



The Dynamics and Impacts of Softwood Lumber Trade for the US:

The Good, the Bad and the Ugly

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Topics

- ❖ US Wood Products Trade
- ❖ Softwood Lumber Imports
- ❖ Softwood Lumber Exports
- ❖ Hardwood Lumber Exports
- ❖ Recent Trends of Interest
- ❖ Summary Observations



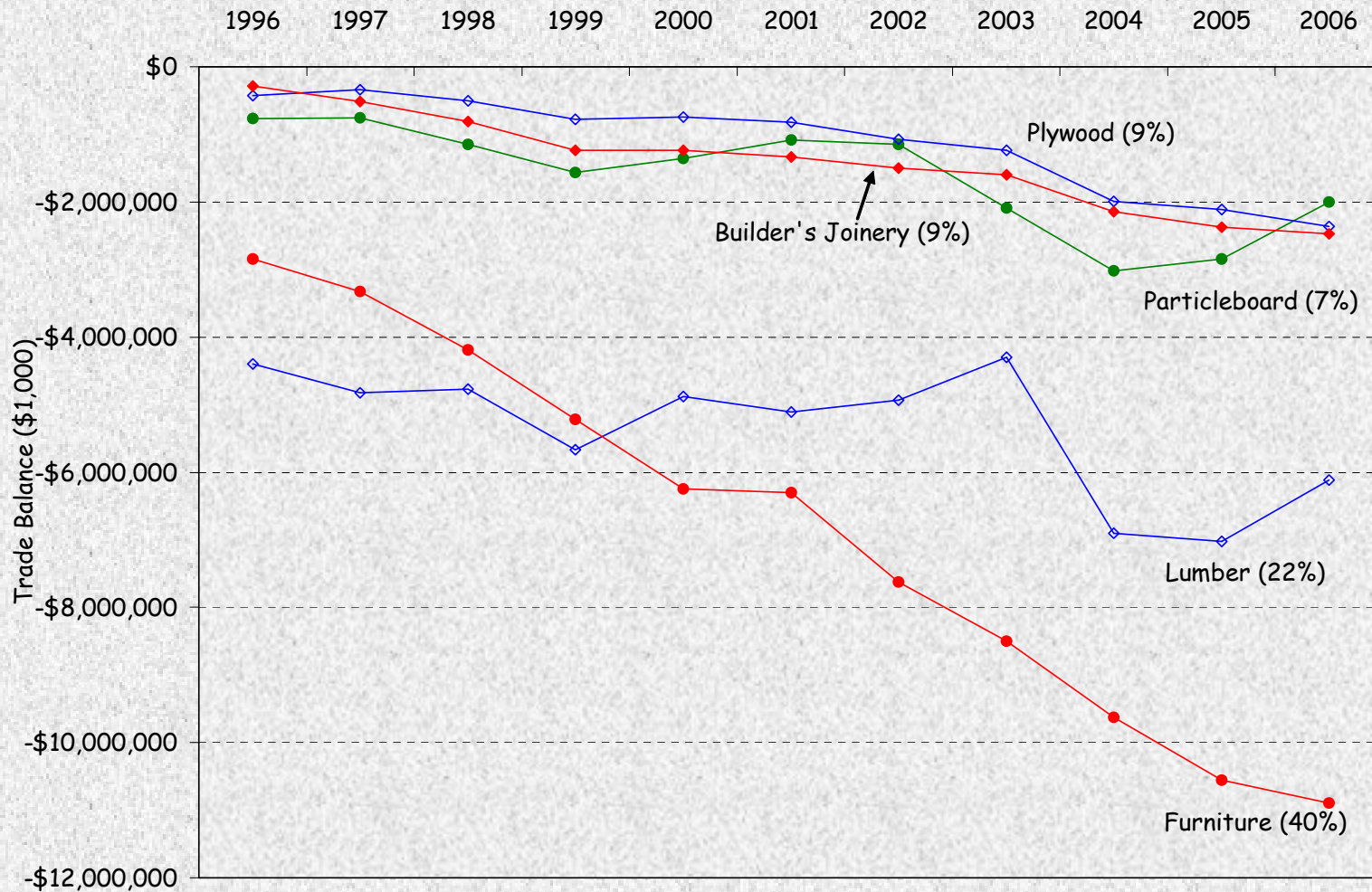


US Wood Products Trade

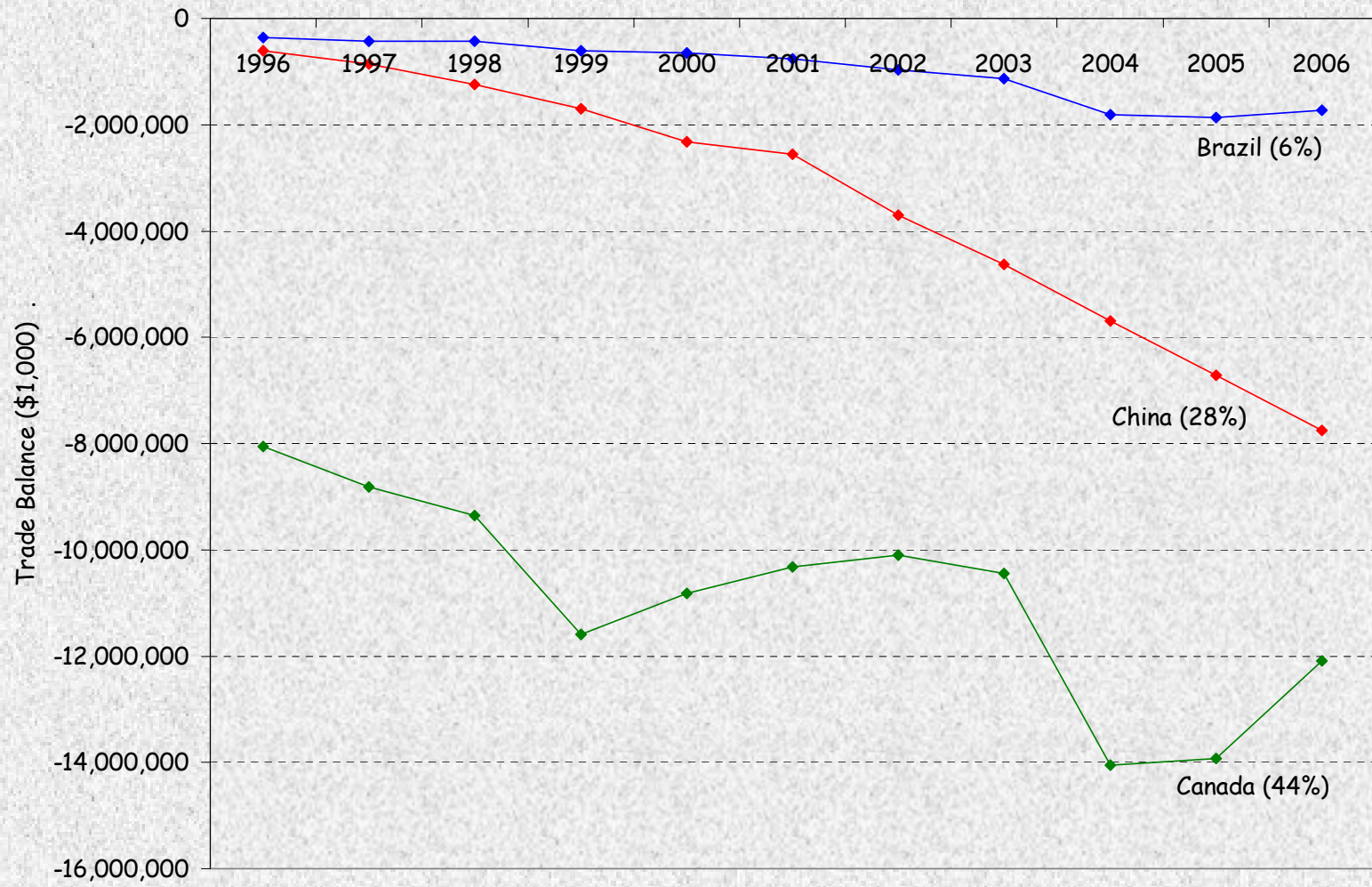
Wood Products Trade Deficit



Wood Products Trade Deficit

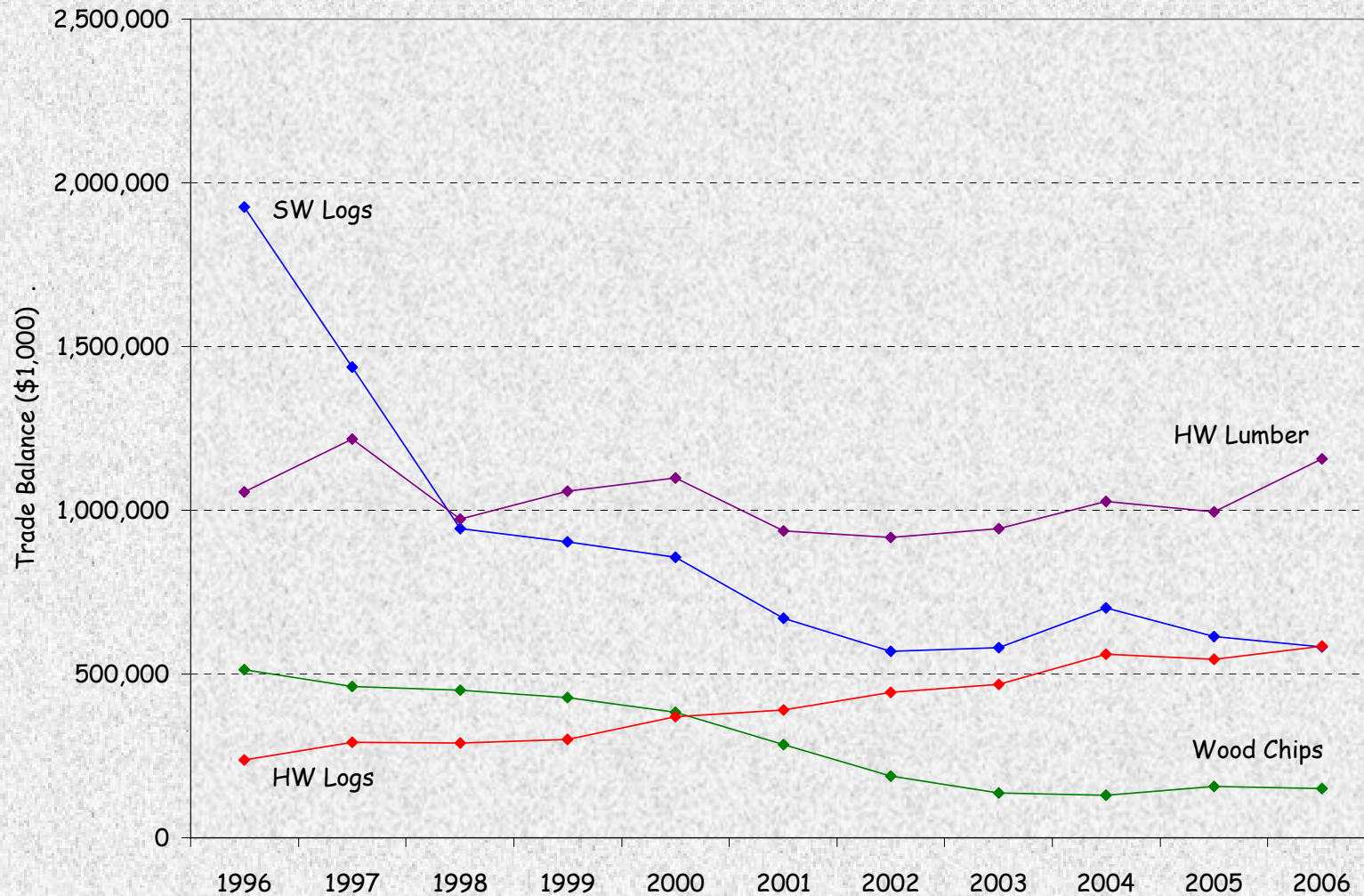


Wood Products Trade Deficit



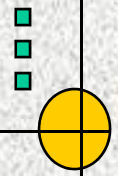
Wood Products Trade Surplus

There is Some Good News!

