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4                                   **Pacific Southwest Region (California)**  
5                                   **U.S. Forest Service**  
6                                   **U.S. Department of Agriculture**  
7                                   **Before the**  
8                                   **Subcommittee on National Parks, Forests and Public Lands**  
9                                   **Natural Resources Committee**  
10                                  **United States House of Representatives**  
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12                                  **May 21, 2009**  
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14                                  **Concerning**  
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16                                  **The Future of the Forest Economy**  
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19   Thank you for the opportunity to come before this subcommittee and provide the Forest Service's views  
20   on the future of the forest economy. I am the Regional Forester in California, where the forest products  
21   industry has been adversely impacted by a combination of factors including a steep decline in demand for  
22   wood products as a result of the current economic downturn, uncertain supply from public lands, and the  
23   ongoing restructuring of the forest industry to remain competitive in a global economy. While the focus  
24   of this hearing is centered on the forest products industry, it's important to note that the perspective of the  
25   Forest Service on the forest economy includes the value of clean water, quality recreation opportunities  
26   and diverse wildlife habitat.

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28   Impacts to local communities include wood products industry closures and lay-offs. We have seen Sierra  
29   Pacific Industries (Quincy, Sonora, and Camino, CA); Collins Pine (Chester, CA); Green Diamond  
30   (Korbel, CA); California Redwood (Arcata, CA); Plum Creek Timber Co. (MT); and the more than thirty  
31   Weyerhaeuser mills sold, closed, or experience layoffs since 2005.

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Role of the U.S. Forest Service

The mission of the U.S. Forest Service is to sustain the health, resilience, and productivity of the Nation's forests and grasslands for the benefit of present and future generations. Our mission extends to assisting both public and private forests nationwide. To accomplish our mission, the Forest Service manages the national forests to protect and restore ecosystems including reducing the susceptibility to catastrophic fire, and to provide multiple benefits for people within the capabilities of the ecosystems (such as recreation opportunities, wildlife habitat, clean water, forage, and timber for wood products). The Forest Service focuses on the landscape as a whole, and how we want our forests to look, function, and react to change. Each year, we implement management projects on millions of acres of National Forest System land to make forests and grasslands more resistant to wildland fires, insects and diseases, and more resilient to major natural disturbances such as catastrophic wildfires, tropical storms, and floods. For example, we conduct prescribed burning and thin dense stands of trees to improve their health and resiliency, improve species composition, and reduce the risk of unnaturally intense and destructive wildfires. These same treatments help our national forests, and the species that depend on them, adapt to the stresses associated with climate change. Healthy, resilient forests represent one of the best insurance policies we have in a changing climate. These treatments also result in wood fiber for the forest products industry, which employs people and helps nurture healthy communities. In turn, a healthy, vibrant local economy and a forest industry infrastructure are a cost-effective and efficient tool to accomplish many land management projects to maintain healthy forest conditions.

The threat of catastrophic wildfire in the Sierra Nevada and other western landscapes is real and significant. In 2008 alone, over 5,800 wildfires burned over 1.3 million acres of National Forest System land in California. Observations from the 56,000-acre Moonlight Fire on the Plumas National Forest last year indicate that without fuels treatments to reduce fuel loading and creating fuels breaks, the fire burned hotter and faster. Much of the controversy concerning treatment of the forests centers on the types of

treatments that should be used to restore the health and fire resiliency of our forests, while protecting them and other important resources such as communities, wildlife and water. Protecting watersheds is critical, especially in California, where the National Forests are the headwaters for fifty percent of the state's water supply. To restore and maintain healthy ecosystems, we believe some land must be actively and sustainably managed in a thoughtful, careful and scientifically based manner.

