

# **SOFTWOOD LUMBER FROM CANADA**

Determination of the Commission in  
Investigation No. 701-TA-312  
(Preliminary) Under Section  
703(a) of the Tariff Act of 1930,  
Together With the Information  
Obtained in the Investigation

**USITC PUBLICATION 2468**

**DECEMBER 1991**

United States International Trade Commission  
Washington, DC 20436



**UNITED STATES INTERNATIONAL TRADE COMMISSION**

**COMMISSIONERS**

**Anne E. Brunsdale, Acting Chairman**

**Seeley G. Lodwick**

**David B. Rohr**

**Don E. Newquist**

**Carol T. Crawford**

**Janet A. Nuzum**

---

Charles Ervin,  
Director of Operations

---

*Staff assigned:*

Jim McClure, Investigator

Fred Ruggles, Commodity-Industry Analyst

Elizabeth Ravesteijn, Economist

John Ascienzo, Accountant/Financial Analyst

Judith Czako, Attorney

Robert Eninger, Supervisory Investigator

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

# CONTENTS

	<u>Page</u>
Determination-----	1
Views of the Commission-----	3
Information obtained in the investigation-----	A-1
Introduction-----	A-3
Investigations concerning softwood lumber-----	A-3
The products-----	A-6
Description and uses-----	A-6
U.S. tariff treatment-----	A-9
Nature and extent of alleged subsidies-----	A-10
The U.S. market-----	A-11
U.S. producers-----	A-11
U.S. importers-----	A-15
Apparent U.S. consumption-----	A-16
Consideration of alleged material injury to an industry in the	
United States-----	A-21
U.S. production, capacity, and capacity utilization-----	A-22
U.S. producers' shipments, inventories, and exports-----	A-26
U.S. producers' employment, wages, and productivity-----	A-31
Financial experience of U.S. producers-----	A-32
Overall establishment operations-----	A-32
Softwood lumber operations-----	A-32
Investment in productive facilities and return on assets-----	A-40
Capital expenditures-----	A-41
Research and development expenses-----	A-42
Capital and investment-----	A-42
Consideration of the question of threat of material injury-----	A-43
Inventories of U.S. importers-----	A-45
Ability of foreign producers to generate exports and the	
availability of export markets other than the United States-----	A-45
The industry in Canada-----	A-45
Canadian exports-----	A-47
Canadian imports-----	A-49
Canadian consumption-----	A-50
Consideration of the causal relationship between imports of the	
subject merchandise and the alleged material injury-----	A-50
U.S. imports and market penetration-----	A-50
Imports by domestic producers-----	A-52
Prices-----	A-53
Market characteristics-----	A-56
Purchases of softwood lumber-----	A-57
Transportation costs-----	A-57
Published prices-----	A-57
Questionnaire prices-----	A-58
Composite price trends-----	A-59
Price trends and comparisons-----	A-60
Atlanta, GA, market area-----	A-62
Boston, MA, market area-----	A-62
Chicago, IL, market area-----	A-64
Dallas, TX, market area-----	A-64
Jacksonville, FL market area-----	A-64
Lost sales and lost revenues-----	A-67
Exchange rates-----	A-67

## CONTENTS--Continued

	<u>Page</u>
<b>Appendixes</b>	
A. <u>Federal Register</u> notices-----	B-1
B. Calendar of the public conference-----	B-13
C. Comments received from U.S. producers on the impact of imports of softwood lumber from Canada on their growth, investment, ability to raise capital and/or existing development and production efforts-----	B-17
D. Weighted-average f.o.b. prices of the domestic and imported Canadian products, and f.o.b. prices as reported by <u>Random Lengths</u> -----	B-21
E. Composite f.o.b. prices for U.S. and Canadian softwood lumber-----	B-25

**Figures**

1. Softwood lumber: U.S. production by region and major producing States, 1990-----	A-13
2. Softwood lumber: Canadian production by principal provinces and and regions, 1990-----	A-14
3. Softwood lumber: Composite price indexes for U.S. and Canadian softwood lumber and producer price indexes for softwood lumber and softwood logs, bolts, and timber, by month, October 1989- September 1991-----	A-59
4. Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced SYP, by market areas and by months, and from <u>Random Lengths</u> , October 1989-September 1991-----	A-61
5. Softwood lumber: Weighted-average f.o.b. prices for U.S. and Canadian-produced SPF, by market areas and by months, and from <u>Random Lengths</u> , October 1989-September 1991-----	A-61
6. Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced hem-fir, by market areas and by months, and from <u>Random Lengths</u> , October 1989-September 1991-----	A-61
7. Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced Douglas Fir, by market areas and by months, and from <u>Random Lengths</u> October 1989-September 1991-----	A-61

**Tables**

1. Softwood lumber: U.S. and Canadian production, 1986-90-----	A-15
2. Softwood lumber: U.S. production, exports of domestic merchandise, imports from Canada, total imports for consumption, and apparent consumption, 1986-90, January-September 1990, and January- September 1991-----	A-17
3. Housing starts: U.S. housing starts, privately owned and total, by type of structure, and by region, 1986-90-----	A-19



## CONTENTS--Continued

	<u>Page</u>
Tables--Continued	
4. Softwood lumber: U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, by regions, 1986-90, January-September 1990, and January-September 1991-----	A-20
5. Softwood lumber: U.S. production, by geographic regions and by specified States, 1986-90, January-September 1990, and January-September 1991-----	A-23
6. Softwood lumber: U.S. production, by species and species groups, 1986-90, January-September 1990, and January-September 1991-----	A-24
7. Softwood lumber: U.S. production, capacity, and capacity utilization, 1986-90, January-September 1990, and January-September 1991-----	A-25
8. Softwood lumber: U.S. production, capacity, and capacity utilization, 1988-90, January-September 1990, and January-September 1991-----	A-26
9. Softwood lumber: Shipments from the Western United States to U.S. destinations, by areas and by methods of transportation, 1986-90--	A-27
10. Softwood lumber: Selected shipments from the Southern United States to U.S. destinations, by areas and by methods of transportation, 1986-90-----	A-28
11. Softwood lumber: U.S. producers' domestic shipments, export shipments, company transfers, total shipments, and end-of-period inventories, 1988-90, January-September 1990, and January-September 1991-----	A-29
12. Softwood lumber: U.S. exports, by markets, 1986-90, January-September 1990, and January-September 1991-----	A-30
13. Average number of production and related workers in establishments producing softwood lumber; average number of hours worked by such workers; wages, total compensation and hourly compensation paid to such workers; labor productivity for production and related workers; and unit labor costs, 1988-90, January-September 1990, and January-September 1991-----	A-31
14. Income-and-loss experience of U.S. producers on the overall operations of their establishments wherein softwood lumber is produced, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-33
15. Income-and-loss experience of U.S. producers on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-34
16. Financial indicators of U.S. producers on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-35
17. Selected financial data of producers on their operations producing softwood lumber, by firms, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-36
18. U.S. producers' per-unit manufacturing costs on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-39
19. Value of assets and return on assets of U.S. producers' establishments wherein softwood lumber is produced, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-40

## CONTENTS--Continued

	<u>Page</u>
Tables--Continued	
20. Capital expenditures by U.S. producers of softwood lumber, by products, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-41
21. Research and development expenses of U.S. producers of softwood lumber, by products, fiscal years 1988-90, January-September 1990, and January-September 1991-----	A-42
22. Softwood lumber: Canadian production, capacity, and capacity utilization, 1986-90, January-September 1990, and January-September 1991-----	A-45
23. Softwood lumber: Canadian production, by Provinces, 1986-90, January-September 1990, and January-September 1991-----	A-46
24. Softwood lumber: Canadian production, by species, 1986-90, January-September 1990, and January-September 1991-----	A-47
25. Softwood lumber: Canadian production, imports, exports to the United States, total exports, apparent consumption, and ratios of total exports to production, U.S. exports to production, and imports to consumption, 1986-90 and January-September 1990, and January-September 1991-----	A-48
26. Softwood lumber: U.S. imports, by sources, 1986-90, January-September 1990, and January-September 1991-----	A-51
27. Softwood lumber: U.S. imports from Canada by domestic producers responding to the Commission's questionnaires, 1988-90, January-September 1990, and January-September 1991-----	A-52
28. U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP, hem-fir, and Douglas fir, and Canadian SPF, and margins of under/(over) selling (in percent), into the Atlanta, GA, market area, by species and by month, October 1989-September 1991-----	A-63
29. U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced Douglas fir, hem-fir, and SYP, and Canadian Douglas fir, hem-fir, and SPF, and margins of under/(over) selling (in percent), sold into the Boston, MA, market area, by species and by month, October 1989-September 1991-----	A-63
30. U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced Douglas fir, hem-fir, SYP, and SPF, and Canadian SPF, and margins of under/(over) selling (in percent), sold into the Chicago, IL, market area, by species and by month, October 1989-September 1991-----	A-65
31. U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP and Douglas fir, and Canadian SPF, and margins of under/(over) selling (in percent), into the Dallas, TX, market area, by species and by month, October 1989-September 1991-----	A-66
32. U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP and Canadian hem-fir and SPF, and margins of under/(over) selling (in percent), sold into the Jacksonville, FL, market area, by species and by month, October 1989-September 1991-----	A-66
33. Exchange rates: Indexes of nominal and real exchange rates of the U.S. and Canadian dollars and indexes of producer prices in the United States and Canada, by quarters, January 1988-September 1991-----	A-68

## CONTENTS--Continued

	<u>Page</u>
Tables--Continued	
D-1. Softwood lumber: Weighted average f.o.b. prices of the domestic and imported Canadian products, and f.o.b. prices as reported by <u>Random Lengths</u> , by species, by month, and by destination, October 1989-September 1991-----	B-23
E-1. U.S. and imported Canadian softwood lumber: Composite prices for U.S. and Canadian softwood lumber, (all species and all market areas) by months, October 1989-September 1991-----	B-27

Note.--Information that would reveal business proprietary operations of individual concerns may not be published and therefore has been deleted from this report. Deletions are indicated by asterisks.



UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 701-TA-312 (Preliminary)

SOFTWOOD LUMBER FROM CANADA

Determination

On the basis of the record<sup>1</sup> developed in the subject investigation, the Commission determines,<sup>2</sup> 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,<sup>3</sup> provided for in subheadings 4407.10.00, 4409.10.10, 4409.10.20, and 4409.10.90 of the Harmonized Tariff Schedule of the United States (HTS), that are alleged to be subsidized by the Government of Canada.

Background

On October 31, 1991, the U.S. Department of Commerce published in the Federal Register<sup>4</sup> a notice that it was self initiating a countervailing duty investigation to determine whether subsidies are being provided, or are likely to be provided, to manufacturers, producers, or exporters of certain softwood lumber products in Canada. Accordingly, effective October 31, 1991, the

---

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

<sup>2</sup> Commissioners Lodwick, Crawford, and Nuzum did not participate.

<sup>3</sup> For purposes of this investigation, "softwood lumber" means coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm, provided for in subheading 4407.10.00 of the HTS; and coniferous wood siding, flooring and other goods (except coniferous wood moldings and wood dowel rods; but including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated [rabbeted], chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed, provided for in HTS subheadings 4409.10.10, 4409.10.20 and 4409.10.90.

<sup>4</sup> 56 F.R. 56055, Oct. 31, 1991.

Commission instituted countervailing duty investigation No. 701-TA-312  
(Preliminary).

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 November 6, 1991 (56 F.R. 56661). The conference was held in Washington, DC, on November 21, 1991, and all persons who requested the opportunity were permitted to appear in person or by counsel.

## VIEWS OF THE COMMISSION 1/

Based on the record in this preliminary investigation, we 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. We cannot conclude, based on the information before us, that there is clear and convincing evidence of no material injury to the domestic industry by reason of the allegedly subsidized imports.

I. Like Product and Domestic IndustryA. Like Product

To determine whether a "reasonable indication of material injury" exists, the Commission must first define the "like product" and the "domestic industry." "Like product" is defined "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation . . . ." 2/ The Commission applies "like" and "most similar in characteristics and uses" on a case-by-case basis. 3/

The Commission generally considers a number of factors in analyzing like product issues, including: (1) physical characteristics and uses, (2) interchangeability of products, (3) channels of distribution, (4) customer and producer perceptions, (5) common manufacturing facilities, production employees and production processes, and, (6) where appropriate, price. 4/ No single factor is necessarily dispositive, and the Commission may consider

---

1/ Commissioners Lodwick, Crawford, and Nuzum did not participate in this determination.

2/ 19 U.S.C. § 1677(10).

3/ Asociacion Colombiana De Exportadores de Flores v. United States, 693 F. Supp. 1165, 1169 (1988) (ASOCOLFLORES) (like product issue essentially one to be based on the unique facts of each case).

4/ See, e.g., Torrington Co. v. United States 747 F. Supp 744, 749 (Ct. Int'l Trade 1990), aff'd, 938 F.2d 1208 (Fed. Cir. 1991).

other factors it deems relevant based on the facts of a particular investigation. The Commission may find a like product to be broader than the imported article(s) described in Commerce's scope of investigation, 5/ or it may find two or more like products corresponding to the imported article or articles. 6/ The Commission has not found minor variations to be a sufficient basis for a separate like product analysis, but rather, has looked for clear dividing lines among possible like products. 7/

The Department of Commerce has defined the imported products subject to this investigation as:

Coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 millimeters (mm); such products are imported under subheading 4407.1000 of the Harmonized Tariff Schedule (HTS) of the United States; and

Coniferous wood siding (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V--jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; and other coniferous wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V--jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; such products are imported under subheadings 4409.1010 and 4409.1090 of the HTS; and

---

5/ See, e.g., Generic Cephalexin Capsules from Canada, Inv. No. 731-TA-423 (Final), USITC Pub. 2211 (August 1989) at 5-10; Shock Absorbers and Parts, Components, and Subassemblies Thereof from Brazil, Inv. No. 731-TA-421 (Preliminary), USITC Pub. 2128 (September 1988) at 10-16.

6/ See, e.g., American NTN Bearing Manufacturing Corp. V. United States, 739 F. Supp. 1555, 1560 n.6 (Ct. Int'l Trade 1990) ("ITC may determine during the course of its investigation that class or kind of merchandise defined by ITA as being within the scope of ITA's investigation may consist of more than one like product. ITC can reach this result despite the finding by ITA that only one class or kind of merchandise is covered by ITA's investigation.")

7/ S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979). Polyethylene Terephthalate Film, Sheet, and Strip from Japan, The Republic of Korea, and Taiwan, Inv. No. 731-TA-458 through 460 (Preliminary), USITC Pub. 2292 (June 1990) at 5-6; ASOCOLFLORES, 693 F. Supp. at 1168-69.



Coniferous wood flooring (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V--jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; such products are imported under subheading 4409.1020 of the HTS. 8/

In two previous investigations 9/, the Commission found one domestic product, softwood lumber, like the imports subject to investigation. 10/ The Commission reached this conclusion despite the fact that softwood lumber varies based upon characteristics such as species 11/, size, shape, stage of manufacture, moisture content, and grade. 12/ While those determinations are not binding on the Commission as a matter of law 13/, the parties in the current investigation have uniformly indicated that they have no quarrel with the like product as defined in the Commission's previous lumber determinations, and believe the same definition is appropriate here. 14/

---

8/ 56 Fed. Reg. 56055 (1991).

9/ Softwood Lumber from Canada, Inv. No. 701-TA-197 (Preliminary), USITC Pub. 1320 (Nov. 1982); Softwood Lumber from Canada, Inv. No. 701-TA-274 (Preliminary) USITC Pub. 1874 (July 1986).

10/ The scope of Commerce's investigation in this case is the same as that identified in the 1986 lumber investigation. See 51 Fed. Reg. 21205 (1986).

11/ Southern yellow pine lumber was included in the like product, although no imports from Canada were derived from that species of tree.

12/ In its 1986 determination, the Commission noted that it intended to explore certain like product issues further in the event of a final investigation, including whether treated lumber or lumber derived from any particular species of trees should be considered separate like products. Since there was no final investigation, these questions were never addressed.

13/ Commission determinations are sui generis, and the Commission is not obligated to follow prior decisions if new arguments or facts are presented that support a different conclusion, so long as it does not act arbitrarily. Citrosuco Paulista, S.A. v. United States, 704 F. Supp. 1075, 1087-88 (Ct. Int'l Trade 1988), citing Armstrong Bros. Tool Co. v. United States, 483 F. Supp. 312, 328 (1980), aff'd 626 F.2d 168 (1980) and ASOCOLFLORES, 704 F. Supp. at 1071.

14/ Post-Conference Brief of the U.S. Coalition for Fair Lumber Imports et al. (Coalition) at 6-9; Post-Conference Brief of the Canadian Forest Industries Council et al. (CFIC) at 21; Post-Conference Brief of the Government of the Province of Ontario at 1. See Transcript of Staff Conference at 38-39 & 55 (Mr. Stein on behalf of the Coalition), 103-104 & 111 (Ms. Barshefsky on behalf of the CFIC).

The Independent Lumber Remanufacturers' Association of Canada (ILRA), which is not a party to the investigation, filed a brief in which it argues, based on the criteria outlined above 15/, that remanufactured lumber products are a separate like product. 16/ Consequently, the ILRA argues that U.S. producers of remanufactured lumber should be found to constitute a separate domestic industry, and the Commission should examine the effects of allegedly subsidized remanufactured lumber imports on that separate domestic industry. 17/

In this preliminary investigation, we determine that there is one like product, softwood lumber. The parties are in agreement with that definition of like product. Other than the argument raised by the ILRA, no new arguments were presented to the Commission, and we are aware of no new facts which would require a different determination than that reached in the previous lumber investigations.

The issue raised by the ILRA was not broached until late in the investigation. Because the issue was raised late in the investigation, the Commission did not gather questionnaire data concerning a possible industry

---

15/ The ILRA argues that remanufactured lumber has different physical characteristics from other lumber products, in that it is produced from the highest grades of lumber purchased from sawmills, and involves a high degree of fabrication to attain a particular shaped physical appearance. The ILRA asserts that remanufactured lumber is not interchangeable with other lumber products, primarily because of its higher costs due to the fabrication process, that remanufactured lumber is sold through different channels of distribution than other lumber products, is perceived differently by consumers and producers, is manufactured in different facilities by different employees than other lumber products, and is sold at substantially higher prices than other lumber products.

16/ Remanufactured lumber includes decorative paneling, window casings, flooring, molding, furniture components, ladder stock, finger-jointed and end-matched merchandise.

17/ The ILRA argues that producers of remanufactured lumber are separate and independent from the sawmills found to comprise the domestic industry in the previous lumber investigations.

producing such a possible like product. Moreover, the Commission has no independent information on remanufactured lumber or producers of remanufactured lumber on which to base a determination that it constitutes a separate like product produced by a separate domestic industry. No party has had an opportunity to comment on the ILRA's arguments. The ILRA has indicated that it intends to raise the issue of exclusion of remanufactured lumber from the scope of the investigation with the proper authority, the Department of Commerce. In the event that Commerce does not rule on the question prior to institution of a final investigation by the Commission, we intend to explore this like product issue further in any final investigation.

#### B. The Domestic Industry

The statute defines the domestic industry as "the domestic producers as a whole of the like product, or those producers whose output of the like product constitutes a major proportion of the total domestic production of the product." 18/

Based on our like product determination, we find that there is one domestic industry producing the like product, consisting of mill operators. This is the conclusion reached in the previous lumber investigations. 19/ The parties expressed their agreement with this definition. 20/ No new facts were presented which would require changing this definition. 21/

---

18/ 19 U.S.C. § 1677(4).

19/ Softwood Lumber from Canada, Inv. No. 701-TA-197 (Preliminary), USITC Pub. 1320 (Nov. 1982) at 5; Softwood Lumber from Canada, Inv. No. 701-TA-274 (Preliminary) USITC Pub. 1874 (July 1986) at 7.

20/ Coalition Brief at 6-9; CFIC Brief at 21; Post-Conference Brief of the Government of the Province of Ontario at 1. See Transcript of Staff Conference at 38-39 & 55 (Mr. Stein on behalf of the Coalition), 103-104 & 111 (Ms. Barshefsky on behalf of the CFIC).

21/ In the event that our like product determination changes in any final investigation, we will revisit the question of the domestic industry.

## II. Related Parties

The related parties provision states that when a producer is related to the importer or foreign manufacturer of a product, or is itself an importer of the allegedly dumped or subsidized imports, the Commission may exclude such a producer from the domestic industry in "appropriate" circumstances. 22/ Application of the related parties provision is within the Commission's discretion based upon the facts presented in each case. 23/

---

22/ 19 U.S.C. § 1677(4)(B) provides:

When some producers are related to the exporters or importers, or are themselves importers of the allegedly subsidized or dumped merchandise, the term "industry" may be applied in appropriate circumstances by excluding such producers from those included in that industry.

23/ Empire Plow Co. v. United States, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987).

The Commission generally applies a two-step analysis in determining whether to exclude a domestic producer from the domestic industry under the related parties provision. The Commission considers first whether the company qualifies as a related party under section 771(4)(B), and second whether in view of the producer's related status there are "appropriate circumstances" for excluding the company in question from the definition of the domestic industry. See, e.g., Digital Readout Systems and Subassemblies Thereof from Japan, Inv. No. 731-TA-390 (Final), USITC Pub. 2150 (1989) at 15. The related parties provision may be employed to minimize distortion in the aggregate data bearing on the condition of the domestic industry resulting from including related parties whose operations are shielded from the effects of the subject imports. Granular Polytetrafluoroethylene Resin from Italy and Japan, Inv. Nos. 731-TA-385 and 386 (Preliminary), USITC Pub. 2043 (1987) at 9.

The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude the related parties include:

- (1) the percentage of domestic production attributable to related producers;
- (2) the reason why importing producers choose to import the articles under investigation (viz., whether they import in order to benefit from the unfair trade practice or in order simply to be able to compete in the domestic market); and
- (3) the competitive position of the related domestic producer vis-a-vis other domestic producers.

The Commission has also considered whether each company's books are kept separately from its "relations" and whether the primary interests of the related producers lie in domestic production or in importation. See, e.g., Rock Salt from Canada, Inv. No. 731-TA-239, USITC Pub. 1798 (1986) at 12.

In the 1986 lumber investigation, the Commission considered the related parties issue although no party had argued that any producer should be excluded as a related party. The Commission determined that it lacked sufficient data to conclude that appropriate circumstances existed to exclude any of the related producers at the time of the preliminary determination, but expressed the intention to explore the issue in any final investigation. 24/

In this investigation, six domestic producers reported importing softwood lumber from Canada, mostly from their Canadian affiliates. Those producers accounted for more than 15 percent of U.S. softwood lumber production in 1990. 25/ No party has argued in this investigation that any domestic producer should be excluded under the related parties provision. Nonetheless, we believe this is an issue which the Commission is obligated to consider in any investigation in which the facts indicate that it arises. Nothing in the record indicates that the importing producers are in any different position from other producers in the domestic industry, or that they are importing in order to benefit from the alleged subsidization of Canadian lumber. Consequently, we do not believe that any producers should be excluded from the domestic industry.

---

24/ Softwood Lumber from Canada, Inv. No. 701-TA-274 (Preliminary), USITC Pub. 1874 (July 1986) at 7-8.  
25/ Report at A-52.

### III. Condition of the Domestic Industry 26/

In examining the condition of the domestic industry, the Commission considers, among other factors, production, shipments, capacity, capacity utilization, inventories, employment, wages, financial performance, capital investments, and research and development expenditures. 27/ In addition, 19 U.S.C. § 1677(7)(C)(iii) requires the Commission to consider the condition of the industry in the context of the business cycle and conditions of competition that are distinctive to the domestic industry. 28/

Apparent consumption of lumber in the United States declined during the period of investigation by 5.7 percent, from 48.7 billion board feet in 1988 to 45.9 billion board feet in 1990. 29/ Comparison of the interim periods, January–September 1990 and January–September 1991, reveals a sharpening decline of 11.3 percent, from 36.2 billion board feet in interim 1990 to 32.1 billion board feet in interim 1991. 30/ Total production of lumber in the

---

26/ Vice Chairman Brunsdale joins in this discussion of the condition of the domestic industry. She does not, however, join in her colleagues' conclusion that this information establishes that there is a reasonable indication of material injury to a domestic industry. She does not believe that a discussion of the condition of the industry, taken alone, can establish that there is a reasonable indication that a domestic industry is materially injured by reason of allegedly subsidized imports, which is the question the Commission is directed to consider. She does, however, find the discussion of the condition of the domestic industry helpful in determining whether any injury resulting from the allegedly subsidized imports is material.

27/ See 19 U.S.C. § 1677(7)(C)(iii). In this investigation, we have considered information available from government and public sources, including the Department of Commerce and the National Forest Products Association. In addition, we received responses to our questionnaires from 32 domestic producers, who accounted for more than 43 percent of U.S. production in 1990. Report at A-25.

28/ See H.R. Rep. 317, 96th Cong., 1st Sess. at 46; S. Rep. 249, 96th Cong., 1st Sess. at 88.

29/ Report at A-17 and table 2. Apparent consumption of lumber peaked in 1987, at 50.5 billion board feet, and has declined irregularly since that time. *Id.*

30/ Report at A-17 and table 2.

United States declined from 1988 through 1990, from 38.1 billion board feet to 35.8 billion board feet. 31/

U.S. producers' capacity to produce lumber has increased slightly during the period of investigation, from 39.2 billion board feet in 1988 to 39.5 billion board feet in 1990. 32/ Capacity utilization has declined during the period of investigation, from 97.2 percent in 1988 to 90.5 percent in 1990. 33/ Capacity utilization declined sharply between the interim periods, from 93.4 percent in interim 1990 to 85.5 percent in interim 1991. 34/

Based on information reported in Commission questionnaires, the volume of U.S. shipments of lumber by producers in the United States declined irregularly by 1.1 percent from 1988 to 1990, and declined by 6.1 percent from interim 1990 to interim 1991. 35/ Unit values for those shipments also show an irregular decline of 0.8 percent from 1988 to 1990, and a decline of 1.5 percent from interim 1990 to interim 1991. 36/ U.S. producers' inventories of lumber as a share of total shipments remained relatively level from 1988 through interim 1991, ranging between 7.4 and 7.7 percent. 37/

Employment in the industry decreased over the period of investigation. 38/ The number of production and related workers producing

---

31/ Report at A-22 and table 2. 1987 represented a peak year, with total production of 38.2 billion board feet. Id.

