STATEMENT BY ASSISTANT SECRETARY OF THE INTERIOR JOHN A. CARTER, JR.
BEFORE THE SENATE INTERSTATE AND FOREIGN COMMERCE COMMITTEE ON THE
DEPRESSED LUMBER INDUSTRY OF THE PACIFIC NORTHWEST
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I am here today to bring to the Committee information on the forestry program of the Department of the Interior, both management practices and plans for changing certain timber marketing regulations.

The Department of the Interior is a major supplier of sawtimber in the State of Oregon, particularly in the Western part. But it is not the only supplier, or even the largest — the Forest Service is relatively far more important.

These two Departments of the federal government share a common dedication to the highest standards of stewardship, commonly expressed as sustained yield management, or as multiple use management.

It follows that both Departments are keenly concerned about the Pacific Northwest timber situation — the depressed prices, the impact of imported lumber, export of logs, relative costs of transportation as between imported and domestic lumber, and the like.

Indeed, it is fair to say that we recognize our legal, moral, and practical obligations to maintain, or try to maintain, a healthy and efficient timber industry. As the Secretary of Agriculture has said, the Department of the Interior also says — we are anxious to work with the industry representatives in solving mutual problems.

Our problems are mutual. Forest management in the commercial timber area (as distinguished from forest management in national parks,
for example) are built around the ultimate harvest of the product by private enterprise, the timber operators. Our plans, whether for sale, for road building, or for regeneration and second growth management, depend upon efficient and timely harvest of the commercial forest stand. Our plans must be supportable, they must be publicized, and they must be open to public and private scrutiny.

Under good management, timber is a national resource which does not deplete.

For very many reasons, some within our control and some outside our control, some differences exist between the two major federal marketing agencies—Agriculture and Interior. For mainly human reasons, each department is vigorous in the defense of its own methods, and sometimes this vigor spills over into seeming criticism of the methods of the other.

So I would like to say at the outset that I would not like to be drawn into making value judgments as between historically different approaches. I have participated in an effort to acquire a greater measure of uniformity between the two departments. Indeed, I was publicly criticized because immediately after taking office I undertook with my counterpart in Agriculture to formalize departmental approval of a study committee's pending recommendations for uniformity in forestry practices. The criticism was that I was claiming credit for work accomplished by the previous administration; no credit was given for getting the project off dead center.

That study concerned technical forestry. It didn't concern such matters as sales procedures, and only obliquely the matter of allowable cuts.
The federal suppliers of timber, the Departments of Interior and Agriculture, can help the industry to regain or maintain health in only a limited number of ways. Pricing and marketing procedures affect the industry, the former directly and the latter indirectly by removing some of the competitive pressures which arise as the operators struggle to keep existing mill capacity in operation.

So far as the Department of the Interior is concerned, I don't think our pricing methods are currently being criticized. In determining the appraised price for a sale, we work backward from current market prices of the end-products, as reflected by frequent mill studies in the Northwest. We include a factor for sharing of the risk, so to speak, between the government and the purchaser.

A further function of pricing policy is the play of the market. Competitive bidding procedure accounts for all but 10 or 15% of our sales. Sale price as a ratio of appraised prices has fluctuated from 1.48 to 1 in fiscal 1959, 1.39 to 1 in fiscal 1960, 1.34 to 1 in fiscal 1961, and it will probably be about 1.25 to 1 for fiscal 1962.

These ratios reflect no particular credit upon us. Since our pricing follows the market, albeit with a minimal lag, excess of bid over appraisals represents this competitive situation, and leads us to the question of our marketing practices apart from price. The question is whether we are putting timber on the market as fast as we ought, in size units suitable to the users, and relatively free of bureaucratic procedural superstructure.
We can start with whether we are putting the timber on the market fast enough; more usually this is expressed as whether we have properly computed the allowable cut.

The procedures for determining allowable cuts are technical. Historically, of course, we are proud of the fact that since the enactment of the O&C Act in 1931 the Department has announced changes in allowable cuts on nine separate occasions, and the annual allowable cut has increased during this period from 500 million board feet per year to 874 million board feet per year, and we contemplate making an additional announcement of an increase on July 1.

There may be honest differences of opinion as to whether we have increased it as much as the available data dictate. Foresters are trained to compute allowable cut, but I am sure they admit that determining it involves certain policy determinations.

For example, to decide to use a shorter rotation period is to make a judgment that industry will utilize smaller trees, not necessarily that trees in the future will grow bigger in shorter periods of time. When the Department announced its present system for determining the rotation period, three years ago, it was met with cries of consternation. Forestry experts said the rotation period was too short. Some of the same people now question us on the basis that the period is too long.

It is our policy continuously to review the data upon which the computations are made. These data include inventories, current utilization
practices, and the best information we can get from industry on trends in utilization practices.

