The Global Advantage of the South in Forestry and Forest Products

August 23-24, 1988
Atlanta, Georgia

Proceedings of a Regional Conference
PROCEEDINGS

THE GLOBAL ADVANTAGE OF THE SOUTH
IN FORESTRY AND FOREST PRODUCTS

A Regional Trade Conference
Atlanta, Georgia
August 22-24, 1988

Harold W. Wisdom
Editor

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PREFACE

The South has a long history of international trade in forest products, beginning with wood shipments to England during colonial times; but the huge domestic market has overshadowed exports for most of this century. Indeed, the seemingly insatiable domestic demand has led to two important characteristics of Southern forestry: an emphasis on order-taking rather than marketing and a preoccupation with timber supply over product demand considerations. In the seller's market that existed for most of this century, Southern firms had little incentive to pursue the more complicated and less understood export markets.

All of this began to change in the 1970s when the domestic housing market went into a prolonged slump and predictions indicated that major domestic wood markets would grow only slowly, if at all, into the next century. The penetration of domestic markets by Canadian softwood lumber producers and South American pulp producers in the 1970s jolted the Southern forest products industry into recognizing that it was vulnerable to international competition. Finally, the restructuring of the Lake States economy following the decline of the automobile industry, and the resurgence of its forest industry as the new North Central forest matured, made it apparent that the South would soon face new domestic as well as foreign competition.

With the internationalization of Southern forestry came the realization that the South must adopt a policy of pursuing its competitive advantages wherever they may occur, at home or abroad. This meant that the Southern forest products industry must develop a thorough understanding of global markets and global marketing techniques. It must shift from passive order-taking to aggressive international marketing. It must find out what foreign buyers want, when they want it, where they want it, and in what form they want it. No longer can foreign markets be looked upon as a place to dump excess production when domestic markets are slow.

Realization that the South will have to depend increasingly upon global markets if its forest economy is to continue to grow and prosper became the focus for a Conference on the Global Advantage of the South in Forestry and Forest Products, held in Atlanta, Georgia, August 23-24, 1988.

The purpose of the conference was to examine what kinds of actions were necessary to enhance the South's global competitiveness in forest products. A major objective was to bring state and local government officials together with forest products firms, port authorities, and members of the banking and finance community to heighten their awareness of the export potential of the forest products industry in their states, and to share ideas on how obstacles to exporting might be reduced.

This proceedings contains papers presented at the conference. These papers represent the thoughts of representatives from the commercial, government, and university communities, who were selected for their knowledge and experience with forest products exporting. It is hoped that these papers will spur thought, research, and lively debate. In particular, it is hoped that these papers will lead to greater cooperation among the various Southern institutions that have interests in the future of Southern forestry. If so, the Program Committee will have accomplished its mission.

Thanks are expressed to fellow members of the Program Committee. Bob McElwee of Virginia Tech was co-chairman. Other members include John Wells, John Haygreen, Karen Kenna, John Milliner, Stan Elberg, and Laird Davison.

Special recognition is due to James E. Neal, Southern Regional Extension Forester and Chairman of the steering committee. Jim originated the idea of the conference and was the driving force that made the conference possible. The success of the conference is a tribute to his perseverance in the face of numerous obstacles and frustrations during the planning and organizing stages.

Without the advice and support of the steering committee and the other conference committees, this conference would have had little chance for success. Our debts of gratitude are too long to be listed here. Committee members are listed at the end of this proceedings.

The conference was an expensive undertaking. Financial support for the effort came from the Cooperative Extension Service, U.S. Forest Service, Tennessee Valley Authority, Association of State Foresters, Southern Rural Development Center, and Farm Foundation.

Finally, we owe special thanks to Doss Brondax and the staff of SRDC, and in particular Bonnie Teater. They were responsible for printing brochures, programs, and this proceedings. We also owe thanks to Cathy Barker, Virginia Tech, who typed the many letters to conference speakers and the abstracts, and who was responsible for getting all of the papers onto the word processor in a consistent format and ready for printing as a proceedings.

Harold W. Wisdom
Program Co-chair
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OPENING REMARKS

Jim Neal
Southern Regional Extension Forester
Athens, Georgia

The slides you have just seen are what this meeting is all about. Good morning! And welcome to the "Global Advantage of the South in Forestry and Forest Products." I'm Jim Neal, Southern Regional Extension Forester. I represent the Cooperative Extension Service Forestry units in the 13 Southern states. This meeting has been in the back of our minds for over two years, and finally, today, it is a reality. Now I know how an expectant elephant must feel.

The primary sponsors of this symposium are the Cooperative Extension Services in the Southern Region, the U.S. Forest Service—Southern Region, the Southern group of state foresters, the Tennessee Valley Authority, the Southern Rural Development Center, and the Farm Foundation. Many others in government agencies, at universities, in private industry, and in forestry and forest products associations have worked closely with us to plan the agenda.

Our meeting will detail the tremendous forest resource we have in the Southern United States, and its importance to the urban and rural economies here. You'll be impressed with the economic values of exports from the South to other regions of the nation and world, and the potential for increasing the value of our exports. This will further enhance the economic contributions forest resources can make to the region.

By the end of this symposium, we all should recognize the potential we have in our forest resources. Demands exist for our timber and forest products if we can locate markets and supply them with products in the quantities, sizes, and configurations the customers want.

Sure, we have problems—competition both here and abroad, export and import restrictions, tariffs, international financing, shipping costs, quality considerations, etc. But what major industry hasn't faced similar obstacles? Each industry has decided to tackle these problems before it can reap the rewards. And the rewards are worth it—we can make a greater economic (productive) contribution to the industry and to the South than we're doing now and yet maintain our quality environment.

Meetings such as this one have been held in other regions of the country, notably on the West Coast and in the Northeast, and they have helped increase forest products domestically and exports overseas. It was time for the South to have a meeting such as this one. Our intent—and our justification—for planning this meeting is to help us all recognize our vast forest resources and how we might use them and benefit by them.

This is a new undertaking for us. Until now, industry people have met in technical, promotional, or interest groups. But today we are meeting with a new audience. In the audience today are bankers, economic development experts, consultants, and people representing foreign trade offices, small and large forest products industries, port authorities, universities and governments, associations and others. We have a real mix of people—that's what we wanted. Because of this key audience, we have set an enormous task for ourselves—to increase wood products exports and to make a significant contribution to the Southern economy from wood products. We know we must have your help to reach this goal.

We are confident of many things—the timber resource is available, the demand for forest products worldwide has increased, our physical plants are increasing to meet the demand through their production and technical know-how, and the work force is available to increase its capacity. The Southern forest products industry understands and works with these factors and forces. But now we must look to others who have the expertise and responsibilities in the legislative, financial, planning, marketing, and political arenas to work with us to continue to create the environment to grow trees and develop the industry.

Let me repeat once more our agenda for today and tomorrow. Our agenda will detail the opportunity to expand the Southern forest products industry to benefit both the urban and rural South. The South can become the leader in forest products worldwide, we can reach our potential if we work together.
OPENING REMARKS

The Honorable Joe Frank Harris
Governor of Georgia

I am pleased with the recognition that Georgia is receiving by being chosen as the site of this large conference and with the opportunity to welcome you here this morning. I know that many of you are familiar with our progress and that I am not saying anything new to you.

