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NATIONAL FOREST SALVAGE PROGRAM AND SBA SET-ASIDE SALES

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HEARING

BEFORE THE

SUBCOMMITTEE ON FORESTS

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

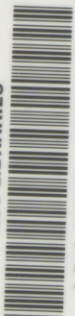
H.R. 11356

MARCH 16, 1978

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NATIONAL FOREST SALVAGE PROGRAM AND SBA SET-ASIDE SALES

THURSDAY, MARCH 16, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FORESTS OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:03 a.m. in room 1302, Longworth House Office Building, Hon. James Weaver (chairman of the subcommittee) presiding.

Present: Representatives Krebs, Johnson, Symms, and Kelly.

Staff present: Anita R. Brown, clerk; and Dennis C. Le Master and Rita L. DiSimone.

Mr. WEAVER. The Forests Subcommittee of the House Agriculture Committee will be in session.

Today the Subcommittee on Forests will hear testimony on a proposed national forest salvage program for firms having 25 or fewer employees and testimony on the existing SBA set-aside program.

There are millions of board-feet of national forest timber which are wasted annually because of rot. Wood is lost which could be used to make lumber, plywood, and other wood products. At the same time, there are hundreds of contract loggers out of work because they are unsuccessful in their bids for national forest timber.

I would like to resolve both of these problems by establishing a salvage program for mortality timber limited to timber purchasers with 25 or fewer employees. This proposal was ably developed and presented to me by the Associated Oregon Loggers. I have introduced a bill, H.R. 11356, which embodies the proposal.

There is another section to the bill which deals with the salvage of wood slash in the forests and authorizes the Forest Service to embark on programs of transport, distribution centers, and pilot programs for the utilization of such slash.

The hearing today will also concern the SBA set-aside program because of recurring complaints about the program, especially the buyer size limitation. No pending legislation is involved in this case. The subcommittee would just like to get the facts on the record.

[The bill H.R. 11356 follows:]

[H.R. 11356, 95th Cong., 2d sess.]

A BILL To establish a national forest salvage program for mortality timber for business firms having twenty-five or fewer employees, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (h) of section 14 of the National Forest Management Act of 1976 (Public Law 94-588, 90 Stat. 2958; 16 U.S.C. 472a) is amended by adding at the end thereof the following new paragraph:

"(h)(2) In order to develop and maintain a logging capability to salvage insect-infested, dead, damaged, or down timber, and to remove associated trees for stand improvement, and to protect small firms engaged in salvage logging, the Secretary may set aside sales of such timber for preferential bidding by independent firms employing twenty-five or fewer employees. Purchasers of such timber may sell to any buyer, except that it shall not be sold for export."

SEC. 2. The Act of August 11, 1916 (39 Stat. 462, as amended, 16 U.S.C. 490), is amended by striking out the words after "United States" and inserting the following: "of removal of residue from felling and tending timber and associated brush, such deposits to be covered into the Treasury and constitute a special fund, which is appropriated and shall be available to be expended for the removal of such residue, including its transport to residue collection centers, for the establishment and maintenance of residue collection centers, and for the development and establishment of pilot programs for residue utilization: *Provided*, That any deposit in excess of the amount expended for residue removal, for the establishment and maintenance of residue collection centers, and for the development and establishment of pilot programs for residue utilization shall be transferred to miscellaneous receipts, national forests fund, to be credited to the receipts of the year in which such transfer is made. The Secretary of Agriculture shall develop and establish pilot programs for the utilization of residue from felling and tending timber and associated brush from the national forests. The Secretary of Agriculture may sell such residue under rules and regulations he may prescribe."

Mr. WEAVER. I would like to call now Mr. Robert McDermott, Director, Office of Procurement and Technology Assistance, Small Business Administration.

Mr. McDermott, thank you very much for coming. I look forward to your testimony.

I also welcome Mr. Farrell and Mr. Berg.

Please proceed.

Mr. McDERMOTT. Good morning, Mr. Chairman. It is our pleasure to be here to testify before your subcommittee.

Mr. Farrell, on my right, is our Associate General Counsel. Mr. Berg, on my left, is the Manager of the property sales program within SBA.

I have a prepared statement which is rather lengthy.

Mr. WEAVER. Without objection, the entire statement will be placed in the record at this point.

[The prepared statement submitted by Mr. McDermott follows:]



SMALL BUSINESS ADMINISTRATION

***** Washington, D.C. *****

STATEMENT OF
R. F. McDERMOTT, DIRECTOR
OFFICE OF PROCUREMENT AND TECHNICAL ASSISTANCE
UNITED STATES SMALL BUSINESS ADMINISTRATION
BEFORE THE
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON FORESTS
U. S. HOUSE OF REPRESENTATIVES

March 16, 1978

MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE:

We appreciate this opportunity to review the Timber Set-Aside Program.

Before summarizing the present status of the timber set-aside program, I shall first touch on a number of matters that are of particular interest for this hearing:

General Background

The small business timber set-aside program dates back to 1958 and is presently embodied in a 1971 agreement between the U. S. Department of Agriculture and the Small Business Administration. The 1971 set-aside program and its 1958

predecessor have their roots in the Small Business Act. In particular, SBA was directed to work with other agencies to insure small businesses received a "fair proportion" of the total sales of Government property.

In 1958 the SBA and USDA established the mechanism for the first timber set-aside program. The program was administered on a ad hoc basis. With the decline in number of timber purchases by small business and the increase in the number of acquisitions of small concerns by large companies, the SBA at the insistence of the small timber companies re-examined the set-aside program and found it to be ineffective to insure small business a fair share of national forest timber sales.

The present set-aside program modifies the 1958 program in three aspects. There is a historical approach for determining "fair share," a five-year time period for determining base average shares, and a triggering mechanism for initiating set-asides. Every five years, the base period percentages in each market area are revised to provide flexibility and reflect current sales. Every six months there is a review of timber purchases in each market area for the previous six months. If the review shows that the small business purchases equal an accumulated net deficit of ten

or more percent of the base period percentage, a set-aside is triggered. Had small business purchased a volume of timber above this trigger point but below the base period percentage, there would be no set-aside sale in the following six months but the deficit would be carried forward until it reached ten percent at which time a set-aside would be triggered.

History of Definition of Small Business for the Purpose of Bidding on Sales of Government-Owned Timber

Currently, as well as historically, the basic factors employed in the establishment of the size standard for the timber industry (or any other industry) include: (1) the total number of concerns in the industry and their distribution as to size; (2) the relative sizes of industry leaders; (3) the market shares accounted for by the various size groups as indicated by value of shipments, value added and/or production; (4) the SBA program for which the standard was intended; and (5) any remaining data pertinent to understanding the structure of the industry, including such factors as the influence of Government regulations on the industry(ies), cyclical trends, competition from other countries, and the factors constituting or influencing supply and demand. Considered separately and in the aggregate, these factors present a fairly accurate picture of the development of the industry to its present stage.

Intense competition in the United States and Canada and volatile prices resulted in a significant change in the timber industry over the past 20 years. The total number of mills declined precipitously during this period, most of which was accounted for by dropouts among the relatively small independent mills, thereby easing, to a certain extent, the competitive pressures on the larger growing mills. As these larger mills grew, many integrated their operations, moving into the rapidly growing plywood field and into the production of paper and allied products utilizing virtually every part of each log cut.

Prior to 1959, a firm primarily engaged in the forest products industry was subject to a 500-employee size standard. At that time, this was a general size standard applicable to all manufacturing industries not otherwise defined. On April 20, 1959, a 100-employee size standard was promulgated for the purpose of bidding on sales of Government-owned timber. The standard was based principally on an analysis of 1954 Bureau of Census data. The 100-employee size standard was increased to 250 employees on September 16, 1959. This was done because the size standard discriminated against concerns bidding on Government procurements and sales, since the size standard for these manufacturing industries for the purpose of obtaining an SBA loan was 250 employees.

The size standard was again increased on March 5, 1964, from 250 employees to 500 employees. This was done because SBA concluded that integration and consolidation were the key to survival against the larger, efficient, integrated operations which, by this time, had branched out into the paper and plywood industries, where it was not unusual for a firm to have in excess of 250 employees. The increase to 500 employees was done with the understanding that the effects of the increase in the standard would subsequently be reviewed. Such a review was conducted in 1966 by our Assistant Administrator for Planning, Research and Analysis. The 500-employee size standard was retained because it was found that from 1964 to 1966 the increase to 500 employees had a negligible effect. (A later review (March 1973) conducted by SBA for OMB led us to the same conclusion as did the 1966 study.)

Questions have been raised in the past as to whether a 500-employee size standard is appropriate. Some contend that the size standard is too high, since the vast majority of firms in the forest products industries have fewer than 500 employees. Others contend that it is too low because the forest products industries are dominated by very large concerns and these industries are becoming more concentrated due to acquisitions and mergers. In 1975, SBA held public

hearings (in Portland, Oregon and Atlanta, Georgia) on the question of whether the 500-employee size standard should be raised, lower or left at 500 employees. The hearings were well attended by representatives of the forest products industry. The 500-employee size standard was determined to be valid and was retained. Subsequent SBA inhouse reviews continued to support the 500-employee standard.

Definition of Small Business

In connection with the sale of Government-owned timber a small business is a concern that: is primarily engaged in the logging or forest products industry; is independently owned and operated; is not dominant in its field of operation; together with its affiliates, its number of employees does not exceed 500 persons.

In the case of Government sales of timber reserved for or involving preferential award to small businesses, when the Government timber being purchased is to be resold, a small business agrees that it will not sell, trade, or a combination of sell and trade to a concern which is not a small business, within the meaning of the definition, more than 30 percent of such timber.

Defense of the Overall SBA Timber Set-Aside Program

There are two general methods used to attack the set-aside timber sale program. The first is to change the use of purchase history. The key to an effective SBA program is the establishment on each National Forest or marketing area of a fair share for small business. The determination of that share was made by analyzing the history of purchases by small business in existence just prior to the inception of the program. A five-year period, 1966-1970, was chosen as the base period and the size of firm on December 31, 1970, determined its status for the base period. Thereafter, the purchase history would determine any fair share recalculation with the size of firm at time of purchase to govern. Thus, the small business community tended to stabilize in the lumber and plywood industry in areas where public timber sales are substantial.

Opponents of the program know that any other subjective method to determine fair share based on mill capacity, timber under contract, lumber production, needs, economics of the industry, etc. would lead to endless arguments on what the share should be. The set-aside program would be subject to negotiation and large business and the Forest Service would dominate that situation. The SBA and the Forest Service could fill an office building with lawyers and

administrators trying to determine fair shares. The simple, factual system of using purchase history, however, makes the program practical and efficient. The Court in *Duke City, et. al.*, recognized this fact and called the use of purchase history the "fair" way to determine shares.

The second basic attack on the program centers around the size standard. The standard is 500 employees in the lumber and plywood industry. This standard was finally adopted in 1964 so that worker-owned plywood cooperatives would fit under the protection of the SBA Act. There is one group which wishes to raise the standard to 750 or to 1000 employees so they could be under the program. While it would be very difficult to raise the size standard today, several years ago such a change would have been possible, particularly since the base shares would have increased because of a larger purchase history. It should be noted that in all other manufacturing industries in the United States, small business is defined as having a minimum of 500 employees.

Opponents of the SBA set-aside program have concentrated their efforts on reducing the size standard. They know it would be near fatal to reduce the standard to less than 500 employees. In many parts of the Western States, significant numbers of small business mills have nearly 500 employees,

particularly in the plywood industry. To reduce the size standard would leave these operations vulnerable. But the best way to demonstrate the divisiveness of such an action is to assume the extreme position taken by some that the standard should be 100 employees. In the West, not only would this exclude nearly everyone now under the program, it would reduce the base shares of fair shares to nearly 0% because purchase history would have to be used to determine the new shares. While it is impossible to have a perfect size standard, any suggestion that the size standard be lowered appears to be contrary to the survival of small business. Statistically, the 500-employee level is more than justified. Based on the 1972 Census data (latest available), the 500-employee size standard encompasses 84.9 percent of the companies engaged in the forest products industry; yet, these firms account for only 41.9 percent of the total sales.

Summary

As a matter of general interest, the SBA program of timber set-asides applies to all timber sales, salvage as well as green sales. Further, the small business timber program applies to loggers as well as mill owners. As a general statement loggers are on the lower end of the

size standard, and generally contract their services to both large and small firms. Additionally, and probably the most important rule requirement imposed on non-manufacturers (loggers) is the 30/70 percent rule which insures that 70% of the small business set-aside sales that will be cut will go to small business. For the timber industry the current size standard appears sound, is fully understood by the industry and the Government agencies and is practical to administer. The SBA does not recommend a change.

This completes my statement Mr. Chairman and we shall be happy to respond to your questions.

Mr. WEAVER. Thank you very much, Mr. McDermott.

In terms of board feet sold, what percentage of the SBA set-aside sales are sold in the Northwest?

Mr. BERG. For an example, in the total board feet in the Forest Service sold in 1977, one statistic I have available, of about 8.6-billion board feet, about 3.5-billion board feet came from the Oregon area. That is basically followed with Washington and California being dominant. Probably over 50 percent or 60 percent.

Mr. WEAVER. You are saying that 60 percent of the amount of timber sold under the set-aside program, not the number of sales but the amount of timber, was sold in the Northwest.

Mr. BERG. Yes, sir.

Mr. WEAVER. The rest would be in the South and the East?

Mr. BERG. Yes, sir. That is an estimate. It may be slightly greater than that.

Mr. WEAVER. You say 85 percent of the companies in the forest products industry are classified as small business. What percent of the companies are in the Northwest? In other words, of that 85 percent, how many are in the Northwest?

Mr. BERG. I do not have that figure available, sir.

Mr. McDERMOTT. We will furnish that for the record.

Mr. WEAVER. We will appreciate that. Without objection, you will furnish that and we will place it in the record at this point.

[The information submitted follows:]

Detailed figures applicable to the entire forest products industry are not readily available and would require extensive research to obtain. In order to be responsive to the question, what percent of the companies in the forest products industry that are classified as small business are in the Northwest, we have researched two major fields within the forest products industry; specifically, Standard Industrial Code (SIC)-2411, *Logging*; and Standard Industrial Code-2421 *Sawmills*. We feel that these can be considered typical examples of the various segments comprising the forest products industry and be most clearly related to the question under consideration. In the sawmill industry, SIC-2421, there are approximately 9,932 small businesses of which 1,140 or 11 percent are located in the Northwest. Similarly in the logging industry, SIC 2411, there are 16,218 small businesses of which 3,123 or 19 percent are in the Northwest.

Mr. WEAVER. You obviously consider 500 employees and less a small business.

Mr. McDERMOTT. That is correct, sir.

Mr. WEAVER. Some people don't.

Mr. McDERMOTT. I understand that.

Mr. WEAVER. Would you tell the subcommittee for the record what criteria you use to classify 500 employees or less a small business? What is your philosophic underpinning for that?

Mr. BERG. Basically, when you look at the size standard, you look at the total number of concerns in the industry and their distribution as to size, using the census. The last census we had was the 1972 census. You look at the relative size of the industry leaders; the market shares accounted for by the various size groups as indicated by value of shipments or production; the SBA program for which the set-aside standard was intended—that is part of the analysis; and then any other remaining data that may be pertinent in looking at the total thing, such as the impact of exports or the international competition. Those are the factors that are looked at in determining the size.

