

The State Land Board met in regular session on October 21, 2003 at the South Slough National Estuarine Research Reserve in Charleston, Oregon.

Present were:

Theodore R. Kulongoski	Governor
Bill Bradbury	Secretary of State
Randall Edwards	State Treasurer

<u>Assistants</u>	<u>Staff</u>	<u>Dept. of Justice</u>
Jim Brown	Ann Hanus	Lore Bensel
Jesse Cornett	John Lilly	
Todd Jones	Steve Purchase	
	Jeff Kroft	
	Gail Lowry	

The Governor called the meeting to order at 9:00 a.m. The topics discussed and the results of those discussions are listed as follows. Further details of the discussions may be obtained in the written transcript of the meeting available at the Division of State Lands (State Lands), 775 Summer Street NE, Suite 100, Salem, Oregon 97301-1279, (phone: (503) 378-3805, ext. 224).

Director Hanus introduced Coos County Commissioners Gordon Ross, John Griffith, and Nikki Whitty, who each spoke briefly.

Gordon Ross announced that December 22, 2003 would mark Coos County's 150th anniversary. For a birthday present he suggested the delisting of the fish and fowl that he says have taken the management of the public forestlands out of the hands of the professional foresters, to the detriment of the productivity of the lands, public safety and recovery of the species. He requested the Board's help in this endeavor.

He noted that in 1990 the Elliott State Forest was growing at the rate of 70 million board feet a year, with yearly sales of 50 million board feet. Ross added that, because of the single specie management

required of them, they are now lucky if they sell 28 million board feet a year. He said this demonstrates how important the proper management of the forest is to both the Common School Fund and General Fund. This is because the money from those sales goes to the Common School Fund. Additionally, the people who would have been working because of the harvest of the extra 22 million board feet represents about 11-13 family wage jobs per million board feet, making it important also to the state General Fund.

Director Hanus discussed the clean up of the Chetco River by the Oregon Alternative Youth Activities Crew. This project was initiated by Jeff Kroft of the Division of State Lands (DSL) in partnership with staff of the Alternative Youth Activities Program in Brookings, ODFW, Parks, and SOLV. Additionally, the Oregon South Coast Fishermen Association contributed to the effort. Hanus said as a result of the efforts, the river is cleaner and the students had an opportunity to learn about the ecology of the river. The Board recognized the students involved and presented each with a framed certificate of appreciation. The following students participated in the clean up: Jacob Shelton, Leon Parker, Scott Weideman, Thomas Edzards, Erin Zweifel, Stephen Joachims, Brandon Smith, Adrian Alonzo, Stevie Williams, and Tasha Berry. Mark Miller, Site Coordinator for the Brookings AYA program, Lora Rasmussen, AYA science teacher and the crew leader for the project, and Curriculum Director Donna Yost were also thanked for their participation in the project.

Dianna Oberbarnscheidt, President of Oregon PTA, expressed her support for DSL's strategic plan. She said it provides many opportunities for citizen and stakeholder involvement, and that the Oregon PTA will participate in these activities.

She praised DSL staff for being committed to helping all parties understand the importance of preserving and supporting the school trust lands for the beneficiaries--the children of today and tomorrow. She said fostering this kind of public participation is helping to bring about needed understanding of school trust lands and how these generate revenue for the Common School Fund.

Oberbarnscheidt said the strategic plan would provide many positive elements for the beneficiaries as the goals are carried out. She added that these goals and the tracking of them will provide a process to review each step and category. She said Oregon PTA looks forward to receiving the periodic updates that the plan will provide.

Victoria Guillebeau, chairperson of the School Trust Lands Committee for the Oregon PTA, said, as a parent of four children, she is concerned with the continuing struggle by the state of Oregon to provide adequate and stable funding for education in a time of decreased revenues and increased costs. She said every source of funding matters now more than ever before for Oregon's public school children. She said this is why Oregon PTA asks the Board to support the increased efficiencies included in the agency's new strategic plan.