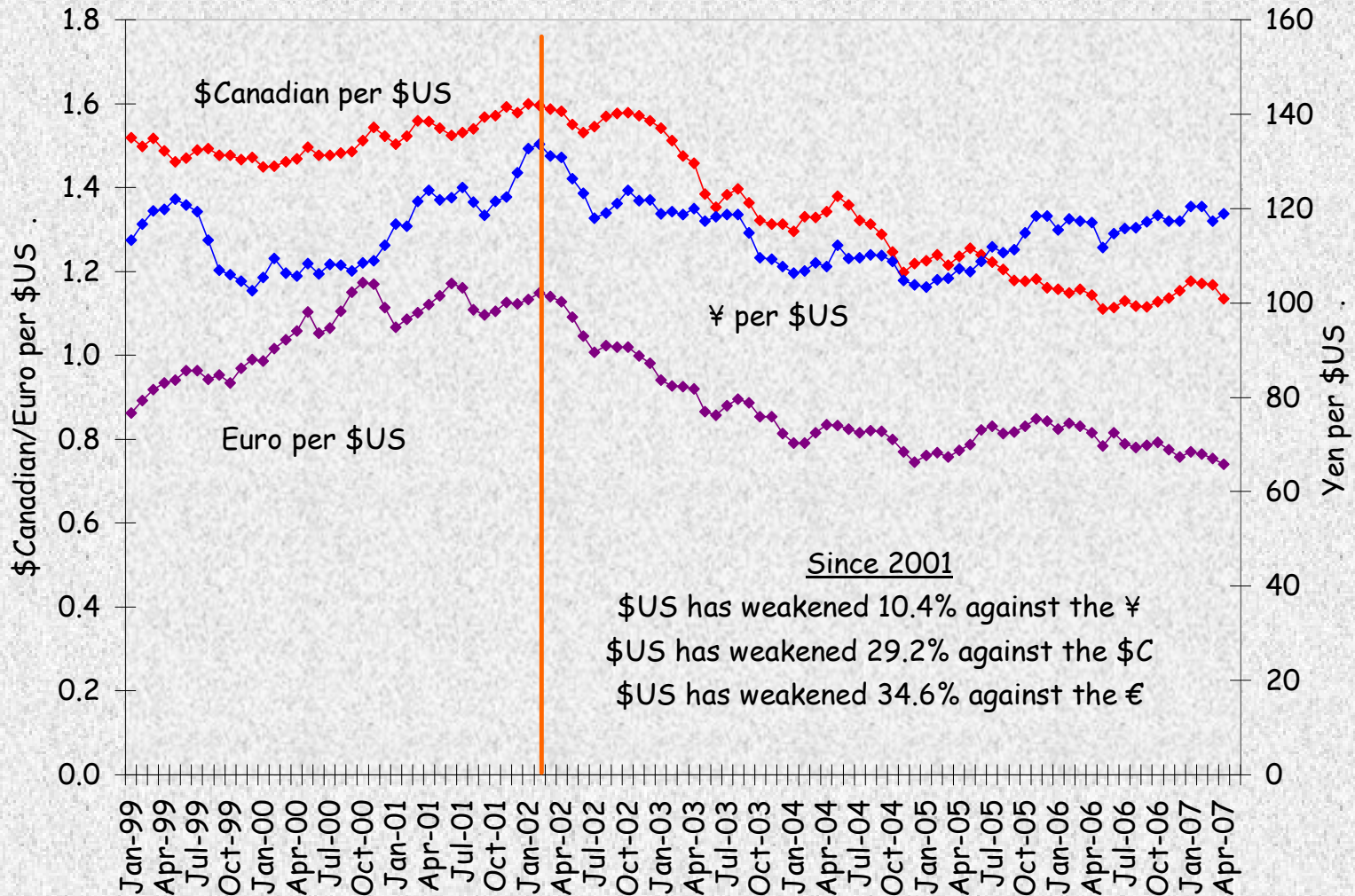




Softwood Lumber Imports

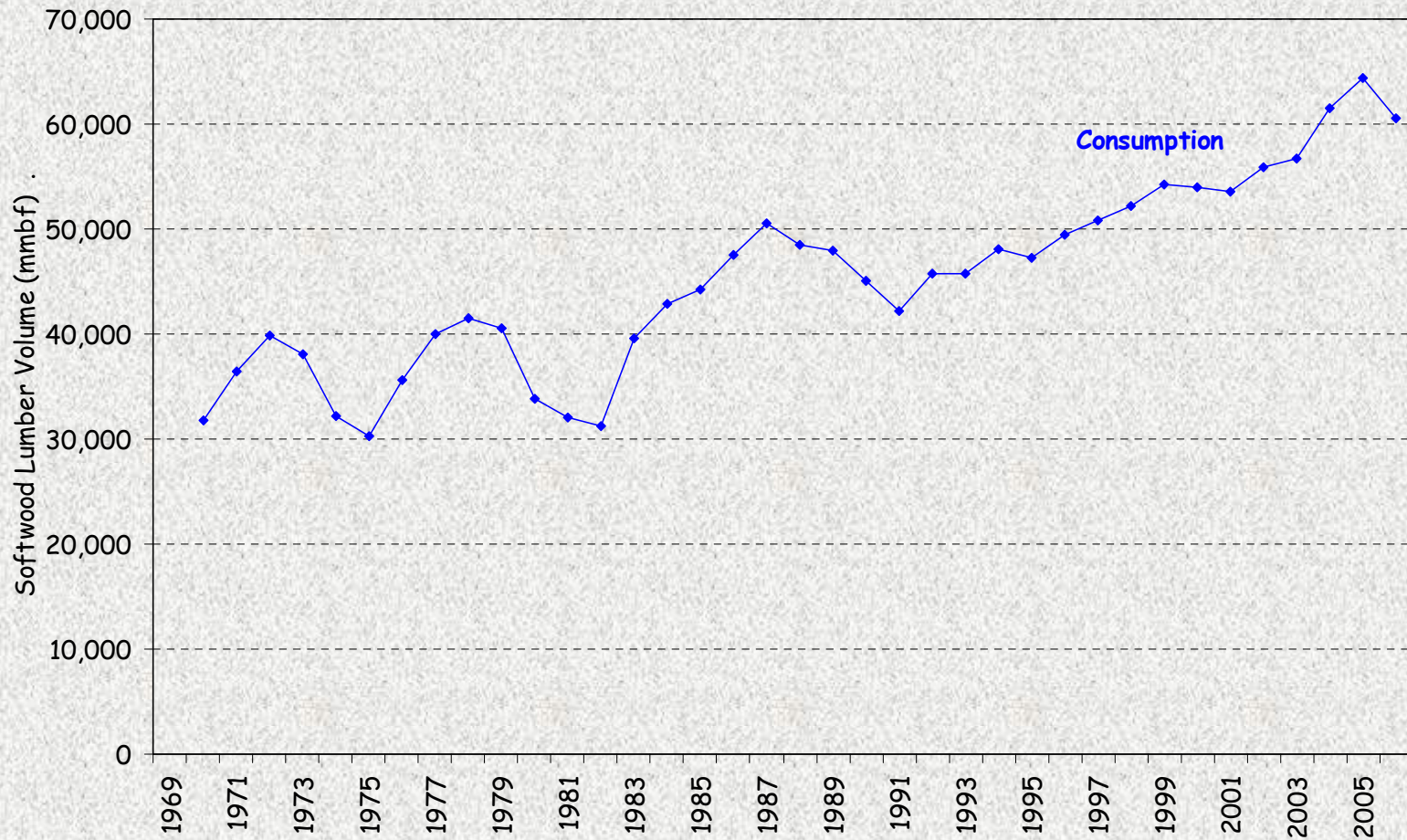


The \$US has weakened substantially

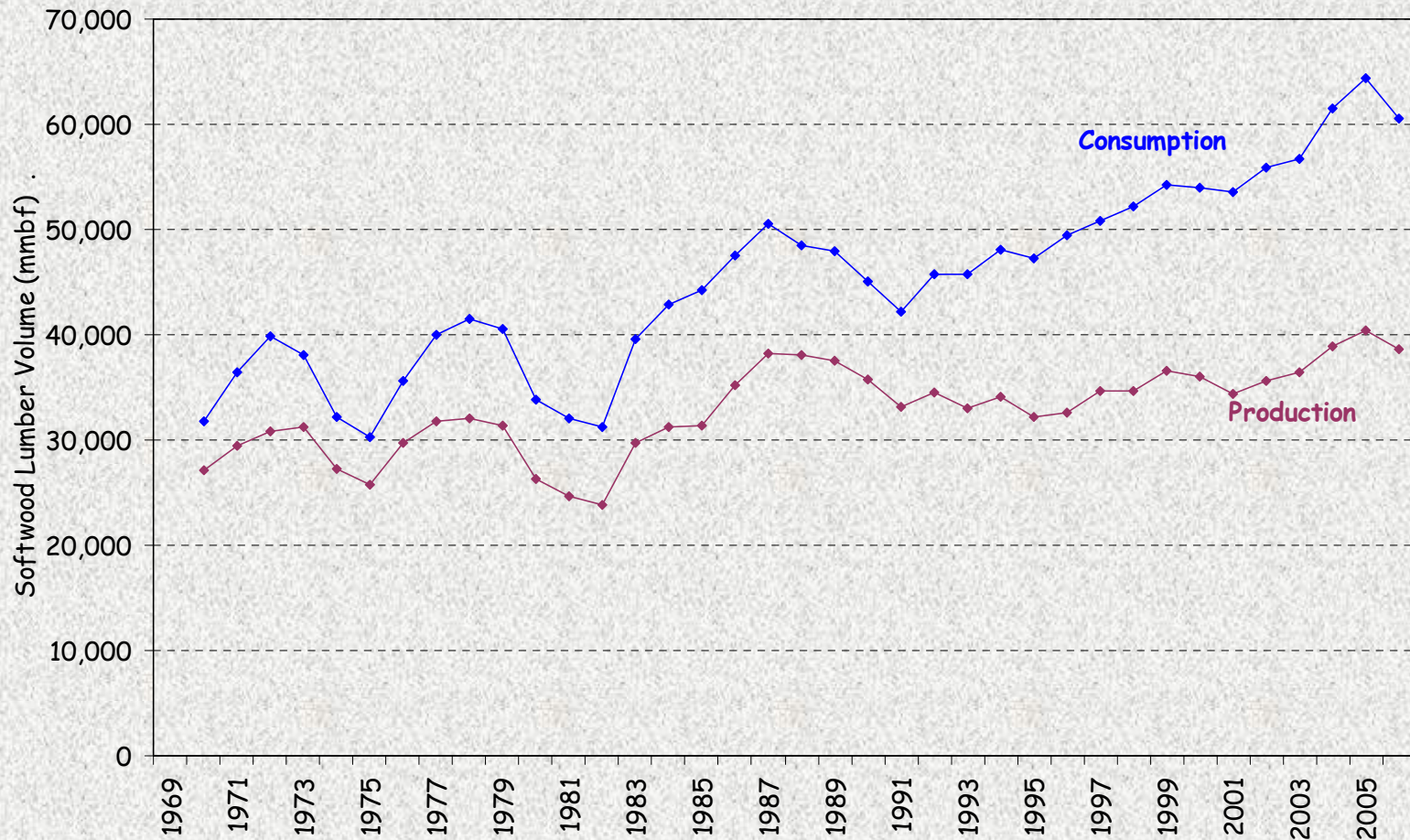


Since 2001
 \$US has weakened 10.4% against the ¥
 \$US has weakened 29.2% against the \$C
 \$US has weakened 34.6% against the €

