. Timber in these dedicated areas is not available for commercial use. The Forest Service has no plans to eliminate or reduce the size of these established wild and wilderness areas.

Multiple use (*13–15, 23, 83–86*)

Instructions for treatment of roadside, waterfront and recreation buffer zones and scenic areas were also being revised concurrently with this report and not available to Mr. Graves. The instructions now provide for sanitation, regeneration, and intermediate cutting in these areas (FSH 2413.15a). The major modifications of the treatment standards applicable to general forest areas are in rotations and in operation timing, size, shape, and postsale cleanup. Assuming the use of 160-year rotations for the average Willamette roadside site there would theoreticaly be about a 20-percent reduction in regeneration cut yields. However, intermediate yields where topography will permit will replace most, and possibly all, of this difference.

The report (p. 86) estimates the "potential" production from these "administrative withdrawals." Estimates of this component of the yield will be made and included in management plan revisions to be completed this year. They may be more or less than the speculative estimates shown in the report.

Thinnings (86–88)

The report includes an arbitrary but reasonable estimate of thinning potentials. The practice of thinning on the better and more accessible nearby private land is not as prevalent as the report infers. Thinning potentials are not included in Forest Service allowable cut determinations in the Douglas-fir region. Hence volume obtained from thinning is not chargeable against allowable cut limitations. The Forest Service wants to develop thinning sales wherever feasible. On the three Willamette National Forest working circles we agree with the report statement (p. 87) : "It is not likely that an intensive thinning schedule of this type could be anticipated for young stands on the public lands of eastern Lane County for many years, perhaps even decades."

Salvage (71–82)

The report also includes estimates of potential salvage of accumulated down and dead material and the annual accretions to it. In summarizing yield potentials (p. 90), the statement is made: "In view of the nationally expanding lumber market * * * it appears certain that the industry will take full advantage of all potential sources of timber supply, including salvage, prelogging, and thinning, as rapidly as these sources can be offered under practicable sales contracts." The current and prospective state of the national market does not support this view. The practical opportunities to market this material are limited and will likely increase at a much slower rate than is assumed in the report.

In this section of the report the potential long-term yield increases are developed to ideal conditions. These conditions are not likely to occur in time to permit salvage of more than an unknown, but relatively small, fraction of the current and prospective supply. We quite agree, of course, that it is desirable to devise ways and means to make economic salvage operations practical on a broader scale.

Roads (92–98)

The report makes a good case for advance roading and questions Forest Service road standards. The huge task of getting sufficient roads constructed to harvest national forest timber at full allowable cutting rates has absorbed all available road funds to date. Until these needs are met, progress in advance roading can only be of a minor and incidental nature. The road fund estimates in "A Development Program for the National Forests" (transmitted to Congress by the President on September 21, 1961) do not include specific provision for advance road financing. Advance roading, particularly in the Douglas-fir region is desirable. Every opportunity to make progress in this field, particularly through the use of stage construction, will be exploited.

Road standards in rough mountain public land with established and increasing uses in addition to timber production cannot be identical to standards for utilization roads on more favorable industry-owned terrain. For instance, protection of national forest land and uses from soil movement and drainage disturbance is a critical consideration in mountain road location and design. This and other pertinent considerations are not adequately recognized in the report.

Measurement units (29–37, 65)

The report describes the troublesome state of the measurement and accounting now in use for regulation of the rate of cutting in the Douglas-fir region. It recommends depletion accounting at the time of sale and states that volume regulation is most feasible for old-growth Douglas-fir. The Forest Service adjusts allowable cuts to log scale units of measure. Controversies over the adjustment factor have developed.

The difference between measurement units used in allowable cut determinations and for log production have not until recently been of particular significance because of impracticalities of developing sale programs up to full allowable rates. Use of the same measurement units for all phases of allowable cut accounting or development of sound and adequate adjustment factors between log scale and inventory is now urgent. In order to resolve the present controversy, several procedures are now being studied. None is ideal and it is necessary to weigh advantages and disadvantages of the alternatives to make a sound choice.

Senator MORSE. But we should have answers to the report. If their complaints are sound, I want to know it; if they are not, I want to know it, too. I want to make one point very clear to you, Mr. Cliff. I just sit here in a position to try to follow what I honestly believe are the facts.

Mr. Cliff, how long does it take to complete a timber inventory?

Mr. CLIFF. I do not think there is any standard time. But a timber inventory requires, first, aerial photographs, maps, and then you have to select the plots and make the plot analysis.

It takes, I would say, at least a year to complete a modern timber inventory after you have the maps and aerial photographs that are essential tools.

Senator MORSE. Let me assure you, Mr. Cliff—and you, too, Mr. Chairman—the only reason I ask these questions is to give the Forest Service an opportunity to make a statement here and supplement their statements to any of these questions with a memorandum, as I have sought to write out here questions that would bring us into focus as to the contentions of the Forest Service and the contentions of the industry.

The last question was asked because one of the complaints we hear is that it takes the Forest Service entirely too long to complete a timber inventory. I can well imagine that one inventory might take longer than another and that you have got to be talking here about a general pattern, not the exceptions.

But I think the question is fair, and that is why I asked you.

My next question along the same line is, How long does it take you to complete a management plan revision?

Mr. CLIFF. After the timber inventory is completed, the analysis of the data and the preparation of the plan and review of it, we should be able to accomplish it inside of a year.

Senator MORSE. Mr. Chairman, if it meets with your approval, I would like to ask Mr. Cliff to supply the record, as quickly as he can within reason, with the dates and times involved, from start to finish, on timber inventories and the management plan revisions approved since January 1, 1961.

Mr. CLIFF. We shall be glad to do that, sir.

The CHAIRMAN. Without objection, it will be placed in the record.

85955—62—pt. 1——16

(The requested information follows:)

Plans approved since Jan. 1, 1961, for 42 national forests

Region and national forest (working circle)	Inventory		Plan submitted	Plan approved
	Season completed	Number of field seasons to complete [1]		
R-6				
Winema	1959	[2]	May 16, 1961	June 20, 1961
Siuslaw	1956	2	June 15, 1961	July 10, 1961
Umpqua	1958	2	Oct. 17, 1961	Dec. 5, 1961
Malheur	1958	2	Dec. 19, 1961	Jan. 18, 1962
Okanogan	1959	3	Jan. 12, 1962	Jan. 26, 1962
R-5				
Sierra (Willow Creek)	1958	[3] 2	Mar. 15, 1961	Mar. 29, 1961
Tahoe (Bear Valley)	1959	1	May 3, 1961	May 23, 1961
Lassen (Hat Creek)	1960	2	May 17, 1961	June 20, 1961
Klamath (Scott River)	1960	1	May 29, 1961	June 23, 1961
Sierra (San Joaquin South)	1959	2	May 18, 1961	Do.
Mendocino (Alder Springs)	1960	1	June 29, 1961	July 11, 1961
Eldorado (Placerville)	1958	1	do	July 12, 1961
Eldorado (Pacific)	1959	1	do	Do.
Stanislaus (Calveras)	1958	1	do	Do.
Stanislaus (Stanislaus)	1958	1	do	Do.
Six Rivers (Del Norte)	1960	7	do	Sept. 11, 1961
Sequoia (Kings River)	1959	3	June 30, 1961	Oct. 18, 1961
Sequoia (Kern West)	1958	3	do	Do.
Sequoia (Greenhorn)	1959	3	do	Do.
Plumas (Western Plumas)	1960	4	do	Oct. 20, 1961
Tahoe (Sagehen)	1960	1	Dec. 11, 1961	Jan. 3, 1962
Plumas (Indian Valley)	1959	3	Jan. 9, 1962	Jan. 25, 1962
Shasta-Trinity (Hayfork)	1958	1	Dec. 12, 1961	Do.
Lassen (Almanor)	1961	5	Jan. 26, 1962	Mar. 15, 1962
Sierra (Kings River North)	1960	2	Jan. 19, 1962	Do.
Shasta-Trinity (McCloud)	1961	2	Apr. 18, 1962	May 16, 1962
Lassen (Western Lassen)	1961	5	June 4, 1962	June 20, 1962
Lassen (Pit)	1961	5	May 24, 1962	Do.
Eldorado (Cosumnes)	1960	1	May 21, 1962	Do.
Six Rivers (Humboldt)	1960	10	May 28, 1962	Do.
R-1				
Kaniksu (Cabinet)	1959	1	Jan. 23, 1961	Jan. 31, 1961
Flathead (Swan)	1959	1	Feb. 7, 1961	Mar. 13, 1961
Lolo and Coeur d'Alene (Mineral)	1960	1	Dec. 30, 1960	Apr. 4, 1961
Flathead (Coram)	1960	1	July 10, 1961	Sept. 10, 1961
Lolo (Thompson River)	1960	1	July 20, 1961	Oct. 3, 1961
St. Joe	1960	2	Nov. 14, 1961	Dec. 20, 1961

[1] This is generally summer field season, rather than year-round work.
[2] Incomplete existing data, including Klamath Indian Reservation records, compiled and used in order to avoid delay in setting a cutting objective for this new forest.
[3] California inventories are now on continuous basis. Approximately 10 percent of each working circle sample is taken each season.

Senator MORSE. I understand, Mr. Cliff, that the Umpqua plan took several years, as did the Siuslaw. In your opinion, were those exceptional cases and can the job be speeded up over the amount of time that it took to do them?

Mr. CLIFF. I am sure the job can be speeded up. In both of these plans we were involved in a detailed consideration of this major policy question of rotation ages, and once that question has been resolved, as it has, I think we can move more expeditiously on the others.

Senator MORSE. One of the issues raised constantly involves the differences in the appraisals and sale policies of the Bureau of Land Management and the Forest Service. Can you tell us the basic difference between the Bureau of Land Management timber appraisal and sale and the Forest Service appraisal and sale?

Mr. CLIFF. The Bureau of Land Management sells on the basis of cruise. Characteristically, their sales are smaller and of shorter duration. The cruise method is well adapted to the sale pattern they follow.

The Forest Service characteristically on the west coast sells by scale, log scale. This has been a traditional way of selling timber. And it likewise is a sound method. Both methods are sound methods if they are well applied.

We do use the cruise or tree measurement sales method in many places. We are not strangers to this method of selling timber. Virtually all the timber we sell in the South is sold on lump sum sales with 100 percent or sample cruises. And we use the method elsewhere.

But this is the basic difference, I think, between our sales and the Bureau of Land Management sales. There are many similarities in sales requirements, and as Secretary Carver in the closing part of his statement enumerated a number of things they were adopting, most of those things the Forest Service has had in effect for some time.

The CHAIRMAN. Do you have your own cruisers?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. How many cruisers are in the Department?

Or put it in the record, if you do not have it.

Mr. CLIFF. We will put it in the record.

The CHAIRMAN. Very well.

Mr. CLIFF. Our timber sale men cruise, as well as do other phases of the job.

(The requested information follows:)

The Forest Service does not have a special category for employees who cruise timber. There are approximately 5,600 professional and subprofessional employees working on timber sale preparation and sale administration. Timber estimating is a part of the work of most of these employees. The bulk of this work is under systematic direction and supervision. We estimate that there are approximately 1,000 professional employees who are qualified to make acceptable independent cruises or to perform check cruising.

The CHAIRMAN. But you have a number of other so-called qualified cruisers?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. And they are stable employment?

Mr. CLIFF. Yes, sir.

The CHAIRMAN. All right. Excuse me, then. I did not know whether they hired outsiders sometimes.

Mr. CLIFF. I believe Senator Morse will be interested in this. We are planning on trying some cruise sales on the Siuslaw Forest to test out the differences, the advantages and the disadvantages, and make some direct comparisons with our method of making sales. This is a project we hope to get underway soon.

Senator MORSE. I am glad to hear that, because it seems to me you have to have that kind of controlled experiment. That is really what you need.

Mr. CLIFF. We definitely plan on going ahead with that, and we think the Siuslaw is a good place to do that.

Senator MORSE. Now, Mr. Cliff, taking the industry as a whole, with the west coast and the Pacific Northwest, what do you think the preference of the lumbermen would be; would they prefer the cruise method to the scaling method?

Mr. CLIFF. I am not sure that I can answer that. I think some prefer the cruise method; others, I think, are as well satisfied with the log-scaling method. The industry itself would have to answer that question.

The scale method is better adapted, I think, for the larger and longer term sales where you have problems that come into play, when you have escalation or price adjustments. These are things which the industry, I am sure, feels are desirable. It means that you have to have day to day, or at least month to month accountability, for the timber that is being removed. It is more difficult to get that kind of accountability when you have a cruise sale. The longer the sale, the more problems you get into in that respect.

