



December 11, 2007

Matthew Donegan
Co-President

The Honorable Ron Wyden
United States Senate
Washington, DC
223 Dirksen Senate Office Building
Washington, DC 20510-3703

Dear Senator Wyden,

As a private landowner, Forest Capital Partners appreciates having the opportunity to provide testimony to Senator Wyden's subcommittee on federal forests. Many of our properties share a border or are in close proximity with federal land, and as neighbors federal forest policy is a significant factor in both our day to day operations and our long-term investment strategy. We share with the managers of these federal lands many of the same challenges of managing forestlands, including; physical hazards such as severe weather conditions, insect infestation and fire; the variability and health of markets for our products; and the well-being of the communities in which we operate. Hopefully, our remarks will be able to provide the committee with a better insight of how the private landowner is impacted by federal forest policy and where opportunities exist for our working together to improve the contributions of our forests to the economy, society and the environment.

Sincerely,

Matthew W. Donegan
Co-President

MWD/kb

A Private Landowner's Perspective on Federal Forest Policy in the Western U.S.

by
Matt Donegan
Co-President, Forest Capital Partners, LLC



Submitted to:
U.S. Senate Subcommittee on Public Lands and Forests
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A Private Landowner's Perspective on Federal Forest Policy

Introduction

Forest Capital Partners, LLC (FCP) is a private forestland owner and operator with stewardship over 2.1 million acres of American forests. Our land is located in Oregon, Washington, Idaho, Louisiana, Texas and Minnesota, where our resource professionals apply the latest advances in sustainable forest management to generate long-term investment returns. Stewardship and resource conservation are deeply-held company values, as evidenced by our commitment to third-party forest certification on all FCP lands.

Pertinent to this testimony, we own no manufacturing facilities, purchase no federal timber, and otherwise derive no direct financial benefit from federal timber harvests. We are in fact competitors with federal agencies in every region where we operate, frequently selling logs within common markets. Viewed narrowly through this competitive lens, our short-term interests would be advanced by continued restrictions to federal timber supply. We nonetheless view the current state of federal forest policy as detrimental to the long-term environmental, social and economic sustainability of western forest communities and therefore support changes in federal policy, including restoration thinnings, which would increase federal timber supply.

On a national scale, and most dramatically within the western U.S., the environmental and social impact of federal forest policy can hardly be overstated. As the largest single landowner in most western states, the federal government is the driving force behind landscape-level ecosystem health, carbon emissions and sequestration, watershed enhancement, and a myriad of program funding ranging from local schools to environmental research. Based on our personal and company values, we are strongly committed to federal forest policies that restore natural habitat, sequester atmospheric carbon, improve water quality and revitalize local communities. Within the context of this hearing, we will defer to the more qualified panelists addressing these environmental and social issues, and will thus confine our remarks to issues specifically affecting the sustainability of private forests.

As with all communities, the principle of interdependence is central to the forest community. As neighbors sharing property lines, landowners mutually depend on one another to manage their respective ownerships in a responsible manner, or otherwise subject one another to risks from fire, disease and insect outbreak. Further, as fellow community members, landowners share the basic operational infrastructure in a region. We mutually depend on one another to invest in our institutions, research and development, and human capital, or otherwise collectively contend with long-term declines within a fiercely competitive global marketplace. This testimony will first present three pressing trends related to the interdependence between federal and private landowners: 1) increased natural hazard risks for landowners abutting federal ownerships; 2) basic infrastructure decay stemming from current federal policies; and 3) private forest conversion to non-forest use resulting from this decay of infrastructure. We will then share a vision for revitalizing the western forest community, and conclude by conveying a sense of urgency to stem the decay of forest



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communities before they reach a “tipping point” beyond which revitalization will become extremely difficult.

Increases in Natural Hazard Risks

Nationwide, FCP neighbors 21 National Forests administered by the U.S. Forest Service and six federal ownerships managed by the Bureau of Land Management. Our properties abut federal forestlands in every region in which we operate and, in many locations, our properties are literally embedded within federal lands. The management policies on federal lands have very real and direct implications for the health and safety of our own forests. We are very concerned about the increased fire risk associated with the excessive build-up of fuels in western federal forests. While fire is a normal part of forest ecosystems, a century of fire suppression combined with a lack of thinning operations and drought conditions, have resulted in an increasing number of large, severe fires and insect infestations in recent years. Global climate change will exacerbate this situation. The substantial curtailment of timber production on federal lands over the past fifteen years has also resulted in a less well maintained network of logging roads that are needed for fire control; and, a reduced pool of forest workers available to fight fires. This increased fire hazard is reflected in the rising cost of fire protection and suppression that is the shared responsibility of private and federal landowners.

