SOFTWOOD LUMBER FROM CANADA

Determination of the Commission in Investigation No. 701-TA-274 (Preliminary) Under Section 703(a) of the Tariff Act of 1930, Together With the Information Obtained in the Investigation

USITC PUBLICATION 1874

JULY 1986

United States International Trade Commission / Washington, DC 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Susan W. Liebeler, Chairman
Anne E. Brunsdale, Vice Chairman
Paula Stern
Alfred E. Eckes
Seeley G. Lodwick
David B. Rohr

Jim McClure, Office of Investigations
Fred Ruggles, Office of Industries
Gerry Benedick, Office of Economics
Jerry Tepper, Office of Investigations
Ed Madaj, Office of the General Counsel

Lynn Featherstone, Supervisory Investigator

Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

C O N T E N T S

CONTENTS

Figures

Tables

CONTENTS

Tables--Continued

CONTENTS

Tables--Continued

Note.--Data which would disclose confidential operations of individual concerns may not be published and therefore have been deleted from this report. Deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Investigation No. 701-TA-274 (Preliminary)

SOFTWOOD LUMBER FROM CANADA

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission determines, 2/ pursuant to section 703(a) of the Tariff Act of 1930 (19 U.S.C. § 1671b(a)), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports from Canada of softwood lumber, rough, dressed, or worked (including softwood flooring classified as lumber), provided for in items 202.03 through 202.30, inclusive, of the Tariff Schedules of the United States (TSUS); softwood siding, not drilled or treated, provided for in TSUS items 202.47 through 202.50, inclusive; other softwood lumber and siding, provided for in TSUS items 202.52 and 202.54; and softwood flooring, provided for in TSUS item 202.60, which are alleged to be subsidized by the Government of Canada.

Background

On May 19, 1986, a petition was filed with the Commission and the Department of Commerce by the Coalition for Fair Lumber Imports, a group of U.S. softwood lumber manufacturers and associations representing U.S. softwood lumber manufacturers and foresters, alleging that an industry in the United States is materially injured by reason of subsidized imports of softwood lumber from Canada. Accordingly, the Commission instituted preliminary countervailing duty investigation No. 701-TA-274 (Preliminary).

1/ The record is defined in sec. 207.2(i) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(i)).

2/ Commissioner Stern did not participate.

Notice of the institution of the Commission's investigation and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of May 29, 1986 (51 F.R. 19422). The conference was held in Washington, DC, on June 10, 1986, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION [1/]

We determine that there is reasonable indication that an industry in the United States is materially injured by reason of allegedly subsidized imports of softwood lumber from Canada. [2/]

In 1982, the Commission conducted an investigation of softwood lumber from Canada and found a reasonable indication of material injury to the domestic industry. [3/] While the data obtained in this investigation show improvement in some domestic industry performance indicators since the beginning of 1983, the financial data gathered from domestic producers demonstrate continued weakness. Despite the rise in the apparent consumption of softwood lumber over the period of our investigation, and increased labor productivity in the industry, the industry has suffered negative operating margins over the last two calendar years, with only a slight upturn in the first quarter of 1986.

1/ Commissioner Stern did not participate in this determination.

2/ Since we find that an industry is materially injured by reason of imports of softwood lumber from Canada, we do not reach the issue of whether there is a reasonable indication of threat of material injury. Also, material retardation of the establishment of an industry is not an issue in this investigation and will not be discussed further.

3/ See Softwood Lumber from Canada, Inv. No. 701-TA-197 (Preliminary), USITC Pub. 1320 (Nov. 1982). The Commission at that time consisted of Commissioners Eckes, Stern and Haggart. Commissioner Stern also found a reasonable indication of threat of material injury in that investigation.

Moreover, imports from Canada have increased through 1985 both in absolute volume and relative to domestic consumption while domestic prices have generally declined. Further, there is some evidence of underselling by the imports from Canada. 4/ These factors support our finding of a reasonable indication of material injury by reason of the allegedly subsidized imports from Canada. 5/

Domestic industry and like product

At the outset of every countervailing duty determination, the Commission defines the relevant domestic industry and like product. The term "industry" is defined in section 771(4)(A) of the Tariff Act of 1930 as "the domestic producers as a whole of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total

4/ Vice Chairman Brunsdale notes that Title VII requires the Commission to "consider whether there has been significant price undercutting by the imported merchandise as compared with the price of like products of the United States..." U.S.C. § 1677(7)(C)(ii)(I)(1980). Instead of doing that, however, the Commission majority usually looks at "underselling" as a proxy for "price undercutting." However, the Vice Chairman does not generally consider the "underselling margins" set forth in Commission reports to be particularly persuasive evidence of price undercutting or probative on the issue of causation. In brief, when there are price differences between the foreign and domestic products they are usually explained by differences in the items compared. Rarely will all of the characteristics of the imported product exactly match those of the domestic product. For a general discussion of underselling, see the Memorandum from Director, Office of Economics, EC-J-010 (January 7, 1986) at 8-22.

5/ See Additional Views of Chairman Liebeler, infra.

domestic production of that product." [6/] The term "like product," in turn, is defined in section 771(10) as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation. . . ." [7/]

Like product--The imports subject to investigation in this case are "softwood lumber," a term that refers to a variety of wood products, such as boards, planks, timbers, siding, or flooring, made from coniferous species of trees. [8/] Softwood lumber is used primarily in the construction, repair and remodeling of residential and nonresidential buildings and in materials handling. [9/] In our previous countervailing duty investigation, we found that one like product existed consisting of all softwood lumber, although softwood lumber varies based upon characteristics such as size, shape, stage of manufacture, moisture content, and grade. [10/] We found that "all such products share generalized characteristics and uses." [11/] Imported Canadian lumber and U.S.-produced lumber were found to be generally interchangeable and fungible, and this substitutability was not dependent on the products being fabricated from the same species of tree. For example, we found that lumber produced from the southern yellow pine tree, which does not grow in Canada,

---

6/ 19 U.S.C. § 1677(4)(A).
7/ 19 U.S.C. § 1677(10).
8/ Report at A-2. See 51 Fed. Reg. 19422 (May 29, 1986) for the precise description of our scope of investigation.
9/ Report at A-7.
10/ Inv. No. 701-TA-197 (Preliminary), USITC Pub. 1320 at 4-5 (Nov. 1982).
11/ Id. at 5.

generally competes with Canadian spruce-pine-fir lumber products for the same uses. Although certain wood species were found to be preferable in particular construction applications, lower prices could make a less desirable kind of wood competitive in those applications. 12/

In this investigation,13/ the parties indicated that they either supported or did not object to defining the like product as comprising all softwood lumber products subject to investigation. 14/ While we intend to examine this question more closely in any final investigation, data gathered in this preliminary investigation suggest that a single like product is

12/ Id. at 4 (footnotes omitted).

13/ The specific imports currently subject to investigation are somewhat broader in scope than in the Commission's earlier countervailing duty determination. This investigation includes not only the softwood lumber products covered by TSUS numbers 202.03 through 202.30 that were the subject of the previous investigation, but also softwood lumber or siding provided for under TSUS numbers 202.47 through 202.50, 202.52 and 202.54 and softwood flooring provided for in TSUS 202.60, including such items as treated or drilled lumber. See 51 Fed. Reg. 19422 (May 29, 1986). Petitioner has explained that it has requested that the scope of this investigation be made somewhat broader to prevent evasion or confusion with respect to any countervailing duty order, and that the volume added by the additional categories is very small. Transcript of the June 10, 1986 conference ("Tr.") at 95-96.

14/ Tr. at 96 (petitioner's counsel, urging the Commission to keep the single like product finding), 160 (respondents' counsel: "at this time, we are not taking issue" with the one like product definition). See also, Petitioner's Postconference Brief at 6-9.

appropriate. 15/ 16/ Accordingly, we find that a single like product exists comprising all softwood lumber under investigation.

Domestic industry--In our previous investigation, we found the domestic industry to be the producers of softwood lumber, consisting of mill operators. The parties have not objected to this definition, 17/ and our investigation supports this finding. We therefore find that the domestic industry is the mill operators that are producers of the like product.

Related parties--Although no party has argued that any domestic producer should be excluded from the domestic industry as a related party, we note that a number of domestic producers are themselves importers of softwood lumber

15/ See e.g., Report at A-3, A-42, A-51; Tr. at 65, 103-105 (suggesting that lumber derived from different species of trees is generally interchangeable).
16/ We note, however, that at the conference treated lumber was referred to as occupying a separate market niche and it was stated that Canadian lumber could not be as effectively treated as U.S.-produced lumber. Tr. at 60. We intend to examine more closely in any final investigation the question of whether treated lumber or any of the types of lumber not investigated in our prior countervailing duty investigation should be considered part of the like product. We also note that, as in our earlier countervailing duty investigation, the question of certain customers' preferences with respect to lumber derived from southern yellow pine (SYP) as opposed to lumber produced from other varieties of domestic and Canadian trees has been raised, although in the context of causation. This suggests that a closer examination of the question of whether lumber derived from different species of trees should be considered separate like products may be warranted in any final investigation.
17/ See, e.g., Pet. Postconference Brief at 9-10. While Petitioner has noted that loggers or tree farmers may also be exhibiting signs of material injury, the brunt of the impact of the Canadian imports was being felt by the mill industry. Id. Respondents stated at the conference that they had no quarrel with this definition of the industry "at the present time." Tr. at 175.

from Canada. [18/] We also note that some domestic producers have affiliations with importers or with firms that export Canadian lumber to the United States. Accordingly, the issue arises whether any of these domestic producers should be excluded as "related parties" under the statute. [19/] We have insufficient data at this stage to conclude that appropriate circumstances exist for excluding any of these related producers. We intend, however, to examine this question more closely in any final investigation.

Condition of the domestic industry [20/]

In examining the condition of the domestic industry, the Commission considers, among other factors, consumption, production, shipments, capacity, capacity utilization, domestic market share, prices, employment, wages, productivity, sales, and profits. [21/] Our analysis of these factors shows that while some indicators have fluctuated or improved over the period of the investigation, others point to weakness in the industry. In particular, we note the existence of operating losses in the last full two calendar years, generally declining employment, declining domestic market share, and downward

---

18/ Report at A-41, Table 20.
19/ See 19 U.S.C. §1677(4)(B). The basis for the "related parties" provision is the concern that inclusion of these producers in the domestic industry may result in an inaccurate assessment of material injury or threat of material injury. See, e.g., Rock Salt from Canada, Inv. No. 731-TA-239 (Final), USITC Pub. 1798 (Jan. 1986) at 10; Certain Fresh Atlantic Groundfish from Canada, Inv. No. 701-TA-257 (Final), USITC Pub. 1844 (May 1986) at 8.
20/ Although petitioner argued that we should consider data regarding the alleged business cycle of the softwood lumber industry in evaluating data on the condition of the industry, we base this preliminary determination on data from 1983 through the first quarter of 1986.
21/ See 19 U.S.C. § 1677(7)(C)(iii).

price movement. While all these indicators except employment show improvement in the first quarter of 1986 over comparable 1985 levels it is unclear how significant this improvement is.[22/]

According to publicly available data,[23/] apparent U.S. consumption of softwood lumber reached a record level in 1985, rising from 42.0 billion board feet in 1983 to 45.9 billion board feet in 1985, an increase of 9 percent.[24/] During the first quarter of 1986, consumption further increased by 10 percent relative to the first quarter of 1985, rising from 10.5 billion board feet to 11.5 billion board feet.[25/]

U.S. production has not kept pace with the increase in consumption, despite increased capacity. Production increased by 4.4 percent from 31.8 billion board feet in 1983 to 33.2 billion board feet in 1984 and then declined by 1.4 percent to 32.8 billion board feet in 1985.[26/] In the first quarter of 1986, production increased by 10.9 percent compared to the same period of 1985.[27/]

22/ Vice Chairman Brunsdale notes that although she joins in the Commission's determination that there is a reasonable indication that the industry is materially injured, the indicators of the industry's condition do not strongly support that conclusion. In particular, she notes the improvement in the industry's condition in the first quarter of 1986.
23/ In this investigation, the Commission had available public information on the industry from such sources as the U.S. Department of Commerce and various trade associations, as well as information obtained from responses to the Commission's questionnaires.
24/ Report at A-12, Table 2.
25/ Id.
26/ Id.
27/ Id.

The smaller database represented by responses to the Commission's questionnaires shows steadily increasing production over the period of investigation, rising from 13.7 million board feet in 1983 to 14.7 million board feet in 1985. Production further increased from 3.5 million board feet in the first quarter of 1985 to 3.7 million board feet in the first quarter of 1986. 28/

Responses to the Commission's questionnaires show that domestic shipments increased throughout the investigation period. Shipments increased by 9.4 percent from 1983 to 1984, and further increased by another 1.7 percent in 1985. First quarter 1986 shipments were 11.5 percent greater than those in the comparable period in 1985. 29/ Available public trade data demonstrate a similar trend. 30/

Public trade data indicate that capacity to produce softwood lumber increased slightly in the 1983-1985 period, from 38.2 billion board feet to 38.4 billion board feet First quarter data for 1986 indicate a further slight increase in capacity relative to the first quarter of 1985. Capacity utilization rose from 83.3 percent in 1983 to 86.8 percent in 1984 and then declined to 85.5 percent in 1985. Capacity utilization for the first quarter of 1986 increased significantly to 87.4 percent from 79.4 percent during the same period in 1985. 31/

28/ Report at A-20. The Commission received responses to questionnaires from 46 domestic producers representing 48 percent of the domestic softwood lumber production for 1985. Id.
29/ Report at A-24, Table 10.
30/ Id. at A-22-A-23, Tables 8 and 9.
31/ Report at A-20, Table 7.

Data collected from questionnaire responses, on the other hand, indicate that capacity utilization declined from 86.1 percent in 1983 to 85.0 percent in 1984 and then rose to 86.1 percent in 1985. 32/ In the first quarter of 1986 it increased to 90.2 percent from 84.8 percent in the same period in 1985. 33/

Despite the increases in shipments, the market share of U.S. producers generally declined over the period of investigation, from 71.5 percent in 1983 to 68.1 percent in 1985. Interim data for 1986 show a small upturn in domestic market share relative to the same period in 1985, from 69.1 percent to 69.5 percent. 34/

The number of production and related workers engaged in the manufacture of softwood lumber increased by 2.7 percent from 1983 to 1984, then declined by 6.5 percent in 1985. A further decline is evidenced in the first quarter of 1986 relative to 1985. Similar trends are indicated for hours worked, wages, and total compensation. 35/ However, labor productivity increased steadily over the period of investigation, rising by 9.3 percent between 1983 and 1985, and again by 10 percent in January-March 1986 relative to the same period in 1985. 36/

32/ Id. at A-20.
33/ Id.
34/ Report at A-38, Table 17.
35/ See Report at A-25 and Table 11 at A-26.
36/ Id.

Questionnaire data show prices for three out of four products surveyed declined over the period of investigation. Public trade data, however, show significant declines for all four products over the same period. Both sources of data indicate that prices were rising in the first quarter of 1986. 37/

Questionnaire data also indicate that net sales of softwood lumber increased by 4.2 percent from $3.1 billion in 1983 to $3.2 billion in 1984, and then declined by 4.5 percent to $3.0 billion in 1985. 38/ First quarter sales increased by 6 percent from $791.1 million in 1985 to $838.9 million in 1986. 39/

Despite advances in labor productivity, the industry operating income declined from $98.6 million in 1983 to an operating loss of $72.7 million in 1984. While some improvement was noted in 1985, the industry still experienced an operating loss of $28.8 million. First quarter data for 1986 suggests an improvement over the first quarter of 1985, with the achievement of a profit of $13.9 million as compared to an operating loss of $25.9 million. 40/ Operating income as a share of net sales exhibited a similar trend throughout the period, falling from 3.2 percent in 1983 to a negative 2.3 percent in 1984, then rising to a negative 0.9 percent in 1985. Again, first quarter data in 1986 showed some improvement over first quarter data in 1985. 41/ However, considering overall industry performance, we find that

---

37/ Id. at A-46, Table 22.
38/ Id. at A-29, Table 13.
39/ Id.
40/ Id.
41/ Id.

there is a reasonable indication that the domestic industry is materially injured.

Reasonable indication of material injury by reason of allegedly subsidized imports [42/]

In determining whether there is a reasonable indication of material injury by reason of allegedly subsidized imports, the statute directs us to consider, among other factors, the volume of imports of the merchandise under investigation, the effect of such imports on domestic prices, and the impact of such imports on the relevant domestic industry. [43/] We find that the significant and increasing volume of Canadian imports and the sizeable market share taken by those imports, together with generally declining prices at a time of increasing consumption, and evidence of some underselling of the domestic product by the Canadian imports, show a reasonable indication that the subject imports are a cause of material injury to the domestic industry. [44/]

The volume of imports of softwood lumber from Canada increased significantly in the 1983-1985 period from already high levels. Over this

---

42/ Chairman Liebeler does not join the rest of this opinion. See her Additional Views, infra.
43/ 19 U.S.C. § 1677(7)(B).
44/ Further evidence of a linkage between the import penetration levels, price trends, and profitability is suggested by the fact that when import penetration declined in the first quarter of 1986, prices rose and industry indicators generally improved. Because data for only one quarter may represent an anomaly, we intend to examine 1986 data more closely in any final investigation.

period, these imports rose by 21.5 percent, from nearly 12 billion board feet to 14.5 billion board feet. Interim 1986 imports from Canada were up 7.3 percent from those in the comparable period for 1985. 45/

Import penetration rose moderately over the period of investigation, before declining slightly in the first quarter of 1986 relative to the first quarter of 1985. In 1983, imports from Canada accounted for 28.5 percent of apparent U.S. consumption. This share increased to 29.4 percent in 1984 and further increased to 31.6 percent in 1985. Interim 1986 data show that import penetration declined to 30.2 percent of consumption relative to 30.8 percent in the first quarter of 1985. 46/

At the same time that import volume, import penetration and domestic consumption were increasing, prices generally declined. 47/ As noted above, according to the Commission's questionnaire data, prices for three of the four products surveyed declined between January 1983 and the first quarter of 1986. Publicly available trade data indicate that prices for all of the four products declined in this period. 48/ Thus, it is possible that the allegedly subsidized imports from Canada have had a price depressing effect. 49/ This conclusion is further supported by a comparison of

45/ Report at A-38, Table 17.
46/ Id.
47/ Report at A-12, Table 2 and A-46, Table 22.
48/ Id. at A-46, Table 22.
49/ Vice Chairman Brunsdale notes that respondents have argued that the Commission should consider the nature and effect of the alleged Canadian stumpage subsidy in its analysis of causation. While she did not reach this question in this determination, she will consider this matter further in any final investigation.

weighted-average delivered prices of the domestic and imported products surveyed, which indicates some underselling by the imports from Canada for three out of four of the products surveyed. 50/

For the foregoing reasons, we determine that there is a reasonable indication that the domestic industry producing softwood lumber is materially injured by reason of allegedly subsidized imports from Canada.

50/ Report at A-48-A-49, Table 24, and A-51.

VIEWS OF CHAIRMAN LIEBELER

Inv. No. 701-TA-274 (Preliminary)

Softwood Lumber from Canada

I determine that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly subsidized imports of softwood lumber from Canada.[1] I concur in the discussion of the majority with respect to like product, domestic industry, related parties, and condition of the industry.

Material Injury by Reason of Imports

In order for a domestic industry to prevail in a preliminary investigation, the Commission must determine that there is a reasonable indication that the dumped or subsidized imports cause or threaten to cause material

---

[1] Material retardation is not an issue because the industry is well established.

injury to the domestic industry producing the like product. First, the Commission must determine whether the domestic industry producing the like product is materially injured or is threatened with material injury. Second, the Commission must determine whether any injury or threat thereof is by reason of the dumped or subsidized imports. Only if the Commission finds a reasonble indication of both injury and causation, will it make an affirmative determination in the investigation.

Before analyzing the data, however, the first question is whether the statute is clear or whether one must resort to the legislative history in order to interpret the relevant sections of the antidumping law. In general, the accepted rule of statutory construction is that a statute, clear and unambiguous on its face, need not and cannot be interpreted using secondary sources. Only statutes that are of doubtful meaning are subject to such statutory interpretation.[2]

The statutory language used for both parts of the two-part analysis is ambiguous. "Material injury" is

---

[2] Sands, Sutherland Statutory Construction Sec. 45.02 (4th Ed.)

defined as "harm which is not inconsequential, immaterial, or unimportant."[3] This definition leaves unclear what is meant by harm. As for the causation test, "by reason of" lends itself to no easy interpretation, and has been the subject of much debate by past and present commissioners. Clearly, well-informed persons may differ as to the interpretation of the causation and material injury sections of title VII. Therefore, the legislative history becomes helpful in interpreting title VII.

