

THE HONORABLE LES AU COIN
NORTHWEST TIMBER ASSOCIATION
MAY 19, 1986

THANK YOU FOR THAT VERY GENEROUS INTRODUCTION.

BEFORE LAUNCHING INTO MY THOUGHTS ON THE WOOD PRODUCTS INDUSTRY'S RISE TO THE FUTURE, I WANT TO TAKE A MINUTE AND RECOGNIZE TWO MEN WHO HAVE DISTINGUISHED THEMSELVES AS POLICYMAKERS IN THE FIELD OF RESOURCE MANAGEMENT AND ARE NOW MOVING ON TO SOMEWHAT DIFFERENT CALLINGS.

FIRST IS BILL LEAVELL, WHO AFTER SIX YEARS OF DIRECTING THE OPERATIONS OF THE BUREAU OF LAND MANAGEMENT IN THE STATE OF OREGON IS RETIRING JUNE 1.

BILL, AFTER YOUR FINE YEARS OF SERVICE AS STATE DIRECTOR, YOU HOLD THE RARE DISTINCTION OF BEING A NON-OREGONIAN WHO KNOWS WHAT THE O&C LANDS ARE. PLEASE DON'T LET ANYONE ELSE IN ON OUR LITTLE SECRET. AND BEST OF LUCK IN THE ENDEAVORS YOU CHOOSE TO PURSUE.

MIKE, MOVING FROM STATE FORESTER TO A TOP POSITION IN THE ASSOCIATION OF OREGON LOGGERS TAKES YOU OUT OF THE FRYING PAN AND SENDS YOU STRAIGHT INTO THE FIRE. I WISH YOU EVERY SUCCESS IN YOUR NEW ROLE.

LADIES AND GENTLEMEN, ARNIE INVITED ME TO MAKE THIS ADDRESS NEARLY A YEAR AGO, AND IT IS A PLEASURE TO DO SO. AND, IT IS A PLEASURE TO NOTE THAT THE THEME OF THIS YEAR'S MEETING IS "RISING TO THE FUTURE."

EARLIER THIS YEAR, I HAD AN OPPORTUNITY TO SPEAK TO ANOTHER GROUP OF INDEPENDENT WESTERN LUMBER MILL OPERATORS AND I MENTIONED THAT IT WAS A PLEASURE JUST TO SEE SO MANY OF THEM AT THAT SPEECH, GIVEN THE PROBLEMS OF THE WOOD PRODUCTS INDUSTRY IN THE EARLY 1980s. I THINK I CAN MAKE THE SAME STATEMENT TO YOU TODAY.

THE BREAKDOWN OF THE WOOD PRODUCTS INDUSTRY IN THE EARLY 1980s WAS ENOUGH TO DEAL ANY INDUSTRY AND ANY REGION OF THE NATION A CRIPPLING BODY BLOW.

EVEN WORSE, THOUGH, THE COLLAPSE CAME ON THE HEELS OF DOUBLE DIGIT INFLATION, WHICH FOR OPERATIONS DEPENDENT ON FEDERAL SOURCES SPELLED ECONOMICALLY INOPERABLE CONTRACTS FOR FOREST SERVICE AND BLM TIMBER.

CONTRACT RELIEF -- HAMMERED OUT OVER THREE YEARS, NEGOTIATED AMONG PEOPLE IN THE INDUSTRY INCLUDING MANY IN THIS ROOM FROM THE NORTHWEST, THE MOUNTAIN STATES, THE SOUTH, AND THE EAST, PASSED FINALLY -- FINALLY -- WITH THE TACIT APPROVAL -- THANKS IN NO SMALL PART TO ARNIE EWING -- OF SENATOR HOWARD METZENBAUM, AND PRESENTED TO THE PRESIDENT FOR SIGNATURE OR VETO BARELY THREE WEEKS BEFORE THE

1984 ELECTION DAY, WENT A LONG WAY IN ENSURING THAT SOME OF THE PEOPLE I SPOKE OF EARLIER AND SOME OF YOU IN THIS CROWD ARE STILL IN THIS BUSINESS.

