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National Forest Products Association

Max S. Baucus

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STATEMENT OF SENATOR MAX BAUCUS

NATIONAL FOREST PRODUCTS ASSOCIATION

May 9, 1989

Thank you, it's very good to be here.

Today, I would like to talk about the importance of international trade to the U.S. forest products industry.

As Chairman of the International Trade Subcommittee of the Senate Finance Committee, I keep close tabs on international trade developments.

International trade will only grow more important to the U.S.

The world is getting smaller and smaller.

Capital markets and communications systems are now almost completely global in scope.

And this trend won't be reversed.
More and more, the goods and services we produce will be exported to foreign markets. That trend has already started:

The total volume of U.S. imports and exports has tripled since 1950.

More than 70% of the goods produced in the U.S. compete with imports.

Almost 40% of U.S. farmland produces crops for export.

20% to 25% of the jobs in the U.S. manufacturing sector depend on exports.

And trade is not only an issue that affects the steel industry, the automobile industry, and computer manufacturers.

Forest products are increasingly being marketed around the world.

As you all know, American lumber mills already are producing for export and must compete with imports.
THE FOREST PRODUCTS INDUSTRY

Our forest products industry is the envy of the world. Consider these statistics:

The U.S. forest products industry is the world's largest producer of softwood plywood;

We are the largest exporter of softwood plywood;

We produce the second largest amount of hardwood lumber after India;

We are the second largest producer of softwood products after the Soviet Union; and

We are the world's lowest cost producer of lumber products.

The productivity in our sawmills increased by 11% last year -- improving at a rate more than three
times the national average.

Last year, we exported $5.3 billion of lumber products and ran a $100 million surplus in the forest product sector of our economy.

In short, the U.S. forest products industry is tops. And I plan to see to it that the industry gets a fair chance to compete around the world.

**EXPORTS**

The nations of the Pacific Rim -- Japan, Korea, Taiwan, and China -- are a huge and largely untapped market for U.S. forest products.

Here in America we have about 250 million consumers.

On the other hand, these Pacific Rim nations boast about one-and-a-half-billion consumers -- more than six times as many as in the U.S.

The potential is clear.

But we're facing problems getting into this huge market.
In some cases, those problems are beyond governmental control.

For instance, consumers in China simply don't have the money to buy forest products.

Still, we can control many of the problems.

For example, the governments of Japan and Korea maintain a series of trade barriers -- most notably high tariffs on finished forest products -- that keep out our forest products.

The Commerce Department recently released a study of Japanese trade barriers against U.S. forest product exports.

The study spent three pages simply listing those barriers which range from high tariffs to building codes that needlessly discriminate against wood.

The purpose of these barriers is to keep Japanese lumber mills in business.

For the most part, they encourage the import of
raw logs instead of finished forest products.

We simply cannot stand for that.

U.S. lumber mills are far more productive and efficient than Japanese and Korean mills.

When Japan is running a $55 billion trade surplus with the U.S., then we have a right to demand that Japan open its market.

We should be exporting finished lumber products to Japan instead of logs. The milling jobs should stay in the U.S.

The NFPA has recently filed petitions with the Office of the United States Trade Representative urging our government to begin negotiations with Japan and Korea to eliminate these trade barriers.

These negotiations would be conducted under the Super 301 provisions of the new Trade Act.

I strongly support these petitions. I will do everything in my power, as Chairman of the relevant Subcommittee, to see that they are approved.

As we found when we negotiated to open the
Japanese beef market, we have to play hard ball and we have to be persistent.

But if we do, we can get results.

And the results could be big—an additional $1.2 billion in processed forest product exports to Japan each year and additional large gains in Korea.

On a related issue, I noticed last week that the Japanese offered to re-open the MOSS talks on forest products.

I believe that this offer should be met with skepticism.

Given the timing, the motivation for the offer is clearly to convince us not to pursue a Super 301 case against Japanese forest product barriers.

The MOSS talks were a limited success in the early 80s. They succeeded because they were high-profile, high-level discussions.

But under the present circumstances, the MOSS talks will not get much attention. The focus will be on Super 301. Re-opening the MOSS talks may only
provide an excuse for not pursuing Japanese forest product barriers under Super 301.

There are other steps we should also consider. For instance, we must provide adequate export financing if we want to sell forest products in developing nations.

But with the new Trade Act in place, the time is ripe to focus efforts on opening the multi-billion dollar Japanese and Korean markets.

IMPORTS

Unfortunately, there is another side to the trade equation--imports from Canada.

I don't have to remind most of you of the importance of the 1986 Softwood Lumber Agreement with Canada.

Before 1986, subsidized lumber from Canada was devastating the U.S. softwood lumber industry.

Remember what it was like before 1986?

Prices for some forest products were at an all
time low in 1985—the last year before the agreement.

Between 1975 and 1985, 650 U.S. lumber mills closed. 80 Canadian mills opened.

About 25% of U.S. mill workers were put out of work while the Canadian softwood forest products industry more than doubled in size.

Lumber imports were flooding in from Canada. In 1985, Canada held 34% of the U.S. market.

This was not because Canadian mills were more efficient. U.S. mills are every bit as efficient as Canadian mills—more efficient in many cases.

It was because the Canadian government was subsidizing its softwood lumber industry by practically giving away stumpage rights.

In 1985, we decided to set things right. The NFPA and your friends in Congress rolled up their sleeves up and got down to business.

We filed an unfair trade case against the Canadian imports and won.
The U.S. government threatened to impose a 15% duty on Canadian lumber imports.

To avoid the duty, Canada agreed to immediately impose a 15% export tax and phase-out the subsidies.

It wasn't a perfect agreement. Some of us think that we should have pressed for more than a 15% export tax.

But the agreement has succeeded.

Imports from Canada and are down 16%.

The industry is much healthier financially and prices have recovered.

In 1985, the U.S. produced 31 billion board feet of softwood lumber.

In 1988, after three years of recovery, the industry produced 37 billion board feet.

Employment in the U.S. lumber industry has risen from 710,000 to 770,000.

Unfortunately, there are some storm clouds on
the horizon.

The Canadians have been making noises that they want to scrap the Softwood Lumber Agreement and apparently there has been widespread cheating on the agreement.

Last month, I held a hearing on this topic in my subcommittee.

At that hearing, I obtained a pledge from the Administration that it would not renegotiate the agreement.

The Commerce Department also began an investigation into the cheating and will soon announce procedural changes to guard against future cheating.

If we remain vigilant, we will be able to compete with the Canadians on a level playing field.

On a related issue that I know concerns you, the Administration pledged at that same hearing that it would not drop the tariff on Canadian plywood until the Canadians agree to allow U.S. plywood into their market.
CONCLUSION

The world is getting smaller.

Like it or not, we all must prepare to compete.

The forest products industry is no exception.

We will continue to face competition from Canadian imports and we will see an increasing percentage of U.S. production going for export.

International competition is a challenge.

But it is also an opportunity.

And if we are up to the challenge, it can be a great opportunity.

There is a market of a billion-and-a-half consumers in the Pacific Rim.

They are the future.

If the U.S. forest products industry is to grow and prosper--as we all want it to--we must get into
that market.

I am confident that we will.