I see familiar faces from Georgia in the audience and realize they know that the forest industry is very important to our state and to this region. Forestry and forest products have been one of our most spectacular growth industries over the last ten years and we are all proud of it.

When Georgia was settled as a colony more than 200 years ago, the settlers took full advantage of the great virgin forest that extended over the southeast. They used the forest to build homes, barns, and fences; the wood was used to build schools, churches, shops and bridges. Wood was used for countless other items, including fuel and even the tools which were used in construction. Today we are using wood in many of the same ways, although more effectively, efficiently, and in a more sophisticated manner.

Thanks to modern engineering and science, the whole tree is being harvested and utilized, producing a multitude of products unheard of in the market place as little as ten years ago. But, we are still building churches, homes, schools and other facilities with products from trees and still heating our homes with the fuel that comes from our forests. So, wood use has come full circle in the 200 years since the settlers arrived, and I will predict that our forest products will still be classified as a valuable natural resource and will still be utilized in supporting the society of 200 years in the future.

Because of the versatility of the trees, soils, and climate, the southeastern United States is conducive to the rapid growth of trees. Industry is attracted to sites where raw materials and people are readily available. Forestry in Georgia has become what John Mixon, Director of our Commission of Forestry, refers to as an $8.7 billion industry. I like to round things off when it gets past one-half, and call forestry and forest products a 9 billion dollar business in Georgia. If it is not quite to that level today, it will be soon with the growth we are experiencing. The industry employs over 80,000 people in our state, which makes it big business and an important part of our economy. Every county in Georgia has people employed in the forest and forest products industry. The industry contributes both to the economy and to the cash flow that keeps us moving forward.

Credit for much of this is due to our Georgia Forestry Commission. The progress we are having is due to the cooperation of the Commission, under the leadership of John Mixon, and the compatibility of the Commission with other state agencies. When I was first elected Governor, we worked out an arrangement between the Department of Industry and Trade and the Forestry Commission that placed a Commission employee on loan to the Department. This arrangement placed an in-house expert in forestry and forest products in Industry and Trade and has been so successful that it has become somewhat permanent. And it has paid off. In the past 18 months, we have gained 6 new forest-related industries in Georgia that will employ over 1,000 additional people. The cost of these new plants plus expansions of the major pulp and paper mills and other existing wood-using industries is well in excess of 1 billion dollars. In addition, new jobs have been created in construction, in service areas, and additional markets have been created for the products of the forest landowners. The positive economic impact that forestry is having on our state can be attributed to several factors. I spoke of the tremendous contribution of the Forestry Commission and its Director, John Mixon. His leadership and that of the Commission members has provided the innovations that allow us to move forward in the industry.
As all of you know, Georgia leads the nation in the production of paper through the big mills in Savannah, Rome, and Macon. Other areas around the state supply a steady stream of pulp wood and wood chips in the round-the-clock, year-round operations. It requires a large volume to sustain the production of these facilities. For many years, Georgia has been a leader in pulp wood production. The ready market provided by the pulp and paper industry has made pine a highly-profitable crop for thousands of Georgia farmers and other landowners. I like to use the comparison that if Georgia was a separate nation, it would be the world’s sixth largest nation in pulp production.

Georgia leads the nation in production of naval stores. We remain competitive in the world market because of the superior product derived from the pine forests of Georgia. We are also the largest producer of saw timber east of the Mississippi River. The small saw mills that once dotted our state gave way to fewer but larger mills. They are modern and highly mechanized plants, turning out quality lumber for both domestic and foreign sales.

I cannot speak of our forestry accomplishments without mentioning another program which originated with our Forestry Commission. That is the highly successful reforestation program developed over the past five years. When you combine high production and good forest management with utilization, you have the elements which bring industry and good payrolls to the state. To maintain this, you must promote regeneration. The Georgia Forestry Commission, with the support and cooperation of other agencies, industry, farm groups, and individual landowners planned for and encouraged tree planting on marginal lands and replanting of seedlings as trees are harvested. Our goal was to plant an acre of forest for each acre harvested, a goal we hoped to reach two years from now, in 1990. It was an excellent plan, but we were too pessimistic in our time frame. We reached the goal last year. Landowners responded to the efforts of the reforestation committees that were established in most of our counties. In 1984, the first year of the drive, we planted over 370,000 acres. That was the most ever achieved in Georgia in a single year. In both 1986 and 1987, planted acreage increased to over 533,000 acres, a 44% increase. In the past planting season, 1988, landowners in Georgia planted 603,000 acres of trees. We believe we have set a national, if not a world, record in reforestation achievement for planting in a single year. We achieved that record two years earlier than our goal and have now accepted a challenge of continuing or exceeding the goals originally set.

With the arrival of the Conservation Reserve Program (CRP) in 1986, Georgia landowners were apprised of its benefits and the state took the national lead immediately in numbers of acres committed to tree planting under CRP incentives. This accomplishment once again shows the commitment of our forest landowners and wood-using industries to the future of forestry in Georgia. The rapid expansion of reforestation across the state has prompted our legislature to approve my recommendations to build additional nurseries to meet the anticipated surge in demand for seedlings. Last November we dedicated a new Clint River Nursery in Dooley County and this fall the new nursery will join our other commissioned nurseries in shipping over 200 million seedlings to landowners across the state. Those millions of healthy pine seedlings assure a very stable future for the forest industries of Georgia that are dependent upon a continuing wood supply.

If you are asking yourself, “How did they do it?”, I think you may have already gleaned the answer. It required teamwork. It required support from all those interested in the future of our state and those who know the contribution that forestry and forest products can make. I hold annual meetings in my office with the timber land managers representing some of our leading forest industries where we challenge and encourage them to plant an acre for each acre harvested. They have been helpful and supportive in accepting the challenge and helping us to develop the program and make it work. I will continue to challenge these landowners and others to plant seedlings or encourage natural regeneration—get the acres back into production. If we can continue these accomplishments, we will have gone a long way in reassuring the forest industry and the many thousands of citizens who depend upon the forest industry for a livelihood. We will have come a long way in assuring that the essential raw materials necessary to support their industry will be there.