NOW, WITH THE BOOM-BUST ECONOMIC SCHIZOPHRENIA SEEMINGLY BEHIND US, AND WITH DEMAND FOR LUMBER AT LEAST HITTING ALL-TIME HIGHS HERE IN THE UNITED STATES, PUBLIC TIMBER-DEPENDENT COMPANIES ARE FACED WITH A NEW CHALLENGE -- BEING ASSURED OF A STEADY, STABLE SUPPLY OF RAW MATERIAL.

FUTURE LOG SUPPLY IS FAST BECOMING THE BIGGEST CONCERN OF MANY IN THE INDUSTRY. I DON'T HAVE TO TELL ANY OF YOU IN THE AUDIENCE THAT IT'S AN UNSETTLING FEELING WHEN YOU DON'T KNOW WHERE YOUR NEAR-TERM TIMBER SUPPLY IS COMING FROM.

TAKE REGION 6 AS AN EXAMPLE. AT THE END OF THE LAST FISCAL YEAR, AFTER THE CONTRACT RELIEF LEGISLATION WAS IMPLEMENTED, THERE WAS A MERCHANTABLE VOLUME OF TIMBER UNDER CONTRACT EQUAL TO ABOUT TWO AND ONE-HALF YEAR'S SUPPLY OUT HERE. ABOUT A BILLION BOARD FEET HAVE SUBSEQUENTLY BEEN THE OBJECT OF DEFAULT NOTICES. MUCH OF WHAT REMAINS IS, UNLESS THE MARKET GETS REALLY HOT, STILL ECONOMICALLY INOPERABLE.

AT THE SAME TIME, HARVEST RATES OUT THERE ARE BREAKING RECORDS. REGION 6 REPORTED THAT IN THE FIRST QUARTER OF THE CURRENT FISCAL YEAR, 1.1 BILLION BOARD FEET OF MERCHANTABLE TIMBER WAS HARVESTED.

FOR THE O&C LANDS IN WESTERN OREGON, THE HARVEST RATE IN THE FIRST HALF OF THE CURRENT FISCAL YEAR WAS 40 PERCENT -- 40 PERCENT! -- ABOVE A COMPARABLE PERIOD A YEAR BEFORE.

MAX PETERSON DESCRIBED TO ME THE CONDITION OF THE MARKET AS "PROFITLESS PROSPERITY." WHOLESALER LUMBER PRICES MIGHT NOT BE GREAT DUE TO CANADIAN IMPORTS OR OTHER FACTORS, BUT THERE IS DEMAND AND THERE IS PRODUCTION.

WITH THIS DEMAND AND PRODUCTION, HOWEVER, CAN COME A FURTHER EROSION OF THE VOLUME OF TIMBER UNDER CONTRACT. AND WITH LESS VOLUME UNDER CONTRACT, THE TEMPTATION TO BID MORE AND MORE DESPERATELY FOR NEW SALES GETS GREATER AND GREATER.

THUS, THE INDUSTRY RUNS THE RISK OF GETTING BACK INTO A CYCLE OF SKY-HIGH BIDDING BEHAVIOR FOR PUBLIC TIMBER SUPPLIES, JUST LIKE IT DID IN THE LATE 1970s. ONLY THIS TIME, THE CAUSE OF THIS BEHAVIOR WON'T BE EXPECTATIONS OF INFLATION. IT WILL OCCUR IF THE SUPPLY OF TIMBER ISN'T ADEQUATE.