The ambiguity arises in part because it is clear that the presence in the United States of additional foreign supply will always make the domestic industry worse off. Any time a foreign producer exports products to the United States, the increase in supply, ceteris paribus, must result in a lower price of the product than would otherwise prevail. If a downward effect on price, accompanied by a Department of Commerce dumping or subsidy finding and a Commission finding that financial indicators were down were all that were required for an affirmative determination, there would be no need to inquire further into causation.

---

[3] 19 U.S.C. sec. 1977(7)(A)(1980).

But the legislative history shows that the mere presence of LTFV imports is not sufficient to establish causation. In the legislative history to the Trade Agreements Acts of 1979, Congress stated:

> [T]he ITC will consider information which indicates that harm is caused by factors other than the less-than-fair-value imports.[4]

The Finance Committee emphasized the need for an exhaustive causation analysis, stating, "the Commission must satisfy itself that, in light of all the information presented, there is a sufficient causal link between the less-than-fair-value imports and the requisite injury."[5]

The Senate Finance Committee acknowledged that the causation analysis would not be easy: "The determination of the ITC with respect to causation, is under current law, and will be, under section 735, complex and difficult, and is matter for the judgment of the ITC."[6]

---

[4] Report on the Trade Agreements Act of 1979, S. Rep. No. 249, 96th Cong. 1st Sess. 75 (1979).

[5] Id.

[6] Id.

Since the domestic industry is no doubt worse off by the presence of any imports (whether LTFV or fairly traded) and Congress has directed that this is not enough upon which to base an affirmative determination, the Commission must delve further to find what condition Congress has attempted to remedy.

In the legislative history to the 1974 Act, the Senate Finance Committee stated:

> This Act is not a 'protectionist' statute designed to bar or restrict U.S. imports; rather, it is a statute designed to free U.S. imports from unfair price discrimination practices. * * * The Antidumping Act is designed to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a United States industry.[7]

Thus, the focus of the analysis must be on what constitutes unfair price discrimination and what harm results therefrom:

> [T]he Antidumping Act does not proscribe transactions which involve selling an imported product at a price which is not lower than that needed to make the product competitive in the U.S. market, even though the price of the imported product is lower than its home market

---

[7] Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

price.[8]

This "difficult and complex" judgment by the Commission is aided greatly by the use of economic and financial analysis. One of the most important assumptions of traditional microeconomic theory is that firms attempt to maximize profits.[9] Congress was obviously familiar with the economist's tools: "[I]mporters as prudent businessmen dealing fairly would be interested in maximizing profits by selling at prices as high as the U.S. market would bear."[10]

An assertion of unfair price discrimination should be accompanied by a factual record that can support such a conclusion. In accord with economic theory and the legislative history, foreign firms should be presumed to behave rationally. Therefore, if the factual setting in which the unfair imports occur does not support any gain

---

8 Id.

9 See, e.g., P. Samuelson & W. Nordhaus, Economics 42-45 (12th ed. 1985); W. Nicholson, Intermediate Microeconomics and Its Application 7 (3d ed. 1983).

10 Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

to be had by unfair price discrimination, it is reasonable to conclude that any injury or threat of injury to the domestic industry is not "by reason of" such imports.

In many cases unfair price discrimination by a competitor would be irrational. In general, it is not rational to charge a price below that necessary to sell one's product. In certain circumstances, a firm may try to capture a sufficient market share to be able to raise its price in the future. To move from a position where the firm has no market power to a position where the firm has such power, the firm may lower its price below that which is necessary to meet competition. It is this condition which Congress must have meant when it charged us "to discourage and prevent foreign suppliers from using unfair price discrimination practices to the detriment of a United States industry."[11]

In Certain Red Raspberries from Canada, I set forth a framework for examining what factual setting would merit an affirmative finding under the law interpreted in light

---

[11] Trade Reform Act of 1974, S. Rep. 1298, 93rd Cong. 2d Sess. 179.

of the cited legislative history.[12]

> The stronger the evidence of the following . . . the more likely that an affirmative determination will be made: (1) large and increasing market share, (2) high dumping margins, (3) homogeneous products, (4) declining prices and (5) barriers to entry to other foreign producers (low elasticity of supply of other imports).[13]

The statute requires the Commission to examine the volume of imports, the effect of imports on prices, and the general impact of imports on domestic producers.[14] The legislative history provides some guidance for applying these criteria. The factors incorporate both the statutory criteria and the guidance provided by the legislative history. Each of these factors is evaluated in turn.

Causation analysis

Examining import penetration data is relevant because unfair price discrimination has as its goal, and cannot

---

12 Inv. No. 731-TA-196 (Final), USITC Pub. 1680, at 11-19 (1985) (Additional Views of Vice Chairman Liebeler).

13 Id. at 16.

14 19 U.S.C. 1677(7)(B)-(C) (1980 & cum. supp. 1985).

take place in the absence of, market power. Imports of softwood lumber from Canada increased from 28.5 percent in 1983 to 31.6 percent in 1985. Imports of softwood lumber are moderately high, but relatively stable.

The second factor is a high margin of dumping or subsidy. The higher the margin, ceteris paribus, the more likely it is that the product is being sold below the competitive price[15] and the more likely it is that the domestic producers will be adversely affected. In a preliminary investigation, the Commerce Department has not yet had time to calculate any margins. I therefore rely on the margins alleged by petitioner. The alleged subsidy is 27 percent.[16] This margin is moderately high and is not inconsistent with a finding of unfair price discrimination.

The third factor is the homogeneity of the products. The more homogeneous the products, the greater will be the effect of any allegedly unfair practice on domestic producers. There appears to be some anectodal evidence

---

15 See text accompanying note 8, supra.

16 Report at A-8.

that Canadian and U.S. softwood lumber differ in certain characteristics. For example, it has been stated that Canadian spruce-pine-fir has better appearance and storage characteristics for certain uses than domestic lumber. On the other hand, U.S. product may have greater structural strength, needed for use in floor and ceiling joists.[17] The importance of these alleged differences is unknown at present and should be further investigated in the event of a final investigation.

As to the fourth factor, evidence of declining domestic prices, ceteris paribus, might indicate that domestic producers were lowering their prices to maintain market share. For most products investigated, domestic prices fell, both in real and nominal terms, between first quarter 1983 and fourth quarter 1985.[18] This factor is not inconsistent with unfair price discrimination.

The fifth factor is barriers to entry (foreign supply elasticity). If there are barriers to entry (or low foreign elasticity of supply) it is more likely that a

---

17 Report at A-55.

18 Report at Table 24.

producer can gain market power. Canada accounts for nearly all softwood lumber imports,[19] indicating that there may be not be an elastic supply of softwood lumber from other countries. It is not clear, however, that the supply from Canada is very elastic either, especially in view of the high percentage of Canadian production already exported to the U.S.[20]

These factors must be balanced in each case to reach a sound determination. The subsidy in this investigation has come under more scrutiny than usual. An argument has been raised that the Canadian subsidy can have no effect on U.S. producers because the subsidy does not increase output.[21] The nature of the Canadian subsidy and its impact on the domestic industry will be investigated further in the event of a final investigation. At present, however, import penetration, the alleged subsidy margin, declining domestic prices, and the apparent

---

19 Report at Table 17.

20 Report at Table 14.

21 Post-Conference Brief of Canadian Forest Industries Council and Affiliated Companies, at 46-49 (June 12, 1986); Post-Conference Brief of the Federal Trade Commission, at 17-33 & Appendix.

barriers to entry all lead in the direction of an affirmative decision in this preliminary investigation.

Conclusion

Therefore, I conclude that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly subsidized imports of softwood lumber from Canada.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On May 19, 1986, the Coalition for Fair Lumber Imports, 1/ a group of U.S. softwood lumber manufacturers and associations representing U.S. softwood lumber manufacturers, filed a countervailing duty petition with the U.S. International Trade Commission and the U.S. Department of Commerce. The petition alleges that an industry in the United States is materially injured and is threatened with material injury by reason of subsidized imports from Canada of rough, dressed, or worked softwood lumber (including softwood flooring classified as lumber), provided for in items 202.03 through 202.30, inclusive, of the Tariff Schedules of the United States (TSUS); softwood siding, not drilled or treated, provided for in TSUS items 202.47 through 202.50, inclusive; other softwood lumber and siding provided for in TSUS items 202.52 and 202.54; and softwood flooring provided for in TSUS item 202.60. Accordingly, the Commission instituted a preliminary countervailing duty investigation under the provisions of the Tariff Act of 1930 to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such merchandise into the United States. As provided for in section 703(a) of the Tariff Act of 1930, the Commission must make its determination within 45 days after the receipt of a petition, or in this case, by July 3, 1986.

Notice of the institution of the Commission's investigation and of a conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of May 29, 1986 (51 FR. 19422). 2/ The conference was held in Washington, DC, on June 10, 1986. 3/

1/ The Coalition's members include the National Forest Products Association, the Northeastern Lumber Manufacturers Association, the Northwest Independent Forest Manufacturers, the Western Wood Products Association, the Western Forest Industries Association, and the Southeastern Lumber Manufacturers Association. These associations represent companies accounting for more than 70 percent of U.S. softwood lumber production. Additionally, the following state associations are also members of the Coalition: the Alabama Forestry Association, the Arkansas Forestry Association, and the Lumber Manufacturers' Association of Virginia.

2/ A copy of the Commission's Federal Register notice instituting this investigation appears in app. A.

3/ The calendar of witnesses for the Commission's conference appears in app. B.

Other Investigations Concerning Softwood Lumber

On October 7, 1982, the Commission and the Department of Commerce received a petition from the U.S. Coalition for Fair Canadian Lumber Imports, a group of 8 trade associations and more than 350 firms, alleging that ". . . the federal and provincial governments in Canada subsidize, directly and indirectly, the Canadian forest products industry, including softwood lumber, through a broad variety of programs and practices." On November 22, 1982, the Commission determined that there was a reasonable indication that an industry in the United States was materially injured, by reason of the allegedly subsidized imports of softwood lumber from Canada (47 F.R. 54183). 1/ However, on May 31, 1983, the Department of Commerce issued a final negative countervailing duty determination and the investigation was terminated (48 F.R. 24159). In its determination, Commerce found that Canadian stumpage programs did not confer a subsidy within the meaning of the Act because they were not provided to a specific enterprise or industry or group of enterprises or industries and because they did not confer domestic subsidies under the terms of the Act.

On December 16, 1981, in response to a request from the Committee on Finance of the U.S. Senate and the Chairman of the Subcommittee on Trade of the U.S. House of Representatives, the Commission instituted investigation No. 332-134, entitled Conditions Relating to the Importation of Softwood Lumber Into the United States (USITC Publication 1241, April 1982). On March 6, 1985, the United States Trade Representative requested that the Commission conduct an investigation to update the April 1982 study. Consequently, the Commission instituted investigation No. 332-210 on March 6, 1985. The Commission's report in that investigation was issued on October 9, 1985. 2/

The Products

Description and uses

The term "softwood lumber" relates to a wide variety of products--such as boards, planks, timbers, framing materials, moldings, flooring, or siding--produced from coniferous species of trees. 3/ For purposes of this investigation, the term "softwood lumber" refers to those products included in Tariff Schedules of the United States Annotated (1986) (TSUSA) items 202.0320-202.3040 (rough, dressed, or worked softwood lumber); 202.4720, 202.4750, 202.4800, and 202.5010 (softwood siding); 202.5210, 202.5230, 202.5420 and 202.5440 (treated lumber and siding); and 202.6020 (softwood flooring).

The term "softwood lumber," when associated with U.S. exports, for purposes of this investigation, refers to articles covered by Schedule B items 202.0420-202.3140 (rough, dressed, or worked softwood lumber); 202.4920 and 202.4940 (softwood siding); 202.5100 (treated softwood lumber, siding, and flooring); and 202.6100 (softwood flooring).

1/ Softwood Lumber from Canada, (Investigation No. 701-TA-197 (Preliminary)), USITC Publication 1320, November 1982

2/ Conditions Relating to the Importation of Softwood Lumber Into the United States, USITC Publication 1765, October 1985

3/ Hardwood lumber is produced from deciduous trees.

The U.S. softwood lumber production figures presented in this report were compiled by the staff of the U.S. International Trade Commission from selected industry and Government statistics and are comparable with U.S. Department of Commerce import and export data.

According to the extent or stage of manufacture, lumber (a product derived from a log by lengthwise sawing which, in its original sawed condition, has at least 2 approximately parallel flat longitudinal sawed surfaces, and which may be rough, dressed, or worked; both softwood and hardwood (headnote 2(a), part 1B, schedule 2)) is defined in the TSUS as follows:

> Rough lumber--lumber just as it comes from the saw, whether in its original sawed size or edged, resawn, crosscut, or trimmed to smaller sizes (headnote 2(a)(i)).
>
> Dressed lumber--lumber that has been dressed or surfaced by planing on at least one edge or face (headnote 2(a)(i)).
>
> Worked lumber--lumber that has been matched (tongue-and-grooved joint at the the edges or ends), shiplapped (rabbeted or lapped joint at the edges), or patterned (shaped at the edges or on the faces to a patterned molded form) on a matching machine, sticker, or molder (headnote 2(a)(iii).

Producers of most softwood lumber (both domestic and imported) classify it into seven major categories:

1. Studs--lumber used in framing building walls with little or no trimming before they are set in place.

2. Dimension--lumber that is from 2 inches up to 5 inches thick, and is 2 inches or more in width.

3. Stress grades--lumber having assigned working stress and modulus of elasticity values in accordance with accepted basic principles of strength grading and meeting the provisions of the American Softwood Lumber Standard.

4. Timbers--lumber that is at least 5 inches in least dimension.

5. Boards--lumber less than 2 inches in nominal thickness and 1 inch or more in width.

6. Selects--high quality lumber graded for appearance.

7. Shop--lumber that is graded for the number and sizes of cuttings that can be taken from it for the manufacture of other products.

Of the aforementioned categories, studs and dimension lumber are the most competitive between the United States and Canada.

The major softwood species groups are Douglas fir, spruce-pine-fir (SPF), ponderosa pine, hem-fir (hemlock and white fir), and southern yellow pine (SYP). Of these, the major competing species groups between the United States and Canada are SPF, Douglas fir, and hem-fir; SYP is not produced in Canada.

Lumber is classified as green or dried according to its moisture content. 1/ Often, more than half the weight of green lumber is moisture. Some lumber is used green (e.g., Douglas fir), because various characteristics of the wood make such use easier or more economical. However, to prevent warping, most lumber is seasoned by being dried before retail sale.

Generally, lumber is measured by the board foot, a three-dimensional unit that, for tariff purposes, is described in headnote 3, part 1B of schedule 2 as--

> The quantity of lumber contained in, or derived (by drying, dressing, or working, or any combination of these processes) from, a piece of rough green lumber 1 inch in thickness, 12 inches in width, and 1 foot in length, or the equivalent of such piece in other dimensions. 2/

In addition, the American Lumber Standards for Softwood Lumber 3/ sets forth minimum measurements for dressed lumber. For example, a rough 2"x4" piece of lumber can be a minimum of 1-1/2"x3-1/2" when dressed.

Softwood lumber is graded at the sawmill on characteristics that affect its strength, durability, utility, and/or appearance. Some common defects that lower the grade are knots, splits, shake (separation of annual rings), wane (bark or lack of wood on corner or edge), and pitch pockets. Standard rules for grading lumber are published by regional lumber manufacturing or marketing organizations; they vary with geographic regions and species of lumber. Figure 1 shows the three major softwood lumber producing geographic regions in the United States and figure 2 shows the major Canadian producing areas.

Softwood lumber is readily workable, has a high strength-to-weight ratio, and is moderately durable; hence, it is widely used in the construction, shipping, and manufacturing industries. 4/ In 1985, 39 percent of the annual U.S. consumption of softwood lumber was used in new residential construction (new housing), as shown in the following tabulation on page A-7 (in percent): 5/

1/ Generally, lumber with a moisture content of 19 percent or under is considered dried.

2/ In this report, units are generally specified as mbf (thousand board feet) and mmbf (million board feet).

3/ These standards are published by the U.S. Department of Commerce in cooperation with manufacturers, distributors, and users.

4/ Hardwood lumber, building boards (e.g., plywood and oriented strand board), certain paperboard products, and nonwood products (e.g., brick, concrete blocks, aluminum, and plastic products) compete with softwood lumber in many uses. These competitive products are often more economical for particular uses, or they furnish unique performance or appearance.

5/ Based on estimated data supplied by the Western Wood Products Association.

Figure 1.--Geographic regions of the United States for lumber production.

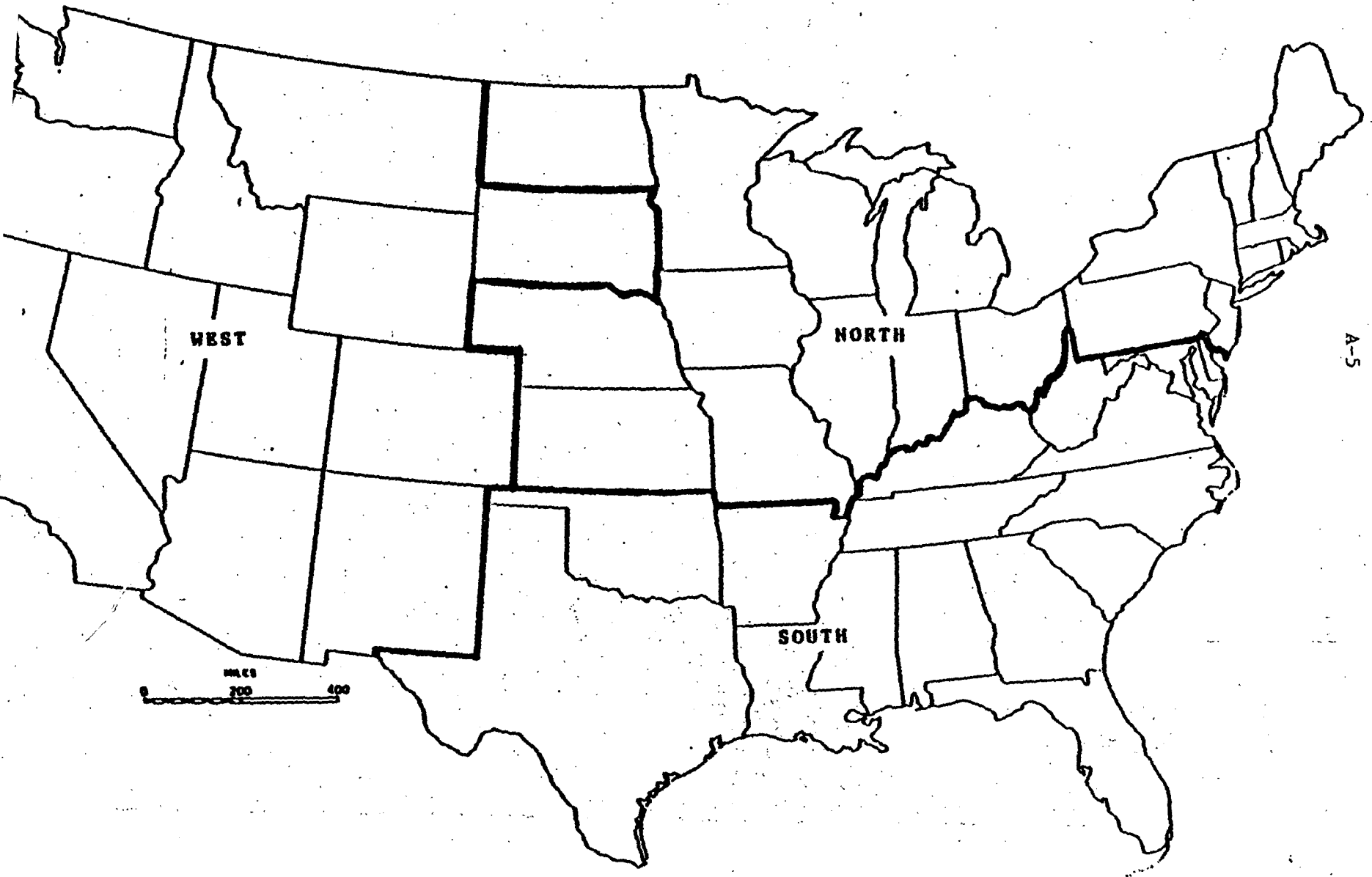
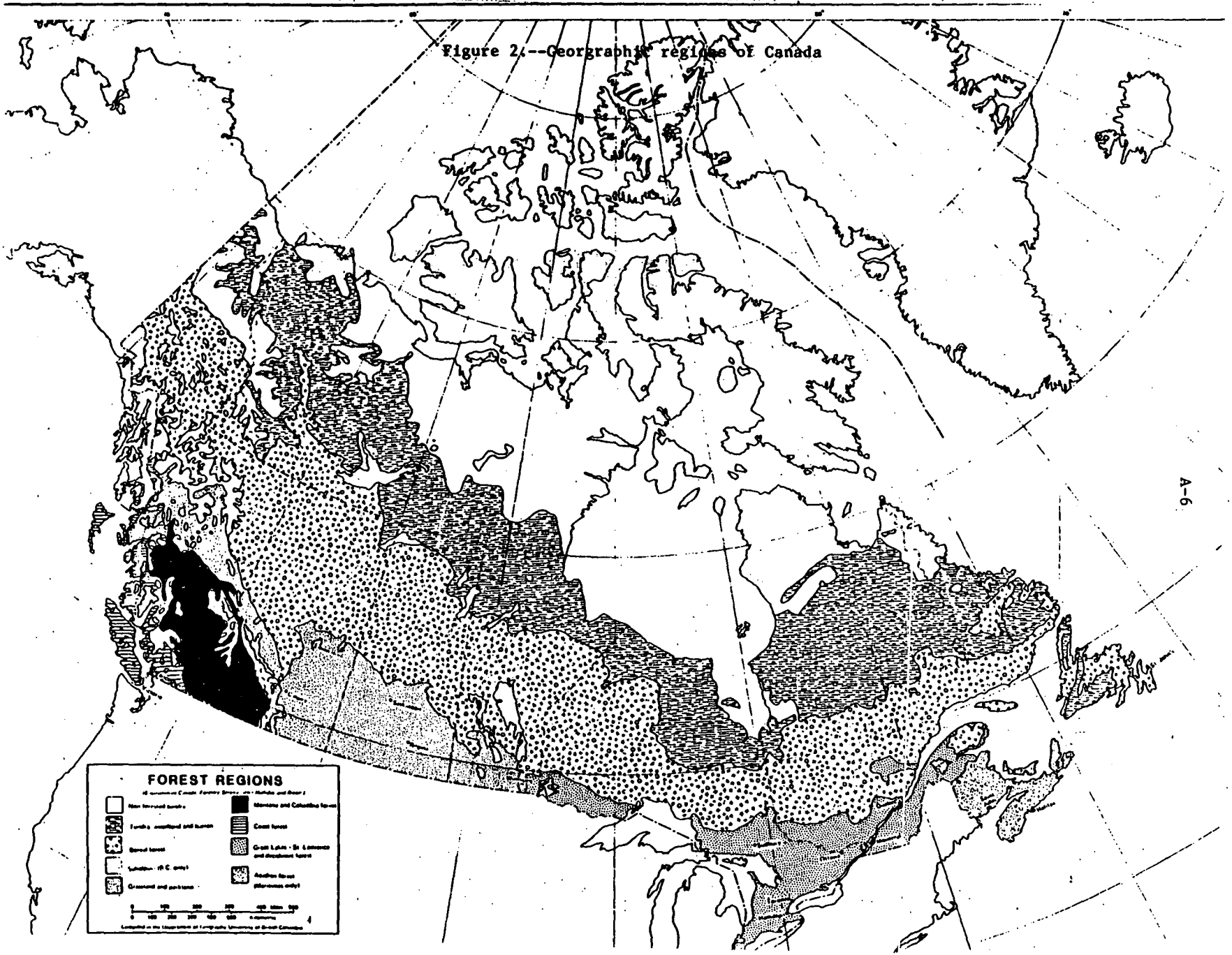


