

D-R-A-F-T MINUTES
Southeast Region Timber Industry
Task Force Meeting
Centennial Hall, Sitka, Alaska
August 11, 1997

Presiding Officer Mayor Doug Roberts of Wrangell brought the meeting to order and introduced Mayor Hallgren of Sitka. Mayor Hallgren welcomed everyone to Sitka and thanked the City and Borough of Sitka for the lunch they were providing; the Chamber of Commerce and Dan Jones Associates for the morning coffee and donuts; and the National Bank of Alaska for coffee and refreshments to be served in the afternoon.

Mayor Hallgren said there are things to be said of Sitka's economy four years after the mill shutdown. Without giving a complete overview, he shared some of the facts that show Sitka has not yet completely recovered.

The mill site is still in the clean up and it will probably take an Act of Congress to consolidate the ownership to make the property available for some other constructive use for the town. Sitka schools continue to lose students each year since the mill shut down. Their sales tax figures show reductions. A U.S. Forest Service meeting of the previous week indicated that Sitka has up to 48 Forest Service jobs in jeopardy. So, Sitka is still trying to stem the tide.

However, in some areas Sitka has progressed and things have not been as bad as initially feared. He pictured the gravity of the timber industry as shifting to the southern end of the Tongass, particularly Ketchikan. He thinks Sitka is now trending into the new timber reality. He does not anticipate a change from the national viewpoint in the next three and a half years.

The Sitka tribe is in the beginning of a wood fiber/fish gut composting project which is now in the testing stage and if it goes well, will go into full scale production next

summer. That is one thing that will provide jobs. They are also looking at specialty products which are laser etched from high grade wood. They have somebody who has been in the timber industry for years who is strongly looking at specialty wood for musical instruments which could be a fairly major help to their economy. The point he made is that Sitka needs a high grade wood sort yard to make it possible to try these new value-added opportunities.

Doug Roberts thanked Mayor Hallgren and gave a brief update of what is going on in Wrangell. He said Wrangell probably had one of its most difficult winters in many years. One thing that is keeping Wrangell economy somewhat stable, although still on a downward trend, is there are a lot of folks working real hard to try to do a variety of things in the community. One of the things Wrangell is especially pleased with is that they are starting to see more production in fisheries. Wrangell will always rely on its resource base for timber, mining, tourism and fisheries. They have had a lot of fantastic help from the State, the Forest Service and joint participation that has put people back to work.

It's an exciting thing to take his counsel out in the woods to the state timber sales and the other sales that are underway right now. One of their small mills is fired up again and under production, hauling materials into the barge facility. Some of the work that has been outlined in this Task Force has been taken advantage of and everyone in this group have been able to take advantage of these opportunities. We are all trying to utilize some of the things learned as a group and are starting to see people back at work. For a while they were divided and received many different ideas when they received the timber funds. They are working to identify their needs and are negotiating.

The main thing that they are concentrating on is to rebuild Wrangell's infrastructure to accommodate the new Wrangell.

He and his counsel became active in the Wrangell sawmill site in spite of controversy involved with that site. They went to Japan, negotiated with the Alaska Pulp

Corporation and may be close to making some real decisions toward putting something together to help Wrangell get back on it's feet. They are going to use that Stevens money to create jobs and diversify the economy. Wrangell took a long time to face that the sawmill which is still there, will probably never re-open and operate as it exists right now. There are going to have to be some changes at the site that will attract a new client. Once the new equipment is on site, they are going to see some changes for the better in the next couple of years. They will have better diversity in the timber industry as far as that site goes.

In terms of the draft report, the Task Force mission is to address a lot of concerns, comments and questions and insert some changes. He has some stronger language recommendations to make it clear that the Governor's Office needs to get behind them on some key issues which is why the industry is sitting around today. There are ways that the state, city and fed's can participate in making the environment more conducive toward the timber operator in his community. If somebody wanted to come in now to develop a small sawmill or some sort of manufacturing component, they have some basic difficulties with offering tax incentives and power rate incentives. They are not competitive with those components of their community.

Doug explained that when the Task Force got the draft plan, they were asked to review it for a couple of weeks then send in their comments. When the meeting got down to that agenda item, they would take in those comments, but he had some things to hand out from Jack Phelps, representing the timber industry, and asked Jack to give a brief description on the handouts.

Jack Phelps said the Timber Issues Committee of the Alaska Forest Association spent a fair amount of time going through the report to distill their comments down to some tangibles. That was the summary that was handed out. They are in two sections - the first being general comments. They particularly emphasized the first three points

under the general comments. They believe that the draft report should be re-worked to be more focussed and more clear in the Priority Actions that this group puts forward. They suggested a lot a of it be put into appendices. They take issue with what appears to be an implicit assumption that the major problem facing industry is lack of technology. There are some technological improvements, but they don't believe that is the principal problem their industry is facing. The principal problem is one of supply and they have articulated that in their paper. In the second section, they addressed errors that needed to be addressed and corrected. They hoped their comments would be useful. He noted that Task Force members Mr. Loescher, Mr. Dahlstrom, Mr. Leary and Mr. Champion were involved in AFA's discussions and their comments are incorporated into their handout. Two other things he pointed out that need attention were Item 11 in the second section on page 3 with respect to the labor component as a problem and the cost of labor. He thinks that Dr. Mills' testimony before Senator Murkowski the previous month were appropriate to this discussion. And, of the charts on pages 26 and 27, some additional research needs to be done in terms of the number on that chart. More consistency should be brought to whether they are talking about actual capacity or historical production. The chart seems to look at some mills in the one case and at other mills in the other case. Jack said he should probably mention the second handout, too. The second one was a Sale Program Detail Breakdown that the Forest Service had given them a couple of weeks earlier. The numbers in it correspond with the one that was provided here with one exception. The new handout from the Forest Service here shows a slightly higher harvest in the Ketchikan area for 1997 than the one Jack gave them. The reason is that there was one sale which was not listed, so the numbers in the new handout will be correct rather than AFA's. But the value in AFA's handout is that it shows where the Forest Service thinks there is a serious possibility of an interruption in some of these offerings. AFA thinks that is important for the Task Force to be aware of as they move forward. He appreciated the Forest Service for making that information available and that it does not represent any real change in information that the Forest Service has provided.

Doug Roberts introduced Mr. Dick Leary, the new president of Ketchikan Pulp Corporation and Mr. Dave Katz who was sitting in for Mr. Sisk.

Mr. Katz said John Sisk prepared comments on the Task Force's report which he asked to pass out so everyone has the environmentalists comments. They are a summary of comments from environmental groups. It is an inclusive report that reflects the work John has done on the Task Force and the environmental community. The Task Force job is being taken in isolation and could be better taken as how it fits into the overall comments. The focus on timber has necessarily left out all of the other uses.

Doug Roberts said the group would get back to those comments, but he wanted to take care of some other things on the agenda. He moved on to Item II on the agenda - Review of Agenda and Meeting Structure. He said the meeting structure is casual and did not need a review of the agenda; everyone agreed that these are the things they need to do here. That moved the meeting on to Update on Activities; State SB180 Sales, U.S. Forest Service Log Sort yard, Current Sale Schedule, etc.