I again want to thank you for the opportunity of dropping by and having the opportunity to brag a little bit about Georgia, because we are proud of what is happening in Georgia and I share a lot of pride in what is happening with John Mixon and the Forestry Commission and all the people who support them, both within and without the Commission.
THE ECONOMIC OUTLOOK FOR THE NATION AND THE SOUTHEAST

Robert P. Forrestal
President, Federal Reserve Bank of Atlanta
Atlanta, Georgia

Abstract. International dynamics are playing a major role in shaping both the near-term and longer term outlooks for the nation and the Southeast. At present, a transition in the global economy is making the United States less dependent on consumption growth and more dependent on exports for continued expansion. This shift, which is related to the dollar’s depreciation against the currencies of most of our major trading partners, should lead to greater balance among regions of the nation and the various sectors of the American economy. Overall, U.S. output should grow at a rate of about 2.5 to 3 percent in 1988, while the world’s other advanced economies should grow at about 2 percent on average. Manufacturers in the Southeast—especially those who have modernized their production process—should benefit from this global transition. While growth in this region should be stronger on average than in the rest of the nation in 1988, several key issues must be addressed in order for economic expansion to be maintained in the long run. States like Louisiana and Alabama need to diversify into services and more advanced types of manufacturing if they are to reduce their vulnerability to price swings on world markets associated with excess dependence on natural resource industries like farming, forestry, and energy. More generally, the increasing availability of cheap labor sources in foreign countries means the region will no longer be able to depend upon low-wage, low-skill industries as it has in the past. Rural areas in Georgia and Mississippi are likely to fall behind urban centers in the long run, largely because workers in rural areas do not have the training to adapt to new jobs. To counter this weakness, the region must stress improvement in education to encourage economic diversification and rural development. Another issue involves the areas that are growing fastest—metropolitan Atlanta and much of Florida. These areas must find ways to manage the rapid expansion that has made them prosperous or risk losing some of the qualities that have contributed to their growth.

INTRODUCTION

Good morning! I am honored by your invitation to join in the proceedings of this conference. I am always pleased to be part of a discussion on the global advantages of our region, whether it is of a general nature or relates to a specific industry like forestry and forest products. My usual focus is the states of the Sixth Federal Reserve District—Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee. Nonetheless, I believe that however one defines the South, several factors give us an edge that promises ongoing economic growth. Our transportation network by sea, land, and air affords quick, reliable shipment of goods to and from market. We have a large, relatively low-cost labor pool that is sought out by managers from outside the region for its strong work ethic. The Southern climate is also a powerful attraction. Not only do our less severe winters attract businesses to locate here, but also they are a major reason that tourism has become an engine for consistent regional development.
These are some basic elements that should promote continuing competitiveness for this region in a marketplace that is increasingly global in scope. However, that market is evolving rapidly, and we must measure our steps now in order to stay in the running tomorrow. I would like to discuss several issues with which the Southeast must deal to keep abreast of worldwide trends. I think you will find that these ideas apply in the other states represented at this conference as well. Before I do that, though, let me provide some context by giving an overview of my outlook for the international, national, and regional economies for the coming 6 to 18 months.

THE NATIONAL ECONOMIC OUTLOOK

I look for the nation’s economy to grow at a rate of about 3 1/2 percent in 1988, as expressed in real GNP figures. We will probably do better this year than next year. In fact, my outlook implies that growth will slow in the last two quarters of this year, since the first six months’ growth has been above 3 percent. Inflation should be about the same as last year—that is, 4 1/2 or 5 percent—and persist in that range through 1989. I expect unemployment to fluctuate around 5 to 5 1/2 percent for the coming 18 months. Thus, we will be a relatively rapidly growing country. Japan, too, will grow faster after having experienced two years of growth that has been slow in terms of its potential. Most European economies, in contrast, are likely to expand at a modest rate of perhaps 2 percent over the course of the year.

Underlying these statistics are some important fundamental changes—in consumption and borrowing patterns, in price levels, and in foreign trade. From the beginning of the current expansion in 1982 through the first part of last year, economic growth in the United States was driven largely by growth in consumption. Both the federal government and individual consumers bought goods and services at a prodigious rate, and many of us borrowed heavily to do so. That tendency has slowed, in part because government purchases have embarked on a downward slope that I fervently hope will be maintained and even accelerated. Curbing the federal budget deficit is crucial to the continued health of this country’s economy. In addition, a good portion of the baby boom has passed through its household-formation stage, when large, long-term credit purchases are made. This age cohort is entering a period when its members are likely to save more. This return to a higher rate of saving should help correct some of the imbalances that have led to record fiscal and trade deficits in recent years.

Another reason for the slowdown in consumption is the decline of the dollar from heights which kept the prices of foreign-made goods low and encouraged our national spending binge. The dollar has returned to its levels of 1980 from a peak in 1985. Economic theory tells us that when such a depreciation occurs, it should lead to a corresponding adjustment in a country’s trade balance. This happens as higher prices for foreign goods dampen imports even as domestically produced goods become relatively cheap overseas and improve exports. Research at the Atlanta Fed has shown that certain factors unique to the U.S. dollar—especially its role as a base currency in international transactions—delayed the onset of this effect longer than many analysts had expected. Starting in late 1986, however, the United States began to realize steady improvements in net exports in terms of the greater volumes of goods being exported and much slower growth in the volume of goods being imported.

Changing relative values of the dollar are now showing up in sticker prices here. While overall inflation has been in the annual average range of 4 to 5 percent over the past two years, the prices of foreign items, excluding oil, have jumped 8 to 9 percent. Meanwhile, as price shifts in favor of U.S. products boost our sales overseas, the resulting increase in exports is bolstering our manufacturing sector. After languishing during the high-dollar days of the mid-1980s, manufacturing has become the leading growth sector, stimulating increased investment in capital goods, too. We have also begun to notice some signs of strength in both residential and non residential construction of late, though I do not look for a major upturn any time soon.

The stimulus from our export position that is driving manufacturing while consumption cools should bring more balance to our economy. Looking beyond the United States, we find that the same dynamics are working in the opposite direction in other advanced economies. The lower dollar will continue to dampen the important export sectors of Europe and Japan. Consumption in these countries has begun to take up much of the slack left by waning exports.
This is particularly true in Japan, but even in West Germany, where growth will be lower than in the United States, this shift is underway.

This worldwide structural transition will not be without difficulty. Americans will find that our standard of living is rising by less than the additional amount we produce. That is because a greater portion of our products must be sold overseas to earn foreign exchange with which to pay down the foreign debts we have incurred in our consumption binge of recent years. Nevertheless, the turnaround in the export situation is a necessary correction that will help bring global markets into balance along with our own. Since market dynamics are working out this rebalancing here and abroad, it is crucial that we resist the temptation to get a quick fix of the American trade deficit by resorting to protectionism. Instead, we need to think of eliminating more barriers to trade so that international markets can do their jobs even more effectively.

OUTLOOK FOR THE SOUTHEAST

Having discussed the national outlook in terms of a significant shift from consumption to exports, let me turn to the Southeast and talk about how this transition will affect us at home. Because of the anticipated increase in exports, the likelihood of continued or even faster growth in manufacturing bodes well—at least for those regional factories that have been modernized. There is a slight hitch in the effects of the currency realignment as far as Southeastern industry is concerned, however. It is true that last year the dollar finally began to depreciate against the currencies of Canada and developing countries in the Pacific basin—the chief competitors of many regional industries like forest products and apparel. Yet the amount of currency realignment is quite small compared to the dollar’s fall against the yen, the deutsche mark, and currencies of other advanced economies. Moreover, cost structures in many developing countries are far more favorable to the kind of low-wage, labor-intensive production that became the staple in much of the South as the labor force shifted out of farming. Thus, for many of the region’s industries, the likelihood of substantial improvement is not high.