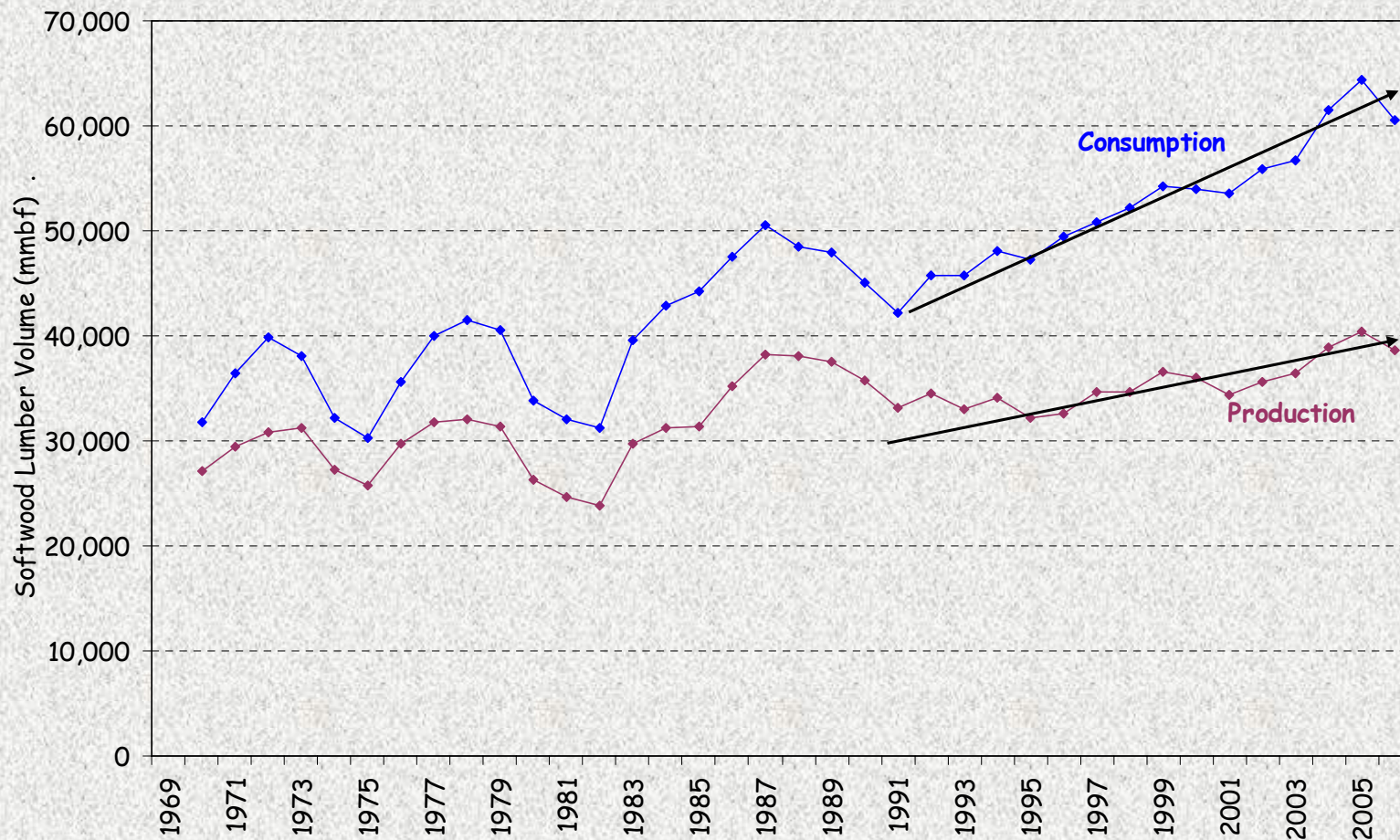
Softwood lumber consumption



Softwood lumber consumption

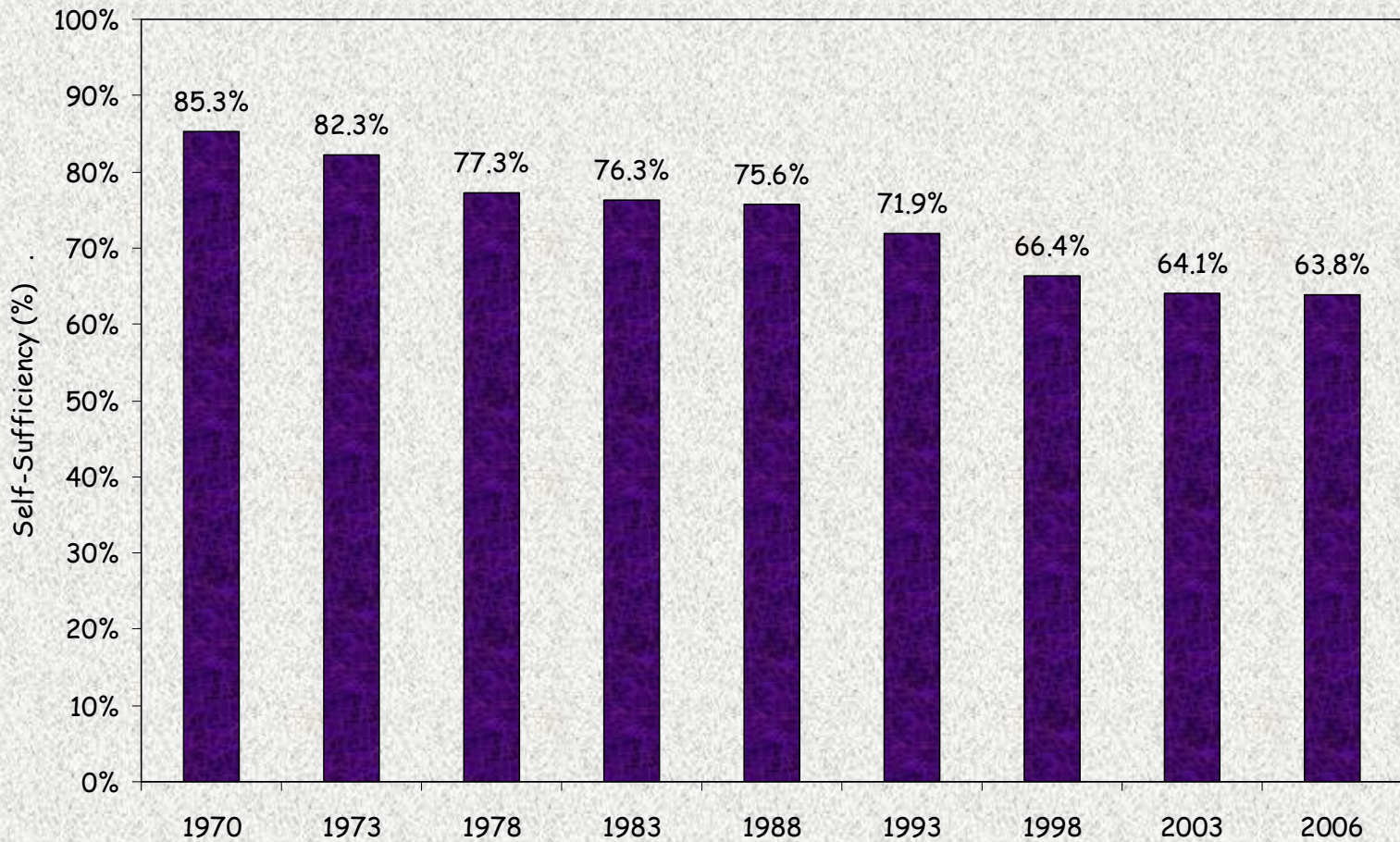


Softwood lumber consumption



Consumption exceeds production by approximately 1.3 bbf per year!

Self-Sufficiency





The Law of Supply and Demand

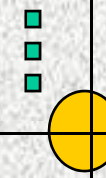
There is no escaping the fact that the US simply cannot, either now or in the future, supply its demand for softwood lumber solely from domestic forest resources





Nature Abhors a Vacuum

Therefore, **IF** domestic supply cannot meet demand **AND** we artificially constrain SW lumber imports from Canada, **THEN** other *foreign* suppliers will step in to fill the gap...





Nature Abhors A Vacuum

Between 1990 and 2006

Softwood lumber consumption increased by an average of **2.2%** per year

US softwood lumber production increased by an average of **0.5%** per year

Imports of Canadian softwood lumber increased by an average of **5.4%** per year under constraint

