TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Final Report

May 1999

59 State House Station, Augusta, ME 04333-0059

Task Force to Increase Primary and Secondary Forest Products Manufacturing.
Final Report
May, 1999.

Established by the Legislature of the State of Maine (H.P. 1478-L.D. 2077). Approved by Governor Angus J. King, April 16, 1998.

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I. Summary of Major Issues, Incentives and Proposed Legislation.

The principle purpose of the task force, as identified by the legislature, was to examine tax incentives and credits, grants, loan guarantees, tax expenditures, revenue bonds and other assistance to the State's primary and secondary wood products industry.

A. Major Issues of Concern to Primary and Secondary Wood Products Manufacturers

During the tenure of the task force, four public meetings were held and commentary was heard from over 300 small and large forest products business owners or their representatives. Additional commentary was heard from industry trade associations, legal representatives and specialists who provided details related to national and international issues affecting the industry. The task force has synthesized the commentary into nine specific areas that are impediments to industry growth and viability in the State of Maine. They are as follows:

1. Stability- Comment from both task force members and the public clearly indicated that the stability of existing legislation and State government policies were of concern. The principal concerns centered on the Tree Growth Tax Law and the Business Equipment Tax Reimbursement (BETR) program. While both programs were seen as essential to industry competiveness, constituents felt that the potential for changes to these and other programs was high. As such, planning and forecasting for the future is hampered.

2 Log Exports (Raw Materials)- Between 40 and 60 percent of the sawlogs harvested in the State of Maine are exported each year. The majority of exports are to the Province of Quebec which manufactures construction lumber for the U.S. market, directly competing with manufacturers in Maine and assisted by the currency exchange rate and other direct or indirect incentives.

3 Sawmill Residue disposal. Sawmill residues consist of sawdust, chips and bark that require disposal either by placement in a landfill or by burning. A common method of disposal is to burn the residues in facilities where the heat energy can be converted into electrical energy for use by consumers. Primary and secondary wood products manufacturers generally receive a small amount of compensation for the residues. Under the Federal regulatory restructuring of the electricity providers and distributors, it is likely that wood burning plants will not be competitive. Therefore, the commonly used avenue for residue disposal will be lost, creating additional costs for primary and secondary manufacturers and reducing competitiveness.

4 Energy Costs. The cost of electrical energy in Maine for primary and secondary processors is two or three times higher than in competing areas. The disparity is a major impediment to competitiveness.

5. Raw Material Availability. The export of wood from Maine to Canada and elsewhere has made the procurement of wood for use in all aspects of primary and secondary manufacture difficult. Moreover, the competition for wood with Canada, particularly in the Northern part

of Maine has hampered growth and reduced competitiveness.

6. Taxes. The combination of taxes imposed on the primary and secondary wood products manufacturers in Maine is among the highest in the nation. The business climate in Maine generally considered poor due to the tax structure.

7. Cohesive Government Policy with respect to outcomes.

8. Recognition of the Diversity of the Industry. Approximately 70 percent of the primary and secondary wood products manufacturers in the State of Maine are small businesses and employ nine persons or fewer. Only about 7 percent of the primary and secondary businesses in Maine employ more than 50 persons. However, those employers account for nearly 50 percent of the employed persons in the sector. The nearly bimodal industry structure suggests that the needs of the industry vary, particularly with respect to tax and related legislation.

9. Support to Strengthen Competitive Position. The existing small businesses in Maine are generally risk averse. Small businesses have long complained about their inability to establish new markets and new products due to a lack of financial resources or expertise. The taskforce has introduced LD 1884 to assist with this situation. Large businesses are also hampered in that the tax structure appears onerous and the instability of existing legislation makes planning difficult. Further, constituents felt that assistance should be given to help the states primary and secondary processors maintain their competitive positions.

These issues are discussed in the sections that follow. Often several topics are addressed in a section.

B. Effective Incentives

Constituents found that a number of programs were beneficial to the State's industry. Included among the programs specifically cited we the following:

1. Business Equipment Tax Reimbursement (BETR)

The BETR program is a state economic development tool that allows eligible businesses, including primary and secondary forest product manufacturers, which pay property taxes on qualified business property, to get financial support from the state. Once property taxes are paid by businesses, all of the taxes on qualified property are returned to them.

2. Municipal Tax Increment Financing (TIF)

TIF is a local economic development tool that allows businesses, including primary and secondary forest product manufacturers, which are making significant capital investments within a municipality, to seek financial support from the municipality. The funding source is the property tax; once taxes are paid by a business, some or all of the payment is returned to it.

3. Employment Tax Increment Financing (ETIF)

ETIF is a state economic development tool that allows qualified, for-profit businesses, including primary and secondary forest product manufacturers, which are hiring fifteen net new employees within a two-year period, to seek financial support from the state for an investment project. The funding source is state income tax; once taxes are withheld from qualified employees and paid to the state, businesses are eligible to be reimbursed a portion of the amount withheld.

4. Tree Growth taxation incentives (36 M.R.S.A. § 571 et. seq.)

Maine's Tree Growth Tax Law was enacted in 1972 and became effective January 1, 1973. The Tree Growth Tax Law implements a 1970 amendment to the Maine Constitution, adopted by state-wide vote, that allows for valuation of timberland and woodlands according to their current use. 36 M.R.S.A. § 572. The legislative history indicates that the purpose of the law was to put forest taxation on a uniform economic productivity basis throughout the state in order to motivate good forestry practice, to maximize forest growth, to maximize the economic productivity of Maine's forest lands and to reduce pressures to develop forest land. It was also intended to provide the foundation for a strong growing forest industry.

C. Proposed Legislation

Based on the identified needs and the written and oral comments of the constituents, four pieces of legislation were proposed. They are as follows:

1. **LD 800** An Act to Create a Tax Credit for Licensing Fees Paid for the Use of University Patents on Wood Fiber Reinforced Products.

2. **LD 1606** An Act to Make Manufacturing Real Estate Eligible for Business Equipment Property Tax Reimbursement.

3. **LD 1882** An Act to Include in the Business Equipment Tax Reimbursement Program those Energy Facilities that Burn Production Residuals from Maine's Primary and Secondary Wood Products Industries.

4. **LD 1884**. An Act to Create a Matching Grant Fund to Provide Technical Assistance to Small Wood Products Manufacturers.

II. Structure and Actions of the Taskforce

A. Charter Of The Taskforce As Identified By The Legislature

The task force was established (H.P. 1478 - L.D. 2077) with the following charter:

Resolve, to Establish the Task Force to Increase Primary and Secondary Forest Products Manufacturing.

Sec. 1. Task force established. Resolved: That the Task Force to Increase Primary and Secondary Forest Product Manufacturing, referred to in this resolve as the "task force," is established; and be it further.

Sec. 2. Task force membership. Resolved: That the task force consists of 14 members as follows:

1. The State Tax Assessor;

2. The Director of the State Planning Office;

3. The Commissioner of Economic and Community Development or the commissioner's designee;

4. One representative of a college or university who has expertise in economic development, appointed by the Governor;

5. Two members of the Senate, appointed by the President of the Senate;

6. Two members of the House of Representatives, appointed by the Speaker of the House;

7. One representative of the Finance Authority of Maine, appointed by the Governor;

8. Two representatives of primary forest products manufacturing, appointed by the Governor;

9. Two representatives of secondary forest products manufacturing, appointed by the Governor; and

10. One person representing the Maine Congressional Delegation, appointed jointly by the members of the delegation.

The task force members serve terms that expire April 1, 1999 or when their task is completed, whichever occurs first. Vacancies must be filled in the same manner as the original appointments were made; and be it further

Sec. 3. Convening of task force. Resolved: That all appointments must be made no later than 30 days following the effective date of this resolve. The Executive Director of the Legislative Council must be notified by the appointing authorities once the selections have been made. The Executive Director of the Legislative Council shall convene the first meeting of the task force no later than 60 days after the effective date of this resolve. The task force shall select a chair from among its members; and be it further

Sec. 4. Duties. Resolved: That the task force shall hold 4 public meetings. The public meetings must be held in 4 of the following counties: in Aroostook, Washington, Piscataquis, Somerset, Franklin and Penobscot. The task force shall:

1. Identify and examine tax credits and incentives, including, but not limited to, grants, loan guarantees, tax expenditures and industrial or economic development revenue bonds that may succeed in retaining forest products in this State for primary and secondary manufacturing;

2. Examine proposals for new credits and incentives and any limitations imposed by existing laws that hinder the use of these credits and incentives by primary and secondary forest product manufacturers;

3. Examine the impact of the North American Free Trade agreement on the forest products industry; and

4. Explore any other proposals or strategies that may benefit the State's forest products industry; and be it further

Sec. 5. Staff assistance. Resolved: That the Department of Economic and Community Development shall provide staffing assistance to the task force; and be it further

Sec. 6. Reimbursement. Resolved: That the legislative members of the task force are entitled to the legislative per diem and expenses for each day's attendance at meetings of the task force upon application to the Executive Director of the Legislative Council. All members of the task force who are not state or federal employees are entitled to mileage and other necessary expenses for each day's attendance at meetings of the task force upon application to the Executive Director of the Legislative Council; and be it further

Sec. 7. Report. Resolved: That the task force shall submit its report to the First Regular Session of the 119^{th} Legislature, the joint standing committee of the Legislative having jurisdiction over taxation matters, the joint standing committee of the Legislature having jurisdiction over economic and community development matters and the Executive Director of the Legislative Council no later than January 1, 1999. If the task force requires an extension, it may apply to the Legislative Council, which may grant the extension.

B. Taskforce membership and Affiliations

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C. Meeting Structure and Locations.

The introductory meeting was held in Augusta on October 29, 1998 with 15 taskforce members or their representatives in attendance. At that time, it was decided by the members of the taskforce that four public meetings would be held at various locations around the State. The dates and locations were as follows:

Location	Date
Bangor- One Cumberland Place	November 10
Presque Isle- Northern Maine Tech. College	November 19
Farmington- University of Maine	December 8
Machias-University of Maine	December 17

Prior to each meeting, public notice was given regarding the time and location of the meeting. The format of each public meeting was for the taskforce members to meet privately during the morning and to discuss specific problems related to the industry or to have specialists in particular areas address the taskforce. At approximately 1 pm, the public was invited to comments and to discuss specific issues. Details of the discussions and specific comments by primary and secondary processors at each meeting are found in the appendices.

The final meeting of the taskforce occurred on January 15, 1999 at the Department of Economic and Community Development, Stone Street, Augusta.

D. Community and Media Response.

The taskforce heard, directly or indirectly heard from over 300 primary and secondary processors from every county of the State. A number of citizens came to the public meetings while others telephoned with comments. Constituents also sent letters to the task force. Both the public comments and letters are included as an appendice to this report.

Generally, media response was muted. Although at least three newspapers carried brief stories about the workings of the taskforce and a Bangor television station interviewed some members of the taskforce, media coverage, in general was scant.

III. Overview of Primary and Secondary Wood Products Manufacturers in Maine

A. Definitions Related to the industry.

Primary forest products manufacturers are principally engaged in the conversion of logs into lumber. Few true primary forest products manufacturers exist due to the fact that most sawmills have added operations beyond the primary stage in an effort to increase product value. Commonly, sawmills are considered primary forest products operations in the State of Maine. There are approximately 350 primary forest products operations in the State.

Secondary forest products manufacturers are those that add value to wood or wood fiber beyond the primary conversion stage. Included in this classification are furniture and fixture manufacturers, paper mills, panel manufacturers and similar manufacturers. There are currently approximately 500 secondary forest products manufacturers in Maine.

Among the issues of concern to constituents who spoke with the task force was the dispositon of residues. In this context, sawmill residues consists of bark, sawdust, swarf (dust from abrading operations), mill trim and burnable mill waste related to either primary conversion or secondary processing operations.

B. Number of Businesses and Trends During the period 1993-1997

The data reported here are taken from the 1993 to 1997 editions of the Maine Employment Statistical Handbook published by the Maine Department of Labor. Data include all "covered employers" subject to the Maine Employment Security Law based on quarterly tax filings required under that law. These data do not include Federal government employees, self-employed individuals (sole proprietorships), unpaid family members, railroad workers, and certain farm and domestic workers. According to the Maine Department of Labor, covered employers account for more than 97% of the total nonfarm wage and salary employment in Maine and all of the goods producing industries in the industrial sectors. While it is likely that a small percentage of sole proprietors and unpaid family members benefit from employment and earnings generated in the wood products industry, this number is assumed to be a relatively small and not likely to bias the reported data.

These data reflect employment trends in those businesses that fall under the Standard Industrial Classification Codes 24 and 25, respectively entitled Lumber and Wood Products (SIC Code 24) and Furniture and Fixtures (SIC Code 25). The Code 24 description includes establishments engaged in cutting timber and pulpwood; merchant sawmills; lath mills; shingle mills; cooperage stock mills; planing mills; plywood and veneer mill engaged in producing lumber and wood basic materials; and establishments engaged in manufacturing finished articles made entirely or mainly of wood or related materials. SIC code 25 includes establishments engaged in manufacturing household, office, public building, and restaurant furniture; and office and store fixtures. All are referred to herein as wood products manufacturers. We do not include manufacturers of paper and allied products.

Table III.B. shows the number of Maine woods products companies operating during the five-year period between 1993 and 1997. It also shows the relative importance of these numbers as a percentage all manufacturing firms and as a percentage of firms from all business sectors in Maine.

In 1997 the Department of Labor reported 850 total employers in the wood products sector (SIC Codes 24 and 25). The number of wood products companies has grown 9% over the last five years from 780 in 1993 to the 1997 level of 850. Growth in the number of companies in this sector was relatively slow at about 1.5% per year from 1993 to 1996 but increased by 4.8% in 1997, rising from 811 to 850. The 1997 number represents 33% of total manufacturers, and 2% of all employers.

Although the number of companies producing wood products has shown growth over the last five years, wood products manufacturers have declined very slightly as a percentage of total manufacturers. In 1993 wood products companies comprised 34.1% of manufacturers. By 1997 this share had fallen to 33.1%. As a percentage of all employers it stayed nearly constant at 2.2% during the entire period. The decline as a percentage of manufacturers may not be statistically significant, but the trend points to the likelihood that the rate of new company formation in the wood products industry is slightly lower than that of other manufacturers.

Table III.B. Lumber and Wood Products Employers in Maine 1993 to 1997

	1993	1994	1995	1996	1997
Number of Lumber and Wood Products Manufacturers	780	791	806	811	850
Percentage of All Manufacturers	34.12%	33.70%	33.51%	33.39%	33.15%
Percentage of All Employers	2.20%	2.17%	2.19%	2.18%	2.16%

C. Number of persons employed by the industry and trends over the past 5 years.

Table III.C. shows the number of people employed by the wood products sector during the five-year period between 1993 and 1997. It also shows the relative importance of these numbers as a percentage of all manufacturing employees and as a percentage of all covered employees in Maine.

In 1997 the Department of Labor reported 11,715 total employees working in the wood products sector (SIC Codes 24 and 25). This number represents 13.5% of total persons employed by manufacturers in Maine, and 2.7% of covered employment for all Maine employers. During the five-year period from 1993 to 1997, the number of employees has varied from a low of 11,200 in 1996 to a high of 11,715 in 1997. The variance may be due in part to reporting problems in 1995 and 1996 when the Department of Labor could not disclose the number of employees in firms with more than 250 employees. It is not clear how much of an impact the lack of those data have on the trends for this period. However, as Table III.C. shows, the number hit a high in 1997. It is of special interest to note that, contrary to the trend shown above in Table III.B., the contribution to overall employment by the wood products sector has increased relative to manufacturers as a whole. So while new company formation has not exceeded that of other manufactures, the latest data show that job formation by wood products companies outstripped that of other manufacturers in 1997.

As a percentage of all employers, jobs in the wood products sector have held nearly constant, ranging between 2.9% and 2.7% over the five-year period we studied.

Table III.C. Lumber and Wood Products Employees in Maine 1993 to 1997					
	1993	1994	1995	1996	1997
Number of Person Employed by Lumber and Wood Products Manufacturers*	11346	11474	11461	11210	11715
Percentage of All Manufacturers	12.71%	12.80%	12.65%	12.38%	13.54%
Percentage of All Employers	2.89%	2.83%	2.74%	2.68%	2.73%

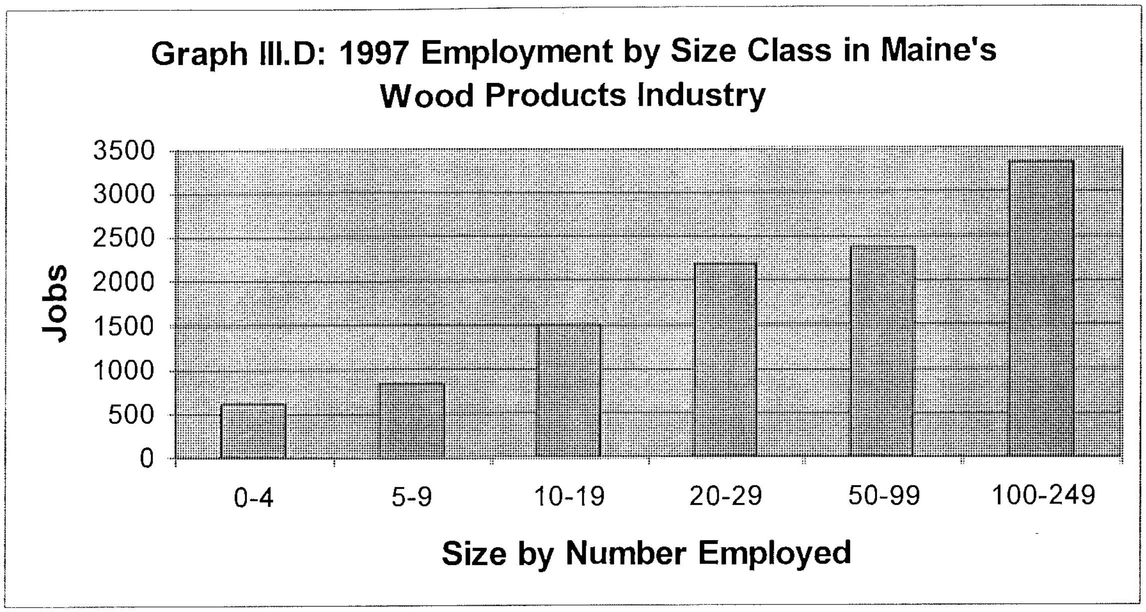
* In 1995 and 1996 the number of employees for companies having more than 250 was not available.

D. Comparison of contribution to employment by size class within the industry.

As might be expected, wood products companies vary greatly in size when compared on the basis of the number of employees per company. As reported over the last five years, the number of companies within a given size class in inversely proportional to the number of employees per company. In other words, the number of companies declines as the number of employees per company increases. Of the 850 companies reporting in 1997, 55% employed four people or less and 70% employed 9 people or less. Companies with over 100 employees accounted for less than 5% of the total. This trend holds true for the prior four yeas as well.

While most wood products companies are small, one should not assume that most workers are employed by the companies that have less than 10 employees. In fact, in 1997 companies with over 50 employees accounted for 49% of the jobs in this sector. This trend also holds true for the prior four years

Graph III.D compares total jobs by size class in 1997.



