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United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

ASSISTANT SECRETARY, LAND AND MINERALS MANAGEMENT

OFFICIAL CORRESPONDENCE ONLY

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AGENCY/PHONE: OEP 456-6224

FAX NUMBER: 456-2710

FROM (NAME/PHONE #): TOM TUCHMANN

ORGANIZATION/BUREAU: DOI

NUMBER OF PAGES (INCLUDING COVER SHEET) 7

DATE: 12/3/93 **TIME:**

COMMENTS:

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

MEMORANDUM

TO: Katie McGinty, Director, Office of Environmental Policy
Peter Yu, Director, National Economic Council
Bob Armstrong, Assistant Secretary, Lands and Minerals Management, Department of the Interior
Jim Lyons, Assistant Secretary, Natural Resources and Environment, Department of Agriculture
Bob Nash, Undersecretary, Department of Agriculture
Dayton Watkins, Counselor to the Administrator, Small Business Administration

FROM: Tom Tuchmann, Special Assistant TT

SUBJ: Formation of Forest Products Small Business/Secondary Manufacturing Study Group

DATE: December 3, 1993

Recognizing the importance of timber and forests to the economy and jobs in the region, the President's Forest Plan recognized as a key element the need to strengthen small businesses and secondary manufacturing in the woods products industry.

A Study Group has been established to develop options for carrying out this key element, to identify the consequences for each option, and to identify the barriers that need to be changed or eliminated in order to implement each option. The Study Group will limit their review to the forest products industry as the MAC and RCERT are focusing on broader assistance and diversification opportunities.

The Study Group will:

- review options to increase the supply of federal timber set-asides for small business;
- review options that provide preference and/or incentives for businesses who contract or establish domestic secondary manufacturing processes;
- examine other ways to improve wood fiber supplies.

- recommend opportunities for access to and use of working capital to strengthen small businesses.

- identify potential for improving logging and manufacturing efficiencies.

- identify partnerships with public and private sectors to develop and enhance value-added manufacturing.

The Study Group met three times during November and has begun to move forward. Attached is the Study Group's charter.

The Study Group will develop a draft paper for your review by December 14th.

Following this initial review, the Study Group plans a limited public comment and participation program in January, with a final report ready by the end of February. I propose that any decisions regarding the options be made after review by the RCERT and MAC. Following this review, each agency can move forward in implementing appropriate options.

ATTACHED FOR YOUR REVIEW IS A DRAFT PRESS RELEASE. IF I DON'T HEAR FROM YOU BY COB MONDAY, DECEMBER 6, I WILL ASSUME THAT YOU APPROVE.

cc: John Combes, USFS

THE FOREST PLAN
FOR A SUSTAINABLE ECONOMY
AND A SUSTAINABLE ENVIRONMENT

Strengthening Small Businesses and Secondary Manufacturing in the Wood Products Industry Study Group Charter

Introduction: As a result of declining timber supply from public lands in western Oregon, Washington, and northern California, the wood products industry is experiencing significant changes in the amount and type of timber offered from these lands.

Recognizing the importance of timber and forests to the economy and jobs in the region, the President's "Forest Plan for a Sustainable Economy and a Sustainable Environment" outlined, as a key element, the need to strengthen small businesses and secondary manufacturing in the wood products industry.

Secondary manufacturing is defined as those processes by which commodity wood (lumber, plywood, and fiberboard) and other wood-based raw materials are altered to produce finished or semi-finished non-commodity products. Non-commodity products include furniture, millwork, kitchen cabinets, boxes and other containers, and mobile homes and prefabricated wood buildings.

Goal: A study group has been established to develop options to ensure that federal actions strengthen small businesses and secondary manufacturing in the wood products industry with the goal of creating employment opportunities.

Each option will include the consequences and the barriers that need to be overcome in order to implement each option.

Subject Areas:

Review Options To:

A. increase the supply of federal timber set-asides for small business.

B. provide preferences and/or incentives for small businesses who contract or establish domestic secondary manufacturing processes.

C. provide for other preferential wood fiber distribution opportunities over and above current set-asides.

D. provide for better access to and use of working capital to strengthen small business.

E. create partnerships with public and private sectors to develop and enhance value-added manufacturing.

F. improve the efficiency and amount of fiber recovery through improved logging and manufacturing technologies.

Process Statements:

A. Identify the consequences of the various outputs.

B. Identify barriers to meeting the overall goal and highlight those rules, regulations, administrative policies, and statutes which need to be promulgated or changed to eliminate these barriers.

Through the formation of a special Task Force

Draft News Release

Contact: Tom Tuchmann (202) 208-4612

For immediate release

initiative

PORTLAND - The Clinton Administration has announced a new ~~study group~~ that will look into helping small businesses and secondary manufacturers affected by the timber supply crisis in Northern California and the Northwest.

Special

"The creation of this group is yet another step in fulfilling the commitment to help businesses in the Northwest and Northern California that have been hard hit over the last five years," said Tom Tuchmann, Special Assistant to the Secretary of the Interior. "President Clinton came up with a plan to break the gridlock that has held this region captive for so long. This study group will be key in finding ways to help businesses on the ground."

The study group will limit their review to the forest products industry because regional worker and community assistance teams established through the President's Forest Plan will be focusing on a broader range of other assistance and diversification opportunities.

The study group will:

- Review options to increase the supply of federal timber set-asides for small business;
- review options that provide incentives to small business who promote secondary manufacturing;
- examine other ways to improve wood fiber supply;
- recommend opportunities for access to and use of working capital to strengthen small business;
- identify partnerships with public and private sectors to develop and enhance small business and value-added manufacturing;
- identify potential for improving logging and manufacturing efficiencies.

The study group expects to complete its report by the end of February, 1994. Attached is a list of task force members.

SMALL BUSINESS/SECONDARY MANUFACTURING IN THE FOREST PRODUCTS INDUSTRY STUDY GROUP

Director - Tom Tuchmann, Special Assistant, Office of the Secretary, U.S. Department of the Interior

John Combes, Staff Assistant for Forest Products, Chief's Office, Forest Service, USDA, Washington, D.C.

John Nelson, Deputy Forest Supervisor, Willamette National Forest, Eugene, OR

Dennis Caird, Regional Logging Engineer and Small Business Timber Sale Set-Aside Program Coordinator, Pacific Southwest Region, San Francisco, CA

David Green, Project Leader, Engineering Properties of Wood, Forest Products Laboratory, Forest Service, USDA, Madison, WI

Bill Von Segen, Cooperative Forestry Programs, Forest Service, USDA, Portland, OR

Ed Shepard, Oregon and California Lands Program Leader, Division of Forestry, Washington, D.C. Office, Bureau of Land Management

Tom State, Chief, Timber Sales, Contracts and Appraisal Section, Oregon State Office, Bureau of Land Management, Portland, OR

Gene Van Arsdale, Director of Office of Natural Resources Sales Assistance, Small Business Administration, Washington, D.C.

Bob Rand, Industrial Specialist, Timber Programs Western Oregon, Small Business Administration, Washington, D.C.

Coordinator - Dan Crittenden, Silviculturist, Siskiyou National Forest, Grants Pass, OR

Nineteenth Annual Conference of the New England Governors and the Eastern Canadian Premiers
Stowe, Vermont
May 13-14, 1993

Dix-neuvième conférence annuelle des Gouverneurs de la Nouvelle-Angleterre et des Premiers ministres de l'Est du Canada
Stowe (Vermont)
Du 13 au 14 mai 1993

RESOLUTION 19-3

OCEANS AND SUSTAINABLE DEVELOPMENT

WHEREAS, the sustainable development of ocean resources is critical to the future health and prosperity of Eastern Canada and New England; and

WHEREAS, many important Northwest Atlantic fish stocks are threatened by inadequate domestic and international management regimes, and there is a need to improve the ways in which marine resources are managed and conserved; and

WHEREAS, the June 1992, Rio Declaration on Environment and Development, known as "Agenda 21", established a direction to ensure the sustainable development and effective management of ocean resources; and

WHEREAS, Agenda 21 also underscored the need to ensure that coastal communities are involved in decisions affecting the resources upon which they depend:

NOW, THEREFORE, BE IT RESOLVED THAT, governments shall seek to ensure that coastal jurisdictions have a role appropriate to their interest in fisheries management decisions and that all fisheries management decisions and actions be taken in a coordinated and integrated manner; and

BE IT FURTHER RESOLVED THAT, governments make every effort to reach a workable, effective, and legally binding solution to the problem of overfishing on the High Seas, and in particular to secure a treaty-based solution to this problem at the upcoming United Nations Conference on High Seas Fisheries in July 1993.