Guillebeau said the actions mandated by this plan are well balanced between maximizing revenues and continuing stewardship of resources for future generations of Oregon's public school children. The goals of this plan provide prudent management of existing resources, such as continuing to review and update outdated lease rates in order to obtain fair market value and increasing the compliance of unclaimed property holders from 33 percent to 50 percent. She said the plan looks to the future by encouraging exploitation of wind generation and other alternative energy sources to increase revenue. In addition, it not only mandates increase in revenues, it also compares the percentage of revenues used to administer each program, thus ensuring accountability.

As trustees for the current and future generations of the public school children of Oregon, she stated the Board has the responsibility to ensure that the Common School Fund continues to grow and thrive. She added that the Oregon PTA believes that if this strategic plan is implemented, the Board will have the tools needed to meet that responsibility, not just for this generation, but also for the future.

Treasurer Edwards expressed his appreciation for the PTA's involvement. He commented that the level of interest by the school community is not something that the Board has seen in the past. He thanked them for coming, stressing the importance of their participation. Secretary Bradbury seconded Edwards' comments, saying the PTA's contribution is valuable in terms of long-term management.

**1. Public Hearing: Proposal to amend administrative rule governing the export of unprocessed timber (OAR 141-016).**

Director Hanus opened the public hearing on whether to amend the Land Board's rule governing the export of unprocessed timber (OAR

141-016). Hanus invited Roy Woo, Deputy State Forester, to give a few remarks and an overview, and said she would do the same. Hanus explained that two panel presentations would take place—the first by Michael Haglund and the alder sawmill owners and the second by Weyerhaeuser. She added that following the panel presentations would be a period for public comment.

Hanus said this issue came before the June Land Board meeting as a request under the Administrative Procedures Act from seven present or former owners of alder sawmills in Oregon and Washington asking that the Land Board rescind the hardwood exemption. The Land Board originally adopted the rule allowing the exemption in early 2000 as a way to encourage utilization of alder and boost its price to benefit the Common School Fund. She said the price of alder has risen and is now on par with Douglas fir.

Hanus explained that the Department of Forestry has parallel rules to DSL's. This is because Forestry contracts to the Land Board for managing the common school forestlands.

Hanus recounted that when the issue was brought before the Board in June, they denied the emergency rule that had been requested, but directed DSL to enter into permanent rulemaking and to hold a public hearing with the Department of Forestry. On September 9, DSL held a public hearing pursuant to the Board's directive during which public comment was taken.

To obtain additional public comment, a second public comment period was provided opening on October 1. Written comments were to be submitted by October 14 and oral comments were being accepted until the close of the meeting. Hanus said in this second public comment period the request was made to provide people with an opportunity to focus their remarks on the short- and the long-term impacts to the Common School Fund, since that is the crux of the Board's fiduciary role and will determine their decision on whether or not to repeal the rule.

Hanus outlined the options available to the Board regarding this rule. The Board could amend the rule and repeal the exemption; they could retain the exemption; they could take other actions such as directing the Division of State Lands and Department of Forestry to monitor prices and explore the feasibility of alder-dominate sales; or, given the ongoing litigation and its implications for the outcome, they could take

no action today, since the outcome of the litigation might impact the parties and the Common School Fund.

Hanus suggested the Board consider public comments received today, the joint analysis included in the Land Board agenda item and the comments provided at the hearing before taking any action. She asked them to keep in mind that the alder harvest in Oregon in 2002 for the Common School Fund lands represented less than one percent of the total alder harvest in Oregon. Alder from Board of Forestry harvest was more than seven percent. She said DSL staff using public input and research conducted by the DSL and Department of Forestry, has provided an analysis of this issue in the written materials.

Roy Woo, Deputy State Forester, explained that the State Forester has been given discretion over this issue by the statutes and administrative rules rather than the Board of Forestry. State Forester Marvin Brown designated Woo to represent him on the alder issue. Woo said he has two roles in this: to assist the Land Board and the Division in making this important decision, and to deal with the significance of this issue for management of the Board of Forestry lands.

