Hall: Today is Tuesday, November 14, 1989. We're in the archives of the Mansfield Library talking with Bob Wolf. Today's topic will be log exports. If you guys would like to start in?

Jackson: This is germane to the Tongass [National] Forest. Is the policy regarding log exports from Tongass different from other national forests in the United States, and why is there a difference?

Wolf: Well, we can just go back quickly to the beginning of the national forest system. Congress had enacted restrictions prohibiting the export of public timber from one state or territory to another, the theory being it was to be manufactured within and used within the territory where it existed. When the national forests were created in 1905, one of the things that Pinchot got the Congress to do was to repeal certain of those prohibitions. Then, I believe it was in 1916 or 1920, a law was passed, relative to the Territory of Alaska, which permits the secretary of Agriculture, if he deems it desirable, to restrict the export of raw logs. So he has to
make a positive determination that it's desirable to do so.

Now to jump ahead to 1968 when the Morse Amendment was adopted that applied to all federal timber located west of the 100th meridian (which is a line down the Great Plains, which was arbitrarily selected). That permitted the export not to exceed 650 million feet of logs a year. That was the then-estimate of the amount of federal logs being exported out of a total of approximately a billion board feet that it was estimated was being exported. That did not apply to Alaska because the secretary of agriculture had already decided that for Alaska unprocessed logs may not be exported. However, that provision in Alaska has been honored more in the breach than in reality. Ever since the beginning of the long-term contracts, the mills in Alaska have squared off logs, made them into cants (which are just logs with the bark off), in effect, and shipped them to Japan, where they're remanufactured into lumber in Japanese sawmills. That's the basic difference between the policy in the lower 48.

Now, later we can discuss the evolution of the lower 48 policy. But the essential difference is the secretary has the authority to prohibit log exports from Alaska and the lower 48. Now both secretaries of Agriculture and Interior are directed not to permit the export of any logs except for the existence of a grandfather clause that really means quite a bit of federal logs do not go out.

Jackson: Does this question of log exports from Alaska have any current concern?

Wolf: Oh, yes. In 1980 when the Alaskan Native Claims legislation was passed, called ANILCA (Alaskan National Interest Lands Claim Act), the natives under that got something in the neighborhood of 400,000 acres of land, I think, that they had selected already. They were
able to pick and choose exactly what they wanted in Southeast Alaska. There were other lands they selected. I'm talking about Southeast Alaska, where they selected about 400,000 acres of choice timberlands out of the Tongass. There is no restriction on the export of native timber and, therefore, that timber is exported in raw log form to Japan. The national forest timber is exported in cant form to Japan and, in theory, is not exported except when manufactured. But that isn't, as I say, the "real world" situation because cants are virtually logs.

Jackson: Is there a difference in the value of these national forest cants versus those Native American logs?

Wolf: Well, I'm not an economist, so I'm going to struggle with this term "value." I would say that the cants are worth every bit as much, if not more, than a raw log because when you ship a cant you've taken the bark off it and you don't have to ship that waste. If you're talking about price received by the U.S. government, that's another matter. But if you're talking about value, the cants are more valuable, I would say, even than the raw logs, grade for grade, board foot for board foot.

Jackson: But apparently the Forest Service doesn't sell the logs in the same way the Native Americans do?

Wolf: No. The service uses a residual value appraisal system, and with cross-subsidization they manage to get the price down. In fact, over the past six years, 1983 to 1988, looking at what remained in the treasury after making 25 percent payments from the cutting of 100,770,000,000
feet of national forest timber in Alaska, the treasury posture was minus $0.55 a thousand board feet, or minus $967,000. The Alaskan native corporations, in contrast, have been making good profits and large amounts of money cutting their logs and exporting them. It can't all be that the Forest Service has been busy these last six years plowing money from the sale of timber back into reforestation, because over that period, their fiscal records show only $148,000 of their timber sale receipts went into reforestation. A gross amount of only $1.5 million went into the national forest fund. The payments to counties were approximately $2.5 million, and the balance was $8 million worth of timber that was traded for roads.