Mr. WEAVER. Thank you very much.

The Chair welcomes the gentleman from Florida, a very fine member of this subcommittee whose contributions have been great and who plays a key role in deliberations of this subcommittee, Mr. Kelly.

I would thank, very much, Mr. McDermott, Mr. Farrell, and Mr. Berg for appearing.

A vote has just been called on the floor of the House. I suggest we go vote right now. Upon coming back, the Chair will call Mr. Monte Montgomery, executive vice president of Associated Oregon Loggers, and his associates.

We will recess now for a few minutes.

[Recess taken.]

Mr. WEAVER. The subcommittee will be in session.

The Chair takes particular pleasure in welcoming the very distinguished former speaker of the Oregon House, now executive vice president of the Associated Oregon Loggers, along with four bona fide, wonderful Oregon loggers. I am proud to say they are all from or near the Fourth Congressional District of Oregon, the largest timber producing district in the United States.

I now welcome you and look forward to your testimony, Mr. Montgomery. Would you please introduce your associates?

Mr. MONTGOMERY. Yes, Mr. Chairman.

On my left is Mr. Jack Crawford, who is the daddy of the mortality timber salvage sale proposal. He has been working on it about 8 years. He is from Springfield, Oreg.

Seated next to me is Harry Hanscom, Hanscom Bros. Logging, Eagle Point, Oreg., near Medford.

On the far right is our vice president of the Associated Oregon Loggers, Tom Hirons from Mehama, Oreg.

Next to me on my right is our president, Gary Briggs from Three Son Logging at Coquille, Oreg.

[The prepared statement submitted by Mr. Montgomery follows:]

STATEMENT OF MONTE MONTGOMERY, EXECUTIVE VICE PRESIDENT,
ASSOCIATED OREGON LOGGERS; ACCOMPANIED BY TOM HIRONS,
MEHAMA, OREGON; GARY BRIGGS, COQUILLE, OREGON; HARRY
HANSCOM, EAGLE POINT, OREGON; AND JACK CRAWFORD,
SPRINGFIELD, OREGON

MARCH 16, 1978

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to appear here today to discuss an issue of great importance to the contract loggers across the United States, the entire timber industry, and the members of Congress who have displayed their concern for the plight of small business, and the need for the recovery of what has traditionally become rotten, unmerchantable timber.

I appear as Executive Vice President of the Associated Oregon Loggers.

AOL has a membership of 305 independent contractors engaged in the harvest of timber. They hire more than 5,000 who develop payrolls in excess of 50 million dollars per year, and operate equipment valued at almost $\frac{1}{2}$ billion dollars. They are all non-manufacturers.

My Association has sent me here to speak for them as well as the logging associations of the states of Alaska, California, Idaho, Montana, and Washington; a group consisting of 3,034 contract loggers with some 65,000 employees.

Many of these men were reared in the woods as part of a logging family.

Many of them are graduate foresters who have dedicated their lives and financial resources to the harvest of our beautiful forests.

Let me say at the outset we are not here to debate the present 500 employee set aside classification. Our members, being too small to compete for sales on the present formula for bid offerings, do subcontract work for both of the present classification employers.

The proposals we seek are incorporated in HR 11356 and would have virtually no impact on the present 500 employee SBA designations, and we trust it would be considered on its own merits. In fact, we are hopeful no legislation will be necessary, and that the Small Business Administration would affect the change under their existing regulatory authority.

We ask for your assistance in a mortality timber salvage sale program which consists of four basic provisions:

- 1) Our plan is limited to sales of salvage of mortality timber; i.e., dead, down, dying;
- 2) Eligible bidders would be limited to employers of 25 or less employees;
- 3) Salvage harvested would be excluded from tabulation of the allowable cut;
- 4) Harvested salvage timber would be sold by the successful bidder on the open market to any size class.

Each year the federal forests experience vast mortality losses. In the U.S. Forest Service Region 6 (Oregon and Washington) alone, annual mortality losses approach 1,497,000⁰⁰⁰ board feet.

If we look at the impact nationally; add BLM and other public lands, a realistic estimate would approximate 6 billion board feet annual mortality.

Less than 10% or 600 million feet are being harvested and delivered to the market place.

The unharvested, left to rot logs could and should provide enough lumber for 250,000 to 300,000 homes annually in addition to the thousands of other products produced from wood fibers.

Every day sees an additional 15 million feet of salvagable, marketable timber go to rot, create fire hazards on the forest floor, and build breeding beds for more insects and more salvage, and on and on.

While all of this lack of resource recovery continues, more and more green standing timber is placed into harvest moratorium.

Mr. Chairman, you know as well as I that one need not travel many miles in our state of Oregon to see heavy and expensive logging equipment standing dormant along the roadway because of the inability of the small logger to acquire timber sales, or cannot afford to accept the logging prices offered by the mills.

We wish it were possible for you to hear testimony from the 141 Oregon loggers who have gone out of business in the last 5 years; or, the many others who are hanging on by that indefinable shred of raw determination and hope.

Gentlemen, these are circumstances existing in only one state. And, in that State of Oregon, 40% of our population benefits directly from the timber industry.

Your actions in passing the 1976 Timber Management Act were positive and constructive. You recognized the wisdom of getting dead and dying timber out of the woods when you authorized the federal agencies to retain a portion of salvage sales receipts to cover the cost of preparing additional salvage sales.

Unfortunately, the initial funding you authorized for the program has not been disbursed, except for a minimal amount of seed money.

Some forests are moving expeditiously to implement your wishes within the financial constraints facing them. Others have not moved in a positive way.

Of those salvage sales offered for bid in recent years, the majority have been "open sales", which enables any and all size firms to bid. The small logger simply cannot compete.

You might properly ask why the mills offer more at bid openings than the logger can afford to bid.

The difference comes from the mills ability to take advantage of the over-run on log scale. They pay for a 1,000 board foot log, which by good planning and utilization, comes out of the mill as 1,500 board feet of 2 X 4's. For their prudent utilization they deserve commendation. Unfortunately, however, the logger is paid on the scale of the raw log.

The logger who bids unsuccessfully needs work. His expensive equipment must be kept busy to cover the costs of maintenance, debt service, and of course payrolls. He may subcontract with the successful mill bidder to do the logging. Through his negotiation it becomes evident all too often, that the high bid by the mill is compensated for by not only the over-run, but by forcing the logger downward in his cost appraisal to where he is faced with the dilemma of taking the job at a break even figure or at a loss simply to meet his obligations; or, he can refuse the job and shut his operation down. It's a "Catch 22" situation.

While I have no research results to prove the point, I would judge at least one third of our members lived on their depreciation credits in 1977.

All of these alternatives could be avoided with the passage of HR 11356.

The victims in these types of contracts are the people of the United States. Why? First of all, the tremendous loss of potential revenue, and because the cleanup of the woods, removal of slash, and preparation work for replanting are not being adequately performed. The mill allows the logger funds basically for log removal.

Local federal agency personnel would confirm that the small logger in those rare instances where he gains the bid, does a far superior job in fulfilling all of the silvaculture specifications in the contract when he is dealing one on one with the agency, as contrasted with the logger working directly for a mill. Cleanup requirements on these sales are such that the contractor actually logs about as much unmerchantable timber to the burning pile as he hauls out in merchantable timber.

Now, Mr. Chairman, we have attempted to determine if, or why, anyone would oppose our Mortality Timber Salvage Sale proposal. In all fairness, we could find no such reasons.

Certainly the public, who owns this marketable resource would be delighted to see it produce several additional millions of dollars for the Federal government.

The mills, large or set aside classification, have no need to fear the loss of much needed timber. The mortality timber we intend to bid and log will be sold to these same mills. Our members have no

desire to get in the milling business. In fact, the mills may well be able to buy that salvaged log from the logger cheaper than if the mill goes to the expense of affecting the sale. Some Oregon mills have indicated as much.

The SBA may fear another industry confrontation on the present set aside limit. However, as said earlier, we are not seeking any change in those categories unless we are unable to get our program operative.

The SBA may also not wish to be involved in policing the salvage bid eligibility limit of 25 employees. But, as their title implies, they should be aggressively seeking ways to assist the small businessman.

Let me quote from just a portion of the declared policy of the Congress as detailed in the Small Business Act (15 U.S.C. 631). I quote;

"It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect insofar as is possible the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contract or subcontracts for property and services for the Government be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."

Unquote.

We seek nothing more than a fair implementation of that policy.

No members of Congress have expressed opposition to our request so long as we do not stray from mortality salvage and the magic 25 employees.

From other state associations, we learn that their Congressmen are also supporting the plan.

Oregon's State Forester, Ed Schroeder, urges your favorable consideration.

The U.S. Forest Service and Bureau of Land Management personnel locally have indicated strong support. Dr. Rupert Cutler, Assistant Secretary of Agriculture, has promised to voice his support of our plan to the Small Business Administration.

Finally, the 3,034 small logger businessmen in six of the Western States urge the immediate implementation of this proposal.

Mr. Chairman, the logger is not asking for subsidies like those in effect for the farmer; even though properly managed, timber is a renewable crop.

We are not asking you to change any formula for bids on green, standing timber.

We are not asking for any preferential price supports or limits.

The small businessman logger is asking for government authority to fulfill the Congressional mandate to bring billions of board feet of dead, down, and dying timber into the marketplace.

He is asking that he be given the tools to compete by bid for salvage timber sales.

He is asking permission to practice the timber management and silvaculture objectives desired by the federal agencies, and gain reimbursement for that effort by the sale of the harvested salvage timber in the open market.

In closing, we solicit your influence with the Small Business Administration in affecting the constructive change the Mortality Timber Salvage Sale program offers. Such change is available to them under their regulatory authority. In the absence of their action, we urge the passage of HR 11356 to accomplish our objectives.

Mr. WEAVER. Thank you very much, Mr. Montgomery.

Your testimony was excellent, to the point, and you described the conditions and the reasons why this program should go forward.

There is no question that we have a job to do that is not now being done. That is the twofold point of your testimony: to get out and utilize the timber that is otherwise going to waste and to assure that the small businessman, the logger, who can do the job best has the wherewithal to do it and stay in business.

I would appreciate it if you would just comment briefly on the second portion of the bill we have before us dealing with the slash removal from the forests. Would you mind doing that?

Mr. MONTGOMERY. Mr. Chairman, let me preface Mr. Briggs' remarks with a statement that we were not aware of section 2 in the measure until just a short time ago. We have not had an opportunity to thoroughly review it. However, I think you will hear Mr. Briggs say that we have had similar thoughts in mind for a good, long while. In fact, I think he has already implemented some suggestions for AOL to work on the same type of effort.

Mr. WEAVER. Mr. Briggs, would you comment, please?

Mr. BRIGGS. At the present time I am prepared to appoint a task force to study and put together some thoughts along similar lines. There have been several studies made but there has never been anyone who could put the studies together in an informative manner.

In fact, we have a news letter coming out that will have an editorial that a task force will soon be appointed to study this, hopefully along the similar lines of this section 2.

Mr. WEAVER. The section we are discussing authorizes the Forest Service to transport, set up distribution centers, and pilot programs for the utilization of the slash that is now being burned in our forests at great expense, polluting our air and letting all this energy go to waste.

We have data showing that there is now enough wood waste available in the Northwest that is not being utilized to heat 75 percent of the homes and buildings in the Northwest. This not only would put loggers to work, but would help us solve our energy situation to the tune of many millions of barrels of oil.

Mr. MONTGOMERY. I might add that I am told that Chief McGuire recently directed his regions to concentrate more heavily on fire control within the woods, which probably will mean that even more of the residual or slash will have to be picked up by the logger and again placed in a pile to be burned in an orderly way. So there is going to be more than what we presently have.

Mr. WEAVER. Thank you, Mr. Briggs and Mr. Montgomery. I would welcome brief remarks from any of the other loggers on the way they see this specifically in the workings of their business.

Would anyone like to comment?

Mr. HIRONS. Mr. Chairman, I would like to commend you for adding section 2 to that bill. We already have the expense of falling and bucking that slash. We have the expense of yarding it up to the landing and expense of putting it in a pile. It wasn't too many years ago that for one season we were able to ship that slash and sell it. There was a market for it.

However, I am not prepared to comment on the conditions of the pulp market.

There should not be too much more expense. With a little bit of help I think there is a real possibility for the utilization or development of uses for that slash.

I would like to thank you again for adding that section.

Mr. WEAVER. I appreciate your remarks. Mr. Hanscom?

Mr. HANSCOM. Mr. Chairman, as chairman of the Energy Committee for the Oregon Logging Conference, I think this is an environmentally sound project. I believe it is a source of renewable energy that we have been overlooking or wasting for quite a number of years. I would appreciate it if we could make available to you the transcript of the 1978 Oregon Logging Conference so that you can read the transcripts on that.

Mr. WEAVER. I would like that very much.

I would like to have the other members of the subcommittee ask questions if they have any at this time.

The Chair recognizes the gentleman from Colorado for any questions he might have.

Mr. JOHNSON. Thank you, Mr. Chairman.

I wonder if you gentlemen would comment about why you believe it is necessary to keep the last line in section 1 which says that such timber shall not be sold for export. If you don't care, say so, too.

Mr. HANSCOM. I will respond. I am a logger. In our area we find it impossible to sell certain segments of our product to small business. Living by the SBA standards as a small organization, we find that there are certain products that we cannot dispose of in this area.

Mr. JOHNSON. What has that to do with restricting sales of this material from export?

Mr. HANSCOM. Excuse me. I was referring to a different one.

Mr. JOHNSON. It says: "Purchasers of such timber may sell to any buyer, except that it shall not be sold for export."

Mr. HANSCOM. We in Oregon probably are a little bit on the selfish side. We would rather feel that the wood we have there should be utilized by our people and used as an employment factor for the people by Oregon.

Mr. JOHNSON. If the people of Oregon are the ones who are going to harvest these logs, and they sell them wherever they find a buyer, I don't understand why you care whether they are sold for export.

Maybe I am misunderstanding what you are saying, but I don't have a reason yet why you care whether they are sold for export.

Mr. MONTGOMERY. I think we will have to beg off on your question because we, as an association, have not taken a position on the question of log export.

Mr. JOHNSON. Thank you.

Mr. WEAVER. The gentleman from California is recognized.

Mr. KREBS. Just very briefly, in response to the inquiry of the gentleman from Colorado, I assume that the reason for this requirement is that the processing industry in Oregon and probably other parts of the West would very much like to employ its people in the processing of this particular material rather than have it shipped off to Japan or somewhere else. Obviously it would put people out of work or not put them to work to begin with. That is the reason why this is in the bill.

Furthermore, whenever we have a wilderness area before us or any issue which might result in a decrease in the amount of timber that

is available, we get the same refrain from the timber industry along these lines: How is this going to effect the cost of building materials in this country and the cost of homes?

I assume this is why the particular requirement is in.

I will be happy to yield to my friend from Colorado.

Mr. SYMMS. We are talking about dead or dying timber. It says, "insect-infested, dead, damaged, or down timber."

I have heard the gentleman from Oregon give the argument about export logs many, many times. But for dead and dying timber I don't know that that same argument applies.

Mr. WEAVER. It is not a very important clause in this particular bill. I would not want it to be a controversial problem.

The gentleman from Idaho is recognized.

