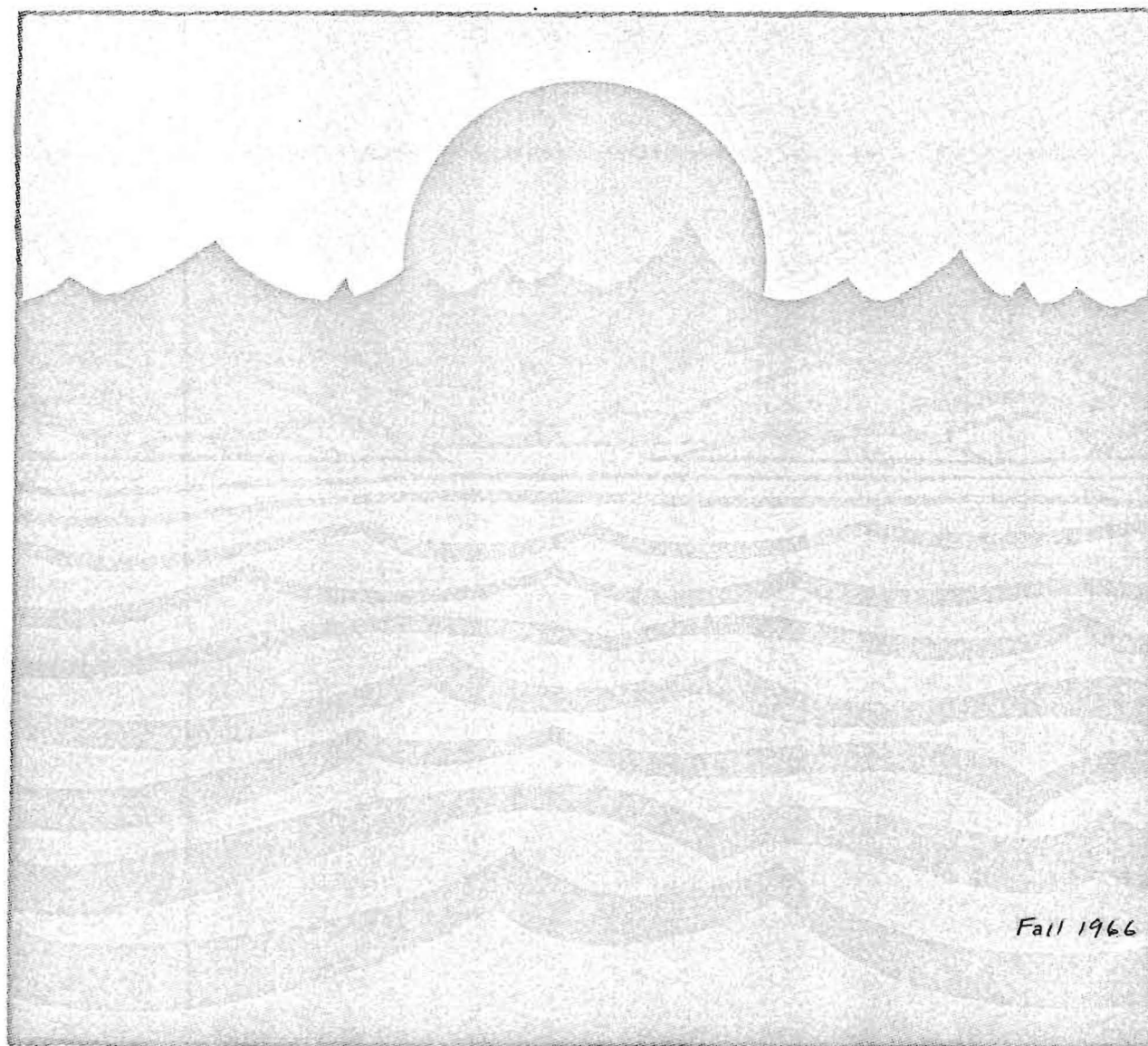


ARCATA BODY

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SHADOWS ON THE FEATHER *Richard Reinhardt*

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BEHIND THE REDWOOD CURTAIN

In October, 1965, Representative Jeffery Coehlan introduced legislation in the House to authorize the purchase of 77,000 acres of timberlands in Humboldt County, north of Eureka, which would be joined with 13,000-acre Prairie Creek State Park to form a long awaited Redwood National Park. On these splendid lands, lying largely in the Redwood Creek watershed, stand the last, best remnants of California's "inexhaustible" redwood forest.

