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TESTIMONY ON HB 2555

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HOUSE REVENUE COMMITTEE

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My name is Lincoln Cannon, and I am the Director of Forest Resources and Taxation for the Oregon Forest Industries Council (OFIC). Thank you for the opportunity to testify this morning on HB 2555.

OFIC is a trade association representing more than 50 Oregon forestland owners and forest products manufacturing firms. Our members own more than 90% of Oregon's private large-owner forestland base. OFIC coordinates advocacy on behalf of its members to:

(1) Maintain a positive, stable business operating environment for Oregon's forest products community and encourage long-term investments in healthy forests,
(2) Ensure a reliable timber supply from Oregon's public and private forestlands, and
(3) Promote stewardship and sustainable management to maintain productivity and protect environmental values on all of Oregon's forestlands.

HB 2555 Goals
On its face the purpose of HB 2555 appears to be to encourage domestic forest products manufacturing jobs by limiting exports of logs to neighboring states and other countries. The apparent logic behind the bill seems something like this: making log exports more expensive would curtail exports, which would then make those logs available to in-state manufactures, who would in turn need to hire Oregon employees to process those logs. One implied goal of the bill are to benefit our state and rural economies by supporting Oregon forest product manufacturing jobs by reducing log exports. A more explicit goal is to impose new taxes on private forestland owners who export logs out-of-state in order to provide operating revenues for counties.

OFIC fully supports the laudable goals of increasing forest products employment and economic activity in our rural communities. We believe, however, as discussed in more detail below, that penalizing private forest landowners who choose to export their logs as this legislation would do runs contrary to and would be detrimental to achieving those goals. Further, singling out select forest landowners for punitive new taxes undermines the value of their investments, makes them less competitive in the global markets, and by devaluing their investments makes conversion of private forestlands out of forestry into other uses more likely.

What HB 2555 Does
The bill imposes a severance tax ($/thousand board feet, rate unspecified) on ALL timber harvested in Oregon. A refundable tax credit is created ($/thousand board feet, rate unspecified) for "owners of timber" whose logs are milled in Oregon. 3% of total tax collections are provided to Department of Revenue (DOR) for administration. The State Forester is instructed to certify credits and adopt rules for doing so (of note, no funding is provided or identified). Any remaining tax revenues not refunded to tax payers are then to be distributed annually to counties in proportion to their share of total statewide timber harvests.

HB 2555 is the Wrong Approach
If the goal of HB 2555 is indeed to support and grow jobs in Oregon's forest products industry while producing new revenues for counties, it is likely to fail on both counts.

Economic research has demonstrated that restrictions/taxes on log exports are inefficient and damaging to industry competitiveness in the long-term. The recent difficult economic climate and a historically weak housing market caused all forest landowners to defer harvests, as domestic log demand and prices were too low to induce landowners to harvest. As a result, in the absence of an export market, logs would likely not have been harvested for the domestic market but left on the stump until market conditions improved. Instead, the export market was the one constant during the recession and was responsible for supporting family-wage jobs in logging, trucking, reforestation, stevedoring, and maritime industries.

In 2008 (the most recent year for which this information is available), looking only at surrounding states (excluding international exports) Oregon exported 416 million board (MMBF) of logs and imported 321 MMBF for a net outflow of 95 MMBF. Oregon and Washington companies own both land and manufacturing facilities in both states, and most of that volume moved between those two states.

A logical behavioral change this bill could engender is that, while it might keep more Oregon logs in Oregon, it could encourage Washington manufacturers to replace lost Oregon logs with Washington logs currently being imported into Oregon. Under that scenario, the end result would be an expensive and intrusive bureaucratic process for collecting and rebating severance taxes while providing little revenue to counties and little or no benefit to Oregon manufacturers.

As to new taxes, Oregon forest landowners are already taxed like all other property owners in the state, on the value of their property subject to constitutional limitations of Measure 5 and 50. Timber is taxed like every other crop in Oregon, on income realized from the harvesting, processing and sale of the crop. Forest products producers pay corporate and income taxes as well as property taxes on high-value manufacturing facilities. The forest sector provides 76,000 direct jobs for Oregon taxpayers who pay property and income taxes.

Creating Jobs: The Path Forward

While it varies year-to-year, 80 to 90 percent of Oregon logs are already sold into the domestic market. While log exports did increase during the recession, domestic wood products markets are now strengthening while foreign log demand is slowing. Since 2011 lumber prices have increased by 60% and Douglas-fir log prices are at a 5 year-high. Strong domestic demand for finished products allows mills to pay competitive prices for logs, keeping Oregon logs in Oregon mills supporting Oregon jobs, rendering government intervention in log markets unnecessary.

The Oregon Department of Forestry's report provided to you today, "Oregon's Log Exports," recommends that:

> *Instead of restricting private log exports, a better approach to improving State and local economies would be to increase sustainable timber supply , to strengthen utilization of timber harvested sustainably from Oregon's forests, and to expand existing and to develop new markets for value-added forested products manufactured from Oregon-grown timber.*

OFIC believes that <u>increasing timber supply from public forestlands should be the state's # 1 priority for creating forest sector jobs and revitalizing rural economies</u>. Public timber (federal and state) cannot be exported out-of-country. Nearly 60% of Oregon forestlands are in federal ownership, which used to provide half of Oregon's annual timber harvest. In the last 30+ years Oregon has lost three-quarters of its forest products mills and two-thirds of its forest products manufacturing employment, largely as a result of a 90% decline in federal harvest levels. State forests also have the capacity to sustainably provide much higher harvest levels than are being realized today. Increased harvests from public lands, in addition to private logs, are sorely needed to provide timber supply necessary to meet projected growth in demand.