The consequences of a catastrophic fire originating on federal forests are chillingly illustrated by the Timbered Rock fire in southwestern Oregon that occurred in 2002. This fire began as a series of lightning strikes on U.S. Forest Service land. By the time it was extinguished three weeks later, the fire had burned 13,000 acres of Bureau of Land Management-U.S. Forest Service land and 9,100 acres of adjacent private land now owned by FCP. The value of timber lost to the fire on what are now our lands was in excess of \$10 million (adjusted for revenue generated through sale of salvaged material), and the costs of restoration and replanting were over \$3 million. In addition to lost private timber values, the fire caused significant damage to threatened and endangered species habitat. Within the fire perimeter, 23 Northern Spotted Owl sites were affected, and three miles of riparian zones providing protection for Coho Salmon core areas were burned.

To protect ourselves from the possibilities of future disasters like the Timbered Rock fire, private landowners will have to shoulder the costs of more intensive fire suppression and protection. These higher fire related costs will divert funds that could otherwise be directed to research and development, and gaining operational efficiencies that would allow landowners to better compete in global markets. Of note, large diversified landowners like FCP face far less exposure to single-event natural hazards than smaller landowners whose woodlots often comprise a comparatively high portion of total family savings.

Declines in Forest Community Infrastructure

Another area of concern driven by federal forest policy is the continued viability of the forest products sector in the inland west. Changes in federal forest policy have resulted in



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substantially lower timber production, which has triggered mill closures and lost production. The inland west is the only major producing region in the U.S. that has experienced net disinvestment in softwood lumber capacity. Softwood lumber capacity in the inland west dropped from 12.0 BBF in 1990 to 8.0 BBF in 2000, and then to 7.3 BBF in 2007. Between 1991 and 2007, 89 wood product mills permanently closed their doors in Idaho, eastern Oregon and eastern Washington, with an associated loss of over 7,600 jobs. The loss of mill capacity and employment in the inland west continues today as lumber and plywood manufacturers contend with the current collapse in residential construction activity.

The concentration of mills in some areas of the inland west has fallen to the point that the supporting infrastructure necessary for conducting business is in jeopardy (indeed, many locations have already passed this point). Fewer mills equate to longer hauling distances and greater freight costs. For private and public landowners alike, added freight costs erode revenues and limit the suite of economically viable silviculture options at a forester's disposal. Responding to shrinking markets, the level of rail service has been cut back, forcing businesses to depend more heavily on expensive trucking; the labor pool shrinks as workers succumb to prevailing pessimism and migrate to urban areas; and local suppliers also pull up stakes.

Besides the dire social consequences imposed upon the region's communities by the decay of forest industry infrastructure, the potential environmental consequences to the vast expanse of public lands are equally alarming. In the future, should federal managers seek to thin overstocked forests for ecosystem health or to promote carbon sequestration, a viable market will be essential to pay for such prescriptions. Likewise, a skilled workforce will be needed to conduct such treatments, and the absence of an existing forest industry cluster would make it more difficult to motivate the investment needed to develop wood based energy or bio-fuel production in the region. From this perspective, maintaining the remaining industrial infrastructure will be critical to the long-term ecosystem health of federal forests and underscores the interdependence that exists between private and public landowners. Maintaining the remaining industrial infrastructure will also be critical to the long-term ecosystem health of private forests, as presented in the following section.

Infrastructure Decay Invites Deforestation, Fragmentation

Across the West, the loss of private forests and farmlands to development has emerged as a public policy priority. Recent state ballot initiatives – Measures 37 and 49 in Oregon, Initiative 933 in Washington, and Proposition 2 in Idaho, to name a few – illustrate public anxiety about the rate and extent of forest loss. The accelerated rate of development, deforestation and fragmentation is symptomatic of economic trends that reward real estate land use over the continued retention of working forests. At present, policymakers in most, if not all, western states are pursuing ambitious agendas to protect private working forests. We believe a federal thinning program could play a vital role in support of these objectives.