Jim Brown, the Governor's Natural Resource Policy Advisor, explained that a 1983 change in law removed the responsibility for timber harvest scheduling on individual timber sales from the Board of Forestry and rested that authority with the State Forester.

Woo answered questions of the Board regarding the relationship between State Lands' and the Department of Forestry's parallel administrative rules and explained how they are independent of one another.

When asked if the Land Board and the State Forester could potentially reach two separate conclusions about the rule, Hanus said, "yes." She added that, since parcels owned by the two agencies are intermingled (such as in Northwest Oregon in Tillamook and Clatsop Counties) having consistency in forest management helps ODF staff to manage the forest in the best interest of both agencies.

Woo agreed that the State Forester could make a different decision than what the Land Board makes, but added that if that happened, any forest management decision would have to be carefully coordinated.

Treasurer Edwards asked what had changed from the time of the original exemption to bring this issue before the Board. Woo shared that a petition had been served to both the Land Board and State Forester requesting the alder exemption be overturned. Hanus explained that earlier this year the alder sawmill owners won an anti-trust lawsuit against Weyerhaeuser. They then petitioned separately to the Land Board and to the Department of Forestry under the Administrative Procedures Act for an emergency rule eliminating the exemption. The Land Board denied the emergency rule at their June meeting and entered into permanent rulemaking.

Governor Kulongoski stated that the heart of the petition for rulemaking was the district court's decision that Weyerhaeuser had engaged in certain anti-trust actions. He said usually when litigation is ensuing, the agencies tend to let the litigation run its course before taking action. This situation, he said, poses a different problem for the Land Board, because absent the litigation, the Board must determine whether or not they are getting the highest value for their assets. He added that he has not heard anything that would actually support that they are not.

Hanus agreed, saying it is clear that the price of alder has risen, but it is important to know both the short- and the long-term impact of the exemption on the Common School Fund.

Michael Haglund, the attorney representing the petitioner sawmills said having very restrictive log export rules in Oregon compared to Washington has served this state well over the years. He said, despite comparable harvests the last five to ten years in both states, Oregon has almost twice the installed mill capacity in western Oregon compared to western Washington, and in the remanufacturing setting, almost twice as many employees in millwork in Oregon compared to Washington.

He commented with that kind of market share, any seller, including the State of Oregon, should be concerned with a company that has a monopolistic position. He said independent information shows Weyerhaeuser has a monopoly in the alder resource, which should be of concern for the Land Board. He stated that data show Weyerhaeuser's average purchase price for State of Oregon alder is \$462 for a thousand board feet. According to a leading expert in the log markets in Oregon and Washington who Haglund said would testify

later, the average value during that two-year period of the alder in the open market was higher. He contended that because Weyerhaeuser does not bid for the state timber directly, but has special relationships with certain buyers of state timber that always sell that alder to Weyerhaeuser, they do not have to go through a competitive bid process.

Haglund reviewed the written materials he presented to the Board which included some internal planning documents from Weyerhaeuser, he felt showed their plans to monopolize the industry and send log prices down. Haglund believes that Weyerhaeuser grossly misrepresented the facts when they requested and were granted the alder exemption.

Haglund said all of the petitioner mills have committed to providing their purchase orders to the state on a quarterly basis (with the understanding the information will be kept confidential) so that State Lands and the Department of Forestry can track the value of the alder in the open market to determine if alder is being appraised properly. He stressed that alder is rarely bid and what the state gets is the appraised value, rather than a bid price. He suggested if Weyerhaeuser's claims that the prices could go down later because they are not buying prove to be accurate, the Board could monitor that issue and reinstate the exemption later.

