

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:) Investigation Nos.:
SOFTWOOD LUMBER FROM CANADA) 701-TA-566 AND 731-TA-1342 (FINAL)

Pages: 1 - 270
Place: Washington, D.C.
Date: Tuesday, September 12, 2017



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UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF:) Investigation Nos.:
SOFTWOOD LUMBER FROM CANADA) 701-TA-566 AND 731-TA-1342
) (FINAL)

Main Hearing Room (Room 101)
U.S. International Trade
Commission
500 E Street, SW
Washington, DC
Tuesday, September 12, 2017

The meeting commenced pursuant to notice at 9:33
a.m., before the Commissioners of the United States
International Trade Commission, the Honorable Rhonda K.
Schmidtlein, Chairman, presiding.

1 APPEARANCES:

2 On behalf of the International Trade Commission:

3 Commissioners:

4 Chairman Rhonda K. Schmidtlein (presiding)

5 Vice Chairman David S. Johanson

6 Commissioner Irving A. Williamson

7 Commissioner Meredith M. Broadbent

8

9

10 Staff Present:

11 William Bishop, Supervisory Hearings and Information

12 Officer

13 Sharon Bellamy, Records Management Specialist

14 Yasmyne Hilliard, Student Intern

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16 Fred Ruggles, Investigator

17 Sarah Scott, International Trade Analyst

18 Andrew Knipe, International Economist

19 Charles Yost, Accountant/Auditor

20 Robin Turner, Attorney/Advisor

21 Elizabeth Haines, Supervisory Investigator

22

23

24

25

1 Congressional Appearances:

2 The Honorable Ron Wyden, United States Senator, Oregon

3 The Honorable Jon Tester, United States Senator, Montana

4 The Honorable Roger F. Wicker, United States Senator,
5 Mississippi

6 The Honorable Steve Daines, United States Senator, Montana

7 Opening Remarks:

8 Petitioner (Andrew W. Kentz, Picard Kentz & Rowe LLP)

9 Respondents (Eric S. Parnes, Hughes Hubbard & Reed LLP)

10

11 In Support of the Imposition of Antidumping and

12 Countervailing Duty Orders:

13 Picard Kentz & Rowe LLP

14 Washington, DC

15 on behalf of

16 Committee Overseeing Action for Lumber International Trade

17 Steven Banahan, Lumber Sales Manager, Pleasant River
18 Lumber Company Inc.

19 Mark Benson, Vice President, Public Affairs, Potlach
20 Corporation

21 Adrian Blocker, Senior Vice President, Wood Products,
22 Weyerhaeuser Company

23 Caroline Dausat, Owner, Rex Lumber Co.

24 Tony Hadley, Executive Secretary-Treasurer, Carpenters
25 Industrial Council

1 Bill Howard, Owner and General Manager, Claude Howard
2 Lumber, Inc.

3 Andrew Miller, President and Chief Executive Officer,
4 Stimson Lumber Company

5 Chuck Roady, Director, F.H. Soltze Land & Lumber
6 Company

7 Steve Swanson, President and Chief Executive Officer,
8 Swanson Group

9 Susan B. Hester, Ph.D., Economist, Moongate Associates,
10 Inc.

11 Deanna Tanner Okun, of Counsel, Adduci, Mastriani &
12 Schaumberg LLP

13 Andrew W. Kentz and David A. Yocis - Of Counsel

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15 In Opposition to the Imposition of Antidumping and
16 Countervailing Duty Orders:

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18 Washington, DC

19 on behalf of

20 Government of Canada

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22 Services, LLC

23 Cara Groden, Senior Economist, Economic Consulting
24 Services, LLC

25 Kivanc Kirgiz, Vice President, Cornerstone Research

1 Matthew R. Nicely, Eric S. Parnes and Julia K. Eppert
2 - Of Counsel

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4 Morris Manning & Martin LLP

5 Washington, DC

6 on behalf of

7 Canfor Corporation

8 Mark Feldinger, Senior Vice President, Energy,

9 Environment, Transportation and Sourcing, Canfor Corporation

10 Donald B. Cameron - Of Counsel

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12 Mowry & Grimson, PLLC

13 Washington, DC

14 on behalf of

15 National Association of Home Builders ("NAHB")

16 Thomas Baalman, Owner/General Manager, B & B Lumber

17 Edward Martin, President and Chief Executive Officer,

18 Tilison Home Corporation

19 Jeffrey S. Grimson and Kristin H. Mowry - Of Counsel

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1 Baker & Hosteller LLP

2 Washington, DC

3 on behalf of

4 Conseil de l'Industrie forestiere du Quebec ("CFIQ")

5 Ontario Forest Industries Associatin ("OFIA")

6 Resolute Forest Products Inc.

7 Elliot J. Feldman and Michael Snarr - Of Counsel

8

9 Steptoe & Johnson

10 Washington, DC

11 on behalf of

12 British Columbia Lumber Trade Council ("BCLTC")

13 Mark A. Moran, Matthew A. Frumin and Alexandra Baj - Of

14 Counsel

15

16 Cassidy Levy Kent (USA) LLP

17 Washington, DC

18 on behalf of

19 Interfor Corporation

20 Western Forest Products Inc.

21 Downie Timber/Selkirk Cedar

22 Rob Marusic, Sales Manager, Downie Timber/Selkirk Cedar

23 Myles S. Getlan and Jonathan Zielinski - Of Counsel

24

25

1 FisherBroyles LLP

2 Wasington, DC

3 on behalf of

4 Oregon-Canadian Forest Products, Inc.; Rogue Valley Door;

5 Northwest Clearwoods, Inc.; Bright Wood Corporation;

6 Matthaeis Camco, Inc.Siskiyou Forest Products; Fred Tebb and

7 Sons, Inc. and EMS Manufacturing (collectively, the

8 "Companies")

9 John Grove, Vice President, Purchasing & Export,

10 Oregon-Canadian Forest Products, Inc.

11 Philip S. Gallas and Geoffrey Goodale - Of Counsel

12

13 Rebuttal/Closing Remarks:

14 Petitioner (David A. Yocis, Picard Kentz & Rowe LLP)

15 Respondents (Matthew R. Nicely, Hughes Hubbard & Reed LLP)

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P R O C E E D I N G S

MR. BISHOP: Will the room please come to order?

CHAIRMAN SCHMIDTLEIN: Good morning. On behalf of the U.S. International Trade Commission, I welcome you to this hearing on investigation numbers 701-TA-566 and 731-TA-1342, final involving softwood lumber products from Canada.

The purpose of these investigations is to determine whether an industry is the -- 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 of softwood lumber products from Canada.

Schedules setting forth the presentation of this hearing, notices of investigation, and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

I understand that parties aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

Speakers are reminded not to refer in their remarks or answers to questions to business proprietary

1 information. Please speak clearly into the microphones and
2 state your name for the record for the benefit of our court
3 reporter.

4 If you will be submitting documents that contain
5 information you wish classified as business confidential,
6 your requests should comply with Commission Rule 201.6.

7 Mr. Secretary, are there any preliminary
8 matters?

9 MR. BISHOP: No madam, chairman.

10 CHAIRMAN SCHMIDTLEIN: Very well, will you
11 please announce our first Congressional witness?

12 MR. BISHOP: Our first Congressional witness is
13 the Honorable Ron Wyden, United States senator from Oregon.

14 CHAIRMAN SCHMIDTLEIN: Welcome, Senator Wyden,
15 you may begin when you're ready.

16 STATEMENT OF SENATOR RON WYDEN

17 SENATOR WYDEN: Thank you very much, madam
18 chair. And to you madam chair and your colleagues, thank
19 you very much for the courtesy of giving me the opportunity
20 to come and on a hectic day in the United States Senate, the
21 opportunity to also lead off. I'm very appreciative and let
22 me, if I might, start this way.

23 I think we all understand that market distorting
24 Canadian forest policies have plagued our lumber industry
25 now for decades. The problem is simple. Canada's provinces

1 allow lumber companies to harvest trees from government
2 timberlands at rock bottom bargain rates. This creates an
3 incentive for the Canadians to cut more trees to produce
4 more lumber, and then sell that lumber at cheap rates in our
5 country. As the Commerce Department preliminarily found,
6 Canadian producers are selling dumped and subsidized lumber
7 throughout America.

8 American lumber companies are some of the most
9 efficient and competitive in the world. But over time,
10 these market distorting Canadian practices have unfairly
11 harmed our producers and eroded their ability to compete in
12 tough global markets. Subsidies artificially inflate
13 Canadian company profits and they insulate the Canada mills
14 from market downturns. Then U.S. mills are forced to bear
15 the brunt of soft markets, which contributes to even more
16 U.S. mill closings and ly offs. Even in an up market, our
17 mills are at a disadvantage. Their profitability is
18 suppressed and they're unable to add jobs or invest in mills
19 at the pace that they were otherwise pursue. U.S.
20 timberland owners are also hurt as the value of their land
21 declines in response to losses in the U.S. industry.

22 Fundmentally, this case is about American jobs
23 and it's about ensuring a fair shake for our companies and
24 our workers. Canada subsidies have contributed to lost jobs
25 and lost opportunities for more than 350,000 Americans

1 employed at saw mills and wood preservation industries in
2 our country. And it also had caused declining land values
3 for 11 million American private land owners.

4 Mill jobs are especially crucial for rural
5 communities. They often pay well, high skilled jobs that
6 don't always require a college degree, but provide valuable
7 training. When the mill jobs are lost, whole communities
8 suffer in rural Oregon and rural America.

9 Fewer customers at the diner down the street,
10 fewer dollars to spend at the hardware store, more worried
11 families struggling to make ends meet, this is the
12 by-product of these policies that I'm describing.

13 What's especially troubling for U.S. saw mill
14 workers in mill communities is that even when mills are up,
15 the jobs don't come roaring back. Employment, production,
16 and investment remain suppressed. And as you're going to
17 hear today, Canadian forest policies are key to that. And I
18 have seen this phenomenon play out first hand in my home
19 state.

20 Now forestry has always been enormously
21 important to Oregon. And that has been the case for
22 literally centuries. Even now, in some Oregon communities,
23 more than one in four jobs depend on the forestry sector.
24 In the past few years, there's been very substantial
25 consumer demand from the United States for lumber. Yet

1 even when the markets are strong, subsidized Canadian mills
2 have taken market share from my constituents. This has left
3 Oregon mill owners unable to add jobs, unable to invest in
4 their mills to the extent that they would in the absence of
5 Canadian subsidies. As a result, mill workers in
6 communities in my state continue to struggle.

7 As the ranking Democrat on the Senate Finance
8 Committee, I'm committed to standing up for all American
9 workers through tough trade enforcement. It's absolutely
10 vital that our country fully enforce trade laws and address
11 unfair trade. The Congress made clear that that was
12 central, central to the trade enforcement issue I've
13 described when it passed a package of substantial
14 improvements to the enforcement of U.S. trade laws in 2015.

15 As part of that package, the Congress made clear
16 that the Commission cannot conclude that a U.S. industry is
17 not harmed by unfairly traded imports simply because the
18 industry is profitable or the performance is improving. So
19 just because markets get better, or the company happens to
20 find another path out of the red, that doesn't mean that the
21 Commission is absolved from addressing underlying problems
22 of unfair trade.

23 The Congress also made clear that the Commission
24 should consider the full range of factors when considering
25 the impact of unfair trade on domestic industry.

1 So I'll close and I thank you again for your
2 courtesy in terms of making time at this beginning of the
3 hearing. I believe it is critical that the Commission
4 tackle the impacts of unfair trade on U.S. industries,
5 including the lumber industry, not just when companies are
6 on the brink of bankruptcy. Not just in down markets, but
7 whenever the evidence demonstrates that companies are harmed
8 by unfairly traded imports. I see this as a central
9 obligation of my work as a ranking Democrat on the Senate
10 Finance Committee. I believe American workers deserve
11 nothing less. And I close again by expressing my
12 appreciation for the important work the Commission does and
13 for your courtesy to me this morning.

14 CHAIRMAN SCHMIDTLEIN: Thank you, Senator Wyden.

15 MR. WYDEN: Thank you.

16 CHAIRMAN SCHMIDTLEIN: Are there any questions
17 for Senator Wyden? No, thank you very much.

18 MR. WYDEN: Thank you all.

19 MR. BISHOP: Madam Chairman, our next
20 Congressional witness is the Honorable Roger F. Wicker,
21 United States State Senator from Mississippi.

22 CHAIRMAN SCHMIDTLEIN: Welcome, Senator Wicker.
23 You may begin when you're ready.

24 STATEMENT OF ROGER F. WICKER

25 SENATOR WICKER: Thank you, madam chair and

1 members of the Commission. It is an honor and privilege for
2 me to be with you today and to join on a bipartisan basis my
3 friend and colleague from Oregon.

4 As you know, the U.S. lumber industry is highly
5 competitive. It is also among the most efficient lumber
6 industries in the world. I'm confident that a level playing
7 field would allow the industry to grow and meet demand.

8 The U.S. lumber industry has vast untapped
9 potential that could provide good manufacturing jobs for
10 Americans, investment returns, and economic growth for our
11 country. I greatly appreciate the opportunity to offer my
12 support for the U.S. lumber industry today. And I would
13 like to highlight several important issues of concern as you
14 weigh your final determination.

15 Subsidized Canada timber gives Canadian
16 producers an unfair cost advantage. The Canadian industry's
17 only real advantage over the United States is its access to
18 subsidized Canada timberlands. This dramatically, but
19 artificially lowers Canada costs of production. There are
20 lower costs for logs and greater Canada lumber production
21 levels. Without the enforcement of existing trade laws
22 against subsidized lumber imports, differences between
23 mostly private American timber sale systems on mostly
24 public Canadian timber sale systems give Canadian producers
25 an unfair cost advantage and severely distorts the market.

1 Government aid allows Canadian producers to have
2 lower costs and higher profits during normal market
3 environments, increasing their ability to make capital
4 investments and build cash reserves.

5 In addition to these massive government
6 subsidies, Canada producers were found by the Department of
7 Commerce in its preliminary determination earlier this year
8 to be dumping their lumber production in the U.S. market,
9 further injuring U.S. lumber producers. Thousands of U.S.
10 jobs are at risk.

11 The American softwood lumber industry is an
12 important part of the U.S. manufacturing base, creating
13 needed jobs in hardworking communities. In many
14 communities, a lumber producer is the single largest and
15 sometimes only source of employment.

16 In my home state, forestry related businesses
17 employ over 43,000 Mississippians with payrolls totaling
18 over \$1.6 billion. And as my colleague from Oregon said,
19 there are more than 350,000 direct and indirect jobs that
20 the U.S. saw mill and preservation industry generates across
21 America. These jobs should not be put at risk.

22 It is incumbent upon us to work toward an
23 environment in which the timber industry can invest in
24 itself and grow to its potential. The United States has the
25 natural resources necessary to grow its saw milling capacity

1 to supply its own market more fully. And it is the duty of
2 the United States government to ensure that the industry is
3 given that opportunity.

4 There are real people out there and real jobs at
5 stake for Americans. And I appreciate your attention to
6 this important issue.

7 CHAIRMAN SCHMIDTLEIN: Thank you very much. Are
8 there any questions for Senator Wicker?

9 All right, thank you very much.

10 MR. WICKER: Thank you.

11 MR. BISHOP: Madam chairman, that concludes our
12 Congressional testimony at this time.

13 CHAIRMAN SCHMIDTLEIN: All right. Thank you.
14 We will now move to opening remarks.

15 MR. BISHOP: Opening remarks on behalf of
16 petitioner will be given by Andrew W. Kentz of Picard Kentz
17 & Rowe.

18 STATEMENT OF ANDREW W. KENTZ

19 MR. KENTZ: Good morning and thank you for the
20 opportunity to be here today. My name is Andrew Kentz and
21 I'm here on behalf of the petitioner.

22 This is the fifth round of the lumber dispute.
23 And each time, we are here because unfairly traded Canadian
24 lumber imports continue to injure the domestic industry, our
25 mills, our workers, or forest land owners, and our

1 communities.

2 More than 10 years ago, the last lumber trade
3 case was resolved through the softwood lumber agreement or
4 SLA, which expired in 2015. The SLA provided a one year
5 standstill period in which the U.S. industry agreed to not
6 file petitions for AD or CD relief.

7 Despite our best efforts, we cannot come to a
8 new agreement with Canada by the end of the standstill
9 period in October 2016. Absent a new agreement, the
10 domestic industry had no choice but to invoke the trade laws
11 to address the injury caused by Canadian imports and the
12 fundamental differences in the cost structure of the U.S.
13 and Canadian lumber industries.

14 What is at issue in this case is whether the
15 U.S. industry can survive the injury caused by unfairly
16 traded Canadian imports both in down and up markets. That
17 is, both when volumes of U.S. production decline and prices
18 drop, but also in up markets when U.S. producers must be
19 able to earn levels of profit that allow them to restore
20 reserves and to make necessary capital investments essential
21 to a modern industry that allowed the industry to grow its
22 production to natural levels and to expand employment.

23 The fact is that due to massive governmental
24 subsidies, the Canada industry can in down markets maintain
25 production levels and ship its production to the U.S. market

1 thereby further harming a U.S. industry trying to survive
2 the normal downturn of the business cycle.

3 And when demand recovers, the subsidized
4 Canadian producers can and have during this period of
5 investigation take a greater share of the increased demand
6 and artificially suppressed prices.

7 In both stages of the business cycle, the
8 Canadian producers, because of the subsidies they receive,
9 are the winners and the U.S. industry is the loser. And
10 that is why it is vital that the U.S. industry receive the
11 full relief under the U.S. trade laws to which it is
12 properly entitled.

13 Canadian government policies that are
14 established to protect its lumber producers present a
15 longstanding structural problem to the U.S. lumber industry.
16 The Canadian government owns the vast majority of the timber
17 supply. To put this into perspective, the Canadian
18 government owns 90 percent of harvestable timber, while 85
19 percent of U.S. harvestable timber is privately owned. The
20 Canadian government uses its ownership of timber to promote
21 the growth and stability of the softwood lumber industry,
22 regardless of fair market principals.

23 Further, the strong orientation of Canadian
24 producers toward exports, primarily to the United States,
25 means that the U.S. industry bears the major share of the

1 costs of Canada's unfairly subsidized timber system.

2 Between 2014 and 2016, as the lumber markets
3 slowly recovered from the Great Recession, Canadian imports
4 to the United States increased by approximately 24 percent.
5 Thus, while U.S. apparent consumption increased by nearly 11
6 percent during this period, Canadian producers captured more
7 than 60 percent of that increased demand and grew its U.S.
8 market share by more than 3 percent, while U.S. producers
9 lost nearly 4 percent of the U.S. market share.

10 This means the loss of good manufacturing jobs
11 that cannot be replaced. The effects rippled through entire
12 communities and the damage is severe.

13 The growth in Canadian imports during this
14 period also led to substantial decline in prices. While
15 Canadian imports grew by 24 percent; domestic prices
16 declined by 10 percent. Thus just as demand recovered and
17 prices should have similarly recovered, unfairly traded
18 Canadian imports actually suppressed prices, Canadian
19 producers benefitting from government subsidies gained
20 market share and sustained profits, while U.S. producers
21 lose in terms of the market share and price.

22 Canadian producers in response to these trade
23 cases slowed their surge of imports and increased prices
24 temporarily. To be clear, though, the Canada industry's
25 response to these cases demonstrate how critical trade

1 relief is.

2 When confronted with trade law duties, Canadian
3 producer respond and the market moves toward natural levels.
4 When free from such trade law duties, Canadian producers can
5 and do use the cost structure benefits they enjoy from
6 government subsidies to take market share from U.S.
7 producers and suppress prices.

8 In short, Canadian imports have substantially
9 impeded the domestic industry's recovery from the
10 devastating of collapse in the U.S. housing industry during
11 the Great Recession. Today, you will hear from those who
12 have been injured by Canada imports. They will speak to the
13 domestic industry's goal to restore a stable market
14 environment in which it can make critical capital
15 investments, low capacity to its natural size, and increase
16 the number of jobs in their industry.

17 They are speaking on behalf of all of the
18 producers, land owners, workers and communities who have
19 been injured by unfairly traded Canada imports. Thank you
20 for your time.

21 MR. BISHOP: Opening remarks on behalf of
22 respondents will be given by Eric S. Parnes of Hughes
23 Hubbard & Reed.

24 STATEMENT OF ERIC S. PARNES

25 MR. PARNES; Good morning. I'm Eric Parnes from

1 Hughes, Hubbard & Reed, for the Government of Canada and the
2 Joint Respondents.

3 You've heard a little bit about the long history
4 of the trade dispute, but this case is like no other prior
5 lumber investigation. The Commission is faced with a
6 domestic industry that is thriving.

7 As a whole, the U.S. industry is doing better
8 than at any time in recorded history, and that's not
9 hyperbole. Average operating margins during the POI were
10 13.2 percent. That's more than double the average during
11 any other lumber investigation going back to the early
12 1980s.

13 That's why it's so odd to read Petitioner's claim
14 that imports from Canada have been, quote, "contributing
15 significantly to the relatively weak performance of the
16 domestic industry."

17 "Weak" relative to what? Even in 2015, the worst
18 year of the POI for industry performance, operating margins
19 were still higher than the average during any previous POI.
20 That includes the average in Lumber 4 where the Commission
21 found no current industry.

22 During the year after the expiration of the 2006
23 Softwood Lumber Agreement, and before the Petition, all
24 indicators of domestic industry performance were improving.
25 The domestic industry that has railed against free trade has

1 been thriving under it.

2 We've seen during that time that increasing
3 Canadian market share does not suppress lumber prices or
4 hurt the performance of the U.S. industry. To the contrary,
5 it turns out that lumber prices and the financial
6 performance of the U.S. industry improved during times when
7 Canadian market share increased. And we recognize that the
8 mere fact that an industry is profitable doesn't preclude a
9 finding of injury. But the law wasn't meant to protect an
10 industry that is performing better than it has at any time
11 in recorded history.

12 And it wasn't meant to protect an industry that
13 every analyst predicts will continue to grow into the
14 foreseeable future. Apart from already pent up demand for
15 new residential housing which drives demand for lumber, the
16 U.S. has just been hit by two incredibly devastating and
17 destructive hurricanes. The rebuilding from Harvey alone
18 will further drive demand for softwood lumber into the
19 foreseeable future.

20 Meanwhile, Canadian timber supply and production
21 capacity is increasingly constrained by its own natural
22 disasters. There's no threat that a wall of wood will be
23 coming across the border in the absence of trade protection.

24 This morning you will hear a lot of effort to
25 obfuscate these simple truths. You're going to hear tales

1 of woe from companies that have never before experienced
2 profits like they have experienced over this POI.

3 When you listen to these witnesses, I hope you
4 will consider having the data on these companies' actual
5 performance in front of you. And I respectfully suggest
6 that you ask a few important questions.

7 First, you might ask the representatives of the
8 two publicly traded companies, Weyerhaeuser and Potlach,
9 whether they agree with their counsel's statements that we
10 are at the top of the market, or whether they agree with
11 their CEO's statements to investors that they are bullish
12 and expect continued growth in demand. Which is it?

13 Second, when the CEOs of Weyerhaeuser and
14 Potlach spoke to their investors just a month-and-a-half
15 ago, they emphasized that high lumber prices and strong
16 performance weren't due to the preliminary duties or the
17 petition. They said high prices and strong performance
18 resulted from supply and demand. But counsel for Petitioner
19 says recent prices and performance are all due to the
20 effects of the case. Again, which is it?

21 Third, when the witnesses complain about an
22 inability to undertake capital expenditures, you might ask
23 them about some of their massive investments. Over the
24 course of the POI, the members of the domestic industry that
25 responded to questionnaires collectively took in \$3.5

1 billion in cash. Roughly \$2.5 billion of that went to
2 capital expenditures.

3 Those are massive investments, but they still had
4 nearly a billion dollars in cash left over. So you might
5 ask the others why they've chosen not to invest the cash
6 that they have in their mills. Companies like Weyerhaeuser
7 and Potlatch are using some of their sizeable profits from
8 lumber sales to buy up land where timber is scarce, as it is
9 in many parts of the U.S. West. Increasing lumber prices
10 mean increasing log prices. They are often indexed to each
11 other.

12 So the few companies that haven't performed as
13 well as the industry as a whole are in areas where timber is
14 scarce, and companies like Weyerhaeuser and Potlatch that
15 own the timber have no interest in selling them cheap logs.

16 We'll discuss the statutory elements and the
17 details this afternoon. Ultimately, though, the Commission
18 should find no injury or threat of injury for the simple
19 reason that the domestic industry is doing great, and
20 there's no reason to believe that it could be doing better.
21 Over the last 30 years, the U.S. industry has grown so
22 accustomed to demanding and receiving trade protection that
23 they seem to have forgotten to check whether they actually
24 need protection before asking for it again.

25 We look forward to the results after the

1 Commission does the checking for them. Thank you, very
2 much.

3 CHAIRMAN SCHMIDTLEIN: Thank you very much. Mr.
4 Secretary, would you please call the first panel.

5 MR. BISHOP: Would the panel in support of the
6 imposition of the antidumping and countervailing duty orders
7 please come forward and be seated.

8 Madam Chairman, all witnesses on this panel have
9 been sworn in, and this panel has 60 minutes for the direct
10 testimony.

11 CHAIRMAN SCHMIDTLEIN: You may begin when you're
12 ready.

13 STATEMENT OF DAVID A. YOCIS

14 MR. YOCIS: Thank you very much, Madam Chair,
15 Members of the Commission. My name is David Yocis on behalf
16 of the Petitioners this morning.

17 Before we turn to our industry witnesses, I would
18 like to just begin by outlining the basic facts of this
19 case, which are straightforward, for the most part not in
20 dispute, and also that have not changed significantly since
21 the preliminary determination.

22 As the staff report makes clear, about 80 percent
23 of softwood lumber in the United States is used in
24 residential home construction, remodeling, and repair. This
25 chart, which is actually from the Respondent's prehearing

1 brief at page 27, makes this clear. It shows in the blue
2 lines annual U.S. housing starts going back to 1995, and the
3 orange line represents U.S. apparent softwood consumption of
4 softwood lumber during each of these years.

5 The close connection between the two is evident
6 from the chart. And it's also clear from the chart that the
7 Great Recession was catastrophic for softwood lumber
8 producers. Consumption fell by more than half. And since
9 the bottom of the cycle in 2009, demand has slowly but
10 steadily increased.

11 Things should be getting better for the domestic
12 industry, but over the Period of Investigation they have
13 not. From 2014 to 2016, U.S. apparent consumption, which is
14 the grey bars in this chart, increased. It's hard to see
15 the grey bars with the lighting, but the numbers are there.

16 Apparent consumption increased from 2014 to 2015
17 by almost 1.7 billion board feet, and by an even larger 2.9
18 billion board feet from 2015 to 2016. U.S. domestic
19 shipments, which are the blue bars, did increase slightly,
20 but they did not keep pace with rising demand. And U.S.
21 market share over the period fell.

22 And that is because Canadian imports over this
23 period increased quite significantly. During this period,
24 Canadian imports took nearly two-thirds of the increase in
25 U.S. consumption. And as Canadian imports increased, prices

1 fell. Specifically, from 2014 to 2015, demand increased but
2 Canadian imports took most of the increase and prices fell
3 substantially.

4 From 2015 to 2016, demand increased even faster.
5 Canadian imports again took most of the increase, and while
6 prices recovered slightly consistent with the stronger
7 demand increase in 2016, they still remained well below 2014
8 levels.

9 And the financial performance of the U.S.
10 industry during this period largely tracked price. It
11 worsened considerably from 2014 to 2015, recovered somewhat
12 with the demand surge in 2016, but still remained well below
13 2014 levels.

14 Thus, over the period 2014 to 2016, we see
15 significantly improved demand but even more significantly
16 increased imports, falling U.S. market share, falling U.S.
17 prices, falling U.S. industry performance, and falling U.S.
18 industry investment.

19 It is not what one would expect to see during a
20 period of improving demand, and not what the domestic
21 industry needs as it continues its slow recovery from the
22 Great Recession.

23 All of this the Commission understood and took
24 into consideration in its preliminary determination. What
25 has changed since then is the effect of the preliminary

1 duty. As the 90-day mark before the Commerce preliminary
2 determination in the CBD case, and therefore the day on
3 which duties could potentially be applicable on a
4 retroactive basis, lumber prices in the U.S. rose virtually
5 overnight, as Canadian producers hiked prices to offset
6 potential duty liability.

7 And this year with Canadian imports restrained,
8 prices improved with demand, even though the 2017
9 improvement in demand so far is not as strong as the
10 improvement in the last two years.

11 This confirms that unrestrained Canadian imports
12 had been depressing prices to the material harm of the
13 domestic industry, and would do so again in the absence of
14 trade relief.

15 For the details of how this has affected U.S.
16 lumber producers and their communities, we have a number of
17 industry witnesses here today.

18 I noted that on page 4 of the Respondent's
19 prehearing brief they say, quote, "The Commission should
20 listen to the Petitioner's largest member, Weyerhaeuser
21 Company." And when we have an opportunity to agree with the
22 Respondents, we're happy to do so. And so at this point I
23 would like to give the floor to Mr. Blocker of Weyerhaeuser.

24 STATEMENT OF ADRIAN BLOCKER

25 MR. BLOCKER: Good morning. My name is Adrian

1 Blocker,
2 and I'm the Senior Vice President of Wood Products for
3 Weyerhaeuser Company.

4 I joined Weyerhaeuser as a Vice President of
5 Lumber in 2013, after a career spanning over three decades
6 in the forest products industry. Prior to joining the
7 company, I served as President and CEO of The Wood Products
8 Council. I've also held a number of leadership positions
9 with other public companies in the industry, including
10 Champion International, International Paper, and West
11 Frazier. Coincidentally, I'm also a small family tree farm
12 owner with limited markets for my logs.

13 Weyerhaeuser is the largest producer of wood
14 products in the United States, with 36 manufacturing
15 facilities and 17 distribution facilities. We have 11
16 sawmills in the U.S. South, and 5 in the West. We also have
17 3 lumber mills in Western Canada.

18 In addition to lumber, we produce plywood,
19 oriented strand board, and engineered wood. We started out
20 as the Weyerhaeuser Timber Company in the State of
21 Washington in 1900, and today we're one of the largest
22 private owners of timberlands in the world. We manage
23 timberland on both sides of the U.S.-Canadian Border, which
24 uniquely positions us to understand the differences between
25 the two systems.

1 With over 13 million acres in the U.S., we're the
2 largest private landowner in the country. In Canada we
3 manage approximately 20 million acres, but due to
4 restrictions of ownership of timberland, this is done in the
5 form of Crown leases.

6 I can tell you that my company, like many others
7 testifying today, is capable of supplying a significant
8 greater portion of the U.S. demand for lumber than we
9 currently do. We have the timber base. We have the
10 capital, and the manufacturing capability to produce much
11 more. But what's missing is the confidence that Canadian
12 imports won't continue to destabilize the market and
13 prevent requisite levels of returns on investment for
14 growth.

15 In comparison, our Canadian counterparts have
16 been flourishing and continue to capture the increases in
17 demand in the U.S. market and buy distressed U.S. mills.
18 Simple economics tell us that the influx of imports has kept
19 us from reaching our natural capacity level.

20 We have recently seen some relief in the South
21 with improved prices that allows us to take advantage of the
22 current environment. The turnaround in our earnings,
23 however, was not due to price alone. A large portion of the
24 earnings generated by our lumber business came from
25 operational improvements that enhance performance.

1 But our recovery from the financial crisis has
2 been slow. The investment we are now making come after long
3 durations of deferral. We must employ resources now to
4 repair and fix the facilities that needed it during the
5 economic downturn but for which we did not have the ready
6 capital at that time.

7 Simply put, like any other prudent business we
8 are recovering from the past to have capital for the future.
9 While Weyerhaeuser has been able to make investments to
10 improve our existing mills, we are not willing to invest
11 capital in significant new capacity because we are not
12 convinced the current profitability is sustainable.

13 The fear that this period of relief is
14 short-lived is real. Unfairly subsidized lumber from Canada
15 has historically kept us from generating a sustained margin
16 over the business cycle.

17 Canadian imports destabilize the market, force
18 closures during economic downturns, and hold profits that
19 are needed in strong markets to sustain operations through
20 the business cycle.

21 The fact that disruptive Canadian imports create
22 uncertainty deters investment. We saw this during the
23 downturn when we were forced to close 50 percent of our
24 sawmills.

25 We have witnessed the ineffectiveness of the 2006

1 Softwood Lumber Agreement in preventing Canadian imports
2 from destabilizing the U.S. market. The Canadians were able
3 to ship through the SLA tariffs that did not offset the
4 amount of the subsidies because their costs remain low. And
5 as a result, the volume coming into the U.S. was not
6 curtailed by the SLA.

7 With mills on both sides of the border, we
8 understand the Canadian cost structure. It was particularly
9 evident during the downturn when the U.S. producers were
10 struggling but our Canadian counterparts had a lower cost
11 structure due to government subsidies, allowing them to make
12 investment that increased efficiency and capacity.

13 U.S. producers simply do not have these
14 advantages. Trade relief that includes a full offset of the
15 unfairly traded imports which we did not have under the SLA,
16 or an equally effective agreement, is the only way the U.S.
17 industry can truly recover from the Great Recession and
18 foster an investment environment where the industry can grow
19 to its full potential to serve the U.S. market.

20 Thank you for the opportunity to share my
21 perspective here today, and I'll be glad to answer any
22 questions.

23 STATEMENT OF CAROLINE DAUZAT

24 MS. DAUZAT: Good morning. My name is Caroline
25 Dauzat. My brother, sisters, and I own Rex Lumber. We are

1 a fourth-generation family-owned and operated company that
2 produces southern yellow pine dimension lumber. Our family
3 has been in the lumber industry dating back to the early
4 1900s when my great grandfather started mills in
5 Mississippi, Alabama, and Florida.

6 Today, we have three sawmills, two in Florida,
7 Bristol and Graceville, and one in Brookhaven, Mississippi.
8 Brookhaven is a small community in Mississippi where we are
9 one of the only major manufacturing industries in town.

10 In Florida, we are even more critical to the
11 communities where we reside. While the Florida Coast is
12 booming, the rural areas have really been left behind. In
13 Graceville and Bristol, other than prisons we are almost all
14 those communities have. In the '50s, they called Graceville
15 the smallest town with the most millionaires, and it was the
16 smallest town with a U.S. Cadillac dealership. But it is
17 desolate now. There's hardly any industry left. These
18 towns depend on us for the property taxes we pay, jobs we
19 provide, and for our philanthropic work. But unfair imports
20 from Canada deeply affect us and make it difficult for us to
21 do any of these things.

22 We compete head-to-head with Canadian lumber in
23 the framing market and in the truss market. In the past
24 three years, we have lost a lot of that business, including
25 one of our good customers, a truss manufacturer in the

1 Midwest.

2 In 2013, this customer purchased almost 7 million
3 board feet. It declined each year after that, and in 2017
4 year-to-date they have only purchased about 65,000 board
5 feet. This is a 99 percent decline in sales since 2013. We
6 have essentially lost all of our business from that
7 customer. We know for a fact they quit buying from us
8 because they switched to cheaper Canadian wood. How?

9 MS. DAUZAT: How, they simply told us.
10 Canadians argue that SPF doesn't compete with my company's
11 products, southern yellow pine, but that's simply not true.
12 I see competition between the two species every day and I
13 will share two stories with you today that illustrate the
14 point.

15 Rex Lumber has been donating lumber to Habitat
16 for Humanity in nearby Walton County for the past five
17 years. In this slide -- this is a house Graceville.
18 Habitat for Humanity approached us to sponsor in our
19 hometown. We gladly agreed to donate the lumber and cover
20 the rest of the \$50,000 sponsorship with cash. To our
21 disappointment, for the first time the Habitat people went
22 out and purchased lumber at a retail store instead.

23 It was not until I went to the site that I
24 realized the lumber they purchased from the store was
25 Canadian. That really broke my heart. Our Graceville mill

1 is less than a mile down the road from the house, yet the
2 lumber that Habitat used was from a mill over 3,000 miles
3 away. Similarly, earlier this year in June, I walked
4 through a residential development under construction in
5 Destin, Florida. This development, See Glass Apartments, is
6 a 288 unit, over 343,000 square-foot, large luxury apartment
7 complex.

8 As you can imagine, that requires a lot of
9 lumber for framing. Once again, the builder was using SPF
10 from Canada. As I walked through a portion of the complex,
11 I was able to capture some photos of the marking on the
12 lumber that identified, both the species, SPF, and the
13 Canadian Lumber grading identification system, NLGA. From
14 these stamps, I was able to determine that the lumber in
15 that development came from mills in British Columbia,
16 Ontario, Quebec, and the Maritimes. Outside I saw
17 additional bundles of Canadian lumber.

18 None of the lumber I saw being used for framing
19 was identifiably American. In these photos, you can also
20 see that some of the SPF lumber has been stacked, meaning
21 that more than one piece of lumber is being used to frame.
22 This is to meet the region's strict construction codes.
23 That tells me the builder deemed it cheaper to stack SPF
24 lumber than buy southern yellow pine.

25 SYP meets the strength requirements for this

1 area and does not need to be stacked. SYP is produced in
2 the southeastern region of the United States. This
3 development is less than 90 miles from our mill in
4 Graceville. By contrast, any of the Canadian mills that
5 supplied the lumber were at last 2,000 miles from the
6 location.

7 It is simple. These large developments make
8 business decisions based on price and price alone.
9 Canadians will say spruce and southern yellow pine are
10 different, that they aren't substitutable because of small
11 differences, but that inaccurate. Professional builders and
12 those of us in the lumber industry know that any differences
13 are minor and ultimately do not matter over price.