THAT GETS US TO THE SUBJECT AT HAND. FOR THE CURRENT FISCAL YEAR, THE ADMINISTRATION PROPOSED AN OVERALL TIMBER SALE PROGRAM OF ABOUT 10.7 BILLION BOARD FEET -- INCLUDING NOT JUST MERCHANTABLE SAWLOGS, BUT FENCEPOSTS, FIREWOOD, AND PROBABLY A BIT OF PUSSYWILLOW, TOO. IN TERMS OF MERCHANTABLE TIMBER, THE VOLUME REQUESTED IS ACTUALLY A LOT LESS, ESPECIALLY FOR OREGON, WASHINGTON, AND NORTHERN CALIFORNIA.

WELL, THANKS IN NO SMALL PART TO THE HOUSE AND SENATE INTERIOR APPROPRIATIONS COMMITTEES, THAT SALE VOLUME WAS JACKED UP TO ABOUT 11.4 BILLION BOARD FEET, AND, DUE TO SOME QUIRKS IN THE FOREST SERVICE'S TRACKING SYSTEM, AFTER GRAMM-RUDMAN, THAT VOLUME MAY WELL END UP BEING THE TIMBER SALE ACCOMPLISHMENT AT THE END OF THIS FISCAL YEAR.

THINK FOR A MINUTE, THOUGH, IF THE FOREST SERVICE HAD ACTUALLY GOTTEN FUNDS TO SELL ONLY 10.7 BILLION BOARD FEET -- IF THE CONGRESS HAD RUBBER-STAMPED THE WHITE HOUSE'S BUDGET REQUEST -- WITH THE KIND OF HARVEST ACTIVITY GOING ON IN THE NATIONAL FORESTS RIGHT NOW,

FAR MORE TIMBER WOULD BE CUT THAN WOULD HAVE BEEN SOLD, VOLUME UNDER CONTRACT WOULD SHRINK, BIDDING WOULD ESCALATE, AND OPERATIONS DEPENDENT ON PUBLIC TIMBER COULD PROBABLY JUST WRITE THEMSELVES OUT OF BUSINESS SOONER OR LATER, ESPECIALLY WITH THE VORACIOUS -- AND SOME SAY PREDATORY -- BRAND OF COMPETITION BEING EXERCISED BY OUR FRIENDS TO THE NORTH. INSTEAD, YOU GOT FROM CONGRESS A SALE PROGRAM OF 11.4 BILLION BOARD FEET, MORE IN LINE WITH THE LEVEL OF HARVEST THAT WILL LIKELY OCCUR THROUGHOUT THIS FISCAL YEAR.

WITH PARTICULAR REGARD TO THE NATIONAL FORESTS THAT MANY OF YOU DEPEND ON, HERE'S WHAT THE DIFFERENCE BETWEEN THE PRESIDENT'S BUDGET AND THE WORK OF CONGRESS WILL MEAN TO YOU:

*FOR THE UMPQUA NATIONAL FOREST, THE PRESIDENT'S BUDGET WOULD HAVE MEANT A TIMBER SALE PROGRAM OF 327 MILLION BOARD FEET OF MERCHANTABLE TIMBER THIS YEAR. INSTEAD, THE UMPQUA WILL SELL 356 MILLION BOARD FEET.

*FOR THE SISKYOU NATIONAL FOREST, THE PRESIDENT'S BUDGET WOULD HAVE MEANT A SALE PROGRAM OF 186 MILLION FEET OF SAW LOGS. INSTEAD, THE SISKYOU WILL SELL 206 MILLION FEET.

*FOR THE SIUSLAW NATIONAL FOREST, THE BUDGET REQUEST TRANSLATED INTO A 253 MILLION BOARD FOOT SALE PROGRAM. INSTEAD, THE SIUSLAW WILL SELL 338 MILLION FEET.

*FOR THE WILLAMETTE NATIONAL FOREST -- AND I AM SURE THIS IS OF MORE THAN PASSING INTEREST TO MANY OF YOU IN THE AUDIENCE -- THE PRESIDENT BUDGETED FUNDS FOR A 585 MILLION BOARD FOOT SALE PROGRAM. THE WORK OF CONGRESS WILL RESULT IN A SALE PROGRAM OF 697 MILLION BOARD FEET.