Jackson: Do you realize that people are arguing right now that the spotted owl problem in the lower 48 is being exacerbated by the fact that there's a lot of national forest logs that are being exported, and they're even talking about banning the export of private logs or state logs and so on. And yet up there in Alaska you suggest that they are already exporting these cants, which are almost like logs, and then of course the natives are exporting logs. Do you think those two issues are somehow connected or is it just a strange kind of coincidence?

Wolf: They're logically connected, but they're disconnected in the debate. It's almost as though the right hand doesn't pay any attention to what the left hand is doing. If you're looking at in from a national standpoint, in terms of federal timber, the taxpayer is paying the bill for operating the national forest programs in the lower 48 just like he is in Alaska. There has been no rational discussion it's a highly charged emotional issue but no rational discussion of the pros and cons of exporting or not exporting raw materials in various forms.

To back up to the beginning of the log export issue, which might get it into focus, in the
early 1960s there was a major storm which struck the West Coast (I think it was Columbus Day, 1962), and which blew down a substantial amount of timber, much of which was private. In that situation the Japanese were experiencing a housing boom. You know, we used to trade logs with the Japanese before WWII. There was a phrase that wouldn't be popular today, but the material that was shipped out of the Pacific Northwest to the Japanese was called "Jap squares." That was their nickname. There was legislation proposed in the late 1930s to prohibit the export of "Jap squares," which never got anywhere. The theory was that the Japanese were taking all of our cedar. The Japanese had an interest in certain kinds of wood; Port Orford cedar and western red cedar and clear grades were particularly valued by the Japanese in home construction.

As their housing industry boomed in the ‘60s, this opportunity to export logs resurfaced. I would suspect it was probably because Weyerhaeuser became a major log exporter and had had a lot of blow-down on their lands -- that Weyerhaeuser may have found that there was a lucrative market for logs in Japan and began to ship them. The Japanese buyers showed up and as former Governor Sprague of Oregon said about the issue then, "When the settlers first came to Oregon they found an Indian behind every tree and now you would think that there was a Japanese log buyer behind every tree."

But the first thing that happened involved an organization known as Western Forest Industries Association. Their lobbyist, Joe McCracken, came to Washington and told Senators Jackson and Magnuson, and everyone else who would listen to them, including the Montana Senators, that the Japanese were going to take every log and ship them to Japan. The phrase was that the "Japs are coming." Congress should immediately ban the shipment of logs to Japan because they were going to wreck the timber industry and take all their logs. I was asked by the Northwest delegations to look at the matter; (I was working on the Hill then) and we looked at
the situation, and I suggested to them that the first thing that needed to be done was to have some facts that was what we were short of. Out of that, we persuaded the secretary of Agriculture to produce what is now "Production, Prices, Employment, Trade and the Pacific Northwest," a quarterly publication of a lot of facts on those subjects.

The issue rocked along and log exports moved up slowly, and there's ample statistical evidence that they moved up by 1970 to close to a billion board feet by some measure of scale. At least 2/3 of the logs going out were private logs. Earlier I said it was 650/350 Million; I had it backwards. The estimate was that the private logs going out were 650 million feet and the public timber was 350 million feet.

As the 1968 election approached, Wayne Morse was a candidate for reelection. The timber industry had decided they would help mount a tremendous campaign to have him defeated, because they considered he was not a friend of the forest products industry. [With] WFI being in the state of Oregon, most of the ruckus about log exports was emanating from Oregon, even though 2/3 of the log exports went out of western Washington and most of that was private. But in the debate you would think it was all public timber and most of it came out of Oregon. Jackson and Magnuson were totally unenthused about regulating log exports. They were free traders at heart. They viewed it as having harmful potential impacts on the wheat trade and fruit trade, apples and so forth. And the Idaho-Montana delegation didn't think there was a problem [since] no logs were going out of their states. In fact, Montana was getting some [logs] in from Canada. [chuckle]

Wayne Morse was pretty concerned it was going to be used as a political club against him. He held some hearings on the Small Business Committee on the problems that allegedly were being faced by small mills. The position being advanced by those who favored control was
that the Japanese were paying premium prices for logs which otherwise would go into U.S. mills, which could be manufactured into lumber, which would build homes for needy Americans. Whether they were needy or not I leave for someone else to decide.