Figure 2.--Georgraphic regions of Canada



	1983	1984	1985
Construction:			
New residential (new housing)....	41	39	39
Repair and remodeling.....	24	24	26
New nonresidential	15	16	15
Materials handling.....	10	11	10
All other.....	10	10	10
Total.....	100	100	100

In years of low housing starts, the share of softwood lumber consumed by new housing construction may be somewhat less than 39 percent, with the share accounted for by repair and remodeling increasing slightly.

For a given end use, softwood lumber of different species or from different regions is generally interchangeable. However, for some uses, a specific species is frequently preferred because of its particular characteristics--e.g., redwood and western red cedar for home exterior siding, and white pine for moldings. With respect to dimension lumber for new house framing, species preference is somewhat regional. West coast builders have a preference for Douglas fir and ponderosa pine; however, northeastern and southern builders often purchase SPF for framing and millwork, because it accepts paint and stain better and is easier to work with. SYP is preferred for trusses and load bearing construction because of its high-strength qualities.

U.S. tariff treatment

With the exception of TSUS items 202.54 and 202.60, which have duty rates of 0.6 and 3.8 percent ad valorem, respectively, all of the tariff items covered in this investigation have rates of duty of "free" in column 1. 1/ Rates of duty for softwood lumber entered under column 2 (from countries under Communist domination or control) range from $1 to $4 per 1,000 board feet. The amount of softwood lumber imported at the column 2 rates is negligible. Most lumber entering the United States is subject to inspection for wood-boring insects; such insects have not been found in most imports attempted to be entered into the customs territory.

1/ The rates of duty in column 1 are most-favored-nation rates and apply to imports from all sources other than the Communist countries subject to column 2 duty rates (general headnote 3(d) of the TSUS), unless a preferential rate for products of particular countries appears in the special rates of duty column.

Nature and Extent of Alleged Subsidies

The petitioner alleges that the Federal and Provincial Governments of Canada subsidize, directly and indirectly, the Canadian softwood lumber industry through a broad variety of programs and practices. However, the petition states that the major subsidy at issue is the sale of softwood stumpage (the right to harvest lumber) to lumber companies by the Provincial Governments at preferential rates. Petitioner alleges that the Provinces sell softwood stumpage at rates that are far lower than competitive prices for comparable stumpage in the United States. 1/

The other alleged subsidies noted by the petitioner include Canadian Federal and Provincial programs dealing in transportation and reforestation, as well as a number of loan, grant, and export assistance programs.

The petitioner alleges that the subsidies for stumpage have a weighted average of $53.65 per mbf. Such an amount would translate into 27 percent of the average unit value of 1985 U.S. imports of softwood lumber from Canada.

The U.S. Market

U.S. producers

U.S. Department of Commerce data indicate that 6,290 establishments 2/ produced softwood and hardwood lumber in the United States in 1985; of these, 1,585 (25 percent) had more than 20 employees. From 1983 to 1985, the number of mills increased because of a variety of factors but mainly because of a resurgence of demand for wood products by the housing industry. Some of the increase is accounted for by the reopening of mills that had closed during the 1981-82 recession. The number of establishments producing both hardwood and softwood lumber during 1983-85 and the first quarters of 1985 and 1986 is shown in the following tabulation:

Period	Establishments
1983	6,180
1984	6,182
1985	6,290
Jan.-Mar:	
1985	6,275
1986	6,305

1/ Petitioner has alleged that the provinical softwood stumpage pricing programs in British Columbia, Alberta, Ontario, and Quebec are subsidies. These provinces account for over 95 percent of Canada's timber harvest.

2/ There are numerous mills, some of which are portable, that the U.S. Bureau of the Census does not include in its data. These have been estimated to number approximately 20,000 and account for less than 5 percent of U.S. production.

These establishments are located throughout the United States, although the majority of production is concentrated in the West and the South. The distribution of mills in 1985, by regions and selected States, is shown in the following tabulation: 1/

Region and State	Establishments
North 2/	1,634
Maine	183
South 3/	3,050
North Carolina and South Carolina	778
Georgia, Alabama, and Mississippi	992
Texas and Arkansas	288
Virginia	304
West 4/	1,606
Oregon and Washington	744
Montana and Idaho	301

U.S. production of softwood lumber is concentrated in the West, where the remaining old-growth, high-quality timber is located, and in the South, where plantations of SYP have reached merchantable size. These regions account for approximately 57 percent and 39 percent, respectively, of U.S. softwood lumber production. The highest concentrations of large mills are also in these regions; in 1985, 275 mills each produced 25 mmbf or more in the West, compared with 130 mills in the South and 15 mills in the North.

Although there are large corporations with high volumes of production, most of the softwood lumber producers are small firms. In 1985, the 5 largest producers accounted for just over 26 percent of U.S. softwood production, and the 50 largest firms accounted for 64 percent; both are down from the all-time highs of 28 and 82 percent, respectively, in 1982 (table 1). It is estimated that there are about 400 mills with annual production exceeding 25 mmbf, and 800 mills with annual production greater than 10 mmbf.

1/ Annual Lumber Review and Buyers Guide, Forest Industries, Miller Freeman Publications, San Francisco, July 1986.

2/ Connecticut, Illinois, Indiana, Iowa, Kansas, Maine, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, Wisconsin, and Vermont.

3/ Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

4/ Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, South Dakota, Utah, Washington, and Wyoming.

Table 1.--Softwood lumber: U.S. and Canadian production, 1977-85

Country and year	Total production	5 largest producers		50 largest producers	
		Quantity	Percent of total production	Quantity	Percent of total production
	mmbf	mmbf		mmbf	
United States:					
1977....	33,459	7,117	21.3	18,477	55.2
1978....	33,839	8,266	24.4	19,366	57.2
1979....	33,223	8,078	24.3	18,864	56.8
1980....	27,855	6,794	24.4	16,402	58.9
1981....	26,318	6,931	26.3	17,349	65.3
1982....	25,461	7,210	28.3	20,820	81.8
1983....	31,829	8,721	27.4	25,739	80.9
1984....	33,240	8,973	27.0	20,334	61.2
1985....	32,781	8,556	26.1	20,987	64.0
Canada:					
1977....	17,225	3,983	23.1	11,633	67.5
1978....	18,412	4,188	22.7	12,604	68.5
1979....	18,494	4,143	22.4	11,956	64.6
1980....	18,296	3,995	21.8	12,050	65.9
1981....	16,492	3,489	21.2	10,343	62.7
1982....	15,548	3,293	21.2	10,053	64.7
1983....	20,149	4,365	21.7	13,312	66.1
1984....	20,588	4,829	23.5	14,863	72.2
1985....	22,262	5,415	24.3	14,625	65.7

Source: Forest Industries, May 1978-86.

U.S. importers

Importers of softwood lumber from Canada include domestic producers and traders, as well as wholesale and retail lumber distributors. Most importers are distributors, and some are manufacturers and/or remanufacturers with kiln operations. Because of this, some importers have their operations on the border and utilize rough, green lumber only.

Some U.S. firms, such as mobile-home-building and cash-and-carry outlets, while not necessarily importers, are supplied by distributors that purchase their imported stock from large shipments that generally go through reload centers for disbursement.

Apparent U.S. consumption

In 1985, U.S. consumption of softwood lumber was a record 45.9 billion board feet, 9 percent above the consumption of 42.0 billion board feet in 1983 (table 2). During January-March 1986, apparent U.S. consumption rose by 10 percent, reaching 11.5 billion board feet as compared with the 10.5 billion board feet consumed in January-March 1985. During 1977-85, consumption averaged 40.4 billion board feet per year, with a high of 45.9 billion board feet in 1985 and a low of 33.0 billion board feet in 1982.

Consumption of softwood lumber is highly correlated with U.S. housing starts. For example, the correlation coefficient for softwood lumber consumption and housing starts equaled 0.91 during the 1977-85 period. Softwood lumber consumption and housing starts are shown below:

Period	Lumber consumption (billion board feet)	Housing starts (million units)
1977.....	42.4	2.0
1978.....	44.3	2.0
1979.....	42.6	1.8
1980.....	35.4	1.3
1981.....	33.6	1.1
1982.....	33.0	1.1
1983.....	42.0	1.7
1984.....	44.9	1.8
1985.....	45.9	1.7
Jan-Mar:		
1985....	10.5	0.3
1986....	11.5	0.4

Table 2.--Softwood lumber: U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, 1977-85 and January-March 1985 and 1986

Period	Production	Exports	Imports from Canada	Imports	Apparent consumption	Ratio (percent) of-- Imports to consumption	Canadian imports to consumption	Exports to production
	Quantity (mmbf)							
1977.....	33,459	1,426	10,320	10,369	42,402	24.4	24.3	4.3
1978.....	33,839	1,369	11,765	11,841	44,311	26.7	26.6	4.0
1979.....	33,223	1,745	11,070	11,122	42,600	26.1	26.0	5.3
1980.....	27,855	1,987	9,515	9,542	35,410	26.9	26.9	7.1
1981.....	26,318	1,912	9,184	9,207	33,613	27.4	27.3	7.3
1982.....	25,461	1,630	9,095	9,123	32,954	27.7	27.6	6.4
1983.....	31,829	1,844	11,950	11,980	41,965	28.5	28.5	5.8
1984.....	33,240	1,599	13,228	13,280	44,921	29.6	29.4	4.8
1985.....	32,781	1,515	14,516	14,616	45,882	31.9	31.6	4.6
Jan.-Mar.:								
1985.....	7,617	374	3,228	3,244	10,487	30.9	30.8	4.9
1986.....	8,449	471	3,462	3,500	11,478	30.5	30.2	5.6
	Value (million dollars)							
1977.....	7,662	444	1,800	1,817	9,037	20.1	19.9	5.8
1978.....	8,382	461	2,398	2,411	10,332	23.3	23.2	5.5
1979.....	9,235	785	2,526	2,545	10,995	23.1	23.0	8.5
1980.....	8,084	785	1,810	1,821	9,120	20.0	19.8	9.7
1981.....	7,470	658	1,748	1,759	8,571	20.5	20.4	8.8
1982.....	6,109	580	1,613	1,621	7,150	22.7	22.6	9.5
1983.....	7,267	604	2,557	2,567	9,230	27.8	27.7	8.3
1984.....	7,647	534	2,661	2,676	9,789	27.3	27.2	7.0
1985.....	7,351	496	2,873	2,894	9,749	29.7	29.5	6.7
Jan.-Mar.:								
1985.....	1,690	124	619	622	2,188	28.4	28.3	7.3
1986.....	1,987	150	678	685	2,522	27.2	26.9	7.5
	Unit value (per mbf)							
1977.....	$229.01	$311.20	$174.43	$175.23	$213.10	82.2	81.8	135.9
1978.....	247.71	336.71	203.86	203.86	233.17	87.4	87.4	135.9
1979.....	277.97	449.83	228.15	228.83	258.10	88.4	88.4	161.8
1980.....	290.20	394.80	190.17	190.85	257.55	74.1	73.8	136.0
1981.....	283.83	344.32	190.35	191.06	254.99	74.9	74.6	121.3
1982.....	239.95	356.00	177.36	177.72	216.97	81.9	81.7	148.4
1983.....	228.31	327.87	214.01	214.25	219.95	97.4	97.3	143.6
1984.....	230.04	333.79	201.19	201.49	217.92	92.5	92.3	145.1
1985.....	224.26	327.48	197.94	198.00	212.48	93.2	93.2	146.0
Jan.-Mar.:								
1985.....	221.87	329.90	191.76	191.75	208.64	91.9	91.9	148.7
1986.....	235.18	318.93	195.97	195.80	219.72	89.1	89.1	135.6

Source: Compiled from official statistics of the U.S. Department of Commerce, the Western Wood Products Association, and the National Forest Products Association.

As indicated in table 3, private U.S. housing starts have shown both regional and unit type variation since 1983. During 1983-85, the South was the leading area for housing construction, with single family units being the predominant type of structure built. However, actual housing starts in the South fell steadily from 935,000 units in 1983 to 782,000 units in 1985. At the same time, housing starts increased in both the North and West. During this period, the share of total U.S. housing starts occurring in the South fell from 55 percent in 1983 to 45 percent in 1985. Housing starts in the North and the West rose from 23 percent and 22 percent, respectively, of the total in 1983 to 28 and 27 percent, respectively, in 1985.

Lumber consumption in housing is not only influenced by the number of units constructed but also by the size and type of the units constructed. As shown in the following tabulation of U.S. Department of Commerce data, single-units are roughly twice as large as multi-units (in square feet):

Year	Single unit	Multi-unit 1/
1977.....	1,720	862
1978.....	1,750	893
1979.....	1,760	956
1980.....	1,700	972
1981.....	1,710	977
1982.....	1,680	939
1983.....	1,740	913
1984.....	1,790	925
1985.....	1,785	866

1/ Includes data for units of 5 or more. Design information for structures with 2 to 4 units is not available.

The share of total housing starts accounted for by single-unit houses declined steadily from 1977 to 1982 and has remained relatively constant since then, as shown in the following tabulation (in percent):

Period	Single unit	Multi-unit
1977.....	73	27
1978.....	71	29
1979.....	68	32
1980.....	66	34
1981.....	65	35
1982.....	62	38
1983.....	63	37
1984.....	62	38
1985.....	62	38
Jan.-Mar:		
1985.....	62	38
1986.....	63	37

Table 3.—Housing starts: U.S. housing starts—private and total 1/—by types of structure and by regions, 1983-85 and January-March 1985 and 1986

Period and region	Privately owned										Total of all U.S. housing starts
	Single unit			Multi-unit					Total, housing starts, privately owned	Share of total housing starts, privately owned	
					Five or more units						
	Townhouse 2/	Detached	Total	2 to 4 units 3/	Townhouse apartment	Conventional apartment	Total	Total			
	Thousands of units									Percent	1,000 units
1983:											
North	43	233	276	26	7	76	83	109	386	22.7	N/A
South	90	467	557	61	26	291	317	378	935	54.9	N/A
West	38	196	234	27	12	110	121	148	382	22.4	N/A
Total	171	896	1,068	113	44	478	522	635	1,703	100.0	1,712
1984:											
North	71	255	325	27	11	84	95	122	447	25.5	N/A
South	103	426	528	63	17	257	274	337	866	49.5	N/A
West	36	194	230	31	12	163	175	206	436	24.9	N/A
Total	210	875	1,084	121	40	504	544	665	1,750	100.0	1,756
1985:											
North	64	265	329	30	18	117	132	162	492	28.2	N/A
South	74	430	504	38	22	218	240	278	782	44.9	N/A
West	28	211	239	25	15	189	203	229	468	26.9	N/A
Total	167	905	1,072	93	53	523	576	669	1,742	100.0	1,745
Jan.-Mar:											
1985:											
North	4/	4/	44	5	4/	4/	16	21	65	18.8	N/A
South	4/	4/	118	10	4/	4/	53	63	181	52.3	N/A
West	4/	4/	53	5	4/	4/	42	47	100	28.9	N/A
Total	4/	4/	215	21	4/	4/	110	131	346	100.0	346
1986:											
North	4/	4/	58	7	4/	4/	23	30	88	23.7	N/A
South	4/	4/	123	8	4/	4/	51	59	182	48.9	N/A
West	4/	4/	53	6	4/	4/	43	49	102	27.4	N/A
Total	4/	4/	234	19	4/	4/	119	138	372	100.0	373

1/ Includes publicly owned structures.
2/ Includes units in semidetached (semiattached) structures.
3/ Design information for structures with 2 to 4 units is not available.
4/ Data is available only on an annual basis.

Source: U.S. Department of Commerce (Series G-20).

Note: Because of rounding, figures may not add to the totals shown.

Largely as a result of the aforementioned regional variations in housing starts, U.S. lumber consumption also varies by region (table 4). The effect of the changes in housing starts with respect to consumption in the various areas is shown in the following tabulation, derived from table 4 (in percent):

Period	Share of U.S. softwood lumber consumption in the-- North	South	West	Total
1983.....	24	43	32	100
1984.....	24	41	35	100
1985.....	24	42	34	100
Jan.-Mar:				
1985.....	23	41	35	100
1986.....	26	40	34	100

On a regional basis, there are wide variations in the ratio of imports to consumption (table 4). The North has the highest share of consumption accounted for by imports and also obtains a large share of its softwood lumber from the other two U.S. regions. However, during 1983-85 the ratio of imports to consumption in the North fell from 42 percent to 39 percent. Imports as a share of softwood lumber consumption in the South rose steadily from 29 percent in 1981 to 35 percent in 1985. Throughout 1983-85 the South was the leading market for imports of softwood lumber, receiving 45 percent (6.6 billion board feet) of all imports in 1985. Additionally, the South received 11.5 percent (2.2 billion board feet) of its needs from other regions of the United States in 1985.

The West had the smallest share of softwood lumber consumption accounted for by imports. However, during 1983-85 the ratio of imports to consumption in the West rose from 16 percent to 23 percent.

