

exportation of logs only from Federal lands, with no restrictions or agreements with the Federal Government to restrict the exportation of logs to some degree from private lands.

Counsel suggests that I ought to ask you for a comment on this question.

Is it not true that the capital gains tax treatment of timber sold for export by private companies will always be an irresistible magnet to induce them to sell timber from private lands, and then replenish that loss of supply by bidding relatively high prices at timber auctions to the detriment of the small mill operator?

Mr. HODGES. In my opinion, the capital gains tax has no relationship whatsoever to this issue. The reason that we have gone at it from the standpoint of seeking the first emergency action on Federal timber at a level of 350 million board feet is this:

It is the Federal timber-dependent operator that has his back to the wall with no alternate source of supply. The private timber-owning operator has a choice as to what to do with this timber.

He can keep his mill running; he can sort his logs out and export certain qualities or classifications, and he has a choice of the amount that he sells to Japan. The Federal-timber-dependent operator has no such choice.

Then, secondly, the Federal law, we think, obliges an action to be taken by the Federal timber. When it comes to taking an action on the private timber, the only Federal law that is applicable is the Export Control Act, and it is remotely applicable.

Now, looking at the law and the situation on supply, and past experience, the Export Control Act is just not considered to be a practical way to go at it. So, from the standpoint of existing law or regulations, existing Federal power, there is none that can be exercised immediately in regard to private timber.

Our position has been that the emergency action is needed now, and it is a moral and a legal obligation to the Federal timber-dependent operators.

Then, for the long-term basis we have sought, as you know, the negotiations with the Japanese. This is something we asked for in the middle of last year, and it is through this type of negotiation that you can perhaps do something that would affect all classes of timber. This has been the route by which we got to our position today.

It has nothing to do with capital gains. Capital gains is applicable to anybody that owns timber for 6 months, and then manufacturers it or sells it, and both private and Federal dependent-timber operators can utilize the capital gains tax.

Senator MORSE. At our first informal meeting at which you were present, we had a representative of Weyerhaeuser tell us that they were going to voluntarily restrict their sales of the logs to Japan; at least, that they would not purchase Federal timber to replace the logs that they sold to Japan.

We have received communications from some of the other large companies, Crown Zellerbach, and Georgia-Pacific, pointing out that they would be willing to go with this arrangement, in order to get unity in the industry, and a united front in trying to get the Forest Service, the Bureau of Land Management, and other agencies of the