Mr. SYMMS. Thank you, Mr. Chairman.

I want to ask one question. It is my understanding that we had already made it possible for salvage sales of up to \$10,000 by the passage of the 1976 Forest Management Act. I am trying to figure out from looking at this bill what is it in this bill that makes it different than you now have going on.

Doesn't the Forest Service already have the authority to say that we are going to sell some salvage timber and you can buy it for \$10,000 and go ahead with it if the policy is to be that?

Mr. MONTGOMERY. Yes; I do not think those sales are restricted, however, to the size of employer. They can put up small salvage sales.

You can correct me, but I think that the \$10,000 provision applies where the Forest Service may in extenuating circumstances negotiate a contract that does not exceed \$10,000. At the same time, as Mr. Weaver knows, he was responsible for our particular district in Oregon putting up 10 salvage sales, but any and all can bid on those. I think that is the way it came out. It has nothing really to do with the size classification, Congressman.

Mr. SYMMS. The reason I was interested about that is that it seems like it has been very difficult. I have been working and trying to get the Forest Service to do this for 5 years now, but we need to have somebody start that as a policy. You know, the old saying is that water flows downhill.

What if a person has 26 employees, is he out of it?

Mr. MONTGOMERY. Yes.

Mr. SYMMS. Do you agree with 25 as a limit? How do you come up with that magic number? That is what I am interested in.

Mr. BRIGGS. Of our members, 82 percent fall into that category. I happen to be one of the other percent.

Mr. SYMMS. How many people do you employ?

Mr. BRIGGS. Around 50.

Mr. SYMMS. So you would have to divide your operation in half, then?

Mr. BRIGGS. I cannot divide my operation to qualify. I would have to change my operation if I wanted to qualify.

My feeling on this is that if I want to qualify or if I don't—some people are and some aren't—it is going to help my market. It is going to take competition away from what I am into or, if I want to qualify, it will take me out of the competition I am presently in.

Mr. WEAVER. Would you excuse us once again? This is a vote on the Pike amendment.

Mr. SYMMS. I want to ask one last question. Do you think this in any way would affect the small business set-aside? I am concerned that we need to protect that small business set-aside.

Mr. MONTGOMERY. I think you arrived late, Congressman. We have indicated that we are taking no position on that at all.

Mr. SYMMS. Do you think we should try to protect the small business set-aside?

Mr. MONTGOMERY. Yes, sir.

Mr. SYMMS. You see in no way that this might be opening the door?

Mr. MONTGOMERY. No, sir, basically, this is salvage timber which we are talking about. We are not talking about green sales at all. This is part of a program for 6 billion feet of timber that is now rotting in the woods.

Mr. SYMMS. How much of this do you think we could make electricity with?

Mr. MONTGOMERY. I don't know. I think phase 2 of the bill offers great potential. I have in the past done some work with the electric utilities on my own. I can assure you that they have spent considerable sums of money researching the possibilities of using residual forest products as an energy producer.

Mr. SYMMS. I have heard that some of the big companies are doing some work on it, too. In fact, PFI in my district is starting to generate some of their own electricity with waste. I think it is—I can't remember exactly—40 megawatts.

Mr. MONTGOMERY. I think there is a possibility that the Portland General Electric coal-fired plant at Boardman, with which I am sure you are familiar, Congressman, may have a supplemental fuel supply. Coal will be supplemented perhaps by wood waste.

Mr. SYMMS. It is interesting that Congress seems to keep pushing to lock up more trees. Yesterday we locked up 120 million board of redwoods—not with my support. Redwoods are the fastest growing trees that there are. Yet we talk about an energy crisis. We have the best solar energy converter there is in trees.

I like the idea of trying to get more timber salvage out of the woods, but I am puzzled about why we ought to say who can't do it and who can to it. I will talk with you more about this as we go ahead toward the markup of the bill.

Would you approve of raising that magic number to 50? Would that include more people? If this thing works as we think it is going to and if the companies get going, should they really be limited to 25 employees?

Mr. MONTGOMERY. We believe the vast majority of loggers all over the United States, including the South, are under 25 employees. They are the ones who are being hurt. It is those under 25 who are among that 141 loggers who have gone out of business in Oregon in the past 5 years. They were under the 25-employee classification. They are the ones who need the help. They are the ones who are incapable of bidding against the mills today. They are the ones who are best prepared to handle these salvage sales, many of which are on a hit-and-miss basis.

Mr. WEAVER. We are going to have to recess now.

[Recess taken.]

Mr. WEAVER. The subcommittee will be in session.

The gentleman from Florida is recognized.

Mr. KELLY. Thank you, Mr. Chairman.

Mr. Montgomery, in your statement you suggest that you are not asking for a subsidy. As I understand the bill, it mandates the size of the business. In other words, by edict, this committee is in the process of coming up with a bill that will arbitrarily intervene and help you to survive.

It would seem to me though if we are going to maintain a free-enterprise system, then you are just going to have to grunt and growl. If you can't hack it, then you need to be a bigger company.

Mr. Briggs has 50 people. He has 50 people because he apparently thinks he can make more money than he can with 25. Do you know what I know for sure? I don't know whether he should have 25 or 50, but I have some judgment he has a pretty good idea.

Whether you should have 100, 150, or what should be going on out there is not a social problem, it is not a political problem, but it is a matter of economics. It is a matter of industry economy.

Why should this subcommittee, on the predicate that we have, on social and political bases, mandate that you cannot sell it to anybody but a company with 25?

Mr. Chairman, I understand the provision about not being able to sell it overseas; you have no objection to that coming out. Is that correct?

Mr. WEAVER. No.

Mr. KELLY. I will pass over that.

I would really like to hear from you about why you think the Government should get out there and get into that industry and start telling people how big their company ought to be.

Mr. MONTGOMERY. Let me say, first of all, that the Government owns that timber. It is theirs. That timber is rotting. It is producing nothing in the way of revenue.

Mr. KELLY. Wait a minute before you proceed. I want to make it clear to you that I am clearly in favor and I think it is a great idea to get in there and clean up the salvageable timber. I am only talking about limiting to a specified company.

Why don't we just say to the industry, "Go get it"?

It is a good idea, so you don't need to defend that. I am with you. I am more with you than anybody on the committee about that. I am really your friend. But I am talking about our saying who is going to do it.

Mr. MONTGOMERY. As I read in my statement, it seemed to me that there was a clear expression from the Congress traditionally—and you heard testimony this morning—that there should be a Small Business Administration and that the Small Business Administration was designed, as its name implies, to help the small business.

The small logger in the United States is vitally necessary to the harvest of timber. The majority of them are small. They are unable to compete in obtaining Government properties. We believe that if there is a portion of those properties, as you have done in many other areas of the SBA Act, that can be better utilized and give the recogni-

tion to the small business concern by having a 25 limitation, then that is what we ought to be seeking.

It is a social question, I think.

Mr. KELLY. Right. Industry should be operated on the basis of industrial efficiency if we are going to survive in the world, not on political or social considerations, in my judgment.

Let me pose another question to you. Let's say one of the big outfits does decide that they are going to buy up a bunch of these small parcels or sales, and they are going to get into the salvage business, they are going to be bound by the same performance in the contract that anyone else is. If they are not doing it now, then that would indicate that the marketplace would say that a 25-man outfit is the right size and go in there and get it.

The problem I see as a layperson is that much of what you get out of those woods is not ever going to come into being as a finished product that can be used by American consumers. Much of it is going to be wasted because of the small size of the harvester.

If you had a big outfit pulling that stuff out of the woods, they would have a broader spectrum of utility. They can use it to fire boilers, they can make chips out of it, and they can do whatever it is that they are doing with it to a larger extent than a smaller operator.

I have an infinite confidence in the wisdom of the marketplace. I have no confidence in this Congress about running the lumber industry. I think there are some very fine Members of Congress that know a lot about the industry, but as a body I don't think Congress ought to take over in that industry.

Mr. WEAVER. Would the gentleman yield?

Mr. KELLY. Yes.

Mr. WEAVER. The gentleman makes some very good points. In particular, I like his point on efficiency. The gentleman assumes, therefore, that the free enterprise system, which I support, and the free market, which I support strongly together with the gentleman from Florida, are assumed to be the most efficient. I agree with him absolutely. The problem is that we do not have the free market system at work here.

We have huge corporations who can in bad years set prices on their finished product. They do. In many, many industries when demand falls, the price goes up. It just flies in the face of free market economics.

The point I make here is this. These gentlemen who appear before you have no control on the price of their product, what they sell, the log that they go in and harvest and bring out. They have no control over that. Therefore, in bad years they find it difficult to meet their payments on their heavy capital investments and they are squeezed out, while the large corporations not only control prices in bad years but they have the financial wherewithal to ride them out.

Let's get back to efficiency. I am absolutely convinced that the most efficient way to deal with this problem is through the small, independent logger. If we want efficiency, we have to make sure that there is a fair free market system out there so we can keep the most efficient workers in the business. That is why I think this is important.

Mr. KELLY. If the chairman would yield to a question, I recognize and appreciate the chairman's understanding and knowledge in the field and value his opinion. However, it seems to me as though the

people who cannot make it, if we are going to reach down and cause them to make it, what we are doing is artificially nourishing them because they cannot live in a free enterprise system. This causes the Government to interfere in the marketplace. If it is an efficient way to harvest these trees, then I can't believe that the big companies or anything else could do anything about it. The big companies would want them to if they could do it more efficiently.

It just seems that although we say we favor the marketplace and the free enterprise system, what we are doing here is saying that it does not work and we are going to cause it to come out differently. These people do not have the responsibility of survival in a free market because we are going to nourish them for social reasons.

I think Mr. Montgomery has been very candid in admitting that this is a movement that is predicated primarily on social considerations.

Mr. WEAVER. If the gentleman from Florida would allow Mr. Briggs to respond, I would like to hear from Mr. Briggs.

Mr. BRIGGS. Mr. Kelly, at the present time I am working on a sale as subcontractor. The millowner did not wish to take the cull logs out. By the stipulation in the contract, all he has to do is tell the Forest Service that he does not want to take them and we let them lie there. He also did not wish to take out the hardwood. I went to the millowner and requested that he let me take them out. He said fine. That worked fine that time.

The last time I requested that of a different millowner, he said no. I said I will buy them. He said, "No; I am not going to support my competitor."

If I buy this and try to sell it, then I am going to sell it all. I don't care about the competitor because I want to get all the return out of the product that I can.

I want also to answer the question of whether I am going to survive or not. I have been surviving all my life, but I have also been broke about three times while I was surviving. You know, I get tired of climbing up and falling down. I can keep surviving, I will guarantee you, because my family has been surviving in this industry for about three generations. I plan on surviving because I have had a lot of experience at that, but I would like to quit falling back down every time the market gets a little bad and somebody puts a squeeze on.

That may be a social issue, but I really do not feel like it is social. I feel more like it is economical.

Mr. KELLY. I don't know where your ancestors came from, but I'm betting you that the reason they came here was because they were running away from government. I think that what we are getting ready to do is let government catch us again.

There is no panacea in all of this, in my judgment. I think that the marketplace will decide the cheapest and most efficient way to harvest those logs. I think you are going to find you have a bad guy in the industry out there, but have you ever heard of a bad guy in the bureaucracy? Have you ever heard of some dumbbo who is functioning in EPA or some of these other bureaucratic agencies? You have dummies all over this world. There is no defense against them.

In other words, I think the bill sounds like a good one. You ought to have the sales small enough so that small outfits can buy because this will increase competition. You ought to clean the forests

out. That is a good idea. But when you start mandating who is going to do it, then you are turning it into a social program.

Mr. HIRONS. Mr. Kelly, I have logged five of these salvage sales last year for a timber purchaser who was also a millowner. I would like to try to explain to you what happens to a contract logger when he is faced with that situation.

You are going to get the cheapest and the most efficient job when a logger does it, no matter if he does it for the mill or does it for himself. The problem is this, and I will try to relate this experience to illustrate where the problem lies.

Last January the mill I normally contract-logged for decided they didn't want any more logs for 5 months, so I didn't fire up my equipment for 5 months, but I made payments on it every month. When May 15 rolled around, I either had to go to work or go out of business. So I took these five little salvage sales to log in order to get something going. I took them cheaper than I should have, but I didn't have too much choice in the matter. I have to get some cash flow going.

The job got done and it got done the way that the local Forest Service contract administrator wanted it done. The thing with these salvage sales is that you log for about 5 days and then you clean up after yourself for about 5 days, but you don't get paid for that cleanup work. The reason you don't is because that persons you are contracting for knows exactly what kind of cash position you are in. You are going to do that job cheap, and you are going to do it good, and you are going to do it to the specifications of the Forest Service.

We are doing it too cheap, but the reason we are is that every one of us has heavy, heavy capital investment in that equipment. I don't know of another business in the United States that will try to make a year's payment on 7 or 8 months' work.

Mr. KELLY. Is there any witness who has any comment about the second section of this bill?

Mr. MONTGOMERY. Mr. Crawford or Mr. Hanscom might discuss that. Both have devoted a great deal of energy to that problem.

Mr. HANSCOM. I will try to cover the slash area. We, for your information, Mr. Kelly, are also a large outfit, but we totally support the use of the small thing.

To give you an example—and this came out in the Oregon Logging Conference—we have kept actual costs to remove this slash. It has cost you, the people of the United States, not the logger because this is passed on into the finished commodity, \$728 per acre on the last sale we just finished.

We pile this slash. It will be burned by the Federal agency. There has been a deposit on \$17.68 per 1,000 of the merchantable material already deposited toward the disposal of this slash. It is a predeposit to the U.S. Forest Service.

We feel that there is an energy source there, an environmentally clean situation. We hate to see it burned because it does foul the environment. We would like to see it converted into usable energy.

Does that answer your question?

Mr. KELLY. Yes.

Mr. Chairman, could someone on the staff or the Chair explain the purpose of section 2?

Mr. WEAVER. The present practice in the forests, as our witnesses have so well described, is when they finish taking out the timber,

they yard the slash into piles where in the proper season it is burned. It pollutes our air and also is wasted as a form of energy.

This section requires the Forest Service to sell the slash on the open market and tells the Forest Service to set up paths by which it can be brought out of the forest to distribution centers to be made available to the open market.

The reason it is not done right now is because of the competing fuels today, the economics are not there just yet. But they are almost there. With a little push—and that is what this section is designed to give—we will begin producing enormous amounts of energy from what is now being wasted. This push is in section 2—to get the Forest Service to bring it out of the forests into distribution centers where it will be available for the open market.

Of course, the people who actually do this job of getting it out of the forests are the people we have before us today.

Mr. KELLY. Does the chairman intend to have some testimony from the Forest Service with regard to establishing these paths and what kind of impact this is going to have on the area and its future development to establish these paths and haul the material out?

Mr. WEAVER. That is an excellent question. The reason the Forest Service is not testifying today is that—and the judge will be only too familiar with this—the bureaucratic paths have not been cleared yet. We must await that.

Mr. KELLY. But the Chair intends to do that?

Mr. WEAVER. Before we take any action on this bill, we are going to get the administration's position on both sections.

Mr. KELLY. Mr. Montgomery, on page 7 of your testimony you said, "The small businessman logger is asking for Government authority to fulfill the congressional mandate to bring billions of board feet of dead, down, and dying timber into the marketplace."