14 Right now the market in the South is better than
15 in other parts of the U.S. Yes, profitability is up at this
16 point in the business cycle, but that's because the current
17 market is an anomaly. During the crisis, many southern
18 mills were crippled. The Canadians acquired some of those
19 mills and continue to operate them. It was a hopeless time.
20 Rex Lumber was forced to make layoffs for the first time
21 since the Great Depression.

22 Even though the market is up at the moment,
23 there are fewer mills to buy all the timber that nobody
24 harvested during the recession and that timber is now
25 hitting the market. We've got a relatively low log cost at

1 the moment, but we do not expect it to say that way in the
2 long term. My brother, sisters, and I are looking to grow
3 our business. We have acquired bankrupt mills when they
4 come up for sale, but we would like to expand in a more
5 strategic manner, which is incredibly difficult in an
6 uncertain market flooded by under-priced Canadian lumber.

7 As I said, my family has been in this business
8 for over a hundred years. I have experienced the direct
9 impact of unfairly traded Canadian lumber. I've watched
10 buildings go up in our community that are framed with
11 Canadian lumber from thousands of miles away. We have seen
12 the impact of that lumber on our prices, but this phenomenon
13 is not limited to 2014, '15, or '16. They repeatedly flood
14 the market, especially when U.S. producers are most
15 vulnerable.

16 Resolving this issue is vital to our industry,
17 my family's company, our employees, and our communities.
18 Thank you for taking the time to listen to me today. I'll
19 be happy to answer any questions.

20 STATEMENT BY CHUCK ROADY

21 MR. ROADY: Good morning. My name is Chuck
22 Roady and I am the Vice President and General Manager as
23 well as one of the Board of Directors of F.H. Soltze Land
24 and Lumber Company. We are the oldest privately-owned
25 company in Montana, now in our sixth generation dating back

1 to the early 1900s. We operate a small and a large log
2 sawmill, a woodpile mass power plant and own about 40,000
3 acres of timberland near Columbia Falls in the very
4 northwest corner of Montana.

5 We have 120 to 130 employees, along with an
6 additional 80 to 100 logging and trucking contractors that
7 rely on us for their livelihoods. We have been involved in
8 the softwood lumber dispute since the 1980s, so this is not
9 a new issue for us. It is very simple in my mind. The
10 injury to the U.S. lumber industry from subsidized Canadian
11 timber has been and continues to be very real. When you're
12 located 40 miles from the international border, you see
13 significant volumes of lumber come across the border on a
14 daily basis.

15 I've seen as many as 30-plus railcars of
16 Canadian lumber go by our sawmill most every day on the main
17 line of the railroad. We continually watch the incoming
18 Canadian lumber flood our markets as we struggle to sustain
19 our own operation. Canadian producers sell the same
20 products, same species as we do at Soltze. Every single
21 product is in direct competition. The species we harvest
22 and saw in our mills are the same that are utilized just
23 across the border. The difference lies in the prices we pay
24 for the timber.

25 The Canadian government system provides their

1 lumber mills with a steady, reliable stream of cheap logs;
2 while in contrast, U.S. producers must produce timber and
3 logs in the open market. This difference in policies is the
4 reason why Canadian mills are able to thrive in good market
5 conditions and survive well through difficult market
6 conditions. U.S. mills, on the other hand, are not able to
7 fully benefit from the good times and we are crushed in the
8 bad times. The lack of a level playing field is the reason
9 the Canadian mills can invest and grow in capacity while the
10 U.S. industry declines.

11 You are most likely going to hear our northern
12 neighbor discuss the impact of the Mountain Pine beetle in
13 BC and Alberta over the last 10 years. They may even
14 suggest that their timber supply going forward will be more
15 constrained than it has been in the past. I'm very familiar
16 with Mountain Pine beetle epidemics and the manufacturing of
17 beetle killed wood. We've experienced our own such
18 epidemics since the 1980s and in the 1990s in Montana and
19 the inner-mountain west.

20 Our large plywood pines too have turned yellow,
21 orange, and finally gray, but we harvested and processed as
22 much of that beetle killed wood as was available for
23 purchase. Most of the timber is merchantable and is
24 utilized in most structural applications. I continually
25 hear a lot of publicity about how important the Canadian

1 forest industry is to their jobs and to their communities
2 and their producers, but I adamantly maintain that unfairly
3 traded imports from Canada impact our employees; they
4 impact our jobs, our companies, and our small towns in a
5 very negative way.

6 We have not been able to run our mills at
7 capacity production. We have seen curtailments of shifts
8 and hours in Montana since the SLA expired and this is in a
9 favorable market when demand has been high. Of course, the
10 Canadians captured that market share. Given a level playing
11 field, we could operate our U.S. mills at capacity and
12 easily provide a much larger share of the U.S. lumber market
13 demand. What is even more agonizing is that the reductions
14 we experienced in production lead to fewer jobs in a
15 community that relies heavily on our industry.

16 I'm a member of several North American industry
17 initiatives that promote different uses in marketing of
18 lumber products. In that role, I work with my Canadian
19 producer counterparts all the time in joint promotion of
20 forest products. I have worked my entire career adjacent to
21 the Canadian border, spent many of my days recreating in
22 Canada, and most importantly, I call many of them my
23 friends. I have absolutely nothing against the lumber
24 producers north of the border and I welcome that
25 competition, but we need a level playing field to counter

1 the different timber-sourcing systems in the two countries.

2 The Canadian lumber imports continue to
3 seriously harm our industry. It is that simple. Thanks for
4 the opportunity to share my perspective. I'd be glad to
5 answer any questions. Thank you.

6 STATEMENT OF MARK BENSON

7 MR. BENSON: Good morning and thank you for the
8 opportunity to speak with you today. My name is Mark
9 Benson. I'm Vice President, Public Affairs for the Potlach
10 Corporation. Potlach was established in 1903 as a timber
11 and lumber company. Over 100 years, we became an integrated
12 forest products company, like many others. And in the 21st
13 Century, we've simplified and have gone back to where we
14 started -- timber and sawmills.

15 Today Potlach is a publicly traded real estate
16 investment Trust. We are rate with about 1.4 million acres
17 of industrial timberland in Alabama, Arkansas, Idaho,
18 Minnesota, and Mississippi. We harvest timber and sell both
19 softwood and hardwood logs. We produce softwood lumber from
20 a variety of species in Arkansas, Idaho, Minnesota, and also
21 Michigan. I've been with this company for 40 years. I'm a
22 forester by training and I started with Potlach as a field
23 forester in northern Idaho in 1974. During a three year
24 hiatus, I worked as a lumberjack in the forest of northern
25 Idaho and then returned to Potlach as a timber and land

1 acquisition manager and eventually as a business planner. I
2 later managed an OSB mill and a lumber mill in Minnesota
3 before returning to Idaho to oversee Public Affairs and
4 federal policy for the company.

5 I love this work, but I wouldn't do it for
6 anything other than a timber company. My heart still is in
7 the woods. Because we operate in both timber and lumber
8 markets, we understand the importance of investing in both
9 our facilities and forestry services to remain competitive.
10 We also see how unfair competition from Canada impacts both
11 the lumber and timber markets and affects our ability to
12 make those investments.

13 On the lumber side, technology advancements are
14 necessary to survive. If you don't adopt current technology
15 and have state-of-the-art equipment, you're not efficient
16 and you can't compete for logs. The equipment has changed
17 rapidly over the past 20 years. Sawmills on both sides of
18 the border have the same incentives to make their mills more
19 productive and we compete in the same market for that
20 equipment, but Canadian companies that have access to
21 cheaper stumpage have more money to invest in their
22 facilities, so we have a hard time catching up and keeping
23 up.

24 You can see this happening in the South.
25 Canadian companies buy U.S. mills and use their Canadian

1 profits to retrofit or install new equipment. They're able
2 to do this because their lower stumpage cost leaves them
3 with more money to work with. All of that hurts our
4 sawmills in the long run.

5 On the timber side, as I mentioned, we manage
6 1.4 million acres. Privately-owned timber lands account for
7 about a third of our country's forest acreage and most of
8 those are owned by families or in some for of private
9 equity. As a landowner, we manage our forest to optimize
10 our harvest, both from a biological and economical
11 perspective. Most of our logs go to either our own
12 sawmills or other sawmills, although we do supply some pulp
13 logs in the South.

14 Lumber and log markets are different, but they
15 are linked. Ultimately, logs prices will be governed lumber
16 prices. There's a lag between the two, but if there's no
17 market for U.S. lumber there's no market for our logs. If
18 the lumber market crashes, the price of logs will also fall.
19 And if log prices drop below a certain point, we hold off
20 harvesting until the price recovers. This can create its
21 own problems because even though there have been advances in
22 mechanization logging remains a labor-intensive industry and
23 non-worker loggers who leave the industry during down times
24 may never come back, but today we have more timber than
25 manufacturing capability and we are ready and able to supply

1 the U.S. market when it is economical to do so.

2 Right now we're in a favorable period in our
3 business cycle and I feel positive about our company's focus
4 on timber and lumber, but it is critical for our business to
5 have markets that are fair and growing and open to us to
6 access so that we can remain productive and competitive into
7 the future. That's why this trade case is so important to
8 us. Again, we need fair markets throughout the business
9 cycle when times are good and when times are difficult.

10 Thank you. I'd be glad to answer questions.

11 STATEMENT OF STEVEN SWANSON

12 MR. SWANSON: My name is Steve Swanson and I'm
13 the President and CEO of Swanson Group, a family-owned
14 company in Glendale, Oregon. I'm also the former chairman
15 of the U.S. Lumber Coalition. The lumber industry has been
16 an integral part of my family. Swanson Group's history
17 dates back to the 1930s. It started with the dream of two
18 Swedish immigrants, my grandfather and great-uncle, who
19 started their own mill.

20 The knowledge of the industry and desire to
21 build a stronger business was passed down to future
22 generations. I grew up riding my bike to the lumberyard on
23 the weekends and joined the family business in 1977. Since
24 then our operations have undergone many changes. Today,
25 Swanson Group produces both lumber and plywood. We employ

1 approximately 800 people in total operations. Our lumber is
2 mostly Douglas Fir, which competes directly with Douglas
3 Fir, Hemp Fir and SPF lumber from Canada. These species
4 are interchangeable, which is demonstrated by the
5 specification requirements set out by the American Lumber
6 Standards Committee and the Canadian National Lumber Grading
7 Association. These groups are the respective national
8 authorities on setting structural qualifications for each of
9 the grades and their standard grading rules for species of
10 lumber on both sides of the border are virtually identical.

11 Price volatility in the industry has resulted in
12 a long term and sustained negative impact on U.S. producers.
13 Canadian imports of lumber are a significant contributor to
14 this volatility. Canadian producers have a guaranteed flow
15 of the low-market logs which allows them to maximize
16 production for exports to the United States in both good
17 times and bad times. The influx of Canadian lumber imports
18 through the recession was particularly devastating to U.S.
19 producers, but during the recovery Canadian imports have
20 continued to have a tremendous negative impact on the
21 market.

22 For example, we used to sell a lot of white Fir
23 in the Phoenix, Arizona area, which is a large and growing
24 residential market. Starting in 2014, we began to lose most
25 of our white Fir sales in Phoenix because buyers had

1 switched to SPF from Canada, which they had never used
2 before. Buyers there told us directly that the lower price
3 of the Canadian SPF was the reason that they switched. We
4 have submitted many other examples of lost sales to the
5 Commission.

6 As you can see, we have reported a significant
7 number of instances of Canadian imports underselling our
8 company's domestic products all across the country. This
9 provides a real apples-to-apples comparison. You have the
10 same product being sold to the same city on the same day.
11 In these sales, we were undersold by Canadian imports to a
12 significant degree. The variance is different, of course,
13 depending upon the region and the associated transportation
14 costs. The prices needed to be compared in the context of
15 the specific delivered market.

16 We have thousands of lost sales in a given year,
17 but here we highlight just six instances all across the
18 country. These six instances alone represent over \$100,000
19 in lost sales. For each of these unfairly traded Canadian
20 products undersold our domestic product in the same local
21 market.

22 Since the preliminary duties were put in place,
23 we have seen a clear affect on prices. In early February,
24 in advance of the duties, we here from customers that
25 Canadian companies were expecting a 30 to 40 percent duty

1 rate that they suspected would be retroactive to the
2 beginning of February. Prices increased quickly in early
3 February and the uptick lasted through late spring. For a
4 few weeks following that period the market retreated in the
5 West. And once again, in mid-May, after the announcement of
6 the CVD preliminary determination, we witnessed a
7 record-level escalation in prices which lasted until last
8 month.

9 There was an unequivocal impact of the
10 preliminary duties on prices. This price increase, along
11 with relatively strong consumption, has supported a stable
12 market when our mills are not struggling to stay open.
13 However, we are not always in such a market. During the
14 great recession, we could not operate at capacity. We were
15 forced to eliminate shifts in our mills. It is
16 particularly difficult for a family-owned company like ours
17 to make business decisions that lead to layoffs in our
18 communities.

19 In Glendale alone, which has a population of
20 800, we employ 150 people in our lumber mills, so you can
21 imagine that even a small layoff causes ripples throughout
22 the community. Despite the struggles, we did begin to make
23 some investments when prices improved in 2013 and 2014.
24 Some of that investment came from the diverted funds. We
25 lost a plywood plant to a catastrophic Fire in 2014 and the

1 insurance proceeds were used to invest in softwood lumber
2 and to finance operating losses in that segment of the
3 business. This delayed our rebuilding the plywood mill by
4 close to a year, so even some of the investments came at a
5 cost.

6 More importantly, a lot remains to be done
7 throughout the industry. In our industry, recovery from the
8 financial crisis has been slow and most of the investments
9 come after long durations of deferral. While we have been
10 able to make some investments to improve our mills, they are
11 contingent upon an expectation of an adequate return. As an
12 active board member of the U.S. Lumber Coalition, the lumber
13 mill owner and a member of our great community in Oregon, I
14 understand too well the impact of the massive flow of
15 subsidized lumber from Canada. This is why trade relief
16 that includes a full offset of the unfairly traded imports,
17 which we did not have under the SLA, is the only way the
18 U.S. industry can truly recover from the great recession and
19 foster an investment environment where the industry can grow
20 to its full potential to serve the U.S. market. Thank you
21 for your time and attention. I'll be glad to answer any
22 questions.

23 STATEMENT OF BILL HOWARD

24 MR. HOWARD: Good morning. My name is Bill
25 Howard. I'm CEO and owner of Claude Howard Lumber, located

1 in Statesboro, Georgia. Our first saw mill opened in 1898.
2 Now we have about 100 employees in our sawmill operation.
3 We're the largest manufacturer and employer in Statesboro.
4 We also operate Howard Lumber and Hardware, a retail
5 building supply store, and in 2016 it was number 11 in
6 single site sales in the nation.

7 We stay competitive by sourcing lumber from a
8 number of producers, including from our sawmill and from
9 Canada. As you can see on this slide, our building supply
10 store is located next door to our sawmill. While we prefer
11 to sell only the lumber that we produce next door, we are
12 forced to import Canadian spruce from British Columbia
13 because it is cheaper to bring in than to purchase the
14 Southern Yellow pine produced on site.

15 Whatever is cheaper is what sells. I have to
16 keep Canadian lumber in stock to keep my store competitive.
17 Twenty years ago the store was different, because it was
18 hard to drive a nail into Southern Yellow pine with a
19 hammer, but with the evolution of the nail guns, contractors
20 readily use Southern Yellow pine in conventional framing.

21 Now everything comes down to price. As the
22 slide shows, having our sawmill right by our building supply
23 store makes our freight costs next to nothing. But Canadian
24 SPF can be delivered to our store by rail with \$108 a
25 thousand freight rate and still be cheaper than our own

1 sawmill. Canadian mills are just adjusting their stumpage
2 costs to stay competitive on delivery price. When Southern
3 Yellow pine is more competitive, contractors buy Southern
4 Yellow pine.

5 In the years prior to the expiration of the
6 SLA in 2015, we were selling Southern Yellow pine at an
7 average price that were lower than the prices of Canadian
8 SPF. These species are so interchangeable that once SPF
9 prices began coming down with an increase in Canadian
10 imports in 2016, more customers started switching to
11 Canadian SPF.

12 In summary, it comes down to what species is
13 cheaper delivered in. It can be Doug fir, Hem fir, eastern
14 or western SPF or Southern Yellow pine. Low price is what
15 sells. I'd be glad to take any questions you have about
16 either our production or distribution operations, and I
17 thank you for your time this morning.

18 STATEMENT OF STEVE BANAHAN

19 MR. BANAHAN: Good morning. My name is Steve
20 Banahan. I'm the sales, lumber sales manager for Pleasant
21 River Lumber. Pleasant River is a family owned business
22 with four saw mills in the state of Maine. Our mills
23 produce approximately 200 million board feet of SPF
24 dimension lumber and Eastern white pine boards. I've worked
25 in the lumber industry for 37 years, with companies that

1 have had both U.S. and Canadian production. During this
2 time, I have bought and sold millions of board feet of U.S.
3 and Canadian lumber.

4 The Canadian government subsidizes their mills
5 in order to ensure full employment in rural areas. This
6 would be a noble cause if it did not come at the expense of
7 our jobs in our rural towns. The primary subsidy to the
8 Canadian producer is in the form of log costs. This alone
9 gives the Canadian lumber producer an advantage on the
10 largest cost driver in our industry.

11 The net result is that there has not been a
12 level playing field for the U.S. lumber producers for a very
13 long time. It inhibits U.S. investment in our industry and
14 keeps us on the defensive most of the time. We compete
15 directly with mills across the border from the maritime
16 provinces and Quebec. Many of these border mills use both
17 U.S. logs and Canadian Crown timber.

18 The low cost of the Crown timber allows them
19 to have a lower log cost average than the mills located in
20 Maine. As you can see, our log base is located very close
21 to the border. Any suggestion that U.S. lumber is not
22 suitable for building our own houses, mobile homes and
23 modular buildings is patently false. Some argue that a
24 Canadian white spruce log or a balsam Fir log grown 15
25 miles from our logs has a higher strength value. If you buy

1 that, I have some magic beans I'd like to sell you.

2 I am quite familiar with the sale of lumber.
3 A typical SPF mill sales representative will handle 80 to
4 100 interactions each day. I personally average well over
5 500 emails in a given week and at least 100 phone calls.
6 Due to the sheer volume of communications, not all traders
7 seek feedback after their quotation has been rejected.
8 However, I try to follow up on every quote to gain insight
9 into the customers' decision.

10 This is why I've been able to gather some of
11 the lost sales documentation that has been submitted to the
12 Commission for Pleasant River Lumber. Here, you can see
13 instances of some of our lost sales all along the eastern
14 seaboard. For sales process for lumber functions like this,
15 customers send a request for a quote to multiple saw mills
16 and wholesalers with the same request and shipping
17 destination.

18 The customers' decision-making process is
19 typically based on price, quality and shipment terms, in
20 that order. For example, customers regularly call to
21 request a price on 2 by 4 random tally without specifying a
22 specific mill. They may not even specify the species. In
23 my experience, this is due to the fact that different mills
24 and species are substitutable. Price is usually the
25 ultimate factor in the customers' decision.

1 Upon receiving our quotation, customers will
2 then give us either the go-ahead, or tell us they went for
3 another mill's offer. I always seek the competing mill
4 price as a normal course of business. Depending on our
5 relationship with the customer, they will sometimes give us
6 the opportunity to meet the price. That's what we call
7 having the last look.

8 Instead of a lost sale, it's now a case of
9 lost revenue. It's one of the ways to realize the impact of
10 cheaper SPF on our own sales over the years. In terms of
11 pricing, the market fluctuates from one call to the next.
12 We get a good picture of where prices stand at any given
13 time, whether it's from U.S. mills or Canadian mills.

14 We send out a price list on Monday and adjust
15 all week, depending on supply and demand. We're all
16 competing for the exact same market, so price is usually
17 what makes or breaks these sales. We ship approximately 30
18 percent of our lumber by rail and 70 percent by truck.
19 British Columbia and Northern Quebec mills mostly ship by
20 rail to the Southeast U.S. market.

21 Atlanta, for instance, is a hotly contested
22 market, and it uses a large amount of 2 by 4 grade stamp
23 number three lumber for plate stock. We typically avoid
24 this market, due to the low cost, low pricing of Canadian
25 production in this market. We try to sell our low grade in

1 closer markets in order to get a better return.

2 Pleasant River takes price in producing high
3 quality lumber, but competition with subsidized Canadian
4 production makes our margins extremely tight. In addition
5 to SPF, our company produces Eastern White pine. It is a
6 type of wood that is used for non-structural applications,
7 siding, flooring, doors, molding and window frames as
8 examples. We're in head to head competition with Eastern
9 White pine from Quebec, New Brunswick and Ontario.

10 But once again, it is difficult to match their
11 prices. Simply put, all the species we produce are in head
12 to head competition with Canadian lumber and we are losing.
13 We currently employ approximately 350 people. Indirectly,
14 we create 3,000 other jobs in our rural communities. Given
15 a level playing field, we would like to double our
16 production over the next two years. We have the capacity,
17 we have the wood supply.

18 Canadian assertions that we cannot adequately
19 supply the lumber demand in the U.S. are grossly misguided.
20 We have more fiber growing in the U.S. than we did in the
21 1700's. We would like the chance to sustainably harvest
22 those logs, produce lumber and provide good, solid-paying
23 jobs here at home. We have no objection to competition as
24 long as it's fair competition. Thank you for your
25 attention. I'd be happy to answer any questions.

1 STATEMENT OF TONY HADLEY

2 MR. HADLEY: Good morning. My name is Tony
3 Hadley and I'm the executive secretary/treasurer of the
4 Carpenters Industrial Council, a union made up of
5 professional, service and production workers throughout the
6 U.S., and one of the petitioners in this case. We represent
7 workers in sawmills throughout the U.S., and our members
8 have seen the devastating effects of unfair competition with
9 Canada firsthand.

10 In fact, we've lost about 500 members as a
11 result of mill closures primarily due to import competition
12 and the resulting reduction of orders. The jobs lost as a
13 result of one of these mill closures were good-paying jobs
14 with good benefits, including health care and retirement
15 plans.

16 So they were all in rural areas, so the chance
17 at finding any work that had comparable pay and benefits was
18 slim to none. To get something close to being able to
19 maintain a decent standard of living, those breadwinners had
20 to be willing to drive a longer distance and start over,
21 probably without benefits or benefits that were not nearly
22 as good as those they enjoyed at the lumber mill.

23 These hard-working blue collar workers, most
24 with limited education with families and responsibilities
25 that make it hard to go back to school and to get a degree

1 or even learn a different trade. If they wanted to relocate
2 to an area where they had a better chance to get a good job,
3 where does that money come from? Do they borrow it and hope
4 that they find something when they get there?

5 All you have to do to see the impact that
6 unfair trade has on communities is take a drive through
7 rural America. Throughout the west coast, the rural South,
8 even in the Midwest and the East, you don't have to drive
9 many miles to find sawmills in these small towns that have
10 been shuttered, most with equipment scrapped and the
11 buildings either in decay or renovated for some sort of
12 storage.

13 You'll also see the main streets full of
14 closed shops, and an infrastructure that needs attention.
15 We saw what happened with the textile mills and the steel
16 mills, and now it's lumber. However we hope to continue to
17 be competitive against mills, to have access to unlimited
18 raw material at subsidized rates, we can't. Something has
19 to be done. Thank you for the opportunity to speak with you
20 today, and I'd be happy to answer any questions that you may
21 have.

22 STATEMENT OF ANDREW MILLER

23 MR. MILLER: Good morning. My name is Andrew
24 Miller. I am the CEO of Stimson Lumber Company. We are a
25 six generation family business operating six sawmills in

1 western Oregon and northern Idaho, with timberland holdings
2 in the same regions. We employ 800 people in these
3 communities, and are one of the largest U.S. producers of
4 construction grade stud lumber sawn from Douglas fir,
5 hemlock, SPF and white Fir timber.

6 Our largest customer is the Home Depot. We're
7 one of the Home Depot's largest stud lumber vendors
8 nationwide, and we sell in over half of the Home Depot
9 stores in the America. Our experience in the market has
10 made one thing clear: wood is wood, whether it is Douglas
11 fir, hemlock, white Fir or SPF, construction grade or
12 specialty products. The price structure for wood is the
13 same for lumber is the same.

14 When Canada floods the market with lumber, it
15 pulls down the price structure for all lumber products.
16 Canada's system insulates its lumber producers from these
17 market conditions, which allow them to maintain
18 profitability and continue their production and export of
19 lumber despite price drops, which in turn further floods the
20 market.

21 In contrast, U.S. lumber producers must
22 contend with variable prices for timber and lumber, that
23 force them to curtail their own production and defer
24 investment in weak markets, and limit reinvestment and
25 expansion in good markets. In the Pacific Northwest, this

1 is the case regardless of species. The prices of stud
2 species are similar and move in tandem because they were
3 interchangeable per building codes in the construction of
4 homes and other structures.

5 In my experience supplying markets around the
6 country, some customers' preference is for one species
7 doesn't change the fact that all of the lumber species we
8 can reproduce can be used and are used in the same
9 applications, even to the point of using different species
10 of studs in the same wall. This is also the case for cedar.
11 Stimson produces cedar in its northern Idaho mills using the
12 same processes, the same equipment and the same employees as
13 we used for other lumber species and sizes.

14 We make the same profit margins on cedar that
15 we for our other species. Cedar competes with Southern
16 Yellow pine, red pine, hemlock and Douglas Fir for use in a
17 number of outdoor applications such as decking, siding and
18 fencing. Although some customers may choose a look based on
19 specie of the lumber, all these species are interchangeable
20 and may even be used in random combinations for the same
21 job.

22 A major distinguishing factor is price. The
23 same price structure and pressures apply to specialty
24 products such as saw and song beams and long rank dimension.
25 These are custom products, but they are produced from the

1 same logs as construction grade studs and are subject to the
2 same interchangeability by both customers and producers.

3 This means, for example, that coastal British
4 Columbia mills that saw Douglas Fir to serve the Asian
5 market, then periodically dump saw and song beams along
6 dimension in the U.S. when Asian demand goes slack. The
7 impact from this behavior is especially severe for specialty
8 producers, because we have a thin market.

9 When Canadian -- when Canada overproduces
10 these products, the price drops, but there is no
11 corresponding increase in demand. Instead, demand is
12 saturated for months. U.S. producers have no choice but to
13 curtail their operations. Even if we were to build
14 inventories of these specialty products, we risk the
15 degradation of those products while waiting for the market
16 to clear.

17 Once demand does reappear, we have to compete
18 yet again with lower priced offers from Canada. Our
19 customers are aware of this cycle and I have seen them hold
20 back on purchases for months at a time in anticipation of
21 the inevitable cheaper pricing from Canada. My company
22 cannot add operating hours or employees in this environment,
23 even though we have both the capacity and the desire to do
24 so.

25 Canada's harmful effects on the overall price

1 structure for lumber is also evident in our experience with
2 the Home Depot. Stimson is fortunate to have an agreement
3 in place by which it is the sole stud supplier with limited
4 exceptions for the Home Depot's Chicago market stores. The
5 pricing for our agreement is based on random lengths SPF,
6 with a premium added in for our supply commitment.

7 Yet we deliver in any given week a variety of
8 Douglas fir, hemlock, white fir, SPF or lodgible pine based
9 on that SPF pricing. Random lengths prices reflect open
10 market transactions, but these transactions are always
11 subject to Canadian price pressures, because buyers are
12 negotiating for construction grade products based on offers
13 from various regions including Canada.

14 The Home Depot agreement is generally good for
15 business, but our commitment to supply a large volume of
16 product for our customer does leave us vulnerable to
17 Canadian-driven price decreases. When the prices for studs
18 dropped in 2015, Stimson lost millions of dollars because
19 our mills did not have the option of curtailing production
20 until the price recovered.

21 Had we done so, we would have saved on
22 production cost and reduced losses, but we would have lost
23 our agreement and our market share with the Home Depot.
24 Again, wood is wood and what Canada does in one market will
25 inevitably impact the entire lumber price structure. Since

1 this case was filed, we have seen prices start to recover.
2 The higher prices we started seeing in February and March
3 were clearly ignited by the prospect of duties.

4 This has had a huge effect on all aspects of
5 the industry. Rather than getting pommelled in the stud
6 market by our Canadian competitors, we have been able to
7 sell to our customers at a fair, sustainable price. Last
8 year Stimson operated well below its production potential as
9 a direct result of Canada's repeated market surges.

10 I cannot invest in fixed capital, working
11 capital or additional employees to expand output to
12 potential because the market for all lumber remains too
13 risky, and I'm tired of explaining to Stimson's employees
14 that their hours have to be curtailed yet again because
15 Canada continues to flood our markets, driving down prices
16 below our cash cost to manufacture.

17 Although we are fully capable of competing in
18 a fair market, we cannot compete against a system that
19 depresses the entire price structure for lumber while
20 remaining immune from the consequences of its actions.
21 Thank you for your time.

22 MR. YOCIS: This is David Yocis again, and I
23 know we just have a few minutes left, and so I'd like to
24 conclude by just addressing briefly three additional issues.
25 First of all as you've heard from several of the witnesses,

1 softwood lumber is a cyclical industry. Even the
2 Respondents acknowledge at page 110 of their prehearing
3 submission that the domestic producers are largely funding
4 their capital expenditures out of their current operations,
5 rather than getting funding in the capital markets.

6 So when times were bad and lumber producers in
7 the U.S. were losing money, needed investments were
8 deferred. It is now in this period of recovering demand
9 that the industry needs the operating income to make up for
10 the investments that were not made during the recession, and
11 to prepare for the next inevitable downturn. The surge of
12 imports over the Period of Investigation has impeded this
13 from happening.

14 The Respondents make much in their prehearing
15 submission of the absolute level of the industry's financial
16 performance, but they completely neglect the context of
17 where we are in the business cycle and what that means in
18 this industry. But the Commission cannot ignore this
19 context. In fact, under the statute the Commission
20 considers material injury in light of the full business
21 cycle.

22 Because of the import surge from 2014 onward,
23 U.S. production is lower than it should be, meaning fewer
24 jobs, lower productivity, lower profits in the good market,
25 less investment, more vulnerabilities the next down market.

1 That is present material injury.

2 Second, in this investigation as in prior
3 lumber investigations, it has proven extremely difficult to
4 gather good data on underselling under the Commission's
5 traditional practices. The parties agree that lumber prices
6 are volatile, they change daily if not more frequently, and
7 in the preliminary investigation we looked for some products
8 where we knew that there was head to head competition
9 between the identical U.S. and Canadian product in the same
10 geographic markets, and we did find a few instances of
11 matching sales of U.S. and Canadian product in the same
12 geographic market on the same date.

13 Some of that data was actually quite
14 interesting. We discussed it in our BPI submissions. But
15 it is clear that the amount of such data was quite small and
16 difficult for the Commission to draw any broader conclusions
17 from. In the final investigation, in an effort to get more
18 data, the Commission asked for prices on sales delivered
19 anywhere in the United States. But unfortunately what we see
20 is that the noise of different transportation costs to
21 different markets in the U.S. has drowned out any
22 information that there might be in that data.

23 This chart has -- is actually it's in our
24 brief at page 64, where it was BPI but the producer who
25 provided this data has allowed us to use it publicly today.

1 It's delivered prices from one U.S. producer to the same
2 national U.S. customer for the same product on the same day
3 delivered to a number of different locations.

4 You can see that depending on the location,
5 there's a variance of \$98 per thousand board feet, all due
6 to the transportation cost differential, and I would note
7 that that in percentage terms that is larger than the
8 largest margins of underselling and overselling that were
9 found in the preliminary investigation when the data was
10 limited to location-specific delivered pricing.

11 So we have other data in our prehearing brief
12 that is both company-specific and drawn from public data
13 such as random lengths, that confirms that the magnitude of
14 the transportation price differences between different
15 markets is too great to draw any conclusions from nationwide
16 pricing averages.

17 And indeed the Respondents agree on page 79 of
18 their submission that "Individual price comparisons not tied
19 to a particular market have limited utility," and in fact
20 both the Respondents and the Petitioners had agreed that the
21 way that the Commission collected the data in the prelim,
22 while not gathering a great deal of information, was in fact
23 really the way that it needed to be done in this industry to
24 get anything meaningful at all.

25 So instead, we would urge the Commission to

1 rely on the public price trend data, as well as confirmed
2 lost sale information. You heard earlier in the testimony
3 about the sales process. A typical sales person at a lumber
4 mill makes dozens of telephone and email contacts every day,
5 and a good sales person follows up with their customers when
6 the sale is lost, to find out why.

7 This map shows instances that we have
8 documented in our submissions, and this map was I believe in
9 our post-conference brief, and it shows places in the U.S.,
10 local markets, where U.S. a sales person confirmed from
11 their customer that they lost a specific sale because
12 Canadian imports were priced lower. In every case, there is
13 a contemporaneous record on the U.S. sales side, and in some
14 cases we have also been able to obtain and provide the
15 Commission with more specific information from the customer
16 as well, that confirms the data.

17 This is evidence that confirms the general
18 price trends and is location-specific, and shows a
19 significant degree of underselling.

20 My third point is that transportation costs
21 are also important to another issue that I'm sure we'll hear
22 about a lot this afternoon, which is local species
23 preferences for different species of softwood lumber. We
24 have a reference and some tables in our prehearing brief to
25 a 2009 Wood Products Council report that has data from the

1 NEHB.

2 There is also confidential data from the NEHB
3 from 2016, that is on the record but it's BPI. So for
4 purposes of this hearing, I'd like to just use this public
5 data that's a little bit older.

6 You can see, for example, and we just again
7 for purposes of time, we just took lumber that is used in
8 roof rafters in U.S. new housing construction. You can see
9 that all the species, Southern Yellow pine, which is mainly
10 produced in the U.S. South, Douglas fir, hem Fir may be
11 produced in the Canadian and U.S. West, and SPF, which is
12 produced mainly in Canada but also in the U.S. West and
13 upper Midwest and in New England.

14 You can see that all of these species can be
15 used in roof rafters and are used in roof rafters, and yet
16 the species that are actually vary quite substantially by
17 location and why? Well you can see obviously from the data
18 that it's because of transportation costs. The issue is
19 really one of price. Delivered Douglas Fir is cheapest in
20 the west where Douglas Fir is produced, delivered Southern
21 pine is cheapest in the South where it is produced; the
22 pattern of usages suggests that in general what is least
23 expensive in each location market is decisive.

24 This brings us back to the fundamental facts
25 of the case. In this period of increasing, the large

1 majority of the increase in demand was captured by Canadian
2 imports. Why? Not because of U.S. producers couldn't
3 supply the market, but because Canadian imports were
4 cheaper. So prices fell substantially, notwithstanding the
5 higher demand, the impact of the lost market share,
6 suppressed prices, production, jobs, profitability,
7 investment, material injury and call for an affirmative
8 determination by the Commission.

9 Thank you very much. The entire panel is open
10 to your questions.

11 CHAIRMAN SCHMIDTLEIN: All right, thank you
12 very much, and I'd like to thank all the witnesses for being
13 here today to help us understand the issues in this case.
14 This morning we will start with Commissioner Williamson for
15 questions.

16 COMMISSIONER WILLIAMSON: Thank you Madam
17 Chairman, and I too want to thank all of the witnesses for
18 coming today and for their testimony. The variety of their
19 experiences is very helpful. I also want to thank Mr.
20 Miller from Stimson for allowing some of the Commissioners
21 and staff to visit two of your mills in Oregon. I thought
22 it was a very, very helpful trip and it was also a glorious
23 day to be visiting mills, so thank you for that.

24 Lots and lots of questions, but I kind of --
25 pictures are very -- gets me excited. So Ms. Dauzat, I

1 wanted to start with you and that picture of the stacking.

2 MS. DAUZAT: Yes.

3 COMMISSIONER WILLIAMSON: And I wanted to ask
4 how would the picture be different if they were using
5 Southern Yellow pine there?

6 MS. DAUZAT: Generally, you would not need
7 several pieces of Southern Yellow pine in a framing
8 structure like that. You will use -- it's stacked around a
9 window frame or any type of opening. But in just a wall,
10 you would not need to do that.

11 COMMISSIONER WILLIAMSON: Okay. So about how
12 much more wood is being used there and isn't there a cost to
13 that?

14 MS. DAUZAT: Yes, but that's SPF. So they
15 chose to stack the SPF together to get to the strength they
16 needed.

17 COMMISSIONER WILLIAMSON: And that was more
18 cost effective than using the Southern Yellow pine?

19 MS. DAUZAT: Visually, it seems so.

20 COMMISSIONER WILLIAMSON: Okay.

21 MS. DAUZAT: I didn't speak to anybody
22 personally, but walking through that's what I saw.

23 COMMISSIONER WILLIAMSON: Okay. No, I just
24 wanted -- it's just I was ^^^^ it just got my attention. I
25 appreciate that. Good, okay. Thank you for that, and so

1 Mr. Benson had talked about equipment changes and I was just
2 wondering if you could go into a little bit more detail
3 about that.

4 And then I would like to ask Mr. Hadley to
5 talk about the technology change, from the perspective of
6 the workers, the technology change and training that has
7 evolved in keep up. But Mr. Benson, could you elaborate on
8 that, how technology has changed the industry?

9 MR. BENSON: Sure, and I'm glad to hear that
10 you were able to visit some of Stimson's mills, because I
11 think you saw probably to your surprise a lot of technology
12 that exists in sawmills today, and there has been, you know,
13 along with so many other technological changes in our
14 country, sawmills have been very much a part of that.

15 When you go through a mill today, you see as
16 you did, you know, a lot of laser lines and you see computer
17 terminals, monitors all through the mill and it's a very
18 precise process to try to extract the maximum amount of wood
19 from a log. It's in the sawmilling business, a lot of the
20 success comes from making more lumber from a log than what
21 we used to be able to do.

