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Forest Conference-Timber Management Study

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DRAFT CHARTER
Timber Program Evaluation Study
June 21, 1994

Background

The Office of the USDA Assistant Secretary for Natural Resources and Environment has asked the Forest Service to conduct a study of the agency's timber program. The study, proposed through Jim Lyon's testimony at a Congressional hearing on below-cost timber sales, is intended to provide information needed to address timber issues related to below-cost sales, cost efficiency, and ecosystem management. Introducing the study, Lyon's noted that "the phasing out of the below-cost sales is handicapped by a lack of information needed to assess alternative approaches."

The desire to phase out below-cost sales stems from fiscal concerns related to unprofitable timber sales and the federal deficit. However, it can be argued that unprofitable sales are not always undesirable and might actually be prudent in some cases. Providing context to this problem requires an understanding of the role of timber harvest in national forest management, especially how financial factors weigh in with economic, social and environmental factors. Years of contentious debate, legal challenge and scientific inquiry has shifted the conventional wisdom on these issues. A focus on individual resources in relative isolation is changing to a focus on resources as parts of ecological systems. This philosophical shift provides both the need and the opportunity to clarify the role of timber harvest in national forest ecosystems.

Proposal

The central policy theme of the study is to evaluate national forest timber harvest in an ecosystem management context. The study will examine possible roles of timber harvest on national forests and evaluate the expected social, economic, financial and environmental effects. It will also look at agency operations, including alternatives to traditional timber sale contracts and funding linkages between the timber program and other resource programs. A priority interest is to determine whether below-cost and cost efficiency issues, currently defined by traditional management approaches, change with ecosystem management.

Study Methodology

The study will be conducted through the combined efforts of an interdisciplinary (ID) team of recognized experts from a number of federal agencies and the Forest Service Policy Analysis (PA) Staff. The PA Staff will assemble a team of analysts to conduct the study with guidance and review from the ID team.

Interdisciplinary Team

An intergovernmental ID team open to all interested federal agencies will be assembled. This team will:

- 1) Define policy questions related to the central policy theme identified in this charter.
- 2) Provide direction and guidance to the analysis team by offering options, analytical ideas, and information sources.
- 3) Review study reports prepared by the analysis team to ensure thoroughness and balance.

The agencies listed below offer the most potential for contributing qualified talent to the ID team. Ideal members would be recognized authorities able to contribute substantial expertise and credibility to the study. Some potential participants are offered for consideration.

Office of Environmental Policy (OEP)–
USDI Bureau of Land Management (BLM)–*Ed Shepard*
USDI Bureau of Indian Affairs (BIA)–*Len Stull*
Office of Management and Budget (OMB)–*Ruth Saunders*
USDA Office of Inspector General (OIG)–*Mike Marshall*
General Accounting Office (GAO)–*John Murphy*
Congressional Budget Office (CBO)–
Library of Congress Congressional Research Service (CRS)–*Ross Gorte*
Office of Technology Assessment (OTA)–*Mike Bowes*
USDA Office of General Council (OGC)–*Ron Mulach*
USDA Office of Budget and Policy Analysis (OBPA)–*Mike McDonald*

Analysis Team

The PA Staff will conduct the study and be responsible for product content and delivery. The Director of Policy Analysis will oversee the study effort to insure compliance with the standards of quality and peer review established by the Chief for the PA Staff. The Director will commit Staff resources and assemble appropriate analytical talent. Costs of analytical services excess of PA staff salaries will be covered by the NFS deputy area up to a maximum of \$200,000.

A member of the Timber Management Staff will assist the Analysis Team by providing access to relevant staff records and data resources.

The Study Report

The study will present an array of policy options addressing the central policy theme. Options will be supported with analysis based on information collected and synthesized in the study. The study report will respond directly to information needs identified by the Assistant Secretary and the ID team. The report will not identify a preferred policy option.

The report will be delivered to the Assistant Secretary in a high quality draft form by early October 1994.

Authority for Study

This study is chartered under the authority of Forest Service Chief, Jack Ward Thomas with concurrence from the Deputy Chief of Programs and Legislation, Deputy Chief of the National Forest System, Director of Policy Analysis and Director of Timber Management.

July 14, 1994

TO: I-Team

FROM: A-Team

RE: Draft Workplan for Study of Forest Service Timber Program

Enclosed are two versions of a draft workplan for our study of the Forest Service's timber program. One version, designated as the "Bare Bones" format, is intended to help you visualize the logic behind our proposed approach to the study. The second version, designated as the "Annotated" format, is intended to help you visualize the specific topics that we would propose to address within each component of the study. This draft workplan reflects the A-Team's efforts to take the concerns that were expressed at our 6/28 and 7/7 meetings, and place them into a framework that will: (1) allow essentially all topics of common or general interest to be addressed during the course of the study, and (2) ensure that those topics of most immediate concern to USDA and the agency are investigated prior to October 1, 1994.