ADOPTED AT THE 19TH ANNUAL CONFERENCE OF NEW ENGLAND GOVERNORS AND EASTERN CANADIAN PREMIERS, MAY 13, 1993

Governor Howard Dean, M.D.
Co-Chair

Premier Clyde Wells
Co-Chair

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P.O Box 2
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Kathleen McGinty   Will

This is being sent to you at the request of Tom Tuchmann.

The enclosed document is in reference to President Clinton's Forest Plan for a Sustainable Economy and Sustainable Environment for western Oregon, western Washington, and northern California.

Attached is the first draft, with a separate summary, of the options for strengthening small businesses and secondary manufacturing in the wood products industry as prepared by the Interagency Study Group on Small Business and Secondary Manufacturing.

The Interagency Study Group developed these options by "brainstorming" ideas, followed by an evaluation of each to ascertain their feasibility. The consequences for each currently identified option and the barriers that need to be overcome before the option can be implemented have been described. The cost for each of the costlier options has also been provided.

A series of open houses are planned for the last week of January to provide interested parties an opportunity to give members of the study group feedback on the draft report and to submit options in addition to those developed by the Study Group. Final written comments will be received by the Interagency Study Group no later than February 4, 1994, with a finalized document available by March 1, 1994.

In closing, it is not the Study Group's charge to produce recommendations. All recommendations will be the responsibility of the Regional Community Economic Revitalization Team and the Multi-Agency Command, which oversees the Regional Worker and Community Assistance Programs.

We would appreciate your perspective on the enclosed document by January 3, so we may include your thoughts and comments before mailing the open house invitations and draft report on January 7. Please send your comments to:

John A. Combes
Forest Service - USDA
14th & Independence, S.W.
P.O. Box 96090   (202) 205-0862
Washington, DC 20090-6090   FAX 205-1045

Thank you for your assistance.

THOMAS TUCHMANN
Director of the Office of Forestry
and Economic Development

JOHN A. COMBES
Chairman, Small Business
and Secondary
Manufacturing Study Group

THE FOREST PLAN
FOR A SUSTAINABLE ECONOMY
AND A SUSTAINABLE ENVIRONMENT

ECONOMIC DEVELOPMENT

Strengthening Small Businesses and Secondary Manufacturing in the Wood Products Industry

EXECUTIVE SUMMARY

Introduction:

Recognizing the importance of timber and forests to the economy and the need to maintain or increase jobs, President Clinton has made a commitment to strengthen small businesses and secondary manufacturing in the wood products industry in western Oregon and Washington, and northern California; particularly in the smaller communities that have historically been dependent upon the industry.

As a result of declining log supplies, primarily from Federal lands, jobs and the economic base that have provided a backbone for many of these communities has become a source of concern.

A study group has been established to develop options to promote federal actions that strengthen small businesses and secondary manufacturing in the wood products industry and create stable employment opportunities for local economies.

Options have been developed for the following output areas:

A. Methods for encouraging the growth of the secondary processing sector.

1. **Implement a special set-aside sale program for businesses which requires selling 80 percent of the individual sale volume to primary manufacturers with secondary manufacturing, or to primary manufacturers who contract to sell their output to a secondary manufacturer.**

2. **Establish purchaser credit against stumpage payments for primary manufacturers that construct a secondary manufacturing operation, or increase the capacity of an existing secondary manufacturing operation.**

3. **Establish a 10 percent discount on stumpage for businesses which sell or transfer at least 80 percent of the primary manufactured product to a secondary manufacturer.**

4. **Set aside a portion of the timber sale receipts to assist businesses to develop secondary manufacturing operations.**

B. Examine other preferential wood fiber distribution opportunities over and above current set-asides.

1. Eliminate surplus species designation under export regulations for Port-Orford cedar and Alaska yellow cedar.

2. Re-define the definition of a cant to a smaller size that secondary manufacturers are capable of processing. The suggested thickness is 4 inches and sawn on all four sides. The current definition of a cant which can be exported is a piece not exceeding 8 3/4 inches in thickness and sawn on all four sides.

3. Federal land managers would be given authority and funding for the Agencies to harvest and haul timber to sort yards located in local communities, using service contracts to small businesses.

4. Fund a Small Timber Sales and Special Forest Product program.

5. Allow Alaskan timber to be exported to the lower 48 states in log form.

6. Eliminate raw material import tariffs.

C. Opportunities for access to and use of working capital to strengthen the wood products industry, particularly for those involved in secondary manufacturing.

1. Block Grants to communities to assist start-up and maintenance of small wood products businesses.

2. Simplifying the process by which small business can approach Federal agencies to apply for available financial and technical assistance.

3. Establish community assistances positions at the field level (National Forest and BLM districts).

4. Provide loan guarantees in support of capital improvements.

5. Establish a Market Development Fund targeted to expanding the secondary wood products industry.

D. Opportunity for creating partnerships with public and private sectors to develop and enhance secondary manufacturing.

1. Make vacant mill sites available in local communities for the purpose of establishing primary and/or secondary manufacturing.

2a. Establish position(s), on a regional or a State-by-State basis, to provide marketing expertise to small business and communities.

2b. Establish position(s) to provide wood products engineering and other direct technical assistance to small businesses and communities.

3. Organize or realign existing secondary wood product industry associations to a single permanent interstate organization.

4. Coordinate efforts to provide a regional business and technical training center for secondary manufacturing.

5. Facilitate stewardship contract authority to encourage community enterprise.

E. Means to improve the efficiency and amount of fiber recovery through improved harvesting and manufacturing technologies.

1. Improve logging practices and technology to extend available supply and better utilize the resource.

2. During harvesting, provide incentives to improve the use of currently under-utilized wood fiber in excess of what is needed to meet resource objectives.

3. Provide continuing assistance to the economy of the region by strengthening technology transfer and research at the Forest Products Laboratory (FPL) and the Pacific Northwest Station (PNW) for maintaining and enhancing the efficiency of secondary manufacturing.

4. Provide immediate assistance to the region by establishing a Federal research and development program with emphasis on secondary manufactured products.

F. Reassessing the Federal timber set-aside program within the affected region.

1. Small business share based on volume: Make available a minimum volume of timber to small businesses based on historic purchases by market area.

2. Establish permanent small business set-aside sales based on historical purchase by market area.

3. Raise all small business shares to 80 percent.

4. Split difference between current small business share and a share of 100 percent.

5. Require large business to dispose of 30% of purchased federal timber volume to small business.

STUDY GROUP MEMBERS

The Study Group includes members from the Forest Service, USDA; Bureau of Land Management, USDI; and Small Business Administration.

John Combes, Staff Assistant for Forest Products, Chief's Office, Forest Service, Washington, D.C. - **Chairman**

Dennis Caird, Regional Logging Engineer and Small Business Timber Sale Set-Aside Program Coordinator, Pacific Southwest Region, San Francisco, California.

David Green, Project Leader, Engineering Properties of Wood, Forest Products Laboratory, Forest Service, USDA, Madison, Wisconsin.

John Nelson, Deputy Forest Supervisor, Willamette National Forest, Eugene, Oregon.

Bill von Segen, Cooperative Forestry Programs - involved with programs and partnerships related to forest products conservation, marketing, and recycling in the States of Oregon and Washington, Forest Service, USDA, Portland, Oregon.