22 That has been through the advent of
23 technology, much of which is quite expensive and all of us
24 in the room have in order to be here today, have had to make
25 those investments, and we're not done making them. The

1 technology continues to improve, and we will embrace that
2 and continue to buy it as long as we need to.

3 COMMISSIONER WILLIAMSON: Okay, thank you.
4 Good, and Mr. Hadley, could you address that from the
5 perspective of the workers?

6 MR. HADLEY: I'd be pleased to.

7 COMMISSIONER WILLIAMSON: Mr. Hadley, one
8 thing we saw was a saw sort of hopping between different
9 pieces of wood, cutting things off and we all were just
10 absolutely amazed by it, the skill in doing that.

11 MR. HADLEY: Yeah. The lumber industry is
12 kind of unique. You can't bring someone in from another
13 industry and bring them into a traditional sawmill
14 environment, and expect them to be able to function from Day
15 1. So most of the employees who come into that environment
16 learn from an entry level position and work their way up to
17 those more complicated operator positions, especially if
18 it's equipment that is new and more complex as far as the
19 actual operational requirements.

20 But and these producers can certainly jump in
21 any time and explain their own way of training those
22 employees. But usually in those represented mills, because
23 we have a bargaining agreement in place, there are specific
24 guidelines on how you fill those more complex positions once
25 they open up. If there's a new piece of equipment that

1 comes in that requires specific training or more knowledge
2 or higher educational background to be able to operate that
3 equipment, they put a training procedure in place and either
4 one of the vendors come in who they purchased the piece of
5 equipment from and actually does the initial training.

6 Or they send someone from the management team
7 to another location to train on it, and then they train
8 those bargaining unit employees so it's not only workers on
9 that piece of equipment. Sometimes it results in a
10 reduction in the workforce, but the majority of the time
11 those reductions occur through attrition. They keep those
12 employees, a number of employees on until someone retires or
13 someone's out on sick leave and whatever and they don't
14 replace those employees.

15 Traditionally, that's the way they rebalance
16 the workforce there, and most of these lumber companies, we
17 only represent a small percentage of them nationwide. But
18 most of these lumber companies like to keep those employees
19 they have for as long as they can keep them, because it is
20 labor intensive usually, it is hazardous work and the more
21 you know about the industry and the business, the more
22 productive you can be for those companies. So that's
23 traditionally the way it works with us.

24 MR. MILLER: I'd like -- this is Andrew Miller
25 -- to address the labor portion. These have become very

1 highly skilled positions, and they're interchangeable
2 throughout manufacturing industries. We compete out in
3 Oregon and Idaho with high tech manufacturers with steel and
4 aluminum manufacturers for the same talent pool. There
5 might be fewer jobs in a given sawmill today than 20-30
6 years ago, due to automation and mechanization.

7 But these jobs are typically in -- we just
8 hired a technician last week for over \$100,000 starting
9 salary. These are really valuable jobs in rural
10 communities. We train a lot of our own folks. But we also
11 often lose them to other industries, particularly in a
12 downturn. The last downturn we had the employees that had
13 been with us for 20-30 years and they said I love this
14 business, but I can't afford to stay in it any longer.

15 It's too cyclical and you guys shut down and
16 hire me back and shut down again. That's not a life I can
17 afford. I'd also briefly like to address what you saw in
18 that wall cavity. We saw some multi-family developers
19 directly, and they are highly motivated by the lowest cost
20 of construction, and they will use the products that are
21 lowest price on a given job at a given point in time.

22 So when you see somebody stacking up Southern
23 or SPF like that in a wall cavity, it's because that was the
24 lowest cost solution to build that structure per the
25 building code.

1 COMMISSIONER WILLIAMSON: Okay, thank you.

2 Mr. Howard.

3 MR. HOWARD: On the tech, this is Bill
4 Howard. On the technology side, one thing that was maybe
5 left out is the U.S. mills have the same exact technology as
6 the Canadian mills. The recovery and production costs are
7 the same. So there's not like the U.S. is behind the curve
8 on recovery and production costs.

9 COMMISSIONER WILLIAMSON: Good. That was
10 going to be my next question, so thank you.

11 MR. SWANSON: So I would also like -- this is
12 Steve Swanson. I'd also like to respond to that question.
13 While we have at Swanson made significant investments in our
14 mills, most of the ^^^ we are trying to play catch-up on
15 deferred investments because during this down cycle, we just
16 didn't have the revenues in order to get the increased
17 technology that we needed.

18 So we have spent millions of dollars over the
19 last few years getting caught up where we would much have
20 preferred to have done it over a longer period of time.

21 COMMISSIONER WILLIAMSON: Okay. Mr. Hadley,
22 what about the Canadian workers? Are they the same type of
23 training than the U.S.? Is there any difference in the
24 workforce in Canada and here, to your knowledge?

25 MR. HADLEY: I don't know personally. I would

1 imagine that it happens quite similarly there in Canada. I
2 will say though that the United Brotherhood of Carpenters
3 and Joiners of America who we're affiliated with, have been
4 investing a lot of money in technical training for the craft
5 that they need to maintain in a lot of these equipment
6 that's coming on line now, the more intricate equipment, the
7 robotics and the different things that are out there now
8 that haven't been readily available in the past.

9 But there are a lot of competition for those
10 skilled people that are in those positions now. They are
11 probably going to be the hardest jobs to fill for these
12 companies in the future because right now the old industry's
13 in a lull, as most people know, and a lot of people that
14 they have now, the technical side of the trades that are in
15 these production environments with the lumber mills and saw
16 mills, are out of the old industry.

17 As soon as that industry opens back up because
18 it's a higher paying industry, they're going to leave again.
19 They're going to have trouble backfilling those positions
20 because the wages are going to have to be set at such a rate
21 to attract them and the benefit packages. That's going to
22 be difficult if their overhead continues to drop, and their
23 operating charges continue to increase.

24 COMMISSIONER WILLIAMSON: Okay. Thank you for
25 those answers.

1 CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.

2 COMMISSIONER BROADBENT: Okay, thank you very
3 much. I want to thank the panel for being here today. Mr.
4 Yocis, could you respond to what the Respondents said in
5 their opening statement, that this case is really, you know,
6 not like any other case, that the lumber industry is doing
7 better than they ever have been historically. Prices and
8 performance of the industry are improving strongly.

9 MR. YOCIS: Sure, I can do that, and I think
10 -- and I think the -- as I recall seeing in the Respondent's
11 prehearing submission, they actually answered the question,
12 which is that if you look at, for example, lumber 3 or
13 lumber 4, the last 2 injury proceedings in 2002 in 1992.
14 Yes, in those proceedings the U.S. industry was not making
15 as much money as it is now. But both of those cases came
16 during recessions.

17 So yes, this case is being -- is being filed
18 because the software lumber agreement expired and it expired
19 at a relatively higher point in the business cycle. So yes,
20 in absolute terms the industry is doing better than in in
21 the last two cases which were filed during recessions. So
22 the ^^^^

23 CHAIRMAN SCHMIDTLEIN: Mr. Yocis, if I could
24 just interrupt you a little bit. We have a Congressional
25 witness and we'll take up where we left off as soon as we

1 hear from him.

2 MR. YOCIS: Sure, absolutely.

3 MR. BISHOP: Madam Chairman, our next
4 Congressional witness is the Honorable John Tester, United
5 States Senator from Montana.

6 CHAIRMAN SCHMIDTLEIN: Welcome, Senator
7 Tester.

8 STATEMENT OF SENATOR JOHN TESTER

9 SENATOR TESTER: Thank you. If it's
10 appropriate to go, then we will go. Well thank you Chairman
11 Schmidtlein and Vice Chairman Johanson, Commissioners. I
12 want to thank you for the opportunity to testify today.
13 This is a vital investigation for the thousands of
14 hard-working men and women in Montana's timber industry.

15 You know, the timber industry is a critical
16 component of Montana's economy. It's part of our heritage.
17 Our mills, however, are facing a multitude of external
18 challenges that are threatening its vibrant past. Mills are
19 dealing with unfavorable exchange rates, blatantly unfair
20 trade practices by Canada.

21 I strongly believe that our mills will remain
22 well-equipped to compete with the rest of the world, as long
23 as we hold foreign competitors accountable to our trade
24 deals. We must prioritize, ensuring mills are able to
25 compete on a level playing field, which is what brings us

1 here together today.

2 Our nation relies on the International Trade
3 Commission to enforce trade laws and defend American jobs
4 when a foreign trading partner intentionally distorts
5 markets to gain an advantage. Canada's unfair timber
6 subsidies are a prime example of a foreign country providing
7 an edge to its domestic industry to the detriment of a
8 trading partner. Today, I'm going to share a few thoughts
9 on how Canada's market distortions are harming Montana's
10 timber industry.

11 These comments are based on what I've heard
12 from folks on the ground, through my face to face meetings
13 with my constituents. In addition, I will urge the
14 Commission to fulfill its mission of enforcing America's
15 trade laws and holding market manipulators accountable.

16 The Montana timber industry supports 7,000
17 jobs in Montana. These jobs include mill workers and
18 loggers and truck haulers and engineers and manufacturers.
19 Now while 7,000 jobs may not seem like a lot, especially if
20 you're in an urban area, I can promise you that 7,000 jobs
21 play a significant economic role in rural Montana,
22 especially when you're talking about a state with only one
23 million people.

24 Now while Montana did not become a state until
25 1889, I will tell you that Catholic missionaries established

1 the first known sawmill back in 1845. This mill was water
2 powered and used a single-blade chisel from a wagon iron
3 tire. Over the course of 170 years, the timber industry
4 thrived. Technology grew and Montana established itself as
5 an incredible place to do business.

6 SENATOR TESTER: And with most industries, the
7 last 170 years delivered peaks and valleys, as markets
8 changed and trade evolved. Unfortunately, in recent years
9 our mills are experiencing more bad than good.

10 News announcing layoffs at mills are becoming far
11 too often, and Montana counties that rely mostly on the
12 timber industry have significantly higher unemployment than
13 the rest of the state.

14 There is no doubt that the expiration of the 2006
15 Softwood Lumber Agreement back in 2015 is a contributing
16 factor to the latest downturn. Canadian softwood lumber
17 imports surged 33 percent over the last two years.

18 The loss of market share is especially troubling
19 because Canada does not use a fair market system to set
20 prices for raw timber. Unlike the United States where a
21 large majority of its timber is sourced from private lands
22 at a fair market rate, most Canadian timber is on public
23 lands and the Canadian Provincial Government artificially
24 set the harvesting prices. A system known as "stumpage
25 fees" provides a sizeable competitive advantage to Canadian

1 mills.

2 Stumpage fees amounts to the Canadian Government
3 providing a subsidy to businesses that are directly
4 competing with unsubsidized American businesses. That is
5 why it is incredibly important that we use trade laws
6 enacted by Congress to hold the Canadian Government
7 accountable and level the playing field for our domestic
8 industry.

9 In the long run, I believe it is critically
10 important that we work together with Canada and the United
11 States' timber industry to negotiate a new Softwood Lumber
12 Agreement that works for both sides.

13 I am pleased to report that some progress has
14 been made, and I will continue to urge our United States
15 Trade Ambassador to prioritize getting a new deal in place.
16 The reality, however, is that getting a new Softwood Lumber
17 Agreement in place is likely going to take some time. To
18 limit the onslaught of unsubsidized--of subsidized Canadian
19 lumber into our markets--let me repeat that again because I
20 want to be clear.

21 To limit the onslaught of subsidized Canadian
22 lumber into our markets, we must immediately deploy our
23 trade enforcement tools. Our mills and our economy simply
24 cannot afford to wait any longer.

25 I want to thank you for holding this hearing

1 today. I want to thank you for your commitment to trade
2 enforcement. I know that you all put American jobs first,
3 and I look forward to working with the Commission on this
4 issue and other issues to defend the livelihood of
5 hardworking Americans.

6 Thank you very much. I appreciate your work.

7 CHAIRMAN SCHMIDTLEIN: Thank you, Senator. Are
8 there any questions for the Senator?

9 (No response.)

10 CHAIRMAN SCHMIDTLEIN: No? Alright, thank you.

11 SENATOR TESTER: Thank you very much.

12 MR. BISHOP: Madam Chairman, that concludes
13 Congressional testimony at this time.

14 CHAIRMAN SCHMIDTLEIN: Thank you. Commissioner
15 Broadbent, you may resume.

16 COMMISSIONER BROADBENT: Mr. Yocis, did you have
17 anything further to add to that last question?

18 MR. YOCIS: Yes. So just an addition of the fact
19 that I think the earlier cases were at a different point in
20 the business cycle. I think I would dispute that the
21 current performance of the industry is at record levels.
22 Certainly there have been other strong markets at other
23 times.

24 But in the context of the full business cycle,
25 things are certainly not as strong as they could be, or

1 should be, or need to be at this stage of the business
2 cycle. The Respondents also look at what's happened in 2017
3 when prices were much higher because of the preliminary
4 countervailing duties that began to affect the market the
5 first week of February.

6 And when those are only in place for a few
7 months, what you see is primarily U.S. prices go up. U.S.
8 log prices will also go up eventually, although it takes
9 some time for that to kick in. And I think over a longer
10 period of time, I think if stable relief is provided, what
11 you'll see is more investment in the U.S., more production
12 in the U.S., and more volume effects rather than price
13 effects.

14 And so the current profitability is really a
15 function of the preliminary duties and something that you
16 wouldn't even see even if a long-term order were put in
17 place.

18 COMMISSIONER BROADBENT: Okay, so your view is
19 that they have done better in the past in terms of industry
20 performance, and this isn't any particular aberration of
21 good performance?

22 MR. YOSIC: Yes, that's correct.

23 COMMISSIONER BROADBENT: When would they have done
24 better in the past?

25 MR. YOSIC: Well some of the industry witnesses

1 here perhaps could answer that question better than I, but
2 certainly before the Great Recession the U.S. industry was
3 considerably larger and prices were much higher than they
4 are even today.

5 COMMISSIONER BROADBENT: Okay. And what was the
6 operating income at that point? I guess the Agreement was
7 in effect then, so--

8 MR. YOSIC: There was the Agreement, and there
9 were also duties prior to 2006.

10 COMMISSIONER BROADBENT: Yes.

11 MR. YOSIC: So perhaps there are industry
12 witnesses who can answer that question better than I can,
13 but--

14 COMMISSIONER BROADBENT: They're all looking
15 pretty quiet.

16 MR. MILLER: This is Andrew Miller. I think it's
17 important to put the context of volume demand as well.
18 We're doing better today due to the preliminary duties. I
19 can tell you our sawmills, due to high log costs, lost money
20 in January and February, and started making money in March
21 and have done quite well as the result of the rapid increase
22 in pricing once Canadian mills announced that they expected
23 to be compensated for the impending duty, and prices popped
24 almost \$100 a thousand in just a matter of weeks.

25 Our profitability was higher in 2004 and '05, but

1 we also were experiencing lumber consumption associated with
2 housing starts that were a million six, a million seven, a
3 million eight. I think they even on a monthly basis were
4 topping two million starts. So, you know, tremendous
5 demand.

6 We're a long, long, long way from that kind of
7 demand pressure on prices. So the pricing today is
8 abnormally high relative to the demand, and as a result of
9 the duties.

10 COMMISSIONER BROADBENT: Well how do you know that
11 the higher prices are related to the prospect of duties? I
12 mean they started before, and--you say it pretty
13 authoritatively, I just wondered.

14 MR. MILLER: Our customers told us that, who buy
15 from Canadian companies. Just in a matter of days, they
16 said, you know, prices--we're being quoted \$100 more to
17 compensate for expected duty of 30 to 40 percent, and that's
18 the price from Canada, and we're going to take advantage of
19 that and we raised our price up just below theirs. And, you
20 know, I think if these duties were to go away, I think you
21 would see the entire opposite of that effect.

22 COMMISSIONER BROADBENT: But the prices did start
23 increasing in late 2015, before--

24 MR. MILLER: Marginally so.

25 COMMISSIONER BROADBENT: Yeah.

1 MR. MILLER: I tell 'ya, we got severely
2 shellacked in 2015. All the money we made in 2014 and more
3 was given back in 2015.

4 COMMISSIONER BROADBENT: Okay. Mr. Yocis, where
5 do you think you are in the business cycle? Can you
6 predict? Or what is your sense?

7 MR. YOCIS: Well it's difficult to know. As the
8 great Yogi Berra once said, prediction is difficult,
9 especially about the future. And so it's difficult to know,
10 you know, where exactly the business cycle is going.

11 There certainly is a lot of pent up housing
12 demand, but people have been forecasting housing starts to
13 increase significantly for quite a long time now, and it
14 hasn't really happened yet. So it's difficult to know. But
15 certainly demand has been increasing steadily since the
16 Great Recession. You know, demand has been up every year
17 since 2009, I believe. And so it's steadily increasing.

18 It's still well below where it was before the
19 housing crash. And so there is some room for growth, but
20 whether that growth will materialize or not is very
21 difficult to say.

22 COMMISSIONER BROADBENT: Okay. Can you explain
23 why different regions experience different levels of growth
24 in housing starts over the period? Why was there a more
25 substantial increase in housing starts in the West over the

1 Period of Investigation? Is that just the economy out in
2 the West?

3 MR. YOCIS: Yes. Housing starts is generally
4 driven by local economy, local business cycle, mortgage
5 rates, availability of labor. It's driven by a number of
6 different factors. And lumber is really responding to that.
7 It's really a derived demand. So it's not like people are
8 going out and building more houses because the price of
9 lumber went down. That's not--you know, your mortgage rate
10 is a much more determinative factor in whether a house gets
11 built or not than what the price of lumber is. So we're
12 just responding to demand,

13 COMMISSIONER BROADBENT: Okay, but can someone
14 tell me why there was a more substantial increase in housing
15 starts in the West?

16 MR. MILLER: Because that's where the jobs are.

17 COMMISSIONER BROADBENT: Right.

18 MR. SWANSON: I can also respond to that.
19 California by itself is the sixth or seventh largest economy
20 in the world. It's a very desirable place to live, and they
21 have a robust housing market. So Western mills have been
22 able to service that market because of freight advantages.

23 COMMISSIONER BROADBENT: Yeah, certainly most of
24 the young people I know are moving to California for jobs,
25 so they're doing well out there.

1 Okay,

2 MR. ROADY: This is Chuck, Roady from Montana, but
3 I can tell you why they come to our--everybody wants a
4 little piece of Big Sky, and everybody is retiring and
5 coming to our part of the country. And so there's houses
6 being started all over my part of the world.

7 MR. SWANSON: Can I also add one thing? When you
8 were talking about the price response to the preliminary
9 duties, it was in anticipation of the duties that this
10 happened. And it was really an announcement by major
11 producers within Canada, as reported in Random Lengths, a
12 trade publication, and prices actually increased over 19
13 percent in one day based upon announcements by Canadian
14 producers.

15 COMMISSIONER BROADBENT: Okay, thank you.

16 You are arguing that prices generally decreased
17 over the Period of Investigation, but the data that we
18 collected through June 2017 looks different, to me. Can you
19 clarify your argument, given that both primary and industry
20 data contradict your claim that prices decreased? I know
21 you kind of have an annual--three annual points in your
22 graph, but we're used to looking at a little more granular
23 pricing evidence.

24 MR. YOCIS: Sure. And if you look at that same
25 period, you will see prices--the overall price level in the

1 market going down from 2014 to '15, going up from '15 to
2 '16. If you look at it quarterly, or even monthly, you'll
3 see it with some fluctuations but you'll see basically that
4 pattern. If you--

5 COMMISSIONER BROADBENT: Where would I see that?
6 The quarterly data?

7 MR. YOCIS: I believe that's in the staff report.

8 COMMISSIONER BROADBENT: Okay.

9 MR. YOCIS: And I believe that if you--yes, in
10 2017 it is higher, but that is the effect of the duties. As
11 Mr. Swanson said, prices went up very quickly overnight in
12 response to the duties. I believe, if I remember correctly,
13 in Random Lengths it was the Thursday of the first week of
14 February. I forget what the exact date was, but there was a
15 major Canadian producer who said we are raising our prices
16 \$100 per 1000 board feet today because of the expectation of
17 duties.

18 COMMISSIONER BROADBENT: But that was at the point
19 in time when prices were already increasing pretty
20 substantially.

21 MR. YOCIS: Well they had increased, but they were
22 still below where they were in 2014. They were increasing
23 as demand increased over the period. So you would expect
24 prices to be--you would have expected a steady increase in
25 prices throughout the period because of the increase in

1 demand, but you didn't see that. You saw prices fall
2 substantially despite increasing demand, and then as the--so
3 you basically have two forces fighting each other in the
4 market. You have increasing demand which ought to be
5 increasing prices, and you have increased supply from Canada
6 pushing prices down. And when demand was going up but more
7 slowly such as from 2014 to '15, the net effect was price
8 declines.

9 From 2015 to '16, it's a slight price increase.
10 But overall it's those two forces that are going against
11 each other, and certainly with the increasing demand you
12 would expect to see prices increasing, but in fact you have
13 an overall trend of prices falling because the increase in
14 supply from Canada was outweighing it.

15 COMMISSIONER BROADBENT: Okay. My time has
16 expired. Thank you.

17 CHAIRMAN SCHMIDTLEIN: Just to follow up on that,
18 so is it your argument that in 2016 prices would have gone
19 up more but for the increase in volume of subject imports?

20 MR. YOCIS: Yes. We believe that if it were not
21 for the excess supply coming from Canada, that prices would
22 have increased from 2014 to 2015 and they would have
23 increased even more from 2015 to 2016 because the increase
24 in demand was almost twice as large in 2016.

25 CHAIRMAN SCHMIDTLEIN: Okay, let's see.

1 MR. YOCIS: So I believe it's 1.7 billion board
2 feet in 2015--

3 CHAIRMAN SCHMIDTLEIN: Correct.

4 MR. YOCIS: --and almost 3 billion in 2016. So
5 with the acceleration in demand in 2016, you would have
6 expected stronger prices. And you did have slightly
7 stronger prices, but don't forget Canada is taking almost
8 two-thirds of that increase in demand.

9 CHAIRMAN SCHMIDTLEIN: So let me just--so from '14
10 to '15, demand also goes up, right?

11 MR. YOCIS: Correct.

12 CHAIRMAN SCHMIDTLEIN: Okay. And in your brief
13 you note that at least for some portion of '14 the SLA did
14 not provide any restriction.

15 MR. YOCIS: That's correct. Actually for all of
16 2014 there were no export taxes that applied at all in 2014.

17 CHAIRMAN SCHMIDTLEIN: Okay.

18 MR. YOCIS: There were, in 2015 at the lowest
19 level starting in April of 2015, and with the exception of
20 one month and twelve days in October, it was at the lowest
21 of the three different levels in the SLA from April of 2015
22 until it expired in October.

23 CHAIRMAN SCHMIDTLEIN: So in '14, when '14 to '15
24 demand went up, but prices went down in '14, and then it is
25 your--because of the lack of restriction provided by the

1 SLA? But yet the U.S. industry had a good year that year.

2 MR. YOCIS: It had a better year than it had in
3 the past, certainly.

4 CHAIRMAN SCHMIDTLEIN: So does that suggest an
5 implication for our causation analysis? In other words,
6 why, if demand is going up, so that's good, prices are going
7 down, there's no restriction from the SLA, and the industry
8 has a good year?

9 MR. YOCIS: It has a better year than it did in
10 the period of the downturn. But it ought to have had a
11 better year, an needed to have a better year in the context
12 of the full business cycle.

13 CHAIRMAN SCHMIDTLEIN: And so can you give us,
14 what should we point to besides your statement that they
15 "should have had a better year"? The same question of how
16 do we quantify, or what evidence would we point to to
17 support a conclusion that prices should have gone up more in
18 2016?

19 MR. YOCIS: I think the fact that demand
20 increased. Generally speaking you would expect, all else
21 being equal, if demand increases and supply is going along
22 with demand, that you would expect--you would expect that
23 prices would increase to call forth more supply. Just as a
24 general matter of economics.

25 CHAIRMAN SCHMIDTLEIN: So is there a--okay, so we

1 could just point to the general theory of supply and demand
2 and the effect on price.

3 MR. YOCIS: That's correct.

4 CHAIRMAN SCHMIDTLEIN: Okay. Is there a general
5 level, like an average level of profitability that's to be
6 expected in this industry?

7 MR. YOCIS: I think, well, it's difficult to say
8 what is an expected level of profitability. I think you
9 need a certain level of profitability over the full business
10 cycle in order to ensure that you have sufficient capital to
11 invest, and make the technological improvements that are
12 needed in order to keep investing. And some of our
13 witnesses can actually speak to this better than I can.

14 But you certainly need to make those profits.
15 Otherwise, you're going to lose market share over the long
16 term.

17 CHAIRMAN SCHMIDTLEIN: So in 2014--this is not
18 confidential, I don't think--the operating margins and the
19 net income margins, you say those should have been better,
20 or that the industry had done better in the past. Am I
21 recalling what you said?

22 MR. YOCIS: During strong markets. But also don't
23 forget in 2014 Canadian imports were relatively low. They
24 were certainly much lower than they were later in the
25 period.

1 CHAIRMAN SCHMIDTLEIN: And that wasn't a result of
2 the SLA?

3 MR. YOCIS: Well certainly not--I mean I think the
4 SLA, even if export taxes were not being imposed, may have
5 had some effect because people knew if prices fell it would
6 come back into place. So it may have had some effect.

7 But in 2014, you basically have--

8 CHAIRMAN SCHMIDTLEIN: But prices did fall in--
9 didn't prices fall in 2014?

10 MR. YOCIS: No, prices were relatively high. They
11 fell from '14 to '15.

12 CHAIRMAN SCHMIDTLEIN: Right. But I think when
13 you look over the course of '14, they're going down. I mean
14 when you look at Random Lengths and the pricing products we
15 have, it starts in the beginning of '14 and they start to go
16 down.

17 So what was driving prices down in that year?

18 MR. YOCIS: In 2014?

19 CHAIRMAN SCHMIDTLEIN: Right.

20 MR. YOCIS: I presume--well, I believe if you're
21 also look at quarterly data you'll see that Canadian imports
22 are increasing over that period, as well.

23 MR. BENSON: Madam Commissioner, Mark Benson. I'm
24 looking at some data here that would indicate that the fall
25 in '14, the drop in '14, began late in '14. The first three

1 quarters of '14 were very strong quarters. And then at the
2 end of the year, it was dropping. And then that's what
3 ushered in the devastating year for us of 2015.

4 MR. BENSON: And, and I know that you don't --

5 CHAIRMAN SCHMIDTLEIN: I'm looking at the Random
6 Lengths data in the staff report and it -- it's a monthly
7 presentation, and it starts to fall in the beginning of the
8 year, and it falls -- okay, it's a little bit irregular
9 there in the third quarter, and then it comes back down. So
10 it falls throughout the beginning of the year and then it's
11 a little -- jumps up and then it goes back down.

12 MR. BENSON: Right. And I know that I'm not
13 looking at the same thing that you are, but --

14 CHAIRMAN SCHMIDTLEIN: Okay.

15 MR. BENSON: -- it would appear that, in the
16 third quarter, it started relatively high, it dropped, went
17 back up, and then it made the precipitous fall, which
18 finally got close to the bottom in First Quarter 2015.

19 CHAIRMAN SCHMIDTLEIN: And what data are you
20 looking at?

21 MR. BENSON: It's some that I have internally.
22 I'm sure that we can --

23 CHAIRMAN SCHMIDTLEIN: You could provide it?

24 MR. BENSON: I think it's a Random Lengths
25 composite.

1 CHAIRMAN SCHMIDTLEIN: Okay, okay.

2 MR. BENSON: So we can provide that.

3 CHAIRMAN SCHMIDTLEIN: Okay.

4 MR. KENTZ: We can provide that in our
5 post-hearing brief, but it is Random Lengths.

6 CHAIRMAN SCHMIDTLEIN: Okay. All right.
7 Switching gears just a little bit, when you look at the
8 record, it shows that nonsubject imports also went up over
9 the POI. I'm wondering if you have an explanation for why
10 we see an increase in nonsubject volume over the POI.

11 MR. YOCIS: I think as prices increase, you see
12 some increase in nonsubject imports. First of all, I would
13 say two things about them. One is, the volume is relatively
14 small.

15 CHAIRMAN SCHMIDTLEIN: Mm-hmm.

16 MR. YOCIS: And they come from a variety of
17 different sources. If you look at the average unit value of
18 nonsubject imports, you'll see it's more than double the
19 imports from Canada and so that would indicate that most of
20 them are specialty products.

21 You'll also see that the decline, that even when
22 prices in the U.S. market generally were declining, the
23 average unit value of nonsubject imports was going up over
24 the period. It increased in each of the years of the POI,
25 which would suggest that the nonsubject imports were not

1 contributing to the price suppression.

2 CHAIRMAN SCHMIDTLEIN: But they did take some
3 market share from U.S. producers, right?

4 MR. YOCIS: They did take some. There's --

5 CHAIRMAN SCHMIDTLEIN: And why was that? Was
6 that based on price? Or is it based on a different -- that
7 they're providing something different that U.S. producers
8 don't provide?

9 MR. YOCIS: It depends on the country. I don't
10 think that they're providing any specific product that U.S.
11 producers don't provide. It simply depends on what's going
12 on elsewhere in the world and it depends on where prices are
13 in the U.S., relative to other markets.

14 CHAIRMAN SCHMIDTLEIN: Okay. So what's -- do
15 you have a theory as to why this was going up? Just
16 because, in 2016, prices were going back up and that was
17 attracting nonsubject? Is that your --

18 MR. YOCIS: It's difficult to know specifically
19 without knowing specifically which particular products were
20 being imported.

21 CHAIRMAN SCHMIDTLEIN: Okay.

22 MR. YOCIS: But the high average unit value
23 would suggest that these were not the bulk of the lumber
24 products that we're talking about. They tend to be
25 specialty products because of the higher price.

1 CHAIRMAN SCHMIDTLEIN: Okay. Okay. My time is
2 almost up, so rather than going over, I will yield to
3 Vice-Chairman Johanson.

4 VICE CHAIRMAN JOHANSON: Thank you, Chairman
5 Schmidtlein. And I would like to thank the witnesses for
6 appearing here today. I find today's subject matter
7 particularly interesting. My favorite merit badge in Boy
8 Scouts was Forestry Merit Badge, which I earned at Lost
9 Pines Scout Camp outside of Bastrop, Texas.

10 Then this August I went on a hiking trip in
11 Olympic National Forest in Olympic National Park in
12 Washington State and I saw lots of trees there, and I also
13 saw lots of timber production. And I understand most of
14 this production was on state land. That's what I was told.

15 So I learned about trees during my youth in
16 Texas, and I recently became somewhat familiar in the
17 forests in Washington State. And this leads me to a
18 question on regional differences in the industry.

19 Respondents contend that timber reaches maturity
20 almost twice as fast in the south compared to other domestic
21 regions. And this can be seen at Page 4 of the Joint
22 Respondent Brief. Is this accurate? And if so, should this
23 have any impact in our investigation?

24 MR. BENSON: Mark Benson with Potlach. We're a
25 large timberland owner, as you know, and we own land in the

1 Intermountains West, as well as the South and the Lake
2 States. And yes, rotation ages in the U.S. South are about
3 half of what they are in the northern tier. Not quite half
4 of what they are on the West Coast.

5 And I'm not sure though that rotation age
6 factors into the questions at hand, relative to lumber
7 production. The forest is what the forest is, and the
8 outputs are what they are. And then it's a competitive
9 market for lumber mills.

10 And, you know, back to the essence of the issue
11 here, that in the U.S., it's a competitive bidding process
12 for that timber, whatever age it is, that maturity, whereas
13 in Canada, there is a subsidized form of acquisition by the
14 Canadian companies. And that's what results in the
15 Canadians' ability to produce lumber at such a lower cost
16 than what we do here in the U.S.

17 VICE CHAIRMAN JOHANSON: Thanks, Mr. Benson.

18 MR. BLOCKER: This is Adrian Blocker with
19 Weyerhaeuser. We have land, we own land in all of the
20 different major geographic timber-producing regions. And so
21 following up on Mark's comments, he is correct, and you are
22 correct in terms of the different maturity and age classes
23 for mature timber.

24 I would say that, in all of those three regions,
25 we have very productive timber lands, not only ourselves but

1 many, many other thousands of private landowners. And we
2 need good strong markets for those timberlands. So I mean,
3 that really plays into the decision here in terms of having
4 good markets and having good returns for the many family
5 farm timberlands that are around.

6 VICE CHAIRMAN JOHANSON: Also on the whole issue
7 of regions, Respondents argued that in the U.S. South, where
8 the majority of U.S. production occurs, the domestic
9 industry enjoys the cheapest and most abundant timber supply
10 in North America and possibly the world. And this can be
11 seen at Pages 1, 8 and 119 to 120 of their brief. Is timber
12 supply indeed so abundant and low-cost in this area? And
13 how should this factor into our investigation?

14 MR. BLOCKER: I would answer in a similar way,
15 in that the South is very productive and is producing a lot
16 of timber for our industry. But we don't have the capacity,
17 have not been willing to invest in the capacity necessary to
18 take advantage of this timber base, because we don't have
19 the confidence that we're gonna have the pricing structure
20 going forward.

21 And just to follow up a little bit on the
22 pricing discussion that was had earlier, you know, we talk
23 about different periods, different quarter to quarter or one
24 year to another year, we don't make investments based on
25 those time periods. We make investments that are a minimum

1 of five to ten, fifteen and twenty years.

2 So we have to have a belief that there is an
3 economic structure that allows that over time. And so, you
4 know, for us to look at period to period changes is really
5 irrelevant in terms of our investment.

6 VICE CHAIRMAN JOHANSON: Thanks, Mr. Blocker.

7 MR. BENSON: Mark Benson again. I would like to
8 add to what Mr. Blocker said, that--and to answer your
9 question directly--I believe that, yes, there is an
10 indication here on the case itself in that, log prices in
11 the U.S. South are low. There's an abundance of wood and
12 log prices are low.

13 And yet, log prices are so low in Canada that
14 they can ship lumber 2,500 miles to the Southeast and
15 compete with those low log costs. So I think that's a good
16 marker for just how cheap Canadian logs are.

17 MR. HOWARD: This is Bill Howard. I'd like to
18 follow up on that, too. We have the retail contractor yard
19 next to our mill.

20 MR. BISHOP: Could you put your mic a little
21 closer please?

22 MR. HOWARD: And in that case, there's \$108 a
23 thousand freight rate to get a rail car from B.C. down to
24 Statesboro, Georgia. And in most cases, spruce is cheaper
25 than Southern pine right there. Keep in mind that 75% of

1 our costs in producing lumber is in the raw material.

2 So earlier when I talked about technologies in
3 production cost, that's a small part of the real costs of
4 making wood. The raw material is where all the cost is.
5 For them to be able to bring wood with a \$108 a thousand
6 cost to Southeast Georgia, and beat us with our cheaper log
7 costs, like you're saying, we do have cheap log costs.
8 They're not cheap enough to compete.

9 VICE CHAIRMAN JOHANSON: Thank you for your
10 responses. Now, I'm moving off of that, off the regional
11 issue. Respondents argue that Canadian producers
12 dramatically reduced capacity during the Great Recession,
13 and that the U.S. industry instead chose to maintain
14 capacity, but reduce production, and this can be seen in
15 Respondents' Brief, Pages 9 to 39. How do y'all respond to
16 these allegations of the Respondents?

17 MR. YOCIS: This is David Yocis. I can start
18 and then perhaps some of the industry people can speak as
19 well. Certainly in Canada, mills were closed and then mills
20 have reopened in more recent years, especially in Eastern
21 Canada. But also in B.C., even in the areas of B.C. where
22 the pine beetle is most severe, there were a couple of mills
23 that were destroyed of accidents and that were rebuilt as
24 recently as 2014.

25 But in the U.S., it is true that there were some

1 mills that stayed open and reduced capacity, but there were
2 a lot of mills in the United States that closed during the
3 downturn as well, and I think some of the witnesses can
4 speak to the details of that.

5 MR. BLOCKER: So this is Adrian Blocker with
6 Weyerhaeuser. During that period of time, we shut down 50%
7 of our mills. So, you know, because we, our cost structure
8 was such that we didn't have the lumber price to support our
9 cost structure.

10 VICE CHAIRMAN JOHANSON: Mr. Blocker, when you
11 say they were shut down, for how long?

12 MR. BLOCKER: They've been permanently shut
13 down.

14 VICE CHAIRMAN JOHANSON: Permanently shut down?
15 Okay, thanks.

16 MR. BLOCKER: And now that we are beginning to
17 generate some cash again, we're taking that cash and
18 reinvesting in the mills that were remaining, to get them
19 back to being competitive again. So we don't have enough
20 cash to do the mills that we had, plus we don't have the
21 confidence going forward in terms of lumber pricing to put
22 in new capacity.

23 VICE CHAIRMAN JOHANSON: Thank you. Mr.
24 Swanson?

25 MR. SWANSON: Just to add to that, obviously

1 we're a much smaller producer than Weyerhaeuser, but we
2 reduced our capacity permanently by 25%, dismantled the mill
3 and auctioned off the equipment.

4 VICE CHAIRMAN JOHANSON: So you all contend that
5 what the Respondents wrote was not in line with how you see
6 this situation? In that they took capacity off line and you
7 all simply, and you did not do so to the same extent?

8 MR. SWANSON: Inaccurate in my case, for sure.

9 MR. BLOCKER: Well, we took down ours for sure
10 on many plants. But at the same time, we also shut plants
11 down permanently.

