

**Rusty Wood**  
**Chairman, Coalition for Fair Lumber Imports**  
**before the**  
**Senate Finance Committee**  
**Oversight Hearing on U.S.-Canadian Softwood Lumber**  
**February 13, 2002**

Good Morning. My name is Rusty Wood and I am Chairman of the Coalition for Fair Lumber Imports. The Coalition represents hundreds of lumber companies from throughout the South, Northwest, Inland and Northeast. I am also the owner and operator of Tolleson Lumber Company -- a third generation family-owned sawmill out of Perry, Georgia. I sincerely appreciate the opportunity to speak on behalf of the U.S industry before this panel regarding our long-standing trade dispute over subsidized and dumped Canadian lumber.

Over the past few years, and still today, subsidized and dumped imports of lumber from Canada impair and threaten the viability of the U.S. lumber

industry, the livelihood of hundreds of thousands of workers and the investments of millions of landowners. According to one independent source, in the eight months prior to filing our cases, we saw about 158 mill closures in the United States, 27 of which were permanent closures. During that time, the same source reported only 2 Canadian permanent closures (even though Canada controls over 40% of North American production). Unfortunately, that report includes only a partial list of closings. Scores of additional mills have closed across the country. In 2000, U.S. lumber production dropped significantly (almost 700 MMBF of lost production), while subsidized Canadian production and imports continued to increase.

The softwood lumber industry is reeling under record imports dumped into our market fueled by subsidies that Canadian governments give to our competitors. The problem is simple: The Canadian governments own 94% of the timber and they give it to their mills for a fraction of market value, as the attached chart shows. If Canada is allowed to continue the unfair practice of giving away its timber while we pay the market price for ours, many more family businesses like mine will fail, many more tens of thousands of our employees will be out of work, and many woodland owners won't be able to afford the cost of reforestation and forest management.

If prices for lumber continue to drop manufacturers will shut down and the demand for timber will drastically decline. But we can't expect low timber fees to save us. U.S. timberland owners operate in a market, and if returns don't justify the investment, timberlands will be sold off to developers creating further urban sprawl. The Southern Forest Resource Assessment draft report issued November 2001 by the U.S. Forest Service supports this view. We simply cannot afford to lose this valuable resource base and lose an important segment of the forest products industry.

Unfortunately, the Canadian timber pricing subsidies are only part of the problem. The provincial governments also have tenure systems and mandates that distort the lumber market. The existing tenure system locks up the timber and prevents competition on the vast majority of timber sales, benefiting selected Canadian companies.

Canada's provincial governments have a complex scheme of timber management that artificially encourages production (especially in weak markets) and fixes timber prices at less than one-fourth of its true market value. Mills must harvest timber regardless of market conditions. Mills cannot close without government approval. These, too, would have to be remedied to have fully open and competitive markets.

The Canadian system is so perverse from a free-market perspective that one industry analyst (from the Canadian financial firm Goepel McDermid Securities) came to the following conclusion. I quote:

"In short, the Canadian forest industry is run in the same way as the controlled economies of the former Eastern Bloc.

Bureaucrats and politicians allocate the resource and determine its value. It took 50 years for the East Bloc economy to collapse because of misallocation and mis-pricing of resources and we have no doubt the Canadian timber tenure system will collapse for the same reasons."

In the meantime, that subsidized system wreaks havoc on fair trading U.S. mills and workers.

The market-distorting policies in Canada encourage artificially inflated timber harvests, overproduction of lumber, and lead to uneconomic decisions by Canadian lumber producers. As one Canadian observer noted: "Canadian provinces continue to sell timber, no matter how low the price falls, to maintain employment and public revenues." Canadian lumber companies are forced to pump lumber into the U.S. market at below the cost of production -- a practice that is condemned as anti-competitive and actionable under

domestic and international trade laws. Growing Canadian production over the past 25 years, as our second chart shows, tells the story.

The web of Canadian policies that results in subsidized and dumped imports is basically the product of the Canadian government's policy to artificially protect its lumber industry and its workers, which seems fine on its face. But when artificially maintaining employment in the Canadian industry comes at the expense of otherwise competitive U.S. mills and workers, the U.S. government most certainly has not only the right, but the **obligation**, to protect its industry and workers from unfair trade by vigorously enforcing the U.S. trade laws.

I should be clear here as to what the U.S. industry expects of the U.S. government. We're not seeking any special kind of protection or special status; just the relief we deserve and are entitled to under nationally and internationally recognized principles of international trade.

In terms of the litigation, the dispute is before the U.S. Department of Commerce and the U.S. International Trade Commission, and then, in all likelihood, international dispute settlement panels under NAFTA and the WTO. Our cases are strong. Commerce preliminarily found combined subsidy and dumping rates of over 32%. But for a clerical error, the rate

would have been 37%. We believe the evidence at final will show even greater unfair trade. With respect to injury, there is simply no question that the U.S. industry has been injured by the unfairly traded imports.