DO YOU FIND THOSE COMPARISONS REMARKABLE?

WELL, IF YOU THINK 10.7 BILLION BOARD FEET SOUNDS BAD -- AND THAT IS THE BASIS FOR THOSE SMALL NUMBERS BUDGETED BY THE PRESIDENT -- THEN TRY A FLAT 10 BILLION BOARD FEET. THAT'S WHAT THE BEAN COUNTERS AT THE OFFICE OF MANAGEMENT AND BUDGET PUT INTO THE PRESIDENT'S BUDGET REQUEST, AND THAT IS THEREFORE THE WHITE HOUSE'S AND THE FOREST SERVICE'S OFFICIAL PROGRAM FOR THE COMING YEAR.

THIS DESPITE THE FACT THAT WITH THE BUYOUT AND DEFAULT VOLUME AVAILABLE, WE CAN DIP INTO SALES THAT DON'T COST MUCH TO PUT UP AGAIN AND WHICH HAVE LARGELY BEEN SUBJECT TO ENVIRONMENTAL REVIEW. UNFORTUNATELY, THE BEAN COUNTERS PROJECT SELLING 10 BILLION BOARD FEET NOT JUST NEXT YEAR, BUT THE YEAR AFTER THAT, THE YEAR AFTER THAT, AND THE YEAR AFTER THAT.

AT THE SAME TIME, THIS SAME CAST OF CHARACTERS PREDICTS 2 MILLION HOUSING STARTS, DROPPING INTEREST RATES, AND HIGH HARVEST LEVELS FROM THE NATIONAL FORESTS.

AND IN THE MEANTIME, THE FOREST SERVICE'S OWN ECONOMISTS HAVE CONCLUDED THAT, AND I QUOTE:

"THE REGION'S FOREST PRODUCTS INDUSTRY WILL RELY HEAVILY ON PUBLIC FOREST LANDS FOR RAW MATERIAL UNTIL THE BEGINNING OF THE NEXT CENTURY, WHEN THE SUPPLY FROM PRIVATE LANDS IS EXPECTED TO INCREASE. THEREFORE, IN THE IMMEDIATE FUTURE, PUBLIC FOREST MANAGEMENT POLICIES WILL HAVE A DIRECT BEARING ON THE ECONOMIC VITALITY OF THE REGION'S TIMBER-DEPENDENT COMMUNITIES."

WHAT DOES THAT ADD UP TO, LADIES AND GENTLEMEN? IT MEANS THIS: IF CONGRESS DOESN'T MAKE UP FOR THIS WOEFULLY INADEQUATE BUDGET SUBMISSION, YOU ARE GOING TO HAVE LESS AND LESS TIMBER UNDER

CONTRACT, FEWER AND FEWER SALES TO BID ON, AND YOU WILL END UP WITH A SMALLER AND SMALLER SHARE OF THE AMERICAN LUMBER AND PLYWOOD MARKETS, IF YOU DEPEND ON PUBLIC TIMBER FOR YOUR LOG SUPPLY.

AND, IF I CAN DIGRESS FOR A MOMENT FROM TIMBER SALES AND MENTION TWO OTHER AREAS THAT ARE CRITICAL TO THE FUTURE OF PUBLIC TIMBER SUPPLIES, THE ADMINISTRATION HAS EVEN BIGGER CUTS IN STORE FOR REFORESTATION AND TIMBER STAND IMPROVEMENT. IF THE FOREST SERVICE DOESN'T THIN AND FERTILIZE STANDS, THAT WOULD NOT BODE WELL FOR THE NEAR FUTURE. AND, IF THE FOREST SERVICE DOESN'T REPLANT, IT SPELLS DISASTER FOR LONG-TERM TIMBER SUPPLY.

FOR THOSE OF YOU INTERESTED IN THE BUREAU OF LAND MANAGEMENT LANDS AS A SOURCE OF LOG SUPPLY, A SIMILAR THOUGH LESS DRASTIC DILEMMA PRESENTS ITSELF IN THE BUDGET REQUEST FOR THE O&C GRANT LANDS.