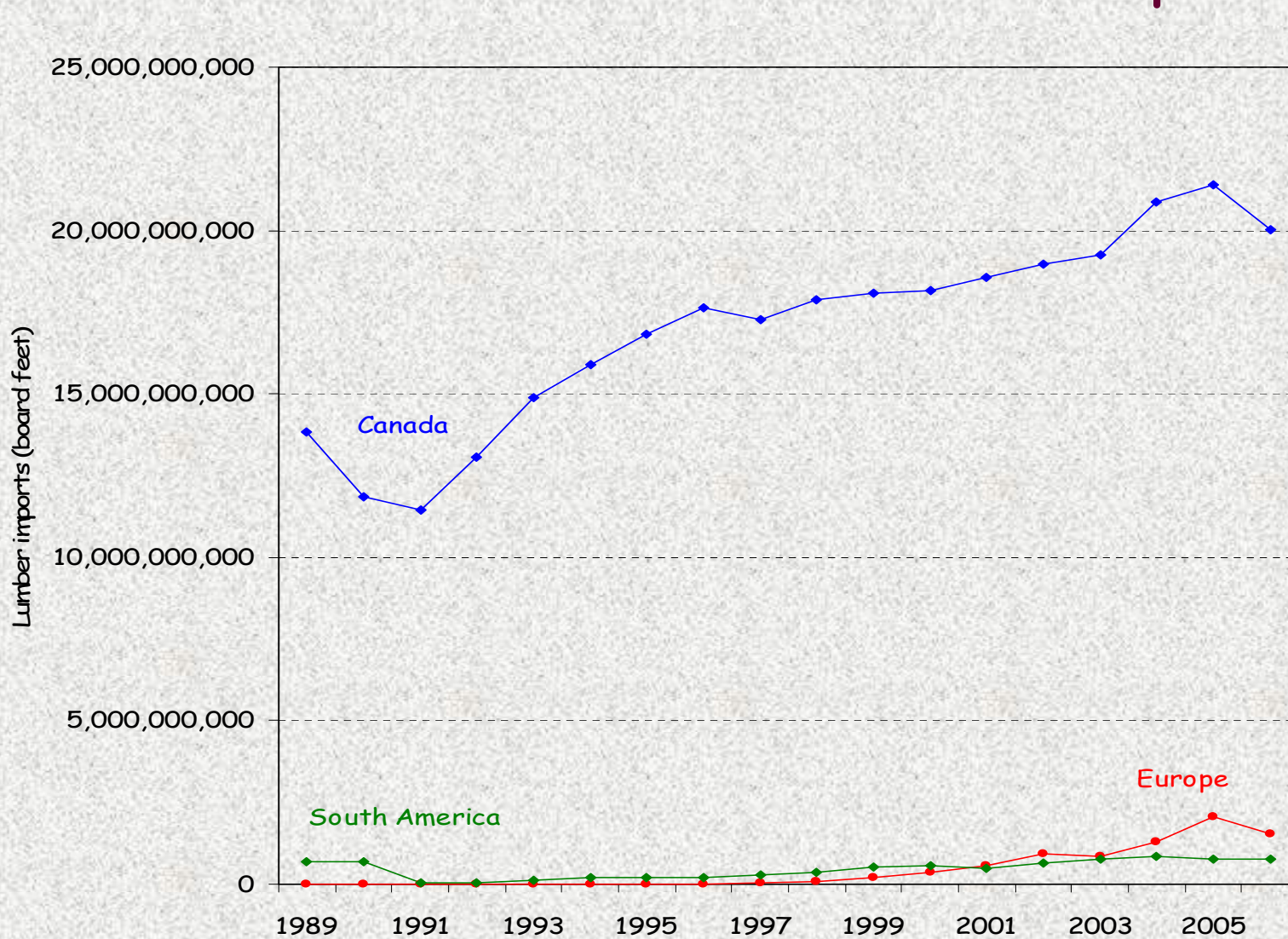
But supply still does not equal demand



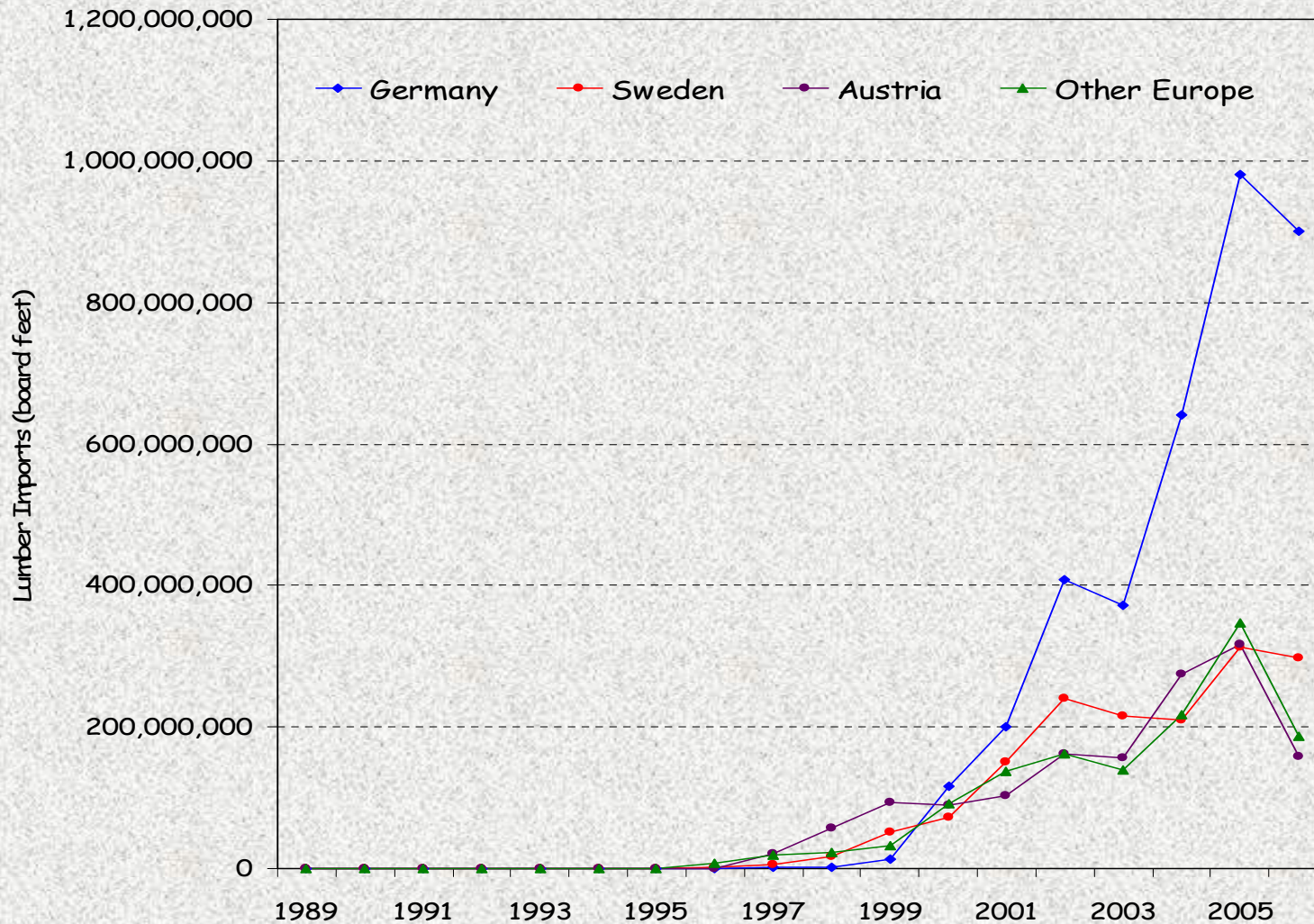


So,
That Giant Sucking Sound You Hear...

