



Editor's Message

Wanted: One Long-term Negotiated Settlement

by Kendall Hoyd

“It is difficult to say what is impossible, for the dream of yesterday is the hope of today and the reality of tomorrow.”

—Robert H. Goddard, U.S. physicist & pioneer rocket engineer (1882-1945)

So this issue is devoted to materials handling and automation. I read somewhere once that a writer should write only about things that they know about. As I have discussed in some previous columns, that leaves me precious few options. What does material handling equipment in a truss plant handle? Softwood lumber, right? I know little about softwood lumber in terms of how it is handled in the truss plant, but softwood lumber trade and the current dispute with Canada is another matter. So while the softwood lumber dispute stands with about six degrees of separation from materials handling in the truss plant, I will use this space to share some thoughts on the dispute.

To say that the U.S. and Canadian sides of this issue have been deadlocked for two years would perhaps imply more action than there actually has been, so I will just say that we have made very little progress. For much of this time, the two sides have just not been talking because of various reasons on both sides of the border. There is a long (and I mean LONG) history to this dispute. By some accounts, the dispute can be traced back two centuries. I have been told by a source who does know what he is talking about that the second trade dispute ever recorded in our history as a country involved lumber trade with Canada! I'm not going to get into all that history here, but I have some observations from recent meetings and conversations on this subject. (You can learn more about the history of the dispute in an article in the December 2003 issue of **SBC**: “The Dispute That Refuses to Die” by FLC Les Reed.)

It is important that when we have opportunities to talk with our elected federal representatives, that they also hear from “our side” of this issue.

First, the two sides are currently talking. There is reason to be mildly optimistic that they will make progress and perhaps even reach an agreement this year. This is important news because a long-term, negotiated settlement that both parties feel brings equity to the cross-border lumber trade is extremely important to companies in our industry, and for those in all other value-added wood products businesses.

Second, in the several conversations others and I have had over the last couple of years with elected officials and federal government officers, we often hear that the only “side” that they hear from regularly is the Coalition for Fair Lumber Imports (aka “the Coalition”). The Coalition is a group of lumber companies that brought the anti-dumping action against Canadian lumber companies upon the expiration of the previous lumber agreement that expired on 2003. Since 1982, Canada and the U.S. have been involved in three lumber trade disputes (widely called Lumber I, II and III). The Softwood Lumber Agreement avoided a fourth dispute for five years until the latest dispute (Lumber IV). Following the expiration of the Softwood Lumber Agreement on April 2, 2001, the U.S. Coalition filed a countervailing duty petition and its first anti-dumping petition against Canadian softwood lumber. These companies represent a little over half (54 percent) of the U.S. lumber industry, and this anti-dumping case is what has led to the countervailing duties and the anti-dumping charges that have been attached to Canadian lumber sold into the U.S. market.

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at a glance

- ❑ The Canadian-U.S. softwood lumber dispute causes business uncertainty and lumber cost volatility.
- ❑ Congress needs to hear from our industry every chance we get that we are in favor of an enduring negotiated trade agreement.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yearly Avg
1995	387	389	366	342	322	298	337	333	352	326	330	338	343
1996	334	353	359	372	422	415	408	448	449	427	465	434	407
1997	442	449	439	463	450	433	435	419	399	384	385	375	423
1998	365	381	374	374	336	337	351	361	332	337	346	356	354
1999	379	391	398	401	428	465	487	411	395	364	391	390	408
2000	393	392	387	361	333	337	310	293	297	283	289	278	329
2001	271	292	307	330	408	371	331	340	315	281	291	284	318
2002	303	323	345	330	319	308	314	298	285	281	271	276	304
2003	284	300	284	283	279	303	302	336	375	325	338	327	311
2004	341	376	382	431	456	423	426	473	432	373	355	376	404
2005	382	420	422	404	386	401							

Figure 1. Random Lengths Framing Lumber Composite Price - by Month, 1995-2005. Prices are \$ per thousand board feet. Used by permission of Random Lengths, www.randomlengths.com.

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These duties and charges have in turn led to a "two-tiered" lumber market, where Canadian lumber bought north of the border is at a materially lower cost than Canadian lumber bought south of the border. As we all know, non-U.S. lumber is necessary to serve the demand in the U.S. market due to the dramatic reductions in the U.S. timber harvest over the past two decades. According to the U.S. International Trade Commission's "Conditions of Competition in the U.S. Market for Wood Structural Building Components," Canadian softwood lumber imports account for about 36 percent of the total supply available in the U.S. This is a threat to our industry because value-added products like wood trusses and wall panels are not subject to either duty when they cross the border, so we find that when competing against Canadian truss manufacturers, we are at a significant disadvantage due to differences in material costs.

Because of this, we, as an industry, are negatively affected by what amounts to a tax on the lumber we purchase that is used as a price support for the U.S. lumber industry, and are consequently not well served by the continued existence of these conditions. It is important that when we have opportunities to talk with our elected federal representatives, that they also hear from "our side" of this issue. We are in favor of a long-term negotiated settlement so that we can get past this two-tiered market for lumber and have a somewhat more stable market for softwood lumber.