The opposite position was that this was a free trade issue and that anything, manufactured or unmanufactured, should go where it had the best market. As I say, Morse wanted to regulate log exports. Mrs. Neuberger, who was then in the Senate, was lukewarm to cool to the idea because she was basically a free trader and didn't have that much empathy for the timber industry spokesmen who were urging it. Senators Magnuson and Jackson were opposed.

But Morse had described it as politically necessary, and he then developed an amendment to the Foreign Aid Bill, and he did it rather secretly. The timber industry was convinced that Morse couldn't do anything, and they were complaining bitterly that he not only couldn't but wouldn't.

I remember going up to a meeting with him in his office. I was then the assistant director of the Bureau of Land Management, and Boyd Rasmussen, the director, and I had some other matters to discuss with Morse. We went up to his office and he got talking about log exports, and I recall very distinctly saying to Boyd after we left, "He's got something up his sleeve; I'm not sure what it is, but I know he's going to do something on log exports." Boyd thought I had the correct reading. A couple of days later [Morse] put this amendment on the Foreign Aid Bill which said that federal exports were "not to exceed 350 million feet a year for the next two years" from federal lands. Indian lands were not included as federal lands. Witnesses for the Forest Products Industry had alleged that if an amendment could be put on that would do this,
the industry itself would police the balance going from private lands, and a sort of automatic cap would occur. Well, if you believe that, you believe in the tooth fairy.

Morse had told President Johnson that it was essential; Johnson had agreed to it on a short-term basis. Arthur Greeley, who was then associate chief of the Forest Service, told me at the time (and I certainly agreed with him) it was like building a splash dam 1/3 of the way across the river and expecting it to hold water. [chuckle] But it was adopted. Morse lost that election to Bob Packwood and it wasn't over the log issue. Two years later, Al Ullman tacked it onto a housing bill. Two years later, Julia Butler Hansen, who chaired the House Appropriation Subcommittee, made it an annual rider on the appropriation bill, which it has remained ever since. There has been constant debate over the years about tightening it. The phrase is substitution. The allegation is that people who buy federal logs substitute them for private logs they ship abroad and they're upsetting the apple cart. I understand that currently, in 1989, there's approximately 700 million feet of federal logs in the Pacific Northwest that go out in export under grandfather clauses that exist through the peculiar administration of a law that superficially reads, "No federal logs may be exported." The statistics are available in production prices -- employment trades that show log exports have risen up to 4 billion board foot annual level. If the 700 million-figure of federal logs is correct, that means 3.1 billion go out from private lands.

The net effect of the log export controls generally has been to exclude a substantial number of federal purchasers of timber from freely marketing a raw material to their best financial advantage while assuring that the private owners, such as Weyerhaeuser, enjoy the lion's share of that market. That's the financial side of it. Now whether or not we should as a matter of policy export a raw material is a much more difficult question. In the state of...
Washington, they have one referendum on it and Washington, which has extensive state lands managed under the school trust amendment of their constitution, logs are permitted to be exported. And I understand 2/3 of the state of Washington timber sold is exported log form. Oregon, as you may recall this year, just voted nine to one to petition Congress to pass a law permitting states to restrict the export of logs. The states of Alaska and Oregon had log export prohibitions in their constitutions, which, on a case that went up to the Supreme Court, was held to be unconstitutional. States may not of their own volition without congressional assent, pass laws restricting trade.

Jackson: I just kind of wanted to wrap a question around here. You also realize, of course, for the record, that there's been a lot of controversy over the imported Canadian softwood lumber and that a few years ago they had something like 30 or so percent of the domestic market. In that context, organized labor has been extremely concerned with that source of competitive supply, and yet you don't discuss the role of labor in the log export controversy on the coast and in Alaska, too. Have they been quiet, or ineffective, or what, on the export side?

