5-13-1985

National Forest Products Association

Max S. Baucus

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ADDRESS BY SENATOR MAX BAUCUS
NATIONAL FOREST PRODUCTS ASSOCIATION
May 13, 1985

Introduction

The forest products industry has been a mainstay of Montana's economy since 1845, when Father Anthony Ravalli erected our first sawmill at St. Mary's mission in the Bitteroot.

Today, we have hundreds of logging operations, sawmills, and paper mills. The industry accounts for thousands of jobs and about half of all the income in Western Montana.

So it's no exaggeration to say that our future as a state is tied to your future as an industry.

The Trade Crisis
More than ever before, that future depends on trade.

Your booklet predicts that this year will be the Congressional "Year of Trade."

I agree.

As an institution, Congress seldom leads.

It reacts, especially to a crisis.

I hate to sound pessimistic. But we are on the brink of a crisis now.

A trade crisis.

Let me explain why

A few years ago, America began running small trade deficits. But people assumed these deficits were temporary, and would naturally disappear.
Not so. Instead of disappearing, the trade deficit exploded.

We began practicing "vampire economics," inhaling goods and currency from around the world.

We became import junkies.

The statistics tell the story.

Between 1980 and 1984, our trade deficit quadrupled, to $123 billion.

In the first quarter of 1985, it grew even faster; in fact, our first quarter deficit was larger than our entire trade deficit five years ago.

These deficits are not just some abstract numbers for economists to debate.

They mean that perfectly competitive U.S. industries are losing their foothold in export
markets, and drowning in a flood of imports here at home.

The Forest Products Example

The forest products industry is a good example.

The industry is not some international "basket case," unable to compete.

No, the U.S. industry is the most efficient in the world. And it has adjusted aggressively to international competition:

--Opening overseas offices.

--Making product changes to meet foreign standards.

--Mastering the complicated rules of international trade.
Nevertheless, the industry has become a victim of the trade war.

Since 1980, the industry has gone from a $400 million trade surplus to a $2 billion trade deficit. Last year, exports declined 5% and imports rose 10%.

The same thing is happening to industry after industry, all across the country.

---Agriculture.

---Mining.

---Manufacturing.

---And countless others.

As a result, people are frustrated and angry.

They were good employees, working hard, minding their own business. Suddenly, they don't have jobs. Not because they're less productive.
But because of powerful international forces beyond their control.

The Protectionist Danger

Anytime the American people get this angry, Congress responds.

The easiest response is protectionism.

Make no mistake about it. Protectionist pressure is building. You can see it already, in the proliferating proposals to impose a surcharge on all imports.

But protectionism is the wrong response.

Ultimately, it will shrink the world economy and leave everybody worse off, just like it did in the 1930s.

The correct response is more complicated. And it begins right here at home.
The Dollar

First and foremost, the problem is the dollar.

The dollar has risen by 40%, making imports cheap and exports expensive.

This is killing the forest products industry and many other American industries.

To get the dollar down, we must start by getting the budget deficit down.

For over a year, I've been advocating an across-the-board spending freeze on all programs, including defense and social security.

At first people said a freeze could never pass, because it gored too many oxen.

But Congressional sentiment is moving in the right direction.
If you followed the Senate budget debate, you heard a lot about our partisan disagreements.

Republicans demanding more Social Security cuts.

Democrats demanding more defense cuts.

But the real story is the underlying bipartisan agreement. Both sides now support a dramatic package of spending cuts.

But even that won't be enough.

We will still have to do something about international currency flows.

Every day, 200 billion dollars are traded on New York currency markets.

Nobody really understands what drives this speculative trading.
But we all should understand the harm it causes.

American firms cut costs, only to find that exchange rates have made their product more expensive.

American workers settle for wage freezes, only to find that exchange rates have forced their company to relocate overseas.

And the dramatic fluctuations that cause the trouble seem to be beyond anyone's control.

In Congress, there's a consensus that we must restore some control to international currency flows.

Unfortunately, President Reagan disagrees. He still seems to think that the free market should prevail, whatever the cost.