Treasurer Edwards reiterated how Haglund contends the Board is not currently getting a competitive price and that over time the price will fall because of monopolistic powers. The Treasurer commented that the market is not a clear market since they are dealing with a co-mingled species, and Edwards stressed that mill location is very important to a sale. He said recently two tracts were put out to bid for the hardwood component with no one making bids. He asked for clarification on how lifting this exemption would bring about more competition in the market if the competition is not there.

Haglund responded that if the exemption were removed, Weyerhaeuser would not have special arrangements to buy without bidding and that they would be precluded from bidding until they stop exporting logs from Oregon. The softwood companies would then contact the available mills in western Oregon to bid on the alder component of the sale, which would be more competition than presently exists wherein most alder is not bid on at all.

Treasurer Edwards said changing this would allow the petitioners an opportunity to bid on additional hardwoods, but cautioned that the Board must be blind to the industry impact and focus on the short- and long-term impact to the Common School Fund. He asked again how Haglund could prove that getting rid of the exemption would benefit the Common School Fund.

Haglund said a healthy industry in the state needs competition. He said the records show these petitioners' mills are paying more on average for alder than Weyerhaeuser has paid.

Jim Brown said the conifer mills are buying the lots which are principally conifer, then selling the lesser hardwood component. He said the reverse could occur, where the sale was principally alder and they would need to sell the conifer portion. He questioned how the state could ensure it will get optimal value out of both the alder as well as conifer.

Mike Kelley responded that it would be a rare instance where the primary purchase would be for the alder. Most typical sales he said are only are ten percent alder.

Governor Kulongoski asked if the Board came to the conclusion that the current rule actually creates a situation where the greatest benefit is accruing to the citizens of the state, whether the exemption should be retained. Haglund said if they come to that conclusion from a financial standpoint, it is better to keep the rule.

The Governor noted that some of the information cited by Haglund could be the result of social issues, such as unemployment, and he questioned how that might relate to the Board's responsibility under the constitution to get the greatest benefit for its asset. He said in the end the Board's decision needs to be determined by the greatest benefit to the Common School Fund.

Haglund said he is attempting to present evidence to show that the Board is not getting the most value possible because of the lack of bidding for the alder. He again stated that the data show that other mills paid more for the alder they purchased from the state, on average, than Weyerhaeuser has because what Weyerhaeuser buys is not competitively bid.

Treasurer Edwards asked whether taking Weyerhaeuser out of the bidding process might in essence depress the price in the short and potentially even the long run, because the company is such a major buyer.

Haglund answered by reiterating that the Board should be concerned about there being only one buyer—particularly one that has in a strategic planning session predicted an ability to drive prices down.

Governor Kulongoski asked Haglund if the Board might be able to keep its rule and still change other aspects of the bidding to allow more people into the market or whether the rule must be changed. Haglund responded that the rule must be changed in order to prevent Weyerhaeuser from having special relationships with buyers, which preclude the other members of the competitive alder community from having the same access to the volume that Weyerhaeuser does.

Rich Hanson, Chief Operating Officer of Weyerhaeuser Company, said facts and common sense support retaining the exemption on hardwood. He said many participants in the hardwood business, from both large and small timber purchasers to companies that manufacture products from Oregon-grown alder have testified in support of retaining the exemption.

He reminded the Board that the State of Oregon does not sell hardwood logs, but sells standing timber which is primarily conifer with a hardwood component. He explained it is dependent upon the purchaser of that state timber sale to find a market for the hardwood logs. Northwest Hardwoods is a purchaser of the hardwood logs. The immediate value that the state receives for its hardwood timber is what it receives from the purchaser of the total stand of timber, both alder and fir. He concluded that in order to obtain higher values, it makes sense for timber purchasers to have more mills to sell to, rather than fewer, as urged by the petitioners today. He said the exemption works and it should be maintained.

Rob Taylor, Weyerhaeuser Vice President and General Manager of Northwest Hardwoods, said the value of state timber will decline if the exemption is revoked. He showed a map of the location of hardwood mills in both Oregon and Washington. He discussed Weyerhaeuser's mill locations, the investments they have made in them, and their output. He said they have purchased an average of 50 percent of the harvested hardwood logs in the northwest region. He stressed that in

order to make quality bids for the state timber, the successful buyer must be able to place his alder promptly with a mill. This is because alder is susceptible to staining and deterioration in quality if not processed soon after harvest.