Wolf: I didn't mean to avoid discussing the role of labor. Labor's been split on it. The longshoremen favor log exports because they view it as employment. The unions that represent the sawmill workers are opposed to log export -- they view it as reducing job opportunities. The unionized logger really doesn't care much one way or the other because after he gets done ... wherever the log goes. [chuckle] But also what we have had in the Pacific Northwest, as you know, is a substantial reduction in the presence of union labor in the forest products industry. It is not as vigorous a force politically as it was in the 1950s for example. I think this, in part,
accounts for their relative quiet on the issue. They're just not as strong a political force. Labor has that position which depends upon their role in the process.

Jackson: As I recall, and I lived in Eugene when Morse was involved in this originally in ’68, my memory was that labor was pushing for kind of a product substitution log in lieu of a log export.

Wolf: The proponents of log export control have said that manufactured products should be shipped and non-manufactured products shouldn't, whether it's a union proponents or nonunion, labor or capital. That sort of argument, though, undercuts another argument made earlier: that we need this lumber for domestic homebuilding. The consumer who wants to build a house, in effect, and has this lumber all being shipped to Japan, (assuming that were to occur) then he would be saying, "No. Let's stop that too." In fact, in 1975 I think it was, Senator Packwood of Oregon attached to a housing bill a log and lumber export prohibition. It had no hearings; it was just -- he just sort of got it on. It was one of these emotional approaches to things. Senator Humphrey at the time was on the Agriculture Committee and he chaired the Subcommittee on International Trade and Agriculture, and he called me over to a meeting he was having [with] Bernie Orell of Weyerhaeuser who had come in to seek Humphrey’s support in derailing the Packwood Amendment. Orrell made his pitch on it. Humphrey asked me what I thought and I pointed out that Weyerhaeuser was the largest exporter of logs in the U.S., so that their position on this matter was, of course, influenced by that, but that there was a substantial free trade argument. And that regardless of the position of Weyerhaeuser, [Senators] Magnuson and Jackson were opposed to log export restrictions because of the impact on agricultural exports, and that we ought to look at it and decide it in the broader context, not the narrow context. So
there was a hearing that Humphrey held, and there were discussions with the other Senators on the Agriculture Committee. And it was their general view that it was a bad policy to restrict exports, and Packwood's amendment was defeated; in fact, it was just withdrawn as I recall.

Obviously, the Weyerhaeuser position was their own self-interest position, which was fine. [chuckle] This has been a very emotional issue, as you are aware, up to this point. We're not close to getting a reconciliation of it. The conservation groups have supported prohibitions on log exports, because they argue that it would reduce the pressure on public timber. But if the domestic market is strong, however, it doesn't really reduce the pressure on public timber. The forest products industry has urged, and was effective, in having Canadian lumber imports curtailed. That was designed to drive the price of domestic supplies up. There was a cedar prohibition also put on, on Canadian cedar for shakes and so forth. So there's been a lot of anti-trade tinkering in the market from the standpoint of the consumer. I would suspect it's had a price inflating effect.

Jackson: Are we not still another major soft wood importer?

Wolf: Yes, and are likely to continue to be.

Jackson: Ostensibly, if we reduce exports even more so, I guess.

Wolf: Yeah. My reading is that if we reduce log exports, since most of it comes off lands held by major timber companies, it's foolish to think that they're going to sell it to competitors. They're only going to remove from their own lands what they think they can do given the market
situation. So I don't see how that's going to help them. However, the hope is that as to the small industrial holder of timber, if his timber can't be exported, that would then come to the domestic mills. But then you're rubbing the raw nerve ends of a lot of citizens who hold timber land, who then will rise up in righteous indignation seeing this coming, and say, "Wait! Why should we have to take a lesser price to supply a domestic mill with lumber than we could get selling it to the XYZ Company that exports logs. This is a little off of the log export issue, but the small landowner doesn't see any reason why he should have to support or subsidize the sawmill industry or the plywood industry. There's no great love between the small woodland owner and the logger.

Jackson: Alright. Is there another aspect of the log export issue that I haven't known what to ask about?

Wolf: No. The whole question of the level of federal cutting, and why and where, the trade issues, lumber versus logs, have the same effect on the consumer whether what goes out is logs or lumber when you're thinking of building a house in California or St. Louis. The [relationship] between Canadian softwood imports and restrictions of them and trade policy on export of either lumber or logs; the Alaska picture -- there's an intertwining here. I don't know of any one overview that has tried to draw out all these strands, show their interconnection and also their discrete parts.