The cruise sale is well adapted to the short-term sale of the smaller size classes.

Senator MORSE. Is there anything to the argument that many of them have made to me that the cruise method would speed up your procedure and speed up your getting timber on the market for sale?

Mr. CLIFF. I do not believe that that is true, although I do not have any definitive information on it to base a statement. I know this, that, if you sell by a cruise you have to cruise more intensively than we cruise just for appraisal purposes. And they have to have check cruises, as we have check sales.

The cost of the operation is quite comparable.

Senator MORSE. Well, this leads us into this problem of scaling versus cruising and checking.

One of the complaints I am constantly running into is the complaint against the Forest Service as to your scaling, log scaling procedure. What is your view as to the use of independent scale bureaus in the pine area, for example? A lot of these criticisms come from the pine area. We had one group of witnesses, for example, at the Portland area hearing who were so upset that they used my lunch hour to present their complaints, and then they put a witness on in the formal hearing later, whose testimony you will find in the record. But they are very critical of the Forest Service in regard to scaling policies, and strongly advocate that you use independent scaling bureaus in the pine area.

What is your answer to that?

Mr. CLIFF. I would question the advisability of extending the Bureau scales to the pine area. There is no background of experience comparable to the scaling bureau history in the Pacific coast. The bureaus there, some of them have been in existence for 60 years, and the bureau scale has been established as a method of accountability that the industry uses for buying and selling logs and calculation of costs. There is no comparable background in the pine area.

Senator MORSE. Will you say—excuse me; I'm sorry.

Mr. CLIFF. The situation with regard to the timber sales is quite different, inclusive of concentration of logs and that sort of thing.

Senator MORSE. They say to me that when you have these independent scale bureaus, the Forest Service has a representative on the bureau, that the Government interest is checked and protected. One of their criticisms is that it appears that the Forest Service is set against the independent scaling bureau, and that it destroys to some degree the chance of cooperation with the industry that is sorely needed.

In fact, one of the spokesmen at Portland says:

I will tell you, Senator, the position that the Forest Service put us into in regard to this scaling problem leaves us feeling that we are a bunch of crooks and cannot be trusted, and that the only group that can protect the public interest is the Forest Service itself. They do not point out that in these independent scaling bureaus the Forest Service has a representative there; there is just no possibility of dishonesty developing.

And furthermore, he said,

We are a pretty good check on each other, too. And you could not get by with it within the industry.

Now, that is part of their bill of particulars. What do you say about that?

Mr. CLIFF. Well, I still question the advisability of extending the system. We have adopted it; we use it on the west coast because it is an established institution. It is an institution based on the premise that it is a nonprofit organization that represents both buyers and sellers, and it was developed as a result of a need when there was an exchange of logs between producers and users.

There is not a comparable situation in the pine region that I know of that would justify setting up independent scaling bureaus.

Senator MORSE. I think it would be helpful to me and to you, Mr. Chairman, and to the other members of the committee, due to the fact that this is raised so repetitively, for you to prepare us a memorandum covering these two major points—No. 1, the evidence that you think supports your conclusion that the pine region is so different from the region west of the Cascades that they cannot use bureau scaling to advantage in the pine industry; and, No. 2, tell us to what extent it is the uniform policy or lacks uniformity in the areas where you are now doing it.

My recollection is that one of the complaints is that you use it in some forests and you do not use it in other forests, and that there is a lack of uniformity in your practice. I would like to know what forests you use it in or what ones you do not use it in; why you use it is some and do not use it in others. And I would like you to submit a list of who are on these boards, buyers and sellers, and the amount they buy and sell.

I am sorry to ask for so much detail, but I cannot escape the fact that this particular subject is one of the most strenuous objections we get from the lumbermen who talk to us. I hope they talk to you the same way. I tell them they ought to.

But this matter of scaling, this matter of using independent scalers or bureaus, I think is one that we have got to come to grips with. If there is a case that can be made in support of your present policy, I want to know it. If you can prove it, I will be in there advocating it; if you cannot, then my job is to make my representations for a change.

Mr. CLIFF. We will supply that for the record.

(The requested information follows:)

The log scaling and grading bureaus which operate in the Douglas-fir region are nonprofit associations of buyers and sellers of logs. Most of these bureaus have been in operation for more than 50 years. Their first activities were water scaling and grading on Puget Sound, Grays Harbor, and the Columbia River as logs were sorted and rafted. The bureaus provided the standard unit of measure for transactions in logs between independent loggers and mills which

had no log production facilities. Bureau scale and grade are also used by integrated companies who exchange logs of differing species and grade. Most operators in the Douglas-fir region use bureau scale and grade for internal accounting purposes.

During the period prior to 1947 when the Forest Service used its own scale in the Douglas-fir region, it was necessary to employ an adjustment factor for the difference between bureau and Forest Service scale in order to use industry costs and log-selling values in appraisals. Acceptance of bureau scale was authorized primarily to eliminate such adjustment factors and to use costs and selling values on the same measurement basis as industry used in computing costs and in transacting log scales.

Bureau scale is so well established in the Douglas-fir region that an allowance for the bureau scaling fees is included as one of the costs of log production in Forest Service appraisals. Hence the provision for acceptance of bureau scale does not reduce the appraised price of national forest timber.

Provision for bureau scale in Forest Service sales is entirely voluntary with the purchaser. The Forest Service stands prepared to furnish scaling services to any purchaser who does not want to furnish bureau scale. The Forest Service reserves the right to refuse to accept bureau scale if the circumstances under which bureau scaling is performed is not acceptable to it. Adequate provisions for maintaining log identities and log accountability to the point of scaling must be assured before bureau scale could be accepted in any circumstances. Forest Service scaling methods in the Douglas-fir region have been revised to follow bureau scaling rules so that there should be no advantage to either the purchaser or the Government from the use of bureau scale.

In summary acceptance of bureau scale is sound and feasible because of the following conditions:

1. The Douglas-fir region log scaling and grading bureaus are nonprofit associations of buyers and sellers of logs.
2. Bureau scale is the general log measurement standard used by the Douglas-fir industry.
3. Industry costs are computed and log-selling values are stated in bureau scale measurement.
4. Bureau scale and grading fees are generally recognized as a cost of log production.

In the pine region none of these conditions exist. The physical, geographic, and operational dissimilarities between the Douglas-fir region and the western pine area make it extremely unlikely that a common industrywide system of log measurement and grading service will ever be developed in the pine area.

The Forest Service considers it improper for it to accept a log scale made by a purchaser's employee or a scale made under an industry-sponsored arrangement designed primarily to perform the scaling for Forest Service timber sale contracts. It would be improper to allow scaling costs in appraisals which exceed normal industry practice on the basis that such costs are incurred to provide scaling service to the United States. Such a procedure would result in reducing appraised timber prices. It would be an unauthorized augmentation of timber sale appropriations at the expense of stumpage receipts to the Treasury.

(See additional information on p. 271.)

Mr. CLIFF. I would like to just add, Senator, that, over the past several years, we have made a real intensive effort to improve our check scaling so that we can be sure that we are getting uniform practices. We have prepared—and it is about ready for release—a revision of our scaling handbook. This has been reviewed by industry very intensively. We have considered their comments and recommendations and adopted many of them.

Scaling is a very important aspect of this business. It is a place where money changes hands and we are selling vast quantities of timber, and the scaler in effect is the same as the checker at the supermarket, who for his employer checks out the groceries and makes out the bill. That is the function the scaler performs. I think it is an important function and one that we want to do a good job on. We must do a good job on this.

Senator MORSE. Mr. Counsel, I would like to have you take out of the Portland record that controversy that developed over those mills in the Philomath area in which they said, or in which their allegation was, that a very arbitrary action was being taken by the Forest Service in that they had insisted on scale checking in one place and water checking in the other.

I think I sent down to you, Mr. Cliff, a memorandum on that particular matter. But I want counsel to follow through on it, because I want to know whether there was any basis for the complaint of these lumbermen, and I want to know whether or not, after we sent in our wire asking for a delay of this matter for a few days so we could get into it—it is true that the Forest Service in the face of that, notified these parties, as alleged, that there could be no delay?

I want to get all the record on that, because I was not acting for myself alone. And if I were acting for myself alone, I would take the same position that the record should be cleared.

I want to know, on the basis of the facts presented in that hearing—that is one of the reasons that I wanted Mr. Stone here, but he had to go back, and I did not want to insist that he stay—I want to know exactly what policy the Forest Service followed in that case. I hope the facts will show that it was not an arbitrary policy. If it was, I will have a little more to say about that case later.

I have sent you a memorandum, Mr. Cliff, and I want you to put in this record, before the record is closed, any statement that you want to make on that case.

But this disturbed the committee out in Portland very much. I want to know what actually happened down in your shop on it and in Mr. Stone's shop; we felt that they had a case in which they were entitled to a few days' delay.

Mr. CLIFF. Senator Morse, Mr. Chairman, Mr. Stone prepared a statement on this, and I will be glad to submit it for the record right now.

Senator MORSE. Let us have it for the record.

The CHAIRMAN. With no objection, it will be put in the record.

(The statement referred to follows:)

OBJECTIONS CONCERNING FOREST SERVICE SCALING

In region 6, the goal in scaling forest products is to provide a log scale which is uniform for buyer and seller, minimize log accountability problems, and provide competing purchasers with a uniform basis for bidding on national forest timber.

With the full cooperation of the scaling bureaus, the Forest Service in region 6 has been working toward standardization of scale from all the national forests of the region for many years.

In all areas where Bureau scale is being accepted, the Forest Service has intensified its check scaling to help insure uniformity. Where Forest Service scalers are used, intensified program of scaler-training and check scaling have been underway for some time.

At the Portland hearing Ellis Bischoff, Mountain Fir Lumber Co., alleged that proposed changes in Forest Service scaling procedures on the Siuslaw National Forest would create a hardship on purchasers. In addition, Marvin Ellis, Red Fir Lumber Co., Philomath, Oreg., protested the nonavailability of water scale to his mill on the Siuslaw National Forest.

Mr. Bischoff's complaint centers around an attempt by the forest supervisor of the Siuslaw National Forest to standardize scaling practices on that forest. This program was first discussed as early as 1957.

The supervisor's solution was to provide central truck scaling facilities near Philomath, Oreg., serviced by a scaling bureau. In attempting to place this solution in effect in the Philomath area of the forest it has now become apparent that the purchasers affected feel that they have not had full consideration as to their personal scaling arrangements.

Accordingly, the regional forester has now issued a stop order in the implementation of central scaling at Philomath pending a full reexamination of scaling practice on the entire Siuslaw Forest. The Philomath industry group has agreed to assemble and tabulate their objections and present them to the forest supervisor. The final plan for improving uniformity of scaling on the Siuslaw National Forest will be then formulated after full and thorough consideration of the facts presented by the affected purchasers.

Meanwhile, rather than approaching this problem on a piecemeal basis, the forest supervisor has now written purchasers in the Hebo and Waldport working circles in order to consider their situation before proceeding with the solution for the entire forest.

Mr. Ellis' contentions concerning water scale at Philomath will be studied at the same time that scaling standardization on the entire Siuslaw National Forest is studied by the forest supervisor and purchasers alike.

U.S. DEPARTMENT OF AGRICULTURE, FOREST SERVICE,
PACIFIC NORTHWEST REGION,
PORTLAND, OREG., *June 10, 1962.*

Senator MORSE. Mr. Cliff, your purchasers say that an overriding policy of the Forest Service responsible for many inequitable decisions is the requirement that any change in contract or procedure must favor the Government. Will you describe this matter? It raises this whole question as to whether or not we should not have a master Government contract.

Mr. CLIFF. I am not sure of the significance of the question.

Senator MORSE. I will repeat it. The question is your view as to whether or not we should not have a general master Government timber contract, because so many of the complaints of your purchasers are to the effect that an overriding policy of the Forest Service responsible for many inequitable decisions, alleged inequitable decisions, is the requirement that any change in contract procedure must favor the Government.

Mr. CLIFF. You are referring to the positon that has been taken by the General Accounting Office over the years that a contract cannot be modified to the disadvantage of the Government. This is a principle that we have been following, and I think other governmental agencies have been following.

Senator MORSE. No matter what changed conditons——

Mr. CLIFF. I think we have no other choice except to follow that principle unless there is a change in the law which permits us to do otherwise.