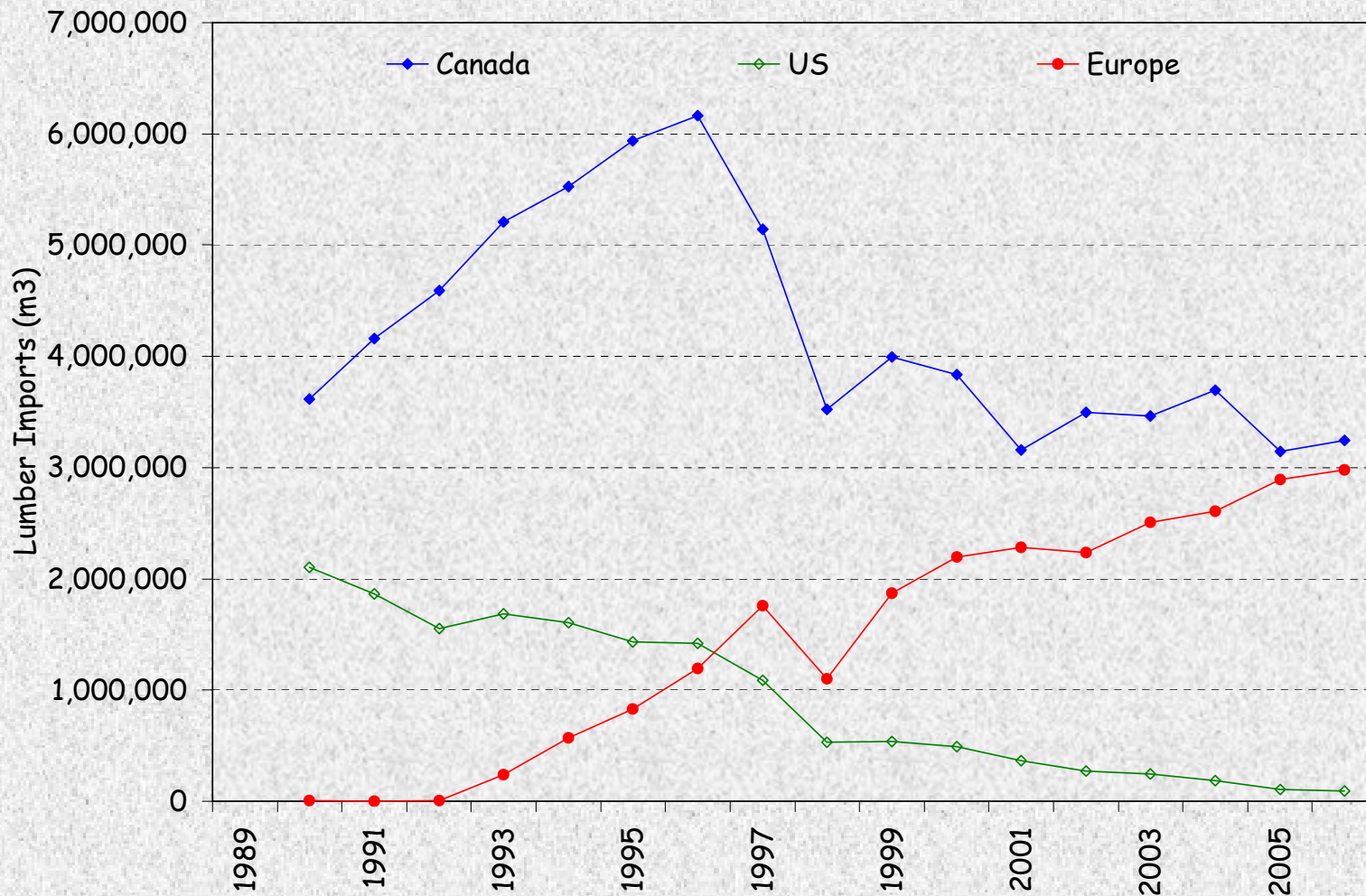
US Softwood Lumber Imports



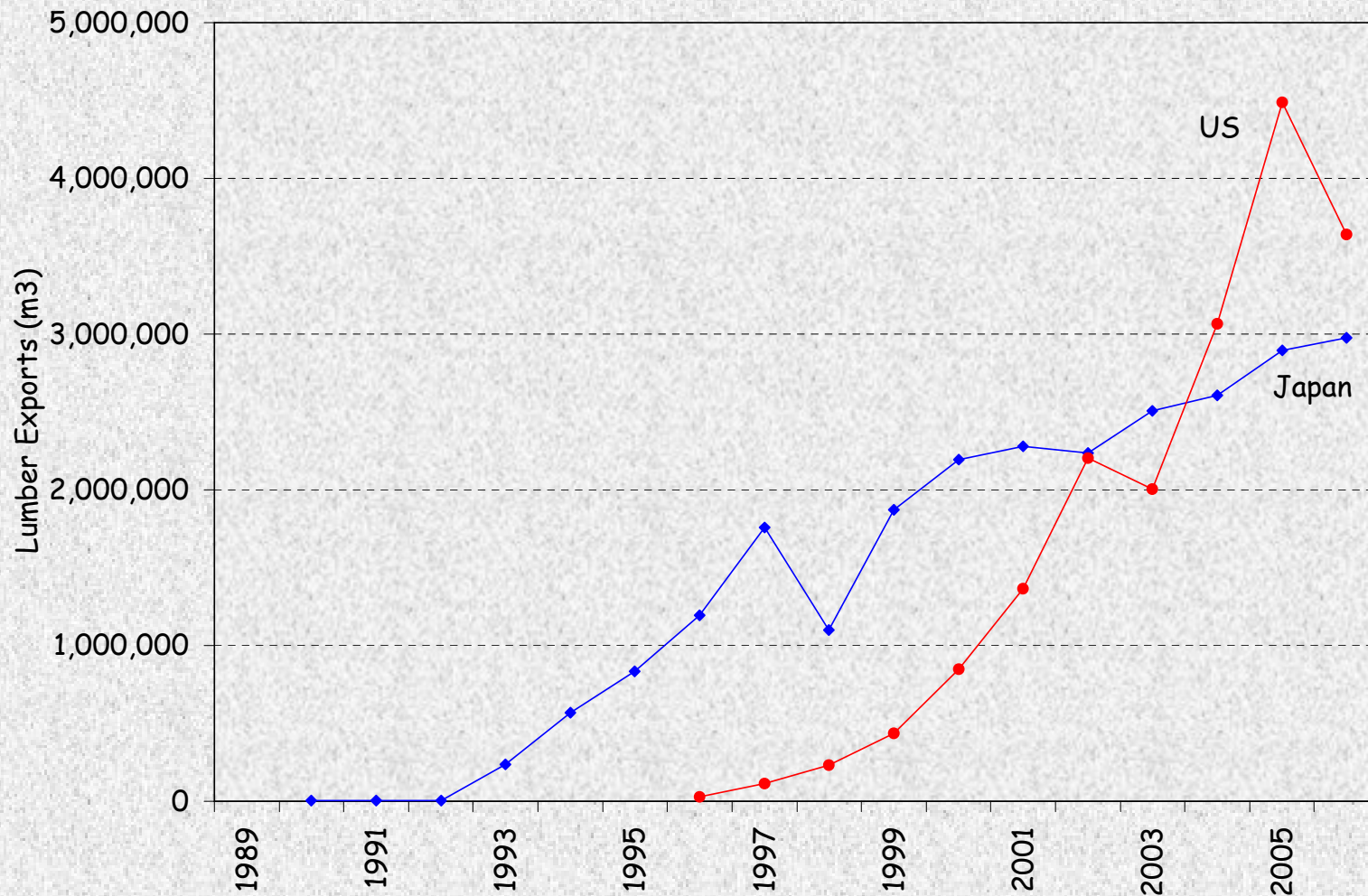
US Softwood Lumber Imports



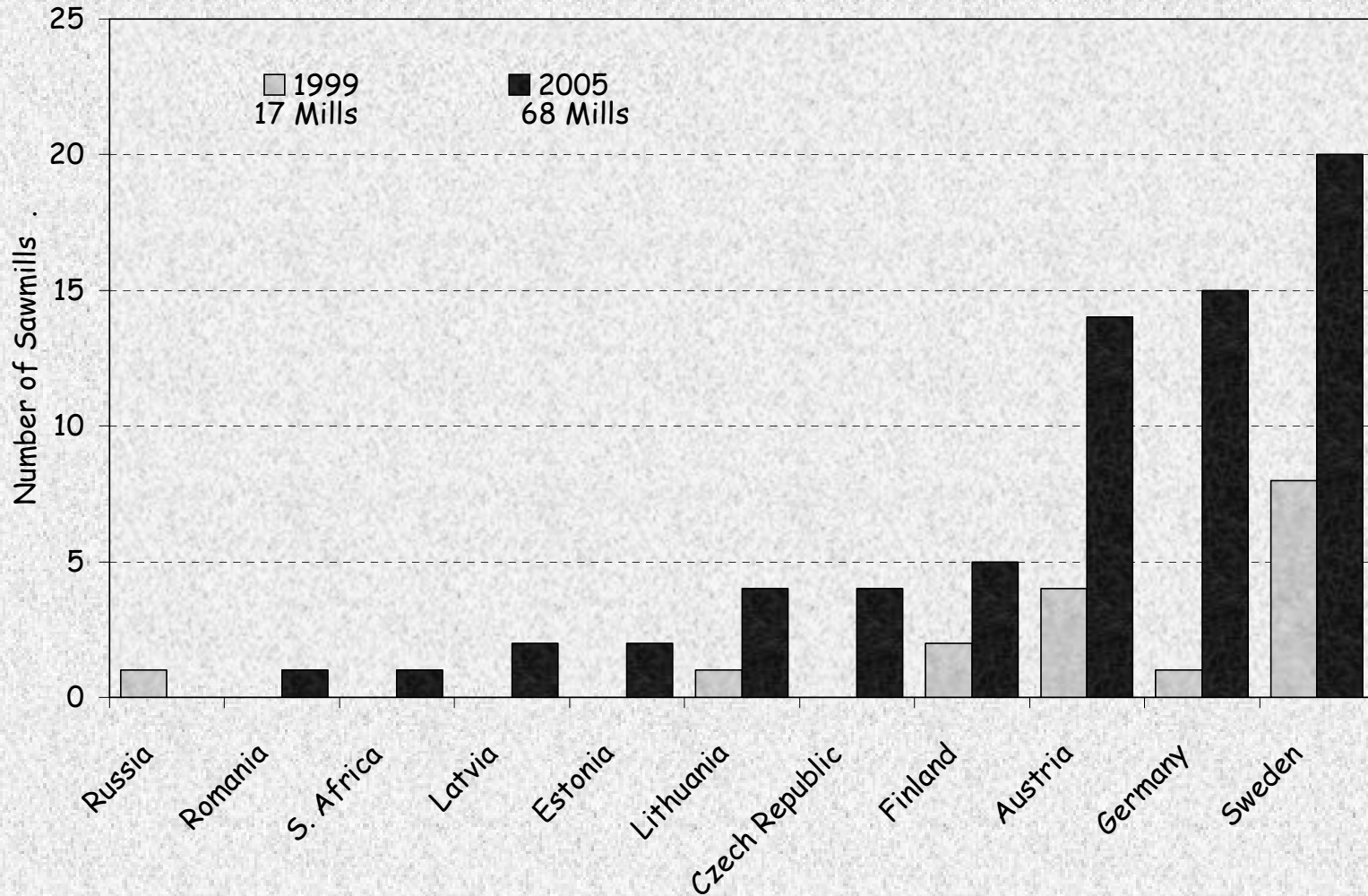
Japanese SW Lumber Imports



European SW Lumber Exports

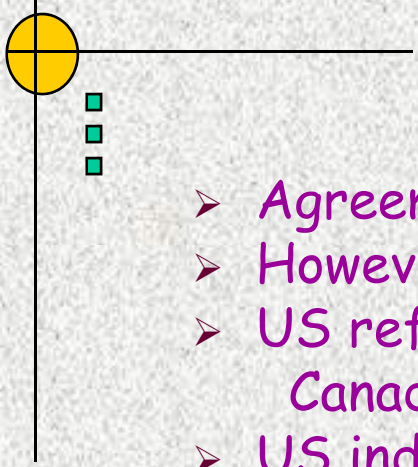


European Sawmills with US Structural Grade Stamp Approval





US-Canada Softwood Lumber *"Relationship"*



Proposed Softwood Lumber Agreement with Canada

- Agreement extends 7 years with an option for 2 years
- However, either country can opt out after two years
- US refunds \$4 billion of \$5 billion in duties to Canadian industry
- US industry agrees not to file injury claims for duration of agreement
- Agreement structured to provide two options for Canadian softwood lumber manufacturers with export taxes based on the Random Lengths Framing Lumber Composite Price
- "Surge mechanism" to prevent increased Canadian exports in weak market (composite price below \$355)
- "Third Country Trigger" would compensate Canada in the case where other countries gain market share at Canada's expense





BUT WAIT A MINUTE
Don't Forget Who the Ultimate
Customer is!

US Softwood Lumber Industry
Representatives Have Paid Little
Attention to the Concerns of their
Biggest Customers.

As a Result...





Consumer response

"From a policy perspective, (we) will work...to increase the supply of German and Swedish lumber, and we will consider options to import Russian softwood lumber from Siberian forests. In addition we will encourage interested builders to explore using steel and other non-wood building materials and construction techniques."

National Association of Home Builders (4/26/06)

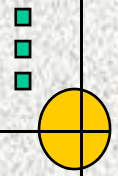


Is this really where we want to be?