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Jackson: If, now, for instance, the recent focus on exports has come from ... in fact, I believe there's even a judge who tried to make some remarks in the case of the spotted owl, and [I] think that maybe he played an international trade [inaudible] and wondered whether or not it wasn't smart to say the spotted owl just cut down on the export of logs and run those through domestic mills. Is that true?

Wolf: Yes.

Jackson: Do you know more about [that] in any detail?

Wolf: No, I don't. I saw the statement, and in effect, what he was saying is that the federal policy lacks consistency. [chuckle] He was right on that score. But it was sort of an added remark that had no legal significance, but it gave great comfort to those who argue that log exports should be curtailed.

Jackson: Yes. It seems that the log export issue always comes up in the context of a related thing to some other fairly partisan issue.

Wolf: Yes. I wouldn't want the term "partisan" to be confused by people who were using it in a political party sense. But it's a partisan issue in terms of the contenders on the issue, because we find Democrats and Republicans differing on it, and a lot of people confuse the word "partisan".

Jackson: Well, I guess one other question I think I'd ask, the wood products industry is
composed of a few fairly large companies that very often have international operations, such as Weyerhaeuser and Boise-Cascade and Champion, and then the small ones that are pretty much domestic based and maybe have a few mills here and there, and very often the small ones are purchasers of federal or public timber and the large ones have their own land base and trade logs and so forth. Is that a useful way of looking at where people have lined up in the log export controversies over the years?

Wolf: Well, somewhat, except that most of the large companies are also substantial purchasers of federal timber and long have been. But yes, that's about the way they stack up, except I'd really put the manufacturers in three classes: large holders of timber, not totally independent of the external market who buy federal and other private timber; moderate holders of timber who are substantially heavy buyers of federal and other private timber (and state and so forth); and those who own no timber and are totally dependent on either private timber or federal timber. The bigger firms tend to be in the category of significant major landholders. So they have different postures in this debate. Almost as we're talking, Dr. Beuter over at Oregon State -- at Mason, Bruce & Girard now -- and John Sessions are going to come out with their new look at Oregon's forest resources. I don't know what it's going to show, but I suspect it's going to show that the large industrial holdings are being cut at a greater-than-anticipated rate and that the fall-down on public timber, due to various environmental and other constraints, may occur, and that the non-industrial holdings, which are not a major part of supply, will not be able to fill the breach. That's just going to add more fuel to this battle -- more exploding grenades. [chuckle]

Jackson: In other words, they're about nine years from where we are in Montana right now.
Wolf: Yes. I don't know whether they're nine years, but western timber supply problems are going to become more difficult over the next decade. That's what it adds up to. I don't know what's going to happen on log exports. I suspect it'll be resolved more at an emotional level than it will be at a well-reasoned analytical level because these things have a high emotional content. With our propensity for short-term solutions to long-term problems, we'll probably adopt short-term solutions.

Jackson: Yes, and you kind of said that in another way, if I'm not mistaken. You said that really the big pieces of the whole thing are a trade [inaudible] picture in the whole philosophy of raw material versus finished products and those things, which, I guess in a way you're describing now, is that we keep defining the problem from a very narrow perspective, but each time we do, it's a new piece in that large puzzle.

Wolf: Another thing, you know, is that we have a growing population. We have a debate over what our housing stocks ought to be. We have an aging housing stock, much of which will probably be rehabilitated rather than junked and torn down, but we're using less wood. I think the kind of wood we're going to be using in the future is going to be different. That's another aspect that enters into the equation. Stick built houses out of two by fours won't be housing most of the American people. We'll be using, despite the allegations of Energy and Efficiency, a lot more stone in building -- concrete block, et cetera. We reinforce that with insulating material and ...
Jackson: Earthquake-proof it?

Wolf: Well, not every part of the country has an earthquake potential either. [laughter] But our demand for wood, I think, is shifting to paper and manufactured, ground-up wood products such as wafer board. We're also seeing a shift in the kinds of wood that the nation wants to use in terms of finished products, and that also is an aspect of this debate that needs to be in the calculus.