Log storage is another issue he discussed. He said at certain times of the year some mills may not be able to purchase alder logs because the mill yards are at capacity. The more mills available to purchase logs, he said, ensures the timber purchaser is more certain to sell alder logs at the best price, which encourages higher bids for state timber. He referred the Board to written comments by purchasers who want Weyerhaeuser to be able to continue to purchase state hardwood logs from them. He said this promotes the best value, adding that the exemption works and it should be maintained.

Taylor reiterated that their mills in Oregon provide timber buyers with more certainty that hardwood logs can be sold at the best price, since mills are placed within reasonable proximity to state forests. In short, he said, there is less risk to the timber buyer if Northwest Hardwoods is permitted to purchase state hardwood logs, and that is reflected in higher prices for state timber.

He made the point that if Northwest Hardwoods cannot compete for the alder logs, high transportation costs would be encountered to get the logs to the closest major hardwood sawmills. Because of these high transportation costs, timber resources and the amount bid for the alder component would decrease.

He asked the Land Board and State Forester to use their resources to promote the alder industry. He said the exemption works. It provides income to the state through timber sales and through taxable income for rural area jobs and it encourages higher timber values. He stressed that competition encourages investment in mill improvements so alder can continue to compete in the international and domestic hardwood lumber industry.

Governor Kulongoski said he would like to accommodate some of the concerns expressed without repealing the rule. He asked about releasing more hardwoods for harvest and what that would do for the process.

Taylor said by managing alder in a way to make more available for harvest would benefit all mills. He felt that would be a win. In

discussing supply, Hanson said capturing alder before it deteriorates (since it has a short tree life) and silvacultural practices to encourage growing of alder will both help with the issue of limited supply.

Taylor said alder is a small component of the U.S. hardwood market. He said the wood competes with other species such as cherry, red oak, an hard maple. Taylor said they have worked with customers producing products around the world to help people see the value in alder.

Taylor said in the mid-80s his company began investing in new technology to extract more value out of the resource and this has helped increase yields significantly in the past ten years.

Governor Kulongoski commented on the capital improvements in technology Weyerhaeuser has made. He asked whether Taylor felt the state could sustain the greatest benefit if in fact technology in these other mills has not been updated to the capacity that their mill has been. Taylor said needs are changing and technology is a tool to deliver those needs. He said technology is what has given his company their success.

Tom Walsh, from Portland, said alder went from being considered a "weed" to a specialty product of global importance—a real success story. He noted one issue in competition is the balance between supply and demand. Part of the issue is that there is more demand for alder than is presently made available and he said State Lands and Forestry should be doing what they can to increase the supply. He said the exemption is a sound policy and should remain, since continuing it will only enhance the revenue of the Common School Fund.

Joe Cortright, an economist with Impresa Incorporated, said whereas usually it is better to have more bidders, this market differs from a textbook model in that there is a risk that a monopsonist buyer with market power will emerge and the state would lose value due to a lack of competitive bidding. He said there is a single dominant firm, which accounts for 65 percent of the purchases of alder in the Northwest. In addition, softwoods and hardwoods are harvested jointly. There are firms that are exclusively soft or hardwoods. He said it is difficult to know the prices paid by everyone in the marketplace. He cautioned this creates a situation where someone with market power can price discriminate. He said these are some characteristics of Weyerhaeuser.

They are paying high prices in one place to exclude competition where they are and reaping the benefits of paying low prices where there are no effective competitors.

He said Weyerhaeuser has threatened to take actions that would negatively affect the competitors that it faces. He said there has been an exit from this industry with fewer and fewer firms competing. The new firms referenced in testimony he said are existing facilities that went out of business and were purchased by new owners. He said the Board should be very concerned about market power in this industry.