We know that our mistakes, whether in determining allowable cuts, in misapplication of data, or in erroneous forecast of utilization, may have to be paid for by the next generation of operators and government administrators. Certainly they will if we err on the side of liberality, and this tinges our judgment with conservatism. In other words, it is not inconceivable that the timber industry may some day suffer economic woes more serious than those it suffers today. Today we have the option of drawing upon our reserves. It may be that we should. But if our policy is to stay on a sustained yield basis, then the government administrator has to act a little like a fiduciary.

The increase in allowable cut which we will announce effective July 1st carries forward the same approach which has resulted in virtually doubling the allowable cut over a quarter-century period. I doubt if technology in lumber utilization is going to rise like, say, consumption rates of electric energy.

If they do, the Department will try to keep up with them. Our forest managers fully recognize and accept the responsibility of maintaining a uniform, constant flow of material consistent with the productivity of the lands—we cannot and will not condone over-cutting.
Conceivably we could shave some of our estimates of future risk such as the period of regeneration and increase our allowable cuts percentagewise. The net gain to industry would be minor at this time; the adverse effect on future generations could be major.

Another area of controversy, of course, is mensuration—the measurement techniques. Here as I have mentioned the Department of the Interior has its own approach. We cruise timber on the stump, apply the pricing techniques mentioned above, determine a total upset or appraised price, and hold a sale. It was said several times in the Portland hearings of this Committee that our volumes didn't saw out.

This may be true. We can only say, first, that we use the same cruising techniques for putting timber up for sale as we do in determining allowable cut. If we are consistently off, then clearly we should go back and adjust our inventory figures. This will automatically result in a reduction, rather than in increase, in the allowable cut. We can't run our forestry work to give to industry the best of both worlds.

Failure of lumber scale to equal cruise on the stump we see as a function of utilization. Variation exists in the relative utilization efficiency of purchasers at any given time and one operator's utilization efficiency will vary over a period of time. Many an efficient operator has been forced to run high-grade logs through a gang-saw to meet urgent demands of his creditors.

Our volumes are based on a Scribner Decimal C 16 foot log; this system may not be standard in a given area but it is common enough in the West generally so that no operator is confused by it. We do not
guarantee volume; every purchaser is strongly urged to make his own
computations or cruise. Our sales are from intermingled lands, and tend
to be small in total volume. Our books are open. We ask only that
our prospective purchasers apprise themselves of the value of the
material we offer, to themselves and their particular operation.

I recognize also that what appear to be discrepancies in log volume
cause many administrative headaches to the operator. These I regret.

We admittedly include low grade material, i.e., economy or #4
common grades in Douglas fir, and in certain grades and sizes of logs
this can be a material amount. However, as long as this item is sold
on the open market, and the values of this end product are reflected
in the final appraised price, there is no deception. We split the
risk with the operator in our pricing procedures, open and above board.
An alternative is to split the risk with the operator in overrun. The
operator ought not expect both.

We prepare a yearly sale plan after a free discussion in public
meetings in the communities in the area where the timber will be sold.
These plans are reviewed by our advisory boards and once agreed to we
live with that. No sales are dropped without an accepted substitution.
Under the lump sum sales system, the operator takes off everything he
can economically extract since he pays for everything.

I assure you that the BLM is under the strictest instructions to
make every effort possible to maintain accuracy in measurement and appraisal
work. We may make mistakes, but the fact that we have made them or will make them in the future should not, it seems to me, necessarily require that we should guarantee that any given operator will be able to cut out the cruised volume in any given sale.

We think the following will be helpful to the industry:

1. Our allowable cut figures for July 1, 1962, represent an increase of 25 million board feet.

2. We are now managing all three classes of lands, namely the O&C, the Coos Bay Wagon Road and the public domain, as one, under a combined allowable cut computation.

3. We have signed an agreement with the Small Business Administration to permit our qualified purchasers to obtain road loans. This will alleviate the pressure for working capital where more costly road construction is required in our timber sale contracts.

4. We are going to initiate what I call, for lack of a better name, the Tillamook Second Growth Project. Here we plan to study and manage our second growth forest more intensively. We realize in a very short time our old growth, will be cut over and we must be ready to provide the land's full productive capacity to an industry sorely tried by an inadequate raw material supply and the problem of retooling for smaller second growth.

5. To further ease the shortage of working capital we plan to revise our timber sale regulations. They will be in proposed rule making, which
will be published in the Federal Register next week. Some of the changes will involve:

a. Permit installment payments for timber sales over $500 — at present sales under $2000 must be paid in full.

b. Felling and bucking in advance of installment payment. A bond may be posed to permit the operator to fall and buck a unit without cash outlay.

c. Elimination of the 60 day clause where the purchaser had to pay full contract value 60 days before contract expiration.

d. The contract period will be extended to 30 months against the present 2 year limit.

 Provide for the reduction of the performance bond at the completion of certain contractual obligations.

If we can properly do more, we want to.