12 VICE CHAIRMAN JOHANSON: Okay. Thank you for
13 your responses. My time is about to expire.

14 CHAIRMAN SCHMIDTLEIN: Commissioner Williamson?

15 COMMISSIONER WILLIAMSON: Thank you. I'm gonna
16 turn for a minute to the question about red cedar. How do
17 you respond to the like product arguments being made with
18 respect to cedar/redwood? And this category's broader than
19 the Western red cedar arguments we have considered in the
20 past.

21 MR. YOCIS: Sure. I can begin and then perhaps
22 Mr. Miller is a cedar producer and can add some more to it.
23 Certainly from the perspective of the producers in the West,
24 and I think maybe even a place to start even before that, is
25 that Western red cedar grows --

1 COMMISSIONER WILLIAMSON: Mm-hmm.

2 MR. YOCIS: -- timber grows among other species
3 in the West. It's not like there are areas that are stands
4 of Western red cedar that are isolated and are harvested
5 separately. It's all harvested together, and the mills that
6 process Western red cedar often are the same mills that
7 produce other lumber products and other lumber products on
8 the same lines.

9 And that's true of redwood in the U.S. as well.
10 So in that sense, from a production standpoint, there is a
11 lot of overlap in the production process for red cedar or
12 redwood, as well as for other species. On the demand side,
13 red cedar does compete with Southern yellow pine in decking
14 and in other outdoor applications.

15 Certainly they're at different price points, but
16 the relative price between them matters. And it matters for
17 the competition and that are between them. And a lot of
18 that is also regional. If you're building a deck in
19 Virginia or in Maryland, it's probably a lot cheaper to use
20 Southern yellow pine. If you're building a deck in Idaho,
21 might be a bit different.

22 And so, depending on the region, just as for all
23 of the different species of softwood lumber that compete
24 with each other, depending on the region which species are
25 used, is a function of local transportation costs and the

1 local price difference delivered to a particular market, as
2 well as the differences in physical characteristics. And
3 there's a continuum of pricing for all of these products.
4 And perhaps Mr. Miller can add more to that.

5 MR. MILLER: Andrew Miller. I'm unfamiliar with
6 the Respondents' specific -- could you elaborate on your
7 question, please?

8 COMMISSIONER WILLIAMSON: I think in the past,
9 we've just talked about the cedar as a separate product or
10 they argued -- but now, they're combining redwood and cedar.
11 And does that change the argument justification for cedar,
12 including or excluding it?

13 MR. MILLER: I'm not familiar with the redwood
14 business, but in terms of the competitive impacts of
15 Canadian product, they have the same timber tenure system in
16 British Columbia where the majority of, I think, almost all
17 their red cedar grows, intermixed with the SPF, and so they
18 get the same advantages of subsidized lower-cost log. The
19 cedar logs that are traded in western -- Oregon, Washington,
20 North Idaho, you know, those are all competitively bid, so
21 the price is based on what all of us are willing to pay for
22 a log.

23 As far as the manufacturing process, we have a
24 mill that on Monday, we produce cedar, 5/4 decking, 1"
25 boards, 2x4 post and rails, Tuesday we'll make 2x4 studs out

1 of Douglas Fir. Thursday, Friday, we'll make it out of
2 white fir, and maybe the following week, we're sawing
3 Ponderosa pine, and then back to cedar. It reflects what
4 grows in the forest. We don't do anything different, but
5 just run a different log in the mill and make a lot of the
6 same dimensions of product and they are sold to the customer
7 base we sell our framing lumber to.

8 So, in that sense, it's all kind of one big pot
9 of wood that the pricing is affected by the characteristics
10 that are at stake in this case.

11 COMMISSIONER WILLIAMSON: Good, thank you. We
12 have another Congressional witness, so I'm gonna stop and
13 I'll come back to you. Thank you.

14 MR. BISHOP: Our next Congressional witness is
15 the Honorable Steve Daines, United States Senator from
16 Montana.

17 CHAIRMAN SCHMIDTLEIN: Welcome, Senator Daines.
18 You may begin.

19 STATEMENT OF SENATOR STEVE DAINES

20 MR. DAINES: Thank you. Thank you. Thank you,
21 Chairman Schmidtlein and members of the Commission for the
22 opportunity to testify regarding softwood lumber products
23 from Canada.

24 I come before you to testify on behalf of the
25 Montana wood products industry and the Montana communities

1 that are dependent upon the jobs and the tax revenue that
2 are created by sustainably harvesting our forests.

3 The softwood lumber case before you is truly of
4 utmost importance to Montana's wood products industry, as
5 well as thousands of Montana jobs and the state's economy as
6 a whole.

7 In the lack of substantive forest management
8 reform and the wildfires that are currently that are
9 currently devastating Montana, so much of the national news
10 is understandably fixated on what's happened with Harvey and
11 with Irma, that we have another disaster on our hands where
12 the vast majority of the nation's largest fires are
13 currently burning in Montana.

14 This extends certainly beyond Montana as well
15 for the forested communities up in the northwest part of our
16 country. These fires that we see only exacerbate the
17 negative impacts of subsidized imports of softwood lumber
18 from Canada.

19 Let me give you an example. Mineral County is
20 in western Montana. That county was founded in 1914. It
21 has a long history of being a community that thrives off the
22 abundant natural resources, the national forest that
23 surround them.

24 The first of many saw mills came to the area
25 around the turn of the 20th century. And for decades, the

1 industry thrived and Montana's worked hard. They earned
2 good money in the timber industry. But in the early 1990s,
3 things began to change.

4 The community that once thrived on the abundant
5 resources surrounding them now sit with one of the highest
6 unemployment rates in our state. In fact, when I've spent
7 time up in that part of our state, I will hear comments like
8 it's beautiful here, but we call it poverty with a view.

9 Today, Mineral County has just a single lumber
10 mill. And their folks there watching today are mismanaged
11 national forests burn up and they're facing unfair
12 competition from subsidized Canadian lumber.

13 I appreciate very much so the Commission's
14 unanimous decision earlier this year to maintain the
15 countervailing duty and anti-dumping duty investigation on
16 softwood lumber imports from Canada and urge you to act in
17 an expedition (sic) manner to ensure that Montana mills are
18 able to compete on a level playing field.

19 Montana's forests and our lumber mills create
20 some of the highest quality lumber in the world. And if
21 they're provided with a level playing field and the
22 enforcement of U.S. trade law, there's great potential for
23 maintaining or manufacturing base and providing for economic
24 growth in the state and across the country, as well as
25 reducing the risk and severity of wildfires.

1 Canadian producers have already been found by
2 the Department of Commerce in a preliminary determination to
3 have been dumping in the U.S. market and injuring U.S.
4 producers. For too long, unfairly subsidized Canadian
5 softwood lumber has had a significant negative impact on
6 Montana jobs. I recently met with some our county
7 commissioners. Because of the declining production on our
8 national forests, the declining revenues because of course
9 federal lands do not paying taxes. If we can't get revenues
10 from timber harvest, our counties don't have a lot of other
11 options here to get revenue support infrastructure,
12 literally having a county commissioner have to jump on a
13 grader and plow a road in the winter time to get school
14 buses out to get our kids on the buses and safely to school
15 because we're not able to get the full staffing we need here
16 just to grade the roads.

17 And it's critical that Canada plays by the same
18 set of rules that Montanans do. I support the ongoing
19 negotiations currently taking place to reach a new softwood
20 lumber agreement. That being said, an agreement is not an
21 end to itself. It is a means to an end. It needs to be
22 fair, it needs to be effective agreement that creates truly
23 this level playing field we're seeking for Montana producers
24 that support Montana jobs.

25 Until such an agreement is reached, the U.S.

1 should enforce all existing and appropriate U.S. trade laws.
2 I urge the Commission to work in a prompt manner to work to
3 this level playing field we seek for Montana and U.S. lumber
4 mills and to mitigate the negative impacts subsidized
5 Canadian lumber has had on the industry and the communities
6 that depend upon on them.

7 I want to thank you for the opportunity to
8 testify on this most important matter. Thank you.

9 CHAIRMAN SCHMIDTLEIN: Thank you very much. Are
10 there any questions for the senator? No. All right, thank
11 you.

12 MR. BISHOP: Madam Chairman, that concludes
13 Congressional testimony for today's proceeding.

14 CHAIRMAN SCHMIDTLEIN: All right, thank you.
15 Commissioner Williamson?

16 COMMISSIONER WILLIAMSON: Okay. Thank you. I'm
17 going to turn this question to cedar and redwood. And this
18 is a question for Mr. Blocker. I was wondering what is
19 Weyerhaeuser's position on this issue given the letter that
20 is included in respondent's brief on this issue where they
21 said Weyerhaeuser submitted a letter in Decembrer2016
22 stating their western based cedar should be treated as a
23 separate product and that there was not sufficient U.S.
24 supply?

25 MR. BLOCKER: Yeah, so we don't manufacture red

1 cedar, so I don't have much knowledge about that.

2 COMMISSIONER WILLIAMSON: Okay. If there's any
3 you can post hearing given this letter and what the --

4 MR. BLOCKER: Yeah, we can certainly do that.

5 COMMISSIONER WILLIAMSON: Okay.

6 MR. YOCIS: Again, I have one comment on it,
7 Commissioner.

8 COMMISSIONER WILLIAMSON: Sure.

9 MR. BANAHAN: We produce --

10 COMMISSIONER WILLIAMSON: I'm sorry.

11 MR. BANAHAN: Steve Banahan --

12 COMMISSIONER WILLIAMSON: Yeah.

13 MR. BANAHAN: Pleasant River Lumber.

14 COMMISSIONER WILLIAMSON: Yeah.

15 MR. BANAHAN: We produce eastern white pine.

16 And we compete with red cedar products for -- it's used for
17 siding. It's so -- even though it's not the same product,
18 it's used for the same purpose. So people use it to for
19 siding for their homes. If they don't use red cedar that's
20 subsidized, they may choose to use eastern white pine bevel
21 siding or a ship lap rougher head siding. So even though
22 it's not the same product, it's in the same bowl of
23 products and it competes with us for the same business.

24 COMMISSIONER WILLIAMSON: Is there a big price
25 difference there generally?

1 MR. BANAHAN: Yes.

2 COMMISSIONER WILLIAMSON: Uh-huh.

3 MR. BANAHAN: And price is the issue.

4 COMMISSIONER WILLIAMSON: Okay, good. Thank
5 you.

6 MR. BENSON: And this is Mark Benson.

7 COMMISSIONER WILLIAMSON: Sure.

8 MR. BENSON: From a forest owner's perspective
9 and specifically in Idaho, where a 10 or 12 percent of our
10 forest inventory is cedar, I just re-enforce what you heard
11 from Mr. Miller that as we manage and harvest and deliver
12 logs, there's nothing special about red cedar. It's all
13 part of the same process that we treat it, just as he does.
14 You know, we cut a Douglas Fir one minute and a cedar the
15 next minute. And they find their way to the same mills.

16 COMMISSIONER WILLIAMSON: Okay, so it's just
17 that one might give them more money by it's still --

18 MR. BENSON: Correct.

19 COMMISSIONER WILLIAMSON: Yeah. Is -- does it
20 operate the same way in Canada? I mean, the cedar's been
21 dispersed with all the other products or are there other --
22 or do you have stands of cedar?

23 MR. BENSON: Yes, that's correct. And I'm sure
24 that the Canadian witnesses this afternoon can describe it
25 better than we can from more firsthand knowledge, but my

1 understanding is, yes, that they are sold as a unit and
2 that's part of the Commerce evaluation of the pricing for
3 subsidy purposes.

4 COMMISSIONER WILLIAMSON: Okay. Okay. Thank
5 you for those answers. Mr. Yonis (sic), in your brief, you
6 take no position on exclusion of related parties. Given the
7 size of some of the other companies involved, it would be
8 helpful to have more from you on this issue. So I urge you
9 -- and I guess you probably are going to do this
10 post-hearing to get further details on this issue.

11 MR. YOCIS: Sure, we can certainly talk about
12 that, you know, the -- about individual companies in the
13 post-hearing. I think from an overall industry perspective,
14 whether related parties are included or excluded, the
15 general trends in terms of industry performance are largely
16 the same and sort of -- and I think one of the things that
17 happens and I understand that that's the decision the
18 Commission has to make, but in -- on the one hand, you have
19 sort of one extreme of either a U.S. producer that's related
20 to a Canadian producer is either 100 percent in the case and
21 they're treated just like every other producer, or they're
22 100 percent out of the case and we just ignore them.

23 And we think it's more important to recognize
24 from issue to issue as a condition of competition the fact
25 of -- so that some U.S. producers are now related to

1 Canadian producers is an important fact that may or may not
2 be relevant factor by factor case by case.

3 So for example, we, you know, we talk in our
4 submission about Interfor. And that's -- there's some
5 public information there about Interfor, which has
6 significant operations in both the United States and Canada,
7 actually more in the United States than in Canada. And yet,
8 they close -- they have closed during the period of
9 investigation. They have permanently closed mills in the
10 United States while investing in and upgrading their mills
11 and expanding production of their mills in Canada.

12 And that they've made some of these
13 announcements simultaneously. And that to us is a relevant
14 fact to the condition of competition. Whether that company
15 is included or excluded, or whether other companies are
16 included or excluded, you know, we think that's it's
17 important factor by factor. And there's some others that we
18 talk about on a confidential basis. And we can perhaps
19 provide some more in the post-hearing.

20 But from our perspective, ultimately, at the end
21 of the day, from -- the Commission's analysis isn't all that
22 different whether companies are in or out. It's more, you
23 know, is the Commission able to take into account the --
24 that relationship as necessary and as appropriate when -- by
25 point factor by factor.

1 COMMISSIONER WILLIAMSON: Okay, okay, thank you.
2 And my time as just expired.

3 CHAIRMAN SCHMIDTLEIN: Okay. Commissioner
4 Broadbent?

5 COMMISSIONER BROADBENT: Thank you, Chairman
6 Schmidtlein. Let's see. Canada is a country is lot of
7 forest acreage and relatively few people. Wouldn't it make
8 sense that Canada would have a comparative advantage in
9 terms of lumber exports? To what extent do you think
10 Canada's exports to the United States are a result of
11 subsidies as opposed to comparative advantage? Mr. Yocis?

12 MR. YOCIS: Yeah, I can try to address that. I
13 think on the question of comparative advantage, one of the
14 issues, and I'm not an economist, but I've hung around
15 economists long enough to have learned to avoid a couple of
16 things. You know, if you go back to and I'm -- now I'm
17 blanking on, you know, when England produces wool and
18 Portugal produces wine. You know, when you go back, is that
19 him? I can't remember who that is. I can't, but anyway,
20 you know, the industry of the standard examples of
21 comparative advantage.

22 The question is where does the country invest
23 its resources, invest its labor, and best produce what items
24 versus importing them? It doesn't say anything about price.
25 Even if it were true that Canada has more trees than people,

1 the United States has more people and, well, it has a lot of
2 trees, but it has certainly enough to supply a lot more
3 lumber than we are now.

4 But even if it were true that Canada had more
5 trees, it doesn't mean that the trees in Canada should be
6 cheaper or that Canadian lumber should be cheaper than
7 lumber in the United States. The overall -- the price is
8 determined by overall supply and demand, not by comparative
9 advantage.

10 So I think the question of subsidies and unfair
11 other unfair practices of dumping and so forth are really
12 separate from the question of comparative advantage. It
13 doesn't mean that Canadian lumber should be any cheaper or
14 should be -- that Canadian timber should be priced any
15 differently.

16 I also believe that in a truly fair pricing
17 environment in unsubsidized world, if Canada had the same
18 market for timber as we do in the United States, or we had
19 the same system that they do, that Canada would certainly
20 supply some portion of the U.S. market. That's certainly
21 true.

22 But the question is are the -- is the U.S.
23 industry worse off because Canadian imports are higher than
24 what otherwise be and would priced lower than what they
25 would otherwise be because of subsidies and dumping? And I

1 think that's a completely separate question from comparative
2 advantage and what the "natural market share" would be.

3 COMMISSIONER BROADBENT: Mr. Yocis, how long
4 have you been representing the lumber industry?

5 MR. YOCIS: Off and on since 2001.

6 COMMISSIONER BROADBENT: Okay. Because I --
7 it's been a dispute that's sort of lots of friction between
8 the U.S. and Canada. And we've tried lots of different ways
9 to manage it as you know.

10 Is there any more long-term solution that you're
11 considering? How do you see the negotiations going. I know
12 the senator just spoke to us about his strong support for
13 the negotiations and I wonder if you had any ideas in that
14 regard?

15 MR. YOCIS: We have a number of ideas at which
16 we have raised with both the U.S. Trade Representative's
17 office and with the Department of Commerce. I think
18 ultimately, it's better -- ultimately, I think both sides
19 would be better off with a trade agreement than with trade
20 revenue cases.

21 And that that would provide more certainty to
22 producers on both sides of the border, but coming to an
23 agreement that is acceptable to both sides has proven
24 difficult. And it's something that we hope to continue and
25 to support the two governments in reaching an agreement as

1 quickly as possible.

2 In the absence of such an agreement, the U.S.
3 industry really has no choice but to seek enforcement of the
4 U.S. trade laws. Those are really the only options that we
5 have.

6 COMMISSIONER BROADBENT: What are the -- are you
7 able to speak to what the biggest speaking points are in the
8 negotiations?

9 MR. YOCIS: Well, it's an agreement between the
10 two governments. And so, we certainly are not privy to all
11 of the different discussions that are taking place. So I
12 think, you know, it's probably best that we let them do
13 that, rather than speculate on what we think might be the
14 issues between the governments or what the Canadian industry
15 might be willing or not willing to do. It's probably best
16 not for us to do that in public.

17 COMMISSIONER BROADBENT: Do the industry
18 representatives want to indicate what they might need in
19 these negotiations? Okay.

20 MR. SWANSON: Can I go back to your previous
21 question on the timber supply situation?

22 COMMISSIONER BROADBENT: Sure.

23 MR. SWANSON: So if you go back to 2004 and '05,
24 here in the U.S., housing starts were in excess of 2
25 million. And Canada market share was in the mid-30s. So

1 nothing has really changed between both countries in terms
2 of the availability of timber. And if you just take the
3 math of the lumber being consumed today with 1.3 million
4 starts and apply the math, the U.S. had enough wood to
5 supply 100 percent of today's market.

6 MR. HOWARD: And if I -- Bill Howard. If I
7 could interrupt real quick. Also, we just finished talking
8 about one of the questions was the southeast and how big the
9 market was, the timber market there was and the low cost.
10 But yeah, we still struggle to compete with Canadian
11 imports. So there's a lot of wood on the south.

12 COMMISSIONER BROADBENT: Okay.

13 MR. HOWARD: Sorry not wood, timber. Let me
14 rephrase that.

15 COMMISSIONER BROADBENT: Okay. What is your
16 sense on the effect of -- the hurricane damage will be on
17 rebuilding and demand in the market?

18 MS. DAUZAT: We think, you know, just with
19 history with Katrina, most people tore the sheetrock out,
20 the houses were dried out, and then they were reconstructed.
21 Now there's a little construction, but there wasn't a big
22 blip after Katrina. And we're not really anticipating a big
23 blip after these storms.

24 COMMISSIONER BROADBENT: Well, that's
25 interesting. Yeah, I didn't realize that. Would it benefit

1 the U.S. lumber industry to have a greater volume of
2 Canadian logs available? I mean, there are expert
3 restrictions in Canada on logs as I understand it.

4 MR. YOCIS: This is David Yocis. I can try to
5 at least maybe start that and then perhaps others can speak.
6 I think certainly if there were more Canadian logs available
7 in the U.S., there were would be U.S. producers who would be
8 willing to buy them. U.S. producers are certainly competing
9 in a market for logs with overseas demand with producers of
10 other products, such as plywood and so forth. And certainly
11 they would welcome certainly more log supply.

12 I think if Canada had a fully open market, it
13 would affect log pricing even more than it would where the
14 logs were sold. It's more, and from our perspective I think
15 it's more about the fact that Canadian log costs are
16 insulated from world markets, but that's really more of a
17 Commerce subsidy issue than it is something that I think the
18 Commission typically looks at.

19 COMMISSIONER BROADBENT: They're insulated from
20 world markets? How so?

21 MR. YOCIS: In terms that their timber pricing
22 is not as related to world market prices for timber as the
23 timber prices are in the U.S. And that's sort of the nature
24 of the subsidy that Commerce is looking at, that the pricing
25 practices of the Canadian provinces and the fact that the

1 logs can only be used in Canada do insulate their producers,
2 but that's the nature of the subsidy. And so, again, it's
3 more that's really more of a Commerce issue, I think,
4 typically than a Commission issue.

5 COMMISSIONER BROADBENT: Right. What is the
6 current state of export restrictions in Canada on logs?

7 MR. YOCIS: All the provinces have restrictions
8 on the export of logs harvested from Crown land, which is
9 most of the logs in most of the provinces. In British
10 Columbia, there are also restrictions on the export of
11 private logs -- logs from private land. Those restrictions
12 can be lifted. And in fact, there are significant volumes
13 of log exports out of BC in the last couple of years, but
14 only for the logs that BC mills don't want -- only for logs
15 that BC mills have agreed to allow to be exported.

16 So again, we come back to -- from our
17 perspective, it's really more that because the BC mills can
18 block the exports of logs that they want to purchase and
19 that they can purchase at a below international price, it's
20 really more of a subsidy issue than it is a log supply issue
21 for other producers. There are logs that are exported from
22 BC at a higher price than what the BC mills pay, but it's
23 only if the BC mills don't want them and they can claim them
24 at the lower price.

25 COMMISSIONER BROADBENT: Okay, thank you.

1 MR. ROADY: I can expand a little bit on that.

2 COMMISSIONER BROADBENT: Yes, real quickly.

3 MR. ROADY: We get contacted all the time by
4 Canadian suppliers, but in the end there has to be an
5 exemption signed by the Canadian companies that's in their
6 area or their allotment or their license area. And so if
7 they have any use for those logs, they don't sign that
8 exemption and so at some times like right now if there's a
9 species they don't use and the exchange rate is really high
10 in and they will bring it across, but it just depends on the
11 time and if they're not have any use for that wood.

12 COMMISSIONER BROADBENT: Okay, thank you very
13 much.

14 CHAIRMAN SCHMIDTLEIN: So Mr. Yocis, if we could
15 go back to what was happening in 2015 and how that relates
16 to 2016 because I just want to make sure I'm understanding
17 what the theory is. So when I look at 2015 -- and what I
18 want to understand is how this relates to the SLA, right?
19 And so in 2015 the SLA was in effect, did have restrictions
20 in place, and yet, we see prices going down in 2015 even
21 though demand is going up, not as much as it did in 2016,
22 but from '14 to 15 it went up and the U.S. industry has its
23 worst year, by far.

24 So then in 2016, right, the SLA expires at the
25 end of October, I believe, right, in '15.

1 MR. YOCIS: Right.

2 CHAIRMAN SCHMIDTLEIN: So almost the entire
3 year, not quite. 2016, no SLA, we see demand going up and
4 prices going up even though there's no restriction in place
5 and imports go up and despite that the U.S. has a good year.
6 Let's say a much better year than they did in '15. So can
7 you walk me through, in terms of the market dynamics and how
8 it relates to the SLA and when it's in place and when it's
9 not?

10 MR. YOCIS: Sure. So I think one of the -- so
11 from 2014 you have Canada at roughly, I believe, 28 percent
12 market share, relatively high prices, relatively strong U.S.
13 performance. From 2014 to 2015, the demand goes up. Canada
14 takes most of that demand. They take two-thirds of the
15 extra demand, so U.S. production increases only slightly and
16 the prices in the U.S. market fall because there's more
17 Canadian supply that is out -- well, more supply we know
18 because prices are falling. More supply is outweighing the
19 increase in demand and so prices are falling. And why are
20 they falling, well, because supply is increasing faster
21 than demand. Where is that supply coming from? Additional
22 supply is coming primarily from Canada.

23 Now it's true in 2015 you have for six months,
24 or six months plus 12 days you have export taxes being
25 imposed under the SLA. For four of those months or five of

1 those months, the export tax is 5 percent on BC and Alberta
2 and 2 percent on Ontario and Quebec and Manitoba and
3 Saskatchewan, so much lower rates than what you're seeing in
4 2017 with the preliminary duties. So those SLA export taxes
5 were not sufficient to slow the increase in Canadian
6 imports, just one of the reasons the U.S. industry did not
7 agree to extend the SLA when it expired because we saw what
8 was happening in the market even with the SLA in place.

9 And then from 2015 to 2016, yes, demand
10 improves. Canadian imports again take the majority of the
11 increase in demand, but the increase in demand in 2016 is
12 bigger than the increase in 2016. So yes, prices do recover
13 a little, but they're still not back to where they were in
14 2014. U.S. industry performance improves a little, but not
15 back to where it was in 2014. And it's only in 2017 in the
16 interim period when the preliminary duties are in place that
17 you actually see a strong increase in prices and the strong
18 increase in U.S. industry performance, but that's the result
19 of the duties.

20 CHAIRMAN SCHMIDTLEIN: So in 2016, I mean, the
21 U.S. industry performance doubles, almost triples from what
22 it was in '15.

23 MR. YOCIS: From a relatively low level in 2015,
24 yes.

25 CHAIRMAN SCHMIDTLEIN: Right, right. And you've

1 got Canadian imports, in terms of the percentage jump, not
2 quite doubling, so I guess that's what I'm trying to get my
3 head around. The industry is doing well when the Canadians
4 are here more, right, so the Canadians increase and the
5 industry does better and prices go up, so that's what I'm
6 trying to make sense of that sort of contradiction with
7 regard to causation.

8 MR. YOCIS: Sure. And I think I would say that
9 because there are two things going on. There is increased
10 demand and there is increased Canadian supply. And the
11 question is which of those -- so if you're looking just sort
12 at absolute price trends, the question is which of those is
13 moving faster than the other and sometimes the increase in
14 demand is going slightly faster than the increase in
15 Canadian supply and so prices are increasing. But the
16 question is if Canadian had been fairly trading and Canadian
17 imports had been rising commensurate with their market share
18 -- if they had been taking 28 percent and not 62 or 63
19 percent of the increase in imports, there would be that less
20 supply in the market and either more U.S. production or
21 higher prices or probably both. And so the question is, is
22 in what ought to have been a very good year with demand
23 increasing by almost three billion board feet, that's 7 to 8
24 percent decrease in demand in what ought to have been a very
25 good year it was a little bit better than the bad year

1 before.

2 So from our perspective, in the context of the
3 business cycle, that would be injury.

4 CHAIRMAN SCHMIDTLEIN: Okay. Can you respond to
5 the Respondent's argument with regard to why 2014 isn't a
6 good comparison? And they lay out a theory having to do
7 with expected shortfall and that's why prices went up and
8 that 2015 was really just an adjustment from a reaction --
9 you know a fearful reaction in the market in 2014, or maybe
10 one of the industry witnesses would like to respond.

11 MR. YOCIS: And perhaps one of them might. I
12 can just start off. And again, from an economics point of
13 view, both the supply and demand of lumber are relatively
14 inelastic. I mean trees take a long time to grow and so the
15 supply of lumber -- the supply of timber and therefore the
16 supply of lumber doesn't change a whole lot with regard to
17 price; likewise, with demand. Demand is being driven by
18 housing. Housing is being driven by other things than
19 lumber and so it's relatively inelastic. That means your
20 supply and demand curves are both a lot more vertical than
21 you might see in another industry. That means small
22 variations in supply and demand can have big impacts in
23 price.

24 And so with that as background, yes, as the
25 industry began to recover from the recession, what you saw

1 was, and you saw it happen on several occasions,
2 occasionally demand would run ahead of price in the very
3 short term, meaning demand is up, maybe a little bit more
4 than people thought and you've got to -- you've got logging
5 contractors that went out of business during the recession
6 and so you can't just turn up the logging contracting you
7 know and turn that on overnight.

8 It takes some time for things to build up and so
9 you have these short-term increases in prices where prices
10 will go up very quickly and then come back down really for
11 very short-term supply and demand balance reasons rather
12 than the longer term trend. And that's one of the reasons
13 why in terms of trying to evaluate and assess things like
14 inelasticity of substitution and other things as we point
15 out in our submission. You really can't look at trends from
16 one week to the next or one month to the next and try to
17 figure out everything that's going on in the market.

18 It's over a period of quarters and years that
19 you see, as Canada's market share goes up, what the impact
20 of that is on price, so yes, there were some short-term
21 increases in price, especially, in 2013 where prices did
22 increase quickly in response to very short-term factors and
23 then came back down quickly again. So I think you just have
24 to distinguish between the very short-term things that
25 happened at different times in the market and the longer

1 term trend, whether the longer term trend is consistent with
2 the longer term trend in demand that's happening from one
3 year to the next, but perhaps some of the witnesses can talk
4 about how that works.

5 MR. MILLER: I would encourage you to look at
6 the substantial data in our case regarding underselling as a
7 good indication of what pricing would be when you multiply
8 that higher potential pricing against the large volume that
9 has a significant impact on operating income and cash flow.

10 And as Mr. Blocker mentioned earlier,
11 investments we make in our mills and particularly with
12 regard to decisions to hire people these are long-term
13 decisions. You know I'm sitting on a capital project to
14 upgrade a mill with at \$10 million price tag. That's a
15 five, six-year payback investment. I have to not only
16 contend with a normal economic business cycle that goes on
17 for a variety of reasons, then I have to contend with the
18 impacts of unfairly traded Canadian lumber depressing
19 pricing in periods of time that are totally unpredictable.
20 And in my experience over the 30 years I've been in this
21 industry is their behavior depresses prices sometimes most
22 severely in down markets, so I've got to think about the
23 next recession in housing compounded by the subsidized
24 Canadian lumber that tends to press prices even lower
25 because they're insulated from the marketplace impacts of a

1 normal economic cycle. So we have a lot of evidence that
2 indicates we're being consistently undersold, which means
3 our prices are lower than they otherwise would be and our
4 level of profitability, which is necessary to make these
5 significant investments to upgrade our mills and expand
6 them.

7 CHAIRMAN SCHMIDTLEIN: Is this Exhibit 31; is
8 this what you're referring to, the evidence of the
9 underselling?

10 MR. MILLER: Yes.

11 CHAIRMAN SCHMIDTLEIN: Okay, alright.

12 MR. BANAHAM: I would agree with him. I think
13 what we're seeing is the inelastic supply. When we see
14 upticks in demand, you're not seeing an uptick in production
15 from us and the Canadians are grabbing that market share.
16 And the reason you're not seeing that uptick in supply from
17 the U.S. side is because (A) capital and people don't want
18 to put that capital into a risky market on a short-term
19 gain. It's got to have a five or ten-year very sustainable
20 trend in order to see the investment on the U.S. side and
21 that is, in essence, our case. Thank you.

22 CHAIRMAN SCHMIDTLEIN: Alright, thank you.

23 Vice Chairman Johanson.

24 VICE CHAIRMAN JOHANSON: Thank you, Chairman
25 Schmidtlein. Respondents have quoted public statements from

1 members of the petitioning coalition to the effect that the
2 surge of imports that was expected after expiration of the
3 2006 SLA in 2015 never materialized, and this can be seen at
4 pages 13 -- I'm sorry, 133, note 473 of their brief, quoting
5 Weyerhaeuser and Potlach 2015 third quarter earning calls.

6 Resolute identifies additional quotes from 2017
7 to the effect that the industry has enjoyed excellent
8 results despite the lack of duties on Canadian lumber in
9 2016, and this can be seen at Resolutes brief at pages 5 to
10 6. How should we weigh all of this evidence, including
11 statements from Coalition members?

12 MR. BLOCKER: We have had better results, but
13 you have to remember that our results -- better results, if
14 you will, are coming off a period of historic losses, so
15 having better results after losing money is pretty easy.
16 You know the other thing is we are investing the money that
17 we do have back into our existing mills to improve their
18 performance, so we're getting a lot of improvements from our
19 existing mills. At the same time, we're not convenient in
20 adding new capacity because of the uncertainty around the
21 Canadian imports.

22 MR. JOHNSON: Commissioner, one other point. I
23 think we can't look at just their overall performance
24 because they also have profits coming from OSB, from
25 engineered wood, from a lot of other products, from

1 timberlands, whereas, it's not all coming from their sawmill
2 divisions in softwood lumber. So it would be unfair to look
3 at those profits and say, oh, therefore they don't need any
4 assistance because there's a lot of here that are strictly
5 independent sawmill operators that don't have all those
6 benefits.

7 VICE CHAIRMAN JOHANSON: Thank you for your
8 responses. And this is a purely legal argument, what is you
9 all's best argument for a claim of price suppression on this
10 record? And if that's kind of difficult to answer right now
11 feel free to respond to it in your post-hearing brief.

12 MR. YOCIS: We will respond to it in the
13 post-hearing brief. I think our argument will be twofold,
14 one is the general trends in price, which is that, overall,
15 for the period of investigation as a whole, with the
16 exception of the interim period, which is different because
17 of the affect of the duties. But over the period as a whole
18 where Canada's market share is going up, prices,
19 notwithstanding higher demand, are lower than they were at
20 the beginning and so there is the general price trend.

21 I think the second thing would be to say, if you
22 look at the specific lost sales that have been discussed and
23 reported and in many cases document, you have numerous
24 instances time and time again where U.S. mills are being
25 told by their customers we're switching from your product to

1 the Canadian product because the Canadian product is
2 cheaper. That is confirmed by all sorts of reports in the
3 trade press, so Random Links. Can't tell you the number of
4 times -- and we have a number of quotes in our brief and
5 I'm sure we could provide more -- the number of times over
6 the last three years where Random Links will say prices of
7 "X" product are lower this week because of increase supply
8 from Canada. You see it over and over and over again and
9 that is confirmed by what the individual producers are
10 reporting, what their sales people are reporting, that
11 they're losing sales because Canadian wood is lower priced.

12 Mr. Swanson mentioned, for example, earlier in
13 his testimony from Phoenix where his mill used to sell a lot
14 of white Fir into the Phoenix market for housing and the
15 customers there said to him, beginning in 2014, we're
16 getting a lot of really cheap SPF from Canada. We're going
17 to use that instead because you can't match that price. And
18 so when you have that sort of repeated evidence over and
19 over again throughout the country throughout the period
20 that, to us, is strong evidence of price suppression.

21 VICE CHAIRMAN JOHANSON: Thank you, Mr. Yocis,
22 and I look forward to reading anything that you all put in
23 the post-hearing brief.

24 Respondents contend that the import data in the
25 prehearing staff report failed to incorporate an important

1 correction to 2016 data, and this can be seen at page 61 of
2 their brief. Do you agree and does this make a difference,
3 in your view?

4 MR. YOCIS: There have occasionally been what
5 looks like -- at least from the outside, look like anomalies
6 in the trade data. There were some in 2016 that I believe
7 have been corrected. I don't know if that's in the staff
8 report or not, but when we've tracked the data even when
9 those anomalies are corrected the general, overall trends
10 are pretty much the same. You could say the same thing
11 about third country imports in February of 2017. That
12 number looks very strange when you look at it and is, I
13 think -- I've seen comments in the trade press of people
14 saying that that's got to be a data error and I'm sure
15 that'll all get corrected too.

16 So overall, I think one those errors have been
17 corrected they have not changed the overall trends, but we
18 can see in post-hearing if we can come up with some more
19 recent data and provide that to you.

20 MS. HESTER: If I understand your question, this
21 is the correction to the Census data. And in our prehearing
22 brief, the corrections have all been made, so any of the
23 charts and tables in our briefs incorporate the latest
24 corrections and I'm sure the staff report will incorporate
25 those, but they are significant enough to really move the

1 needle.

2 VICE CHAIRMAN JOHANSON: Alright, thank you, Ms.
3 Hester.

4 In the preliminary phase and in prior
5 determinations regarding softwood lumber, the Commission has
6 found that prices of a particular species will affect the
7 prices of other species, particularly, those that are used
8 in the same or similar applications. Please explain if you
9 agree with this finding, and if so, what evidence the
10 Commission should consider in its price affects analysis?

11 MR. HOWARD: In the South, it is all price
12 related. The southeast framing you can use pine, Doug fir,
13 Amber Fir or eastern spruce, western spruce, so they're very
14 much the same. It's all price driven.

15 VICE CHAIRMAN JOHANSON: Mr. Swanson?

16 MR. SWANSON: Yes, we reported lost sales in
17 Phoenix, Arizona where white Fir was displaced by SPF and it
18 was purely a price issue.

19 VICE CHAIRMAN JOHANSON: Okay, thank you for
20 your response. And then I have kind of a general question,
21 something which really wasn't raised very much and maybe
22 there was a reason why, but I know there have been great
23 restrictions on -- or significant restrictions on timber
24 harvest in the United States due to various environmental
25 rulings. I think of the Northern Spotted Owl in California

1 and that's like 20 years or so ago and I believe there's a
2 Yellow Cockhead Woodpecker in the southern states. I know
3 that U.S. environmental laws are particularly strict or at
4 least you all might interpret them that way. Does this make
5 it easier for Canadians to produce timber? Do they have
6 same times of regulations? And this is perhaps a better
7 question for them, but I wanted to raise it with you all
8 since you're the competitors.

9 MR. SWANSON: So this is Steve Swanson. I'm not
10 particularly well versed in Canadian environmental laws, but
11 there is plenty of wood in spite of the restrictions here in
12 the U.S. for us to supply our own market.

13 Were it not for the suppressed prices that we
14 experience in the west today, we would be buying logs that
15 are currently going export from the U.S.

16 VICE CHAIRMAN JOHANSON: So you all -- you do
17 not see these environmental regulations tightening your
18 supply to a significant degree?

19 MS. DAUZAT: This is Caroline Dauzat. In the
20 south, it's mostly private ownership. We have a little bit
21 of federal land and it's the red cockaded woodpecker.