It isn't clear to me why there is any relationship between bringing this material into the marketplace and the provision that only those hiring 25 people or less can make the harvest. Why don't we just put it out there in the industry and say grab it and growl?

Mr. MONTGOMERY. Mr. Kelly, neither is being done at the moment.

Mr. KELLY. In other words, you are saying that the opportunity to harvest this material is not being made available by the Forest Service. Is that right?

Mr. MONTGOMERY. That is right.

Mr. KELLY. And you think it should be?

Mr. MONTGOMERY. Yes, sir. I believe they think it should be. Their funds have been very slow, indeed, in arriving. They finally got some seed money in some of the regions last fall, so some of the sales have been put up, particularly in one district in Oregon.

Mr. KELLY. If that portion of the chairman's bill became law, that would be a tremendous advantage to the small operator, wouldn't it?

Mr. MONTGOMERY. That is already in the law, sir. That was in the 1976 Timber Management Act.

Mr. KELLY. Do you mean about enabling people to go in and clear up the forests and to harvest this kind of material?

Mr. MONTGOMERY. We are talking about two different things. I thought you were talking about the logging and merchandising of salvageable material.

Salvageable material leaves a great deal of residue. That is the section 2 provision. I thought you were talking about section 1, logging.

Mr. KELLY. I was.

Mr. MONTGOMERY. The under 25 applies—and correct me if I am wrong, Mr. Chairman—only to the logging of mortality timber.

Mr. KELLY. It only applies to what?

Mr. MONTGOMERY. Only to the logging of salvageable timber. It is not a part of the slash removal part in section 2.

Mr. KELLY. I was not confused about that. I understood that, but what I am asking is this. In your testimony you implied that billions of board feet are not getting to the marketplace now. Why would this bill, in your judgment, cause this to happen more effectively than it is now?

Mr. MONTGOMERY. I mentioned earlier that we had some amendments to offer. On the bottom line of page 1, we should like that to read “shall.” “The Secretaries of Agriculture and of Interior shall set aside” said timber sales, referring again to the mortality timber.

Mr. KELLY. Is that on the bottom of page 1, line 11?

Mr. MONTGOMERY. Yes, sir.

Our amendment suggestion would be: “the Secretaries of Agriculture and of the Interior shall set aside sales of such timber,” et cetera, rather than “may.”

Mr. KELLY. You are going to have a difficulty there, aren't you, that it is not good forestry to set aside these areas because of the necessity of additional traffic in hauling the material out, or in some areas going in and cleaning out may create more damage to the standing timber.

Mr. MONTGOMERY. Excuse me. Mr. Kelly. I think that is covered in paragraph 1 when you refer to the whole act as dependent upon the other provisions of the National Forest Management Act which covers the matters of ecology, et cetera.

Mr. KELLY. Let me go back to this other question to which I did not get an answer.

Why do you think this bill is going to get this material out when in the past it has not been gotten out? What miracle will the bill accomplish?

Mr. HIRONS. Mr. Kelly, I would not have any statistics to prove it but I think in dealing with the Forest Service over a good number of years on a local level that you will find on a one-on-one basis they are going to get a better cleanup job dealing directly with a contract logger rather than having a third party involved. It is going to offer an incentive to local district rangers and local timber sale officers to put more of these kinds of sales because they are getting a better job done on a one-on-one basis.

Mr. KELLY. What I am asking is this. Is this true if you are going to limit the companies that can be doing the harvesting to just those employing 25 people or less?

Mr. HIRONS. Yes; sir. The reason is this. Again I have to relate to a personal experience to illustrate.

If I am logging a salvage sale on a real close margin, I am not going to be terribly concerned about what kind of a cleanup job I do. I am going to do the minimum to get by and satisfy the contract because I am getting paid to move volume, not to clean up. The Forest Service

knows that. The timber sale officer with whom I am working on a day-to-day basis knows that. He expects it of me.

If I were the purchaser of that sale and had a bit more margin with which to work, I could slow down and take my time and not be so concerned about moving volume. He knows that. His district ranger knows that. It is my contention that the district ranger and the timber sale officer are going to be encouraged to put up more salvage sales when they know they are going to have to deal only with the small logger, not with the timberlands manager of a large corporation who is sitting behind a desk somewhere, who is never out on the job and never sees the problems that are involved on a day-to-day basis.

Mr. KELLY. Let me ask you this. Isn't this just a matter of economics in contract? If the contract says you have to clean the place up, no matter what the problems are, the biggest lumber company in the world has to comply with the contract the same that everybody else does. If he doesn't, we need some new Forest Service people; we don't need to change the law. Maybe we just need new people. We need to fire a bunch of them and get some new ones.

Mr. BRIGGS. You would just end up with the same problems, sir.

A large company might look at 10 percent of their production being salvage. It is a small item to them. When you start dealing with a small operator, it becomes his whole livelihood. It becomes a very important thing to him. You go to the workplace with a completely different attitude.

Do you follow what I am trying to say?

Mr. KELLY. I know what you are trying to say, but I think it is all just a matter of economics. They are going to have to clean it up. If you can do it cheaper than they can, then I think you are going to get the business. If they can do it cheaper than you can, then they are going to get the business.

I still do not see why you say that you are going to bring this timber to the market with this bill any differently than you would by just providing that the sales should take place and that they should be small enough to create competition so that you can afford to buy, so that you can get into the market. From then on it is just going to depend on efficiency.

Mr. MONTGOMERY. Congressman, let me turn to another thought for your consideration. I indicated in my testimony that we are 305 members. We think we represent more than half of the loggers in the the State of Oregon. We have had 141 members who have gone out of business.

Let's assume that that trend continues, as it is presently in Washington as well as Oregon, and that there are fewer and fewer logging companies. I am very sympathetic with your concept. Mr. Weaver would probably tell you that I am too sympathetic with it from past history.

Let's assume that fewer and fewer loggers are available to log that timber for the mills. Following your concept, the logging costs, because of competition, are going to increase. The mills can only afford to pay so much for the timber because they can only sell their end product for so much. The resultant effect is that the Forest Service must then reduce the values of their inventory, and the cost of stumpage will continue to decline.

Using your point of view, maybe we should consider the other side as well.

Mr. WEAVER. Excuse me, please. We are going to have to move on to other witnesses. Our time is running out.

Does Mr. Crawford have any response to this. If so, I would appreciate it very much.

Mr. MONTGOMERY. Let me just say that Mr. Crawford has been in this business of salvage logging for many years. He has about 12 employees. His total business is dealing in mortality sales. He is a real expert.

Mr. CRAWFORD. Mr. Kelly, on a lot of your questions that you have been asking, quite a few of them are answered in my own prepared statement. I did not know we were going to get to talk this long. We did not figure we had time for anybody's statement except Mr. Montgomery's. I intended on just giving you my statement as well as one to Mr. Weaver. It explains a lot of the questions that you are asking.

Mr. WEAVER. Without objection, your statement will be placed in the record at this point.

[The prepared statement submitted by Mr. Crawford follows:]

Statement of Jack Crawford

THIRD CLASSIFICATION AND MORTALITY SALVAGE

I have been a logger for thirty-two years, self employed for the past thirty years. For the past fifteen years I have felt concern over the discrimination I see against our industry. I helped put together the Associated Oregon Loggers to unite our loggers, and sat out some changes that would help correct this situation.

The third classification on government timber sales is just one of these priorities facing our association. The need for small business assistance is recognized and supported but not always at the right level. There is discrimination against some companies and some employees; some communities and small business suppliers of goods are being penalized.

In 1958, a small business was defined as having fewer than fifty employees. Today a small business is defined as something under five hundred employees, and five hundred employees is not small business. Those mills in or near the five hundred category have the best of both worlds. It is almost impossible to compete with established mills for small timber sales. We have forgotten the ambitious man who wants to be in business for himself in the timber industry. This man needs something to sell other than his employees labor and his knowledge of logging techniques.

The main reason we want this third classification on government timber sales is to help stop some of the economic exploitation of loggers by mills. We are small businessmen and tax paying citizens. We are entitled to a portion of government timber. We should be looked upon for what we are and exploited for the knowledge we have about harvesting trees in sensitive areas. This would help the Forest Service do a better job of silviculture because the logger is in a position to give these small sales the attention they need.

The only way a man can make a career of logging now is through contract logging and he is always at the mercy of the mills. A logger can make a profit by efficiency in his work, and if he has any logs, through the log market. Mills have more opportunities to profit through their use of contract loggers, employees and their mill equipment. Their profit is helped by the sale of off species as well as veneer, lumber, plywood and other products derived from wood waste. With this situation there isn't much hope of a logger competing to buy a timber sale. This takes the initiative away from loggers. We came up with the Area Salvage Program with the hope of having something of our own, but here again, the mills buy most of these sales.

Every forest is faced with the same elements, disease and bugs that are long term management problems. The Forest Service desperately needs these career loggers as their final management tools. It will not get done through the mills. It is very important that we keep an open mind and a route open to the man who wants to work in the woods as a small business. Our local economy is at issue, when the logger has nothing he can call his own.

A mini-business or a third classification is needed for the benefit of the logger, mills, Forest Service and the public. It is a simple answer to a lot of problems. We will never get a good silvaculture job done without it. It is necessary to the government agencies so that they can make a decision of what classification a timber sale would be in for the best results. They have said they want to help the small businessman. We need that help and we could help in turn by practicing good logging techniques. With a dependable supply of logs through this classification loggers could keep current on the very best equipment for logging this type sale.

The mill owners and their representatives are so far removed from these problems that they do not understand what the logger and the Forest Service are facing. The mills will not give this type of sale enough attention; they don't have the knowledge or the time to spend on these sales. A contract logger is forced to work on a volume and it is almost impossible to work on volume and do a good silvaculture job and make a profit. These sales are usually in sensitive areas and they need specialized logging techniques and top notch supervision on the job. The mills can't provide this. These sales should be bought and logged by small loggers to receive the most direct attention. The only way to achieve this would be a third classification for bidding these sales. A third classification would only apply to loggers with twenty-five or fewer employees. This is the only way we will ever reach the silvaculture objectives the Forest Service and the public want without all the hassle. A close working relationship between the Forest Service and the logger will obtain the desired objectives of water purity, multiple use consideration and sound land management. Many times this requires special equipment and a logger fully aware of the proper methods and equipment would insure the public of desired results.

At the present time these sales are advertised and bid. Many times purchasers are not aware of the high cost of this type of operation. They will bid the sale too high and not reimburse the logger sufficiently to achieve the desired results. This causes the agencies to back away from making similiar sales rather than promoting them. There is more mortality wood going to waste than we are harvesting in our forests. We have come up with a sound program to recover this raw material if the mills will let the small logging companies purchase these small sales. Associated Oregon Loggers helped the Forest Service put the area salvage program together. This program has cut cost and time in preparing a salvage timber sale.

Anyone familiar with our timber problems should not oppose us on this program. Our energy needs in the future can be helped with this program. It will be the logger who collects the slash and wood waste that we turn to energy to be transported on existant power lines. Enonomics will govern whether this happens. We certainly can not share the disposal of slash and wood waste with the mill owner. The logger is capable of doing any job if he is given some incentive and a fair profit margin. There is a wasteful use of energy from unnecessary transportation of certain logs and wood waste to manufacturing operations distant from the sale site.

Small companies need the protection of this third classification in order to continue in the logging business. We should do anything we can to promote better management of our forests and timber lands. This concept will go a long way toward preparation of timber lands for the planting of new trees. We are not interested in a finished product and the mills are going to get these logs to manufacture anyway. They should not be afraid of a change like the development of the third classification.

Benefits of a Third Classification on Forest Service, BLM and state timber sales

1. Help stabilize the logging industry
2. Help government agencies reach a silvaculture objective in management
3. Help stop collusion within the timber industry
4. Help stabalize the log market in all areas of country
5. help stabalize our economy in local communities
6. Help stop some of the economic exploitation of loggers
7. It will insure the public of better utilization of their timber supply and better management of our timber lands
8. Cut out the hassle
9. If loggers have something they can depend on they can keep current on the very best type of equipment to do the type of job that needs to be done. A high percentage of all logging is done by privately owned logging companies. They are not owned by mills.

Third Classification Things to Consider

1. What percent of total volume goes to the logging industry? Seven to ten percent based on allowable cut, directed toward mortality salvage.
SBA Status-non-manufacturing
2. Size of sales-one million feet of predominate species or less
3. Twenty-five employees of less

Mr. WEAVER. Why don't you, in a few words, if you can, Mr. Crawford, tell the subcommittee your thoughts.

Mr. CRAWFORD. I do not think that I can explain it in a few words. My statement is about five or six pages long.

Mr. KELLY. Mr. Chairman, we have something else getting ready to start on the floor. I will assure the chairman and the witness that I will read this statement and try to be enlightened as much as the parameters of my intelligence will permit.

I think these are important questions to me. I am glad you have offered this additional information on the subject. I will read your statement with interest.

Mr. CRAWFORD. Thank you, Mr. Kelly.

Mr. WEAVER. Mr. Crawford, I can assure you that I will certainly read it. As I said a moment ago, it will be placed in the record and will be a valuable part of this record.

I am proud of all of you. You have given what I consider to be excellent testimony.

These questions that have been raised by the gentleman from Florida and the gentleman from Idaho are questions that will be raised again and again by others of our colleagues. The answers will be very important in helping us resolve the issue.

All I have heard today only deepens my pledge to go ahead and either get the SBA to change or to enact this into legislation.

Thank you again very much for testifying and coming back.

Mr. MONTGOMERY. Mr. Chairman, excuse me. Were my comments to Mr. Kelly on our suggested amendments on line 11 sufficient introduction of our amendments?

Mr. WEAVER. Yes. Do you have the amendments actually written out?

Mr. MONTGOMERY. I can certainly do so very quickly.

Mr. WEAVER. We will place them in the record at this point if you furnish the clerk the language. We will give them consideration.

Mr. WEAVER. The Chair will now call Mr. Joseph W. McCracken, executive vice president, Western Forest Industries Association, Portland, Oreg.

Mr. McCracken, it is always a pleasure to have you before this subcommittee. Please proceed.

STATEMENT OF JOSEPH W. McCracken, EXECUTIVE VICE PRESIDENT, WESTERN FOREST INDUSTRIES ASSOCIATION

Mr. McCracken. I am Joseph McCracken, Western Forest Industries Association, Portland, Oreg.

Our association is made up of about 140 firms, lumber and plywood manufacturing firms, in 12 Western States.

I do not have a prepared statement, but I will make my remarks with respect to this legislation very brief.

I commend you, Mr. Chairman, for having this hearing and bringing to our attention again in this way the problems of salvage logging, which are crucial, and also the preservation of small business in this industry. For that, I commend you.

Having said that, I would want to add that our association in a unanimous resolution at our recent annual meeting opposed this particular piece of legislation.

I think the loggers should understand that, to my knowledge, there are no legislatively mandated size standards in the SBA program at the present time, at least not to my knowledge. This would be a precedent in that respect that the Small Business Administration, and I am sure the administration, would have a difficult time accepting.

Second, even if there are any such standards of which I am not aware, this would be a legislatively mandated size standard within a size standard. The complexities and the problems that would get into would literally boggle the mind.

I was very glad to hear Mr. Montgomery say that he hoped, however, that the plight of his clients, the small loggers in the West, could be helped if the Forest Service and the Bureau of Land Management were to increase their salvage sale program. We completely support him on that.