If we define companies with less than 50 employees as "small" and companies with 50 or more employees as "large". The 1997 data allow us to say that the employment in the industry is nearly equally divided among small and large companies. However, the per company contribution to employment by the large companies is very important. While this group comprises only 7% of wood products companies in Maine it accounts for nearly one-half of the jobs in this sector. Relatively speaking the loss of a single large company will greatly impact overall job count in the industry.

At the same time, the case for maintaining a dynamic population of small companies is strongly supported because this group accounts for half the employment base in the industry and is less affected when a single company goes out of business.

E. Location of the Industry by county within the State.

The Table below shows the breadth of the primary and secondary processing within the State of Maine. Every county within the state is affected by the industry. The total value of products in 1996 was in excess of $4.9 billion.

County/Industry	Value of Product ($MM)	Gross Wages ($MM)	Avg. wages	Workers
Androscoggin				
Lumber & Wood Products	80.40	13.10	$21,446	611
Furniture	5.73	1.80	$25,426	71
Pulp and Paper	376.68	39.24	$45,924	854
Aroostook				
Lumber & Wood Products	227.76	36.76	$21,370	1720
Furniture	2.32	0.70	$23,689	29
Pulp and Paper	314.77	74.90	$54,872	1365
Cumberland				
Lumber & Wood Products	90.30	21.40	$23,242	921
Furniture	2.38	0.59	$17,194	34
Pulp and Paper	368.74	85.39	$56,838	1502
Franklin				
Lumber & Wood Products	86.44	20.72	$20,724	1000
Furniture	0.07	0.02	$15,693	1
Pulp and Paper	421.51	103.38	$60,469	1710
Hancock				
Lumber & Wood Products	44.90	6.09	$17,268	353
Furniture	0.25	0.07	$20,228	3
Pulp and Paper	310.82	81.54	$66,306	1230
Kennebec				
Lumber & Wood Products	8.96	1.82	$15,821	115
Furniture	0.17	0.04	$13,080	3
Pulp and Paper	253.61	54.60	$48,197	1133
Knox				
Lumber & Wood Products	3.23	0.83	$20,152	41
Furniture	3.59	1.08	$23,558	46
Pulp and Paper	0.00	0	$0	0
Lincoln				
Lumber & Wood Products	3.70	0.77	$12,076	63
Furniture	2.84	0.81	$21,489	38
Pulp and Paper	0.00	0	$0	0

Oxford				
Lumber & Wood Products	148.50	29.58	$17,349	1705
Furniture	1.51	0.40	$19,255	21
Pulp and Paper	340.50	83.53	$60,483	1381
Penobscot				
Lumber & Wood Products	169.37	29.55	$21,101	1400
Furniture	3.09	0.72	$15,844	45
Pulp and Paper	758.93	175.42	$54,239	3234
Piscataquis				
Lumber & Wood Products	47.48	10.80	$21,496	503
Furniture	21.05	5.50	$18,870	292
Pulp and Paper	0.00	0	$0	0
Sagadahoc				
Lumber & Wood Products	1.12	0.10	$6,448	15
Furniture	0.91	0.23	$18,327	13
Pulp and Paper	0	0	$0	0
Somerset				
Lumber & Wood Products	127.24	27.89	$16,711	1669
Furniture	0.19	0.05	$21,190	2
Pulp and Paper	333.39	89.86	$72,510	1239
Waldo				
Lumber & Wood Products	69.76	12.68	$19,679	645
Furniture	2.91	0.90	$24,922	36
Pulp and Paper	0	0	$0	0
Washington				
Lumber & Wood Products	71.00	11.40	$28,485	400
Furniture	0	0	$0	0
Pulp and Paper	133.63	32.09	$58,134	552
York				
Lumber & Wood Products	43.20	8.61	$20,443	421
Furniture	3.95	1.01	$18,149	56
Pulp and Paper	55.48	10.53	$33,916	310

Data from 1996 Implan Database

Compiled by David B. Field, Department of Forest Management, University of Maine.

IV Current Programs and Incentives Determined to be of Benefit to the Industry.

A. Business Equipment Tax Reimbursement (BETR)

BETR is a state economic development tool that allows eligible businesses, including primary and secondary forest product manufacturers, which pay property taxes on qualified business property, to get financial support from the state. Once property taxes are paid by businesses, all of the taxes on qualified property are returned to them.

The program normally reimburses, for up to 12 years, all local property taxes paid on eligible business property. Once the business pays its taxes, it has 60 days in which to file for BETR. Once the Maine Revenue Service (MRS) receives the BETR form, a check will be issued within 180 days.

The definition of eligible business property is defined by law, but generally means personal property first placed in service in Maine after April 1, 1995. Eligible property includes certain property affixed or attached to a building or other real estate if it is used to further a particular trade or business on that site, and so may include property which would be classified as real property for other purposes. Starting with property tax year April 1, 1997, office furniture, lamps and lighting fixtures are not eligible for reimbursement and are excluded from the program.

Program Example

Cote's Plywood Mill purchased $100,000 of eligible production machinery on July 7, 1997. When the town assessed the new machinery on April 1, 1998, they valued the property at $95,000. Based on the town's mil rate of 15, the company paid an equipment property tax of $1425 on the eligible equipment. The company then filed an application with the MRS for the BETR program within 60 days of paying the equipment property tax. The company received full reimbursement of the $1425 it paid in equipment property tax.

B. Municipal Tax Increment Financing (TIF)

TIF is a local economic development tool that allows businesses, including primary and secondary forest product manufacturers, which are making significant capital investments within a municipality, to seek financial support from the municipality. The funding source is the property tax; once taxes are paid by a business, some or all of the payment is returned to it.

The first TIF district was designated in 1985. In the early years of the program, new property taxes generated by capital investment within TIF districts were used primarily to retire debt incurred by municipalities for site and infrastructure improvements related to the development project.

In 1993, the State expanded the TIF program to include the use of "Credit Enhancement Agreements (CEA)." With a CEA between a municipality and a business, new property taxes can be used to fund a number of allowable project expenses, including direct payments to businesses to help offset development costs.

TIF districts may be designated for a period of up to 30 years. Bonds may be issued under this program for up to 20 years. The designation of a TIF district requires a local public hearing, the majority vote of the municipal legislative body, and approval by the Maine Department of Economic and Community Development.

Program Example

A sawmill expects to invest $900,000 in buildings and site improvements on vacant land presently valued at $100,000, and install $1,100,000 in machinery and equipment. The municipality's property tax mil rate is $10 per $1,000 of valuation, so the business will have a tax obligation of $21,000 per year once the investments are recorded on the tax rolls. Of this tax obligation, $20,000 is "incremental," i.e. an increase above the $1,000 tax collected on the pre-investment property, and therefore available for TIF activities.

Scenario 1: Credit Enhancement Agreement. The municipality contracts with the sawmill and agrees to "capture" 75% of the incremental tax revenues for a period of fifteen years; it will return the funds to the business to assist in financing the new building. The business would receive $15,000 in the first year of TIF, though subsequent payments might be adjusted for equipment depreciation, real estate appreciation, and future capital investments. All things being equal, however, the business would receive approximately $225,000 over the life of the TIF district.

Scenario 2: Municipal Bond Financing. The sawmill needs a road and utilities installed for $150,000. The municipality agrees to pay this cost, issuing a 20-year TIF bond in the amount of $150,000. Annual debt service on the bond will be $12,338, which the municipality will retire with new revenues "captured" from the new business investment.

C. Employment Tax Increment Financing (ETIF)

ETIF is a state economic development tool that allows qualified, for-profit businesses, including primary and secondary forest product manufacturers, which are hiring fifteen net new employees within a two-year period, to seek financial support from the state for an investment project. The funding source is state income tax; once taxes are withheld from qualified employees and paid to the state, businesses are eligible to be reimbursed a portion of the amount withheld.

The first ETIF application was approved in 1996. Originally, businesses could be reimbursed 30% or 50% of taxes withheld depending on the level of unemployment in the labor market area where jobs were created. In 1998, a 75% rate was established to target the areas with the highest unemployment rates. The ETIF benefit may be received for up to ten years.

The amount of annual payment is based upon the actual number of qualified employees above the company's base level of employment. New jobs created must pay wages that exceed county per capita income levels, and provide access to group health insurance and retirement benefits.

Program Example

A furniture manufacturer is considering adding 30 jobs and investing $1 million in Oxford County. The new jobs will be equally divided in pay at $8, $10 and $12 per hour. All employees are provided with group health insurance and a retirement program. The company is looking at other states also, and will base its location decision upon the projected return on investment. Oxford County's average annual per capita income is $17,401, i.e. $8.37 per hour, and the labor market area unemployment rate is above the state average (i.e. 50% reimbursement). In this scenario, 20 of the 30 new employees would be considered "qualified" by virtue of their wages (those above $8.37/hr) and benefits, entitling the company to seek ETIF approval.

When the business demonstrates that ETIF provides a return that will result in the investment being made in Maine, the application will be approved. Assuming: 1) an average state income tax withholding rate of 3.5%, 2) employment levels and wages that do not change, and 3) the company remaining qualified, the annual reimbursement would be $8,008. Total reimbursement for the ten year period would be $80,080.

D. Tree Growth taxation incentives (36 M.R.S.A. § 571 et. seq.)

History and Operation

Maine's Tree Growth Tax Law was enacted in 1972 and became effective January 1, 1973. The Tree Growth Tax Law implements a 1970 amendment to the Maine Constitution, adopted by state-wide vote, that allows for valuation of timberland and woodlands according to their current use. 36 M.R.S.A. § 572.

In order to qualify for Tree Growth Tax, a parcel of forest land must be in excess of 10 acres and must be used primarily for the growth of trees to be harvested for commercial use.

The Tree Growth Tax provisions value the land based on the present value of the future growth of the trees. In essence, under the Tree Growth Tax Law, forested property is taxed at a value which reflects the eventual value of the wood products which will be produced or gathered from these properties .

Under the provisions of the Tree Growth Tax Law, the State Tax Assessor determines the 100% valuation per acre for each forest type by county or region on an annual basis. These valuations are published by the State Tax Assessor and are used by tax assessors to determine the property tax for forest land taxed under Tree Growth Tax.

Purpose

The legislative history indicates that the purpose of the law was to put forest taxation on a uniform economic productivity basis throughout the state in order to motivate good forestry practice, to maximize forest growth, to maximize the economic productivity of Maine's forest lands and to reduce pressures to develop forest land. It was also intended to provide the foundation for a strong growing forest industry.

The 113th Legislature created a Commission on Forest Lands Taxation to study taxation of Maine forest lands. The Commission's report, "A Report of the Forest Lands Taxation Commission," was submitted to the Legislature on January 15, 1988.

The Commission summarized the purpose and effectiveness of the Tree Growth Tax Law, stating that the special characteristics of forest land make the traditional method of assessing property value undesirable in part because assessment of timberlands using market value based on uses other than growing trees results in a tax burden that can be too high to be supported by timber uses. Higher tax values applied to forest lands encourage premature timber harvest and, in some cases, the conversion of land from productive forest to non-forest uses in order to pay the higher tax costs. (Report, page 6)

The Report also notes that the adoption of the Tree Growth Tax Law followed amendment to Maine's Constitution. The amendment was designed to address the "increasing concerns for lands at the margin of development being taxed so heavily that they would be converted from their traditional uses simply to pay the taxes." (Report, pages 8-9) For this reason, the enactment of the Tree Growth Tax was supported by environmental groups.

The Commission concluded that the Tree Growth Tax accomplishes what it was intended to and avoids the worst disincentives to forest ownership and management of the *ad valorem* property tax. The law also shields land from development to some extent. (Report, page 25)

The Commission further concluded that "the tree growth tax is not a 'subsidy' to the landowner. It is simply a method of taxation that reflects the underlying economic characteristics of the forestry treatment. It is the proper method of taxing such land, rather than special treatment." (Report, page 26)

Finally, the Commission recommended that the Tree Growth Tax not be modified and that future proposals to modify the tax be accepted only if they improve the administration or effectiveness of the tax as an incentive to the maintenance and growth of a productive forest. (Report, page 25-26)

Recommendation

We concur with the findings of the Commission on Forest Land Taxation and its recommendation that future proposals to modify the Tree growth Tax be accepted only if they improve the administration or effectiveness of the tax as an incentive to the maintenance and growth of a productive forest.

V. Impediments to Growth, Innovation and Competitiveness

A. The Export of Raw Materials

It's unlikely there is a more controversial issue within the Maine wood products industry than the export of raw materials that are harvested in Maine forests. Many citizens believe it would be far better for the state economy if these sawlogs were processed here. If this were to occur, more residents would be employed and current mills could expand, and new mills would be constructed. Industries supporting these expanded or new mills would benefit. More income taxes would be paid to the State and local communities would receive more property taxes. Some environmental benefits could occur if less trucking took place, and there might be less pressure put on the land.

Few mill owners, however, can begrudge landowners, businessmen like they are, from getting the highest value for their products. After all, this is what they try to do with their own products. Some mills even purchase raw materials in species they don't use and then make some income by selling them to export.

Market prices are always better when there is good demand, and the substantial export market has most likely increased prices for Maine raw materials. Sawlog exports go to a number of states and countries, but the wood volume and controversy are by far greatest with the bordering provinces of Quebec and New Brunswick. The controversy is fueled by perceived inequalities in government policies. Asian purchases of our high grade sawlogs have temporarily dried up because of their economic crisis, but they are sure to return once their situation improves.

In 1997, 1.5 Bbf (billion board feet) of timber was harvested from Maine forests and 481 million board feet (32%) were exported, of which 463 Mmbf (million board feet), 96% of the total, went to Canadian provinces. This large percentage of logs exported to the provinces started when the Spruce budworm epidemic hit Maine and it has continued unabated since. Maine did import 181 Mmbf of sawlogs and 61% of that came from the provinces. In the US, New Hampshire is Maine's largest trading partner. That relationship has decreased, however, as the Canadian markets have increased and is now only 24% of our imports and 1% of our exports.

The Canadian Factor

Anybody who observes the many trucks hauling sawlogs into Quebec and the huge amount of lumber returning has to wonder why this is happening. In 1997, 481 Mmbf of both softwood and hardwood sawlogs were exported from Maine and 89% of that went to Quebec. In return, virtually no Quebec softwood logs came to Maine. The total softwood component export amount to Quebec was 390 Mmbf. 355 Mmbf or 90% of the State's Spruce/Fir total sawlog exports went to the province. The provinces' soft wood lumber production has gone up substantially as it is reported to have increased from 3.6 Bbf in 1991 to 6.6 Bbf in 1997. Hardwood sawlog exports to Quebec in 1997 were listed at 34 Mmbf, but with a return of only 1.5 Mmbf. After Crown land, imports have provided the second largest source of wood for Quebec's mills. On the other hand, a huge amount of lower valued biomass and some pulpwood and chips did come from the province to supply Maine mills.

New Brunswick is a different story. In 1997, that province imported only 18 Mmbf of Maine softwood logs (mainly Pine), but it exported to Maine 73 Mmbf of softwood (mainly Spruce/Fir) logs. Maine hardwood sawlog exports to New Brunswick were 16 Mmbf and the province exported 30 Mmbf (88% Aspen) of hardwood sawlogs to the State. They also exported a huge amount of pulpwood, biomass and chips to Maine.

Listed below is a summary of what is known and what is suspected about the advantages Canadian mills may have. They include:

- Exchange rate. This may be their greatest advantage. The Canadian mills' value-added costs are in effect discounted by the exchange rate, when they purchase US sawlogs and return their finished products to the US.
- Lower average cost of softwood timber. Most Canadian border softwood mills get part of their needs from Crown lands at lower than market prices and use Maine timber to fill the remainder of their production capacity.
- Lower utility costs.
- Efficient back haul system. Since so much Canadian lumber is trucked to the US, the back hauling of sawlogs from bordering states in what could be an empty truck, is an efficient method of delivering raw materials to their mills. There are numerous reports of trucking cost rebates for Canadian truckers.
- Socialized health care. Most Canadian mills pay for extra health and workers compensation insurance for their employees, but the Canadian government covers most of the basic expenses.
- Employee training. Canadian mills are reported as having to set aside an amount equal to 1% of their labor costs for employee training. This most likely helps improve efficiencies and outputs.
- Better sources of technical information. The Canadian government has funded organizations such as "Forintek" to provide technical assistance to its mills.
- Government aid. There are persistent reports Canadian mills get more government aid for such things as equipment purchase, employee training and interest free loans for expansions. This may have been more prevalent in the past.
- Mill locations. Canadians built mills at strategic times in strategic locations just across the border.

The situation in bordering states that make it easier for Canadian mills to purchase Maine sawlogs include:

- Land-use regulations. Ever increasing regulations make it more difficult for landowners to make a reasonable return on their investments. This puts added pressure on them to go for the highest price. Land use regulations also decrease the amount of wood the land can grow.
- The recent proliferation of sawlog concentration yards both in Maine [43] and in the bordering

states. This "one stop shopping" makes it easier for Canadians to buy Maine raw materials.

- Selling method change by many large landowners. Traditionally logging contractors have purchased stumpage from landowners and sold the timber to local mills. Today most large landowners sell their own timber, usually to the highest bidder and that frequently is the Canadian mill.
- Maine mills are finding it increasingly difficult to sell their by-products. This was precipitated by the buyout of power plant contracts by electric utilities.
- Canadians can buy federal (east of 100^{th} Meridian) and state timber in the US, while US firms can't even bid on Canadian government timber.

On the other hand, Canadian mills aren't so sure they have an advantage. They cite:

- Higher taxes for companies and citizens. This may be more so for the lower paid and closer to being equal for the higher paid.
- More government interference. Recently, primary processors are being told they need to produce more value-added products, if they want to continue receiving subsidized wood from government owned lands.
- Higher fuel costs. Canada's fuel taxes are higher.
- Higher trucking costs due to added distance in obtaining their raw material imports and delivering their products to market.
- Some Canadian mills insist they see little government aid. They cite a system for the government to partially guarantee loans, similar to our SBA guarantees and help with research expenses.
- Hardwood mills along the US border don't usually benefit from cheap Canadian government timber. Rather, most are highly dependent on US wood.
- Canadian culture. Their timber industry may be better established and their workforce is said to enjoy a higher societal status.

Log Export Ban?

Some have suggested a log export ban to achieve the goal of increasing primary wood products manufacturing in the State. The market place is complex and has developed over a long period of time by shrewd businessmen going after opportunities they see. The selling price of timber and the volume produced is considered a perfect example of the basic "Supply and Demand" concept. A Maine log export ban, if allowed by Congress, would greatly upset many landowners, some mill owners and certainly our neighboring Canadian provinces. Some paper company landowners may be selling sawlogs to Canadian mills so they can get the biomass and chips.

Some Canadian border towns could become severely economically depressed, and a ban would temporarily depress Maine stumpage prices, and many landowners would delay harvests. With time, however, it is likely that some, if not all, of the lost Canadian demand would be satisfied with new or expanded Maine mills. As long as there is a demand for products and the raw materials are available, it is likely that demand would be met and Maine raw materials would be used. It is interesting to note that other occurrences, such as pest control or a dramatic change in exchange rates can have a similar effect to an export ban.

