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"Various Viewpoints After the SLA" by Debbie Burns

VIEWPOINT #1: AMERICAN CONSUMERS FOR AFFORDABLE HOMES

Fourteen national organizations, representing more than 95 percent of the domestic consumption of lumber products in the United States, have come together to assure that the U.S.-Canada Softwood Lumber Agreement (SLA) is not extended when it is scheduled to expire on March 31, 2001. American Consumers for Affordable Homes (ACAH) has gradually built extensive political support on this issue since its inception in March 1999, especially after three reclassifications of value added wood products hampered American consumers.

The SLA, which became effective in April 1996, imposes restrictive quotas on lumber shipped from Canada into the United States. These quotas have a dramatic negative impact on the price and volatility of lumber and deprive families of the American Dream of home ownership. The Cato Institute estimates that the SLA adds approximately \$800 to \$1,300 to the price of a new home. According to the U.S. Census Bureau, this added cost means that approximately 300,000 families are priced out of the housing market because they are ineligible for a mortgage.

Government leaders are seeing the damage that the SLA brings to the American people. In the 106th Congress, the House and Senate both introduced Congressional resolutions calling for the SLA to terminate when it expires. House Concurrent Resolution 252 garnered 119 bipartisan sponsors, while Senate Concurrent Resolution 111 had 16 bipartisan Senate sponsors. Both resolutions displayed Congressional support for the expiration of the SLA on April 1, 2001, free trade of softwood lumber between the U.S. and Canada, inclusion of all stakeholders in discussions regarding trade of softwood lumber, and a competitive North American market for softwood lumber.

In the opinion of the ACAH, several inaccurate arguments have been cited surrounding the SLA. First, a small component of the U.S. domestic lumber industry has claimed that the SLA is needed to curb Canada's alleged subsidization of its forest industry. These assertions are wrong. Two comprehensive investigations by the U.S. Commerce Department found no subsidy. (For details on these investigations, visit the ACAH web site at www.acah.org.) If subsidies did exist, procedures are in place to address them through U.S. countervailing duty law, NAFTA and the World Trade Organization. In either case, import restrictions do not solve core subsidy issues. They penalize lumber consumers and potential U.S. homebuyers by increasing lumber costs.

Second, since adopting the SLA, there has been a growing area of federal land that is unavailable for harvesting in the U.S. due to environmental laws. The SLA puts producers of wood truss components and other manufacturers that rely on lumber to produce their products at a disadvantage to competitors in Canada or in other countries. Moreover, the SLA interferes with market operations for wood products and threatens the wood industry with a loss of business to

alternative materials and possible reduction in construction activity. You may be forced to seek alternative suppliers for materials, even though you are comfortable with your sources, because the SLA prevents Canadian mills from providing these products. There must be open access to predictable lumber supplies from Canada to meet the increasing housing construction needs of consumers. Canada is our closest trading partner.

Third, the issues regarding Canadian and U.S. conservation and biodiversity on forest lands are outside the scope of the SLA debate. There are existing arenas for these issues to be raised either through the Council on Environmental Cooperation or in bilateral discussions on environmental differences between the U.S. and Canada. The fact that these policies differ between the two countries and within the jurisdictions in those countries should cause the U.S. government to exercise great caution in attempting to rationalize a trade policy based on trans-boundary concerns of environmental organizations.

Fourth, the home building sector in the U.S. employs more than 4.5 million workers. Our economic health relies on a strong housing market. Restrictive trade agreements, such as the SLA, potentially harm U.S. workers.

Moreover, there is a burgeoning call for the free trade of lumber coming from Canada. The BC Municipalities recently passed a resolution opposing quota shipments into U.S. markets and supporting free trade in softwood lumber with the U.S.

The debate over the SLA, its restrictive trade provisions, and the harm it does to American consumers continues. We urge members of the Wood Truss Council to review the Alliance's web site at www.acah.org to obtain current, accurate information on this issue.