Increasing demand through market development and recognizing wood as renewable, sustainable and the greenest of building materials can also drive manufacturing and job growth in the forest sector. Governor Kitzhaber's Executive Order (EO) 12-16 recognizes and addresses concerns around log exports by working to expand demand and develop strong domestic and international markets for green wood building materials manufactured in Oregon.

Building a stronger forest sector creates jobs that generate healthy local economies and communities as well as income and property taxes to fund state, school and other local government services. This is best achieved not by levying punitive taxes on a select group of forest landowners but rather by building markets for Oregon's forest products and making more public timber available to enable wood products manufacturers to meet those demands.

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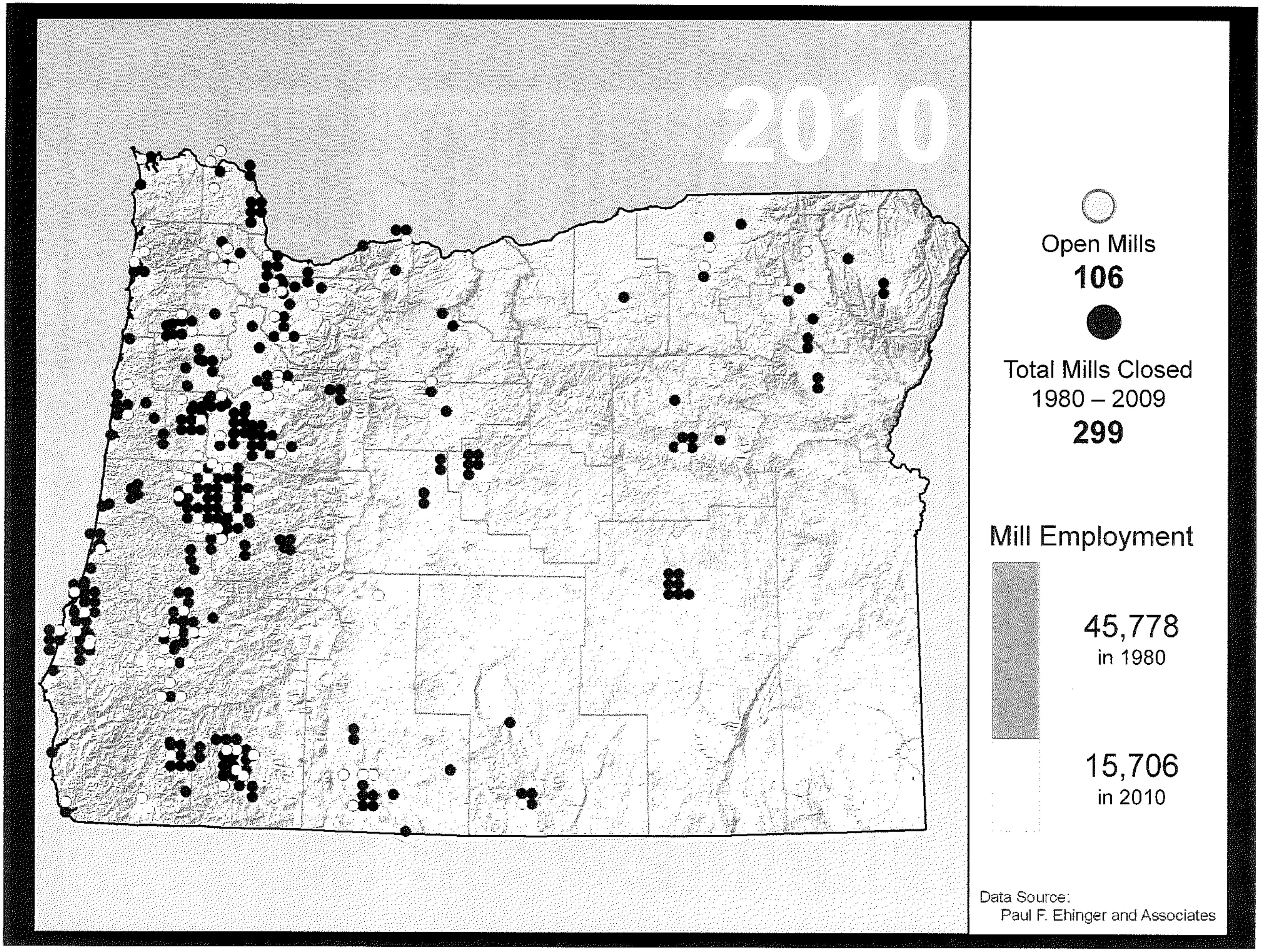
2010
Open Mills
106
Total Mills Closed
1980 – 2009
299
Mill Employment
45,778
in 1980
15,706
in 2010
Data Source:
Paul F. Ehinger and Associates