Over the next few months, Congress will intensify the pressure. The President must
take practical steps to control currency flows. Otherwise, we'll probably deny him any authority to begin a new GATT round.

Unfair Trade Practices

We face another problem besides the dollar: unfair foreign trade practices.

For years, the U.S. has tried to achieve free trade by example.

But other countries have not followed our example.

Instead, they've practiced a kind of "new mercantilism," protecting their own markets and subsidizing the invasion of ours.

It's high time we fought back, by using not only the free trade carrot, but also the retaliation stick.

Japan
Take the case of Japan.

Japan has used the open post-war trading system to create an economic miracle. In fact, Japan has derived more benefits from the open trading system than any other nation.

But when you come right down to it, Japan wants one-way free trade.

For example, the Japanese are delighted to buy our logs.

But they refuse to buy our lumber, plywood, and particleboard. They use high tariffs to preserve processing jobs for workers in Sapporo and Osaka, rather than workers in Missoula or Olympia.

For years, we've been trying to end this unfair system, by negotiating significant tariff reductions.
But the Japanese have dragged their feet, complaining that forest products is a "politically sensitive" issue that will take time to resolve.

Well, I've been trying to convince the Japanese that forest products is a sensitive issue on both sides of the Pacific.

I made this point directly when I met with Prime Minister Nakasone a few months ago in Tokyo.

I also introduced a resolution expressing the sense of the Senate that Japan must eliminate its tariffs.

And, with Senator Danforth, I sponsored the Finance Committee's bill that requires retaliation unless Japan opens its markets.

The message seems to be getting through.
At least, the Japanese have agreed to "positively consider" tariff reductions over the next three years.

However, I'm not satisfied with such a vague commitment.

I want results.

Friday, I sent a letter to Assistant Secretary Amstutz, who's negotiating in Tokyo right now. The letter urges him to be "unwavering in his resolve" to eliminate Japan's tariffs and to "make clear to your Japanese counterparts the probable consequences" if the negotiations do not succeed.

I hope the negotiations do succeed. I hope that we hear good news from Tokyo this week.

If not, I'll continue working with you to turn up the heat.

I don't want to ignite a trade war with Japan.
However, as Thomas Jefferson said, "free trade is not to be given for restrictions and vexations."

We have given Japan free trade. Japan has given us restrictions and vexations.

It's time for a little reciprocity.

Canada

Let me turn now from the Far East to the far north.

To Canada, and the softwood lumber problem.

I know that this has been a sensitive issue for the NFPA and for many of the companies represented here.

I share your concern. Montana has a 580-mile border with Canada. We have many cultural and economic ties. I am reluctant to take any action that could jeopardize our bilateral relationship.
But we've got to face facts.

Canadian softwood lumber imports are rising sky-high, from 17% in 1975 to more than 31% now.

The dollar is a large part of the problem.

But so is stumpage.

British Columbia's bargain-basement prices are a mere fraction of comparable U.S. prices. As a result, Canadian companies undersell U.S. companies from Georgia to Maine to Washington state.

Of course, the U.S. Commerce Department says that cheap Canadian stumpage is not "subsidized."

Well, the U.S. Commerce Department is just plain wrong.
The provincial government underwrites the sale and drives us out of our own market. If this isn't a trade subsidy, I don't know what is.

Ideally, the current bilateral negotiations will succeed, and the Canadians will make acceptable modifications without litigation or legislation.

But so far, the Canadians seem reluctant to negotiate.

I plan to give them an incentive.

I've introduced legislation, S. 982, that would give the Canadians one year to negotiate a reduction in softwood lumber imports.

If they refuse, the axe will fall.

We'll impose a 10% tariff.

And we'll revise our countervailing duty law to make clear that cheap Canadian stumpage is
subsidized stumpage that is illegal under U.S. trade law.

With your support, we can create a level playing field for bilateral forest products trade.

Conclusion

You know, I've been spending more time on forest products trade than on any other issue.

There's two reasons why.

First, the industry is important to my state.

Second, I identify with your trade problems.

The Journal of Commerce recently described me as a "disillusioned free trader."