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Faced with shrinking forest products markets in the inland west, private landowners find it increasingly difficult to justify the long-term investments required to sustain working forests. Without improved market prospects for timber markets in the inland west, a growing share of these private forestlands will continue to be converted to residential and recreational uses. Central Oregon provides a number of examples of how these shifts in land-use are already occurring. In Jefferson County over 60% of the industrial forestland has changed hands since 1990. Lands previously managed for sustainable timber production are now closed to public access, and subdivided into residential lots and built into destination resorts. Such incidents are growing in frequency across the inland west.

This movement away from the management of large contiguous blocks of forestland for long-term sustained timber production towards greater development will lead to a more fragmented landscape, a greatly increased urban/wild-land interface and a loss of wildlife habitat. As more development projects are located in close proximity to federal lands with a high fire risk, the potential liability of public agencies grows. Adding more homes and resorts in the forest landscape increases the value of assets at risk from catastrophic forest fire, expanding costs and complications for the already strained public agencies mandated to control these fires.

The key to protecting private forests and slowing conversion is to increase the relative profitability of working forests compared to alternative land uses. A large-scale federal thinning program could reverse the decay of western forest communities; ensure a critical mass of supply to invite investment, modernize and diversify forest markets including wood based energy; reinvigorate skilled workforce and infrastructure development; and, in sum, increase economic incentives to maintain private working forests. A federal thinning regime would thereby leverage the interdependence of western forest communities for the mutual benefit of private as well as public forests.

Opportunities to Revitalize the Western Forest Community

Given the enormity of its western land base, the federal government is without question the most important forest community member in the western U.S., and its natural leader. Federal agencies have a unique leadership opportunity with regard to wood-based energy development and capturing the potential far-reaching benefits both regionally and globally of this emerging industry. A large-scale federal thinning program could catalyze the development of woody biomass and bio-fuel energy in the western U.S., offering numerous advantages:

- Creating new sources of renewable energy
- Increasing the capacity of federal forests to sequester atmospheric carbon
- Restoring natural habitat
- Recruiting new investment and revitalizing western communities
- Diversifying and modernizing timber markets for both public and private landowners



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An encouraging step in this direction has been the development of the Lakeview Biomass Project, a 15 megawatt biomass energy facility being built by Marubeni Sustainable Energy in conjunction with The Collins Companies' Fremont Sawmill in Lakeview, Oregon. An agreement to secure a stable long-term supply of woody biomass fuel from federal lands was an essential element for moving the project forward. The Collins Companies will also be building a new small-log sawmill to take advantage of the increased harvest of small diameter logs from federal ownerships. The Lakeview Biomass Project is being hailed for its innovation and collaboration, and new woody biomass energy plants are now under development in several other sites in Oregon, including Cave Junction, Lyons, Tillamook and Warm Springs.

A prerequisite for the continued development of these new wood-based industries in the West will be a commitment from federal forests to generate an adequate and stable supply of wood fiber to fuel these energy-related projects. Recognizing the environmental and social opportunities associated with the development of forest-based energy projects, Forest Service Chief, Gail Kimbell, has proposed a national effort to reach two forest-related goals:

- Sustaining and strengthening the role of America's forests as a net carbon sink, and
- Increasing the amount of America's energy that comes from forests

We feel that landowner interests are closely aligned with these goals set by Chief Kimball. We welcome the opportunity to support these efforts, but recognize the difficult environment in which the Forest Service operates, particularly in the western U.S., dealing with the ceaseless threat of litigation or appeals, which hobbles their ability to confidently make and implement decisions and at times, to most effectively work with their neighbors.

Assuring a dependable supply of woody biomass from federal forests will be made more difficult in the wake of the recent ruling by the 9th U.S. Circuit Court of Appeals nullifying a central provision of the Healthy Forest Initiative that exempts from environmental review any logging project involving up to 1,000 acres and any prescribed burns up to 4,500 acres. Building a secure supply chain for an emerging bio-energy industry dependent on woody biomass sourced from federal forests may require affording the agencies responsible for managing the forests some form of statutory protection from legal challenges and appeals.