In terms of specific states, those in the eastern portion of the region—Florida, Georgia, and Tennessee—can expect to see more of the good performance they have experienced of late, although their rates of growth will probably slow somewhat. These states enjoy diversified economies, in which more technologically advanced manufacturing and a vibrant service sector help offset weaknesses, whether in industries like apparel which have been battered by imports or the production of phosphates and other commodities whose prices remain depressed in world markets. Of course, rapid population growth is also a boon, especially to Florida. It has been a strong stimulant to Georgia as well; but, since last year, in-migration has dropped off considerably as vigorous economic growth in other parts of the nation have attracted some would-be Georgia residents away.

Louisiana and Mississippi will do better than last year, which appears to have been the trough. Mississippi’s economy has been performing well recently as a result of the upturn in manufacturing that the country as a whole has been experiencing. However, in the longer run, Mississippi’s manufacturing faces downside risks because it remains heavily dependent on low-wage manufacturing and resource production areas, where developing countries have a decided advantage. Louisiana’s situation is in some ways worse because its economy is so lacking in balance. Even its small manufacturing sector is heavily linked to energy, and oil prices have tailed off recently after a slight improvement earlier this year. As in Mississippi, however, some manufacturing gains will be experienced.

Alabama occupies the middle ground both in terms of geography and economics. Manufacturing gains should help this state further the advances begun last year, since its economy remains oriented toward industrial production despite growing health and educational services, especially in Birmingham. Steel production is currently rebounding, thanks to the industry’s improved competitive position. In addition, Alabama’s still important natural resources sector should hold onto the gains made last year. Indeed, coal production began increasing last fall. On balance, the Southeast should do well again in the year ahead.
FORESTRY OUTLOOK

The national and regional outlook hold generally good news for forestry. This important industry—the fourth largest manufacturing employer in the Southeast—has already regained much ground since its low levels of the early 1990s. A weaker dollar and the accompanying surge in export-related manufacturing have increased the demand for both lumber and paper products—so much so that the pulp and paper industry is near capacity levels of operation. As the global economic transition goes on, we should see a continuation of this trend, aided by ongoing contribution from domestic markets.

Over the long run, the forest industry in the South must contend with a potential shortage of lumber that could be brought on to a great extent by land-tenure patterns here. The South possesses more commercial forest land than any other area in the country, but the majority of the land is held by private owners outside the industry. Even though the rate of planting on non-industrial private lands has increased recently, it is still far below the rate of harvest. In addition, some commercial timber land is being converted to urban development and to crop and pastureland. Policies now in place that encourage better forest management should help offset the projected shortage. Nonetheless, tighter supplies could have a substantial impact by the turn of the century.

ISSUES IN THE REGION’S ECONOMY

From what I have said to this point, it should be clear that I feel international developments will continue to play an important economic role in the nation and our region in the immediate future. I would like to use my last few minutes to bring together several other themes I touched on earlier. I also will try to define several issues that must enter into our thinking here in the Southeast as we look toward future development.

One of these issues is the need for diversification into alternative industries in states like Louisiana that are overly dependent on farming, forestry, mining, and other primary industries. Disproportionate reliance on natural resources in Louisiana and to a lesser extent in Mississippi and Alabama makes their entire economies extremely vulnerable to world-market price fluctuations. Thus, when the prices of commodities like oil or farm products fall, the whole economy around them suffers. Right now, because prices for some of these commodities have gone up on world markets, I expect the economies in these states to improve a little. For the future, though, state economic development efforts in the western states of our region should focus more on data processing, finance, health care, tourism, and other services, as well as the types of manufacturing that employ more advanced technologies rather than seeking to recruit low-cost producers.

A similar problem is the split between urban and rural economies in some of our states. We hear a good deal about the “two Georgias”—the rubric we use to compare the brisk growth of metropolitan Atlanta with slower expansion outside the city. A similar breach has been widening for the past decade between the urban and rural areas of Mississippi. It will be hard to close gaps like these because growth in cities tends to build upon itself, generating more expansion and economic strength. At the same time, workers in the rural areas frequently do not have the education and training to adapt to new jobs. Thus, in today’s global economy with less developed countries offering even cheaper resources, industries that have been the staple of Southeastern recruiters for decades are more likely to leave the rural areas than move there.

The main way we can encourage improvement in our rural areas, and also the diversification into more high-tech manufacturing that some of our states require, is to improve our region’s educational systems. Education is probably the Southeast’s greatest weakness. In the past, many of our workers have been employed in jobs like agriculture, natural resource extraction, and low-skill manufacturing that did not require much training. Therefore, our states have not invested as much in education as states where workers with better skills were needed. Except for Florida, we still end up at the bottom of the list in terms of amount spent per pupil on education. Not surprisingly, high school drop-out rates are higher here. All of these facts mean our labor force is not keeping up with the rest of the nation’s. Eventually, and probably soon, this
weakness in education resources will hurt our chances in the competition with other regions for new industries.

As my comments on the globalization of markets imply, in the future our region increasingly will be in competition for jobs with workers in the rest of the world as well as with those in other parts of the United States. We have already lost many of our low-paying jobs to other countries. There is no guarantee that we will maintain our current dominance in services either. We have already begun experiencing keen competition from outside our borders in financial and insurance services, for example. The only way to prepare for this competition is to make sure that graduates of our schools have a variety of skills and do not become locked into one kind of work. In this way, our labor force can adjust to changes in technology and move to new jobs when old ones become obsolete. Therefore, improvement of education is a need that extends across all state boundary lines and should be the number one priority in the region.

One other problem that stands out involves the areas that are growing fastest—Florida and the Atlanta area. Ironically, their problem is to find ways to manage the very growth that has made them prosperous. Their schools, highways, sewage and water systems, and other types of public-use infrastructure are already overburdened. More people are adding to the demands on that infrastructure every day. This pressure creates a threat to the environment, the quality of life, and the economy. People go to Florida because of its natural beauty and good climate. If they have to sit for hours in traffic, breath polluted air, and worry about their drinking water, they'll start going somewhere else. The same is true for the businesses that have been locating in Atlanta. Many of these are services like accounting and advertising, communications, and overall corporate management that economists call "footloose." Such businesses moved here voluntarily—not because of any necessary resource linkage. Hence, they can always move to a location they perceive to be more hospitable. So we have to be careful to keep up with the demands that growth places on our various types of infrastructure. We also must be willing to pay with our tax dollars to keep those systems in top shape.

Our efforts to invest in diversifying the region's economy and providing adequate education for our labor force face an obstacle of larger proportions; however, one that everyone in this country needs to be concerned about. That is a federal budget deficit that soaks up a disproportionate amount of our national savings. We must continue to urge government policy makers to bring spending into line in order to free the funds needed for priorities like those I have outlined for you this morning. Such discipline is crucial to the global competitiveness of our region and our nation.