Jackson: Recently - I don't know whether this is off the subject and maybe you want to get off - if you feel like you've gone far enough, just say "quit."

Wolf: I think we've pretty well covered my involvement in the key issues of the log export issue, but if there's another point or two, we can ...

Jackson: Well, you realize, of course (I don't know whether this is germane or not) but it's the whole Congress Reform Act that's passed the House right now. Senator Baucus is a co-sponsor with some others of one of the bills in the Senate, and part of that, of course, is changing the nature of the way extensively the forest is to be managed to meet so-called "demand" as opposed to this notion of built-in federal budget to produce a given amount no matter what. I'm curious as to how the log export issue, particularly with respect to Congress in the past -- the fact that they're exporting cants right now -- that there are these high priced logs selling right next to them from the Alaska lands. So how might you envision such a thing going into these bills? I know that I'm asking you to speculate a little bit. It's right on the same subject in its own way.
Wolf: Well, the Tongass Bill passed the House by an overwhelming vote (You know there were two competing bills: there was a House Interior bill and a Senate Agriculture bill that didn't cancel the long-term contracts.). The House Interior bill did. I must say, to my surprise, the Interior Bill carried, canceling the contracts. I thought that they'd waffle and not cancel. The Forest Service of course completely opposed cancellation of the contracts. The Senate hasn't acted yet. They may be in process while we're here this week. I've heard rumors when I was in Oregon that the Senate was getting ready to decide what to do and do something on the Tongass.

Note: On April 14, 1994, during Jack Ward Thomas's three-year tenure as Chief of the Forest Service, the Forest Service terminated the long-term timber contract held by Alaska Pulp Corporation in the Tongass National Forest.

My view is that we paid no attention to the fact that the natives ... we talk about community stability [and] a lot of people use maudlin phrases about the Native American, but the native timberland, from what I've seen, that was received under ANILCA by the natives down in the Tongass area, which are scattered around about 15 or 20 tracts and are prime watershed and prime timber, will be completely denuded, completely logged off by 1992. Now, I'm not saying there'll be no regeneration, but if you didn't like the earlier logging on the Tongass under the long-term contracts, you'll hate what's happened on the native lands. But we've heard virtually nothing about that.

So there's a huge contribution to adverse impacts on fisheries, as well as the visual quality of Southeast Alaska for the tourist trade, which mainly comes via cruise ship. I don't know whether the Senate will repeal the two contracts or not on the Tongass. I don't think it makes any difference in one sense. I don't think retaining those contracts in their present form is
desirable. They were bad when they were designed and they haven't gotten any better. The issue really is how much timber should we cut on the Tongass and under what conditions. So long as there are those two mills there, owned by two firms with large financial resources (and when you recall their behavior pattern as described in the Reid Brothers antitrust case), they're going to dominate the Tongass timber market. Even if they aren't doing anything illegal, there aren't that many other mills of any significant size. Under the oral bidding process for timber, they're likely to be the winners of a significant number of timber sales. They have a lock on the export market, and because of their ties with Japan, and because of the nature of Japanese buying patterns, the Japanese are not going to favor small firms in Alaska that have gotten timber away from these two big companies, (particularly ALP, which is a Japanese firm) and say, "Oh, that's great, you know. We'll buy everything you can get." So I think the structural framework is one that continues the dominance of these two companies. It'll persist so long as dissolving pulp has a market. And if those companies can buy the timber as they have in the past, for virtually nothing (and what counts is the real cost, not the theoretical cost) and if the real cost of that timber is low enough, they'll keep on buying it. Now if the cost of the timber is such that they can't make money on it, they're not in business for philanthropic purposes. No company is. I think they have their investments amortized, and they're not going to continue. Do you know of any company making anything in the United States that's continued in business beyond a certain period of losses? You're hesitating because there's practically none. The largest steel plant in the United States was at Sparrow's Point in Maryland and it's closing. It's not closing because the owners don't like to make steel; it's closing because it can't compete. It can't compete even though we have a resurgence on import steel and iron products. I just think that these companies are driven under our system of free enterprise by what they consider to be their best economic
judgment and their best financial judgment. Public foresters can talk all they want about community stability. What really counts is how the bottom line looks. Does that answer your question? [chuckles]

Jackson: Yes.