Of the 90,000 acres proposed, 33,000 acres of privately owned virgin redwoods would be returned to public ownership to be kept for the centuries. Of these 33,000 acres of old growth, 15,400 are owned by Arcata Redwood Company, 16,000 by Georgia-Pacific Corporation, 1,330 by Simpson Timber Company and the balance by minor landholders. The remaining privately owned acreage is largely cutover land needed to protect the watershed.

Responding to the proposal, the redwood logging industry, led by these three companies, has fought back with every weapon, fair and foul, it could lay its hand on. Their spokesmen have railed incessantly about the awful damage the parks would wreak on the local economy. They chant on and on about sustained yield logging and tree farming, and how the parks would destroy the industry. They talk about the rights of private property and invoke the Constitution and even God Almighty.

But beneath all the shouting lies one basic question: who gets the old giants? Does the American public, which foolishly allowed itself to be defrauded of these incomparable lands before the turn of the century, or do three large corporations which stand to make many more millions of dollars in the long run if they keep the lands? Make no mistake: the standing old growth timber is pure gold.

The purpose of this essay is not to attack free enterprise or to condemn large profits: it is simply to clear away the smoke screen that has been thrown up in panic by the threatened companies. Their front organizations—the California Redwood Association (annual budget, \$600,000) and the Redwood Park and Recrea-

tion Committee, which was formed solely to fight park plans (annual budget, \$50,000)—are attempting to block creation of a park of sufficient size and quality to meet National Park Service standards for a single reason: money, plain old money, in the form of dividends and capital accumulation.

Their basic argument, told with many variations, is that the local economy and the North Coast forest products industry will be badly damaged or destroyed. In a widely published advertisement, the Redwood Park and Recreation Committee states:

If these irresponsible redwood park plans were to be adopted, the economy of the northern half of our Congressional District would be irreparably damaged. The growth of the forest products industry would be choked off. *Every* business in the Redwood Region would suffer. Thousands more acres would come off our Congressional District's tax rolls. Drastic unemployment and higher taxes would be the result.

It is a normal reaction to fear change, to fear the unknown, and I suppose such statements can be laid to these fears. But no study yet conducted supports the industry's contentions with the exception of one: a qualified report by economist H. Dewayne Kreager done on commission for the industry's Redwood Park and Recreation Committee. Every other reliable study shows the park will greatly add to the local economy and that logging at today's rate will end in a handful of years as the last of the old trees go, park or no park.

Gordon Robinson, who spent 27 years with Southern Pacific developing their forest management program and is now forest consultant to the Sierra Club, projects old growth timber production in Humboldt County for 1970 as follows: 615 million board feet if the park is not established and 565 million board feet with a park. In 1980, his figures are 373 million and 323 million board feet respectively. The effect of a park on second growth operations will be negligible.

Richard Q. Siegel, in his 1965 economic study

for the Bank of America on the forest products industry in Humboldt, Del Norte and Mendocino Counties, reached the conclusion that employment would be off 25 percent in 1975, *without a park*.

... employment in the industry will approximate around 13,000 people compared to the 17,116 in 1960. The industry, in this event, will offer a good employment foundation, but it will not be a stimulator of growth. The people of the North Coast may have to look to other sources for expansion if that is what they want.

It is true that if the park were created, Arcata Redwood Company would be put out of the lumber business, but the owners would be fully compensated for their property at the fair market price. Georgia-Pacific and Simpson Timber, however, operate a total of 286,000 acres in Humboldt County. Only 46,000 acres of the latter's would be acquired and of these, only 17,330 acres are virgin stands. Their operations would continue. The total inventory of conifer forest lands in Humboldt County, preponderately redwood, is well over a million acres. As David Brower, director of the Sierra Club, said:

If the 90 percent of the redwood land they have already logged won't sustain the industry, it won't help them as much as it hurts all of us to let them log the National Park fraction of the last 10 percent.

Even the study of local forester John G. Miles, which was published in the anti-park Humboldt *Beacon* on March 10, 1966, confirms the bleak outlook for lumbering:

In short, maintenance of the present level of cutting for 20 years, principally through liquidation of second-growth, would seriously reduce the sustained yield capacity of the

major timber owners. A gradual reduction of the total log usage, from the level of 1280MM (million board-feet) per year in 1966 to 900MM per year in 1975, with a further reduction to 750MM per year by 1985, would permit continuous operations at the latter level until 1995 and beyond.

Clearly, the Humboldt County logging industry will be greatly cut back in the next decade or two whether a park is established or not. And once the trees are gone, there will be no possibility of a park.