Senator MORSE. No matter what changed economic conditions may develop which would make it desirable to agree to a change in a contract?

Mr. CLIFF. That rule still applies.

Senator MORSE. Your position is that that cannot be handled administratively but must be handled legislatively?

Mr. CLIFF. I think that is correct, sir. That is my understanding.

Senator MORSE. On page 2, in paragraph No. 6 of your statement, you point out that Secretary Freeman has just made mandatory certain elements of the appraisal system. Presumably he did this because discretion theretofore vested in the appraisers in the field was not being prudently used. Why should not the Department go the rest of

the way, exercising discretion at the secretarial level and laying down reasonable but mandatory procedures for your field appraisers to follow?

Mr. CLIFF. I think that is a matter that would have to be determined or settled by the Secretary. There is need, I believe, for some discretion on the part of field appraisers in the exercise of judgment. Appraisal is not an exact science, and it does require some professional judgment by the people who are making the appraisals.

As for the general overall procedures, I see no reason why we should not follow them uniformly.

Senator MORSE. I do not know whether I can go along with that or not, because I am told that the Bureau of Land Management uses a mechanical appraisal system that contrasts markedly with the wide latitude of discretion that you give to your field supervisors, and the industry, I judge, prefers the BLM appraising system. Do you think the BLM system works to the disadvantage of the Government?

Mr. CLIFF. I would not say that, Senator. The system differs from the one we are using, and there have been comparisons made by members of the industry as between these two appraisal systems. They are not exactly comparable, because the unit of measurement that is being used on a cruise sale and a log scale sale are two different things. And we are engaged right now in making a study of the BLM procedure and comparing it with the results we get from Forest Service procedures out in Oregon. The two agencies are comparing; the plan is to have each agency appraise the same tract of timber, each one using its method, and see how the final results would compare. I think we need to do this. We are doing it.

Senator MORSE. I do, too.

Would you agree with me that the system used by the BLM permits of less discretion on the part of the appraisers than the system used by the Forest Service?

Mr. CLIFF. As I understand it, it does; yes, sir.

Senator MORSE. And would that not create the possibility, in the views of some, of the danger that the lumbermen might become the victims in some instances of what might be arbitrary discretion on the part of the Forest Service appraisers?

Mr. CLIFF. Well, we try to guard against that possibility. I really do not think they are the victims.

Senator MORSE. What I am seeking to make clear is that I think we have to have a procedure and a policy that keeps the exercise of discretion on the part of technicians minimal.

Going back to the point of view I expressed at the beginning, I am making this a matter of record, Mr. Chairman, because I think it should be in the record for future reference. These lumbermen keep saying to us they do not question the technical expert as opposed to your personnel, the technical expertise of most of your personnel. Their quarrel with your personnel is when they run into policy determinations by technicians. And they believe that these questions of policy in regard to the national forest, because of the many uses that we are seeking to protect and develop, should be above the Forest Service and not by the Forest Service itself, and particularly not by your appraisers, not by your fieldmen who very often seem to the lumbermen, at least, to be the major policymakers and legislative interpreters.

This appears to be one of the public relations problems you have with this industry. You are going to have to face up to it, because this is a growing criticism of the industry, in my judgment. It gets into this matter of appraisals that I just mentioned. So they say to me in conferences: "Look at what happens over here in BLM. We do not run into this difficulty. We do not have to fight somebody over in BLM as we do the Forest Service appraisers."

You have not the slightest idea whether it was a bad breakfast or a bad night before that produced some of the arbitrary appraisals we run into. It is one thing to charge; it is another thing to prove it. Do not think for a moment that just because I get their allegations I accept their conclusions.

I am going to have a general question to ask you later that will put you in my seat. In my seat we have to look at it from the standpoint of constituents who have a right to turn to a Senator as a legislative counsel for an investigation of what they think are wrongs committed against them. You might as well face it. In my judgment, this is one of your hot ones, unless these people just have no facts on which to base their allegations. Any help you give me in answering them factually, if you have the facts, I will appreciate. I am not here to put the Forest Service out of business. I am here to make the Forest Service more efficient than it is in my State at the present time.

Now let us go to this stumpage matter. On page 5 you discuss stumpage supply in relation to the market. And you say the problem is oversupply in relation to demand. Therefore, you say, there is no raw material shortage. You add that a stimulation of national forest timber sales at this time should result in increasing lumber production, which would further depress the industry on prices.

I find this statement to be an amazing verification of the hundreds of complaints we heard in the field respecting the Forest Service. I undersand fully what these people were driving at. They complained that the Forest Service, an arm of the U.S. Government, fastens on our lumber producers costs so high that they are unable to sell their lumber except at prices which bring them loss and return to the Canadians a profit. These mill operators, large or small, want to get these costs down to the point where they do not drain their capital stocks and their profit margin will be restored so they may be able to continue to operate and enable people to sustain communities.

This lumberman says: "We do not accept Mr. Cliff's economics at all. He just ignores the fact that, if we can get more timber up for sale within an allowable cut standard, the bidding would not be so high, the price would not be so great for the lumber mills. We would be able to compete with the Canadian producers in our local market. We are not concerned about the price except in relation to cost."

And so I would like to ask you, do you not agree that in a highly competitive area where prices are bid up, regular sales of the full allowable cut plus a full schedule of salvage sales, plus an intensive program of thinning sales would tend to reduce bid prices in areas where full sales programs are not yet in effect?

Mr. CLIFF. Yes, I agree with that.

Senator MORSE. But because you do not get the supply put up to them, and they simply say they do not accept your contention in your statement that you have come as near to the allowable cut as they have for sale, as you contend; do you disagree that, if we could get the allowable cut up so that more timber is on the market, our mills could compete more effectively with the Canadians?

Mr. CLIFF. I agree that the more timber available for market and put on the market in the Pacific Northwest, that it would reduce the intense competition, and maybe they would not pay as much for timber; yes, sir, I agree. If that set of circumstances prevailed, they would be that much better off in their competitive position with Canada.

However, I might point out that, as I analyzed the Canadian situation, some of the other factors that are confronting industry are much more significant than the difference in stumpage prices.

Senator MORSE. Well, I am a little troubled, Mr. Cliff, with this economic analysis of yours, because that is where the shortage of raw materials becomes important. You seem to give no weight to the fact that what we need is a supply of raw materials that can be purchased and harvested at a cost—and I emphasize the cost—that will allow our mills to compete with Canadians in the United States. All the stumpage in America would do no good if it were priced at $100. The mills could not afford to use it at that cost.

Finally on this point, I should like to know to what extent these economic views that you have stressed in this statement of yours have been reviewed and approved at the departmental level.

Mr. CLIFF. Senator, you have to read the entire statement and not just one statement here.

Senator MORSE. I agree.

Mr. CLIFF. And I did point out later on that, if more timber were available for sale, it would have the effect of reducing the stumpage price for the people in these competitive areas. That has to be recognized in connection with the other statement which you have quoted. This statement was furnished, a copy of it, to the Secretary's office, and was reviewed by them.

Senator MORSE. Do you have reason, therefore, to believe that it was approved by the Secretary?

Mr. CLIFF. There is no indication on the original of the statement of approval or disapproval.

Senator MORSE. Well, of course, that raises a very serious procedural question.

Mr. CLIFF. I assume that it was approved.

Senator MORSE. I assume, Mr. Chairman, that this very interesting procedural point that I——

Mr. CLIFF. Oh, excuse me, Senator, I misspoke myself. As a matter of procedure, we submit these statements of testimony to the Department. It was reviewed and approved by Assistant Secretary Welch.

So I would like, if I may, to clear and correct the record to that extent.

Senator MORSE. It bears on a point, Mr. Chairman, that is so important, I think, with regard to the Forest Service that we need to

know the extent to which at the secretarial level there is a review and approval of policy determinations by the Forest Service. That is why I am sorry Assistant Secretary Welch could not be here this morning. And I am sorry somebody else could not have been sent in his place.

But, be that as it may, I ask this question. I think we need to know whether or not the economics in Mr. Cliff's statement, which you will find objected to be so many in the lumber industry as time goes by, is underwritten by the Secretary of Agriculture.

On page 7, Mr. Cliff, you cite a Forest Service report on the pricing of stumpage in British Columbia. After alluding to a number of factors where the witnesses thought the report was inadequate to support his conclusions, the witness mentioned roads. On Forest Service sales, he said, the operator is required to build roads along the routes and to the very precise specifications fixed in each case by the Forest Service. In British Columbia, he pointed out, how the operator builds the road is entirely up to him. This factor alone, if I understand your contention, could be responsible for substantial differences in the total costs paid by the respective operators—outside of stumpage.

I would like to have you enlarge on that point, because the problem that I have in mind is that, if this is true, then do we not, as a Government, have a responsibility to make a greater contribution to these multiple-use roads that we require these operators to build than we are making at the present time?

I realize that there is some contribution already. But if this is the part of the Canadian advantage, then should be not be making a greater contribution to the cost of these roads?

Mr. CLIFF. Yes. I agree that we should be making a greater contribution to the cost of the roads, not only for multiple-use purposes but for timber management purposes. It would make it possible for us to do many of the things and market the timber that we are not able to do now.

We do, as you have indicated, supplement operator construction when we require a road to a higher standard than is needed for the most economic transport of the timber. A considerable part of our existing road funds is going into supplemental construction for these multiple-use purposes.

One of our great needs, as has been emphasized here before, is a more aggressive, more far-reaching road construction program by the Federal Government. The administration has recognized that in our program for the national forests. We propose in the next 10 years to construct about 79,000 miles of roads at a cost of $1.2 billion. The administration this year is supporting a request for increased authorization for forest development roads for fiscal 1964 of $70 million; and for fiscal 1965 of $85 million, which is a substantial increase over the $40 million currently in effect.

Senator MORSE. Mr. Cliff, you mentioned that the Canadian profit allowances run as much as 50 percent more than yours, is that correct?

Mr. CLIFF. I think that is correct, Senator. The Canadian system, as I understand it, has a valuation factor in the lower range of their

appraisals and also on the upper range with a profit ratio system similar to ours in the middle of the range. Much of their stumpage is appraised at rates for which this differential you mentioned is not effective.

Senator MORSE. Well, I want you to know that on the road matter I could not agree with you more. I have a bill in that would provide for $90 million for 1964 and $120 million for 1965. I had a call this morning from my colleague over on the House side, Congressman Ullman, and he said that the House Public Works Subcommittee has voted to authorize $10 million more for 1963 for a total of $50 million, with provision for $70 million for 1964 as compared with the $90 million my bill provides for, and $85 million for 1965 compared with $120 million, which certainly offers opportunities for negotiation and discussion.

But as I said and as the chairman of the committee has pointed out until you do something about access roads it will be pretty difficult to get nonaccessible timber within your allowable cut figures up for sale.

And that causes me to ask you this question, based upon another complaint of the industry. They go through your allowable cut figures and they allege that a considerable amount of timber is in areas where it is one thing to put it up for allowable cut and it is another thing to put it up for effective harvesting. Even if people buy it, they are going to have to put it in storage for a while, because there is no chance of getting to it; to get to it at the present market price would mean bankruptcy. And yet you put it up for sale, and so they bid it, and they use other timber for their mills and put that in the deep freeze, so to speak.

Now, what have you got to say about the general allegation? That is saying that putting up sales that approaches in some areas the allowable cut does not mean much unless those sales are marketable.

Mr. CLIFF. Well, I think that is true. If the sale is not marketable, it does not contribute to the attainment of the allowable cut, the actual cutting.

The extent to which this is happening, however, I think is probably somewhat overexaggerated. We have made a check on the extensions that we have made in the past year, and it was in the amount of 690 million feet in Oregon out of a total volume that is under contract that is something over 7 billion feet.

There have been instances, I am sure, where sales have been purchased and then held for improvement in the market. We had one case in eastern Oregon several years ago, during the last dip in the market, where one purchaser had a backlog of sales already in his possession and was bidding vigorously on every offering that came up for some reason; as a result of that we changed our extension policy to curtail that sort of activity. I think the building up of a backlog of timber under contract is a desirable thing for most operators. And the amount that operators have varies a great deal. It averages about twice the allowable or about a 2-year cut.

Senator MORSE. I want to get all of the facts you can help me get. We will discuss this matter together later on—this matter of buying nonaccessibe timber that is put up for sale under your allowable cut program, know full well that the purchaser in some instances is not going to market it right away but use his other timber supplies for the operation of his mill.