Ed Shepard, Oregon and California Lands Program Leader, Division of Forestry, Bureau of Land Management, Washington, D.C.

Tom State, Chief, Timber Sales, Contracts and Appraisal Section, Oregon Sate Office, Bureau of Land Management, Portland, Oregon.

William Berry, Director of Office of Natural Resources Sales Assistance, Small Business Administration, Washington, D.C.

Bob Rand, Industrial Specialist, Timber Programs Western Oregon, Small Business Administration, Portland, Oregon.

Dan Crittenden, Silviculturist, Siskiyou National Forest, Grants Pass, Oregon.

Wanda Irving, Community Outreach, Public Affairs Office, Region 6, Portland, Oregon.

Harry Bonini, Writer-Editor, Congressional Inquiries, National Forest System, Washington Office, Washington, D.C.

THE FOREST PLAN
FOR A SUSTAINABLE ECONOMY
AND A SUSTAINABLE ENVIRONMENT

ECONOMIC DEVELOPMENT

Strengthening Small Businesses and Secondary Manufacturing in the Wood Products Industry

Introduction:

The forest products industry has been a major economic factor in western Oregon and Washington, and northern California; particularly in the smaller communities that have historically been dependent upon the industry. As a result of declining log supplies, primarily from Federal lands, jobs and the economic base that have provided a backbone for many of these communities has become a source of concern. In 1990, the forest products industry employed 144,900 people in this Region. The recent recession, technology improvements, and more recently declining log supplies are expected to reduce the employment level by over 25,000 jobs through the end of the decade.

Recognizing the importance of timber and forests to the economy, and jobs in the Region, President Clinton has made a commitment to strengthen small businesses and secondary manufacturing in the wood products industry. Small businesses are disproportionately impacted by these declines because of their greater dependence on log supplies from public lands. Experience has shown that strengthening the secondary manufacturing industry will generate between 4 to 25 times more jobs than primary manufacturing (Study results provided by the Wood Products Competitiveness Corporation, Inc., dated 11/1/93, in reference to the Presidents Forest Conference)

Secondary manufacturing is defined as those processes by which commodity wood and other wood-based raw materials are altered to produce finished or semi-finished non-commodity products. Commodity wood, which is the product of primary manufacturing; includes lumber, plywood, and fiberboard. Non-commodity products include furniture, millwork, kitchen cabinets, boxes and other containers, and mobile homes and prefabricated wood buildings.

Goal:

A study group has been established to develop options to promote Federal actions that strengthen small businesses and secondary manufacturing in the wood products industry with the goal of creating employment opportunities.

Each option includes a discussion of the barriers that need to be overcome in order for it to be implemented, and the consequences that would occur upon implementation.

Planning Process Outputs.

Options have been developed for the following output areas:

A. Methods for encouraging the growth of the secondary processing sector.

B. Examine other preferential wood fiber distribution opportunities over and above current set-asides.

C. Opportunities for access to, and use of, working capital to strengthen the wood products industry, particularly for those involved in secondary manufacturing.

D. Opportunities for creating partnerships with public and private sectors to develop and enhance secondary manufacturing.

E. Means to improve the efficiency and amount of fiber recovery through improved harvesting and manufacturing technologies.

F. Reassessing the Federal timber set-aside programs within the affected region.

Process Statements

A. Identify the consequences of the various outputs.

B. Identify barriers to meeting the overall goal and highlight those rules, regulations, administrative policies, and statues which need to be promulgated or changed to eliminate these barriers.

Options by Output:

A. Options for encouraging the growth of the secondary manufacturing sector.

1. **Implement a special set-aside sale program for businesses which requires selling 80 percent of the individual sale volume to primary manufacturers with secondary manufacturing, or to primary manufacturers who contract to sell their output to a secondary manufacturer.** The Agencies would determine, every six months, whether small businesses had purchased their share of the offered program during the preceding six-month period. If small business had not purchased their share, the set-aside program "triggers" and certain sales would be set aside for preferential bidding by qualified small business firms. The set-aside process continues until small business firms purchase enough volume to satisfy their needs, at which time the program returns to open competition.

Consequences:

a. Requires increased administration of the set-aside program.

b. Increase the supply of raw materials to secondary manufacturers.

Barriers: Requires modification of the agreement between the Forest Service and the Bureau of Land Management with the Small Business Administration in order to add a special set-aside sale category. Need to develop standards or criteria to define or qualify companies as secondary manufacturers.

2. **Establish purchaser credit against stumpage payments for primary manufacturers that construct a secondary manufacturing operation, or increase the capacity of an existing secondary manufacturing operation.** Purchasers credit would equal the cost of plant construction amortized over a 10 year period. Another variation would be a purchaser credit equaling a percentage of the total stumpage rate. The suggested percentage would be 10 percent. This incentive would supplement or be in lieu of other types of direct Government funding that might be available for the construction of a secondary manufacturing operation.

Background: Purchaser credit is defined as credit applied to stumpage payments to be received by the Federal Government for timber harvested from national forest timber sales. The credit is currently applied as a form of payment to the timber purchaser for the construction of permanent roads needed for the removal of the harvested timber. The credits are earned by the purchaser upon satisfactory completion of phases of road construction as specified in the timber sale contract.

Consequences:

a. Provides an incentive to construct or increase the capacity of an existing secondary manufacturing operation.

b. It is estimated that revenues to the Treasury could be reduced by an average of 4 percent over all sales.

c. Adds greater complexity to the administration of the timber sale program.

Barriers: Requires legislation and appropriate regulations. Need to develop standards or criteria to define or qualify companies as secondary manufacturers.

3. **Establish a 10 percent discount on stumpage for businesses which sell or transfer at least 80 percent of the primary manufactured product to a secondary manufacturer.**

Consequences:

a. Provides an incentive to timber sale purchasers to direct more timber to secondary manufacturers.

b. Less revenue to the Treasury and decreased payments to States as a result of discounting timber sale receipts.

c. Adds administrative complexity to the timber sale program.

Barriers: Requires legislation and appropriate regulations.

4. Set aside a portion of the timber sale receipts to assist businesses to develop secondary manufacturing operations. This is an alternative to the purchaser credit option. This option would supplement or replace direct funding measures through grants.

Consequences:

a. Provides an incentive for the construction of secondary manufacturing operations.

b. Results in less revenue to the Treasury.

c. Adds Administrative requirements to timber sale accounting and fund management.

Barriers: Requires legislation and appropriate regulations.

B. Other preferential wood fiber distribution opportunities.

1. Eliminate surplus species designation under export regulations for Port-Orford cedar and Alaska yellow cedar.

Background: The Forest Resources Conservation and Shortage Relief Act of 1990 was enacted with the purpose to encourage domestic processing of timber and preserve domestic jobs in primary manufacturing, thereby contributing to the stability of the depressed timber industry dependent communities in the West, and to conserve old-growth timber on Federal lands.

The Act expand and makes permanent the prohibitions, that were in effect since 1968, against exporting of unprocessed timber harvested from Federal lands located west of the 100th meridian in the contiguous 48 States.

In the Western States, excluding Alaska, the Act prohibits, with limited exception, the acquisition of unprocessed Federal timber for domestic milling in substitution for exported unprocessed timber from private lands. The Act also prohibits exporting timber from State lands, with certain sunset exceptions applied to Washington State lands.

The Act also provides regulations to be written listing species surplus to the needs of domestic manufacturers. Species listed as exempt are Port-Orford cedar and Alaska yellow cedar.

Consequences:

a. Requires domestic processing of all Federal timber.

b. Reduces revenue to the Treasury since domestic stumpage prices do not currently match export prices for certain species. Port-Orford cedar has historically generated higher revenues as an export species.

c. Increases domestic wood supply available to domestic manufacture.

d. Could eliminate businesses that specialize in export of surplus species.

e. Elimination of surplus species designation will have international ramifications primarily because of the demand for Port-Orford cedar for traditional purposes by the Japanese. The Japanese have paid over $3,300 per thousand board feet on the stump for this species.