CONCLUSION

I have covered considerable ground this morning, going from the structural transition underway in the world's economy to regional issues that call for careful thought from each of us here today. In between, I have said that the outlook for the national and regional economies is good in the year ahead. I have no doubt that we will continue to prosper in the globalized marketplace both as a nation and as a region because we have always risen to meet competitive challenges. Our will to win has not diminished. We must be certain, however, that we are adequately prepared to win. To be prepared for the competition in an increasingly sophisticated arena, we must educate and train and then re-educate and retrain as quickly as conditions change. If we are strong in preparation, none of us—manufacturers, farmers, or service providers—will have to resort to the losing tactic of hiding from competition behind protectionist barriers.
THE INTERNATIONALIZATION OF FORESTRY:
A Forestry Perspective

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INTRODUCTION

On this occasion, I’m reminded of what H. Ross Perot recently said about international competition: He says Americans rely too much on watching sports events on television to satisfy our competitive instincts.

Perot says the real competition is in the workplace and marketplace. We go to our jobs each day, playing in an international economic Super Bowl, where the best product wins, and where there is not even a red ribbon for second place. The losers lose their jobs, not just a game.

Perot says that the only way to succeed in today’s global economy is to unite as a team, take on the world, and WIN.

One American winner is Sam Walton, listed as the richest man in the United States. Sam Walton and I have one thing in common: We both come from Jackson County, Arkansas.

Walton ran a 5- and 10-cent store in Newport; as a kid, I bought a few candy bars and toys from him.

In Newport, he got tangled up over the cost of renewing the lease for his store building, and walked out. He moved to Bentonville and started over, and the rest is history—Wal-Mart is now ranked third in retail sales, behind Sears and K-Mart.

Sam Walton believes in building a strong American economy, but he also believes in giving his customers a quality product at a good price. These two objectives are not always compatible, unless you apply a little entrepreneurship.

For example, Wal-Mart was importing millions of dollars worth of wooden tables from Taiwan. Knowing that the United States had plenty of timber, Walton challenged the American forest products industry. He took one of the tables out of his store and showed it around, offering to buy from any American firm that would produce the same table at the same price. Today, a company in Mississippi produces those tables sold at Wal-Mart at less cost to American consumers.

It’s great that Sam Walton did that for forestry, and he set a good example for us to follow.

The point is that the U.S. economy is truly a global economy. With the United States representing 1/3 of the total world market, nearly every exporting nation is targeting the biggest market in the world—the United States—and many are being successful.

We ought to be asking ourselves how many other table-like products are out there that could be picked off with a little more entrepreneurship and imagination by Americans.

OUR COMPETITION

Let’s look at the situation in forestry and forest products.

World trade in forest products has grown from about $30 billion in 1974, to more than $50 billion in recent years. Our market share of total world trade in forest products declined only a little bit during that period, going from 12 percent to 11 percent.

But, where we lost the ball game was at home. U.S. imports of forest products went from $4.3 billion to $10.7 billion. That means imports are now 2-1/2 times what they were in 1974.
The message is clear: The international marketplace is not just some place in Europe and Asia; it is right here on Main Street, U.S.A. We have tough competition in the marketplace, both at home and abroad.

We have one especially formidable competitor—a competitor who is good at producing quality forest products, a competitor who knows the rules of the international marketing game, a competitor who is tough at playing the game. And that competitor is our friend and neighbor to the north—Canada.

Last fall, I was up in Canada for the North American Forestry Commission meeting. I spent three days talking to the Canadians, and I learned some things that impressed me greatly.

The Canadians had just come out with "A National Forest Sector Strategy for Canada." This strategy is not ambiguous. They don’t make any bones about it. They are in the forest products game to win.

Canada is already the world’s largest exporter of forest products. It’s their Number One industry, accounting for 22 percent of the world trade in forest products, compared to our 11 percent, and they are going after a bigger share.

They realize that capturing a larger share of international markets will require tenacious, astute marketing, and investments in retooling. They have a strategy to do this, representing a consensus among the forestry community working together, including government, industry, labor, academia, and even the environmental groups.

In the world market for forest products, there is no doubt that the Canadians are out to win the international economic Super Bowl. In most marketplaces, they are competing head-to-head with the United States.

WHAT WE NEED TO DO TO BE COMPETITIVE

We all know that 20-30 years ago, imported cars were rare in this country, represented mainly by the Volkswagen “bug.”

Next year, a projected 42 percent of the cars sold in the U.S.A. will be imported. Whatever happened to our “world class” automobile industry?

I think there are many lessons that we can learn in forestry from our friends in the automobile industry.

First, we must make a long-term commitment to being in international markets. We must treat foreign markets, not as a dumping ground for temporary surpluses of forest products when U.S. markets are down, but as fertile ground for building permanent trade partnerships.

We have to be aggressive in penetrating foreign markets. And, once we have built market share, we must be extraordinarily committed to maintaining those market shares through good times and bad times.

The Japanese automobile makers excel at this. You would think that U.S. auto makers could take advantage of the recent decline of the dollar against the yen to regain lost markets, but they haven’t. The Japanese decided to absorb much of the loss rather than raise prices and risk their long-term commitment to U.S. markets.

The Canadians did much the same when the U.S. imposed a 15-percent import fee on lumber coming into the United States. Both Japan and Canada have demonstrated the importance of building and maintaining long-term market share, even at the expense of occasional sacrifice of short-term profits—an important lesson for us in forestry.

Second, you must know your customers and produce the products they want. That’s just common business sense, whether you’re dealing with U.S. consumers or foreign consumers. It’s just more difficult to know what your foreign customers want.

The Japanese have this down pat; they know the kind of cars Americans want.

Can anyone doubt that? The Japanese discovered what we wanted in the way of compact cars and came to dominate that market. They have gone upscale with us as we demanded bigger cars. Now, with the new Nissan Maxima and Acura Legend, they are making a run at the top of the line, making inroads not only against American-made cars, but also against European-produced cars like Volvos.
The Japanese have learned what the U.S. auto industry has forgotten: That the customer is always right. That success means serving the needs and requirements of the customers. Have you noticed that today’s Fords and Chevrolets are starting to look a lot more like Japanese cars? Japan no longer has the reputation of just copying successful products made by others. They are now the leaders in tracking changing values, lifestyles, and trends, and responding quickly to them. Japanese executives are expected to know American culture, American business, and American buying habits—and that’s another good lesson for us in forestry!

COMMITMENT TO INVEST IN FORESTRY

We all know that forestry is a long-term proposition and that our long-term future depends upon making timely investment in research and development, forest management, and production facilities. But I don’t think that forestry (across the board) is competing very well for capital in today’s business climate.

Last summer, I attended the Western Governor’s Conference in Utah, and heard Mr. Marita, the Chief Executive Officer of Sony Corporation, talk about Sony’s management strategy.

Mr. Marita was highly critical of what he thought was the short-term focus of American businesses, and the low priority placed on investing in our long-term future. He says that the United States is now reaping what we have sown by following our short-term strategy. He said that, on the average, Sony doesn’t expect to get its money back on investments for at least 15 years.

Think about that! Think about 15 years as being a long time by Japanese standards; then think about the long-term investment we need to make in forestry for the next 25 to 50 to 75 years.