#### Industry Is an Important Tool For Land Management

Thinning and controlled burning are critical management tools used to restore and improve the ecological resiliency of many forests on Federal lands. The decline in the forest products industry and infrastructure adjacent to many federal lands, particularly in the West, has diminished our capacity to contribute to the economic viability of local rural communities and maintain healthy forest conditions. To accomplish the work of effectively and efficiently restoring National Forest System lands to a healthy condition, we need skilled forestry operators, vibrant rural communities, and a healthy forest products industry. We recognize that our work cannot be accomplished without strong partnerships. For example, without the numerous recreation groups that partner with us, we could not provide the variety of recreation opportunities on the national forests and grasslands. We rely upon colleges and universities to assist us in our research and development efforts, and upon state forestry and natural resource agencies to deliver many State and Private Forestry programs to private forest landowners. Similarly, the forest products industry is a primary partner in accomplishing work integral to sustaining the health, diversity, and productivity of the National Forest System. Without skilled forest operators and contractors to harvest material, costs for vegetation management will increase, which may decrease our ability to effectively treat hazardous fuels and may, in turn, increase the potential for catastrophic wildland fire.

#### What we've done to help forest products contractors with the economic situation

Although the recent recession hit nationwide last year, the U.S. forest products industry began experiencing a significant downturn in 2004. The Bureau of Labor Statistics (BLS) softwood lumber

index peaked in August 2004 and then began a prolonged decline that had not bottomed out as of the first quarter (March) 2009.

Many contractors have been at risk of default, which can result in a loss of jobs and the restoration work on the forest remaining unfinished. Prior to 2006, the Forest Service has implemented a variety of administrative measures to provide relief to hard-pressed timber contractors, including:

- *Providing additional time for contract completion due to market conditions.* The Forest Service provides additional time to contractors through a mechanism called market-related contract term additions (MRCTAs), which are triggered by a certain amount of decline in softwood or hardwood lumber indexes. Since MRCTA started triggering in January 2006, hundreds of contracts have received additional time on contracts.

- *Emergency Rate Redeterminations.* Our contracts signed after April of 2004 provide for recalculating contract rates when forest products markets decline drastically. By March 31, 2009, as many as 615 post-April, 2004 contracts were eligible for emergency rate redeterminations.

By 2006, the Forest Service found that the MRCTA and ERR procedures were inadequate to address the severe decline in the market. With no signs of adverse market conditions easing in the foreseeable future, additional relief measures were needed to avert widespread defaults. Since 2006, contract extensions have been offered to qualifying purchasers. Contract may be extended pursuant to the National Forest Management Act, once the Secretary determines it to be in the “substantial overriding public interest” to do so. These are also called SOPI extensions. SOPI extensions have been authorized for the past three years.

2008 Farm Bill

The 2008 Farm Bill offered relief to National Forest System timber purchasers by providing additional authority, under certain circumstances, to cancel contracts, extend contracts, and redetermine rates. This relief assisted hundreds of contractors nationwide.

Through these efforts, the Forest Service has provided greater flexibility in the timing of the required work, and adjusted the rates paid by contractors for wood products to reflect current market conditions. Hundreds of contractors have applied for and received these term additions and redetermined rates. We believe this has resulted in fewer contract defaults and will lead to the continued accomplishment of National Forest system restoration work.

#### Quincy Library Group.

As you are aware, the Lassen and Plumas National Forests, and a portion of the Tahoe National Forest, are regulated by the Herger-Feinstein Quincy Library Group Forest Recovery Act (HFQLG) (PL105-277), which became law in 1998. Extended twice, the Pilot Project is set to expire in 2012. The pilot project was intended to demonstrate the effectiveness of vegetation management activities to meet ecologic, economic, and fuel reduction objectives. Under the Pilot Project, 190,000 acres of vegetation in 288 projects have been treated. Significant watershed restoration work has occurred on 4,680 acres with a focus on aspen restoration. The effectiveness of various Pilot Project fuel treatments, including thinning, prescribed fire, and fuel breaks or defensible fuel profile zones (DFPZs), have been tested repeatedly. Wildfires have burned into a number of DFPZs and firefighters have witnessed the positive effects. Fire intensity in DFPZs has consistently been lower than in adjacent untreated forest areas, with lower flame lengths, tree mortality, and rates of spread. In DFPZs, the fire drops from the tree crowns to the ground, where the fire burns slower and is more beneficial to the landscape.