Barriers: Will require export rule changes.

2. **Re-define the definition of a cant to a smaller size that secondary manufacturers are capable of processing. The suggested thickness is 4 inches and sawn on all four sides. The current definition of a cant which can be exported is a piece not exceeding 8 3/4 inches in thickness and sawn on all four sides.** The exporting of cants is reported to be a significant business.

Unprocessed timber, as defined by the Forest Resources Conservation and Shortage Relief Act of 1990, does not include lumber, construction timbers, or cants for remanufacture classed as clear grades sawed on all 4 sides not exceeding 12 inches in thickness and all other grades sawed on 4 sides not exceeding 8 3/4 inches in thickness. The exception to this definition of unprocessed timber is western red cedar.

Consequences:

a. Increases wood supply for domestic use.

b. Adds more domestic labor, thereby raising the cost of exported wood. This should result in a greater share of the normally exportable cants to stay in the domestic market for primary and secondary manufacture.

c. Places an additional constraint on the export market and the jobs associated with that industry.

Barriers: Requires an amendment to the Forest Resources Conservation and Shortage Act of 1990 and the associated regulations.

3. **Federal land managers would be given authority and funding for the Agencies to harvest and haul timber to sort yards located in local communities, using service contracts to small businesses.** Logs are merchandised from sort yards to interested buyers by the FS and BLM. A percentage, based on existing shares of the logs, would be set-aside to small business manufacturers.

Background: This method varies from the current means of selling timber on a competitive basis to the highest bidder. Upon award of the contract the highest bidder or purchaser is responsible for harvesting and hauling the timber to a mill for processing. The purchaser is required to perform the harvesting and associated requirements in accordance with the timber sale contract.

Consequences:

a. Improves log accountability.

b. Provides a benefit to small business logging contractors and manufacturers.

c. Provides opportunity to use vacant mill sites and yards with local small businesses or in partnership with local communities.

d. Makes it difficult for purchasers of federal timber to accumulate volume under contract which reduces flexibility, particularly as it relates to obtaining financing needs.

e. Appropriated funds would be needed to contract the harvesting and hauling of timber. A variation of this is to set up a revolving account where a part of the revenue generated from the sale of logs would be used in funding subsequent harvesting contracts. Appropriated seed money would be used to initiate the program.

f. Sale of timber, using Service Contracts, would be under the Federal Acquisition Regulation (FAR), thereby all labor would be paid Davis-Bacon wages. This would add to the cost of timber harvested.

Barriers: Will require new regulations for the sale of Government timber.

4. **Fund a Small Timber Sales and Special Forest Product program.** The assigned target would not be on a per MBF basis, but rather on a return on investment, i.e. 150 percent return. Small timber sales and special forest products such as mushrooms, bear grass, and other non-wood fiber producing, generate very labor intensive woods work and secondary manufacturing jobs. This program could be funded using appropriated dollars or could be funded on a revolving account basis. Accomplishments would be measured on a net revenue generated basis.

Background: The small wood products and special forest products positions are being reduced or eliminated due to organization down sizing because of reductions in the timber sales program funds. These positions historically have been funded from the timber sales program which increased its cost due to higher unit costs as measured on a board foot basis.

Consequences:

a. Improves the cost efficiency of managing the small wood and special products program.

b. Improves the ability of the FS & BLM to promote and market small timber sales and special forest products.

c. If set up on a revolving account basis, appropriated funds would be needed as seed money to initiate program.

d. Program would be funded only under the premise that revenues would exceeded program costs.

Barriers: Will require a change how program accomplishments are measured. Handbook and manual instructions would need to be revised. Legislation is required if program is funded through an revolving account.

5. **Allow Alaskan timber to be exported to the lower 48 states in log form.**

Background: The Timber Exportation Act of April 12, 1926 specifies that timber cut on any National Forest or on other public lands in Alaska may be exported from the State, where in the judgement of the Secretary of Agriculture or the Secretary administering the other public lands, the supply of timber for local use will not be endangered. The respective Secretaries issues regulations, as provided by the Act, restricting the export of timber outside of Alaska with the exception of western red cedar.

Consequences:

a. Provides more logs to be processed in mills located in the western states.

b. Reduces supply to Alaskan mills,

c. Could increase revenues to Treasury because of greater competition.

Barriers: Would require an amendment to the Timber Exportation Act of April 12, 1926 and implementing regulations.

6. **Eliminate raw material import tariffs.** Exempt secondary manufacturers from import tariffs on Canadian softwood. As Northwest lumber becomes more scarce, Canadian lumber is seen as an important substitute. Northwest secondary manufacturers cannot compete with South American and Pacific Rim secondary manufacturing firms if U.S. producers must pay a 6.5 percent tariff on imported softwood lumber. This may be increased to 11.54 percent if a ruling by a binational panel supports the higher percentage as proposed by the Department of Commerce. Tariffs could still be employed for construction material to protect the U.S. primary wood products industry.

Background: A tariff has been imposed on softwood lumber imported from Canada into the United States. The United States Department of Commerce has determined that Canada is subsidizing its lumber industry by limiting competition for timber and limiting log exports. These practices have the effect of reducing stumpage prices. The result is lower Canadian timber prices compared to those from the United States. The International Trade Commission ruled that importing lower-priced Canadian lumber constitutes an unfair price advantage. After the Canadian government decided to drop a self-imposed export tax in 1991, under a Memorandum of Understanding with the United States, the International Trade Commission implemented a duty of 6.51 percent. The duty is exempt from being eliminated under the North American Free Trade Agreement.

Consequences:

a. Increases access to wood fiber for small businesses with secondary manufacturing.

b. May be objectionable to large U.S. primary wood products firms.

Barriers: Requires agreement by the Department of Commerce (International Trade Administration) and the International Trade Commission and changes in the rules for establishing the tariff on Canadian softwood lumber imports.

C. <u>Opportunities for access to and use of working capital.</u>

1. **Block Grants to communities to assist start-up and maintenance of small wood products businesses.** Assistance Grant program would be established to provide funds directly to timber dependent communities for helping develop or retain small wood products businesses. This one-time financial assistance grant would be used by communities to support existing companies or for recruiting new ones. The funds could be used to provide needed infrastructure for siting new operations, for producing brochures highlighting the availability of wood and timber resources, or for other purposes related to nurturing small businesses involved with secondary and value-added wood products manufacturing. Criteria would be developed to qualify communities for this type assistance (cost range of $700,000 - $800,000). This program would sunset in five years.

Consequences:

a. Provides ability to leverage private dollars.

b. Allows communities to make things happen.

c. May be confused with other state and federal grant programs.

d. Requires increased administrative cost to monitor grants.

e. Federal strings attached sometimes make it not practical.

f. May not be equitable since grants will be directed to one segment of the industry and not others.

Barriers: Would require additional Congressional appropriations.

2. **Simplifying the process by which small business can approach Federal agencies to apply for available financial and technical assistance.** This could be accomplished by setting up a working group to evaluate current processes and propose changes. This group would consist of program managers from selected Federal and State agencies. State agencies can be used more effectively to provide assistance directly to small businesses seeking help and resources of Federal programs. The working group would cost between $200,000 and $300,000 and sunset within five years.

Consequences:

a. Would provide more effective access to and use of Federal program assistance by small wood products companies.

b. Would improve working relationship between Federal and State agencies in area of business and community development.

c. Could provide model for simplifying process for other government assistance programs in other industries.

Barriers: Requires recruitment and development of experienced personnel.

3. **Establish community assistances positions at the field level (National Forest and BLM districts).** Provides "one stop shopping" for interested communities. Provides knowledge of how and where to get assistance at the federal/state/county levels. Provides assistance in grant writing and coordination of partnerships to facilitate helping timber dependent communities. This would cost between $750,000 - $1,500,000 annually and sunset within five years.

Consequences:

a. Would help focus and facilitate assistance at the local field level.

b. Would have additional administrative costs and approximately 15 to 20 positions.

c. Would help cut through the bureaucratic maze of federal, state, and county agencies.