Forestry is clearly at a disadvantage in today’s economic climate for investment. Look at the fact that many large companies are putting millions of acres of productive forest land on the market, because they believe that they have better alternatives for investing their capital.

The recently completed study, “The South’s Fourth Forest,” shows that we need to increase our investment in timber management in the South. We have reached the break-even point over large areas of the South, where the removal of pine sawtimber exceeds growth.

Our future is at stake. Just as today’s timber supply is a result of decisions made 25 to 50 years ago by our predecessors, the people sitting in this room 25 to 50 years from now will be dependent on the investment decisions we make today, and the kind of forest we grow for them.

Mr. Marita of the Sony Corporation was very blunt in his criticism of other U.S. industries for being so short-sighted in their past investment strategies. Now those industries, like the auto industry, are paying the price. Another important lesson for us in forestry—we will literally reap what we sow.

WORKING TOGETHER

The Canadians have set a good example for us to follow in working together. Everyone, including the Canadian government, is working together to promote forest products in the international marketplace.

In the United States, a poll done a year ago showed that 75 percent of the American people believe that U.S. competitiveness is the equal responsibility of government and business.

The U.S. government wants to lend the forest products industry a helping hand, as well. We have been working at this in several ways.

One of these has been through aggressive trade negotiations to reduce or eliminate trade barriers. In fact, forest products have been the number one issue in trade negotiations with the Canadians.

We’ve worked with the forest products industry to challenge the Canadian government’s policies of pricing publicly owned timber. This led to a Memorandum of Understanding between the United States and Canada, which imposed a 15-percent import fee on lumber coming into the United States, until they revised their policy.

The proposed Free Trade Agreement between the United States and Canada includes a
process that may eliminate tariffs on softwood plywood on both sides of the border, and phase out all tariffs over the next 10 years.

We've also been able to negotiate tariff reductions on a number of forest products in Japan. This took years of tough negotiations, but it will give our industry a better chance to compete in the Japanese market.

Second, in addition to the trade negotiators, the Foreign Agriculture Service in the Department of Agriculture has been working through Agricultural Attaches around the world to provide market intelligence and promote U.S. forest products. This is a very successful joint effort with the U.S. forest products industry.

Third, the Forest Service, in cooperation with the State Foresters, has some fifty marketing-related projects underway. One example of this is an export-training workshop held here in Atlanta three weeks ago. Another is development of a foreign terminology handbook by the State of Washington. These projects will lead to a large pool of people around the country becoming more trained, knowledgeable, and aggressive about exporting.

Finally, we are striving to help through research and development.

The Forest Service's Forest Products Laboratory in Madison, Wisconsin, and it's many other research projects throughout the country, are unmatched in the world for facilities and scientific brain power. This scientific capability can be a formidable tool in opening up new markets for U.S. forest products.

For example, the Forest Products Laboratory in Madison is working on developing wood-based products that can compete against western red cedar shakes and shingles imported from Canada—a big market opportunity. We also have scientists working on the problem of nematode infestation of southern pine chips, which has prompted an embargo by the Scandinavian countries and denied us access to what was once one of our best foreign markets for southern pine chips.

Our scientists will continue their efforts to make us more competitive, to search for ways to better manage our forests, to develop new products and new technologies to help us compete in the international markets, and to provide us with the information we need on trade patterns, global relationships, and economic opportunities.

There may be other ways that the government can help, or, in some cases, may be the best way for us to help is to get government out of the way of the private sector. We want to do that, too, where appropriate. Government needs to know about how we can best help, by working together in cooperation with the rest of the forestry community in this country to make the United States more competitive in the international marketplace. We together must do as well or better than our chief competitor—the Canadians—and they are doing a good job.

By working together, we can become a more important player in international markets, to meet the growing needs of an expanding world population, with forest products that are grown and manufactured in the United States, we can do better than 11 percent of world trade.

We just need to catch the spirit of Sam Walton. If Sam Walton can stop buying his wooden tables in Taiwan and get them here in America, we can apply the same entrepreneurship, imagination, and determination to turn the tables on our competition, so to speak, and export some tables of our own.

I strongly believe in what Ross Perot had to say. We shouldn't satisfy our competitive instincts by just watching sports on television. When we go to our jobs each day, we are playing in an international economic Super Bowl where the best product wins. I would add that, every day, we're also competing for the minds of the American people, trying to get them to understand and support forestry.

The only way to succeed is to unite as a forestry team, take on the world, and win. Forestry is obviously a strength and a world-class industry in the South. By working together, we can truly make the South a world-class Super Bowl team.
EXPORT SOUTH

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Abstract. The U.S. South has a tremendous opportunity in the export markets, but that potential is largely unfulfilled. In the case of both softwood and hardwood lumber, the growth in Southern exports has lagged behind that of the United States as a whole. The key opportunities for both Southern softwood and hardwood are in the United Kingdom, Italy, and Spain in Europe, and Japan and South Korea in Asia. Reasons for the failure of the Southern lumber industry to capture fully the export potentials appear to be (1) failure to recognize profit possibilities of exporting and (2) failure to take export markets as seriously as they do domestic markets. Exporting holds great potential for Southern firms, but realizing this potential will require firms to hang in there for the long haul.

INTRODUCTION

Thank you. It's a pleasure to be talking to this group. It's also a pleasure to be back in Atlanta. About 15 years ago, I was in the home building business here, heading the Southern operations of Ryland Homes. Now, I'm in the international business in Washington, D.C., with my own firm, trying to help American companies increase exports. What a switch!

For those of you who might be interested, we at John V. Ward Associates, Inc., undertake market studies, promote various products, try to reduce trade barriers, and attempt to resolve other international problems. In Japan, we even represent a few selected wood products companies, helping them sell to that complex market.

Today, I was asked to speak about World Trade in Forest Products. That's a broad enough license to talk about anything. What I would like to do is share my reactions with you about how I think the South is doing overseas, especially with softwood and hardwood lumber. And I'd like to bring out a few thoughts about how it might do better. I've titled this talk, Export, South!

Let's first take a look at wood exports and the U.S. South.

EXPORTS AND THE SOUTH

What an enormous opportunity you have in this region of America! An incredible renewable resource base, great growing conditions, a fine work force, outstanding infrastructure, and proximity to good ports. Plus you have an overseas market that is expanding far faster than the U.S. domestic market.

U.S. wood exports set a record last year of nearly $4.0 billion, that's 1.4 times that of 1983. And, this year they will be up again to over $5.0 billion!

How is the Southern lumber industry doing in this dynamic bull market for wood exports? I would sum it up in two less-than-bullish words—potential unfulfilled!

In a few moments, Hai Wisdom will give you chapter and verse on the competitive position of the U.S. South. But let me elaborate on a few indicators that I think show the American South has not fully awakened to the export opportunity which it faces.