32/ Report at A-25 and table 7.

33/ Id.

34/ Id. These figures are compiled from official statistics of the U.S. Department of Commerce and the National Forest Products Association. The information received by the Commission in response to its questionnaires represents a smaller proportion of U.S. lumber production (over 43 percent of 1990 production), and therefore shows different absolute levels, but the same general trends. Id. at A-25 and table 8.

35/ Report at A-26 and table 11.

36/ Id.

37/ Id.

38/ Report at A-31 and table 13.

lumber in the United States decreased steadily during the period of investigation by 5.6 percent, as did the number of hours worked by those workers. 39/ Productivity of workers engaged in lumber production increased by 4.8 percent from 1988 to 1990, and by 3.5 percent from interim 1990 to interim 1991. 40/ Total wages and compensation paid to production and related workers producing lumber increased from 1988 to 1989, then declined in 1990, and showed a decline from interim 1990 to interim 1991. 41/ Unit labor costs, however, increased steadily throughout the period of investigation. 42/

The financial data reveal that lumber producers in the United States are experiencing difficulties. 43/ The total value of net sales of lumber increased from 1988 to 1989, as both per unit values and sales quantities increased, then declined from 1989 to 1990 as per unit values declined substantially, although the quantity of lumber sold increased. 44/ Net sales again dropped in interim 1991 as compared with interim 1990, as both the quantity sold and per unit values declined. 45/ Gross profits in 1990 declined to less than a third of the levels reached in 1989. This decline was largely the result of steady substantial increases in per unit costs from 1988 to 1990. 46/ The slight improvement in gross profits in interim 1991 compared to interim 1990 is the result of a substantial decrease in the cost of goods sold, due to both reduced sales volumes and declining per unit cost of goods

---

39/ Id.

40/ Id.

41/ Id.

42/ Id.

43/ Report at A-32, A-35, and table 15.

44/ Id. See also Memorandum INV-O-228, December 10, 1991. Net sales in 1990 remained above their 1988 levels. Report at A-34, table 15.

45/ Id.

46/ Id.



sold. 47/ While the gross profit margin was higher in interim 1991 than in interim 1990, it was still only about two-thirds of the level reached in 1989. 48/ Operating income declined significantly during the three full years of the period of investigation, with operating losses in 1990. 49/

Lumber production is a cyclical industry, closely linked to the construction cycle. 50/ 19 U.S.C. section 1677(7)(C)(iii) specifies that the Commission "shall examine all relevant economic factors described in this clause within the context of the business cycle and conditions of competition that are distinctive to the affected industry." 51/ Thus, in this investigation, we have considered the issue of material injury in the context of the business cycle of the lumber industry, as well as the conditions of competition in that industry. 52/ In the United States, new housing construction accounts for the greatest portion of lumber consumption, which generally tracks new housing starts. Housing starts fell steadily during the period of investigation. 53/ The performance trends of the industry must

---

47/ We note, however, that the data for the interim periods is probably skewed upwards, due to the seasonal nature of demand for lumber. Report at A-35.

48/ Report at A-32, A-35, and table 15.

49/ Id. Almost one-half of the producers responding to the Commission's questionnaires reported operating losses in 1990. Report at A-34, table 15.

50/ Report at A-16.

51/ 19 U.S.C. § 1677(7)(C)(iii).

52/ The lumber industry cycle is driven by the construction industry business cycle. Because of a lack of predictability in the construction industry cycle, forecasts of peaks and valleys in the lumber industry cycle are less certain, and it is difficult to factor the cycle and the condition of the industry together in assessing the issue of material injury. As the Commission noted in the 1986 Cement investigation, "the question of where an industry is in its business cycle at any given time, as well as the question of the length of the cycle, is one which is not readily answerable." 1986 Cement at 17, n.52.

53/ Id. at A-16. However, the correlation between housing starts and lumber consumption appears less strong than it was during the period of the Commission's 1986 lumber determination. This change appears to be due in

(continued...)

therefore be considered in the context of a market characterized by generally declining demand. A slackening of performance by the lumber industry is not unexpected in the face of declining demand in the construction industry, but we note that the conclusion that the industry's performance is commensurate with the relevant business cycle does not preclude an affirmative determination.

Material injury is defined in the statute as "harm which is not inconsequential, immaterial or unimportant." 54/ While the definition of "material injury" is the same in both preliminary and final investigations, the standard of determination is different. In preliminary investigations an affirmative determination is based on a "reasonable indication" of material injury or threat, as opposed to the finding of actual material injury or threat required for an affirmative determination in a final determination. 55/ We determine that there is a reasonable indication that the domestic industry producing softwood lumber is materially injured.

Much of the information and argument presented on the question of whether the lumber industry is performing "as well as could be expected" in the current economic conditions, and therefore cannot be deemed materially injured, was based on a comparison of the performance of the lumber industry with that of other construction related industries. As noted above, 19 U.S.C. § 1677(7)(C)(iii) specifies that the Commission "shall examine all relevant economic factors described in this clause within the context of the business

---

53/(...continued)

large part to the increase in consumption in the repair and remodeling segment of the market, which has partially offset the decline related to consumption in the new residential construction segment. Id.

54/ 19 U.S.C. §1677(7)(A).

55/ Compare 19 U.S.C. §§ 1671b(a) and 1673b(a) with 19 U.S.C. §§ 1671d(b)(1) and 1673d(b)(1).

cycle and conditions of competition that are distinctive to the affected industry." 56/ While other construction-related industrial sectors are no doubt affected by many of the same overall economic factors as the lumber industry, we do not believe these comparisons clearly and convincingly demonstrate that the domestic industry is not materially injured.

IV. Reasonable Indication of Material Injury by Reason of Allegedly LTFV Imports

Pursuant to section 703(a) of the Tariff Act of 1930, in a preliminary countervailing duty investigation the Commission must determine whether, based on the best information available at the time of the preliminary determination, there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, by reason of the allegedly subsidized imports that are subject to investigation. 57/ In

---

56/ (Emphasis added).

In explaining the reason for this amendment, the House Ways and Means Committee noted that this provision

relates to the Committee's concern that, in examining the impact of imports on domestic producers, the ITC should not examine the health or condition of an industry in any abstract sense. An industry's health should be determined in the context of the impact that imports are having on that industry. Furthermore, the condition of an industry should be considered in the context of the dynamics of that particular industry sector, not in relation to other industries or manufacturers as a whole.

H.R. Rep. 40, 100th Cong., 1st Sess. (1987) at 128 (emphasis added). Accord S. Rep. No. 71, 100th Cong., 1st Sess. (1987) at 117 (same language). Although the Committees were specifically addressing provisions in the predecessor bills to the Omnibus Trade and Competitiveness Act of 1988 which effected the amendment, the specific proposed statutory language is the same as that actually enacted, compare section 154 of H.R. 3 and section 330 of S. 490 with 19 U.S.C. § 1677(7)(C)(iii), and Congress adopted the legislative histories of the predecessor bills as the legislative history of the Omnibus Trade and Competitiveness Act. Pub. L. No. 100-418 § 2, 101 Stat. 1107, 1119 (1988).

57/ 19 U.S.C. § 1671b(a); Maverick Tube Corp. v. United States, 687 F. Supp. 1659, 1673 (Ct. Int'l Trade 1988). The third alternative injury finding, material retardation of the establishment of a domestic industry, is not at issue in this case.

American Lamb v. United States, the Federal Circuit defined the "reasonable indication" standard to require more than a finding that there is a possibility of material injury. The Court held that the Commission may weigh the evidence of record before it to determine whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of material injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation." 58/

In determining whether there is a reasonable indication that a domestic industry is materially injured by reason of imports, the statute provides that the Commission consider in each case:

(I) the volume of imports of the merchandise which is the subject of the investigation,

(II) the effect of imports of that merchandise on prices in the United States for like products, and

(III) the impact of imports of such merchandise on domestic producers of like products, but only in the context of production operations in the United States; 59/

The Commission may consider other factors it deems relevant, but must explain why they are relevant. 60/ The Commission may take into account information concerning alternative causes of injury to the domestic industry 61/, but we

---

58/ 785 F.2d 994, 1001-04 (Fed. Cir. 1986).

59/ 19 U.S.C.(7)(B)(i). The statute also provides that the Commission may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports. 19 U.S.C. § 1677(7)(B)(ii). Finally, the statute gives guidance as to how the factors listed in subsection (B)(i) are to be evaluated. 19 U.S.C. § 1677(7)(C).

60/ 19 U.S.C. § 1677(7)(B).

61/ S. Rep. No. 249, 96th Cong. 1st Sess. 57-58, 74 (1979). Such alternate causes may include "the volume and prices of imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology, and the export performance and productivity of the domestic industry." Id. at 57.

do not weigh causes. 62/ It is sufficient to support an affirmative determination that the imports under investigation contribute, even minimally, to the domestic industry's materially injured condition. 63/ 64/

The volume of imports from Canada into the United States increased from 1988 to 1989, then declined 15.7 percent in 1990. 65/ Data for the interim periods shows a continued decline of 7.7 percent from interim 1990 to interim 1991. 66/ Measured in terms of value, imports from Canada demonstrated the same trend, although the value of imports declined by a lesser percentage. 67/ As a share of apparent U.S. consumption, imports from Canada declined by two percentage points from 1988 to 1990, and showed a 1.1 percentage point increase in interim 1991 as compared with interim 1990. 68/ Canadian imports maintained a significant share of the U.S. market throughout the period of investigation, accounting for 28.2 percent of apparent consumption in 1988, 28.8 percent in 1989, 26.2 percent in 1990, and increasing from 26.1 percent in interim 1990 to 27.2 percent in interim 1991. 69/

---

62/ See id. at 57-58, 75; Hercules, Inc. v. United States, 973 F. Supp. 454, 481-82 (Ct. Int'l Trade 1987).

63/ E.g. Iwatsu Electric Co. v. United States, 758 F. Supp 1506 (Ct. Int'l Trade 1991); United Engineering & Forging v. United States, Slip Op. 91-101 (Ct. Int'l Trade, Nov. 18, 1991); LMI-La Metalli Industriale, S.p.A. v. United States, 712 F. Supp. 959 (Ct. Int'l Trade 1989).

64/ Vice Chairman Brunsdale notes that while the Commission is not to weigh causes, it must nonetheless conclude that the injury "by reason of" the subject imports is material to reach an affirmative determination. While the formulation used in the text has received some favorable comment in judicial dicta, it finds no support in the language of the statute or in the legislative history. For a full treatment of this issue, see Certain Telephone Systems and Subassemblies Thereof from Japan and Taiwan, Invs. Nos. 731-TA-426 and 428 (Final), USITC Pub. 2237 (Nov. 1989) at 147-248 and particularly 228-48 (Dissenting Views of Vice Chairman Ronald A. Cass).

65/ Report at A-50 and table 26.

66/ Id.

67/ Id.

68/ Report at A-17, table 2.

69/ Report at A-50 and A-17, table 2.

Consideration of the price effects of allegedly subsidized imports from Canada is extremely complex and difficult in this investigation. Softwood lumber is sold as a commodity and prices change daily, and even hourly. Producers quote prices to purchasers on a spot basis, relying on internal price lists or industry sources such as Random Lengths as a guide. The volatility of the market, combined with the relative difficulty of obtaining specific price information from producers, importers, and purchasers, complicates the gathering and interpretation of price information. 70/ Moreover, while U.S. producers generally quote prices on an f.o.b. mill basis, the practice in Canada has changed in the past few years, and Canadian mills now generally quote prices on a delivered basis. 71/ The different bases used for quoting prices by Canadian and U.S. producers makes developing price comparisons particularly difficult. Consequently, we considered published prices from a number of sources, as well as the price information gathered through questionnaires, in this investigation.

While we are satisfied that our pricing information is generally accurate and reflects pricing trends in the market, its usefulness for reflecting comparative prices of domestic and imported lumber is not clear. 72/ We anticipate that in any final investigation, additional pricing information should enable us to develop additional comparisons. In addition, we may consider other methods of analyzing prices in this market, and will

---

70/ Transcript of Commission meeting, December 12, 1991, at 7-9.

71/ Transportation costs account for a significant portion, about 30 percent, of the final delivered price of lumber, and are a major factor in purchase decisions. Report at A-57.

72/ The information available from Commission questionnaires generally tracks the price trends in published sources.

attempt to develop information concerning volume/price correlations in particular market areas.

In the course of this investigation, the Commission requested pricing information from producers and importers for six market areas, considered representative of activity in the U.S. market overall. Composite price trends indicate that prices for U.S. and Canadian lumber tended to move together during the period October 1989 through September 1991. Weighted average prices tended to peak in the late spring and early summer of each year, with the 1991 peak at a higher level than that reached in 1990. 73/ The price comparisons we were able to derive based on composite delivered prices indicate some underselling by Canadian imports. 74/ However, in a market for a commodity product such as lumber, we would not expect to see a consistent pattern of under- or overselling. 75/

Demand for lumber depends primarily on the demand for construction. 76/ Market penetration of Canadian imports was significant throughout the period of investigation. 77/ Imports from Canada are highly substitutable for the

---

73/ Report at A-60-A-61, Figures 4-7.

74/ Report at A-60-A-66 and tables 28-31.

75/ Even without underselling, imports may be found to be a cause of price suppression or depression. The statute requires the Commission to determine whether "the effect of imports of that merchandise otherwise depresses prices to a significant degree or prevents price increases, which would otherwise have occurred, to a significant degree." 19 U.S.C. 1677(7)(C)(ii)(II)) (emphasis added). Florex v. United States, 705 F. Supp. 582, 593 (Ct. Int'l Trade 1989) ("injury need not be based on a finding of injury by specific price underselling. ITC may consider as it did, the suppressive effects of the unfairly traded imports.") See also Maine Potato Council v. United States, 613 F. Supp. 1237, 1245 (Ct. Int'l Trade 1985); Iwatsu Electric Co. v. United State, 758 F. Supp. at 1515 ("Difficulties with, or even impossibility of, direct price comparison do not mandate a negative determination.")

76/ Report at A-16, A-45.

77/ We note that increased imports are not a prerequisite for an affirmative determination. The statute provides:

(continued...)

domestic like product. 78/ In the circumstances of this case, competitive conditions for allegedly subsidized imports to have a price suppressing and depressing effect are present. While allegedly subsidized Canadian imports have maintained, and slightly increased in the most recent period, their significant share of the U.S. market, domestic producers appear to be facing rising log costs, and it does not appear that lumber prices have increased commensurate with those rising costs. 79/ We cannot conclude that there is clear and convincing evidence on the record of no material injury to the domestic industry by reason of allegedly subsidized imports, and that there is no likelihood that contrary evidence will be developed in a final investigation. 80/

---

77/(...continued)

In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant.

19 U.S.C. § 1677(7)(C)(i). It is the significance of the volume or market share of imports in terms of the particular industry that is critical. USX Corp. v. United States, 655 F. Supp. 487, 490 (Ct. Int'l Trade 1987); Iwatsu Electric Co. v. United States, 758 F. Supp. at 1513-14 (Ct. Int'l Trade 1991).

78/ While there are regional preferences and preferences for some particular end uses, on the whole there appears to be significant substitutability between lumber derived from different species of trees. Report at A-12. Several purchasers reported comparing across species. Report at A-56.

79/ Per-unit cost of sales, a significant portion of which are accounted for by log costs, increased from 1988 through 1990. Report at A-32, A-38-A-39, and table 15. While per-unit cost of sales declined in interim 1991 as compared with interim 1990, some of this decline may be accounted for by increases in by-product revenues, which were treated as a reduction in cost of sales in our analysis. Report at A-38-A-39.

80/ Vice Chairman Brunsdale notes particularly that, in any final investigation, the Commission will have before it information from the Department of Commerce concerning the nature of the subsidy, and the rate of subsidization. At this time, the only information concerning the alleged subsidy is found in Commerce's notice of initiation (56 Fed. Reg. 56055 (1991)) and supporting memorandum. That information is insufficient as a basis for determining how the alleged subsidies may affect Canadian production and pricing, and the consequent effect of imports on the U.S. industry.

(continued...)



Based on the foregoing, we conclude that there is a reasonable indication that the domestic industry is materially injured by reason of allegedly subsidized imports of softwood lumber from Canada.

---

80/(...continued)

Moreover, it is possible that additional subsidy programs may be investigated by Commerce, as to which we have no information at all. While consideration of the nature of the subsidy is only required in analyzing threat of material injury, 19 U.S.C. § 1677(7)(F)(i)(I), it may well be a relevant and worthwhile factor for consideration on the question of material injury to the domestic industry. See 19 U.S.C. § 1677(7)(C)(iii). In addition, as she has noted in the past, the margin of subsidization is an important factor in her analysis.



## **INFORMATION OBTAINED IN THE INVESTIGATION**



## INTRODUCTION

On October 31, 1991, the U.S. Department of Commerce (Commerce) published in the Federal Register<sup>1</sup> a notice that it was self initiating a countervailing duty investigation to determine whether subsidies are being provided, or are likely to be provided, to manufacturers, producers, or exporters of certain softwood lumber products in Canada. Accordingly, effective October 31, 1991, the U.S. International Trade Commission (Commission) instituted countervailing duty investigation No. 701-TA-312 (Preliminary), under section 703 of the Tariff Act of 1930 (the Act), to determine whether there is a reasonable indication that an industry in the United States is materially injured or 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,<sup>2</sup> provided for in subheadings 4407.10.00, 4409.10.10, 4409.10.20, and 4409.10.90 of the Harmonized Tariff Schedule of the United States (HTS), that are alleged to be subsidized by the Government of Canada.

The statute directs the Commission to make its preliminary determination within 45 days after institution, or in this investigation, by December 16, 1991. Notice of the institution of this investigation 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 November 6, 1991 (56 F.R. 56661).<sup>3</sup> The Commission held a public conference in Washington, DC, on November 21, 1991, at which time all interested parties were allowed to present information and data for consideration by the Commission.<sup>4</sup> The Commission voted on this investigation on December 12, 1991.

## INVESTIGATIONS CONCERNING SOFTWOOD LUMBER

The origins of the present investigation date back to an investigation begun in 1986. In May of that year, the Coalition for Fair Lumber Imports, a group of U.S. softwood lumber manufacturers and associations representing U.S.

---

<sup>1</sup> 56 F.R. 56055, Oct. 31, 1991.

<sup>2</sup> For purposes of this investigation, "softwood lumber" means coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm, provided for in subheading 4407.10.00 of the HTS; and coniferous wood siding, flooring and other goods (except coniferous wood moldings and wood dowel rods; but including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated [rabbeted], chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed, provided for in HTS subheadings 4409.10.10, 4409.10.20 and 4409.10.90.

<sup>3</sup> Copies of the Commission's and Commerce's Federal Register notices, as well as those of the United States Trade Representative (USTR), relevant to this investigation appear in app. A.

<sup>4</sup> A list of the participants in the conference is presented in app. B.

softwood lumber manufacturers,<sup>5</sup> filed a countervailing duty petition with the Commission and Commerce alleging that an industry in the United States was materially injured or threatened with material injury by reason of allegedly subsidized imports from Canada of softwood lumber. Consequently, the Commission instituted a preliminary countervailing duty investigation and determined, in July 1986, 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.<sup>6</sup>

In October 1986, Commerce made its preliminary determination<sup>7</sup> that imports of softwood lumber from Canada were receiving certain benefits which constituted subsidies within the meaning of the countervailing duty law. Commerce found that subsidies of 15 percent *ad valorem* were being provided to Canadian producers of certain softwood lumber products. The primary subsidy was the selective provision of a government resource, provincially-owned timber, at administratively-set prices which were determined to be at preferential rates within the meaning of subsection 771(5)(A)(ii) of the Act. As a result of Commerce's affirmative determination, the Commission instituted investigation No. 701-TA-274 (Final), in October 1986, to determine whether an industry in the United States was materially injured or was threatened with material injury, or whether the establishment of an industry in the United States was materially retarded, by reason of subsidized imports from Canada of softwood lumber.

On December 30, 1986, before Commerce's final determination in the investigation, the United States and Canada arrived at a settlement of the dispute regarding the existence and level of subsidies, and entered into a Memorandum of Understanding on Softwood Lumber (MOU). Under the MOU, the Government of Canada agreed to impose a 15 percent export charge on certain softwood lumber products; such charge could be reduced or eliminated for lumber from those provinces that instituted replacement measures increasing the fee charged on the harvest of timber.<sup>8</sup> In exchange for Canada's agreement

---

<sup>5</sup> The Coalition's members included 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 represented companies accounting for more than 70 percent of U.S. softwood lumber production in 1985. Additionally, the following state associations were also members of the Coalition: the Alabama Forestry Association, the Arkansas Forestry Association, and the Lumber Manufacturers' Association of Virginia.

<sup>6</sup> 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, USITC Publication 1874, July 1986.

<sup>7</sup> 51 F.R. 37453.

<sup>8</sup> Softwood lumber produced in the Maritime Provinces (New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Island) from timber harvested in the Maritime Provinces was exempted from the MOU and is similarly exempted from the instant investigation.

to collect an export charge under the MOU, the U.S. lumber industry withdrew its petition and Commerce and the Commission terminated their investigations.<sup>9</sup> As a result, Commerce never made a final subsidy determination which, if affirmative, would have resulted in the offset of subsidies on imports through the imposition of countervailing duties in the event the Commission had subsequently found material injury or threat thereof to an industry in the United States.

On September 3, 1991, the Government of Canada announced its intention to terminate the MOU, effective October 4, 1991. Since October 4, the Government of Canada has not been collecting the export charges agreed to under the MOU.

On October 4, 1991, the U.S. Government, via USTR, announced that Commerce would be self-initiating a countervailing duty investigation to determine whether Canadian softwood lumber is subsidized and whether subsidized lumber imports are causing, or threatening, material injury to an industry in the United States.<sup>10</sup>

At the same time, USTR announced that it would initiate an investigation under section 302 of the Trade Act of 1974 with respect to certain acts, policies, and practices of the Government of Canada affecting exports to the United States of softwood lumber.<sup>11</sup> As a part of that action, USTR announced that the United States had determined that it was appropriate, as of October 4, 1991, to withhold or extend liquidation of entries of imports of softwood lumber products originating in certain provinces and territories of Canada, until the completion of Commerce's countervailing duty investigation. In order to maintain the status quo, it was determined that imports of softwood lumber products originating in certain provinces and territories of Canada will be subject to contingent, temporary duties of up to 15 percent ad valorem. The imposition of such duties will be contingent upon affirmative final subsidy and injury determinations in the countervailing duty investigation.<sup>12</sup>

---

<sup>9</sup> 52 F.R. 315, Jan. 5, 1987, and 52 F.R. 1535, Jan. 14, 1987, respectively.

<sup>10</sup> On Oct. 31, 1991, Commerce self-initiated its investigation (56 F.R. 56055, Oct. 31, 1991).

<sup>11</sup> Initiation of Section 302 Investigation and Request for Public Comment on Determinations Involving Expeditious Action: Canadian Exports of Softwood Lumber (56 F.R. 50738, Oct. 8, 1991).

<sup>12</sup> The Secretary of the Treasury was instructed to impose the following bonding requirements: For softwood lumber originating from the province of Quebec, a single entry bond in the amount of 6.2 percent of the entered value of entries filed before Nov. 1, 1991, and 3.1 percent of the entered value of entries filed on or after Nov. 1, 1991; for such products originating in other listed provinces, except British Columbia, a single entry bond in the amount of 15 percent of the entered value; and for such products originating in the province of British Columbia, zero rate of duty. (56 F.R. 50738, Oct. 8, 1991).

Prior to the present and most recent investigations, softwood lumber was the subject of investigations at the Commission under sections 332 and 703 of the Act. In December 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, concerning conditions relating to the importation of softwood lumber into the United States.<sup>13</sup> In March 1985, at the request of USTR, the Commission instituted investigation No. 332-210 to update that earlier study. The Commission's report in the latter investigation was issued in October 1985.<sup>14</sup>

In October 1982, the Commission and Commerce received a petition from the U.S. Coalition for Fair Canadian Lumber Imports, a group of eight 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." In November 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).<sup>15</sup> However, in May 1983, 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.

## THE PRODUCTS

### Description and Uses

The term "softwood lumber" relates to a wide variety of products--such as boards, planks, timbers, framing materials, flooring, or siding--produced from coniferous species of trees.<sup>16</sup> For purposes of this investigation, the term "softwood lumber" refers to those products classified for tariff purposes under subheadings 4407.10.00, 4409.10.10, 4409.10.20, and 4409.10.90 of the HTS.

According to the extent or stage of manufacture, such 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

---

<sup>13</sup> Conditions Relating to the Importation of Softwood Lumber Into the United States, USITC Publication 1241, April 1982.

<sup>14</sup> Conditions Relating to the Importation of Softwood Lumber Into the United States, USITC Publication 1765, October 1985.

<sup>15</sup> Softwood Lumber from Canada: Determination of the Commission in Investigation No. 701-TA-197 (Preliminary) Under Section 703(a) of the Tariff Act of 1930, USITC Publication 1320, November 1982.

<sup>16</sup> Hardwood lumber is produced from deciduous trees.



surfaces, and which may be rough, dressed, or worked) is further defined in the HTS as follows:

4407.10.00--Coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 millimeters (mm);

4409.10.10--coniferous wood siding (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed;

4409.10.20 (pt.)--coniferous wood flooring (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; and

4409.10.90--other coniferous wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed.