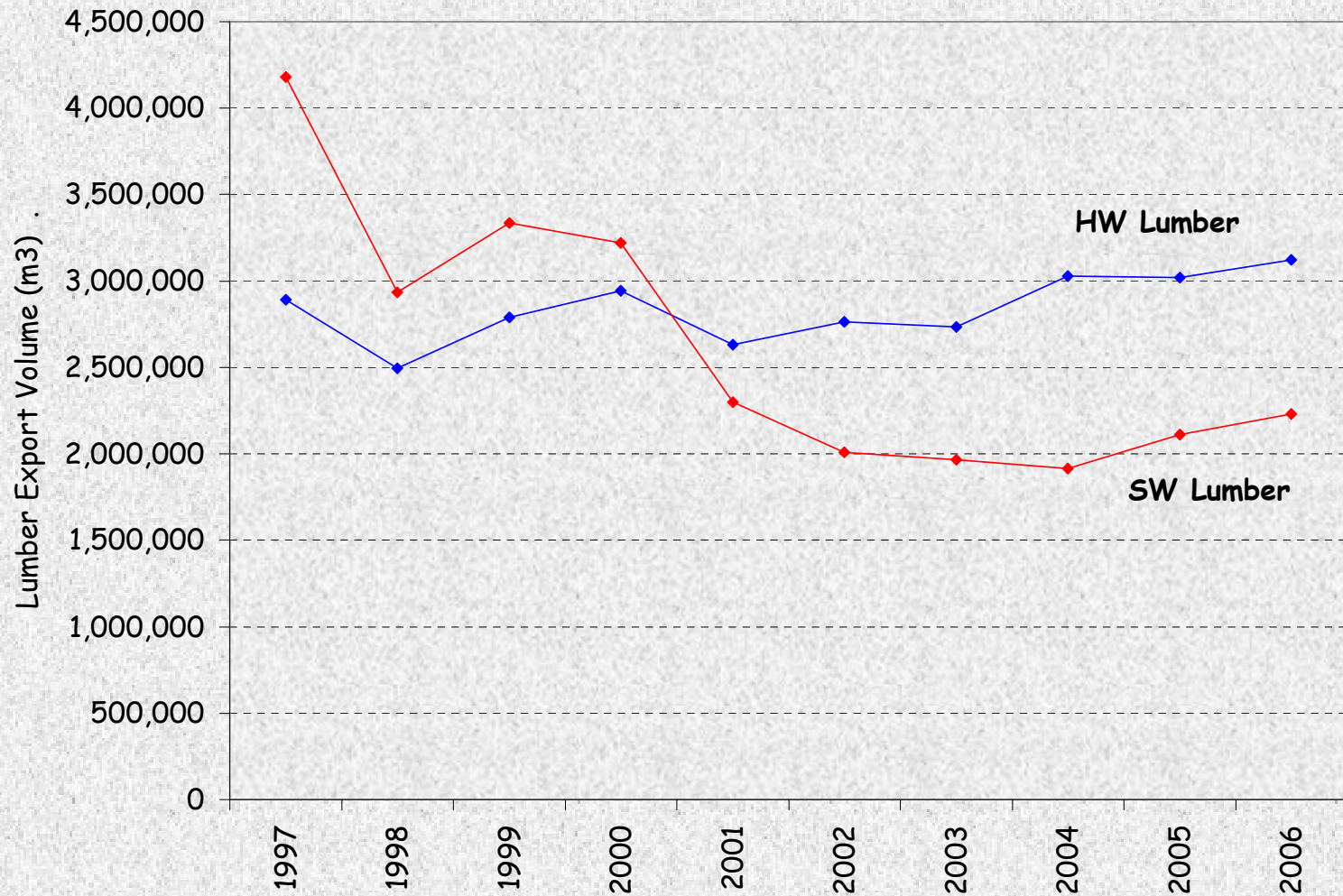




US Lumber Exports



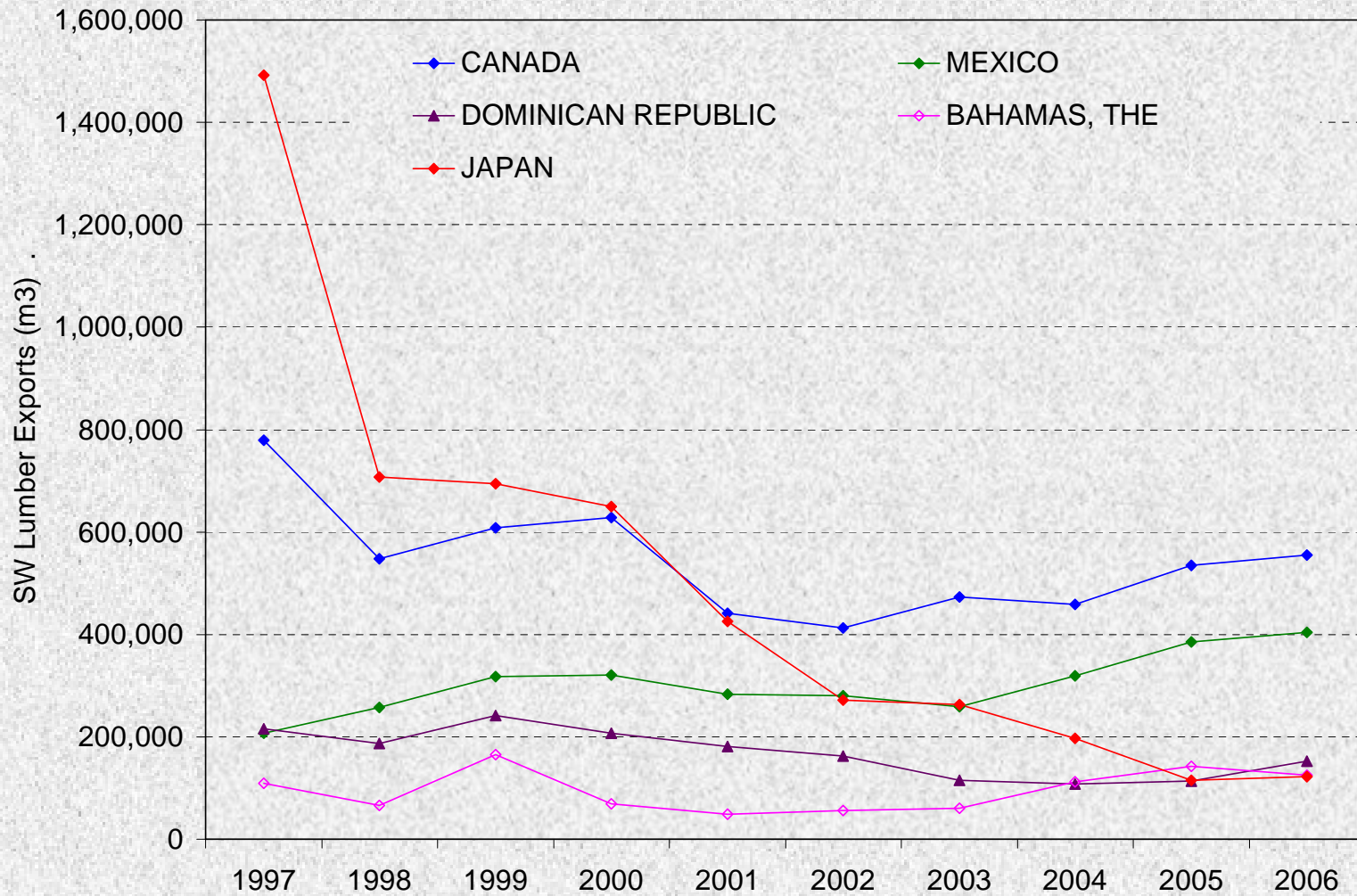
US Lumber Exports



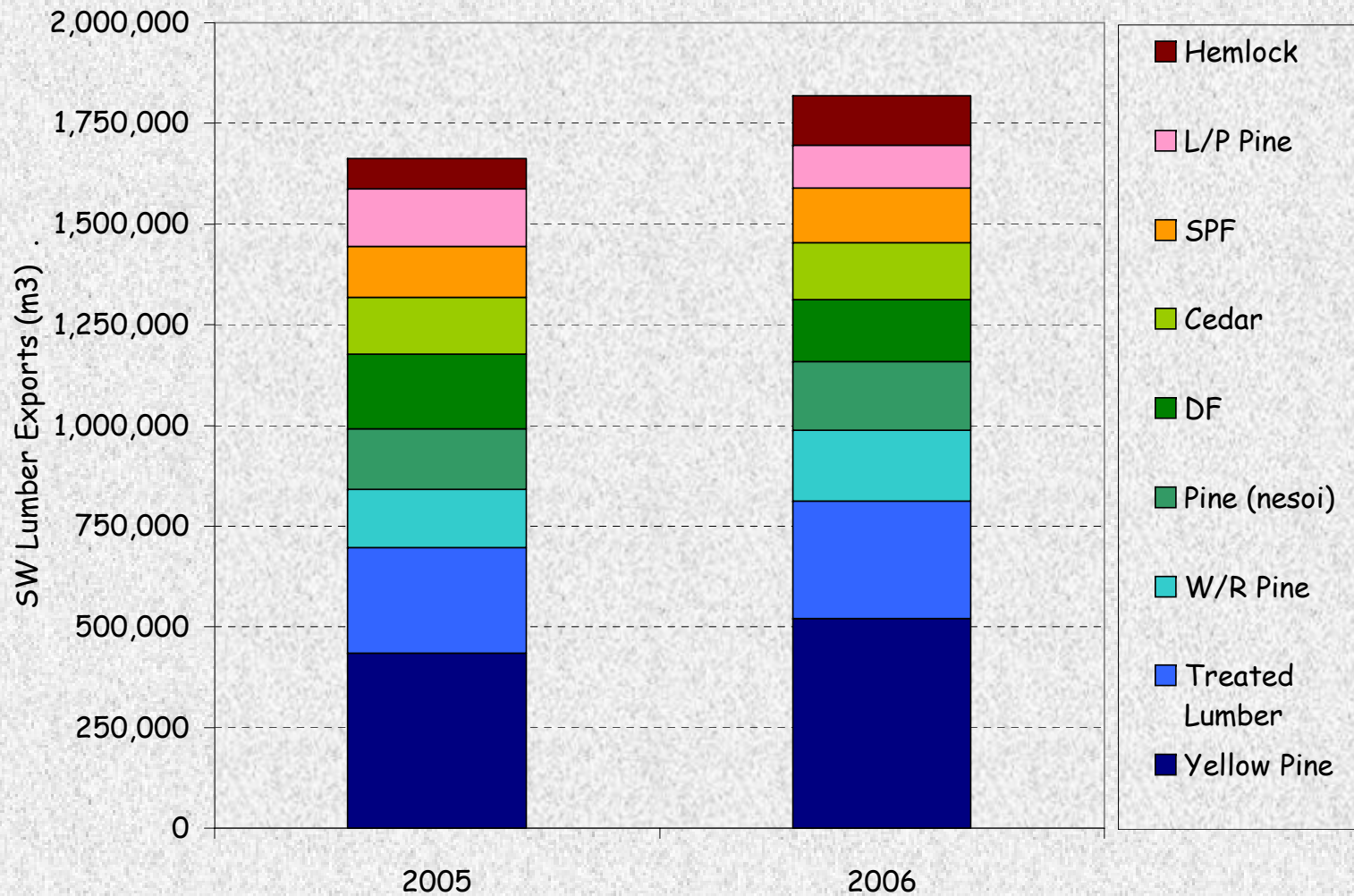


Softwood Lumber Exports

Softwood Lumber Exports



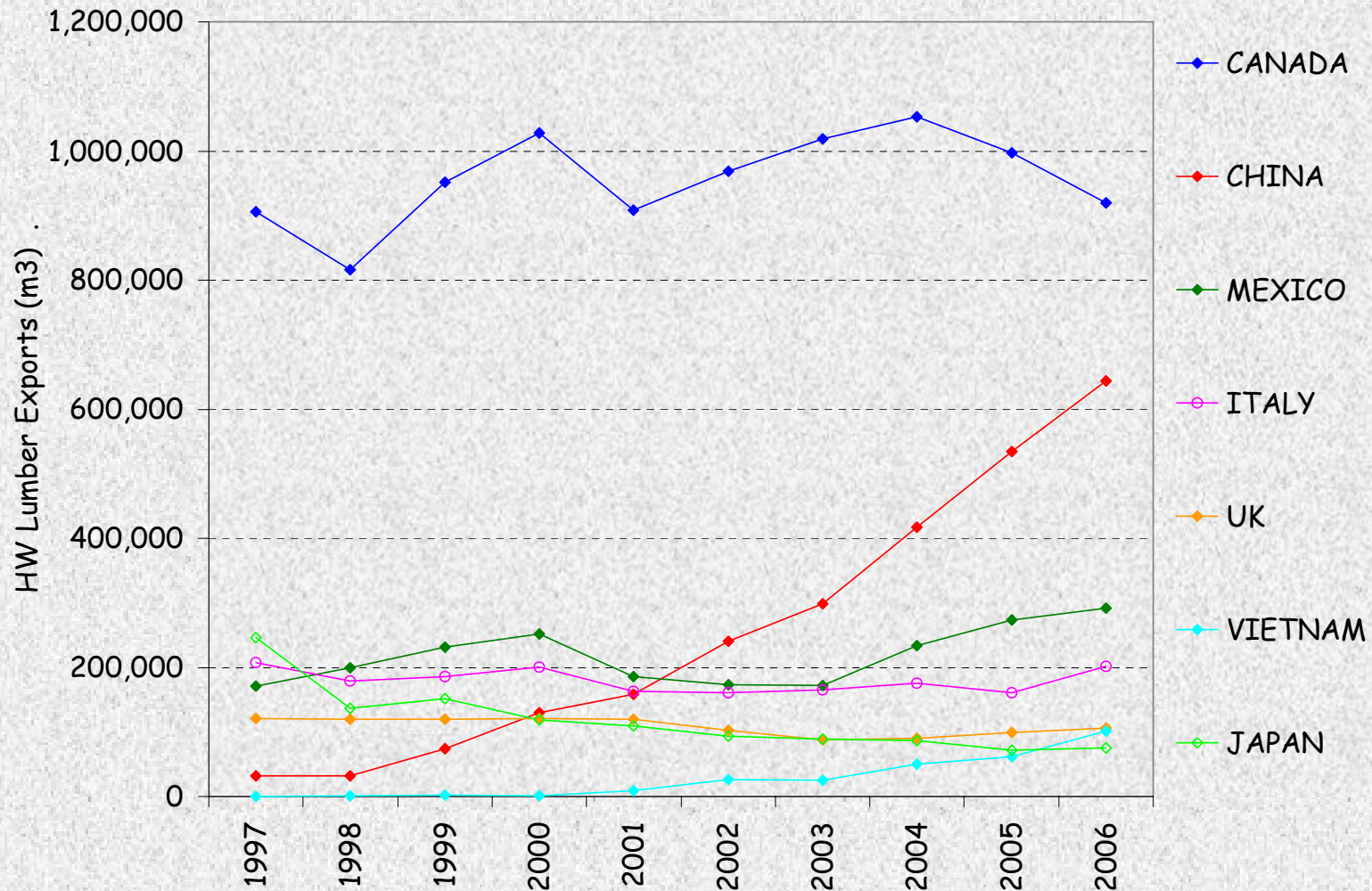
Softwood Lumber Exports





Hardwood Lumber Exports

Hardwood Lumber Exports



Hardwood Lumber Exports





Recent Trends of Interest

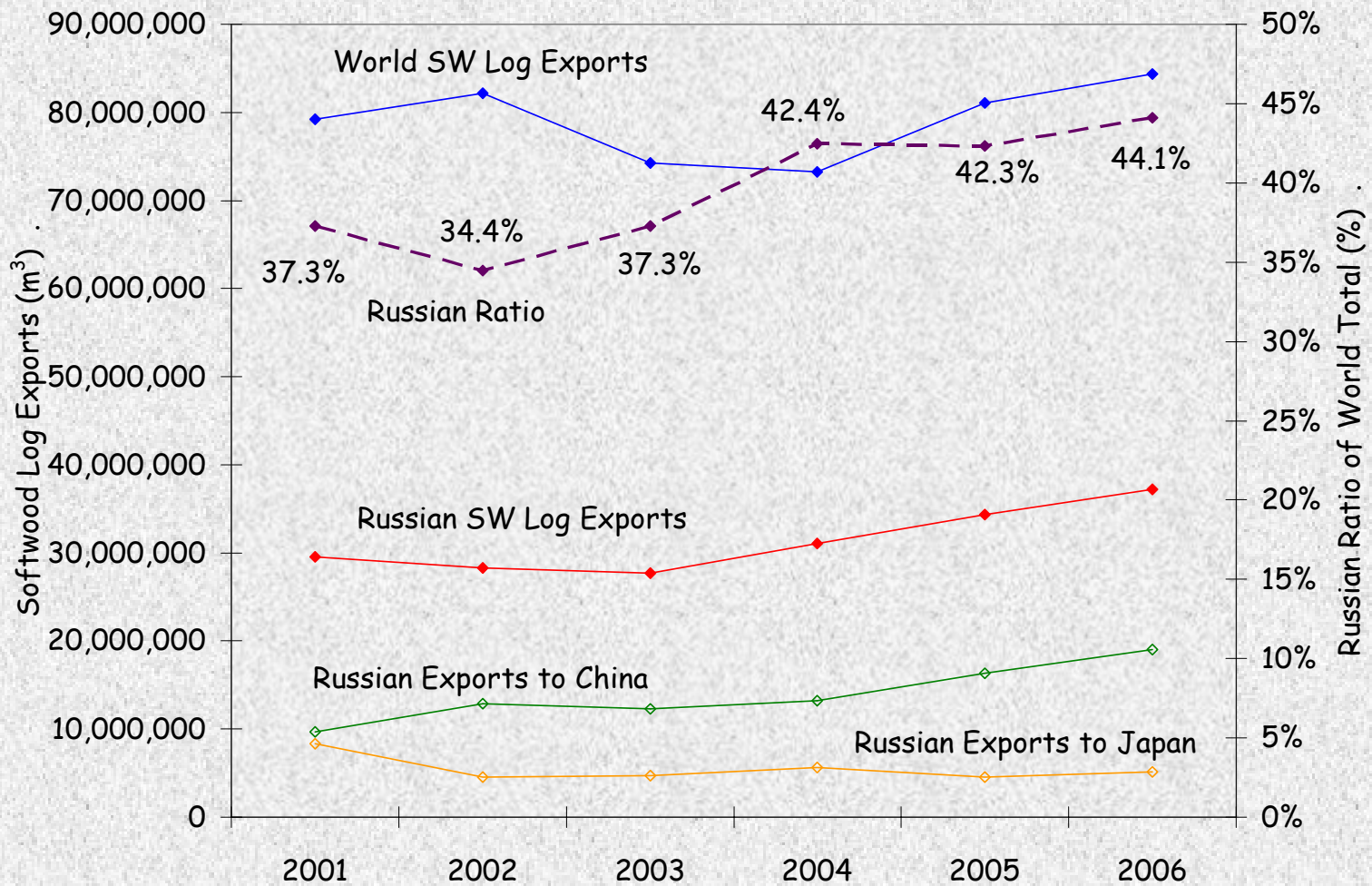
- Japanese public procurement policy requires certification of legality for wood used in public projects (expected that private companies will comply)
- CASBEE-Sumai (Home) green building program will be introduced in July 2007
- Japanese program to promote use of domestic species in wood products including subsidies to sawmill industry to promote competitiveness
- Examples include:
 - ❖ Hybrid Beam (a glulam beam comprised of DF outer lamina and sugi inner lamina
 - ❖ Glulam posts made from sugi lamina