Table 4.--Softwood lumber: U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, by regions, 1983-85 and January-March 1985 and 1986

Period and Region	Production	Exports to foreign markets	Shipments to other U.S. regions 1/	Imports from foreign sources 2/	Shipments from other U.S. regions	Apparent consumption	Ratio of imports to consumption	Ratio of exports to production
	mmbf						Percent	
1983:								
North	1,285	192	0	4,344	4,840	10,277	42.3	14.9
South	12,240	245	1,874	5,403	2,649	18,173	29.7	2.0
West	18,304	1,407	5,615	2,233	0	13,515	16.5	7.7
Total	31,829	1,844	7,489	11,980	7,489	41,965	28.5	5.8
1984:								
North	1,379	178	0	4,156	5,623	10,980	37.8	12.9
South	12,570	197	2,518	6,167	2,445	18,467	33.4	1.6
West	19,291	1,224	5,550	2,957	0	15,474	19.1	6.3
Total	33,240	1,599	8,068	13,280	8,068	44,921	29.6	4.8
1985:								
North	1,352	147	0	4,350	5,518	11,073	39.3	10.9
South	12,742	208	2,283	6,593	2,199	19,043	34.6	1.6
West	18,687	1,161	5,434	3,673	0	15,765	23.3	6.2
Total	32,781	1,515	7,717	14,616	7,717	45,882	31.9	4.6
Jan.-Mar:								
1985:								
North	312	33	0	1,013	1,203	2,495	40.6	10.6
South	2,970	48	532	1,432	492	4,314	33.2	1.6
West	4,335	293	1,163	799	0	3,678	21.7	6.8
Total	7,617	374	1,695	3,244	1,695	10,487	30.9	4.9
1986:								
North	356	41	0	1,047	1,600	2,962	35.4	11.5
South	3,226	63	682	1,551	618	4,650	33.6	2.0
West	4,867	367	1,536	902	0	3,866	23.3	7.5
Total	8,449	471	2,218	3,500	2,218	11,478	30.5	5.6

1/ Based upon the premise that northern U.S. production was not exported to other regions of the United States.

2/ Imports shown are by final market, based upon data supplied by the Council of Forest Industries of British Columbia (COFI), and are not by customs district of importation.

Note: Because of rounding, figures may not add to the totals shown.

Source: Compiled from data supplied by the Western Wood Products Association, Southern Forest Products Association, and COFI.

Consideration of Material Injury

U. S. production, capacity, and capacity utilization

U.S. production of softwood lumber rose from 31.8 billion board feet, valued at $7.3 billion, in 1983 to 33.2 billion board feet, valued at $7.6 billion, in 1984, representing an increase of 4.4 percent in quantity and 5.2 percent in value (table 2). Production in 1985 declined by 1.4 percent to 32.8 billion board feet and dropped in value to $7.4 billion, a decline of 3.9 percent. For the period January-March 1986, production (quantity) increased by 10.9 percent over that in the comparable period of 1985.

The West produced 18.7 billion board feet, or 57 percent of U.S. softwood lumber production, in 1985 (table 5). The South produced 12.7 billion board feet, or 39 percent of U.S. production; and the North produced the smallest share, about 1.4 billion board feet, or 4 percent of U.S. production.

The share of production accounted for by each region is shown in the following tabulation (in percent):

Region	1983	1984	1985	January-March-- 1985	January-March-- 1986
West	58	58	57	57	58
South	38	38	39	39	38
North	4	4	4	4	4
Total	100	100	100	100	100

The leading species, or species groups, of softwood lumber produced in the United States are, in order of quantity produced, SYP, Douglas fir, ponderosa pine, and hem-fir (table 6). In 1985, the shares of domestic output accounted for by these species were 39 percent, 21 percent, 12 percent, and 10 percent, respectively. The remaining 18 percent was accounted for by SPF (Eastern and Western), redwood, cedars, other pines, and various other species (principally from the East and West).

Table 5.--Softwood lumber: U.S. production, by geographic regions and by specified States, 1983-85 and January-March 1985 and 1986

Period	West					South			
	Washington	Oregon	All other	Total	Share of total United States	Mississippi	Louisiana	Georgia	Arkansas
	mmbf				Percent	mmbf			
1983.....	3,821	6,579	7,904	18,304	57.5	1,272	1,497	2,056	1,456
1984.....	3,987	6,866	8,438	19,291	58.0	1,306	1,128	2,287	1,508
1985.....	3,480	6,800	8,407	18,687	57.0	1,332	1,190	2,382	1,553
Jan-Mar—									
1985.....	N/A	N/A	N/A	4,335	56.9	N/A	N/A	N/A	N/A
1986.....	N/A	N/A	N/A	4,867	57.6	N/A	N/A	N/A	N/A

Period	South—continued			North				
	All other	Total	Share of total United States	Maine	All other	Total	Share of total United States	Total United States
	mmbf		Percent	mmbf			Percent	mmbf
1983.....	5,959	12,240	38.5	823	462	1,285	4.0	31,829
1984.....	6,341	12,570	37.8	873	506	1,379	4.2	33,240
1985.....	6,285	12,742	38.9	925	427	1,352	4.1	32,781
Jan-Mar—								
1985.....	N/A	2,970	39.0	N/A	N/A	312	4.1	7,617
1986.....	N/A	3,226	38.2	N/A	N/A	356	4.2	8,449

Source: U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports, the Western Wood Products Association, and data supplied by the National Forest Products Association.

Table 6.--Softwood lumber: U.S. production, by species and species groups, 1983-85 and January-March 1985 and 1986

(In mmbf)

Species	1983	1984	1985	Jan-Mar-- 1985	1986
SYP	12,240	12,570	12,742	2,970	3,226
Douglas-fir 1/	6,939	7,443	7,011	1,659	1,868
Ponderosa pine	3,558	3,717	3,797	823	953
Hem-fir 2/	3,149	3,277	3,162	730	933
SPF (western) 3/	861	1,064	1,027	213	243
Redwood	924	974	944	219	246
Western cedar 4/	890	866	894	217	242
Western pines 5/	445	451	437	91	103
Eastern softwoods 6/	1,285	1,379	1,352	344	393
Other softwoods	1,538	1,499	1,415	351	242
Total	31,829	33,240	32,781	7,617	8,449

1/ Includes a small amount of inland larch.
2/ A species combination used by grading agencies to designate any of various species having common characteristics. Included in this group are: California red fir; grand fir; noble fir; Pacific silver fir; Shasta fir; white fir; and western hemlock.
3/ Includes white spruce, Engelman spruce, lodgepole pine, and alpine fir.
4/ Includes western red cedar and incense cedar.
5/ Includes western white (Idaho) pine and sugar pine.
6/ Includes those softwood species, native to the forests east of the Mississippi River and not included in the southern pine species group.

Source: Compiled from official statistics of the U.S. Department of Commerce, the Western Wood Products Association, and the National Forest Products Association.

In the lumber industry, the practical capacity of a mill is measured by the greatest level of operations that the mill can achieve within a realistic work pattern. For most mills, capacity is based on one or two 8-hour shifts, 5 days per week, 252 days per year. It is acknowledged that many variations exist, however, including 9-hour shifts, three 8-hour shifts, 6 or 7 days per week, and 252 to 263 days per year.

The National Forest Products Association (NFPA) figures capacity utilization for each year by taking the best month's production in the previous 5 years (e.g., the best January, February, etc., in the past 5 years), then adding them up to determine practical annual capacity. Table 7 shows production, capacity, and capacity utilization for 1983-85 and January-March 1985 and 1986, based on NFPA's methodology.

The capacity of U.S. producers to produce softwood lumber increased slightly from 1983 to 1985 from 38.2 billion board feet to 38.4 billion board feet, or by 0.4 percent. The capacity figure for January-March 1986 was 0.8 percent higher than that of January-March 1985. Utilization of productive capacity in the production of softwood lumber increased from 83.3 percent in 1983 to 86.8 percent in 1984 and then decreased to 85.5 percent in 1985. January-March 1986 capacity utilization figures stood at 87.4 percent compared with 79.4 percent for the same period in 1985.

Table 7.--Softwood lumber: U.S. production, capacity, and capacity utilization, 1983-85 and January-March 1985 and 1986

Item	1983	1984	1985	January-March-- 1985	1986
Production.....mmbf..	31,829	33,240	32,781	7,617	8,449
Capacity.....do....	38,210	38,310	38,350	9,588	9,670
Capacity utilization percent..	83.3	86.8	85.5	79.4	87.4

Source: Compiled from official statistics of the U.S. Department of Commerce and the National Forest Products Association.

The 46 companies that provided trade data in response to the Commission's questionnaires accounted for 48 percent of U.S. softwood lumber production in 1985. Their production, capacity, and capacity utilization for the period of the investigation are shown in the following tabulation:

Period	Production (mmbf)	Capacity (mmbf)	Capacity utilization (percent)
1983.....	13,664	15,866	86.1
1984.....	14,638	17,223	85.0
1985.....	14,745	17,130	86.1
Jan.-Mar:			
1985.....	3,494	4,119	84.8
1986.....	3,722	4,127	90.2

U.S. producers shipments, exports, and inventories

In general, shipments of softwood lumber vary only slightly from production, and follow essentially the same trends. Complete data on industry-wide shipments are not available, although the Western Wood Products Association and Southern Forest Products Association publish data on shipments originating in the West and South, the destination of those shipments, and the methods of transportation. Those data are presented in tables 8 and 9.

Shipments by producers in the West increased by 9 percent from 1983 to 1984, then dropped by 4 percent from 1984 to 1985. First quarter 1986 shipments were up by more than 16 percent over first quarter 1985 shipments.

Shipments by producers in the South rose by 2.7 percent from 1983 to 1984 and increased by 1.4 percent from 1984 to 1985. January-March 1986 shipments by producers in the South were more than 8 percent ahead of shipments during January-March 1985.

Data regarding domestic and export shipments as well as inventories held by the companies responding to the Commission's questionnaires are contained in table 10. From 1983 to 1984, domestic shipments increased by 9.4 percent; they then increased by another 1.7 percent in 1985. January-March 1986 shipments were 11.5 percent greater than those in the comparable period of 1985. The unit value of producers' domestic shipments dropped by 6 percent from 1983 to 1985 from $248.74 to $233.80. Unit values for shipments during January-March 1986 decreased 1.8 percent from those in the comparable period of 1985.

Inventories held by companies responding to the Commission's questionnaires dropped from 10.8 percent of total shipments in 1983 to 10.2 percent in 1985. January-March 1986 inventories were down nearly 8 percent from those reported for January-March 1985.

Table 8.--Softwood lumber: Selected shipments from the Western United States 1/ to U.S. destinations, by areas and by methods of transportation, 1983-85 and January-March 1985 and 1986

Period and destination	Method of transportation				Share of western shipments
	Rail	Truck	Water	Total	
	mmbf				percent
1983					
North--					
Northeast	512.3	56.3	28.8	597.4	4
North Central	1,032.4	787.1	-	1,819.5	12
South	1,702.2	455.9	-	2,158.1	15
West	3,800.7	6,130.1	407.2	10,338.0	69
Total	7,047.6	7,429.4	436.0	14,913.0	100
1984					
North--					
Northeast	571.3	78.1	61.9	711.3	4
North Central	1,062.0	853.1	-	1,915.1	12
South	1,522.3	545.5	-	2,067.8	13
West	4,067.3	7,066.2	487.3	11,620.8	71
Total	7,222.9	8,542.9	549.2	16,315.0	100
1985					
North--					
Northeast	690.2	103.6	-	793.8	5
North Central	1,149.3	763.0	-	1,912.3	12
South	1,398.2	441.6	-	1,839.8	12
West	3,740.2	6,965.7	380.2	11,086.1	71
Total	6,977.9	8,273.9	380.2	15,632.0	100
Jan-Mar:					
1985					
North--					
Northeast	136.6	19.1	-	155.7	5
North Central	222.2	155.6	-	377.8	11
South	290.6	100.3	-	390.9	11
West	884.6	1,522.2	114.9	2,521.7	73
Total	1,534.0	1,797.2	114.9	3,446.1	100
1986					
North--					
Northeast	192.7	24.5	-	217.2	5
North Central	385.2	155.0	-	540.2	14
South	401.3	108.4	-	509.7	13
West	990.3	1,638.8	119.8	2,748.9	68
Total	1,969.5	1,926.7	119.8	4,016.0	100

1/ Shipments are from the coastal and inland regions only (California redwood region is excluded).

Source: Western Wood Products Association, Destination of shipments, 1977-86.

Note.--Because of rounding, figures may not add to the totals shown.

Table 9.--Softwood lumber: Selected shipments from the Southern United States to U.S. destinations, by areas and by methods of transportation, 1983-85 and January-March 1985 and 1986 1/

Period and destination	Method of transportation				Share of southern shipments
	Rail	Truck	Water	Total	
	mmbf				percent
1983:					
North:					
Northeast	194.6	466.4	-	661.0	5
North Central	369.7	843.2	-	1,212.9	10
South	1,302.3	9,063.8	-	10,366.1	85
West	0.0	0.0	-	0.0	0
Total	1,866.6	10,373.4	-	12,240.0	100
1984:					
North:					
Northeast	251.8	509.0	-	760.8	6
North Central	609.0	1,211.3	-	1,820.3	14
South	1,327.1	8,661.8	-	9,988.9	80
West	0.0	0.0	-	0.0	0
Total	2,187.9	10,382.1	-	12,570.0	100
1985: 2/					
North--					
Northeast	228.1	501.4	-	729.5	6
North Central	496.8	1,057.1	-	1,553.9	12
South	1,351.2	9,107.4	-	10,458.6	82
West	0.0	0.0	-	0.0	0
Total	2,076.1	10,665.9	-	12,742.0	100
Jan.-Mar: 2/					
1985:					
North:					
Northeast	53.2	116.9	-	170.1	6
North Central	115.8	246.4	-	362.2	12
South	314.9	2,122.8	-	2,437.7	82
West	0.0	0.0	-	0.0	0
Total	483.9	2,486.1	-	2,970.0	100
1986:					
North:					
Northeast	20.3	174.9	-	195.2	6
North Central	155.7	331.1	-	486.8	15
South	350.8	2,193.2	-	2,544.0	79
West	0.0	0.0	-	0.0	0
Total	526.8	2,699.2	-	3,226.0	100

1/ Off-shore exports are included in southern shipments.
2/ Estimated by the staff of the U.S. International Trade Commission from data supplied by the Southern Forest Products Association, the Western Wood Products Association, and the National Forest Products Association.

Source: Southern Forest Products Association, Destination of shipments, 1977-85, except as noted.

Note.--Because of rounding, figures may not add to the totals shown.

Table 10.--Softwood lumber: U.S. producers' domestic shipments, intracompany and intercompany transfers, exports, total shipments, and end-of-period inventories, 1983-85, January-March 1985, and January-March 1986 1/

Item	1983	1984	1985	January-March-- 1985	1986
Domestic shipments					
Quantity.....mmbf..	11,926	13,048	13,276	2,931	3,269
Value.million dollars..	2,967	3,118	3,104	691	757
Unit value....per mbf..	$248.74	$238.94	$233.80	$235.66	$231.46
Exports					
Quantity.....mmbf..	475	438	358	88	106
Value.million dollars..	141	143	122	33	41
Unit value....per mbf..	$297.72	$326.48	$341.85	$374.09	$388.95
Intracompany and intercompany transfers mmbf..	1,445	1,379	1,267	335	299
Total shipments....do....	13,846	14,865	14,900	3,354	3,673
Inventories.....do....	1,494	1,522	1,526	1,632	1,502
Ratio of inventories to total shipments percent..	10.8	10.2	10.2	1/ 12.2	1/ 10.2

1/ Calculated on the basis of annualized shipments.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

U.S. producers' employment, wages, and productivity

U.S. producers providing employment and wage information in response to the Commission's questionnaires accounted for 48 percent of 1985 production of softwood lumber. For those firms, the average number of production and related workers engaged in the manufacture of softwood lumber increased by 2.7 percent in 1984 to 26,480, but dropped by 6.5 percent to 24,755 in 1985 (table 11). The productivity of workers engaged in producing softwood lumber, as measured in output per hour worked by production and related workers, increased from 269 board feet per hour in 1983 to 294 board feet per hour in 1985, an increase of 9.3 percent. January-March 1986 productivity, at 318 board feet per hour, was 10 percent higher than that in the corresponding period of 1985. Unit labor costs in producing softwood lumber fluctuated between $44.05 per mbf and $47.07 per mbf during the 1983-85 period. Unit labor costs during January-March 1986 stood at $40.54 per mbf.

Table 11.--Average number of production and related workers in establishments producing softwood lumber, average number of hours worked by such workers, and wages, total compensation, and hourly compensation paid to such workers, 1983-85, January-March 1985, and January-March 1986

Item	1983	1984	1985	January-March-- 1985	1986
Production and related workers	25,784	26,480	24,755	23,133	22,061
Hours worked by production and related workers....1,000 hours	50,744	53,021	50,069	12,048	11,721
Wages paid to production and related workers 1,000 dollars	511,997	532,077	498,534	118,425	115,666
Total compensation paid to production and related workers 1,000 dollars	638,829	688,946	649,455	151,944	150,891
Hourly compensation paid to production and related workers	$12.58	$12.99	$12.97	$12.61	$12.87
Labor productivity for production and related workers bd. ft. per hour	269	276	294	289	318
Unit labor costs per mbf	$46.73	$47.07	$44.05	$43.49	$40.54

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Financial experience of the U.S. producers

Forty U.S. producers that accounted for 34.4 percent of softwood lumber production in 1985 supplied usable income-and-loss data on their overall wood products/building material operations and on their softwood lumber operations. These data are discussed separately below. Comments relating to softwood lumber operations from the 1985 annual reports of some of the major companies are presented in appendix C.

Operations on wood products/building materials.--Of the 40 producers, 20 companies generated all of their wood-product revenues from softwood lumber operations. Overall wood product/building material net sales rose 5.1 percent from $6.2 billion in 1983 to $6.5 billion in 1984 (table 12). In 1985, sales were $5.9 billion, a decline of 9.9 percent from 1984. Interim period sales declined 6.8 percent from $1.6 billion in 1985 to $1.5 billion in 1986. Operating income was $222.0 million, or 3.6 percent of sales, in 1983 and $148.4 million, or 2.5 percent of sales, in 1985. A loss of $59.0 million, or 0.9 percent of sales, was sustained in 1984. The interim 1985 period produced a loss of $15.3 million, or 1.0 percent of sales. However, a profit of $60.5 million, or 4.0 percent of sales, was achieved during the corresponding period of 1986.

Operations on softwood lumber.--Net sales of softwood lumber rose 4.2 percent from $3.1 billion in 1983 to $3.2 billion in 1984. In 1985, net sales were $3.0 billion, a decline of 4.5 percent from 1984. Interim period sales increased 6.0 percent from $791.1 million in 1985 to 838.9 million in 1986 (table 13).

Operating income was $98.6 million, or 3.2 percent of sales in 1983. Losses of $72.7 million (2.3 percent of sales) were sustained in 1984 and losses of $29.0 million (0.9 percent of sales) occurred in 1985. The interim period of 1985 produced a loss of $25.9 million, or 3.3 percent of sales. However, a profit of $13.9 million, or 1.7 percent of sales, was achieved during interim 1986. Cash flow from operations was $364.6 million for the 1983 to 1985 period. Seven companies sustained losses in 1983; 23 in 1984; and 20 in 1985. For the interim periods of 1985 and 1986, losses were sustained by 22 and 11 companies, respectively.

Capital expenditures and research and development expenses.--Thirty-six U.S. producers supplied information on their capital expenditures used in the production of softwood lumber products. Capital expenditures doubled from $64.5 million in 1983 to $128.7 million in 1984. Significant increases for that period were primarily due to the following companies: ***. In 1985, spending fell to $123.1 million. For the interim periods of 1985 and 1986, expenditures were $13.2 million and $12.4 million, respectively. Research and development expenses were $3.9 million in 1983, $4.0 million in 1984, $3.7 million in 1985, $569,000 in interim 1985, and $876,000 in the corresponding period of 1986. Most of these expenses were incurred by ***.