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 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 Lumber Standards for Softwood Lumber.<sup>17</sup>
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.

---

<sup>17</sup> These standards are published by the U.S. Department of Commerce in cooperation with manufacturers, distributors, and users.

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

Of the aforementioned categories, studs and dimension lumber represent the largest competing categories of U.S. and Canadian softwood lumber.

The major softwood species groups in descending order of consumption are southern yellow pine (SYP), spruce-pine-fir (SPF), Douglas fir, hem-fir,<sup>18</sup> and ponderosa pine. Of these, the major competing species groups produced in both the United States and Canada are SPF, Douglas fir, and hem-fir; SYP is not produced in Canada.

Lumber is classified according to its moisture content as green or dried.<sup>19</sup> 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.

Although the HTS uses metric units, softwood lumber is measured and sold in the North American market by the board foot, a three-dimensional unit described 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 12 inches in length, or the equivalent of such piece in other dimensions.<sup>20</sup>

In addition, the American Lumber Standards for Softwood Lumber 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.

---

<sup>18</sup> 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.

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

<sup>20</sup> In this report, units are generally specified in tables and tabular presentations in mbf (thousand board feet) and mmbf (million board feet). Discussion will be in terms of billion board feet.

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.<sup>21</sup> In 1990, 36 percent of the U.S. consumption of softwood lumber was used in new residential construction (new housing), as shown in the following tabulation:<sup>22</sup>

<u>End use</u>	<u>Percentage distribution of U.S. consumption</u>				
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Construction:					
New residential (new housing)....	44	42	40	39	36
Repair and remodeling.....	26	26	27	27	29
New nonresidential .....	7	8	8	8	8
All other.....	<u>23</u>	<u>24</u>	<u>25</u>	<u>26</u>	<u>27</u>
Total.....	100	100	100	100	100

In years of low housing starts, the share of softwood lumber consumed by new housing construction may drop somewhat, 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, SYP for treated wood applications, 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 HTS subheading 4409.10.20, which has a duty rate of 3.2 percent ad valorem, all of the goods covered in this investigation have rates of duty of "free" in column 1-general (most-favored-nation). Approximately 99 percent of the softwood lumber from Canada enters the United States unconditionally free of duty. As a result, the U.S.-Canada FTA had essentially no duty impact as to such imports. Rates of duty for most softwood lumber entered under column 2 (from countries under Communist domination or control) range from 2.2¢ per cubic meter to \$1.70 per cubic

<sup>21</sup> 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.

<sup>22</sup> Based on estimates supplied by the Western Wood Products Association.

meter; wood flooring enters at 33.3 percent ad valorem. 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 products for which entry has been sought.

#### NATURE AND EXTENT OF ALLEGED SUBSIDIES

Insofar as allegations of subsidies, Commerce, in its notice, indicated that it was initiating on stumpage programs. Stumpage programs are government programs through which individuals and companies acquire the rights to cut and remove standing timber from provincial forest lands. In its memorandum entitled Basis for Self-Initiating the Countervailing Duty Investigation on Certain Softwood Lumber Products (Commerce memorandum), Commerce stated that in Alberta, British Columbia, Manitoba, Ontario, Quebec, and Saskatchewan, over 90 percent of the forest land is owned by the provincial governments.<sup>23</sup> Commerce calculated estimated subsidies according to several methods of analysis. Depending on the benchmark used, subsidy rates were estimated at rates ranging from 5.1 to 34 percent for British Columbia, Alberta, Ontario, and Quebec. While Commerce acknowledged an "in-depth" subsidy analysis of Saskatchewan and Manitoba had not been done, it stated that it believes that the administratively-set, low stumpage rates in these provinces also indicate that the provincial governments in the provinces may be providing subsidies.<sup>24</sup>

In addition to stumpage, Commerce stated that it had also gathered evidence that indicates the Government of Canada and the provincial governments of British Columbia, Quebec, Ontario, and Alberta place restrictions on exports of logs that might serve to artificially lower domestic log prices. However, Commerce indicated that it did not have sufficient evidence to ascertain the extent to which the log export restrictions artificially lower prices for logs and, therefore, chose not to initiate with respect to such programs.<sup>25</sup>

---

<sup>23</sup> Commerce memorandum, p. 12.

<sup>24</sup> Ibid., pp. 19-28.

<sup>25</sup> Although Commerce did not initiate with regard to log export restrictions, it did note "if an interested party submits such evidence (with respect to artificially lowered prices) during the course of the proceeding, the Department remains willing to investigate these programs." (56 F.R. 56055).

## THE U.S. MARKET

## U.S. Producers

U.S. Department of Commerce data indicate that 5,690 establishments produced softwood and hardwood lumber in the United States in 1990;<sup>26</sup> of these, 1,707 (30 percent) had more than 20 employees. From 1988 to 1990, the number of mills decreased owing to a variety of factors, prominent among which are a decline in demand for wood products by the housing industry<sup>27</sup> and a lack of available timber, particularly in the West, due to environmentally related timber harvesting restrictions. In the past few years, large tracts of federal timber administered primarily by the U.S. Forest Service have been removed from harvesting due to various environmental concerns, the most well-known being preservation of the northern spotted owl.<sup>28</sup> While many large companies in the West own extensive timber acreage in that area, as much as one-half of the commercial timber supply in the West is publicly owned. Some producers in the West are 100 percent dependent on public timber for their raw material supply.

The number of establishments producing both hardwood and softwood lumber during 1986-90<sup>29</sup> and the first three calendar quarters of 1990 and 1991 is shown in the following tabulation:

<u>Period</u>	<u>Establishments</u>
1986 . . . . .	5,326
1987 . . . . .	5,662
1988 . . . . .	5,777
1989 . . . . .	5,710
1990 . . . . .	5,690
Jan.-Sept:	
1990 . . . . .	5,690
1991 . . . . .	5,680

<sup>26</sup> There are numerous mills, some of which are portable, that Commerce 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.

<sup>27</sup> Counsel for the Canadian Forest Industries Council (CFIC) and the Government of Canada argues that the "appropriate legal standard for determining material injury in this case is whether the domestic lumber industry is performing worse than expected given the conditions of competition in the softwood lumber industry and the downturn in the business cycle." Postconference brief on behalf of the Canadian Forest Industries Council and the Government of Canada (CFIC brief), p. 29.

<sup>28</sup> The majority of producers responding to the Commission's questionnaires noted that shortages in timber supply had led to temporary, and some permanent, shutdowns of mills in the West.

<sup>29</sup> There is a substantial amount of public data available on the softwood lumber industry. Consequently, whenever possible in this report, data from 1986 forward are presented. This period covers the last full year prior to the MOU, as well as the entire period during which the MOU was in effect. The data are presented for whatever consideration the Commission may deem appropriate.

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 1990, by regions and selected States, is shown in the following tabulation:<sup>30</sup>

<u>Region and State</u>	<u>Establishments</u>
North <sup>1</sup> . . . . .	1,478
Maine . . . . .	178
South <sup>2</sup> . . . . .	2,759
North Carolina and South Carolina	635
Georgia, Alabama, and Mississippi	1,032
Texas and Arkansas . . . . .	272
West <sup>3</sup> . . . . .	1,453
Oregon . . . . .	488
California . . . . .	288
Washington . . . . .	272
Idaho and Montana . . . . .	280

<sup>1</sup> 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.

<sup>2</sup> Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

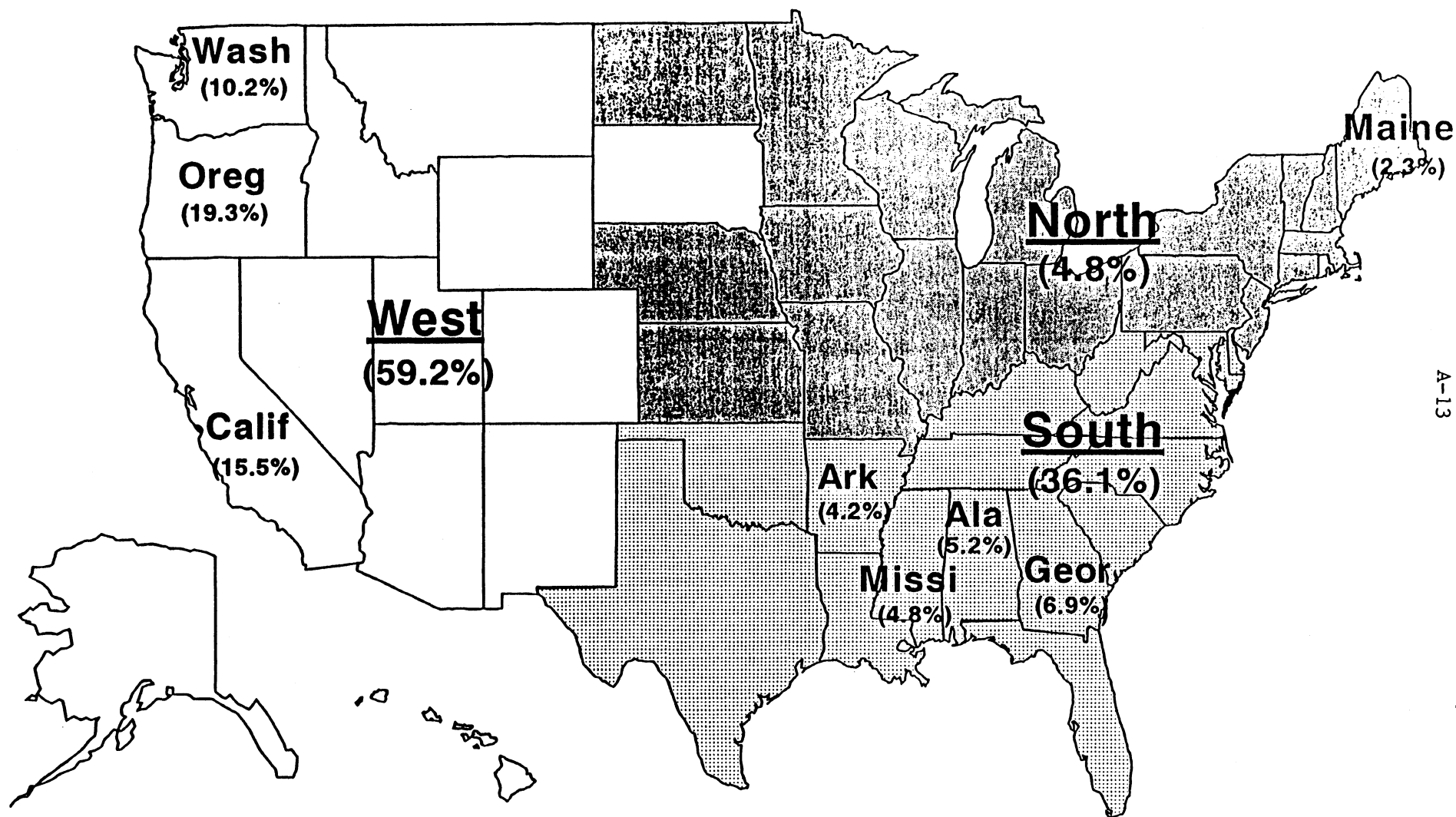
<sup>3</sup> Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, South Dakota, Utah, Washington, and Wyoming.

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 are at merchantable size. These regions accounted for 59.2 percent and 36.1 percent, respectively, of U.S. softwood lumber production. The highest concentrations of large mills are also in these regions; in 1990, 311 mills each produced 25 mmbf or more in the West, compared with 195 mills in the South and 11 mills in the North. Figure 1 shows the three major softwood lumber producing geographic regions in the United States and figure 2 shows the major Canadian producing areas.

---

<sup>30</sup> Annual Lumber Review and Buyers Guide, Forest Industries, Miller Freeman Publications, San Francisco, July 1991.

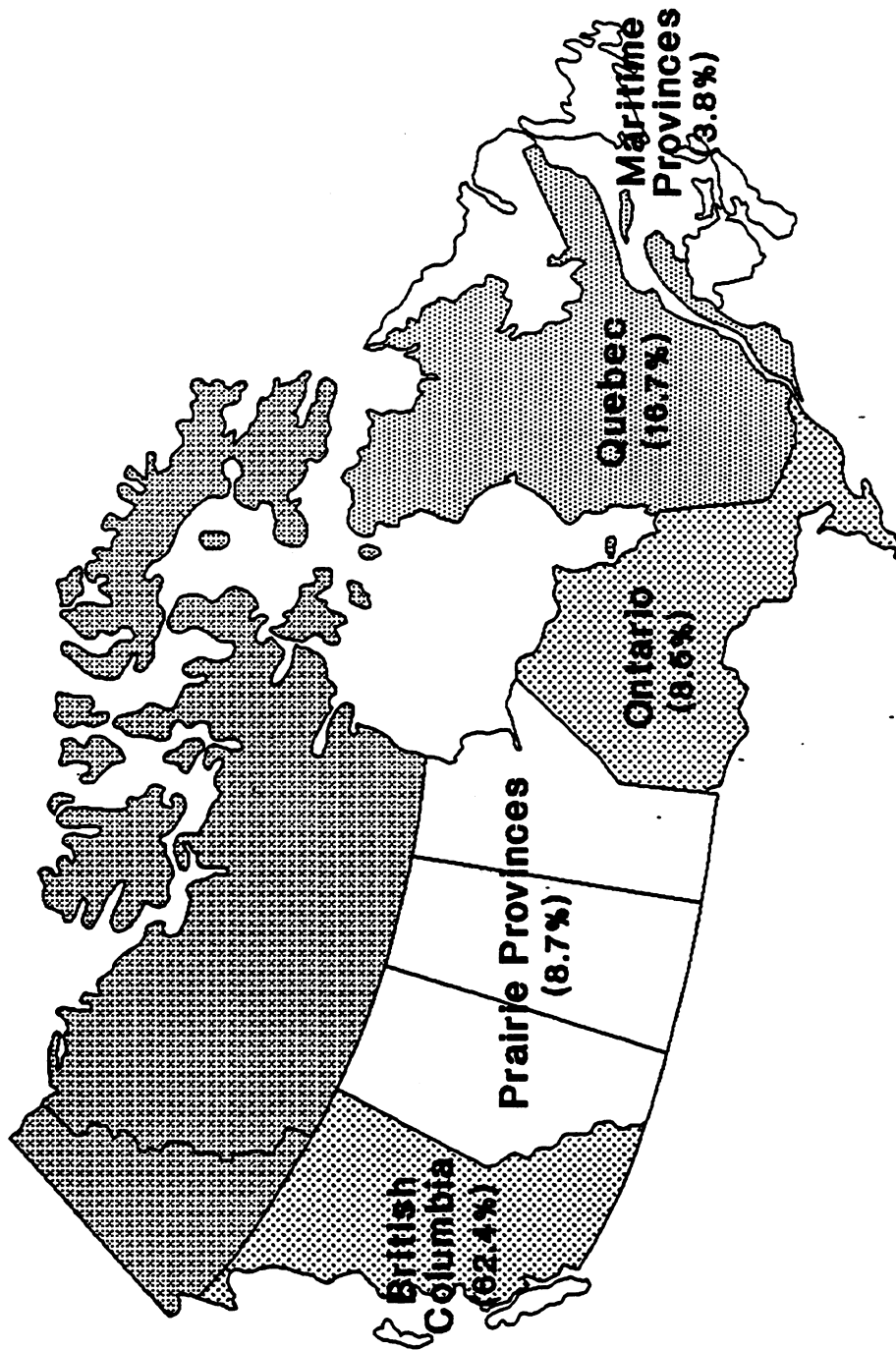
**Figure 1--Softwood Lumber: U.S. Production by Region and Major Producing States, 1990**



A-13

**Source: U.S. Department of Commerce**

**Figure 2--Softwood Lumber: Canadian Production by Principal Provinces and Regions, 1990**



**Source: Statistics Canada**



Although there are large corporations with high volumes of production, most of the softwood lumber producers are small firms. In 1990, the 5 largest producers accounted for 25.3 percent of U.S. softwood lumber production, and the 50 largest firms accounted for 65.4 percent (table 1). It is estimated that there are more than 500 mills with annual production exceeding 25 mmbf, and over 625 mills with annual production greater than 10 mmbf. For this investigation, the Commission sent questionnaires to more than 100 producers who accounted for more than 75 percent of U.S. production in 1990. Thirty-two producers provided responses in time to be included for use in this report; these producers accounted for more than 43 percent of 1990 production. While the number of responding firms is smaller than in the 1986 investigation, they represent a larger portion of overall production. A large number of respondents were among the top 20 producers.

Table 1  
Softwood lumber: U.S. and Canadian production, 1986-90

Country and year	Total production <u>Mmbf</u>	<u>5 largest producers</u>		<u>50 largest producers</u>	
		Quantity <u>Mmbf</u>	Percent of total production	Quantity <u>Mmbf</u>	Percent of total production
United States:					
1986....	35,273	8,554	24.2	21,885	62.0
1987....	38,235	9,358	24.5	24,474	64.0
1988....	38,130	9,233	24.2	24,211	63.5
1989....	37,545	9,560	25.5	24,742	65.9
1990....	35,791	9,055	25.3	23,407	65.4
Canada:					
1986....	22,629	3,961	17.5	15,354	67.8
1987....	25,870	4,705	18.2	18,143	70.1
1988....	25,167	5,889	23.4	18,286	72.7
1989....	24,538	6,675	27.2	18,489	75.3
1990....	22,755	6,053	26.6	17,060	75.0

Source: Forest Industries North American Fact Book 1986-90.

### U.S. Importers

Importers of softwood lumber from Canada include wholesale and retail lumber distributors (e.g., \*\*\*, \*\*\*, etc.), domestic producers (e.g., \*\*\*, \*\*\*, etc.), and traders (e.g., \*\*\*, \*\*\*, etc.), as well as certain Canadian producers (e.g., \*\*\*) and number in the hundreds. Importing U.S. producers generally bring product in from their own operations in Canada. Some importers are manufacturers and/or remanufacturers with kiln operations. Because of this, they may have their operations near 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 the importer of record, are supplied by distributors that purchase their imported stock from large shipments which generally go through reload centers located near the border in Canada or throughout the United States for disbursement.

Given the large number and variety of importers in this industry and the knowledge that official import statistics would supply import quantity and value data, the importer/purchaser questionnaires were used primarily in an effort to secure the necessary import pricing and purchasing data. Many of the questionnaires were targeted to distributors, retailers, and traders who were believed to serve the six geographic areas for which price data were sought. In addition, producers were asked to complete a questionnaire if they had imported/purchased any product from Canada.

#### Apparent U.S. Consumption

In 1990, U.S. consumption of softwood lumber was 45.9 billion board feet, 5.7 percent down from consumption of 48.7 billion board feet in 1988 and off 7.3 percent from 1989 consumption (table 2). During January-September 1991, apparent U.S. consumption dropped by 11.3 percent, declining to 32.1 billion board feet compared with the 36.2 billion board feet consumed in January-September 1990. Consumption during 1986-90 peaked in 1987 at a record 50.5 billion board feet.

U.S. housing starts consume the greatest portion of softwood lumber, with changes in overall consumption generally tracking those starts. However, during 1986-90, the relationship between consumption and housing starts does not appear to be as strong as it was during the period examined in the 1986 lumber case. This change appears to be due in large part to the increase in consumption in the repair and remodeling segment which has partially offset the downturn in new residential construction related consumption. The shift to repair/remodeling was mentioned by a number of respondents to Commission questionnaires as a noteworthy change in the market for softwood lumber. Softwood lumber consumption and housing starts are shown in the following tabulation:

<u>Period</u>	<u>Lumber consumption</u> <u>(billion board feet)</u>	<u>Housing starts</u> <u>(million units)</u>
1986.....	47.6	1.8
1987.....	50.5	1.6
1988.....	48.7	1.5
1989.....	49.5	1.4
1990.....	45.9	1.2
Jan.-Sept:		
1990....	36.2	1.0
1991....	32.1	0.8

Table 2

Softwood lumber: U.S. production, exports of domestic merchandise, imports from Canada,<sup>1</sup> total imports for consumption,<sup>2</sup> and apparent consumption, 1986-90, January-September 1990, and January-September 1991

Period	Produc- tion	Exports	Total imports	Imports from Canada	Apparent consump- tion	Ratio (percent) of--		
						Imports to con- sump- tion	Canadian imports to con- sumption	Exports to pro- duction
Quantity (mmbf)								
1986.....	35,273	1,877	14,240	14,113	47,636	29.9	29.6	5.3
1987.....	38,235	2,464	14,687	14,571	50,458	29.1	28.9	6.4
1988.....	38,130	3,264	13,808	13,702	48,674	28.4	28.2	8.6
1989.....	37,545	3,415	15,372	14,271	49,502	31.1	28.8	9.1
1990.....	35,791	2,971	13,072	12,036	45,892	28.5	26.2	8.3
Jan.-Sept:								
1990.....	27,999	2,250	10,471	9,456	36,220	28.9	26.1	8.0
1991.....	25,653	2,386	8,847	8,724	32,114	27.5	27.2	9.3
Value (million dollars)								
1986.....	7,675	644	3,069	3,034	10,100	30.4	30.0	8.4
1987.....	9,242	856	3,144	3,105	11,530	27.3	26.9	9.3
1988.....	9,182	1,142	3,005	2,958	11,045	27.2	26.8	12.4
1989.....	9,517	1,424	3,198	3,159	11,291	28.3	28.0	15.0
1990.....	8,657	1,347	2,916	2,873	10,226	28.5	28.1	15.6
Jan.-Sept:								
1990.....	6,698	1,026	2,317	2,286	7,989	29.0	28.6	15.3
1991.....	6,594	1,034	2,166	2,120	7,727	28.0	27.4	15.7
Unit value (dollars per mbf)								
1986.....	217.59	343.10	215.52	214.98	212.03			
1987.....	241.72	347.40	214.07	213.09	228.51			
1988.....	240.82	349.88	217.63	215.88	226.93			
1989.....	253.49	416.98	208.04	221.36	228.10			
1990.....	241.87	453.38	223.07	238.72	222.82			
Jan.-Sept:								
1990...	239.22	456.00	221.27	241.71	220.57			
1991...	257.06	433.18	244.88	243.04	240.62			

<sup>1</sup> To the extent imports from the Maritime Provinces are included, imports from Canada and related ratios are slightly overstated.

<sup>2</sup> CIF value.

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 1986. During 1986-90, 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, as well as the North and West, fell steadily from during 1986-90; they fell by 34.5 percent in the South, 34.8 percent in the North, and 31.8 percent in the West. During this period, the share of total U.S. housing starts occurring in each region, although fluctuating a bit, remained relatively constant.

U.S. lumber consumption also varies by region. Consumption in the various areas is shown in the following tabulation, derived from table 4 (in percent):

<u>Period</u>	<u>Share of U.S. softwood lumber consumption in the--</u>			
	<u>North</u>	<u>South</u>	<u>West</u>	<u>Total</u>
1986.....	28	38	34	100
1987.....	32	35	33	100
1988.....	30	34	36	100
1989.....	33	32	35	100
1990.....	30	31	39	100

On a regional basis, there are wide variations in the ratio of imports to consumption (table 4). The North generally 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. During 1986-90 the ratio of imports to consumption in the North rose irregularly from 33.7 percent to 37.0 percent. Imports as a share of softwood lumber consumption in the South dropped steadily from 36.4 percent in 1986 to 22.6 percent in 1990. During 1986-88, the South was the leading market for imports of softwood lumber, before being supplanted by the North in 1989 and 1990. In 1990, the North received 38.9 percent (5.1 billion board feet) of all imports.

With the exception of 1990, the West had the smallest share of softwood lumber consumption accounted for by imports. However, during 1986-90 the ratio of imports to consumption in the West rose irregularly from 19.6 percent to 26.6 percent.

Table 3  
Housing starts: U.S. housing starts, privately owned and total, by type of structure and by region, 1986-90<sup>1</sup>

Period and region	Privately owned							Total, privately owned housing starts	Share of total privately owned hous- ing starts	Total of all U.S. housing starts  1,000 units	
	Single unit			Multi-unit							
	Town- house <sup>1</sup>	De- tached	Total	2 to 4 units <sup>2</sup>	Five or more units						
					Townhouse apartment	Conven- tional apartment	Total				
Total											
-----Thousands of units-----											
1986:										Percent	
North.....	79	335	414	33	23	119	142	175	589	33	N/A
South.....	66	438	504	28	11	190	201	229	733	41	N/A
West.....	21	240	261	23	17	182	199	222	483	27	N/A
Total....	166	1,013	1,179	84	51	491	542	626	1,805	100	1,810
1987:											
North.....	72	335	407	29	18	114	132	161	569	35	N/A
South.....	55	429	484	20	8	120	128	148	633	39	N/A
West.....	15	240	255	17	8	137	146	163	419	26	N/A
Total....	142	1,004	1,146	66	35	371	406	472	1,621	100	1,627
1988:											
North.....	57	318	375	26	13	97	110	136	512	34	N/A
South.....	43	400	443	17	7	106	113	130	574	39	N/A
West.....	13	251	264	15	10	112	122	137	402	27	N/A
Total....	113	969	1,082	58	30	315	345	403	1,488	100	1,493
1989:											
North.....	36	286	322	22	8	92	100	122	445	32	N/A
South.....	40	369	409	18	12	96	108	126	536	39	N/A
West.....	11	261	272	15	10	97	107	122	395	29	N/A
Total....	87	916	1,003	55	30	285	315	370	1,376	100	1,380
1990:											
North.....	25	272	297	16	8	62	70	86	384	32	N/A
South.....	29	342	371	9	5	94	99	108	480	40	N/A
West.....	9	217	226	12	6	84	90	102	329	28	N/A
Total....	63	831	894	37	19	240	259	296	1,193	100	1,198

<sup>1</sup> Includes units in semidetached (semiattached) structures.  
<sup>2</sup> Design information for structures with 2 to 4 units is not available.

