

**Prepared Statement for the Record
Of
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**Before the
Subcommittee on National Park, Forests and Public Lands
Natural Resources Committee
United States House of Representatives**

November 5, 2009

Executive Summary:

- An unprecedented collapse in the housing market and new home construction has decimated the demand for lumber and plywood. This massive market shrinkage has caused an unprecedented drop in the prices paid for these products.
- Forest product manufacturers who purchased BLM timber sale contracts before this historic collapse in prices was foreseen are now faced with massive losses and possibly bankruptcy if they are required to complete these sales by the original expiration date.
- BLM purchasers are almost exclusively family owned businesses in rural communities that provide family-wage jobs with benefits.
- The BLM Contract Extension Act provides a critical option, a three-year extension, to BLM purchasers as they consider economic scenarios that include contract default and even bankruptcy.
- The BLM Contract Extension Act would also forego the expense and delay of processing the claims against purchasers and repackaging unharvested volume into new timber sales for bid.
- Providing the extension option to purchasers is critical to preserving the economic viability of important forest industry infrastructure that is critical to address the forest health, catastrophic wildfires and global climate change issues, as well as rural economic health.
- This legislation is consistent with previous administrative and legislative relief efforts and treats all BLM timber sale purchasers equally.

TESTIMONY

Introduction:

Good morning Mr. Chairman, Representative DeFazio and distinguished members of the Committee. My name is Valerie Johnson. I am a Partner and President of my family's business, DR Johnson Lumber Company. Our company was founded in 1951, by my father and currently I share the day to day management responsibilities with a brother, a

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sister and our dedicated managers and employees. We have operations and property in several rural counties in Oregon, many of which are in Oregon's 4th Congressional District and the remainder are in the 2nd Congressional District. Until the summer of 2007, we operated six sawmills, two wood fueled co-generation power plants on both the west and east side of Oregon's Cascade mountains and employed 496 people with family wages and benefits. Today, in the depth of our nation's worst economic recession since the great depression, we are only able to operate two sawmills, two co-generation power plants and support just 133 employees.

It is these unprecedented economic times that brings me here today. I am here asking that Congress pass, the BLM Contract Extension Act (H.R. 3759), which has been introduced by Congressman Peter DeFazio, with the support of Congressmen Denny Rehberg and Kurt Schrader.

My company, like most of our competitors that survive today, have invested in state of the art equipment to handle the smaller diameter trees that scientists say need to be removed in efforts to improve forest health and reduce wildfire hazard. BLM timber purchasers are mainly family owned, small to medium sized companies that are the major employers in rural communities around the west. They can be logging contractors that purchased the timber sales to sell logs to local sawmills or they are sawmill companies that hire local loggers to harvest the wood and deliver the logs to the mill.

The sponsors of this legislation clearly recognize the importance of our enterprises to the economic survival of many rural communities, as well as the importance of our industry's infrastructure to the management and health of our public and private forests, especially given the many challenges facing these lands due to the risk of wildfires and the unknown impacts of climate change.

Background:

The BLM has a forestry program that includes the selling of timber to willing companies like mine that convert the standing trees into useful consumer products such as lumber, paper, posts, pilings, firewood and fuel for renewable energy production. The BLM's forestry program has two distinct components – the Public Domain and the O&C Lands. It is important to note that all the BLM's timber sale projects, whether under the Public Domain or O&C Lands programs, must comply with environmental laws including but not limited to the National Environmental Policy Act, the Endangered Species Act, the Clean Water Act and FLPMA. For timber sales that don't comply, federal courts have not been shy to enjoin the timber sale projects the court does not feel meet full compliance of these federal regulations and remand the projects back to the agencies.

Situation:

My company and industry has been devastated by the current economic downturn. We produce lumber products that are used in new home construction and home remodeling

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projects. Given the fact that our current economic crisis is due largely to failures in the mortgage and housing sectors, our industry was among the first to experience the economic downturn as housing starts and lumber prices began dramatically declining in the later half of 2007.

Some of the most at-risk BLM contracts were sold in 2006 and 2007 prior to this market downturn. Those sales have either recently expired or will so in 2010. To illustrate these facts I would ask you to look at the following two charts prepared by the Western Wood Products Association.

The first chart displays the annual housing starts from 1940 to the present. The previous low points were associated with World War II. Since 1945 we have seen annual levels above a million starts and high points being over 2 million starts. Ironically, the 2009 projected level is just over 500,000, one quarter of the level just a few years ago.

See Chart 1

The second chart displays the trend in recent framing lumber prices. This composite lumber price index shows that today we are getting approximately \$200 per thousand board feet or half of what prices were for our finished products in 2006. Our cost of doing business have not gone down, they have increased due to loss of efficiencies associated with higher production levels.

See Chart 2

As these charts clearly show, the reality today is that the housing and associated lumber markets have collapsed. This is not a normal market fluctuation.

Ironically, Forest Service timber sale contracts utilize a lumber market trend indicator that measures market declines for the prior 15 quarters and as a result, Forest Service timber sale purchasers were given the opportunity to apply for extensions to complete their contracts. Furthermore, in Section 8401 of the Food, Conservation and Energy Act of 2008 (Farm Bill), Congress gave the Forest Service timber sale purchasers an opportunity for additional relief by applying for their contracts to be cancelled, contract rates recalculated or contract termination dates extended.

Until just three weeks ago, BLM timber sale contractors have been provided no contract or economic relief for BLM sales that have just as devastating economic impacts as the Forest Service sales, leaving many to face contract defaults, huge financial losses in the hundreds of thousands or even millions of dollars, and possible bankruptcies. On October 14, the BLM issued direction on how the agency and purchasers could enter into a mutual contract cancelation agreement. We appreciate this new development and are currently considering this option for a small number of sales.