Table 12.--Income-and-loss experience of 40 U.S. producers on their operations producing wood products/building materials, 1983-85 and interim periods ending Mar. 31, 1985, and Mar. 31, 1986

Item	1983	1984	1985	Interim period ending March 31-- 1985	1986
Net sales 1,000 dollars..	6,206,485	6,525,925	5,876,961	1,603,784	1,495,511
Cost of goods sold 1,000 dollars..	5,619,206	6,206,519	5,391,711	1,527,914	1,361,356
Gross profit or (loss).1,000 dollars..	587,279	319,406	485,250	75,870	134,155
General, selling, and administrative expense 1,000 dollars..	365,296	378,371	336,882	91,180	73,623
Operating income or (loss).1,000 dollars..	221,983	(58,965)	148,368	(15,310)	60,532
Depreciation and amortization expense..1,000 dollars..	299,528	299,556	289,917	72,631	72,251
Cash flow from operations 1,000 dollars..	521,511	240,591	438,285	57,321	132,783
As a share of net sales:					
Cost of goods sold percent..	90.5	95.1	91.7	95.3	91.0
Gross profit or (loss).....percent..	9.5	4.9	8.3	4.7	9.0
General, selling, and administrative expense....percent..	5.9	5.8	5.7	5.7	4.9
Operating income or (loss).....percent..	3.6	(0.9)	2.5	(1.0)	4.0
Number of firms reporting operating losses.....	6	16	15	14	8
Number of firms reporting data.....	37	38	38	32	32

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 13.--Income-and-loss experience of 40 U.S. producers on their softwood lumber operations, 1983-85 and interim periods ending Mar. 31, 1985, and Mar. 31, 1986

Item	1983	1984	1985	Interim period ending March 31-- 1985	1986
Net sales 1,000 dollars..	3,060,815	3,188,689	3,046,402	791,050	838,867
Cost of goods sold 1,000 dollars..	2,825,139	3,110,882	2,924,645	775,423	783,209
Gross profit or (loss).1,000 dollars..	235,676	77,807	121,757	15,627	55,658
General, selling, and administrative expense 1,000 dollars..	137,061	150,506	150,729	41,513	41,779
Operating income or (loss).1,000 dollars..	98,615	(72,699)	(28,792)	(25,886)	13,879
Depreciation and amortization expense 1,000 dollars..	125,414	125,025	117,252	30,311	31,525
Cash flow from operations 1,000 dollars..	224,029	52,326	88,460	4,425	45,404
As a share of net sales:					
Cost of goods sold percent..	92.3	97.6	96.0	98.0	93.4
Gross profit or (loss).....percent..	7.7	2.4	4.0	2.0	6.6
General, selling, and administrative expense.....percent..	4.5	4.7	4.9	5.2	5.0
Operating income or (loss).....percent..	3.2	(2.3)	(0.9)	(3.3)	1.7
Number of firms reporting operating losses.....	7	23	20	22	11
Number of firms reporting data.....	39	40	40	33	33

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Capital expenditures and research and development expenses for softwood lumber production are shown in the following tabulation (in thousands of dollars):

Period	Capital expenditures	Research and development expenses
1983	64,520	3,898
1984	128,627	3,994
1985	123,082	3,669
Jan.-Mar:		
1985	13,184	569
1986	12,412	876

Investment in productive facilities.--Thirty-eight U.S. producers supplied data concerning their investment in productive facilities employed in the production of softwood lumber products. Their investment in such facilities, valued at cost, rose from $1.9 billion as of the end of 1983 to $2.0 billion as of the end of 1985. The interim 1986 figure was $1.9 billion. The book value of such assets was $933.6 million as of yearend 1985, as shown in the following tabulation (in thousands of dollars):

Period	Original cost	Book value
1983	1,881,040	938,735
1984	2,000,266	973,374
1985	2,044,713	933,602
Jan.-Mar:		
1985	1,886,670	887,318
1986	1,936,930	892,074

Consideration of the Threat of Material Injury

In its examination of the question of a reasonable indication of the threat of material injury to an industry in the United States, the Commission may take into consideration such factors as the rate of increase of the subsidized imports, the rate of increase of U.S. market penetration by such imports, and the capacity of the foreign producers to generate exports (including the availability of export markets other than the United States).

Trends in imports and U.S. market penetration are discussed in the section of this report that addresses the causal relationship between the alleged injury and subsidized imports. A discussion of the softwood lumber industry in Canada follows.

The industry in Canada

During 1979-82, Canadian production of softwood lumber trended downward, generally following reduced demand in export and domestic markets. However, during 1983-85, Canadian production and exports of softwood lumber increased to unprecedented levels. Production reached 22.3 billion board feet in 1985, nearly 50 percent more than production in 1982; and exports to the United States rose to 14.5 billion board feet, 60 percent more than exports in 1982 (table 14).

Canadian production, capacity, and capacity utilization.--Canadian production of softwood lumber is highly dependent upon U.S. construction activity. Canadian softwood lumber production rose from 17.2 billion board feet in 1977 to 18.5 billion board feet in 1979, as U.S. housing starts remained over 1.8 million units annually during that period. However, as the level of U.S. housing slumped, Canadian production fell to 15.5 billion board feet in 1982. During 1983-85, production rose to 20.1 billion board feet in 1983, 20.6 billion board feet in 1984, and 22.3 billion board feet in 1985. From January-March 1985 to January-March 1986, production rose by 6 percent, from 5.5 billion board feet to 5.8 billion board feet. During 1983-85, Canadian softwood lumber capacity remained essentially level, at slightly over 23.2 billion board feet. January-March 1986 capacity figures were 3.5 percent higher than those for January-March 1985. Canadian production, capacity, and capacity utilization figures are shown in the following tabulation:

Period	Production (mmbf)	Capacity (mmbf)	Capacity utilization (percent)
1983	20,149	23,212	86.8
1984	20,588	23,212	88.7
1985	22,262	23,512	94.7
Jan.-March:			
1985	5,456	5,878	92.8
1986	5,808	6,087	95.4

Table 14.--Softwood lumber: Canadian production, imports, exports, apparent consumption, ratio of exports to production, and ratio of imports to consumption, 1977-85 and January-March 1985 and 1986

Period	Total production	Imports	Exports to U.S.	Total exports	Apparent consumption	Ratio of-- Exports to-- Production in Canada	Exports to-- U.S. vs production	Imports to consumption
	Quantity (mmbf)							
1977.....	17,225	324	10,335	12,212	5,337	70.9	60.0	6.1
1978.....	18,412	265	11,401	13,314	5,363	72.3	61.9	4.9
1979.....	18,494	333	10,782	13,258	5,569	71.7	58.3	6.0
1980.....	18,296	284	9,281	12,261	6,319	67.0	50.7	4.5
1981.....	16,492	342	9,033	11,555	5,279	70.1	54.8	6.5
1982.....	15,548	215	9,035	11,686	4,077	75.2	58.1	5.3
1983.....	20,149	327	11,906	14,379	6,097	71.4	59.1	5.4
1984.....	20,588	266	13,202	15,719	5,135	76.4	64.1	5.2
1985.....	22,262	281	14,470	16,511	6,030	74.2	65.0	4.7
Jan-Mar--								
1985....	5,456	63	3,154	3,706	1,813	67.9	57.8	3.5
1986....	5,808	78	3,537	4,107	1,778	70.7	60.9	4.4
	Value (million dollars)							
1977.....	2,888	91	1,757	2,199	780	76.1	60.8	11.7
1978.....	3,496	82	2,292	2,787	791	79.7	65.6	10.4
1979.....	4,036	109	2,385	2,785	1,360	69.0	59.1	8.0
1980.....	3,639	92	1,708	2,789	942	76.6	46.9	9.8
1981.....	2,974	108	1,635	2,430	652	81.7	55.0	16.6
1982.....	2,610	58	1,533	2,297	371	88.0	58.7	15.6
1983.....	3,940	99	2,424	3,165	874	80.3	61.5	11.3
1984.....	3,762	84	2,526	3,227	619	85.8	67.2	13.6
1985.....	4,002	82	2,740	3,313	771	82.8	68.5	10.6
Jan-Mar--								
1985....	950	19	593	742	227	78.1	62.4	8.4
1986....	1,033	23	682	853	203	82.6	66.0	11.3
	Unit value (per mbf)							
1977.....	$167.66	$280.82	$170.02	$180.07	$146.15	107.4	101.4	192.5
1978.....	189.88	310.28	201.06	209.33	147.49	109.5	105.9	210.4
1979.....	218.23	326.57	221.23	210.03	244.21	96.2	101.3	133.7
1980.....	198.90	324.72	184.05	227.50	149.07	114.4	92.5	217.8
1981.....	180.33	316.36	180.99	210.29	123.54	116.6	100.4	256.1
1982.....	167.87	271.27	169.72	196.53	91.00	117.1	101.1	298.1
1983.....	195.54	303.80	203.59	220.10	143.35	112.6	106.1	211.9
1984.....	182.71	314.96	191.32	205.26	120.55	112.3	104.7	261.3
1985.....	179.76	291.81	189.36	200.65	127.86	111.6	105.3	228.2
Jan-Mar--								
1985....	174.14	301.59	188.02	200.22	125.21	115.0	108.0	240.9
1986....	177.82	294.87	192.82	207.69	114.17	116.8	108.4	258.3

Source: Statistics Canada.

British Columbia is the leading region of softwood lumber production in Canada. It accounted for 63 percent of production in 1985, down from 65 percent in 1983. In the remaining regions, production rose slightly during 1983-85. Softwood lumber production in British Columbia rose from 13.0 billion board feet in 1983 to 14.0 billion board feet in 1985 (table 15), primarily as a result of a 12-percent increase in production in the interior of that Province. Quebec and Ontario accounted for 27 percent of production in 1985. Such production rose from 5.2 billion board feet in 1983 to 6.0 billion board feet in 1985. The remaining seven Provinces and the two Territories also had increased production. Production in these regions rose from 1.9 billion board feet in 1983 to 2.2 billion board feet (10 percent of Canadian production) in 1985. During January-March 1986, softwood lumber production in British Columbia rose 10 percent from that in the comparable period of 1985. Overall, British Columbia's share of total Canadian production increased from 64 percent to 66 percent from January-March 1985 to the comparable period in 1986. Production in Quebec and Ontario remained flat, and production in the remaining seven Provinces fell from 10 percent of total Canadian softwood lumber production during January-March 1985 to 7 percent in the comparable period of 1986.

In 1985, roughly three-fourths of Canadian softwood lumber production was SPF, with Hemlock, Douglas fir, and red cedar composing nearly all of the remainder, as shown in table 16; this was true as well in both January-March 1985 and 1986.

Canadian exports. 1/--Canadian exports of softwood lumber amounted to 16.5 billion board feet in 1985, representing an increase of 15 percent compared with the 14.4 billion board feet exported in 1983 (table 14). During 1983-85, the average level of exports was 15.5 billion board feet. Exports as a share of Canadian production reached 76 percent in 1984, up from 71 percent in 1983, before slipping to 74 percent in 1985. During 1983-85, annual exports averaged 74 percent of Canadian production. In the January-March periods of 1985 and 1986, exports as a share of Canadian production were down to 68 and 71 percent, respectively. Exports during January-March have historically been low because construction activity is low during that period of the calendar year.

During 1983-85, Canadian exports to the United States ranged from 11.9 billion board feet in 1983 to 14.5 billion board feet in 1985, as shown in the following tabulation:

Period	Canadian exports-- to the United States (billion board feet)	As a share of U.S. consumption (percent)
1983	11.9	28.4
1984	13.2	29.4
1985	14.5	31.5
Jan.-Mar:		
1985	3.2	30.1
1986	3.5	30.8

Most of the increase during 1983-85 in Canadian softwood lumber exports to the United States occurred in the SPF group.

1/ Official Canadian export and import statistics may vary somewhat from comparable U.S. statistics because of differences in shipment recordings, timing classification etc

Table 15.--Softwood lumber: Canadian production, by Province, 1983-85 and January-March 1985 and 1986

Period	British Columbia Coast	British Columbia Interior	British Columbia Total	Quebec	Ontario	Maritime Provinces	Prairie Provinces	Territories	Total
	mmbf								
1983.....	4,139	8,902	13,041	3,534	1,673	619	1,272	10	20,149
1984.....	3,903	9,174	13,077	3,553	1,841	693	1,414	10	20,588
1985.....	3,995	10,007	14,002	3,990	2,058	751	1,451	10	22,262
Jan-Mar—									
1985.....	971	2,517	3,488	922	523	140	382	1	5,456
1986.....	1,111	2,716	3,827	1,049	507	180	244	1	5,808
	Share (percent) of total production								
1983.....	20.6	44.2	64.7	17.5	8.3	3.1	6.3	1/	100
1984.....	19.0	44.6	63.5	17.3	9.0	3.4	6.9	1/	100
1985.....	18.0	45.0	62.9	17.9	9.2	3.4	6.5	1/	100
Jan-Mar—									
1985.....	17.8	46.1	63.9	16.9	9.6	2.6	7.0	1/	100
1986.....	19.1	46.8	65.9	18.1	8.7	3.1	4.2	1/	100

1/ Less than 0.05 percent.

Source: Statistics Canada.

Table 16.--Softwood lumber: Canadian production, by species, 1983-85 and January-March 1985 and 1986

(In mmbf)

Species	1983	1984	1985	Jan-Mar-- 1985	Jan-Mar-- 1986
SPF 1/	14,787	15,098	16,225	3,976	4,233
Hem-fir 2/	2,578	2,448	2,503	613	653
Douglas-fir	1,094	1,162	1,361	334	356
Red cedar	1,220	1,204	1,241	304	324
Other	470	675	932	229	242
Total	20,149	20,588	22,262	5,456	5,808

1/ Includes white spruce, Engelman spruce, lodgepole pine, and alpine fir.
2/ A species combination used by grading agencies to designate any of various species having common characteristics. Included in this group are: California red fir; grand fir; noble fir; Pacific silver fir; Shasta fir; balsam fir; white fir; and western hemlock.

Source: Statistics Canada.

Canada's exports to the United States are mostly marketed in areas of increased housing activity, primarily east of the Rocky Mountains, but increasingly in California.

Of Canada's total 1985 exports of softwood lumber to the United States, 57 percent were supplied by British Columbia, down from 61 percent in 1983. These exports accounted for 59 percent of British Columbian production in 1985, compared with 55 percent in 1983. The following tabulation, developed from data from the British Columbia Ministry of Forests, shows British Columbia exports to the United States, the share of British Columbia production accounted for by these exports, and the share of U.S. consumption accounted for by these exports during 1983-85 and January-March 1985 and 1986:

Period	Exports to the United States (billion board feet)	Share of British Columbia production (percent)	Share of U.S. consumption (percent)
1983	7.2	55	17
1984	7.6	58	17
1985	8.3	59	18
Jan-Mar:			
1985	1.8	52	17
1986	2.0	53	18

Both the quantity of British Columbia exports and the share of British Columbia production of softwood lumber exported to the United States increased from 1983 to 1985. However, British Columbia exports remained approximately the same in terms of their share of U.S. consumption during that period. In the first quarters of 1985 and 1986, the share of British Columbia's production going to the United States dropped in comparison with previous full year totals, reflecting decreased construction activity in the United States in the winter months.

Canadian imports.--Since 1977, Canadian imports of softwood lumber have ranged from a low of 215 mmbf in 1982 to a high of 342 mmbf in 1981 (table 14). Canadian imports in 1985 totalled 281 mmbf and accounted for 5 percent of Canadian apparent consumption (table 14). The imported lumber which comes primarily from the United States, is generally consumed in close proximity to the U.S./Canadian border, and often consists of higher grades of lumber than are commonly produced in Canada. This is because the United States has a greater proportion of, and larger supply of, higher grade Douglas fir and ponderosa pine logs than does Canada.

Canadian consumption.--Apparent Canadian consumption of softwood lumber, was 6.0 billion board feet in 1985, slightly down from the 1983 consumption of 6.1 billion board feet; consumption during both January-March 1985 and January-March 1986 stood at 1.8 billion board feet (table 14). Canadian softwood lumber consumption and Canadian housing starts are shown in the following tabulation:

Period	Softwood lumber consumption (billion board feet)	Housing starts (1,000 units)
1983.....	6.1	163
1984.....	5.1	135
1985.....	6.0	166
Jan-Mar:		
1985.....	1.8	N/A
1986.....	1.8	N/A

The following tabulation shows the estimated share of softwood lumber consumed in Canada, by end use, in 1985 (in percent):

End use	Percentage distribution of Canadian consumption
Construction:	
New residential (new housing).....	23
Repair and remodeling.....	25
New nonresidential construction...	27
Materials handling.....	17
All other.....	8
Total.....	100

Consideration of the Causal Relationship Between the Allegedly Subsidized Imports and the Alleged Injury

U.S. imports and market penetration

As shown in tables 17 and 18, virtually all U.S. imports of softwood lumber come from Canada. From 1983 to 1985, imports from Canada increased 21.5 percent from nearly 12 billion board feet to just over 14.5 billion board feet. Interim 1986 imports from Canada were up 7.3 percent from those in interim 1985. In 1983, imports from Canada accounted for 28.5 percent of apparent U.S. consumption. This share increased to 29.4 percent in 1984 and 31.6 percent in 1985. For January-March 1985 and 1986, imports from Canada accounted for 30.8 and 30.2 percent of apparent consumption, respectively.

U.S. imports of softwood lumber by customs districts are shown in table 19. Most imports from Canada enter the United States across the northern border by truck or rail. In the case of rail shipments, many go to reload centers (e.g., Baltimore, Cincinnati, and Kansas City) where they are transferred to truck or other rail transport for delivery to their final destinations throughout the United States.

Table 17.--Softwood lumber: U.S. imports from Canada and from all other countries, and ratio of imports to consumption, 1983-85 and January-March 1985 and 1986 1/

Source	1983	1984	1985	January-March-- 1985	1986
	Quantity (million board feet)				
Canada	11,950	13,228	14,516	3,228	3,462
All others	30	52	100	16	38
Total	11,980	13,280	14,616	3,244	3,500
	Ratio of imports to consumption (percent)				
Canada	28.5	29.4	31.6	30.8	30.2
All others	0.1	0.1	0.2	0.2	0.3
Total	28.5	29.6	31.9	30.9	30.5

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce, the Western Wood Products Association, and the National Forest Products Association.

Table 18.--Softwood lumber: U.S. imports for consumption, by principal sources, 1983-85 and January-March 1985 and 1986

Source	1983	1984	1985	January-March-- 1985	1986
	Quantity (mbf)				
Canada	11,950,327	13,228,083	14,516,278	3,227,546	3,462,166
Chile	2,195	11,246	40,932	3,132	12,366
Mexico	11,917	11,750	11,821	1,921	3,379
Brazil	1,790	4,567	4,756	484	1,961
Honduras	7,772	4,582	3,429	1,239	696
New Zealand	2,513	1,535	3,412	2,185	228
Ghana	1,313	3,091	5,541	4,808	-
United Kingdom	53	2,397	1,078	-	198
Indonesia	314	1,631	976	-	49
Finland	-	3,029	1	1	-
All other	2,275	8,285	28,205	3,013	19,446
Total	11,980,469	13,280,196	14,616,429	3,244,329	3,500,489
	Value (1,000 dollars)				
Canada	2,557,485	2,661,408	2,873,355	618,900	678,467
Chile	312	2,042	6,089	667	1,953
Mexico	3,059	2,733	3,021	562	1,194
Brazil	1,369	1,809	1,264	348	991
Honduras	2,575	1,445	1,067	461	193
New Zealand	445	405	1,009	252	160
Ghana	234	842	460	121	0
United Kingdom	26	659	216	0	23
Indonesia	191	906	150	0	22
Finland	0	545	2	2	0
All other	1,110	3,030	7,387	776	2,403
Total	2,566,804	2,675,826	2,894,019	622,087	685,407
	Unit value (per mbf)				
Canada	$214.01	$201.19	$197.94	$191.76	$195.97
Chile	141.94	181.61	148.76	212.88	157.90
Mexico	256.65	232.62	255.53	292.34	353.47
Brazil	764.54	396.21	265.82	718.06	505.49
Honduras	331.34	315.38	311.05	371.67	277.14
New Zealand	176.99	263.94	295.71	115.36	703.62
Ghana	178.18	272.46	83.10	25.24	-
United Kingdom	488.81	274.93	200.50	-	118.46
Indonesia	608.94	555.72	153.18	-	457.18
Finland	-	179.99	2,028.00	2,028.00	-
All other	487.98	365.74	261.89	257.44	123.56
Average	214.25	201.49	198.00	191.75	195.80

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 19.--Softwood lumber: U.S. imports for consumption, by principal customs districts, 1983-85 and January-March 1985 and 1986

Customs district	1983	1984	1985	January-March-- 1985	1986
	Quantity (mmbf)				
Duluth, MN.....	3,923	3,963	3,513	823	843
Seattle, WA.....	1,481	1,717	2,025	450	503
Detroit, MI.....	1,524	1,808	1,938	394	417
Buffalo, NY.....	772	992	1,313	265	336
Pembina, ND.....	1,080	1,121	1,298	310	307
St. Albans, VT.....	927	992	1,166	242	281
Ogdensburg, NY.....	607	714	726	135	169
Portland, ME.....	249	333	429	93	95
Great Falls, MT.....	317	397	456	92	128
New York, NY.....	216	251	273	66	72
All other.....	884	992	1,479	374	349
Total.....	11,980	13,280	14,616	3,244	3,500
	Value (1,000 dollars)				
Duluth, MN.....	747,781	668,557	540,147	127,580	126,782
Seattle, WA.....	395,114	438,066	471,092	105,003	117,385
Detroit, MI.....	316,204	367,625	394,863	77,360	84,001
Buffalo, NY.....	171,785	222,534	293,142	55,396	74,607
Pembina, ND.....	241,665	237,098	261,238	63,420	62,120
St. Albans, VT.....	192,625	201,437	240,681	48,075	59,156
Ogdensburg, NY.....	126,382	151,337	151,375	27,155	35,021
Portland, ME.....	50,496	65,373	83,173	17,796	18,533
Great Falls, MT.....	61,630	74,135	81,421	15,895	22,857
New York, NY.....	42,221	48,191	65,553	13,160	16,411
All other.....	220,901	201,473	311,334	71,247	68,534
Total.....	2,566,804	2,675,826	2,894,019	622,087	685,407
	Unit value (per mbf)				
Duluth, MN.....	$190.62	$168.70	$153.76	$155.09	$150.33
Seattle, WA.....	266.85	255.20	232.60	233.27	233.49
Detroit, MI.....	207.44	203.32	203.76	196.32	201.36
Buffalo, NY.....	222.61	224.38	223.18	209.22	222.08
Pembina, ND.....	223.86	211.58	201.20	204.85	202.64
St. Albans, VT.....	207.88	203.01	206.41	198.82	210.81
Ogdensburg, NY.....	208.15	211.83	208.48	200.60	207.02
Portland, ME.....	202.71	196.56	194.03	190.91	195.84
Great Falls, MT.....	194.46	186.65	178.61	171.88	178.27
New York, NY.....	195.06	191.74	240.27	198.39	228.09
All other.....	249.89	203.10	210.50	190.50	196.37
Average.....	214.25	201.49	198.00	191.75	195.80

Source: Compiled from official statistics of the U.S. Department of Commerce.