Source: U.S. Department of Commerce (Series G-20).  
Note: Because of rounding, figures may not add to totals shown.

Table 4

Softwood lumber: U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, by regions, 1986-90, January-September 1990, and January-September 1991

Period and region		Pro- duc- tion	Exports	Shipments to other U.S. regions <sup>1</sup>	Imports from foreign sources <sup>2</sup>	Shipments from other U.S. regions	Apparent consump- tion	Ratio of--	
								Imports to con- sumption	Exports to pro- duction
----- Mmbf -----									
----- Percent -----									
1986	North....	1,680	196	0	4,429	7,231	13,144	33.7	11.7
	South....	11,678	179	3,026	6,609	3,072	18,154	36.4	1.5
	West.....	21,915	1,502	7,277	3,202	0	16,338	19.6	6.9
	Total..	35,273	1,877	10,303	14,240	10,303	47,636	29.9	5.3
1987	North....	1,820	203	0	4,909	9,569	16,095	30.5	11.2
	South....	12,473	248	3,611	6,295	2,720	17,629	35.7	2.0
	West.....	23,942	2,013	8,678	3,483	0	16,734	20.8	8.4
	Total..	38,235	2,464	12,289	14,687	12,289	50,458	29.1	6.4
1988	North....	1,816	250	0	4,615	8,200	14,381	32.1	13.8
	South....	12,676	492	3,003	5,256	2,265	16,702	31.5	3.9
	West.....	23,638	2,522	7,461	3,932	0	17,587	22.4	10.6
	Total..	38,130	3,264	10,464	13,803	10,464	48,669	28.4	8.6
1989	North....	1,789	266	0	7,543	7,240	16,306	46.3	14.9
	South....	12,544	442	2,849	4,671	1,992	15,916	29.3	3.5
	West.....	23,212	2,707	6,383	3,158	0	17,280	18.3	11.7
	Total..	37,545	3,415	9,232	15,372	9,232	49,502	31.1	9.1
1990	North....	1,705	306	0	5,090	7,274	13,763	37.0	17.9
	South....	12,911	379	3,343	3,238	1,891	14,318	22.6	2.9
	West.....	21,175	2,286	5,822	4,744	0	17,811	26.6	10.8
	Total..	35,791	2,971	9,165	13,072	9,165	45,892	28.5	8.3

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

<sup>2</sup> 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.

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

CONSIDERATION OF ALLEGED MATERIAL INJURY  
TO AN INDUSTRY IN THE UNITED STATES

As noted earlier, there is a fairly substantial amount of public data available on the softwood lumber industry. In this section, information from public data sources is presented concerning production, capacity, capacity utilization, and shipments, in addition to the information received from respondents to the Commission's producer questionnaires. Also, as noted previously, whenever possible the public data cover the period from 1986 forward.

With respect to the issue of injury, counsel for the U.S. Coalition for Fair Lumber Imports<sup>31</sup> in arguing for an affirmative injury finding states that applicable laws suggest the Commission should consider "additional harm to the U.S. lumber industry prevented by the MOU." In this regard, counsel goes on to state, "While the MOU did not offset the entire injury caused by Canadian subsidies, the damage would have been significantly greater in its absence."<sup>32</sup>

To counter this notion, the CFIC brief argues that the injury determination must be made on the basis that the domestic industry "is" being injured rather than it "would have been" injured had the MOU not been in place. Further, CFIC adds "it is significant that Congress legislated a conditional injury test in other provisions of the Trade Agreements Act of 1979, but declined to do so under Section 701." Finally, CFIC concludes the "Commission is without legal authority to render an affirmative determination, as the Coalition urges, based on a finding that the domestic industry 'would have been' suffering material injury by reason of imports had the MOU not been in place. The statutory standard clearly limits the scope of the present injury determination to current injury by actual imports and the Commission 'is not at liberty to disregard the statute's plain meaning.'"<sup>33</sup>

---

<sup>31</sup> Counsel for the Coalition for Fair Lumber Imports made the presentation for the U.S. industry at the Commission's conference held in conjunction with this investigation. The Coalition's members include the National Forest Products Association, the Intermountain Forest Industries Association, the Northeastern Lumber Manufacturers Association, the Northwest Independent Forest Manufacturers, the Southeastern Lumber Manufacturers Association, the Southern Forest Products Association, the Western Forest Industries Association, and the Western Wood Products Association, as well as dozens of individual corporations, including Georgia-Pacific, International Paper, Potlatch, Temple-Inland, and Union Camp. The seven associations represent companies accounting for more than 85 percent of U.S. softwood lumber production in 1990.

<sup>32</sup> Postconference brief on behalf of U.S. Coalition for Fair Lumber Imports, the International Woodworkers of America, and the United Brotherhood of Carpenters and Joiners (Coalition brief), p. 35.

<sup>33</sup> CFIC brief, pp. 6, 8, and 10.

## U.S. Production, Capacity, and Capacity Utilization

U.S. production of softwood lumber rose from 1986 to 1990, peaking in 1987 at 38.2 billion board feet, then dropping 6.4 percent to 35.8 billion board feet in 1990 (table 2). Production in January-September 1991 fell 8.4 percent in comparison with that in January-September 1990 to 25.7 billion board feet.

The West produced 21.2 billion board feet, or 59.2 percent of U.S. softwood lumber production, in 1990 (table 5). The South produced 12.9 billion board feet, or 36.1 percent of U.S. production; and the North produced the smallest share, 1.7 billion board feet, or 4.8 percent of U.S. production. Production in the West and North reached high points in 1987, while production in the South attained its highest level in 1990. The share of production accounted for by each region is shown in the following tabulation (in percent):

<u>Region</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Jan.-Sept.--</u> <u>1990</u>	<u>1991</u>
West.....	62	63	62	62	59	60	59
South.....	33	33	33	33	36	35	36
North.....	5	5	5	5	5	5	5
Total....	100	100	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, hem-fir, and ponderosa pine (table 6). In 1990, the shares of domestic output accounted for by these species were 35.5 percent, 25.3 percent, 11.4 percent, and 10.6 percent, respectively. The remaining 17.2 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, 1986-90, January-September 1990, and January-September 1991

Period	West				South				
	Calif- fornia	Oregon	Wash- ington	All other	Share of total United States		Alabama	Arkansas	Georgia
					Total	Percent			
	Mmbf				Mmbf				
1986.....	4,691	8,022	4,336	4,866	21,915	62.1	1,767	1,140	2,133
1987.....	5,408	8,846	4,645	5,043	23,942	62.6	1,765	1,235	2,302
1988.....	5,617	8,601	4,408	5,012	23,638	62.0	1,731	1,227	2,481
1989.....	5,320	8,512	4,274	5,106	23,212	61.8	1,685	1,211	2,448
1990.....	5,559	6,914	3,638	5,064	21,175	59.2	1,876	1,537	2,481
Jan-Sept.--									
1990.....	N/A	N/A	N/A	N/A	16,759	59.9	N/A	N/A	N/A
1991.....	N/A	N/A	N/A	N/A	15,104	58.9	N/A	N/A	N/A

South--continued	North				Share of total United States		Total United States Mmbf	
	Missis- sippi	All other	Total	Maine	All other			
					Mmbf	Percent		
	Mmbf				Mmbf			
1986.....	1,564	5,074	11,678	659	1,021	1,680	4.8	35,273
1987.....	1,726	5,445	12,473	797	1,023	1,820	4.8	38,235
1988.....	1,721	5,516	12,676	827	989	1,816	4.8	38,130
1989.....	1,800	5,400	12,544	786	1,003	1,789	4.8	37,545
1990.....	1,711	5,306	12,911	830	875	1,705	4.8	35,791
Jan-Sept.--								
1990.....	N/A	N/A	9,915	N/A	N/A	1,334	4.8	27,999
19891.....	N/A	N/A	9,329	N/A	N/A	1,220	4.8	25,653

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, 1986-90, January-September 1990,  
and January-September 1991  
(In mm<sup>3</sup>f)

Species	1986	1987	1988	1989	1990	January-September --	
						1990	1991
SYP . . . . .	11,443	12,043	12,474	12,031	12,689	9,817	8,954
Douglas-fir <sup>1</sup> . . . . .	9,669	10,681	10,376	10,237	9,061	7,246	6,666
Hem-fir <sup>2</sup> . . . . .	3,915	4,411	4,474	4,559	4,065	3,186	2,931
Ponderosa pine . . . . .	4,019	4,081	4,145	4,017	3,799	3,016	2,775
SPF (western) <sup>3</sup> . . . . .	1,294	1,360	1,374	1,308	1,176	901	829
Redwood . . . . .	1,018	1,113	1,160	1,056	1,073	822	756
Western cedar <sup>4</sup> . . . . .	960	1,006	1,015	996	932	714	657
Western pines <sup>5</sup> . . . . .	491	566	548	702	481	369	339
Eastern softwoods <sup>6</sup> . . . . .	1,680	1,820	1,816	1,789	1,705	1,307	1,202
Other softwoods . . . . .	784	1,154	748	850	810	621	544
Total . . . . .	35,273	38,235	38,130	37,545	35,791	27,999	25,653
Pressure treated lumber <sup>7</sup> . . . . .	4,800	6,000	6,100	5,900	6,000	N/A	N/A

<sup>1</sup> Includes a small amount of inland larch.

<sup>2</sup> 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.

<sup>3</sup> Includes white spruce, Engelmann spruce, lodgepole pine, and alpine fir.

<sup>4</sup> Includes western red cedar and incense cedar.

<sup>5</sup> Includes western white (Idaho) pine and sugar pine.

<sup>6</sup> Includes those softwood species, native to the forests east of the Mississippi River and not included in the southern yellow pine species group.

<sup>7</sup> More than 80 percent southern yellow pine.

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 1986-90 and January-September 1990 and 1991, based on NFPA's methodology.

U.S. producers' capacity to produce softwood lumber increased by 11.2 percent from 1986 to 1988 to a level of 39.2 billion board feet. Since then, annual capacity has grown only slightly to a level of 39.5 billion board feet in 1990. Utilization of productive capacity in the production of softwood lumber dropped from a record high of 99.9 percent in 1986 to 97.2 in 1988 and 90.5 percent in 1990. The January-September 1991 capacity utilization figure stood at 85.5 percent, compared with 93.4 percent for the same period in 1990.

Table 7  
Softwood lumber: U.S. production, capacity, and capacity utilization, 1986-90, January-September 1990, and January-September 1991

Item	1986	1987	1988	1989	1990	Jan.-Sept.--	
						1990	1991
Production.....mmbf..	35,273	38,235	38,130	37,545	35,791	27,999	25,653
Capacity.....do...	35,299	38,347	39,242	39,527	39,545	29,986	29,986
Capacity utilization percent..	99.9	99.7	97.2	95.0	90.5	93.4	85.5

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

The 32 companies providing trade data in response to the Commission's questionnaires accounted for more than 43 percent of U.S. softwood lumber production in 1990. Their production, capacity, and capacity utilization for the period of investigation are shown in table 8. From 1988 to 1990, capacity showed a slight, but steady, increase; production experienced a small, but irregular increase; and, capacity utilization exhibited a steady downward trend. For the interim periods, the January-September 1991 performance in all three categories was off in comparison with January-September 1990.

Table 8

Softwood lumber: U.S. production, capacity, and capacity utilization, 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	Jan.-Sept.--	
				1990	1991
Production.....mmbf..	15,523	15,660	15,580	12,062	11,309
Capacity.....do....	16,445	16,717	16,788	13,092	12,799
Capacity utilization percent..	94.4	93.7	92.8	92.1	88.4

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

#### U.S. Producers' Shipments, Inventories, and Exports

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 9 and 10, respectively.

Shipments by producers in the West increased by 9.2 percent from 1986 to 1987. Shipments dropped each year thereafter to 21.2 billion board feet in 1990, 11.6 percent off from 1987 shipment levels.

Shipments by producers in the South rose steadily, by 8.1 percent, from 1986 to 1988, then increased irregularly by 1.9 percent from 1988 to 1990. Shipments for 1990 of 12.9 billion board feet represented the high shipment level during the 1986-90 period.

Data regarding domestic and export shipments as well as inventories held by the companies responding to the Commission's questionnaires are contained in table 11. From 1988 to 1990, domestic shipments dropped irregularly by 1.1 percent. January-September 1991 shipments were down 6.1 percent from those in the comparable period of 1990. The unit value of producers' domestic shipments declined irregularly, by 0.8 percent, from 1988 to 1990 from \$266.68 to \$264.65 per thousand board feet. Unit values for domestic shipments in January-September 1991 decreased 1.5 percent compared with those for January-September 1990. Inventories as a share of total shipments remained relatively level from 1988 through January-September 1991, ranging between 7.4 and 7.7 percent for the five reporting periods.

Table 9

Softwood lumber: Shipments from the Western United States to U.S. destinations, by areas and by methods of transportation, 1986-90<sup>1</sup>

Period and destination	Method of transportation			Total	Share of western shipments Percent
	Rail	Truck	Water		
	Mmbf				
1986:					
North.....	3,216.8	968.7	19.6	4,205.1	19
South.....	1,868.0	1,203.5	0.0	3,071.5	14
West.....	4,555.6	8,631.9	1,451.1	14,638.6	67
Total.....	9,640.4	10,804.1	1,470.7	21,915.2	100
1987:					
North.....	4,903.8	1,045.9	8.7	5,958.4	25
South.....	2,168.7	551.2	0.0	2,719.9	11
West.....	4,252.3	10,302.8	708.6	15,263.7	64
Total.....	11,324.8	11,899.9	717.3	23,942.0	100
1988:					
North.....	4,157.0	1,035.4	4.1	5,196.5	22
South.....	1,687.1	577.6	0.0	2,264.7	10
West.....	3,937.2	11,297.7	941.9	16,176.8	68
Total.....	9,781.3	12,910.7	946.0	23,638.0	100
1989:					
North.....	3,407.2	983.9	0.0	4,391.1	19
South.....	1,409.6	582.6	0.1	1,992.3	9
West.....	3,998.6	11,683.8	1,146.6	16,829.0	73
Total.....	8,815.4	13,250.3	1,146.7	23,212.4	100
1990:					
North.....	2,947.8	982.7	0.0	3,930.5	19
South.....	1,316.7	574.5	0.0	1,891.2	9
West.....	3,182.3	11,346.5	824.5	15,353.3	73
Total.....	7,446.8	12,903.7	824.5	21,175.0	100

<sup>1</sup> Exports are included in the West destinations.

Source: Western Wood Products Association, Destination of shipments, 1986-90.

Table 10

Softwood lumber: Selected shipments from the Southern United States to U.S. destinations, by areas and by methods of transportation, 1986-90<sup>1 2</sup>

Period and destination	Method of transportation			Total	Share of southern shipments Percent
	Rail	Truck	Water		
	Mmbf				
1986:					
North.....	1,119.8	1,906.0	-	3,025.8	26
South.....	1,402.6	7,294.6	-	8,697.2	74
West.....	0.0	0.0	-	0.0	0
Total.....	2,522.4	9,200.6	-	11,723.0	100
1987:					
North.....	1,352.0	2,259.0	-	3,611.0	29
South.....	1,273.0	7,589.0	-	8,862.0	71
West.....	0.0	0.0	-	0.0	0
Total.....	2,625.0	9,848.0	-	12,473.0	100
1988:					
North.....	791.0	2,212.0	-	3,003.0	24
South.....	1,861.0	7,812.0	-	9,673.0	76
West.....	0.0	0.0	-	0.0	0
Total.....	2,652.0	10,024.0	-	12,676.0	100
1989:					
North.....	580.0	2,269.0	-	2,849.0	23
South.....	1,534.0	8,161.6	-	9,695.6	77
West.....	0.0	0.0	-	0.0	0
Total.....	2,114.0	10,430.6	-	12,544.6	100
1990:					
North.....	1,568.0	1,775.0	-	3,343.0	26
South.....	1,717.0	7,851.0	-	9,568.0	74
West.....	0.0	0.0	-	0.0	0
Total.....	3,285.0	9,626.0	-	12,911.0	100

<sup>1</sup> Exports are included in South destinations.

<sup>2</sup> Estimated by the staff of the U.S. International Trade Commission from data supplied by the Southern Forest Products Association.

Source: Southern Forest Products Association, Destination of shipments, 1986-90.

Table 11

Softwood lumber: U.S. producers' domestic shipments, export shipments, company transfers, total shipments, and end-of-period inventories, 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	January-September--	
				1990	1991
Domestic shipments					
Quantity.....mmbf..	13,008	13,116	12,871	10,036	9,420
Value					
million dollars..	3,469	3,526	3,406	2,712	2,507
Unit value					
per mbf..	\$266.68	\$268.83	\$264.65	\$270.24	\$266.14
Exports					
Quantity.....mmbf..	695	779	728	537	468
Value					
million dollars..	296	365	338	251	218
Unit value					
per mbf..	\$425.90	\$468.55	\$464.29	\$467.41	\$465.81
Company transfers					
mmbf..	1,772	1,779	1,957	1,472	1,484
Total shipments..do...	15,475	15,674	15,555	12,045	11,373
Inventories.....do...	1,177	1,178	1,202	1,189	1,116
Ratio of inventories					
to total shipments					
percent..	7.6	7.5	7.7	7.4 <sup>1</sup>	7.4 <sup>1</sup>

<sup>1</sup> Calculated on the basis of annualized shipments.

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

Total U.S. export shipments grew steadily from 1986 to 1989, increasing by 81.9 percent to a 1989 level of 3.4 billion board feet (table 12). 1990 exports dipped 13.0 percent to 3.0 billion board feet. January-September 1991 exports were up 6.0 percent compared with January-September 1990. Japan has consistently been the largest market for U.S. exports, followed by Canada, Mexico, and Australia. Other than the United States, Japan is the largest export market for Canadian lumber, with Australia also being an important market. As noted in table 2, exports accounted for a growing portion of U.S. production, reaching a peak of 9.1 percent in 1989 before dropping to 8.3 percent in 1990.

Table 12

Softwood lumber: U.S. exports, by markets, 1986-90, January-September 1990, and January-September 1991

Item	1986	1987	1988	1989	1990	Jan.-Sept.-- 1990	1991
Quantity (mmbf)							
Australia.....	124	170	235	221	171	127	152
Canada.....	361	446	501	481	443	366	290
Italy.....	94	112	142	132	122	92	92
Japan.....	810	1,079	1,286	1,466	1,150	876	842
Mexico.....	129	171	289	277	368	254	488
Spain.....	42	70	142	114	94	74	66
Other sources...	317	417	669	723	621	460	458
Total.....	1,877	2,464	3,264	3,415	2,971	2,250	2,386
Value (million dollars)							
Australia.....	40	57	104	99	84	63	74
Canada.....	91	115	149	173	175	146	125
Italy.....	60	79	86	100	107	80	83
Japan.....	260	359	435	565	504	383	377
Mexico.....	32	40	70	100	122	88	123
Spain.....	25	36	61	62	62	49	41
Other sources...	136	169	238	325	293	218	212
Total.....	644	856	1,142	1,424	1,347	1,026	1,034
Unit value (per mbf)							
Australia.....	\$323.19	\$336.87	\$442.12	\$447.94	\$489.78	\$493.18	\$485.19
Canada.....	251.88	258.28	296.32	359.87	394.79	399.05	429.76
Italy.....	632.93	710.47	606.65	759.18	879.14	867.31	902.87
Japan.....	321.58	332.64	338.61	385.52	438.43	436.67	447.83
Mexico.....	248.43	236.26	241.97	359.29	331.25	345.92	251.25
Spain.....	584.86	517.76	426.08	539.02	662.40	664.34	629.49
Other sources...	429.03	405.09	355.53	449.74	470.96	473.53	462.48
Average.....	343.00	347.46	349.93	416.99	453.56	456.10	433.14

Note.--Because of rounding, figures may not add to the totals shown; unit values are calculated from unrounded figures.

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



## U.S. Producers' Employment, Wages, and Productivity

U.S. producers providing employment and wage information in response to the Commission's questionnaires accounted for more than 43 percent of 1990 production of softwood lumber (table 13). For those firms, the average number of production and related workers engaged in the manufacture of softwood lumber steadily decreased, by 5.6 percent, from 1988 to 1990. January-September 1991 employment figures were down 8.4 percent compared with the same period of 1990. The productivity of workers engaged in producing softwood lumber, as measured in output per hour worked by production and related workers, grew from 249 board feet per hour in 1988 to 261 board feet per hour in 1990, an increase of 4.8 percent. January-September 1991 productivity, at 263 board feet per hour, was 3.5 percent higher than that in the corresponding period of 1990. Unit labor costs in producing softwood lumber rose steadily from \$51.02 per mbf to \$52.25 per mbf from 1988 to 1990. Unit labor costs during January-September 1991 stood at \$51.25 per mbf compared with \$52.92 for the same period of 1990.

Table 13

Average number of production and related workers in establishments producing softwood lumber; average number of hours worked by such workers; wages, total compensation, and hourly compensation paid to such workers; labor productivity for production and related workers; and unit labor costs, 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	January-September--	
				1990	1991
Production and related workers.....	28,406	27,758	26,809	26,701	24,452
Hours worked by production and related workers....1,000 hours..	62,304	61,941	59,624	46,960	42,477
Wages paid to production and related workers 1,000 dollars..	646,265	666,900	649,775	503,894	457,412
Total compensation paid to production and related workers 1,000 dollars..	792,000	817,608	814,087	630,518	571,801
Hourly compensation paid to production and related workers.....	\$12.71	\$13.20	\$13.65	\$13.43	\$13.46
Labor productivity for production and related workers bd. ft. per hour..	249	253	261	254	263
Unit labor costs per mbf..	\$51.02	\$52.21	\$52.25	\$52.92	\$51.25

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

### Financial Experience of U.S. Producers

Thirty-two U.S. producers of softwood lumber, including a large number of the major ones, supplied financial data. These producers accounted for approximately 43 percent of U.S. production of softwood lumber in 1990. The companies ranged in size from international corporations with annual softwood lumber net sales well in excess of \$600 million to small regional companies with sales of less than \$10 million.

### Overall Establishment Operations

Data on the overall establishment operations of the U.S. producers are presented in table 14. While net sales, gross profits, and operating and net incomes all increased from 1988 to 1989, they all declined in 1990. Although the decrease in net sales was only about 5 percent, the decreases in gross profit (50 percent), operating profit (70 percent), and net income (76 percent) were much more pronounced because the gross profit margin decreased from 13.6 percent in 1989 to 7.1 percent in 1990.

Even though net sales decreased in interim 1991 when compared to interim 1990, gross profits and operating income levels stayed about the same because of decreases in cost of sales. Net income increased substantially between the interim periods because of a \*\*\*.

While overall softwood lumber operations accounted for about 60 percent of overall establishment net sales, the percentage varied widely depending on the producer. Roughly half of the largest (in terms of annual net sales) producers and one-third of the smallest producers had softwood lumber operations accounting for less, often much less, than 50 percent of overall establishment net sales. The percentage for almost all of the remaining producers was in excess of 90 percent.

### Softwood Lumber Operations

Data on the softwood lumber operations of U.S. producers in the aggregate are shown in table 15, table 16 shows the number of producers which had given financial trends between the given periods, and table 17 presents selected financial information on the individual companies. Softwood lumber net sales values increased about 5 percent from 1988 to 1989, as both sales quantities and per-unit sales values increased moderately. However, per-unit cost of sales increased by an even greater margin, resulting in decreased levels of gross profits and operating and net incomes. As shown in table 16, about two-thirds of the producers had increased net sales values while about three-quarters of them had increased cost of sales.

From 1989 to 1990, the combined effects of decreased sales and increased cost of sales (both on a dollar and per-unit basis) eroded gross profits to less than one third of what they were in 1989. Nineteen of the 32 producers had decreases in per-unit sales values and 30 had increases in per-unit cost

Table 14

Income-and-loss experience of U.S. producers on the overall operations of their establishments wherein softwood lumber is produced, fiscal years 1988-90, January-September 1990, and January-September 1991<sup>1</sup>

Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
Value (1,000 dollars)					
Net sales . . . . .	6,780,642	7,422,391	7,091,368	5,512,375	5,240,517
Cost of goods sold . . . . .	5,912,162	6,411,088	6,585,354	5,058,858	4,798,462
Gross profit . . . . .	868,480	1,011,303	506,014	453,517	442,055
Selling, general, and administrative expenses . . . . .	278,584	290,192	283,657	210,194	204,959
Operating income . . . . .	589,896	721,111	222,357	243,323	237,096
Startup or shutdown expense . . . . .	8,359	11,509	4,751	4,590	2,819
Interest expense . . . . .	96,011	118,447	112,759	80,858	70,777
Other income, net . . . . .	30,857	46,229	45,372	32,952	84,327
Net income before income taxes . . . . .	516,383	637,384	150,219	190,827	247,827
Depreciation and amortiza- tion . . . . .	352,340	359,120	367,982	274,996	272,002
Cash flow <sup>2</sup> . . . . .	868,723	996,504	518,201	465,823	519,829
Ratio to net sales (percent)					
Cost of goods sold . . . . .	87.2	86.4	92.9	91.8	91.6
Gross profit . . . . .	12.8	13.6	7.1	8.2	8.4
Selling, general, and administrative expenses . . . . .	4.1	3.9	4.0	3.8	3.9
Operating income . . . . .	8.7	9.7	3.1	4.4	4.5
Net income before income taxes . . . . .	7.6	8.6	2.1	3.5	4.7
Number of firms reporting					
Operating losses . . . . .	1	4	12	9	5
Net losses . . . . .	3	4	17	11	6
Data . . . . .	31	32	32	30	30

<sup>1</sup> Companies whose fiscal years did not end December 31, together with their respective fiscal year ends, are as follows: \*\*\*; \*\*\*; \*\*\*; \*\*\*; \*\*\*; \*\*\*; \*\*\*; \*\*\*; and \*\*\*.