VIEWPOINT #2: SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION

Since the U.S.-Canada Softwood Lumber Agreement (SLA) went into effect in April of 1996 it's been a bone of contention between the lumber manufacturing industry and its customer groups. No industry likes to be at odds with its customers, but lumber manufacturers, particularly independents, view this as a survival issue and continue to be committed to addressing Canada's unfair trade practices. Please take a moment to look at this issue through the eyes of an independent lumber manufacturer. In the end we may not agree on this issue, but maybe we'll at least understand each other's viewpoint and be able to communicate openly and directly.

Since Canadian manufacturers supply over a third of the lumber used in the U.S., a level playing field is essential. If the Canadian governments began selling their timber and logs competitively to the highest bidder, this decade's old trade dispute would end.

For manufacturers, Canada's timber pricing system is the heart of the issue. In Canada, 95 percent of the timberland is owned by the government and timber sales are administered through the provincial governments. Since the Canadian government's goal for its landholdings is



CHART 1
CLICK ON IMAGE FOR LARGER VIEW

the full employment of its citizens, they sell the timber to manufacturers at one-half to one-quarter of the price it would bring in the U.S.'s competitive timber market. The net result of Canada's system is that, for Canadian manufacturers, timber is only 30 percent of their cost of production; in the U.S. timber is 70 percent of the cost of production. In short, the Canadian government is giving its manufacturers a huge competitive advantage when they ship into the U.S. market. Under the existing system, Canadian timber is allocated to manufacturers who pay an administered price as they cut it. This administered price is established by the provincial government and is based on a complex formula meant to ensure full employment by keeping the manufacturer competitive in the global market.

The result of this system is documented sales of

timber for zero dollars—literally, the manufacturer paid nothing for the logs. On average, the dichotomy between Canada's administered prices and U.S. competitive prices is enormous. (See Chart 1.)

Prior to the SLA, Canadian lumber imports were on track to capture upwards of 40 percent of the U.S. lumber market. The flood of subsidized lumber would have overwhelmed the U.S. lumber market, pushing manufacturers out of business. Over the last four years, the SLA has maintained stability in the lumber and timber markets by mitigating the subsidies to some degree. (See Chart 2.) If it expires without a replacement measure or a move in Canada toward a competitive market for timber and logs, the effects of Canada's unfair trade practices won't be postponed.



CHART 2
CLICK ON IMAGE FOR LARGER VIEW

A word on volatility in the market: In late 1996, lumber prices suffered from extreme volatility due to some start up issues for the SLA. This volatility quickly smoothed and prices, on the whole, have actually been more stable under the agreement. The stability that lumber customers have enjoyed in recent years will not continue if the SLA expires next spring with no solution in place. The lack of any sort of restraint may bring additional shipments of Canadian lumber to the U.S. and bring down prices even further. The U.S. industry's likely response will be trade litigation. This will undoubtedly inject uncertainty into the market.

A negotiated solution that moves Canada toward a competitive system for selling timber while mitigating the effects of the subsidies in the short term offers the best scenario for lumber

users. A prolonged trade dispute only adds to volatility in the short term. That said, be assured that lumber manufacturers are prepared to pursue this legal course if no other option is given. It should not be said that U.S. lumber manufacturers are afraid to compete. To characterize the dispute in those terms and ignore the subsidies is simplistic and naïve. Independent lumber manufacturers in the U.S. have invested heavily in building some of the most efficient mills in the world. They are not going to sit by and watch those investments be lost due to Canada's unfair trade practices. U.S. manufacturers don't want anything handed to them and they're prepared to compete with anyone in the world on a level playing field.

Government subsidies on timber do not constitute a level playing field and must be addressed. It's a matter of survival for U.S. lumber manufacturers. A healthy, diverse U.S. lumber industry is also in the best interests of lumber customers. If independents are pushed out of business and Canada becomes the primary supplier to U.S. markets, lumber purchasers can't expect lumber prices to remain reasonable and stable as the demand/supply equation shifts to favor producers.

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