The simple truth is that Humboldt County can have its trees and eat them too. A national park will provide an economic base greater than the present logging industry provides and far greater than the projected logging base 10 to 20 years hence.

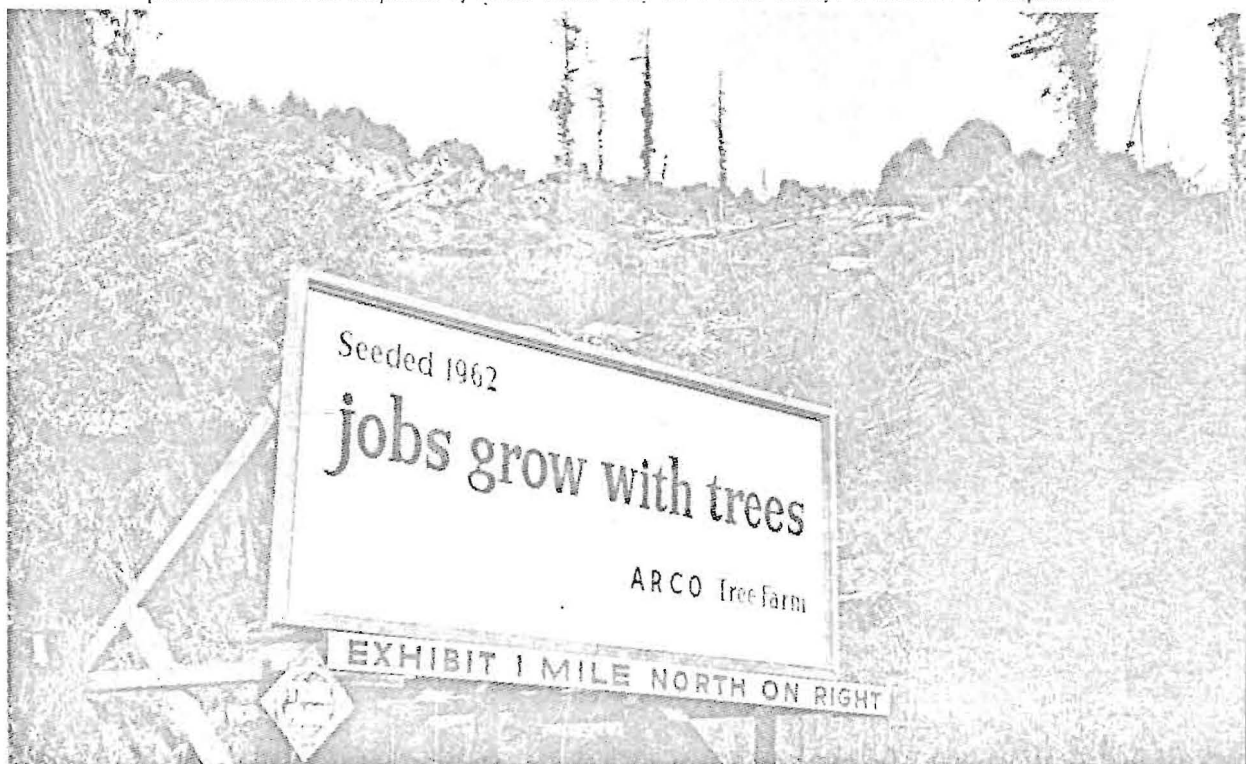
We will create the national park in Humboldt County, if it is to be, for the nation and the generations, but no group in the country will gain more than the people of Humboldt County itself.

But the violent opposition to the park remains. The gentlemen who manage the three big companies would, I am certain, like to see the local economy flourish and are sincere when they talk of sustained yield as a desirable goal of the North Coast timber industry. In fact, as in most companies, the managers undoubtedly have personal affection for many of their employees and draw satisfaction from the fact that they furnish jobs and security for others. But the single driving motivation of these companies, like all businesses, is financial success, first, last, and forever. If it can be done advantageously by selective cutting on a sustained yield basis, all to the good. But if the economics indicate "cut and get out," that is what will be done.