22 VICE CHAIRMAN JOHANSON: Okay, not yellow, I'm
23 sorry.

24 MS. DAUZAT: Yeah.

25 VICE CHAIRMAN JOHANSON: I forget the one --

1 MS. DAUZAT: We have that close to one of our
2 mills, but there's so much private ownership in the south,
3 it's not --

4 VICE CHAIRMAN JOHANSON: Okay. I used to live
5 in California. I heard all about the northern spotted owl.
6 So I had to ask this question.

7 MR. SWANSON: And the industry has adapted to
8 the environmental restrictions. And the industry as it
9 exists today is harvesting primarily on private land
10 throughout the country.

11 VICE CHAIRMAN JOHANSON: But didn't -- I'm
12 thinking back to the northern spotted owl. Didn't that lead
13 to the closure of a number of mills at least in California?
14 This is a ways back I understand, but that was my impression
15 at least.

16 MR. SWANSON: That's accurate.

17 VICE CHAIRMAN JOHANSON: Okay.

18 MR. BENSON: And this is Mark Benson. With
19 respect to the environmental restraints in Canada, which I
20 also am not an expert in, however, anecdotally, we hear and
21 have heard now for a decade that Canada, because of insect
22 infestations, fire, environmental restrictions is going to
23 decrease their outputs. But yet, we have not seen anything
24 to indicate any decrease in outputs. So there's a little
25 bit of a disconnect in what we hear versus what we see at

1 the border.

2 CHAIRMAN SCHMIDTLEIN: All right, thank you, Mr.
3 Benson. My time has expired.

4 MR. BANAHAN: Commissioner, just one quick
5 comment, Steve Banahan. What was actually seen is an
6 accelerated cut on the Canadian side. Western because the
7 mountain pine needle, they've actually encouraged their
8 mills to cut more wood, which has put a lot of pressure on
9 the U.S. market. And now on the East Coast, we're seeing
10 the spruce budworm come back. And they're doing the same
11 thing on the East Coast, which is actually accelerating
12 their cuts as opposed to restricting their cuts as it's
13 happening in the U.S.

14 VICE CHAIRMAN JOHANSON: Has that occurred in
15 United States as well due to let's say infestations?

16 MR. BANAHAN: Not in the same time frame. We
17 have had mountain pine needle infestations in the past. We
18 have had spruce budworm epidemics in the past, but not in
19 the current years.

20 VICE CHAIRMAN JOHANSON: Okay. Thank you for
21 your responses.

22 COMMISSIONER WILLIAMSON: Okay, thank you. Just
23 to clarify, so what you're saying is they're pushing out
24 more wood than they otherwise would to harvest it before the
25 beetle gets to it, is that it?

1 MR. BANAHAN: That's correct. They're
2 harvesting wood that's been killed by the mountain pine
3 beetle out west. They've been doing so for the last 15
4 years at least. And they keep saying that it's going to run
5 out, but they keep extending that time frame. So we've seen
6 no let-up in production from B.C. And now we're seeing an
7 uptick in production from Quebec because of the spruce
8 budworm epidemic there. And they're -- and we're
9 anticipating more pressure from Quebec producers.

10 COMMISSIONER WILLIAMSON: Okay, okay. Thank
11 you. What's -- what data sources are most useful for
12 assessing the demand for softwood lumber and what should we
13 be focusing on in our analysis?

14 MR. YOCIS: This is David Yocis. I can try to
15 start that and then perhaps others may want to supplement.
16 I think in terms of demand, for historic purposes, we
17 generally use consumption. And that is tracked by certainly
18 for, you know, for apparent consumption, there is data from
19 -- the Western Wood Products Association, WWPA publishes
20 monthly data on U.S. production and U.S. shipments. That
21 with a two or three month lag. And then you have import
22 statistics and export statistics, so you can see
23 historically demand from those sources. And that's
24 generally accepted by everyone as being accurate.

25 In terms of projections, generally, there are

1 lots of people who project housing starts. And using
2 housing starts as a general proxy for what lumber demand is
3 likely to be, but that, you know, those forecasts are
4 dependent on macroeconomic variables and those obviously are
5 often difficult to predict.

6 COMMISSIONER WILLIAMSON: Okay. Thank you. To
7 the extent you haven't addressed it, do you have any
8 comments on any of the public data sources used in various
9 parts of the pre^^hearing report? Are there any limitations
10 or concern with any of these data that we should be aware
11 of? Again, if you haven't addressed these points already.
12 And if you want to do it post-hearing, that's fine.

13 MR. YOCIS: We can do it post-hearing. I mean,
14 generally speaking, most people use Random Links pricing.
15 And that's based on, you know, random -- others here for
16 contribute to a Random Links perhaps can just describe it
17 better. It's generally speaking the people make Random
18 Links to survey the industry and it's their best judgment as
19 to what the current price is. And that's published weekly
20 with an interim one. And it's often used in the industry as
21 a benchmark for contract pricing and things like that. So
22 it's probably the best thing out there for lumber pricing
23 information.

24 COMMISSIONER WILLIAMSON: Okay.

25 MR. HOWARD: This is Bill Howard.

1 COMMISSIONER WILLIAMSON: Sure.

2 MR. HOWARD: On the Random Links, it pretty much
3 is the gospel. It is the marker report that everybody uses.
4 And the mills and wholesalers and end users send in numbers
5 on Thursday what they're selling and buying product for and
6 that's how they come up with their information.

7 COMMISSIONER WILLIAMSON: Okay, okay. Thank
8 you. If Commerce excludes Atlantic lumber board certified
9 lumber from the scope, what would be the best sources of
10 data to use to exclude such imports from our analysis?

11 MR. YOCIS: Sure. The exclusion that Commerce
12 has proposed is for -- is not 100 percent automatic
13 excluding lumber produced in the three provinces of Nova
14 Scotia, Prince Edward Island and Newfoundland. It's lumber
15 that's certified as being produced in those provinces and
16 meeting certain other standards.

17 So, you know, first of all, there's no certified
18 lumber during the period of investigation. So I'm not sure
19 if it should be excluded or not, because it literally --
20 being not certified wouldn't have met the standard during
21 most of the period of investigation.

22 Here, the certification didn't start till April
23 of 2017. But if you did, I believe Stats Canada publishes
24 export figures by province. And that probably would be the
25 best proxy if you wanted provincial data on exports to the

1 United States by Canadian province.

2 COMMISSIONER WILLIAMSON: Okay. Good, thank
3 you. You told us a little bit on this already, but at page
4 2^^25 of the pre^^hearing report states that most responding
5 purchasers reported that they would have to change
6 construction techniques or R value number if they switch
7 between species. Does this indicate significant limitations
8 on substitutability among species? I kind of asked this
9 earlier, but anybody has any additional comment?

10 MR. MILLER: This is Andrew Miller. I don't
11 even quite understand the context of that statement. It's
12 -- products are highly interchangeable across uses and
13 completely interchangeable regarding specie.

14 COMMISSIONER WILLIAMSON: Okay. So are you say
15 that any adjustments someone may make because a species are
16 different are not that significant in terms of --

17 MR. MILLER: I see no experience, other than
18 price, in terms of people's selection of framing lumber
19 choice. It's as Mr. Howard's mentioned several times, it's
20 what is the lowest cost product available today to construct
21 the building or meet the requirements of the job?

22 COMMISSIONER WILLIAMSON: Uh^^huh.

23 MR. MILLER: Specie doesn't play a factor
24 whatsoever in my opinion and experience.

25 COMMISSIONER WILLIAMSON: Okay. Anybody else

1 want to add anything now in that otherwise? Okay. Thank
2 you. What explains the level -- the low level of exports by
3 the domestic industry? This is just --

4 MS. DAUZAT: Demand is in the U.S.

5 COMMISSIONER WILLIAMSON: Okay. And there's
6 nowhere --

MS. DAUZAT: We sell into the U.S.
7 mostly because that's where our customers and demand is.

8 COMMISSIONER WILLIAMSON: Okay. And nobody else
9 is building houses the way we build houses?

10 MR. BANAHAN: Commissioner, Steve Banahan,
11 Pleasant River Lumber.

12 COMMISSIONER WILLIAMSON: Yeah.

13 MR. BANAHAN: We do export eastern white pine to
14 the Middle East, to the U.K., to many other countries. So
15 eastern white pine is exported quite a bit.

16 The biggest obstacle to exporting is our strong
17 dollar. Exchange rates are just everything when it comes to
18 importing or exporting. And we're fighting against a very
19 strong tide in that direction.

20 So you know, you're competing with other
21 products that are closer. So freight is the second
22 obstacle. But you know, as long as we can get there and we
23 have a favorable exchange rate, we can export lumber. It's
24 just that the U.S. is the best place to sell the lumber,
25 which is why everyone else comes here, why the Canadians are

1 shipping and controlling 34 percent of our market and why
2 we're seeing wood coming from the -- you know, the Norwegian
3 countries and Austria, and Germany, and a little bit of you
4 know European influence as the market gets better.

5 COMMISSIONER WILLIAMSON: Okay, good. Okay.
6 Thank you. How useful are AUVs for price comparison and
7 trend analysis in this market? Were there likely
8 significant changes in product mix over the period of
9 investigation?

10 MR. YOCIS: It's a good question. I don't know
11 the answer to that. And since you don't know, it's hard to
12 say for sure that it's -- that there could not have been any
13 difference in product mix. But in general in the absence of
14 any evidence that there has been a big shift in the types of
15 products that are being imported from Canada, as you know,
16 Mr. Miller said earlier, what is wood? It's sort of the,
17 you know, types of products that Canada's producing are not
18 changing dramatically from one year to the next.

19 COMMISSIONER WILLIAMSON: Okay, we're not dramatically
20 changing the way we build houses for the most part?

21 MR. YOCIS: Yeah, I mean, unless there's some
22 change in demand. And I'm -- perhaps the witnesses are
23 aware of some change in demand for Canadian lumber or for
24 U.S. lumber for that matter, but I don't ^^^^ I'm not ^^^^
25 I'm certainly not aware of any major changes that would lead

1 you to conclude that there ought to be some difference
2 in the product mix that should affect the AUVs.

3 COMMISSIONER WILLIAMSON: Okay, thank you.

4 MR. ROADY: So this is Chuck Roady. I don't
5 think there's any dynamic change in the product mix because
6 you only have the certain species that grow in your area.

7 COMMISSIONER WILLIAMSON: Uh^^huh.

8 MR. ROADY: So that's what you manufacture.
9 That's what you deliver to your plant. So as far as a
10 difference, you don't really have a lot of ability to change
11 that product mix.

12 COMMISSIONER WILLIAMSON: And also it's ^^
13 it's not like there a different -- people aren't asking for
14 different shapes or different types of wood?

15 MR. ROADY: No, no.

16 COMMISSIONER WILLIAMSON: Okay. Okay. These
17 things we sort of check off --

18 MR. ROADY: No, that's well, I mean, it's just
19 -- I was trying to understand where you were going or what
20 you were getting at. And we can't just automatically change
21 that product.

22 COMMISSIONER WILLIAMSON: Yeah. Okay. Maybe we
23 should tell, there's no reason to go there. Thank you.
24 Given your arguments about capital expenditures being
25 negatively impacted by subject imports, what explains the

1 fairly sharp increase in such expenditures between the
2 interim periods?

3 MS. DAUZAT: After -- this is Caroline Dauzat.
4 After we came out of the recession, we got back to extensive
5 capital investments in our mills and we were not able to do
6 it during the downtime.

7 But what happens is you have to take downtime
8 from your mill during good times to get these capital
9 investments done at your location. But the explanation is
10 we couldn't do it for us it was from 2007 to 2011. Things
11 started to turn around a little bit in 2012. And so, we
12 started aggressively with our investments in 2013 forward.

13 COMMISSIONER WILLIAMSON: Okay. Sort like at
14 some point you got to do them?

15 MS. DAUZAT: Yes, to stay competitive in this
16 industry, you have to make your capital investments.

17 COMMISSIONER WILLIAMSON: Okay.

18 MR. BANAHAN: Commissioner, Steve Banahan,
19 Pleasant River Lumber. We held off on a lot of capital
20 investments. And just like your computer at home, your
21 computer at home is only good for about five to seven years.
22 We spent \$2 million last year just, just replacing computers
23 in the building. And that's just an expenditure we couldn't
24 make when we weren't making any money.

25 COMMISSIONER WILLIAMSON: Okay.

1 MR. BANAHAN: And we've held off on a lot of
2 other major, major projects. You know, just to build a
3 planer facility, for instance, \$6.8 million. I mean, you
4 just can't make those decisions until you're making money.

5 COMMISSIONER WILLIAMSON: Okay. Thank you.

6 MR. BENSON: And Mark Benson with pot latch.
7 And to be clear, during this review period, 2015 resulted in
8 a deferment of capital projects for us. We took projects
9 off the table because of our performance in 2015.

10 COMMISSIONER WILLIAMSON: Okay. Thank you.
11 Just had one last question. Do you agree that demand is
12 likely to increase in the near future? And does this
13 alleviate the threat of material injury by subject imports?

14 MR. SWANSON: I believe that demand -- this is
15 Steve Swanson. I believe that demand will increase, but
16 there is -- the injury will still occur as our profits are
17 diminished by the pressure of unfairly traded subsidized
18 Canadian lumber.

19 COMMISSIONER WILLIAMSON: Okay. Good. Thank
20 you. Oh?

21 MR. BENSON: Mark Benson. I would add to that
22 that the record would show that what we've seen in the last
23 few years has been as there has been more demand, Canada has
24 captured more of that demand than what we have.

25 COMMISSIONER WILLIAMSON: Okay. Okay. Thank

1 you. Sorry for going over. Thank you.

2 CHAIRMAN SCHMIDTLEIN: That's all right. I
3 think -- do you have any more questions?

4 COMMISSIONER BROADBENT: No, no more questions.

5 CHAIRMAN SCHMIDTLEIN: Okay. All right, that
6 concludes the Commissioners' questions. Does the staff have
7 any questions for this panel?

8 MS. HAINES: Elizabeth Haines. Staff has no
9 questions.

10 CHAIRMAN SCHMIDTLEIN: Thank you. Do
11 respondents have any questions for this panel?

12 MR. NICELY: No Madam Chairman.

13 CHAIRMAN SCHMIDTLEIN: All right, thank you. So
14 this brings us to our lunch hour. We're going to take a
15 slightly shorter lunch hour today. Two of us have
16 child-related constraints in the earlier evening. And so,
17 we'd like to -- you know we want to be as far done as
18 possible by 5:00. So we will reconvene at 1:30 today. Let
19 me remind you that the hearing room is not secure, so please
20 take your confidential information with you. And we stand
21 in recess until 1:30.

22 (Whereupon, luncheon recess was taken to
23 reconvene at 1:30 p.m.)

24

25

1 AFTERNOON SESSION

2 (1:37 p.m.)

3 CHAIRMAN SCHMIDTLEIN: Good afternoon.

4 Mr. Secretary, are there any preliminary matters?

5 MR. BISHOP: Yes, Madam Chairman. With your
6 permission, we will add Julia K. Eppert, of counsel with
7 Hughes Hubbard & Reed to page 3 of the witness list. There
8 are no other preliminary matters.

9 CHAIRMAN SCHMIDTLEIN: Very well. We will now
10 turn to the Respondents' direct presentation.

11 MR. BISHOP: Madam Chairman, I would note that
12 those in opposition to the imposition of the antidumping and
13 countervailing duty orders have been seated. All witnesses
14 have been sworn in, and this panel has 60 minutes for their
15 direct testimony.

16 CHAIRMAN SCHMIDTLEIN: Thank you. Mr. Nicely, you
17 may begin when you're ready, or Mr. Parnes.

18 MR. PARNES: If you don't mind, I'll begin. Thank
19 you.

20 Good afternoon. I'll be brief, and then turn it
21 over to Mr. Nicely. It's Eric Parnes, again, on behalf of
22 the Government of Canada and the Joint Respondents.

23 Now at the outset I want to briefly address the
24 significance of the 2006 Softwood Lumber Agreement, or the
25 SLA, which there were some questions on this morning.

1 Now the SLA was signed in 2006, renewed in 2013.
2 The U.S. industry agreed to renew it then. It expired in
3 2015 and it was followed, as you know, by a one-year
4 stand-still period. It was place for 21 of the 42 months of
5 the POI, and it provides important context in two ways.

6 First, the SLA provides evidence of the market
7 conditions under which the U.S. industry previously believed
8 that they were not injured and that no trade protection was
9 needed. The U.S. industry agreed in 2006 and again in 2013
10 that it needs no protection when composite lumber prices
11 exceed \$355 per 1000 board feet, and Canadian market share
12 remains under 34 percent.

13 Note that 34 percent was the share of U.S.
14 consumption held by Canadian softwood lumber in 2001 when
15 the Commission found no current injury in Lumber Four. It
16 was also roughly the share in 2006 when the SLA was signed.

17 But the second point about the SLA is the most
18 important. And that's that the SLA has not been in force
19 since October 2015. And as you can see in the slide,
20 shortly after the SLA expired members of the U.S. industry
21 acknowledged that concerns about a flood of imports from
22 Canada depressing prices were unfounded. Over the 13
23 months that followed, there was no trade protection and no
24 trade investigation. What happened after the SLA expired
25 should therefore be of particular interest to the

1 Commission, and my partner Matt Nicely will now explain what
2 did happen.

3 STATEMENT OF MATTHEW R. NICELY

4 MR. NICELY: Matt Nicely here for the Canadian
5 Government. Since the SLA expired in 2015, the domestic
6 industry has improved by virtually every metric, as you see
7 on this table.

8 Production, capacity utilization, shipments,
9 gross profit, operating profit, net profit, employment,
10 wages, productivity, assets, all up. And all in the absence
11 of trade protection.

12 Based on their questionnaire responses, their
13 brief, and their presentation today in which they
14 mysteriously talk about both declining prices and declining
15 financial performance when both are clearly up, you might
16 think Petitioners are living in an alternative universe.
17 Or, when you catch them being honest about their current
18 performance, they claim they should be doing better in light
19 of the business cycle.

20 Well they obviously can't deny the improvements
21 as the data speak for themselves, so let's talk about their
22 business cycle argument.

23 Petitioners claim that they must, quote,
24 "capitalize enough on our good markets to carry us through
25 the entire cycle." Unquote. But Petitioners offer no

1 analysis of the business cycle whatsoever--what drives it,
2 how long it lasts, and so on. They merely claim that they
3 are currently at the high point of the cycle. The evidence
4 belies this claim.

5 Please look at the next slide which shows the
6 industry's operating margins, apparent consumption, and
7 housing starts since 1983. As you'll see, this industry is
8 more profitable now than at any time for which the
9 Commission has data over the last 35 years. And better even
10 than in 2006, which Petitioners this morning said was a high
11 point when they made 2.1 percent operating margins. That's
12 at Exhibit 44 of Petitioner's prehearing brief.

13 Furthermore, during the POI, annual housing
14 starts, shown here by the red line, range from about 925,000
15 in 2013, to about 1.2 million in 2016. These were lower
16 annual numbers than all but one year, 1991, prior to the
17 Great Recession, going back to 1983. And yet, the
18 industry's average operating margin of 13.2 percent during
19 the POI is more than double the average in any prior period
20 for which the Commission has data, including the Lumber Four
21 POI when the Commission went negative on current injury.

22 What's clear from this chart is that the U.S.
23 housing market, the key driver of demand for lumber, is
24 nowhere near recovering fully from the effects of the Great
25 Recession. As a result, the industry is nowhere near the

1 top of the business cycle.

2 Indeed, as shown in the next slide, FEA shows us
3 the significant amount of under-building that occurred in
4 the wake of the Great Recession. The yellow triangle on
5 this slide, a slide that FEA created not us, reflects the
6 houses that would have been built but for the Recession.

7 This created a tremendous amount of what FEA
8 calls "pent-up demand" that will fuel increases in housing
9 starts long into the foreseeable future as housing supply
10 catches up to underlying demand.

11 Slide 10. This positive future outlook is echoed
12 by every industry source, including the investor
13 presentations of the Petitioners themselves. Look at
14 Weyerhaeuser's forecast on this slide going through 2020
15 where they cite to the same FEA projections and pent-up
16 demand that I just cited.

17 Next, Potlach. This is what Potlach projects,
18 citing RICI forecasts and pointing out how we still haven't
19 reached the annual 1.5 million average housing starts that
20 were the norm since 1970.

21 The fact is, we're nowhere near the top of the
22 business cycle, and the Petitioners know it. So using our
23 earlier slide again with the forecasts added, demand is
24 projected to go up and up and up for the next four years.
25 The fantastic performance the industry has experienced

1 during the POI, and particularly since the SLA expired,
2 only promises to be more fantastic in the future. As
3 Weyerhaeuser's CEO had said last year, quote, "the future
4 couldn't be brighter." This is clearly not an industry that
5 can claim to be injured or threatened as a result of an
6 oncoming downturn in the business cycle because there is no
7 oncoming downturn.

8 Let me turn it over now to Jim Dougan to cover
9 the earlier parts of the POI.

10 STATEMENT OF JAMES P. DOUGAN

11 MR. DOUGAN: Jim Dougan of ECS. Good afternoon.

12 First let's talk about price. There's no
13 probative record evidence of under-selling by subject
14 imports. The pricing data collected in the final phase show
15 a preponderance of over-selling, and show that the instances
16 and quantities of imports over-sold increased over the POI.

17 We acknowledge that these data do not provide
18 comparisons of products sold to the same market.
19 Nevertheless, they provide no basis to support a finding of
20 under-selling by reason of subject imports.

21 Petitioners have scrambled to find alternative
22 evidence of under-selling. First, they argue that the
23 Commission should rely on the pricing data from the prelim,
24 even though the Commission already declined to make any
25 finding using these data.

1 In an industry with millions of transactions
2 happening each year, the questionnaires yielded only 12
3 comparisons over 3-1/2 years. And even so, the prelim data
4 are mixed, with seven instances of under-selling and five of
5 over-selling. These data are no basis for the finding of
6 adverse price effects.

7 Second, Petitioners argue for the use of
8 third-party pricing data, but the Commission has previously
9 found this to be inappropriate for purposes of its
10 under-selling analysis and should make the same finding
11 here.

12 The other evidence on price effects is similarly
13 lacking. As shown at page 97 of Respondent's prehearing
14 brief, the amount of purchases allegedly switched to subject
15 imports on the basis of price is only a small minority of
16 reported purchases of imports.

17 Moreover, the prehearing report shows that only 4
18 out of 38 purchasers reported that U.S. producers had
19 reduced their prices to compete with imports.

20 Finally, considering that the industry's COGs to
21 sales ration improved from 89.5 percent in 2015 to 78.5 in
22 interim 2017, there also is no price suppression.

23 The lack of any price effects from subject
24 imports is consistent with trends in the industry's
25 performance over the POI. As shown at slide 17, prices and

1 industry profitability increased significantly from 2012 to
2 2013, fell slightly but remained high in 2014, then fell
3 more substantially in 2015. Virtually all of that period,
4 through October 12, 2015, was covered by the SLA.

5 In 2016, a completely free trade period after the
6 expiration of the SLA, prices and industry profitability
7 both increased strongly. The variation in industry
8 profitability from 2013 to 2015 wasn't a business cycle
9 where 2013 was the peak and 2015 was the trough, housing
10 starts were roughly 925,000 in 2013 and just over a million
11 in 2014.

12 So apart from the Great Recession years of 2008
13 to '12, these were lower than annual housing starts in any
14 year, all the way back to 1959. So what happened? What
15 caused prices and profitability to spike in 2013 and '14?
16 And why, if demand in housing starts grew again in 2015, did
17 prices drop?

18 The answer doesn't have anything to do with
19 subject imports. Please take a look at this next slide. If
20 there's only one slide I'd like you to focus on, this is the
21 one. What it shows is that the modest increases in subject
22 import market share bear no relationship to the wild swings
23 in prices and the industry's profitability.

24 What's more, even after these increases, subject
25 import's market share remained well below the 34 percent

1 threshold that the Commission had found to be not injurious
2 in Lumber Four.

3 So let's take a year-by-year look at what
4 happened. From 2012 to 2013, apparent consumption grew by
5 8.1 percent. So did prices. The average framing lumber
6 composite index, or FLCI, jumped by 19 percent. So did
7 domestic producers' operating margin, by 8.7 percentage
8 points. But here's the thing: So did the market share of
9 imports from Canada, by 1.6 percentage points.

10 Between 2013 and 2014, apparent consumption grew
11 again by 7.3 percent, and prices remained high falling only
12 a fraction of a percent. The industry's profitability
13 remained high at 15.7 percent. The market share of subject
14 imports grew again by one percentage point, less than in the
15 previous year.

16 In 2015, apparent consumption grew again by 3.9
17 percent, slower than in the previous two years. Prices
18 dropped by 13.8 percent and the industry's operating margin
19 fell by 10 percentage points. But subject import market
20 share increased by only 1.5 percentage points, which was
21 less than in 2013 when prices and the industry's
22 profitability spiked. The idea that the 2015 price drop
23 was attributable to imports therefore makes no sense.

24 It makes even less sense, considering what
25 happened in 2016. Subject import market share increased by

1 the most of any period in the POI, 1.9 percentage points,
2 and yet prices increased by 4.8 percent, and the industry's
3 operating margin increased by 5.6 percentage points,
4 practically doubling.

5 Increasing subject imports cannot logically be
6 responsible for both declines and increases in prices and
7 profitability. So if not imports, what did explain the
8 variations in prices and profitability between 2013 and
9 2015?

10 As Respondents explained at pages 113 to 119 of
11 our prehearing brief, these variations were the result of a
12 price bubble followed by a price correction, all driven by
13 domestic producers' varying ability to supply the market.

14 In early 2013, industry analysts and the industry
15 itself acknowledged its inability to keep up with an
16 unexpectedly strong improvement in the housing market in
17 late 2012 and early 2013. This was reflected in the fact
18 that housing starts jumped by 18.5 percent from 2012 to '13.

19 The domestic industry was initially slow to
20 react. The attrition in logging and transportation
21 infrastructure during the Great Recession hampered the
22 mills' ability to obtain logs, particularly in the U.S.
23 West.

24 In the South, labor constraints also limited
25 mills' ability to increase production. Moreover, there was

1 a lag between significant new investments taking place in
2 response to these prices and when the associated production
3 would come on line. A large portion of this new production
4 did not come on line until the first quarter of 2015.

5 This increased production, along with the fact
6 that 2015 demand grew more slowly than had been previously
7 predicted, drove down overall prices. This is not post
8 facto theorizing on Respondent's part.

9 While prices soared in 2013 and 2014, members of
10 the Coalition and industry analysts alike were commenting
11 publicly about how the domestic industry was struggling to
12 ramp up production quickly enough to adequately meet demand,
13 and how that kept prices high.

14 In early 2013, Random Lengths noted that demand
15 had outstripped supply as early as the second half of 2012.
16 In first quarter 2013, Potlatch COO, Eric Kramers, noted,
17 quote, "A fundamental imbalance between supply and demand."

18 In fourth quarter 2013, Weyerhaeuser's CEO Doyle
19 Simmons, noted that his customers were concerned about
20 getting adequate supply from them.

21 In April 2014, Random Lengths cited persuasive
22 evidence of companies' increasing efforts to expand output.
23 But by November 2014, however, Lumber Advisor noted that new
24 production coming on line in first quarter 2015 would hold
25 down prices.

1 By December 2014, Lumber Advisor opined that
2 industry expectations of housing forecasts were becoming
3 more pessimistic, and that they expected starts and
4 therefore consumption to, quote, "disappoint on the
5 downside."

6 So while demand grew by 3.9 percent in 2015, it
7 was slower growth than in the prior two years. And the
8 additional domestic capacity was coming on line at the same
9 time, leading to a decline in prices.

10 The foregoing explanation makes far more sense
11 than attributing the changes to subject imports, as
12 Petitioners do. This is especially true considering that
13 all of the price declines in 2015 preceded the expiration of
14 the SLA.

15 As shown at slide 27, the absolute price trough
16 during the POI was in September 2015, the month before the
17 SLA expired. From that point forward, prices increased
18 significantly, even before the Petition was filed at the end
19 of November 2016.

20 And as discussed earlier, subject import volume
21 an market share increased the most from 2015 to 2016, and
22 yet prices and profitability increased. The facts simply do
23 not support the notion that imports have had adverse effects
24 on the domestic industry.

25 MR. NICELY: Matt Nicely again. So let's talk

1 about the interim periods, slide 29. I'm going to start
2 with the same slide I started with earlier. As you see
3 here, the industry's profitability improved again between
4 interim 2016 and interim 2017 to 17.5 percent, which is
5 above its 2014 level and is nearly the same as in 2013,
6 which was the industry's highest margin on record.

7 Petitioner wants you to ignore this period of
8 time because they say it's tainted by the investigation.
9 You should reject this argument because the industry's
10 performance improved for reasons having nothing to do with
11 the investigation.

12 Consider housing starts, which the Census Bureau
13 shows have continued their climb up since the Petition was
14 filed. So demand for lumber continues to grow and,
15 importantly, Petitioners agree, as Weyerhaeuser's CEO talked
16 about the uptick in housing starts in the first half of 2017
17 during the company's recent second quarter 2017 earnings
18 call.

19 So increasing demand is pushing higher--pushing
20 prices higher, not just for lumber but for other building
21 materials we well. Look at what Weyerhaeuser's CFO said
22 about these prices in the same two Q-2017 call where he
23 referenced continued strong pricing for lumber, OSB, and
24 engineered wood products during the first half of 2017.

25 And indeed it's true. As shown here, slide 33,

1 prices have increased not just for softwood lumber but for
2 other housing materials as well, including structural
3 panels. And as you see, those prices continue their upward
4 trend even during the gap period when the provisional CVD
5 measures were lifted. All, as you'll hear from Canfor's
6 Mark Feldinger and our NEHB witnesses today, there's no
7 expectation that those prices will fall regardless of this
8 case.

9 Indeed, slide 34 shows that when specifically
10 asked about the effect of this investigation, including the
11 preliminary duties, Mr. Simmons at Weyerhaeuser said that
12 the, quote, "uncertainty around the SLA has driven
13 volatility in pricing, but the overall pricing trend has
14 been driven by fundamentals of supply and demand."
15 Unquote.

16 The fact is, the industry as a whole is very
17 successful and its fortunes are going nowhere but up. Let
18 me show you this confidential slide that's in front of just
19 you, the Commissioners. So as you'll see, sitting before
20 you this morning were some of the most profitable companies
21 in this industry.

22 Now we recognize that some companies in the
23 industry are not doing as well, including a few of the
24 companies that are represented here today. But that has
25 nothing to do with subject imports.

1 The companies that performed comparatively worse
2 were largely located in the West, which have identified
3 limited timber supply as contributing to the very tight
4 relationship between timber costs and lumber prices.

5 Take a look at the next confidential slide in
6 which a key U.S. producer specifically admitted to this
7 tight relationship. Potlach executives said the same thing
8 during their most recent earnings call, indicating that,
9 quote, "northern saw logs are indexed to the price of the
10 WWPA Lumber Index," unquote.

11 This is a known phenomenon out West, and it
12 explains why some companies in that part of the country,
13 particularly those with their own timberland businesses, are
14 not doing as well as others, even though demand for lumber
15 and lumber prices are on the rise.

16 This is also consistent with record data. As we
17 set forth in our brief and show again here, out West timber
18 prices track lumber prices. But in the South where timber
19 is abundant, timber prices remain relatively stable while
20 SYP prices vary. The well-known and fully acknowledged
21 effect of limited western timber supply explains why some
22 members of the industry aren't doing as well. It's not
23 imports.

24 MR. DOUGAN: Jim Dougan again. In its brief the
25 Coalition claimed that the domestic industry has maintained

1 profitability at the expense of investments necessary to
2 maintain long-term competitiveness in the U.S. market.

3 The statement is flatly incorrect and betrays a
4 fundamental misunderstanding of basic accounting principles.
5 Capital expenditures affect the cash flow statement and
6 balance sheet. A company cannot increase or decrease its
7 profitability by electing to make different levels of
8 capital investments.

9 The question for the Commission is whether the
10 profits and cash flow generated by the domestic industry's
11 operations were sufficient so support a level of capital
12 expenditures necessary for future growth and
13 competitiveness. The answer from the record is a resounding
14 Yes.

15 I show on the next slide the domestic industry's
16 capital expenditures far exceeded its depreciation expenses
17 over the POI, meaning that it was not just restoring
18 depleted assets but adding to its asset base.

19 This is obvious from the fact that the domestic
20 industry's assets increased by 24 percent from 2014 to 2016.
21 This industry has invested billions, \$2.5 billion, over the
22 course of the POI. Any observed decline in Cap X from 2014
23 to 2016 could only be evidence of injury if it was because
24 domestic producers lacked the resources to make additional
25 capital investments.

1 This was decidedly not the case. As shown on the
2 next slide, in 2016 the low point of capital expenditures
3 during the three full years of the POI. The industry
4 generated \$983 million in cash from operations. That is
5 before investment activities like Cap X are considered.
6 After deducting the \$585 million in Cap X for that year, the
7 industry still had \$398 million in cash left over.

8 Over the full POI, the industry's operations
9 generated about \$3.5 billion in cash. After the roughly
10 \$2.5 billion in capital expenditures over the POI, the
11 industry had almost another billion in cash on its books.
12 And yet in its prehearing brief, the Coalition claimed that
13 the industry, quote, "struggled to gather the capital
14 necessary to invest." End quote.

15 This is nonsense. The industry has ample capital
16 to invest, and has invested to the tune of \$2.5 billion.
17 But it has been strategic about doing so. As you saw from
18 earlier in the presentation, despite strong growth over the
19 POI, demand has not yet recovered to the levels before the
20 Great Recession.

21 MR. DOUGAN: Domestic producers are being
22 disciplined in how they bring new capacity online, less they
23 increase capacity more quickly than demand would warrant. A
24 mismatch in capacity and demand would cause prices and
25 profits to fall, much like happened in 2015. So what are

1 the companies doing with all of this cash? As you can see,
2 they've invested \$2.5 billion in their lumber business, but
3 in 2017 Potlach's CEO, Michael Covey, said "Our priority for
4 cash that we are accumulating due to a strong lumber price
5 remains both on timberland acquisitions with attractive
6 returns.

7 Potlach, like the domestic industry as a whole,
8 isn't struggling to gather investment capital. They're
9 generating a lot of it and they are investing it, whether in
10 the lumber business or in the timber business.

11 MR. PARNES: Now one reason the domestic
12 industry can perform so well when Canadian market share
13 increases is that the domestic product differs from the
14 imported product. A great example of this you heard this
15 morning Rex Lumber's story about Habitat for Humanity.
16 Habitat for Humanity apparently chose to buy Canadian SPF
17 lumber to build their houses rather than accepting free SYP
18 lumber from Rex Lumber. That's pretty compelling evidence
19 about species preference and attenuated competition.

20 In many respects, Canadian softwood lumber and
21 the domestically produced softwood lumber are actually
22 complimentary products and this helps explain the enormous
23 Canadian investments in U.S. mills, which create jobs for
24 U.S. workers. As you can see, West Fraser, a large Canadian
25 softwood lumber producer has invested in extensive

1 production capacity in the U.S. and so has Canfor. Mr.
2 Feldinger will explain why shortly. The complimentary
3 nature of production from the two countries also helps
4 explain why a large U.S. company like Weyerhaeuser has been
5 operating in Canada for decades.

6 The two countries do produce some overlapping
7 products, but more that are different. One important
8 difference in production is species. In its preliminary
9 determination, the Commission looked at the percentages of
10 different species produced in the two countries, added up
11 the percentages of each species produced in both countries
12 and conclude that "Species common to both countries
13 accounted for approximately 41 percent of U.S. production
14 and about 95 percent of Canadian production in 2015."

15 Now that is technically true, but it's not very
16 helpful to understanding the extent of species overlap and
17 the potential for direct competition. If you look at the
18 next slide, the volumes of shipment of each species to the
19 U.S. market from domestic producers and Canadian producers
20 is far more instructive. For instance, the U.S. produces
21 more than 7 1/2 board feet of Douglas fir, while Canada
22 exports only 414 million board feet of Douglas Fir to the
23 U.S. That's the overlap in U.S. production and in imports
24 from Canada of that species.

25 Now if you add up the common species, you see

1 that less than 9 percent of U.S. volume is the same species
2 as less than 22 percent of imports from Canada. So put
3 another way, 91 percent of U.S. production volume does not
4 overlap with volumes being imported from Canada.

5 Dr. Krutz will now discuss why the difference in
6 species produced in the two countries matter.

7 STATEMENT OF KIVANC KIRGIZ

8 DR. KRUTZ: Good afternoon. Kivanc Kirgiz, I'm
9 an economist with Cornerstone Research. We reviewed all the
10 studies since Lumber 4 that estimated the last substitution
11 between Canadian SPF and U.S. produced SYP Doug fir, we also
12 conducted our own econometric study. Prior literature in
13 our analysis show that there is limited substitution between
14 Canadian and U.S. softwood lumber in response to price
15 changes.

16 Petitioner has raised several criticisms of the
17 current literature. These criticisms, overall, are not
18 valid. For example, Petitioner argues that aggregation may
19 bias the estimates; however, the studies specifically
20 analyzed softwood lumber, even at the species level and do
21 not estimate inelasticities at more aggregated levels.
22 However, the criticisms raised concerns about the consistent
23 findings of academic research.

24 Low inelasticity of substitutions reflects the
25 actual economic behavior of purchasers in the marketplace,

1 not theoretical interchangeability of species. Even though
2 different species can sometimes be used in the same
3 application, in reality, customers do not switch between
4 Canadian species and U.S. species in any significant degree
5 in response to price changes. Questionnaire responses
6 reflect this behavior.