He said that is clear evidence that there are other bidders for the state's alder and that it would be milled if Weyerhaeuser did not bid on it.

Cortright contended that if Weyerhaeuser is barred from bidding on state alder it would not be likely to discontinue its operations as a result. The small firms competing against Weyerhaeuser, though, may be forced out of business if they do not have access to this timber.

Cortright said it is reasonable to use broad public purposes to restrict who bids on state timber. He said it is important to recognize this is not a textbook market with open competition, but one where there is a real risk that a monopsonist will emerge and reduce the long-run value of the asset the Board manages. He added that repealing the exemption is the least risk course of action for the Board since it is unlikely to result in job losses. He said the Board could revisit this later to assure they are getting the prices they want.

In response to a question by Treasurer Edwards, Cortright explained said the technological efficiencies occur at the facility level, rather than the enterprise level. He also said technical efficiency and growing scale are occurring at the facility level.

Secretary Bradbury asked Cortright if one percent of the supply could actually have any real impact on this larger question. Cortright said it would make a difference to the smaller firms. He also stressed that the potential is there in terms of standing timber inventory to provide a greater amount than one percent.

Kevin Zobrist, from the Rural Technology Initiative, said they recently examined opportunity for management of red alder in the Pacific Northwest. He said the Pacific Northwest has traditionally been

Douglas fir region. He further noted that there has been a shift as numerous mills have closed and others have retooled for a shift to smaller log production. He said Douglas fir is facing silvicultural challenges such as Swiss Needle Cast and root rot, both of which are affecting a significant number of acres. This leaves red alder attractive on selected sites since it is not susceptible to either and shows a favorable financial performance.

Zobrist explained that alders will out compete conifers during early periods of growth. He said alder is well-established in specialty niche markets as it machines and stains well and is used for a variety of different furniture and other products. Because of this, alder log prices have surpassed Douglas fir in the Pacific Northwest and there is reason to believe this price trend will continue.

In summary, Zobrist said alder has a number of advantages such as not being susceptible to Douglas fir diseases, it is ecologically beneficial as a nitrogen fixer and as a substitute for tropical hardwoods. It has a stable upward price trend, supplies a unique and established niche market, can be grown on short rotation and has a favorable return on investment. Because of the previous focus on eradication, supplies are limited. Much alder is concentrated in riparian areas for harvest and will be limited to protect salmon habitat. Without the sustainable supply of alder there is a risk of losing the infrastructure. He encouraged investment toward sustainable red alder management.

Considering the state is not a huge player at present, Secretary Bradbury asked whether we should be replanting with red alder after harvests. Zobrist said as with a well-balanced and diversified portfolio in finances, red alder can be a really strong player in a diversified portfolio. He said promoting alder plantations would be a good move, especially on sites where there has been a problem with Swiss Needle Cast or root rot.

In response to a question by Secretary Bradbury, Zobrist said it is fair to assume there could be unforeseen challenges with red alder. There has not been a lot of experimentation with it yet, since up until recently the plan was to eradicate it.

Treasurer Edwards asked Zobrist if they have modeled alder out for the market over a number of years as a species since this is a changing industry. Zobrist said they have not. He said in the future

if supplies become limited, that would drive the prices up in the short term, and in the long term it could mean the infrastructure would not be there to support investments in plantations of alder.

Treasurer Edwards asked what is driving the price of alder. Zobrist said alder can do what was previously done with Douglas fir—create high quality specialty products and feed a unique niche market. He said that is where he is seeing red alder now, so a large part of that is demand driven.

Mike Kelley, attorney for the petitioners, said the question is not what alder was worth in 1995, but what the school fund is receiving for alder now. His estimates show that it is under market what Weyerhaeuser is paying, whereas the other mills have been paying market or above. He said you do not want to tie your wagon to one dominant buyer.

