



## STATE OF OREGON

## INTEROFFICE MEMO

TO: Governor

DATE: April 10, 1984

FROM: Gerry Thompson *Gerry*

SUBJECT: Crown Zellerbach/Tongue Point

What a bizarre scenario we have been through in the last week. Our friend, the Secretary of State, did not help the situation any by sending a letter to Mr. Corbin using terms such as "renege" etc., and by some mysterious means the press became aware of the letter and demanded a copy. Consequently we have had a big play in the press. You and I had a discussion by telephone, I read to you my position as reported in the press which was to represent your position. You were comfortable and said to maintain that position, which we have done.

As I understand it, prior to your departure you instructed that Norma Paulus have the Land Board assistants meet to begin negotiations with CZ. No such meeting occurred, only Norma's letter. I was in constant contact with Bill Corbin in San Francisco trying to keep some semblance of a line of communication open. It became apparent they, CZ, did not want a meeting with Norma Paulus. Therefore, because Norma was out of the state, I instructed Greg McMurdo to call a meeting of the Land Board assistants with me sitting in for Pat Amedeo. Bill Corbin was receptive to that as long as no elected officials would be in attendance.

The next thing we knew, Representative Tom Hanlon from Clatsop County had all copies of correspondence in his possession and had had a full discussion of the situation with Greg McMurdo. Then in waltzes Jim Gardner who is demanding copies of all documents with a strong indication that he would be asking the T&E Committee to do a full investigation of the proceedings surrounding the agreement with CZ.

I again visited with Corbin and told him how essential it was that a meeting occur as soon as possible at which time he agreed to fly to Oregon with his attorneys and meet with us Tuesday, April 10, at 1 p.m. Attending that meeting were Ed Zajonc and Carl Brena, Division of State Lands; Greg McMurdo; Assistant Attorney General Peter Herman; Bill Corbin, Vice President, CZ; Bill Freck, Attorney, CZ; Jim Quinn, CZ; Jack Brown, Public Relations, CZ; and Scott Clements,

Governor  
CZ/Tongue Point  
Page two

To say the least, the meeting was productive, progressive, frank and open. Although we had many demands from legislators and other interested parties to attend, I instructed Greg McMurdo that it should be a closed meeting or it would not be productive. Prior to the meeting rumors were floating around that CZ had called off their agreement entirely, that their export market had deteriorated to the extent their company was in financial trouble, that CZ was dealing with an entirely different market and other uncertainties.

I opened the meeting by indicating it was your desire (and that I had talked to you that morning) to have a productive meeting that ended in, if nothing more than, a win-win position for both of us, we would have accomplished your goal; that it was your desire that we end up with a mutually beneficial package and that there be absolute consideration given to both the state and CZ needs. I explained the negative political environment that was beginning to develop and that initially CZ was being made the bad guy by the press and with the additional intervention of political players, i.e., candidates for Secretary of State, we were running the risk of both parties looking like the bad guys and none of us wanted that to happen.

Mr. Corbin immediately stated that CZ does have a bona fide interest in the Tongue Point property. He then recapped Creson's conversation with you via telephone on March 9 at which time Mr. Creson indicated that CZ would like to acquire the Tongue Point site, that CZ is interested in lease and that there was a discussion regarding the commitment and strategy CZ has for the area including additional jobs.

Mr. Corbin told us it was CZ's intention to move forward on developing the site, that the specific use of the site was not known at this time and they would be willing to lease now and then prepare for the future. CZ's long-term use of the property is uncertain at this time, but they would look to the lease terms and defer to the Land Board for that decision. CZ would not object to any third-party agreement in the long-term, but a short-term lease would certainly be more favorable to CZ.

Corbin further stated that exchanging timber for the lease was still highly acceptable to them. CZ's five-year strategy is to have two sawmills in the Lower Columbia area, but they were not in a position to say how the Tongue Point site would be used.

Greg McMurdo indicated it was his belief that the Land Board's goal was to create jobs in the Tongue Point area and a long-term lease without specific site development would not accomplish that goal.

Governor  
CZ/Tongue Point  
Page three

We then had a full discussion of how CZ sees the market shifting on them. The bulk of the timber industry goes into housing and they are looking toward exports to Japan. Tongue Point would preclude any phasing in to that market and Dant Russell at Warrenton provides the opportunity to do their phase-in. The Warrenton site has the capacity of producing 12m board feet of green timber produce at which time they would have to phase into a new site, possibly at Tongue Point. Tongue Point would have the capacity of producing 109m board feet. Unfortunately the housing market is not picking up as had been projected, plus the manufactured housing is moving into the industry rapidly. CZ is working on a three to five year plan which as I stated before dictates two sites in the Lower Columbia River. Their decision as to how to utilize the site could possibly be reached in two years and there is a better than 50 percent chance that they would fully utilize the site.

We then explored various alternatives. These will be outlined in a memo being drafted now by Ed Zajonc to you, which will include values and fiscal impacts. (1) CZ's first choice is to buy Tongue Point outright with an exchange of timber land, using the same ratio as previously negotiated by the Land Board (1.25). There was also an indication they would be willing to talk about an exchange for their property at Rainier.

(2) Buy out the state's cost to date in development of the Tongue Point site and leave an option to rebid at a later date.

(3) Establish a fair market value lease, either through a short-term lease of two-five years or a long-term lease such as that currently negotiated for forty years with certain options. The latter is no longer realistic to CZ.

(4) Proceed with a land trade on a long-term basis. It should be noted here that CZ did indicate also some interest in the Boardman property. We did not explore that with them at all. Any trade of timber property would be the Rainier or Tahkenitch property or both.

There is still, of course, the outstanding issue of the loss of UDAG funds (\$3-4m) to the city of Astoria. It is my understanding that the community was anxious for this fund, but the mayor and others understand the position we are in. The deadline for extension or termination of the application is April 16. It is possible to request an extension to July, but we are told that HUD prefers no further extensions because of the demand for the money. CZ tells us that the ~~orders~~ <sup>orders</sup> are they will not request an extension.

Governor  
CZ/Tongue Point  
Page four

We continued with a lot of discussion about job creation in the area. I reiterated your concern is creating jobs for Oregonians and we would not see that happening with the present arrangement that CZ has with Dant. However, technically CZ-Dant and Russell activity does preserve jobs. Approximately 50 employees will be retained for one shift and this could increase to 100 jobs should a second shift be added. We should not lose site of the fact that had CZ not picked up Dant & Russell those 50 jobs would be lost.

CZ has spent \$1 1/2m supposedly in engineering costs at the Tongue Point site. The state to date has spent \$336,468.

We ended the meeting on a positive note that all of the alternatives discussed would be further explored by Land Board staff, and would be fully discussed with Land Board members. Upon direction from the Land Board members, staff assistants would resume meeting with CZ to finalize all details. Mr. Corbin specifically requested that, in keeping with my request to come to a conclusion by the next Land Board meeting, all details be worked out and finalized prior to that meeting. I assured him that would be your wish also.

Corbin also reminded me several times that you had agreed to meet with Mr. Creson face to face prior to any decision. We may want to arrange that according to your schedule to coincide with any future Land Board assistant meeting. Please let me know.

##