That has a tendency to give the statistics in your report a more favorable coloring than the operational facts warrant.

Mr. CLIFF. Senator Morse, as a matter of practice and policy, we do not offer timber for sale that we do not consider operable. Earlier today, I indicated that we had actually held sales off the market because the downturn in the market makes them uneconomic.

It is possible that we have sold timber that, as a result of the dip in the market, became uneconomic to operate and the operator has had to seek other timber or to curtail his operation. But as a matter of policy we do not sell timber that we do not figure is operable at the time of the sale.

Senator MORSE. Going back to this matter of roads, do you agree that in British Columbia an operator may build the roads to whatever standards pleases him, and that that makes for lower harvesting costs in contrast to our operators having to maintain pretty high standards on their roads?

Mr. CLIFF. No doubt it does enable the British Columbia operators to move timber more cheaply. They are in more of a pioneering era than we are in this country. We are paying considerable attention now to other uses and the impact of roadbuilding and timber harvesting on other uses. I think we must do this. When we require road standards to minimize the impact on the other uses, we make the allowances in the appraisal to offset the increased costs.

The CHAIRMAN. Off the record.

(Discussion off the record.)

Senator MORSE. I want to go back to this last comment. I think it is right. They are in more of a frontier pioneering era up there. But that is not what sold us, though, on the American lumberman who is about to go broke in his mills. And part of the reason he is about to go broke is that he has to build roads that are uneconomical from his cost standpoint while his competitor in Canada is not subjected to such costs at all.

It raises the policy question that you and I discussed a few moments ago—whether or not this Government is not going to have to work out a program for relieving the American operator in the areas where unemployment is rising, and those where it is connected with costs of building a road, particularly when we know that these roads are being used for recreation and fire prevention and interstate highway connection and, in general, secondary road purposes in a good many of our areas.

Mr. Cliff, on page 5, going back to the economic theory in your statement, you say that selling more timber would only result in more lumber production and lower lumber prices; and on page 7 you say that the volume under contract has greatly increased but much of it is held uncut.

How do you reconcile, then, the statement that more stumpage on the market will glut the lumber market if in fact your statistics show that there is an increasing amount of this stumpage that is held uncut?

Mr. CLIFF. Of course, this price—this supply-and-demand squeeze, would be alleviated if the demand at the end of this equation could be raised, and we surely hope it is.

The CHAIRMAN. You are kind of losing me here. Do I understand that there is no demand for lumber, or that the reason that the demand for the American lumber is lessened is because the Canadians can sell it cheaper?

Senator MORSE. That is the point, Mr. Chairman. They are still getting it in cheaper.

Mr. CLIFF. That is correct.

The CHAIRMAN. The consumer demand is as great but the people will not buy our lumber?

Mr. CLIFF. No, it is my understanding, Mr. Chairman—and I stand corrected if I am wrong—but the total use of lumber in this country has not increased for the last several years. The use has remained about constant or maybe decreased a little. And then when you bring in the increased Canadian imports, the demand for domestically produced lumber has fallen off.

The CHAIRMAN. But if we could sell our lumber at the Canadian price, we would still have the demand, would we not? It may not have increased, but the demand would be here.

Mr. CLIFF. The demand has not increased in the last few years, as I understand——

The CHAIRMAN. So that if you sold lumber at a lower price that would meet the Canadian competition, our lumber people could still sell it, could they not?

Mr. CLIFF. We could recapture part of the market that we lost.

Senator MORSE. Mr. Chairman, that is the kernel of the problem that confronts us here. Here we have the Canadian imports increasing, we have the demand going down, the Canadians underselling us; and all we are asking is equality of competition with the Canadians. That is why we are talking about roads, quotas, and the Jones Act. That is why we are talking about each one of these proposals. That is why we think the time has come for the administration to give us an answer. We will have to decide legislatively, if we do not like the answer.

The CHAIRMAN. I just want to pursue that. Would you determine not to sell a certain block of timber because the operator could not market it?

Mr. CLIFF. No.

The CHAIRMAN. Suppose Canada was not there at all. You would sell this timber, would you not?

Mr. CLIFF. We would not offer it if it were uneconomic.

What I said is if the timber was not operable, we would not offer it. It has to be within the realm of operable.

The CHAIRMAN. I know, but it becomes uneconomic. So if the sources of supply remain high, it is always going to be inoperable to him. The point I make is that if you sell the timber to him cheaply enough so that he can compete, he would have a demand for a great portion of it, would he not?

Mr. CLIFF. That is what I understand.

The CHAIRMAN. Yes. Because that would be saying, in effect: Well, if the Canadians have got this market and it is not operable to you, we are not going to sell anything. So we are all tied up in three places and nothing happens. This would be one place where you could break it loose and give him a chance, a better chance, let us say, in his own American market.

Surely it is going to be inoperable for almost everybody if this keeps up. And you would say according to this line of reasoning, we are not going to sell anything because we cannot sell it on the American market. The Canadians have got it.

Mr. CLIFF. Well, our purpose is to sell the full allowable cut in every working circle, regardless of this economic theory.

The CHAIRMAN. If that price is so high that he cannot compete in an American market, would it not be your responsibility to see that the price got so that he could? The Government is not gaining anything by getting a little higher price.

Mr. CLIFF. No, I agree with you.

The CHAIRMAN. I do not think the Treasury gains anything by that. But if higher prices cause the mill not to be able to compete in his own market, we are all out, including the Forest Service and the Government.

I do not know whether my reasoning is wrong, but that is the way it looks to me.

Senator MORSE. Mr. Cliff, on this scaling and roadbuilding problem, which ties to the pine area, I have a letter and some material sent to me by the Western Pine Association. It comes from the Leonard Lundgren Co. I am not going to make it a part of the record; I am going to deliver it to you to have someone down in your Service go over this material and give me a memorandum that I can use in answer to it.

Mr. Cliff, are your management plans for public timber lands open to public scrutiny at all stages of their development or only after approval by the head of the Forest Service?

Mr. CLIFF. They are open for scrutiny at all stages of development. The thing that raises that question is an example out in the Pacific Northwest where timber management planning data was withheld, pending approval of a recommendation to the Washington office. As soon as we heard about it, we corrected it and told them to release the information.

Senator MORSE. Fine. That is why I raised it, because I wanted to give you a chance to answer this criticism. It is a revealing one made to me, and apparently some personalities and some feelings

were involved. They claim that they were denied access to these plans by your regional office.

Mr. CLIFF. We recognize——

Senator MORSE. They said they wanted to see them, because they might want to be critical of them. And they were told they were not going to let people in to look over their plans and their data if they were going to come in in a critical spirit.

Well, I know you do not share that view.

Mr. CLIFF. That is correct, Senator. We recognize we are operating in a glasshouse and this is public information and must be available.

The only information that we do withhold is information which is either classified, which does ont apply to timber management plan situations, or information that is obtained in confidence. That is essentially, under the Department policies, the only kind of information that is withheld from public scrutiny.

Senator MORSE. I have two things to say. No. 1, I want to commend you for getting that situation clarified with your subordinates in the Pacific Northwest area. They must take a good long look each time to make certain they are not going to put the label "Obtained in confidence" on material that in fact is not confidential. I say that to you because I am so accustomed, as a member of the Foreign Relations Committee, to the State Department putting a label "Top secret" on something that in fact the Russians know about anyway, and there is nothing secret about it. But that is an administrative problem, and this is not the place for us to discuss it.

I would not want them to use as their out, their administrative out, a refusal to allow persons to see data that you take into account in determining your management plans on the ground that it is confidential, unless it in fact is material which you would recognize as confidential. Just to have something marked "Confidential" should not necessarily make it confidential for administrative purposes. This is particularly true if you are going to use it for the public purpose of influencing a management plan, that is going to affect the interests and rights of people who are not in on the conference, because they have vested rights too.

Mr. CLIFF. We are in full agreement on that, Senator.

Senator MORSE. On page 9 you have a table showing allowable cuts by States. Could you, for each working circle, furnish us with a statement of the year in which you completed the fieldwork on the inventory on which the management plan is based and the year in which the management plan was approved by the Chief?

Mr. CLIFF. Yes, sir.

(The requested information follows:)

Current and scheduled inventory and plan preparation on 42 national forests

State, region, and forest	Working circle [1]	Year of inventory completion	Date plan approved [2] by Chief, or to be submitted
OREGON			
Region R-6:			
Deschutes		1962	1963.
Fremont		1962	1963.
Malheur		1959	Jan. 18, 1962.
Mount Hood		1961	1962.
Ochoco		1962	1963.
Rogue River		1959	1962.
Siskiyou		1959	1962.
Siuslaw		1956	July 10, 1961.
Umatilla		1958	1962.
Umpqua		1958	Dec. 5, 1961.
Wallowa-Whitman		1957	1962.
Willamette		1962	1963.
Winema		1959	June 20, 1961.
WASHINGTON			
Region R-6:			
Gifford Pinchot		1961	1962.
Mount Baker		1957	1963.
Okanogan		1959	Jan. 26, 1962.
Olympic	Quilcene	1954	Apr. 4, 1955.
	Quinault	1953	Dec. 17, 1954.
	Shelton	1955	1956.
	Soleduck	1957	May 2, 1958.
Snoqualmie	Cedar River	1957	1963.
	Green River	1957	
	Mineral	1953	
	Naches-Tieton	1954	
	Skykomish	1955	
	Snoqualmie	1957	
	White River	1957	
Wenatchee	Chelan	1958	1962.
	Ellensburg	1955	
	Entiat	1957	
	Wenatchee	1953	
Region R-1: Colville		1956	Mar. 17. 1959.
MONTANA			
Region R-1:			
Flathead	Coram	1960	Sep. 10, 1961.
	Glacier View	1957	June 15, 1959.
	Kalispell	1958	Apr. 21,1960.
	Swan	1959	Mar. 13, 1961.
Kootenai	Kootenai	1957	Apr. 26, 1960.
Lolo	Missoula	1957	July 10, 1959.
	Powell (in Idaho)	1958	Apr. 26, 1960.
	Thompson River	1960	Oct. 3, 1961.
IDAHO			
Region R-1:			
Clearwater	North Fork	1958	Mar. 29, 1960.
	Pierce-Lochsa	1957	Jan. 25, 1960.
Coeur d'Alene	Coeur d'Alene	1956	July 1, 1958.
	Mineral (in Montana)	1960	Apr. 4, 1961.
Kaniksu	Cabinet	1959	Jan. 31, 1961.
	Kaniksu	1953	June 19 1958.
	Newport	1957	June 19, 1959.
Nez Perce	Nez Perce	1957	Jan. 21, 1959.
St. Joe	St. Joe	1960	Dec. 20, 1961.
Region R-4:			
Boise	Boise	1952	Dec. 14, 1956
Payette	Payette	1953	Jan. 6, 1960.

Current and scheduled inventory and plan preparation on 42 national forests— Continued

State, region, and forest	Working circle [1]	Year of inventory completion	Date plan approved [2] by Chief, or to be submitted
CALIFORNIA			
Region R-5:			
Eldorado	Amador	1959	1962.
	Cosumnes	1959	June 20, 1962.
	Georgetown	1957	June 13, 1960.
	Pacific	1958	July 12, 1961.
	Placerville	1959	Do.
Klamath	Goosenest	1958	Dec. 22, 1960.
	Happy Camp	1961	1962.
	Salmon River	1953	Dec. 22, 1960.
	Seiad	1949	Do.
	Scott River	1959	June 23, 1961.
	Yreka	1957	Dec. 22, 1960.
Lassen	Almanor	1958	Mar. 15, 1962.
	Eastern Lassen	1955	Aug. 10, 1960.
	Hat Creek	1957	June 20, 1961.
	Pit	1961	June 20, 1962.
	Western Lassen	1961	Do.
Mendocino	Alder Springs	1960	July 11, 1961.
	Clear Lake-Sanhedrin	1958	June 13, 1960.
	Eel River	1952	Do.
	Stony Creek	1959	July 1, 1960.
	Thomas Creek	1947	Apr. 11, 1951.
Modoc	Alturas	1955	July 14, 1959.
	Big Valley	1955	Do.
	East Warners	1955	Jan. 25, 1960.
	Lavas	1955	Mar. 5, 1960.
Plumas	American Valley	1958	Aug. 15, 1960.
	Eastern Plumas	1954	Sept. 27, 1957.
	Indian Valley	1957	Jan. 25, 1962.
	Western Plumas	1960	Oct. 20, 1961.
Sequoia	Cannell Meadow	1957	Aug. 5, 1959.
	Greenhorn	1956	Oct. 18, 1961.
	Kern West	1957	Do.
	Kings River	1959	Do.
Shasta-Trinity	Big Bar	1961	1962.
	Harrison Gulch	1958	Aug. 5, 1959.
	Hayfork	1958	Jan. 25, 1962.
	McCloud	1960	May 16, 1962.
	Sacramento	1960	1962.
	Shasta Lake	1957	July 1, 1960.
	Upper South Fork	1950	Aug. 5, 1959.
	Upper Trinity	1960	Dec. 22, 1960.
Sierra	Chiquito	1957	Nov. 4, 1960.
	Mariposa	1957	Do.
	North Kings River	1958	Mar. 15, 1962.
	South San Joaquin	1958	June 23, 1961.
	Willow Creek	1958	Mar. 29, 1961.
Six Rivers	Del Norte	1959	Sept. 11, 1961.
	Humboldt	1960	June 20, 1962.
	Mad River	1953	July 13, 1959.
Stanislaus	Calaveras	1959	July 12, 1961.
	Groveland	1957	Aug. 6, 1959.
	Stanislaus	1958	July 12, 1961.
	Tuolumne	1957	Oct. 31, 1960.
Tahoe	Auburn	1957	June 13, 1960.
	Bear Valley	1958	May 23, 1961.
	North Yuba	1957	Nov. 4, 1960.
	Sagehen	1960	Jan. 3, 1962.

