



**Statement of Bobby Rayburn
on behalf of the
National Association of Home Builders**

Before the Committee on Finance

**United States Senate
Washington, DC**

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Written Testimony for the U.S. Senate Finance Committee

My name is Bobby Rayburn and I am from Jackson, Mississippi. I am President of Rayburn and Associates and have been a builder of single and multi-family homes for more than 30 years. I appreciate the opportunity to appear today as Vice President-Treasurer of the National Association of Home Builders on behalf of our 205,000 member firms and their more than 8 million employees in all fifty states. We are also a member of the American Consumers for Affordable Homes alliance, which is made up of U.S. and Canadian industries in support of free trade. This alliance includes Home Depot, the National Lumber and Building Materials Dealers Association, Cep International, the International Mass Retail Association, the Black Chamber of Commerce, the Hispanic Contractors Association, and the Canadian Free Trade Lumber Council. I would also like to thank each of you for your past efforts to help provide safe and affordable housing.

Your attention to this issue is essential at this time because the Commerce Department has issued preliminary decisions creating a combined 32 percent tariff on Canadian lumber imports. The duties are the result of the Commerce Department's preliminary decision to impose a 19.3 percent Countervailing Duty and 12.6 percent Anti-dumping duty. We believe these tariffs are unfounded, burdensome to American consumers and extremely harmful to the housing industry and our national economy. If confirmed in a final decision, this tariff will have harmful effects on the home building industry and the

national economy. It will create a new hidden tax on American home buyers, renters and consumers.

NAHB vigorously opposes barriers to free trade in lumber and other building materials and oppose laws, regulations, and policies that allow countervailing duties to be imposed unfairly and used to thwart legitimate competition. We support trade policies that reflect the interests of consumers and downstream industries.

LUMBER IN HOUSING

Home building and remodeling account for two-thirds of all of the lumber consumption in the U.S. Canada is the source of more than a third of the lumber used in U.S. home building. Lumber accounts for a larger share of the cost of a home than any of the other materials used by home builders.

This issue is very important to home builders and subcontractors, as well as other U.S. businesses that use softwood lumber, such as manufacturers of trusses, cabinets, pallets, and furniture, as well as lumber wholesalers and retailers. Lumber-dependent industries employ more than 7 million American workers. Roughly one million more workers are self-employed as independent contractors and business proprietors in the home building industry. Millions more are employed in housing-related businesses such as real estate and mortgage finance. By contrast, the number of logging and sawmill jobs is only about 200,000. Overall, American workers in lumber-dependent jobs outnumber workers in lumber-producing industries by more than 30 to 1.

The potential for growth in industries that depend on lumber is substantial. However, the potential for growth in logging and sawmills is limited by the supply of timber available, and employment in those industries will inevitably continue to decline, as it has since 1988--despite higher lumber prices--during periods of free trade, quotas, and tariffs. The downward trend in lumber producers' payrolls has only been interrupted when growth in home building created increased demand.

The economic impact of home building extends itself deep down into the economy of the U.S. Building a new home requires workers, skilled and semi-skilled. New homes require building materials, some produced locally and some produced at regional or national factories. New homes need appliances and carpets and cabinets and windows and literally thousands of large and small products that must be produced in order to complete the home. Homes are painted and landscaped and furnished and windows are covered. Building and selling a home requires professional services, such as surveyors, architects, attorneys, real estate brokers, bankers and insurance companies. All of this economic activity spreads itself across the local economy, the national economy and into all sort of different industries.

The economic activity generated by home building is three to four times the typical home buyer's down payment. Hence, a typical \$34,000 down payment on a new home generates nearly \$160,000 in new economic activity (the underlying land value is subtracted from the calculation). Many aspiring homebuyers are just on the edge of

being able to qualify for a mortgage and make the required payments. Even a small change in house prices or interest rates can determine whether they can buy a home.

Lumber trade restraints would have broad, harmful effects on the housing market and the national economy. Housing and related industries account for nearly 5 percent of our GDP, and the housing sector is currently one of the few remaining healthy sectors in the economy. Imposing a punitive duty on lumber would further raise the cost of housing, slow production and have harmful effects on our economic recovery.

EFFECTS OF LUMBER PRICE INCREASES

Lumber price increases have direct effects on the cost of housing. Each one dollar increase in the price of framing lumber per 1,000 board feet adds about \$20 to the price of an average new home. An increase of \$50 in the average wholesale price of framing lumber would mean that about 300,000 families would not be able to qualify for a mortgage on an average first-time home.

Home builders are generally entrepreneurial small business people. 82% of home builders build fewer than 25 homes a year and 60% of our members build fewer than ten homes a year. Many of these small-volume builders and subcontractors do not have the capital to withstand the artificial price increases and price volatility of trade restrictions.

Because of the severe effects of artificial price increases and volatility, I want to be clear: we are opposed to border measures such as quotas, tariffs or export fees that restrict imports of Canadian lumber.

Trade restrictions on lumber cause artificial price increases and volatile swings in the lumber market, both of which hurt housing affordability. Builders are already feeling the effect of the preliminary trade tariffs. If the full extent of the tariff is reflected in average lumber prices, the tariffs could add up to \$1,500 to the cost of building a new home, creating a new hidden tax on American home buyers, renters and consumers. A \$1,500 housing surcharge would effectively prevent an additional 450,000 families from being able to qualify for a home mortgage, according to an analysis by the Census Bureau.

