

**Statement for the Record
Mr. Chuck Watkins
Chief Operating Officer
Rex Lumber
On behalf of the
Federal Forest Resource Coalition**

**House Agriculture Subcommittee on Conservation, Energy, and Forestry
March 27th, 2012**

Good morning, Mr. Chairman, Ranking Member Holden, and members of the Subcommittee. My name is Chuck Watkins, and I am Chief Operating Officer Rex Lumber, which operates businesses in both Florida and Mississippi. Our family owned company is a founding member of the Federal Forest Resource Coalition (FFRC), which represents purchasers of Forest Service timber across the country. The coalition has members in more than 24 states, with approximately 650 member companies representing 350,000 workers and about \$19 billion in payroll.

The FFRC supports sustainable management of the National Forests lands to produce clean water, enhance wildlife habitat, produce forest products including timber and biomass, support rural economic development, and to reduce the threats of catastrophic wildfires and insect outbreaks. Our members come from every link on the forest products value chain, from loggers to landowners and from large pulp and paper facilities to forest bioenergy plants. Our member companies are frequently located in rural areas, which have higher than average unemployment, poverty, and population loss compared to their States' averages.

About Rex Lumber:

Rex Lumber traces its roots in Northwest Florida back to 1926, ten years prior to the establishment of the Apalachicola National Forest. Rex currently operates three mills in Bristol and Graceville, Florida, as well as Brookhaven, Mississippi. We source our raw materials from the Apalachicola National Forest in Florida and the Homochitto in Mississippi, as well as from private timberlands.

Our mills employ 434 people directly. We have the capacity to produce 458 million board feet of Southern Yellow Pine lumber, most of which is subsequently pressure treated and sold for residential and commercial use. We export our products widely, including to the Caribbean where it is preferred for its strength and stability in an area known for hurricanes and seismic hazards. We purchase logs from over 100 local loggers, and employ over 30 other contractors for heavy maintenance and engineering projects on our facility. Our mills are one of the largest employers in our communities, where other jobs are frequently lowering paying and less desirable.

The National Forests in Florida: A Conservation Success Story:

The Homochitto and Apalachicola forests are, like the rest of the National Forests east of the Mississippi, conservation success stories. Most of the lands in the Eastern National Forests were acquired in the 1920's and 1930's after an era of "cut and run" logging that left watersheds subject to large fires, erosion, and depletion of both forests and their wildlife. Although it is hard to imagine today, conservationists in the 1920's and 1930's feared for the extinction of species like the wild turkey and the Whitetail deer.

Reforestation and careful management have helped restore the 1.2 million acres of National Forests in Florida.

Today, the National Forests in Florida support over 770 Red Cockaded Woodpecker clusters, 60 active bald eagle nests, and over 2,000 Florida Black Bears. In total, these forests provide habitat for some 145 species of rare plants, and 52 threatened, endangered, or sensitive species of animals. Like much of the National Forest system, however, we firmly believe that these forests could produce far more of these benefits, while providing a steadier and more reliable source of wood fiber to our mills.

Like most pine forests across the country, our forests are adapted to frequent wildfires. Overstocking of pine forests makes it difficult for forest managers to introduce fire, which controls understory vegetation and helps create and maintain the habitat preferred by such species as red cockaded woodpecker, gopher tortoise, and bobwhite quail. Harvests which produce an open stand condition produce ideal wildlife habitat, while also providing high value sawtimber to a market which needs this raw material.

As you can see from the chart we've included here, over the last five years the National Forests in Florida have been inconsistent in the harvests they have offered. Dropping from a high of 42.1 million board feet in 2007 to a low of 21 million feet in 2009, the forest has also been inconsistent in the level of sawtimber offered for sale.

NF's in Florida Sold Totals

Fiscal Year:	MBF:	% Sawtimber:	\$ Total (Millions):
2011	31.9	39%	\$2.90
2010	22.4		\$2.04
2009	21.5		\$1.78
2008	25.4	22%	\$1.99
2007	42.1	36%	\$3.20

This inconsistent level of harvest makes it difficult for loggers to find consistent work to make payments on expensive logging equipment, makes it difficult for mill managers to find consistent supplies, and in particular makes it difficult for businesses to make long-

term plans and investments. Other forests in the Forest Service's Southern Region have been able to consistently offer considerably higher volumes of timber for sale, all while meeting their other forest plan objectives for wildlife and plant habitat.