President Johnson proposed to Congress this year that a Redwood National Park be established in Del Norte County just north of Humboldt County. This park would consist of Jedediah Smith and Del Norte Coast Redwood State Parks, which together make up about 14,000 acres, plus 29,000 acres of the Mill Creek watershed to be purchased from private owners. Of the 29,000 acres additional, only about 7,000 acres consist of virgin redwoods. The administration's park plan was not recommended by the National Park Service until orders came from Washington to propose it. The Mill Creek watershed in its virgin state would have made a magnificent park, but so much of it has been logged that its value has been greatly diminished. By any measure, it is second-best to the Redwood Creek-Prairie Creek park in Humboldt County, aspects of which are discussed in this article. Although the Mill Creek park is considered by some to be politically more feasible and therefore worthy of endorsement it should be noted that there is no support in Del Norte County for the Mill Creek park, while there is substantial local support for the Humboldt County proposal.



ARCO made the tactical error of clear-cutting right to the edge of U.S. 101, the Redwood Highway. In response to outraged cries from the public, the company attempted to convince passersby with slogans that their clear-cut operation in the proposed park is really in the public interest. The ineptness of terms which they have used betrays a measure of desperation.



If the people of Humboldt County believe that their welfare is identical with the owners of Arcata Redwood Company, Georgia-Pacific and Simpson Timber, then let them consider the following: Georgia-Pacific showed net sales of \$575 million in 1965, only a fraction of which was produced in Humboldt County. Georgia-Pacific is a worldwide organization with tens of thousands of shareholders, most of whom probably never heard of Humboldt County. Simpson Timber Company is tightly held by a Seattle-based firm with extensive holdings in the Northwest. The wages of both companies may be spent locally, but virtually all of the profits leave the county.

But for a fuller understanding of the values and interests at stake, the case of Arcata Redwood Company (ARCO) is most instructive. The company was formed solely to cut and mill old growth redwoods. Whereas Georgia-Pacific is an international lumbering and manufacturing organization, and Simpson Timber Company's operations are scattered all over the map, ARCO consists of one holding, most of it in old growth redwood. With the exception of the interest it draws on its large cash reserves, all of its profits are directly accountable to its redwood lumbering activities. And in these profit figures can be found an explanation for the industry's frantic anti-redwood-park campaign.

ARCO was founded in 1939 with a capital investment of \$50,000 to which \$24,250 was added in 1940. In 1958, ARCO issued 116,690 shares to the Hill-Davis Company, Ltd., a Michigan partnership association which was at the time ARCO's sole stockholder. Thus were ARCO's mill operation and the Hill-Davis timberlands merged. As of March, 1966, the company owned 22,000 acres, of which approximately 4,500

were logged over, 15,400 were virgin forest and the balance was in natural meadows and upland grass.

As can be seen in the table at the bottom of this page, the company's financial performance in recent years has been nothing short of spectacular. (All of the figures I quote here, other than my own estimates, have been taken from ARCO's annual reports, 1963 through 1965, and the public records in the Humboldt County tax assessor's office in Eureka and the California State Division of Corporations' offices in San Francisco and Sacramento.)

The sales and net income figures show a trend of tremendous growth—the 1965 earnings were 2.6 times that of three years prior. The ratio of net income to sales has been rising and it's extremely high by any standard. None of the 500 largest industrials in the U.S. show as high a return on sales as ARCO's 29 percent. There are very few over 15 percent, the highest being 18 percent, and the median for the paper and wood products industry was six percent in 1965.

Over and above the remarkable increase in net assets witnessed in the past, at today's rate the stockholders realize every six years a return, in the form of cash dividends, equal to their original invested capital of \$3 million.

It should be noted that the capital gains tax, which was designed to encourage investment of risk capital, is one of the reasons ARCO's profits are as high as they are. The corporate tax rate on earnings of more than \$25,000 is 48 percent, but because ARCO is allowed to pay the 25 percent capital gains rate on the difference between the original cost of the standing timber and current timber market value, their taxes range between 30 to 35 percent.

Howard A. Libbey has been president of

ARCATA REDWOOD COMPANY SELECTED FINANCIAL DATA

	1965	1964	1963	1962
Sales	\$8,933,342	\$8,112,345	\$7,390,068	\$5,571,885
Net income	2,639,472	2,234,726	1,903,133	1,034,536
Net income as % of sales	29.5%	27.5%	25.8%	18.6%
Net income as % of original invested capital	89%	75%	64%	35%
Net income per share	\$22.60	\$19.20	\$16.30	\$8.90
Dividends	\$583,450	\$495,932	\$495,932	\$408,415
Dividends per share	\$5.00	\$4.25	\$4.25	\$3.50

ARCO from the beginning. He is the only director of the company who lives in Humboldt County. The other directors live in Washington, Nevada, Michigan, and Pasadena, San Marino and Atherton, California.