The U.S. cannot meet the need for new homes and improvements to existing homes without lumber imports. Due to the current limits on the supply of timber in the U.S., border restrictions on Canadian lumber would lead to an increase of imports from other parts of the globe with much less environmentally-sensitive forest practices. A report issued last year finds that “the province of British Columbia has some of the strictest forestry protection rules, in comparison to the vast majority of U.S. softwood lumber-producing states.” (report from Auburn University, March 2001) Other environmental reports have documented that Canadian policies do not encourage over-harvesting. Only 0.4% of Canada's forests are harvested each year, which is well below sustainable harvest levels, and Canada grows twice as much wood as is harvested annually. Although

Canada has more commercial forestland, it harvests less than half of what is harvested in the U.S. each year.

DIFFERENT SPECIES, DIFFERENT USES

Most importantly, I can tell you first-hand that the types of lumber imported from Canada are significantly different from most of the lumber produced in the U.S. Builders use different lumber species for different structural uses in home construction. The imported lumber is better suited for wall framing, while the primary domestic species are better for floors, roofs, headers, and outdoor applications. In the absence of Canadian spruce, builders are likely to turn to light weight steel studs or lumber imports from other countries in order to build homes with walls that don't crack. Southern Yellow Pine, the primary wood species in the southern U.S., is more likely to bend and warp, and is used for beams and joists and for outdoor applications requiring pressure-treated lumber.

The principal competitive threat to the use of Southern Yellow Pine, the most common domestic lumber species, comes not from imports but from engineered wood products such as wood I-joists and composite materials, which offer improved performance, easier installation, and reduced reliance on old-growth timber. Increased efficiency in new U.S. sawmills and limits on the supply of timber in the U.S., as well as use of engineered wood, have made many older sawmills economically untenable. While some mills are closed, improvements in other mills and construction of new mills have increased overall capacity.

NEGOTIATIONS

Last fall, the U.S. and Canadian governments held a series of negotiating sessions aimed at resolving the long-running dispute over lumber. NAHB supports the good faith efforts of Special Trade Representative for Lumber Marc Racicot and applaud him for considering the interests of U.S. consumers. We are hopeful that our input will be considered in the future. NAHB seeks to have the interests of all U.S. stakeholders – not just lumber producers – included in lumber policy discussions. Specifically, the interests of homebuyers, home builders, and other U.S. consumers and downstream industries should be recognized and represented in negotiations, litigation, and policy formulation regarding Canadian lumber.

In December, the Canadian provincial governments, which own most of the timber in Canada, proposed far-reaching changes in the management of their timber, intended to remove incentives to over-produce during periods of weak demand, make sales practices more transparent, and eliminate suspicions that their timber sales are not market-based. These proposals included, for example, the elimination of minimum harvest requirements.

NAHB has been wary of the idea of a negotiated settlement, based on past experience with lumber agreements that allowed lumber producers in the two countries to restrict supply and raise prices. These past agreements created supply constraints that contributed to volatility in lumber prices. However, the forestry changes proposed by Canada were a valid basis for a long-term solution that would serve the interests of

lumber consumers, lumber producers, and the overall U.S. national interest. Although we oppose border measures that restrict lumber imports, we support changes to make lumber supply more responsive to market demand.

CONSUMERS AND TRADE LAWS

U.S. trade laws give little consideration to the interests of consumers and downstream industries. This bias has limited the ability of American consumers to receive products and services of the highest quality at the lowest cost, and of U.S. businesses to provide jobs and increase production. It also encourages other countries to adopt similar protectionist policies that limit the choices of their citizens and opportunities for U.S. exporters.

In the last twelve months alone, the support for free lumber trade has grown nationwide. Supportive newspaper editorials have been published in many major newspapers such as *The Washington Post*, *The Seattle Post Intelligencer*, *The Chicago Tribune*, *The Boston Herald*, *The Los Angeles Times*, *The Dallas Morning News*, *the Portland Oregonian*, and the *Financial Times*.

Over one hundred members of Congress have cosponsored a pro-housing resolution calling for free trade in Canadian softwood lumber (S.Con.Res. 4 introduced by Senators Don Nickles and Dick Durbin, and H.Con.Res. 45 introduced by Representatives Jim Kolbe and Steny Hoyer.) On November 9th, a bipartisan group of U.S. Senators and Representatives sent a second joint letter to President Bush on this issue. It urged the

President to consider the harmful effect of lumber tariffs on the housing industry and the national economy, and asks that no new lumber trade restrictions be created.

On January 15th of this year, President Bush spoke in New Orleans, Louisiana, about the need for free trade. The President said, “One of the reasons I'm traveling down the spine of America and on the mighty Mississippi is because I want to remind our fellow citizens how important trade is. It's important to these workers that we trade. ... There are some who play politics with the trade issue. They want to shut down trade. I like to remind people, those who shut down trade aren't confident. They're not confident in the American worker, they're not confident in the American entrepreneur, they're not confident in American products. I'm just the opposite. I know we got the best workers in the world. I know we can make the best products in the world, and therefore, we ought to have free and fair trade around the world. ... This isn't a Republican issue. This isn't a Democrat issue. Trade is a jobs issue.”

Unfortunately, the Commerce Department has not acted to achieve the President's goals for free trade. The two tariffs amounting to a 32 percent tax on Canadian lumber imports not only run contrary to Bush's philosophy, but will harm American consumers by raising the cost of housing.

The people who ultimately pay the cost of trade restrictions are consumers – the homebuyers, renters and people remodeling their homes. Consumers are rarely organized, and that makes them an easy target to fund subsidies for special interests.

I hope this committee takes the lead in bringing the benefits of free trade to Americans, rather than creating distortions in the marketplace, providing off-budget subsidies to uncompetitive U.S. special interests, and creating windfall gains for a few at the expense of U.S. home builders and home buyers.