Increasing the Pace of Forest Restoration:

Recently, Secretary of Agriculture Tom Vilsack announced that the Forest Service would step up both the pace and scale of their land management. We applaud and support this effort, but we believe it does not go far enough to meet the needs of the forests or the needs of our rural communities.

Increased management and forest products outputs, from the current low level of 2.4 billion board feet nationwide to 3.5 billion board feet in 2013, would provide a much-needed economic boost to rural America, creating thousands of jobs. The health of the National Forests, the economic health of our member companies, and the health of the communities where we live and work, are inextricably linked. Moving from the current projected harvest level of 2.6 billion board feet to 3.5 billion board feet could produce some 14,400 direct jobs, with thousands of additional indirect jobs. The current forest plans in place across the country call for a harvest level of roughly 6 billion board feet, still only half of the peak harvest levels of the late 1980's.

Even in these challenging wood markets, some FFRC member companies have been frustrated by the Forest Service's lack of commitment to sell adequate log supplies. The result is idled investments, reduced shifts at sawmills, jobs lost to foreign competition, and a failure to sustain or enhance a value-added, manufacturing industry that can capture greater domestic and international market share. Our member companies are extremely competitive in the global market, and only need a fairly priced raw material to capture more of those markets. The time available to capture these opportunities is limited, and we urge you to reward the Forest Service's recent initiative by investing in more aggressive management of the National Forests.

We have worked – and will continue to work – closely with the leadership in the Forest Service and USDA to find ways of reducing overhead and making the forest products and fuels reductions program more efficient. We believe some of the steps taken by the Forest Service in their February 2, 2012 report will help achieve these efficiencies. However, other authorities, like allowing the Forest Service to use designation by description on regular timber sales, much as they do on current Stewardship contracts, will help reduce unit costs even further.

Investing in Land Management:

We were pleased and thankful that the Omnibus appropriations bill for 2012 set a harvest goal of 3.0 billion board feet for 2012. We urge the Agriculture Committee to reinforce the importance of this new target by seeking frequent progress reports this fiscal year, and asking the agency to increase its outputs in 2013 to 3.5 billion board feet. The current

annual harvest from the National Forests represents less than 10% of annual forest growth, and less than half the allowable sale quantity under existing forest plans. In many regions, the Forest Service is falling short of its own management goals; including in reacting to the pine beetle outbreak in the Rockies, salvaging beetle and drought killed timber in the Southeast, and managing aspen habitat in the Lake States.

Stepping up management, through formal collaboratives where they exist and normal timber programs elsewhere, will help address pressing forest health concerns while helping bolster employment in rural communities where unemployment is frequently near 20% and poverty is well above state averages. Investing in the Forest Service timber program is a very effective job creator, generating 16.5 new direct and indirect jobs per million board feet harvested.

Reducing NEPA Costs:

The President's Council on Environmental Quality issued a memo on increasing the efficiency and effectiveness of environmental reviews required by the National Environmental Policy Act in December. The Forest Service has told Congress that complying with NEPA and other environmental laws costs them \$356 million annually, which is more than the agency spends on timber management, or Research, or State and Private Forestry. Saving even a portion of these expenses would free up resources to actually manage forests and reduce the threat of wildfire and insect outbreaks.

Timber purchasers across the country report that Forest Service personnel frequently conduct exhaustive NEPA analysis, only to propose and implement small scale land management projects which do not meet the objectives the agency set out to meet. Examples include leaving higher than called for stand densities, or dropping entire units from proposed sales even though doing so leaves forest stands susceptible to insects and mortality. The Forest Service's February 2nd report on increasing the pace of forest restoration touches on this subject, but we believe direction from this subcommittee would help reinforce the urgency of directing the resources to management rather than paperwork.

When National Forests in the Lake States are up to 75% behind on their management goals for early successional habitat, and the National Forests in the Rocky Mountains are falling woefully behind in dealing with a massive, 41 million acre and growing pine beetle outbreak, finding some way of reducing NEPA costs is urgently needed.

