FSEEE Forest Service Employees for Environmental Ethics

P.O. Box 11615, Eugene, OR 97440 Tel: (541) 484-2692 Fax: (541) 484-3004 Email: andys@fseee.org

Testimony of Andy Stahl, Executive Director
Before the House Committee on Revenue
Regarding HB 2555 (Severance Tax and Domestic Milling Tax Credit)
March 27, 2013

In 2011, about one billion board feet (965 million) of logs were exported from Oregon ports. Log exports accounted for 26% of the total volume harvested from Oregon's forests. Oregon's private forests account for 75% of Oregon's total timber harvest, which makes log exports a particular challenge to Oregon's wood processing industry (logs cut from state and federal forests cannot be exported overseas).

Approximately 5,000 people would have been employed in sawmills had the exported logs been processed domestically and the products sold. Even if only 10% of the exported logs been processed here at home, the 500 jobs gained would match those this legislature sought to assure with favorable tax guarantees to Nike.

If changing tax law to provide 500 athletic shoe jobs is worth a special session, then the potential for creating 5,000 wood products jobs ought to warrant this Legislature's full attention.

I will address HB 2555's tax provisions first, followed by the bill's county revenue proposal.

HB 2555 seeks to staunch the off-shore flow of logs by financing tax credits for domestic milling to be paid for by a severance tax on timber harvested from Oregon's forestlands. Since Oregon currently collects timber severance taxes (called the "Forest Products Harvest Tax"), increasing the severance tax rate will not impose an additional administrative burden on state agencies.

The severance tax is paid by the timber harvester. In the case of federal land, such as national forests, this means the purchaser of the federal timber pays the tax, not the U.S. Forest Service. This has the effect of transferring log value from the federal government to Oregon state government, and, under HB 2555's proposed tax credit provision, to Oregon timber processing mills. For example, a severance tax rate of $15 per thousand board feet would have transferred about $8 million in log value from the federal government to the state in 2011.

Similarly, the severance tax combined with the bill's domestic processing tax credit will transfer value from Oregon's private forestland owners to Oregon companies that process logs. The largest of these companies are absentee landowners which do not process logs in Oregon. For example, Hancock Timber Resource Group, which recently added 573,000 acres of Oregon forests to its holdings, also owns over 6 million acres in Brazil, Canada, New Zealand and Australia. Hancock is wholly owned by Manulife Financial Corporation, which manages over $500 billion of investments with operations world-wide, including in China, Japan, Hong Kong, Singapore, Taiwan, Indonesia, Thailand, Vietnam, Malaysia and the Philippines. Hancock owns no log processing facility in Oregon.

Simply put, the 100-year era of timberland owners processing logs into wood products is over. No longer is timber owned by vertically-integrated companies that process their own logs cut from nearby forests. Today, timberland ownership is largely separated from mill processing and logs flow to the highest international bidder.

That international high bidder is increasingly China, which due to its expansionist monetary policies combined with Russia's tariff-based restrictions on log exports, has increased dramatically its purchase of Pacific Northwest logs. In 2001, China bought 8.2 million board feet of logs from Oregon and Washington. Ten years later, in 2011, China had increased its buying to 1,033 million – over 1 billion – board feet. About half of that volume was exported from Oregon and Columbia River ports.

HB 2555's Oregon-based log processing tax credit, to be financed by the bill's severance tax, seeks to shift logs from the export market to domestic manufacturing. It is well understood that states cannot regulate international nor interstate trade directly. However, it is equally well accepted, in fact a general practice, for states to adopt tax policies that encourage investment in selected industries. That is what HB 2555 seeks to do.

The bill's tax credit would be financed, through the severance tax, in proportion to the volume of timber cut by a harvester. The largest harvesters, which correspond to the largest forestland owners, will pay the most to the bill's Oregon Timber Industry Subsidy Account. These companies include Hancock, Weyerhaeuser (940,000 Oregon acres), Roseburg Forest Products (635,000 Oregon acres), Fidelity National Financial (majority owner of Cascade Timberlands, which owns several hundred acres in central Oregon), and Plum Creek Timberland (383,000 Oregon acres), among others. Some of these companies also process logs in Oregon (e.g., Weyerhaeuser and Roseburg Forest Products) and would receive the off-setting tax credit. Others own no processing facilities in the state, e.g., Cascade and Hancock, and would not receive the tax credit.

Oregon's Department of Forestry, in its analysis of HB 2555, raises concerns regarding administration of the tax credit. DOF says that "tracking logs from their origin . . . would be very time consuming and challenging." (DOF 1/21/13 Bill Analysis Routing Form). But, the bill does not require that DOF track logs, only that it certify a taxpayer, upon application, as eligible to receive the in-state log processing tax credit. It is commonplace for taxing authorities to rely upon self-reporting for the purposes of assessing taxes. Oregon mills that buy logs can require in the purchase agreement that log sellers identify the origin of their logs. Regardless of how many times a log changes hands, if each buyer requires the seller to identify the log's previous owner, DOF's certification concerns should be met. DOF's rules administering the log processing tax credit should so provide.

HB 2555 also allocates $2 per thousand board feet of the severance tax revenue to county general funds in proportion to the severance tax revenue raised from harvests in each county. In 2011, counties would have shared $7.3 million. This is equal to about 12% of the national forest payments made by the federal government to Oregon counties under the recently-expired Secure Rural Schools program. It represents a significant down payment on the fiscal crisis facing many of Oregon's counties.