Wolf: The Forest Service has struggled under those contracts. There hasn't been a time when the companies have ever accepted the Forest Service estimate of price for the timber. In addition, there's been a secondary problem of the pick-and-choose approach to logging. So today, if the contracts were canceled, the companies, in a way, would be better off because they've already chosen most of the best stuff. But the total theoretical timber base on the Tongass is far greater than that in the contract areas. Bear in mind that originally the Forest Service anticipated that they would have a network of approximately six or seven major pulp mills making newsprint in Alaska for the U.S. market -- several times the size, overall, of what's up there. The Forest Service also envisioned using timber, which is of substantial size and quality, and grinding it up into newsprint rather than making it into lumber. Now I don't know what the best use would be, but they were going to convert this stuff all to newsprint and it wound up being dissolved in rayon pulp.

Jackson: Well, are you familiar with some of the controversies that have gone on with regard to appraising timber on the Tongass, and how the Forest Service has changed its body of appraisers and the like? Have you followed that in terms of your career with the issue of exports?
Wolf: Yes. In 1978 (I'd have to look; it may have been closer to 1980), one of the contracts in Alaska was underway, and I had a call from the assistant secretary of Agriculture, Rupert Cutler. I was working in the Congressional Research Service, and he asked me if I would review some material that had been submitted to him by the Forest Service on, I believe, it was the ALP Contract. It had gone through what I would call the typical [reappraisal] pattern -- the region had said what it thought the price of timber ought to be for a five-year period. The company appealed. They had reached an impasse. Two arbitrators had been selected. The Forest Service selected one of their people. The ALP selected Carl Newport of Mason, Bruce and Girard (who has always been the guy selected by the companies), and then between them they were supposed to agree on a third person, which they had finally done. And we were about maybe three years into the five-year period and the price of the timber for that five-year period had not been settled.

They had finally come to their conclusion and had made their recommendations to the assistant secretary of Agriculture, Cutler. He wanted me to review it. I told him I would be glad to consider it, but I needed to talk to the director of CRS because it was not a typical thing for us to do. I did. [The CRS director] said, "Well, you can do it as long as you do it on a basis that is personal and confidential to Mr. Cutler, unless he's going to use it in some manner dealing with the contract." We had gone over this matter with our American Law Division and they said, "We don't want to be in the position of providing ex parte advice to anybody."

So on that basis, I said, "All right; I'll review it," because I couldn't reach a pre-conclusion as to what I might find, if anything. When I looked at it, my gosh, it was just amazing what I found. The Forest Service analysis of the situation to the secretary was highly inaccurate as to what had transpired. In addition to which, this review board had recommended
rock bottom prices. They wanted to incorporate reductions in the price for pollution controls that the EPA [Environmental Protection Agency], under court order, had told the companies they had to put into effect. They had a number of other aspects of the appraisal that I just considered were highly improper and I documented them. So when I sent it back to Cutler I said, "If you're going to use this then you've got to put it on the record. You've got to say under what conditions the work was done for you and make it a matter of public record so it's available to all parties."

A couple days later Cutler sent it all back to me through one of his assistants who came up and brought it to me and said that Mr. Cutler wants you to know that he thanks you very much for your review. A couple of years later, George Leonard mentioned casually to me that (he's now associate chief of the Forest Service; he was then chief of Timber Management) the most surprising thing happened in a meeting he went to with Cutler and the Alaska lumber pulp people. Cutler began questioning him about pollution control and various other things, and it was quickly apparent to the ALP people that he was hostile to them. They wanted further reductions along the line of what the review board had recommended and Cutler said, "I'm going to accept the Forest Service recommendations and put those prices in effect." Leonard said, "You know, that's the first time an assistant secretary ever supported us."