Canada has challenged the Department of Commerce's preliminary determination at the WTO based on the use of a cross-border comparison benchmark for the price of timber. However, not only is this the required result under U.S. law, but in 2001, the WTO has also used cross-border benchmarking in the Dairy case. The same standard applied in the softwood lumber case shows an enormous subsidy.

The Congress, of course, has an important role to play in ensuring through oversight that the U.S. trade laws are fully, vigorously and promptly enforced at the agency level, and defended vigorously during international dispute settlement and negotiations.

The Congress also has a role to play in supporting a negotiated settlement. The position of the Coalition has consistently been supportive of government-to-government negotiations.

The United States has sought an end to the unfair trade practices by urging Canada to adopt open and competitive markets for timber and logs. Yet, Canadian officials loudly claim that the United States has negotiated in

bad faith. This is nonsense. The United States has suggested that Canada can resolve the dispute in a variety of ways: 1) adopt fully open and competitive markets, 2) sell timber at market value in a system that competitively sells a substantial majority of timber and substantially reforms the current tenure system to ensure that sales are in fact competitive and not depressed, 3) impose effective border measures while long-term reform is negotiated or 4) offer proposals that have a comparable effect to an open and competitive market. Instead, Canada has offered to sell competitively 1% of government timber in Quebec and 13% in British Columbia.

Further, there has to be effective commitments that there will not be a pass-back of the subsidies through grants or reduced forest management expenses.

Unfortunately, it appears that Canada is unwilling to solve the real problem and is exerting all its influence to get the Administration to accept a weak deal based on international political pressure. The United States must remain firm. If Canada won't solve the real problem, then the full weight of U.S. trade laws must be applied. Then Canada can solve the problem or simply pay an offsetting duty.

Finally, I would also like to address arguments that have been made by certain organizations that claim to represent lumber consumers. These organizations raise the questions of how much the imposition of anti-subsidy and antidumping duties on lumber from Canada would result in an increase to the cost of buying a home.

U.S. government agencies have looked into this issue -- that is, the effect that lumber prices have on the cost of a new home -- and time and time again have found that the cost of lumber makes up such a small part of the overall cost of a home that an increase in lumber prices simply does not have a significant impact on housing costs and does not limit a significant number of potential homeowners from the market. NAHB and Census data show that in 2001 lumber accounted for just over 2% of the cost of an average new single-family home, the lowest share in the 20+ years of available data. The numbers just don't support the claims that are being made.

The forest products industry is vital to the United States. It ranks in the top ten of the country's manufacturing industries, representing 7.8 percent of the manufacturing work force. The Forest Service's Assessment points out that "With expansion in forest production has come an expansion in jobs and income derived from the wood products industry. In 1997, timber harvests

led to more than 700,000 jobs in wood products sector and more than \$118 billion in total industry output. Total economic impacts of these activities were about 2.2 million jobs and \$251 billion of total industry output.” On top of that, there are literally millions of timberland owners in the United States who see their land devalued, and their ability to engage in sustainable forestry compromised, as a result of the timber subsidies.

Fair trade is not going to bankrupt any homebuilders or prevent people from buying homes, but restoring fair trade is the difference between life-or-death for many U.S. mills and workers.

I also want to make it clear to our customers that what we're asking for is in their long-term interest as well. Canadian subsidies and dumping have put us in such a position that if we don't get the trade relief we deserve, or come up with another type of acceptable solution, we're going to be driven out of the business of selling softwood lumber altogether. That means that our customers would be left to the mercy of a reduced supplier base and the artificial pricing practices of the Canadian industry. I think its safe to say that no consumer wants to be in that position. U.S. consumers should, at least, join us in a call for open and competitive markets in lumber and timber; that's a long-term fair solution for everyone.

The primary and overarching aim of the U.S. industry is to have market forces, not government policies, determine the price and volume of softwood timber and lumber. That's the way a market should operate, and the only way that both producers and consumers can be satisfied. All that the U.S. industry has ever sought is open and fair competition in timber, logs and lumber. If the Canadian governments revise their policies and provide for market-based pricing for timber, this dispute will be over. That will give us a fair chance, and that's all that we're asking for. If that is not achieved, however, as a matter of survival we have to defend our right to conduct business in our own market. We appreciate the Commerce Department's effort in implementing the countervailing and antidumping laws and setting a combined duty rate of 32 percent to offset the Canadian lumber subsidies and dumping activities.

And we need the Congress to ensure that our rights are fully protected.

First, Congress should, through careful oversight, insist on the full enforcement of the anti-subsidy and antidumping laws. And second, we need Congress to support real negotiations that lead to a long-term durable solution to this contentious issue that has created too much injury for US producers and workers for too long.

Once again, I would like to thank all the Members for the time they have taken out of their busy schedules to attend this hearing on the very important issue of unfair lumber imports from Canada.

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