Strong differences of opinion continue to exist among communities of interest as to how these vegetation treatments should be designed to accomplish the objectives described in the law. The differences of opinion have been expressed throughout the process of project development including public

involvement, comments on draft documents, and continued appeals and litigation. The last extension of the Pilot Project (Consolidated Appropriations Act of 2008, section 434 of PL 110-161, as amended), directed the Forest Service to initiate a collaborative process with the Quincy Library Group and litigants, and directed that all projects conducted under the HFQLG may apply the Healthy Forest Restoration Act (P.L.108-148) environmental analysis procedures (which limits the number of alternatives that must be developed, requires public collaboration, and uses an objection process rather than an appeals process).

This collaborative process started in 2008 and has had mixed results. All of the parties share the desire for healthy, resilient forests, but strong differences of opinion exist on how to achieve those outcomes, including specifics on project design or whether projects should have an economic value. To date, there have been no measurable agreements or concrete outcomes as a result of the collaborative process.

#### Effective tools and approaches we use

While we continue to experience controversy around vegetation management treatments to restore ecosystems, we also have numerous stories of successful projects. The Forest Service has several highly effective tools and approaches that help us build understanding of and commitment to the work we must do to restore America's forests.

#### 1. Stewardship Contracting

Congress provided the Forest Service stewardship contracting as a tool to help manage national forest system land while working to meet local and rural community needs. We believe stewardship contracting is an important and growing tool for accomplishing our work since it provides longer term contracts and results in multiple outcomes and benefits for the land, communities, and people. Key benefits of stewardship contracting include:

- A requirement that the FS collaborate with the public in project planning and throughout the life of a stewardship project;
- Emphasizing use of local contractors to accomplish forest restoration activities which creates jobs in local communities;
- Allowing an offset of the value of the timber removed for services service,, i.e. the value of timber removed in a restoration project can be used to accomplish a variety of other restoration activities, including enhancing fish habitat, restoring watershed function, and increasing habitat for threatened and endangered species.

Several projects stand out as examples of this tool's capability. For example, since 2004, the Mt. Hood National Forest in Oregon has worked with private citizens, private land owners, and over 30 organizations and agencies representing the environmental community, timber interests, recreation enthusiasts, and county, state and federal government to award 16 stewardship contracts. 3700 acres of commercial thinning and fuels reduction projects included in the stewardship contracts generated \$4.1 million for use in accomplishing restoration projects. These projects include fuels reduction, fish passage culvert replacement, fuel reduction within public and adjacent private land, pre-commercial thinning, road storm proofing and decommissioning, and OHV damage repair and side channel habitat creation.

The White Mountain Stewardship Contract on the Apache-Sitgreaves National Forests in Springerville, Arizona is the largest stewardship contract in the nation. This contract has a 10-year term to treat 15,000 acres per year for a total of about 150,000 acres, and is entering its fifth year. The project was designed and is being carried out in collaboration with various state and local governments, representatives of local forest products industry, nonprofit organizations and interested individuals. The goals of this effort are to restore forest health, reduce the risk of fire to communities, reduce the cost of forest thinning, support local economies, and encourage new wood product industries and uses for the thinned wood fiber. Removal of saw timber is offsetting the cost of fuels treatments and improvements to forest health. The stewardship contract, by producing a predictable amount of small diameter material, has helped existing

companies, such as Forest Energy, a heating pellet manufacturer, increase their output. The long-term contract has attracted new companies using small diameter wood to the area, including Arizona Log, which produces post and poles; Pinal Feed, which sells animal bedding; and Winners Circle, which produces mulch. In addition, the project supplies some material to the Renergy Biomass Plant (25 megawatt) in Snowflake, Arizona, which opened last August and produces electricity from biomass.