Forest Health and Forest Restoration:

2011 demonstrated that the poor health of our National Forests and other Federal Forests impacts everyone, from the industries that depend on useable wood fiber to casual weekend visitors to the Forests. The large fires in Arizona and New Mexico last year forced the closures of popular campgrounds, destroyed dozens of recreational cabins, and forced cancellations of Fourth of July events at popular mountain resorts. Many miles of forest

roads and several campgrounds in Arizona remain closed. The large scale beetle infestation in the Black Hills has forced local campground owners to spend more than \$100,000 annually to remove beetle killed trees and spray others in an effort to stop beetles from spreading off of the National Forests. The Pagami Creek fire in Minnesota disrupted popular hiking and canoeing areas in an around the Boundary Waters Canoe Area. Campers, hikers, hunters, and skiers all want to visit healthy, green, and growing forests.

In each of these cases, wood using industries, from start-up biomass plants to family run sawmills to internationally competitive pulp and paper facilities, stand ready to help the Forest Service to actively manage the National Forests. Opportunities to expand this management, and the benefits that come from it, abound nationwide.

Reduce Overhead Costs to Expand Meaningful Management:

The Forest Service must reduce overhead and project preparation costs in its land management programs, particular forest products, hazardous fuels reduction, and salvage sales. Current overhead rates are over 50%, and in some regions, 70% of appropriated dollars go into NEPA compliance, not project design and implementation.

Specific approaches currently available to the Forest Service and the Administration that would reduce costs include:

1. reduce project preparation costs (e.g. – greater use of designation by description and designation by prescription in lieu of marking);

The Forest Service allows the use of this management technique on some timber harvests, including on Stewardship contracts. Expanding its use can help reduce costs and move lower value wood fiber at lower costs, which should be a high priority given the slack markets for products like pulpwood and biomass. Allowing purchasers to harvest trees that meet sale specifications, while instituting controls such as post-harvest surveys and periodic scaling of sample loads, can reduce costs of sale administration to reflect the lower value of wood fiber being removed.

2. achieve economies of scale by conducting project planning and associated economic analysis and NEPA analysis at larger scales, and then marking all sales to reflect the NEPA that is conducted;

As noted above, the Forest Service is spending over \$350 million per year on NEPA and associated environmental reviews. In many cases, purchasers report that the Forest Service staff then mark timber sales that do not meet the objectives outlined in the NEPA documents. This leaves stands more susceptible to subsequent bug infestation, mortality, and fires.

3. declare an emergency on forest lands in Condition Class II and III, in particular in lands impacted by large scale beetle infestations, allowing the use of alternative arrangements for NEPA compliance.

The scale of the current pine beetle infestations in the Rocky Mountains is unprecedented. Yet NEPA analysis continues to take too long, while the infestations spread to new areas and threaten the viability of what little remains of the regions wood using industry. We urge rapid action to capture value and help prevent further loss of valuable forests and habitat.

4. Move rapidly to implement the new objection authority enacted as part of this year's omnibus appropriations act.

The Fiscal Year 2012 Omnibus Appropriations act provided for a new, streamlined objection process to apply to all NEPA actions of the Forest Service. This authority, modeled on the objection process authorized by the Healthy Forest Restoration Act, which this Committee helped create, will allow the Forest Service to consolidate similar objections and work with interested parties to find a way forward on vital land management projects. We urge the Forest Service to finalize regulations to implement this important provision as soon as possible.

Stewardship Contracting Reauthorization:

The FFRC supports long-term reauthorization for Stewardship contracting, which was first authorized as a pilot program in 1999. In 2003, the Forest Service and Bureau of Land Management (BLM) were granted 10-years authority to enter into Stewardship Contracts or Agreements. Stewardship Contracting allows the Forest Service and BLM to enter into a variety of different contracts which allow them to trade goods (usually timber or biomass) for services (which can cover a variety of land management practices, including habitat improvement, fish passage, and other activities which would otherwise have to be obtained through service contracts). Stewardship Contracting has proven an effective, and increasingly important, mechanism to help Federal land management agencies achieve land management goals. Further, in many regions, timber volumes produced through Stewardship Contracts make up a significant percentage of the Forest Service's annual sale program. Authority for Stewardship Contracting expires on September 30, 2013.