Chief Kimbell has highlighted the valuable role that federal forests can play in both boosting atmospheric carbon sequestration through increased forest productivity and reducing carbon emissions through improved fire management. With a more widespread recognition of the importance of federal forests in balancing atmospheric carbon, additional funding support for federal thinning programs may be available from emerging carbon offset markets. At present, the Western Climate Initiative is considering the viability of federal thinning



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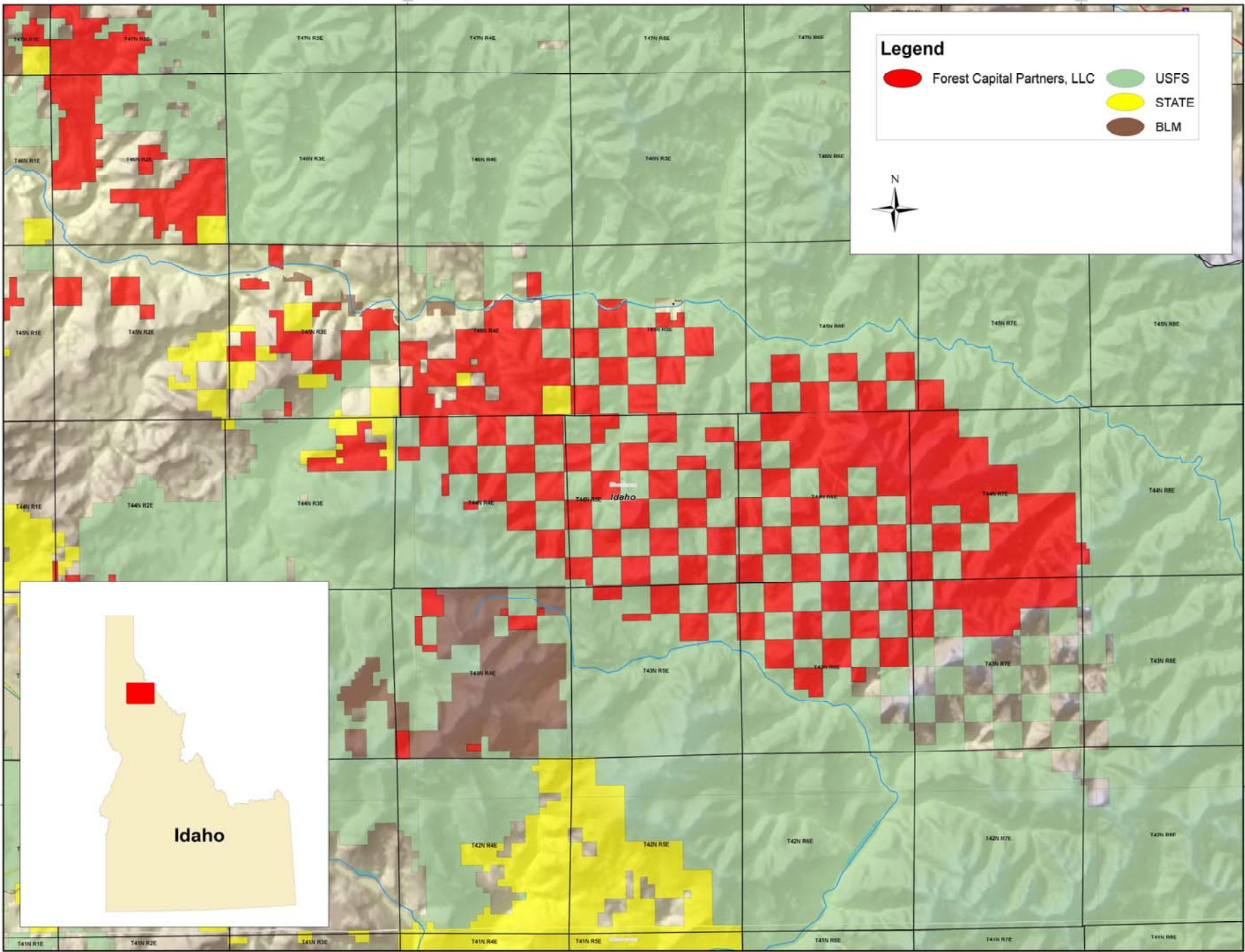
programs as legitimate carbon offsets and we view the prospects of carbon-related funding of restoration thinnings on federal land very positively.

Such efforts are worthy of due consideration, as the potential linkage of wood based energy and federal thinnings offers perhaps the greatest hope to western forest communities in a generation.

Conclusion – Thinning of Federal Forests Would Bring Landscape-Level Benefits to Both Public and Private Lands

Private and public ownerships do not exist in a vacuum, but rather cohabitate within interconnected forest communities. Within the western forest community, the recent performance of the federal government, a natural leader, has not yet risen to the challenges that we now face. This is not to criticize the shift in public priorities on America's public lands – deemphasizing commodity production in favor of broader ecosystem and community objectives. Nor is this an admonishment of federal managers who face the Herculean task of reconciling the diverse, competing interests of numerous constituencies and constantly defending their actions in both the public and judicial arenas. Rather, it is a recognition that structural obstacles undermine our government's capacity to act as a steward of both public and private forestlands.