Marty Rutherford, Deputy Commissioner of DNR spoke on SB180 . She was here as the Knowles Administration representative on the Task Force. She first recapped a few things that the Knowles Administration is proud of referring to two of the mission statements: One was to provide assistance to businesses and individuals in Southeast Alaska as a result of the activities of the timber industry; and the second was solutions to timber supply problems. In March, she said, Governor Knowles and many Task Force members traveled to Washington, D.C. This lobbying effort greatly encouraged the completion and signing of the TLMP Record of Decision before the May Endangered Species deadline. While in Washington, the Governor and the Southeast Mayors requested the formation of a Community Economic Revitalization Team (CERT). This CERT request evolved from a previous effort called the Coordinated Response Partnership. It was formalized last year and it's basic intent was to try to

coordinate all the federal, state and local activities that were responding to the timber industry problems. On July 9th, USDA Secretary Glickman authorized the creation of a CERT in Southeast Alaska and, like the Coordinated Response Partnership, it will bring together the federal, state and local officials to do two things: Basically consider proposals for economic diversification and to help guide the communities through the maze and federal and state programs and processes. In the Governor's efforts to assist timber workers and families in Southeast, the administration has also done a few things. He has amended the unemployment regulations to accommodate worker severance packages, established a career transition center, sponsored small business workshops, provided for small business assistance to dislocated workers at the career transition center. He has talked with the various business leaders in Alaska including Veco, British Petroleum, Coeur d'Alene, Alaska Petroleum Contractors, Alyeska, encouraging them to consider the laid off KPC workers when they are going out to solicit recruiting for jobs. That has been fairly successful according to some of the companies. He has directed more than a million dollars worth of overhaul work on the Alaska Marine Highway System to the Ketchikan Shipyard and is holding the region harmless from a 28 million dollar federal highway budget cut, which, in the scheme of things, it is pretty important. At DNR, the state has assisted Steve Seley in getting his new high value-added timber mill underway including trying to ensure that state permits were handled timely. That, in itself, is sometimes is a bit of a hurdle given the budget cuts we have all taken. DNR is assisting with the federal permits and funding mechanisms, approving a sublease of state airport land for the mill site, and DNR is currently working with Seaborne Lumber on a request for a SB180 contract. The Division of Forestry has been working hard on several fronts. We have provided about 16 MMBF to assist existing processors in Southeast including four sales on Wrangell Island to Pacific Rim Cedar in Wrangell, one sale on Mitkof Island to the Mill, Inc., in Petersburg, 10 sales to local operators on Prince of Wales Island, one sale of about 200 MBF and a beach log salvage license for [Ben Fleenor, Harringtons](#) Bay Timber in Ketchikan.

One of the most exciting things that is happening at DNR is the effort to identify a larger annual allowable cut for the Southeast. This has required a focussing of a lot of staff and using some CIP (Capital Improvement Money) that we got this year. It has resulted in identification of about 27 MMBF - a significant increase up from a previous annual allowable cut of 11 MMBF. This increase is reflected in our recent Southeast Five Year Schedule of Timber Sales which is out for public review now until August 19. It reflects a proposal for a 1997 timber sale volume of 12 MMBF, 32 MMBF in 1998, and in the out years, an average somewhere between 20 and 25 MMBF.

Another area we are really excited about is the SB180 sales. This refers to the Governor's bill that allows the department to contract with a company to sell up to 10 MMBF per year for ten years. In exchange, they provide a long term commitment to instate high value-added manufacturing as defined in the bill. The regulations are currently in the final draft which should be out in 1997, however, we are not required to have them in place before we proceed with the actual sale contracts. We are almost positive we will have at least one contract per region in place within one year. We could already do smaller negotiated sales less than 500 MBF or, if it was under the Schnabel Act. The Schnabel Act requires 3 things: an underutilized mill capacity, higher than average unemployment, and an available annual allowable cut. But SB180 adds great depth for us to negotiate sales by extending the term and the amount. "Negotiated sales" are one way DNR could proceed with a multi year contract. In some situations it is possible to offer SB180 as a competitive sale. The intent of the bill is to try to maximize jobs. We could either go out to auction or Request for Proposal (RFP) if that would create the most jobs, and we can go strictly to negotiations.

She introduced Jeff Jahnke, the new State Forester and Director of the Division of Forestry. Marilyn Heiman from the Governor's Office was also there; as were Veronica Slajer and Karl Ohls from the Department of Commerce and Economic Development; and, of course, Kathleen Morse of the Forest Service, and Ruth Tadda with the Division of Forestry. She introduced Bruce Phelps, a planner with DNR and asked Bruce to provide two quick briefings. She turned it over to Bruce Phelps and mentioned that

Fred Walk worked very closely with Bruce in putting the product together. One was a map done in coordination with the Forest Service of land ownership, areas of timber production within the Tongass over the 100 year rotation period and locations in production capacity of mills. It identifies the Forest Service and DNR's Five Year Sales Schedule. It just came off the printers for the Task Force use. The other brief Bruce would provide was on DNR efforts of the last few months called the Southeast Timber Project. Its objective is to assist in the development of a predictable, stable timber supply in Southeast to encourage instate processing facilities.

Bruce Phelps introduced himself and said it is probably the first map which shows the Tongass National Forest, the land of DNR, Mental Health Trust land, and Native holdings particularly in the Prince of Wales Island area. We have taken the Tongass National Forest 1997 alternative into our GIS bank. You get an idea of where potential timber harvest is in the Tongass over a hundred year period and areas where they have harvested before. They have identified all the sawmills in terms of production capacity that is likely from both the Five Year Schedule of Timber Sales by the Division of Forestry and the Forest Service Sales Schedule into one document by fiscal year, individual sale and volume by individual sale, exclusive of the contracted amount to KPC. Fred Walk clarified that is with the exception of two Forest Service sales listed for fiscal year 1997 - Naukati/Sarkar and East 12 Mile. Those two sales are listed in phase I in the Ketchikan Area: Naukati/Sarkar with 22.9 MMBF and East Twelve Mile with 27.3 MMBF are part of the KPC settlement. The rest of the sales on the handout are all independent.

When asked if they had tried to incorporate the potential for Native corporation sales into it, Marty Rutherford added that if Sealaska provides any information we will overlay it and then provide that consistent with and, to the degree that we can, coordinate the data layers in a mapping fashion that may be more useful. She did not want them to get off track and asked if she could encourage Bruce to continue so the group could get

on to the meat of the meeting.

In summary, Bruce examined the summary of scheduled timber sales and the annual volume by agency. He noted that Steve Planchon, Mental Health Trust Executive Director had indicated a minimum of 25 MMBF annually by the next 7 to 8 years. They have extensive holdings as a result of the Mental Health Trust Settlement and because of market conditions may proceed. They operate differently than DNR and don't have a sustained yield requirement. They will respond to market conditions in terms of provision supply.