Imports by domestic producers.--Eight domestic producers of softwood lumber reported imports of softwood lumber from Canada during January 1983 through January-March 1986. These imports are shown in Table 20. As a share of total imports from Canada, imports by these U.S. producers generally ranged from 10 to 11 percent. The domestic producers reporting imports accounted for slightly over 15 percent of U.S. softwood lumber production in 1985.

Table 20.--Softwood lumber: U.S. imports from Canada by domestic producers responding to the Commission's questionnaires, 1983-85 and January-March and 1986 1/

Item	1983	1984	1985	January-March-- 1985	1986
Canada:					
Quantity.....mmbf..	1,329	1,335	1,443	370	347
Value.....million.dollars..	303	278	295	67	66
Unit value.....per mbf..	$227.76	$208.44	$204.50	$195.35	$190.99
Imports by domestic producers as a share of the total quantity of imports from Canada percent..	11.1	10.1	9.9	11.4	10.0

1/ None of the domestic producers reported imports from countries other than Canada.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Prices

The price discussion is separated into three main sections: Introduction, public price data of the U.S. Departments of Labor and Commerce, and questionnaire price data. The introduction discusses general marketing factors relating to prices of softwood lumber sold in the United States. The public price data section shows the relative movement of U.S. producers' prices for all softwood lumber products and for all products sold in the United States. A detailed discussion of price data obtained from Commission questionnaires and from some public sources on specific domestic and imported Canadian softwood lumber products is presented in the section on questionnaire price data.

Introduction.--Prices received for softwood lumber at any time are determined by such factors as the species of wood, the size, and the quality or grade of the lumber. Lumber of certain species and larger dimension, and that more free from defects generally realize higher prices.

Most species of lumber are interchangeable to some degree, depending on the particular intended end use, local supply and preferences, and building codes or practices. At any time, the price of a less desirable species for a specific use may increase its attractiveness for that use. Prices for softwood lumber are quoted both f.o.b. mill, and, in many instances, on a delivered basis. Transportation costs of the lumber by either rail or truck are a significant factor in most marketing areas in the final delivered price; mills located close to their markets may have a sales advantage over more distant producers. Transportation costs are discussed in more detail immediately following the price section.

Most lumber is bought and sold by wholesalers that arrange for delivery to the destination. Some lumber producers act as their own wholesaler by marketing their own lumber or, at times, purchasing lumber from other companies to meet their customers' orders. Larger integrated forest products companies often have distribution centers for marketing their lumber.

Public price data of the U.S. Departments of Labor and Commerce.--Indexes of U.S. producers' selling prices for all softwood lumber products and for all products, and indexes of certain costs in U.S. lumber mills are presented for comparison purposes in table 21, by quarters, from January-March 1983 to January-March 1986. 1/ The quarterly producer price index for all softwood lumber products rose by approximately 12 percent during January 1983-June

---

1/ These price indexes are based on Producer Price Indexes (PPI) compiled and reported by the Bureau of Labor Statistics (BLS), U.S. Department of Labor, except the index of hourly earnings, which is based on hourly earnings figures for production workers in U.S. lumber mills reported by the U.S. Department of Commerce. PPI's are compiled and published monthly and represent percentage changes in U.S. producers selling prices, requested on a transaction basis.

Table 21.--Indexes of selected producer prices and selected U.S. lumber mill costs, by quarters, January 1983-March 1986

(January-March 1983=100)

Period	Producer price index		Indexes of lumber mill costs		
	All softwood lumber products 1/	All products	Softwood logs, bolts, timber	Industrial electr power 500kw	Hourly earnings of production workers 2/
1983:					
January-March	100.0	100.0	100.0	100.0	100.0
April-June	105.1	100.3	101.8	100.6	102.3
July-September	106.6	100.2	103.0	102.7	103.0
October-December	107.4	100.2	102.6	101.8	102.7
1984:					
January-March	108.6	100.5	102.2	102.7	104.2
April-June	111.7	100.8	103.3	106.0	104.9
July-September	110.5	101.1	102.9	109.3	105.3
October-December	110.7	101.6	103.2	107.8	105.0
1985:					
January-March	105.3	101.8	104.9	109.0	105.3
April-June	107.0	102.0	102.3	110.6	105.7
July-September	106.5	101.9	103.4	112.2	106.9
October-December	107.2	102.1	103.3	111.4	106.8
1986:					
January-March	106.0	102.7	102.2	112.7	107.3

1/ Produced in U.S. lumber mills.
2/ Production workers in U.S. lumber mills.

Source: Compiled from official statistics of the U.S. Department of Labor, Bureau of Labor Statistics, and the U.S. Department of Commerce.

1984, before falling to end the period about 6 percent above the initial period price level. 1/ The full period increase is greater than the rise in the producer price index for all products, which rose by approximately 3 percent during January 1983-March 1986. The rising prices of U.S. lumber mills were accompanied by generally rising costs in lumber mill operations. The quarterly price index of softwood logs, bolts, and timbers, major raw materials of U.S. lumber mills, first rose by approximately 5 percent during January 1983-March 1985, before falling to end the period about 2 percent above the initial period price level. The quarterly price index of industrial electric power and the quarterly index of hourly earnings of production workers in U.S. lumber mills rose by approximately 13 and 7 percent, respectively, during January 1983-March 1986.

Questionnaire price data.--Quarterly net f.o.b. (U.S. locations) and delivered selling price data for four representative 2 X 4 products were requested from U.S. lumber mills and importers of the Canadian softwood lumber subject to this investigation on sales to their leading wholesale customers during January 1983-March 1986. 2/ If a domestic producer or importer did not sell the requested representative products, they were requested to provide the selling price data and description for a representative product that they produced that was most similar in product features and uses to that specified. The four representative products for which prices were requested are described below:

PRODUCT 1: Southern yellow pine, 2 X 4, #2 & better, kiln dried, random lengths.

PRODUCT 2: Spruce-pine-fir, 2 X 4, standard/#2 & better, kiln dried, random lengths.

PRODUCT 3: Douglas fir, 2 X 4, standard/ #2 & better, kiln dried or green, random lengths.

PRODUCT 4: Hem-fir, 2 X 4, #2 & better, kiln dried or green, random lengths.

1/ Although not shown, the BLS quarterly producer price index of wood chips, a commercial by-product of lumber mill operations, fell by about 6 percent during this period, thereby tending to lower net returns of lumber mill operations.

2/ Total quarterly sales quantities of the specified products sold to the largest customers were also requested and used with prices of the largest sales in each quarter to calculate weighted-average f.o.b. and delivered prices of the domestic and imported Canadian softwood lumber products.

Price trends discussed in this section of the report are based on indexes of the reported f.o.b. prices, and price comparisons are based on the reported delivered prices. Indexes of U.S. producers' net f.o.b. selling prices of products 1 through 4 sold to wholesalers (as reported in questionnaire responses and as reported in publications of Random Lengths, Inc.) are shown in table 22. 1/ Indexes of the reported imported Canadian net f.o.b. (U.S. locations) selling prices are shown in table 23. The weighted-average delivered prices and quantities of the four requested representative domestic and imported Canadian softwood lumber products, as reported in questionnaire responses, are shown in appendix tables E-1 through E-5; comparisons of the delivered prices between these domestic and imported Canadian lumber products are shown in table 24. In addition to price data for products 1 through 4, eight U.S. producers and two importers reported in their questionnaire responses quarterly selling price data for 14 other popular softwood lumber products subject to this investigation. 2/ The additional domestic and imported softwood lumber product included 2 x 6, 2 X 8, and 2 X 10 products, as well as other 2 X 4 products. Eleven of these additional representative products were produced domestically; and three were imported Canadian 2 X 4 products. Trends in the reported U.S. f.o.b. prices of these latter products are also discussed, but not shown.

Net f.o.b. selling prices of products 1, 3, and 4 reported by U.S. lumber mills in their questionnaire responses generally declined during January 1983-March 1986, while the reported prices of product 2 rose during this period. 3/ The net f.o.b. selling prices of the additional 11 popular domestic products fell during this period. Net f.o.b. (U.S. locations) selling prices of the imported Canadian product 2, the only one reported of those requested, and prices of the three additional 2 X 4 imported Canadian lumber products also fell during January 1983-March 1986.

1/ Quarterly indexes of net f.o.b. selling prices of other popular U.S. softwood lumber products sold to wholesalers during January 1983-March 1986, as reported in Random Lengths' publications, are shown in appendix tables D-1 and D-2. Including these latter products broadens the product spectrum considered in discussing price trends.

2/ The questionnaire price data for products 1 through 4 and for the other representative products were reported by 23 U.S. producers and 4 U.S. importers. The responding U.S. producers accounted for about 25 percent of total 1985 domestic production of all the subject softwood lumber; the responding importers accounted for approximately 12 percent of total U.S imports of all the Canadian softwood lumber in 1985. The responding U.S. producers and importers did not necessarily respond for all products requested, or all periods requested.

3/ Net f.o.b. prices of these same four domestic products sold to wholesalers and reported by Random Lengths Publications, Inc., an independent firm reporting prices of lumber products sold in the United States, all declined during January 1983-March 1986, but to a further degree than that indicated by questionnaire data.

Table 22.--Softwood lumber: 1/ Indexes of U.S. producers' net f.o.b. selling prices to wholesalers, by wood species and by quarters, January 1983-March 1986 2/

(January-March 1983=100)

Period	Southern yellow pine		Spruce-pine-fir		Douglas fir 3/		Hem-fir 3/	
	Question-naires	Random Lengths	Question-naires	Random Lengths	Question-naires	Random Lengths	Question-naires	Random Lengths
1983:								
Jan.-Mar...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Apr.-June..	102.9	101.3	119.5	119.3	111.2	106.1	110.8	109.1
July-Sept..	90.8	87.8	108.7	97.2	106.6	95.6	101.9	94.7
Oct.-Dec...	94.9	92.4	105.6	92.8	93.3	88.2	83.3	89.5
1984:								
Jan.-Mar...	100.5	96.5	126.2	99.4	102.8	95.6	95.9	96.3
Apr.-June..	91.9	82.5	102.6	82.9	98.6	89.0	90.2	86.3
July-Sept..	86.6	79.9	105.7	75.1	95.9	84.6	85.7	80.6
Oct.-Dec...	85.5	80.4	100.9	81.8	88.8	84.6	89.6	81.1
1985:								
Jan.-Mar...	86.6	81.5	107.0	82.9	94.2	85.1	83.7	83.6
Apr.-June..	98.8	94.6	121.7	86.2	102.4	92.5	92.5	91.3
July-Sept..	85.5	79.5	102.7	85.1	93.1	95.6	81.0	88.1
Oct.-Dec...	80.8	74.1	99.3	83.4	94.0	87.3	77.1	82.6
1986:								
Jan.-Mar...	87.3	82.4	104.2	92.3	91.0	89.0	95.9	88.6

1/ 2 X 4's, standard/#2 and better, kiln dried, random lengths.
2/ The price indexes were developed from net f.o.b. selling price data reported by U.S. lumber mills for sales of the specified 2 X 4 product to their largest wholesale customers.
3/ Kiln dried or green.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, and from data reported by Random Lengths Publications, Inc, P.O. Box 867, Eugene, Oregon.

Table 23.--Imported Canadian spruce-pine-fir 2 X 4's: 1/ Indexes of U.S. importers' net f.o.b. (U.S. locations) selling prices to wholesalers, by quarters, January 1983-March 1986 2/

(January-March 1983=100)

Period	Index
1983:	
January-March	100.0
April-June	120.0
July-September	98.5
October-December	93.8
1984:	
January-March	100.5
April-June	84.1
July-September	76.4
October-December	82.7
1985:	
January-March	83.8
April-June	87.1
July-September	86.3
October-December	84.5
1986:	
January-March	92.0

1/ Standard/#2 and better, kiln dried, random lengths.
2/ The price data were developed from net f.o.b. (U.S. locations) price data reported by U.S. importers for sales of the specified Canadian product to their largest wholesale customers.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 24.--Softwood lumber: 1/ Net delivered selling prices of domestic and imported Canadian products sold to wholesalers and margins of underselling/ (overselling) by the imported products, by wood species and by quarters, January 1983-March 1986 2/

Period	U.S. product	Canadian product	Average margins of underselling (overselling) 3/ Amount	Percent
	U.S. and Canadian spruce-pine-fir			
	Per mbf			
1983:				
January-March	$251.00	$259.03	($8.03)	(3.2)
April-June	293.00	295.14	(2.14)	(0.7)
July-September	242.88	256.78	(13.90)	(5.7)
October-December	239.58	248.60	(9.02)	(3.8)
1984:				
January-March	284.31	260.90	23.41	8.2
April-June	225.22	232.35	(7.13)	(3.2)
July-September	232.14	218.60	13.54	5.8
October-December	221.98	230.15	(8.17)	(3.7)
1985:				
January-March	243.67	234.11	9.56	3.9
April-June	263.17	240.01	23.16	8.8
July-September	239.93	238.24	1.69	0.7
October-December	228.58	233.08	(4.51)	(2.0)
1986:				
January-March	236.73	239.08	(2.35)	(1.0)
	U.S. southern yellow pine and Canadian spruce-pine-fir			
	Per mbf			
1983:				
January-March	$273.03	$259.03	$14.00	5.1
April-June	278.05	295.14	(17.08)	(6.1)
July-September	244.80	256.78	(11.99)	(4.9)
October-December	256.83	248.60	8.23	3.2
1984:				
January-March	282.26	260.90	21.36	7.6
April-June	247.77	232.35	15.41	6.2
July-September	234.64	218.60	16.04	6.8
October-December	234.76	230.15	4.61	2.0
1985:				
January-March	238.61	234.11	4.50	1.9
April-June	273.22	240.01	33.21	12.1
July-September	231.26	238.24	(6.99)	(3.0)
October-December	219.02	233.08	(14.06)	(6.4)
1986:				
January-March	242.96	239.08	3.88	1.6

See footnotes at the end of table.

Table 24.--Softwood lumber: 1/ Net delivered selling prices of domestic and imported Canadian products sold to wholesalers and margins of underselling/ (overselling) by the imported products, by wood species and by quarters, January 1983-March 1986 2/--Continued

Period	U.S. product	Canadian product	Average margins of underselling (overselling) 3/ Amount	Percent
	U.S. Douglas fir 4/ and Canadian spruce-pine-fir			
	----------Per mbf----------			
1983:				
January-March	$217.23	$259.03	($41.80)	(19.2)
April-June	240.67	295.14	(54.47)	(22.6)
July-September	229.73	256.78	(27.06)	(11.8)
October-December	203.01	248.60	(45.59)	(22.5)
1984:				
January-March	233.69	260.90	(27.21)	(11.6)
April-June	229.59	232.35	(2.76)	(1.2)
July-September	216.80	218.60	(1.80)	(0.8)
October-December	192.85	230.15	(37.30)	(19.3)
1985:				
January-March	217.80	234.11	(16.31)	(7.5)
April-June	227.58	240.01	(12.43)	(5.5)
July-September	198.26	238.24	(39.98)	(20.2)
October-December	204.70	233.08	(28.39)	(13.9)
1986:				
January-March	195.48	239.08	(43.60)	(22.3)
	U.S. hem-fir 4/ and Canadian spruce-pine-fir			
	----------Per mbf----------			
1983:				
January-March	$251.99	$259.03	($7.04)	(2.8)
April-June	278.86	295.14	(16.27)	(5.8)
July-September	230.83	256.78	(25.95)	(11.2)
October-December	192.18	248.60	(56.42)	(29.4)
1984:				
January-March	226.69	260.90	(34.21)	(15.1)
April-June	202.79	232.35	(29.56)	(14.6)
July-September	192.59	218.60	(26.01)	(13.5)
October-December	234.15	230.15	4.00	1.7
1985:				
January-March	221.44	234.11	(12.67)	(5.7)
April-June	241.27	240.01	1.27	0.5
July-September	183.56	238.24	(54.68)	(29.8)
October-December	185.10	233.08	(47.98)	(25.9)
1986:				
January-March	230.08	239.08	(9.00)	(3.9)

1/ 2 X 4's, standard/#2 and better, kiln dried, random lengths.
2/ The price data were developed from reported quarterly net delivered selling price data for U.S. and imported Canadian products based on the largest shipments to the largest wholesale customers.
3/ Figures in parentheses indicate that the price of the domestic product was less than the price of the imported Canadian product.
4/ Kiln dried or green.

Source: Compiled from data submitted in response to questionnaires of the

Price trends.--Based on questionnaire responses, U.S. lumber mills' quarterly net f.o.b. prices of product 1 (southern yellow pine 2 X 4) sold to wholesalers fell by approximately 13 percent during January 1983-March 1986, while domestic prices of products 3 and 4 (the Douglas-fir and hem-fir 2 X 4's) sold to wholesalers fell by approximately 9 and 4 percent, respectively (table 22). Questionnaire responses indicated, however, that the domestic prices of product 2 (spruce-pine-fir 2 X 4) sold to wholesalers were generally above the initial period price level during January 1983-March 1986, rising by a total of about 4 percent during the period. Except for the spruce-pine-fir product, these trends are generally consistent with data reported by Random Lengths, Inc. that show U.S. lumber mills' quarterly net f.o.b. prices for all these products sold to wholesalers falling during January 1983-March 1986. 1/ Domestic selling prices of the southern yellow pine 2 X 4 fell by 18 percent during this period, while prices of the spruce-pine-fir, Douglas fir,-and hem-fir 2 X 4's fell by about 8, 11, and 11 percent, respectively.

In contrast to trends in domestic prices, questionnaire responses indicated that the U.S. f.o.b. prices of the imported Canadian product 2 (spruce-pine-fir 2 X 4) sold to wholesalers fell by 8 percent during January 1983-March 1986 (table 23). 2/

1/ Quarterly net f.o.b. prices of domestic 2 X 6 and 2 X 10 softwood lumber products and prices of domestic 2 X 4 stud-grade products sold to wholesalers, as reported by Random Lengths, Inc., also generally fell during January 1983-March 1986 (appendix tables D-1 and D-2). As seen in tables D-1 and D-2, prices of the 2 X 6 and 2 X 4 products all fell during this period, ranging from 4 to 14 percent and 8 to 15 percent, respectively. Prices of three of the four 2 X 10 products fell during January 1983-March 1986, ranging from 3 to 9 percent, while prices of the spruce-pine-fir 2 X 10 rose by about 4 percent (table D-1).

2/ Based on questionnaire responses reporting price data for other representative softwood lumber products, the f.o.b. selling prices of the 11 other domestic lumber products sold to wholesalers fell during January 1983-March 1986 by 2 to 18 percent, while U.S. f.o.b. prices of the three other Canadian products fell during this period by 2 to 9 percent.