I had told Cutler that what he ought to do is to tell the Forest Service to rework it, but as one alternative he could accept their position, which would be better than the review board position and that, apparently, [chuckle] was what Cutler decided to do. You see, the way those contracts were written, there was no way that the Forest Service could get a price for that timber that would represent what it would be worth on the market because, if you look at the wording of the contract, they're tied in to considering it in the context of the Alaska market, and the Alaska market's a closed market.
Jackson: As I recall reading somewhere, or hearing, that the one contract was held by KPC for

Wolf: Oh, yes. There were ...

Jackson: ... and that one of the federal agencies apparently found that KPC was successfully able to circulate the profits from one subsidiary to another to another to another, thereby inflating what appeared to be the costs of converting this timber into cants or products of one type or another. By virtue of that, actually indicate that the indicated price of the timber was a minus value so that it had to go out at the minimum price, and then the other company, which is holding on subsidiary of a Japanese parent corporation, has been charging just like we have over the years, very high management fees from the parent to the corporate subsidiary. And so now the Forest Service has in fact barred their appraiser and their roomful of CPAs that run their Japan audit and audit the parent company's books, and that the price of timber has gone from $2 a thousand to $60 a thousand on those contracts. Do you know much about that beyond my little amount?

Wolf: As I understand it, the alleged increase in price has just occurred. It's all in purchaser road credit, and so it is not an increase in price at all. Did I earlier recite those numbers to you at all on the net? That's the real world. If you look at the Forest Service data for that six-year period, and you look at the cut and sold reports, you'll see that the Forest Service says they sold 605 million feet of timber at $16.65 a thousand. But then when you look at what they cut, they
cut 1.77 billion at $.96 a thousand according to the cut and sold reports. You wonder how this
could happen. The sold reports do not include the long-term contract timber. They only use the
short-term sales.

But secondly, what happens in the real world is what do you pay for what you cut? And
what you really pay for what you cut is $.96 a thousand. That's the so-called stat-high bid price,
KV plus National Forest Fund, and then this little bit of salvage that's sold up there. But when
you then turn around and look at another fiscal series, a real fiscal series which is the receipts →
the money that actually comes in -- you find that the Forest Service over the six-year period got
$.85 a thousand that went into the National Forest Fund and $.08 a thousand that went into the
KV fund, which is pretty close to $.96 a thousand. There's $4.62, which is a road credit that they
gave, which is timber traded for roads. But since the National Forest Fund estimated payments
to county, the Forest Service wound up minus $.55 a thousand before they even started talking
about the costs that are provided through the appropriation process in the Tongass Timber
Supply Fund.

So when the Forest Service starts talking about $60 a thousand timber, they're talking
about purchase price of road credit primarily, not about stumpage prices that they're going to get.
Actually, in this six-year period, there were several absolute minus years when you look at the
purchase of road credit they had to refund as part of the bailout, the timber buyout. One section
that was tacked on the floor by Senators Stevens and Murkowski required that all of the
contracts in Alaska, through 1989 -- not just the past but through 1989 -- be reduced to rock
bottom prices, which is why you have this $.96 a thousand.

Alaska has been a financial nightmare [chuckle], if you're thinking about making any
money. And it's probably one of the prime examples of absolute below-cost sales. I think when
the Tongass bill went through the House, and you saw the debate, what you were really getting was an awful lot of fiscal conservatives saying, "This is a giveaway of the worst sort." It was in a far away enough back yard that they didn't have to support it, so that's why you had this overwhelming vote to repeal the contracts and to buy the House Interior Committee a much more stringent position than the Senate Agriculture Committee position.

Jackson: I testified.

Wolf: Yes.

Jackson: And I mentioned that I was there to testify on appraisal, and I testified that you need to use an appraisal system to buy back a contract based on the evidence that the companies had been splitting for years and years of what the timber was worth. And I mean, after all, if that's what it was worth, that's what you ought to buy it back for. They didn't have Carl Newporth, they had George Craig there for Alaska. That probably shouldn't be on the tape. I might add that you gave me some very useful hints when I was appearing at that testimony. I don't know if you remember that or not.

Wolf: I don't remember what I told you, but I'm glad they were useful. [laughter]

[End tape]