There is an intent by DNR to integrate the various resource types including the University of Alaska, Mental Health Trust and the Division of Forestry to look at the development of a stable, predictable supply source in southern Southeast, Central and Northern. We have gone through the inventory and have made initial identification of the commercial forest land potential. We are looking at volume information from the Forest Service, cross correlating it with land status information to see where state land has volume to provide additional supply to Southeast. We have also developed a products and yield calculation that is critical as opposed to a sustained yield between 5 and 11, that we are probably looking at between 20 and 27 depending on how the logging comes out. But we have done initial identification of commercial forest land and areas of levels of sustained yield. The process will involve a number of components. The first one is a technical analysis of land status, production and sustained yield levels. The second part is an analysis involving the Prince of Wales Plan and the development of the Central Southeast plan. The planning analysis requires a Best Interest Finding before state land disposal, including timber. A Best Interest Finding is based upon the site specifics of the area plans. In this case, site specific plans are not practical because there are maybe 26 different areas. It gets to be an undoable mechanism, so we have to use area plans as a constant. We have to go through public process to move forward with the timber sales. That a process will probably take about one year and we have initiated the process now. The other planning process involves

both the southern Southeast and central Southeast - areas to be classified to use that resource. We will have to develop an area plan which will probably take two years from the beginning point right now to the conclusion. The result of these two processes are going to occur concurrently. A nice feature of this analysis is it is area wide, comprehensive, and we have the flexibility for tradeoff between production areas and conservation or protection areas.

Another nice thing about it is it is being done on an integrated basis with the Mental Health Trust. Approximately 78,000 acres in Southeast are identified as Mental Health Trust lands and they are classified as commercial forest. The rub is that many of these areas occur in the backdrop of Ketchikan, Petersburg and Sitka which are significant and sensitive areas. We are trying a process of resolving some of these sensitive land issues in each of these communities to develop a result that is beneficial both to the communities as well as to the area as a whole. It may involve local resources, federal resources, and state resources to resolve these issues, but we think there is a way out of this. The other benefit of integrating Mental Health Trust into this process is to take the resource information we have developed in this planning process and identifying areas of consolidated integration of sales and inventory of land holdings. We are going to work with the Forest Service to coordinate our areas of production with theirs to mesh our sales schedules.

Marty added in regards to Mental Health Trust lands, where everybody agrees that Mental Health Trust lands should be harvested, to use for instate processing vs. maybe getting a higher dollar for export - there may be accommodations that can be made by the communities, other state lands, an exchange of lands through some additional offset to log their loss of value if that were to be the case. So, there are ways to try to focus that and that is part of this effort. It is a big project because the state system requires that before you ever cut one tree or lease any land, you have to have that land classified and the classification process includes the public. They get to participate in deciding how the state lands will be used. At the same time, we do have the sales that

are identified in the Five Year Schedule of harvest which are out for public comment and moving forward. Now the reality is, we identified a greater annual allowable cut. But that does not necessarily translate to timber sales. It depends on what the public thinks. These are some proposed sales and they are reflected for each year on a rolling schedule. The first year is always the one with the most detail associated with it and the public may say 'yea - those are fine' but this other group, 'we don't want you to go forward' or 'we don't want that amount to go forward' so, we moderate it to some degree. A greater annual allowable cut does allow us to get to more timber sales with higher volumes. The classification is a public process and then moving forward on the timber sales is a public process. We are trying to provide greater flexibility to the industry so there could be more timber sales. There could be timber sales more focused on value-added processing in the state. That is the intent of this. We are going to be reaching out to the Southeast communities, mayors' offices and saying 'please, help us.' We are going to need your attention. We are going to need your commitment of some time to move forward through this process. It is not an easy process and the only way it will be successful is if you participate. This is sort of an alert. We think it is necessary. We think that is what you are asking us to do, so we are going to be knocking on your door. We are available for questions as we go through the body of the report and how that might integrate with what we are talking about. Errol Champion said one of the most important charts is on installed capacity which has some errors in it. There is inconsistency regarding some differences on installed vs. active production. The installed capacity in Wrangell is omitted even though it is now operating, but if you want to know how much Southeast can handle as an operating entity, then some decision needs to be made of what Wrangell represents.

The meeting moved to USFS - log sort yard, current sales schedule, etc. Fred Walk said of looking at the volume that is available to the forest products industry in Southeast, Alaska needs to consider the volume that is under contract today as well as what is forecast to be sold in the future. The volume that is under contract today will be harvested this season, next season, and the season after. The national forest system

has approximately 545 MMBF that is under contract. Approximately 300 MMBF of that is under contract to the KPC settlement agreement leaving approximately 245 MMBF that has been sold under independent sales. That includes sales in the last two or three weeks. That volume is to be harvested as near as our records can tell.

Dr. Hamilton of the Forest Products Lab (FPL) has been working with members of the Task Force in looking at Southeast and doing individual work on potential products. Dr. Hamilton met with Senator Murkowski and members of the delegation. Hamilton responded to Senator Murkowski on the potential for an ethanol plant. In Hamilton's response, FPL showed that low value logs and mill residues would be sufficient to support an ethanol mill in Southeast Alaska however, there was not enough information to respond to activated charcoal proposals. The FPL is still looking at things in Southeast. A question that has been around a few years that is also important to timber available in Southeast Alaska is Forest Service procedures on export of unprocessed logs. The Regional Forester has another draft proposal they hoped would clear for public release in the next two weeks. They hope they don't have to publish it in the federal register as a major federal undertaking and will solicit public comment on an informal basis and get it out on the street. It could be implemented in the first of their fiscal year (October 1). The next procedure is to get it through their Washington office which they would do by the next week.

The next item on the agenda was the Introduction of the Draft Report, which Marty Rutherford spoke on. She started with a review of the draft which reflects a synthesis of information that the Task Force discussed at their meetings responding to questions and issues they raised and requested followup on. It included other data deemed appropriate. Most importantly, It outlines and identifies various followup options.

In regards to AFA's comments that it was too generalized, it is intended to be a document allowing for the Task Force members' fingerprints needing them to take some steps as just the beginning. They must now decide what are the necessary

followup steps that are the most important and who should take those followup steps. The Governor would appreciate the development of an Action Plan. This is best handled by today's discussion of the Immediate Issues and the potential solutions that deserve the greatest attention, their order of priority, if any can be dropped and what may need to be added, and who should carry out the followup. Their discussion must also include the longer term Priority Actions and a discussion on the options and key questions identified. It is the administration's intention to derive from the Task Force discussion today, these findings to develop an Action Plan to be placed as an executive summary in the front of the report. The group has to put their own signature on it. To the degree that the Task Force can provide the administration very firm direction on what must be the order of the next steps and who the group feels should undertake them will be the best product for the Governor to use in his administration. Staff stands ready to try to capture what the Task Force says today to put that into an Action Plan that will focus their activities in the future. She then turned it over to Kathleen to talk them on the format and to move into what are really the most important features of it - the needed actions.

Kathleen Morse made sure everyone had copies and thanked everyone for working with her and for any written comments which are useful. This is probably one of her last major work events with the Task Force because she is back with the Forest Service now. She will be available to answer questions and provide any information she can, but the bulk of her work is done. She put the draft together from the group discussions, written comments and presentations made during the meetings and tried to put it into an organized format they could now use to edit. There were extra reports and comments made available. When the final report comes out they will be distributed, too.