7 You will hear from Mr. Martin and Mr. Baalman
8 that many builders and designers have species preferences
9 for different applications. Regional factors also limit
10 head-to-head competition between species in many geographic
11 markets. For example, U.S. Doug Fir is primarily produced
12 and consumed in the U.S. West. SPF does not compete with
13 Doug Fir in this region in any significant degree as only
14 about 10 percent of Canadian SPF is shipped to the U.S.
15 West.

16 We also analyzed the relationship between U.S.
17 housing starts and the market share of Canadian lumber in
18 the U.S. I understand that SPF is used relatively more in
19 housing construction and relatively less in other
20 applications. For example, SPF is no used in treated lumber
21 applications at all, while around half of SYP production is
22 treated.

23 You will hear Mr. Martin explain that most of
24 the lumber used to build the house is either Doug Fir or
25 SPF. Due to this consumption pattern, when lumber demands

1 from residential construction outpaces demand from other
2 applications, the market share of SPF would be expected to
3 increase. These slides show the percentage of lumber used
4 in residential construction as well as the percentage of
5 lumber in repair and remodeling. Those are the lines in
6 black and gray.

7 The chart also shows that the market shares of
8 Canadian lumber and SYP, so Canadian lumber is green. SYP
9 is in blue. The chart shows that, historically, market
10 share of Canadian lumber has moved with U.S. residential
11 construction. On the other hand, market share of SYP is
12 more tied to applications other than residential
13 construction.

14 In our econometric study, we analyzed how demand
15 for Canadian SPF changes relative to demand for U.S.
16 produced SYP and Doug Fir as residential construction
17 increases. The control for prices, repair and remodeling
18 activity, that also impact relative volumes. Our findings
19 confirm that, keeping all else constant, when housing starts
20 increase the demand for SPF increases relative to SYP and
21 Doug fir. The results are statistically significant and
22 robust to alternative estimation techniques.

23 Our findings indicate that the growth in housing
24 starts and the proportion of lumber demands from residential
25 construction during the POI was an important factor

1 underlying the increase in the market share of Canadian
2 lumber. Thank you.

3 STATEMENT OF EDWARD MARTIN

4 MR. MARTIN: Good afternoon. My name is Eddie
5 Martin, CEO of Tilison Home Corporation, appearing today on
6 behalf of the National Association of Home Builders or NAHB.
7 I currently serve as Chairman of the NAHB Bill Pact and in
8 that role I represent the interest of the NAHB members to
9 our elected officials at the national level.

10 As you know, NAHB opposes duties on softwood
11 lumber from Canada. I'm here to provide the perspective of
12 a professional homebuilder. Under the leadership of four
13 generations of family members over the past 85 years,
14 Tilison has built over 30,000 homes in Texas. I,
15 personally, have worked at Tilison for more than 25 years.

16 The housing market, and by extension the lumber
17 industry, is cyclical. Overall, residential housing has
18 been making a comeback in recent years. We're still
19 catching up to pre-recession levels and projections going
20 forward are very encouraging as the U.S. economy continues
21 to improve and a large segment of the population reaches
22 home-buying age. We are nowhere near the top of the current
23 cycle.

24 To fully understand how rising demand for
25 housing affects homebuilders and the lumber industry, it's

1 important to understand how lumber is actually used to build
2 a home. I'm aware that at a preliminary conference back in
3 December Mr. Miller testified that he thought builders in
4 Texas would frame homes out of straw if they could and that
5 Texas builders don't care what kind of lumber they use as
6 long as it's cheap, as he reiterated this afternoon.

7 As a Texas homebuilder, I'm offended by that.
8 The way we build homes at Tilison, which is broadly
9 representative by other U.S. homebuilders across the
10 country, is we use a mix of different species and dimensions
11 of lumber for particular parts of the home. About 55
12 percent of the lumber we use to build a home is dedicated
13 to wall framing, while 45 percent is used elsewhere, such as
14 ceiling joists and rafters. We never use southern yellow
15 pine to frame walls of a home and we don't use it
16 exclusively in ceilings or roofs, so over 55 percent of the
17 lumber in each home we build does not have southern yellow
18 pine, and remember this is Texas where southern yellow pine
19 is plentiful and in our experience always cheaper than Doug
20 Fir or SPF.

21 I heard this morning from Ms. Dauzat that
22 professional builders know that any differences between
23 southern yellow pine and SPF are minor and don't matter
24 much. That is flat wrong. We don't use southern yellow
25 pine for wall framing because of its tendency to twist and

1 warp, which causes the drywall to buckle, upsetting
2 customers and requiring us to come out and make repairs. In
3 my experience, builders that rely on Doug Fir and SPF for
4 this use do not switch to southern yellow pine. As between
5 Doug Fir and SPF for framing, we never switch between the
6 two based on price.

7 Even before Hurricanes Harvey and Irma, the U.S.
8 lumber industry simply could not meet all the specific needs
9 of homebuilders. In light of increasing demand, NAHB has
10 been looking for other sources to meet builders' needs. In
11 the last three years, we've been seeing more lumber coming
12 in from Europe where the products share similar
13 characteristics to SPF. There have been even reports of
14 Russian lumber starting to enter the U.S. market.

15 In closing, I would note that this is a very
16 trying time builders and their customers in Texas. As a
17 result of Harvey, three Tilison model homes were damaged, 40
18 of our construction sites were affected, and 10 of my
19 employees were significantly flooded. Moving forward, there
20 is going to be a lot of rebuilding. Tens of thousands of
21 people, like my employees, are going to be in a bad place,
22 financially, and increases in material costs will have a
23 real and lasting affect on their ability to have homes. The
24 reality is that we're going to need significant amount of
25 lumber, including SPF, to rebuild.

1 Sadly, it looks like the people in Florida are
2 facing a similar situation. Thank you.

3 STATEMENT OF THOMAS BAALMANN

4 MR. BAALMANN: Good afternoon. My name is Tom
5 Baalman and I'm the owner and general manager of B&B Lumber
6 Company. We're a family-run business in Kansas. We sell to
7 everyone from commercial contractors to Do-It-Yourselfers,
8 what I like to call weekend warriors. We pride ourselves on
9 providing the same breadth of products that you'd find in a
10 big box store with hands-on service.

11 I currently serve as the national director on
12 NAHB's Board of Director and I'm appearing here today on
13 behalf of the NAHB in opposition to this petition. I also
14 serve on the Lumbers Futures Buying Committee of LBM
15 Advantage, a dealer-owned cooperative with 441 independent
16 dealers in 827 locations nationwide and a multibillion
17 dollar purchasing power.

18 My work with LBM gives me good insight into the
19 supply and demand conditions for lumber across the country.
20 First, our customers, and I imagine most end users, have
21 strong preferences when it comes to the lumber species used.
22 This is the case, whether we are talking about residential
23 construction or commercial construction. For a commercial
24 construction, there is little substitution between lumber
25 species because the structural engineers require certain

1 materials for certain applications. The engineer dictates
2 the species to be used for the project and it is costly and
3 time-consuming to deviate from those plans once a project is
4 underway.

5 This is because the structural engineer has
6 taken into account the specific physical characteristics of
7 the species they have selected. Changes the species can
8 drastically change the amount of lumber needed. For
9 example, once the stud spacing has been set, the species of
10 the lumber for the header is selected to ensure that it is
11 strong enough to cross the span.

12 So when Mr. Banaham said at the preliminary
13 conference that a condo project will list three or four
14 different species and then pick the cheapest one that isn't
15 how it works in the real world. For our non-professional
16 customers, our business practice is to provide advice based
17 off of building codes and part of the information that we
18 provide is what species of lumber to use. The species we
19 suggest might differ between our stores. This is due to
20 the differences in building codes.

21 With residential construction, there isn't much
22 substitution of species because of what I call the tribal
23 knowledge. These builders learned how to build homes using
24 a particular species and they don't switch. This is how
25 they've always done it and this is what works for them to

1 meet the local building codes. For example, my local market
2 doesn't like using SYP for wall frames because of the
3 warping and twisting. The narrow dimension of SYP, like
4 two-by-fours, they just don't stay straight.

5 Now with Doug fir, you have to distinguish
6 between green and kiln-dried or KD, because they are not
7 interchangeable. In fact, our local building codes do not
8 even allow the use of green Doug fir. We also do not see a
9 lot of demand for dry Doug Fir for framing walls even though
10 it could be used. SPF is the prominent choice for wall
11 framing in my market.

12 In Tulsa, however, on the other hand, builders
13 have been using green Doug Fir to frame walls for
14 generations and may prefer it over SPF. As a result, there
15 are established distribution channels to get green Doug Fir
16 from mills to that market. These different preferences are
17 very real and we base our business practices on them. In
18 fact, LBM hires separate traders for each species of lumber
19 we monitor.

20 While we are on the topic of Doug fir, it is my
21 experience that western producers cannot satisfy all of the
22 demand. In our region, KD Doug Fir is in demand for
23 commercial construction because it is strong and it can be
24 used for longer spans than other species, unlike SPF, for
25 example. Prices for KD Doug Fir are getting put up in other

1 markets where the builders are accustomed to using it and
2 they have already established shipping lanes.

3 So for builders in our region, even if they
4 wanted to use KD Doug fir, they can't get their hands on it
5 cost effectively. Why have these producers been struggling
6 to meet demand, the logs are exported overseas where they
7 can get more money for them due to log constraints. Just
8 last week, I read in Random Links that Swanson curtailed
9 their mills in Oregon because there was no log deck to make
10 lumber from and I don't think I heard that this morning from
11 them. So with prices at historic highs, they have provided
12 no explanation why they cannot secure a log deck. Mr.
13 Swanson's experience is typical of the mills in that region
14 overall. Thank you.

15 STATEMENT OF MARK FELDINGER

16 MR. FELDINGER: Good afternoon. I'm Mark
17 Feldinger, the Senior Vice President for Energy,
18 Environment, Transportation, and Sourcing at Canfor
19 Corporation and a professional forester. I've been for
20 Canfor for 33 years. Canfor is one of the largest
21 producers of softwood lumber in North America. In Canada,
22 Canadian Forest Products, Ltd., or CFP, produces lumber at
23 12 sawmills in British Columbia and one mill in Alberta.
24 CFP's sawmills produce a variety of dimension lumber,
25 primarily, from spruce pine Fir or SPF and some Douglas fir.

1 In the United States, Canfor Southern Pine, Inc.
2 produces a variety of dimension lumber from southern yellow
3 pine or SYP at 11 sawmills operating in North Carolina,
4 South Carolina, Georgia, Alabama, Mississippi, and Arkansas.
5 The operations of CFP and Canfor Southern Pine are
6 completely separate and are operated as different divisions
7 in the company. CFP sells to its customers in the United
8 States who are purchasing SPF and Douglas fir. Canfor
9 Southern Pines sells to customers who are looking for SYP.
10 While Canfor may sell SPF and SYP products to the same
11 customers, the two operations do not intermingle or
12 substitute customer orders from each other. They operate as
13 separate entities.

14 The biggest issue that Canfor and other
15 producers in British Columbia face is one of fiber supply.
16 Since the late 1990s, BC forests have faced a massive
17 outbreak of Mountain Pine beetle that has destroyed millions
18 of hectares of pine forest. This has resulted in substantial
19 reductions in harvestable fiber, which, in turn, has lead
20 directly to mill closures throughout the BC interior. Since
21 2011, deteriorating fiber supply has lead us to permanently
22 close four sawmills in British Columbia with an aggregate
23 capacity of over 800 million board feet.

24 I understand that Petitioners have claimed that
25 producers are unlikely to curtail or close production

1 capacity in Canada because of the risk of permanently losing
2 a license to harvest timber in government-owned forests. As
3 our experiences show, this simply is not true. There is no
4 minimum or mandatory cut requirement in BC or Alberta, no
5 obligation to process timber harvested from our tenures and
6 no restrictions on shutting down capacity when market
7 conditions compel that result. Mill closures are a fact of
8 life in BC and Alberta and a direct consequence of
9 diminishing fiber supply. I would add that during the great
10 recession the BC interior lost more sawmill capacity and
11 production than any other region in North America.

12 Faced with the prospective of declining fiber
13 supply in BC, Canfor began investing in sawmills in the
14 southern United States in 2006. The motivation was twofold.
15 First, the U.S. south has the most abundant and low-cost
16 fiber supply in North America. Second, the lumber produced
17 in the southern United States is southern yellow pine and
18 does not compete directly with and indeed is complimentary
19 to the SPF lumber we produce in Canada. So these
20 acquisitions brought us additional business while allowing
21 us to sell a different product that would not cannibalize
22 our existing U.S. business selling SPF lumber, but allowed
23 us to expand our business with our highly valued U.S.
24 customers.

25 Since 2006, Canfor has made a number of

1 additional investments in the South. We also made a number
2 of capital investments to upgrade and improve the
3 performance and competitiveness of the mills we've acquired.
4 We directly employ 1,345 American workers in our 11
5 sawmills. We focused our investment dollars on upgrading
6 sawmills and drying capacity. We closed facilities used to
7 treat SYP for outdoor applications so that we could
8 concentrate on sawmill production. Now treaters are some of
9 Canfor Southern Pines largest customers because, unlike
10 SPF, SYP is well suited for treating and there is a
11 substantial U.S. market for treated lumber. Considerable
12 SYP production goes to treating and this is a market that we
13 cannot serve from our Canadian sawmills.

14 As you know from the financial data we've
15 provided, Canfor Southern Pine has been extremely profitable
16 during the POI. We also have made significant capital
17 investitures in recent years and there have been no
18 impediments to that investment. Frankly, I don't know how
19 my colleagues testifying earlier today who produce SYP can
20 possibly claim that they're injured at all given the
21 current operating profits that we and they are making or
22 they have somehow lacked the cash flow to make additional
23 investments. That certainly is not our experience. Our
24 management is extremely pleased with the results from
25 Canfor's U.S. operations which have far outperformed our

1 Canadian operations over the past few years because of the
2 lower cost of timber in the South and because the U.S. mills
3 are closer to the U.S. market. Thank you.

4 MR. PARNES: I'll briefly address threat. Now
5 we've already presented evidence that addresses many of the
6 statutory factors. For instance, prices and volumes are
7 trending upwards and all indications suggest that will
8 continue as demand increases. In addition, there's been no
9 affirmative finding by Commerce with respect to any alleged
10 exports subsidy or any subsidy that would increase subject
11 imports.

12 There are also significant constraints on the
13 capacity of Canadian producers to increase volumes. The
14 affects of the Mountain Pine beetle on timber supply in
15 British Columbia constitutes one of the greatest ecological
16 disasters of modern times. As U.S. Coalition members have
17 acknowledged, the damage from the pine beetle constrains the
18 ability of BC mills to increase production to meet growing
19 U.S. demand. As Potlach's chief operation officer said in
20 2013, the affects of the Mountain Pine beetle are like a
21 ticking time bomb. And as you can see, if you look at the
22 screen, you can watch how the explosion has happened.

23 The green on that first slide represents the
24 pine forest areas, which, historically, fed around 50
25 percent of the BC lumber production, now the red that's

1 coming in that shows pine killed by the beetle. Those dead
2 trees become less and less useable to produce lumber over
3 time. You can see the areas in gray at the end of the
4 sequence are those in which the majority of pine has been
5 dead for more than 10 years.

6 MR. PARNES: To make matters worse, 2017 saw
7 British Columbia's interior forests hit by the most
8 devastating forest fires in recorded history. Now these
9 fires consumed not only dead pine, but also extensive
10 non-pine forests that had been spared by the pine beetle.
11 At the same time, demand in the U.S. market is high and is
12 expected to grow well into the foreseeable future. There's
13 no threat of injury to the domestic industry.

14 MR. GROVE: Good afternoon. I'm John Grove --

15 STATEMENT OF MYLES S. GETLAN

16 MR. GETLAN: Good afternoon, Commissioners. I'm
17 Myles Getlan of Cassidy Levy Kent on behalf of Downie
18 Timber, Western Forest Products and Interfor. We're here in
19 support of separate like products treatment for cedar and
20 redwood.

21 Cedar/redwood is the only potential like product
22 for which the Commission solicited data, creating a separate
23 section of the questionnaire dedicated to this issue. The
24 Commission received more than sixty questionnaire responses
25 that provided information on cedar and redwood.

1 Unfortunately, the prehearing report is utterly
2 deficient in providing this information. Virtually no
3 tabulations and no narrative statements. For your
4 reference, we've provided you with confidential exhibits
5 that summarize the questionnaire responses, including
6 tabulations that you typically see in a staff report. These
7 data show that cedar/redwood is a separate like product and
8 Canadian imports are not injuring U.S. cedar and redwood
9 producers.

10 Significant U.S. producers and purchasers,
11 including Weyerhaeuser have expressed support for our
12 request. We urge you to read our prehearing brief and we
13 urge you to ask us questions. For now, I'm pleased to turn
14 our remarks over to Mr. Rob Marusic of Selkirk Cedar.

15 STATEMENT OF ROB MARUSIC

16 MR. MARUSIC: Good afternoon. My name is Rob
17 Marusic. I'm the sales manager with Selkirk Cedar, which is
18 the sales division of Downie Timber. I've been with the
19 company for almost thirty years. I've worked in every
20 aspect of cedar business, including production and sales.
21 I'm here to discuss unique attributes of cedar and redwood
22 and why Canadian cedar does not injure U.S. cedar/redwood
23 producers.

24 Cedar/redwood are recognized in the market as a
25 distinct product group. Cedar and redwood are the only

1 natural durable softwoods. This means that cedar and
2 redwood contain special tannins that make it naturally
3 resistant to insect decay. No other softwood lumber species
4 is recognized for its natural durability.

5 This natural durability and pleasing aesthetics
6 makes cedar and redwood uniquely suitable for outdoor
7 appearance application such as shingles, sidings, decking,
8 fencing, arbors, trellises and playground equipment. Other
9 softwood lumber are not used in similar applications,
10 without undergoing significant treatment that transforms the
11 product. Cedar and redwood are not used in structural
12 applications because of its unique qualities and high cost.

13 Cedar production is an art, while structural and
14 other softwood production looks to maximize recovery, cedar
15 and redwood production focuses on extracting value from each
16 log. But this comes at a cost. East cedar log requires
17 multiple lines of sawing by highly trained sawyers, special
18 equipment like plastic-coated chains, special handling
19 procedures are used.

20 In addition, Selkirk waxes the end of every
21 piece and adds water protection to every unit that it sells.
22 All of this is why it takes longer to produce cedar than
23 other lumber. Other softwood lumber's graded to NLGL
24 standards. Our graders are not even certified to grade NLGL
25 rules. Instead, we grade our cedar to proprietary

1 appearance grades.

2 Cedar and redwood are marked and sold
3 differently than other softwood products. Part of my job
4 includes traveling to customers to conduct product knowledge
5 classes to train them how to handle, store and use cedar.
6 This means that most of our cedar sales are made to
7 specialty distributors. The distributors I deal with every
8 day, folks entirely on cedar, or deal with cedar and
9 non-softwood specialty products like composites.

10 All of this explains why cedar and redwood are
11 priced multiples higher than other softwood lumber. Selkirk
12 commonly sells cedar that costs more than \$3,000 a thousand
13 to customers who buy cedar and redwood. Customers who buy
14 cedar and redwood aren't shopping around for other lumber or
15 comparing prices.

16 For example, those looking to build a deck are
17 not considering both cedar or treated Southern yellow pine
18 because these products are sold to completely different
19 market segments. The difference is just too great. In my
20 sales job, I have no need to track trends or pricing for
21 Southern yellow pine or any other softwood product. We
22 simply don't compete with those products. Instead we
23 compete with tropical hardwoods and composite-like
24 plastics.

25 I also would like to take a moment to question

1 how the U.S. cedar and redwood producers can complain they
2 are injured. Everyone knows that there is limited supply of
3 cedar and redwood. In fact, our customers include a number
4 of U.S. cedar producers because they do not have adequate
5 log supply. For example, Selkirk sells significant volumes
6 of cedar to coalition members such as Stimson and
7 Weyerhaeuser.

8 It boggles my mind that our customers are
9 seeking to impose duties on their cedar purchases from
10 Selkirk. Canadian cedar complements U.S. cedar and redwood
11 and supports a significant number of U.S. remanufacturing
12 jobs. I really don't understand why the coalition wants to
13 impose duties on these products. Thank you for your time.

14 STATEMENT OF JOHN GROVE

15 MR. GROVE: Good afternoon. I'm John Grove, VP
16 for purchasing of Oregon-Canadian Forest Products, or OCFP,
17 based in North Plains, Oregon. With me are Phil Gallas and
18 Geoff Goodale with FisherBroyles, representing OCFP and
19 seven other domestic specialty softwood lumber producers and
20 importers. We're all manufacturers and we specialize in
21 adding value to high-grade, fine-grain, old-growth Douglas
22 Fir, hemlock and Sierra harvested from Coastal British
23 Columbia.

24 We're here to urge the Commission to find the
25 old-growth timber described in our prehearing brief as a

1 separate like product, and the imports of such products from
2 Canada are not causing or threatening to cause material
3 injury to domestic producers.

4 Petitioner has acknowledged on the Commerce
5 record that no coalition member produces old-growth coastal
6 timber and that there may be little, or no, U.S. production
7 of such merchandise.

8 However, in a May 5th Commerce submission, U.S.
9 domestic producers, Herbert Lumber and All-Coast Forest
10 Products asserted that, "Fine grain timber of the Douglas
11 Fir species is produced by Herbert Lumber in Riddle, Oregon,
12 and it is our understanding that there are other U.S.
13 companies producing high-grade clears and hemlock, Douglas
14 Fir and Western Red Cedar."

15 Herbert Lumber and All-Coast filed the
16 submission with Commerce in opposition to our scope
17 exclusion request related to old-growth coastal timber on
18 the grounds that they and others domestically produce such
19 merchandise. As such, there clearly exists a separate
20 domestic industry that produces old-growth timber that
21 constitutes a separate like product from structural lumber.

22 Old-growth coastal timber differs significantly
23 from structural lumber. In terms of physical
24 characteristics, old-growth coastal timber is more
25 fine-grained in nature, more durable, dimensionally more

1 stable, and more valuable than structural lumber. Regarding
2 end-uses, it is used as a premium appearance product in
3 high-end applications including cabinetry, doors, windows
4 and architectural millwork. In contrast, structural lumber
5 products are mainly used in construction applications.

6 In OCFP's experience, old-growth coastal timber
7 has been priced four times or more than structural lumber in
8 recent years. Customers who purchase these products pay a
9 premium because of their physical characteristics and
10 qualitative differences. They do not consider structural
11 lumber to be a viable substitute.

12 The substantial differences between old-growth
13 coastal timber and structural lumber require the Commission
14 to find old-growth coastal timber to be a separate like
15 product. With respect to the separate like product, we note
16 that the Northwest Forest Plan, which was enacted by the
17 U.S. Government in 1994 to protect critical habitat,
18 significantly constrains access to domestic old-growth
19 timber and resulting volumes are insufficient to satisfy
20 U.S. market demand.

21 Given this fact, and considering that the
22 domestic industry is able to charge high prices for this
23 separate like product, imports of old-growth coastal timber
24 from Canada do not cause or threaten to cause material
25 injury to the domestic industry. In summary, we urge the

1 Commission to make a separate like product finding relating
2 to old-growth coastal timber, and a negative injury finding
3 with respect to imports of this product from Canada. Thank
4 you for this opportunity to address you.

5 STATEMENT OF ELLIOT J. FELDMAN

6 MR. FELDMAN: May it please the Commission, I'm
7 Elliot Feldman of Baker Hosteller with my partner, Michael
8 Snarr. We represent Resolute Forest Products and the
9 Ontario Forest Industries Association and the Conseil de
10 I'Industrie forestiere du Quebec. We thank you for the
11 opportunity to discuss with you four points.

12 The first point, probably the most important,
13 has been the primary theme of the collective Canadian
14 presentation today. It is unusual for a petitioning party
15 to show up before the Commission with a record of boasting
16 about how well it is doing. With prosperity oozing from
17 every pore, the domestic softwood lumber industry has been
18 very public about its success.

19 Of course, it's always possible to say one would
20 have done even better but for competition, especially from
21 imports, but even on this file, there ought to be a rule of
22 reason. The domestic industry is enjoying unprecedented
23 profits in growth. There's nothing to complain about and,
24 after 35 years of inability to prove its case, it really
25 should stop complaining.

1 Our second point is that investigations of
2 Canadian forestry are, by necessity, province-specific.
3 Because constitutionally, the provinces own Canada's natural
4 resources. Provinces may be investigated only because, as
5 political subdivisions and consistent with the statute.
6 They are regarded as they must be in order to be
7 investigated as countries.

8 This point is important to the Commission when
9 it votes, as it must, on threat of injury. Each country in
10 an investigation is entitled to its own determination and,
11 as we believe we've demonstrated, Central Canada presents no
12 imminent threat to the prosperity of the domestic softwood
13 lumber industry. There's no record evidence to support a
14 finding of threat from Central Canada.

15 Were the Commission to agree, it would then have
16 to decide whether to cumulate Ontario and Quebec, the
17 provinces of Central Canada, with the other provinces,
18 assuming the Commission were to find an imminent threat of
19 material injury from any of them. The Commission has
20 discretion over cumulation. We urge that these provinces
21 not be cumulated.

22 The scenario is not far-fetched. The Commission
23 didn't find a current material injury in Lumber 4, but did
24 find a threat, albeit overturned upon judicial review. So,
25 should the Commission find a threat of material injury, it

1 should first acknowledge that Ontario and Quebec, for
2 purposes of the statute, are countries, that there is not
3 substantial evidence on the record that either one presents
4 a threat of material injury to a domestic injury, and
5 consequently, they should not be cumulated with other
6 provinces should the Commission find any of them presenting
7 a threat.

8 We want to add as to threat some consideration
9 of reality. 2017 has been the worst year on this continent
10 for forest fires. Senator Daines noted them in Montana, but
11 British Columbia has never before experienced such losses.
12 Huge tracts of potential lumber on this continent are gone.
13 The mountain pine beetle continues to work its way through
14 British Columbia, and the spruce budworm is decimating the
15 forest in Quebec.

16 Provincial governments zealous about sustainable
17 forestry have rolled back annual allowable cuts. There are
18 neither sufficient trees to cut nor mills to process that
19 would threaten the U.S. industry with increased imports from
20 Canada. And on the demand in need side of the equation,
21 think Houston and the lasting damage this Commission could
22 do a looming housing crisis in the United States if it were
23 to diminish affordable supply.

24 Our third and fourth points involve like
25 product. Fortunately, as more than a decade has passed

1 since the Commission heard any arguments about softwood
2 lumber and like products, our brief remarks may seem new.
3 We urge that you consider them new. It was a failure to
4 give them fresh consideration that led to the preliminary
5 determinations.

6 The staff's preliminary report and the
7 Commission's preliminary determination treated bedframe
8 components as remanufactured products. They're not
9 remanufactured products. They're not further processed.
10 They're not produced at all in saw mills. They're not mere
11 refinements or adjustments to structural softwood lumber.
12 They're an entirely different product that could never be
13 used to frame a house or for any other use or purpose
14 characterizing softwood lumber.

15 The main reason given for not finding bedframe
16 components a distinct like product is that they're
17 remanufactured product, so a further processed product.
18 That reason is incorrect. The second reason is that no U.S.
19 producer of bedframe components ever showed up for this
20 investigation, leaving the Commission short of evidence as
21 to its factors for analysis of like products.

22 That's not a reason. That's a proof that there
23 is no evidence of record that bedframe components are like
24 other softwood lumber products and more, there's no evidence
25 that anyone making bedframe components in the United States

1 is injured or threatened with material injury by imports
2 from Canada. Consequently, there's no reason at all not to
3 recognize bedframe components as a distinct like product.

4 And finally, eastern white pine, Mr. Bishop, if
5 you would provide the Commissioners with a couple of
6 samples, one of a Southern yellow pine stud, the other of a
7 white pine board. Hereto, there appear to be two supposed
8 reasons not to recognize eastern white pine as a distinct
9 like product. First, there's a near total reliance on
10 findings and determinations in Lumber 4. There is, however,
11 a new record here, and indeed, a new Commission.

12 Second, there's the argument that eastern white
13 pine may be an appearance grade lumber distinct from SPF or
14 southern yellow pine, but it's like other pines to be found
15 in the western part of the continent. No one has
16 represented or testified for any interest involving western
17 pines. There's no record about them.

18 Still, assuming arguendo that appearance-grade
19 pines are similar, how could that not make them different
20 from construction-grade pines? The bright dividing line the
21 Commission wants, it already has articulated -- between
22 construction-grade and appearance-grade lumber. On this
23 point, there's no disagreement from Petitioner.

24 Several references were made this morning to
25 this bright-line distinction. There are then errors in the

1 Commission's analysis. Perhaps the product of misleading
2 testimony from petitioners, eastern white pine is not
3 produced in the same mills or facilities as spruce pine fir.
4 It's not packaged or shipped the same way, nor is it sold to
5 the same customers. The extent petitioner has claimed
6 otherwise, it has been less than candid with the Commission.

7 And while Mr. Banahan emphasized distinct
8 applications in competition, he didn't claim injury from
9 Canadian imports. Because there is none. So, I'm here once
10 again to say what I can about a species apart that needs a
11 fresh start as the Commission rethinks what makes a product
12 distinct. Eastern white pine meets best, the Commission's
13 test. And there is no proof it could be used on a roof or a
14 wall or a stall or to construct anything at all.

15 No one has claimed injury or threat. The
16 Commission can no longer get evidence to support an argument
17 in court that eastern white pine is species-divine is not
18 different in every respect. Thank you very much.

19 MR. NICELY: That ends our presentation, Madame
20 Chairman.

21 CHAIRMAN SCHMIDTLEIN: I enjoyed that. All
22 right. Thank you very much. I'd like to thank all the
23 witnesses this afternoon, as well, for being here to help us
24 understand this case. And we will begin the questions with
25 Vice-Chairman Johanson.

1 VICE CHAIRMAN JOHANSON: Thank you, Chairman
2 Schmidtlein. And I would like to thank all of you for being
3 here today. Respondents have argued that the petitioners
4 have failed to explain why prices rose at the end of the
5 period of investigation, even as production increased, and
6 this is your brief at Page 118. Could this be post-petition
7 effect? As petitioners have suggested in their brief? At
8 Pages 45 to 46.

9 MR. NICELY: You're asking, Vice-Chairman
10 Johanson, why prices didn't increase more? Go ahead.

11 MR. DOUGAN: I think Mr. Nicely may have
12 actually addressed this earlier in the presentation. Jim,
13 could you cycle back to the slides about 2017 with the OSB?
14 I'm not sure what the slide numbers are, unfortunately.

15 Yeah, this sequence here, if the filing of the
16 case and the preliminary duties are responsible for the
17 increase in prices in the subject merchandise, that doesn't
18 explain why they moved in lockstep with structural panels.
19 So our argument is that there were demand factors in the
20 market place that were acting on these different products
21 the same way, causing both to increase.

22 The duties wouldn't have any effect at all on
23 structural panels. So it was demand factors. And by the
24 way, the executives from the coalition companies themselves
25 echoed this, I think in the prior slide. There was one of

1 the slides where it said that it wasn't the duties, it was
2 supply and demand factors. So it's the Slide 34. So the
3 overall pricing trend. This is July of this year.

4 The uncertainty is driven volatility in pricing
5 but the overall pricing trend has been driven by
6 fundamentals of supply and demand. They were asked
7 specifically about the effect of the preliminary duties in
8 2017 and what effect that had on prices. And his answer
9 was, "Uh, not really, it's really just supply and demand
10 factors." So, we agree with Mr.Simons.

11 MR. NICELY: Vice-Chairman Johanson, I think
12 it's also important to understand what's happening after the
13 gap period, that everyone is concerned about, it seems that
14 prices might decline again because the CBD duties are
15 lifted, but in fact, the prices are continuing to go up,
16 even since August when that happened.

17 MR. FELDINGER: Vice-Chairman, it's Mark
18 Feldinger with Canfor, just to add a little more context to
19 that. Since the gap period has come into effect, our prices
20 have jumped by about \$20 in the extended-order files with
21 everyone who's expecting and postulating out in the media
22 that the existence of a gap period would actually drive
23 prices downward substantially, if that preliminary duty was
24 taken off temporarily.

25 VICE CHAIRMAN JOHANSON: Okay, thanks for your

1 responses.

2 MR. BAALMANN: Mr. Johanson?

3 VICE CHAIRMAN JOHANSON: Yes.

4 MR. BAALMANN: Tom Baalman from B&B Lumber.

5 Since the CVD gap has been created, I was kind of waiting
6 for West Fraser or Canfor to call me up and say the lumber
7 tariff has been taken off, Tom, so that car we were talking
8 about last week is now 20% less. I never got that phone
9 call.

10 VICE CHAIRMAN JOHANSON: Okay, thank you. Why
11 does the industry's cost of good sale to net sales ratio
12 increase from 2014 to 2016, and why doesn't this not
13 demonstrate a cost-price squeeze experienced by the domestic
14 industry?

15 MR. DOUGAN: Commissioner Johanson, Jim Dougan
16 from ECS. There's more going on than just an end-to-end
17 comparison there. What you have in 2014 in, as we
18 established earlier, '14 as sort of a price bubble that was
19 caused by this imbalance in supply and demand.

20 And so you had extraordinary profitability by
21 the domestic industry. So you had a very, very low
22 cognizant sales ratio relative to virtually any time in
23 industry history. So the fact that that would increase from
24 '14 to '16, which was, by the way, also another good year,
25 doesn't really demonstrate price suppression.

1 In fact, what is most probative of this is that
2 the COGS to sales ratio actually went up in '15 as prices
3 fell in the market place, but after the SLA expired. So the
4 2016 being a free trade period with no export taxes from
5 Canada and a significant increase relative to some of the
6 prior periods in Canadian import volume and market share.

7 You saw the COGS to sales ratio go down. So
8 more Canadian volume, greater market share, no trade
9 restrictions, and the COGS to sales ratio improved. So, to
10 me, that is evidence that there's no price suppression by
11 reason of subject imports.

12 VICE CHAIRMAN JOHANSON: Could that be
13 post-petition effect?

14 MR. DOUGAN: No, that was just 2015 to 2016.

15 VICE CHAIRMAN JOHANSON: Okay. Thanks. Based
16 on the pre-hearing report data, domestic producers' market
17 share declined 4.3 percentage points from 2014 to 2016, as
18 seen in Table C-1 of the staff report. The bulk of this
19 decline was lost to Canadian imports which gained 4
20 percentage points in market share, as also seen in Table
21 C-1. Why does this not show a shift in market share away
22 from domestic producers to subject imports demonstrating
23 volume injury?

24 MR. DOUGAN: Commissioner Johanson, this is Jim
25 Dougan again. We can refer to this slide as well, but I

1 think there's a couple things to remember about how to view
2 changes in market share. We are in a growing market. So
3 this isn't a flat or declining demand market.

4 The domestic industry was still able to increase
5 its production and shipments to the market. It lost market
6 share as a sort of mathematical point because the market was
7 growing more quickly than their shipments. However, most of
8 the increase in Canadian market share over the period that
9 you described was in 2016 and that was the period where you
10 saw a very significant increase in domestic industry
11 performance.

12 So the largest bulk of that "changed market
13 share" was accompanied by a significant improvement in
14 domestic industry performance. So that doesn't -- there may
15 have been a change in market share, but it didn't lead to
16 what could be considered injury.

17 I think the other thing to keep in mind is, we
18 are aware that, because of timber constraints in the west,
19 some of the producers out there were unable to ramp up
20 shipments. You know, we've done analyses and looked at how
21 domestic producers in different regions have responded to
22 these increased prices and increased demand.

23 And you see the producers in the south doing it
24 a lot more. Those in the west, less. And they've got
25 constraints in getting the fiber. So, you know, their

1 ability to respond to changes in demand in an increasing
2 market are more limited than maybe their capacity figures
3 would suggest.

4 VICE CHAIRMAN JOHANSON: Thank you. I think I
5 know what the answer's gonna be, but I'm gonna ask it
6 anyway. How's that? 'Cuz this is a subject with much
7 discussion this morning, and I read about this issue quite a
8 bit. Why is most Canadian volume shipped to the southern
9 United States if domestic supply and production there is so
10 high?

11 MR. FELDINGER: Vice Chairman, it's Mark
12 Feldinger with Canfor again. Probably the best description
13 for the -- the reason for shipping SPF to the southern
14 United States is the product is in demand for certain
15 applications.

16 So framing walls are predominantly done with SPF
17 because of its characteristics. It's lightweight, it
18 doesn't twist, it doesn't bend and it's easy to work with.
19 Versus SYP which has challenges around that. So it's a
20 customer demand, it's the market demand, and we are happy to
21 help fill that demand on a go-for-it basis.

22 VICE CHAIRMAN JOHANSON: Okay.

23 MR. CAMERON: Commissioner? Don Cameron. Just
24 one second. You know, there was a statement this morning
25 that this whole issue of SPF and SYP have been solved

1 because you now longer use a hammer and nail, you use an
2 automatic nail machine. And it doesn't solve the problem of
3 the warp in the twist in the wood. So that's important to
4 bring to the table. There is a reason that people are using
5 SPF and it's not just because of a hammer and nail.

6 MR. DOUGAN: Commissioner, if I can -- Jim
7 Dougan from ECS -- if I can add to that. To the degree that
8 there is a large portion of Canadian exports going to the
9 U.S. south, it's not manifesting itself in any kind of
10 adverse effects because if you look at the performance of
11 the southern producers is very, very, very strong. And so,
12 again, this lends itself to the idea that we're dealing with
13 a complementary product situation.

14 VICE CHAIRMAN JOHANSON: Okay, thanks for your
15 responses. And Mr. Martin, you discussed this earlier, but
16 I just wanted to hear a bit more. So I appreciate your
17 contribution earlier as well.