This stability is important for a reason that may be subtle to the outside observer, but is not subtle for anyone that has a million dollars or so invested in softwood lumber inventory like many component manufacturers do. In the run-up to the expiration of the last Softwood Lumber Agreement in spring of 2001, through today, the coefficient of variation on the *Random Lengths* Framing Lumber Composite Price is up 20 percent over what it averaged in the previous five years. This kind of volatility increase complicates the task of managing any

Publisher

Truss Publications, Inc.

6300 Enterprise Lane, Suite 200 • Madison, WI 53719
Phone: 608/310-6706 • Fax: 608/271-7006
trusspubs@sbcmag.info • www.sbcmag.info

Editor

Kendall Hoyd

Idaho Truss & Component Co. • khoyd@sbcmag.info

Art Director

Melinda Caldwell

608/310-6729 • mcaldwell@sbcmag.info

Managing Editor & Circulation Director

Libby Maurer

608/310-6724 • lmaurer@sbcmag.info

Advertising Manager & Editorial Review

Suzi Grundahl

608/310-6710 • sgrundahl@sbcmag.info

Sales & Marketing

Peggy Pichette

608/310-6723 • ppichette@sbcmag.info

Jan Pauli

608/310-6746 • jpauli@sbcmag.info

Kirk Grundahl

608/274-2345 • kgrundahl@sbcmag.info

Staff Writers for August

Molly E. Butz • Stephanie Lowe • Sean Shields

Rachel Smith • Anna L. Stamm • Richard Zimmermann

Web Site Designer

Lora Gilardi

608/310-6711 • lgilardi@sbcmag.info

Accountant

Mike Younglove

608/310-6714 • myounglove@sbcmag.info

Computer Systems Administrator

Jay Edgar

608/310-6712 • jedgar@sbcmag.info

For advertising contact:

Peggy Pichette • Director of Sales

ppichette@sbcmag.info • Phone: 608/310-6723

Send all ad materials, insertion orders,
contracts & payments to:

Truss Publications, Inc.

6300 Enterprise Lane • Suite 200
Madison, WI 53719

Phone: 608/310-6706 • Fax: 608/271-7006
trusspubs@sbcmag.info • www.sbcmag.info

The mission of *Structural Building Components Magazine (SBC)* is to increase the knowledge of and to promote the common interests of those engaged in manufacturing and distributing structural building components. Further, *SBC* strives to ensure growth, continuity and increased professionalism in our industry, and to be the information conduit by staying abreast of leading-edge issues. *SBC's* editorial focus is geared toward the entire structural building component industry, which includes the membership of the Wood Truss Council of America (WTCA), the Steel Truss and Component Association (STCA) and the Structural Component Distributors Association (SCDA). These associations make up an industry strategic planning committee called the Structural Building Components Council (SBCC). The opinions expressed in *SBC* are those of the authors and those quoted, and are not necessarily the opinions of the associations listed above.

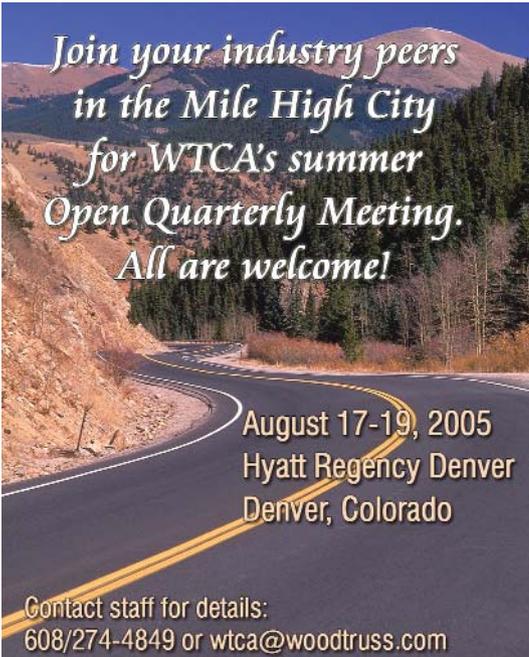
Distinction between anti-dumping and countervailing duties:

Under U.S. trade law, a countervailing duty case is an investigation of an alleged subsidy that provides an importer with an advantage in the U.S. market. For example, with lumber the U.S. contends that provincial stumpage and, more recently, British Columbia's log export restrictions, provide a subsidy to lumber producers. An anti-dumping case is an investigation on whether an importer is selling goods in the U.S. at prices lower than in the home market or is selling goods at prices below cost.

lumber related business (see Figure 1).

If you have some sales agreements with customers that hold you to a price for six months or a year, and you are now subject to potential changes in material costs of up to 60 or 70 percent within that timeframe, you are in a world of hurt. Many component manufacturers in our industry are trying to figure out how to deal with this problem.

If you get a chance to have a conversation or exchange correspondence with your elected officials in Washington, make sure that they are hearing something from "our side" too. The more that those officials know about the ten billion board feet of lumber we purchase annually and the hundred and fifty thousand or so jobs that our industry represents, and the more that they know we are in favor of an enduring negotiated softwood lumber trade agreement, the better. **SBC**



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6300 Enterprise Lane • Suite 200 • Madison, WI 53719
608/310-6706 phone • 608/271-7006 fax
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