First she looked at timber supply because it is the big issue. It is not just the physical volume but is also the property of the supply. She tried to put some information in about the properties of the resource and what products are most suited to the resource,

not looking at the market because of the wide range of potential products. The problems are mostly in market and what makes economic sense. You can process a lot of things, but if you can sell them at a competitive price is the real key. The members of the Task Force are the best informed for that perspective. She looked at volumes offered from 1996 and 1997 to get a handle on the supply in those two years. The Tongass now reflects the TLMP revision, so the numbers are perhaps lower than in the past. The biggest points are that this information is from the state, University and the Mental Health Trust.

Errol helped get some information from Sealaska that gave some dimension for the Native corporation supply. It looks like it will be around 200 MMBF plus or minus depending on market conditions of the foreseeable future. We don't know exactly how much they have harvested, how much they have left or their harvest plans because it is a private industry. We do have information about log exports from Alaska and a lot of information about Native harvest is derived from log export information. You can see the trend in supply is downward. Accounting from all ownerships goes from 600 MMBF - which is probably about half of what was harvested in the peak of the harvest activity in the late 80's. It's about half in 1996 and has continued to shrink to about 436 MMBF.

Someone asked why the Chugach National Forest wasn't listed in the Gulf Coast region.

She said most of what was in the Gulf Coast region was in the Yakutat region. She put it in here because we hear so much about University timber which we should examine. The University only has so much timber supply. They are harvesting in the Gulf Coast area and they have a sizeable amount there. Most of the timber located there is not economically feasible for the industry to count on. That's quite a distance to haul that timber to Southeast. There would be some significant economies involved which might not make it the best choice. It is included because we have heard much about University timber supply and we wanted to make sure people knew that is where it is

coming from.

To help the Task Force to develop an Action Plan, she provided an outline of their Immediate Issues and the Priority Actions, also listed on pages 42 and 52 in the draft report. She quickly went over them for those who had not yet had the time to do so. Under the **first Immediate Issue**, she defined small operators as those employing 2 to 5 people and said we don't have any large manufacturers within Alaska.

Under the first **option (a)** offer logs for sale at future-located sort yards, she said some of that is already happening and noted Sitka is now looking at that. **Option (b)** to establish a funding mechanism to assist small operators in obtaining bonds needed to purchase state and federal timber sales. Wrangell has used the Stevens funds to help Frank Age with his bonding. They have also hired a temporary log scaler/cruiser to start laying out municipal sales and is developing a sort yard concept.

Option (c) was to develop and distribute a wood and wood processing service exchange list. This is something that they have done down south. They will have someone with a particular type of wood that is leftover that somebody else can use. They get the information flowing with an equipment exchange list. We need to define who will do it.

Option (d) was communities may be able to advance funds to the Division of Forestry to cover lay out costs for small sales. As you will see in the report, there are some problems with that and it would be sticky to implement.

The **second Immediate Issue** is identifying use for low-end logs. Under **Option (a)** the FPL initiated a recovery study on the low-end, small diameter Hemlock logs at Dahlstrom's mill. The preliminary findings have a much more comprehensive report in the results of that study than the sentence in the draft report does. *She would get them that report and a copy of the report mentioned by Fred Walk of the FPL on ethanol and*

other components.

Option (b) would allow underutilized material to be exported in the round. **Option (c)** is change utilization standards to allow more material to be left in the woods. **Option (d)** is to explore opportunities to design sales for selected harvest so that you reduce the requirement to remove low-end wood. From our view, some of these options are just trying to eliminate the problem by leaving it in the woods and doing other things with it.

Immediate Issue #3 - is strive to improve the reliability of the timber supply. We received a lot of ideas involving the Forest Service. **Option (a)** was multi year contracts from the Forest Service. **Option (b)** is the Forest Service making a contractual commitment to the State of Alaska. She said it could be hard for a third party contractor to determine what the state could do to help manufacturers compete for timber from all ownerships. She wanted to hear more about why the manufacturers here can't compete for timber from private ownerships or if anyone wanted to say it. The Forest Service can modify the appraisal process to encourage more instate processing of cedar - keeping the cedar resource here. The University and Mental Health Trust are working with the Division of Forestry to find creative ways to make timber available and state, federal and local governments can work together to find ways to enhance the Tongass timber supply program.

Immediate Issue #4 to encourage value-added manufacture and capital investment. We looked at traditional sources within the state to see if they can help out with the wood products industry investment. **Option (a)** is the Alaska Science and Technology Foundation. They questioned if the ASTF could only provide funding for technical support and the research aspect of it and not the infrastructure. Marty said that was generally true although they are getting involved in that grading effort. The way they could get into it is if it's new and they can broadly distribute it. Kathleen added that the Tyonek effort was funded through ASTF. It is for anything that creates baseline information. **Option (b)** is Alaska Industrial Development and Export Authority

(AIDEA) that may have attractive interest rates on loans with owner risk.

One of the things they ran into in encouraging value-added manufacturers was that many of the people who wanted to make investments did not have the personal resources or collateral to get the loan approved. A government agency may not want to take the risk anymore than a bank. We found a solution where community leaders may take the risk in order to provide employment opportunities, for example, using the Stevens money to fund the entire thing with no personal risk involved.

Priority Action #1 Develop regional capability to fully utilize all components of the timber supply. That is the integrative processing. **Option (a)** using low-end wood and **Option (b)** export of red and yellow cedar to local manufacturers. There are a longer term developmental processes and we need to find ways to do these things.

Priority Action #2 Identify a stable and long term timber supply. She read straight from the sheet on **Options (a) through (f)**.

Priority Action #3 Develop a mechanism for small business to work together and to become more competitive. Under **Option (a)** we wanted to develop a mechanism for some sort of a network like a “woodnet” idea which is a way people can work and market together. **Option (b)** is using AIDEA to assist in a regional facility.

Priority Action #4 to ensure adequate infrastructure is in place to accommodate development of an economically-viable industry. The only thing they came up with was **Option (a)** an industry working group to find out where the gaps in infrastructure are. We need a list of things that are really happening for development so we can get them prioritized.

Priority Action #5 establish a workforce training program. Kathleen said industry probably has more knowledge about how to do this. Under **Options (a) and (b)**, there

Doug said the main thing is that there are the statutes that prohibit him from offering those funds as tax incentives. Home rule municipalities can override some statutes, but taxation is one that they cannot. It needs to be appealed, repealed, amended or whatever. He said these are local property tax incentives they would like to offer but their attorneys are saying 'you cannot necessarily do that - wait a minute.' If it is a green field operation on a new site that has not been developed, there are things they can do. He said they used to be able to offer incentives, but that has expired. We need to sort through some things and re-offer those incentives which communities are willing to do.

Pete Hallgren said he has worked with Title 29, and the home rule municipalities can do anything they want that aren't prohibited by constitutional or state statute in Title 29, which specifically covers items to be covered by property taxes.

Marty Rutherford offered to give them a synopsis on those flexibilities or lack thereof.