<sup>2</sup> Cash flow is defined as net income or loss plus depreciation and amortization.

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

Table 15

Income-and-loss experience of U.S. producers on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991<sup>1</sup>

Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
Quantity (mmbf)					
Net sales . . . . .	15,173	15,491	15,619	11,876	11,216
Value (1,000 dollars)					
Net sales . . . . .	4,135,267	4,340,212	4,228,422	3,316,636	3,082,372
Cost of goods sold . . . . .	3,637,248	3,862,957	4,075,278	3,119,231	2,857,524
Gross profit . . . . .	498,019	477,255	153,144	197,405	224,848
Selling, general, and administrative expenses . . . . .	187,898	192,407	196,231	146,752	135,797
Operating income or (loss) . . . . .	310,121	284,848	(43,087)	50,653	89,051
Startup or shutdown expense . . . . .	5,082	10,609	4,903	4,590	2,331
Interest expense <sup>2</sup> . . . . .	23,324	28,622	32,499	23,887	20,418
Other income, net . . . . .	3,338	16,677	11,307	11,435	7,539
Net income or (loss) before income taxes <sup>2</sup> . . . . .	285,053	262,294	(69,182)	33,611	73,841
Depreciation and amortiza- tion . . . . .	188,706	171,744	191,051	148,797	136,618
Cash flow <sup>2 3</sup> . . . . .	473,759	434,038	121,869	182,408	210,459
Value (per mbf)					
Net sales . . . . .	\$272.53	\$280.17	\$270.73	\$279.26	\$274.82
Cost of goods sold . . . . .	239.71	249.36	260.93	262.64	254.77
Gross profit . . . . .	32.82	30.81	9.81	16.62	20.05
Selling, general, and administrative expenses . . . . .	12.38	12.42	12.56	12.36	12.11
Operating income or (loss) . . . . .	20.44	18.39	(2.76)	4.26	7.94
Ratio to net sales (percent)					
Cost of goods sold . . . . .	88.0	89.0	96.4	94.0	92.7
Gross profit . . . . .	12.0	11.0	3.6	6.0	7.3
Selling, general, and administrative expenses . . . . .	4.5	4.4	4.6	4.4	4.4
Operating income or (loss) . . . . .	7.5	6.6	(1.0)	1.5	2.9
Net income or (loss) before income taxes . . . . .	6.9	6.0	(1.6)	1.0	2.4
Number of firms reporting					
Operating losses . . . . .	2	6	14	13	8
Net losses . . . . .	4	7	20	15	9
Data . . . . .	31	32	32	30	30

<sup>1</sup> See footnote 1 in table 14 regarding fiscal year ends.

<sup>2</sup> Many companies were unable to allocate interest expense to their softwood lumber operations. Therefore, interest expense is probably understated and net income and cash flow are probably overstated.

<sup>3</sup> Cash flow is defined as net income or loss plus depreciation and amortization.

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

Table 16

Financial indicators of U.S. producers on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	(Number of firms reporting)			Jan.-Sept.-- 1990-91
	1988-89	1989-90	1988-90	
Data.....	31	32	31	30
Decreases in:				
Net sales value.....	10	20	17	17
Net sales quantities.....	12	19	16	20
Per-unit net sales values..	14	19	18	12
Increases in:				
Cost of sales.....	23	21	24	9
Per-unit cost of sales.....	20	30	28	10

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

of sales. As a result, operating and net incomes both decreased about \$330 million from their 1989 levels, and became operating and net losses.

While net sales value decreased 7 percent in interim 1991 as compared to interim 1990 because of decreased sales quantities and per-unit sale values, operating and net income levels were higher. This was due to an even larger decrease in per-unit cost of sales, which resulted in increasing the gross profit margin from about \$17 to about \$20 per unit. However, the margin is still only about two-thirds of what it was in fiscal years 1988 and 1989.

Demand for softwood lumber is seasonal, since its main use is in the construction industry. Activity in that industry peaks in the summer and drops sharply in the winter; softwood lumber sales react accordingly. Therefore, data for the interim periods (January-September) are probably skewed upward. A comparison of data for fiscal 1990 with that for interim 1990 suggests that the producers did not do too well from October through December, even taking into account that not all producers have fiscal years ending December 31.

Selected financial data on a company-by-company basis are presented in table 17. In an effort to determine if overall trends were shared by all segments of the industry, the companies were loosely grouped into one of three categories. The categories were based on the yearly level of softwood lumber net sales revenues, and are as follows: greater than \$200 million, \$75 to \$200 million, and less than \$75 million.

As the table shows, the five largest companies dominated net sales and operating income. While there were large differences in profitability within each group, the operating income of each group was generally proportional to net sales levels. Per-unit sales and cost of sales values decreased as the

Table 17

Selected financial data of U.S. producers on their operations producing softwood lumber, by firms, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
Value (million dollars)					
<b>NET SALES:</b>					
<b>PRODUCERS WITH NET SALES GREATER THAN \$200 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	2,359	2,494	2,368	1,872	1,739
Percent of total.....	56.9	57.3	55.9	56.4	56.3
<b>PRODUCERS WITH NET SALES OF \$75 TO \$200 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	1,287	1,347	1,394	1,126	1,028
Percent of total.....	31.1	31.1	32.8	34.0	33.4
<b>PRODUCERS WITH NET SALES LESS THAN \$75 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	489	499	467	318	316
Percent of total.....	11.8	11.6	11.0	9.7	10.4
Totals for all producers.	4,135	4,340	4,228	3,317	3,082
<b>OPERATING INCOME OR (LOSS):</b>					
<b>PRODUCERS WITH NET SALES GREATER THAN \$200 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	183	179	7	51	55
Percent of total.....	59.0	62.9	<sup>2</sup>	100.7	61.7
<b>PRODUCERS WITH NET SALES OF \$75 TO \$200 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	77	62	(43)	(2)	26
Percent of total.....	24.8	21.7	<sup>2</sup>	<sup>2</sup>	29.0
<b>PRODUCERS WITH NET SALES LESS THAN \$75 MILLION:</b>					
	*	*	*	*	*
Sub-total.....	50	44	(7)	1	8
Percent of total.....	16.2	15.3	<sup>2</sup>	2.5	9.2
Totals for all producers.	310	284	(43)	51	89

Table continued on next page.

Table 17--Continued

Selected financial data of U.S. producers on their operations producing softwood lumber, by firms, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
<hr/>					
	<hr/> Ratio to net sales (percent) <hr/>				
OPERATING INCOME OR (LOSS):					
PRODUCERS WITH NET SALES					
GREATER THAN \$200 MILLION:					
Average.....	* 7.8	* 7.2	* 0.3	* 2.7	* 3.2
PRODUCERS WITH NET SALES					
OF \$75 TO \$200 MILLION:					
Average.....	* 6.0	* 4.6	* (3.1)	* (0.1)	* 2.5
PRODUCERS WITH NET SALES					
LESS THAN \$75 MILLION:					
Average.....	* 10.2	* 8.8	* (1.6)	* 0.4	* 2.6
Overall average.....	7.5	6.6	(1.0)	1.5	2.9
<hr/>					
	<hr/> Value (per mbf) <hr/>				
PER-UNIT SALES VALUES:					
PRODUCERS WITH NET SALES					
GREATER THAN \$200 MILLION:					
Average.....	* 286	* 298	* 283	* 292	* 285
PRODUCERS WITH NET SALES					
OF \$75 TO \$200 MILLION:					
Average.....	* 261	* 263	* 259	* 267	* 265
PRODUCERS WITH NET SALES					
LESS THAN \$75 MILLION:					
Average.....	* 245	* 250	* 246	* 257	* 256
Overall average.....	273	280	271	279	275

Table continued on next page.

Table 17--Continued

Selected financial data of U.S. producers on their operations producing softwood lumber, by firms, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	Jan. -Sept. --	
				1990	1991
	Value (per mbf)				
PER-UNIT COST OF SALES:					
PRODUCERS WITH NET SALES					
GREATER THAN \$200 MILLION:					
Average.....	*	*	*	*	*
	252	264	270	271	264
PRODUCERS WITH NET SALES					
OF \$75 TO \$200 MILLION:					
Average.....	*	*	*	*	*
	233	238	256	255	246
PRODUCERS WITH NET SALES					
LESS THAN \$75 MILLION:					
Average.....	*	*	*	*	*
	207	216	237	243	236
Overall average.....	240	249	261	263	255

<sup>1</sup> Company either did not operate or could not provide data.

<sup>2</sup> Not applicable--negative number.

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

sales level decreased. Interestingly, the trends of each of the three groups for each of the five financial indicators are virtually the same as the overall trends in table 15.

Hand-in-hand with the production of softwood lumber is the production of by-products associated with timber such as wood chips, sawdust, bark, and wood shavings. The revenue from these by-products is substantial, generally about 15-19 percent of the net sales value of softwood lumber alone. Eighteen of the producers treated the revenue as a reduction in cost of sales, 12 treated it as softwood lumber revenue, and 2 could not break out the revenue.

While treating by-product revenue as either a reduction in cost of sales or an increase in softwood lumber revenue will result in the same operating and net incomes, the former method will result in lower per-unit sales and cost of sales values. In order to present the data from all producers on a consistent basis, we have presented by-product revenue as a reduction in cost



of sales. Table 18, which presents U.S. producers' manufacturing costs for softwood lumber, indicates that the dollar amount of the reduction increased from about \$38 per mbf in 1988 to about \$46 per mbf in 1990.

Within the manufacturing costs, there were slow but steady increases in almost every cost component, but principally direct materials (logs), from 1988 through 1990. The reverse was true in interim 1991 as compared to interim 1990, as all cost components decreased. Most producers, regardless of their size, experienced the same general trends. Since direct materials purchases from outside parties as a percentage of all direct materials remained virtually constant from 1988 on (about 40 percent), the increase during 1988-90 is probably attributable to a general increase in log prices.

Cost of goods sold data in table 15 mirrored the rise and fall in manufacturing costs, and the costs were very close--within \$5 (2 percent) of each other. This generally indicates low inventory levels, as is the case here.

Table 18  
U.S. producers'<sup>1</sup> per-unit manufacturing costs on their operations producing softwood lumber, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
Quantity (mmbf)					
Production.....	13,781	14,066	14,189	10,735	10,026
Value (per mbf)					
Direct materials...	\$182.38	\$195.90	\$202.16	\$205.13	\$201.87
Direct labor.....	49.83	52.44	51.35	51.85	49.40
Factory overhead...	43.39	46.87	48.60	49.33	47.63
Subtotal.....	275.60	295.21	302.10	306.30	298.90
Less: By-product revenue....	(37.66)	(46.60)	(45.76)	(45.83)	(48.40)
Total costs.....	237.94	248.61	256.34	260.47	250.50
Ratio to total costs (percent)					
Direct materials...	76.6	78.8	78.9	78.8	80.6
Direct labor.....	20.9	21.1	20.0	19.9	19.7
Factory overhead...	18.2	18.9	19.0	18.9	19.0
Subtotal.....	115.8	118.7	117.9	117.6	119.3
Less: By-product revenue....	(15.8)	(18.7)	(17.9)	(17.6)	(19.3)
Total costs.....	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> All producers except \*\*\*, \*\*\*, and \*\*\* provided useable data.

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

## Investment in Productive Facilities and Return on Assets

Data on investment in productive facilities and return on assets are shown in table 19.

Table 19

Value of assets and return on assets of U.S. producers' establishments wherein softwood lumber is produced, fiscal years 1988-90, January-September 1990, and January-September 1991

Item	As of the end of fiscal year--			As of Sept. 30--	
	1988	1989	1990	1990	1991
Value (1,000 dollars)					
All products:					
Fixed assets:					
Original cost . .	5,652,758	6,250,147	6,831,786	6,662,077	7,043,480
Book value . .	2,719,381	3,096,655	3,416,790	3,325,844	3,466,378
Total assets <sup>1</sup> . .	7,890,352	8,837,938	9,297,005	9,188,840	9,594,657
Softwood lumber:					
Fixed assets:					
Original cost . .	2,496,546	2,756,772	2,905,405	2,869,901	2,943,673
Book value . .	1,080,163	1,269,663	1,293,064	1,285,461	1,248,028
Total assets <sup>2</sup> . .	4,178,121	4,676,622	4,905,087	4,906,120	5,079,093
Return on book value of fixed assets (percent) <sup>3</sup>					
All products:					
Operating return <sup>4</sup>	21.7	23.3	6.5	9.8	9.1
Softwood lumber:					
Operating return <sup>4</sup>	28.7	22.4	(3.3)	5.3	9.5
Return on total assets (percent) <sup>3</sup>					
All products:					
Operating return <sup>4</sup>	7.3	8.0	2.4	3.5	3.3
Softwood lumber:					
Operating return <sup>4</sup>	7.0	5.9	(0.9)	1.3	2.3

<sup>1</sup> Defined as the book value of fixed assets plus current and noncurrent assets.

<sup>2</sup> Total establishment assets are apportioned, by firm, to product groups on the basis of the ratios of the respective book values of fixed assets.

<sup>3</sup> Computed using data from only those firms supplying both asset and income-and-loss information, and as such, may not be derivable from data presented. Data for the partial-year periods are calculated using annualized income-and-loss information.

<sup>4</sup> Defined as operating income or loss divided by asset value.

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

## Capital Expenditures

The capital expenditures of the producers are shown in table 20.

Table 20

Capital expenditures by U.S. producers of softwood lumber, by products, fiscal years 1988-90, January-September 1990, and January-September 1991

(In thousands of dollars)					
Item	1988	1989	1990	Jan.-Sept.-- 1990	1991
All products:					
Land and land improve- ments . . . . .	38,365	29,415	22,585	15,535	27,312
Building and leasehold improvements . . . . .	41,536	29,186	54,847	36,037	19,046
Machinery, equipment, and fixtures . . . . .	479,324	584,913	656,601	506,949	310,901
Total . . . . .	559,225	643,514	734,033	558,521	357,259
Softwood lumber:					
Land and land improve- ments . . . . .	8,197	6,425	3,360	2,453	415
Building and leasehold improvements . . . . .	14,988	7,621	9,255	7,292	1,852
Machinery, equipment, and fixtures . . . . .	234,159	278,104	188,795	134,307	101,563
Total . . . . .	257,344	292,150	201,410	144,052	103,830

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

## Research And Development Expenses

The research and development expenditures of the responding producers are shown in table 21.

Table 21

Research and development expenses of U.S. producers of softwood lumber, by products, fiscal years 1988-90, January-September 1990, and January-September 1991

(In thousands of dollars)					
Item	1988	1989	1990	Jan.-Sept.--	
				1990	1991
All products.....	13,405	13,363	14,169	13,174	11,181
Softwood lumber.....	3,043	2,979	1,474	1,030	1,187

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

## Capital and Investment

The Commission requested U.S. producers to describe any actual or potential negative effects of imports of softwood lumber from Canada on their firms' growth, investment, ability to raise capital, and/or development and production efforts. Their responses are shown in appendix C.

CONSIDERATION OF THE QUESTION OF  
THREAT OF MATERIAL INJURY

Section 771(7)(F)(i) of the Tariff Act of 1930 (19 U.S.C. § 1677(7)(F)(i)) provides that--

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of any merchandise, the Commission shall consider, among other relevant factors<sup>34</sup>--

(I) If a subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement),

(II) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,

(III) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,

(IV) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,

(V) any substantial increase in inventories of the merchandise in the United States,

(VI) the presence of underutilized capacity for producing the merchandise in the exporting country,

(VII) any other demonstrable adverse trends that indicate the probability that the importation (or sale for importation) of the merchandise (whether or not it is actually being imported at the time) will be the cause of actual injury,

---

<sup>34</sup> Section 771(7)(F)(ii) of the act (19 U.S.C. § 1677(7)(F)(ii)) provides that "Any determination by the Commission under this title that an industry in the United States is threatened with material injury shall be made on the basis of evidence that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition."

(VIII) the potential for product-shifting if production facilities owned or controlled by the foreign manufacturers, which can be used to produce products subject to investigation(s) under section 701 or 731 or to final orders under section 736, are also used to produce the merchandise under investigation,

(IX) in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both), and

(X) the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the like product.<sup>35</sup>

The available information on the nature of the subsidies being examined by the Department of Commerce (item (I) above) is presented in the section of this report entitled "Nature and Extent of Alleged Subsidies;" information on the volume, U.S. market penetration, and pricing of imports of the subject merchandise (items (III) and (IV) above) is presented in the section entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged material injury;" and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts (item (X)) is presented in the section entitled "Consideration of alleged material injury to an industry in the United States." Available information on U.S. inventories of the subject products (item (V)); foreign producers' operations, including the potential for "product-shifting" (items (II), (VI), (VIII) and (IX) above); and any other threat indicators, if applicable (item (VII) above), follows. Other threat indicators have not been alleged or are otherwise not applicable.

---

<sup>35</sup> Section 771(7)(F)(iii) of the act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other GATT member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

## Inventories of U.S. Importers

Hardly any of the respondents to the Commission's importer/purchaser questionnaires were able to provide useable information with respect to inventories of softwood lumber imported from Canada. Virtually all of them indicated that they do not segregate inventories by country of origin. Staff is unaware of any public source for inventory data and is, therefore, unable to provide importer inventory information.

Ability of Foreign Producers to Generate Exports  
and the Availability of Export Markets Other  
Than the United States

## The Industry in Canada

From 1986 to 1987, Canadian production of softwood lumber rose 14.3 percent to a peak of 25.9 billion board feet in 1987, generally reflecting increased demand in export and domestic markets. However, in each succeeding year, Canadian production and exports of softwood lumber have dropped from their highwater marks of 1987. Production in 1990 of 22.8 billion board feet was off 12.0 percent from the 1987 production level (table 22). Exports to the United States, having reached a peak of 14.4 billion board feet in 1987, declined each year thereafter to 11.8 billion board feet in 1990. From 1987 to 1990, such exports fell by 18.5 percent (table 25).

Table 22  
Softwood lumber: Canadian production, capacity, and capacity utilization,  
1986-90, January-September 1990, and January-September 1991

Item	1986	1987	1988	1989	1990	Jan.-Sept.--	
						1990	1991
Production							
mmbf..	22,629	25,870	25,167	24,538	22,755	17,066	16,284
Capacity							
mmbf..	27,800	28,500	28,700	28,400	28,400	21,300	21,075
Capacity utilization							
percent..	81.3	90.7	87.7	86.4	80.1	80.1	77.3

Source: Resource Information Systems, Inc. FORSIM Review, September 1991, and Statistics Canada

Canadian production of softwood lumber is rather dependent upon U.S. construction activity. As noted earlier, Canadian softwood lumber production rose 14.3 percent from 1986 to 1987 when U.S. housing starts stood at 1.6 million units and U.S. lumber consumption reached a record level of more than 50 billion board feet. However, as the level of U.S. construction activity slumped, Canadian production fell to a 1990 level just above production activity in 1986. From 1986 to 1987, Canadian softwood lumber capacity

increased from 27.8 billion board feet to 28.5 billion board feet; it then remained essentially level through 1990. Capacity utilization rates rose from 1986 to 1987 and dropped each year thereafter to a rate of 80.1 percent in 1990.

British Columbia is the leading region of softwood lumber production in Canada. In 1990, it accounted for 62.4 percent of total production, steadily up from a share of 58.9 percent in 1986. Softwood lumber production in British Columbia rose from 13.3 billion board feet in 1986 to a record 15.9 billion board feet in 1987 (table 23). Thereafter, it declined each year to 14.2 billion board feet in 1990. British Columbia's lower production and share figures for 1986 are largely due to strikes, some of which lasted up to 4 months. Quebec and Ontario accounted for 25.2 percent of production in 1990, down from a 30.0 percent share in 1986.

Table 23

Softwood lumber: Canadian production, by Provinces, 1986-90, January-September 1990, and January-September 1991

	<u>British Columbia</u>					Maritime	Prairie	
<u>Period</u>	<u>Coast</u>	<u>Interior</u>	<u>Total</u>	<u>Quebec</u>	<u>Ontario</u>	<u>Provinces</u>	<u>Provinces</u>	<u>Total</u>
<hr/>								
Quantity (mmbf)								
<hr/>								
1986.....	3,753	9,582	13,335	4,512	2,256	909	1,618	22,629
1987.....	4,675	11,212	15,887	5,100	2,147	938	1,798	25,870
1988.....	4,583	10,989	15,572	4,470	2,266	941	1,917	25,167
1989.....	4,140	11,094	15,233	4,279	2,178	845	2,002	24,538
1990.....	3,798	10,400	14,199	3,799	1,926	861	1,971	22,755
Jan. -Sept:								
1990.....	2,848	7,800	10,648	2,849	1,444	646	1,478	17,065
1991.....	2,643	7,433	10,076	2,645	1,374	581	1,543	16,219
<hr/>								
Share (percent) of total production								
<hr/>								
1986.....	16.6	42.3	58.9	20.0	10.0	4.0	7.1	100
1987.....	18.1	43.3	61.4	19.7	8.3	3.6	7.0	100
1988.....	18.2	43.7	61.9	17.8	9.0	3.7	7.6	100
1989.....	16.9	45.2	62.1	17.4	8.9	3.4	8.2	100
1990.....	16.7	45.7	62.4	16.7	8.5	3.8	8.7	100
Jan. -Sept:								
1990.....	16.7	45.7	62.4	16.7	8.5	3.8	8.7	100
1991.....	16.3	45.8	62.1	16.3	8.5	3.6	9.5	100

Source: Statistics Canada.

Canadian production, by species, is presented in table 24. In 1990, as in earlier years, nearly three-fourths of Canadian softwood lumber production was SPF, with Hem-fir, Douglas fir, and red cedar composing the next largest species groups.



Table 24

Softwood lumber: Canadian production, by species, 1986-90, January-September 1990, and January-September 1991

(In mmbf)							
Species	1986	1987	1988	1989	1990	Jan.-Sept.--	
						1990	1991
SPF <sup>1</sup> .....	17,359	19,374	18,747	18,466	16,946	12,709	12,556
Hem-fir <sup>2</sup> .....	2,346	2,946	2,873	2,648	2,485	1,864	1,659
Douglas-fir....	1,218	1,426	1,540	1,351	1,197	898	824
Red cedar.....	1,151	1,457	1,246	1,237	1,070	802	817
Other.....	554	667	761	836	1,056	793	361
Total.....	22,629	25,870	25,167	24,538	22,755	17,066	16,217

<sup>1</sup> Includes white spruce, Engelman spruce, lodgepole pine, and alpine fir.

<sup>2</sup> 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.

### Canadian exports

Canadian exports<sup>36</sup> of softwood lumber amounted to 15.7 billion board feet in 1990, representing a decrease of 10.4 percent from the record 17.5 billion board feet exported in 1987 (table 25). Exports as a share of Canadian production declined irregularly from 1986 to 1990, falling from 71.2 percent in 1986 to 68.9 percent in 1990.

From 1986 to 1987, Canadian exports to the United States rose to a record 14.4 billion board feet; they then dropped each year thereafter to 11.8 billion board feet in 1990. Exports to the United States as a share of production declined steadily from 1986 to 1990, falling from 61.8 percent to 51.8 percent. Canadian exports to the United States are shown in the following tabulation:

Period	Canadian exports	
	to the United States (mmbf)	As a share of U.S. consumption (percent)
1986.....	13,995	29.4
1987.....	14,445	28.6
1988.....	13,546	27.8
1989.....	13,149	26.6
1990.....	11,779	25.7

<sup>36</sup> Official Canadian export and import statistics may vary somewhat from comparable U.S. statistics because of differences in shipment recordings, timing, classification, etc.

Table 25

Softwood lumber: Canadian production, imports, exports to the United States, total exports, apparent consumption, and ratios of total exports to production, U.S. exports to production, and imports to consumption, 1986-90, January-September 1990, and January-September 1991

Period	Pro- duc- tion	Imports	Exports to U.S.	Total exports	Apparent consumption	Ratio of--		
						Total exports to production	U.S. exports to production	Imports to con- sumption
Quantity (mmbf)								
1986.....	22,629	327	13,995	16,104	6,852	71.2	61.8	4.8
1987.....	25,870	304	14,445	17,500	8,674	67.6	55.8	3.5
1988.....	25,167	363	13,546	17,179	8,351	68.3	53.8	4.3
1989.....	24,538	439	13,149	16,950	8,027	69.1	53.6	5.5
1990.....	22,755	423	11,779	15,687	7,491	68.9	51.8	5.6
Jan.-Sept:								
1990....	17,066	348	9,250	12,161	5,253	71.3	54.2	6.6
1991....	16,284	286	8,581	11,633	4,937	71.4	52.7	5.8
Value (million dollars)								
1986.....	5,981	135	3,937	4,889	1,227	81.7	65.8	11.0
1987.....	7,026	132	4,175	5,739	1,419	81.7	59.4	9.3
1988.....	6,944	194	3,418	5,242	1,896	75.5	49.2	10.2
1989.....	6,851	221	3,360	5,378	1,694	78.5	49.0	13.0
1990.....	6,208	193	3,168	5,234	1,167	84.3	51.0	16.5
Jan.-Sept:								
1990....	4,562	161	2,316	3,886	837	85.2	50.8	16.5
1991....	4,374	131	2,116	3,680	825	84.1	48.4	15.9
Unit value (per mbf)								
1986.....	\$264.31	\$412.84	\$281.31	\$303.58	\$179.07			
1987.....	271.59	434.21	289.02	327.94	163.59			
1988.....	275.92	534.43	252.32	305.13	227.04			
1989.....	279.20	503.41	255.53	317.28	211.04			
1990.....	272.82	456.26	268.95	333.65	155.79			
Jan.-Sept:								
1990....	267.31	462.64	250.38	319.55	159.31			
1991....	268.60	458.04	246.59	316.34	167.08			

Source: Statistics Canada.

The vast majority, more than 75 percent, of Canadian softwood lumber exports to the United States occurred in the SPF group.