If it is true that the small loggers are having difficulties buying these small salvage sales because of competitive advantages with the manufacturers, then we would support Mr. Montgomery in urging that the Small Business Administration monitor this situation. At some point, if that is eventuating, then perhaps we could see if the Small Business Administration itself can correct the problem.

The thing that bemuses me a little bit, Mr. Chairman, is that I have talked, since this legislation has been introduced by you, to the Forest Service and the Small Business Administration to try to find out if something has happened. Are the small loggers being frozen out by bidding? What is going on here? To my knowledge, we have seen there is no evidence that anything has changed particularly.

The Small Business Administration specifically tells me that they have had no representations from these people that they have a problem. I think they should do that to see what has happened.

I have, for example, a record of the Siuslaw National Forest for timber under contract, the last record that we have. Large numbers of logging firms are buying these timber sales. I do not know that there is any change in this picture. There is no question that all of us have the problem of buying sales that we do not like sometimes and losing money, but I do not see that there is any change. That is my problem.

I would add one other piece of information. I had a meeting early this week in San Francisco with the Regional Forester for the Forest Service there. He pointed out that because of the 2-year drought in California they now estimate that there are 4 billion board feet of dead timber in the national forests of California. This is not the stuff that has been dying out there for the last 150 years. This is new. They intend to sell this fiscal year 900 million feet of that in salvage sales, just this year.

I am delighted to be able to report that. You and Congress are to be congratulated for providing the funds in the bill last year to make it possible.

I would hope certainly in that region that this program would take care of any of the problems of the small logger. There is going to be more timber down there, more small salvage sales, than I suspect there are loggers.

I would hope behind California that, with the provisions of the law of last year, the 1976 Forest Management Act, that as the money becomes available and the personnel, which is improving, that we

would also expand the salvage sales there. I would hope that that would help take care of whatever problems these people feel they may have.

I guess that would be the extent of my remarks, Mr. Chairman. Mr. WEAVER. Thank you very much, Mr. McCracken.

I understand your point of view. I disagree with it. I think that the mills which you represent would not be affected by this legislation but everyone would benefit, No. 1. No. 2, there have been, as testimony preceding you indicated, 141 Oregon loggers go out of business in the last 5 years. It is a serious problem.

I am speaking only as one member of this committee but I want to make it very clear that I treat this as a Forest Service issue and as an Oregon logger issue, not a Small Business Administration situation. I am not touching with this legislation the existing rules of the Small Business Administration. I don't want to do that. As I say, I treat this as a Forest Service and a logger issue. This will become Forest Service law, not Small Business Administration law. I don't want to affect your present SBA set-aside program. That remains just exactly as it is now. This legislation has no effect on it. I want to make that very clear.

Therefore, I don't feel that the Small Business Administration is the arbiter of this legislation, but rather the Forest Service and the loggers themselves, as well as the general public as represented by Congress.

The gentleman from Idaho is recognized.

Mr. SYMMS. Thank you, Mr. Chairman.

You made a comment in your testimony that if at some point something was done—did I understand you correctly—that you would support this legislation?

Mr. McCracken. If a case is finally made, Mr. Symms, that the livelihood of a large number of loggers out there is being jeopardized and their right to buy salvage sales is being jeopardized, we would look at the possibility of maybe having to correct it. Like anything else, legislatively you generally do not go into this arena unless you have a desperate problem. I see no evidence of any problem.

Mr. SYMMS. Did you mention something about if something were done about the small business set-aside that you would feel differently about it or did I misunderstand what you said?

Mr. McCracken. What I hoped to convey was simply this. At this time, because we see no evidence of any emerging problem in terms of the small logger being able to buy—I should explain that to my knowledge my members do their contract logging exclusively with the people that Mr. Montgomery is representing. We buy logs from them that they buy directly from the Forest Service. Our people do not have their own logging operations for a very good reason: these people are far more efficient.

What I tried to convey was this. If, over time, these people are unable to buy these salvage sales, which is not the case today, then I think we would come back.

Mr. SYMMS. Mr. Montgomery made the point that 141 small logging companies had gone out of business in the last 5 years in Oregon. To what degree do you think that those 141 loggers who have gone by and by would have an effect of rare 1, rare 2, primitive areas, wilderness areas, set-asides, public lands being denied use by multiple use concepts?

Mr. McCracken. Over the last 5 years, Mr. Symms, I think the log production for all lands in the State of Oregon has hovered around 8, 8½, 9, 9½ billion board feet. I would have to say that the number of loggers is in direct proportion to the number of logs you are going to log out there.

In the last 5 years I do not think the rare 1 or rare 2 type of problem has had an impact on what you are saying. It certainly can in the near future, however.

Mr. WEAVER. Would the gentleman yield?

Mr. SYMMS. I would be happy to yield.

Mr. WEAVER. In Oregon—and it may be different in the gentleman's State—when we talk about the 141 Oregon loggers who have gone out of business, there has not been a single log not sold because of rare 1 or rare 2 and there have been no new wilderness areas go in in this area. Therefore, it has to be something else. That is what we want to get to in this hearing, that it has to be something else.

Mr. SYMMS. What about road access, the failure of the Congress to appropriate proper moneys to build access into the national forests so that the Forest Service has the ability to sell small tracts of timber?

Mr. McCracken. There you have a very serious problem. A great deal of the salvage, the dead and down timber that is rotting on the forest floor, is there because there is no access to it. You cannot build these expensive access roads just to go in and pick up this stuff on the forest floor. A great deal of our problem is that, the fact that the money has not been available. The roads are not there. Therefore, it is inaccessible. That is a great deal of the problem.

Mr. SYMMS. From looking over Oregon and Idaho, it seems to me that it is a tremendous problem. When you get away from the roads, there are literally billions of board feet of timber that is falling and rotting and there is no way to get to it. It is not very valuable.

It certainly puts the Forest Service at a disadvantage as far as managing their national forest system to have the inability to have access to it?

Mr. McCracken. It is a very serious problem.

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

Mr. WEAVER. Thank you very much, Mr. McCracken. We always appreciate your testimony.

The Chair will call Mr. John K. Gram, Public Timber Purchasers Group, Portland, Oreg.

A vote has been called on the floor. Mr. Gram, we will be right back.

The subcommittee will recess for a few minutes.

[Recess taken.]

Mr. WEAVER. The subcommittee will be in session.

Mr. Gram, we look forward to your testimony.

Mr. GRAM. Mr. Chairman, it is a pleasure to be here.

I would like to introduce Howard Greenberg, who will participate with me in this.

Mr. WEAVER. Mr. Greenberg, we are pleased to have you with us.

Mr. GRAM. He is a former executive staff director of the House Small Business Committee and a former Deputy Administrator of the Small Business Administration.

I have a full prepared statement that I would like to have put into the record.

Mr. WEAVER. Without objection, so ordered.

[The prepared statement and attachments thereto submitted by Mr. Gram follows:]

STATEMENT OF
JOHN K. GRAM
PRESIDENT, PUBLIC TIMBER PURCHASERS GROUP
SUBCOMMITTEE ON FORESTS
HOUSE COMMITTEE ON AGRICULTURE
March 16, 1978

I am John K. Gram, President of the Public Timber Purchasers Group, with headquarters in Portland, Oregon.

This nationwide group is composed of 21 timber companies organized to combat the inequities of the present Small Business Administration Timber Set-Aside Program. All members have over 500 total employees and, therefore, are ineligible for United States Forest Service and Bureau of Land Management Set-Aside Sales. A membership list is attached (Exhibit A).

The proposed H.R. 11356 Salvage Sale Legislation is an outgrowth of a basic inequity in the present SBA Set-Aside Program. That basic inequity is nothing more complicated than the fact that the present 500-Employee Size Standard is overly simplistic and is far too high to reflect the actual small business aspects of this industry. The Size Standard should, therefore, be reduced to no more than 100 employees; in fact, a Size Standard of 50 is probably even more justifiable. And the Size Standard should include as a minimum both employees and production.

Another factor which emphasizes the basic inequity in the present Set-Aside Program is that not all companies with over 500 employees

own large amounts or even significant amounts of private timber but are dependent in a large degree, at least in individual operations, upon purchase of public timber. In fact, a good many mill installations owned by large companies are completely dependent on public timber and have no other potential source of supply. This puts them in exactly the same position as comparable mills owned by companies with under 500 employees. Several SBA eligible firms own more timberland than 7 of the 21 Public Timber Purchasers Group members.

We cannot be particularly enthusiastic about the current proposal to engraft another special interest program to the Federal timber selling activities, but we can certainly sympathize with the need which is being responded to by the proposed legislation on behalf of independent contract loggers.

Public Timber Purchasers Group members employ a lot of independent contract loggers and we can understand the desire of many of those loggers who serve a useful function in our industry, often as log brokers, in being able to buy timber supplies, process the timber and then resell the logs. The service they perform is really one of making sure the logs go to the specialized facility with the best capability for producing the maximum return out of that particular log. That's really what happens in areas where the big logging contractor, in particular, operate and it can make a lot of sense because when they buy a sale they distribute the logs

to sawmills, plywood plants, veneer plants, pulp logs to pulp plants, etc.

The present 500 Employee Size Standard is too high to allow the intent of the Small Business Act to be carried out. We couldn't agree more with Forest Service Chief John McGuire's statement to the February 7, 1977, House Agriculture Forestry Subcommittee Hearing concerning sealed and oral bidding where the Chief testified, in answer to a question from Congressman Weaver:

" . . . 500 employees is maybe not quite the appropriate definition (of small)."

Congressman Weaver then asked for clarification on higher or lower and Chief McGuire responded:

"I thought it ought to be lower. . . perhaps it could be based on something other than the number of employees. The volume of production might be a better measure in the case of this industry than the number of employees."

The facts about the sawmilling industry certainly supports the conclusion the Chief made concerning a lower employee number coupled with a production standard.

The best timber industry employee size standard factual information to date--actually, the only factual material--is the exhaustive

economic research completed in 1975 by Forest Economic Consultant Wesley Rickard. The study provides extensive and documented forest products industry size standard information, and I would like to submit a copy for the record.

The study provides strong evidence a 500 Employee Size Standard is not appropriate for the SBA Timber Set-Aside Program. Rickard's recommendation is a maximum 100 or less employee size standard coupled with a maximum level of annual lumber production of 40 MM or 12 million square feet (3/8 basis) of plywood.

Each year Forest Industries Magazine surveys the previous year's lumber production in its Annual Lumber Review. Of the United States top 100 lumber producers in 1975 ranked by Forest Industries Magazine, from among 1,047 reporting companies with a total of 1,554 mill installations, 42 SBA Program eligible companies were in the top 100 out of the 1,047 reporting companies.

In general, companies in the top 100 out of 1,047 reporting companies are well-managed and well-financed or they would not have attained this size. A review of the purchasers of Set-Aside Sales would show companies of 100-500 employee size have dominated Small Business Set-Aside Sales where they have chosen to enter the bidding competition.

The 1976 Forest Industries survey had 1,079 total companies reporting which represented 1,601 mill installations. Out of the top 100 of this 1,079 reporting United States lumber producing companies 41 came under the SBA 500-Employee size preference.

In 1976, of the 193 companies reporting annual lumber production of over 25 MMBF, 120 companies employed under 500 employees. That 120 of 193 is out of a total of 1,079 lumber producing companies. Thus 62% of all companies producing over 25 MMBF have the advantage of the SBA 500-Employee Size Standard. Sixty-two percent of the top 193 out of a total of 1,079. One hundred ninety-three of 1,079 of companies producing over 25MMBF annually is only 18% of the reporting companies. Five hundred twenty of the 1,079 reporting companies, almost 50%, produced under 5 MMBF. The overwhelming majority of companies producing under 5 MMBF are not only under a 100-Employee Size Standard, but most are under a 50-employee size, with many under a 25-employee size standard.

It is interesting that the legislation being discussed at this Hearing calls for a 25-Employee Size Standard--and I understand there was early Associated Oregon Loggers consideration of a 20 or 15 employee size standard under this salvage sale proposal.

The Rickard Study emphasized that the vast majority of lumber mills are truly small. Seventy-nine percent in 1972 employed

fewer than 20 people. The Rickard Study points out that the 100 to 500 employee companies are among the nations largest forest products firms have operating characteristics similar to those with more than 500 employees.

The facts demonstrate that the timber industry is not a concentrated industry. There is no undue concentration toward monopoly.

One consequence of the present excessively high 500-Employee Size Standard is that the true smalls, fewer than 50 employees, perhaps even fewer than 20 employees, get little assistance from the present SBA Program. Thus, they cannot grow and are the ones among whom attrition occurs, while the number of companies in the 100 to 500 category remain fairly constant.

Another consequence of the present SBA Program is encouragement of business to stay under 500 employees, not because they can't compete but because they get a distinct competitive advantage by remaining big-small.

The Public Timber Purchasers Group have several recommendations for correcting the inequities of the present SBA Program. The Size Standard should be reduced to no more than 100; 50 would be better, with a standard for maximum production.

Dependency on Federal timber is not limited to companies with fewer than 500 employees. Some PTPG member companies, while owning much private timber, have installations totally dependent on public timber. It should be noted that some SBA qualifying companies own more private timber than one third of the PPTG members. A partial listing of SBA eligible companies owning their own timberlands is attached. (Exhibit B)

PTPG also recommends that before the SBA Program is triggered in an area that the small businesses would benefit from the program are really in need of the timber. In areas where the Program has been in operation seven years, it is usually the big-small (100 to 500 employees) who have a larger timber supply than anyone else, truly small or large, and it is these truly small and large company operations who are forced to curtail or close because of the competitive disadvantage.

I have already mentioned that many companies ineligible for the SBA Program preference utilize independent contract loggers. One of PTPG's member companies utilizing one hundred percent independent contract loggers, reports only one of the independent contractors logging for their company employs over 25 employees, with many others employing under 25 and with the majority employing only 10 or 15. Another PTPG member company reports that 90% of their extensive logging is done by independent contractors, with one independent logger having approximately 150 employees, two others approximately 50 employees, and the rest under 25 employees.

In putting up Salvage Sales, Willamette National Forest in Oregon has been a leader--and there will be approximately ten Ranger District Salvage Sales later this spring, each with 30 to 60 MBF, appraised under \$10,000 but over \$2,000, sealed bid, with the basic thrust to clean up a few acres. Some of these will be area designation and some with the dead and down marked with blue paint.

While there were sales as small as this during the last few months on the Willamette, there were some slightly larger volume sales, not all salvage sales, but sales that still would be considered in the small volume category. Certainly they were not as large as several million board foot sale. It is interesting to note the successful purchasers.

The Chops Sale, 11/17/77, sealed bid, Set-Aside, on the Oakridge Ranger District (South SBA Market Area), 400 MBF (including PAM volume), the big-small Murphy Company (yet qualifying as under 500 employees) outbid five other nonmanufacturer independent contract loggers, including several in the 10-15 employee size range. The appraised price was \$18,290. The high Murphy bid was \$54,697.

On the McKenzie Ranger District (Middle SBA Market District) Ridgerunner Sale, 11/21/77, a Set-Aside Oral Auction Sale, Rosboro (another big-small mill owner with under 500 employees) outbid three small nonmanufacturers and another SBA classified

small mill. The volume was 510 MBF (including 10 PAM). The appraised price was \$30,000. A small nonmanufacturer logger was second at \$74,841 with the successful purchaser big-small Rosboro bidding \$74,934.