Conclusions

Increasing primary wood products manufacturing at the expense of sawlog exports seems to be in Maine's best economic interest. After all, this is what the Canadian government seems to be doing. They do not allow their government owned wood to come to the US, and they appear to encourage raw material imports.

It is unlikely Maine legislation can do anything to affect the exchange rate between the US and Canada. It is still unknown what utility deregulation will do for Maine mills. Few Maine businessmen would like to see us get the same socialized medical system Canada has. It is more difficult for US firms to develop an efficient back haul system since they count on local wood for their supply. Maine already has already done much to help businesses expand and doing even more would help. It is likely most Maine landowners and concentration yards would prefer to sell to Maine firms, if only Maine firms could match the usually higher prices Canadians offer. Some of the things Maine could do to help reduce exports are:

- Develop a financial incentive system (possibly a rebate) for Maine landowners to encourage them to supply Maine mills. This could be seen as an investment to obtain a greater return that would come with the expansion of Maine mills. It wouldn't keep all the wood in Maine, but it should reduce exports and help set the tone.
- Encourage Canada to open up their Crown lands timber to open bidding by Maine companies.
- Find a mechanism to encourage Maine companies who import mill by-products to accept the excess by-products Maine sawmills generate first.
- Expand on programs to train workers.
- Promote new technology in engineered wood products.
- Promote wood as an environmentally preferable raw material.

B. Energy Costs

Energy expenditures are an important part of total manufacturing cost. Ample and secure supplies of energy are important to maintaining a production schedule. Stable, predictable energy prices are needed to control costs and hence assure competitiveness. The ability to mix energy sources and fuel switch are of key strategic value. And on-site utilization of waste products for energy is essential to maintain production and operational success.

Energy, in the form of electricity, diesel, and other fuels, is used to operate production and handling equipment; to heat, condition and light the work space; to operate dry kilns; and to power ancillary equipment. Additional energy inputs may be required to self-generate electricity on-site. The total amount of energy consumed in Maine's primary and secondary wood products industry is unknown, bu the energy demand between mills will vary widely depending on the type and size of the plant. Larger commodity oriented production plants like saw mills producing spruce and fir studs or pine lumber, turneries, and furniture stock plants will have a substantial energy requirement.

In contrast, many smaller secondary and value-added producers will have much smaller energy demands.

Maine wood products mills use electrical energy to power motors that turn saws and handling equipment, to light work spaces, and to run other equipment. Oil is typically used to heat water and work spaces, and produce the steam needed to run dry kilns. In many cases, waste wood is used to provide heat, heat water, and produce steam and in a few cases wood is used to generate electricity for on-site use and sale to the local utility. Electricity is usually the largest energy input to the manufacturing process.

Task Force members provided some examples of the magnitude of energy cost as a percentage of sales. In the case of softwood spruce and fir lumber manufacturing, one large producer in northern Maine reports that electric power cost make up 3.7% of their production cost. In another case, the utility cost are 3.9% of production costs. In contrast, similar cost for a Canadian competitor are 4% of total cost, and for a southern US producer utility cost if 2.2%. While these cost seem to be a relatively small percentage of the total, they are large enough to make a considerable difference on the bottom line success of the operation.

In the case of one hardwood products manufacturer in western Maine the cost of utility power comprises 3.6% of costs, varying from a low of 3% to a high of 4.8%. Again, a variable production cost that influences the bottom line competitiveness of the company.

Issues:

Wood wastes and energy comments offered during the public testimony periods pointed out the importance of maintaining and enhancing the existing biomass power companies as a cost effective opportunity to sell or use their wood waste stream for energy. See Randy Caron piece.

Stable, competitive utility rates are vitally important to small and medium sized wood products firms do not qualify for special industrial rates and can not self generate. These plants may be especially vulnerable to electricity rate increases when they have not alternative than to pass on what cost they can and absorb the rest. Some additional public policy consideration may be warranted to study the plight of these firms, especially in the face of on coming electric deregulation.

Great uncertainty exist about the effects of electric utility industry restructuring. Smaller, more remotely located firms may face price volatility and increases as the competitive price of electricity finds a new equilibrium in a fully competitive environment. Some companies will be forced to consider self-generation as an alternative, or seek other forms of motive power to run the mill.

As the Task Force considered existing and potential tax incentives in the energy area a number of possible ways to support and encourage the use of the wood waste and by products produced by wood products manufacturing were considered. The Task Force concluded that biomass energy utilization, both in the form of the existing industry and with the potential to self-generate is an important component in the future success of this industry.

C. The Importance Of Stable Governmental Policies

Stable and consistent governmental policies are vital to Maine's economic growth and prosperity.

A business considering whether or not to make a major investment in Maine must engage in long range planning to determine whether the investment will have an acceptable rate of return. Effective long range planning is impossible when the State's policies are inconsistent from year to year. A business that cannot effectively plan, because of a constantly changing regulatory or tax environment, will not want to invest substantial amounts in Maine.

Furthermore, a company that decides to make a major investment in Maine does so in reliance on the economic incentives, tax structure and regulatory policies that are in place at that time. For a state to induce a company to invest substantial amounts by offering various tax incentives and then, after that investment has been made, to scale back, underfund or even eliminate those very same incentives, is a "bait and switch" and is unfair. If companies perceive that they cannot rely on the State's promises, they will invest their money elsewhere.

In addition, from the State's perspective, the various tax incentives and economic development programs were enacted in order to stimulate economic growth. If companies cannot rely on the continuance of these programs, they will not make investment decisions based on those programs. When that happens, these programs fail to achieve their goals and the taxpayer dollars spent on them is wasted.

Unfortunately, Maine has gained a reputation for inconsistency in both the legislative and administrative spheres. A few examples are:

- The BETR program was enacted in 1995. BETR was then scaled back in each subsequent legislative session. In each legislative session, it has also been threatened with both underfunding and elimination.

- The Pulp & Paper Environmental Investment Fund was enacted and never funded.

- The Machinery and Equipment ITC and the Industrial Energy Sales Tax Exemption were both enacted and then repeatedly deferred prior to implementation.

- Retroactive changes in longstanding tax policies are routinely made during field audits by state auditors or by administrative hearing officers, with no prior notice to the taxpayer. The taxpayer must then engage in expensive and needless litigation just to get back to the status quo.

- Even announced changes to longstanding tax policies are sometimes made with no opportunity for public hearing or comment, no rulemaking process and no legislative involvement.

These are all examples of inconsistencies that lead to taxpayer distrust and ultimately harm the State's ability to attract new investment.

State policy has also been inconsistent in important non-tax areas. For example, the Department of Environmental Protection will soon propose Elementary Neutralization licensing and substantive management regulations. These regulations, which impose both licensing and substantive management requirements, are inconsistent with Maine law, with Federal requirements and with the requirements of other States. Again, this will make it more expensive for Maine manufacturers to compete.

Recommendations

- Both the Legislature and administrative agencies should have long term consistency and stability as one of their guiding principles in carrying out their functions.
- Once a tax benefit or a beneficial regulatory policy has been enacted, it should be adhered to and funded for a significant amount of time to permit the program to achieve its anticipated purpose.
- State regulatory agencies should not alter established policies without public notice and an opportunity for public input.
- Regulatory agencies should not implement internally developed, unannounced policy changes through audits or other enforcement activities.

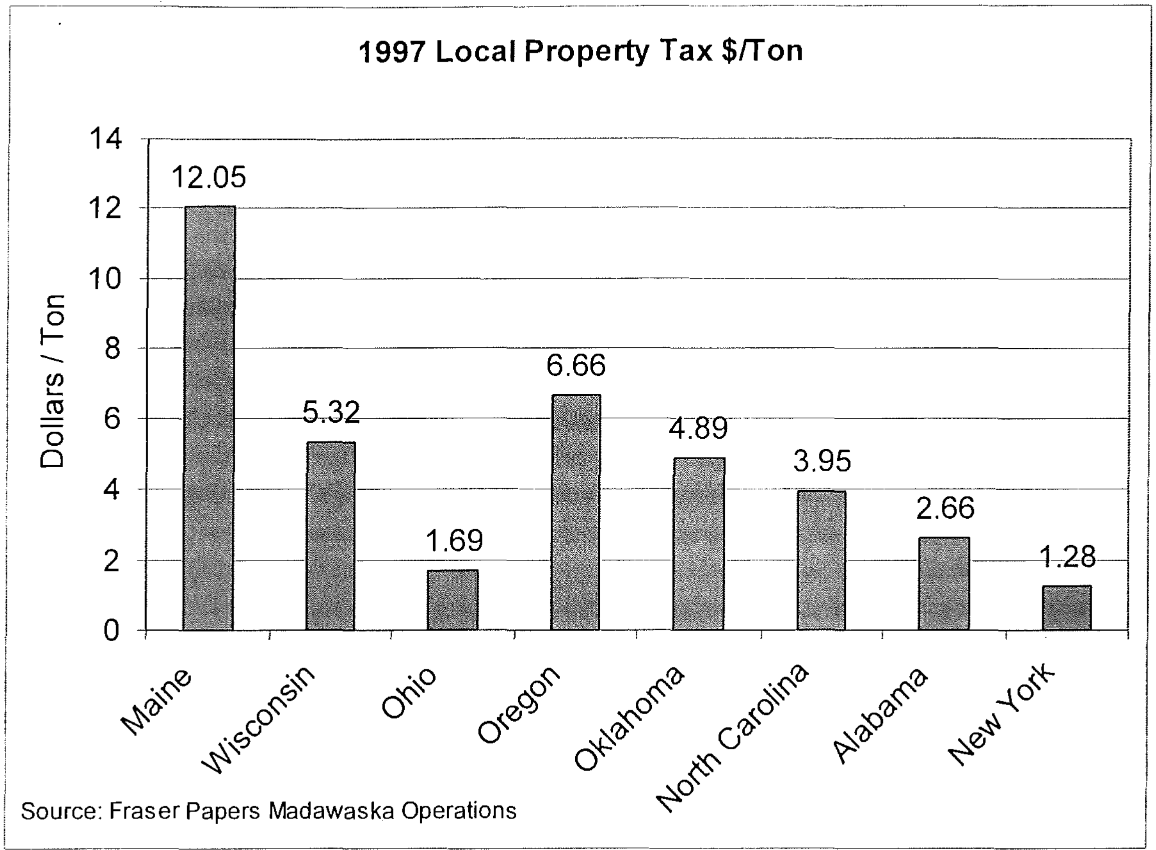
D. Taxation

1. Property Tax

Property taxes impede economic growth because they penalize companies for investing capital in badly needed modernizations or expansions. Failure to undertake capital investment eventually results in economic stagnation. Capital investment should be encouraged, not discouraged.

Property taxes, of course, must be paid regardless of whether the Company is making a profit. A major capital investment often does not yield a profit for several years. Property taxes during the loss years can be a severe drain on cash flow and can negatively influence capital investment decisions.

To make matters worse, Maine's local property tax burden is very high. In 1997, the average property tax burden on Maine paper mills (net of BETR payments) was more than *triple* the average of mills in 12 competing states (Chart below). While the BETR program has been a significant policy initiative, it has not been in place long enough to significantly reduce Maine's overall property tax burden relative to other states.



Because BETR does nothing to reduce property taxes on equipment placed in service before April, 1995, BETR will not accomplish its desired goal unless it continues in place on a fully funded basis for an extended period of time during which companies replace property that does not qualify for BETR with property that does qualify.

If Maine is to successfully compete with other States, ways must be found to reduce the property tax burden.

Recommendations

Because of the severe competitive disadvantage that Maine manufacturing companies currently face due to high property taxes, it is critical that:

- The BETR program be maintained and fully funded.
- All existing property tax exemptions that benefit business be maintained.
- State-wide valuation procedures are adopted to ensure that business properties are not unfairly valued.

- Reliance on the property tax be reduced, but not shifted to other Maine taxes which are also quite high. This can only be accomplished through limiting the growth of, or reducing, overall state and local spending. Methods should be developed to ensure that the local property tax burden drops in accordance with reductions in state and local spending.

2. Other Tax Issues

The task force reviewed competitive data on State Corporate Tax, Personal Income Tax, Personal Property Tax, Unemployment Insurance Taxes, Workers Compensation Taxes etc. In all cases , the State of Maine was in the top 10% of highest taxed citizens and businesses.This is a serious impediment to further expansion at the Maine facility versus other locations.

The 1995 Development Report Card for the states that was presented to the task force by Dr. Dennis McConnell of the Maine Business School,University of Maine, ranked the State Of Maine 49th out of 50 states in new business job growth.A direct correlation can probably be drawn between the tax levels in Maine and this lack of new development.

E. Transportation Issues

Transportation limitations impede growth of the Maine wood products industry. Our wood in the northern territory goes to Canada not only because many Canadian mills are closer but also because overweight trucks are permitted to travel on an extensive network of non-public roads through the northern woods directly to Canada. These roads accommodate trucks whose size and weight are not permitted on public highways. The trucks on these roads carry the wood north directly to Canadian mills without ever entering upon public systems.

Our state highways limit trucks to 100,000 pounds. But on federally funded highways the limit is only 80,000 pounds. Even tough federal highways are much more capable of bearing the load, heavy truck traffic in many sections of Maine is regulated to state highways, local roads, and municipal streets.

Eastport has potential to be a prime thoroughfare for trade. However domestic markets are reached through Route 9 and 1 which continue to need much upgrading and improvement. Route 11 in northern Maine also needs reworking.

Rail connections in eastern Maine are bizarre. Georgia Pacific must access five railways and six border crossing to go from Woodland to Plattsburg. Several manufacturers complained about the difficulty and cost of transferring product from one rail system to another.

F. Risk Aversion by Small Businessses.

This issues may be approached from two different perspectives. The first is a descriptive piece outlining what many small businesses ought to avoid or consider as they contemplate expanding their enterprises. This section is not intended to be an exhaustive litany of reasons for small business failure, but is intended to represent those issues that have been experienced most commonly in Maine. The second segment deals with more general policy issues the public sector should emphasize in the development/expansion of new and existing small business assistance programs and services for the Maine business community.

Small businesses face all kinds of potential adversity. Some kinds are unpredictable, others much more so. The saddest failures are the predictable ones, the ones that could and should have been avoided.

The following recommendations are the product of working with a number of small businesses in many sectors, and entrepreneurial pursuits.

1. Small Business Issues

Develop and Maintain a Realistic Business Plan

Proper planning is essential for the success of any business venture. The business plan should serve two functions; to lay out a path to eventual business success; and, should be periodically reviewed and updated to accurately represent current needs, goals, etc.

Insufficient start-up capital

Assuming a small business has prepared a cash flow projection before their startup, history shows that 90% of the time, first year sales and gross margin do not reach expectations. Both affect cash needs negatively. Individuals should not start a company if they cannot assuredly come up with more capital than they think they will need.

Inadequate Pricing

In Bill Stolze's book entitled Start-Up[1], he notes that "there is no start-up strategy more likely to fail than one predicated on being the lowest price competitor. The message: Price to market. Gross margins are a small business's best friend.

Failure to Look at the Downside

Looking at the downside possibilities in advance, monitoring actual performance against budget and developing fallback plans is just about the only effective medicine for failed assumptions in the initial business plan.

Failure to Look at Industry Norms

Many failed small businesses claim "undercapitalization" as the culprit. More often the truth is that performance did not match the capital available. Over-optimism in a different form is the

1 Stolze, William J. 1996. Start up: An Entrepreneur's Guide to Launching and Manageing a New Business, 4th Edition. Career Press, 288 pages

villain.

Counting on industry-unrealistic performance has drained many small businesses of much needed and appropriately dedicated capital.

Lack of focus

A small business's most precious resource is its talent. Doing one thing well from scratch is an enormous challenge. Tackling three or four at once is inviting across-the-board mediocrity or worse.

Carefully sorting through ones opportunities before one starts is critical. Focus on the marketplace and the competitive environment. Then pursue the daylights out of the best of them.

Avoid "Overindulgence"

Both private and public finance professionals are not seduced by fancy space with lots of glass and chrome, all new furniture and equipment, and a management team drawing salaries at least equal to their old ones. That is regarded as a prescription destined for failure. This is analogous to throwing a graduation party for oneself in the first semester of one's freshman year.

Most of the best entrepreneurs we have seen have been able to spend a nickel in six places. They not only know that cash is, they also realize that lack of cash is death. They part with it only when it makes a true difference, only when it stands to directly affect their objectives.

Inadequate Market Research

Many books have been written on this phenomenon alone. Suffice it to say that a failure to do adequate market research, including getting out into the marketplace and talking to many prime customer targets before committing to a product development, is asking for trouble.

Failure to Identify and Segment Market

A recent report stated that the U.S. tent market is $100 million annually. Traditional thinking would suggest that if one plans to sell high-end backpacking tents and expects to be shipping $5 million worth of them in five years, all one has to get is 5% of the tent market.

On closer inspection, shrewd small business persons will discover that circus, funeral and special event tents make up 30% of the tent market; moreover, the military represents 20% and backyard family tents 20%. Finally, the two largest backpacking retailers, representing 20% of the market, own captive suppliers. That leaves 10% of the $100 million. The truth is that the original $5 million sales objective represents 50% of the actual, segmented market...

No Reason for Customer to Change

The best entrepreneurial efforts have flowed from the development of a competitive evaluation; a comparison by vendor (competitor) of all of the major factors which buyers consider when making a purchase decision. If, in reviewing such a matrix, one cannot reach the conclusion that any fully informed buyer would be crazy not to seriously consider purchasing your product, the buyer has no reason to switch vendors.

Payback Can't Be Calculated

Many small businesses sell their products on the basis of cost savings. While acceptable, many make the mistake of not making sure that these savings are clearly calculable.

Failure to Admit a Mistake

One of the most common death traps are the ones which might be titled "we have too much invested in this initiative to walk away from it now" - in other words, the good money after bad judgment. For all kinds of reasons (fear, ego, etc.), these judgments are tough to make objectively.

The greatest difficulty is for a small business to ask itself one question: Would one invest the needed funds in this project today if it was presented to us as a fresh opportunity?

Manage Company Growth

Perhaps the greatest feeling of success is measured by increased sales growth. Unfortunately, many small businesses fail to add the remainder of the equation. It is critical for companies to develop a cash flow analysis at least annually to determine if there are adequate working capital reserves.

Maintain a System for Evaluating the Competition

Holding on to traditional ways, continuing to rely on original assumptions in the face of increasing competition has taken many healthy companies down in a short period of time.

Control Increasing Production Costs

Many small businesses will eventually expand from garage-quality space to an industrial park. Such moves often require more staff, a new computer system, and additional production equipment, COGS will invariably increase.
Because many small businesses are more sensitive to market fluctuations and economic downturns they should develop fallback plans well before they need to implement them.

2. Public Policy Recommendations

While the purpose of this segment may have been to highlight recommendations specifically tailored to the needs of small businesses involved in the wood products industry, it is also intended to serve a greater audience as well.

Avoid Sudden Policy Changes

Small businesses are often reluctant to make a significant investment for fear that policies may suddenly be altered with little or no opportunity for input. Sorting through the myriad of programs and policies is enough of a challenge. State policy leaders should be very cautious about encouraging changes before thoroughly evaluating their impact on the small business community.