Price comparisons.--Based on questionnaire data, the reported net delivered selling price data resulted in 13 quarterly price comparisons between each of the four domestic 2 X 4 products and the imported Canadian spruce-pine-fir 2 X 4 sold to distributors during January 1983-March 1986 (table 24). All four U.S. wood species products compete with each other, although in some applications one or more of these wood species may be more desirable than the others. 1/

Comparing the weighted-average delivered prices of the domestic and imported Canadian spruce-pine-fir 2 X 4 products (product 2), the imports were priced less than the domestic product in 5 of the 13 comparisons, averaging about 6 percent, or $14.27 per thousand board feet less than the U.S. product. Nine of the 13 delivered price comparisons between the domestic southern yellow pine 2 X 4 (product 1) and the imported Canadian spruce-pine-fir 2 X 4 (product 2) showed underselling by the imported product, averaging about 5 percent, or $13.48 per thousand board feet less than the domestic product. In contrast, in all 13 delivered price comparisons between the domestic Douglas-fir 2 X 4 (product 3) and the imported Canadian spruce-pine-fir 2 X 4, the domestic product was priced less than the imported product. And in 2 of the 13 delivered price comparisons between the domestic hem-fir 2 X 4 (product 4) and the imported Canadian spruce-pine-fir 2 X 4, the imported product was priced less than the domestic product, averaging about 1 percent, or $2.63 per thousand board feet less than the domestic product. 2/

1/ Within the Douglas-fir and hem-fir species, prices of both green and kiln dried products were combined, reflecting lumber analysts' claims of substitutability of both the green and kiln dried domestic products with the Canadian spruce-pine-fir (SPF) product. Although not shown, comparisons of delivered prices of the Canadian SPF 2 X 4 with prices of the domestic Douglas-fir and hem-fir products, disaggregated between green and kiln dried, showed somewhat different results than when combined. The imported Canadian SPF 2 X 4 was consistently priced above the green domestic douglas fir and hem-fir products. Four of the nine delivered price comparisons between the kiln-dried domestic Douglas-fir product and the Canadian SPF 2 X 4, however, showed underselling by the Canadian products averaging about 10 percent or $25.52 per thousand board feet less than the domestic product. And three of the 13 delivered price comparisons between the kiln-dried domestic hem-fir product and the Canadian SPF 2 X 4 showed underselling by the Canadian product, averaging about 2 percent or $5.72 per thousand feet less than the domestic product.

2/ Reported delivered prices of the imported Canadian spruce-pine-fir product and reported delivered prices of the domestic Douglas-fir and hem-fir 2 X 4 products may not be strictly comparable. Reported sales of the imported product were concentrated in the Southeastern United States, whereas reported sales of the domestic Douglas-fir and hem-fir products were concentrated in markets relatively close to the Northwestern United States, where these species are grown.

Transportation factors

U.S. lumber mills producing the subject softwood lumber and U.S. importers of the Canadian softwood lumber were also requested to report information in the questionnaire on the extent of their marketing areas in the United States and on U.S. inland transportation costs to deliver these products to their customers. Thirty-nine U.S. lumber mills responded to this section of the questionnaire, whereas 9 U.S. importers of the Canadian lumber responded. The reporting U.S. producers and importers generally ship the subject softwood products by rail or truck in the U.S. market and absorb at least some of the freight costs to their customers. U.S. lumber mills reported selling their softwood lumber products in a somewhat larger market area than that reported by the importers. Responses by U.S. lumber mills and importers to this section of the questionnaire are discussed in detail below.

Responding U.S. lumber companies producing the subject softwood lumber products reported that their major sales areas averaged approximately 1,200 miles from their mills, whereas the responding importers of the Canadian products reported that their major sales areas averaged about 1,170 miles from their U.S. selling locations. The average distance of the largest customers of responding U.S. producers from the producers' mills was about 830 miles, but that of those of U.S. importers from their U.S. selling locations was about 710 miles. U.S. producers reported average delivery costs to their largest customers of about 11 percent of the delivered prices; responses by the U.S. importers were insufficient for producing any usable information on the amount of their U.S. delivery costs. 1/ Both U.S. producers and importers generally reported absorbing less than 10 percent of the U.S. inland freight on their total annual sales of the subject softwood lumber products sold in the U.S. market.

The U.S. lumber mills and importers of the subject softwood products were also requested to comment on the impact of transportation costs on their relative competitiveness in the U.S. market. Some U.S. producers in the Northwestern United States reported that favorable Canadian rail rates allow the Canadian lumber to reach the U.S.-Canadian border more cheaply than otherwise and this has helped to market the imported lumber in the United States, particularly in the Midwestern and Northeastern United States. Additionally, some U.S. lumber mills also indicated their belief that lower ocean freight costs for Canadian lumber versus U.S. lumber allow the Canadian products to reach southern California, Gulf coast, and southeast coast markets of the United States more cheaply than can be achieved by some U.S. lumber mills, especially those in the northwestern United States shipping by ship, rail, or truck.

1/ Only two of the nine importers responding to this section of the questionnaire reported data on transportation costs in the United States to deliver the Canadian lumber to their largest U.S. customers, but 37 U.S. lumber mills were able to report such data. U.S. transportation costs reported by these two importers averaged approximately 18 percent of their delivered prices.

U.S. importers of the Canadian softwood lumber generally reported that transportation costs did not favor the Canadian lumber sold in the U.S. market vis-a-vis the domestic lumber. In addition, five large domestic mills also indicated that Canadian transportation costs were either greater than those of U.S. lumber mills or were only slightly more advantageous. 1/ These larger mills indicated their belief that the much lower f.o.b. Canadian mill prices have been the principal factor leading to increased U.S. imports of the Canadian softwood lumber.

Exchange rates

Quarterly data reported by the International Monetary Fund indicate that the nominal value of the Canadian dollar depreciated relative to the U.S. dollar by approximately 11 percent during January 1983-December 1985, but by about 20 percent during January 1983-March 1986 (table 25). An approximately 9 percent inflation rate in Canada compared with about 3 percent inflation in the United States during January 1983-December 1985 resulted in less of a real devaluation of the Canadian dollar compared with the nominal devaluation. In real terms, the Canadian dollar devalued against the U.S. dollar during this period by approximately 5 percent. 2/ Because the index of Canadian producer prices is not available for January-March 1986, the real exchange rate index could not be calculated for this period.

1/ These five mills were ***.

2/ The real depreciation of the Canadian dollar against the U.S. dollar indicates the maximum amount that a Canadian lumber mill or its agent could have reduced the U.S. dollar prices of its products in the U.S. market without increasing its profits, assuming it had no U.S. dollar-denominated costs.

Table 25.--U.S.-Canadian exchange rates: 1/ Indexes of the nominal and real exchange rates between the U.S. dollar and the Canadian dollar, and indexes of producer prices in the United States and Canada, 2/ by quarters, January 1983-March 1986

(January-March 1983=100)

Period	Nominal exchange-rate index	Real exchange-rate index 3/	U.S. Producer Price Index	Canadian Producer Price Index
1983:				
January-March.....	100.0	100.0	100.0	100.0
April-June.....	99.7	101.0	100.3	101.5
July-September.....	99.5	100.7	101.2	102.3
October-December....	99.1	100.1	101.8	102.8
1984:				
January-March.....	97.7	99.3	102.9	104.5
April-June.....	94.9	96.9	103.5	105.8
July-September.....	93.3	96.1	103.3	106.4
October-December....	93.0	96.3	103.1	106.7
1985:				
January-March.....	90.6	95.1	102.9	107.8
April-June.....	89.6	94.4	103.0	108.5
July-September.....	90.2	95.9	102.2	108.7
October-December....	88.9	94.7	102.9	109.4
1986:				
January-March.....	79.6	4/	102.1	4/

1/ Based on exchange rates expressed in U.S. dollars per Canadian dollar.
2/ The producer price indexes are aggregate measures of inflation at the wholesale level in the United States and Canada. As a result, these indexes only approximate actual price changes of the subject lumber products in the United States and Canada. Producer prices in the United States rose by 2.9 percent during January 1983-December 1985, compared with rising producer prices in Canada of 9.4 percent during this period. The U.S. producer price index then fell in January-March 1986 to 102.1. The producer price index in Canada is not available for this latter period.
3/ The real value of a currency is the nominal value adjusted for the difference between inflation rates as measured by the producer price index in the United States and Canada.
4/ Not available.

Source: International Monetary Fund, International Financial Statistics, May 1986.

Lost sales and price suppression/depression

No specific allegations of lost sales to the imported Canadian softwood lumber were reported by U.S. lumber mills, but three specific allegations of price suppression/ depression were reported. The Commission staff was unable to contact the firm's involved. The Commission staff did contact five purchasers of softwood lumber that reportedly purchased both domestic and imported Canadian softwood lumber. Conversations with these firms are discussed below.

***, president of ***, a lumber wholesaler in ***, stated that his firm buys both domestic and imported Canadian softwood lumber, but that the Canadian spruce-pine-fir has appearance and storage characteristics that for certain uses has no U.S. substitutes. The Canadian product does not have the structural strength of some U.S. species (like fir) for use in floor and ceiling joists. *** stated that although their total purchases of softwood lumber have increased since January 1983, the share of imported Canadian lumber has stayed the same. *** claimed that during the last two years domestic lumber has become more competitive on a delivered price basis vis-a-vis the imported Canadian lumber because of increased use by domestic lumber mills of rail rather than truck transportation .

***, lumber manager for ***, a lumber retailer headquartered in ***, stated that his firm buys both domestic and imported Canadian softwood lumber, and the Canadian share has increased since January 1983 as have their total purchases of softwood lumber. He cited price as an important but not sole reason for the increased Canadian share. *** stated that the firm tends to sell the imported Canadian lumber in the Midwestern and Eastern United States and the domestic lumber in the southern and western regions of the country.

***, director of purchasing for ***, a building materials supplier in ***, stated that his firm buys both domestic and imported Canadian softwood lumber, but the Canadian share has decreased somewhat since January 1983. *** stated that he buys the Canadian lumber because he believes the Canadian spruce-pine-fir has better storage characteristics than the domestic lumber and the Canadian 2 X 10 products have a higher stress rating than the domestic products.

***, president of ***, a lumber broker in ***, stated that his firm has purchased annually about 60 percent domestic and 40 percent imported Canadian softwood lumber since January 1983. *** stated that his firm purchases imported Canadian spruce-pine-fir mainly for studs and plate stock and domestic southern yellow pine mainly for floor joists and trusses. He cited limited domestic availability of domestic spruce-pine-fir, which, delivered to Washington, DC, is currently priced $30/mbf more than the Canadian product.

*** of ***, a lumber wholesaler in ***, stated that his firm buys both domestic and imported Canadian softwood lumber, but that the Canadian share has decreased since January 1983. *** cited better quality of the Canadian cedar and spruce compared with some of the domestic product as a reason for buying the Canadian product. *** felt that ***, a U.S. lumber mill, had good prices for its cedar, but their cedar has a yellowish color that detracts from its quality. He cited ***, another domestic lumber mill, however, that offers excellent quality cedar. *** stated that he is currently paying $298/mbf delivered *** cedar, which is $6/mbf less than the price quoted by ***, a Canadian mill in ***.

APPENDIX A

FEDERAL REGISTER NOTICES OF THE U.S INTERNATIONAL TRADE COMMISSION AND THE U.S. DEPARTMENT OF COMMERCE

[Investigation No. 701-TA-274 (Preliminary)]

Softwood Lumber From Canada

AGENCY: United States International Trade Commission.

ACTION: Institution of a preliminary countervailing duty investigation and scheduling of a conference to be held in connection with the investigation.

SUMMARY: The Commission hereby gives notice of the institution of preliminary countervailing duty investigation No. 701-TA-274 (Preliminary) under section 703(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a)) to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from Canada of softwood lumber, rough, dressed, or worked (including softwood flooring classified as lumber), provided for in items 202.03 through 202.30, inclusive, softwood siding, not drilled or treated, provided for in items 202.47 through 202.50, inclusive; other softwood lumber and siding, provided for in item 202.52; item 202.54; and softwood flooring provided for in item 202.60 of the Tariff Schedules of the United States, which are alleged to be subsidized by the Government of Canada. As provided in section 703(a), the Commission must complete preliminary countervailing duty investigations in 45 days, or in this case by July 3, 1986.

For further information concerning the conduct of this investigation and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and B (19 CFR Part 207), and part 201, subparts A through E (19 CFR Part 201).

EFFECTIVE DATE: May 20, 1986.

FOR FURTHER INFORMATION CONTACT: Jim McClure (202-523-1793), Office of Investigations, U.S. International Trade Commission, 701 E Street NW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-724-0002.

SUPPLEMENTARY INFORMATION:

Background.—This investigation is being instituted in response to a petition filed on May 19, 1986 by the Coalition for Fair Lumber Imports, a group of U.S. softwood lumber manufacturers and associations representing U.S. softwood lumber manufacturers and foresters.

Participation in the investigation.—Persons wishing to participate in the investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's rules (19 CFR 201.11), not later than seven (7) days after publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairwoman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Service list.—Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and address of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with §§ 201.16(c) and 207.3 of the rules (19 CFR 201.16(c) and 207.3), each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Conference.—The Commission's Director of Operation has scheduled a conference in connection with this investigation for 9:30 a.m. on June 10, 1986 at the U.S. International Trade Commission Building, 701 E Street NW., Washington, DC. Parties wishing to participate in the conference should contact Jim McClure (202-523-1793) not

later than June 5, 1986 to arrange for their appearance. Parties in support of the imposition of countervailing duties in this investigation and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference.

Written submission.—Any person may submit to the Commission on or before June 12, 1986 a written statement of information pertinent to the subject of the investigation, as provided in § 207.15 of the Commission's rules (19 CFR 207.15). A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the rules (19 CFR 201.8). All written submission except for confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired must be submitted separately. The envelope and all pages of such submission must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6).

Authority: This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.12 of the Commission's rules (19 CFR 207.12).

By order of the Commission.

Issued: May 20, 1986.

Kenneth R. Mason,

Secretary.

[FR Doc. 86-12074 Filed 5-28-86; 8:45 am]

BILLING CODE 7020-02-M

Federal Register / Vol. 51, No. 112 / Wednesday, June 11, 1986 / Notices 21205

[C-122-602]

Initiation of Countervailing Duty Investigation: Certain Softwood Lumber Products From Canada

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: On the basis of a petition filed in proper form with the U.S. Department of Commerce, we are initiating a countervailing duty investigation to determine whether manufacturers, producers and exporters in Canada of certain softwood lumber products, as described in the "Scope of Investigation" section below, receive benefits which constitute subsidies within the meaning of the countervailing duty law. We are notifying the U.S.

International Trade Commission (ITC) of this action so that it may determine whether imports of the subject merchandise materially injure, or threaten material injury to, a U.S. industry. If our investigation proceeds normally, we will make our preliminary determination on or before August 12, 1986.

EFFECTIVE DATE: June 11, 1986.

FOR FURTHER INFORMATION CONTACT: Barbara Tillman or Gary Taverman, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230. Telephone: (202) 377-2438 or 377-0161.

SUPPLEMENTARY INFORMATION: .

Petition

On May 19, 1986, we received a petition in proper form from the Coalition for Fair Lumber Imports on behalf of the U.S. industry producing certain softwood lumber products (CSLP). The Coalition for Fair Lumber Imports is a group of U.S. softwood lumber manufacturers and associations representing U.S manufacturers of CSLP. In compliance with the filing requirements of § 355.26 of the Commerce Regulations (19 CFR 355.26), the petition alleges that manufacturers, producers and exporters in Canada of CSLP receive, directly or indirectly, benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act). Since Canada is a "country under the Agreement" within the meaning of section 701(b) of the Act, Title VII of the Act applies to this investigation, and the ITC is required to determine whether imports of the subject merchandise from Canada materially injure, or threaten material injury to, a U.S. industry.

On May 31, 1983, we issued the *Final Negative Countervailing Duty Determinations: Certain Softwood Products from Canada* (48 FR 24159). That investigation was initiated in response to a petition filed on October 7, 1982, by the United States Coalition for Fair Canadian Lumber Imports. It alleged that the governments of Canada administered a number of programs which bestowed benefits, directly or indirectly, on the manufacture, production and exportation or certain softwood products from Canada, constituting subsidies within the meaning of section 701 of the Act. The softwood products under investigation in that case included softwood lumber, softwood shakes and shingles, and softwood fence, while the instant case pertains only to certain softwood lumber products (not including shakes, shingles, of fence). The basis for our decision to re-investigate particular programs is described in the "Allegations of Subsidies" section of this notice.

On June 4, 1986, the government of Canada exercised its right to consultation pursuant to Article 3:1 of the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement of Tariffs and Trade.

Initiation of Investigation

Under section 702(c) of the Act, we must determine, within 20 days after a petition is filed, whether the petition sets forth the allegations necessary for the initiation of a countervailing duty investigation and whether it contains information reasonably available to the petitioner supporting the allegations. We have examined this petition and we have found that it meets these requirements. Therefore, we are initiating a countervailing duty investigation to determine whether manufacturers, producers and exporters in Canada of CSLP, as described in the "Scope of Investigation" section of this notice, receive benefits which constitute subsidies. If our investigation proceeds normally, we will make our preliminary determination on or before August 12, 1986.

Scope of Investigation

The products covered by this investigation are certain softwood lumber products. These products are softwood lumber, rough, dressed, or worked (including softwood flooring classified as lumber), provided for in items 202.03 through 202.30, inclusive; softwood siding, not drilled or treated, provided for in items 202.47 through 202.50, inclusive; other softwood lumber and siding, provided for in item 202.52; and softwood flooring provided for in item 202.60 of the Tariff Schedules of the United States.

Allegations of Subsidies

The petition alleges that manufacturers, producers and exporters in Canada of CSLP receive benefits which constitute subsidies. We are initiating on the following programs alleged in the petition:

A. Stumpage Programs

Petitioner alleges that the provincial governments of Alberta, British Columbia, Ontario and Quebec are selling their right to harvest softwood timber ("stumpage") to the lumber industry at preferential rates. In our *Final Negative Countervailing Duty Determinations: Certain Softwood Products from Canada (Softwood Products)* (48 FR 24159), we determined that stumpage programs were not provided to a "specific enterprise or industry, or group of enterprises or industries" and did not entail the provision of goods at preferential rates. We determined in *Softwood Products* that stumpage programs were not limited to a "group of enterprises or industries" because (1) any limitations on use were not due to activities of the Canadian governments and, (2) the actual users of stumpage spanned a wide range of industries. We also determined in *Softwood Products* that stumpage programs did not entail the provision of goods at preferential rates because there was no evidence of price discrimination within the relevant jurisdictions.

Absent a change in the law, in order for the Department to re-initiate on a program which previously has been found not to be countervailable the petitioner must present new evidence, must show that there has been a evolution in the Department's interpretation of the countervailing duty law, or both.

Petitioner in the instant case alleges that there is new evidence which may indicate that the use of stumpage programs is currently being limited by certain government policies. This new evidence raises possible questions as to the *de jure* availability of stumpage programs and collaterally invites a re-examination of the *de facto* availability issue.

Petitioner also contends that the Department's interpretation of the countervailing duty laws has evolved since *Softwood Products*. Petitioner cites the preliminary results in the administrative review of *Carbon Black from Mexico (Carbon Black)* (51 FR 13269) and the preliminary determination in *Certain Carbon Steel Products from Brazil (Certain Steel)* 49 Fed. Reg. 5157). In referring to *Carbon Black*, petitioner alleges that the Department has reduced its reliance on the inherent nature of the product in determining whether a good is generally available.

In citing *Certain Steel*, petitioner maintains that the Department's current analytical approach to a determination of specificity in cases where the government provides a natural resource focuses primarily on the *de facto* beneficiaries. Petitioner notes that in *Certain Steel*, despite the nominal availability of iron ore at government-controlled prices to all industries, the Department preliminarily determined that the steel industry was the

"dominant user" of iron ore. Thus, the provision of iron ore at a controlled price provided a benefit to a "specific enterprise or industry."

Petitioner argues that the analysis in *Certain Steel*, is applicable to the alleged stumpage programs. Asserting that the Canadian softwood lumber, and perhaps plywood, industry is the "dominant user" of stumpage programs, petitioner alleges certain facts supporting its position.

First, new evidence may indicate that certain provincial governments now limit the beneficiaries of stumpage programs to particular industries, principally the lumber industry. Second, the use of stumpage by the pulp and paper industry appears to be steadily declining, partly due to policies which encourage the utilization of chips—a by-product of lumber production—rather than whole logs for the production of pulp, and partly due to technological innovations allowing the lumber industry to use smaller diameter trees. Third, the furniture industry, found to be a stumpage license holder in *Softwood Products*, chiefly uses hardwood rather than softwood in the manufacturing of furniture, and uses lumber rather than timber as an input.

Although petitioner's analysis is not determinative, the petitioner has presented new evidence and has alleged that there has been an evolution in the Department's interpretation of the countervailing duty law such that a re-examination of the *de jure* and *de facto* general availability of the alledged stumpage programs is warranted.

In *Softwood Products*, we also determined that stumpage was not being provided at preferential prices. Petitioner argues that the Department should reconsider its preferentiality determination. Our decision on preferentiality rested on our finding that stumpage programs were generally available and that stumpage was not being provided to some at prices more favorable than to others within the same jurisdiction. As noted above, petitioner has given the Department reason to re-examine whether the alleged stumpage programs might not be generally available.