That same description may apply to some of you.
You've been free trade champions, confident that you can compete anywhere.

Now, you're just as efficient as ever. But you're locked out of your natural export markets and you're facing rising imports here at home.

I believe that there is a clear response.

We've got to bring the dollar down.

And we've got to fight back against unfair trading practices.

I look forward to continuing to work with you to accomplish these objectives.

Together we can help lead America out of the trade crisis and back to the path of prosperous open trade.

Thank you.
ADDRESS BY SENATOR MAX BAUCUS
NATIONAL FOREST PRODUCTS ASSOCIATION
MAY 13, 1985

INTRODUCTION

Thank you, Bill (Whalen).

The forest products industry has been a mainstay of Montana's economy since 1845, when Father Anthony Ravalli erected our first sawmill at St. Mary's mission in the Bitteroot.

Today, we have hundreds of logging operations, sawmills, and paper mills. The industry accounts for thousands of jobs and about half of all the income in Western Montana.

So it's no exaggeration to say that our future as a state is tied to your future as an industry.

The Trade Crisis
MORE THAN EVER BEFORE, THAT FUTURE DEPENDS ON TRADE.

YOUR BOOKLET PREDICTS THAT THIS YEAR WILL BE THE CONGRESSIONAL "YEAR OF TRADE."

I AGREE.

[AS AN INSTITUTION, CONGRESS SELDOM LEADS.

IT REACTS, ESPECIALLY TO A CRISIS.

I HATE TO SOUND PESSIONISTIC. BUT WE ARE ON THE BRINK OF A CRISIS NOW.

A TRADE CRISIS.

[LET ME EXPLAIN WHY

A FEW YEARS AGO, AMERICA BEGAN RUNNING SMALL TRADE DEFICITS. BUT PEOPLE ASSUMED THESE DEFICITS WERE TEMPORARY, AND WOULD NATURALLY DISAPPEAR.
Not so. Instead of disappearing, the trade deficit exploded.

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MARKETS, AND DROWNING IN A FLOOD OF IMPORTS HERE AT HOME.

THE FOREST PRODUCTS EXAMPLE

THE FOREST PRODUCTS INDUSTRY IS A GOOD EXAMPLE.

THE INDUSTRY IS NOT SOME INTERNATIONAL "BASKET CASE," UNABLE TO COMPETE.

No, the U.S. industry is the most efficient in the world. And it has adjusted aggressively to international competition:

--Opening overseas offices.

--Making product changes to meet foreign standards.

--Mastering the complicated rules of international trade.
NEVERTHELESS, THE INDUSTRY HAS BECOME A VICTIM OF THE TRADE WAR.

SINCE 1980, THE INDUSTRY HAS GONE FROM A $400 MILLION TRADE SURPLUS TO A $2 BILLION TRADE DEFICIT. LAST YEAR, EXPORTS DECLINED 5% AND IMPORTS ROSE 10%.

THE SAME THING IS HAPPENING TO INDUSTRY AFTER INDUSTRY, ALL ACROSS THE COUNTRY.

--AGRICULTURE.

--MINING.

--MANUFACTURING.

--AND COUNTLESS OTHERS.

AS A RESULT, PEOPLE ARE FRUSTRATED AND ANGRY.

THEY WERE GOOD EMPLOYEES, WORKING HARD, MINDING THEIR OWN BUSINESS. SUDDENLY, THEY DON'T HAVE JOBS. NOT BECAUSE THEY'RE LESS PRODUCTIVE.
But because of powerful international forces beyond their control.

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Anytime the American people get this angry, Congress responds.

The easiest response is protectionism.

Make no mistake about it. Protectionist pressure is building. You can see it already, in the proliferating proposals to impose a surcharge on all imports.

But protectionism is the wrong response.

Ultimately, it will shrink the world economy and leave everybody worse off, just like it did in the 1930s.

The correct response is more complicated. And it begins right here at home.
THE DOLLAR

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To get the dollar down, we must start by getting the budget deficit down.

For over a year, I've been advocating an across-the-board spending freeze on all programs, including defense and social security.

At first people said a freeze could never pass, because it gored too many oxen.