Barriers: Requires recruitment and development of experienced personnel.

4. **Provide loan guarantees in support of capital improvements.** A system of loan guarantees to reduce the perceived risk of loaning to small business firms could loosen up substantial amounts of capital for equipment acquisition in two major areas. These loan guarantees will sunset in five years. The loan guarantee would be used:

a. For purchase of modern logging equipment, such as Cut-to-Length and small multi-span cable systems (see definitions in Output E, Option 1), which performs more efficiently with less adverse environmental impact than conventional systems, and

b. For purchase and installation of equipment for secondary manufacturing operations suited to small businesses.

Consequences:

a. Enables more rapid change to efficient small-log harvesting technology.

b. Provides wider availability of small-diameter trees for primary and secondary manufacturers.

c. Results in less overall environmental impact: i.e., fewer roads, less soil exposed, less watershed effects, and lower rates of damage to residual trees.

d. Adds primary and secondary manufacturing capacity with concurrent improvement or maintenance of employment levels.

e. Adds diversification in forest products manufacturing industry .

Barriers: Needs specific authorization and appropriations to establish this specific program within existing structures.

5. **Establish a Market Development Fund (MDF) targeted to expanding the secondary wood products industry.** A Market Development Fund, as envisioned here, would consist of a financial assistance program to be established with a one-time allocation of $2-3 million of Federal, State, and private monies.

Background: The Market Development Fund will permit established secondary manufacturing companies to access funds for pursuing new market opportunities or product development needs. This fund would allow financing for projects that involve equity financing from the applicants, bank financing for collaterizable assets, and Market Development Fund support to fill identified capital gaps. Market Development Fund payments would be repaid by successful applicants, thus creating a revolving source of capital to support future collaborative projects. All secondary wood products companies in Washington, Oregon and Northern California would be eligible to participate in this program. Only firms with a three-year history of operation would qualify. The fund would be managed by a professional money management firm. This fund would sunset within five years.

Consequences:

a. Improves secondary manufacturers access to capital.

b. Involves some degree of risk of loss of capital, as all applicants will not be successful in their operations.

c. May infringe on existing state-supported revolving loan programs for secondary processors.

Barriers: Requires a one time initial investment of $2-3 million of appropriated funds.

D. Identify partnerships with public and private sectors to develop and enhance secondary manufacturing.

1. Make vacant mill sites available in local communities for the purpose of establishing primary and/or secondary manufacturing.

Background: Small communities have very few areas to expand for industrial sites, thereby making vacant mill sites an opportunity to attract wood product industries. Many of these sites are not available because of hazardous materials or other liabilities. This option is to develop partnership between federal, state, county, cities and private business to remove barriers for the utilization of these sites.

The first step would be an inventory of possible vacant sites and a assessment of their feasibility for use of primary and/or secondary manufacturing.

Consequences:

a. Opportunity to use vacant space for small business at low costs.

b. Clean up needs, regarding hazardous materials and sites, make it very difficult or expensive for businesses or communities to occupy these locations.

c. Restrictions on Federal dollars for such use. Superfund dollars may not be available due to higher priorities elsewhere.

e. Liabilities may be significant due to expected high costs to clean up hazardous materials.

Barriers: The prime barriers are those associated with hazardous material and other liabilities of current site owners.

2a. Establish position(s), on a regional or a State-by-State basis, to provide marketing expertise to small business and communities. Marketing plans and strategies, promotion techniques, and product design and packaging information are among the most requested marketing needs of small secondary wood products producers. With the exception of consultants, few direct assistance sources are available to help these producers. This position(s) would provide one-on-one assistance to manufacturers requesting help. Efforts would direct this service to complement existing publicly-funded assistance programs for small producers, help foster flexible manufacturing networks and to establish a marketing information network linking secondary manufacturers, consultants, and private and quasi-public wood products groups, cooperatives and organizations.

2b. Establish position(s) to provide wood products engineering and other direct technical assistance to small businesses and communities. Small companies generally lack necessary financial resources to obtain periodic consulting expertise related to evolving production technology and changing resource conditions. In order to nurture and promote the region's secondary wood products industry, increased sources of industrial outreach must be made available. This would include resource and equipment allocation techniques, plant layout and design, machine maintenance, management guidelines, product recovery improvements, quality control techniques, etc. In Washington State, the Department of Trade and Economic Development currently provides this type of publicly-funded assistance through its Forest Products Division. A small team of wood products specialists, placed strategically throughout the region for a two or three year period, could be used to provide the technology transfer needs of industry in a region-wide effort.

The estimated cost of the above (2a. and 2b.) positions will cost approximately $500,000 annually and sunsets within three years.

Consequences:

a. Meets expressed needs of small business and community planners.

b. Provides coordination of market development activities.

c. Provides necessary assistance in a relatively shorter time frame.

d. Necessary to adapt to existing state program.

e. May compete with existing consulting industry.

Barriers: Requires additional funding and three to four new positions.

3. **Organize or realign existing secondary wood product industry associations to a single permanent interstate organization.** This group would devise and coordinate strategies to promote the competitiveness of the region's secondary wood products industry through providing marketing and technical expertise to its members. Initially, $500,000 of appropriated funds would be desirable to assist in establishing the association.

Consequences:

a. Promotes the industry in general.

b. Provides a central focus for secondary manufacturers region wide.

c. Provides liaison between the secondary manufacturers, Government agencies, and the Congressional delegation.

d. May duplicate or compete for services of existing organizations.

Barriers: Will require the secondary producers to provide financial support.

4. Coordinate efforts to provide a regional business and technical training center for secondary manufacturing. The Center would provide facilities to establish, operate, and improve pilot production lines for the secondary processing of wood products. It would provide assistance in wood products forecasting, product design and manufacture, and inter-organizational communication and forecasting. The facilities would be available to companies with a small scale production of products for test marketing and for the training of company employees in new production techniques. Where possible, the Center will utilize existing facilities at universities, Federal laboratories, and affiliated organizations.

Consequences:

a. Provides new skills for individuals.

b. Encourage establishment of new businesses and jobs.

Barriers: This would require a large initial capital investment and long term funding, which could be supported financially by the Manufacturing Technology Center or the Technical Outreach Center of the National Institute of Standards and Technology. Development and maintenance of this center may cost between $2 to 5 million annually, operating on a sustained basis using private and State funds after three years.

5. Facilitate stewardship contract authority to encourage community enterprise.

Background: Stewardship contracts, also known as Land Management Service contracts, have been employed in recent years to enable a single contractor to perform necessary land management work, sometimes in exchange for the value of forest products removed. Because this approach may involve trading goods for services, which is in violation of Federal procurement regulations, Congress has provided specific authority through appropriations language to examine pilot programs in certain areas.

The Agency can experience greater efficiency as work previously performed under several separate service contracts are combined under one single "umbrella" contract, thus saving administrative costs. The stewardship contracting process essentially uses forest product values as a direct source of funding to accomplish needed work, thereby reducing the dependence on appropriated funds.

Consequences:

a. The stewardship approach has been advocated by communities as an opportunity to provide work for local workers in both logging and stewardship work (i.e. tree planting, thinning, watershed restoration, etc.) as well as provide a stable long-term raw material source for potential start-up of secondary manufacturing operations such as rustic furniture manufacture.

b. Reduces management costs for Federal land managers.

c. Encourages innovative management and utilization practices.

d. Requires long-term contracts that may need to be modified because of changing management objectives

e. Increased risk to industry due to possible changes in the market for wood products during the life of the contract.

f. May reduce revenues generated from the sale of timber as compared to conventional competitive timber sales.

Barriers: Requires specific Congressional authority.