Alaire Stanton thought this is a short and a long term problem. If we adopt one of the Action Items that has to do with an infrastructure subcommittee that we can look at ways to provide incentives to encourage more investment. In Ketchikan, they have been able to provide incentives, for example, to the shipyard to keep operating through a reduction in utility rates and some accommodation on sales and property taxes. There are projects that you can probably do it on. Someone needs to research what is and is not possible for private investments. Long term, low cost hydro power really is necessary in Southeast Alaska. The Governor is well aware of it and has been working with our congressional delegation to get the first leg of the Lake Tyee Spawn Lake (sp?) Intertie done which will certainly help to provide long term stability to our power needs. That is very long term to economic development of all kinds - not just timber operations.

Doug Roberts thought they could get the AEA people, somebody from the Attorney

General's office, and maybe a couple members of the municipalities who have shown an interest in the tracking of new timber operations in communities, to start outlining some incentive ideas and get through some of the problems with statutes or whatever. He recommended that would have to happen immediately to be able to react to timber operators who have shown an interest in a community.

John Sturgeon said one of the hindrances we have is that Alaska is a high cost producer. Nobody is going to come to logging camps to work 8 hours a day, five days a week. They work long hours and weekends. He suggested adding more on cost reductions into the report. What can we do to make Alaska a lower cost producer to be more competitive in the world market?

Errol said we need to get down to the sustainable predictable timber supply. Unless we can get it as a longer term predictable, sustainable timber supply, all this other stuff is not going to fit. The only reason we have got such high cost, is you have got a little timber sale here and another one there and on and on.

John Sisk observed that the comments that John and Errol had just made sound like they are different but they are two sides of the same coin. Work on the Task Force has made more apparent. Being a high cost producer not only creates the problems that were just discussed. It makes it harder to pay a market price for a private land log. It is part of the irony of how can this be addressed over time in a fair and economic manner. The private wood manufacture industry relies primarily on public lands that are dedicated to multiple uses, and in some cases, specific trust responsibilities. The private wood supply does go to the highest bidder and being a high cost producer makes it hard to be the highest bidder. That is a fundamental economic problem. When public lands have a wide variety of public interests that have to be addressed, that has an appropriate bearing on supply. These things are all part of a puzzle that can eventually be solved so we do not rely so much on public timber.

John Sturgeon said he wanted them to add one question for private landowners. His company logs 110 MMBF a year in places like Afognak and could continue logging for the next 25 years. There are some things that might allow them to sell within Alaska. That is not in the draft report. He suggested going around the table taking peoples thoughts and written comments to be sent in and pulled together.

The group broke for lunch at this point. After lunch they moved into Review and discussion of draft report. They went around the room one by one addressing the Immediate Issues and Priority Actions. They would provide hard copy followup comments in writing.

Marty said we are recording everything and can capture the detailed comments for textural changes. She was focused on coming up with an Action Plan in what the Task Force wants to focus on; what are the most important action items to take to the Governor so he will direct some action on it. General comments may be conflicting between different people and we don't know what to do with them. Specific terms of a mistake on this table or if you are uncomfortable with text - that's fine and those are appropriate. She was interested in what they want the administration to be told and then what should be done first, second, and what we should work on.

Errol Champion said there is too much emphasis on the lack of investment capital. Until there is a fiber supply that is known and predictable, there is no reason to chase investment capital. Investment capital will be there if and when they can envision a business that is reliable and has the right mixture to go forward. On page X in the key findings, there are still sentences about lack of investment capital. On page 3, He observed there was almost no discussion on Mayor Shay's resolution and that was probably one of the most significant actions the committee took last December. That ought to be included with a copy of the resolution and what was stated. He did not think the average timber sale is any 30 MBF per acre. Every report that he had seen is more than 23.5 thousand, which speaks to the TLMP on another issue that if 67

hundred acres per year on a 23 to 25 MBF yield per acre, you will never get the 267 MMBF. On page 12 it was important to add the 670 thousand acres in the new TLMP is a hundred cycle. There is just a period missing there but it is a very significant period. It says 267 billion board feet but it should be 2.76 billion board feet. When we represent figures are they always translated to U.S. dollars - just so there is consistency. The group ought to agree on how the table ought to be presented. He suggested that it goes to installed capacity as the most consistent form of measurement. A couple of mills aren't listed in there. To be relevant to this report we need to have a chart that is uniform (on pages 26 and 27). He suggested single shifting those to put everything into the same level of comparison. If someone chooses to operate a second shift, you can footnote it at the bottom of the report. But that is how we get our figures out of whack with what is either installed vs. what is being harvested. For example, this looks like we are already harvesting 242 MMBF in two sawmills and that is not even close to what is really going on. On page 30, he thought the very important statement at the bottom of the page was what this plan is all about and the scale of this industry is directly relevant on the size of the timber offering and there is not any other way. It should be based upon that fact. He consistently felt several sections in the report ought to moved to an addendum. The report became overwhelming especially when we got into the analysis of what has gone on in other parts of the Northwest. It is all wonderful information, but it is too much to make the Business Plan work. He likes short business plans - 4 or 5 pages long. Some of the ideas presented are nice to have and need some immediate short term goals to work on right now to bring our industry back to a healthy recovery. If we get hung up on changing the cedar export or on ethanol or some other longer term thing, we are going to have our efforts diluted. We need to work on wood fiber and the fiber supply and then if we have time then we can devote it to some of the other things. His summary boiled down into that there are two major goals we ought to take into the Business Plan. That is a basic sustainable timber supply that will provide the industry a 3 year pipeline and second, to ensure that value-added processing occurs on harvested state and federal timber. Those are the two priorities that he thought ought to be undertaken

immediately. Then we can work on some of the longer term goals that would be nice to do and will eventually occur but until the first two are taken care of, the rest of them won't happen.

John Sisk: Subcontracting would probably take some compatible things but he would not want to see the report or Action Plan boil down to something too short because he thought there is tremendous value at this juncture in the accoutrements. The more people that are part of this process, the more likely a stable supply in industry will result.

Specific things that he would like to see as part of the priority list: One is community based management, in particular, the notion of equity balanced out among communities as a supply depot. Another priority of community based management is the identification of the core timber supply of low risk, reliable and publicly accepted, supported or tolerated timber. A third priority is log sort yards. A longer term priority is looking at wood certification as an important part of the future for public timber lands. We should focus on more defensible business things and the questions he would ask are 'can this manufacturing industry become competitive enough to purchase private timber?' and, 'can this manufacturing industry maximize value and jobs from the Tongass supply that is available?' We should be cautious about subsidies because they look good and, arguably, may be necessary short term things on occasion, but they have a terrible track record because they don't lead to long term business competitiveness. With regard to federal lands, they place Southeast Alaska at the mercy of national budget politics and priorities. In closing, we think that fighting among communities or between timber interests and national interests, with a grand issue of Tongass clear cutting is going to bring more conflict and a very weak to terrible investment climate. He would prefer to see that Priority Action lists focus on specific business measures that can prove the competitiveness of businesses and help specific communities and try to stay away from turning our work into another lobbying tool or an exhibit in a lawsuit somewhere. That is a plea for trying to stay practical. In a practical plan that would be respected and it would be a step towards more collaboration and less conflict. Keep our communities in mind.