[1] Entire forest unless otherwise indicated.
[2] Where the year only is shown work is on a schedule which will permit completion within the calendar year stated. These areas are under older plans, mostly with interim cuts above the planned allowable rates.

Senator MORSE. In this case Secretary Carver testified that any data collected by BLM with respect to the forests it administers are readily available to the public both before and after the management plan is approved. This bears upon the discussion we have just had, and it is my understanding that the policy you have stated conforms with the policy of the BLM?

Mr. CLIFF. That is correct.

Senator MORSE. On page 12 of your prepared statement you state that allowable cuts will soon be pretty well stabilized except as utilization and management are intensified. Bearing in mind the Tillamook project mentioned by Secretary Carver, could you tell me what more intensive management steps the Forest Service is contemplating and the timetable you have worked out for this purpose?

And you can do it by way of memorandum, if you do not want to cover it in testimony.

Mr. CLIFF. We will be glad to do it by memorandum.

But a good case in point is the need for planting up the land that has been denuded by fires or requires regeneration after logging. One good way, one sound way of increasing allowable cuts is to get all of the commercial timberlands in the working circle or the national forest into production. Another one is to practice more intensive management, more intensive silviculture as the economics of the situation will permit. We can thereby increase the growth and increase the allowable cuts. It is in these two directions that I think we can look for some real substantial possibilities for increases in allowable cuts.

We do have in our 10-year program for the national forests proposals for stepping up very materially both the tree planting and the other management work on the national forests which will have a beneficial effect in making it possible to increase these allowable cuts. I can give it to you in more detail, if you would like.

Senator MORSE. If counsel goes through the record and needs some more material on that, Mr. Counsel, will you call Mr. Cliff?

On page 3 of your statement, Mr. Cliff, you have mentioned the fact that in the 42 forests under discussion in fiscal 1962 you have sold more material than the allowable cut. How much of this overage is the result of making up deficiencies from past years?

Mr. CLIFF. Well, I think all of it is, Senator.

Senator MORSE. How much of this overage is attributable to thinnings? I know that thinning sales cannot be made in areas where roads are not in place, but there are many forest areas where there are roads in place, and I was wondering how much of this represented thinnings.

Mr. CLIFF. Virtually none, Senator.

Senator MORSE. How much of the average is attributed to salvage?

Mr. CLIFF. Well, there has been a considerable amount of it—we have been putting emphasis on the salvage sales. On small salvage sales I do not have in mind the exact amount. It would be included in this four-hundred-and-some-odd-million feet that is over the allowable cut.

Mr. Mason ventured a guess that it would be in the neighborhood, in these areas we are talking about, around 500 million feet of salvage material.

Senator MORSE. I had some experience, as you know, with the Department in regard to speeding up an increase in the salvage sales in the areas where there is a large surplus of labor. In one of the areas in Oregon we did this a couple years ago with some hesitancy at first on the part of the Forest Service. But they tried it, and my understanding is that it worked out satisfactorily. I think you ought to take a look and see to what extent you can speed up salvage sales in areas where mills sorely need some logs because of surplus labor.

I have been furnished with figures that were said to come from your records showing salvage for certain national forests in eastern Washington and Oregon, for the 3-year period, 1959–61: Ochoco National Forest, 4.51 percent; Malheur, 0.0036 percent, practically none; Wallowa-Whitman, 2.65 percent; Wenatchee, 0.0058 percent; Deschutes, 6.17 percent; Okanogan National Forest, 10.48 percent; Umatilla National Forest, 1.43 percent.

I will supply you with these figures so you can doublecheck them. What I would like to have for the record is an explanation from you as to why this wide fluctuation in the figures; why do some of the forests seem to be doing so much poorer with salvage than other forests, or is it a case that there just does not exist the salvage in some forests?

The CHAIRMAN. Well, up in the Okanogan I remember a couple years ago everybody was crying for salvage. They were willing to go in and do some salvage, and the Forest Service personnel ruled against it; that is, he recommended against it.

I do not remember all the details, but I remember this happened on the Okanogan. I think subsequently the situation was changed somewhat, and they did get into some salvage, but there was a delay there for some time.

Mr. CLIFF. We took corrective measures, Senator.

The CHAIRMAN. Yes. And I think they have taken advantage of it. And there are two or three small mills operating there now.

Mr. CLIFF. We will be glad to furnish that for the record, Senator Morse.

(The information requested follows:)

The figures on ratio of salvage to total cut for seven national forests in eastern Oregon and Washington evidently were developed from tables appearing in the "Progress of Timber Management" annual reports issued by the regional office at Portland. In those reports volume considered as not chargeable against allowable cut is indicated. Those who furnished the information evidently assumed that nonchargeable and salvage cut are identical. This is not correct. Nonchargeable items include material not included in the inventory base for allowable cut calculations such as lodgepole pine type, material taken from areas reserved for roadside strips, streamside strips, and summer home tracts. Any material cut as thinning is also nonchargeable.

The apparent indicated variability of activity among the seven national forests is due in part to the wide variety of material which can be nonchargeable. Variation is also caused by lack of uniformity among reporting forests in segregating nonchargeable items. Heretofore the use made of information on nonchargeable amounts cut has not been considered sufficient to justify care in thorough and uniform segregation and special accounting of this type of material. Provision will be made for such accounting in annual reports made hereafter.

Senator MORSE. I would also like to file with you—these are in explanation for the record—some correspondence with the forest supervisor of the Okanogan National Forest. It disturbs me a bit with regard to changes in management plans.

For example, January 19, 1961; this is the comment of Walter H. Lund, Chief, Division of Timber Management:

This is to confirm our conversation in this office on January 18 relative to allowable cut for the Okanogan Working Circle during calendar year 1961.

You should plan to use 70 million for the combined ponderosa pine and associated species types. In addition you have an authorized annual cut of 36,000 cords in lodgepole pine types.

Do not give publicity to this decision. Rather, you can advise interested persons that you are working on the management plan and until the plan is completed and approved you are using the above figures for planning purposes this year.

Let us know as soon as possible whether or not you can put on a man full time to do the management planning job so we can make the necessary allotments this fiscal year.

And then on February 26, 1960, we have correspondence from the Forest Service supervisor:

Your 5-year action plan has been reviewed in this office. Our only comment is that your forest summary sheet is broken down to ponderosa pine and other species. If you wish to continue this detailed breakdown you may. However, we do not at this time require it.

The plan is approved. It appears to be well prepared.

Your new inventory indicates a volume of 7.3 billion board-feet in ponderosa pine and associated species types. When a new allowable cut is computed, it will probably be in excess of 70 million board-feet. Therefore, you should start to expand your sales program during calendar year 1960.

That was February 26, 1960, when the plan was approved. Yet, on January 19, 1961, we got these other instructions. When you have this kind of conflicting correspondence, you just create trouble for the Forest Service and irritation for the industry.

I have another letter on this matter, February 28, 1958, which I will put in the record, but I want you to have this and go over it with me, because it is this kind of exercise of discretion out in the field which, if it becomes known by the industry, creates a lot of irritation. You ought to know about that kind of correspondence. If anything can be said in explanation of it, I would like to have it.

The CHAIRMAN. Without objection, they will be inserted in the record.

(The letters referred to follow:)

JANUARY 19, 1961.

To: Forest Supervisor, Okanogan N.F.
From: Walter H. Lund, Chief, Division of Timber Management
Subject: Plans

This is to confirm our conversation in this office on January 18 relative to allowable cut for the Okanogan W.C. during C.Y. 1961.

You should plan to use 70 million for the combined ponderosa pine and associated species types. In addition you have an authorized annual cut of 36,000 cords in lodgepole pine types.

Do not give publicity to this decision. Rather, you can advise interested persons that you are working on the management plan and until the plan is completed and approved you are using the above figures for planning purposes this year.

Let us know as soon as possible whether or not you can put on a man full time to do the management planning job so we can make the necessary allotments this fiscal year.

To: Forest Supervisor, Okanogan N.F.
From: Walter H. Lund, Chief, Division of Timber Management, by
Subject: Reports (5-year-action plans)

Your 5-year-action plan has been reviewed in this office. Our only comment is that your Forest Summary sheet is broken down to ponderosa pine and other species. If you wish to continue this detailed breakdown you may. However, we do not at this time require it.

The plan is approved. It appears to be well prepared.

Your new inventory indicates a volume of 7.3 billion board-feet in ponderosa pine and associated species types. When a new allowable cut is computed, it will probably be in excess of 70 million board-feet. Therefore, you should start to expand your sales program during calendar year 1960.

H. C. HIATT.

FOREST SERVICE,
Washington, D.C., February 28, 1958.

The Record
L. S. Gross, Forester
S–PLANS, Timber management, Snoqualmie, mineral working circle

I have reviewed the management plan for the mineral working circle, Snoqualmie National Forest, submitted by region 6 with memorandum of February 12, 1958.

This plan should be a satisfactory guide for management of the working circle during the current decade. The plan is concerned with the management of 3.3 billion feet of timber on some 68,000 acres of commercial forest land. The ownership, and hence access, situation is complicated. The authors have done a good job of recording the conditions as they now exist on the working circle and in prescribing solutions to the various problems.

I am glad to note that the plan discusses the need for and the small start which has been made in intermediate cutting. The predictions of productivity of the working circle by the year 2000 are evidence of the type of thought currently being given in the region to advance planning.

The area-volume check (p–7, appendix) shows that on the basis of the calculated allowable cut of 30 million feet annually the liquidation period for the mature stands is 77 years. This is a long time to plan on operations in these high volume and high value stands. Future revisions may well consider the desirability of much more rapid operations. This problem was discussed at the January allowable cut meeting in Portland. For this particular circle, the data now available indicate that the 77-year period is necessary to support an even flow of timber at the annual rate of 30 million feet for a 130-year rotation. The area volume check also shows that the stands now less than R years will be carried from 25 to 80 years beyond R before being harvested. When the plan is next revised serious consideration should be given to the effects of possible reduction of the liquidation period for mature timber in the interest of capturing maximum values for this timber and reducing or eliminating the number of years that second growth stands will be held past rotation. This could involve planning on considerable yield from intermediate cuts in the present second growth stands and during the second rotation. It might involve some harvest cuts at less than rotation age. The advantages of such procedure should be weighed against disadvantages before a decision is reached. Let me make it clear that I am not advocating this recalculation now. I feel that it would be very appropriate at the time of the next revision of this plan. By that time it is hoped that most of the access problems will be resolved and it is assumed that considerable more information will be available upon the subject of intermediate cutting and on changes which may occur in the thrift of the large volume of reserve timber on the working circle.

On page 19 there is a discussion of timber stand improvement. We ordinarily reserve this term for noncommercial operations. It would be better to use intermediate cutting as more descriptive of the type of operations under discussion here.

The acting regional forester failed to sign this plan, indicating approval. I am sure that this was an oversight and I have shown approval by Walter H. Lund on our copy of the plan. I suggest that the original be signed after it is returned to the region.

I recommend approval of the plan.