Our success with stewardship contracting is a direct result of the development and implementation of projects through collaborative partnerships with groups of diverse interests. To date, we have awarded 51 stewardship contracts on 11 national forests in California, including nine stewardship contracts (9076 acres) on the Plumas and Tahoe National Forests.

## 2. Healthy Forest Restoration Act (P.L.108-148):

In late 2003, Congress passed the Healthy Forest Restoration Act (HFRA). Among other things, title I of HFRA provides authorities to expedite planning and implementation of hazardous fuel reduction projects on the following types of Forest Service and Bureau of Land Management (BLM) administered land: 1) the wildland-urban interface adjacent to at-risk communities; 2) land at risk of wildland fire that is close to a municipal water supply system or a stream feeding the system within a municipal watershed ; 3) areas where wildland fire poses a threat to, and where the natural fire regimes are important for, threatened and endangered species or their habitats; and 4) areas on which windthrow, blowdown, ice storm damage, the existence of an insect or disease epidemic or the presence of such an epidemic on adjacent land and the imminent risk of the spread of such an epidemic pose a significant threat to an ecosystem component or resource.

The Forest Service's use of the environmental analysis authority provided in section 104 of title I of HFRA is growing. The Forest Service is increasingly focusing on collaborative landscape-level projects,



which often include a wide variety of restoration treatments, some of which may not fit the categories defined in Title 1 of HFRA. Despite that challenge, use of the Title 1 authority is helping the National Forests to efficiently and effectively implement hazardous fuel reduction projects, particularly around communities. Through fiscal year 2008, the Forest Service accomplished more than 395,000 acres of hazardous fuel reduction treatments using the environmental analysis authority.

HFRA also provided direction on the development and implementation of Community Wildfire Protection Plans (CWPPs). As a result, more than 4,600 at-risk communities completed (CWPPs) that prioritize fuels reduction areas across the landscape. The Forest Service found CWPPs to be very useful in helping prioritize agency fuel treatments. In total, more than 2 million acres have been treated by the Forest Service using the environmental analysis authority and/or in association with CWPPs since the passage of HFRA.

3. The Forest Landscape Restoration Act (Title IV of PL-111-11, the Omnibus Public lands Act of 2009), established the Collaborative Forest Landscape Restoration Fund and recognizes that working closely with communities to plan and implement restoration work on large landscapes is important to successful forest restoration. No funding is requested in the FY 2010 President's budget for the Collaborative Forest Landscape Restoration Fund; however, much of the work of the 2010 budget was in place before the act was signed. The Budget does provide program funding consistent with the goals of the Forest Landscape Restoration Act.

#### 4. Coordinated Resource Offering Protocol

To attract investors, biomass-based enterprises must have a steady and reliable supply of materials, and the Forest Service is working with partners to secure sustainable supplies. One of the ways we are working to develop new tools that help us adapt to changing needs and priorities is to ensure sustainable supplies through the Coordinated Resource Offering Protocol or CROP evaluations. These evaluations help calculate the sustainable biomass available within an area, which helps the local forest products

241 industry in their business planning. One of the CROP evaluations in the Tahoe region of California  
242 analyzed a 100-mile radius centered on Nevada City, California, and produced information on how much  
243 and what type of small diameter material can be expected to be offered by the National Forests in the next  
244 five years.

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246 Conclusion:

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248 Mr. Chairman, we have an enormous amount of restoration work to accomplish on the National Forests.  
249 We cannot accomplish this work without the active participation and collaboration of the forest products  
250 industry, federal and state resource management agencies, elected officials, residents living in and close  
251 to forested areas, environmental interests, and the general public. Healthier forests that provide clean  
252 drinking water, carbon sequestration, quality recreation and beautiful scenery can be accomplished and  
253 will require everyone working together with high trust and in good faith.

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255 I would be happy to answer any questions the subcommittee members may have.

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