Employee Training

Maine has achieved a level of employee training services that is the envy of many New England States. This has been accomplished in a remarkably short period of time. While this is certainly to be applauded, small businesses are often confused about the many various programs that exist and that are perceived to be sponsored by too many State agencies. One major step would be to encourage the amalgamation of two very popular State programs. The Governor's Training Initiative and the Quality Centers Programs could better serve the small business community by combining its services, delivery system, and its administration.

On a related matter is the recommendation that Maine create a Business Management Training Program specifically designed for small business people. More often than not, simple mistakes or lack or management knowledge could avoid many small business catastrophes. The SBDC, with direct assistance provided by the University of Maine System for example should be provided with the resources to accomplish this important element.

Periodic Evaluation of State Business Assistance Programs

Small businesses must adapt quickly and effectively to many changes in the marketplace in order to ensure success. To that same end, Maine ought to improve that manner used to evaluate program effectiveness and to better adapt itself to the changing needs of small business.

Continued Marketing of State Programs Available to Small Business

This issue has probably been the most often heard criticism of State business initiatives and assistance programs. It should be note however that within the past 5 years, the organizational efforts and achievements of the Maine Department of Economic and Community Development have been remarkable. For example, Maine now has a state-wide protocol for the collection and dissemination of business information that is both responsive and efficient. In addition DECD has developed a tailor-made business development/expansion proposal that is aimed at brining all appropriate services, programs and incentives to the table. These are regarded as positive steps and must be even further refined to better address the needs of specific business sectors such as primary and secondary wood products manufacturing.

Further Improve the Time Required to Provide Small Business Financing

Another often if not occasionally over-used criticism is the time many small businesses must wait in order to obtain financing. While often extremely difficult to achieve, public policy makers and State officials alike who must rely on Federal funding to support business loan programs should strive to reduce the time required to financing to further support business expansion. Simultaneously, Maine should encourage the development of small business assistance services currently provided by such organizations as the SBDC.
Maine should endeavor to empower small business people with the skills and knowledge required in today's business world.

Related is the need for Maine to continue to seek opportunities to provide additional subordinate financing for small business. Too often, small businesses are reluctant to provide their homes as collateral for financing. Other, more acceptable methods for collateralization ought to be sought if at all possible particularly by public sector financial organizations.

Conclusion

The success of any business should first be measured by its ability to adapt, to avoid common mistakes, and to follow its own strengths. The role of public policy makers should be to continually sound the client, namely the small business person to determine what in the way of direct services or programs would best serve their clients' needs.

G. Sawmill Residues

Sawmill facilities generate wood residue during the production of lumber. These residues consist of green chips, bark, sawdust, dry chips, shavings, and yard clean up. The disposal of these residues can impede the growth of the industry and impair its ability to compete in the market place. Following are some of the problems and possible solutions for each of these byproducts.

Green Chips are produced from what remains of the debarked log after usable lumber is removed. The chips have to meet the specifications of the paper mill that uses them in the production of paper and are usually easy to sell.

Bark makes up approximately 12% by volume of the log or 600# per cord and is mechanically removed prior to processing the log in the sawmill. The disposal of this residue has been a problem since the elimination of the teepee burners.

Problems:
- Economically favorable disposal method that meets environmental standards.
- Dependable purchaser who will agree to a long term contract that is economically beneficial to both parties.
- Transportation and tipping costs when the generator has no alternatives for disposal.
- The introduction of "cheap" natural gas will further reduce the economics of using bark as a fuel for power generators.
- Land Fill is cost prohibitive.

Solutions:

- Incentives to utilize all or a portion of the bark onsite for process steam and/or electrical power.
- Incentives for outside power producers to utilize the bark for power production. This could be promoted by requiring the utilities to furnish a percent of their power production from "green" or biomass fuel with a certain percent of that being sawmill residue from within the state.
- Incentives, such as tax breaks or low interest loans, to construct facilities to produce value added products, i.e.; fuel pellets, landscaping mulch, etc.

Sawdust amounts to approximately 12%-16% of the log and is produced during the sawing operation. This product is usually marketed to a paper mill and presents minimum disposal problems. It is currently treated as a waste for tax purposes and this must be allowed to continue if the product is to remain economically viable to the end user. If the paper market for this product dried up it would present the same problems as bark.

Dry Chips and Shavings are generated at the planer mill and are either sold for fuel which present the same problem as bark, for paper making, or used by farmers for bedding.

Yard Clean Up is generated from wood debris from the mill and log yard. This material is contaminated with soil and isn't easily or economically usable as fuel or wood fiber. Landfill costs are approximately $50 per ton when the initial engineering and permitting cost for the landfill are accounted for. Permitting is usually a long and drawn out process. The costs of landfills are long term due to the potential liability they present to the owner.
They require items such as monitoring wells around their perimeter which must be inspected regularly. The appearance of the landfill must also be maintained to specifications.
A dependable, long term, economically feasible market could initiate separating the contaminates from the wood fiber, allowing it to be used as fuel.

H. Applications for State Permits

Although improvements have been made in the process of applying for state permits for new construction [environmental permits] the process is still very time consuming and cumbersome. Several business people testified to the task force during the public forum section that they had recently gone through the process and it need not be as restrictive and time consuming as it is. Two problems were identified. Timeliness and control.

Timeliness. It was pointed out that the severe nature of our winter weather made it critical that a speedy review process be in place or a year could be lost over the seasonality of construction.

Control. Too many different offices and desks were involved with approving a permit. No one office or individual had responsibility to see that the documentation moved through . This could be easily remedied by appointing both a time frame and an officer to handle each case load in a timely manner.

VI. Legislation Introduced To Assist Primary And Secondary Processors.

As a product of the Task Force's work four items of legislation were developed and have been introduced.

1. **LD 1882**- An Act to include in the BETR Program those Energy Facilities that Burn Production Residuals from Maine's Primary and Secondary Wood Products Industries.

Forest product manufacturers generate large volumes of sawdust, bark, chips and shavings which must be disposed of daily. Because this waste is clean and burnable, a great deal of it is sold to energy generating facilities and burned to produce electricity. If these opportunities were not available, then these wood wastes would have to go to land fills which are very costly to maintain.

By selling to energy facilities, the manufacturers produce a stream of revenue out of what would otherwise be a substantial cost. Several manufacturers told us that their survival depends on being able to sell the waste. With the advent of electrical restructuring and the coming of new natural gas lines, there is much concern about whether waste burning energy facilities will continue to operate.

As a general rule, property taxes on newly purchased business equipment are reimbursed by the state to the owner for up to 12 years after the property is first placed in service. This law is called the Business Equipment Tax Reimbursement program. Utility companies that generate electricity are not included in the program.

This bill would include within the BETR program an energy production facility if 80% of its energy output is generated from production residuals that are a by-product from Maine's primary and secondary wood products industries. Production residuals would not include bio-mass materials that are taken directly from the land.

2. **LD 1606**- An Act to Add Manufacturing Real Estate to the BETR Program

The state's present program for property tax reimbursement applies only to personal property, that is, machinery and equipment, and not to real estate. This bill would extend the program to real property that is used for manufacturing.

3. **LD 1884**- A Act to Create a Matching Grant Fund to Provide Technical Assistance to Small Wood Product Manufacturers

Small wood products businesses often do not have the technical, managerial or marketing expertise to compete effectively. They often tend to be risk averse. This proposed matching grant program would assist these small businesses by linking them with the technical, managerial and marketing expertise found among employees of the University of Maine System. The purpose of the program is to reduce the risk of developing new products, marketing or major process improvements.

Under the bill, small wood products businesses would be eligible for up to $10,000 in funding from the state for projects that will increase competitiveness, technical innovation, marketing penetration, product development, or business plan enchantment. The applicant must provide matching funds.

The program is open to wood product businesses with fewer than 150 full time employees. Applicants may apply for one grant during a five year period. Salaries are limited to 30 percent of the grant request. Routine testing services, marketing and management activities are excluded from funding.

4. **LD 800**- An Act to Create a Tax Credit for Licensing Fees Paid for Use of University Patents on Wood Fiber Reinforced Products

This bill would establish a Maine income tax credit for 100% of the amount paid by the taxpayer as licensing fees paid to the University of Maine System for use of patents on wood fiber reinforced products. The credit may be carried forward for up to 5 years.

VII. Conclusions

A number of issues have been identified that reduce of impede the competitiveness of the State's primary and secondary processors of wood products. Interviews with contstituents, the testimony of experts and discussions with practitioners were synthesised into nine areas of concern that either are affecting or will affect the viability of the States largest industry. They are as follows:

1. The stabiltiy of Government policy
2. The export of logs
3. The disposal of sawmill residues
4. The cost of energy
5. The availability of raw materials.
6. Taxes.
7. The lack of cohesive Government Policy
8. The failure to recognize the diversity of the industry.
9. The lack of support to strengthen competitive position.

Each of these issues has been adressed in detail in the preceeding sections and multiple topics have been addressed in several sections. Several of the most important areas of concern are either directly or indirectly within the control of the State's legislature. Specifically, property taxes, stability with respect to incentives and legislation, the State's permitting process and the reduction of risk aversion for small businesses. Other areas of concern require State and Federal cooperation. Specifically, the export of raw materials, residue problems and energy costs.

Acknowledgements

A number of persons contributed to the forgoing sections. Principal authors include the following:

Section III,
  Items B, C and D- Charles Spies
  Item E. David B. Field

Section IV
  Items A, B and C. Jim Nimon
  Item D. Rosaire Pelletier

Section V
  Item A Y. Leon Favereau
  Item B Jim Connors
  Item C Rosaire Pelletier and Douglas Boyd
  Item D Rosaire Pelletier
  Item E Peter Mills
  Item F Alain Ouellette
  Item G Randy Caron
  Item H Douglas Boyd

Appendices related to the public meetings: Jim Nimon

Appendix I
Letters from Concerned Citizens

The Wood Manufacturing - Land Use Connection

By
Y. Leon Favereau
Bethel Furniture Stock
Bethel, Maine

Discussion

Most Maine wood mill managers will tell you the greatest impediment to increasing primary and secondary wood products manufacturing in Maine is what radical, and sometimes not so radical, environmental groups want for Maine forestland use. The Green's current initiative to create large parks that eliminate timber harvesting, to purchase forest lands and to increase land use regulations that reduce timber harvesting, will result in less, not more wood use. This is the one problem wood mill managers can't overcome with hard work, ingenuity or tax incentives. They simply can't manufacture products if they don't have the raw materials to work with and the less they have available, the less they can produce.

The Green's substantial political, legal and financial strengths have helped them achieve so many of their timber harvesting reducing goals in other parts of the county that it has to concern any career woodsman. It seems to make no difference that so much of the information the Greens base their desires on is questionable. It seems to make no difference that they have caused so much harm, to local citizens, local economies and forest health in other parts of the country. They almost always get their way, if not sooner, then later and they are likely also to achieve their goals here in Maine. A strong resolve by Maine elected officials and by the Maine forest products industry is required if we are to keep our forests open to timber harvesting without excessive regulations.

An example of what northern Maine could become.

Early in the 1990's, the Greens were using the New York State Adirondack Park Blueline (greenline) area as an example of something to replicate here in northern Maine and across the 26 million Northern Forest Lands (NFL) area. The term greenline has since been discredited with elected officials and Greens are no longer publicly promoting that term. However, what these people are calling for here in Maine, large parks, and micro management of private forests is exactly what the Adirondack Park area has for forestland use. The questions that beg to be answered are, is it good for the Adirondack Park wood products economy and would a similar arrangement of forestland use here in Maine also be good for its wood products industry and its economy?

A glimpse of what those answers may be is shown in the September 1998 issue of Evergreen Magazine, which features the NFL area. Figure 14 on page 20, shows government supplied job employment numbers by sector within the respective NFL boundaries for each of the four NFL states. Seventy-nine (79%) percent of the NFL area in New York state is the Adirondack Park, so a comparison of the New York area to the Maine NFL area can give us an idea of what the differences are. As a percentage of totals for each state, individual sectors are similar for the two states except for "All Wood Products" and "Government" jobs. The concern is that if we transform Maine into something closer to what the Adirondack Park is, we will be trading wood products employment for an number of excessive government jobs. A spreadsheet of Evergreen's government data of the two state NFL areas, with percentages added, is attached. In addition, a county official from the Adirondack Park area has estimated unemployment figures in Park counties to range between 8-1/2% and 11%, even though these are good economic times

Conclusion

The perceived results of northern Maine if it is transformed into something similar to an Adirondack Park, if it is true and realized, has serious economic implications for the Maine wood products industry and the State of Maine. The Adirondack Park is easily accessible, as it is less than a day's drive away. A thorough economic study of the Park with respect to its land use, and what a replication could do to us should be performed. Environmental benefits of the potential transformation, whether real or perceived, may also be in order but it should be separate from the economic study.

The Maine legislature should fund an economic study of the effects of Adirondack Park land use on its economy and consider the implications if a similar land use arrangement were replicated in Maine.

RICHARD A. HALE
Forest Products Consultant
17 Peters Street
Orono, A& 04473
December 16,1998

Dr. Robert W. Rice, Chmn. Governors Task
Force To Increase Primary and Secondary Forest
Products Manufacturing

Dear Sir:

The growing of high quality products by Maine woodland owners is essential to the forest products industry of the State to enable them to manufacture high value added products. An adequate educational effort by all entities is essential. I submit herewith my opinion of one of the approaches that should be considered in moving the economy of the State of Maine forward.

if I can provide further information or opinion, do not hesitate to call me.

Yours truly.
Richard A. Hale

EDUCATION TO ENHANCE THE MANAGEMENT OF THE WOODLANDS OF MAINE AND MAINE's FOREST INDUSTRIES

I completed my education and went to work in the Maine forest in 1948, and have been closely associated with it since. I ran my own sawmill and logging business for 10 years, went into consulting work in the forest industry for 8 and then to the University of Maine for 24 in both teaching and research. Based on this long experience and my background, it is my opinion that the forest lȧnd owners in Maine have the greatest opportunity that they have ever had to profit from their managed woodlands. We have location that gives us good access to the megalopolis to our south, the European market, and to Canada. We have a resource of diverse species and quality. We have industry and marketing systems that use the entire product of our forest in both an economically and ecologically sound fashion. Finally, the recent Maine Forest Service survey indicates that we are now in a situation where current growth is slightly less than current harvest, and when you have a demand greater than supply, the supplier tends to have a price advantage.

THE RESOURCE

First a look at some of the basics we are dealing with it There is a great tendency to lump resource figures together for purposes of analysis. The fact flat we are dealing with two Mm of product often gets ignored. The paper industry is a fiber industzy. They cȧn and do use almost every species that grows in Maine. They are able to use all of the wood in the stem of the tree. Their processing equipment can eliminate the undesirable components such as knots and decay. They can also use the residual chips and sawdust from the solid wood industries. The most valuable species to these mills are spruce and fir. These will produce a high quality groundwood pulp as the base particularly for light weight coated papers for magazines and catalogs. As a chemically produced pulp, they have a long, strong fiber that can be used to bind the shorter fibered hardwood pulps. Heretofore there has been a plentiful supply of spruce and fir available from unmanaged and marginally managed stands. This is and will be no longer true, making it necessary for the industry to go to intensive silvicultural management systems to produce the necessary fiber This will not be cheap wood! Their other major fiber is hardwood. There is a plentiful supply using material not suitable for solid wood products.

THE FOREST LANDOWNERS

My chief concern is for the landowners whose interest is in producing forest products primarily for the solid wood industry rather than for the paper and board industries. Included in this are all of the smaller land owners and now many of the larger ones. Some of these have lands that are well managed, have been for years and are starting to produce at a highly profitable level. Others are not so well managed and need to be brought into a more productive state. Woodland ownership in Maine involves over 100,000 individuals and corporations. Probably the majority of the individual pieces of timberland are adjuncts to farm, residential or recreational properties and are a side issue to the ownership. However, a 50 acre woodlot can easily have a value of $50,000, and should, with proper management, be put to work to produce a return commensurate with its value, with the return increasing as the benefits of good management result in more and higher quality products.. The products of these lots are vital to the prosperity of the wood products industry of the State.

Bringing the unmanaged or marginally managed lot into good productivity takes skilful management and time. The goal, simplistically put, is to manipulate the composition of the stand to concentrate the growth into species having a high value, and to manipulate the spacing to assure the maximum rate of growth of high quality wood. This must all be done in an ecologically sound fashion, also taking other desires of the landowner into account.

There are a number of options that landowners have for managing their woodland:

1. They can hire a consulting forester. There is a very solid group of these in the State, and they are regulated by professional registration. At the present time there are many owners who are having management plans prepared by consultants for two reasons. Maintenance of Tree Growth Tax Law status as well as aid for ice storm damage require one, and currently there is subsidy available for management plans. This is generally the best first move a landowner came take, but in many cases the cost of professional services beyond the plan may be greater than the owner can justify to the time.

2. If they have merchantable timber, they can sell it to a reliable logger who may do a good job of harvesting under his interpretation of good forestry practice. However, the interests of the logger and those of the landowner are not always the same when it gets down to some of the fine points.

3. They can take a longer route and through self education and experience, learn enough about forest management to manage and operate their holdings. In some cases this is the most viable way, but it does take a lot of commitment and time.

LANDOWNER EDUCATION

As in the management of any investment, there are several options for the landowner. An investor may turn his funds over to a trust officer or investment counselor and have them managed for a fee. The landowner can do the same with his or her land, turning it over to a consulting forester and expect the consultant to make the decisions. However, because of the long term nature of the investment many prefer to be involved in the decision process. This raises the need for educational programs spanning a wide variety of subject matter all related to the woodlands of the State.

Traditionally, forest *landowner education* in most states has been a function of the land grant university extension service. In some it is a function of the state's forest service. New Hampshire has gone the Extension route with county foresters and high level specialists at the University of New Hampshire. North Carolina and Virginia have done the same. Maine started with one Extension Forester in the 1930s, went to two in the 70s, three in the 80s, four in the 90s and is back to one today with apparently no effort being made to replace recent retirements and transfers.

There was an agreement in the 50s with the Maine Forest Service involving Federal funding that established State Service Foresters rather than County Extension Foresters such as New Hampshire has. They developed a staff of over a dozen fine professional who worked primarily in the woods with landowners and did an excellent job. Unfortunately in the 70s a change of both funding and philosophy resulted in a major cut in the program of service to landowners. Currently there is a program to increase the number of Service Foresters, and at the present time there are about a half dozen. There is a problem here, however, as far as landowner education is concerned, and this is that these foresters are also involved in law enforcement, several having been sent to the Criminal Justice Academy. Mixing an educational function and an enforcement function is not considered good practice.

The current situation in the educational effort for forest landowner is highly fragmented. In addition to the University Cooperative Extension and the Maine Forest Service, there is the Small Woodland Owners Association of Maine, the Professional Loggers Association, the American Pulpwood Association, Project Learning Tree, the Universities' Forestry Professional Development Office, paper company tree farm programs and the Sustainable Forestry Initiative group, to name a few.