Take softwood lumber, for example. Last year, the United States exported 2.4 billion board feet, worth $850 million. This total exceeded exports of five years ago by 33%. However, southern
pine's growth during that same period has only been 19%. That's a 50% lower growth rate. I should quickly add, on the positive side, however, that 1988 Southern pine exports for the first five months are up 62% versus only 31% for all softwood lumber. Viewing it still another way, southern pine lumber exports accounted for only 10% of total softwood export shipments last year. Yet the species represents 34% of total U.S. softwood lumber production.

So how has hardwood been doing? For the overall industry, growth has been dramatic. U.S. hardwood lumber exports last year totalled 726 million BF, or $475 million, up an incredible 104% since 1982. And, in 1988, they probably will jump again by another 80%.

Just how the U.S. South is doing in hardwood is a bit more difficult to determine. Unfortunately, we have no clean statistic comparable to southern pine which we can analyze, e.g., southern oak. Yet we can make some comparisons.

Southern hardwood lumber is estimated to represent 45% of total U.S. hardwood lumber production. Yet shipments of hardwood lumber from Southern ports—I recognize that is not a perfect indicator—accounted for only 29% of total hardwood exports. Moreover, if we look at growth, total U.S. hardwood exports increased by 80% between 1984 and 1987, whereas hardwood shipments from Southern ports only grew 47%.

Now, I think if we were to sum up these foregoing comparisons, we would conclude that in exporting, southern pine is being outrun by Western softwoods, and Southern hardwoods are not doing as well as those from the North and West.

Why has the South not fulfilled its international potential? The answer is complex. It has to do with domestic market preoccupation, production orientation, overseas markets themselves, and a few other factors. Let's look at these points and others and consider what might be done to improve the South's performance.

Consider first the opportunities.

**OPPORTUNITIES: WHERE ARE THEY?**

One of the reasons Southern lumber's potential overseas is as yet unfulfilled may be that it has been concentrating on the wrong markets.

I believe the key opportunity markets for both Southern softwood and Southern hardwood are in the United Kingdom, Italy, and Spain in Europe, and Japan, especially, and South Korea in Asia.

Until recently, most Southern softwood export promotion was concentrated in the Caribbean. And much of it still is. Although the Caribbean is a great market for the South, it is relatively small and the U.S. share is already 90%.

To its credit, the southern pine industry recognized the U.K. opportunity several years ago. The South, with the Western softwood lumber producers, opened a joint office in London in 1984. However, that effort has not yet extended to the Continent, particularly Southern Europe where economies are growing faster and the potential for increased wood consumption is greater. Fortunately, there are movements afoot to correct that omission.

One reason for southern pine export's lower growth rate, relative to the surge in all softwood exports, may be the industry's abrogation to the West in Asian markets and particularly, in the largest and most significant of all markets, Japan. That country buys almost half of the U.S. wood shipped, and its growth as a market has, and will continue to be, spectacular.

Southern pine has not been a factor in Japan. But, over time, this great wood certainly could become one. Perhaps the Southern industry should consider exploring this incredible market to determine what niches fit its products.

Now the Southern hardwood situation is a bit different. The hardwood lumber industry has had an office in Europe since 1980, and the South is participating well within the European market.

Similarly, the U.S. hardwood industry has had a Japanese office since 1985. But, although Japanese hardwood imports have expanded thirty times since 1980, I don't believe the South is getting its share. Unfortunately, Japanese generally prefer Northern American hardwoods, e.g., hard maple, Northern red and Northern white oak. They are less than enthusiastic about the Southern species.
If the South really wants to penetrate the Japanese hardwood market, I think it should have some programs of its own. It could, for example, initiate, within overall industry activity, specific programs to promote Southern woods: Southern oak—for oak is Japan's major hardwood import. Other species could warrant some special attention—sap gum, tupelo, others. The industry should also explore other niches—particularly in the value-added area where its species might fit. In sum, special promotion on Southern products is needed if Southern hardwoods are to get their share in Japan.

RECOGNIZE THE PROFIT POSSIBILITIES

Now all of this promotion in key opportunity markets may build volume, but how about the bottom line? Is the South's potential in part unfulfilled because not enough manufacturers have recognized the profit possibilities of export? I don't know the answer to that question. But I do know there is money to be made.

Top management of one of the nation's largest forest products companies once explained to me how they had thoroughly analyzed the profit potential of exporting. The company has shipped 30% to 40% of its production overseas for years. They found that sometimes they make more money domestically, sometimes offshore. But, they are convinced that their total profits have been greater, year-in and year-out, by being substantially committed to exporting.

Some of you may say, "That's not me. We're not a giant of the industry." Okay, consider this. We represent in Japan a medium-sized hardwood lumber producer from West Virginia. We have helped them build export sales from virtually nothing a year and a half ago to 20-30 containers per month today. The president of the company makes sure he gets $100 to $200 per thousand net over the domestic market's price levels. That's not bad, is it?

TRADE ASSOCIATIONS AND FAS

Only Southern companies can take advantage of export profit possibilities. But, your trade associations and the U.S. government can help. You have some of the country's most effective associations in this region—the Southern Forest Products Association, the Hardwood Manufacturers Association and, right here in Atlanta, the Southeastern Lumber Manufacturers and the National Dimension Manufacturers associations.

These groups, and others such as my alma mater NFPA in Washington, cooperate closely with the U.S. Government's most effective export promotion arm, the Foreign Agricultural Service. Together, they have the experience and the funding to promote Southern lumber overseas. You'll hear a lot about their activities today and tomorrow. I urge you to support these organizations and, most importantly, to participate in helping guide their overseas programs to ensure that they are doing the best job for you here in the South.

Let me shift a bit now and comment on a few specifics I believe Southern companies should be thinking more about as they expand their exporting effort.

SIZES ARE NOT ALL 2 X 4'S

I may be presumptuous, but I really think one of the reasons the South is not getting all it could from the exporting business is its own producers' preoccupation with the domestic market and, in the same vein, with ALS and NHLA sizes and specifications. The markets beyond the borders of the good old U.S.A. are just not 2" x 4" markets. And I don't think they will be in the foreseeable future.

One of the reasons Western softwood lumber producers have increased their position in Japan has been the willingness of more manufacturers to cut to Japanese sizes. Ten years ago, only two companies made the effort, now seventeen do. And the business has increased accordingly. Why can't a few southern pine manufacturers, for example, cut the two or three standard sizes that make up the majority of the huge imports of the United Kingdom? What a great opportunity! You can be assured the Canadians are doing it.
Now, for Southern hardwood, although it is far less important, a similar point can be made: NHLA rules, quarter-inch increments, random lengths, flat sawing. How about some special rules, metric sizes, cut-to-length sizes, quarter sawing?

I suggest you hardwood lumber producers listen carefully to one of the speakers today, Phil Araman, if he starts talking about one of his favorite topics—how American hardwood companies can make more money cutting to the size requirements of their overseas customers.

ORGANIZE FOR EXPORTING

One reason American companies have difficulty in foreign markets—and I mean all American companies, not just Southern forest products organizations—is that exports are simply too small a portion of their sales mix. And thus, they are neither geared mentally nor organized effectively to deal with them.

The average U.S. manufacturer exports only 7% of his production. Is exporting important to him? Not very! He can almost take it or leave it. Therein lies the real problem of our trade balance. Exporting is simply not a big deal for most American companies.