Senator MORSE. I would like to know why in January 1961 there should be concealed from the industry the fact that the plan had been approved February 28, 1960, and that it should be told that they were still working on plans when, in fact, it had been approved. We do not have to have many incidents such as that to result in a lack of confidence in the Forest Service by the industry.

You can file with the committee anything you want to after you look into it and find out what the facts are, if you are not familiar with them now.

(The information requested follows:)

In February of 1955 a formal management plan for the Okanogan was prepared. It was approved by Mr. Cliff as Acting Chief on October 28, 1955. It provided a cut of 47.5 million board feet. For the 5-year period ending December 31, 1959, the full allowable cut on the Okanogan Forest was harvested and scaled. A reinventory of the Okanogan timber resource was begun in May 1957 and finished in September 1959. By January 1, 1960, the Okanogan inventory was compiled ready for analysis and subsequent development of a management plan.

The region's memorandum of February 26, 1960, is a review of a 5-year action plan for timber sales. (Established procedure is to prepare such a plan each year for each national forest in Oregon and Washington.) The last paragraph of that memorandum shows that the regional office was starting action to get an increased sale program underway in accordance with the indications of the newly computed inventory which became available in the preceding month.

During 1960 the region obtained the Chief's authorization to establish an interim cut of 70 million board feet annually on the Okanogan Forest.

The region's memorandum of January 19, 1961, formally notified the forest supervisor of this 70-million-board-foot allowable cut for calendar year 1961.

The instructions to give the matter no publicity were intended to apply to a press release or general public announcement. The supervisor was authorized to advise interested parties and in fact he did so.

The motivation in our Portland office in instructing the supervisor to give no publicity to the interim cut for 1961 is not clear. We feel this instruction was unfortunate and are so advising our Portland office for guidance in handling interim cut actions in the future.

Mr. CLIFF. I am not familiar with the facts in this case, Senator; I just have a note to the effect that the allowable cut now established for this plan was 90 million board feet.

Senator MORSE. You ought to come to grips with this body of complaint in the industry about measuring the lumber that is purchased. If you get yourself in a position where the lumbermen feel that it is a take it or leave it attitude, that there is no room here for working out a scaling program that has the confidence of both, then I think friction is going to mount.

I cannot stress too much, Mr. Chairman, that we ought to insist that some very careful consideration be given to this scaling problem. I think there is great dissatisfaction over the Forest Service policies in this regard. There are problems, and Mr. Cliff can work them out. In fact, I want you to know that I have more confidence in you, Mr. Cliff, than some of this examination may indicate, because I am talking about the Forest Service itself and not about a man by the name of Cliff. On the other hand, I have to raise these problems.

I think, Mr. Chairman, that I will now give Mr. Cliff my final question and I am through. I am going to put you in my seat in the Senate.

With your knowledge of forestry, I am going to ask you to tell me what some of your recommendations would be for handling the prob-

lem of Canadian competition if you were a Senator. What position would you take on some of these? What would you propose? What recommendation would you make?

That is not an unfair question, because you have been living with this for days. It is easy to sit on there as the head of the Forest Service and defend, as you have responsibility to, present the Forest Service position. But I sit here as legislative counsel for the people of the country, through my State, and for the economic interests of my State. There is no question that we all agree we have a serious Canadian competition problem that is doing great damage to the lumber industry. You, yourself, testified that the lumber industry is not too healthy right now.

These lumbermen say one of their main reasons is that we are being bled by Canada. And in order to stop the bleeding, you have got to stop them continuing to shoot into our body. What would you do?

The CHAIRMAN. Well, Mr. Cliff, before you answer that question, I was going to close the hearing, and I had this written down to ask you. You might answer both the Senator from Oregon and me, and I think this is really what is troubling us and the committee and all our colleagues from the West. That is, what are you going to do now to help this industry and what would you like to receive for the Forest Service, not necessarily in justification of past performances but a series of specific, remedial steps that will answer the many issues raised in this hearing?

Some of the practices have been somewhat spotty in several particulars, and all of these items are in the record. I would like to be able to add to the record the changes that the Forest Service would adopt or contemplate adopting to meet these problems. And I think that is the same question the Senator from Oregon asked you.

Senator MORSE. The same thing.

The CHAIRMAN. We would like a summary of it.

I must say that there are some things that you are working on and some things that you have done since we started the hearings and since you have been Chief, and we are appreciative of them.

Mr. CLIFF. Mr. Chairman and Senator Morse, I think the questions are not exactly the same.

If I were a member of this Senate, I would certainly be concerned about the Canadian import problem and the impact that it is having on the timber industry. But as Chief of the Forest Service I do not know that it would be proper for me to comment on the foreign exchange problems and the tariff problems and the Jones Act problems for which I do not have responsibility; other departments are responsible. I have some knowledge of these problems, but I do not claim to be knowledgeable, completely knowledgeable about them.

As for the Forest Service, I think I would do just what you are doing and ask that we do everything we can to improve our program to make timber available at reasonable prices, to make the allowable cut fully available on an orderly basis. On this we intend to do our best.

This in turn should help relieve some of the competitive bidding situations, although it is not going to be a cure-all for the problems of the entire industry when the Forest Service, while it is a major supplier is not supplying the bulk of the stumpage for the lumber industry of this Nation. It will help in the local situations, and we want to help.

One of the things that would be most helpful—and we appreciate your interest and your help on it—is to get moving faster on this road program so we can market timber in a more orderly way and market more of it, and we will get away from some of the problems of low conversion and low value stumpage.

We appreciate your interest and your support in this program. It has been splendid as far as I am concerned, and I hope that we can get moving on it. We plan to continue the things that I enumerated Friday in the presentation of my statement.

We are willing to meet with the industry on questions of revising the timber sales contracts and the other matters which were covered in the Secretary's letter. We want to improve our performance. We plan to assemble a working group of the most competent foresters we can get to review with the Forest Service technicians who are regularly assigned to management planning, and review the Forest Service methods of allowable cut calculations to them and ask them to help review them and offer their advice as to whether they are sound or how they can be improved.

We are preparing instructions for a quarterly performance review by field units to compare results achieved in timber sale actions in comparison with planned sales programs. Such reviews have not heretofore been systematized on a quarterly basis.

We plan on publishing our performance as requested by the National Lumber Manufacturers Association. I think we can improve our performance. I think we have been improving it, and I intend to bolster up the weak spots.

I think we can make the greatest contribution by making our full allowable cuts available in an orderly way and in a way that the many segments of the industry have a reasonable opportunity to bid on them.

We have instructed our regional foresters to make use of experienced timber sale administrators as trouble shooters to review on the ground sale administration matters over which operators and sales officers disagree. We are now using qualified members at headquarters staff for this purpose, and will formalize and intensify this effort to see if we cannot settle more of these disputes at the ground level. These men will also make a continuing review of the application of road standards.

As I mentioned before, the Secretary has already indicated a willingness to review and have detailed discussions of the timber sales contract with representatives of industry. We plan on doing this.

And I just want to say, in closing, that I feel I have a very heavy responsibility in handling this timber management activity. We think it is a prime activity and a very important one, not only from the standpoint of getting good resource management, but also from the standpoint of making a substantial economic contribution.

I also feel very keenly my responsibility for handling other resources which have both social and economic implications. This is not an easy job to blend all of these activities together in the way that everybody is pleased with the thing. I am sure you will agree with that. And we want to improve our relationships with industry.

I sincerely mean that. I want to do it in a way that we can defend our actions from the standpoint of defending or protecting the public interests in all of these matters, too. We cannot do it on any other basis.

And I appreciate your interest and concern in this whole problem, and I assure you we want to try to work out of these difficulties.

The CHAIRMAN. Now, Mr. Cliff, I think your statement is a good step forward. I think one thing you ought to do is to be more flexible and do not hesitate to transfer funds to timber sales to meet these goals. I think you are going to need to do that occasionally if you are to meet them. And you have the authority, of course, to transfer about 5 percent, do you not?

Mr. CLIFF. Yes; we have some flexibility in transferring funds.

The CHAIRMAN. I think you ought to, when you see that the program needs that transfer; you ought to do it.

And I just want to close with this.

It seems to me that a big block of timber is only worth what you can market it for. And if the cost is $50 and we cannot sell it to our own market because it is $50, and you say because it is not marketable, therefore we are not going to sell it. It seems to me then we all get in a bind. But if you can meet competition if the timber is sold for $42 or $40, you must consider it; because the Treasury in the long run——

Senator MORSE. May I interrupt? I am already late to a higher education conference.

The CHAIRMAN. I thought this was higher education all day.

Senator MORSE. I want to thank Mr. Cliff for the objectivity with which he answered my questions. And I repeat again, it is my responsibility to do what I can to get the facts into the record, and that is what I sought to do.

The CHAIRMAN. Thank you, Mr. Cliff. Thank you, gentlemen.

Mr. E. N. Altman has sent over a statement. We will put the statement in the record in full.

Do you want to come up and highlight your testimony here, and I will listen to it?

Mr. Altman is here representing the American Maritime Association.

We will put your statement in the record, Ed, in full, and then you can highlight it.

Mr. ALTMAN. Fine.

The CHAIRMAN. Go right ahead.

STATEMENT OF E. N. ALTMAN, EXECUTIVE VICE PRESIDENT, AMERICAN MARITIME ASSOCIATION, WASHINGTON, D.C.

Mr. ALTMAN. I am appearing today in behalf of the American Maritime Association, of which I am executive vice president.

(The full text of the prepared statement of Mr. Altman follows:)

My name is Edwin N. Altman and I am executive vice president of the American Martime Association. We are a maritime trade association representing 118 American shipping companies who collectively operate more than 400 American-flag ships in the American merchant marine.

We appear to testify today with respect to the problems of the softwood lumber industry insofar as they affect the maritime industry. The problem of foreign competition which presently harasses the lumber industry is one that we in maritime are familiar with. Competition by foreign ships has been such as to relegate the American merchant marine to the position of a fourth-rate fleet on the world scene. We can appreciate that foreign competition in the lumber industry has caused financial loss to lumber interests, unemployment

among employees of the industry, and, additionally, has added to the outflow of gold, thereby contributing to our national financial problem.

We think this hearing with respect to the problems of that industry is a healthy development. We hope that it will not only assist in solving the problems of the softwood lumber industry but that it also may ultimately aid other industries, such as our own, who are involved in that problem.

While it is an acknowledged fact that the operation of American ships is generally more expensive than that of foreign-flag vessels, we do not subscribe to the theory that the adjustment of transportation costs of lumber by water will, in and of itself, solve the competitive problem of the softwood lumber industry in the Pacific Northwest.

The problems of stumpage costs, cost of production, and the exchange rate on the Canadian dollar are only part of other cost factors that contribute to this problem. The cost of shipment by rail with which water carriers must remain competitive is an equal if not greater cost problem than the cost of water transportation.

As an example, in the export field, where the use of foreign-flag or American-flag vessels is permissible, we find that the American lumber producers have, during a 10-year period, lost substantial ground to Canadian competition. This certainly points the finger to areas of problem completely disconnected from the maritime industry.

The production figures of interior (inland) mills in both the United States and Canada indicate that their production has doubled within the 10-year period of 1951 to 1960, while the production figures for the Pacific Northwest have remained rather consistent during the same period of time as has the Canadian production in British Columbia. For the 10-year period between 1951 and 1960 approximately 10 percent of the Pacific Northwest softwood production has been moved by water; all other production has moved by some other form of transportation. It is hardly possible that the welfare of the softwood lumber industry in the Pacific Northwest is totally dependent on this 10 percent of production. Equally so, it seems unfair to place onerous burdens, which may well be the proverbial last straw, on the back of the maritime industry in order to protect this 10 percent of softwood lumber production, which in and of itself does not mean life or death to the softwood lumber industry in the Pacific Northwest.

The onerous burdens which I speak of are contained in certain pending legislation. I refer particularly to S. 3105. Referring to table No. 1 (attached), it will be noted that in the intercoastal trade on December 31, 1939, there were 145 freight ships in operation. On December 31, 1961, there were only 24. most of which carry lumber in varying amounts. These vessels carry other commerce westbound and carry full or part loads of lumber eastbound at non-compensatory rates. Passage of S. 3105 would permit the introduction of foreign-flag vessels to this intercoastal trade, which would mean the complete elimination of this remnant of our intercoastal trade from any future service under the American flag. We cannot quarrel with the fact that cost of operation of American ships is greater than that of foreign-flag vessels. We can quarrel with the concept which will eliminate this vital fleet when its elimination is based on an unsound premise that will not revitalize the lumber industry but which will contribute to the elimination of an important defense device.