THE ROLE OF COOPERATIVE EXTENSION

The general role of Extension is the interpretation of research and best practices in a particular discipline and their promulgation to their practicing clientele. The structure generally has specialists in the field stationed and attached to university departments, and sometimes with partial research appointments, working with professionals stationed throughout the state, usually in county offices. The specialists are a resource for the county staff and tend to work with groups of the public rather than individuals. This system has worked well in Maine agriculture in the past when there was a large number of farmers.

The forest resources of Maine have never been well served by the University Cooperative Extension Administration. Their apparent bias was that all of Forestry and Forestry Extension personnel were "Tools of Industry," and we definitely were not. We have been extremely fortunate to have had a number of very productive Extension Foresters over the years. The Yankee Woodlot and Great American Woodlot series both won national awards. The 100,000 plus woodland owners of Maine should be better served by the University Administration. I suggest the following Extension personnel as a minimum to rebuild the program for the woodland owners:

- Two experienced management foresters with a high level of communication skills. Should be Masters level or higher. They should have partial appointments in research.

- One wildlife management specialist. Should have a joint forestry-wildlife under graduate degree, field experience, communication skills and Masters level or higher.

- One forestry business management specialist. Should have a forestry degree, field experienced and an M.B.A. Must be able to advice woodland owners on financial analysis, taxation, and estate matters. Also must advise loggers on analysis ofharvesting costs and equipment purchase and financing.As many county foresters as is found necessary to service specific areas not now covered by other organizations or agencies.

There presumably should be some funding from the retiree positions. In addition, I understand that there is some Federal funding that is now assigned to the County Agents for forestry programs.

THE FOREST INDUSTRIES OF THE STATE

With the exception of certain types of veneers logs, the wood products industry of the State can provide a market for all of the species grown. Most of the smaller companies face many problems in raw material supply, production processes, residue disposal and marketing. The harvesters (loggers) are faced with machinery purchase acquisitions in the half million dollar category. University extension is a way of maintaining their profitability and hence their payroll which is the lifeblood of many Maine towns. Extension services to industry is widespread nationally. I have met many professionals over the years at Forest Product Society national meetings as well as at regional meetings. My personal experience was with the Maine Extension Forester. In 1967 we started a series of wood drying short courses which trained over 600 people in the 25 years I was involved. We were told by one knowledgeable expert that we had moved drying in Maine from mediocre to equal or better than any state in the country. (This program continues under Dr. Rice.) I suggest the following personnel to serve the forest industries of the State:

Two forest products specialists, one in primary processing and one in secondary processing, both experienced in industry with at least Masters degrees.

One harvesting specialist, probably with a forest engineering degree or equivalent

experience, Masters level or above.

One marketing specialist. Should have a degree in forest products and an M.B.A. in marketing

If appropriate, an applications specialist for the Wood Composite Project.

All should have appropriate partial research appointments.

Positions in Cooperative Extension are Federal appointments administered by the University Cooperative Extension Service. The forestry and wood products Extension Program and personnel, as I have outlined, activities should be directed by the College of Natural Sciences, Forestry, and Agriculture. The structure established should recognize and coordinate with other public and private entities to prevent duplication of effort.

The need of professional Extension coverage for the forest landowners and forest industry has been long established. Given the present opportunities, the time has come to evaluate the possibility of revitalizing the program.

Richard A.. Hale
Forest Products Consultant

Testimony before Governor's Task Force for Primary
and Secondary Manufacturing
January 14, 1999

I am speaking to you today from the perspective of a family owned sawmill in Searsmont, Maine. ROBBINS LUMBER CO., INC. employs 135 men and women, was started in 1881 and is now being run by the fourth and fifth generations of the Robbins family.

I'm not sure what your task force is going to come up with but it certainly needs to change something. I travel around the U.S. a lot marketing my company's products and I see regions that are very prosperous and many of their businesses relocated there to get out of an unfriendly business environment in the Northeast.

An area that particularly comes to mind is the North and South Carolinas and Tennessee. I would suggest that you study these states and see what they are doing to attract business. Whatever it is - it is working. I now ship a lot of lumber into that area to manufacturing firms that add further value to it.

In my handout to you I am including an article that was in a weekly newsletter published by the National Institute of Business Management. This article lists the best and worst states in the nation to do business in. Unfortunately, Maine is listed in the bottom five! Interestingly enough, our neighbor, New Hampshire is listed in the top five. Maybe you should look at New Hampshire too!

First you should look at taxes. Maine has a state income tax and inheritance tax. Many states don't. Believe me, when CEO's are looking where to locate their business this is a very important consideration.

Estate tax makes it very difficult for a family owned business like mine to compete with a publicly held company. That's because everytime the reigning generation dies, the next generation has to pay 55% of that generations asset value to the government. This is after we have already paid heavy federal and state income taxes every year. At our mill we just went through this with the passing of my parents.

Many farms and businesses are sold off because the next generation just can't afford the estate tax. It doesn't make much sense to sell 1/2 of my mill to be able to keep the other half. We can avoid it by buying huge amounts of life insurance, which is what we did. However, the high cost of insurance means that huge amounts of money are spent on life insurance rather than on capital improvements to keep my mill modern and competitive. Large publicly held companies have none of these estate problems.

Another problem in this state is referendums. Our industry recently has had to fight off two referendums. If passed these would have driven us out of business. These certainly don't make for a "business friendly" environment and they have cost us over 10 million dollars to defeat them - again money that should have been spent on better wages for our workers or capital improvements. The public has no business voting on how we manage the woods because the vast majority of people have no idea how to manage a forest. Referendums should be eliminated entirely - or at least make it a lot harder to get on the ballot.

Many companies that are located in Maine, or could be, are large national companies. Each year these companies decide where to allocate their funds. When they look at Maine with its many referendums and hostile business environment they have to really wonder why they should spend their money here on new equipment and improvements rather than some other state. I also believe that one of the big reasons why the big landowners up north have been selling their land is because it isn't worth the risk. If they invest big money in their land and trees today, are they going to be able to harvest them in the future?

Workers compensation costs are still prohibitively high in Maine. The improvements made by the legislature a few years ago have helped. Before the changes we had the highest workers compensation rates of any state in the nation. Even with the changes we are still the 17 th highest. Keep in mind that my Canadian competition just across the border has very low workers compensation rates because of their nationalized health insurance. This gives the Canadians an advantage on both the workers compensation and health insurance costs. I still pay very high health insurance costs on my employees - whether I make money or not.

Some other issues that make it difficult for Maine sawmills to compete with our Canadian neighbors:

1.) The biggest factor is the difference in the Canadian dollar, which currently is about 36%. This means that Maine sawlogs cost them 36% more but the value added lumber that is sold back in the U. S. is also worth 36% more.

2.) The Provincial governments and the Canadian federal government give a tremendous amount of grants, subsidies and interest free loans to their industries. I'm not saying that Maine should do this but the fact remains that it makes it very difficult for us to compete with logs with the Canadian mills because of all the government programs. Maine could at least tax us less and take the taxes off from our production equipment.

3.) It is hard for Maine businesses to compete because of the increased electrical costs. For example, most Quebec mills pay 0.03 per kilowatt I have received letters from states like Kentucky - recruiting me to move my business to their state. In those letters they brag that their costs are 3.9 cents per kilowatt-hour. In Maine we pay double those rates.

4.) Maine spruce lumber mills have a problem with Canadian mills because Maine produced spruce - fir lumber is assigned a lower engineering rating than Canadian lumber. This is because of the theory that wood that grows to the north is slower growing, the growth rings are closer together and therefore the wood is stronger. The problem is that most of Maine's spruce mills are further north than many mills in Nova Scotia, New Brunswick and Quebec. This ridiculous situation allows the Canadians to get more money for their product and precludes many Maine mills from even selling into some markets. This rule is based on the international boundary. It should be based on an actual geographical boundary such as the 40th parallel. The problem is referred to as the SPF vs. NSPF issue (Spruce, Pine, Fir vs. Northern Spruce, Pine, and Fir).

5.) Another big problem for Maine sawmills is the question of logs going over the border in an unprocessed form. I believe this problem will continue until the business climate in Maine is changed and the difference in the Canadian - US dollar equalizes out to make Maine mills more competitive. This panel can't do anything about the difference in the dollar but you can call for a more friendly and healthier business climate in Maine to help us compete.

James L. Robbins, Vice-President
ROBBINS LUMBER CO., INC. Searsmont,
ME 04973 Tel. (207) 342-5221

JLR/plc

Note: The Study related to the business climate of Maine to which Mr. Robbins refers can be obtained from the Small Business Survival Foundation, 202-785-0238

Appendix II
Initial Meeting Augusta, Maine
October 20, 1998

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Convening of the First Meeting: Tuesday, October 20, 1998

NOTES

Membership: See attached list for names and affiliations.

Members present: Martha Bagley, Randy Caron, Jim Connors, Leon Favreau, Bruce Livingston, Peter Mills, John Nutting, Rosaire Pelletier, Bob Rice and Edgar Wheeler.

Members absent: Douglas Boyd, Alain Ouellette and Charles Spies.

Staff present: Jim Nimon, Department of Economic & Community Development.

Guest present: Karen Stebbins, Finance Authority of Maine.

Sally Tubbesing, Executive Director of the Legislative Council, convened the first meeting of the ***Task Force to Increase Primary and Secondary Forest Product Manufacturing*** at 10:30 am on October 20th at the State House in Augusta. This was done to conform with Resolve 1997, Chapter 127, which established the Task Force. Ms. Tubbesing indicated that the first order of business was the nomination and selection of a Chair for the group.

Rosaire Pelletier moved, and Jim Connors seconded, the nomination of Bob Rice to serve as Task Force Chair. Following a brief discussion, Dr. Rice was elected by unanimous vote. Leon Favreau then moved, and Randy Caron seconded, the nomination of Jim Connors as Vice-Chair. Mr. Connors was also elected by unanimous vote. With the Task Force having duly elected leadership in place, Ms. Tubbesing wished the group well and turned the proceedings over to Dr. Rice.

Before reviewing tasks for the group, Dr. Rice provided simple definitions for "primary" and "secondary" forest product manufacturing. He said that primary referred to the "conversion of logs to lumber," and that secondary was "value added beyond that." The Chair then walked the members through the language of the authorizing resolve focusing attention on the specifics of **Sec. 4: Duties**.

Paragraph 1 requires the Task Force to "identify and examine (all) tax credits and incentives...that may succeed in retaining forest products in...(Maine)...for primary and secondary manufacturing."

Paragraph 2 requests that the members "examine proposals for new credits and incentives and any limitations imposed by existing laws that hinder...(their use)...by primary and secondary forest product manufacturers."

Paragraph 3 requires the Task Force to "examine the impact of the North American Free Trade Agreement on the forest products industry."

Paragraph 4 requests that the members "explore any other proposals or strategies that may benefit the State's forest products industry."

Questions were raised and discussion ensued about the best way to begin the process of examining credits and incentives as expected in paragraph 1. Jim Nimon explained that his department had assembled all these programs into a booklet entitled "Maine Works." He agreed to mail copies to the members and provide an overview and explanation of the material at the next meeting.

Senator Mills expressed an interest in reviewing information that drew forest product industry comparisons between Maine and other states. Senator Nutting, as a dairy farmer, has watched US government policy "cave in on agriculture" and voiced concern with the way things are going for the forest product industry. As discussion shifted to the effects of NAFTA, Dr. Rice indicated that "construction lumber is most effected." Randy Caron said that "in the 90's the share of Canadian wood in US markets has grown from 27% to 37% and the trend continues under NAFTA" and blame can be properly placed on the US government which was "asleep at the wheel." Rosaire Peletier added that "US sawmills are well-run and well-kept, but they are struggling nonetheless." Considerable discussion ensued regarding the trend toward increased acquisition of Maine forests and forest product companies by Canadian interests (*note: this discussion took place prior to the Irving offer to Bowater).*

Members then began to think about the structure of the four public meetings that the resolve mandates. Senator Mills suggested a "two-phase" meeting with the morning set aside for "internal" tasks like reviewing expert information, listening to requested presentations, hosting question and answer sessions, etc., and an afternoon geared toward "external" proceedings, i.e. gathering input from citizens with a stake in the forest product industry. Following discussion, there was general consensus that this would be a good approach.

The Task Force then began to take "a walk around the barn." Some members talked about the problems with NAFTA. Others mentioned people and groups that should be invited to speak or present to the members. There was a brief review of a few different species of trees and what each was used for in the industry. Randy Caron cautioned about "potshots against Canadians" and reminded everyone that it was our government that signed on the dotted line. The US side of the industry remains high on labor costs and can not match the Canadian subsidies in this area. Leon Favreau added this caveat. The Canadian government will do whatever it has to in order to keep its workforce employed. Maine is not inefficient. Remember that even if Maine or the US does make adjustments to level the playing field, Canada can then be expected to tilt it in its favor again. So we can not be certain that our best tinkering will have the result that we expect it to, given their resolve with this industry.

Dr. Rice offered to touch base with the USDA since the Feds watch the industry numbers. Charlie Lumbert was offered as a good source of information on the softwood industry. Leon Favreau said he would try to find someone in the area of secondary hardwood.

Dr. Rice discussed the example of sleds made of ash and the resulting higher prices charged due to the exchange rate; this despite a constant price in the ash itself.

There was further discussion about good information to have, like an annual summary of the wood product industry. Pete Lammert's name was mentioned as the contact person. Another item was payroll costs for Maine workers versus Canadian workers, i.e. a comparison of labor costs – "worm's eye view" in the words of Senator Mills. He added that in Maine we do have control over rates of taxation, e.g. BIW & Hathaway tax incentives; "there is a precedent for state intervention." However, "we have no power to place a duty on the border."

Senator Nutting considered the concept of a "concentration yard" and its value for hardwood but not softwood. He wondered about the incentive to move lumber from Turner to Canada and back.

There were some questions posed regarding whether or not it is possible to have profitable sawmills in Maine, and whether we might be shipping our jobs along with our logs.

More discussion ensued about information that will benefit the Task Force. Comparative cost structures was mentioned, to include the "major elements in cost of production" if available and not proprietary. Randy Caron took the group quickly through some of the items like cost of manufacturing, labor and benefit costs, and the cost of material and supplies. He thought it might be useful to show as percentage of sales price. Senator Mills concluded by asking whether we are maintaining state policies that encourage competitive disadvantage.

Members looked again at the issue of comparisons with other states, noting that Wisconsin is now the #1 exporter of forest products, with Maine's share having dropped from 60% to 13%.

There was some talk of the Bowater sale, with Dr. Rice mentioning that despite old technology there is still considerable value, given the 2 million acres and free power. Some members speculated about what capital investment might have occurred there had there been changes to workers comp and a BETR program years ago.

Rosaire Pelletier told the Task Force that Fraser had invested $85 million over the past three years in new specialty technology. BETR has helped and good paying jobs have been maintained in Madawaska. However return on investment has not been good and so shareholders are not being optimally cared for.

With pulp and paper the 7th largest industry in the US, it was felt that "major elements" for comparative purposes must be "out there." Jim Connors mentioned the legislative report on pulp and paper competitiveness. He said a summary might be helpful but asked the group to remember that its work was to address primary and secondary wood products.

The group moved on to review the place and date of its four public meetings. The six counties mentioned in the statute were consolidated into four areas. The Task Force then decided on the following schedule:

1. Bangor November 10 9am – 12 noon; 1pm….
2. Presque Isle November 19 TBA
3. Farmington December 8 TBA
4. Machias December 17 TBA

The first meeting will have action items including: Maine Works (Nimon), Tax Incentives (Rosaire), Charlie Lumbert (Caron), Jake Ward (Rice), Baldacci's Staff (?), Costs & Comparisons (Association ?, Pelletier), and an afternoon "public meeting." Senator Nutting stressed that the advertising of these events to ensure citizen input is critical.

It was noted that a report is due on January 1, 1999. The members asked Jim Nimon to determine how an extension is obtained. It was felt that a February 1 due date might be more realistic.

It was duly moved and seconded to adjourn the meeting.

Respectfully submitted by Jim Nimon on 10/23/98.

Appendix III
First Public Meeting, Bangor, Maine
November 10, 1998

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Notes of the First Field Meeting: Tuesday, November 10, 1998
Eastern Maine Development Corporation, Bangor, Maine

Members present: Martha Bagley, Douglas Boyd, Randy Caron, Jim Connors, Leon Favreau, Bruce Livingston, Peter Mills, John Nutting, Alain Ouellette, Rosaire Pelletier, Bob Rice, Charles Spies and Edgar Wheeler.

Staff present: Jim Nimon.

Guests present: John Cashwell, Seven Islands; Steve Clark, NELMA; John Ford, Huber; Dennis McConnell, UMaine; Tim Punke, CFLI; Lynn Ricker, Oscar & Reuben Lumbra Lumber; Steve Schley, Pingree; and Wallace Wall, Vic Firth Mfg.

1. The Effect of NAFTA on the Softwood Dimension Industry – ***Tim Punke, Coalition for Fair Lumber Imports***

Mr. Punke handed out a packet of material covering Canada-US issues, in particular, Canadian subsidies to the forest products industry. He said that Canadian timber prices are well below market value, and that government subsidies have resulted in an increase in the Canadian share of the US softwood lumber market (up from 21% in 1991 to 34% now). The rise in share was directly related to the termination of the Memorandum of Understanding (MOU) between Canada and the US in 1991. The MOU had spelled out principles for lumber trading between the two countries. A new agreement was enacted in 1996 that integrated countervailing duties laws but limited its scope to four Canadian provinces and certain forest products, including most softwood lumber, flooring and siding. Even with the agreement Canadian softwood lumber imports are expected to make up about 33-34% of the US market. Canadian imports never exceeded 33.5% prior to the agreement.

US Customs has a key role in monitoring the agreement since importers must declare the "province of first manufacture" upon importation and entry summary. For covered imports the summary must specify the Canadian export number and permit status. Additional disclosure is required for bonus shipments. Customs officials have methods to enforce the agreement including inspecting the merchandise, examining entries, analyzing import patterns and reconciling US and Canadian trade data. Province-of-origin fraud has been discovered in the past, with significant imports of covered lumber showing up as non-covered lumber from the Maritime provinces. However, diligence on the part of US Customs and the Canadian government has resulted in a substantial reduction in this type of fraud.

Another area of concern has been "product coverage." Attempts have been successfully made by

Canadian companies to physically alter products in order to remove them from coverage under the agreement. "Drilled" studs and "notched" studs were two examples given. The minor alteration resulted in shifts to the classification of "joinery and carpentry" which falls outside of the agreement. These initial rulings ("Customs-created loopholes for drilled and notched lumber") have led to substantial import increases for the products. Other product claims that merit scrutiny include truss components, floor joists, fencing and fence pickets, poles, piles, posts, rails, railway ties, wood waste and "rougher head" lumber (a sample of this was circulated). The agreement expires in 2001.

Mr. Punke then highlighted the following subsidies that the Quebec province provides to its forest products industry: artificially low stumpage, non-commercial loans, direct cash infusions or grants, assistance with exports and below-market energy rates.