Canada's exports to the United States are mostly marketed in areas of high housing activity, east of the Rocky Mountains, with California being a primary market in the western United States. Of Canada's total 1990 exports of softwood lumber to the United States, 62.7 percent were supplied by British Columbia. These exports accounted for 52.1 percent of British Columbian production in 1990. The following tabulation, developed from data of 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 1986-90:

<u>Period</u>	<u>Exports to the United States (billion board feet)</u>	<u>Share of British Columbia production (percent)</u>	<u>Share of U.S. consumption (percent)</u>
1986.....	7.8	58.6	16.4
1987.....	9.2	57.9	18.2
1988.....	9.2	59.0	18.9
1989.....	8.9	58.6	18.0
1990.....	7.4	52.1	16.1

British Columbia exports and the share of British Columbia production of softwood lumber exported to the United States were relatively stable from 1987 through 1989, then dropped in 1990 to the lowest levels during 1986-90.

As noted earlier in this report, Japan is Canada's next largest export market after the United States. The portion of Canada's total exports, on a quantity basis, going to Japan has grown from slightly under 6 percent in 1986 to more than 10 percent in 1989 and 1990. On a value basis, the growth is from slightly under 10 percent in 1986 to more than 18 percent in 1989 and 1990. Canada's other important export markets include the United Kingdom, France, and Australia.<sup>37</sup>

### *Canadian imports*

Canadian imports of softwood lumber increased irregularly from 327 million board feet in 1986 to 423 million board feet in 1990 (table 25). The latter number gave imports a 5.6 percent share of Canadian apparent consumption in 1990. 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.

---

<sup>37</sup> Derived from Statistics Canada data.

*Canadian consumption*

Apparent Canadian consumption of softwood lumber stood at 7.5 billion board feet in 1990, down from a peak of 8.7 billion board feet in 1987. Canadian softwood lumber consumption and Canadian housing starts are shown in the following tabulation:

<u>Period</u>	<u>Softwood lumber consumption</u> <u>(billion board feet)</u>	<u>Housing starts</u> <u>(1,000 units)</u>
1986.....	6.9	200
1987.....	8.7	246
1988.....	8.4	221
1989.....	8.0	215
1990.....	7.5	182

The following tabulation shows the estimated share of softwood lumber consumed in Canada, by end use, in 1990 (in percent):

<u>End use</u>	<u>Percentage distribution</u> <u>of Canadian consumption</u>
Construction:	
New residential (new housing).....	28.5
Repair and remodeling.....	39.8
New nonresidential construction...	6.5
Industrial.....	<u>25.2</u>
Total.....	100.0

**CONSIDERATION OF THE CAUSAL RELATIONSHIP BETWEEN IMPORTS OF  
THE SUBJECT MERCHANDISE AND THE ALLEGED MATERIAL INJURY**

**U.S. Imports and Market Penetration**

As shown in table 26, virtually all U.S. imports of softwood lumber come from Canada. From 1986 to 1990, imports from Canada followed an irregular pattern. After increasing from 14.1 billion board feet in 1986 to 14.6 billion board feet in 1987, imports then dropped to 13.7 billion board feet in 1988, before rebounding to 14.3 billion board feet in 1989. 1990 imports fell to 12.0 billion board feet, off 15.7 percent from 1989 levels. For January-September 1991, imports from Canada fell 7.7 percent compared with January-September 1990.

Table 26

Softwood lumber: U.S. imports, by sources, 1986-90, January-September 1990, and January-September 1991

Item	1986	1987	1988	1989	1990	Jan. -Sept. -- 1990	1991
<u>Quantity (mmbf)</u>							
Canada.....	14,113	14,571	13,702	14,271	12,036	9,456	8,724
Other sources...	130	117	107	1,101	1,036	1,015	123
Total.....	14,243	14,689	13,809	15,372	13,072	10,471	8,847
<u>Value (million dollars)</u>							
Canada.....	3,034	3,105	2,958	3,159	2,873	2,286	2,120
Other sources...	36	39	48	39	43	31	46
Total.....	3,070	3,144	3,005	3,198	2,916	2,317	2,166
<u>Unit value (per mbf)</u>							
Canada.....	\$214.95	\$213.12	\$215.84	\$221.37	\$238.73	\$241.70	\$243.03
Other sources...	279.35	331.06	445.75	35.45	41.25	30.85	375.76
Average.....	215.53	214.07	217.62	208.05	223.08	221.27	244.88

Note.--Because of rounding, figures may not add to the totals shown; unit values are calculated from unrounded figures.

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

As noted in table 2, the ratio of imports from Canada to apparent consumption in the United States dropped irregularly during 1986-90, falling from 29.6 percent in 1986 to 28.2 percent in 1988, rising to 28.8 percent in 1989, and dipping to 26.2 percent in 1990. For January-September 1991, imports from Canada held a 27.2 percent share of the U.S. market.<sup>38</sup>

<sup>38</sup> To the extent import data contain imports from the Maritime Provinces, the ratios of subject imports to apparent consumption are slightly overstated. Imports from the Maritime Provinces represent a very small portion of total imports from Canada and, therefore, have a minimal effect on import penetration ratios.

## Imports by Domestic Producers

Six domestic producers of softwood lumber reported they had imported softwood lumber from Canada during January 1988 through September 1991. In the case of \*\*\*. Imports by the three producers who provided both quantity and value information are shown in table 27. As a share of total imports from Canada, imports by these three U.S. producers \*\*\*, \*\*\*, and \*\*\* ranged from \*\*\* to \*\*\* percent during 1988-September 1991. The six domestic producers reporting imports accounted for more than 15 percent of U.S. softwood lumber production in 1990.

Table 27

Softwood lumber: U.S. imports from Canada by domestic producers responding to the Commission's questionnaires, 1988-90, January-September 1990, and January-September 1991<sup>1</sup>

Item	1988	1989	1990	January-September--	
				1990	1991

\* \* \* \* \*

<sup>1</sup> 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.

In addition to \*\*\*, \*\*\*, \*\*\*, and \*\*\* have Canadian production facilities. Together, these four firms accounted for \*\*\* percent of U.S. production in 1990.

## Prices

## Market Characteristics

Softwood lumber prices change daily, influenced by the particular market conditions on that day. Sellers and buyers of softwood lumber negotiate sales prices, frequently using the sellers' internal price lists or Random Lengths<sup>39</sup> quotes as a guide, and taking into consideration factors such as available supply, weather conditions, inventory levels, and offshore demand. Factors directly affecting the price of lumber include the species, grade, and size of the lumber.

Most species of softwood lumber are interchangeable to a large degree, depending on the end use, available supply, consumer preferences, and local building codes. The majority of softwood lumber imported from Canada is SPF, while the primary U.S. species are Douglas fir, hem-fir, and SPF in the northeast, northcentral, and northwestern states, and SYP in the southern states. Virtually all producers, importers, and purchasers indicated that U.S.-produced and Canadian products can be used interchangeably. However, there are differences among species, and thus for specific end uses consumers may prefer one species over another.<sup>40</sup>

Softwood lumber is graded based on characteristics that affect its strength, durability, utility, and/or appearance. Questionnaire respondents tended to consider "grade" and "quality" as analogous terms. The higher the grade of lumber, and thus the higher its quality, the more favorable the size, location, and distribution of knotholes, its straightness, the absence of wane, and the quality of the machining. Several respondents reported that lumber meeting guidelines published by groups such as the Western Wood Products Association (WWPA) or the American Lumber Standards Committee (ALSC) is considered to be acceptable.

Lumber is classified into seven major categories, including studs, dimension, stress grades, timbers, boards, selects, and shop.<sup>41</sup> Studs and dimension lumber are the largest categories in which U.S. and Canadian lumber compete. Dimension lumber is sold either as random or specified lengths. In general, random length lumber is priced lower than that sold at specified lengths, for a particular species of lumber.

Spot sales account for virtually all sales of softwood lumber in the U.S. market. U.S. producers generally quote prices on an f.o.b. mill basis, while Canadian mills and importers generally quote on a delivered basis. Importers of Canadian softwood lumber do not show freight as a separate item on invoices, while U.S. mills reported that freight may be indicated for a delivered sale, but that this varies on a case-by-case basis.

---

<sup>39</sup> Random Lengths is an organization publishing weekly reports on the North American forest products market. Prices are reported for 1,200 different items, based on surveys of buyers and sellers of lumber and panel products.

<sup>40</sup> See discussion of preferences in the section of this report entitled, "Description and uses".

<sup>41</sup> See pp. A-6-7 for a further discussion of these categories.

Geographic market areas for both U.S. producers and importers of Canadian lumber varied. Some companies sell throughout the continental United States, while others concentrate their sales within regional (e.g., southern or eastern United States) or local markets (e.g., southern Texas). A company's market area is determined primarily by freight costs associated with delivery of the lumber to a retail or distribution center. Additional factors that may determine market area include consumer preferences for particular species of lumber and competitive species pricing. One producer indicated that different species are preferred in different areas; for example, Idaho white pine is more in demand in the northeast than are fir and larch, which sell better in the southeast.<sup>42</sup>

Domestic producers and importers of softwood lumber reported selling to wholesalers, distributors, retailers (including mass merchants), and manufacturers of wood products such as windows and doors. Producers of SYP also sell to pressure treaters. The principal end uses for softwood lumber, whether produced in the United States or Canada, include residential construction, repair and remodeling, industrial remanufacturing, and industrial applications such as wood pallets and crates. SYP, grown only in the United States, is unique among softwood lumbers in its ability to absorb preservatives through pressure treating necessary for its use in decks, fences, and other outdoor uses. One producer estimated that 50 to 55 percent of SYP is pressure-treated, which is what he believes allows the SYP mills to continue operating despite competition with other softwood lumbers for non-pressure-treated purposes.<sup>43</sup>

Questionnaire respondents named many different products that may be considered substitutes for softwood lumber, including steel, aluminum, composite materials, veneer products, and plastic. However, they are not likely to be widely substituted, primarily due to higher material and labor costs associated with their use. One producer estimated that softwood lumber maintains a 90 percent share of the construction component market due to its lower cost and wide availability.<sup>44</sup> No purchasers reported adjusting their purchases of potential substitutes because of changes in the price of softwood lumber.

Demand for softwood lumber has decreased since 1987, which producers and importers attribute in large part to the impact of the recession in the U.S. economy. This impact can be seen in the decline in construction activity, most notably housing starts, since 1986. Producers and importers attribute a shift from new home construction activity to increased activity in the do-it-

---

<sup>42</sup> Questionnaire response of \*\*\*.

<sup>43</sup> Other softwood lumbers such as red cedar and redwood also are used for outdoor applications such as decks and siding. As with all softwood lumbers, the price of red cedar and redwood varies by grade and size; however, in most areas of the United States, there is a substantial difference in price between SYP and these two species. \*\*\* stated that in California, the price of red cedar and SYP is about the same, but that in the south SYP is significantly less expensive.

<sup>44</sup> Questionnaire response of \*\*\*.



yourself (DIY) and repair/remodeling market to the impact of the recession.<sup>45</sup> Few changes in the product mix or marketing of softwood lumber occurred during 1988-91. One change noted was the growth of home centers aimed at the DIY consumer, which has prompted some companies to include consumers in their marketing focus.<sup>46</sup>

Despite the decrease in demand since 1987, nine U.S. producers reported facing periodic difficulties in meeting customers' demand for softwood lumber, although these supply shortages were generally short term. Reasons given for supply shortages included log shortages, strikes, weather-related shortages, railcar shortages, and mill curtailments. No importers reported facing supply shortages during January 1988-September 1991. Two purchasers each reported one instance of supply problems, one involving U.S. lumber during June-October 1989, and the other involving Canadian lumber throughout 1988-91, during periods of peak demand.

Most producers and importers reported that, generally, there are few differences in quality between U.S.-produced and imported softwood lumber, and that the differences that do exist are not a significant factor in their sales. The difference most frequently cited was the superior nail-holding ability, ease of nailing and sawing, and lighter weight of SPF over SYP. \*\*\*, of \*\*\*, commented that while SYP also has great nail-holding ability, it is difficult "to get a nail into it." He estimated that for most jobs requiring dimension lumber, SYP is chosen over SPF only when it is priced considerably below SPF, most likely by a margin of \$20-\$25 per mbf.<sup>47</sup>

Random length lumber futures are traded on the Chicago Mercantile Exchange. A trading unit is 160,000 board feet (160 mbf) and prices are quoted in dollars per mbf. The softwood lumber traded is nominal 2"x4"s of random lengths from 8 to 20 feet, kiln dried, graded as "construction and standard," "standard and better," or #1 and #2, with #2 not able to exceed 50 percent of the delivery unit. Species eligible at delivery include Alpine fir, Engleman spruce, Hem-fir, Lodgepole pine, and/or SPF.<sup>48</sup> The origin of the lumber is from California, Idaho, Montana, Nevada, Oregon, Washington, and Wyoming in the United States, and the Provinces of British Columbia and Alberta in Canada. For deliveries from both U.S. and Canadian mills, the buyer is charged the lowest published freight rate from Prince George, BC, under the assumption that this will make it more possible for U.S. mills to compete with Canadian mills on delivery, just as they do on the cash market.<sup>49</sup>

Ken Porter, of Georgia Pacific, commented in regards to the futures market that the acceptability of all of the above-named species for

---

<sup>45</sup> Some regional increases in demand have occurred during 1988-91, although these were generally not sustained increases. For example, there was an increase in demand in the southeast following Hurricane Hugo, in September 1989. See the section of this report titled "Apparent U.S. Consumption", p. A-16, for a further discussion of the impact of housing starts on the softwood lumber market.

<sup>46</sup> Based on responses in questionnaires of the U.S. International Trade Commission.

<sup>47</sup> Conversation with \*\*\*, \*\*\*, Oct. 25, 1991.

<sup>48</sup> SYP and Douglas fir were not listed as eligible species.

<sup>49</sup> Random Length Lumber: Facts, Chicago Mercantile Exchange.

fulfillment of a futures contracts supports the assertion that these species are interchangeable, adding that he believes that since the early 1980's, all contracts have been filled by Canadian SPF. He estimated that approximately 10 percent of the lumber contracts traded go to delivery.<sup>50</sup>

#### Purchases of Softwood Lumber

Twenty purchasers of softwood lumber responded to the Commission questionnaire. Most purchasers described their operations as wholesale/distribution, retail, remanufacturing, or broker. All purchasers reported buying lumber from both U.S. and Canadian suppliers. The domestic suppliers mentioned most frequently included Boise-Cascade, Georgia-Pacific, Temple-Inland, and Louisiana-Pacific. Canadian suppliers included Noranda, Westar, Weyerhaeuser, Fletcher Challenge, Canfer, and Weldwood. Responding purchasers sold softwood lumber primarily to lumber yards and retail chains.

Almost all purchasers reported knowing the country of origin of the softwood lumber they purchase, as well as the manufacturer of the lumber, although many do not distinguish lumber by country-of-origin after it is purchased. Purchasers believed that buyers generally are aware of the country of origin of the lumber they purchase. For most companies, purchases are made on a daily basis. Most have many different suppliers, depending on the species of lumber, and may contact up to six suppliers for price quotes for an individual purchase. The primary factors considered in making a purchase included price, availability of a particular species, and quality of the lumber.

Several purchasers reported differences in the softwood lumber that they buy from various suppliers, such as species, quality, availability, and the product mix available. Purchasers reported no differences in the range of uses for Canadian lumber compared to domestic lumber, with the exception that no Canadian equivalent to SYP for pressure-treatment purposes exists. There may be, however, preferences for specific species of lumber depending on the end use.

When purchasing softwood lumber, suppliers generally set the terms (e.g., f.o.b. or delivered, minimum quantities, etc.), although prices are arrived at through negotiation. Prices change daily and are most frequently quoted on a delivered basis.<sup>51</sup> Minimum truckload or railcar quantities are required for most purchases.

Purchasers indicated that, in general, the quality of the domestic and imported Canadian softwood lumber is comparable. When asked whether U.S. and Canadian lumber is compared across or within species, purchasers gave conflicting responses. Several purchasers reported comparing across species, contending that for most end uses, there is little difference in the lumber, while others indicated that softwood lumber can only be compared within

---

<sup>50</sup> Affidavit of Ken Porter, Coalition brief, Attachment D.

<sup>51</sup> Some purchasers indicated that they maintain their own trucks, or arrange their own transportation. In many of these cases, they are able to purchase on an f.o.b. basis, although some said that this is becoming more difficult.

species to take into account factors such as strength ratings. Since 1988, most purchasers have maintained their ratio of domestic to imported lumber purchases. During this same period, prices for U.S. and Canadian lumber have remained consistent relative to each other.

### Transportation Costs

Transportation costs account for a significant portion of the final delivered price of softwood lumber. Shipments are by truck and rail, generally depending on the distance from the mill or importer's distribution center to the purchaser. For most companies, the majority of sales are to customers further than 100 miles from their location, with a significant proportion of sales to customers located more than 500 miles away. Whether the producer, importer, or purchaser paid for and/or arranged transportation differed on a company-by-company, or even a case-by-case, basis. Purchasers reported that transportation costs are a major factor in their purchase decisions, since they are most concerned with what it will cost to have the lumber reach their distribution or retail locations. Most estimated that about 30 percent of their delivered cost was accounted for by transportation costs.

Several purchasers indicated that transportation costs as a percentage of the delivered cost varied with the species of softwood lumber purchased, and directly affected the competitiveness of a species in a particular area. For example, transportation costs for SYP tend to account for a lesser share of the final delivered price than SPF, since SYP is shipped primarily by truck within a relatively smaller area (e.g., northeast or southeast United States) than shipments of SPF, which generally occur over longer distances (e.g., British Columbia to Boston), or shipments of Douglas fir or hem-fir from the northwest. But, within the southeast, SYP accounts for a larger share of the market than the other lumbers.

### Published Prices

Softwood lumber prices are published in a number of sources, including Random Lengths, Crow's, Madison's, and the Southern Pine Bulletin. Producers and importers reported prices most frequently to Random Lengths, which develops its price series based on weekly surveys of activity in the U.S. lumber market. Price data collected are averaged, using as weights factors such as the size of the firm and quality of its product. Canadian and U.S. prices are reported separately, with U.S. mills generally reporting prices on an f.o.b. mill basis, and Canadian mills reporting generally on a delivered basis. Several producers, importers, and purchasers reported using Random Lengths as guides when negotiating prices, although a spokesman for Random Lengths described the publication as one that reports past pricing activity, and not as a forecaster of what prices will do in the future.<sup>52</sup>

The Department of Labor's Bureau of Labor Statistics (BLS) develops indexes of producer prices for all softwood lumber products, as well as for

---

<sup>52</sup> Conversation with \*\*\*, Random Lengths, Oct. 16, 1991.

softwood logs, that includes bolts and timbers.<sup>53</sup> The monthly producer price index for all softwood lumber products fluctuated throughout October 1989-September 1991, declining overall by 5 percent. The index for softwood logs, which are the primary input in producing softwood lumber, also fluctuated seasonally during this period, although increasing overall by 4 percent. The producer price index for all products also increased during this period, by 3 percent.

### Questionnaire Prices

Producers and importers were requested to report f.o.b. and delivered selling prices, and purchasers were requested to provide delivered purchase prices, for the largest monthly sale or purchase, for four different species of softwood lumber during October 1989-September 1991. Prices were to be reported for the specified 2"x4" products, graded as #2 & better. Products for which prices were requested are:

Product 1: SPF, 2"x4", #2 & better, kiln dried, random lengths.

Product 2: Douglas fir, 2"x4", #2 & better, kiln dried or unseasoned, random lengths.

Product 3: Hem-fir, 2"x4", #2 & better, kiln dried or unseasoned, random lengths.

Product 4: SYP, 2"x4", #2 & better, kiln dried, random lengths.

Because of the significance of transportation costs, prices were requested for sales or purchases occurring in the following market areas that are considered representative of activity in the total U.S. softwood lumber market: Boston, MA; Chicago, IL; Los Angeles, CA; Jacksonville, FL; Atlanta, GA; and Dallas, TX.<sup>54</sup>

Respondents noted frequently the difficulty in responding to the pricing section of the questionnaire. Many companies had neither the resources nor the records necessary to respond to the request. For those that were able to respond, it was not always possible to break out prices or shipments by market area, or even species. Thus, coverage of the industry was limited, on a month-to-month basis, especially when considered by market areas. However, staff believes that the reported pricing information is representative of activity in the softwood lumber market during October 1989-September 1991.

Eleven producers and \*\*\* importers reported f.o.b. and/or delivered pricing data. Three large producers, \*\*\*, \*\*\*, and \*\*\*, reported prices for products 2, 3, and 4, with sales occurring in all six market areas. The remaining producers tended to report prices for one or two species of softwood

---

<sup>53</sup> Counsel for the Canadian industry used the producer price index for softwood lumber as an indicator of price trends in the market.

<sup>54</sup> No delivered data, and only limited f.o.b. data, were received for sales in the Los Angeles, CA, market area. F.o.b. prices into Los Angeles are shown in figure 7 and in app. D.

lumber sold in one or two market areas.<sup>55</sup> \*\*\* importers reported prices for SPF, Douglas fir, and hem-fir, sold in all market areas except Los Angeles, CA.

### *Composite price trends*

Composite prices for the selected species of softwood lumber were compiled for U.S.- and Canadian-produced lumber on an f.o.b. basis. Composite prices were developed by averaging all f.o.b. prices of U.S.-produced softwood lumber in all market areas, and all f.o.b. prices of Canadian lumber in all market areas, as reported in questionnaires.<sup>56</sup> Trends indicate that the U.S. and Canadian prices moved together closely throughout October 1989-September 1991 (figure 3).

Figure 3  
Softwood lumber: Composite price indexes for U.S. and Canadian softwood lumber and producer price indexes for softwood lumber and softwood logs, bolts, and timber, by month, October 1989-September 1991

Note: October 1989=100

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

---

<sup>55</sup> One of these producers reported prices for studs. These data were not included in the weighted-average data set. An additional 6 producers reported total quantity and total value.

<sup>56</sup> See app. E for U.S. and Canadian composite prices.

### *Price trends and comparisons*

Price trends shown in this section are based on both weighted-average f.o.b. and delivered prices, per mbf, as reported by producers and importers of the subject products, as well as on prices as reported in Random Lengths. Delivered price trends are discussed on a market-area basis. Figures 4-7 indicate that price trends derived from f.o.b. data in questionnaires closely parallel trends in Random Lengths, which surveys a substantially larger portion of the softwood lumber market on a weekly basis.<sup>57 58</sup> F.o.b. prices are shown in these figures since Random Lengths does not publish delivered prices for domestic lumber.

Price comparisons were derived from weighted-average delivered prices for U.S.-and Canadian-produced softwood lumber, as reported by producers and importers in response to the Commission's questionnaire.<sup>59</sup> Counsel for the Canadian industry has argued that it is essential to compare delivered prices within species, controlling for factors such as grade, length, and market area.<sup>60 61</sup> Because questionnaire responses indicate that purchasers may compare softwood lumber across species, and since there is a lack of comparable pricing within species,<sup>62</sup> prices are compared across species in this section.<sup>63 64</sup>

Prices for softwood lumber follow seasonal trends, generally peaking during the late spring and early summer months. In all market areas for which prices were collected, price movements appear to be caused most frequently by changes in seasonal demand for lumber products. At times, factors such as changes in government policies or weather-related factors may cause a sharp peak in prices. For example, lumber prices increased sharply following the government's spring 1990 decision to withhold logging permits for some federal lands for preservation of the spotted owl.

---

<sup>57</sup> Composite prices for softwood lumber developed from questionnaires were based on 15 to 39 individual observations for each month for producers and 5 observations per month for importers.

<sup>58</sup> See app. D for f.o.b. and Random Lengths price tables.

<sup>59</sup> Purchaser data are not shown in the staff report because of a lack of comparable data within market areas.

<sup>60</sup> Conversation with counsel for respondents, Oct. 17, 1991, and transcript of the conference, pp. 88-89.

<sup>61</sup> Counsel for the respondents also stated that for purposes of analyzing price trends, aggregate prices indexes are useful. See section of this report titled "*Composite price trends*".

<sup>62</sup> The bulk of imports of softwood lumber from Canada are SPF, while domestic lumber is primarily SYP, hem-fir, and Douglas fir.

<sup>63</sup> In the previous case, Commission staff also compared prices across species, but noted that, "in some applications one or more of these wood species may be more desirable than the others," thus prices may not be "strictly comparable." Public version of the prehearing report to the Commission on Inv. No. 701-TA-274 (Final), Softwood Lumber from Canada, Dec. 23, 1986, p. A-69.

<sup>64</sup> Prices reported for domestic and Canadian SPF sold in the Chicago, IL market area provided the only directly comparable (within species) price series.

## Figure 4

Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced SYP, by market areas and by months, and from Random Lengths, October 1989-September 1991

\* \* \* \* \*

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

## Figure 5

Softwood lumber: Weighted-average f.o.b. prices for U.S.- and Canadian-produced SPF, by market areas and by months, and from Random Lengths, October 1989-September 1991

\* \* \* \* \*

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

## Figure 6

Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced hem-fir, by market areas and by months, and from Random Lengths, October 1989-September 1991

\* \* \* \* \*

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

## Figure 7

Softwood lumber: Weighted-average f.o.b. prices for U.S.-produced Douglas fir, by market areas and by months, and from Random Lengths, October 1989-September 1991

\* \* \* \* \*

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

*Atlanta, GA, market area.*--In the Atlanta market area, SYP produced in the United States and SPF imported from Canada accounted for the largest quantity of shipments during October 1989-September 1991 (table 28). Prices for SYP fluctuated on a relatively seasonal basis, peaking at \*\*\* per mbf in April 1990 and \*\*\* per mbf in July 1991. Overall, prices decreased by about \*\*\* percent.<sup>65</sup> Prices for Canadian-produced SPF shipped to this area showed no overall change, and peaked in June 1990 at \*\*\* per mbf and in June 1991 at \*\*\* per mbf.