But congressional sentiment is moving in the right direction.
IF YOU FOLLOWED THE SENATE BUDGET DEBATE, YOU HEARD A LOT ABOUT OUR PARTISAN DISAGREEMENTS.

REPUBLICANS DEMANDING MORE SOCIAL SECURITY CUTS.

DEMOCRATS DEMANDING MORE DEFENSE CUTS.

BUT THE REAL STORY IS THE UNDERLYING BIPARTISAN AGREEMENT. BOTH SIDES NOW SUPPORT A DRAMATIC PACKAGE OF SPENDING CUTS.

NEED INCREASED DISCIPLINE.

BUT EVEN THAT WON'T BE ENOUGH.

WE WILL STILL HAVE TO DO SOMETHING ABOUT INTERNATIONAL CURRENCY FLOWS.

EVERY DAY, 200 BILLION DOLLARS ARE TRADED ON NEW YORK CURRENCY MARKETS.

NOBODY REALLY UNDERSTANDS WHAT DRIVES THIS SPECULATIVE TRADING.
But we all should understand the harm it causes.

American firms cut costs, only to find that exchange rates have made their product more expensive.

American workers settle for wage freezes, only to find that exchange rates have forced their company to relocate overseas.

And the dramatic fluctuations that cause the trouble seem to be beyond anyone's control.

In Congress, there's a consensus that we must restore some control to international currency flows.

Unfortunately, President Reagan disagrees. He still seems to think that the free market should prevail, whatever the cost.

Nevertheless, I expect over the next few months, Congress will intensify the pressure. The President must
TAKE PRACTICAL STEPS TO CONTROL CURRENCY FLOWS. OTHERWISE, WE'LL PROBABLY DENY HIM ANY AUTHORITY TO BEGIN A NEW GATT ROUND.

Unfair Trade Practices

WE FACE ANOTHER PROBLEM BESIDES THE DOLLAR: UNFAIR FOREIGN TRADE PRACTICES.

FOR YEARS, THE U.S. HAS TRIED TO ACHIEVE FREE TRADE BY EXAMPLE.

BUT OTHER COUNTRIES HAVE NOT FOLLOWED OUR EXAMPLE.

INSTEAD, THEY'VE PRACTICED A KIND OF "NEW MERCANTILISM," PROTECTING THEIR OWN MARKETS AND SUBSIDIZING THE INVASION OF OURS.

IT'S HIGH TIME WE FOUGHT BACK, BY USING NOT ONLY THE FREE TRADE CARROT, BUT ALSO THE RETALIATION STICK.

Japan
TAKE THE CASE OF JAPAN.

JAPAN HAS USED THE OPEN POST-WAR TRADING SYSTEM TO CREATE AN ECONOMIC MIRACLE. IN FACT, JAPAN HAS DERIVED MORE BENEFITS FROM THE OPEN TRADING SYSTEM THAN ANY OTHER NATION.

BUT WHEN YOU COME RIGHT DOWN TO IT, JAPAN WANTS ONE-WAY FREE TRADE.

FOR EXAMPLE, THE JAPANESE ARE DELIGHTED TO BUY OUR LOGS.

BUT THEY REFUSE TO BUY OUR LUMBER, PLYWOOD, AND PARTICLEBOARD. THEY USE HIGH TARIFFS TO PRESERVE PROCESSING JOBS FOR WORKERS IN SAPPORO AND OSAKA, RATHER THAN WORKERS IN MISSOULA OR OLYMPIA.

FOR YEARS, WE'VE BEEN TRYING TO END THIS UNFAIR SYSTEM, BY NEGOTIATING SIGNIFICANT TARIFF REDUCTIONS.
But the Japanese drag their feet, complaining that forest products is a "politically sensitive" issue that will take time to resolve.

Well, I've been trying to convince the Japanese that forest products is a sensitive issue on both sides of the Pacific.

I made this point directly when I met with Prime Minister Nakasone a few months ago in Tokyo.

I also introduced a resolution expressing the sense of the Senate that Japan must eliminate its tariffs.