C. Davis Weyerhaeuser of Tacoma is chairman of the board of directors and is reputed to be the largest single stockholder in the company. Weyerhaeuser is a director of the Weyerhaeuser Company and several of the other large companies which make up the Weyerhaeuser timber complex. In the monumental history of the Weyerhaeuser family, *Timber and Men* by Ralph Hidy, Frank Hill and Allan Nevins published in 1963, C. Davis Weyerhaeuser is quoted at length only once, and this was on the subject of sustained yield, a principle to which ARCO gives great lip service today. In 1935, he . . .

warned that sustained yield must not be thought a panacea for timber management problems. He believed it had "become a fetish, almost worshipped for its own sake," and that it was practicable only when favoring circumstances could be established. "Too much," he asserted, "cannot be sacrificed today in the way of curtailed income, purely for the sake of assuring a complete continuity of operations."

The company has made the claim that it has enough old growth timber to sustain its operations for 43 years. According to Gordon Robinson, the inventory of ARCO's standing timber described on the Humboldt County tax assessor's rolls indicates that if ARCO cuts 50 million board feet per year, the supply will last approximately 21 years. In 1965, the actual cut was 57.5 board feet and at that rate, the supply will last 19 years. If ARCO's cut is increased five percent per year (which was the increase between 1964 and 1965), then all the old growth will be down in 15 years.

There are several ways the discrepancy between ARCO's claim and the public record might be accounted for.

First, ARCO may have plans to reduce its annual "harvest" by half in order to fulfill its own prediction. But since the annual cut has increased in the last four years, this seems unlikely. There is every indication that the annual cut will be increased rather than held at a static rate.

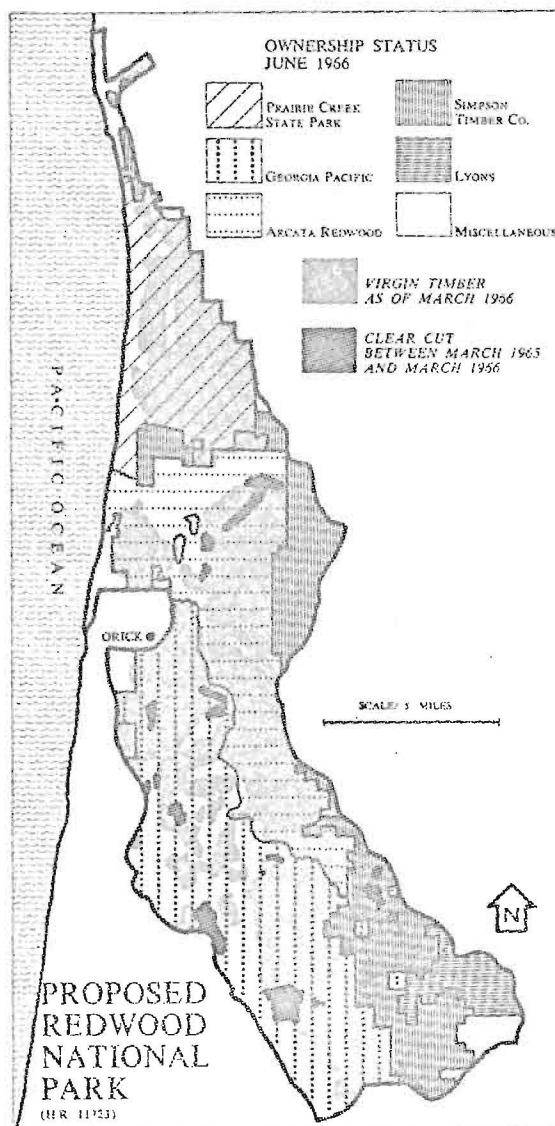
A second possibility is that the true extent of ARCO's and other lumber companies' timber holdings are not accurately expressed in the tax assessor's books.

The third possibility is that the company

dreamed up the 43-year figure for public relations purposes, and this, I suspect, is the reason.

But it makes no difference whether ARCO cuts all of its trees in 15, 19, or 21 years, for the new growth of which ARCO boasts will sustain no logging of any consequence until at least 50 or 60 more years have passed.

In 1964, Arcata National Company, a wholly-owned subsidiary formed by ARCO, engaged Robert O. Dehlendorf II, who had recently sold a prosperous electronics company which he had developed, to search around the country for investment opportunities. In November, 1965, on his findings, Arcata National purchased outright with ARCO's money the J. W. Clement Company, one of the nation's largest printing firms, for



something in excess of \$13 million. The company, operating through several subsidiaries, including Pacific Press of Los Angeles and Phillips & Van Orden of San Francisco, prints *Readers Digest* and most West Coast editions of major national magazines.