Kelley reiterated that the small mills never get a chance to secure the alder. He said to maximize profit to the Common School Fund, the Board must look at maximizing competition. Kelley proposed that in future state sales of predominately mixed stands, the smaller component of alder should be subject to open bidding by whoever purchases that sale. Weyerhaeuser could not bid directly on these since they export, but instead of a long-term relationship determining the sale, it would have to be the highest bidder.

Edwards asked about a recent sale where there were no bidders. Ross Holloway, State Program Director for Department of Forestry, said there were two recent timber sales in the north coast area, both of which had large volumes of alder. He said neither of those sales sold. He said the conifer (which was about 60 percent of the sale) could have been over appraised or the alder could have been over appraised. There were about four million board feet of alder in the two sales. He said Forestry will reappraise them and put them up for bid again.

Dave Ivanhoff, Vice President of Resources for Hampton Affiliates, said he would argue for retention of the exemption. He said if their mills in Garibaldi and Longview are precluded from buying state alder, the next closest mills would add \$50 in transportation costs per thousand. Without the state alder there would not be enough alder on the north coast to support the Garibaldi sawmill and the potential of the loss of that market would affect not only the state of Oregon, but also the

values that private landowners in the region get for their hardwoods. He estimated the loss to the state would be around \$2 million per year. His understanding of the rule change was that any company that sold hardwood logs to Northwest Hardwoods would be ineligible to bid on state timber for two years, which would have a devastating impact on the ability of their company to stay in business and compete.

Ivanoff explained that for a variety of reasons he has developed a program where he is selling all their hardwood to Northwest Hardwoods. Since alder is a relatively small component of most stands, he said it can be difficult to predict the alder volume that will need moved. He stressed that if you are dealing with a relatively small log yard, it would cause problems if all your sites are in hardwood at the same time. This would bury a small mill's ability to handle the volume. He also said they had problem getting paid on time by some of the smaller mills. He said by selling to Weyerhaeuser's mills, his company does not have production-related issues or credit risk issues. Furthermore, it has a steady home for its pulpwood.

He cited the lack of uniform scaling standards as another reason they have sold exclusively to Weyerhaeuser mills.

He said they know what the alder log market is and do not need to bid to know they are getting top dollar. He said they are the largest purchaser of state timber sales. If they were not getting top dollar for the hardwood and paying top dollar for the Douglas fir, he said they would not be able to buy in volume, since they must be competitive.

Ivanoff said there is no "cozy right of first refusal relationship with Weyerhaeuser." He said they negotiate logs every quarter and if he cannot come to terms with Weyerhaeuser he will sell the wood somewhere else. He said his company stands up for itself and does what they believe is in their company's own self interest.

He said the biggest issue is access to volume. He said there is opportunity to dramatically increase the hardwood harvest, especially on the north coast by considering the aquatic and riparian strategies that take about 20 percent of the land base out of production unnecessarily.

Lore Bensel, Assistant Attorney General, said, as proposed, the rule could cause problems with Hampton and other companies that have sold to Weyerhaeuser by and in the next 24 months. In order to prevent that, she said DOJ would recommend a change in that language to the proposed rule.

Dick Walton, log buyer with Roseburg Forest Products, discussed his experiences with selling alder to both Northwest Hardwoods and Westwood. He said he is glad for the competition between the two and would not want to have to sell to just one of them. He said he meets separately with their log buyer to negotiate price and whichever company has the lower log inventory is usually the more aggressive on price. He identified other factors when determining a buyer besides price such as the proximity of the timber stand in relation to the competing buyer's locations and the buyer's reliability in taking all the alder. He said it is in the interest of Roseburg and the State of Oregon to have as many purchasers for hardwood timber in as many different locations as possible. He concluded by saying Roseburg favors the exemption that allows Northwest to buy alder logs from the state timber sales.

Frank Williams, veteran and longshoreman for 37 years, welcomed the Board to the "other international deep water port" where he said the area has gone from 45 ships down to one or two per month. He spoke of the poor economy and high unemployment in the Coos Bay area, saying they are spending tax dollars to educate their children only to have them leave the area to find work. He spoke of the mill closures and said he hopes the Board will make a decision today that will be positive in regards to their situation.