Discussing the draft workplan will be the focus of this afternoon's meeting. The A-Team hopes that by the end of today's session we will have reached agreement on what needs to be done and in what order. Once these matters are resolved, we can finalize methodological approaches and begin the actual work.

Your continuing cooperation and patience with this pioneering study process are appreciated. We look forward to seeing you this afternoon and apologize for not getting the draft workplan to you sooner.

Remember, we will be meeting on "The Hill" -- at the site arranged by Ross Gorte.

Draft Topic Outline -- Bare Bones

Premises:

- As regards the Forest Service timber program, the concerns of the I-Team, of USDA, and of the agency seem to fall into essentially three broad problem areas. These are: (1) the need to develop a rational policy on below cost timber sales, (2) the need to insure economic efficiency in the timber program, and (3) the need to re-examine the possible roles that timber harvesting and sales could play in the future management of the national forests.
- Not all of the preceding concerns can be addressed between now and October 1, 1994; accordingly, there is a need to prioritize the work.
- This proposal is based upon the assumption that the work should be conducted in two phases as follows:
 - Phase (1) -- i.e., the period between now and October 1, 1994 -- provide the information needed to formulate a rational below cost policy and, within the context of this issue, to identify and evaluate options for improving timber program cost efficiency.
 - Phase (2) -- i.e., the period after October 1, 1994 -- identify and describe alternative timber management paradigms that could be adopted in the future, and to evaluate the probable consequences of implementing each paradigm.

Proposed Approach for Phase (1):

- Step (1) -- Begin by addressing the following preliminary questions:
 - What are the arguments for and against taking the position that the issue of below cost is relevant within the context of national forest management?
 - Does there presently exist, or would it be possible to create, a technically defensible and administratively practical method of measuring below cost?
 - What savings, if any, are likely to be realized if below cost sales are eliminated -- and under what circumstances?
 - What are the implications of implementing ecosystems management for the below cost issue in terms of: (1) probable impacts on costs, and (2) probable impacts on revenues?

(Decision Point: Based on the information obtained from addressing the preceding questions, policy makers would be in a position to decide whether or not they want to explore optional below cost policies that could lead to the elimination of some national forest timber sales. If they conclude that the issue of below cost is irrelevant, attention can be redirected to other concerns -- e.g., options for improving timber program cost efficiency. If they decide that the issue of below cost is relevant, the information developed in 2B and subsequent steps can be used as a basis for selecting a rational below cost policy as to what national forest timber sales should be eliminated.)

- **Step (2A)** -- Regardless of the conclusion that is reached regarding the relevance of the below cost issue, identify and evaluate options for minimizing the number of below cost sales by: (1) reducing costs, (2) increasing revenues -- or through a combination of the two approaches.
- **Step (2B)** -- Assuming that the below cost issue is deemed to be relevant, lay the groundwork for identifying and describing alternative below cost policies by addressing the following questions:
 - How might below cost be defined?
 - At what level might below cost be determined?
 - To what types of sales might below cost apply?
 - What criteria might be used to determine when national forest timber sales should be eliminated for below cost reasons?
 - What processes might be used to phase-out national forest timber sales that are determined to be below cost?
 - What processes might be used to reinstate national forest timber sales that were previously eliminated for below cost reasons?
- **Step (3)** -- Use the information developed in connection with step 2B to identify and describe optional below cost sale policies.
- **Step (4)** -- Evaluate each of the optional below cost sale policies that are identified in connection with step 3 against a predetermined set of decision criteria.

(Decision Point: Based on the information obtained in conducting step 4, policy makers can select a proposed below cost policy which they can then seek to implement by either administrative or legislative means.)

Proposed Approach for Phase (2):

- **Step (1)** -- Identify and describe an array of alternative timber management paradigms that could be adopted in the future.
- **Step (2)** -- Evaluate (identify) the important consequences (tradeoffs) that would likely result from implementing each paradigm.

Decision Point: Based on the information developed through the preceding analysis, policy makers could make a more informed decision concerning what, in their judgment, constitutes the most appropriate role for timber harvesting and sales in the future management of the national forests.