It's interesting to note that the Clement Company, whose earnings are *not* included in Arcata's earnings reports, showed a net profit of more than \$950,000 for the fiscal year ending June 30, 1965, and approximately \$300,000 in the first six months of the 1965-1966 fiscal year.

As the millions pour into ARCO's treasury, it is likely that further "diversification" will be undertaken. In the four-year period between 1962 and 1965, the company sold more timber and timberlands than it purchased. It is odd that

such an ardent believer in the sustained yield principle as ARCO should not invest its surplus funds in cutover lands which could be re-seeded and re-forested for future timber supplies.

The question of how much a park will cost has been tackled by several interested parties—the National Park Service, the Sierra Club, the Save-the-Redwoods League, the redwood industry, and the State of California, among others. The difficulty in negotiations of this sort is finding a basis for establishing a fair market price. In this regard, a most useful figure was established at noon, March 15, 1966, at the Hilton Inn at the San Francisco Airport. The following note appears in the official minutes of the Arcata Redwood Company's board of directors meeting:

RESOLVED, that, on the basis of all

ARCO's Berry Glen cut lies within the proposed park boundaries. Some of the trees were well over 1,000 years old. Redwood Creek can be seen in the upper right-hand corner. Redwood Highway, lower right-hand corner.



facts known to the Board of Directors, including Appraisal of the Arcata Redwood Company Common Stock, dated January 14, 1966, addressed to the Chairman of the Board by Donaldson, Lufkin & Jenrette, Inc., the Board of Directors does hereby determine that on this date the fair market value of the common shares (\$10 par value) of the corporation is not more than \$360 per share.

It was further resolved that 4,000 of these new shares would be offered to Dehlendorf over the next five years at the \$360 price. If we multiply the 116,690 shares outstanding by this fair market price, which must be considered the company's true evaluation of its assets, the total is approximately \$42 million. Of this, the J. W. Clement Company, which would not have to be

acquired for park purposes, accounts for \$13 million, which would mean Arcata's timber and timberlands, plant and machinery, inventory, and other assets and good will are worth about \$29 million. Since more than \$4 million of that is working capital, the net outlay for park purchase would be about \$25 million.

Assuming, as we must, that ARCO's self-evaluation is correct and by applying that evaluation as a rule of thumb to the other 17,600 acres of old growth and the additional cutover lands proposed in the Cohelan plan, we find that the total acquisition cost may be something in the neighborhood of \$65 to \$70 million. It would thus appear that the Redwood Creek-Prairie Creek park might be established for considerably less than the \$150 million previously estimated.

This logged-over flat on Redwood Creek, one of the finest stands in the watershed, is far removed from ARCO's main cutting operations. One of the fallen trees, it is rumored, measured 390 feet, which would have made it the tallest tree known to man.



When Arcata and Hill-Davis merged in 1958, capital and paid-in surplus amounted to something in the neighborhood of \$3 million. If the company were purchased today at a price of \$30 million, this would mean a ten-time gain on the stock itself, plus the dividends which have been paid out at a generous scale over the years. Furthermore, the stockholders would still own the J. W. Clement Company, which, with its current multi-million dollar plant expansion program, aims at becoming second only to R. R. Donnelley & Sons of Chicago in the contract printing business. Not a bad return by any standard.

But what if the lands are not purchased for the park? Assuming that the company will continue to cut at its 1965 rate and that its profits will remain stable, ARCO will, in the next 20 years (including 1966), realize profits of \$52 million. This does not take into account any increase in price for redwood products which may be anticipated as the supply of old growth diminishes. The upturn in redwood prices over

the last few years indicates such a trend.

When the last tree is down, the company will still own the cutover land which will be worth, at today's prices, at least \$100 an acre (\$2,200,000). What they will be worth 15 to 20 years from now is anyone's guess.

And so the picture emerges. ARCO's own appraisal of its worth indicates a fair market price of about \$30 million today, and if the park is authorized, they'll have a hard time proving it's worth more. But if the park is not created, the company will conservatively earn \$50 million, probably within the next 15 to 20 years, and they will still own the land. Either way, they'll still have J. W. Clement Company, which may turn out to be a gold mine in its own right.

One would think the shareholders could be happy in the knowledge that whether the park is created or not they will have made a fortune.

So Congress deliberates. As each day passes, more of the old giants fall, and the fundamental question remains: who will get the redwoods?