Governor Kulongoski asked the Department of Forestry to analyze all the information and prepare an independent recommendation on what action the Land Board should take. Director Hanus said the Division of State Lands will work with the Department of Forestry who will formulate a recommendation for the Board. The Department of Forestry's recommendation will be presented at the December Land Board meeting.

## **2. Request for the Land Board to adopt the strategic plan that will guide agency actions during the next five years.**

Since the remaining time for the meeting was short, Director Hanus chose to skip the power point presentation regarding the Division of

State Lands' strategic plan. She thanked the State Lands' staff, Land Board Assistants and all who provided input, especially recognizing Monte Turner who kept the process on track and integrated all the comments. She said Jim Brown emphasized the importance of strategic planning when she worked under him.

She described the plan as a two-year process, with seven public meetings to solicit comments. Hanus said the agency will report on the progress of the plan to the Board, the public, the Legislators and key constituents every six months, updating it every two years or as there are new initiatives and legislative actions. She explained that the plan incorporates a revised mission statement and a new vision statement. She said Josh Proudfoot reviewed the plan for its impact on sustainability and the agency incorporated 2003 legislation and actions resulting from budget notes. It has nine different goals relating to the different areas DSL and the Land Board is involved in, with specific action items under each of those goals.

Treasurer Edwards moved the agency's strategic plan be approved. Secretary Bradbury seconded the motion and the approval was unanimous.

### **Consent Agenda Items**

- 3a. Request for authority to initiate rulemaking to amend the rules governing the following: release of mineral rights and easements on submerged and submersible lands. Request for authority to initiate rulemaking to establish new rules relating to volunteers on DSL-managed lands and the operation of volunteer organizations, commonly known as "Friends" groups.**
- b. Request for the Land Board to conceptually approve the proposed revisions to the Oregon Natural Heritage Plan and authorize the Heritage Program to proceed with public review, comment and hearings.**
- c. Request for the Land Board to approve the sale of 190 acres of mineral rights in Clackamas County to Villebois LLC for a payment of \$1,900.**

- d. Request by Oregon Department of Transportation to acquire two permanent I-5 highway bridge easements across state-owned submerged and submersible lands of the Willamette River and the McKenzie River located in Lane County.**
- e. Request for approval of an exchange of 81.95 acres of mineral rights belonging to Department of Parks and Recreation for 134.94 acres of mineral rights belonging to Longview Fibre, both properties in Washington County.**
- f. Request for approval of the addition of Rough and Ready Creek, Feheely addition, in Josephine County, owned by The Nature Conservancy, to the Oregon Register of Natural Heritage Resources.**
- g. Request for approval of the minutes from the June 10, 2003, Land Board meeting.**

Director Hanus briefly reviewed the items on the consent agenda. Treasurer Edwards moved the consent agenda be approved. Secretary Bradbury seconded the motion and the approval was unanimous.

#### **Informational Agenda**

- 4. Report on the status of Common School Fund Forest Land Management/State Forests Policy.**
- 5. Summary of the 2003 Legislative Session.**
- 6. Update on removal-fill streamlining activities.**
- 7. Update on the status of navigability issues.**
- 8. Luncheon for invited participants at South Slough hosted by the Friends of South Slough Inc.**
- 9. Coos Estuary Boat tour for invited participants following the Land Board meeting.**

In the interest of time, the report on the status of the common school forest land management by State Forester Marvin Brown was postponed until the December Land Board meeting.

Hanus said that the Friends of South Slough provided a luncheon for those present, during which time a presentation would be given by the staff of South Slough. After lunch a boat tour of the Coos Estuary was planned. It was noted that the weather was cooperating beautifully.

The meeting was adjourned at 11:54 a.m.

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Theodore R. Kulongoski, Governor

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Ann Hanus, Director