Repeated assertions by the Department of Defense, the National Academy of Sciences, and other study groups have outlined the need for the availability of a domestic merchant fleet in time of war or nuclear attack. It has repeatedly been stated that American ships, manned by American crews, may be the only means of maintaining supply lines, providing for movement of civilian population and transportation of defense equipment if and when our means of transportation by land should be damaged or eliminated.

Since our domestic fleet is privately operated and presently receives no Government assistance, it can only be maintained so long as it is economically feasible for private enterprise to continue to operate American ships. While most of these ships are approaching obsolescence, they are nevertheless available and in service. Their loss or elimination would strike a staggering blow at our internal defense posture. It seems to us the question involved with S. 3105 is much broader than the mere protection of a few percentage points of lumber industry production when it is weighed against the damage to be done to the maritime industry and the loss of the protection to our population if these American ships should cease to operate.

I am certain that the proponent of S. 3105 had only intended to lend assistance against foreign competition to the lumber industry. However, the bill, as worded, would enable foreign ships to traffic between American ports without restriction, carrying any cargo available. The losses in revenues to American maritime industry and the loss of employment to American seamen would be substantial. The additional outflow of gold necessary to pay for such transportation in American dollars would add problems to our already unhappy balance-of-payments situation, and the basic benefits to our population at large would be nil. The American Maritime Association vehemently opposes the passage of S. 3105 since we believe that its contribution to the solution of the softwood lumber industry problem would be minor, while the damage to the maritime industry and our internal defense posture would be catastrophic.

There has been proposed another piece of prospective legislation—S. 2737. This bill, designed to encourage the use of American shipping by domestic industries, proposes that certain subsidy funds be made available to the domestic shipping industry. Such subsidy funds would be paid to ship operators when the cost of transportation of domestically produced products was such as to place the producer of such products at a competitive disadvantage with foreign producers transporting similar products for sale in the United States by foreign vessel. While superficially this may seem to be a windfall to the domestic maritime industry, such is not the case. The proposed subsidy assistance would be available in limited cases where basic industries had successfully requested this assistance from the Secretary of Commerce. There would be no increase in the rates paid to the ship operators, the only difference being that part of such rates would be paid from Government subsidy funds rather than from funds of the shipper. The steamship operators who would receive no increased revenue would have been burdened with increased overhead since the receiving of Government funds on a subsidy basis requires a much different form of accounting, handling of books, preparation of reports, etc.

It is a fact that present rates for the carrying of lumber intercoastally are noncompensatory to the steamship operator. In many cases it is stop-loss cargo which means simply that it is better to run a ship west coast to east coast with lumber in it rather than to make this return voyage with no cargo. The additional costs of administering some form of partial subsidy under present rates would simply compound this situation.

Additionally, it would complicate the problem of effectively doing something to assist our domestic maritime industry, which assistance is long overdue. The facts establishing the decline of the American domestic merchant fleet are well known. Revitalization of this segment of the maritime industry is urgently needed. The average age of vessels in the coastwise, intercoastal, and noncontiguous trades is in excess of 16 years. Rates in all areas are noncompensatory to the extent that no segment of this industry can look forward to the replacement of its obsolete vessels in the immediate future.

Newer, faster, and larger vessels embracing the most up-to-date technological features for the movement and handling of cargo can supply relief to both shippers and ship operators. Unfortunately, however, there is nothing in S. 2737 to indicate that assistance to accomplish this sort of revitalization is in prospect. If S. 2737 should be passed into law in its present form it might at this juncture offer some mild assistance to the lumber industry but would not prevent the complete elimination of our domestic fleet by reasons of obsolescence in the matter of the next very few short years.

We do not oppose the concept of S. 2737 which proposes to aid the softwood lumber industry and to also continue the use of American ships for domestic carriage of lumber products. We simply believe that S. 2737 does not provide the long-range answer for the relief to the lumber industry, coastwise, intercoastal, noncontiguous, maritime industry, or to rate and transportation problems of other shippers who move their products by water.

We do believe, however, that if proponents of S. 2737 coordinate the needs of both industries into an amended bill that such bill, if passed, will aid maritime, lumber, and other shippers as well as provide better defense protection in the form of a modern up-to-date domestic fleet of ships.

In the study made by the Merchant Marine and Fisheries Subcommittee of the Senate Committee on Interstate and Foreign Commerce of the 86th Congress, dealing with the decline of coastwise and intercoastal shipping, Senator John F. Kennedy wrote to Senator Magnuson on June 29, 1960, expressing his concern over the depressed condition of our domestic industry. In that letter Senator Kennedy said:

"Prior to World War II there were some 700 vessels including tankers in these domestic trades, representing nearly two-thirds of our total ocean freight capacity. Today, despite our greatly expanded economy, the important dry cargo segment of these trades is but one-fifth, or less, of its 1939 size.

"Nor is that one-fifth in anything like good health. It is beset not only by adverse economic factors but also by throttling surface competition, aided and abetted to a disturbing degree by administrative complacency in the face of alleged unfair competition from other forms of competition.

"When the United States entered World War II, the domestic merchant fleet was taken over almost in its entirety by the Government, for military logistics purposes. In any future emergency the need for such a fleet, ready at hand to serve defense needs would be equally urgent. But there may not be any such fleet to requisition, from present indications, if we stand idly by."

On April 13, 1961, the President repeated his concern over the deplorable condition of the coastwise, intercoastal, Great Lakes, and general domestic fleet, in his message to Congress on regulatory agencies. But even since that time the conditions have worsened. After 100 years of service in the intercoastal trades, Luckenbach Steamship Co. found it necessary to terminate services. The Pope & Talbot Lines and the Erie & St. Lawrence Corp. were also forced to abandon their services. At the present time there is no common carrier service operating on the west coast and only two such companies operating on the east coast. There seems to be little doubt that the laxity of the Interstate Commerce Commission in allowing continuing predatory rate cutting has been one of the prime contributing factors in the decline of our waterborne domestic trade.

Under the policies outlined in the Merchant Marine Act, this country has spent more than $700 million in the past 5 years for operating differential subsidies to maintain our offshore fleet. It would seem quite unreasonable to spend this money for such a subsidy program, while allowing our unsubsidized domestic merchant marine, which was our principal reliance in the beginning of World War II, to be undermined by the predatory practices of the railroads.

Perhaps the problem of the softwood industry may be the vehicle that will cause us to face up once and for all to the problems of our coastwise, intercoastal, and noncontiguous shipping industry. The American Maritime Association cannot support S. 2737 in its present form. We believe, however, that if this bill is amended so that it will initiate the program necessary to the revitalization of the domestic shipping industry, it will then serve a dual purpose.

The lumber industry needs assistance in order to remain competitive with foreign producers. The domestic maritime industry needs assistance to perpetuate itself and to provide more efficient, faster, and economical cost of transportation for domestic cargo movement by water.

The problem may be approached from one of several ways. Implementation of the proposed subsidy contained in S. 2737 supplemented by compensatory rates which will return revenue to ship operators sufficient to finance a replacement program is one obvious solution. Rates sufficient to permit attainment of this objective will, in the foreseeable future, allow for construction and financing by individual operators of new ships designed to meet the needs of the domestic trades. Innovations in cargo handling, increases in speed and faster turnaround time on such new ships would eventually allow for recapture of subsidy funds and go a long way toward making the domestic maritime industry self-sustaining.

Another procedure would be to flatly subsidize the construction of ships for the domestic trades and thereafter supply an operating subsidy in an amount sufficient to permit an economically healthy domestic fleet to continue to operate. This approach would enable an immediate start on the construction of new vessels designed for the domestic trades.

Either of the foregoing suggestions we believe, provide the greatest relief for all parties. We further propose certain other measures which will be of value in lowering water transportation costs, such as:

(*a*) Coordination of rail and water transportation toward the end of maintaining stable transportation rates.

(*b*) Amending of the customs laws to permit use of bonded bunkers by coastwise vessels.

(*c*) Enactment of legislation to provide tax-free reserve funds for the replacement of domestic vessels.

(*d*) Establishment within the Maritime Administration, as reorganized under plan No. 7, a new section to be headed by a responsible and able officer which would have as its primary responsibility the development of plans to revitalize and perpetuate the American deepwater domestic fleet.

In summation, we categorically oppose passage of S. 3105 since in our opinion it provides dubious benefits to the lumber industry but provides certain destruction to our intercoastal maritime industry. Destruction of this segment of our fleet would be adverse to the best interests and the protection of our country.

With respect to S. 2737, we find that we cannot support the bill in its present form, but if proposed amendments are incorporated into the bill, we feel that complete support of the maritime industry will be forthcoming.

TABLE I.—*Number of U.S.-flag privately owned ships actively employed in the domestic trades of the United States (for specified dates)*

Date	Total domestic trade			Coastwise			Intercoastal			Noncontinuous		
	C	F	T	C	F	T	C	F	T	C	F	T
Dec. 31, 1939	44	423	338	25	227	316	5	145	15	14	51	7
Dec. 31, 1949	3	140	293	------	72	267	------	26	24	3	42	2
Dec. 31, 1957	3	141	252	------	47	245	------	40	4	3	54	3
Dec .31, 1958	2	135	256	------	43	232	------	40	12	2	52	12
Dec. 31, 1959	1	128	263	------	39	239	------	32	13	1	57	11
Dec. 31, 1960	2	115	246	------	37	224	------	28	11	2	50	11
Dec. 31, 1961	1	104	258	------	33	240	------	24	7	1	47	11

Legend: C=combination passenger and dry cargo; F=freighters including bulk carriers; T=tankers.

Source: U.S. Department of Commerce, Maritime Administration, Office of Ship Statistics, Division of Ship Data, Feb. 5, 1962.

Mr. ALTMAN. Our testimony has some facts in it which, of course, are repetitive with respect to similar matters that have been discussed before this committee for the past 3 months. I will not attempt to dwell on them at the moment.

My testimony deals with the relatively narrow area involving the maritime industry, as encompassed in suggestions contained in two bills, one particularly introduced by the junior Senator from Oregon—S. 3105—which in part—well, in total, as a matter of fact—deals with the amendment to the Jones Act, which would allow in the intercoastal trade of the United States the introduction of foreign vessels. This is a matter with which the maritime industry is particularly concerned.

The CHAIRMAN. Well, now, we will get this straight. Remember, I asked here: The bill relates only to lumber.

Mr. ALTMAN. This is the statement made by the junior Senator; that is correct.

The CHAIRMAN. Yes. I remember. Go ahead.

Mr. ALTMAN. However, most of the vessels now in the intercoastal trade deal in part or in total with the carriage of lumber. That is most of the merchant vessels. The total Wayerhaeuser fleet carries lumber, at least eastbound, and all Calmar ships carry lumber westbound.

The CHAIRMAN. Well, Wayerhaeuser line is laying up its fleet.

Mr. ALTMAN. At the moment, yes. However, they have just rehabilitated a good number of their ships and, if the industry picks up, I think they are prepared to go further.

The CHAIRMAN. I think it is over the strike situation. They say they cannot get carpenters.

Mr. ALTMAN. We are also concerned with S. 2737, which the industry has given a great deal of study to on this particular bill. I believe one of the proponents is the chairman here. But we think this bill in and of itself will do a great deal for the lumber industry as it is put forth. However, from the maritime side it presents some problems which we have not encountered here before. It does not provide an advantage particularly to the maritime industry. It provides maybe a burden in the sense of administering a subsidy of this particular type. We do, however, feel very strongly that if this bill were to be amended in some respects it might not only carry out the intent to provide some relief in the carriage of lumber for our softwood lumber industry in the Northwest, but it may lead the way into the very necessary rehabilitation of our coastwise and intercoastal fleet. We think the bill is a first step. But we think that it does need some help. Otherwise it places an additional burden on an already overburdened segment of our merchant marine, which is our coastwise and intercoastal group.

We have some specific suggestions contained in the written testimony which we have here. I will not attempt to dwell on them at great length here, except to say this: That if availability of improved vessels or larger vessels or improved lumber handling were to be made possible by subsidy assistance of one form or another—there are several methods in which this can take place—if these things are possible, we are certain that more efficient handling of lumber would take place and as a result costs could certainly be brought down.