Dick Leary spoke generally saying that we have to be competitive in the processes and to do this we have to have some definitives out there of not only a harvestable number but what is in that number.

Alaire Stanton: In looking at the Draft report, it seemed that a viable timber industry in Southeast Alaska is something that the governments can't do. We have to depend on industry to do that. Yet many of the recommendations are specifically toward government programs. She understood the Forest Service controls most of the timber in Southeast Alaska but we can't do it just depending on the government. She felt what was missing here were specific recommendations as to how we can encourage private landowners and private sector people to become a part of the total mix of how we can make a more viable operation now. She was not sure how you can encourage private land holders without getting into some sort of government mandate. She recalled Mr. Sturgeon had talked in October about some things they were trying to do. When he made his slide presentation on the global timber supply, he had some good points that probably should be included in the report, particularly, the global supply on page 7 of 12 of a fax sent out November 12 (the 10/29/96 Task Force Minutes). Those comments were valuable as far as the private enterprise involvement and how we could work together. She did not think we should just say, 'AIDA can do this' and 'Alaska Science and Technology can do that' and the communities can do this, because it has to be a collaborative effort between communities providing the help that they can. But private industry - not only the timber cutters and manufacturers - but the private land holders have to be involved in this whole mix of how the state can have a really viable timber industry for the long term.

We need a definition section. There are several things that have come up such as what is a small operator, etc. We might want provide a few definitions so that there is less mushiness about the whole report.

Steve Seley: The acceptance of this plan from a manufacturers standpoint really requires a commitment by the manufacturer to invest capital in new infrastructure to enable the maximum extraction of value from the wood in our region. From the community standpoint, the manufacture process equals jobs and jobs equal economic benefit to the region. He will manufacture about 15 percent of the volume that he harvests, the rest will be sold to other facilities that are better equipped to extract the value from other grades and species. It is important that we build an integrated industry; a commitment by industry people to revisit the suggestions, provided by other users of the forest regarding forest practices, areas that we are going to harvest and continue to develop a better working relationship so we can co-exist. The industry is the minority and to-date, the environmental community is the majority as far as setting policy in how timber is going to be cut. Whether we like it or not, we have got to figure out how we can co-exist.

John Sturgeon: A stable, reliable supply of wood is the key. He would like to see the report emphasize a little more on markets. We are in some drastically changing markets. About 65 percent of the wood produced in Alaska goes to Japan and the markets there are going places they have never been before. There used to be about 23 thousand sawmills in Japan. It is now about 12 or 13. That's a signal of what is happening in Japan. The preference and how they use wood are also changing drastically. We need to recognize that in this report. They are going more toward manufactured wood - laminated veneer products, and the younger generation will accept a lot less than the older generation. That it is good for Alaska because now our industry is changing but so are the markets. One role of government should ensure the smaller operators understand there are changes that are happening in our primary markets. Something else that the report may need to emphasize more is the uniqueness of Alaska's wood and how that fits into the markets. We can get those special markets. One of the ways that state government can help is to assist the Forest Service on the effects of timber harvesting. There are still lots of questions about whether fish are being protected and what is happening to wildlife. There is still a

lot of monitoring work that needs to be done to try to resolve some of these issues. The more we can bring science into play to focus on facts rather than what everybody feels about the impacts of timber harvesting. A good example is the Science and Technical Committee in the Forest Practices Act. That worked very well where we sat down with scientists and talked about the issues of timber harvesting and how objective the Forest Practices Act is. The state might be able to work in a similar role with the Forest Service. It needs more recognition in here about the costs of timber harvest in Alaska, and that we are a high cost producer. We are behind right from the start when we have to compete in a worldwide industry. Recognize why taxes and those kinds of things are important to us. Another thing the state can do is identify the regulations that are duplicative or that cost dollars to get pennies worth of benefit.

Jim Mackovjak: In May he went to a conference in San Francisco on certified forestry and redwood. There are certain markets around the world that will only accept certified wood. Great Britain seems to be the leader of that. It has to do with public acceptance of wood products in Southeast Alaska. He introduced Jennifer Grimm from the Forest Stewardship Council. She said it is an umbrella corporation that coordinates certification around the world. Right now the Council is the only independent non-profit third party certification worldwide. The headquarters are in Mexico. Jennifer comes from the US office in Vermont. She was in Alaska to spread some information about certification. She said it is a market based tool that is used as an incentive for good forest operators. It can increase the sustainability of supply long term, increase credibility amongst communities for what is happening on the ground. The market tool is a certified product that can be used to feed some of the markets and distinguish their product to discerning customers. She said they certify economically, socially and environmentally viable forest management practices on the ground which incorporates a variety of biological, silvicultural, ecological, anthropological, economic factors that need to be taken into account when harvesting timber. For example, she said, one has to consider a number of things that need to be intact in the management plan. When you have a management plan, it is over the long term. You are audited every year to

make sure you are keeping up with the objectives outlined in that plan. She said ISO standards are very separate. ISO is second party, government and has to do with upper heights and ceiling beams.

Mack added that there were a lot of people from Business Home Depot like Collins Pine who has many acres under certification. They wanted to distinguish their product and to be considered on the cutting edge of that business. They had not really received much of a premium financially for their productions, but they felt that better management was helping them manage their forests. B&Q, which is kind of like the Home Depot of Great Britain, and they have a goal of having 100 percent certified wood products by the year 2001. It seems pretty ambitious, but they are a big operation and they are very serious.

Jennifer said there is a U.S. group that has just been launched that is also pledging to buy only certified wood. It is a very new focus. Habitat for Humanity is one of the members of the group. CNN Magazine, the 4th largest publishing house in the world has pledged to go through a certified supply by 1999. Japan has developed a large group, too, which might have some significance for the Alaska markets. She had informational packets available for anyone who wanted to know more.

Fred Walk said the main thrust is the certification of the land management objectives of timber lands and timber land owners. It tracks that product through the manufacturing process so that the product that is sold retails somewhere with an environmentally sound, safe label. That's the marketing niche. It goes more toward the certification of the silvicultural things that occur on the ground. There is a lot of interest in certifying products from national forest systems. There are some major hurdles to get over such as the governments' willingness to add a third party to certify that the forest land management plans are sustainable. We would self-certify with the tracking of that wood as it goes through the process. It is a new concept and it is gaining notoriety but it is thrust more toward the landowner and mill operator. He said the Forest Service is taking a serious look at it, but the caveat is that when the Regional Forester signs a

land management plan, he is signing that it is sustainable.

