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Proposal:

1. Capital gains tax should be removed from timber and logs sold for export.

Much of the imbalance in the industry is the direct result of our capital gains tax laws. I believe these laws were enacted to stimulate an incentive for prudent timber management and to stabalize forest industry dependent communities; to retard "cut out and get out" industry practices. These same tax shelters--or advantages--are now, to a regrettable degree annihilating the very same communities they were supposed to protect.

A. The management of our forest industries is pushed into becoming more interested in working capital gain tax deals than in efficient mill management. Capital gain is where the profits are, and professional management lives or dies according to their quarterly earnings record. The result is a cancerous mess which kills the incentive for plant improvement and efficiency, and industry loses its ability to compete in both domestic and foreign markets.

The results of this trend are obvious today:

Several large firms are exporting their premium quality logs of any species, driving up all West Coast stumpage values in order to establish a higher Internal Revenue Service Paragraph 631 (a) tax base, manufacturing primarily cull logs in their U. S. mills, making a capital gains profit on their export log, losing money or breaking even on their domestic lumber sales--making a net profit on which they pay income tax at considerably below the normal ordinary income tax rate. At the same time, the independent operators who purchase U.S. Government Agency stumpage or open-market logs, regardless of their plant efficiency, are being forced out of business. They cannot battle the tax advantage. Thus we have a situation where tax shelters are encouraging and allowing relatively inefficient manufacturing plants to exist while efficient plants are having to close because of the capital gains tax structure.

The advantageous effects of the program proposed are as follows:

1. Free trade would be allowed for all timber and lumber products whether raw material comes from federal or private land. There would be no need for quotas or other trade restrictions. All pperators whether large or small would receive equal treatment.