Also on the McKenzie District there was the Wild-Bunch Sale, 12/15/77, a Set-Aside Sealed Bid Sale, 890 MBF volume. Big-small Mazama Timber Products (an installation which previously was small, was then ruled by the SBA Size Standard Board as large, and whose size status is now under possible question) outbid another small company and four nonmanufacturer loggers. The purchase price was \$173,012 with an appraised price of \$44,551.

A close examination of salvage sales and small volume sales on other forests would show that the independent logging contractors competition comes generally from the big-small firm protected by the excessively high 500-Employee Size Standard.

We cannot be enthusiastic about this legislative proposal, because it serves further to fragment the industry and does not begin to address the need for management national forest timber. The crux of the problem for western industry is timber supply.

That would be alleviated to a high degree if old growth forests were being more rapidly harvested in order to avoid the heavy losses which this Program is only minimally responsive to. The losses to decay and mortality are going to increase and there is

going to be a greater need for salvage unless we take advantage of the bounty which nature has already provided but which is going to disappear if we don't intelligently take advantage of it and harvest it and get the new crop going.

We don't see the proposal as a very beneficial utilization of dollars or manpower to plan salvage sales at a high cost with a low return to Treasury and the industry.

However, we support the proposal if it is a way to alleviate a salvage problem in some areas, as long as the logs remain subject to be resold to anyone. The Program would be self-defeating if log sales were restricted.

It would also be desirable to treat this Program, if it is to be activated, as either outside the present system of establishing small base shares or triggering Set-Aside Sales.

The Program should deal with relatively small volume sales and perhaps there should be a size limit because there would be no justification for allowing large volume salvage sales, such as fire or bug kill, to be limited to operations with less than 25 employees.

This concludes my presentation. Along with the Rickard Study, I would like to submit for the record a background presentation concerning the SBA Program. Thank you, and I will be happy to answer any questions.

(The attachments follow.)

EXHIBIT A

MEMBERS

Bohemia, Inc.
Boise Cascade Corp.
Champion Timberlands
Crown Zellerbach
Diamond International Corporation
Duke City Lumber Co.
Fireboard Corp.
Georgia-Pacific Corp.
Edward Hines Lumber Co.
International Paper Co.
Kaibab Industries
Louisiana-Pacific Corp.
Nekoosa Papers, Inc.
Publishers Paper Co.
Pope & Talbot, Inc.
Roseburg Lumber Co.
St. Regis Paper Co.
Sierra-Pacific Industries
SWF Plywood Co.
West Coast Orient Lmbr. Mills, Inc.
Willamette Industries, Inc.

COOPERATING COMPANIES

American Forest Products Corp.
Deltic Farm & Lumber
DiGiorgio Corp.
Homestake Forest Products Co.
Kimberly Clark Corp.
Masonite Corp.
Medford Corp.
Mosinee Paper Corp.
St. Regis Paper Co.
Seaboard Lumber Co.
Wickes Corp.

EXHIBIT B

WEST COAST FOREST PRODUCTS COMPANIES WITH UNDER 500 EMPLOYEES
WHO OWN TIMBERLAND

Agnew Plywood	Oregon
Bennett Lumber Products, Inc.	Idaho
Broughton Lumber Co.	Washington
Paul Bunyan Lumber Co.	Oregon
Burrill Lumber Co.	Oregon
Cone Lumber Co.	Oregon
Coos Head Timber Co.	Oregon
Davidson Industries, Inc.	Oregon
Robert Dollar Co.	Oregon
Eel River Sawmills, Inc.	California
Erickson Lumber Co.	California
Frank Lumber Co.	Oregon
Gilchrist Timber Co.	Oregon
Giustini Bros. Lumber & Plywood Co.	Oregon
Hampton Lumber Co. (Willamina Lumber Co.)	Oregon
Harwood Lumber Co.	California
Hoffco	Oregon
Hull-Oaks Lumber Co.	Oregon
I. P. Miller Lumber, Inc.	Oregon
Kogap Mfg. Co.	Oregon
M & R Timber, Inc.	Washington
Mt. Fir Lumber Company	Oregon
Mt. Jefferson Co.	Oregon
The Murphy Co.	Oregon
Moore Mill & Lumber	Oregon
Al Pierce Lumber Co.	Oregon
Rosboro Lumber Co.	Oregon
S.D.S. Lumber Co.	Washington
Siller Bros., Inc.	California
Summit Timber Co.	Washington
Sun Studs, Inc.	Oregon
Twin Harbors Lumber Co.	California

Mr. GRAM. Before I turn the microphone over to Mr. Greenberg, I would like to submit a background presentation which contains much information that we have gathered in the past 2 years concerning the SBA set-aside program: The employee size standard, how the actual program really operates now, and variety of other information. We would like to have that inserted in the record, too.

Mr. WEAVER. Without objection, this will also be placed in the committee file.

I would like your exhibit A and exhibit B in the record together with your testimony, but the other material will go in the committee file.

Thank you, Mr. Gram. Mr. Greenberg?

Mr. GREENBERG. Thank you, Mr. Chairman.

STATEMENT OF HOWARD GREENBERG, FORMER DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. GREENBERG. I would just like to make a brief comment with respect to size standards.

There are one or two people in SBA who are engaged in the establishment of the size standards. When one considers the number of companies in this country in the various SIC classifications, I think it becomes obvious that a staff of that size can do an effective job in establishing size standards.

The most competent individual in charge of the size standard determination in SBA, a Mr. William Pellington, recently resigned. It is my understanding, at least from what I have been able to determine, there is no intention to fill that job. It just appears to me that not only with respect to the size standard affecting the small timber operators, but this is a problem which concerns all of the small businesses in this country.

Most of the size standards which are presently established are based upon one of two factors: Number of employees or dollar volume of receipts. I submit that in many cases, as I think is true in this one, the number of employees is not a true determination of the size of a particular small business. There are other factors, such as production, sales, net worth, profit, and other things which should be considered. I just wanted to make that a part of the presentation here today, sir.

Mr. WEAVER. I appreciate this very much.

I would like to tell you, Mr. Gram, that some of the ideas that you have presented here and upon which Mr. Greenberg has further commented are worthy of consideration.

Mr. GRAM. We appreciate that, Mr. Chairman.

Mr. WEAVER. They should be explored. I am sympathetic to doing so.

However, I would like to make it very clear that this bill before us today does not enter this area, does not enter the SBA area at all. It is a special situation.

But the points you have raised are certainly worthy of congressional consideration. At the appropriate time, perhaps we can deal with it.

I would like to ask you a question.

Mr. GRAM. Certainly, sir.

Mr. WEAVER. It is a concrete fact that in my part of the country that the number of independent mills has been diminishing and at quite a rapid pace. How do you explain that?

Mr. GRAM. I think the Wes Rickard story gets into that. If you would further update the Rickard study, the attrition is really basically coming in the smaller mills. It is not the big-small mills, the ones that have 200, 300, 400, or 500, employees. The attrition is coming in the small or also from the large, such as Edward Hines, Kaibab, and so forth right in your own district. In the case of the Hines West Fir operation, the SBA program was certainly one of the top two or three factors that basically caused the closure of that mill.

This definition of small and large is interesting. Mr. Hanscom, when he introduced his very excellent testimony, said that he was a large operator. I asked him a few minutes ago how many employees he had. He said 65. The definition of small is a very nebulous thing.

I have a story that I tell. I had a small mill and it was truly a small mill. I had about 17 employees. My family has had a Kalama, Wash., operation. I didn't think that was too small but it had about 45 employees. When I went to bed at night I didn't think I was especially big and when I got up in the morning I didn't think I was especially small.

The definition of small is a very nebulous thing.

The Rickard study is the most factual data that has ever been developed on an employee size standard and the definition of small within the timber industry.

Mr. WEAVER. Mr. Gram, I just asked why the number of mills are diminished. You responded by saying that the number of mills diminishing were both above the 500 limit and extremely far below the 500 limit. You didn't say why they were closing.

Now I am going to ask you a question more pertinent to your position. Why are the larger companies listed as your members more and more frequently entering the Federal timber market? First, would you grant me my premise that they are in the last 10 years more frequently entering the Federal timber market?

Mr. GRAM. It would depend upon that company's mill installation or the amount of private timber that they owned or had access to adjacent to that. As you know, economically you can only haul logs so far. It is certainly possible that, even with a company that had lands somewhat adjacent, for a period of time that there was harvest and for a period of time that there should not be harvest, so there could be switching back and forth from private lands to public lands.

Mr. WEAVER. I agree with all you have said, but the evidence is clear that they are entering the Federal timber market increasingly. I wondered why.

Mr. GRAM. Timber supply, of course, is the total problem. I do not think you are going to find totally that there is more of an increase in large companies in a particular forest because in one forest they might be increasing their purchase activities and on another forest decreasing it. It can balance out.

Mr. WEAVER. Thank you very much. I think that your testimony is valuable. I think you have made some extremely good points, ones that I think will help us very much in the consideration of this bill. I appreciate very much your coming.

My opinion of your abilities is always high and has been increased. Thank you.

Mr. GRAM. All the members of the Public Timbers Purchasers Group appreciate the opportunity afforded me to testify here. Thank you.

Mr. WEAVER. The Chair will call Commissioner Jerry Rust.

Commissioner Rust, you have brought quite a packet here. You have to tell us as you proceed how you want us to handle it. Please proceed with your testimony.

**STATEMENT OF GERALD H. RUST, COMMISSIONER, LANE
COUNTY, OREG.**

Mr. RUST. Good morning. Thank you very much.

I would like to say hi on behalf of Commissioner Wood and Commissioner Weinstein. They send their greetings.

I think it might be appropriate to make the entire packet part of the record or, as you wish, part of the file, but I am going to refer to some of the items. Then you can make your own judgment on that.

This packet represents, I think, a fairly broad perspective on some of the local government concerns.

The provisions in the bill have been pretty adequately covered by Mr. Montgomery and other witnesses. Therefore, I am going to try to talk on opportunity areas that maybe have been overlooked and refer to the legislation as it comes up.

I do support the legislation. I think it is highly appropriate to take some of the brush disposal dollars—and we heard some figures this morning of around \$700 an acre—to finance some of these projects. The revolving fund is good, collection centers.

As you know, Lane County is a major timber center of the U.S. Forest Service.

Mr. WEAVER. Commissioner Rust, I would just like to point out at this time that you are a commissioner of a county that is at least one of the top two or three timber producing counties in this country. I know what you have to say here is of extreme importance.

Mr. RUST. Thank you.

At the same time, Lane County is faced with a growing population. We are also one of the fastest growing population centers in the country. We are going to be hit with a lot of costs.

We have also a tremendous problem in producing jobs. I support the Wilderness Act. There is a feeling that some employment opportunities have been lost. Given that and the future growth, we are going to have to look for more jobs.

I can't talk about slash utilization without going into areas such as air pollution control, silviculture practices, economic feasibility, Forest Service-BLM administrative policies, and of course the latest technology in industrial manufacturing and marketing potential.

One point that I think is on target regards slash piling and burning. There is quite a difference between sanitizing a unit and burning a pile of yarded logs when most of the energy and most of the work has already been done in getting those logs up off the floor of the unit. It seems to me that it is almost a national disgrace to then touch them off. The burning of tractor-piled and yarded piles of logs should immediately cease. In fact, much of the time it is counterproductive.

I was a tree planter for about 7 years. I can tell you that you just cannot plant a tree after a cat-piled log pile has been burned. There isn't any soil left. It is sterilized two feet deep at times. So it is totally counterproductive.

If we must pile the logs and if we cannot find a market for them, why don't we just leave them there to rot then, and we could still get plenty of trees stuck in the corners of that pile?

That may be oversimplifying it a bit because there would be some cases where a fire danger would exist. I think we could be flexible on that. For the most part, though, I would stop the burning of tractor-piled slash piles.

Also, as far as silviculture is concerned, I really question the concept that we are in regard to monoculture. We are wiping out a lot of the species in the forest. We don't seem to recognize that a brush field like ceanothus is actually a very healthy and vital part of the ongoing ecosystem. I have personally observed that Douglas-fir seedlings are growing much better beneath that ceanothus brush than any place else on the unit. That is because the ceanothus is one of the prime nitrogen fixers in the forest.

Now that we are stepping up our cycle to 60 years, I wonder about the other prime nitrogen fixer, the lichens that grow only on the bark of old growth Douglas-fir. It has to be 100 years or more before lichens set on and take the nitrogen from the air and put it in the soil. It is a very delicate balance there.

I have some real problems about our total approach. Alder is still treated as a weed. It is another nitrogen fixer.

I would like to speak to the 25-person limit very quickly, and then I will go into a couple of other things. Well, let me finish this quickly.

In Oregon, we have been loggers, cutters, haulers, chippers, tree planters, thinners for too long, I think—at least if that is all we are going to be. I think our economy is being robbed in a lot of different ways. For logging, 1,000 board feet will produce 4.7 man-hours for lumber, 12.58 man-hours per 1,000 plywood jumps up to 19.5 man-hours and for finished products in a specialty line, it can range from 25 to 35 man-hours. The implication is clear that the further down the line we take a piece of wood in creating finished products, the more jobs we can create for our people.

We have traditionally shipped unfinished or semiprocessed. I think we have reached a time when we need to capture more of those job opportunities right at home.

Mr. WEAVER. To my mind, you are speaking to the central situation for a prosperous economy. Your words just ring in my ears.

The idea of using our timber resources to take it through the full cycle could make us one of the soundest, most prosperous areas in the country. The only threat to that prosperity is if we just simply continue to take the logs out at such a rapid rate that we no longer have a timber base. When that happens, God help the Northwest.

Mr. RUST. I appreciate that.

It seems to me the intent of Congress in regard to agriculture in our Soil and Water Conservation Districts is to keep the small family farmer alive, so we give payments to them. We don't want the whole country run by agribusiness.

I wish Mr. Kelly were here. I hope you can make special reference to him regarding these remarks that I am about to make.

I think we have an extremely unfair market situation now. I don't believe that there is this free competition that he speaks about. I think there is a monopoly on the so-called free market.

It is characterized by large companies with large holdings that have really overcut their own private holdings and then they turn around and demand the public timber. They can stockpile it. They can wait out a bad market year. They can mix public timber with their own private timber and come out fine.

There is the business of exports. They are manipulating the market in cases. I can tell you that there has been outright proven collusion between timber companies.

Therefore, I think the 25 employees, although there may not be any magic in it, it is a good start. You could adjust that down the line if it did not prove to be the most desirable magic figure.

I do not think that is quite the end of the story because we have to get the Forest Service into this small sales business. If they put up enough truly small sales, the problem would halfway solve itself. As a practical matter, there would be plenty of wood for the small operator to get out and it would be economically feasible for large companies to go after the small sales.

You have some manpower problems, administrative problems, thievery, and you have to monitor it. You have to have adequate manpower out there to mark out the units and to monitor the sales and make sure they are taken care of in a businesslike and efficient manner. We need to goad the Forest Service into it.

Our county and our State are 50 percent owned and administered by the Federal Government—BLM and the Forest Service—and we have necessarily looked to you and the rest of the Congress for leadership in this area. We will do all we can at the local level to help. In fact, that is why I am back here right now. But we have to have the enabling legislation through our Congress.