Comparing prices for domestic SYP and Canadian SPF shows \*\*\* months in which the Canadian product was priced below the domestic product, by margins of \*\*\* percent and \*\*\* percent. In the remaining periods, the imported SPF was priced above the domestic SYP, by margins ranging from \*\*\* to \*\*\* percent. Canadian SPF was priced below domestic Douglas fir in \*\*\* of \*\*\* comparable periods, by margins of \*\*\* to \*\*\* percent. Canadian SPF was priced above domestic hem-fir in \*\*\* periods, by up to \*\*\* percent.

*Boston, MA, market area.*--In the Boston market area, the only domestic price series was for SYP. These prices increased overall by \*\*\* percent, peaking at \*\*\* per mbf in April 1990 and \*\*\* per mbf in June 1991 (table 29). Prices for Canadian Douglas fir decreased overall by \*\*\* percent and peaked in October 1989 at \*\*\* per mbf and in June 1991 at \*\*\* per mbf. Canadian hem-fir prices increased overall by \*\*\* percent, peaking at \*\*\* per mbf in June and October 1990 and at \*\*\* per mbf in July 1991. Prices for Canadian SPF showed little change during October 1989-September 1991, and peaked at \*\*\* per mbf in February and June 1990 and \*\*\* per mbf in June 1991. Canadian Douglas fir was priced below domestic SYP in \*\*\* of \*\*\* periods, by margins ranging from \*\*\* to \*\*\* percent. Canadian hem-fir was priced below domestic SYP in \*\*\* of \*\*\* months, by margins of \*\*\* to \*\*\* percent. Canadian SPF and domestic SYP could be compared in \*\*\* months, and the Canadian lumber was priced lower than the domestic lumber in \*\*\* months, by margins ranging from \*\*\* to \*\*\* percent.

---

<sup>65</sup> Overall price trends in this section are for October 1989-September 1991. Some of the percentage change in overall price may be accounted for by a change in the seasonal demand that reflects a slowdown in construction activity in many areas of the country during the winter months.



Table 28

U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP, hem-fir, and Douglas fir, and Canadian SPF, and margins of under/(over)selling (in percent), into the Atlanta, GA, market area, by species and by month, October 1989-September 1991

Period	(per mbf)					
	United States			Canada		
	SYP	Hem-fir	Douglas fir	SPF		
	Price	Price	Price	Price	Price	Price
	Margin	Margin	Margin	Margin	Margin	Margin

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

Table 29

U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced Douglas fir, hem-fir, and SYP, and Canadian Douglas fir, hem-fir, and SPF, and margins of under/(over)selling (in percent), sold into the Boston, MA, market area, by species and by month, October 1989-September 1991

Period	(per mbf)					
	United States			Canada		
	SYP	Hem-fir	Douglas fir	SPF	Margins	
	Price	Price	Price	Price	SYP/DF	SYP/SPF
	Margin	Margin	Margin	Margin		

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

*Chicago, IL, market area.*--U.S. producers reported prices for Douglas fir hem-fir, SYP, and SPF sold in the Chicago market area (table 30). Canadian producers reported prices for SPF in this market area. Prices for domestic Douglas fir and hem-fir decreased overall, by \*\*\* percent and \*\*\* percent, respectively. Prices for Douglas fir peaked at \*\*\* per mbf in July 1991, while prices for hem-fir peaked at \*\*\* per mbf in April 1990. Domestic SYP prices increased overall by \*\*\* percent, peaking at \*\*\* per mbf in April 1990 and \*\*\* per mbf in June 1991.

Comparing domestic SYP and Canadian SPF shows that the imported lumber was priced below the U.S. lumber in \*\*\* of \*\*\* months, by margins of \*\*\* to \*\*\* percent. Canadian SPF was priced below U.S. SPF in \*\*\*, by a margin of \*\*\* percent. Canadian SPF was priced below domestic hem-fir in \*\*\* of \*\*\* comparable months, by margins of \*\*\* to \*\*\* percent, while Canadian SPF was priced below domestic Douglas fir in \*\*\* of \*\*\* months, by margins ranging from \*\*\* to \*\*\* percent.

*Dallas, TX, market area.*--Domestic producers of softwood lumber reported prices for SYP and Douglas fir, and importers of the Canadian lumber reported prices for SPF sold in the Dallas market area (table 31). Prices for domestic SYP increased during the period by \*\*\* percent, peaking at \*\*\* per mbf in April 1990 and \*\*\* per mbf in June 1991. Domestic Douglas fir prices also peaked in April 1990, at \*\*\* per mbf. Prices for Canadian SPF showed little change during October 1989-September 1991. Prices for this imported lumber peaked in February and June 1990 at \*\*\* per mbf and in June 1991 at \*\*\* per mbf.

Canadian SPF was priced below domestic SYP in \*\*\* of \*\*\* months, by a margin of \*\*\* percent. Comparing Canadian SPF and domestic Douglas fir, however, shows the Canadian lumber priced below the domestic lumber in \*\*\* of \*\*\* months, by margins of \*\*\* to \*\*\* percent.

*Jacksonville, FL, market area.*--Prices for domestic SYP, Canadian hem-fir and Canadian SPF were reported for sales in the Jacksonville market area (table 32). Domestic SYP prices decreased overall during October 1989-September 1991 by \*\*\* percent, peaking at \*\*\* per mbf in May 1990 and at \*\*\* per mbf in July 1991. Prices for Canadian-produced hem-fir decreased slightly during this same period, by \*\*\* percent, while Canadian SPF prices showed little overall change. Hem-fir prices were highest in October 1989 at \*\*\* per mbf, while SPF prices peaked at \*\*\* per mbf in June 1991. In \*\*\* periods, the Canadian lumber was priced above domestic SYP.

Table 30

U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced Douglas fir, hem-fir, SYP, and SPF, and Canadian SPF, and margins of under/(over)selling (in percent), sold into the Chicago, IL, market area, by species and by month, October 1989-September 1991

Period	(per mbf)									
	United States					Canada				
	Douglas Fir					Hem-fir				
	kiln dried					kiln dried				
	Price	DF/SPF	Margin	Price	Price	Price	HF/SPF	SYP	SPF/SPF	SPF
							Margin	Price	Margin	Price
	*	*	*	*	*	*	*	*	*	*

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

Table 31

U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP and Douglas fir, and Canadian SPF, and margins of under/(over)selling (in percent), sold into the Dallas, TX, market area, by species and by month, October 1989-September 1991

(per mbf)						
Period	United States				Canada	
	SYP		Douglas fir			
	Price	Margin	Price	Margin	SPF	
	*	*	*	*	*	*

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

Table 32

U.S. and imported Canadian softwood lumber: Net delivered selling prices of U.S.-produced SYP and Canadian hem-fir and SPF, and margins of under/(over)selling (in percent), sold into the Jacksonville, FL, market area, by species and by month, October 1989-September 1991

(per mbf)					
Period	United States			Canada	
	SYP	SYP/HF	SYP/SPF	Hem-fir	
	Price	Margin	Margin	kiln dried	SPF
	*	*	*	*	*

Note: Percentage margins are calculated from unrounded figures; thus, margins cannot always be directly calculated from the rounded prices in the table.

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

### Lost Sales and Lost Revenues

Most domestic producers that responded to the questionnaire indicated that they had lost sales or revenue because of competition from imported Canadian softwood lumber. Eighteen producers reported that while they had lost sales, they were not able to give specific details because of the nature of price negotiations in the lumber market. All buying and selling is done over the telephone, and a mill can quote hundreds of prices a day. \*\*\*.

### Exchange Rates

Quarterly data reported by the International Monetary Fund indicate that during January-March 1988 through July-September 1991 the nominal value of the Canadian dollar fluctuated, appreciating overall by 10.8 percent relative to the U.S. dollar (table 33).<sup>66</sup> Adjusted for movements in producer price indexes in the United States and Canada, the real value of the Canadian currency appreciated 3.1 percent overall between January-March 1988 and the third quarter of 1991.

---

<sup>66</sup> International Financial Statistics, November 1991.

Table 33

Exchange rates:<sup>1</sup> Indexes of nominal and real exchange rates of the U.S. and Canadian dollars and indexes of producer prices in the United States and Canada,<sup>2</sup> by quarters, January 1988-September 1991

Period	U.S. producer price index	Canadian producer price index	Nominal exchange rate index	Real exchange rate index <sup>3</sup>
1988:				
January-March.....	100.0	100.0	100.0	100.0
April-June.....	101.6	101.2	103.1	102.7
July-September.....	103.1	102.3	103.9	103.1
October-December....	103.5	103.1	105.1	104.6
1989:				
January-March.....	105.8	104.6	106.3	105.2
April-June.....	107.7	104.8	106.2	103.4
July-September.....	107.3	104.4	107.2	104.4
October-December....	107.7	103.8	108.5	104.5
1990:				
January-March.....	109.3	104.2	107.2	102.2
April-June.....	109.1	104.4	108.3	103.6
July-September.....	111.0	104.4	109.9	103.4
October-December....	114.4	105.7	109.2	100.9
1991:				
January-March.....	112.0	105.4	109.7	103.2
April-June.....	110.9	103.9	110.3	103.3
July-September.....	110.8 <sup>4</sup>	103.1 <sup>4</sup>	110.8	103.1 <sup>4</sup>

<sup>1</sup> Exchange rates expressed in U.S. dollars per Canadian dollar.

<sup>2</sup> Producer price indexes--intended to measure final product prices--are based on period-average quarterly indexes presented in line 63 of the International Financial Statistics.

<sup>3</sup> The real exchange rate is derived from the nominal rate adjusted for relative movements in producer prices in the United States and Canada.

<sup>4</sup> Derived from price data reported for July-August only.

Note.--January-March 1988 = 100.

Source: International Monetary Fund, International Financial Statistics, November 1991.

**APPENDIX A**  
**FEDERAL REGISTER NOTICES**





imports from Canada of softwood lumber,<sup>1</sup> provided for in subheadings 4407.10.00, 4409.10.10, 4409.10.20, and 4409.10.90 of the Harmonized Tariff Schedule of the United States, that are alleged to be subsidized by the Government of Canada. The Commission must complete preliminary countervailing duty investigations in 45 days, or in this case by December 16, 1991.

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

**EFFECTIVE DATE:** October 31, 1991.

**FOR FURTHER INFORMATION CONTACT:** Jim McClure (202-205-3191), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired persons can obtain information on this matter by contacting the Commission's TDD terminal 202-205-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

**SUPPLEMENTARY INFORMATION:**

**Background**

This investigation is being instituted in response to notification from the Department of Commerce, on October 31, 1991, that it is self-initiating a countervailing duty investigation on the subject products.

**Participation in the investigation and public service list**

Persons (other than petitioners) 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 and 207.10 of the Commission's rules, not later than seven (7) days after publication of this notice in the Federal Register. The Secretary will prepare a public service list containing the names and addresses of

all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance.

**Limited disclosure of business proprietary information (BPI) under an administrative protective order (APO) and BPI service list**

Pursuant to section 207.7(a) of the Commission's rules, the Secretary will make BPI gathered in this preliminary investigation available to authorized applicants under the APO issued in the investigation, provided that the application is made not later than seven (7) days after the publication of this notice in the Federal Register. A separate service list will be maintained by the Secretary for those parties authorized to receive BPI under the APO.

**Conference**

The Commission's Director of Operations has scheduled a conference in connection with this investigation for 9:30 a.m. on November 21, 1991, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Parties wishing to participate in the conference should contact Jim McClure (202-205-3191) not later than November 18, 1991, 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. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

**Written submissions**

As provided in §§ 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before November 27, 1991, a written brief containing information and arguments pertinent to the subject matter of the investigation. Parties may file written testimony in connection with their presentation at the conference no later than three (3) days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of §§ 201.8, 207.3, and 207.7 of the Commission's rules.

In accordance with §§ 201.16(c) and 207.3 of the rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a

[Investigation No. 701-TA-312  
(Preliminary)]

**Softwood Lumber from Canada**

**AGENCY:** International Trade Commission.

**ACTION:** Institution and scheduling of a preliminary countervailing duty investigation.

**SUMMARY:** The Commission hereby gives notice of the institution of preliminary countervailing duty investigation No. 701-TA-312 (Preliminary) under section 703(a) of the Tariff Act of 1930 (19 U.S.C. 1271b(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

<sup>1</sup> For purposes of this investigation, "softwood lumber" means coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm, provided for in subheading 4407.10.00 of the Harmonized Tariff Schedule (HTS) of the United States; and coniferous wood siding, flooring and other goods (except coniferous wood moldings and wood dowel rods; but including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbeted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed, provided for in HTS subheadings 4408.10.10, 4408.10.20 and 4409.10.00.

certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

**Authority:** This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to section 207.12 of the Commission's rules.

Issued: October 31, 1991.

By order of the Commission.

Edward Carroll,

*Acting Secretary.*

[FR Doc. 91-26760 Filed 11-5-91; 8:45 am]

BILLING CODE 7020-02-M

---

---

[C-122-816]

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

**AGENCY:** Import Administration,  
International Trade Administration,  
Department of Commerce.

**SUMMARY:** On the basis of information gathered by the U.S. Department of Commerce, the Department is self-initiating a countervailing duty (CVD) investigation to determine whether subsidies are being provided, or are likely to be provided, to manufacturers, producers, or exporters of certain softwood lumber products from Canada. We are notifying the U.S. International

Trade Commission (ITC) of this action so that it may determine whether imports of this product materially injure, or threaten material injury to, a U.S. industry, or are materially retarding the establishment of a U.S. industry. The ITC will make its preliminary determination on or before 45 days after publication of this notice. If this investigation proceeds normally, we will make our determination on or before 85 days after publication of this notice.

**EFFECTIVE DATE:** October 31, 1991.

**FOR FURTHER INFORMATION CONTACT:** Michael Rollin or Barbara Tillman, Office of Countervailing Compliance, International Trade Administration, U.S. Department of Commerce, room B-099, Washington, DC 20230; telephone (202) 377-2786.

**SUPPLEMENTARY INFORMATION:**

**Initiation**

On September 3, 1991, the Government of Canada announced its intention to terminate the U.S.-Canada Memorandum of Understanding on Softwood Lumber (MOU) effective October 4, 1991. The MOU was negotiated to resolve a long-standing trade dispute over the issue of subsidized Canadian lumber exports to the United States.

On October 4, 1991, the U.S. Government announced that the Department of Commerce would self-initiate a CVD investigation. This notice implements the self-initiation pursuant to section 702(a) of the Tariff Act of 1930, as amended (the Act). Based on information gathered by the Department, there is sufficient evidence to warrant the initiation of a CVD investigation to determine whether Canadian softwood lumber is subsidized and whether subsidized lumber imports are causing, or threatening, material injury to a U.S. industry. We also determine that Canada's unilateral termination of the MOU, which was the basis for the withdrawal of the CVD petition and the termination of the CVD investigation in 1986, constitutes special circumstances within the meaning of article 2.1 of the Agreement on Interpretation and Application of articles VI, XVI, and XXIII on the General Agreement on Tariffs and Trade (Subsidies Code).

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 U.S. International Trade Commission (ITC) is required to determine whether imports of the subject merchandise from Canada materially injure, or threaten material injury to, the U.S. industry.

If any interested party, as described in 19 CFR 355.2(i), wishes to register support for, or opposition to, this proceeding, please file written notification with the Assistant Secretary for Import Administration.

**Background**

On June 5, 1986, the Department initiated a CVD investigation as a result of an industry petition regarding certain softwood lumber products from Canada. On October 22, 1986, following a preliminary determination of material injury by the U.S. International Trade Commission (ITC), the Department published preliminary determination that subsidies of 15 percent *ad valorem* were being provided to Canadian producers of certain softwood lumber products. The primary subsidy was the selective provision of a government resource, provincially-owned timber, at administratively-set prices which were determined to be at preferential rates within the meaning of subsection 771(5)(A)(ii) of the Tariff Act of 1930, as amended (the Act).

On December 30, 1986, before the final determination in the CVD investigation, the United States and Canada arrived at a settlement of the dispute regarding the existence and level of subsidies, and entered into the MOU. Under the MOU, the Government of Canada agreed to impose a 15 percent export charge on certain softwood lumber products; such charge could be reduced or eliminated for lumber from provinces that instituted replacement measures increasing the fee charged on the harvest of timber. In exchange for Canada's agreement to collect an export charge under the MOU, the U.S. lumber industry withdrew its petition and the Department terminated its investigation. As a result, the Department never made a final CVD determination which, if affirmative, would have offset unfairly subsidized imports through the imposition of countervailing duties.

Since October 4, 1991, Canada has not been collecting the export charges agreed to under the MOU. While some of the provinces had replaced the export charge with higher timber fees, lumber produced in four Canadian provinces and the two Canadian territories, amounting to over one-third of Canadian lumber production and about one-fifth of Canadian lumber being exported to the United States, were never relieved of the full Canadian export charge.

As a consequence of Canada's termination of the MOU, the U.S. lumber industry will be denied the offset that had been provided by Canadian export charges against what in 1986 preliminarily had been found to be

injurious Canadian subsidies.

Furthermore, the U.S. Government and the U.S. industry will no longer have the ability to determine whether the timber fee increases instituted in some provinces to replace or reduce the export charge will remain in place because there will no longer be the exchange of information that occurred under the MOU.

Following consultations with Canada, the U.S. Government announced that it was taking the following actions in response to Canada's unilateral termination of the MOU. First, the U.S. Government instituted interim measures as specified in Initiation of Section 302 Investigation and Request for Public Comment on Determinations Involving Expeditious Actions: Canadian Exports of Softwood Lumber (56 FR 50738, October 8, 1991). Second, the U.S. Government announced that, as part of its enforcement measures arising out of the MOU, it would self-initiate a CVD investigation based on: (1) The special circumstances resulting from Canada's breach of the agreement between the two governments which had resulted in execution of the MOU and termination of the CVD investigation; and (2) information that the Department gathered regarding the extent of Canadian lumber subsidies and the likelihood that imports of these products result in material injury, or the threat of material injury, to the U.S. industry.

Since the October 4 announcement that the Department would self-initiate a CVD investigation, the U.S. Government has held consultations with the Government of Canada. During these consultations, we discussed with the Government of Canada the evidence that the Department had gathered supporting the initiation of the investigation, and we subsequently provided the Government of Canada with a summary of such evidence. During the consultations, the Government of Canada raised several concerns that we have taken into consideration for purposes of this initiation.

**Allegations of Subsidies**

**Stumpage Programs**

We are initiating the investigation on stumpage programs, which are government programs through which individuals and companies acquire the rights to cut and remove standing timber from provincial forest lands.

In its 1986 Preliminary determination (See, Preliminary Affirmative Countervailing Duty Determination: Certain Softwood Lumber Products from

Canada, 51 FR 37453, October 22, 1986), the Department found that stumpage programs were limited to a specific enterprise or industry, or group of enterprises or industries, as well as provided at preferential rates. The Department has current information indicating that discretion is exercised in the awarding of stumpage rights and the setting of stumpage prices. The exercise of discretion in the awarding of stumpage rights is an indication of specificity, and as such, is sufficient to meet the threshold for initiation.

We also have evidence that stumpage is preferentially priced. Relying on information from a variety of public sources, we estimate that subsidies exist, based on comparisons of administratively set stumpage prices to either competitive or private stumpage prices within Canada. These comparisons are in accordance with the Department's proposed regulations. See *Countervailing Duties: Notice of Proposed Rulemaking and Request for Public Comments*, 54 FR 23366, May 31, 1989.

#### *Log Export Restrictions*

The Department has gathered information indicating that the Government of Canada places restrictions on the export of logs from Canada and that the provincial governments of British Columbia, Quebec, Ontario, and Alberta place restrictions on exports of logs from the individual provinces. These export restrictions, which range from substantial export tax requirements to requirements that timber harvested in a province must be processed in the province, have the effect of a ban on log exports. In British Columbia, the primary means of restricting log exports used by the provincial government is an imposition of a 100 percent tax on the differential between the average domestic log price and the export price of logs. BC also imposes other restrictions, such as a requirement that companies seeking to export logs demonstrate that those logs are surplus to the needs of mills within the province. Alberta, Ontario, and Quebec restrict log exports by requiring that logs harvested in each province also be processed domestically.

In the Final Affirmative Countervailing Duty Determination and Countervailing Duty Order; *Leather from Argentina* (55 FR 40212 (1990)), the Department determined that programs that restrict exports are countervailable. In *Leather from Argentina*, the Department determined that export restrictions prohibiting the export of

cattle hides caused hide prices to be lower than they would have been absent the restrictions, and provided a countervailable benefit to leather tanners as the specific users of cattle hides. Although economic theory would indicate that log export restrictions in Canada artificially lower domestic log prices, the Department requires evidence demonstrating that the restrictions had measurable downward effect on log prices in order to meet the threshold for initiation. See, *Notice of Initiation of Countervailing Duty Investigation: Extruded Rubber Thread from Malaysia*, 56 FR 48162 (1991). Presently, the Department does not have sufficient evidence to ascertain the extent to which the log export restrictions artificially lower domestic prices for logs, the major input into the product under investigation. However, if an interested party submits such evidence during the course of the proceeding, the Department remains willing to investigate these programs.

#### *Injury and Causation Analysis*

Evidence available to the Department demonstrates that the U.S. softwood lumber industry is currently suffering material injury as a result of subsidized softwood lumber imports from Canada, and faces the threat of further, more extensive, material injury. The indicators that the International Trade Commission (ITC) considers when assessing material injury point to weaknesses in the domestic industry. In particular, the data show a downward trend in domestic production, shipments, capacity utilization, employment, and prices. As a result, the industry is experiencing a considerable decline in profitability.

Canada has consistently captured a significant and substantial share of the U.S. market, even during the MOU. Furthermore, U.S. lumber prices have been depressed. Given that lumber is an extremely fungible commodity and U.S. prices are depressed, and given that Canada's already significant share of the U.S. market appears to be rising, there is a clear indication that subsidized Canadian lumber imports are a cause of injury to the U.S. industry.

#### *Scope of Investigation*

For purposes of this investigation, certain softwood lumber products are defined as:

Coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 millimeters (mm); such products are imported under the

subheading 4407.1000 of the Harmonized Tariff Schedule (HTS) of the United States; and

Coniferous wood siding (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; and other coniferous wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; such products are imported under subheadings 4409.1010 and 4409.1090 of the HTS; and

Coniferous wood flooring (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; such products are imported under subheading 4409.1020 of the HTS.

#### *Exemption of Maritime Provinces*

Article 2.1 of the Subsidies Code requires special circumstances for a signatory to self-initiate an investigation. As discussed above, the Department has determined that special circumstances exist which warrant the self-initiation of a CVD investigation. Because softwood lumber products produced in the Maritime provinces (New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Island) from timber harvested in the Maritime Provinces. Therefore, the Department determines that softwood lumber products produced in the Maritime provinces from timber harvested in the Maritime provinces are exempt from the investigation.

#### *Other Issues*

Softwood lumber products made from U.S.-origin logs, and remanufactured products were granted special treatment under the MOU, but were not granted total exemptions from the MOU.

In the case of lumber made from U.S. origin logs, the exemption from the export charge was capped at a specified level, beyond which the export charge was applied. Furthermore, the exemption allocation granted to companies varied from year to year. Because we are unable to establish with certainty at this time which companies produce lumber from U.S.-origin logs,

such lumber cannot be exempted from the initiation of this investigation. However, pursuant to 19 CFR 355.14, companies producing lumber from U.S.-origin logs will be entitled to request company-specific exclusions during the CVD investigation.

The export charge was assessed on all remanufactured products, but only on the value of the softwood lumber in the remanufactured product, not on the total value of the final product. The issue of remanufactured products pertains to the valuation of the subsidy and the assessment of any potential countervailing duties, not to product exemptions. As such, this issue can only be examined during the course of the investigation.

#### ITC Notification

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 our decision to self-initiate this investigation. Also, we will allow the ITC access to all privileged and business proprietary information in the Department's files, provided the ITC confirms in writing that it will not disclose such information, either publicly or under administrative protective order, without the written consent of the Deputy Assistant Secretary for Compliance, Import Administration.

#### Preliminary Determination by the ITC

The ITC will determine no later than 45 days after publication of this notice, whether there is a reasonable indication that imports of certain softwood lumber products from Canada materially injure, threaten material injury to, or materially retard establishment of, a U.S. industry. If its determination is negative, the investigation will be terminated. If affirmative, the Department will make its preliminary determination on or before 85 days after publication of this notice, unless the investigation is terminated pursuant to 19 CFR 355.17 or the preliminary determination is extended pursuant to 19 CFR 355.15.

This notice is published pursuant to section 702(a) of the Act and 19 CFR 355.11.

Dated: October 23, 1991.

Marjorie A. Chorlins,  
Acting Assistant Secretary for Import  
Administration.

[FR Doc. 91-26047 Filed 10-30-91; 8:45 am]

BILLING CODE 3510-05-M

[C-122-816]

#### Amendment to the Notice of Self-Initiation of Countervailing Duty Investigation: Certain Softwood Lumber Products From Canada

**AGENCY:** International Trade Administration/Import Administration, Department of Commerce.

**ACTION:** Notice of amendment to self-initiation of countervailing duty investigation.

**EFFECTIVE DATE:** October 31, 1991.

**FOR FURTHER INFORMATION CONTACT:** Michael Rollin or Barbara Tillman, Office of Countervailing Compliance, International Trade Administration, U.S. Department of Commerce, Washington, DC, 20230; telephone: (202) 377-2786.