SIMPLY PUT, THE BLM WOULD HAVE THE MONEY IN THIS REQUEST TO SELL THE FULL ALLOWABLE CUT IN 1987 FROM THE O&C, BUT THIS REQUEST WOULD RESULT IN A SUBSTANTIAL FALL DOWN IN FUTURE TIMBER SALE LEVELS, FOR IT LACKS THE FUNDS NEEDED TO THIN, FERTILIZE, AND REPLANT.

AND, IT CUTS SHORT THE RESEARCH COMPONENT THAT WILL RESULT IN GREATER PRODUCTIVITY AND BETTER FORESTRY ON THE PUBLIC LANDS. YOU ARE ALL FAMILIAR WITH THE RESULTS OF THE ON-GOING FIR PROGRAM IN THE MEDFORD DISTRICT, AND I AM SURE MANY OF YOU ARE AWARE OF THE INTEREST IN LAUNCHING A SIMILAR PROGRAM ALONG THE OREGON COAST. WELL, THIS BUDGET WOULD THREATEN THE FIR PROGRAM AND CLEARLY ENDANGER ANY COASTAL PRODUCTIVITY INITIATIVES.

IN SHORT, THE BLM BUDGET PRESENTS A "HERE TODAY, GONE TOMORROW" PROPOSITION FOR WESTERN OREGON.

THAT'S THE SCENARIO FOR THE FUTURE, IF THE ADMINISTRATION HAS ITS WAY. BEFORE WE GET TO THE PROSPECTS FOR A BRIGHTER FUTURE, HOWEVER, I WANT TO TELL YOU OF ONE DISTURBING FLAW IN THE ADMINISTRATION'S LOGIC IN PROPOSING THIS PROGRAM.

WE RECENTLY COMPLETED OUR ANNUAL HEARINGS FOR THE INTERIOR APPROPRIATIONS SUBCOMMITTEE, ROUGHLY TWO AND A HALF MONTHS OF HEARINGS, DAY IN AND DAY OUT, TO REVIEW THE BUDGET REQUESTS FOR EACH AGENCY UNDER OUR COMMITTEE'S JURISDICTION.

WE SPEND A DAY AND A HALF ON THE FOREST SERVICE BUDGET, WITH PETER MYERS AND MAX PETERSON AS OUR CHIEF WITNESSES. DURING THE FIRST DAY OF HEARINGS, I SPENT CONSIDERABLE TIME ESTABLISHING IN THE HEARING RECORD THE FACT THAT PUBLIC SOURCES OF TIMBER ARE CRITICAL IN FILLING SHORT- AND LONG-TERM LUMBER DEMAND IN THE UNITED STATES.

AND I ALSO SPENT A BIT OF TIME ESTABLISHING THE PROFITABILITY OF THE TIMBER PROGRAM -- PROFITABILITY FOR THE U.S. TREASURY, THAT IS. WHY, THEN, SHOULD THE ADMINISTRATION PROPOSE CUTS IN THE TIMBER SALE PROGRAM WHEN IT IS CLEAR THAT A CUT IN SPENDING OF ONE DOLLAR WILL RESULT IN LOSSES OF MUCH MORE THAN THAT ONE DOLLAR IN REVENUES TO REPLENISH THE TREASURY?

I REMEMBER, WITH ALL DUE RESPECT TO HIM, THE ANSWER THAT ASSISTANT SECRETARY MYERS -- SOON TO BE THE NUMBER TWO MAN AT THE AGRICULTURE DEPARTMENT, GAVE ME.

THAT ANSWER HE GAVE WAS THIS: THE GRAMM-RUDMAN BUDGET LAW REQUIRES REDUCTIONS IN OUTLAYS -- SPENDING, THAT IS -- IN ORDER EVENTUALLY TO BALANCE THE BUDGET.