E. **Identify potential for improving the efficiency and amount of fiber recovery through improved logging and manufacturing technologies.**

1. **Improve logging practices and technology to extend available supply and better utilize the resource.** Meaningful increases in the amount of timber supply utilized in the region can be realized through improved logging practices and application of technology which makes harvest and use of under-utilized portions of the resource more efficient. Additionally, these practices and technologies generally reduce adverse environmental effects. Some of these practices are:

a. Cut-to-length and small log multi-span technology is especially adapted to efficient logging of small-diameter trees which are currently abundant and typically under-utilized.

Background: Cut-to-Length is a term applied to a mechanized harvesting system developed in Scandinavia to improve productivity in small-diameter harvest operations on moderate terrain. Rather than skidding whole trees to a central processing point, this system produces finished log products by mechanically felling, delimbing, measuring, and bucking trees at the stump. Finished products are carried from the forest on log forwarders, which are essentially small self-loading all-wheel-drive log trucks. The system efficiently produces precisely-manufactured log products with a minimum of environmental effect, as it eliminates skidding and large central processing operations while leaving the majority of the trees' nutrients in the forest for long-term productivity.

b. Small-log multi-span techniques allow the use of smaller, more efficient skyline cable machines to perform logging operations on steep slopes which formerly required tall spar trees or towers and large-diameter wire rope.

Background: The small-log multi-span operation elevates the skyline periodically through intermediate supports as required by terrain. This technique avoids much of the need for spur roads and mid-slope access road construction, is environmentally less damaging, and is particularly well-suited to thinning plantations and other small diameter trees.

c. In large-diameter timber, tree-lining can be used to significantly improve product recovery.

Background: This technique employs small cable yarders to pull trees into the best possible position during the felling operation to reduce breakage and waste. The process is labor-intensive. A climber ascends the tree and attaches a cable sufficiently high enough to provide sufficient leverage to pull the tree over. After the felling cut has been made, the tree-pulling machine operator tensions the cable from a remote location and pulls the tree into the desired position, often against significant downhill lean. The process has been well-documented to increase gross volume recovery, dramatically improve the percentage of preferred log lengths, and significantly reduce the amount of logging debris needing further treatment after harvest.

Consequences:

a. Improved utilization of previously wasted or unavailable wood products and fiber

b. Reduces logging residue disposal costs (offset partially by higher logging costs).

c. Reduces adverse effects to watersheds, soils, and remaining vegetation.

d. Improves percentage of preferred log lengths, thereby reducing the waste at the mills.

e. Develops potential for higher paid, more productive woods jobs.

Barriers: Will require funding (approximately $50,000) to set up demonstration areas. Loan guarantees may be needed to assist loggers to acquire the appropriate equipment.

2. During harvesting, provide incentives to improve the use of currently under-utilized wood fiber in excess of what is needed to meet resource objectives. This would be material utilized after leaving woody material for soil retention, small wildlife habitat, and to aid in regeneration of new trees. The incentive could include one of the previous listed options (purchaser credit, 10 percent discount, or the set-aside of timber sale receipts).

Consequences:

a. Provide more wood fiber.

b. Reduces the amount of logging residue to be disposed of.

c. Requires a greater amount of sale administration to assure that resource objectives are met.

Barriers: No barriers are identified except those associated with incentives.

3. **Provide continuing assistance to the economy of the region by strengthening technology transfer and research at the Forest Products Laboratory (FPL) and the Pacific Northwest Station (PNW) for maintaining and enhancing the efficiency of secondary manufacturing.**

Technology transfer: Fill the vacant leadership position in the State and Private Forestry unit at FPL, conduct a needs assessment and write an action plan, add position(s) based on the action plan, and maintain the existing expertise in primary manufacturing technology. This is estimated to cost $200,000 per year.

Research: Assess research needs and then establish program(s) which will maintain and enhance the continuing efficiency of secondary manufacturing. This is estimated to cost $150,000 per year.

Consequences:

a. Help identify technology transfer needs within State and private forestry at the FPL.

b. Increases global competitiveness of secondary wood products.

c. Share international state-of-the-art technical information with western industry.

d. Promotes better cooperation and coordination between the FPL and western industry, western research organizations, and western technology transfer efforts.

e. Promotes faster transfer of research results.

f. Requires prioritizing of research needs.

Barriers: Requires additional funding and staffing

4. **Provide immediate assistance to the region by establishing a Federal research and development program with emphasis on secondary manufactured products.** This program would fund demonstration studies and research grants to enhance local communities by helping small business become more efficient in the production of wood products and adapt to a changing resource. This program would sunset after three years and will cost $1.5 million.

Background: A research and demonstration project, funded through the FPL and the Pacific Northwest Forest and Range Experiment Station, would be initiated to help improve the production efficiency of small businesses in the wood products sector. An internal steering committee would provide leadership, direction, and oversight. Industry and community participation would be sought in identifying projects and priorities. Emphasis would be placed on projects that create knowledge or technology in direct partnership with users.

Experience, with a similar program, nearing successful completion for improving the utilization of red alder and other western hardwoods, indicates that significant improvements in operating efficiency can be achieved by having technology transfer specialists work with private companies to adapt existing technology to their needs. Sometimes research that is required to supply critical information is necessary to achieve desired goals.

Consequences:

a. Short-term research provides immediate benefits to businesses in less time than most research alternatives.

b. Provides long term benefits through development of new knowledge and technology.

c. Projects can be tailored to the resources of the region.

d. Results can be used as examples to give private funding institutions confidence in supporting capital improvements.

e. Process would help identify and prioritize issues, design studies, and needed research for the industry.

Barrier: Would require additional appropriated funds.

F. **Examine the opportunities related to the Federal timber sale set-asides for small business.**

Background: The Small Business Timber Sale Set-Aside Program was established over twenty years ago to provide qualified small business timber purchasers an opportunity to secure a fair share of Federal timber sale volume.

Every six months, the Agencies determine whether small businesses have purchased their share of the offered program during the preceding six-month period. If small business has not purchased their share, the set-aside program "triggers" and certain sales are set aside for preferential bidding by qualified small business firms. The set-aside process continues until small business firms purchase enough volume to satisfy their needs, at which time the program returns to open competition.

Under current program rules, the small business share cannot drop below 50 percent of the historic "base share" established for a market area, nor rise above 80 percent. A market area generally corresponds to a national forest or a Bureau of Land Management district boundary. During program operation, no more than 80 percent of a given six months' offering can be set aside for preferential bidding by qualified firms in order to make up the deficit.

1. **Small business share based on volume:** Make available a **minimum volume** of timber to small businesses based on historic purchases by market area. Set-aside sales would be triggered if small businesses did not purchase their minimum volume during the previous 6 month period, provided the total offered volume equaled or exceeded small business minimum volume share. If the volume offered is less than small business's need, then small business is entitled to 100 percent of the offered volume.

    Consequences:

    a. This would help to increase and stabilize the flow of timber to small businesses during periods of uncertain timber supply.

    b. Lower levels of Federal timber would be available to large businesses.

    Barriers: Requires modification of the agreement between the Forest Service (FS) and the Bureau of Land Management (BLM) with the Small Business Administration (SBA).

2. **Establish permanent small business set-aside sales based on historical purchase by market area.** The set-aside sales would be offered for preferential bidding by qualified firms each six month period. Volume not purchased by small business could be offered as open sales.

Consequences:

a. Assures small business will purchase a constant percentage of offered timber sale volume..

b. Minimizes large business' opportunity to influence the choices of set-aside shares by removing the "trigger" mechanism.

c. Simplifies record keeping of the set-aside program.

d. Large businesses dependent on public timber will be disadvantaged.

e. Does not guarantee stable volume to small business because of fluctuating offered volume.

f. Minimizes administrative cost by utilizing existing set-aside program infrastructure.

Barriers: Requires modification of the agreement between the Forest Service and the Bureau of Land Management with the Small Business Administration.

3. **Raise all small business shares to 80 percent.**

Consequences:

a. Guarantees a dominant share of offered volume to small business.

b. Utilizes existing program.

c. No need to periodically compute shares and does away with purchase/harvest ratio.

d. Amount of volume available to small business is tied to total volume offered.

e. Lower levels of Federal timber would be available to large businesses.