18 MR. MARTIN: Sure, yeah. Eddie Martin. So we
19 use southern yellow pine for forever in about, in dealing
20 with the issues of the twisting, warping and customers and
21 we got -- I kind of got tired of going out to customers'
22 homes after they moved in and having to pull walls out and
23 straightening them and resheetrocking, repainting and they
24 were very angry 'cuz they had to take off work.

25 And we go with our billing supply company and

1 they said, "Have you tried either SPF or Doug Fir?" And we
2 said, no, let's do some test homes. We did some test homes
3 and let it sit for six months, and we had no problem. That
4 was about maybe ten, eleven years ago. We have not had any
5 problems with Doug Fir or SPF on any of our framed homes, on
6 the walls.

7 VICE CHAIRMAN JOHANSON: And this is the
8 buckling?

9 MR. MARTIN: The buckling, the waning, the
10 warping, which pops the sheetrock and makes the wall wavy
11 and customers don't like that. And then when you get a bad
12 reputation and you don't sell any more homes. So it's
13 important for us -- the other thing that we do is we build
14 from the Texas Gulf Coast to the North Texas to Junction,
15 Texas to Corpus Christi and so we have a wide footprint, and
16 so it's important that we not have to go out and fix a home,
17 so that's why it's so important for us to spend a little
18 extra money at the front end to keep the customers happy.

19 VICE CHAIRMAN JOHANSON: All right, thank you.
20 And, yes, Mr. Feldinger, a little quickly if you could. My
21 time's expired.

22 MR. FELDINGER: Absolutely. Just wanted to draw
23 attention to the stacked SPF lumber picture that you saw
24 this morning which really was described as suggested fairly
25 erroneously, that picture actually is a point-bearing

1 transfission carrying a load from up above.

2 It's irrespective of the species, you still have
3 to frame that way, you have to carry either a beam or you
4 actually have to carry the ridge rafter from the peak of the
5 roof in terms of that load down to the foundation, and has
6 nothing to do with the species. So just from a
7 clarification point of view, the description was not
8 accurate and was quite misleading.

9 VICE CHAIRMAN JOHANSON: All right, thank you,
10 Mr. Feldinger. My time's expired.

11 CHAIRMAN SCHMIDTLEIN: Okay. Mr. Parnes, I
12 wanted to follow up on something you said in your
13 presentation with regard to attenuated competition and
14 preference for certain species and I guess substitutability
15 among the species and, of course, the Commission addressed
16 this in the preliminary determination and you have the
17 prehearing staff report which includes a fair amount of
18 information in which the staff concludes that these products
19 are at least moderately substitutable?

20 And then when you look at Table II-9, in which
21 we ask purchasers whether or not they would be willing to
22 substitute other species for their preferred species for
23 different uses, you know, including roofs and framing and
24 decks and so forth. It breaks it out among the different
25 applications.

1 So I guess my question is, I presume that you
2 disagree with that conclusion, that they are moderately
3 substitutable, and my question is, what can you point to?
4 What should we rely on if we were to reach a conclusion that
5 would differ from what the staff report says?

6 MR. PARNES: Well, thank you for the question.
7 I guess, at the outset, I would like to say that we do
8 disagree with the conclusion that the species are at least
9 moderately substitutable. But I also wanna make clear
10 that's an issue that is important to us because it's true
11 that we don't believe that and we think the evidence doesn't
12 support it, but it also is not even remotely dispositive in
13 this case.

14 Even if the species are moderately
15 substitutable, that doesn't affect the performance of the
16 domestic industry. It doesn't affect all of the indicators
17 that show that there is no in jury. So I just wanted to
18 make that clear at the outset. We don't view this as a
19 dispositive issue.

20 CHAIRMAN SCHMIDTLEIN: Okay.

21 MR. PARNES: As far as, I guess a few things on,
22 on what you could look at, and also it would probably be
23 helpful to give Dr. Kirgiz an opportunity to address this,
24 too. But one of the studies that have been done, both prior
25 to and since Lumber 4, which actually measure preferences

1 among purchasers, among builders, in terms of species.

2 Another is if you look at, and if you actually
3 drill down the regions in which respondents to builder
4 surveys express preferences for different species, you'll
5 find that they are concentrated by region. So, although if
6 you sort of take the entire country as a whole and say,
7 well, look, you know, you've got Douglas Fir being used for
8 the same application as SPF and the same application
9 somewhere else as southern yellow pine, that may be the
10 case.

11 It is often physically possible to use these
12 things to build similar parts of homes. But the fact of the
13 matter is, in particular regions, even down to particular
14 cities, builders just don't. They show strong preferences
15 for particular species. I think the lumber dealer and the
16 builder here can probably address that, too.

17 CHAIRMAN SCHMIDTLEIN: Okay, then I guess the
18 question is, even if you have a preference, would you be
19 willing to substitute a different species? What the staff
20 report shows is that sometimes, I mean, you know, we ask for
21 always, frequently, sometimes, never, and there's a fair
22 number of purchasers in the "sometimes" or "frequently"
23 category. Not always, but, you know, it does happen.

24 MR. KIRGIZ: This is Kivanc Kirgiz. Just to add
25 to that, we actually looked at the market behavior of

1 purchasers. We looked at the actual data. When relative
2 prices change, do we see wide swings in volume of different
3 species? We just don't see that in the data. And, you
4 know, we hear that wood is wood, and then we hear that, you
5 know, there are preferences, regional or by application.
6 And I think the data speaks to that, that in the
7 marketplace, actual substitution is fairly low.

8 CHAIRMAN SCHMIDTLEIN: Okay.

9 MR. PARNES: And I just also note, the responses
10 and I don't have the exact numbers, but a significant number
11 of purchasers also explained that they would have to change
12 building techniques if they were to switch species. So
13 there are barriers to doing that. And the fact of the
14 matter is, again, if you look at the data about species
15 consumption, and prices, it really just doesn't support
16 switching.

17 And the idea, you know, southern yellow pine is
18 consistently cheaper than SPF over this time period. The
19 idea that Claude Howard stocks SPF at all when they are
20 actually manufacturing southern yellow pine, it's literally
21 a stones' throw away from their lumber yard, that speaks
22 pretty highly to the fact that these are not perfectly
23 substitutable products, that there is attenuated
24 competition.

25 CHAIRMAN SCHMIDTLEIN: Okay.

1 MS. MOWRY: Commissioner? If I could say one
2 more thing. Kristin Mowry, Mowry & Grimson on behalf of
3 NAHB. I think it's important, two things, one is that the
4 purchasers were not all home builders. The reason that we
5 have home builders here and at the preliminary hearings is
6 to give the experience that homeowners are using in these
7 specific areas.

8 CHAIRMAN SCHMIDTLEIN: I think there's something
9 wrong with that mic.

10 MS MOWRY: Sorry. So I, I was saying that the
11 reason that NAHB is here is to bring you the perspective of
12 the homebuilders and these are the people that are actually
13 using the different species and the different applications.
14 You've heard from our two witnesses today, and we had Barry
15 Rutenberg and Rich Millman at the preliminary conference
16 echoing the exact same things here.

17 So the purchasers were not all universally
18 homebuilders. I would venture to guess not even the
19 majority of the ones filling out the questionnaires are
20 homebuilders. The NAHB couldn't have all 140,000-plus
21 members come and testify, but these folks are representative
22 of the people actually using this different species in the
23 applications and I think, given the widespread recognition
24 that the lumber industry is directly correlated to the
25 homebuilding industry, it's shocking that the petitioners

1 have never produced a homebuilder as a witness to give
2 their perspective.

3 What they've given is speculation by the lumber
4 dealers, but not a single homebuilder to explain or to
5 contradict what our builders and our witnesses have said.
6 Thank you.

7 CHAIRMAN SCHMIDTLEIN: Okay, thank you.

8 MR. GETLAN: If I may, Chairman Schmidtlein.
9 This is Myles Getlan. If we're talking about
10 substitutability of species, I just need to mention, in
11 respect to western red cedar or cedars and redwood, really.

12 The table that you pointed out, Table 2-9, lists
13 a number of end uses and various species. We appreciate the
14 staff collecting information responses in regards to
15 cedar/redwood. You'll see those darkened boxes in the
16 "never" category for cedar and redwood for framing and wall
17 studs, headers, floor joists, roof trusses, roof rafters,
18 shipping and packaging. You see what appears to be some
19 overlap in regards to decks and deck structures and fencing.

20 In regards to deck and deck structures, just a
21 point of clarification, cedars would never be used as a
22 structural, as a deck structure, but maybe on the surface,
23 you would see different species on decks, which often
24 referenced it as treated southern yellow pine, so southern
25 yellow pine that has to go through an additional processing,

1 but even there, you heard Mr. Marusic from Selkirk Cedar, he
2 doesn't track southern yellow pine prices. He doesn't see
3 it. He's selling to specialty distributors for cedar.
4 That is not a competitive product and you see that in the
5 confidential exhibits that we prepared.

6 It's really just straight from the questionnaire
7 responses and Exhibit 1, you see the tabulation of
8 purchasers, importers and U.S. producers reporting that
9 cedar and redwood are simply not -- they're not at all
10 comparable when it comes to other softwood lumber. And the
11 reason is because of that natural durability that Mr.
12 Marusic discussed.

13 The other reason, which was acknowledged this
14 morning, is the price. And cedars and redwood are priced at
15 multiples higher than other softwood lumber, including
16 southern yellow pine. If you look at Page 7 of the
17 confidential exhibits, Exhibit 7, we say in our prehearing
18 brief that a picture is worth 1,000 words, you see here,
19 what's sticking straight from the confidential record,
20 Random Lengths' pricing and the price of cedar multiples
21 higher, not volatile at all. And so I appreciate that time.

22 CHAIRMAN SCHMIDTLEIN: Thank you, Mr. Feldman.
23 So one question for you is, as you know, and I think you
24 alluded to this in your presentation. In the prior
25 investigations, in Lumber 3 and Lumber 4 at least, and I'm

1 looking at Footnote 26 in our preround determination in this
2 case, where we lay out that the Commission has considered
3 all of these arguments, I believe twice before, and we
4 considered them in the preliminary phase of this case, and
5 we didn't accept them.

6 And so my question is, is there something
7 different between what we considered in the prelim and what
8 we've got now that you would like to point out?

9 MR. GETLAN: Very much so. Very glad you asked.
10 Thank you. Myles Getlan. We actually learned from the
11 Commission, candidly, because while western red cedar is
12 among cedars and redwood. That is the dominant species in
13 the market. Dominant -- it's still very small relevant to
14 everything else you're talking about here today.

15 But it's the dominant species. That's really
16 the only species for which the Commission had information in
17 the past. But what the Commission has said in the past, but
18 including in the prelim is that, well, there are some unique
19 features or attributes of western red cedar, but there are
20 other cedars that share those characteristics and same with
21 redwood.

22 And we agreed and we, in thinking about, you
23 know, what really ties them together as a coherent product
24 group, it's that they are actually considered to be the only
25 naturally durable species. So what we asked the Commission

1 to do, in this final phase, is to collect information for
2 cedars, all cedars and redwood as a group and compare that
3 to other softwood lumber.

4 And so this is the first time in this final
5 phase that the Commission is considering cedars and redwood
6 as a group, as compared to all other softwood lumber, and
7 the record is unambiguous. You have the tabulations that we
8 would expect to see in the staff report.

9 Hopefully, we'll see it in the final staff
10 report. You have over sixty questionnaire responses among
11 producers, importers and purchasers. And it loudly speaks
12 to the point that cedars and redwood are distinct. They are
13 at a premium, appearance product that is, because of its
14 natural durability, is for the outdoors.

15 Almost all of the consumption is for outdoor
16 applications. If you're gonna use other species for
17 appearance outside, you have to do something to it -- paint
18 it, treat it, chemicals. And that's why you see purchasers,
19 producers and importers speaking to the differences --

20 CHAIRMAN SCHMIDTLEIN: So are you all asking
21 then that we find a separate like product for--not just for
22 western --

23 MR. GETLAN: That's right.

24 CHAIRMAN SCHMIDTLEIN: -- redwood/cedar -- all
25 cedar and redwood?

1 MR. GETLAN: All cedars and redwood, which are,
2 like I said, we'll put in some additional information in
3 post-hearing in terms of how these products as group are
4 considered as the only naturally durable species. It's why
5 it's the only species group. Actually, the big buck by
6 Random Lengths, you know, sort of the encyclopedia of
7 lumber, has one chapter for cedar and redwoods and that's
8 the only chapter that is species specific.

9 CHAIRMAN SCHMIDTLEIN: And what about white
10 pine? Eastern white pine? Are you arguing that's a
11 separate like product from --

12 MR. GETLAN: We leave that to Mr. Feldman to
13 argue, but it's certainly separate and distinct from cedars
14 and redwood. It's, from our understanding, it's mostly an
15 interior appearance product. Again, if you're gonna use it
16 outside, you need to treat it or coat it in some way.

17 And you heard this morning on the panel, someone
18 mentioned using eastern white pine for siding. Mr. Marusic
19 could maybe speak to this, but they don't see that product
20 as interchangeable at all, and there are major price
21 differences that were acknowledged.

22 CHAIRMAN SCHMIDTLEIN: Okay. We'll come back to
23 that, because I've far exceeded my time.

24 MR. GETLAN: Thank you.

25 CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.

1 COMMISSIONER BROADBENT: Thank you, Chairman
2 Schmidtlein. This morning, the domestic lumber producers
3 said that they didn't foresee any increase in demand as a
4 result of the hurricanes. Do you all agree or disagree?

5 MS. MOWRY: Chairman Broadbent, thank you.
6 Kristin Mowry on behalf of NAHB. We will definitely get you
7 the -- some more accurate projections in the post-hearing,
8 but I just want to point out some numbers that we have from
9 FEMA on post Katrina. So I think the testimony this morning
10 was talking about pulling out drywall and replacing, just
11 doing some repairs.

12 And the FEMA numbers from post Katrina are --
13 there were about \$300,000 total with -- homes with either
14 major or minor damage, but there were 352,000 homes that
15 were completely destroyed. So that's the number that we're
16 thinking about in terms of the effect on the demand for
17 lumber for rebuilding those homes. And I think it's too
18 soon to right now with Harvey and Irma, but certainly,
19 devastating and it's not looking good.

20 COMMISSIONER BROADBENT: So you would expect
21 noticeable increase in demand --

22 MS. MOWRY: Yes. Specifically, we would.

23 COMMISSIONER BROADBENT: -- for softwood lumber?

24

25 MS. MOWRY: Yes.

1 COMMISSIONER BROADBENT: Okay. Yeah, I was
2 surprised at that answer. I didn't quite follow it. Okay.
3 Just kind of on my broader question that I asked the panel
4 this morning, given that how long this trade dispute between
5 Canada and the U.S. has gone on, is there a long^{^^}term
6 solution that Canada might envision here that would get us
7 to a reasonably copacetic place on lumber?

8 Maybe Mr. Nicely, you could answer that?

9 MR. NICELY: I don't think we're in a position
10 to talk about long-term solution as in an agreement, but I
11 think what we can say is that this is not sugar. This is
12 not beef. This is not managed trade. We're in a situation
13 where the agreement is no longer in effect. They have to
14 prove that they have been either injured or that they're
15 threatened with material injury by reason of imports.

16 And most oftentimes, petitioners will wait and
17 file when they can actually prove at least material injury
18 or at least that they are actually, you know, threatened.
19 The facts of this case at the moment don't prove that. And
20 so, it seems like we're at a moment in time where the notion
21 of some other kind of solution doesn't apply, if they can't
22 prove injury.

23 COMMISSIONER BROADBENT: Okay, so your sense
24 would be where it's time to go to total free trade and
25 lumber between the U.S. and Canada?

1 MR. NICELY: That's certainly where we are
2 today. But we're not taking a position right now about an
3 agreement, but that's certainly as we're sitting here today
4 in this hearing room and having to face the notion of
5 litigating, that's our position. COMMISSIONER

6 BROADBENT: Okay. And then what is your sense on for where
7 the market share trends would be going if nothing happens?

8 MR. NICELY: Well, I think the series of slides
9 that Mr. Parnes showed you gives you some indication as to
10 what's likely to happen with capacity in Canada going
11 forward. That's certainly the case with regard to B.C.,
12 which is the largest producing portion of the country.

13 So as demand increases, you would presume that
14 Canada would no longer be able to gain the kind of
15 increases. There already, as I think Mr. Feldinger, can
16 talk about, the industry's already at nearly, you know, 100
17 percent or not at 100 percent, but almost effectively full
18 capacity utilization.

19 MR. FELDINGER: So just to add a little more
20 color there, I would suggest over the last 35 years, some
21 things have substantially changed in our industry. At the
22 request of industry in the U.S., we've gone to an auction
23 base stumpage base system. So supply and demand and market
24 dynamics drive our log prices. And as a result, in very
25 tight supply situations for logs with very strong demand and

1 increasing demand in the U.S., our log costs have jumped up
2 by about 50 percent over the last five years, making
3 business very challenging in D.C. We expect to see supply
4 further constrained as the mountain pine beetle killed wood
5 and reaches the end of what they call shelf life, which is,
6 depending upon the growing conditions of wet or dry, up to
7 about 15 years. So we're ending -- we're hitting the end of
8 that cycle. So the supply is going to come off
9 dramatically. And that is going to change the dynamic of
10 supply into the United States and elsewhere.

11 The other piece that's changed, if you take a
12 look at the volume of the logs that have exported out of
13 British Columbia, I believe the stats would actually show
14 that we're exporting more logs out of B.C. than are exported
15 out of the Pacific Northwest.

16 So things have changed. The dynamics of trade
17 have changed. And the industry in Canada actually was
18 prepared to extend the old softwood lumber agreement. So we
19 were prepared to sign on to managed trade. There still is
20 an interest to do so. Has been publicly expressed by many
21 of the CEOs. And it's just a matter of doing so under
22 realistic terms. And so, there is an interest there.

23 But as has been expressed here, we're clearly in
24 the thick of it relative to the proceedings. And the facts
25 are very strong in the case from our perspective, so we'll

1 see where we go. MR. CAMERON: Commissioner?

2 COMMISSIONER BROADBENT: Mr. Cameron?

3 MR. CAMERON: Just one other thing that ought to
4 be noticed -- noted in terms of the change that he's
5 referring to. Look at the amount of investment that is made
6 by Canadian producers in the U.S. A lot of capacity was
7 shut down in Canada. And a lot of capacity was not only
8 maintained, but increased here in terms of the Canadian
9 investments. And that shows a significant confidence in the
10 future of the U.S. industry.

11 We did hear this morning that U.S. producers --
12 now I will say U.S. producers for purposes of this
13 proceeding not by their CEOs to their shareholders, are
14 saying, well, I mean, we have to be really cautious about
15 the future. And we don't know how we're going to do the
16 investment.

17 Well, these guys have put their money where
18 their mouth is and it's pretty significant dollars. And
19 they've been extraordinarily successful with it. And that
20 is a huge change from lumber 3 and a huge change from lumber
21 4. So I think that that's something that actually needs to
22 be thought about.

23 COMMISSIONER BROADBENT: Mr. Feldinger, can you
24 just summarize to me what you think -- how can we get a
25 handle on what you think the beetle problem will have on

1 Canadian exports? I mean, how do we quantify that order of
2 magnitude?

3 MR. FELDINGER: Certainly. Good question. So
4 there are a number of public source documents out there.
5 There are projections of fiber supply that are put out
6 regularly by the province of B.C. and the chief forester
7 makes determinations based on that. All of the latest
8 projections would indicate there's about two billion feet of
9 lumber production, which is going to disappear out of B.C.
10 It's happening already, but an additional 2 billion feet
11 over the course of the next six months to about four years.
12 And we can submit data in terms of documentation to support
13 that.

14 MR. DOUGAN: Commissioner Broadbent?

15 COMMISSIONER BROADBENT: Uh-huh.

16 MR. DOUGAN: This is Jim Dougan from ECS. I
17 think there might be something that's helpful on this. At
18 the -- we can resubmit this for you. It's not in our
19 presentation from this proceeding, but from the -- that
20 conference.

21 COMMISSIONER BROADBENT: Uh-huh.

22 MR. DOUGAN: The staff conference.

23 COMMISSIONER BROADBENT: Yeah.

24 MR. DOUGAN: Slide 9, we have a slide from
25 Potlach's investor presentation, where they talk about what

1 they think will be the future effect of in Canada Canadian
2 supply of the mountain pine beetle and the reduction and
3 allowable cuts. And they estimate a forecast or reduction.
4 This is Potlach. A forecast reduction in Canada softwood
5 production of 10 billion board feet. And that's through
6 2020. So it's slide 9 of our respondent's presentation from
7 the staff conference.

8 COMMISSIONER BROADBENT: Okay, thank you. Can
9 you kind of draw for me your view of the domestic industry's
10 ability to reinvest in its capacity and production and
11 what's happened over the period of investigation?

12 MR. DOUGAN: Commissioner Broadbent, Jim Dougan
13 here. Jim, could we go back to, gosh, slide it's the one
14 with the 3.5 and the 2.5. Slide -- oh, here we go -- 42,
15 please.

16 This is a summary of -- because we heard about
17 -- there's a lot in the pre-hearing brief of the coalition
18 about the ability and access to capital for -- of the
19 domestic producers. And they use words like struggling and
20 things like that.

21 And so we looked at the data. And as we said,
22 this isn't even whatever they could get from the capital
23 markets. This is the cash generated by this business for
24 this subject merchandise. And they talked about how 2016
25 was evidence of injury, because it was less than what they,

1 you know, what they made in capital investments in 2014.

2 But they still made \$585 million in capital
3 investments and had another roughly \$400 million in cash
4 left over. So they weren't ^^^^ I mean, it wasn't because
5 of lack of capital that they did that.

6 And it's, you know, over the whole POI, it's
7 close to a billion dollars. So there must be to the degree
8 that they have not made even more capital investments over
9 the POI, there's ^^^^ there has to be a reason for it. And
10 I think the most obvious one is they're not just going to
11 willy-nilly pull all this money into building out capacity
12 just because they have the cash, because demand hasn't
13 caught up to where it was before the Great Recession.

14 They are being rational and strategic about how they
15 roll this out, because if they're not, and they're going to
16 cause a capacity glut. And you know, all of these profits
17 that they're enjoying right now would go away if they just
18 built that capacity with no regard to what the comparative
19 underlying demand was.

20 COMMISSIONER BROADBENT: Yeah, Mr. Parnes?

21 Mr. FELDINGER: Just to add to that, Mark
22 Feldinger. So we have been investing and you've seen that
23 information in the BPI that's been submitted. We also are
24 seeing significant new entrants into the businesses, as well
25 as some significant external investments by others.

1 So the CR Pacific Mill on the West Coast about
2 400 million board feet of capacity in terms of a brand new
3 mill there. The Klausner mill down in Florida, that is
4 about 300 million board feet are the numbers I've heard.
5 There's Blewer Mill that has just been constructed and it's
6 about 250 million board feet. And Twin -- Two Rivers, I
7 believe, is about 200 million is under construction and soon
8 to start up.

9 So people are investing. There are no
10 impediments for the existing industry to go. And others who
11 are not even in the business and they are seeing the
12 opportunities and are making those investments from what we
13 can see.

14 COMMISSIONER BROADBENT: Okay, my time's
15 expired. Thank you.

16 COMMISSIONER WILLIAMSON: Thank you. I also
17 want express my appreciation for the witnesses this
18 afternoon. This is for the NAHB. I know you submitted on
19 the confidential record recent surveys that include data by
20 species. Are there any presentations or other analysis of
21 these surveys based on these data that are similar to the
22 2010 presentation that we have on the record that you could
23 put on the record in this case?

24 MR. KIRGIZ: I believe there is a report that
25 NAHB puts out based on these survey results. Perhaps you

1 could see it as well.

2 MS. MOWRY: We can take a look and see what we
3 have, Commissioner Williamson, but I think the other thing
4 we might do is look at the data that already had been
5 submitted and see what kind of analysis we can come up with
6 for you on that.

7 COMMISSIONER WILLIAMSON: Good, thank you, that
8 would be helpful.

9 MR. KIRGIZ: In terms of the analysis, we all --
10 we looked at that data already. That data is a little bit
11 different than the 2010 data in the sense that it provides a
12 lot more detail at the regional level. So if you got that
13 data carefully at the regional level, you'll see that
14 species used different applications are very different from
15 region to region. And there are big gaps between which
16 species are used for which application in each of the
17 regions. And we could submit some other analysis in the
18 post^^conference brief.

19 COMMISSIONER WILLIAMSON: Okay. And I guess it
20 might be helpful. To what extent is -- are those
21 differences traditional in custom to what additions are they
22 sort of -- almost want to call hard science. You know, you
23 got to do it his way because otherwise, it won't work or
24 it's going to -- you're going to get a whole lot of you know
25 --

1 MR. KIRWIZ: Perhaps --

2 COMMISSIONER WILLIAMSON: -- the screwy board,
3 the twisted boards.

4 MS. MOWRY: Sure.

5 COMMISSIONER WILLIAMSON: You see what I'm
6 getting at? Yeah.

7 MS. MOWRY: Kristin Mowry here on behalf of
8 NAHB. And I'll let Tom speak to this a little bit as well,
9 but I think -- I don't think we know what the exact dividing
10 line is between what the tradition is and what just the
11 actual performance is, but I found it -- in working with Tom
12 that he used the term tribal knowledge. And when we worked
13 with --

14 COMMISSIONER WILLIAMSON: Strong stuff.

15 MS. MOWRY: Yeah, strong stuff. And in the
16 preliminary conference, Rich Millman talked about you use
17 what your granddad used.

18 And so, I think everyone we've talked to has,
19 you know, the term might be a little bit different, but
20 they've all stressed to us how the tradition really is a big
21 part of it. But Tom, I don't know if you want to say
22 anymore?

23 MR. BAALMANN: No, I think Kristin hit the nail
24 on the head there with that what they've used is what they
25 want to use and it's what their dad used. It's what the

1 neighbor used. So they don't want to be any different,
2 because then it might not sell the house because they use
3 some inferior product or something different. So they
4 pretty much stay the same.

5 And then it goes back to the shipping channels
6 to get the product to the job site. We can't get dried up
7 Fir to our market because it's used in other markets in the
8 area and there's no established shipping channels to get it
9 to me and to my market. So that goes back to the production
10 channel of how it is distributed around the country.

11 COMMISSIONER WILLIAMSON: Okay. Okay, good.

12 MR. MARTIN: And if I may?

13 MR. BAALMANN: Sorry, no you go ahead, Eddie.

14 MR. MARTIN: Eddie Martin. If I may, to a large
15 degree that's true. But like in Texas, different regions,
16 the product looks different. It has to be built different.
17 So if you're in Dallas/Fort Worth, the Dallas/Fort Worth
18 housing market, the houses there actually built look very
19 different than if you go to central Texas, Austin and the
20 house is in Austin.

21 The same with Gulf Coast. And so, then you have
22 to start looking on how to build those houses to make them
23 ^^^^ the elevations look different, you know, the designs
24 are different. And so, that leads to differences in
25 regional at least in Texas in regional materials being used.

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The -- kind of the bottom line, though, is there are certain things that you don't use. And that's like, for instance, something yellow pine when you're framing the house, the wall frames. But when you're doing the rafters and the ceiling joists or depending on whether you're using engineered wood products like LVLs and other eye i-joists, that makes a difference in the way you frame the house.

COMMISSIONER WILLIAMSON: I really should defer to Commissioner Johanson if he comes to Texas. But nonetheless, I guess the -- okay, that analysis quickly as -- and the reason we raised this question is sort of, you know, sometimes price, other conditions over time would change the shall we say the tribal knowledge and all. And I just want to know if any of that is going on here that we should take into account?

MR. MARTIN: Yeah. And as I mentioned earlier, like for instance, we use yellow -- southern yellow pine for a long time, but we kept having problems with it.

COMMISSIONER WILLIAMSON: Yeah.

MR. MARTIN: And we were looking for solutions for it. And that happens that's happened on, you know, finding materials. That happens on sheen goals. That's happened on OSB versus plywood and all -- lots of stuff where you look at it. If the house isn't performing, you

1 look for a material that make it better perform.

2 And more materials come out, you know, on a
3 constant basis. And as a professional homebuilder, you want
4 to make sure you're building a house that's going to perform
5 for the people who are living in it, because it's their
6 home. And they live their lives there.

7 COMMISSIONER WILLIAMSON: Okay. I understand.

8 MR. BAALMANN: And Mr. Williamson?

9 COMMISSIONER WILLIAMSON: Yes, uh-huh.

10 MR. BAALMANN: Tom Baalman. The purpose of
11 selling yellow pine, it's really inexpensive now as compared
12 to spruce pine fir. But yet I have no customers come to me
13 and want to switch over to southern yellow pine in my
14 marketplace, even though they could save money if they
15 framed the house with southern yellow pine over SPF in
16 today's current economic condition.

17 COMMISSIONER WILLIAMSON: Okay. Thank you for
18 all of those answers.

19 MR. KIRGIZ: I have one more.

20 COMMISSIONER WILLIAMSON: Go on, sure.

21 MR. KIRGIZ: If you looked at the questionnaire
22 responses from one of the big box building of companies,
23 they basically say that we don't really carry southern
24 yellow pine for a framing applications, except for one or
25 regional markets regardless of what the price is. And they

1 say we do that because customers don't use that, don't buy
2 that. That also points to the fact that it's driven by
3 customer preferences, not just price differences.

4 COMMISSIONER WILLIAMSON: Okay. Okay. Thank
5 you for all those answers. If different species are made
6 for different uses and certain species are mostly produced
7 to be in the United States, why aren't there more exports
8 from the United States to Canada of species like southern
9 yellow pine and in fir?

10 MR. FELDINGER: I'll start with that. And
11 basically, the U.S. supply is really unable to supply the
12 U.S. market and therefore the impetus to spend more
13 transportation dollars to try and take that product further
14 afield there's no economic driver for that, so that's the
15 primary issue.

16 MR. CAMERON: Commissioner, that is also the
17 testimony this morning that you heard when you asked the
18 same question. And basically, the witness -- I believe it
19 was from Rex Home -- said, basically, well, this is where
20 the market is and that essentially is exactly what she was
21 saying.

22 COMMISSIONER WILLIAMSON: Except for, I guess we
23 talked the white that was going to, or probably that was
24 going to the Middle East, but that was kind of special.

25 MR. CAMERON: Yes, that was the second witness

1 who said, okay, so there are markets -- I mean that is what
2 the exports are -- they're opportunistic, but basically, the
3 issue is freight and freight to the Middle East on a ship is
4 not the same thing as freight here on a rail to Canada.

5 COMMISSIONER WILLIAMSON: Okay.

6 MR. NICELY: But again, that was for eastern
7 white pine, in particular.

8 COMMISSIONER WILLIAMSON: Yes, understood.
9 Okay, thank you.

10 How useful are the AUVs for price comparisons
11 and trend analysis in this market? Were there likely
12 significant changes in product mix over the period of the
13 POI? I asked this question this morning and I think I got
14 sort of a negative answer on that.

15 MR. DOUGAN: In a situation where we have lots
16 of very gradual data from Random Links or even from the
17 questionnaire responses, annual AUVs are probably not your
18 best bet. Now having said that, have there been significant
19 changes in product mix over the POI, I'll let the folks in
20 the industry answer that. My suspicion is, no, that at
21 least from PC's mix it probably remained fairly consistent;
22 however, the exception to that might be for non-subject
23 imports because if the country composition relative volumes
24 changed over the POI different countries might provide
25 different species, thereby, changing the product mix. But

1 between the U.S. and Canada, you know these folks can let me
2 know if they think there was a change over time. My guess
3 would be that it would not.

4 COMMISSIONER WILLIAMSON: Okay, anybody want to
5 take that on? Yes?

6 MR. FELDINGER: I would think, if you take a
7 look at the data, particularly, the European imports that
8 have been coming in, they tend to be the appearance grade
9 type product and increasingly have been going into the box
10 stores, so they're competing head-to-head with our higher
11 end products that we submit, we sell into the marketplace
12 from Canada and from the United States; but that's primarily
13 a spruce from Europe versus an SPF-type competition piece
14 that's taking place.

15 COMMISSIONER WILLIAMSON: Is that for interior
16 use?

17 MR. FELDINGER: So that's for framing use and it
18 is for over-the-shoulder, so people buy four sticks of
19 two-by-four, 8, 10, or 12-foot and they strip it to the roof
20 of their car and they take it home and use it in a project
21 as well. And that's one of the other reasons SPF is in
22 demand in the box stores is it's light and the customers
23 really prefer something that's easy for them to handle and
24 so the eastern SPF is a good substitute for them.

25 MR. FELDMAN: Commissioner Williamson, I keep

1 hearing eastern white pine, so I can't resist intervening
2 for just a moment. Indeed, the discussion about the export
3 was about eastern white pine. That's an exportable product
4 because it's completely distinct from the other products in
5 the United States that aren't there for export, what you
6 were asking about expressly.

7 Eastern white pine is distinct for exactly the
8 reasons that it would be exported. And if I may return,
9 just for a second, stealing your time --

10 COMMISSIONER WILLIAMSON: Well, my time is over.

11 MR. FELDMAN: This is in reference to Chairman
12 Schmidtlein's question as well. Appearance grade lumber is
13 distinct from construction grade lumber. The comparison
14 that was made with eastern white pine with western pine,
15 ponderosa pine or whatever, perhaps, although we have no
16 record evidence whatsoever about those other pines. But the
17 reasons that have been given, historically, for not finding
18 the distinct like product for eastern white pine are
19 identical to the reasons that have been given about western
20 red cedar and it's the identical argument that has been
21 presented and they are as distinct as one another from the
22 construction grade lumber, which is the real subject here.

23 COMMISSIONER WILLIAMSON: Good thank you.

24 CHAIRMAN SCHMIDTLEIN: Vice-Chairman Johanson?

25 VICE CHAIRMAN JOHANSON: Thank you, Chairman

1 Schmidtlein.

2 In the preliminary phase and in prior
3 determinations regarding softwood lumber, the Commissioner
4 found that prices of a particular species will affect the
5 prices of other species, particularly, those that are used
6 in the same or similar applications. Can you please discuss
7 if you agree with this finding, and if so, what evidence the
8 Commission should consider in its price affects analysis?

9 MR. BAALMAN: That is true that lumber -- well,
10 one species to another does somewhat mirror, but that's also
11 why we have brought in a trader that handles just the import
12 of the lumber from Europe as well as we have traders that
13 handle SYP, SPF, Emp Fir, Doug Fir, green Doug Fir, with our
14 LBM Advantage Group because they are distinct and used in
15 distinct areas of the building envelope based upon what the
16 engineer or architect has called out for to carry the load
17 of the house or building or wind resistance to the house.
18 So we do use that as a guide, but for our practical
19 purposes, we definitely look at each individual species as a
20 stand-alone unit.

21 MR. DOUGAN: One thing I want add to that, I
22 mean, there may be broad trends in prices that are similar
23 among the species is because they're all subject to the same
24 overall demand factors -- the housing starts and the repair
25 and remodeling and that sort of thing, so that they all tend

1 to move up in a broad sense or down together is one thing.
2 The fact that there may be a tradeoff between them based on
3 smaller variations is something that -- and I think Kivanc
4 can talk about this, but that doesn't really seem to be
5 supported by the evidence. And we've even seen in the very
6 recent periods there are divergences over time and there's
7 been a particular divergence even in the most recent period.
8 I don't know, Dr. Kirgiz, do you want to talk about that?

9 DR. KIRGIZ: That's correct. I mean, the fact
10 that they move together doesn't mean that they affect each
11 other. If they're impacted by the same demand factors, you
12 would expect them to move together. And there was a chart
13 that compared lumber prices with OSB prices, I believe.
14 They also look like they are moving together. That doesn't
15 mean that they affect each other. It's just that they are
16 used in house building, so they are impacted by the same
17 demand factors.

18 MR. NICELY: Vice-Chairman Johanson, I'd draw
19 your attention to page 94 of our prehearing brief with
20 regard to the point that Kivanc just made and to the point
21 that Jim just made to page 87 of our prehearing brief, where
22 you see the decline recently while all other prices or
23 composites are going up you see the decline in SYP, but
24 again, they're all moving together, for the most part,
25 because they're reacting to the same particular housing

1 start demand upsurge.

2 VICE CHAIRMAN JOHANSON: Okay, thanks for your
3 responses on that. Drawing Respondents, you all, at page 12
4 of your prehearing brief state "The expiration of the 2006
5 SLA in October 2015 also provides a dividing line between a
6 period of managed trade and a period of free trade, which
7 should inform the Commission's analysis."

8 Regarding the SLA on page 38 of Petitioners'
9 prehearing brief, they state, "The SLA, which restrained
10 imports somewhat during parts of 2015, is a relevant
11 condition of competition for the Commission's analysis of
12 material injury during the period of investigation."

13 So both sides seem to agree that the
14 Commission's analysis should consider the data for periods
15 pre- and post-expiration of the SLA in 2015, but differently
16 -- in a different manner. Could you all please discuss how
17 we are to treat this change in competitive conditions during
18 the period of investigation?

19 MR. PARNES: Yes, I'll just start by pointing
20 out, and then we can maybe talk about how the data moved
21 before and after. But I think it is important to point out
22 that, as I said initially, what you have, as of October 12,
23 2015, you have the end of managed trade and you have a
24 period during which there was no agreement in place. There
25 were no export restraints from Canada taking place.

1 There's no petition and yet, the performance of the U.S.
2 industry was quite strong. So I think that's probably the
3 most important thing to keep in mind about the SLA.