SOUND GOOD? WELL, HE'S WRONG. I VOTED FOR GRAMM-RUDMAN AND I CONTINUE TO SUPPORT IT. BUT GRAMM-RUDMAN DOESN'T REQUIRE CUTS IN OUTLAYS -- IT REQUIRES CUTS IN DEFICITS. AND, IF YOU LOSE THREE DOLLARS IN REVENUES FOR EVERY ONE YOU GAIN FROM LOWER SPENDING, THEN YOUR REDUCTION IN OUTLAYS ACTUALLY HAS THE OPPOSITE EFFECT -- IT INCREASES THE DEFICIT.

SO, I CAN STAND BEFORE YOU TODAY AND TELL YOU THAT IT IS ENTIRELY CONSISTENT TO SUPPORT THE GOALS AND THE SPECIFICS OF THE GRAMM-RUDMAN LAW AND AT THE SAME TIME ADVOCATE INCREASES IN THE BUDGET FOR FEDERAL TIMBER SALES.

AND, JUST AS I STAND HERE TODAY, I WILL TELL YOU THAT I AM MAKING THE SAME ARGUMENT BACK IN WASHINGTON, D.C., TO THE CHAIRMAN OF THE HOUSE INTERIOR APPROPRIATIONS SUBCOMMITTEE. LET'S INCREASE THE FUNDS IN OUR BILL FOR 1987 CLOSER TO THE LEVELS THAT WERE PROVIDED IN 1986.

LET'S SPEND A FEW DOLLARS HERE AND GET EVEN MORE BACK FOR THE TREASURY IN THE FORM OF HIGHER TIMBER SALE REVENUES, MORE ECONOMIC ACTIVITY, AND MORE TAX REVENUES AS WELL.

IT IS MY HOPE THAT WE CAN BRING THE PROGRAM BACK UP ABOUT TO CURRENT LEVELS: ABOVE 11 BILLION BOARD FEET IN SALES. THAT'S A TALL ORDER ON ITS FACE, SINCE WE ARE STARTING AT ONLY 10 BILLION BOARD FEET.

ON THE OTHER HAND, LOGIC, REVENUES, AND ECONOMICS ARE ALL ON OUR SIDE.

IF YOU ARE TO RISE TO THE FUTURE, THEN, THE FIRST LOAD OF BALLAST THAT NEEDS TO BE DISCARDED IS THE CURRENT ADMINISTRATION'S ATTITUDE TOWARD SELLING FEDERAL TIMBER.

FOR A GROUP THAT WANTS TO SELL BPA AND CONRAIL AND THAT HAS WANTED TO PRIVATIZE MUCH OF THE PUBLIC LAND AND MANY FEDERAL ACTIVITIES, THE TIMBER SALE BUDGETS COMING OUT OF THIS ADMINISTRATION DEFY EXPLANATION.

FOR THE MOST BUSINESS-ORIENTED WHITE HOUSE TO COME ALONG IN YEARS, THE LACK OF UNDERSTANDING OF YOUR INDUSTRY IS INCOMPREHENSIBLE.

YOU HAVE A PRECIOUS OPPORTUNITY TO DO YOURSELVES A WORLD OF GOOD TODAY. WITH TOP OFFICIALS FROM THE AGRICULTURE DEPARTMENT AND THE OFFICE OF MANAGEMENT AND BUDGET ASSEMBLED HERE TODAY, YOU CAN CARRY YOUR MESSAGE TO THEM DIRECTLY, AND I URGE YOU TO DO SO.

FOR AS LONG AS CONGRESS CONTINUES TO RECEIVE BUDGET REQUESTS CALLING FOR SMALLER AND SMALLER TIMBER SALE AND FOREST MANAGEMENT INVESTMENTS, YOU IN THIS INDUSTRY IN THIS STATE FACE AN UNCERTAIN FUTURE.

GET YOUR MESSAGE THROUGH, AND HELP YOURSELVES RISE TO THE FUTURE.