I would like to digress for just a minute on a couple of species of wood that get neglected. One is yew wood. This piece of yew wood I brought especially because a thinner told me that he was ordered by a BLM inspector to fell this tree. I counted the rings. It is between 175 and 200 years old, just about as old as this country.

This was a unit that was logged and up came the second growth. Now it was time to thin it. This was the size of the timber at the time of the thin [indicating]. I took this off the better one of those thin trees growing right next to this. It was a 12-year-old Douglas-fir. It was in a very high site area.

Mr. WEAVER. What are the diameters for the record?

Mr. RUST. It looks like about 8 inches. It could be 7. The other piece, the first one I mentioned, is 12 inches, the yew wood. The yew wood is about 175 years old. The Douglas-fir is 12 years old.

We are sacrificing this wood for no reason really, because it is very compatible with fir. There was a fir growing right next to this stump, and they left it and cut the yew. It was an order of the BLM. I think it is a national disgrace we do this to a tree that is so highly prized in other parts of the world, such as in England—and they basically have very little yew wood left. Some of the best is left in your district. The Cottage Grove and Umpqua regions are probably the best yew wood in the whole country.

Not only do we fell it, but we burn it and we leave it. It is the hardest, most dense wood in the forest. It has properties that no other wood has.

In fact, I included in my record a letter that I just wrote to Jack Alcock indicating to him that I had read that they are in a crash program in this country to solve cancer, and they are going through every plant available known to humanity to try to extract some quality that is going to inhibit cancer. They have found that the bark on the yew wood is one of the top three that they have discovered so far. So they have put out a bid for yew wood bark. The Willamette National Forest is going to administer it, and 4,000 pounds of it will be collected.

My letter to Jack Alcock implores him to make sure that the specs of the contract are that only dead trees should have the bark removed; no live trees should have the bark removed.

I would appreciate it, Congressman, if you would write a letter or insist that that be the case.

Mr. WEAVER. I will instruct committee staff at this moment to write the letter to the supervisor of the Willamette National Forest in that regard.

I would also instruct the staff counsel to write a letter to the Bureau of Land Management asking them why such a yew tree was felled.

Mr. RUST. It is systematic, too. It is not just a rare case. Thinning in the Forest Service and the BLM, they systematically eliminate other species than Douglas-fir. I have problems with that because I think that there are some God-given reasons for a healthy balance in the forest. It has burdened me and sorrowed me as a tree planter to see the yew wood left on the unit time after time. I have seen it by the hundreds of logs. I think it is a national disgrace.

We have a 5-minute film we would like to show. What this film will describe is a blend of labor intensity with 20th-century technology in getting at the cedar that was felled perhaps 20 or 30 years ago when it was unmarketable but it is still there. It might have a few more bugs but it does not rot. This is one way of getting at some of that wasted resource.

[The following comments were made by Mr. Rust during the showing of the film:]

Mr. RUST. All over western Oregon there are canyons full of downed cedar logs. These people go out and identify the area and then beg the Forest Service to put it up for sale. If they are the successful bidder, they will buck it up and prepare the bolts. There is no waste whatsoever in any of those bolts.

I am sure you must be aware of the price of shakes.

He has a line and it could be a longer line if it is a steeper area. Of course, there is no environmental derogation whatsoever.

The helicopter is now carrying the bolt to the landing. It takes that helicopter about 60 seconds to drop his load. It is an electronic switch to drop the load, and then he is right back to pick up another bundle.

This helicopter charges about \$250 per hour, so they have to have about four or five people out there because the cedar logs are scattered,

and they cannot run from one section to the other. They have to be ready. I think they told me this entire operation cost them \$1,000 for 4 hours' work with the helicopter.

The problem, once again, is the fact that the Forest Service simply is not putting up these sales. You could go up every creek and every small stream. The cedars usually grow at the base of the canyon. They were felled. We are not talking about live timber. We are talking about cedar that has been down for 20 years maybe in some cases. It was downed 20, maybe 30 years ago, when the first cut was taken.

You can see some small firs are growing along with a lot of other things. It looks like alder and maple coming back.

That is an example in Washington. That was in the Siuslaw National Forest.

The point is that they are not getting out there and marking out those sales. There has to be a way to break that administrative impasse. They have to put up those sales.

These people tell me that even fenceposts, they could make it flying out cedar posts. Even the stuff that is too wormy for shakes can be economically harvested at this time with a labor-intensive approach combined with the 20th century technology. It is economically feasible.

Mr. WEAVER. That is some of the most dramatic evidence of why we need concentrate on these salvage sales.

Mr. RUST. Absolutely.

I also would be remiss if I did not refer you now to the next to the last page in the packet. I will summarize it. It is resolution 78-2-22-15, a unanimous resolution by our board in the matter of supporting a cedar salvage program.

We simply say that red cedar is a diminishing species. It has unique properties. There is a public need and a ready market. There is a need to create jobs. We believe substantial numbers of down cedar logs exist. We call on the Congress of the United States to spare no effort in supporting a cedar salvage program and utilizing these now wasted resources and make small sales available on a regular basis.

Mr. WEAVER. Without objection, your entire testimony will be printed in the record. Following that, the resolution you have just mentioned will be put into the record.

Mr. RUST. Thank you.

I have also included several items that your staff has helped me on in Eugene. I want to compliment them.

I will just briefly mention that they are feasibility studies taken after the West Fir Mill was closed. What we have come up with—and it did cost us quite a good deal of money because we paid \$30,000 for these two studies, and the State of Oregon helped us, for which we are thankful. They are already using these studies as blueprints.

One is a general strategy for dealing with economic dislocation. When a milltown goes down, what do you do? It gets at establishing revolving funds.

It has been suggested that we need an early warning system. We need to know when a milltown is about to go down. There are different ways to be able to tell that.

If in hindsight we could have known that Hines had not made a hard bid in several years, that would have been helpful.

No. 2, there is another study with immediate steps to be taken and recommendations for alternative businesses. As you can see from the

report, most of these alternative business opportunities are directly connected to your subject at hand: specialty wood manufacturing, high quality furniture, handicraft items, cedar shakes, split cedar, insulation from wood fiber, and fuel pellets.

I am leaving those with you. I want to emphasize that I think they are going to be blueprints for dealing with this problem on a statewide basis.

I think we should be anticipating problems and not continually crisis-funding our way out of situations.

I do support your legislation with 25 employees or less. The good, old-fashioned Yankee ingenuity, coupled with sometimes a shoestring worth of capital, has done more to make this country great than anything else.

I have a couple of final comments, items for your consideration.

Halt the burning of slash piles. Note that I am talking about piles, not units. I have already gone into that.

By the way, I want to make note of three other pieces of wood that I brought along with me. They all three came from the same slash pile [indicating pieces of wood hooked together]. Yew is on the top, chinquapin is there, and maple here. All are from the same slash pile. That is black walnut, and I think we ought to be planting black walnut now because it grows very well in Oregon. It is not a native species, but neither is the China pheasant, and it enhances our opportunity for the future.

I think you should consider a moratorium on herbicides. At least the Congress should consider some testing. There have been very disturbing reports. We feel in the fourth district that we are being exploited. Jobs are being shipped out of the country. Not only that, we don't have any control over these herbicides that are showing up in the fatty tissues of animals, even in mother's milk. A lot of people are complaining. It is a burning issue.

It is partly industry's fault because they have overcut. They have exported and now they turn around and want to speed up the rotation every chance they get. I am not saying the total industry but some irresponsible ones.

Of course, the spring of herbicides is a way to have a dramatic and quick impact on a brushfield and get it over with, but there are alternatives.

Unless you do some studies, unless you do something like threaten a moratorium until those studies are resolved, they are not going to come up with alternatives. In fact, they will drag their feet.

The county of Lane has banned the use of herbicides on its roadway system. We have not yet experienced our pavement crumbling or a high rate of accidents. In fact, we are utilizing CETA employees to handbrush the roadside. We are looking at plantings that will stabilize the roadside. It is a much better deal for the public.

I strongly urge looking at herbicides of the phenoxy base.

Review the philosophy behind monoculture and the systematic elimination of some of these other species.

Direct the Forest Service to make small sales available on a scale that they have not yet even dreamed of. I think there should come a day when even a single log should be fit for a bid and the high bidder should take it.

The manpower ceilings are apparently a problem. Look at those, adjust them to a more realistic level. If we are going to administer small sales, we have to have people staking out units and monitoring it.

Finally, I would like to encourage your subcommittee to visit Lane County. We would be happy to personally help in arranging any tours or anything else we could.

I would note that I think you are doing a great job as our Congressman. You have managed to get across the idea that even wilderness is not a single use it is a multiple use. The watershed, the scenic, the game management, all the rest are tied in together. Let's make it not just lipservice to multiple use, but let's make it work.

Thank you for this opportunity.

Mr. WEAVER. Commissioner Rust, those were fine words. They will be very valuable as part of this testimony.

I have already indicated the full testimony, and the resolution will be part of the record.

[The prepared statement of Mr. Rust follows:]

TESTIMONY BEFORE THE FORESTS SUBCOMMITTEE
OF THE HOUSE AGRICULTURE COMMITTEE ON
NATIONAL FOREST SALVAGE SALES AND SMALL BUSINESS SET-ASIDES

March 16, 1978
Washington, D.C.

Dear Committee Members:

It's a great pleasure to be here with you this morning in the nation's Capitol and I come bearing greetings from the State of Oregon, the County of Lane, and the Fourth Congressional District. It is also a pleasure to be here at the invitation and request of our Congressman Jim Weaver, a Congressman who is working hard to promote and implement progressive activities, some of which you are contemplating this morning. The bill that would direct the Forest Service to develop pilot programs for the utilization of forest slash is a very important first step in terms of legislation. I highly approve of using some of the brush disposal dollars to finance these pilot projects, particularly collection centers where the Forest Service could sell the usable slash on the open market.

Lane County is a major timber center of the United States Forest Service and the Bureau of Land Management. As you are no doubt aware, more than 50% of our state and of our County is federally owned and administered and we necessarily look to the Congress for progressive leadership. Oregon, and especially Lane County, is faced with a growing population. This increase in our population will burden the state and County with higher operation costs. These higher costs will also be reflected in all sectors, especially in the schools, universities and other social institutions. One of the paramount problems will be to provide jobs for this increase in population.

While I personally support the Wilderness Act, there is some feeling in Lane County that jobs have been taken away in the process of establishing the wilderness areas. Employment opportunities in Lane County must be increased. Assuming that some future employment opportunities have been decreased because certain forest areas have been designated as wilderness areas is the basic reason why we must plan and implement new jobs in our forest industry activities. We must make better use of all our forest resources.

The ramifications of total slash utilization are difficult to define. It leads, inevitably, to the consideration of air pollution control, silvicultural practices, economic feasibility, Forest Service/BLM administrative policies and, of course, the latest technology in industrial manufacturing and its marketing potential. As you are no doubt aware, the major population of Lane County resides in the southernmost part of the Willamette Valley and we are constantly plagued with an accumulation of smoke and residue from slash burning and grass field burning. There are some fundamental reasons for attacking the slash disposal problem in regard to smoke and other environmental pollutants. I feel there's a difference between burning piles of logs which have been yarded out off the logging units and piled on landings only to await the torch and a unit which has been burned

cleanly and quickly with adequate combustion. The burning of tractor-piled and yarded piles of logs should immediately cease.

In regard to silvicultural practices, it appears there is an overbalanced regard for a single species, the Douglas fir. The concept that monoculture is absolutely desirable is now being questioned. When we destroy a brush field of ceanothus, we do not recognize that this brush is a nitrogen fixer and that Douglas fir seedlings are more healthy, growing beneath this canopy of brush than in any other area in a clear cut unit. I have personally observed this situation in the Oakridge Ranger District of the Willamette National Forest. Herbicides are used, and in many cases in excess, as a silviculture management tool and, as you are no doubt aware, traces of this dioxin from the 2-4 D and T has been found in fatty tissue of animals and even in mother's milk. There is a well-founded fear that these chemicals may not have been adequately tested and proven safe. I also question our changing of the natural succession of growing species. Alder is treated as a weed although it, too, is one of the prime nitrogen fixers in the forest and it is now coming into its own as a hardwood. Lichens, which grow only on trees 100 years and older, are also a prime source of nitrogen and what are the implications there when trees of the future will grow only 60 years? There is a delicate and fragile balance in the usable nutrients of the forest soil and any changes which are made should be thoroughly examined or possibly the spinoff effects may be to our detriment.

Economic feasibility? We know that for any program to ultimately succeed it must pay its own way. If we are to make use of logging slash it must be economically feasible. I would like to suggest that a crash program be planned and implemented to utilize the maximum portion of the logging slash. This recommended program would include slash removal, transportation, manufacturing, utilization and marketing.

In Oregon, we have had a tradition and are raised in the tradition of logger, truck driver, greenchain puller, slash piler, buckler, faller, planter, thinner, and while skill and pride is inherent in all of these professions, we also realize that our economy is being robbed because direct employment per 1000 board feet for logging is 4.72 man hours; for the lumber industry, 12.58 man hours per 1000; for plywood and veneer, 19.47 man hours*; but for finished products in the specialty line, a range from 25 to 35 man hours, depending on the specific product. The lesson is clear: more jobs can be created the further down the production line we take a piece of wood in creating a finished product.

Here in Oregon, we have traditionally manufactured our forest resources and shipped the unfinished or semiprocessed wood to other areas for final processing and/or utilization. It appears that we have now reached a time when we should do more final processing in our home state. We envision an increase in those employment opportunities which are more labor intensive. We should be manufacturing more precut/prepackaged houses, modular houses, furniture and furniture components, specialty household items, etc.

*Softwood Log Exports and the Value; employment issues. David R. Darr.

Industrial manufacturing of this nature would not only consume a large volume of our Douglas fir, but many of our hardwood species.

Let me digress on yew wood. It has almost a mystical quality and literature, ancient and modern, is replete with references to this wood. As you may know, Robin Hood's bow was of a yew stave. Precious little yew wood is remaining in England and what is left is highly prized. It is an extremely slow growing species and a tree of one foot diameter is, perhaps, several hundred years old, sometimes more. It has burdened me and sorrowed me to know that our administrative practices in the Forest Service and the BLM lead to the waste of this highly valuable species of forest resources. The yew is cut, felled, and left, or worse, burned. Farmers, when they can get it, use it for lifetime fence posts. Recently, I read an article that stated that the yew tree has been discovered to contain an anticarcinogenic quality and that the Forest Service will be taking some 4000 pounds of yew bark for the purpose of cancer experimentation. I submit a letter which I drafted to the Willamette National Forest supervisor, Jack Alcock, speaking of my concern in this matter, because, we have already cut and left countless yew trees. The specifications of the timber sale bid should require that no bark be taken from live trees and I would favor a more balanced approach in preserving these slow growing, majestic, almost spiritual trees, or at least the trees should be removed, when necessary, and not be burned and left to rot on the forest floor.