The effect of NAFTA (Chapter 19) was briefly presented. Binational panels have been established to interpret and apply US domestic law. This has immediate flaws with Canadian nationals involved in US law. Examples were given of tainted proceedings with "winners" determined by 3-2 votes along national interests, e.g. if 3 of 5 are Canadian nationals, Canada wins proceeding. This has led to erroneous and inconsistent results. Reform is needed, or elimination of this chapter covering dispute resolution.

Mr. Punke concluded his presentation by outlining action that is needed in Washington DC and in Maine. He suggested that the Congressional Delegation be encouraged to constantly monitor the Lumber Agreement by tracking Canadian violations, enforcing compliance by Customs, providing priority focus on forest products ("a $7 billion per year industry"), and considering the elimination of chapter 19. The number one thing Maine can do is work with its Customs officials to encourage effective enforcement of the agreement.

Considerable discussion followed with members questioning stumpage prices and the disparity between the two countries, citing examples of covered wood offered as non-covered by Canadian firms, reviewing the practice of purchasing cheap wood for a shift and a half, regular price for half shift, and highlighting ways for the US to protect its interests.

2. The Business Climate in Maine – ***Dr. Dennis McConnell, University of Maine***

Dr. McConnell handed out folders to all members. He then reviewed the material using an outline that listed each of his ten clippings. First up was a 1992 study on business climate satisfaction. Key point showed Maine's disadvantages as workers comp, energy costs, high taxes and state government attitude toward business. Advantages were mostly regarding workforce issues. The second item was a 1995 development report card. Key point had Maine scoring very poorly ("D") in economic performance, business vitality and development capacity. Third essay covered climate, taxes and development. Key point was that Mississippi economist referenced Dr. McConnell's study mentioned earlier. Fourth article dealt with treatment of wealthy citizens. Key point was that Maine treats its wealthiest citizens very poorly ("D+"), particularly with regard to high taxes.

Fifth item was a recent Time Magazine article on companies around the country pitting communities and states against each other in pursuit of tax breaks. Key point is that in McConnell's view (as a self-described "hard-core capitalist and free enterpriser") state incentives and tax breaks may actually be detrimental. Sixth item was a more scholarly rendition of the same issue in Time with the point made that the best investment might actually be in existing companies not new ones. Ditto for number seven except from the urban affairs angle and a caveat that taxpayers' money may be going into risky deals. Ditto for the eighth handout.

The ninth and tenth articles dealt with available data for economic analysis. Dr. McConnell was complimentary towards the Maine Department of Labor and the Center for Business and Economic Research for the ongoing digests that they produce and encouraged active use of the information on the agency web sites. He felt however that there was very little good information for how companies and industries were doing. He recommended that focus be put on the collecting, organizing and presenting of how industries in Maine are doing, i.e. establish a Department of Commerce to track business activity in as good a fashion as the Department of Labor tracks workforce activity.

3. Comparative Costs for the Manufacture of Hardwood Products – ***Leon Favreau, Bethel Furniture Stock, and Doug Boyd, Maine Bucket Company***

Mr. Favreau reviewed the handout that he had prepared and circulated to members. The first part of his presentation covered an analysis of "cost as a percentage of sales" at his own business, Bethel Furniture Stock, which is a "value added hardwood component parts" company in Western Maine. Raw materials (sawlogs and lumber) is 33% (with a low-high range of 31-45%); direct labor is 29% (27-30%); power is 3.6% (3.0-4.8%); health care is 3.4% (2.3-3.4%); and workers compensation is 1.0% (0.4-2.7%).

He then looked at comparative figures for the six New England states (58 companies) versus three Canadian provinces (six companies) for the following categories: hourly wages, social security, health insurance, workers comp, and unemployment insurance. Without discounting currency, the average wages were about the same. The percentage of US costs for the next three categories was higher. Overall, the US companies were paying a little more than 40% for the benefit package, while Canadian companies paid almost 28%. These figures were offered as illustrations only and did not necessarily compare apples to apples given the low number of Canadian firms and the differences in scope of categories listed. Dr. Rice agreed and said that both figures seemed low to him.

Rosaire Pelletier indicated that he was familiar with a CPA report that compared the net income of US v. Canadian mills and found the two countries to be within $1 of each other. Randy Caron offered anecdotal evidence from a former employee that in moving from Maine to Canada the increase in income tax wiped out any gains from decreases in the benefit package. So "it may be a wash." Mr. Pelletier concurred that despite companies paying employees a lot more, the surplus gets eaten up in the tax system. Doug Boyd commented on the similar percentages for unemployment insurance by surmising that most of the companies could be in the high unemployment provinces of Quebec and the Maritimes and therefore skew the figures higher than might be expected if the data covered more companies across more provinces.

Next Mr. Favreau directed members' attention to the September 1998 issue of Evergreen Magazine, page 20, figure 14, which shows employment by sector in the Northern Forest Lands Study Area – 1994. In reviewing sectors for Maine v. New York, he focused in on the two that showed the greatest discrepancy – "all wood products" and "government" - and determined that the New York counties in the study area are trading their wood product jobs (-7.1%) for government jobs (+7.3%). He noted that this trend should be of concern to Maine since the "Greens have wanted to greenline northern Maine and (NY) was used as an example."

4. Comparative Costs for the Manufacture of Softwood Products – ***Randy Caron, Pinkham Lumber, and Tim Punke, Coalition for Fair Lumber Imports***

Randy Caron passed out a breakdown of costs as a percentage of sales for sawmills in Maine, Ontario and the South. Ontario had the smallest net wood cost (38%). Maine and Ontario had comparable labor and benefit costs (22+%), while the South paid a smaller percentage. Maine and the South had similar depreciation costs (3-4%), while Ontario, apparently spurred on by Canadian grants for machinery and equipment, was at almost 18%. Jim Connors suggested that we need to focus on the components that we can influence through public policy. Raw material costs are important (Maine log costs were 75%, Ontario 68%, and the South 92%). Utility costs are high. There is not a great deal of depreciation. Let's look more closely at how we can encourage re-investment in facilities. Dr. Rice noted that there are big variations in state supports, e.g. exempting all equipment from taxes.

Tim Punke quickly reviewed his handout and offered several observations. Canadian mills face lower costs than their US competitors. This is due to the provinces owning 90% of the timber and selling it to Canadian mills at a fraction of its market value. In addition, Canadian mills have less stringent environmental constraints on their operations, and stumpage is subsidized. This adds up to profitable Canadian mills and US mills losing money. Mr. Punke concluded by highlighting subsidies offered by Quebec to its mills. These include: timber at prices well below market level, non-commercial loans, cash infusions and grants, export assistance, and below market energy costs.

Dr. Rice then asked members to pause momentarily and brainstorm areas of focus for the Task Force, i.e. "pinch points" hurting the forest products industry that are "broadly controllable." After a few minutes, the following list was developed:

- Greater Opportunities to Encourage Mills to Invest

- Tax Incentives for New Equipment

- Tax Issues
- Equalize Stumpage Rates
- Cost of Energy
- Inconsistent Policy for Moving Raw Product
- Land Use Issues
- Access to Capital
- Business Climate

5. Maine Works (State of Maine: Business Incentive Information) – ***Jim Nimon, Department of Economic and Community Development***

Jim Nimon walked members through the 55-page booklet that is maintained by DECD. It contains summary information on all Training Program and Tax Program business incentives in Maine, along with summary information on State and Local Financial Programs, Environmental Programs, International Trade Assistance and Site Assistance. It concludes with descriptions of the key elements of Maine's Business Climate.

Mr. Nimon indicated that the two major programs in this booklet that effect the forest products industry are Business Equipment Property Tax Reimbursement (BETR) and Municipal Tax Increment Financing (TIF). He said that Rosaire Pelletier would cover BETR later, so he would describe TIF. The program is geared toward companies making a significant capital investment within their municipality, and covers both real and personal property. It is a local economic development tool that a willing municipality uses to provide financial assistance to a company by either returning new ("incremental") property tax dollars, generated from the investment, directly to the company for project costs, or retaining the new tax dollars to reduce bonds issued to support the project.

6. Summary of FAME Initiatives and Results for the Forest Products Industry – ***Charles Spies, Finance Authority of Maine***

Charles Spies took members through his handout by describing the array of services that FAME offers, and explaining how many benefit forest product companies. He concluded by showing a chart that listed FAME services to this industry over the past ten years. For example, there have been 57 loan guarantees (47 small business, and 10 commercial) totaling over $31 million; direct loans to more than 11 companies that received over $2.1 million; 9 bonds issued (8 tax exempt, and 1 taxable) for companies totaling over $8.8 million; interest rate subsidies to 5 manufacturers supporting approximately $1.2 million in financing; and other support for early stage companies.

7. Existing Tax Incentives for Forest Product Manufacturers in Maine – ***Rosaire Pelletier, Fraser Paper***

Mr. Pelletier passed out two handouts that used graphs to compare the tax burden on Maine's eleven paper mills to the burden on selected mills in seven other states. He used data from 1997 to compare local property tax dollars per ton of product produced. The tax burden for Maine averaged $12.05 per ton produced compared to $3.57 for the other states. The annual total for Maine mills was $37.1 million. The BETR program reduced this to $32.7 million.
The next handout was the BETR brochure and fact sheet. The program is clear. It provides a dollar for dollar reimbursement to companies on personal property taxes paid on qualified business equipment placed into service after April 1, 1995. Reimbursement is up to 12 years on any particular property. This program levels the playing field with other states by ensuring that new investment is not taxable. The key issue for Mr. Pelletier though is the future program status. Every year changes are added to it and either more companies are exempted from participation, or property is exempted from qualification. Companies are fearful about politicians' long-term commitment to the program. Will it be there next year he wondered?

He said that Fraser has benefited greatly from BETR, lowering its tax burden to 10% (lowest of the mills), but needs some certainty about the future prospects. Both Senator Mills and Senator Nutting said that BETR would be there in the future. The only serious question that may be debated this session is whether or not to continue the program for "retail" operations. The program is clearly intended for manufacturers and their "investment in productive capacity." Senator Mills concluded by saying that BETR, TIF, ETIF and Tree Growth Tax (which saves real estate taxes) are the four major incentives that Maine offers the forest products industry.

Mr. Pelletier circulated a fact sheet on the Maine Tree Growth Tax Law of 1972. The law implements a 1970 amendment to the Maine Constitution that allows for valuation of timberland and woodlands according to their current use. In order to qualify, a parcel of forest land must be in excess of 10 acres and used primarily for the growth of trees to be harvested for commercial use. The purpose of the law is to tax forest lands on the basis of their potential for annual wood production.

8. Public Comment – ***Opportunity for Comments from Industry Representatives and Interested Citizens***

Steve Sly, President, Pingree Ownership: Mr. Sly said that the most important concern for this industry is stability. No industry needs to plan the way this one does, and nothing helps planning better than a stable environment. Even with major attention paid to the regulatory environment, the availability of raw material, and the cost of energy, nothing can be more detrimental to adding value than the "non-tax related" issue of an unstable environment in which to work. Seventy-year commitments need to be made regarding where supply is coming from. People are willing to make value-added decisions if they are certain they can count on it.

John Cashwell, President, Seven Islands: Mr. Cashwell made four key points. First, he said that roads in rural areas are needed to safely handle the transporting of heavy wood products. Second, rural roads are more susceptible to the elements, e.g. Route 11, and are oftentimes inadequate, and force the re-routing of trucks at company expense. Third, the rail structure needs reviewing. Presently two rail systems are managed in an incompatible fashion, causing unnecessary expense to companies moving wood products. Fourth, deregulation of power is on the horizon and may cause additional expense for wood products. He said that waste has been historically used as fuel by the industry and warned about supporting any action that would lead to the old days of wondering what to do with waste.

John Ford, Business Development Director, Huber: Mr. Ford concurred that rail issues are real, especially costs for transferring product from one line to the other. He experienced the site development permit process as long, costly and tenuous, i.e. not knowing if you'll get approval from DEP. He thought other states lure business due to ease of process. We need one stop permitting. Why has there been expansion to the South? High power costs, air emission regulations, difficult permitting process, etc., were part of the reason. The site permit has been modified and can now be done in 60 days, air permitting in 30 days. But he had rail link, power established and a road so he was going through process as formerly permitted, not greenfield. As a hardwood sawmill, without timeliness, would have lost a major opportunity.

Lynn Ricker, Oscar & Reuben Lumber: Ms. Ricker represented her family-owned, 46-year old primary processor sawmill business in Milo. She said there did not seem to be any programs that benefited Maine sawmills except BETR. Have not had enough new employees at one time to use the GTI or ETIF programs. Her company has all the same capital issues that large companies like BIW have, minus the political clout. They want to maintain their independence and not be beholding to anyone, but want to keep their 29 employees working.

Ideas Received from Others in the Industry (provided to Leon Favreau):

- Eliminate sales tax on all forestry equipment;
- Give tax rebates to landowners whose timber is used by Maine companies;
- Allow towns to reduce property taxes to wood products firms that increase employment; and
- Improve Maine's wood products marketing program.

Appendix IV
Second Public Meeting, Presque Isle, Maine
November 19, 1998

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Notes of the Second Field Meeting: Thursday, November 19, 1998
Northern Maine Technical College, Presque Isle, Maine

Members present: Doug Boyd, Randy Caron, Jim Connors, Bruce Livingston, Rosaire Pelletier, Bob Rice, Charles Spies and Edgar Wheeler.

Staff present: Jim Nimon.

Members absent: Martha Bagley, Leon Favreau, Peter Mills, John Nutting, and Alain Ouellette.

Notes Reviewed. Members approved the notes from the Bangor meeting. Jim Connors mentioned that he had not received a copy prior to his leaving for Presque Isle.

BETR Handout. Bruce Livingston provided members with a copy of the list of forest-related companies receiving property tax reimbursements for the period 7/1/98 - 11/14/98. Under "furniture and fixtures," three companies received $308; for "lumber and other wood products," thirty companies received $274,958; and for "paper and allied products," ten companies received $977,649.

State Rankings 1998. Jim Connors circulated excerpts from a 1998 report covering "a statistical view of the 50 United States," and cautioned that the data was imperfect but did provide a comparison between states. He focused on four areas: Workers' Compensation, State Corporation Net Income Tax Revenue, State and Local Government Property Tax Revenue, and Local Government Own Source Revenue.

Workers' Compensation: Maine ranked 33rd in benefit payments in 1995 (note: based on number of employees, e.g. California was 1st, and New York 2nd), and 6th in benefit payment per employee. Depending on your persuasion, this was either supportive of injured workers, or excesses that had not yet been corrected by the 1993 law changes. Dr. Rice said that a quick take on this is "we don't take in much, and we spend quite a lot."

Doug Boyd said that through changes in the law, and self-insurance access (Chamber group), his company was able to reduce workers' comp costs from 17 cents to 5.5 cents per dollar of wages paid. As a $2-3 million company, he was able to drop costs from $90,000 to $33,000. His major claims categories involve abrasions and cuts from stapling or sanding. Safety program has yielded improvements in this area.

Randy Caron explained that Pinkham was self-insured and had participated in OSHA 200 (top 200 companies that contributed to accidents based on number of employees, not necessarily higher percentage of injuries). This reinforced that Pinkham was doing OK, and led to initiating of ergonomics training. Company has just one lost time this year.

Jim Connors felt that we were "on a good course with Workers' Compensation and may not need a recommendation other than 'stay with the course'."

Bruce Livingston stated that more workers' comp bills would be introduced, especially regarding lawyer fees.

Senator Mills Proposed Amendments to BETR. Rosaire Pelletier arrived and asked for the group's indulgence regarding a matter of considerable importance to him. He noted that one day after hearing Senator Mills state in Bangor that he supported BETR and was confident no changes would be made to BETR except maybe in the area of retail, he got back to his office at Fraser to find a copy of "An Act Concerning the Business Equipment Reimbursement Program" sponsored by Senator Mills. He circulated a copy for all members to see. The three changes include: prohibiting tax reimbursement from both BETR and TIF on the same equipment, limiting BETR reimbursements to 90% of taxes paid, and exempting retail from BETR. So even though Senator Mills heard directly from forest product companies regarding the importance of BETR to their operations, and the need for stability in this industry, he went ahead and drafted legislation that will reduce the benefits of the program. Pelletier said that it is exactly this type of tinkering with the status quo that jeopardizes future prospects for the industry.

State Rankings 1998 (continued).

Corporate Net Income Tax Revenue: Jim Connors said that in 1996 Maine ranked 43rd in total taxes collected, and 40th in the more meaningful category of per capita revenue. Doug Boyd suggested that when lumped together, Maine's profits were way down relative to other states.

State and Local Government Property Tax Revenue: This includes all land property tax. Maine ranked 32nd in 1994 in taxes collected, and 12th in per capita revenue which clearly highlighted its dependence on property taxes.

Local Government "Own Source" Revenue: This category covers taxes, current charges and miscellaneous general revenue. It does not include grants and revenue sharing, i.e. solely property tax. In 1994 Maine was 39th in taxes collected, and 32nd in per capita revenue.

The relative impact to the business "bottom line" is considerable. BETR has been a major impetus to remove this burden.

Discussion: Rosaire Pelletier said that Maine must stay the course. Do not tinker with a formula that's working. The state surplus can be attributed to new capital being brought in by companies - wood products, computer chips, telemarketing - to support high wage jobs. Investment of this magnitude requires stability, especially for the four major incentives: BETR, ETIF, TIF, and Tree Growth.

Dr. Rice reviewed the company and dollar impact of BETR using the list provided by Bruce Livingston.

Rosaire Pelletier stressed that return on investment (ROI) is the driving force behind every capital investment decision for multi-national corporations. If they want to spend $200,000,000, they say to the competing internal family of companies "tell us your story." If Fraser's ROI is 25% and Northwood, BC is 30%, it goes to them. With BETR, the ROI percentage increases versus the others and Fraser can be competitive again. No pennies are spent if the return is not there.

Randy Caron added that ROI plus sensitivity studies, i.e. speculation, is routinely part of the decision-making. Competition is against companies around the country. BETR removes much of the need for speculation.

Rosaire Pelletier went on to say that a state incentive is one of the primary motivations behind a business investment decision. You need a good asset base. Maine has an excellent workforce – the investment is there - and good resources (wood supply). Fraser is running out of trucks meaning inventory must be stored with companies buying "just in time."

University of Maine Research: Dr. Rice explained that a bond issue had passed covering forest products, marine science and sensor development. UMaine has had Extension staff capacity for forestry trimmed back from 3 to 1. Although not a faculty member, the staff person is on call to help companies throughout the state. Jim Philp is a sawmill specialist from Pennsylvania. The extension service is half government funded and has been around since the 1930's.

A major effort at UMaine has been the development of timber bridges through the civil engineering program. The Federal Government funded this program for over 5-years and continues to have occasional grant programs that support bridge research. The bridges were usually considered demonstration . The design was developed at the University and contracts made with communities who funded part of the costs of construction. Approximately 10 -15 bridges were constructed in Maine and about 70 - 100 in the US.

Research is now underway using Fiber Reinforced Plastics (FRP). Instead of the standard way of using glued laminated beams (18 companies), layers of , fiberglass are used with the wood. I-Beams can be constructed using FRP's as stringers . The concept of FRP's is a subject of much research at the University and the products hope to use low quality timber from hemlock and maple. In practice the beams are usually southern yellow pine.