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Dave Katz: It is an issue of timber supply because what we are going through in Southeast Alaska is similar to what has happened everywhere else in the Pacific Northwest, and B.C. The levels of timber supply that were present in previous years will likely never be there again. The forces at work are simply too great. You have got to move to a value strategy as opposed to a volume strategy and this is the identical thing that has happened everywhere else. Looking to what has happened in the Pacific Northwest and in British Columbia to find out that this transition is the only way they could go. They used a lot of initiatives to make it work. We can learn from that. We can learn about marketing, marketing efforts and there is a role for state government in searching out and helping value-added manufacturers market their products. Also, in directing our efforts toward making this value-added transition happen, not toward trying to manufacture a larger timber supply. He said we don't want to get into a controversy-- but, recently, Steve came out with a proposal for his mill and it is something that SEAC looked at and felt that what Steve was proposing was very worthwhile. It is the direction that industry needs to go, so we came and publicly supported the concepts behind his mill. Steve is going to break ground very quickly, he got his permits so it seems there is middle ground here.

Jeff Meucci: His big concern for this meeting was just to make sure that we at least left this meeting with these recommendations clarified so we can get this draft finished up. He relied on the environmental movement and the operators for most of the information he got and it sounds like there is common ground between the operator and the environmental lobby. People have identified market conditions, a steady supply of timber which seems to make it real hard for the operators to have a business plan going full time so they can get investments from lending institutions.

Pete Hallgren said as a municipal official his main concern is really job creation and the value-added manufacturing is what we are talking about in Sitka. That is where the jobs appear to be. The larger users will probably congregate in the southern end of the Tongass. Sitka appears to have most opportunity for a small specialty sawmill and mom and pop type specialty wood products. He would like to see a small specialty sort yard for Sitka. His biggest disappointment so far is - and he is not picking on the Native corporations, but page 17 sets up a conundrum. It says since 1983 timber removal from Native corporation lands have exceeded the levels of harvest on the Tongass national forest. Therefore in purely physical terms, there has been an ample timber supply for local manufacturer. However, local processors cannot compete with outside purchasers for this material and most timber from Native land is shipped "in the round" - without processing - to foreign destinations. That is his biggest disappointment - he didn't think we have found a way to add value enough to bring that in. Two fairly minor things he would like to see in the final report would be mention of the composting project going on in Sitka now. And finally, when you go to the page referenced in the report, you can't find it. Some of those numbers are wrong.

Doug commented on the sort yard concept. There is a small economic force in the community that wants to do a variety of things with some of the timber. They had an interagency meeting between the state, himself, a city manager and the Forest Service. He said he wanted to build a sort yard and we are going to build a road into some timber lands and we are going to stock that sort yard. We needed expertise on how to prepare a small timber sale, we initiated the meeting and we had the discussion with them. We had two meetings with a half dozen small sawmill owners in town - we identified their problems, their needs, availability of the logs, how they want the logs. The city has no clue about doing these types of things, but there was a need there for a small part of our economy and we got it off the ground. We are probably going to lose our rear ends on the first couple of small sales, but the supply identified was small enough that the benefit outweighed the risk quite a bit. We have had assistance from

the Forest Service and the state. We came to the conclusion instead of just having a sort yard, we are going to leave the logs on the side of the road and we are going through those logs. They are responsible for removing those logs after the public sale. That is going to be by our sort yard. We hired a temporary part time guy who knows this stuff. We advertised, we hired the position and said 'this is what we are going to do and you are going to work with the state and the feds and here is our plan.' We hope to have our first sale for the small operators by the end of the month. You just have to get together with all the folks and say 'this is what we want to do' and make it happen.

Pete said, the City of Wrangell has its own timber supply. Mental Health Trust owns the entire mountainside behind Sitka and he didn't think we want it cut. He said we have been dealing with Mental Health Trust to work out something to keep from logging our backyard.

Jack Phelps commented that this group has done a good job in analyzing the problems that Mental Health Trust is up against in their need to maximize return on any log that they sell. When you talk about Native harvest, you have to keep in mind the problems they are up against, too, including the 7-l provision of ANCSA. There needs to be a recognition of why they are not contributing to local manufacture wood supply. Recognize they are up against a unique set of difficult circumstances, as well. If you have creative ways in which they can solve their problems, then you ought to share them rather than just suggesting that they ought to contribute more. We also need to be aware that when the AFA group was analyzing the document that you have before you, one statement that was made several times that you should know about is that while the industry believes that there should be a sufficient harvest to allow a number of people to play, recognize that historic high levels of harvest in the Tongass National Forest that we saw in 1991 are not likely to return soon. The attitude of a lot of operators is that whatever the number is, even if it is not what we prefer the number to be, let's get with the program to make sure that number is consistently delivered. Let's not talk about 220 and deliver 80. He particularly wanted Dave to understand that it is

not a matter of hammering out an unrealistic number, it is a matter of saying, 'okay, whatever you say it is going to be, let's make sure that is what it is,' because the state is going to contribute the increased amount they are now talking about contributing. That is wonderful, but let's not have any hidden surprises there, either. The state is trying to move forward with 31 MMBF in 1998; let's work to make sure we come up with something near that figure. The same thing with the federal government. That is an area where local Alaska environmental groups, the industry people and the government ought to focus on working with the Forest Service to make sure that they limit the blockages to their goals. The industry wants consistency and hence, reliability. If the number's only going to be 200, then fine, but let's make sure it is 200 on a consistent basis. That is what he has been hearing, and that's what he thinks that they need to recognize. When you say that this project is good, then let's make sure there is room for another project like it to come along. Let's not get in a place where we preclude other projects similar to that by driving the level down to just enough to support the one operator - whether it's on Gravina, in Mitkof or anyplace else. That's why you'll hear the industry say 'we need to have enough so there is more than one player left in the industry.'

Jack Shay: wanted to thank the Governor for everything he has done in convening this Task Force and doing things like adjusting the UI regulations, so that persons that have severance pay can also start drawing. It caused a minor problem in Ketchikan - we can't find workers for most of the jobs this summer. He was sure that is going to change. Ketchikan has enjoyed a good relationship there and this CERT process looks like it is moving along. Some haven't quite accepted it yet because they are still pointing fingers of blame at this entity or that agency or someone else, but he was looking forward to that gradually being ameliorated, too. Just like we have come to some conclusions, here amongst ourselves. He also noticed a number of minor things in the report and will just put those in writing. They spelled Jerry Ingle's name wrong and little things like that. There is some good stuff in here, though. In spite of that, last week he conferred with Bob Loescher at Metlakatla during the Founders Day

celebration. Bob seemed to take umbrage over a number of things that were too generalized. We have a good start on it right now. He did notice a number of things in the report that he did like. Except, on page 7 - what happened to cedar? Some other good stuff was on page 29, he liked the key factors. In addition to that, he thought page 65 was pretty good. All in all, it's going to come down to a degree of some kind of compromise. He likes having the various players at the table because it is going to result in a better product. We need to pay attention and heed all of the comments presented today. They are not all mutually exclusive. On the Tongass Land Management Plan, the Borough has been working with the City of Wrangell and the Alaska Forest Association before several other municipalities within Southeast to join our effort. That is because there is a host of issues involved in the land management matter - it is not simply timber harvest. He was talking about transportation, utility corridors, recreation, mining, the visitor industry and a whole host of other things. They need to be considered so he will reiterate his invitation to join in to see what we can do about improving the land management plan now. He knows there are some who have some real problems with land management plans. Jim Mack expressed dismay at a 6 thousand acre annual harvest area and he thinks that is quite a bit less than one tenth of one percent of the total area. That is an area where there may be some compromise. Mr. Champion makes the point that the first priority is the timber supply. There is going to be some timber supply. He needs to walk alongside these other incentives in order to attract venture capital. But it also depends on the cost of the timber, so we may have to work on both of those factors. Most of you have probably heard or read about the novel entitled, 'Fear of Flying' by Erica Jong. He is thinking about writing his own novel, something like 'Fear of 300 Million'. He said let's put the resolution in there. It doesn't hurt to talk about these things.