In the past, Western Red Cedar was not economically feasible to remove from the forest, although now they are highly prized and the cost of cedar for shakes has risen dramatically. It is now economically feasible to go back and harvest some of our former "so called" unusable species. I also would like to present a resolution from our Lane County Board of Commissioners which calls upon the Congress to make salvage cedar sales available and that we would be willing to demonstrate a local commitment to aid in any practical manner in such worthwhile programs. This is a continuing example of our Board's relentless efforts to relate to unused natural resources and link them with the human potential and create jobs and products. I would also like to leave with you some documents from two small towns in Lane County: Oakridge and Westfir. I would also like to take this opportunity to compliment Congressman Weaver and his staff for their sincere and never ending efforts in trying to assist Lane County with its economic problems. These documents provide an insight to: 1) a general strategy for dealing with economic dislocation, and 2) immediate steps to be taken and recommendations for alternative business opportunities. As you can see, most of the alternative business opportunities that have been recommended are directly connected to our subject at hand: specialty wood products manufacturing, the high quality furniture, high quality handcrafted items and cedar shakes and other split cedar, as well as the making of insulation from wood fiber and fuel pellets. I should also like to leave with you a copy of some meetings that we have held in conjunction with Congressman Weaver's staff and the US Forest Service and Bureau of Land Management.

I wish to emphasize that it's extremely important to move forward on the bills that Congressman Weaver has proposed. The pilot projects are absolutely necessary to our better utilization of our natural resources. And, finally, small timber sales for logging operators with 25 employees or less has been a distressing area for a long time. Good, old-fashioned yankee ingenuity and a

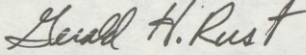
shoestring worth of capital has done more to make this country great than anything else. The fact that our economy is now dominated by the larger corporations is no reason that we should forget the small business man. This is a small, but vitally important step, and I encourage you to act affirmatively on this proposed legislation.

Some other items for your consideration would be:

- 1) Halt burning of slash piles (note: piles, not units). If it's economical to yard logs to a landing most of the work has already been done and it is not necessary to burn those piles. While it may be useful as a silvicultural practice to burn a steep unit and sanitize the unit, that's different from a tractor piled slash pile which is actually counterproductive; sterilizing the soil, often two feet in depth, and leaving virtually no soil for reforestation so it's counterproductive; much of the burning, and most of the smoke comes from the smoldering slash pile not the fast, clean burn.
- 2) I would consider a moratorium on herbicides of the phenoxy base. As I said earlier, these dioxins have shown up in fat of animals, tissue and even in mother's milk.
- 3) Review the philosophy behind monoculture and the systematic elimination of the God-given variety of species which all have a place in the forest and all at some point play a vital role either in fixing nitrogen, providing shade or in balancing the eco system.
- 4) Direct the Forest Service to make small sales available on a scale that they have not yet appreciated or planned. There must come a day when even a single log can be sold to the higher bidder.
- 5) I encourage you to look hard at your manpower ceilings and adjust these at a more realistic level. If we're going to administer small sales we must have ample personnel staking out units, monitoring the logging and making sure that the sale specifications are complied with in a practical and businesslike manner.
- 6) I cordially invite you to visit Lane County. I will escort you to visit various logging and industrial areas. This will present you with an opportunity to personally view our forests and receive first-hand knowledge of our economic problems and activities. A forest should be managed on a multiple use concept and this should be an actual meaningful concept, not just a "lip service" manner. The multiple use concept includes recreation, game management, mining, tourism, scenic, equestrian, hiking, timber, preservation of a genetic pool, watershed capability--it's all tied in together so I cordially invite you. Come to Lane County, see for yourself.

In the meantime, I think the bill before you is a good bill. I think it should come out of your subcommittee with a resounding endorsement and I encourage you to take it before the House and enact it. It is legislation that is needed by the people of Oregon and especially by the people of Lane County.

Sincerely,

A handwritten signature in cursive script that reads "Gerald H. Rust".

Gerald H. Rust, Chairman
Lane County Board of Commissioners
Plaza Level/Public Service Building

GR:hlb

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

RESOLUTION 78-2-22-15

} IN THE MATTER OF SUPPORTING
 } A CEDAR SALVAGE PROGRAM

WHEREAS, Western Red Cedar is a diminishing species in the forests of Lane County, and

WHEREAS, cedar's unique properties make it ideal for roof shakes, posts, and other uses, and

WHEREAS, there is a public need and a ready market, and

WHEREAS, there exists a need to create more jobs in the Forest Products Industry, and

WHEREAS, the cost of standing cedar is sometimes less per thousand through federal bid than salvageable cedar, and

WHEREAS, the Board of County Commissioners believes substantial numbers of down cedar logs exist, especially in the Coastal canyons of Western Oregon, it is hereby

RESOLVED, the Lane County Board of Commissioners calls on the Congress of the United States to spare no effort in supporting a cedar salvage program aimed at utilizing these now wasted resources, and to make small sales available on a regular basis, and

FURTHER RESOLVED, the Board of Commissioners is willing to demonstrate a local commitment by aiding in the administration of such programs and utilizing CETA and other County staff to better manage and utilize this resource.

DATED this 22nd day of February, 1978.

Gerald H. Runt, Jr.

Chairman, Lane County Board of Commissioners

APPROVED AS TO FORM	
DATE <u>2/23/78</u>	by <u>Secretary</u>
<i>Larry H. H.</i>	
OFFICE OF LEGAL COUNSEL	

March 6, 1978
WP 11064-FF-10

John L. Alcock
Supervisor
Willamette National Forest
Federal Building
Eugene, OR

Dear Jack:

I read with extreme interest in the March 3 issue of the Willamette Valley Observer of the potential relationship between yew bark and cancer. Further that your forest is in the process of formulating bids for the acquisition of up to 4,000 pounds of bark. I have several concerns:

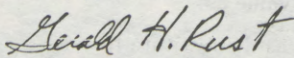
1. I am of course encouraged any time one of our waste woods becomes useful. However yew bark is a very thin substance, and my thought is that perhaps without proper research and guidelines live yews would be harvested for the taking of the bark. In that there are many units which have already been logged on which bark is readily available, I am wondering if people could not take pack sacks unto the units and recover the bark from the trees which are already down. Incidentally, I think Lane County would be interested in knowing where such logs are available. I am further wondering if perhaps a program to salvage the entire log, at least when feasible, could not be implemented at least parallel to the same bid.

At any rate my main concern is that no more live trees are taken only for their bark.

2. We may be able to harness this bid with a broader program which could salvage the entire log. I have just recently been given a copy of a new book published by International Paper titled "Wood." On page 131 there is a picture of a young man working on a four poster bed, the four posts of which are made of yew from England. This is from a country workshop in England where they prize the yew tree which we burn on the slash pile and leave on the units. I think that there are numerous opportunities especially for furniture making. The rot resistant character of yew also makes it very useful as an outside building component.

In the meantime, I think the bill before you is a good bill. I think it should come out of your subcommittee with a resounding endorsement and I encourage you to take it before the House and enact it. It is legislation that is needed by the people of Oregon and especially by the people of Lane County.

Sincerely,



Gerald H. Rust, Chairman
Lane County Board of Commissioners
Plaza Level/Public Service Building

Mr. WEAVER. I would also like to ask unanimous consent that the balance of your packet be placed either in the record or the file at the discretion of the chairman. Without objection, it is so ordered.

I would also like to place in the record a summary of the general situation in this Nation today on the use of wood waste, compiled by a very able gentleman from the State of Mississippi, John Peterson. He has done a great job in delineating in outline form exactly where we stand—or actually where we don't stand—in utilization of this wood waste. Without objection, that summary will be placed in the record at this point.

[The material referred to above follows:]

FOREST RESIDUE UTILIZATION

(Submitted by John Peterson)

I. SUMMARY

A. Utilization of mill residue as fuel and raw material is approaching production capacity except in New England.

B. Rising fuel and fiber costs will make forest residues economically viable in the near future.

C. There is a need for better development of *collection* and *utilization* methods, than of basic research.

II. IMPORTANCE

A. The pulp/paper industry consumes most of the forest industry energy.

B. In the Southeast and Northwest, the pulp/paper industry produces 50 percent of its energy through waste utilization.

C. Further reduction of the industries dependence on foreign oil will require increased utilization of forest residues.

III. SPECIFIC INFORMATION FROM TECHNICAL STUDIES OF THE TIMBER INDUSTRY

A. *Forest residues* are not generally economically viable at the present price structures. The gap is closing, but there is much regional variation.

B. There is regional diversity in demand for *mill residues* for use as fuel, fiberboard, and pulp at roughly the same price spread.

1. New England has a surplus of mill residues for which there is a depressed price. Brown Company is making a major expansion of boiler uses.

2. Arkansas (and probably Mississippi) has mill and fiberboard capacity which is approaching supply resulting in higher prices. Some industries are turning to green residues at current prices for boiler operation.

3. In Oregon and California, the bulk of mill wastes are currently being utilized as pulp, fiberboard and fuel.

C. The level of lumber prices in relation to mill waste prices makes reduction of mill residue economically desirable with available technology. Off-the-shelf technology could reduce mill residue by 27% immediately.

D. Mill residues will continue to increase in value as:

1. demand for pulp and fiberboard increases,

2. wood becomes increasingly desirable as a substitute for oil,

3. production of mill residue is reduced through more efficient milling.

E. With the increase in mill residue values and oil costs, the utilization of forest residues and harvesting of less desirable species will become increasingly attractive economically. The degree to which this will be utilized as raw material or energy will depend on general market factors, type of wood, ease of harvesting and transportation.

F. A technical report by the USFS Forest Experiment Station at Portland identifies R. & D. needs as:

1. marketing procedures for logging residues,

2. materials handling for slash collection,

3. process and product technology for higher level utilization,

4. market evaluation.

G. Department of Energy takes the position the increased utilization of forest and mill wastes is adequately covered by existing research and close enough to commercial utilization as to require no basic research.

IV. TECHNICAL REPORTS SUPPORTING THE ABOVE

Forest Products Research Society, *Wood Residue as an Energy Source*. Proceedings of a FPRS Workshop. Denver, 1976.

Forest Service, *The Feasibility of Utilizing Forest Residues for Energy and Chemicals*. A report to the National Science Foundation, 1976.

Grantham, John A., et. al., *Energy Raw Material Potentials of Wood Residue in the Pacific Coast States*. Pacific NW Forest & Range Experiment Station Technical Report PNW-18. Portland, 1974.

Howiell, K. and A. Gamache, *Silvicultural Biomass Farms, Vol. VI. Forest and Mill Residues as Potential Sources of Biomass*. Mitre Corporation report to Div. of Solar Energy, ERDA, 1977.

Inman, R. E., *Silvicultural Biomass Farms, Vol. 1, Summary*. Mitre Corporation report to Division of Solar Energy, ERDA, 1977.

Mr. RUST. Mr. Congressman, I would like to tie up one last idea on herbicides because I indicated that there may be alternatives that have not been fully explored.

When I planted in the Siuslaw National Forest, we tried to reestablish the fir. There is also an opportunity to grow spruce, red cedar, and hemlock. In many of the brushfields, these three species that I mention are shade tolerant, and they come right through the brush. No spraying would be needed in those situations.

For example, a cedar planted next to a maple stump, the maple sends out its suckers and shades the Douglas-fir and prevents it from coming through. It cannot do that to a cedar. The cedar will eventually dominate and probably kill the maple.

We also have so many people out of work. CETA apparently is with us for a good deal longer than we originally anticipated. I am thinking we could tie that money into some of these projects. In one of the titles of CETA, the youth conservation, there can be some effort to do some of this manually. I would like to look at alternatives. I encourage you to look at that.

I would very much like to get involved in developing some recommendations.

Mr. WEAVER. Surely.

Thank you very much, Commissioner Rust.

The hearing today, I think, has been excellent. The issues have been met and questioned.

Those that you have raised, in particular, Mr. Rust, such as ceanothus and alder being nitrogen fixers and the natural ecological cycle of the forest now being radically changed, are helpful.

What awaits us in our future when our trees are all gone? I believe somewhere in the Bible it says: "Oh, how the mighty have fallen." What will happen to us then, I cannot say.

Thanks so much.

At this point in the record, without objection, I would ask that the testimony of James S. Paxton, president, Forest Land Service, Inc. Elkins, W. Va., be placed in the record.

The subcommittee is adjourned.

[Whereupon, at 1:15 p.m., the subcommittee recessed, to reconvene subject to call.]

[The statement referred to above follows:]

TESTIMONY

JAMES S. PAXTON, PRESIDENT
FOREST LAND SERVICES, INC.
ELKINS, WEST VIRGINIA

Public hearing before the Forests Subcommittee, House Committee on Agriculture, to discuss National Forest salvage sales and Small Business Administration set-aside sales, Washington, D.C., March 16, 1978

Mr. Chairman, you are all well versed by this time with the statistics relating to the salvable timber inventories on Federal land and their potential contribution to the growing demands for timber and wood products in the United States. There is near unanimous agreement from industry, the forestry community and environmentalists that accelerated removal of dead and dying timber is a desirable objective. Studies by the General Accounting Office and Congressional Committees recognize and endorse the removal of greater quantities than the fractional portions which are currently removed. The National Forest Management Act provides direction and funding for increased salvage sale activity.

Why then do we continue to wrestle with the problem?

It appears there is a consensus among all persons concerned that it is desirable to accelerate salvage sales. It seems that there is adequate direction and authority, and funding provided to the agencies, and we have an even greater incentive in the face of our continuing energy dilemma. It seems to me that we should look at some additional desirable benefits of intensive forest management.

Perhaps if we looked beyond the beneficial uses of wood as a construction material or paper component to its potential energy uses it would be a more attractive alternative for management purposes.

Woody biomass is being looked upon with increasing favor in all regions of the United States as a means of reducing our foreign oil dependency. Chairman Weaver has quantified available wood waste in the Pacific Northwest and described its potential Btu output in meeting transportation and home heating needs. Similar situations exist in the hardwood regions of eastern United States and on pine sites in southern regions. Increasing numbers of wood industries are converting their wood waste into electricity for their own use and selling surpluses to local utilities.

Imaginative thinking must continue to dominate efforts of Congress to convert existing surpluses of logging residues, low grade timber, and unmerchantable species of trees into usable energy forms. The contribution of existing woody biomass is just beginning to dawn on the horizon.

Let me inject a note of caution. When we reach this stage of national concern we tend to think that big is beautiful. In this situation we cannot afford that luxury. The very nature of the resource, the ownership and its accessibility dictate that smaller harvesting equipment be used, shorter transport distances be maintained and local manufacturing and generating facilities be developed. This type of approach will accomplish much more toward utilizing supplies of wood waste by conversion into economically usable materials. This type of effort could have some unusual side benefits to the nonindustrial private ownerships.

In addition to the Federal lands which contain huge quantities of material, these ownerships make up approximately 60 percent of the commercial forest acreage and are woefully undermanaged and underutilized. One of the primary reasons for this is lack of markets for the products in the intermediate stages of growth. Pulpwood, a low-value product, requires rotations ranging from 15 years on the best land to 40 years on many typical hardwood sites in eastern portions of the country. A market during these intermediate stages of development could offset the carrying costs of forest investment for the nonindustrial owner. Local conversion plants could provide economic stimulus to rural areas, reduced dependency on oil imports and market alternatives that could aid the future development of forest stands.

I applaud thinking which leads into new and better uses of wood wastes. The task will be difficult due to the fragmented nature of the land, its ownership, industry efforts, and limited harvesting technology and the lack of economic incentives to take the bold steps necessary to make this effort a success.