The markets for glued laminated timbers are fairly level over time. However, the markets for composite I beams continue to grow with housing starts. There are no composite companies in Maine making I beams at this time and the market is nearly saturated.

An important asset at UMaine is its new test facility for long beams. Companies from around the country will utilize this new Research and Development facility. The only other one in the Northeast is at MIT, but theirs is an old facility.

Commercializing timber bridges remains a major challenge. Many specifiers have expressed doubts about using timber bridges. A focused program is needed to convince the specifiers of the value of wood for new products that traditionally use other materials.

Randy Caron suggested that due to forest depletion, usage of 2X10's and 2X12's will show a percentage decline. The $100 advantage for using this size over a 2X4 one year ago has shrunk to a $20-$30 advantage. Can the South guarantee the strength of a 20-year tree compared to a Northeast 50-60-year old tree? Southern is long fiber, heavier grade; spruce is short fiber, strong paper, lighter grade. Trends show that the 60% portion of paper industry in the North has dropped to 13%. Southern wood composites are strong, as evidenced by Georgia Pacific's move to the South.

Jim Connors suggested that the Task Force consider recommending ***a tax incentive to any company that uses a fiber-reinforced component engineered at University of Maine. Any company substituting or adding product based on UMaine research would be eligible for a tax credit.***

Dr. Rice also mentioned that UMaine works with companies via ongoing consulting and problem solving. Faculty are asked how to transfer work and study in industry to the state .

Jim Connors noted that a tape was being developed for engineered wood products, describing what it is and how to move to market place.

Dr. Rice then shared copies of a "Porter Model" with the members. The first page depicted the impact of outside forces on "current market competition." Those forces included power of buyers, power of suppliers, government regulation, possible new entrants, and substitutes.

He then walked members through the second page where he had begun to list elements that fell within each of the outside force categories. For example, under suppliers was raw materials, and energy costs. The Task Force completed its review of each element and added several.

Jim Connors wrapped up the discussion by saying that when all is said and done, the Task Force must answer four questions: 1) What can government influence? 2) What from #1 applies to the Task Force? 3) Do any current programs help? 4) Has need been identified to justify recommendation for new programs?

Public Discussion Guests: Dan Levesque, J. Paul Levesque; Bud Blumenstock; Carol Bell, J. M. Huber.

Dan Levesque said that a lot will happen on its own, e.g. workers' comp and energy costs. The exchange rate is a powerful force that will continue to encourage the movement of logs from across the Canadian border. An incentive is needed for not exporting raw product - jobs are being lost – and you can't blame the landowner. But we must find a way to keep raw product here. He offered several suggestions: 1) provide a tax credit to landowners that keep raw product in Maine - if at least one process is done to it, then it is ok to ship; 2) natural gas: politicians need to remember biomass for co-generation; four mills, very little waste - lumber, chips, or bark, sawdust (latter burned) - sawdust sold to Lincoln; bark to different facilities - don't shut out co-generation; Dan Levesque noted that this method will be competing in the free marketplace when electricity is deregulated. He suggested the Task Force might recommend ***a renewable portfolio requirement that levels the playing field by subsidizing biomass co- generation thereby permitting competitive pricing with deregulated electricity***; 3) Key point: we have a good natural resource, but someone else is benefiting from it; we need to turn Maine around.

Mr. Levesque also described his Fingerjoint expansion and said use of short lumber or 6' - 7' sections glued together and stronger vertically is a viable option. Jim Connors wondered if state programs had any bearing on this decision and Levesque said no. So the motivation is to profitably make and sell a product.

Carol Bell said her biggest thing is competing directly with Canadians for products sold in Canada. They have subsidies, plus she must compete internally for money within Huber. Hers is the oldest mill. It is still efficient - faster, better, and quicker, but there is no capital forthcoming. Hopefully, electric rates are declining under deregulation - est. 6 cents per kwh. Transportation by rail and within Maine by truck but have difficulty finding backhauls. Rail has no competition, and 60% of product is shipped by rail. With NE plywood, trying to look at new way, not just commodity OSB. It was hard to survive last year. Joint efforts with UMaine hoped for. Priced off of Eastern Canada - but money hard to come by competing with sister mills. Wood supply (aspen) getting more difficult; number of sources competing with plywood plants in West. She has some concerns with public R&D efforts around confidentiality. Charles Spies thought it must be challenging for public-private partners to clarify the commercialization potential of ideas and protect both the company and the university interests.

Bud Blumenstock spoke about the uniqueness of Maine. Only 12 states are smaller but none have timber privately held, privately roaded, low population and natural growth back like Maine. He offered four suggestions for Task Force consideration: 1) Enhance information channels through technology, finance (Maine Family Mutual Fund), and marketing; 2) Complete Road System by finishing the Golden Road to Pinkham Road loop for moving forest products; 3) Encourage investments in the industry; and 4) Improve Public Relations by educating citizens to appreciate and love our private landowners.

Bud proposed a "Maine Working Forest Land Trust", described as multiple use managed; productive forest lands. The land would be subject to long term lease management and kept in the private sector.

Farmington Agenda Items (Next Meeting):

Dr. Rice suggested the following as a partial agenda for the Farmington meeting:

1. Presentation on State government incentives [Jim Nimon will schedule a speaker to discuss several programs (do they work??];
2. Jim Connors will present a brief profile of the States small wood products businesses;
3. Dr Rice asked all to think about the issue of the risk aversion of small business; and
4. Dr. Rice also mentioned that during the next meeting the group should start focusing on the major themes that have been developed during the past three meetings and start narrowing the broad themes into potential recommendations or legislation that will address the inequities uncovered.

To date the following have been identified as problems by committee members and the public:

1. Cost/availability of raw materials
2. Cost of energy
3. Property taxes
4. Pending waste disposal costs (if biomass plants are closed)
5. Risk aversion for small businesses
6. Infrastucture/logistical support
7. Workers compensation costs

The following have been identified as good programs and incentives by committee members and the public:

1. BETR;
2. ETIF;
3. TIF; and
4. Tree growth tax law.

The following have been suggested as possible incentives:

1. Raw material incentive (incentive to sell Maine wood to Maine mills for processing);
2. Develop the Maine Working Forest Land Trust, to keep Maine forests in the private sector;
3. Eliminate sales tax on all forestry equipment;
4. Eliminate the fires suppression tax for certain sales;
5. Allow towns to reduce property taxes to wood products firms who increase employment;
6. Improve Maine's wood products marketing program;
7. Develop a tax incentive to any company that uses a fiber-reinforced component engineered at University of Maine - any company substituting or adding product based on UMaine research would be eligible for a tax credit;

8. Develop a renewable energy use requirement that levels the playing field by subsidizing biomass co- generation thereby permitting competitive pricing with deregulated electricity.

Appendix V
Third Public Meeting, Farmington, Maine
December 8, 1998

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Notes of the Third Field Meeting: Tuesday, December 8, 1998
University of Maine, Farmington, Maine

Members present: Doug Boyd, Randy Caron, Jim Connors, Leon Favreau, Bruce Livingston, Peter Mills, John Nutting, Alain Ouellette, Rosaire Pelletier, Bob Rice, and Charles Spies.

Staff present: Jim Nimon.

Guests present: Samuel Billing and William Lane, Billing's Shingle Mill; Chris Begin, John Rasmussen and Stephen Lewis, CMP; Richard Pierce, Consultant; Luke Brochu, Stratton Lumber; Charlie Lumbert, Moose River Lumber; Bruce Bornstein, Isaacson Lumber; Rep. Walter Gooley, Maine Legislature; Scott Thistle, Sun Journal; Tom Morgan, Morgan Lumber; Rick Murray and Harry Abraham, Sonoco Products; Conrad Heeschen; Brud Stover, MMEP/AVCOG; Julie Sherman, AVCOG; Eric Howard, MWPA; Wil Lamarre, C.F. Wells; Debbie Burd, Western Mountains Alliance; Andrew Hyde, Prospective Small Businessmen; Joshua Desrosiers, UMF-Environmental Science Major; Steve Westra, DECD; Don Alexander, Franklin County Development Office; T.C. Fallon, Citizen; Dan Demeritt, Senator Collins Office; Mike Maxey, Maxey Studios; and Art Kemp, Kemp Enterprises.

Members absent: Martha Bagley and Edgar Wheeler.

1. Notes Reviewed and Approved. Members approved the notes from the Presque Isle meeting with the following changes: page 1 - Furniture and Fixtures reimbursement under BETR was changed from $491 to the correct $308, and the phrase "wood harvesting had an historically high injury rate" inadvertently attributed to Doug Boyd was deleted; page 3 – third paragraph, Tax Growth changed to Tree Growth, and next to last paragraph, "...incentive is not the primary..." changed to "incentive is one of the primary..." and the phrase "rail is too expensive" was deleted; page 5 – seven lines from the bottom, Jim Connors changed to "Dan Levesque."

2. Business Equipment Tax Reimbursement. Mike Allen and Larry Record from Maine Revenue Services presented information on the tax incentives available in Maine. Mike handed out two items, a Maine Business Tax Credits fact sheet, and a Corporate Income Tax Revenue from Paper Companies bar graph. He then walked the members through the program particulars of the Jobs and Investment Credit, Research Credit, Research Super Credit and High Technology Credit. Allen concluded that given the eligibility requirements for each program, the most useful to Forest Products was BETR, along with ETIF and the Tree Growth Tax.

Jim Connors wondered about the public policy discussions around lowering the tax burden versus providing tax credits; were there sound reasons for choosing one method over another?

The new programs have been income tax based, such as ETIF. In ETIF, reimbursement of a portion of withheld payroll taxes is provided to non-retail companies who increase employment and pay good wages. With tax credits, benefits are available only to companies that are profitable and paying taxes. Rosaire Pelletier felt that there was no problem with the current income tax for forest product companies. In addition, he said that BETR remains very attractive to the industry because it encourages investment.

Mike Allen said that the new credits are geared to high technology companies with a positive tax liability. Bob Rice surmised that 90% of forest product companies could not apply for any of the current tax credit programs.

Rice reviewed a printout from DOL for March 1993 vs. March 1998, noting the changes in the number of companies under forest product SIC codes. For example, in March of 1993 SIC 24, Lumber and Wood Products, showed 724 companies compared to March of 1998 with 786. This was an increase of almost 9%. SIC 25, Furniture and Fixtures, rose from 36 companies to 51, a 4% increase. SIC 26, Paper and Allied Products, went from 40 to 47 companies, an almost 18% increase.

Mike Allen reiterated that ETIF, BETR and Tree Growth Tax appear to be the best current options for the industry. Jim Connors said that unless you are a new high tech industry you may be out of luck, but wondered if a credit couldn't be designed for the forest product industry. Bob Rice suggested that the Task Force consider recommending adjustments to present programs, development of new credits, or perhaps a new program. Rosaire Pelletier added that while there may be many programs on the books, most are not being used by this industry. He concluded that BETR is the best program right now and should not be changed.

Larry Record provided BETR material and agreed that the program does encourage growth of capital expenditures. The state reimburses companies the tax they pay to municipalities on qualified equipment. The taxpayer has 60 days after tax payment to file with the state tax office. Bob Rice was interested in who has applied and whether the program is working effectively. Record noted that 76% of tax reimbursements were being given to businesses that would have been eligible under the old Investment Tax Credit program (i.e. non-retail). He said that municipal cooperation can be an issue since it is not a statutory requirement; some smaller towns indicate that it is not worth their time. This is also the case with some tax preparers. Senator Nutting asked about provisions to by-pass non-supportive towns. Record said that the company should still file with the state office and describe what equipment qualifies. Although rare, an instance could arise where a company is reimbursed without local participation. The program can run for up to 12 years as long as equipment is used and taxed. Bob Rice noted that BETR does attract business to use it and seems successful. It appears also to support manufacturing investment (76%).

Discussion followed regarding specific types of equipment and their status under BETR. Doug Boyd had questions about particulate discharge (eligible if connected to equipment, not building), electricity (item specific, exclusively for manufacturing – designate that which is eligible, problematic for local assessors) and loading docks (probably not eligible). Jim Connors was concerned with utilizing the forest product waste stream and, even with the elimination of utilities from BETR eligibility, wondered whether co-generators would be eligible. Record felt that it would be on a pro rata basis given the usage of the energy created; internally (OK), wholesale (not OK). Task Force may want to consider full tax credit for renewable resource. Senator Mills said that power dams get no better treatment.

Randy Caron explained that woods product people handling sawdust, shavings and bark dispose of the solid waste differently. Some use it and some sell it at reduced rates. Jim Connors thought an allowance should be made to maintain or entice the use of wood waste for generating thermal or electric power.

Randy Caron mentioned that a stand-alone generating facility (Ashland) that burns a renewable resource like wood waste and sells it to the grid may be in jeopardy of closing with natural gas coming as an alternative. Everyone is concerned about closing down a $50-60 million facility. Meanwhile Rosaire Pelletier has been saying give us longevity (stability for the industry).

Doug Boyd said he had burned scrap wood in a wood boiler and is now using propane heat; wood burning boiler to heat his building should qualify under BETR. Wood waste heat as an alternative energy source should be supported.

Senator Mills wondered why BETR should be constrained to personal property, and asked what about buildings? For forest products, why not add real property along with personal? He guessed that real property for a computer chip facility might be 4% of the total value. Bob Rice asked if the Senator was suggesting an amendment to BETR. Mills thought that for manufacturing only, both real and personal is worth considering. You can offset any increase in overall program expenditures by removing lawyers, accountants, insurance and Rite Aid (for example). He felt his earlier amendment had been misconstrued. Rice asked that Senator Mills and Jim Nimon work on this language change. Senator Nutting said he would support an amendment but it must clean out other stuff. Adding buildings, without subtracting retail, will not fly. Rosaire Pelletier suggested that in crafting any BETR amendments, the Task Force take a pro-forest products stance, not an anti-retail one.

Record concluded the BETR discussion by indicating that the estimate to fund BETR in the next biennium is now up to $93 million.

3. Tree Growth Tax. Larry Record then reviewed the tax law with members. In 1990, 85% of the Unorganized Territories were commercial forestland. An attempt was made to determine the future worth of property given present day use; if an owner sustained commercial forest practices rather than develop lake frontage, what would be the future worth of the fiber? Values are adjusted using US Forest Service Survey (inventory every 13-14 years). Need to be stable values, for tax purposes, takes out the guesswork. Given that stumpage reports are part of the calculation of value, and that 35-40% of stumpage is going to Canada, Bob Rice wondered if there was any way to provide incentives to sell Maine stumpage in Maine. Record said not under the present statute. As long as the compensation is better, the incentive is to export to Canada. Transportation remains an issue.

Randy Caron told members that there is an extensive off-road highway that hauls 12' wide, 20' high logs right into Canadian mills on the border. The distance is considerably shorter than say for Pinkham which draws wood from 110 miles away. Hauling south doesn't make economic sense. May need incentive to make up for transportation shortfall. There is room for incentives to use wood in Maine, especially around jobs and taxes; have the Tree Growth Tax advantages apply only to Maine-based sellers.

Senator Mills said for example that if you harvested 100 acres and sold it to Canada you would face a withdrawal penalty. Otherwise, we continue to provide a huge tax concession to Canadian mills and workers. Bob Rice suggested that we consider not allowing certain grades to go out of state. Jim Connors offered two ways to protect Maine interests: 1) landowner – provide the same price thereby causing indifference as to where products go in the market, and 2) mills – make up the cost differential by state. Mike Allen added that you might consider exempting stumpage revenue from state taxes if sold in-state.

4. Innovation Finance Program. Charles Spies reviewed this program quickly for the members and noted that it has not been funded and may now require new legislation.

5. New Electricity Marketplace. Jim Connors provided a general overview of the new marketplace for electricity given the restructuring now underway in Maine. He said that the generation of electricity will be among entities competing in a free marketplace, while the wiring will remain a regulated enterprise. He noted that a minimum of 30% of the power generated will need to come from renewable resources like hydro, bio-mass, solar and wind. Presently 50% is from hydro and bio-mass. Concerns remain about whether "green power" can be priced competitively in the new marketplace, especially given the introduction of natural gas to the region.

6. Risk Aversion. Bob Rice circulated a draft research and development grant program designed to address the risk averse nature of small forest product companies by linking them to staff having specific technical, managerial and marketing expertise within the University of Maine System. He proposed a $5,000 matching grant program for companies that have fewer than 150 employees. Applicants could apply for one grant during a five year period.

Jim Connors felt that there was quite a bit of expertise and considerable free service available now. He wondered whether this program money could be used for implementation and investigation. Randy Caron suggested a doubling of the amount thinking that $5,000 might not be enough to have an impact. Alain Ouellette said that the Manufacturing Extension Partnership currently has a $5,000 grant program for marketing and wondered if the draft proposal might be refined to not include marketing. Doug Boyd liked the concept in Bob's draft but wanted to be certain that it did not duplicate the MEP program. Jim Connors noted that often the initial steps for companies are free but how to implement becomes the key issue.

7. Tax Incentive Discussion/Possible Legislation. Members spent a considerable amount of time during the course of the day reviewing both existing and potential tax incentives and discussing their implications for the forest products industry. Potential legislative language was presented. Highlights included:

A. Discussion: Amend BETR by recommending a manufacturing-based program with tax reimbursements for both real and personal property.

Proposed Title: *An Act to Amend the BETR Program by limiting participation to Manufacturers and broadening tax reimbursement coverage to include Real Property and Energy Production.*

B. Discussion: Establish a Research and Development Grant program of up to $5,000 for Small Business that will link small risk averse forest product companies (fewer than 150 employees) with expertise within the University of Maine System to stimulate innovation and increase competitiveness.

Proposed Title: *An Act to Establish a Research and Development Grant program to enhance the Competitiveness of small Forest Product companies.*

C. Discussion: Establish a tax credit for engineered wood products in order to send the message that opportunities exist within this targeted industry for commercializing new products and technologies.

Proposed Title: *An Act to Establish a Corporate Income Tax Credit to encourage Commercialization of Advanced Engineered Wood Products.*

D. Discussion: Establish a tax credit for enhancing the competitiveness of wood waste products as a viable energy alternative.

Proposed Title: *An Act to Establish a Waste Wood Fuel Tax Credit to improve Energy Markets for Waste Woods produced by Primary and Secondary Forest Product manufacturers.*

8. Public Comment. Bob Rice reviewed the work of the Task Force and provided an opportunity for comments from industry representatives and interested citizens.

Eric Howard, Maine Wood Products Association. Howard is the new Executive Director of the 100 member association which includes 80 industry members and 20 service providers. The association was formed after a 1995 survey identified wood supply and marketing as major issues; 4 of 5 companies had no marketing plan. He offered ten suggestions (experience-based, not scientific):

- Provide more staffing to the Department of Economic and Community Development (DECD) and to the Maine Forest Service for business assistance,
- Support public relations efforts that highlight what is right with the industry, e.g. Andover

Wood (Ethan Allen) expansion,

- Prepare a Buyers Guide for Forest Products, like the one for Fisheries and Farming
- Provide job training to the industry, especially computer literacy,
- Provide management training,
- Provide safety training,
- Continue identifying and promoting programs to assist small business, like the DECD brochure,
- Support the $25 million/year for technology research and development, especially now that forestry has been included,
- Reduce fuel and energy tax burden, and
- Retain the level for forestry (consider ways to limit partilaizing).