Petitioner contends that due to the absence of a generally available price to compare to the price of stumpage under the various alleged stumpage programs, the Department must apply one of the alternative tests found in the *Preferentiality Appendix* attached to *Carbon Black*. Applying each of the tests with reference to the Canadian stumpage situation, petitioner concludes that the price of cross-border U.S. timber should be used to measure the degree of preferentiality of Canadian stumpage and that such a test shows a significant subsidy. While taking no position on the propriety of applying any of the alternative tests in the *Preferentiality Appendix* or even the applicability of the tests in the *Preferentiality Appendix*, the Department determines that petitioner has presented allegations sufficient to warrant investigation as to whether stumpage is provided at preferential prices.

In summary, the petitioner has presented new evidence and has alleged that there has been an evolution in the Department's interpretation of the countervailing duty law, both in terms of the general availability of stumpage programs and the measure of preferentiality, such that a re-examination of the provincial stumpage programs in Alberta, British Columbia, Ontario and Quebec is warranted.

Although we intend to re-examine only the stumpage programs of these four provinces, we will request information regarding the federal stumpage programs and the stumpage programs in the remaining provinces. Such information may be needed in our analysis of whether the alleged stumpage programs confer subsidies.

B. Federal Program

- Certain Types of Investment Tax Credits;
- Program for Export Market Development;
- Regional Development Incentive Program;
- Industrial and Regional Development Program; and
- Community-Based Industrial Adjustment Program.

C. Joint Federal-Provincial Programs

- General Development Agreements and Subsidiary Agreements;
- Economic and Regional Development Agreements and Subsidiary Agreements; and
- Rail Transportation Facilities for the Lumber Industry.

D. Provincial Programs

- Alberta Timber Salvage Incentive Program.

In *Softwood Products* we found that this program to be not countervailable because it was not limited to a specific enterprise or industry, or group of enterprises or industries. Petitioner now alleges that benefits are being and have been provided under this program only to lumber producers, and pulp and paper producers. In light of our decision to initiate on the alleged stumpage programs, we are initiating on this program.

- British Columbia Assistance to Small Business;
- British Columbia Low Interest Loans;
- British Columbia Market Development Assistance;
- Quebec APEX Program;
- Quebec Assistance to REXFOR;
- Quebec SDI Export Assistance Programs: Export Expansion Program, Consortium Program, New Market Development Program, and Export Financing Program; and
- Quebec Laws Concerning Forest Credit.

There are also programs which were not alleged in the petition, but which we have investigated in previous countervailing duty investigations involving Canadian products, and which we believe may provide countervailable benefits to Canadian CSLP manufacturers, producers, and exporters. Therefore, in addition to initiating on the programs alleged in the petition, we are also initiating on the following programs:

A. Federal Programs

- Forest Industry Renewable Energy Programs; and
- Special Areas Act.

B. Joint Federal-Provincial Programs

- Agricultural and Rural Development Agreements; and
- Prince Edward Island Comprehensive Development Plan.

C. Provincial Programs

- Quebec Tax Abatement Program.

We are not initiating on the following programs alleged in the petititon:

- Equity Infusion from REXFOR into Forex, Inc.

Petitioner alleges that REXFOR, the Province of Quebec's forest products company, purchased an equity share in Forex. Petitioner has provided no information that this equity purchase was made on terms inconsistent with commercial consideration, therefore, we are not investigating this allegation. As a further note, we found REXFOR equity purchases in other companies not to be countervailable in *Softwood Products*.

- Quebec SDI Equity Infusions.

Petitioner alleges that the Quebec Industrial Development Corporation, which is a part of the SDI program, may have provided equity to manufacturers, producers, and exporters of CSLP. Petitioner has provided no information that any such equity purchases were made, or, if made, that they were on terms inconsistent with commercial consideration.

Notification of ITC

Section 702(d) of the Act requires us to notify the ITC of this action, and to provide it with the information we used to arrive at this determination. We will notify the ITC and make available to it all nonprivileged and nonconfidential information reltating to this investigation. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

Preliminary Determination by ITC

The ITC will determine by July 3, 1986, whether there is a reasonable indication that imports of CSLP from Canada materially injure, or threaten material injury to, a U.S. industry. If its determination is negative, this investigation will terminate; otherwise, this investigation will continue according to the statutory procedures.

This notice is published pursuant to section 702(c)(2) of the Act.

Dated: June 5, 1986.

Gilbert B. Kaplan,

Deputy Assistant Secretary for Import Administration.

[FR Doc. 86-13186 Filed 6-10-86; 8:45 am]

BILLING CODE 3510-DS-M

APPENDIX B

LIST OF WITNESSES APPEARING AT THE COMMISSION'S CONFERENCE

CALENDAR OF PUBLIC CONFERENCE

Subject: Softwood Lumber from Canada

Investigation No.: 701-TA-274 (Preliminary)

Date/time: June 10, 1986; 9:30 a.m.

Those listed below appeared as witnesses at the United States International Trade Commission's conference on the subject investigation. Sessions were held in the Commission's Hearing Room, at 701 E Street, NW, Washington, DC.

Government appearance

Federal Trade Commission
Washington, DC

Steven B. Feirman, Attorney, Division of International Antitrust, Bureau of Competition
Keith B. Anderson, Assistant Director for Regulatory Analysis, Bureau of Economics

In support of the imposition of countervailing duties

Dewey, Ballantine, Bushby, Palmer and Wood--Counsel
Washington, DC
on behalf of--

Coalition for Fair Lumber Imports

Stanley S. Dennison, Chairman, Coalition for Fair Lumber Imports
John Faraci, Manager, Wood Products Division, International Paper Co.
Gary Jones, President, Summit Timber Co.
Wilbur Doyle, President, Doyle Lumber, Inc.
Donald J. Hoffman, President, Heinz Group
Kirk Eimers, Manager of Business Planning, International Paper Co.
William J. Lang, Executive Assistant to the President of the National Forest Products Association

Alan Wm. Wolff)
W. Clark McFadden II) --OF COUNSEL
Jane K. Albrecht)
John A. Ragosta)

William Noellert, Ph.D., Chief Economist

CALENDAR OF PUBLIC CONFERENCE--Continued

In opposition to the imposition of countervailing duties

Herbert A. Fierst, Esq.)
Arnold and Porter) --Counsel
Washington, DC
on behalf of--

Canadian Forest Industries Council

Bruce Lippke, President, Wharton Econometrics
F. M. Scherer, Ph. D., Department of Economics, Swarthmore College

Herbert A. Fierst)
Lawrence A. Schneider) --OF COUNSEL
Spencer Griffith)

National Lumber and Building Material Dealers Association
Washington, DC

Harry J. Horrocks, Director of Government Affairs

National Association of Home Builders
Washington, DC

Robert D. Bannister, Senior Staff Vice President

APPENDIX C

EXCERPTS FROM U.S. PRODUCERS' ANNUAL REPORTS

Excerpts from U.S. Producers' Annual Reports

Boise Cascade

"The forest products industry has experienced extremely difficult times since 1980, when the U.S. economy slid into a recession.

In 1983 the nation's economy began to recover, and the forest products industry was expected to rebound as well. The paper segment of the industry did, at least temporarily, but wood products did not.

Despite increasing demand for lumber and plywood, brought about by a resurgence in residential and industrial construction, wood products prices did not rise as they had under similar circumstances in the past.

It became evident that the historical supply/demand balance was experiencing a fundamental change. Over the years, wood products manufacturing capacity in the U.S. had been creeping upward-the result of productivity gains, the introduction of new panel products to compete with plywood and the continued operation of marginal production facilities. By 1983 available wood products output exceeded even relatively strong demand. To make matters worse, imports of Candadian lumber had increased sharply.

While wood products remain in oversupply today a number of marginal production facilities have closed their doors since 1983, and the trend seems to be moving in the right direction.

The difficulties facing the forest products industry at present can be attributed in large part to one source-the enormous U.S. federal deficit. The deficit is troublesome in two major ways. First, it has tended to keep real interest rates high relative to historical levels, thereby retarding economic growth. Second, lofty interest rates caused by the deficit have contributed to the high value of the U.S. dollar in relation to other currencies, making goods produced abroad less expensive than those manufacture in the U.S. The net effect of this latter phenomenon is to handicap the U.S. forest products industry's ability to compete in domestic and international markets. Witness the present influx of foreign wood and paper products into this country and the absence of export opportunities."

International Paper

"How much of the pricing pressure in lumber is due to the Canadians? The Canadians have exacerbated the situation. It's basically unfair competition because provincial governments, which own the timberlands, have made timber available to Canadian producers at less than one-tenth the price level here, and for less than the cost of growing timber. This has made it possible for them to compete in our southern markets despite higher transportation and manufacturing costs. We are hopeful that in the on-going trade negotiations with Canada, our government will find a way to resolve this problem."

Georgia Pacific

"The strengths which made Georgia-Pacific a leading forest products company sustained that position during one of the most challenging years the industry has experienced. We retained our position because of our commitment to being a low-cost, efficient producer of high-quality forest products and because we have moved closer to our customers with reliable service, continuously improving quality and upgrading product mix. We performed well in wood products, despite increased lumber imports and over capacity in panel markets.

A significant factor disrupting the entire building products industry is the continued flood into the United States of Canadian softwood lumber imports, which are promoted by low-cost government stumpage prices and other subsidies. This problem is now being addressed through legislative, administrative and diplomatic channels. Success in reducing lumber imports through measures that make trade fairer will help restore the traditional supply/demand balance and help stem the liquidation of many U.S. producers."

Weyerhaeuser Company

"1985 was a year of challenge, competition and change. Despite substantial further progress in reducing costs and improving our competitive position we experienced a decline in sales and margins in many of our major product lines. Overall, it was another year of marginal financial results in the face of very adverse market conditions.

Conditions in the commodity lumber and plywood businesses remained severely depressed despite the relatively high levels of new home building, commercial construction and repair and remodel markets in the United States. Even with production curtailments and some mill closures, supply of these products continued to exceed demand. All producing regions in North America suffered from the depressed conditions-but, as the high-cost producing and shipping region, the problems have been particularly severe in the Pacific Northwest. We have streamlined our Western operations, in the process reducing salaried employment by nearly 50 per cent in the past three years, and have undertaken a number of other cost-saving, marketing and value-added programs. However, a number of our production units remain noncompetitive. Several of these have been closed permanently or mothballed. At a number of others, we are asking our employees to take reductions in compensation to aid these units in achieving competitive production costs to permit continued operation.

Going into 1986, the weakening of the dollar against the yen and European currencies is beginning to be reflected in improved results for our export newsprint, lumber and log businesses. As the year proceeds, we expect further improvement in these products as well as a turn in pulp and container board. We also anticipate that the weakening dollar will gradually slow the flood of low-priced imports of paper, particleboard and other products into our domestic markets. North American oversupply of commodity lumber will still be a problem, although a gradually diminishing one. Stronger European and Asian

markets and currencies should draw some portion of Canadian lumber production away from the United States market into offshore exports."

APPENDIX D

INDEXES OF NET U.S. F.O.B. SELLING PRICES OF VARIOUS SOFTWOOD LUMBER PRODUCTS REPORTED BY U.S. LUMBER MILLS AND SHOWN IN THE 1985 RANDOM LENGTHS YEARBOOK

Table D-1.--U.S. dimension softwood lumber products: Indexes of net f.o.b. domestic lumber mill prices to wholesalers, by products and quarters, January 1983-March 1986 1/

(January-March 1983=100)

Period	Southern yellow pine 2/	Spruce-pine-fir	Douglas-fir 3/	Hem-fir
	2 X 6, #2 & better, kiln dried, random lengths			
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	103.4	115.8	92.5	108.5
July-September	101.3	93.8	84.9	98.3
October-December	112.4	93.8	86.9	95.8
1984:				
January-March	108.8	105.6	95.3	102.7
April-June	96.9	87.4	78.4	89.2
July-September	95.6	85.6	84.1	87.2
October-December	89.4	92.2	83.8	91.7
1985:				
January-March	85.1	83.0	83.5	91.5
April-June	104.1	86.6	96.7	93.7
July-September	87.0	89.6	85.8	92.2
October-December	83.5	85.6	80.9	87.7
1986:				
January-March	95.5	89.4	85.7	90.5
	2 X 10, #2 & better, kiln dried, random lengths			
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	114.0	116.7	96.6	110.7
July-September	90.2	93.9	83.0	87.5
October-December	82.4	90.4	86.2	81.4
1984:				
January-March	98.0	103.3	100.9	96.4
April-June	96.9	87.1	87.3	82.8
July-September	94.8	78.5	84.8	74.9
October-December	85.7	87.1	96.6	81.6
1985:				
January-March	85.0	89.6	96.8	87.9
April-June	100.9	101.8	100.9	92.2
July-September	82.9	103.8	91.4	89.7
October-December	80.9	95.5	89.6	82.8
1986:				
January-March	95.7	104.1	96.8	90.8

1/ Based on net f.o.b. mill prices reported to Random Lengths weekly by domestic lumber mills. The average prices are weighted by the quantity and quality reported and are checked with wholesalers for accuracy by Random Lengths personnel.
2/ The 2 X 10 southern yellow pine is in 14-foot lengths.
3/ Unseasoned.

Source: Compiled from data reported by Random Lengths Publications, Inc, P.O. Box 867, Eugene, Oregon.

Table D-2.--U.S. stud-grade softwood lumber: 1/ Indexes of net f.o.b. domestic lumber mill prices to wholesalers, by wood species and quarters, January 1983-March 1986 2/

(January-March 1983=100)

Period	Southern yellow pine	Spruce-pine-fir	Douglas-fir	Hem-fir
1983:				
January-March	100.0	100.0	100.0	100.0
April-June	108.5	126.4	104.3	116.8
July-September	93.0	106.3	99.8	104.8
October-December	97.2	94.3	92.1	97.1
1984:				
January-March	101.8	106.3	104.3	105.0
April-June	91.1	93.2	94.8	97.1
July-September	84.6	79.1	78.7	82.2
October-December	88.3	82.1	79.5	82.7
1985:				
January-March	87.1	87.6	89.5	89.0
April-June	104.5	96.0	99.5	97.6
July-September	83.2	86.3	89.4	89.3
October-December	76.1	80.0	81.0	83.5
1986:				
January-March	85.0	88.0	86.9	92.2

1/ Studs, 2 X 4-8', precision end trim, stud grade.
2/ Based on net f.o.b. mill prices reported to Random Lengths weekly by domestic lumber mills. The average prices are weighted by the quantity and quality reported and are checked with wholesalers for accuracy by Random Lengths personnel.

Source: Compiled from data reported by Random Lengths Publications, Inc, P.O. Box 867, Eugene, Oregon.

APPENDIX E

WEIGHTED-AVERAGE NET U.S. DELIVERED SELLING PRICES AND QUANTITIES REPORTED BY U.S. PRODUCERS AND IMPORTERS FOR REPRESENTATIVE SOFTWOOD LUMBER PRODUCTS

Table E-1.--U.S. southern yellow pine 2 X 4's: 1/ Net delivered selling prices and quantities of domestically produced 2 X 4's sold to wholesalers, by quarters, January 1983-March 1986 2/

Period	Quantity	Weighted-average price	Range of prices	Number of responses
		Per mbf 3/		
1983:				
January-March.....	4,656	$273.03	$241.00-297.00	13
April-June.....	4,749	278.05	257.00-325.00	14
July-September.....	6,570	244.80	219.00-262.00	14
October-December....	5,845	256.83	228.00-271.00	14
1984:				
January-March.....	7,510	282.26	232.00-309.82	14
April-June.....	7,532	247.77	196.30-294.00	15
July-September.....	8,078	234.64	162.30-273.00	16
October-December....	9,277	234.76	171.65-266.00	16
1985:				
January-March.....	11,480	238.61	176.80-289.00	16
April-June.....	13,225	273.22	175.40-330.00	16
July-September.....	14,071	231.26	176.90-262.00	16
October-December....	12,443	219.02	172.70-253.00	16
1986:				
January-March.....	13,650	242.96	182.80-295.00	16

1/ Southern yellow pine, 2 X 4, #2 and better, kiln dried, random lengths.
2/ The price data were developed from net delivered selling price data reported by U.S. lumber mills of the specified 2 X 4 product. Quantities shown are the sum of the total number of board feet of the specified product sold to each respondent's largest distributor customer in each quarter, whereas prices are the weighted-average of the delivered prices of the reported largest shipments to the largest distributor customers.
3/ Thousands of board feet.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-2.--U.S. spruce-pine-fir 2 X 4's: 1/ Net delivered selling prices and quantities of domestically produced 2 X 4's sold to wholesalers, by quarters, January 1983-March 1986 2/

Period	Quantity	Weighted-average price	Range of prices	Number of responses
		Per mbf 3/		
1983:				
January-March.....	14	$251.00	-	1
April-June.....	332	293.00	-	1
July-September.....	300	242.88	$228.23-290.00	2
October-December....	499	239.58	236.00-241.13	2
1984:				
January-March.....	581	284.31	265.45-293.77	3
April-June.....	1,292	225.22	199.00-233.77	4
July-September.....	840	232.14	182.45-257.19	3
October-December....	864	221.98	174.00-232.34	3
1985:				
January-March.....	1,102	243.67	222.59-253.00	3
April-June.....	1,047	263.17	-	1
July-September.....	2,050	239.93	216.79-254.66	3
October-December....	2,085	228.58	218.24-239.00	3
1986:				
January-March.....	1,608	236.73	175.97-242.57	3

1/ Spruce-pine-fir, 2 X 4, standard/#2 and better, kiln dried, random lengths.
2/ The price data were developed from net delivered selling price data reported by U.S. lumber mills of the specified 2 X 4 product. Quantities shown are the sum of the total number of board feet of the specified product sold to each respondent's largest distributor customer in each quarter, whereas prices are the weighted-average of the delivered prices of the reported largest shipments to the largest distributor customers.
3/ Thousands of board feet.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-3.--U.S. Douglas fir 2 X 4's: 1/ Net delivered selling prices and quantities of domestically produced 2 X 4's sold to wholesalers, by quarters, January 1983-March 1986 2/

Period	Quantity	Weighted-average price	Range of prices	Number of responses
		Per mbf 3/		
1983:				
January-March.....	91	$217.23	$210.00-234.33	2
April-June.....	307	240.67	228.61-250.00	2
July-September.....	643	229.73	198.00-241.10	3
October-December....	393	203.01	185.00-234.50	2
1984:				
January-March.....	1,837	233.69	204.00-299.00	6
April-June.....	1,628	229.59	184.00-304.00	6
July-September.....	1,086	216.80	176.00-310.40	6
October-December....	1,313	192.85	175.00-225.30	5
1985:				
January-March.....	599	217.80	177.00-283.53	5
April-June.....	588	227.58	194.30-269.00	5
July-September.....	460	198.26	186.00-231.00	4
October-December....	378	204.70	180.00-237.00	4
1986:				
January-March.....	493	195.48	183.00-228.50	4

1/ Douglas-fir, 2 X 4, standard/#2 and better, kiln dried or green, random lengths.
2/ The price data were developed from net delivered selling price data reported by U.S. lumber mills of the specified 2 X 4 product. Quantities shown are the sum of the total number of board feet of the specified product sold to each respondent's largest distributor customer in each quarter, whereas prices are the weighted-average of the delivered prices of the reported largest shipments to the largest distributor customers.
3/ Thousands of board feet.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-4.--U.S. hem-fir 2 X 4's: 1/ Net delivered selling prices and quantities of domestically produced 2 X 4's sold to wholesalers, by quarters, January 1983-March 1986 2/

Period	Quantity	Weighted-average price	Range of prices	Number of responses
		Per mbf 3/		
1983:				
January-March	1,765	$251.99	$191.37-284.60	4
April-June	2,252	278.86	202.19-293.00	3
July-September	586	230.83	227.00-234.90	3
October-December	1,639	192.18	176.00-275.00	4
1984:				
January-March	1,246	226.69	185.10-293.00	5
April-June	921	202.79	199.00-259.00	4
July-September	523	192.59	189.00-212.44	2
October-December	308	234.15	184.00-269.00	3
1985:				
January-March	331	221.44	195.62-295.00	3
April-June	796	241.27	156.40-286.00	5
July-September	2,290	183.56	159.85-286.00	5
October-December	360	185.10	180.95-195.35	3
1986:				
January-March	194	230.08	184.50-270.00	3

1/ Hem-fir, 2 X 4, standard/#2 and better, kiln dried or green, random lengths.
2/ The price data were developed from net delivered selling price data reported by U.S. lumber mills of the specified 2 X 4 product. Quantities shown are the sum of the total number of board feet of the specified product sold to each respondent's largest distributor customer in each quarter, whereas prices are the weighted-average of the delivered prices of the reported largest shipments to the largest distributor customers.
3/ Thousands of board feet.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

ADDRESS CORRECTION REQUESTED

Postage And Fees Paid
U.S. International Trade Commission

ITC-653

ADDRESS CHANGE
☐ Remove from List
☐ Change as Shown
Please detach address label and mail to address shown above.