Barriers: Requires modification of the agreement between the Forest Service and the Bureau of Land Management with the Small Business Administration.

4. **Split difference between current small business share and a share of 100 percent.**

Consequences:

a. Guarantees a dominant share of offered volume to small business.

b. Requires the periodic recomputation of shares.

c. Amount of volume available to small business is tied to total volume offered.

d. Lower levels of Federal timber would be available to large businesses.

Barriers: Requires modification of the agreement between the Forest Service and the Bureau of Lands Management with the Small Business Administration.

5. **Require large business to dispose of 30% of purchased Federal timber volume to small business.**

Consequences:

a. Increases timber supply to small business.

b. Reluctance of large business to make available usable or desirable volume i.e., size species, grade etc.

c. Increased administration.

Barriers: Requires modification of the agreement between the Forest Service and the Bureau of Land Management with the Small Business Administration.

PROCESS OUTLINE

Identified Assumptions:

1. President's Plan will be implemented with a sustainable timber harvest.

2. Geographic scope is western Oregon, western Washington, and northern California.

3. Small Business is defined as an organization with not over 500 employees (13 Code of Federal Regulations 121.1006).

4. Direct efforts toward forest products industry that utilize and process wood fiber

5. Strengthen primary small business and secondary manufacturing.

6. Time line for this initiative is five years.

Report outputs

Problem Statement: As a result of declining timber supply from Public Lands, the small business wood products industry will experience changes in the amount and type of timber offered from these lands. This will result in adverse economic changes to certain parts of California, Oregon, and Washington.

Goal: To have the group develop options to Federal actions that strengthen small businesses and secondary manufacturing in the wood products industry and to maintain and create employment opportunities.

Planning Process Outputs:

A. Methods for encouraging the growth of the secondary processing sector.

B. Examine other preferential wood fiber distribution opportunities over and above current set-asides.

C. Opportunities for access to, and use of, working capital to strengthen small business in the wood products industry, particularly for those involved in secondary manufacturing.

D. Opportunities for creating partnerships with public and private sectors to develop and enhance secondary manufacturing.

E. Means to improve the efficiency and amount of fiber recovery through improved harvesting and manufacturing technologies.

F. Reassesing the Federal timber set-aside programs within the affected region.

The following process statements were applied to Outputs A-F:

A. Identify the positive and negative consequences for each option.

B. Identify barriers or obstacles that need to be overcome in order to meet the overall goal and highlight those rules, regulations, administrative policies, and status which could be changed to eliminate these barriers.

Process followed:

1. The study group brainstormed options for each output A through F.

2. Process statements were applied to each option.

3. The study group reviewed the option and their respective consequences and barriers.

4. The estimated cost of implementing each high cost option was identified.

5. Options that would sunset in 3 to 5 years were identified.

DEFINITION OF PRIMARY AND SECONDARY WOOD PRODUCTS

Primary wood products are logs, cants, and commodity grades of lumber as recognized by the Western Wood Products Association; and commodity grades of plywood, wafer board, oriented strand board, and similar building panels as defined by the American Plywood Association. (WPCC definitions of Primary and Secondary Industry)

Secondary manufacturing are those processes by which commodity wood or a wood-base raw material are altered to produce finished or semi-finished non-commodity products. (Washington's Secondary Manufacturers Active in Export Market)

STUDY GROUP MEMBERS

The Study Group includes members from the Forest Service, USDA; Bureau of Land Management, USDI; and Small Business Administration.

John Combes, Staff Assistant for Forest Products, Chief's Office, Forest Service, Washington, D.C. - **Chairman**

Dennis Caird, Regional Logging Engineer and Small Business Timber Sale Set-Aside Program Coordinator, Pacific Southwest Region, San Francisco, California.

David Green, Project Leader, Engineering Properties of Wood, Forest Products Laboratory, Forest Service, USDA, Madison, Wisconsin.

John Nelson, Deputy Forest Supervisor, Willamette National Forest, Eugene, Oregon.

Bill von Segen, Cooperative Forestry Programs - involved with programs and partnerships related to forest products conservation, marketing, and recycling in the States of Oregon and Washington, Forest Service, USDA, Portland, Oregon.

Ed Shepard, Oregon and California Lands Program Leader, Division of Forestry, Bureau of Land Management, Washington, D.C.

Tom State, Chief, Timber Sales, Contracts and Appraisal Section, Oregon Sate Office, Bureau of Land Management, Portland, Oregon.

William Berry, Director of Office of Natural Resources Sales Assistance, Small Business Administration, Washington, D.C.

Bob Rand, Industrial Specialist, Timber Programs Western Oregon, Small Business Administration, Portland, Oregon.

Dan Crittenden, Silviculturist, Siskiyou National Forest, Grants Pass, Oregon.

Wanda Irving, Community Outreach, Public Affairs Office, Region 6, Portland, Oregon.

Harry Bonini, Writer-Editor, Congressional Inquiries, National Forest System, Washington Office, Washington, D.C.

KATIE:

(1) THE REGS ARE AT OMB, AND I HAVE SPOKEN W/ SWEENEY ABOUT PRESS ON THEM. I WILL CALL SUSSMAN ON THEM.

(2) FROM A TECHNICAL STANDPOINT, NOTHING HAS CHANGED FROM YOUR LAST BRIEFING ON THE WATER QUALITY CRITERION;

(3) IF YOU WANT A BRIEFING, LET ME KNOW AND I'LL SET IT UP - WS 22 NOV

isn't right that EPA regs due on 11/30 rather than 12/15?

To: Will Stelle

NOPE: 12/15

Is this at all an endorsement of EPA's stds? Why is he doing this. Please let's meet so I can get a comprehensive update. (I also want to know if anything further has happened on [illegible] [illegible] regs were due 11/30

KATIE:

POTENTIALLY QUITE SIGNIFICANT SINCE WE ARE ABOUT TO COME OUT W/ THE FINAL STANDARDS FOR THE BAY-DELTA - WS 22 NN

SMALL BUSINESS INITIATIVE

I traveled on Monday (11/15) to North Carolina to meet with SBA Administrator Bowles and small business representatives from the environmental technology industry. During the meeting, Administrator Bowles and I signed a Memorandum of Understanding launching a new relationship between our agencies. Under the MOU, EPA and SBA will cooperate to support small businesses in developing innovative environmental technologies and achieving better environmental performance more cheaply.

I will speak to a few hundred small business owners and employees tomorrow at a town-hall event at the Chamber of Commerce. The meeting will provide an opportunity to discuss our efforts to develop a more positive and cooperative relationship between EPA and small business.

SAN FRANCISCO BAY AND DELTA ESTUARY

There are signs of positive movement toward a resolution of issues regarding the water dispute over the San Francisco Bay/Delta. Today, Governor Wilson sent me a letter formally concurring with the Comprehensive Conservation and Management Plan of the San Francisco Estuary Project. The Governor's concurrence is an important step toward improved State and federal coordination on the Bay/Delta, and we are guardedly optimistic that it signals a more cooperative phase in our relationship with the State on water quality and Endangered Species Act issues.

Neil — how do we respond to this??

ENVIRONMENTAL TECHNOLOGY EXPORTS

On Monday (11/22), Secretary Brown and I will meet with reporters and representatives of the environmental technology industry to release our Environmental Technology Export Strategy. The Strategy, which was prepared at the request of the President, takes a comprehensive look at current markets and export patterns for U.S. environmental technology and recommends ways the federal government can help the industry be more competitive in the world market. The release of the Strategy will be the latest in a series of meetings I have held with representatives of the envirotech industry around the country. The Administration is receiving high marks for our work to support environmental technology as a key component of our overall environmental and economic strategy.