John Sturgeon: said he can't speak for Sealaska, either, but if there is any way Native corporations can sell locally, they do. Pulp mills are operating for competitive prices and that is where the pulp went. It may not hurt to have a section in here of what can be done to entice Native corporations. We may have 15, 20 different sorts of logs and

the Japanese only buy roughly 60 - 65 percent of those for sawlogs. Then they go to Japan and they have a whole lot more sorts than that. For example, one of our operations supplies 57 different sawmills, because the sawmills are very specialized. Like Steve said, he plans on using 15 percent of the wood they harvest in his sawmill. The Japanese are even more specialized to take a certain segment of logs that they can produce a specialized product in the Japanese market. They have equipment that is specialized to maximize the utilization from those types of logs. When we sell our logs, they go to a big government owned log yard even though the logs can be privately owned, the people come to that sawmill and sometimes buy one or two loads of logs of just the kind that they want. The industry in Japan is able to be much more specialized because they have much more specialized sawmills. The difficulty that Alaska has is we don't have that wide variety of sawmills to be able to agree with those specialized products. Right now, Alaska can't be competitive at the low-end because we don't have pulpmills. He couldn't speak for other Native corporations, but everybody who he has talked to, when push comes to shove and they can even come close to breaking even, would sell locally rather than export. But the prices have not been that close to date and Sealaska has an even bigger burden under 7-I. We are village corporations, but we don't have a 7-I problem. If Sealaska gets a low value, they'd have Arctic Slope Regional corporation and the others on them in a heartbeat. Those are some of their problems, basically. But it would not hurt to put something in there of what it would take to entice the Native corporations. Give it a shot.

Alaire Stanton: thought another word could be used to entice Native corporations. We used it earlier and that was the integrated industry component. That is sharing between the various cutters, processors and integrating their own industry better than what has been done in the past. That might be a key word to include as a recommendation or for a subcommittee to work on.

Errol said There is never going to be anything that forces the Native corporations. The only thing that will cause that to happen is that the value is there to maximize your

dollar. That is a simple fact of economics and it is going to stay that way. After listening to the dialog today, he was somewhat regretting that we put the table in there, because there is a feeling now that half of the Tongass that goes to the Native corporations or half of that timber ought to be available. He didn't think anyone is going to be buying any logs unless we can maximize the return to the shareholders. That is the same dilemma we are going to have with Mental Health Trust and probably the University.

Steve Seley said we are down to that government is going to set the level of harvest because state and federal government are the only people that have another benefit, other than the dollar per MBF. Government is going to be influenced by industry people and the environmental side. That is where our industry can find areas we have got common ground to influence at this level. Industry just needs to know what the harvest level is going to be and then we have got to work on the predictability of the supply.

Karl Ohls said it is going to fall to him now to incorporate all the ideas and get the new draft out. It will be really helpful to walk through the recommendations on the orange sheet to see if we captured the goals. There have been some really good goals articulated this afternoon, and he wanted to see if we have these in the orange sheet. This is how policy is going to create a direction to agencies to do things. Since this is the first time some people have looked at of this, perhaps the chairman could hold the record open for a couple of weeks. We could open it for discussion and then people can get more comments in with a deadline to get another draft of the recommendations out.

The Task Force went into re-working the Immediate Issues and Priority Actions in the Establish Work Plan for Report Completion portion of the agenda.

The outcome of the Task Force re-working the Immediate Issues and Priority Actions are as follows:

Immediate Issues

Priority #1 - Reliable, economical timber supply

- a. Forest Service should offer multi year timber sales of appropriate size to encourage long term investment in value-added processing.
- b. The Governor and Regional Forester should support a community based focus for specific Southeast Alaska timber sales.
- c. Forest Service must modify their appraisal process to encourage the instate manufacture of cedar and to be more responsive to market conditions by date certain.
- d. University and Mental Health Land Trust must work with the state to develop creative mechanisms for making their log supplies available to local mills while adhering to their fiduciary mandates.
- e. State, federal and local governments could work together to find ways to complement the Tongass timber supply with timber from other public ownerships.

Priority #2 - Identify uses for low-end logs

- a. Distribute results of FPL recovery study on low-end logs.
- b. Goal: That all material is completely utilized as new manufacturing evolves given federal policy on use (needs to articulated). Federal discretion should be used on case by case basis until new manufacturing facilities are in place.
- c. New export policy should be a priority action for federal government with date

certain for goal to be achieved.

- d. Explore opportunities to design sales to selectively harvest timber thereby reducing low-end material removed. Work to ensure sound silvicultural practices are adhered to and other resources are fully protected...

Priority #3 - Provide wood supply to small operators (25 employees or less)

- a. Local log sort yards (Sitka)

Priority #4 - Encourage Capital Investment / Value-Added

- a. Governor should facilitate an interagency meeting of state funding agencies and financial institutions to determine how they can best apply their resources in support of a value-added timber industry.
- b. Communities should work with local timber operators to identify and resolve infrastructure barriers to development.
- c. Business planning services should be an enhanced priority of state and local assistance programs.
- d. Governor should establish a permanent office of value-added wood products within the Department of Commerce and Economic Development funded and staffed at a level commensurate with similar programs in competitor regions with a mandate to assist the industry with transition, re-training, marketing and other issues.

II. Long Term Goals

Priority #1 - Steady and reliable long term timber supply

- a. Forest Service and state must be given the resources necessary to adequately monitor management actions. For example, DNR, ADF&G need to be given the resources to continue their involvement in scientifically based stream monitoring.
- b. State and federal agencies, and industry representatives should investigate the merits of third-party certification of sustainable forestry in Southeast Alaska.
- c. State, federal and private timber managers should work together to develop a region-wide map of the timber resource in Southeast Alaska at a scale that will be useful to local planners.
- d. At least part of the uncertainty and gridlock over timber supply could be alleviated by a cooperative effort directed at identifying “core” timber supply(ies).
- e. The Forest Service should investigate the merits of reauthorizing “stewardship contracts” to accomplish multiple land management objectives while providing timber for local mills.

Priority #2 - Develop a mechanism for smaller timber businesses to work together and to become more competitive.

- a. Support development of a small business network/cooperative to provide an economy of scale that enhances marketing, advertising, and technology transfer for its members.

Priority #3 - Public Information

- a. Develop a credible, informative brochure that describes the changes and the

scientific basis for those changes in the management of the Tongass National Forest. (Or similar wording...)

- b. Will review and revise on basis of existing language. (Note: need to use consistent terminology in reference to “timber industry”, “the industry”, “the wood products industry”, etc.)

The meeting adjourned at 4:53 pm.