#### Amendment

The paragraph entitled "Exemption of Maritime Provinces" in the Notice of Self-Initiation of Countervailing Duty Investigation: Certain Softwood Lumber Products from Canada published elsewhere in this issue of the *Federal Register* is to be deleted and replaced with the following:

#### Exemption of the Maritime Provinces

Article 2.1 of the Subsidies Code requires special circumstances for a signatory to self-initiate an investigation. As discussed above, the Department has determined that special circumstances exist which warrant the self-initiation of a CVD investigation. Because exports to the United States of America of certain softwood lumber products produced in the provinces of Prince Edward Island, Nova Scotia, New Brunswick and Newfoundland (the Maritime Provinces) were exempt from payment of the export charge under the MOU, these same special circumstances do not exist for the Maritime Provinces. Therefore, the Department determines that exports to the United States of America of certain softwood lumber products produced in the Maritime Provinces are exempt from the investigation. This exemption shall not apply to certain softwood lumber products produced from Crown timber harvested in any other Province.

This amendment clarifies the intent of the Department regarding the exemption of the Maritime Provinces from the investigation.

Dated: October 28, 1991.

Marjorie A. Chorlins,  
Acting Assistant Secretary for Import  
Administration.

[FR Doc. 91-26315 Filed 10-30-91; 8:45 am]

BILLING CODE 3510-05-M

### Summary Description of CAS Coverage Under Consideration

The draft coverage, if adopted, would apply to any educational institution receiving a negotiated contract award in excess of \$500,000. The institution would then be required to consistently follow its accounting practices when estimating (proposed costs), accumulating, reporting and allocating costs under that and any subsequent CAS-covered contract(s). Should the institution receive more than \$10 million of such CAS-covered contracts in a prior fiscal year or a single \$10 million dollar award, the institution would be additionally required to (1) formally disclose, in writing, its accounting practices and (2) to separately identify costs that are not reimbursable as allowable costs under the terms and conditions of Federally-sponsored agreements.

### Other Related Matters

Rather than limit the Staff Discussion Paper to a general discussion on the concept of applying CAS to educational institutions, the actual regulatory amendments required to implement CAS for educational institutions were drafted. The draft regulatory provisions are presented in the Staff Discussion Paper as amendments to the basic CAS rules and regulations governing the application and administration of CAS that will be set forth in 48 CFR chapter 99. The current regulatory language, including required contract clause language, presently found at 48 CFR part 30, and 4 CFR parts 331 through 351, is in the process of being recodified at 48 CFR chapter 99, under a separate CASB Notice of Proposed Rulemaking published in the Federal Register 56 FR 26968 (6/12/91). In addition, the CASB has promulgated for public comments a Notice on the topic of applying CAS coverage to non-defense contracts, 56 FR 12571 (3/26/91) and a Notice on the topic of revised thresholds for applying CAS coverage and Disclosure Statement requirements, 56 FR 28780 (6/24/91). Since the CAS applicability rules, administrative requirements and basic contract clauses to be set forth in 48 CFR, Chapter 99, if modified as shown in the Staff Discussion Paper, would apply to educational institutions, familiarity with the referenced CASB documents is considered essential. Therefore, to facilitate the comment process, copies of these referenced CASB documents will be provided to interested persons that request the subject Staff Discussion Paper.

Dated: October 2, 1991.

Allan V. Burman,

*Administrator for Federal Procurement Policy and Chairman, Cost Accounting Standards Board.*

[FR Doc. 91-24180 Filed 10-7-91; 8:45 am]

BILLING CODE 3110-01-M

### OFFICE OF SCIENCE AND TECHNOLOGY POLICY

#### President's Council of Advisors on Science and Technology (PCAST); Meeting

The President's Council of Advisors on Science and Technology will meet on October 10, 1991. The meeting will begin at 9 a.m. in the Conference Room, Council on Environmental Quality, 722 Jackson Place, NW., Washington, DC. The meeting will conclude at approximately 5 p.m.

The purpose of the Council is to advise the President on matters involving science and technology.

#### Proposed Agenda

1. Briefing of the Council on the current activities of the Office of Science and Technology Policy and of the private sector.
  2. Briefing of the Council on current federal activities and policies in science and technology.
  3. Discussion of progress of working group panels.
- Portions of the October 10 session will be closed to the public.
- The briefing on some of the current activities of OSTP necessarily will involve discussion of materials that are formally classified in the interest of national defense or for foreign policy reasons. This is also true for a portion of the briefing on panel studies. As well, a portion of both of these briefings will require discussion of internal personnel procedures of the Executive Office of the President and information which, if prematurely disclosed, would significantly frustrate the implementation of decisions made requiring agency action. These portions of the meeting will be closed to the public pursuant to 5 U.S.C. 552b(c)(1), (2), and (9)(B).

A portion of the discussion of panel composition will necessitate discussion of information of a personal nature. Accordingly, this portion of the meeting will also be closed to the public, pursuant to 5 U.S.C. 552b(C)(6).

Because of the security requirements, persons wishing to attend the open portion of the meeting should contact Ms. Ann Barnett (202) 395-4692, prior to 3 p.m. on October 9, 1991. Ms. Barnett is

available to provide specific information regarding time, place, and agenda.

Dated: October 2, 1991.

Ms. Damar W. Hawkins,

*Executive Assistant, Office of Science and Technology Policy.*

[FR Doc. 91-24114 Filed 10-7-91; 8:45 am]

BILLING CODE 3170-01-M

### OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

[Docket No. 301-87]

#### Initiation of Section 302 Investigation and Request for Public Comment on Determinations Involving Expeditious Action: Canadian Exports of Softwood Lumber

**AGENCY:** Office of the United States Trade Representative.

**ACTION:** Notice of initiation of investigation under section 302(b)(1)(A) of the Trade Act of 1974, as amended (19 U.S.C. 2412(b)(1)(A)); notice of determinations and expeditious action; and request for written comments.

**SUMMARY:** On October 4, 1991, the United States Trade Representative ("USTR") initiated an investigation under section 302(b)(1)(A) of the Trade Act of 1974, as amended ("the Trade Act"), with respect to certain acts, policies and practices of the Government of Canada affecting exports to the United States of softwood lumber. Subsequently, at the direction of the President, the USTR determined pursuant to section 304 of the Trade Act, that certain Canadian Government acts, policies and practices are unreasonable and burden or restrict United States commerce, and that expeditious action in this matter is required.

Accordingly, the USTR determined that the appropriate action at this time is to withhold or extend liquidation of entries of imports of softwood lumber products originating in certain provinces and territories of Canada, until the completion of a countervailing duty investigation of softwood lumber imports that the Department of Commerce intends to self-initiate. To that end, the USTR further determined that imports of softwood lumber products originating in certain provinces and territories of Canada will be subject to duties of up to 15 percent *ad valorem*. The imposition of such duties will be contingent upon affirmative final subsidy and injury determinations in the countervailing duty investigation and will apply with respect to entries filed on or after October 4, 1991. The

withholding or extension of liquidation and the bonding requirements will apply to entries filed prior to the preliminary subsidy determination.

USTR invites comments from the public on the matters being investigated and on these determinations. Because expeditious action is required, the USTR has made these determinations prior to receiving public comment in accordance with section 304(b)(1).

**DATES:** This investigation was initiated on October 4, 1991. Written comments from the public are due on or before 12 noon, on November 7, 1991.

**ADDRESS:** Office of the United States Trade Representative, 600 17th Street, NW., Washington, DC 20506.

**FOR FURTHER INFORMATION CONTACT:** Don Phillips, Assistant United States Trade Representative for Industry, (202) 395-5656; or Timothy Reif, Associate General Counsel, (202) 395-6800 (for legal issues).

**SUPPLEMENTARY INFORMATION:** On June 5, 1986, the Department of Commerce ("the Department") initiated a countervailing duty investigation as a result of an industry petition regarding softwood lumber products from Canada. On October 22, 1986, following a preliminary determination of injury by the U.S. International Trade Commission ("ITC"), the Department published a preliminary determination estimating that subsidies of 15 percent *ad valorem* were being provided to Canadian producers of certain softwood lumber products.

On December 30, 1986 the United States and Canada signed a Memorandum of Understanding on Trade in Softwood lumber ("MOU"). Under the MOU, the Government of Canada agreed to impose a 15 percent export charge on certain softwood lumber products: such charge could be reduced or eliminated for lumber from provinces that instituted replacement measures increasing stumpage or other charges on the harvest of timber. In return, the U.S. lumber industry withdrew its petition and the Department terminated its investigation.

On the same date, the President took action under section 301 of the Trade Act of 1974 to ensure that the objectives and commitments of the MOU were fulfilled. 52 FR 231, 233 (January 5, 1987). In particular, the President determined that the inability of the Government of Canada during an interim period following the signing of the MOU to collect export charges constituted a burden and restriction on U.S. commerce. As a result, the President proclaimed a temporary increase in

rates of duty on softwood lumber products from Canada.

On September 3, 1991, the Government of Canada announced that it would terminate the MOU in 30 days. Beginning on October 4, 1991, Canada will no longer collect export charges on softwood lumber products as agreed under the MOU.

As a consequence, the United States, which in December 1986 terminated its countervailing duty investigation in reliance upon Canada's undertakings in the MOU, will be denied the offset that had been provided by Canadian export charges against possible injurious Canadian subsidies. Due to the limited notice provided by Canada in terminating the agreement and the amount of time required for the Department once again to make a preliminary subsidy determination, the Department is unable in the short period leading up to that determination to impose interim protective measures.

Accordingly, action by the United States is required during this interim period in order to restore and maintain the *status quo ante*. Since the Government of Canada has refused to collect export charges to offset possible subsidies during this period, the United States is compelled to exercise its rights and to take enforcement measures arising out of the MOU by imposing temporary measures to safeguard against an influx of possible injurious subsidized Canadian softwood lumber.

Section 302(b)(1)(A) of the Trade Act authorizes the USTR to initiate an investigation under chapter 1 of title III of the Trade Act (commonly referred to as "section 301") with respect to any matter in order to determine whether the matter is actionable under section 301. Matters actionable under section 301 include, *inter alia*, acts, policies, and practices of a foreign country that are unreasonable and burden or restrict U.S. commerce.

On October 4, 1991, the USTR, having consulted pursuant to section 302(b)(1)(B) of the Trade Act, determined that an investigation should be initiated with respect to certain acts, policies, and practices by the Government of Canada affecting exports to the United States of certain softwood lumber products.

The USTR further determined that expeditious action is required in this matter, because Canada has terminated the MOU and because consultations with the Government of Canada have failed to result in a mutually satisfactory solution. Accordingly, the USTR, at the specific direction of the President, has made the following determinations pursuant to section 304 of the Trade Act.

## Determinations

(a) That acts, policies, and practices of the Government of Canada regarding the exportation of softwood lumber to the United States, specifically the failure of the Government of Canada to ensure the continued collection of export charges on softwood lumber envisioned by the MOU, are unreasonable and burden or restrict U.S. commerce; and

(b) That expeditious action is required and that the appropriate action at this time is to impose contingent, temporary increased duties on the articles identified in appendix 1 ("softwood lumber" or "such products") that originate in those provinces and territories listed in appendix 2 ("listed provinces").

In accordance with the above determinations, the following action shall be taken under section 301:

This action shall apply to all entries of softwood lumber originating in listed provinces entered from Canada on or after October 4, 1991, and before the date of the preliminary subsidy determination of the Department of Commerce.

The Secretary of the Treasury ("Secretary") shall impose bonding requirements as follows: For softwood lumber originating in the province of Quebec, a single entry bond in the amount of 6.2 percent of the entered value of entries filed before November 1, 1991, and 3.1 percent of the entered value of entries filed on or after November 1, 1991; and for such products originating in other listed provinces, except British Columbia, a single entry bond in the amount of 15 percent of the entered value.

The Secretary shall require adequate documentation of the province of origin of softwood lumber, including, at his discretion, certification by the importer of record as to province of origin of such products. If the required documentation is not provided, the entries shall be subject to a single entry bond, and potential liability, in the amount of 15 percent of the entered value.

The Secretary of Commerce shall monitor the application of replacement measures in British Columbia and Quebec. In conducting such monitoring, the Secretary of Commerce shall obtain relevant information and assistance from other federal agencies, as appropriate. If the Secretary of Commerce considers that any such replacement measures have been altered so as to reduce their effect in replacing in whole or in part the 15 percent export charge required by the MOU, he shall so advise the USTR. In



such case, the USTR will direct the Secretary of the Treasury to revise the bonding requirements or impose an increased, contingent rate of duty, not to exceed 15 percent *ad valorem*, on the entry of softwood lumber originating in the relevant province.

The Secretary of the Treasury shall withhold or extend, as appropriate, liquidation of all entries of softwood lumber from the listed provinces until the imposition of duties, if any. Imposition of a duty shall be contingent upon an affirmative final subsidy determination by the Department of Commerce and an affirmative final injury determination by the ITC in the countervailing duty investigation to be initiated by the Department. Unless the USTR has directed the Secretary to revise the bonding requirements or duty liability, the rate of duty shall be determined as follows:

(1) For softwood lumber originating in the province of Quebec, 6.2 percent *ad valorem* for entries filed before November 1, 1991, 3.1 percent *ad valorem* for entries filed on or after November 1, 1991, or, if it is lower, the rate of subsidy, if any, found in the final Department of Commerce determination;

(2) For such products originating in the province of British Columbia, zero rate of duty;

(3) For such products originating in other listed provinces, the lesser of 15 percent *ad valorem* or the rate of subsidy, if any, found in the final Department of Commerce determination;

(4) For such products for which the required origin documentation is not provided, the lesser of 15 percent *ad valorem* or the rate of subsidy, if any, found in the final Department of Commerce determination.

In the event of a negative preliminary or final injury determination, or in the event of negative final subsidy determination, no duty shall be imposed.

This determination may be amended, *inter alia*, to provide for possible adjustments to bonding requirements or duty liability applying to remanufactured products or lumber produced from U.S. origin logs.

#### Public Comment: Requirements for Submissions

Interested persons are invited to submit written comments on the acts, policies and practices of the Government of Canada that are the subject of this investigation, on the amount of burden or restriction on U.S. commerce caused by these acts, policies and practices, and on the

determinations under section 304 of the Trade Act.

Comments must be filed in accordance with the requirements set forth in 15 CFR 2006.8(b) (55 FR 20593) and are due no later than 12 noon, November 7, 1991. Comments must be in English and provided in twenty copies to: Chairman, Section 301 Committee, Room 223, USTR 600 17th Street, NW, Washington, DC 20506.

Comments will be placed in a file (Docket 301-87) open to public inspection pursuant to 15 CFR 2006.13, except for confidential business information exempt from public inspection in accordance with 15 CFR 2006.15. (Confidential business information submitted in accordance with 15 CFR 2006.15 must be clearly marked "BUSINESS CONFIDENTIAL" in a contrasting color ink at the top of each page on each of 20 copies, and must be accompanied by a nonconfidential summary of the confidential information. The nonconfidential summary shall be placed in the Docket which is open to public inspection.)

Joshua B. Bolten.

General Counsel.

#### Appendix 1

Products imported in subheadings 4407.1000 of the Harmonized Tariff Schedule (HTS) of the United States: coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm; and

Products imported in subheading 4409.1010 and 4409.1090 of the HTS: coniferous wood siding (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed; and other coniferous wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces whether or not planed, sanded or finger-jointed; and

Products imported in subheading 4409.1020 of the HTS: coniferous wood flooring (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rabbitted, chamfered, V-jointed, beaded, molded, rounded or the like) along any of its edges or faces, whether or not planed, sanded or finger-jointed.

#### Appendix 2

Alberta

British Columbia  
Manitoba  
Ontario  
Quebec  
Saskatchewan  
Northwest Territories  
Yukon Territories

[FR Doc. 91-24341 Filed 10-7-91; 8:45 am]

BILLING CODE 3190-01-M

## PENSION BENEFIT GUARANTY CORPORATION

### Use of Alternative Dispute Resolution

**AGENCY:** Pension Benefit Guaranty Corporation.

**ACTION:** Request for comments on proposed policy.

**SUMMARY:** The Pension Benefit Guaranty Corporation (PBGC) is developing a policy to implement an important recently enacted amendment to the Administrative Procedure Act, the Administrative Dispute Resolution Act (ADR Act). The ADR Act authorizes and encourages Federal agencies to use alternative dispute resolution (ADR) mechanisms such as negotiation, mediation, fact-finding, minitrails and arbitration to resolve disputes.

Section 3(a) of the ADR Act requires the PBGC to adopt a policy on how it will use alternate means of dispute resolution and case management in its administrative programs. The PBGC is seeking comments at this time so that the affected public may be involved at the outset in the development of procedures to expand the use of ADR by the PBGC.

**DATES:** Comments are due by December 9, 1991.

**ADDRESSES:** Send comments to Ellan H. Spring, Dispute Resolution Specialist, Pension Benefit Guaranty Corporation, 2020 K Street NW., Code 35300, Washington, DC 20006-1860.

**FOR FURTHER INFORMATION CONTACT:** Ellan H. Spring, Dispute Resolution Specialist, Pension Benefit Guaranty Corporation, at the address given above. Telephone 202-778-8817; TTY/TDD for the hearing-impaired, 202-778-8859. These are not toll-free numbers.

**SUPPLEMENTARY INFORMATION:** In response to a requirement of the Administrative Dispute Resolution Act, Public Law 101-552, the PBGC intends to develop a general policy that encourages greater use of alternative dispute resolution techniques whenever the parties involved agree to them and it is practical to do so in light of other statutory requirements.



**APPENDIX B**  
**CALENDAR OF THE PUBLIC CONFERENCE**

B-14

CALENDAR OF THE PUBLIC CONFERENCE

Investigation No. 701-TA-312 (Preliminary)

SOFTWOOD LUMBER FROM CANADA

Those listed below appeared at the United States International Trade Commission's conference held in connection with the subject investigation on November 21, 1991, in the Hearing Room of the USITC Building, 500 E Street, S.W., Washington, DC:

In support of the imposition of countervailing duties

Dewey Ballantine--Counsel  
Washington, DC  
on behalf of

Coalition for Fair Lumber Imports

C. T. Howlett, Jr., Chairman, Coalition for Fair Lumber Imports  
Ken Porter, General Manager, Lumber, Georgia-Pacific Corp.  
Tom Cator, Intermountain Forest Industries Association, Pyramid  
Mountain Lumber  
Daniel W. Klett, Vice-President, ICF Consulting Assn.

Michael H. Stein )  
John A. Ragosta ) --OF COUNSEL

William A. Noellert, Economist

In opposition to the imposition of countervailing duties

Wilmer, Cutler, & Pickering--Counsel  
Washington, DC  
on behalf of

Government of Canada

Robert C. Cassidy, Jr. ) --OF COUNSEL

Steptoe & Johnson--Counsel  
Washington, DC  
on behalf of--

Canadian Forest Industries Council

Stephen Brown, President, MacMillan Bloedel Building Materials  
Dr. William Finan, Law & Economics Consulting Group, Inc.

Charlene Barshefsky )  
Susan G. Esserman ) --OF COUNSEL

Miller & Chevalier--Counsel  
Washington, DC  
on behalf of

Government of British Columbia

Stuart E. Benson ) --OF COUNSEL

Ackerson & Feldman--Counsel  
Washington, DC  
on behalf of

Government du Quebec

Elliot J. Feldman ) --OF COUNSEL

**APPENDIX C**

**COMMENTS RECEIVED FROM U.S. PRODUCERS  
ON THE IMPACT OF IMPORTS OF SOFTWOOD LUMBER FROM CANADA  
ON THEIR GROWTH, INVESTMENT, ABILITY TO RAISE CAPITAL,  
AND/OR EXISTING DEVELOPMENT AND PRODUCTION EFFORTS**





The Commission requested U.S. producers to describe any actual or anticipated negative effects of imports of softwood lumber from Canada on their existing development and production efforts, growth, investment, and/or ability to raise capital. All 32 companies supplied comments, and five of them--\*\*\*, \*\*\*, \*\*\*, \*\*\*, and \*\*\*--indicated they suffered no negative effects. The responses of the 27 other producers which supplied comments are as follows (not all companies had a response for each question):

Response of U.S. producers to the following questions:

1. Since January 1, 1988, has your firm experienced any actual negative effects on its growth, investment, ability to raise capital, or existing development and production efforts as a result of imports of softwood lumber from Canada?

\* \* \* \* \*

B-20

**APPENDIX D**

**WEIGHTED-AVERAGE F.O.B. PRICES OF THE DOMESTIC  
AND IMPORTED CANADIAN PRODUCTS,  
AND F.O.B. PRICES AS REPORTED BY RANDOM LENGTHS**



Table D-1

Softwood lumber: Weighted-average f.o.b. prices of the domestic and imported Canadian products, and f.o.b. prices as reported by Random Lengths, by species, by month, and by destination, October 1989-September 1991

(per mbf)									
Southern yellow pine						Spruce-pine-fir			
Questionnaire data						Random	Questionnaire data		Random
Period	Atlanta	Boston	Chicago	Dallas	Jacksonville	Lengths <sup>1</sup>	Canada <sup>2</sup>	United States	Lengths <sup>3</sup>
1989:									
October.....	\$***	-	\$***	-	\$***	\$242	\$***	\$***	\$188
November.....	***	\$***	***	\$***	***	218	***	***	182
December.....	***	***	***	***	***	230	***	***	182
1990:									
January.....	***	***	***	***	***	231	***	***	187
February.....	***	***	***	***	***	248	***	***	197
March.....	***	***	***	***	***	253	***	***	191
April.....	***	***	***	***	***	281	***	***	193
May.....	***	***	***	***	***	272	***	***	191
June.....	***	***	***	***	***	253	***	***	198
July.....	***	***	***	***	***	247	***	***	196
August.....	***	***	***	***	***	221	***	***	190
September....	***	***	***	***	***	208	***	***	192
October.....	***	***	***	***	***	208	***	***	173
November.....	***	***	***	***	***	212	***	***	163
December.....	***	***	***	***	***	215	***	***	162
1991:									
January.....	***	***	***	***	***	225	***	***	164
February.....	***	***	***	***	***	202	***	***	158
March.....	***	***	***	***	***	218	***	***	172
April.....	***	***	***	***	***	226	***	***	182
May.....	***	***	***	***	***	235	***	***	200
June.....	***	***	***	***	***	279	***	***	237
July.....	***	***	***	***	***	258	***	***	211
August.....	***	***	***	***	***	237	***	***	186
September....	***	***	***	***	***	242	***	***	184

See footnotes at end of table.

Table D-1--continued  
 Softwood lumber: Weighted-average f.o.b. prices of the domestic and imported Canadian products, and f.o.b. prices as reported by Random Lengths, by species, by month, and by destination, October 1989-September 1991  
 (per mbf)

Period	Hem-fir			Douglas fir			Random Lengths <sup>6</sup>
	Questionnaire data			Questionnaire data			
	Atlanta	Chicago	Coast <sup>4</sup>	Atlanta	Chicago	Dallas	
						Los Angeles	
1989:							
October.....	-	***	\$236	-	***	-	\$264
November....	\$***	***	213	\$***	***	-	245
December....	***	***	212	***	***	***	248
1990:							
January.....	***	***	221	***	***	***	251
February....	***	***	228	-	***	***	260
March.....	***	***	230	-	***	***	259
April.....	***	***	241	-	***	\$***	272
May.....	***	***	232	***	***	***	250
June.....	***	***	225	-	***	***	243
July.....	***	***	230	-	***	***	246
August.....	***	***	224	***	***	***	241
September...	***	***	218	-	***	-	230
October.....	-	***	199	-	***	***	215
November....	-	***	189	-	***	***	213
December....	***	***	192	***	***	***	219
1991:							
January.....	-	***	204	***	***	***	217
February....	-	***	203	***	***	-	228
March.....	***	***	213	***	***	***	231
April.....	-	***	222	-	***	-	228
May.....	***	***	241	-	***	***	248
June.....	***	***	272	-	***	***	291
July.....	***	***	251	-	***	-	274
August.....	***	***	219	-	***	***	258
September...	***	***	220	-	***	-	263

<sup>1</sup> Data from Random Lengths is an average of SYP (Westside), kiln dried, 2"x4", #2, random and SYP (Eastside), kiln dried, 2"x4", #2, random.

<sup>2</sup> \*\*\*.

<sup>3</sup> Data from Random Lengths is for SPF, Western, kiln dried, 2"x4", Std&Btr, random, prices net f.o.b. mill. This price is shown as a base price for rail shipments, and does not include mills' returns on underweights, contract freight rates, freight rebates, or prepaid freight. Some U.S. producers have argued that this is an artificial price since Canadian mills do not quote f.o.b. rates to customers or break out freight on invoices, thus the real base price is never known.

<sup>4</sup> Data from Random Lengths is for Hem-fir (coast), kiln dried, 2"x4", Std&Btr, random, prices net f.o.b. mill.

<sup>5</sup> Data from Random Lengths is an average of Hem-fir (Inland-Spokane), kiln dried, 2"x4", Std&Btr, random, prices net f.o.b. mill and Hem-fir (Inland-Redding), kiln dried, 2"x4", Std&Btr, random, prices net f.o.b. mill.

<sup>6</sup> Data from Random Lengths is for Douglas Fir, kiln dried, 2"x4", Std&Btr, random, prices net f.o.b. mill.

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

**APPENDIX E**  
**COMPOSITE F.O.B. PRICES FOR U.S. AND CANADIAN**  
**SOFTWOOD LUMBER**

B-26



Table E-1

U.S. and imported Canadian softwood lumber: Composite prices for U.S. and Canadian softwood lumber (all species and all market areas), by months, October 1989-September 1991

(Per mbf)		
Period	United States	Canada
1989:		
October.....	\$223	\$182
November.....	221	184
December.....	220	183
1990:		
January.....	222	193
February.....	220	202
March.....	245	187
April.....	255	190
May.....	254	191
June.....	246	202
July.....	246	190
August.....	233	191
September.....	220	185
October.....	209	168
November.....	212	160
December.....	208	163
1991:		
January.....	211	152
February.....	209	164
March.....	212	172
April.....	222	184
May.....	224	213
June.....	250	239
July.....	264	188
August.....	235	181
September.....	234	184

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