CALIFORNIA "SMOG CHECK" PROGRAM

We are continuing to work with the State of California to design an acceptable Clean Air Act Inspection/Maintenance program. If no resolution is achieved by Wednesday, however, my Assistant Administrator for Air, Mary Nichols, will sign a notice that could lead to March 1994 highway and emissions offset sanctions on the State. We will accompany the notice with a strong effort to change the public debate to demonstrate EPA's

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

Will

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MEMORANDUM

TO: Katie McGinty, Director, Office of Environmental Policy
Peter Yu, Director, National Economic Council
Bob Armstrong, Assistant Secretary, Lands and Minerals Management, Department of the Interior
Jim Lyons, Assistant Secretary, Natural Resources and Environment, Department of Agriculture
Bob Nash, Undersecretary, Department of Agriculture
Dayton Watkins, Counselor to the Administrator, Small Business Administration

FROM: Tom Tuchmann, Special Assistant TT

SUBJ: Formation of Forest Products Small Business/Secondary Manufacturing Study Group

DATE: December 3, 1993

Recognizing the importance of timber and forests to the economy and jobs in the region, the President's Forest Plan recognized as a key element the need to strengthen small businesses and secondary manufacturing in the woods products industry.

A Study Group has been established to develop options for carrying out this key element, to identify the consequences for each option, and to identify the barriers that need to be changed or eliminated in order to implement each option. The Study Group will limit their review to the forest products industry as the MAC and RCERT are focusing on broader assistance and diversification opportunities.

The Study Group will:

- review options to increase the supply of federal timber set-asides for small business;
- review options that provide preference and/or incentives for businesses who contract or establish domestic secondary manufacturing processes;
- examine other ways to improve wood fiber supplies.

• recommend opportunities for access to and use of working capital to strengthen small businesses.

• identify potential for improving logging and manufacturing efficiencies.

• identify partnerships with public and private sectors to develop and enhance value-added manufacturing.

The Study Group met three times during November and has begun to move forward. Attached is the Study Group's charter.

The Study Group will develop a draft paper for your review by December 14th.

Following this initial review, the Study Group plans a limited public comment and participation program in January, with a final report ready by the end of February. I propose that any decisions regarding the options be made after review by the RCERT and MAC. Following this review, each agency can move forward in implementing appropriate options.

ATTACHED FOR YOUR REVIEW IS A DRAFT PRESS RELEASE. IF I DON'T HEAR FROM YOU BY COB MONDAY, DECEMBER 6, I WILL ASSUME THAT YOU APPROVE.

cc: John Combes, USFS

THE FOREST PLAN
FOR A SUSTAINABLE ECONOMY
AND A SUSTAINABLE ENVIRONMENT

Strengthening Small Businesses and Secondary Manufacturing in the Wood Products Industry Study Group Charter

Introduction: As a result of declining timber supply from public lands in western Oregon, Washington, and northern California, the wood products industry is experiencing significant changes in the amount and type of timber offered from these lands.

Recognizing the importance of timber and forests to the economy and jobs in the region, the President's "Forest Plan for a Sustainable Economy and a Sustainable Environment" outlined, as a key element, the need to strengthen small businesses and secondary manufacturing in the wood products industry.

Secondary manufacturing is defined as those processes by which commodity wood (lumber, plywood, and fiberboard) and other wood-based raw materials are altered to produce finished or semi-finished non-commodity products. Non-commodity products include furniture, millwork, kitchen cabinets, boxes and other containers, and mobile homes and prefabricated wood buildings.

Goal: A study group has been established to develop options to ensure that federal actions strengthen small businesses and secondary manufacturing in the wood products industry with the goal of creating employment opportunities.

Each option will include the consequences and the barriers that need to be overcome in order to implement each option.

Subject Areas:

Review Options To:

A. increase the supply of federal timber set-asides for small business.

B. provide preferences and/or incentives for small businesses who contract or establish domestic secondary manufacturing processes.

C. provide for other preferential wood fiber distribution opportunities over and above current set-asides.

D. provide for better access to and use of working capital to strengthen small business.

E. create partnerships with public and private sectors to develop and enhance value-added manufacturing.

F. improve the efficiency and amount of fiber recovery through improved logging and manufacturing technologies.

Process Statements:

A. Identify the consequences of the various outputs.

B. Identify barriers to meeting the overall goal and highlight those rules, regulations, administrative policies, and statutes which need to be promulgated or changed to eliminate these barriers.

Draft News Release

Contact: Tom Tuchmann (202) 208-4612

For immediate release

PORTLAND - The Clinton Administration has announced a new study group that will look into helping small businesses and secondary manufacturers affected by the timber supply crisis in Northern California and the Northwest.

"The creation of this group is yet another step in fulfilling the commitment to help businesses in the Northwest and Northern California that have been hard hit over the last five years," said Tom Tuchmann, Special Assistant to the Secretary of the Interior. "President Clinton came up with a plan to break the gridlock that has held this region captive for so long. This study group will be key in finding ways to help businesses on the ground."

The study group will limit their review to the forest products industry because regional worker and community assistance teams established through the President's Forest Plan will be focusing on a broader range of other assistance and diversification opportunities.

The study group will:

- Review options to increase the supply of federal timber set-asides for small business;
- review options that provide incentives to small business who promote secondary manufacturing;
- examine other ways to improve wood fiber supply;
- recommend opportunities for access to and use of working capital to strengthen small business;
- identify partnerships with public and private sectors to develop and enhance small business and value-added manufacturing;
- identify potential for improving logging and manufacturing efficiencies.

The study group expects to complete its report by the end of February, 1994. Attached is a list of task force members.

SMALL BUSINESS/SECONDARY MANUFACTURING IN THE FOREST PRODUCTS INDUSTRY STUDY GROUP

Director - Tom Tuchmann, Special Assistant, Office of the Secretary, U.S. Department of the Interior

John Combes, Staff Assistant for Forest Products, Chief's Office, Forest Service, USDA, Washington, D.C.

John Nelson, Deputy Forest Supervisor, Willamette National Forest, Eugene, OR

Dennis Caird, Regional Logging Engineer and Small Business Timber Sale Set-Aside Program Coordinator, Pacific Southwest Region, San Francisco, CA

David Green, Project Leader, Engineering Properties of Wood, Forest Products Laboratory, Forest Service, USDA, Madison, WI

Bill Von Segen, Cooperative Forestry Programs, Forest Service, USDA, Portland, OR

Ed Shepard, Oregon and California Lands Program Leader, Division of Forestry, Washington, D.C. Office, Bureau of Land Management

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THE WHITE HOUSE

WASHINGTON

December 3, 1993

MEMORANDUM FOR TOM TUCHMANN

CC: Distribution

FROM: Peter Yu

SUBJECT: Study Group Proposal

Thank you for your memorandum concerning the formation of a Study Group on small businesses and secondary manufacturing in the forest products sector. I have several concerns about both the charter and the press release. My concerns are focused on the Group's responsibilities.

- The Group is to "review options to increase the supply of federal timber set-asides [sic] for small business." This emphasis seems to me undesirable because it underscores the zero-sum nature of set-asides and pits small businesses against larger firms. (It may also unnecessarily aggravate our relationship with the larger forest-products firms.) If we need to include this, I would suggest something much more generic (and admittedly ambiguous), such as: "examine the use of federal timber set-asides."

- The Group is to "review options that provide preference and/or incentives for businesses who contract or establish domestic secondary manufacturing processes." This focus also seems unfortunately and undesirably narrow. "Preference" suggests that there will be winners and losers, and "incentives" could suggests a certain amount of inefficiency and market distortion. More importantly, if not properly constructed, "preferences" for domestic processing may have trade implications. In light of ongoing negotiations and adjudications, we should be very sensitive to these consequences. Again, I would suggest a much more generic phrasing, such as: "examine methods for encouraging the growth of the secondary processing sector." (Note that a similar issue is presented in item C in the Charter.)

- Finally, although this is only an informal group, since you are releasing the names, I suspect it might be worth paying a little attention to diversity concerns. Of the 11, ten have traditional masculine names.

I am hopeful that this effort, with the proper charge and direction, will be successful in generating options for consideration by the RCERT and MAC. The concerns stated above are meant to ensure that we provide the Group with adequate guidance in advance.