It is important to recognize that Stewardship Contracting is one tool for achieving land management goals; in many cases, the same land management results can be – and are currently being – achieved with traditional timber sale contracts. Reauthorization of Stewardship Contracting authorities must not be considered a way to replace or supplant other contracting tools.

We recommend minor changes to Stewardship contracting authority which will help the Forest Service and BLM to achieve greater program efficiency in the use of Stewardship

Contracts, while ensuring local support for the projects performed using this important tool. They will also help attract a broader variety of potential partners who want to support and participate in Stewardship Contracting projects.

We recommend the following minor changes to the existing authority for Stewardship Contracts:

- Provide the Forest Service with the discretion to choose whether to use “best value” selection criteria.
- Provide the Forest Service and BLM with greater discretion to select personnel responsible for awarding and administering Stewardship contracts and agreements.
- Make retention of existing wood products infrastructure a co-equal objective with other goals of Stewardship contracts and agreements.
- Where Stewardship contracts or agreements result in payments to the Forest Service, 25% of these payments should be directed to the County where the project is being performed.
- Provide liability limitations for operations fires consistent with those in existing timber sale contracts.

Secure Rural Schools Reauthorization:

As this subcommittee is aware, authority to make guaranteed payments to National Forest Counties from the treasury expired late last year. National Forest Counties are facing potentially devastating cuts to services if they are forced to rely solely on receipts without policy changes which direct higher levels of harvest and revenues.

The guaranteed funding provided under SRS was never intended to permanently replace shared revenue from active management on Federal public lands. Congress should not provide further extension of mandatory funds without ensuring a transition that makes improvements in both the health of Federal forests and the economic condition of forest dependent counties through active forest management. H.R. 4019, approved last month by the Natural Resources Committee, would help re-establish the connection between National Forest management and revenues to local communities.

Alternative land management paradigms, including identification of lands to provide stable funding on a trust-trustee basis, whether in Federal or other ownership, should be encouraged, while restoring and strengthening the overall multiple use framework on Federal forests. We applaud the Oregon delegation for exploring these alternatives for the O&C lands managed by the BLM in Oregon.

Conclusion:

FFRC appreciates this subcommittee’s focus on these important issues. The recession of 2008 to 2011 was particularly cruel to the wood products industry. In some states, employment in wood using industries dropped by 50% or more. The Forest Service has been helpful in offering some timber for sale even in these economically trying times.

However, we believe a more concentrated effort is needed to help ensure that further losses in wood using capacity do not take place near the National Forests. Whether the Forest Service is attempting to create early successional habitat for grouse and woodcock in the Great Lakes, maintain or improve quail or woodpecker habitat in the Southeast, or restoring habitat diversity in older forests in the Pacific Northwest, the existence of viable wood consuming mills helps reduce their management costs and improve the quality of life in adjacent communities. We appreciate your efforts to keep these issues front and center at the Department, and look forward to working with you to achieve healthier National Forests and more prosperous rural communities.

Committee on Agriculture
U.S. House of Representatives

Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Charles Watkins
2. Organization you represent: Rex Lumber, LLC
3. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee: Chief Operating Officer, Rex Lumber LLC (Bristol and Graceville FL, Brookhaven, MS) Responsibilities include procurement of timber, manufacturing operations and sales for 425 MMBF lumber manufacturing company , 6 years. Prior employment as a Management Consultant in forest products industry for five years.
4. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
Management consultant dealing with timber procurement and federal forest service timber sales.

B.S Nuclear Engineering

Achieved Sustainable Forestry Initiative (SFI) certification for Rex Lumber.
5. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold: Chief Operating Officer Rex Lumber, LLC, reporting to the family ownership group.

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

**Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form**

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2008.

Name: Charles Watkins

Organization you represent (if any): Rex Lumber Company, Federal Forest Resource Coalition

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: None. Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2008, as well as the source and the amount of each grant or contract:

Source: None Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature:  _____

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.