Current federal policies create undue risks to private ownerships from fire, insects and disease. Further, nearly two decades of community decay has imperiled the critical forest infrastructure needed to equip stewards of public and private forests alike. A large-scale thinning program, afforded adequate statutory protection, may reverse these trends by restoring federal forest health and modernizing western forest communities. The alternative to pursuing the goal of healthier forests and a renewed western forest economy is to accept the ongoing degradation of the federal forests accompanied by the continuing erosion of forest-related businesses, infrastructure and human capital in the rural forest-dependent communities. Given the consequences to global climate change, natural habitat and watershed health, and private forest sustainability, the importance of the Senate's oversight hearing on federal forests, and the need for meaningful change in the near-term, could hardly be greater.

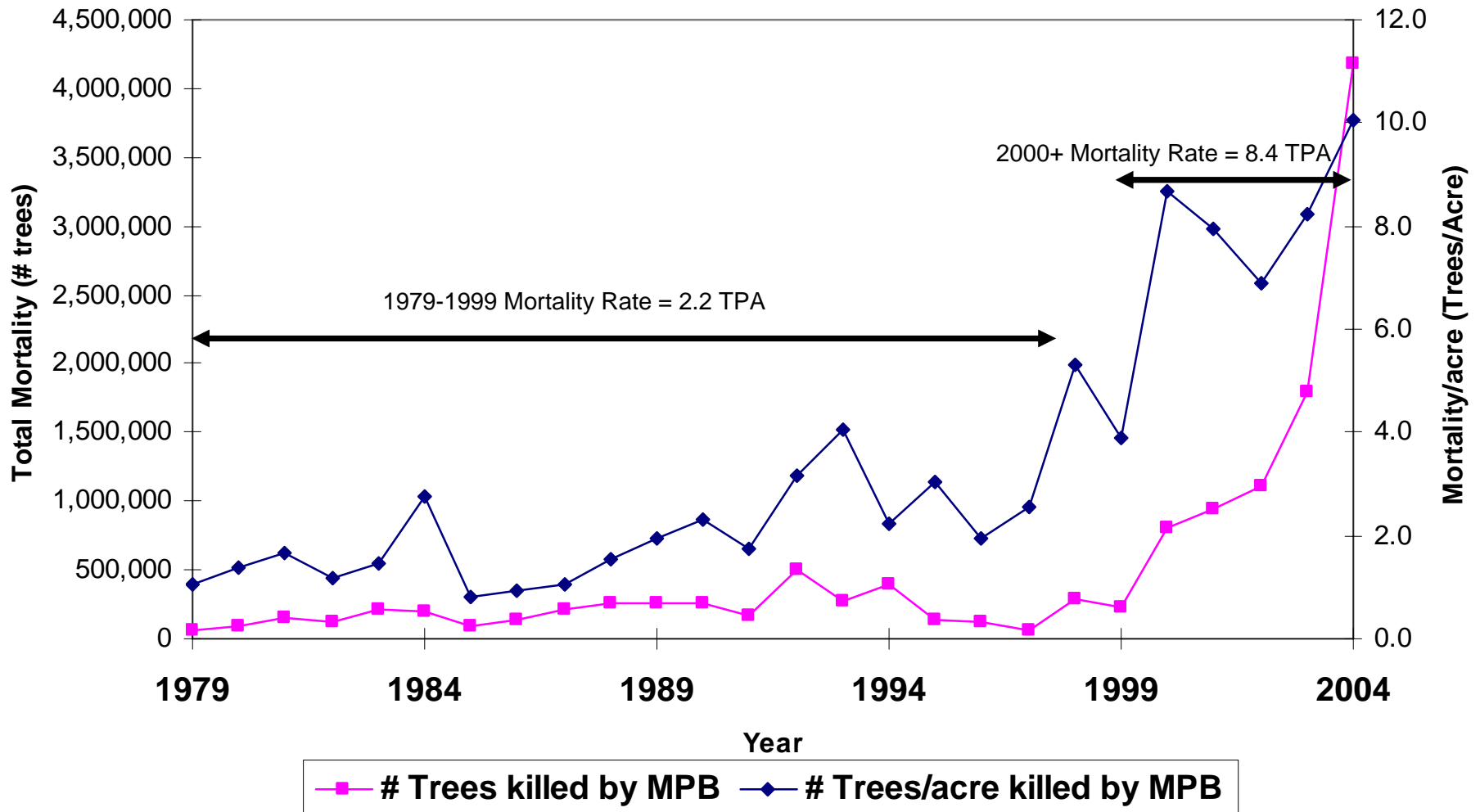


Legend

- Forest Capital Partners, LLC
- USFS
- STATE
- BLM



Mortality by MPB in ponderosa and lodgepole pine in eastern Washington from 1979-2004 (tallied 1980-2005)