 - ❖ Hinoki sill plates
 - ❖ Strength testing of sugi dimension lumber for use in 2x4 construction is underway



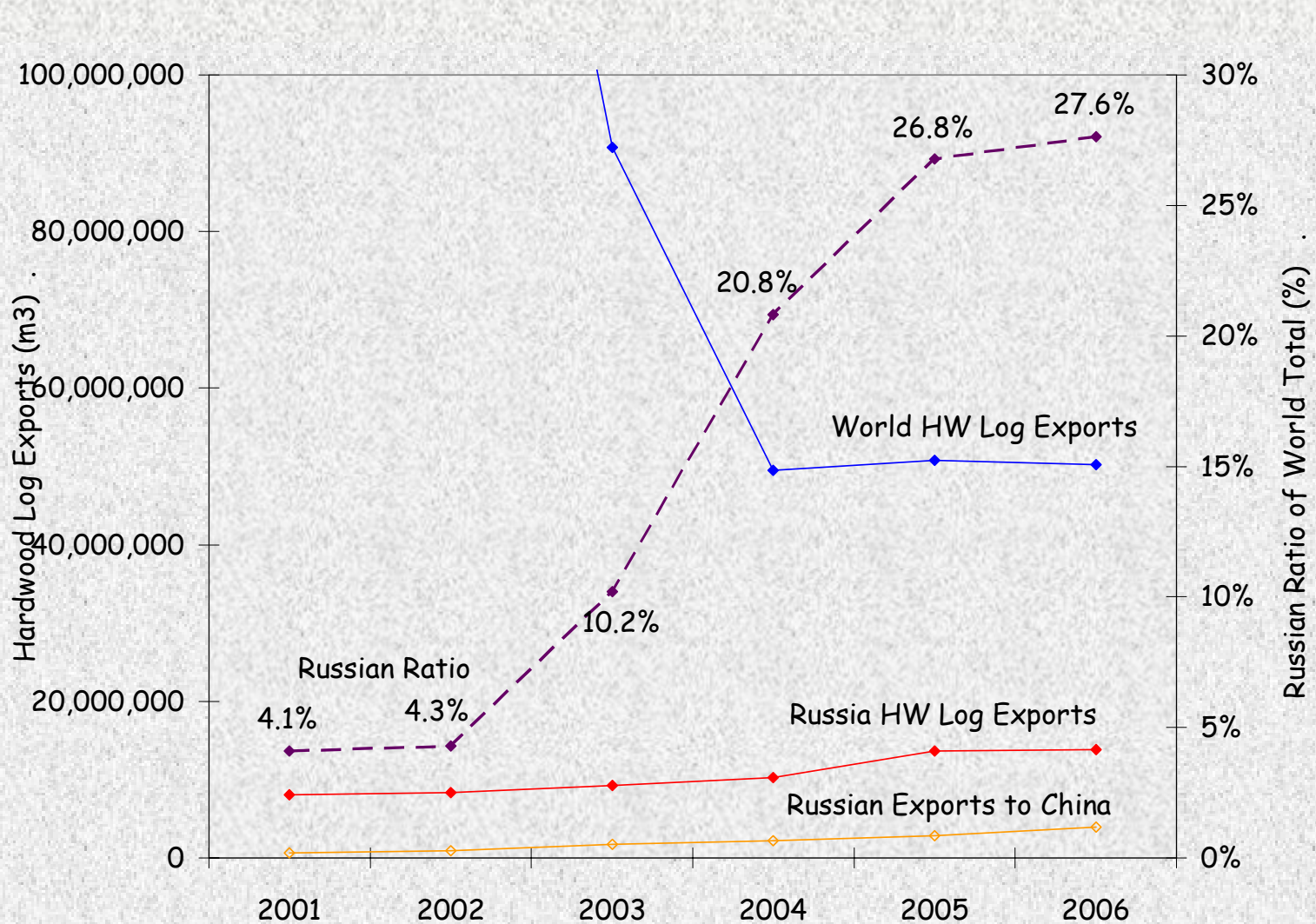
Recent Trends of Interest

- ▶ Russian announcement of log export tariffs aimed to encourage investment in wood processing industry
 - ❖ Currently 6.5%
 - ❖ 20% by July 2007 but (not less than €10/m³)
 - ❖ 25% by April 2008 but (not less than €15/m³)
 - ❖ 80% by January 2009 but (not less than €50/m³)
- ▶ Actual harvest was 14 million m³ in RFE
- ▶ Sustainable harvest estimated to be 33 million m³
- ▶ Processing capacity only equals 2% of actual harvest
- ▶ Russia currently provides 38% of global log exports (provides over 80% of imports for China and 50% for Japan)
- ▶ Investment incentives likely to favor larger projects and provide log tariff reductions (30% of normal) provided at least 35% of harvest is processed locally
- ▶ Forest concessions increased from 50 years to 99 years

