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Route To:

Subject: Timber Products Output and Timber Harvests in Alaska

To: Allen Brackley, Thomas Rojas, and Richard Haynes

As you know, your recent report, "Timber products output and timber harvests in Alaska: projections for 2005-25" is likely to be an important component of our response to the Ninth Circuit's decision in *Natural Resources Defense Council v. United States Forest Service*, 421 F.3d 797 (9th Cir. 2005). The Ninth Circuit held the 1997 Forest Plan revision was defective because the Record of Decision and portions of the EIS contained misinterpretations of the Brooks and Haynes' 1997 draft timber demand projections.

To avoid the problems that gave rise to the *NRDC* case, it is imperative there be a common understanding of the projections and what they represent. Since the document was posted on the web, a number of parties have cited it and interpreted it in different ways. This suggests a need for clarification of the document. The following items appear to be most in need of clarification.

1. Some parties in recently filed briefs have interpreted the figures in Table 3 to represent the total amount of timber that needs to be sold in order to satisfy industry demand under the four scenarios. This was the interpretation of the results in previous Tongass timber demand studies by the PNW Station. My understanding is the figures in Table 3 represent the amount of timber that would going through the mills, and that to calculate the amount of timber necessary to supply the mills, these numbers would need to be expanded to include exports and small roundwood and utility volumes that are part of a timber sale, but do not contribute to meeting the needs of the sawmills. Please clarify if this is correct.

2. There is confusion in recently filed briefs about the time frames in Table 3. I understand the values shown in Table 3 refer to the amount of timber that would be processed through a mill in the year or years designated. There is a considerable time lag between when a timber sale is awarded and the date on which logs arrive at the mill. To achieve the volume processed through a mill for the dates shown in the table, one would have to sell the timber in preceding years. Please clarify if this is correct.

3. A similar question exists with regard to the timing of the various scenarios. According to page 25 of the document, scenario 3 assumes a facility using low-grade logs is added in 2008. Table 3 shows a substantial increase in volume in the period 2008-2012 over the preceding four-year period. Usually a new facility would not be expected to open without a supply of timber. I understand the table to mean under the medium integrated scenario, 169.0 MMBF would be processed in the period annually during the period 2008-2012, but a sufficient volume of timber to allow the mill to come on line would have to be sold prior to the commencement of that time. Is this consistent with your analyses?

4. The purpose of Table 8 ("Maximum projected annual demand for Alaska National Forest timber by scenario and harvest component for 2025") is unclear. The final column is designated as "total harvest or derived demand". The figures, however, seem to reflect, not total harvest, but total processed or exported volume. Thus in the limited timber and expanded lumber scenarios, harvest of low-grade and utility is shown as zero. In a normal sale, utility logs will be interspersed with saw logs. Thus even under the limited and expanded lumber scenarios, low-grade timber is harvested, even if it is left in the woods. In recent years, a number of operators have been able to find markets to the lower 48 of such low grade timber. We, therefore, understand the table to reflect volume processed in saw mills, or new facilities for processing low-grade and utility logs, and exports, but not low-grade and utility logs unless they are processed in Alaska mills. Please clarify if this is correct.

5. The analysis and new projections appear to be based on the same model used by Brooks and Haynes in the 1997 analysis (minus the pulpwood component), i.e., a derived demand/shift share model that derives domestic demand from Pacific Rim demand. Is this correct? One of the primary reasons we asked you to recalculate demand for Tongass National Forest timber was because the domestic market has become far more significant than overseas markets for products derived from Tongass wood. This shift to domestic markets was one of the factors listed in the Morse (2000) report that suggested the need for a revised demand estimate. NEPA requires the agency to set forth the methodology used. I anticipate questions regarding the methodology used in the new projections for which the Region currently does not have an answer. In order to explain your projections, we need you to explain why you felt that the 17 percent export share outlined in Table 5A ("Shares of Alaska lumber output going to export and domestic markets") would drive, or determine, demand for the 83 percent of wood going to domestic markets. It is our understanding the independent variables in the model are (1) Pacific Rim demand, (2) the North American share of this Pacific Rim demand, and (3) the Alaska portion of North American exports to the Pacific Rim. Is this correct? If this is the case, please explain why you did not include independent variables related to domestic demand in the model, available from such sources as the RPA reports, and why this wasn't necessary.

6. In 2000, Morse developed a method for calculating annual demand to assist the agency in developing its timber sale schedule. The method takes a number of factors into account. One of the inputs into the Morse calculation was the projections from Brooks and Haynes 1997. We are modifying Morse 2000 to take into account the new projections. In her 2000 methodology Morse included a sensitivity analysis which identified changes in the assumptions in the 1997 Brooks and Haynes, which if they occurred, would require the agency to consider revising the Brooks and Haynes 1997 projections. The 1997 Brooks and Haynes publication contained a table (Table 4) indicating how sensitive the projections were to the various assumptions. The new projections have no comparable sensitivity analysis. Table 6 (Sensitivity analysis) appears to be Table 5 ("Historic and assumed values…", market shares expressed in percentages) restated as volume. It does not appear that Table 6 is actually a sensitivity analysis. In order to know the conditions under which we should no longer rely on your new projections, we need something similar to Table 4 (p. 11) in the 1997 Brooks and Haynes analysis, or some specific statements about how sensitive your model results are to various assumptions, to provide guidance as to when we will need to revise the demand estimates.

I appreciate the efforts you have made in this analysis. As I stated at the beginning of this letter, my goal is to make sure that we all have a common understanding of the projections to avoid a repetition of the *NRDC* case. In order to remain on target with our forest planning efforts; we would appreciate a response by the first of July.

/s/Daniel O. Castillo
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