However, this past summer we were forced to log one of our timber sales at a significant economic loss because the opportunity to harvest was expiring in September. This was our only viable choice since the BLM had no mechanism to offer a contract extension and if we hadn't logged we would have faced greater economic losses in contract default damages. Other timber sale purchasers were faced with the same dilemma and harvested under the original expiration dates and prices at huge losses. As a result significant economic damage has already occurred due to this unfortunate situation.

We are in the business of harvesting timber and making it into environmentally sustainable consumer products that will help to rebuild our nation's economy. Mutual cancellation is an option of last resort for us because we foresee needing these sales when the housing demand and lumber markets return. We believe mutual cancellation is also a poor option for the public because every cancelled sale will have to be reworked by the BLM, which can be a lengthy and expensive process involving updating the environmental analyses before the timber can be resold.

But let me be perfectly clear: We must have an adequate, predictable and sustainable federal timber program to survive. As I have explained, we will operate on our existing timber sales when it makes even the thinnest economic sense. In fact, while it may seem counter-intuitive today, as we look forward to a rebound in the housing market and the nation's overall economic recovery, the federal forests of the Pacific Northwest's must be prepared to contribute significantly to meet the increased demand. The agency must get its management plan in order and its employees working together to prepare and offer new timber sales.

Until then, the best option is HR 3759, which allows companies like DR Johnson Lumber Company, to request an extension in time to harvest the existing timber sale at the original price. I am confident that we can complete our sales if given at least three more years based on the fact that the experts are conservatively predicting a modest housing market recovery in late 2012 and 2013. Furthermore over the next few years, we can work to mix this higher priced timber with other lower cost sources of timber in an attempt to reduce our losses.

Without some kind of contract relief, vital BLM contractors, like my company, will be forced to make economic decisions that could be disastrous to our business, subcontractors, suppliers and local communities. Furthermore, the loss of any of the companies in our industry will severely limit for years—possibly decades—to come, the important infrastructure of people and equipment that are essential to managing these important public resources.

Opposition:

There are a few in my industry who oppose this legislation. A small number of owners insist that their competitors be required to harvest their BLM sales during these

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unprecedented times, knowing the staggering losses it would cause. If this happens, it would greatly weaken the financial health of their competitors, likely causing many of them to go out of business. These few opponents may also have BLM contracts, but most of theirs are stalled in ongoing litigation, so the clock has stopped on the expiration dates. If their sales are ever harvested, the clock will be reset if and when the legal issues are resolved. Finally, nearly all of the opponents are Forest Service purchasers and they have taken advantage of the existing contractual and legislated relief, so that their available contracts would remain economically viable. The disparity in two federal programs hardly seems like good public policy.

You may hear from opponents that BLM contracts have never been provided relief during poor markets. But the facts are that in 1983, during another significant economic recession, President Reagan issued an executive order that granted up to a 5-year extension to all federal timber sale contracts—Forest Service **and** BLM—as Congress worked on crafting and passing the Federal Timber Contract Payment Modification Act of 1984 which also applied to both agencies.

Conclusion:

Mr. Chairman and members of the Committee, please expedite the passage of HR 3759, because it is common sense legislation that provides important options for companies like mine and the many loggers that currently hold contracts that are uneconomical but are important forest management projects that can provide critical future economic activity for many rural communities.

I would like to thank again Congressmen DeFazio, Rehberg and Schrader for their leadership in introducing this important legislation.

This concludes my prepared remarks, I would be glad to answer any questions you or the Subcommittee may have for me regarding this important issue.

Chart 1
Housing Starts Trends

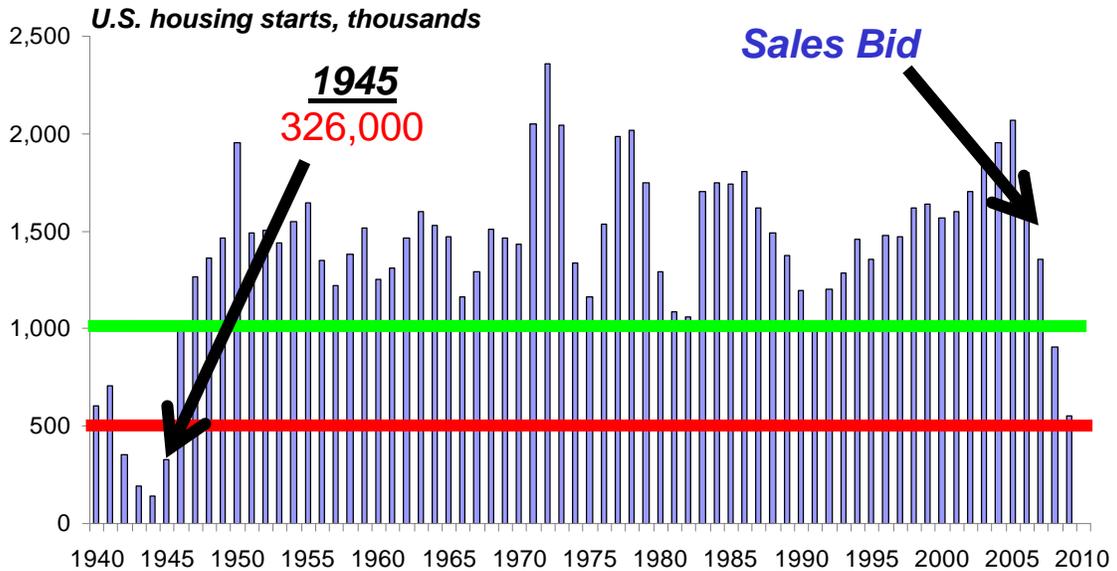


Chart 2
Lumber Price Trends