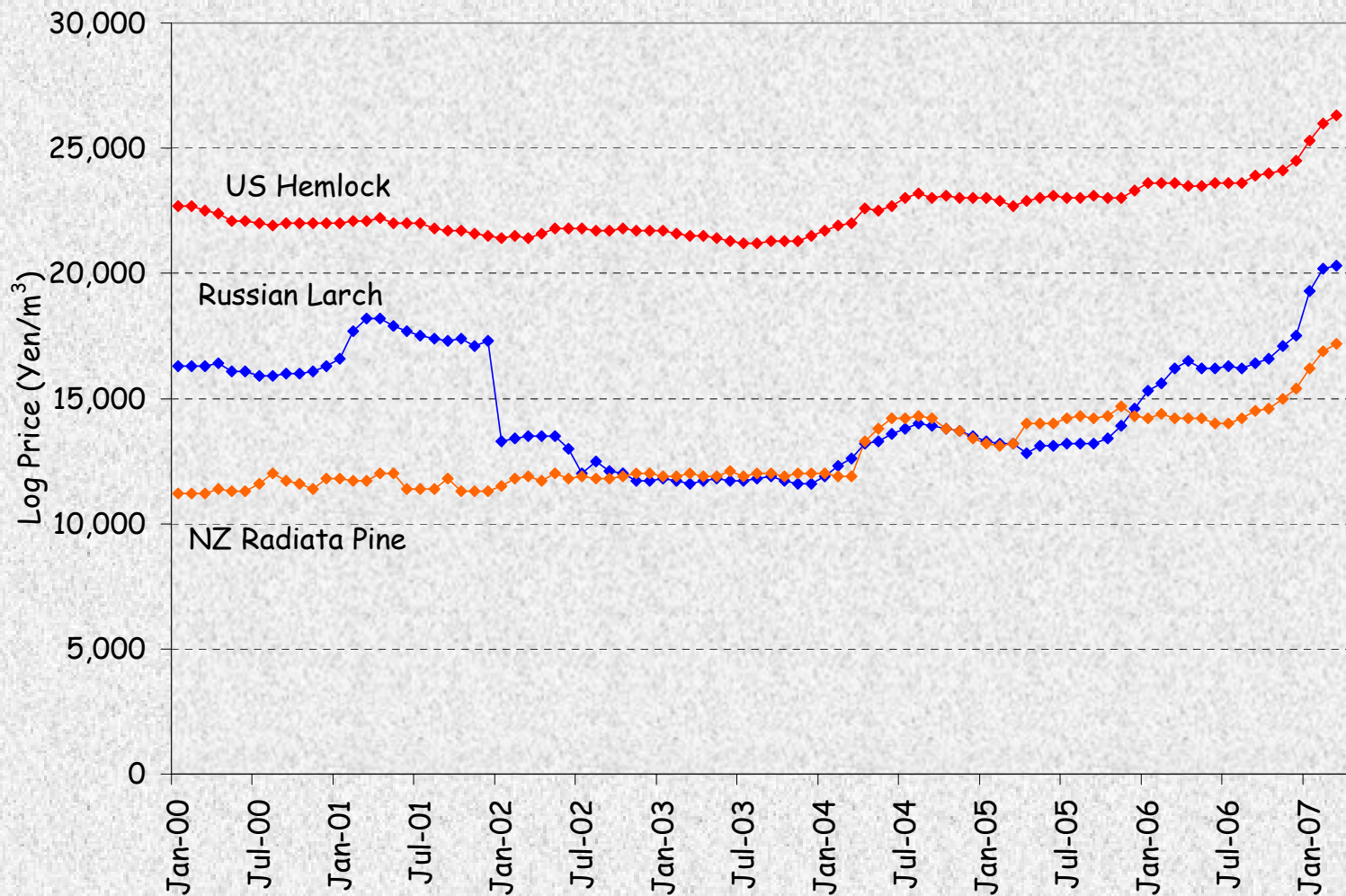
Russian Softwood Logs Exports



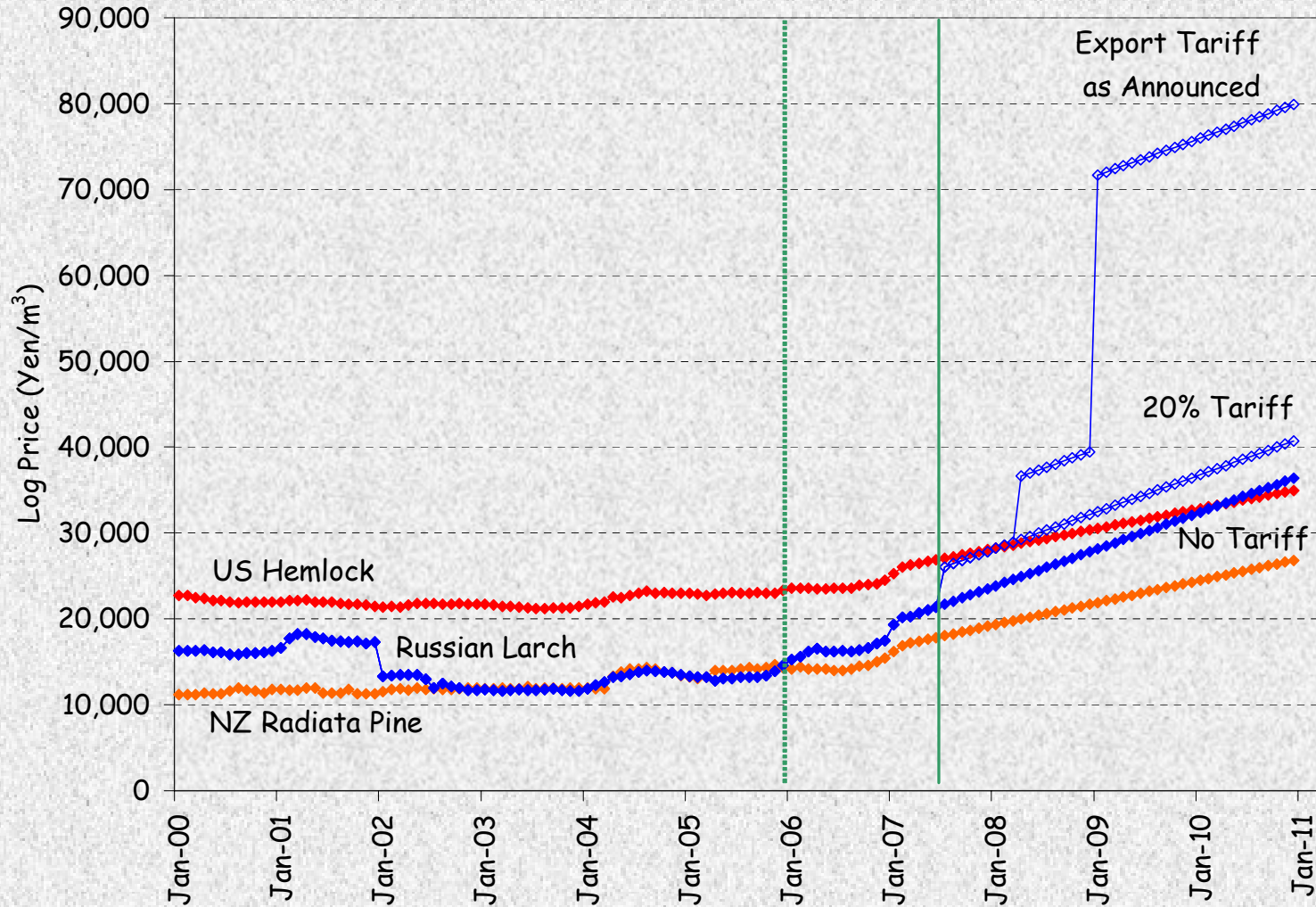
Russian Hardwood Logs Exports



Japanese Import Log Prices



Japanese Import Log Prices

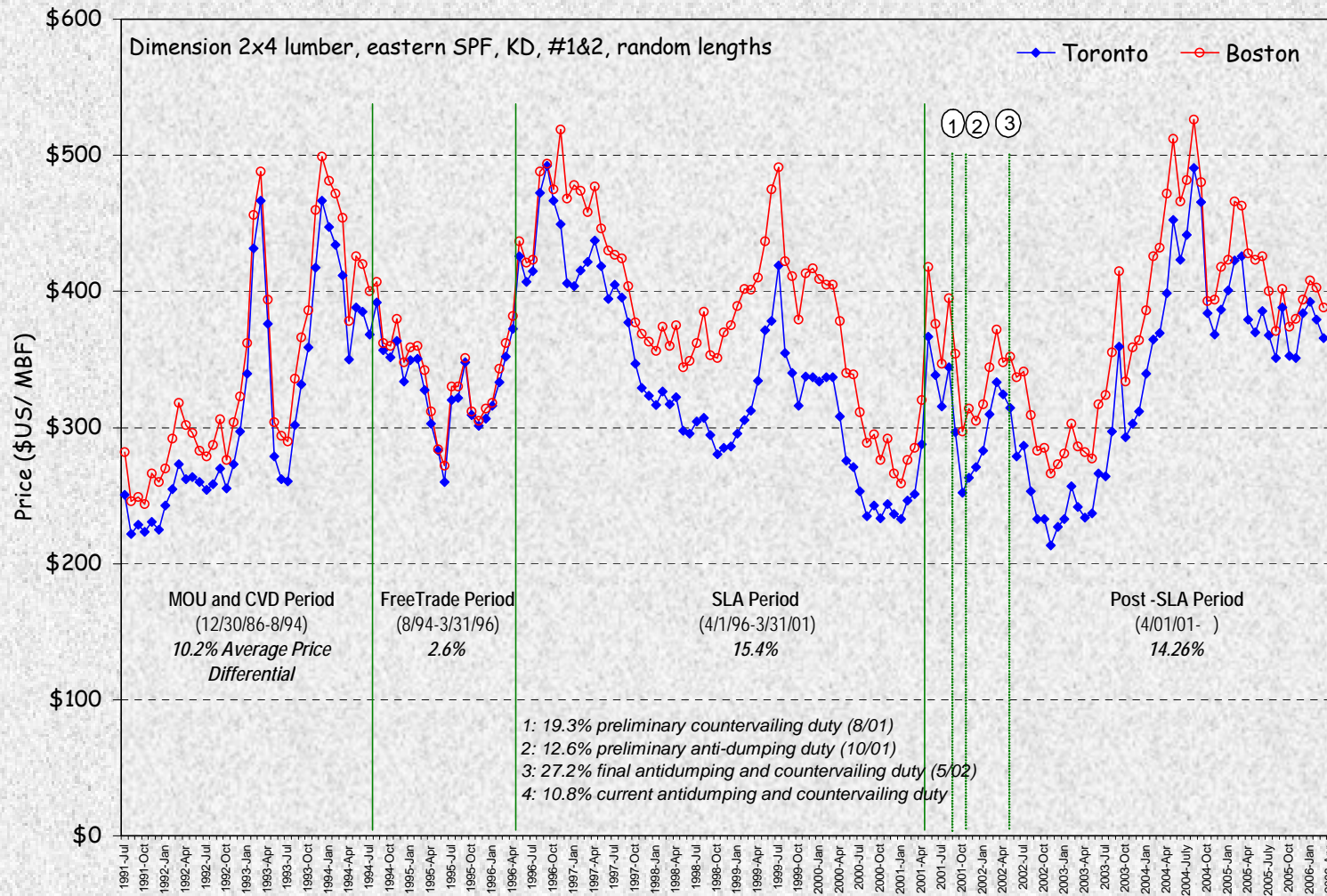


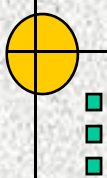


Summary Observations

- US trade deficit for wood products is large
- US will continue to remain dependent on SW lumber imports
- Europeans will continue to expand their share of the US SW lumber market (although sensitive to exchange rate)
- Weaker US dollar should encourage forest products manufacturers to consider exporting and provide some respite against European exports into the US
 - ❖ \$US weaker by 29.2% relative to \$Can since 2002
 - ❖ \$US weaker by 34.6% relative to Euro since 2002
 - ❖ \$US weaker by 10.4% relative to ¥Japan since 2002
- Slowing US housing market should also encourage exports
- Russian log export tariffs of any size should provide good export opportunities for US logs and lumber, particularly in China, Japan, Korea and possibly in Finland

US-Canada Price Differential

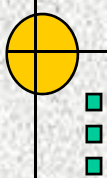




Proposed Softwood Lumber Agreement with Canada

Option A: Export Tax collected in Canada

Composite Price	Export Tax
Above \$US 355/mbf	0
Between \$336-\$355	5%
Between \$316-\$335	10%
\$315 and below	15%



Proposed Softwood Lumber Agreement with Canada

Option B: Export Tax and Market Share Constraint

Composite Price	Export Tax/Market Share Constraint
Above \$US 355/mbf	0
Between \$336-\$355	2.5% tax and regional share of 34% of US market
Between \$316-\$335	3% tax and regional share of 32% of US market
\$315 and below	5% tax and regional share of 30% of US market

