

POLICY POSITION

1. Canadian Lumber Imports

Background

Over the past decade, imported Canadian lumber has steadily increased from 19% to 32% of total U.S. softwood lumber consumption.

The latest industry numbers show that demand for lumber in the U.S. last year was at an all time high of 43 billion board feet. However, with Canadian imports accounting for nearly one-third of U.S. consumption, U.S. lumber mills operated at only about 80% of capacity. Together with depressed prices driven by the flood of Canadian imports, the U.S. lumber industry sustained an estimated pre-tax loss exceeding \$300 million. Over the past five years, curtailed wood products and related logging operations throughout the U.S. have led to the disappearance of more than 30,000 jobs, of which 22,000 can be attributed to increased Canadian lumber imports.

Spruce-Pine Fir (SPF) Canadian lumber produced in British Columbia and Quebec is priced, on a delivered basis, equal to or below Southern Yellow Pine (SYP) lumber even in a deep South market such as Dallas. The following is a comparison of the cost structures of the two sources of supply, expressed in U.S. dollars per thousand board feet (MBF):

	<u>CANADIAN B.C.</u>	<u>U.S. SOUTH</u>
Stumpage	\$ 2	\$ 119
Logging	84	52
Manufacturing	66	92
By-Product Credits	(19)	(62)
Transportation	67	14
Total Delivered Cost*	<u>\$ 200</u>	<u>\$ 215</u>

*Costs at the mill level before corporate overhead and other allocations.

In a Midwest market such as Chicago, where transportation costs of the Canadian and U.S. products are closer, U.S. Southern lumber is totally priced out of the market.

The conclusion is obvious -- Canadian lumber enjoys a delivered cost advantage mainly due to very low stumpage price. A document entitled A Competitive Assessment of the U.S. Solid Wood Products Industry, published by the U.S. Department of Commerce, concludes that in Canada, "Stumpage prices of government-owned timber are set arbitrarily, essentially based on market conditions at the time of sale."

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In contrast to U.S. timberland, almost all Canadian timberlands are publicly owned. Stumpage is sold at arbitrarily low prices to ensure employment. In some provinces, the government assumes the bulk of the cost of reforestation and other forestry expenses which, in effect, is a subsidy: selling stumpage at a price which doesn't fully recover cost. In other provinces, little is done to regenerate the forest, a practice which seems shortsighted from a resource conservation viewpoint.

If nothing is done about this problem, a continued depression in the U.S. lumber industry will mean tens of thousands of lost jobs, multi-hundred million dollar industry losses, and a \$2.5 billion contribution to our country's trade deficit. In addition, downward pressures on U.S. stumpage, or sawtimber prices will force the abandonment of sound forest management practices in the U.S.

Recommendations

The Southern Legislative Conference urges the Congress of the United States to proceed swiftly in its consideration of the various legislative proposals that would put Canadian stumpage on an equal economic footing with the U.S. if Canadian lumber is to be imported into our country. In addition, SLC calls upon the Administration to aggressively pursue every remedy available under existing law.

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