4 You know I think we've discussed some of the --
5 and I can ask Mr. Dougan to talk about some of the things
6 that happened leading up to 2015, why the industry did so
7 well in 2014. For instance, when, for the most part, there
8 were also no export restraints in place. I mean, there are
9 lots of different ways to look at it. Again, I think the
10 most important thing is what happened after the SLA, but you
11 can also look at what happened during periods when the SLA
12 imposed absolutely no restrictions on imports from Canada.
13 And those are periods when, in fact, the U.S. industry did
14 quite well.

15 MR. NICELY: Just to follow up, I would also
16 urge you to look again at what Jim presented today with
17 regard to the 2013, '14, '15 periods to understand what was
18 going on with supply in response to changes in demand, which
19 had, again, nothing to do with the existence of the SLA or
20 not. But I do also want to point out because I did circle
21 the exact part on page 38 that you pointed out. I circled
22 and underlined it because they said that imports were
23 restrained during parts of 2015. They also say, oddly
24 enough, that imports increased and that's why things got so
25 much worse for them in 2015. So I ask them which is it? I

1 think it's clear you have to look at it a little bit more
2 carefully, as Jim did today, in showing what was happening
3 with supply and demand at that time.

4 VICE CHAIRMAN JOHANSON: Thanks, Mr. Nicely.

5 Okay, I asked this morning's panel about
6 environmental laws as they relate to timber and how they
7 might affect timber supply. The focus of their response was
8 necessarily on U.S. law and supply. How about in Canada?
9 Are there environmental laws or regulations in Canada that
10 impact timber supply in any significant fashion and is this
11 a condition of competition that we should be considering?

12 MR. FELDINGER: There are similar challenges in
13 Canada as there are in the United States relative to
14 wildlife, wildlife habitat, wildlife restoration. We've had
15 our issues with the spotted owl. We have set asides for
16 critical habitat for various species. And probably the
17 biggest issues that's looming in Canada, which is
18 significant, is the recover plans for aerial woodland
19 caribou. They've received a lot of press. The plans are
20 required by federal statute here by the end of the year and
21 the expectation is that this is going to further constrain
22 supply significantly because of the need to isolate and
23 protect various ranges for caribou across the country and
24 this will extend from -- it's happened already in
25 Newfoundland and will extend all the way from Quebec through

1 Ontario, Manitoba, Saskatchewan, Alberta, and BC. So we
2 have more constrained supply conditions relative to logs
3 coming our way, which will further exacerbate the challenge
4 about meeting U.S. demand, collectively.

5 MR. FELDMAN: Mr. Vice-Chairman, you have a
6 partial answer to this question an exhibit to our prehearing
7 brief about the situation of the caribou in Ontario and its
8 impact on reducing available cut.

9 VICE CHAIRMAN JOHANSON: They have a lot of
10 territory they cover if they're going from like the
11 Maritimes all the way to British Columbia.

12 MR. FELDMAN: They're unfamiliar with the
13 borders.

14 VICE CHAIRMAN JOHANSON: Okay. I've got a
15 thought in my head, but I won't say it because I'll upset
16 some people about -- it seems like there are a lot of them,
17 but I'm not going to go down that road.

18 Okay, I'm going to ask just one more question.
19 I have a little bit more than a minute. And would you agree
20 with today's First panel that certain infestations actually
21 have the affect of increasing timber cuts and supplies? For
22 example, the beetles in Canada destroying trees which then
23 have to be processed.

24 MR. FELDINGER: I would agree that the
25 historical pattern with infestations is when they occur.

1 There is an initial response, if that's possible, and
2 Mountain Pine beetle in BC lead to some very large increases
3 in cuts as a response to try and salvage what was vast areas
4 of decimation and trying to recover economic value for the
5 Crown, which owns the resource. That started really in the
6 early 2000s. The infestation hit its peak in 2005. Cut
7 levels were established at higher levels at that point in
8 time and have been coming down on a steady basis and will
9 continue to drop dramatically to go to a much lower midterm
10 timber supply level forecasted by the chief forester in the
11 province.

12 VICE CHAIRMAN JOHANSON: So the problem is
13 abating somewhat; is that the situation?

14 MR. FELDINGER: Well, it's not that the problem
15 is abating. It's just that the -- actually, the beetles
16 themselves, by and large, have gone and what is left is a
17 sea of dead trees. Those dead trees only stay upright for
18 so long before they fall over. When they fall over and are
19 lying on the ground, they start to rot dramatically on the
20 underside and really are unsuitable for the production of
21 lumber very shortly thereafter if they aren't burnt in a
22 Fire, which we've been having increasing levels of.

23 MR. CAMERON: Commissioner, for purposes of this
24 investigation, what it means is what they stated this
25 morning was more of the historical fact, historical rather

1 than present because the increase was in the past, way
2 before this. It was actually Lumber Four and actually
3 during the period in which we were doing annual reviews and
4 now we're talking about progressive cuts and annual cut and
5 those are undeniable. So, no, the observation that they
6 made this morning when it comes to the present period and
7 the POI and going into the future is 100 percent incorrect.

8 VICE CHAIRMAN JOHANSON: Alright, thanks for
9 your response, Mr. Cameron. My time has expired.

10 CHAIRMAN SCHMIDTLEIN: Thank you. So I want to
11 follow up on that line of questions with regard to 2015 and
12 you referred to Mr. Dougan's testimony and I'm guessing
13 you're talking about Slide 19 with the four different
14 charts, and correct me if I'm wrong, Mr. Dougan. And I read
15 your brief and refer back to it here at page 114 where you
16 talk about your theory of what happened from 2012 to '13
17 where you say at the bottom of 114 after you quote an
18 economic analyst, I think, who was making a prediction.

19 And you say "This is exactly what happened.
20 Prices soared in 2013 and remained high in 2014. These
21 higher prices then resulted in higher production, which
22 drove down prices in 2015." And so my question is when I
23 look at the staff report at page III-7, which has a table on
24 it which shows the industry capacity and production and
25 capacity utilization that is not based on questionnaire

1 data, but it shows an increase of domestic industry
2 production of around 150 million board feet, if you're
3 looking at how -- 31496 to 31653. And then when I look at
4 capacity increase -- again, it's 37947 to 38124. I mean, it
5 doesn't look that large. And then I compare that to the
6 increase in the quantity from Canada from 2014 to 2015,
7 which was over a billion board feet, right, from 12143 to
8 13257.

9 So I guess my question is why would we assume
10 that prices were being driven down by what looks like a
11 small increase in production if the prediction was, well,
12 prices has spiked because they're worried that the domestic
13 industry won't be able to meet the demand and then you say
14 they did increase production and that drove prices down, but
15 when I look at the numbers it looks to me like, relatively
16 speaking, there was a lot more product coming in from
17 Canada. So why would I attribute that price decline to 150
18 million board feet increase for the domestic industry rather
19 than an increase of over one billion board feet from Canada.

20 MR. DOUGAN: Madame Chairman, that's a good
21 question and I will give you more extensive result in
22 post-hearing, but I think the answer, in part, is twofold.
23 One, a lot of it has to do with expectation and the prices
24 actually, as you pointed out, had begun declining in 2014
25 and there was an acceleration in 2015 when it looked like

1 demand was falling off.

2 And I've spoke to Mr. Feldinger about this
3 yesterday a little bit as well and he can perhaps talk about
4 it, but there's something to do with how prices react to
5 expectations, both in demand and available capacity and
6 production. And when there is this sort of future
7 forecasting affect and how if that changes and things don't
8 live up to what was expected there can be kind of very
9 severe changes in price and I think that is what happened.

10 Now you're asking about why would it be that
11 reaction relative to domestic production when there was a
12 larger volume or large volume of imports, but when I go back
13 to the question about what is the affect that imports are
14 having on price I have to look at what happened with changes
15 in import volume in other periods and what impact that had
16 on price. And there were even large -- well, First of all,
17 at the earlier part of 2015, the SLA was still in effect, so
18 there were --

19 VICE CHAIRMAN JOHANSON: Well, let me ask you,
20 if a billion additional board feet from Canada didn't have
21 any impact on price, then what did cause the -- people were
22 scared and then they realized, oh, we don't need to be
23 scared, so prices came down?

24 MR. DOUGAN: That's -- there was -- I mean some
25 of it was actually -- this is a correction from a period

1 where they were scared and so the prices, I think that the
2 fundamental of it is that the prices in 2013 and '14 were
3 basically the result of a mismatch and not like the
4 fundamental underlying demand which was growing and continue
5 to grow.

6 But the fact that additional imports came in that
7 didn't have that effect in 2013 and 2014 and they didn't
8 have that effect in 2016. So I'm left with okay, you had
9 these changes -- imports were increasing throughout the
10 period. We are not contesting that and they gained market
11 share throughout the period.

12 The changes in market share and volumes by the
13 way between '15 and '16 were even greater and yet that
14 didn't cause prices to go down -- and even in the absence of
15 any kind of trade restraint. So I'm left with why is it
16 that imports sometimes cause prices to go up and sometimes
17 cause prices to go down?

18 I mean I don't -- because we were wrestling with
19 --

20 CHAIRMAN SCHMIDTLEIN: Well that's my question
21 but if it is not imports then what is it, because there is
22 no non-subject and that sort of leads to my second question.
23 Why did the industry not do better in 2015? Why did they do
24 worse in 2015?

25 MR. DOUGAN: It looks like Mr. Feldinger has

1 something he can offer here.

2 CHAIRMAN SCHDMITTEIN: Okay.

3 MR. FELDINGER: Commissioner, 2013 and 2014 were
4 characterized by an unexpected increase in demand which the
5 industry had a challenge to respond to. And if you take a
6 look at those prices, they're not really representative of
7 what you would normally see towards the low end of the
8 market if you take a look at overall market demand.

9 So we're well below historical consumption levels
10 but the saw mill's ability to respond was limited and it was
11 limited in all jurisdictions. People were actually
12 challenged and were struggling to find product and that bid
13 up the overall price. It took a while for capacity to
14 respond to that.

15 Domestic production, as well as imports -- and
16 brought those prices back to more normalized levels for the
17 overall level of demand that you see in the marketplace.

18 What we've seen in 2016 and going forward again
19 is showing a constrained supply situation where the ability
20 to support, and particularly with certain species you are
21 seeing it now with Douglas Fir and you are seeing it now
22 with SPF, there's a disconnect that's happening relative to
23 SYP because those species -- SPF and Douglas Fir have
24 limited capacity to respond to the demand.

25 And those species are used in wall framing and as

1 housing construction continues to increase the only natural
2 substitute tends to be European supply which we are starting
3 to see hit the market today. So it's a bit of a timing
4 issue and it is short-term supply/demand.

5 And the issue that we have observed relative to
6 increased supply is you have to be careful that that supply
7 does not get too far ahead of demand because it can have a
8 significant impact even with just some minor increase.

9 And so that's -- we've seen some elements of that
10 but we see on a go-forward basis clearly, that there are
11 species that are going to be under significant price
12 pressure in an upward basis just because of lack of supply
13 and that really will be Douglas Fir and SPF from everything
14 that we can see.

15 MR. DOUGAN: Madame Chairman, if I can just add
16 to that -- the reason that we use the term bubble and
17 correction is that the prices and profitability for '13 and
18 '14 were higher than would have been warranted by the
19 underlying fundamentals of the market.

20 They struggled to meet demand but they were also
21 able to profit very handsomely from that fact that there was
22 supply constraints and an imbalance and that they were able
23 to basically command whatever the market would bear.

24 In some sense, 2015 it was a correction from that
25 and sort of perhaps even an under-performance of what the

1 underlying fundamentals would have been because demand was
2 still growing. It just didn't continue to grow as quickly
3 as it had from '12 to '14.

4 So, in a way, you could almost kind of average it
5 out between '13, '14 and '15 and see what their performance
6 was because again it's a bubble and a correction. The idea
7 that '13 or '14 is a reference point for a normal operating
8 margin for this industry and that if they are not making
9 that, that they somehow should be doing better is absolutely
10 incorrect inference especially given the history of the
11 industry.

12 And if I can just add one more thing -- Mr. Yocis
13 said this morning that the Commission has never seen this
14 kind -- the only time this Commission has ever seen the
15 industry before was during a recession and therefore it
16 doesn't have a reference point for what it should be doing
17 when the markets are good, that's incorrect.

18 First of all I think Mr. Parnes pointed out 2006
19 which they said was part of the up cycle in their Exhibit 44
20 they show that they were earning at margin of 2.1%. Also,
21 if you go back to number two which was not a recession --
22 that was between 1983 and 1986 where demand was growing very
23 similarly to what it was during this POI.

24 They earn an average operating margin of 0.1% and
25 Canadian market share in this POI and, number two POI, were

1 very similar.

2 CHAIRMAN SCHMIDTLEIN: So what's a normal average
3 or normal operating margin?

4 MR. DOUGAN: I can't answer that question but I
5 know 13% is a lot higher than what would be normal.

6 CHAIRMAN SCHMIDTLEIN: Okay but you don't know
7 what normal is?

8 MR. FELDINGER: So the historic operating margins
9 for the industry if you look back over say a 30 year period
10 have typically been in the 5 to 7% range based on all of the
11 public data that's out there.

12 CHAIRMAN SCHMIDTLEIN: Okay, okay.

13 MR. NICELY: And Madame Chairman we put that out
14 on our slide 8 where we have given you some historical
15 context as to what they've received in the past over those
16 last 35 years.

17 CHAIRMAN SCHMIDTLEIN: Right, all right, thank
18 you very much. Commissioner Broadbent?

19 COMMISSIONER BROADBENT: Yeah I just had one
20 question. Mr. Feldinger, can you just summarize sort of the
21 change in the supply management programs in Canada since the
22 Softwood Lumber agreement was put into effect -- I guess
23 that was 10 years ago or something?

24 MR. FELDINGER: Yeah so in 2006 the old Softwood
25 Lumber Agreement was in place. Immediately prior to that

1 there was very substantive changes that were made in the BC
2 Forest Management regime where things like the requirement
3 to mill timber in adjacent saw mills from a community
4 perspective were eliminated, it was called a pertinency.

5 The requirement to harvest or lose access to
6 future harvests was eliminated from statutes so one could
7 literally stop and shut down operations for years with no
8 repercussions for your licenses going forward is the new
9 normal for us, where that was not the case back before 2005.

10 And the auction system that was put in place
11 replaced an old administrative CVP -- compared to value
12 pricing system and we had a take-back of a portion of our
13 cut -- about 20% of the volume that is harvested in BC is
14 auctioned off through prudential government auctions that
15 are open, they are closed seal bid and the highest price
16 wins.

17 And there are upset prices that are in that
18 process. Those options form the basis for the stumpage that
19 we have to pay on the remaining tenure that we have access
20 to and the dynamic relative to that has been very
21 significant in terms of changing over the last 5 years as
22 the supply of logs have dropped off due to mountain pine
23 beetle and we are seeing that and I would suggest are as
24 challenged or more challenged than the Pacific Northwest
25 with their log supply challenges that they seem to have at

1 this point in time.

2 MR. FELDMAN: Commissioner Broadbent, excuse me
3 Elliot Feldman, that's not unique to British Columbia. In
4 number three, Department of Commerce found a one penny
5 subsidy in Quebec based on a stumpage system that used
6 private forest prices as the reference for the public
7 forest.

8 Notwithstanding, the effectiveness of that system
9 Quebec decided that the shrinkage in the size of the private
10 forest was such that those prices could not continue to be a
11 reference point and Quebec overhauled its entire stumpage
12 system into an auction system, not entirely unlike British
13 Columbia's system.

14 It's driven up prices significantly and is
15 considered perhaps the most expensive stumpage in North
16 America. But it is an auction system that is unassailable
17 and that Quebec has been begging the Department of Commerce
18 to examine and U.S.G. has examined for several years now.

19 So it is an entirely new system that was put in
20 place and full effect by 2013, it's an entirely market-based
21 system. So there have been transformations in the stumpage
22 systems in Canada and part of the frustration -- you asked
23 earlier about finding other terms for settlement.

24 The frustration on the Canadian side is
25 notwithstanding whatever Canadians do, directed toward

1 demands of the U.S. industry and the U.S. government.
2 Canada was told repeatedly that the ideal system for
3 stumpage was an auction, so the two largest producers in
4 Canada now have auction systems.

5 There's been no recognition of that in the
6 discussions about how to settle the differences. And the
7 differences, when it comes to a question of settlement, must
8 be understood is five times petitions filed by the United
9 States industry.

10 Canada has not initiated any of this conflict but
11 it has transformed its systems and it would like those
12 transformations to in fact be recognized and understood in
13 any terms of settlement.

14 COMMISSIONER BROADBENT: Okay, thanks.

15 CHAIRMAN SCHMIDTLEIN: I thank the witnesses for
16 all of their testimony, it's very helpful. Commissioner
17 Williamson?

18 COMMISSIONER WILLIAMSON: Thank you. So what is
19 that load for softwood lumber demand in Canada? What are
20 the trends for the underlying drivers of lumber demand,
21 especially housing starts? You can go ahead and do it
22 post-hearing.

23 MR. FELDINGER: Sorry to get you that answer we
24 will give you that in the post-hearing brief. I don't have
25 that information off the top of my head.

1 COMMISSIONER WILLIAMSON: Okay, fine, thank you.
2 Petitioners argue that our critical circumstances analysis
3 should compare the periods before and after the expiration
4 of the SLA in October, 2015. What is your response to this
5 argument? And if you want to get that post-hearing you can.

6 MR. NICELY: Commissioner Williamson, Matt Nicely
7 here. We addressed this in our pre-hearing brief. At the
8 end of the brief our opposition is that you should be
9 looking at what happened before and after the petition and
10 at what the analysis is as to whether or not -- obviously
11 your analysis is much different from the Commerce
12 Department's because you're looking at whether or not
13 imports entered in such a way as to undermine the efficacy
14 of any relief.

15 The only way that's relevant -- the only way that
16 makes any sense is if you look at what happened after the
17 petition was filed because after all the only way in which
18 you address the issue is by imposing 90 day retroactive
19 duties.

20 So you are going to be looking at a period after
21 the petition. Well, in fact what happened was that imports
22 fell during that period which means by definition unlike any
23 other case, although you haven't had one where you have gone
24 affirmative on critical circumstances in a long time, but
25 like any other case -- the only other case for instance

1 honey -- where this has happened, are cases in which you had
2 a huge run up in order to overcome the effects of any relief
3 that might be imposed.

4 And clearly if imports declined that clearly
5 isn't the case here.

6 COMMISSIONER WILLIAMSON: Okay, thank you. I
7 have some questions that I asked this morning so I wanted to
8 see what you all have to say about them. What assertions
9 are most useful for assessing demand for softwood lumber?
10 What should we be focusing on in our analysis?

11 MR. DOUGAN: I think most, the largest in --
12 well, housing starts is generally the thing that's used most
13 frequently and then that has traditionally accounted for, if
14 not the largest share of consumption, the second largest
15 share of consumption. I think it's been sort of vacillating
16 -- well since the Great Recession repair and remodeling has
17 taken over just because the housing market tanked basically.

18 The housing market has recovered and I think it
19 is on its way to resume its place as the largest driver of
20 softwood lumber demand maybe in 2018 or 2019, depending on
21 whose projections you believe.

22 So we think that the real growth in the market
23 that has been observed has really been driven by housing
24 starts. So we think that if you are looking for where
25 demand is going to go in the future that's really the

1 primary place to look.

2 If there are other things we can look at, we'll
3 mention it in post-hearing but that's the big one.

4 COMMISSIONER WILLIAMSON: Thank you. Do you have
5 any comments on any of the public data sources used in the
6 various parts of the pre-hearing report? Are there any
7 limitations or concerns with any of these data sources that
8 we should be aware of -- it's something I asked this morning
9 too.

10 MR. DOUGAN: This is Jim Dougan again with ECS.
11 Yeah, there was as we mentioned in the pre-hearing brief
12 there was a correction to import -- Census Bureau import
13 data that should be reflected, we believe, in the final
14 staff report.

15 We've provided information to where that census
16 can be found. There are also some anomalies I believe in
17 early 2017 having to do with third country imports. We can
18 also talk about that -- minor, minor stuff.

19 Well actually I shouldn't say minor stuff. The
20 Census Bureau correction 2016 is not de minimis. It has
21 what we would consider a measureable effect but -- and then
22 also just in general about you know, things like random
23 links, you know.

24 That's useful for understanding trends and where
25 things are going. Petitioners argue that you should use

1 that as a basis for an underselling analysis. We think that
2 -- we disagree with that entirely and the Commission in the
3 past has found that inappropriate. We think you should find
4 the same way again.

5 MS. GRODEN: If I may, this is Cara Groden from
6 ECS. With regard to the Census Bureau corrections it's not
7 necessarily an issue of whether or not they should be
8 considered their official statistical corrections published
9 by a census bureau that were not made in time to be
10 considered in the annual revisions that they publish every
11 year in the late spring/early summer.

12 So these are not official corrections to HGS
13 categories that are included within the scope of this
14 investigation and should absolutely be considered to get an
15 accurate picture of import volumes over the POI.

16 COMMISSIONER WILLIAMSON: Okay, thank you.

17 MR. NICELY: And, just to be clear what we are
18 talking about Commissioner Williamson is July 2016 data that
19 was fixed in June, 2017 and we have detailed it in our
20 brief.

21 COMMISSIONER WILLIAMSON: Okay, thank you. If
22 Commerce excludes Atlantic lumber board, certified lumber
23 from the scope, what would be the best source of data to use
24 to exclude such imports from our analysis?

25 I think someone this morning talked about

1 statistics Canada, so regarding raw data?

2 MR. PARNES: Yeah, I think I was a little
3 confused by the response this morning but I think that would
4 be right. I mean there were no certifications because there
5 wasn't a certification process prior to it being set up.
6 But we know where lumber was imported from and if there were
7 an exclusion on that basis that would be the way to do it by
8 looking at statistics Canada data from the providence of
9 origin.

10 COMMISSIONER WILLIAMSON: Okay, go ahead.

11 MR. NICELY: Thank you. I'm sorry Commissioner
12 Williamson I just want to make another point about that.
13 Subject imports are subject imports. Whether they have a
14 certification before or after the -- before the decision or
15 not, so you in fact would need to analyze the effect of
16 imports without those -- not what it would be if non-subject
17 imports were involved.

18 COMMISSIONER WILLIAMSON: Okay, thank you. This
19 is for Oregon-Canada Canadian forest products. You have a
20 separate domestic-like product for old growth coastal timber
21 but then state that there is little or no domestic
22 production of this product.

23 Under the statute we would have to define the
24 domestic-like product as one most similar in characteristic
25 and use. What exactly is your argument for the like product

1 and the domestic industry you want us to look at under the
2 terms of the statute? And if you want to do it now or
3 post-hearing?

4 MR. GALLAS: Philip Gallas, FisherBroyles for
5 Oregon-Canadian. We are looking at old growth coastal
6 timber. It is a separate-like product. It corresponds --
7 there is a separate, as kind of going in tandem with Elliot,
8 there is a separate industry here that -- domestic industry
9 that produces this fine grain old growth product.

10 I'm going to turn it over to Mr. Grove who wanted
11 and used to buy the domestic old growth product but because
12 of the National Northwest Forest Plan Statute in 1994 that
13 Commissioner Johanson referenced, there were constraints on
14 the domestic production.

15 There is domestic production but Mr. Grove was
16 forced to go and source from Canada this old growth product
17 that is totally separate product price-wise, physical
18 characteristics and so forth but let me turn it over to Mr.
19 Grove.

20 MR. GROVE: Yes, John Grove. If I may elaborate
21 a bit -- the products are a small segment of the industry
22 utilizes really are only available to us in sufficient
23 volumes from British Columbia in production at this time.

24 There's a limited production in the United States
25 but it is nowhere near enough to satisfy the market --

1 talking primarily about very high end Douglas Fir, Hemlock,
2 and cedar products and you know, it's a secondary industry.
3 We focus on re-manufacturing and fashion these products into
4 items that end up in doors and windows and complicated
5 architectural millwork projects and we just don't have the
6 resource available to us from the United States production.

7 We used to, you know, 30 years ago but it just
8 doesn't exist today.

9 COMMISSIONER WILLIAMSON: But there is domestic
10 production of --

11 MR. GROVE: A very limited amount, a very limited
12 amount.

13 COMMISSIONER WILLIAMSON: Okay.

14 MR. GALLAS: He read from the Commerce record --
15 administrative record which we will append to our
16 post-hearing brief. Herbert Lumber and All Coast stated on
17 the Commerce proceedings that Commerce incorporated into
18 their decision memo on this subject that they produced this
19 product and that there are other producers of this product.

20 But because of this, these environmental laws in
21 the U.S., it has limited the U.S. production and therefore
22 these are prices four times structural lumber. It's
23 difference -- it's an appearance product and he has to
24 import from Canada.

25 COMMISSIONER WILLIAMSON: Okay, my time has

1 expired but thank you for those answers.

2 CHAIRMAN SCHMIDTLEIN: Vice Chairman Johanson?

3 VICE CHAIRMAN JOHANSON: I have just one final
4 question and it's not a very major one but I just want to
5 find out. Respondents have argued that much of the lumber
6 that the Canadian industry exports to Asia is not of the
7 quality that is shipped to U.S. customers and that's at page
8 139 of your brief.

9 Why is that the case and what is the difference
10 in acceptable quality of lumber in the United States
11 compared to other markets, including in Asia?

12 MR. FELDINGER: Mark Feldinger here. We are a
13 large participant in that market. One of the major defining
14 differences are that historically the Asian market and
15 particularly the Chinese market was one where wood was
16 brought in for concrete framing forming support so it tended
17 to be lower grade so economy utility product could go into
18 that application and really that has limited application in
19 the U.S. market.

20 There is a move up the value chain in terms of
21 consumption in China today where we are seeing our species
22 starting to get used with the higher grades for furniture
23 manufacturing and the building codes have been put in place
24 so they actually now are able to and starting to build with
25 wood similar to North America with up to 6-story walk-ups as

1 they call them for apartment complexes that can be stick
2 built out of 2x4 and 2x6.

3 And the marketplace elsewhere in Asia is fairly
4 mature so Japan has been a market there for many years and
5 they take even higher end products than we sell typically
6 into North America by categorization called J grade and
7 Korea is also a fairly strong market historically.

8 So you have different dynamics in play but really
9 the major change has been in China and they have been a low
10 grade market but they are moving up that value chain fairly
11 quickly. We're currently above 50% of our production is
12 going into China today would be of a similar grade to what
13 we would ship into the U.S.

14 VICE CHAIRMAN JOHANSON: Thank you, Mr. Cameron?

15 MR. CAMERON: Commissioner, just one further
16 observation -- it goes to a question that was asked earlier
17 by Commissioner Broadbent with respect to changes that have
18 occurred. If you remember back in lumber 4 -- exports were
19 not -- from Canada were not really -- to third country
20 markets, were not really very significant.

21 And in the case of Can 4 for instance, the major
22 market and really it was the third country market was J
23 grade to Japan which was, as opposed to what you are saying,
24 a relatively low-grade compared to the U.S. It was actually
25 a relatively high-grade and it was quite different.

1 And actually the J grade then bled into what we
2 do as square edge in big box stores what has happened over
3 time. Since that time other export markets have grown from
4 Canada. China has become a big market. Korea and of course
5 Japan remains but it means that the Canadian lumber industry
6 actually has diversified its sourcing in its marketing and
7 is not totally dependent upon selling to the U.S. anymore.

8 I mean it is a significant different from what
9 you faced in the last lumber case.

10 VICE CHAIRMAN JOHANSON: Mr. Feldinger, is China
11 using more wood because of for instance, earthquake issues
12 or --?

13 MR. FELDINGER: So the building characteristics
14 that are associated with wood are resistant to earthquake
15 seismic events. They've unfortunately had a major
16 earthquake with a significant loss of life in the
17 Saskatchewan province and therefore that really motivated
18 them to put in place building codes to support building
19 with wood.

20 They have made a dramatic shift in their desire
21 to build with wood and we are seeing some of the impacts of
22 that. So yes, it's significant.

23 VICE CHAIRMAN JOHANSON: Thank you for your
24 answers that concludes my questions.

25 CHAIRMAN SCHMIDTLEIN: All right, I have no

1 further questions, do you have any questions? No, okay,
2 that concludes the Commissioner's questions. Do staff have
3 any questions for this panel?

4 MS. TURNER: I believe we have one question.
5 This is Robin Turner, the Office of the General Counsel.
6 There had been comments made about both British Columbia and
7 Quebec that the stumpage systems have changed drastically
8 since the lumber 4.

9 And can you please provide in your post-hearing
10 briefs the actual documentation that goes through the legal
11 documentation that sets out the current -- the system as it
12 now stands and if there is any other provinces that have
13 changed drastically please provide that as well.

14 MR. PARNES: Yeah, we'd be happy to do that.

15 MR. FELDMAN: Absolutely.

16 MS. HAINES: Elizabeth Haines, staff has no
17 further questions.

18 CHAIRMAN SCHMIDTLEIN: Thank you. Do Petitioners
19 have any questions for this panel?

20 MR. YOCIS: No, we do not.

21 CHAIRMAN SCHMIDTLEIN: All right, thank you. So
22 this brings us to closing statements. Thank you again to
23 all the witnesses. You have been very helpful and I will
24 dismiss you at this time.

25 So for closing statements the Petitioners have no

1 minutes from direct and 5 minutes for closing for a total of
2 5 minutes. Respondents also have no time remaining from
3 direct for a total of 5 minutes, so Mr. Yocis you may begin
4 when you are ready.

5 CLOSING REMARKS OF DAVID A. YOCIS

6 MR. YOCIS: Thank you Madame Chairman and members
7 of the Commission. The Respondents appear to enjoy quoting
8 from U.S. producers and so I was struck in particular, by
9 slide 34 of their presentation which is a quotation from the
10 CEO of Weyerhaeuser who says, "The overall trend in lumber
11 prices that we have seen has ultimately been driven by
12 supply and demand, overall pricing demand -- the overall
13 pricing trend has been driven by fundamentals of supply and
14 demand," and that's absolutely correct.

15 It's the supply and demand in the market as Mr.
16 Feldinger said and I believe I said as well earlier this
17 morning. Small changes, small imbalances in supply and
18 demand can have big price effects in this industry.

19 And Canada, and unfairly traded Canadian imports
20 affect supply as we have seen that Canada's market share has
21 increased steadily throughout the period of investigation
22 and the Respondent slide shows since 2012.

23 Every year Canada gains another point of market
24 share or more. Every year Canada is adding yet another
25 billion board feet of supply to the market. In times when

1 demand is outpacing supply, which you might say 2016 the
2 increase in demand was -- the demand was increasing faster
3 than supply.

4 And in those periods, even though Canadian market
5 share is increasing, you don't see price decreasing as much
6 and perhaps even price increasing. Nonetheless, the
7 increase in Canadian market share is having an effect. It's
8 artificially increasing supply, if it is unfairly traded and
9 that is having the volume effect on U.S. producers and it
10 also suppresses prices.

11 It suppresses the price growth that would
12 otherwise be occurring with a fairly traded volume of
13 Canadian imports in the market. And when supply is
14 outpacing demand, as it was in 2015, then Canadian market
15 share can increase only by depressing prices.

16 In both types of market conditions, whether
17 demand was outpacing supply after the SOA expired in 2016 or
18 when supply is outpacing demand as it was through 2015. In
19 both situations Canada is increasing its market share,
20 Canada is -- Canadian imports are adding to supply.

21 And if those imports are unfairly traded it is
22 increasing supply in ways that are detrimental to U.S.
23 industry either on volume or on price and over the period of
24 both. The SOA may have restrained Canadian imports somewhat
25 in 2015 but they did go up anyway.

1 The question was asked how is it possible that
2 the SOA was restraining them but the imports went up? Well
3 the answer is it didn't restrain them very much. Had they
4 not been restrained it would have gone up even more.

5 There are always short-term fluctuations in
6 supply and demand that might move things -- that might move
7 prices in the short-term. Someone earlier -- I'm sorry I
8 didn't see who, cited the Swanson Group -- there was a blurb
9 on random lengths, I'm sure they'll put it on the record
10 from last Friday -- I'm sure they will put it on the record,
11 we can do it as well.

12 The actual quote -- I just looked it up is that
13 the Swanson group curtained its Oregon mill because of low
14 log inventories caused by fire restrictions that have
15 reduced logging. That happened in BC a month ago. It's
16 happening in Oregon now.

17 I understand that at Rex Lumber they were closed
18 yesterday because of Hurricane Irma, it happens. I will
19 say, however, that overall it is the large increase in
20 imports from Canada that has added to supply and that has
21 caused the problem for the domestic industry.

22 And if I could just conclude quickly since I see
23 I'm running out of time -- on the question of investments
24 Respondents say that the domestic industry has plenty of
25 money for investments, we have just held back so as not to

1 add too much to supply and that is correct.

2 They say that we are going slow because of supply
3 and demand. We don't want to outpace the growth in supply
4 and the question is -- are we talking about supply that is
5 artificially increased by unfairly traded, subsidized and
6 dumped imports from Canada? Or are we talking about supply
7 that is in a fair trade environment?

8 We believe that in a fair trade environment the
9 industry would have higher prices, more production and be
10 able to invest more for the future. With that we thank you
11 very much for your attention today and look forward to
12 responding to your questions in the post-hearing brief.

13 COMMISSIONER SCHMIDTLEIN: Thank you.

14 CLOSING REMARKS OF MATTHEW R. NICELY

15 MR. NICELY: Good afternoon, Matt Nicely again.
16 After a long day I'll make it fast. If what the Petitioners
17 said today was true, there would be no significant
18 investment by community mills because apparently, according
19 to the Petitioners, they can get all of their low-priced
20 logs up in Canada.

21 If what they said was true there would be no
22 increase in price during free trade periods. After all
23 Canada -- the Canadian so-called wall of wood would be
24 coming down in the United States and driving prices down
25 during free trade periods.

1 If what they said was true the U.S. industry
2 would be hurting like those who typically deserve trade
3 relief usually are. But this industry isn't hurting and it
4 doesn't deserve relief because what they say is disproven by
5 the facts.

6 Canadian mills now represent over a quarter of
7 U.S. production because it's a great investment,
8 particularly down south where timber is so abundant. The
9 only builders you've heard from are telling you the Canadian
10 products are complementary with U.S. products.

11 That's why since the SLA expired this industry
12 has thrived as prices went up not down, while imports
13 increased the most. In the meantime, the industry has made
14 a lot of cash and has made a lot of investments with that
15 cash to the tune of 2.5 billion dollars and socked away
16 another 1 billion for a rainy day.

17 Yet that rainy day is nowhere in sight. Demand
18 is up and forecasted to keep going up for years to come as
19 the houses not built during the wake of the Great Recession
20 are now being built along with the natural increases in
21 demand.

22 Don't be fooled by the business cycle argument.
23 If you fall for it here, Respondents might as well give up
24 in all cases as no amount of profitability and industry
25 health is enough to avoid an affirmative determination.

1 I just spent a little time today talking about
2 what you heard today from Weyerhaeuser and Potlach. These
3 companies come to you not merely as lumber suppliers but as
4 timberland owners as well.

5 Mr. Benson today admitted to holding his timber
6 back until lumber prices go up. Is it any wonder that
7 non-integrated western saw mills are performing less well?
8 As soon as they catch a break with higher lumber prices,
9 their fellow Petitioners, with integrated timber operations,
10 drive up their log costs.

11 So while companies like Potlach and Weyerhaeuser
12 print money, these other companies lag behind. But that's
13 not Canada's fault. They're doing it to themselves and it
14 is amazing to me that Potlach and Weyerhaeuser have pulled
15 the wool over Mr. Miller's eyes, in particular.

16 In any event, I encourage you to look carefully
17 at the performance of the mills that were represented here
18 today. Now on threat, again, nowhere near the height of the
19 cycle even without trade relief as shown by what happened in
20 2016 and by what's happening right now during the gap period
21 as prices continue to go up. All signs are up.

22 Demand is booming, forecasted to increase
23 further. And meanwhile, the mountain pine beetle shows you
24 that there are significant concerns about caps in capacity
25 in British Columbia, in particular, going forward. Other

1 provinces are not making up the difference as the staff
2 report shows.

3 This is why other countries are slowly finding
4 their way into the U.S. market to supply product like that
5 which Canada supplies. We lawyers -- we all like the
6 annuity that this case creates for our law firms, but we
7 frankly shouldn't be counting on continued business from now
8 until eternity.

9 This industry is not entitled to trade relief
10 like you and I are entitled to the sun rising every day. I
11 have been doing this work for over 25 years and this is as
12 strong and negative Title 7 case as I've ever seen.

13 Usually the domestic industry waits to file their
14 cases when they can at least make out either injury or
15 threat. The industry that you have seen today has done
16 neither, thank you.

17 CHAIRMAN SCHMIDTLEIN: Thank you very much. This
18 brings us to the closing of our hearing. At the closing of
19 a hearing I normally read the dates for the post-hearing
20 briefs, closing of the record and final comments.

21 As you are aware the Department of Commerce
22 recently extended its' investigations which has created some
23 uncertainty with respect to our schedule. At this time I
24 can announce that post-hearing briefs, statements responsive
25 to questions and requests of the Commission and corrections

1 to the transcript must be filed by September 25, 2017.

2 The Commission will release shortly, a revised
3 schedule that will have a record closing date and subsequent
4 deadlines based on Commerce's extended dates for its final
5 determinations.

6 Again, I'd like to thank all of the witnesses and
7 the parties for being here and with that this hearing is
8 adjourned.

9 (Whereupon at 4:25 p.m., the hearing was
10 adjourned.)

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CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Softwood Lumber from Canada

INVESTIGATION NOS.: 701-TA-566 and 731-TA-1342

HEARING DATE: 9-12-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: 9-12-17

SIGNED: Mark A. Jagan

Signature of the Contractor or the
Authorized Contractor's Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

SIGNED: Christopher Weiskircher
Proofreader

I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

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