Draft Topic Outline -- Annotated

Premises:

- As regards the Forest Service timber program, the concerns of the I-Team, of USDA, and of the agency seem to fall into essentially three broad problem areas. These are:
 - The need to develop a rational policy on below cost timber sales.
 - The need to insure economic efficiency in the timber program (and indeed in all Forest Service programs).
 - The need to re-examine, in light of changing public priorities concerning the mix of the goods and services desired from federally managed forests and current plans to fully implement an ecological approach to management, the possible roles that timber harvesting and sales could play in the future management of the national forests.
- Not all of the preceding concerns can be addressed between now and October 1, 1994; accordingly, there is a need to prioritize the work that the concerned parties feel should be performed.
- This proposal is based upon the assumption that the work to be performed should be conducted in two phases as follows:
 - Phase (1) -- i.e., the period between now and October 1, 1994 -- would be used to provide the information needed to formulate a rational below cost policy and, within the context of this issue, to identify and evaluate options for improving timber program cost efficiency.
 - Phase (2) -- i.e., the period after October 1, 1994 -- would be used to identify and describe alternative timber management paradigms that could be adopted in the future, and to evaluate the probable consequences of implementing each paradigm.

Proposed Approach for Phase (1):

- Step (1) -- Begin by addressing the following preliminary questions:

- What are the arguments for and against taking the position that the issue of below cost is relevant within the context of national forest management?

(Draw upon existing literature. Arguments for concluding that below cost is relevant include the following: such sales are an unwarranted subsidy to the timber industry, such sales indicate the Forest Service is not being fiscally responsible, and such sales discourage private timber investments and efforts to increase recycling by keeping raw material prices artificially low. Arguments against concluding that below cost is relevant include the following: there is no legal mandate that the Forest Service make a profit, many costs have been added to national forest timber sales that are for nontimber purposes such as protection of environmental and cultural values, and there is a need to consider the social costs

(e.g., unemployment compensation and job retraining) that would have to be incurred if below cost sales were eliminated.)

- Does there presently exist, or would it be possible to create, a technically defensible and administratively practical method of measuring below cost?

(Draw upon existing literature to evaluate the feasibility of separating the costs of jointly produced goods and services, and to review the strengths and weaknesses of TSPIRS.)

- What savings, if any, are likely to be realized if below cost sales are eliminated -- and under what circumstances?

(Draw upon information from the 19-forest study and other relevant sources.)

- What are the implications of implementing ecosystems management for the below cost issue in terms of: (1) probable impacts on costs, and (2) probable impacts on revenues?

(Draw upon experience from the "New Perspectives" pilot forests -- e.g., the Quachita. What happened to their timber sale costs and revenues when New Perspectives was implemented? In connection with Phase (1) of the study, consideration of this question could stop here. Alternatively, an effort could be made to compliment the preceding empirical data. This could be done by conducting a reasoned analysis of the probable cost and revenue impacts of implementing ecosystems management. Assessing these impacts would entail using a 2-step process. The first step would highlight anticipated procedural differences between: (1) how timber harvesting and sale operations are now made, and (2) how such operations would be made under ecosystems management. Relevant procedural differences could include such things as: -- the degree of public involvement in sale planning, the degree of scientist involvement in sale planning, the type of silvicultural system employed (e.g., single tree selection, group selection, shelterwood, etc.), the type of timber likely to be removed and left in the woods, and the method of regeneration employed (e.g., natural seeding, planting, etc.). The second step would seek to evaluate the cost and revenue implications of the procedural differences highlighted in the first step. Another aspect of this question is -- how might the implementation of ecosystems management affect the way we would measure or express costs?)

(Decision Point: Based on the information obtained from addressing the preceding questions, policy makers would be in a position to decide whether or not they want to explore optional below cost policies that could lead to the elimination of some national forest timber sales. If they conclude that the issue of below cost is irrelevant, attention can be redirected to other concerns -- e.g., options for improving timber program cost efficiency. If they decide that the issue of below cost is relevant, the information developed in 2B and subsequent steps can be used as a basis for selecting a rational below cost policy as to what national forest timber sales should be eliminated.)

- **Step (2A)** -- Regardless of the conclusion that is reached regarding the relevance of the below cost issue, identify and evaluate options for minimizing the number of below cost sales by: (1) reducing costs, (2) increasing revenues -- or through a combination of the two approaches.

(Focusing on costs will lead to an examination of options for improving timber cost efficiency. Within the context of this examination, attention would be focused on topics such as the following:

- A brief review of the factors, both internal and external, that are impacting timber program costs.
- A brief review of how timber program costs are influenced by such things as geographical location and program size.
- A brief review of the cost control measures that have been implemented to date, or that will be implemented under the terms of existing cost efficiency action plans.
- An identification and evaluation of additional options for improving cost efficiency or reducing costs. Here attention would be focused on identifying and evaluating the potential cost savings that could be realized through changes in such things as:
 - Budget Processes -- e.g., trust funds (KV, Salvage, etc.), budget structure and flexibility, etc.
 - Organizational Structure -- e.g., greater centralization of timber program functions, consolidation of field units, etc.
 - Production Processes -- e.g., timber sale planning, contracting, etc.

