

behind the rise in stumpage prices in the Pacific Northwest in the last few years.

These changes in stumpage prices have been occurring at a time when plywood prices have been near their lowest point in the recent history of the plywood industry in the Pacific Northwest. In mid-1967, plywood prices averaged only about 82 percent of the 1957-59 base. The reasons for this are not related to the rise in exports to Japan. Douglas-fir lumber in mid-1967 averaged about 109 percent of the 1957-59 base, and hemlock about 120 percent.

The result of these trends has apparently been to narrow the operating margin of mills that do not own their own timber resources, especially the smaller ones.

Near the end of 1967, there was a spurt upward in both plywood and lumber prices. If the increase holds, the general situation will be eased. If the increase does not hold, we will be back where we were before.

SHORTAGE OF TIMBER SUPPLY

As others have testified, there have been a disturbing number of mill closures in the Pacific Northwest in recent months. We believe the log export trade has been a factor in a good many of these. We do not have any records by which we can reach a conclusion of our own about how many such closures there have been or are likely to be. Nor do we have precise information on all the factors contributing to such closures.

Timber supplies in the Pacific Northwest are tight. Annual production of logs in western Oregon and Washington rose about 2.2 billion board feet, log scale, between 1960 and 1965 to 13 billion board feet. In 1966 and in 1967, production of logs declined to a little more than 12 billion board feet.

On the national forests in western Oregon and western Washington in 1966, the allowable annual cut was 3.12 billion board feet, and the actual volume cut was 4.02 billion board feet. Comparable figures for the year 1967 are estimated to be 3.16 and 3.23. The apparent overcutting results partly from inclusion of thinnings, and salvage. Allowable cuts in western Washington and western Oregon could be increased by intensification of management, as I will discuss later. We believe the possible increases are not enough to keep up with the expected increase in demand for export to Japan plus increases in demand for the domestic market. We believe major increases for housing construction and continued growth of the U.S. economy can be expected.

Consequently, it seems reasonable to expect if log exports continue to increase at their recent rate, the result would be further strong pressure on stumpage prices.

So, what are the right things to do? Everyone is aware of the recent decisions announced by the President concerning steps to overcome balance-of-payments deficits. Because of balance of payments the Department of Treasury asked the Department of Agriculture to study ways in which National Forest management can facilitate easing balance-of-payments deficits.

In brief, the Treasury staff paper which was prepared for consideration of the Department of Agriculture includes suggestions for—