Timbered Rock Fire - July 2002



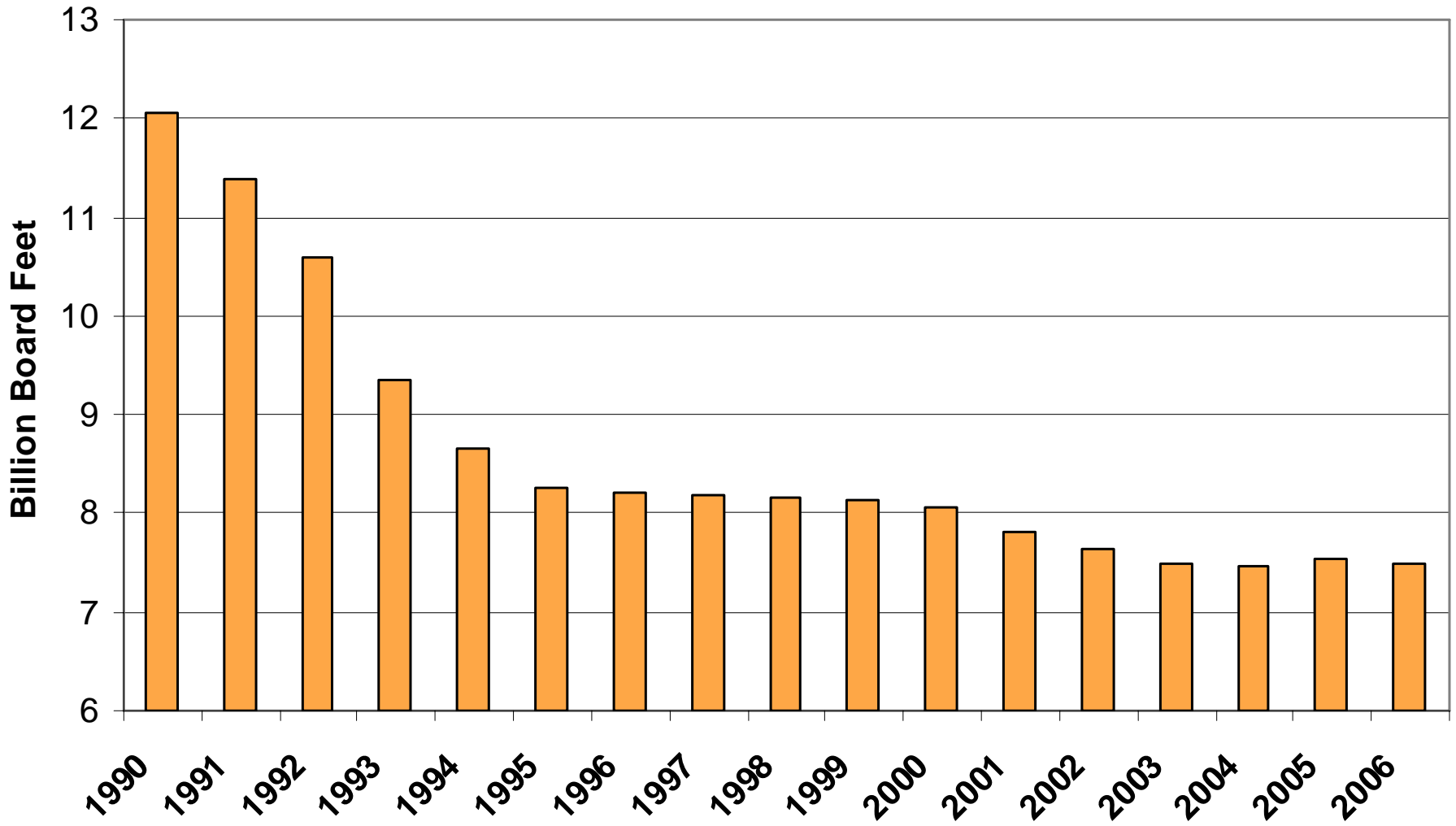






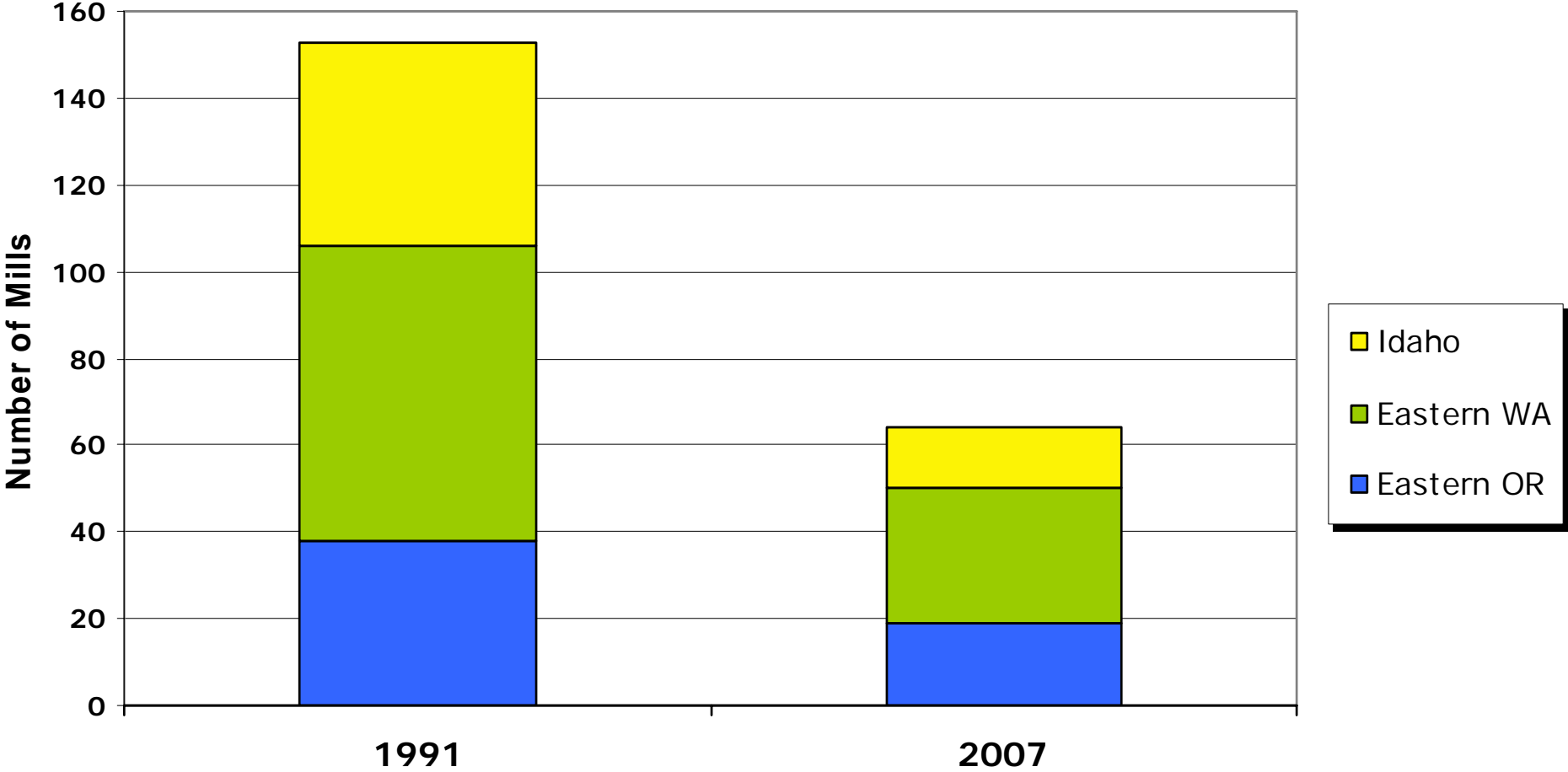


Inland West - Softwood Lumber Capacity



Source: RISI

Inland West - Forest Product Industry (Sawmills, Plywood, Veneer and Board)



Source: Paul F. Ehinger & Associates, Dec 2007