Doug Boyd said he supports the Made in Maine catalogue. Jim Connors wondered about the effect of current incentives on companies in the audience and encouraged their feedback. Steve Westra of DECD said that Andover Wood was utilizing BETR and job training programs.

Charlie Lumbert, Moose River Lumber. Lumbert provided the Task Force with a list of all spruce/fir sawmill production for 1998. The nine mills had a combined production of 612 million board feet (mbf) and 900 direct employees. He noted that Moose River produced 52 mbf in 1998, and due to capitalization efforts, projected producing 100 mbf for 1999. He also circulated a handout with spruce/fir sawlog information as compiled by the Maine Forest Service. For 1996 over 754 mbf was harvested and 73 mbf imported. Of this total (over 827 mbf), more than 406 mbf was processed in Maine, while over 421 mbf was exported without processing. He had the following "wish list" for policy makers:

- Recognize, promote and support the lumber manufacturing industry,
- Reduce the state and federal regulatory burden,
- Speed-up and simplify the permitting process,
- Enforce the Lumber Agreement with Canada,
- Reduce the excessive corporate and personal taxes (note: BETR has been helpful, and the Investment Tax Credit was good),
- Maintain an affordable, sustainable wood supply, and
- Establish an incentive for landowners to keep their wood in Maine (e.g. using the Tree Growth Tax law).

He concluded by reminding the group that as a Task Force they were not studying new concepts; the problems have been out there for years. SELL USA (1985-89) worked to support its acronym - Stop Exporting Logs & Lumber. Hopefully with the forest products industry being such a large part of the economy, we'll be able to initiate some positive changes with your help.

Senator Nutting asked if Moose Lumber was self-insured. Charlie Lumbert said it has been since 1993 when it joined with 22 primarily sawmill companies across the state. Group has promoted safety in its operations. Nutting wondered about the size cutoff for company to self-insure. Lumbert said if you are real small you would not have the resources to do the required safety training. He guessed that you would need about $40,000 in premiums as a cutoff.

Senator Mills mentioned some factors that may be contributing to Canadian supremacy in the forest products industry, including government involvement with electric costs, insurance costs and trucking.

Bruce Bornstein, Isaacson Lumber. Bornstein said that Isaacson is the 20th largest hardwood sawmill in the country, utilizing low grade lumber to construct pallets. He felt that the key issue to consider is the bio-mass industry. He moves eight loads of bio-mass, and four loads of chips each day. His company must continue to have a place for these waste products. Need to maintain this as an asset, not as a liability. Gas pipeline will add pressure to this problem. This is not an issue each company can take on individually. When New Hampshire cut back on its plants, loggers were the first to feel the effect. Sawmills continue to produce waste products. Need to address how jobs will be maintained and waste will be handled. Give thought also to alternative products, e.g. sawdust to particle board. Senator Nutting wondered about New Hampshire and what strategy it had used to preserve the six bio-mass plants. Did they do it by statute?

Art Kemp, Kemp Enterprises, Inc. Kemp said his company distributes wood products manufactured by some 42 turning mills in New England. He has shown nice sales increases over the past 14 years, but this year (1998) sales are at a standstill due in part to the economy and imports. Also, he cited an example like China's ridiculously low wages as a factor. His mills' back orders are only 4-6 weeks instead of the normal 8-10. Five years ago FAME estimated Kemp was responsible for 82 jobs. Kemp feels a key issue for turning mills is a state finance program that better meets their needs.

Wil Lemarre, C.F. Wells, Inc. Lemarre is a wood turner from Buckfield with 50 employees. He is also VP of the MWPA. He said that management training such as Fast Track 1 and Fast Track 2 is important for his industry (these are offered by USDA and Kaufman Foundation for $500/company, with $50 discount for forest product company). Forest product companies (especially in the 5-20 employee range) are generally not aware of business planning, and therefore not aware of the incentives that the state has to offer. He relies on small sawmills so their long term viability is critical to him. Lamarre offered two major concerns: raw material availability and power questions. He noted that in 1996 Maine had the 4th highest energy costs, 126% above the national average. His company has been unable to qualify for the sawmill rate.

Pete Lammert, Maine Department of Conservation. Lammert commended the Task Force for its choice of afternoon public meetings given the nature of this industry's morning workload. He said it's important to find a home for native mill residues, not send them to Canada or Massachusetts. Cedar residue is an example of how to successfully address the problem. From earlier reports mentioned, it is clear that spruce fir is going out of Maine and Lammert would like to construct a Log Wall between Maine and Canada to slow or end the exports. He suggested paying closer attention to how Canada is succeeding; determine what their rules are. He described one example where the government subsidized personnel while mill staff were being trained. Absent the building of a wall, Lammert also liked the idea of exempting stumpage revenues from Maine taxes if product is sold to Maine firms.

Tom Morgan, Morgan Lumber. Morgan brought an issue regarding international traffic before the Task Force. He said that his business custom saws logs for a Canadian company in Quebec. The Canadian trucks bring lumber down to East Coast markets and load up New England logs for the return trip to Canadian mills. Morgan would like those trucks to drop logs at his US mill and take his sawn lumber to Canada. The US Customs Service in an April 23, 1998 letter told Morgan that the use of Canadian-based trucks as described in the above scenario would violate regulations. He just wants the ability to add value to forest products at his shop in Maine instead of watching while product moves on to Canada for processing.

Conrad Heeschen. Heeschen suggested that enactment of universal health insurance be considered as a way for US firms to play by the same rules as Canadian firms. He described an industry loaded with 1-5 employee companies that simply do not have the capacity to do business planning and marketing. Regarding the bio-mass issue, he wondered about PUC options regarding the percentage of renewable resources required by March 1, 2000; could the 30% be increased to 50%?

Debbie Burd, Western Mountain Alliance. Burd stressed commonalities across micro-businesses. She also felt that the Governor's One Maine initiative needed to reach rural, small business. Issues include internet access and computers as space-age instruments. Focus should be on community-based initiatives for micro-enterprise training (community-based service delivery). She said there is no lack of resources for training, only lack of business awareness about resources. Brud Stover, MEP/AVCOG, added that the Governor's Training Initiative is available as a business-based training program.

Jim Connors mentioned WoodNet as a successful cooperative local level marketing effort. Leon Favreau said that the marketplace is sophisticated; either a company is big enough to do it by itself, or else companies band together and use a sales force like Art Kemp's to handle it for them.

Future Meetings: The next meeting is scheduled for Machias on Thursday, December 17, 1998, at 10:00AM, at the University of Maine (Science Building).

Appendix VI
Fourth Public Meeting, Machias, Maine
December 17, 1998

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Notes of the Fourth Field Meeting: Thursday, December 17, 1998
University of Maine, Machias, Maine

Members present: Martha Bagley, Doug Boyd, Randy Caron, Jim Connors, Bruce Livingston, Peter Mills, John Nutting, Alain Ouellette, and Bob Rice.

Staff present: Jim Nimon.

Guests present: Bob Briggs, Bangor-Hydro; Tom Howard, Georgia-Pacific.

Members absent: Leon Favreau, Rosaire Pelletier, Charles Spies, and Edgar Wheeler.

1. Summary of Draft Legislation – *Bob Rice*

Members reviewed the four pieces of proposed legislation that were drafted following the Farmington meeting:

BETR Program Amendment

Title: *An Act to Amend the BETR Program by limiting participation to Manufacturers and broadening tax reimbursement coverage to include Real Property and Energy Production*

Discussion: Senator Mills suggested that BETR be applied to real estate improvements. Jim Connors agreed that Mills earlier draft (reviewed at the Presque Isle meeting) should add real property. He said that energy-producing property is presently excluded except within paper mills. He wondered about including energy production within the forest products industry. Members considered definitions of waste products, residuals and bio-mass, and discussed mills that would burn waste for energy purposes. The group opted to separate manufacturing language and energy production language into two BETR amendments (see later in the notes).

Research and Development Grants Program

Title: *An Act to Establish a Research and Development Grant program to enhance the Competitiveness of small Forest Product companies*

Discussion: Bob Rice handed out a draft program description and said that the grant program is meant to help small risk averse businesses innovate by linking with the University of Maine System for specific project assistance. The business would match the grant. Doug Boyd suggested reducing the eligibility for one grant from a five year period to a three year period. He liked the concept of using University expertise over a short duration. He wondered if this proposed program conflicted in any way with the Manufacturing Extension Partnership. Rice said MEP staff are generalists that already contract with the University for specialists. The proposed program would offer the opportunity for specialized technical and business advice by utilizing the Engineering, Business, Forestry and other faculty and specialists. He also reminded the members that the US Forest Service has one person working in the University at this time to assist forest products companies. Consulting services could be ongoing over a period of two years. Alain Ouellette thought that the program would be properly capitalized with funding in the $500,000-$750,000 range, and a maximum grant of $10,000. Doug Boyd concurred with $10,000 cap saying that it was a lot of money when not used for capital acquisition. Rice added that the grants would not support routine testing, and there would be a limit on indirect costs charged to the grant. Ouellette liked the match concept. All members present expressed support for the concept.

Advanced Engineered Wood Products Tax Credit

Title: *An Act to Establish a Corporate Income Tax Credit to encourage Commercialization of Advanced Engineered Wood Products.*

Discussion: Senator Mills asked how this tax credit would be determined. Members discussed tax statements and the concept of applying a tax credit to reduce the tax liability, and the feasibility of a tax credit to encourage commercialization. It was agreed that the best way to account for this activity would be by providing a tax credit for licensing fees paid for use of patents. Amended language can be found later in the notes.

Waste Wood Fuel Tax Credit

Title: *An Act to Establish a Waste Wood Fuel Tax Credit to improve Energy Markets for Waste Woods produced by Primary and Secondary Forest Product manufacturers.*

Discussion: See earlier waste wood notes. Members decided to address this issue by amending BETR to include energy production facilities whose energy output is generated from production residuals. See language below.

<u>Draft of Final Language</u> – *Peter Mills*

Senator Mills drafted final language following extensive member discussion:

<u>A. BETR Program Amendment</u>

Title: *An Act to Add Manufacturing Real Estate to the BETR Program*

Notes: Add manufacturing real estate to the BETR program. Adopt a definition of "manufacturing" from "manufacturing facilities" and "machinery and equipment for research" as defined in the Sales Tax code, 36 MRSA §1752, sub-sections 6-A and 32. Consider also the old investment tax credit law. Make the change effective for all property placed in service on or after April 1, 2000.

B. Research and Development Grants Program

Title: *An Act to Create a Matching Grant Fund to Provide Technical Assistance to Small Wood Product Manufacturers*

Notes: See attached program description drafted by Bob Rice of the University of Maine. Contact Charles Spies of FAME who may administer the program. Rod Rodrigue of the Maine Manufacturing Extension Partnership might be involved. They are a federally funded assistance group.

C. Advanced Engineered Wood Products Tax Credit

Title: *An Act to Create a Tax Credit for Licensing Fees Paid for Use of University Patents on Wood Fiber Reinforced Products*

Notes: Establish a Maine income tax credit for 100% of the amount paid by the taxpayer as licensing fees paid to the University of Maine System for use of patents on wood fiber reinforced products. Carry forward for 5 years.

D. Waste Wood Fuel Facilities (BETR Amendment)

Title: *An Act to Include in the BETR Program those Energy Facilities that Burn Production Residuals from Maine's Primary and Secondary Wood Products Industries*

Notes: Include within the BETR program any real property or energy production facilities from which 80% of its energy output is generated from production residuals (including sawdust, bark, chips, shavings and wood waste) that are a by-product from Maine's primary and secondary wood products industries. Production residuals do not include bio-mass materials.

Energy Costs and Restructuring – *Bob Briggs*

Bob Rice asked Bob Briggs, President, Bangor Hydro Electric, to speak with members about the energy cost issue for manufacturers. He told him we understood that TVA provides customers with 2¢/kwh, Canada provides 3-4¢/kwh, while Maine is in the 7-8¢/kwh range. Also Rice encouraged Briggs to comment on what the future might hold for the cost of energy in Maine.

Briggs noted right off that what is transpiring now is "restructuring" not "deregulation." Competitive activities are being separated from monopoly activities. Presently Bangor Hydro provides soup to nuts service, i.e. from generating electricity to maintaining the wires. The Maine law that takes effect March 1, 2000, will mean customer choice of a competitive energy supplier. CMP and Bangor Hydro will become "wire companies" not energy suppliers. They must exit kwh business and sell off generation assets. The metering and billing functions will be open to competition in 2002 but will most likely continue to be done by CMP and Bangor Hydro. The competitive energy suppliers will be required to purchase 30% of their energy from renewable resources. This portion does not need to be from within Maine however.

Bangor Hydro pays 2.5¢/kwh for its power supply through 2000. It charges about 9.5-10¢/kwh. One-third is for raw cost of power off the grid. One-third is for owning and maintaining the wires. One-third is for "uneconomic" costs, i.e. "stranded" costs that are essentially hangover costs from NUG contracts, e.g. avoid obligation to Seabrook. Stranded costs will be substantially paid off in 2005.

Briggs commented on concerns with mill residues by saying that a wood waste burning plant with stranded costs within a contract has zero chance bidding on the ISO grid due to the stranded costs. Also, Maine Yankee's demise was not precipitated by regulatory oversight, but rather by the plan to introduce natural gas; it could not compete on a cost basis - natural gas is projected to produce power for about 2-2.5¢/kwh.

Governor and the PUC will kick off an information campaign shortly. They will not say the restructuring is being done to reduce rates. The real purpose is to ensure that stranded costs do not occur again, and to introduce competition (and the improved efficiencies and better customer products that result from free markets). Also, large industrial customers have been a driving force for change since they have their own energy management personnel, deal on the grid, and gain retail access for themselves.

Bob Rice wondered if there were any way to deal with the wood waste problem once all existing contracts end. One million tons of waste each year and a competitive energy environment that will apparently eliminate wood waste fuel as a viable energy option does not bode well for the forest products industry.

Public Comment – *Opportunity for Comments from Industry Representatives and Interested Citizens*

Tom Howard, Georgia-Pacific. GP employs 800 people in 3 facilities. The Woodland plant is an integrated pulp and paper mill, with 700 people, that processes 1400 tons of pulp per day; 400 tons is converted to photocopier paper. The Plattsburg facility produces tissue paper. North of Baileyville is a chip and saw plant that produces woodchips, 70 mbf of dimension lumber each year, and oriented strand board (not waferboard, but instead oriented to the grain of the wood, as an alternative to plywood; 80% is popple which is underutilized, 20% is softwood).

Bob Rice recited the key issues presented to the Task Force by primary and secondary forest product companies: maintaining wood supply, reducing tax burden and energy costs, and ensuring wood waste as asset. He wondered if Howard had concerns.

Howard said a key item for GP is the preservation of the BETR program. The program seems to be under constant attack. GP makes decisions quite a ways into the future and needs to know that there is stability in the state's tax policy (BETR goes into pro formas). Tinkering in Augusta makes for nervousness in the field. Investment dollars go to stable places. The pulp report issued in the past cited Maine as behind in capital investments. BETR has spurred investment.

A second item is transportation. Eastport is an el primo trade location, especially when exports are strong. However, domestic markets are reached through Route 9 and rail service. To go from Woodland to Plattsburg, GP must access five railways and six border crossings. GP is the only customer at the end of a long branch line that winds through peat bogs with their high maintenance costs. Rail access is closer to Eastport with its deep harbor and ability to accept big container ships. But it needs rail and highway connection, plus docks, etc.

GP has a 35 acre landfill (sludge). It uses a 9 Meg boiler at the OSB plant and burns bark and sawdust. Energy costs are 2-3¢/kwh from New Brunswick plus its own electricity. Supply is sometimes an issue for the sawmill.

Appendix VII
Final Task Force Meeting
Augusta, Maine
February 5, 1999

TASK FORCE TO INCREASE PRIMARY AND SECONDARY FOREST PRODUCT MANUFACTURING

Wrap-Up Meeting: Friday, February 5, 1999

NOTES

Members present: Douglas Boyd, Randy Caron, Jim Connors, Leon Favreau, Bruce Livingston, Peter Mills, Alain Ouellette, Rosaire Pelletier, Bob Rice and Charles Spies.

Members absent: Martha Bagley, John Nutting, and Edgar Wheeler.

Staff present: Jim Nimon, Department of Economic & Community Development.

Guests present: Abby Holman, Maine Forest Products Council, and Eric Howard, Maine Wood Products Association.

1. MFPC Issues. Abby Holman, Executive Director of the MFPC, spoke on behalf of Jim Robbins, Vice-President, Robbins Lumber Co., Searsport, and reviewed the contents of the January 14th testimony submitted by Robbins to the Task Force. Some of the key issues were: a) improve the business environment, which many companies that have fled to the Carolinas and Tennessee consider to be unfriendly, b) address the tax burden, including state income tax and inheritance, to better compete with other states, c) reduce nuisance referendums which make for a hostile environment for the industry, d) reduce the costs for workers compensation which remain prohibitively high in Maine, e) consider ways to level the playing field with Canadian competitors, and f) reduce the costs for electricity to enhance competitiveness.

2. Draft Report Writing Assignments. Dr. Rice reviewed the suggested outline for the final report with members and collected draft writing assignments as highlighted below. Each member briefly reviewed the respective drafts and discussion ensued.

A. Executive Summary – Bob Rice

B. Structure and Actions of the Task Force – Bob Rice
1) Charter of the Task Force as identified by the legislature
2) Task Force membership
3) Meeting structure and meeting locations
4) Community and media response to the public meetings

C. Overview of the Industry – Members Below
1) Definitions related to the industry – Bob Rice
2) Number of businesses and trends during the past 5 years – Charles Spies

3) Number of persons employed by the industry – Charles Spies
4) Size breakdown of the industry, by number of employees – Charles Spies
5) Location of the industry by county/region within the State – Jim Nimon

D. Current Programs/Incentives Determined to be of Benefit to the Industry – Members Below
1) Business Equipment Tax Reimbursement – Peter Mills, Jim Nimon
2) Municipal Tax Increment Financing – Jim Nimon
3) Employment Tax Increment Financing – Jim Nimon
4) Tree Growth Tax – Rosaire Pelletier

E. Impediments to Growth, Innovation and Competitiveness – Members Below
1) Exports of Raw Materials – Leon Favreau
2) Energy Costs – Jim Connors
3) Stability of Government Policies – Rosaire Pelletier
4) Property Taxes – Rosaire Pelletier
5) Infrastructure (Transportation) – Peter Mills
6) Risk Aversion by Small Businesses – Alain Ouellette
7) Mill Residue Handling – Randy Caron
8) Other Areas Identified by the Task Force or the Public – Doug Boyd

F. Legislation Introduced to Assist Primary and Secondary Processors – Jim Connors

G. Appendices – Jim Nimon

3. Adjourn. Dr. Rice will format and edit the electronic drafts that each member will e-mail to him. The draft will be circulated for review and comment. It is anticipated that a final report may be available to the legislature by the end of February.