Now, the Canadians are subsidizing their lumber industry in certain areas. They also subsidize other forms of industry, including maritime in coastwise operation. If such could be discussed and dealt with as an offshoot of this lumber hearing, it would open the door to something which is obviously going to be needed. Our fleet in the coastwise and intercoastal trade is all but obsolete as of this point. If a subsidy were to be provided for the lumber industry with respect to carriage of these products in American vessels, it would be a part-time relief to the industry but actually would not contribute to the development which is so necessary in our merchant marine. That fleet ultimately, within the next 5 to 7 years, is either going to have to be replaced or is going to be dead ended out of business.

It is with that thought in mind that certain of the suggestions that are contained in this presentation are set forth. Particularly they deal with the possibility of a subsidy on a somewhat more expanded basis than discussed in S. 2737. They discuss the possibility of tax-free reserves for construction of new vessels and other types of similar assistance. We think that these things will be very helpful, both.

The CHAIRMAN. You make reference on page 7 to the study that this committee made in 1960 about the whole intercoastal and costal shipping industry.

Mr. ALTMAN. That is correct.

The CHAIRMAN. We pointed out the condition, and the President testified before the committee. He was then a Senator.

Mr. ALTMAN. Senator Kennedy, yes.

The CHAIRMAN. On this problem, and since it has worsened, because of thing you point out in your testimony, then you make these recommendations. Of course, then we were talking about the whole intercoastal and coastal shipping matter.

Mr. ALTMAN. That is correct.

The CHAIRMAN. The decline. And we got into the rate structure which the railroads, as you remember—we got into controversy with the railroads about what we called discriminatory rate cutting and some particular cases which led to the decline. But we did not get into lumber.

But you point out, too, in your testimony—and I think this should be clear—that, although this is serious for the lumber people at tidewater and those that ship by water or had shipped by water, that 90 percent of the shipments of lumber to our eastern markets are by rail.

Mr. ALTMAN. That is correct. Those are the figures we have.

The CHAIRMAN. But the figures also show how desperate it is for the 10 percent we are talking about. The Canadians have increased their share of the eastern market from 7 to 14 or 15 percent. But of the total shipped by water their share is almost 70 percent now.

Mr. ALTMAN. Yes. In that restricted field that is correct.

The CHAIRMAN. Within that 10 percent.

Mr. ALTMAN. Within that 10 percent.

The CHAIRMAN. So that the transportation within that 10 percent, particularly waterborne, becomes a very serious matter.

Mr. ALTMAN. Well, we are not trying to in any way detract from the seriousness of the problem.

The CHAIRMAN. I know. But what you are thinking about is the entire problem.

Mr. ALTMAN. Our ships, the Liberty ships that are in this trade, are obsolete. They are not going to get any faster, they are not going to get any larger. They are not going to lend themselves very readily to improved lumber handling. And this is the problem. Even if we subsidize this phase of the operation at this point, which I think is a good thing, it is going to help the lumber industry, but if we stop at that point, these ships are going to be unserviceable in a matter of a few years.

The CHAIRMAN. We still have the whole intercoastal problem. Now, we recognize that. We made the recommendations, and we never were able to get anything done. I need not tell you or you need not tell the chairman that this became a pretty delicate matter. We had a great deal of trouble. And there was a school of thought that said: If they cannot make it on the American-flag intercoastal, I guess it is better they disappear.

Mr. ALTMAN. I would like to deal very briefly with that, Senator. With respect to this matter of whether we should or should not have the intercoastal fleet, repeated pronouncements by Department of Defense, National Academy of Science, and other study groups have indicated that one of the greatest safety measures that we can keep in service or improve upon is our fleet of American ships manned by American crews.

Statements have been made—and they are a matter of record—in the event of a nuclear attack, with very, very little likelihood that our major means of land transportation will remain intact, great emphasis is placed on the fact that our coastwise and intercoastal fleet is essential and vital. And if we want to abandon that fleet as a matter of policy—and ultimately the economics are going to force this abandonment unless we get some assistance—if that fleet is to go down

the drain for purely economic reasons where we are subsidizing foreign-flag vessels on those routes, it may not be helpful economically for the health and welfare of our people here. If we are going to allow that to go on, and turn it over to foreign ships of any particular country that happens to be able to place a ship in the trade and has availability as far as business is concerned, we will find our coastwise waters and our safety in the hands of those who may or may not be our friends, whose allegiance many times goes to the economic side rather than the other side.

Now, we have had this situation in the oil industry, with NATO tankers carrying oil to Cuba and other of our enemies for purely dollar return. If we allow these same people whose allegiance is to the financial side to be our sole support coastwise and intercoastally, if that is going to be the answer, I think we are doing ourselves a great disservice.

The amount of money involved is somewhat insignificant in the long run if a great deal of our safety is invested in having this kind of a fleet. And no one yet has contravened these statements made by many of our agencies and some of our pretty highly skilled study groups.

But with this thought in mind, I would like to close my testimony. I would like to say one more thing. I have had the opportunity to spend some 3 days here. Frankly, I have enjoyed it, because I have seen a very active program and moving investigation of an industry problem in this country. I have seen the investigation going on while action has been taking place.

I only can say one thing, I think, to sum up my position with respect to that. I would like to see such a hearing take place with this same activity, this same movement that has been so evidenced in the lumber industry on the maritime side. Because I know that lumber is going to benefit from what has gone on and will when this hearing is recessed and the action begins in the second story. But I only wish that we in maritime could have the same thing.

The CHAIRMAN. I think we have got to work on a national policy for intercoastal shipping. We either have to say—we have got to decide whether it is worth while in the economic and defense areas; if we say yes, it is needed, we better start to work something out.

But you know the opposition, because intercoastal and coastal shipping compete with other modes of transportation.

And we have a tough time with the subsidy problem. I am on that committee, and you know how difficult it is. Every year they cut voyages on you. I think we are doing pretty well in our reconstruction program.

Mr. ALTMAN. Yes, sir.

The CHAIRMAN. We are moving. But the water transportation facet is one of the most important things. And this is something we have got to work on. It is not a question of just 433 employees on either side. It is a question of allotment.

Mr. ALTMAN. That is correct. That is the point we want to make.

The CHAIRMAN. Thank you, Ed, and I am sorry to have kept you waiting so long. But you understood the situation. I was not responsible for the length of time consumed here.

Now, these hearings are concluded, and the record is going to be open for just a short time. And I want to say, in closing, I think we

have made a good record, as good a record as is possible even though sometimes the witnesses have been impatient with us. But you cannot have a judge make a decision, or a group of judges, until you present all your evidence. And I think it is complete enough so that if there is a study group—I do not care what you call it—all they will have to do is read this record, and they will have all the information they need. And that is what we are going to propose.

(Whereupon, at 2 p.m., the hearings were concluded and the committee adjourned.)

(The following statement was subsequently received for the record:)

STATEMENT OF HON. FRANCIS CASE, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

An important segment of South Dakota's economy, particularly of the Black Hills region, is the lumber industry. South Dakota lumbermen have been caught in an increasingly difficult position over the last few years by the rising tide of Canadian softwood lumber imports. With these imports upped some 21.4 percent during the first 4 months of this year over the same period of a year ago, the problem is becoming acute. Unemployment in the forest products industry in general has reportedly increased by some 4 percent.

It is becoming imperative that relief be provided to permit the American lumber industry to compete effectively with Canadian imports. Although we have had repeated assurances of interest and recognition of the apparent seriousness of the situation, the delays and lack of speedy attention have persisted with the resultant decline in the vitality of our lumber industry.

The American lumber industry is not seeking special concessions over Canadian producers but is only insisting upon Federal action to offset the advantages provided the Canadian lumber industry by the Canadian Government.

The designation of an interagency task force to study lumber industry problems, though laudable for the solution of long-range problems, is certainly no solution for the emergent problem that now confronts our lumber industry. The need is for action now by the Tariff Commission to provide relief, if and when the lumber industry seeks action. Lengthy delays by the Tariff Commission in other cases lead me to believe that the Commission should give top priority to this situation.

In addition, the administration should consider other means of emergency assistance.

I will support legislation that is aimed at assisting in the solution of these problems.

(Additional statement of Mr. Cliff on uniformity of use of bureau scale follows:)

Bureau scale is used on all the national forests of Oregon and Washington in the Douglas-fir region except the Rogue River National Forest.

On the Siuslaw National Forest all the timber is being scaled by the bureau. On most other forests there is some timber which is scaled by the Forest Service. The Forest Service is striving to set up the scaling conditions which will place competing purchasers for a particular sale on the same basis. We believe that bureau and Forest Service results will be substantially the same when performed under the same conditions. When scaling is performed under different conditions, particularly as between on water and on truck, results by the same agency may differ.

An example of how Forest Service and bureau scale is worked out is well illustrated by the establishment of the scaling station at Memaloose in the Clackamas River drainage on the Mount Hood National Forest. Prior to having all logs scaled at this station, logs were being scaled in various millponds in the Willamette River and on trucks at various points. There were serious log accountability and check-scaling problems. In addition there were purchasers who did not want bureau scale. There were operators who charged that water scaling produced less volume and therefore was advantageous to certain other competitive operators. To overcome these problems all sales in the Clackamas drainage are now scaled at the Memaloose truck scaling station. Each purchaser has the option of having bureau scale or Forest Service scale. About 60 percent of the volume is scaled by the bureau and about 40 percent by the Forest Service.

This central scaling may be less desirable for a particular purchaser, but it is less costly to a majority of the operators, to the bureau, and to the Forest Service.

On the Rogue River National Forest there are many small operators purchasing national forest timber who do not use bureau scale. Log trading and exchanging is relatively minor in this area. The Forest Service has a satisfactory scaling organization in this area. Very few logs scaled by the Forest Service are also scaled by the bureau. Because of these factors, timber sold on the Rogue River Forest is scaled entirely by the Forest Service at stations adjacent to the national forest.

The present members of the board of directors, Columbia River Log Scaling and Grading Bureau, Portland Oreg., are:

Name and employer:

Charles Logan, Weyerhaeuser Co.
L. J. Bagley, U.S. Plywood Corp.
James Lakin, Jones Logging Co.
J. W. Johnson, Willamette Valley Lumber Co.
E. W. Morley, Tree-O-Logging Co.
C. P. Morris, Crown Zellerbach.
Don Davidson, Davidson Industries.
Dugan Pearl, Evans Products Co.
C. D. Davis, Simpson Logging Co.

The present officers and trustees of the Puget Sound Log Scaling and Grading Bureau are:

Name, office, and employer:

R. A. Yorke, president, Weyerhaeuser Co.
W. C. Nellist, vice president, U.S. Plywood.
Douglas Mavor, secretary, Anacortes Veneer.
Don Dyson, treasurer, Seaboard Lumber Co.
B. E. Brown, trustee, Crown-Zellerbach.
Reid Nelson, trustee, Everett Plywood.
L. E. Eyman, trustee, Seattle Cedar Manufacturing.
Howard Garrison, trustee, Puget Sound Plywood.
Bob McCartney, trustee, Eclipse Mill.
H. O. Puhn, trustee, Simpson Logging Co.
R. W. Radcliffe, trustee, St. Regis Paper.
E. W. Simonton, trustee, Rayonier, Inc.
D. R. Taylor, trustee, Taylor & Brockart.
F. M. Thomson, trustee, Peninsula Plywood.
G. W. Smith, trustee, Scott Paper.

The Grays Harbor Log Scaling and Grading Bureau has the following directors:

Werner Mayr, president, Mayr Bros. Logging Co.
Gordon Johnson, vice president, Blagen Timber Co.
Earl Simonton, secretary treasurer, Rayonier, Inc.
Richard Middleton, director, Anderson-Middleton Co.
Donald Hopkins, director, State of Washington.
Otto Hanell, director, U.S. Forest Service.
B. M. Morrison, director, Morrison Logging Co.
Adolph Blum, director, West Coast Plywood Co.
Charles Rose, director, Saginaw Shingle Co.

The Southern Oregon Log Scaling and Grading Bureau is represented by the following directors:

Clifford Bryden, president, Roseburg Lumber Co.
Fred Sohn, director, Sun Studs, Inc.
Ray Emery, director, Conifer Logging Co.
Tom Clark, director, National Plywood Co.
Jack Hogan, director, U.S. Forest Service.
L. L. Burr, director, Burr Logging Co.
Jim Fourtner, director, U.S. Plywood.
Al Keatley, director, Stomar Lumber Co.
Tom Lindbloom, director, Conifer Logging Co.

The amount of log volume bought and sold by employers of the various directers in the different bureaus has been requested and will be submitted as soon as obtained.

○

KANSAS STATE UNIVERSITY LIBRARY
SEP 10 1962
MANHATTAN, KANSAS