And, with Senator Danforth, I sponsored the Finance Committee's bill that requires retaliation unless Japan opens its markets.

I think the message is the message seems to be getting through.
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However, I'm not satisfied with such a vague commitment. Obviously, that's not enough. We want results.

Friday, I sent a letter to Assistant Secretary Amstutz, who's negotiating in Tokyo right now. The letter urges him to be "unwavering in his resolve" to eliminate Japan's tariffs and to "make clear to your Japanese counterparts the probable consequences" if the negotiations do not succeed.

I hope the negotiations do succeed. I hope that we hear good news from Tokyo this week.

If not, I'll continue working with you to turn up the heat. We don't want to ignite a trade war with Japan.
However, as Thomas Jefferson said, "free trade is not to be given for restrictions and vexations."

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But we've got to face facts.

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The dollar is a large part of the problem.

But so is stumpage.

British Columbia's bargain-basement prices are a mere fraction of comparable U.S. prices. As a result, Canadian companies undersell U.S. companies from Georgia to Maine to Washington state.

Debate, the U.S. Commerce Department, as you know, says that cheap Canadian stumpage is not "subsidized."

Well, the U.S. Commerce Department is just plain wrong.
THE PROVINCIAL GOVERNMENT UNDERWRITES THE SALE AND DRIVES US OUT OF OUR OWN MARKET. IF THIS ISN'T A TRADE SUBSIDY, I DON'T KNOW WHAT IS.

IDEALLY, THE CURRENT BILATERAL NEGOTIATIONS WILL SUCCEED, AND THE CANADIANS WILL MAKE ACCEPTABLE MODIFICATIONS WITHOUT LITIGATION OR LEGISLATION.

But so far, the Canadians seem reluctant to negotiate.

I PLAN TO GIVE THEM AN INCENTIVE.

I'VE INTRODUCED LEGISLATION, THAT WOULD GIVE THE CANADIANS ONE YEAR TO NEGOTIATE A REDUCTION IN SOFTWOOD LUMBER IMPORTS.

IF THEY REFUSE, THE AXE WILL FALL.

WE'LL IMPOSE A 10% TARIFF.

AND WE'LL REVISE OUR COUNTERVAILING DUTY LAW TO MAKE CLEAR THAT CHEAP CANADIAN STUMPAGE IS
SUBSIDIZED STUMPAGE THAT IS ILLEGAL UNDER U.S. TRADE LAW.

WITH YOUR SUPPORT, WE CAN CREATE A LEVEL PLAYING FIELD FOR BILATERAL FOREST PRODUCTS TRADE.

CONCLUSION

YOU KNOW, I'VE BEEN SPENDING MORE TIME ON FOREST PRODUCTS TRADE THAN ON ANY OTHER ISSUE.

THERE'S TWO REASONS WHY.

FIRST, THE INDUSTRY IS IMPORTANT TO MY STATE.

SECOND, I IDENTIFY WITH YOUR TRADE PROBLEMS.

THE JOURNAL OF COMMERCE RECENTLY DESCRIBED ME AS A "DISILLUSIONED FREE TRADER."

THAT SAME DESCRIPTION MAY APPLY TO SOME OF YOU.
YOU'VE BEEN FREE TRADE CHAMPIONS, CONFIDENT THAT YOU CAN COMPETE ANYWHERE.

\[\text{You're just as efficient as ever. But now}\]

YOU'RE LOCKED OUT OF YOUR NATURAL EXPORT MARKETS AND YOU'RE FACING RISING IMPORTS HERE AT HOME.

I BELIEVE THAT THERE IS A CLEAR RESPONSE:

WE'VE GOT TO BRING THE DOLLAR DOWN.

AND WE'VE GOT TO FIGHT BACK AGAINST UNFAIR TRADING PRACTICES.

I LOOK FORWARD TO CONTINUING TO WORK WITH YOU TO ACCOMPLISH THESE OBJECTIVES.

TOGETHER WE CAN HELP LEAD AMERICA OUT OF THE TRADE CRISIS AND BACK TO THE PATH OF PROSPEROUS OPEN TRADE.

THANK YOU.