Focusing on revenues will lead to an examination of options for pricing national forest timber.) Within the context of this examination, attention would be focused on identifying and evaluating pricing options such as the following:

- Pricing that bears no relationship to the actual costs of sale preparation and administration.
- Pricing that seeks to cover variable costs only.
- Pricing that seeks to cover both fixed and variable costs.)
- **Step (2B)** -- Assuming that the below cost issue is deemed to be relevant, lay the groundwork for identifying and describing alternative below cost policies by addressing the following questions:
 - How might below cost be defined?
(Identify and evaluate options -- e.g., financial costs and revenues, economic costs and benefits, etc.)
 - At what level might below cost be determined?
(Identify and evaluate options -- e.g., individual sales, individual national forests, etc.)

- To what types of sales might below cost apply?

(Identify and evaluate options -- e.g., timber purpose, nontimber or "stewardship" purpose, etc.)

- What criteria might be used to determine when national forest timber sales should be eliminated for below cost reasons?

(Identify and evaluate options -- e.g., forest's timber sales program is, on average, below cost for some specified number of years, etc.)

- What processes might be used to phase-out national forest timber sales that are determined to be below cost?

(Identify and evaluate options -- e.g., eliminate immediately, phase-out over some specified number of years, etc.)

- What processes might be used to reinstate national forest timber sales that were previously eliminated for below cost reasons?

(Identify and evaluate options -- e.g., monitor stumpage price trends on adjoining national forests and reinstate a program if it appears that prices have increased sufficiently to allow timber to be sold at a profit, etc.)

- **Step (3)** -- Use the information developed in connection with step 2B to identify and describe optional below cost sale policies.

(The alternative policies would be defined in terms of the variables analyzed in connection with step 2B.)

- **Step (4)** -- Evaluate each of the optional below cost sale policies that are identified in connection with step 3.

(The evaluation would be made in terms of such criteria as: administrative practicality, social acceptability, probable economic efficiency and equity impacts, and compatibility with other national forest management priorities -- i.e., physical and biological feasibility and consequences.)

(Decision Point: Based on the information obtained in conducting step 4, policy makers can select a proposed below cost policy which they can then seek to implement by either administrative or legislative means.)

Proposed Approach for Phase (2):

- This phase, as alluded to earlier, would be used to identify and describe the key differences between an array of alternative timber management paradigms that could be adopted in the future -- and to evaluate some of the important consequences that would likely result from implementing each paradigm. Without getting very specific, which will be necessary later, this phase of the study could well entail the following steps:

- **Step (1)** -- Identify and describe an array of alternative paradigms that could be adopted in the future.

(Conceptually, the alternatives that are identified could include:

- The current timber management paradigm.
- A timber management paradigm that would be consistent with a "rigorous" interpretation of Ecosystems Management.
- Other timber management paradigms that would fall somewhere between the preceding extremes

The description of each paradigm should include all aspects of the timber program where significant departures from the current paradigm might reasonably be expected. Examples of potentially relevant variables include the following:

- The manner in which budget planning activities for timber program activities are conducted.
- The manner in which the costs to conduct timber program activities are accounted for.
- The manner in which ASQ's are set in the forest planning process.
- The manner in which possible harvest sites are identified, evaluated, and prioritized.
- The manner in which timber harvesting operations are conducted -- i.e., in terms of such things as the silvicultural systems employed, the types of material removed through cutting and left in the woods, and the methods of regeneration employed.
- The types of contracts used to make timber sales.

The descriptions of the various alternatives would highlight the procedural changes that the agency would be required to make if it moved to adopt a particular paradigm.)

- **Step (2)** -- Evaluate (identify) the important consequences (tradeoffs) that would likely result from implementing each paradigm.

(Factors that would need to be considered in evaluating the potential consequences of the various paradigms would include the following:

- Internal Impacts -- i.e., impacts felt inside the agency:
 - Impacts on workforce -- e.g., size needed, skills needed.
 - Impacts on funding requirements for timber program.
 - Impacts on funding requirements for other resource programs.

- *External Impacts -- i.e., impacts felt outside the agency:*
 - *Impacts on local communities dependent upon national forest timber.*
 - *Impacts on state and local governments that get a percentage of national forest receipts.*
 - *Impacts on revenues going to the federal treasury.*
 - *Impacts on the dependent timber industry.*
 - *Impacts on private timber owners.)*

Decision Point: *Based on the information developed through the preceding analysis, policy makers could make a more informed decision concerning what, in their judgment, constitutes the most appropriate role for timber harvesting and sales in the future management of the national forests. This decision would be made in light of current perceptions concerning the mix of goods and services that the public desires to see produced from federally managed forests, including the national forests.*