I strongly believe that if you forest products companies here in the Southern United States really want to be successful in exporting, you’ve got to make it a big deal, and organize to deal with it. If you’re a big enough company, please don’t put exports under your domestic sales manager. Exporting is different, it’s complicated, and it takes special concentration. Unless that sales manager is unusual, he’s going to continue to concentrate on those easy phone orders from Toledo rather than the tough-to-understand telefaxes from Tokyo.

If you’re not so big, handle the business yourself, at least to start. Visit and get to know the country you want to sell to, preferably with someone you can trust who knows his way around. Decide how you want to serve that market. Evaluate carefully who will become your agent or representative. And make sure you can work closely with them. For, if the business is going to be successful, this will be the most important relationship you have.

UNDERSTANDING FOREIGN MARKETS

Understanding the international opportunity is what this conference is all about. I think we have already implied that companies in the U.S. South need to better understand the potential of overseas markets if they are to fulfill their own potential to serve those markets.

For example, I believe the South needs to better study the United Kingdom, look at its softwood lumber size requirements and see if the South can meet them. I think the South needs to analyze continental European softwood requirements and determine the opportunities. I believe the South needs to study Japan and answer such questions as: Does it make sense to promote southern pine, and for what? How can Southern species of U.S. hardwoods best be promoted? How can the Southern hardwood industry best gear up to deal with a growing hardwood dimension market?

The South really understands the U.S. market, and it has repeatedly shown it can accomplish its goals within that market. Now is the time for the South to build greater understanding of its potential beyond America’s borders.

Understanding overseas markets is important. But, understanding and serving the customer overseas, the true end-user, is critical. Producers and end-users in the United States literally grew up together. Customers’ needs here are usually fairly closely in sync with manufacturers’ capabilities. When you enter the U.K. or Korea or Spain, this is not the case. Foreign users may like lighter wood, or tighter grain, or rip-sawn materials. Their sizes, as we discussed, are often different. They are making new products, with different requirements, than those with which you are familiar.

Understand the export customer and his customer, the end-user, or your exports will suffer. Enough said.
CONCLUSIONS

Let me, if I may, leave you with one final thought: Hang in there! Remember that many U.S. companies stay in the export business year-in and year-out, and make money because of it. Unfortunately, American companies in all industries, and especially the wood products industry, have the very bad reputation overseas as being in-and-outers. We’re in the export business when U.S. business is lousy, and we’re out of it when our domestic business is good.

Business in Europe, and particularly in Asia, is built far more on relationships than it is here in the United States. Buyers deal with sellers because they like them, they trust them, and they have dealt with them for a long time. They want, and they expect, loyalty and consistent supply, in good times and bad. In other words, if you really want to make a go of it in exporting—hang in there!

With that final message and the overall exhortation—EXPORT, SOUTH—I thank you for letting me be a participant in this conference.
THE COMPETITIVENESS OF SOUTHERN FOREST PRODUCTS IN WORLD TRADE

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Abstract. The U.S. South is one of the world’s most important timber producing regions. The combination of a huge forest resource and access to the world’s largest forest products markets are the South’s sources of competitive advantage in global markets.

The South exported almost $3 billion worth of forest products in 1987, or about one-third of the U.S. total. Pulp, paper, and paperboard products are the most important exports, accounting for more than two-thirds of the total, with sulphate pulp and Kraft linerboard the most important products. The most important wood products are softwood plywood and lumber, and hardwood lumber, veneer, and logs. The most important markets are West Germany, Taiwan, Benelux, United Kingdom, Japan, and the Caribbean Basin.

As more countries become involved in exporting, competition in foreign markets will intensify, and the South will find it necessary to employ increasingly sophisticated international marketing techniques to maintain, much less increase, its market share. International marketing research will become increasingly important. Firms will find it necessary to develop cooperative arrangements among themselves to offset the disadvantages of the small size of the typical Southern mill. Local and state governments will find it necessary to work closely with industry to remove or minimize institutional barriers to exporting.

INTRODUCTION

This conference testifies to the growing importance of international trade to Southern forestry. Southern forestry has become internationalized, and trade issues now affect us all. Forest managers now routinely evaluate the impact on their operations of changes in forest production in Brazil, Chile, USSR, Canada, and elsewhere.

Along with recognition that Southern forestry has become internationalized have come these questions: Is the South competitive in global markets? In which products? In which markets? And, what can be done to improve the South’s competitiveness? My paper will address these questions and attempt to provide some answers.
Why Export?

Why should we be concerned about exporting and the South’s competitiveness in global markets? Some will say that our first concern should be to promote and protect domestic markets. According to this view, domestic markets provide adequate opportunities for Southern firms. If we focus our attention on developing and protecting domestic markets, we won’t need to export, and the products of our forests will remain at home rather than being shipped overseas.

This view is misguided and misses the point; the point being that the South does not have a competitive advantage in the supply of all forest products consumed in domestic markets, while it does have a competitive advantage in producing some of the products consumed in foreign markets. By attempting to protect domestic markets in which we are not competitive, and ignoring overseas markets in which we are competitive, we only ensure that the income and employment generated by the forestry sector will be less than it would be if we follow a policy of exploiting our competitive advantages, both at home and abroad, and import the rest from lower cost foreign suppliers.

In the long run, a protectionist policy is counter-productive. It only removes the incentive for increasing productivity, and inefficient firms will hide behind the protective screen of tariffs and non-tariff barriers. We should not spend our resources and energy protecting inefficient firms and promoting products in which we no longer are competitive in production. Instead, we should concern ourselves with identifying markets where we are competitive, both at home and abroad, and seek ways to increase productivity. This does not mean that we simply step aside and let foreign producers capture our markets; it does mean that in responding to foreign competition we should not eliminate the very thing that has made the South a leader in forestry productivity, namely, the pressure of the marketplace.

SOURCES OF THE SOUTH’S COMPETITIVE ADVANTAGE

The Southern Forest

The South’s forest covers nearly 182 million acres, or approximately 40 percent of the timberland in the United States. Timberland is the predominant land use in the South, accounting for more than 50 percent of the land area in many states, with more acres in timberland than in cropland and pastureland combined.

Perhaps nothing more distinguishes the Southern forest from its counterparts elsewhere than the importance of private forestland ownership in the South. Ninety percent of the Southern timberland is in private ownership, in contrast to most other forest regions of the world, including the U.S. West, where public ownership predominates. The strength and dynamic nature of the Southern forest sector owes much to its free enterprise foundation.

Economic Importance of the South's Forest Industry

Timber is the South’s most important agricultural crop. It has twice the value of soybeans or cotton and three times the value of tobacco, wheat, or corn. The U.S. Forest Service estimated the value of delivered timber products at $6.1 billion in 1984. Timber harvested ranked among the top three agricultural crops in terms of value of production in all 13 Southern states. It was first in value in six states: Virginia, South Carolina, Georgia, Alabama, Mississippi, and Louisiana.

Given the size of the forest resource base, it is not surprising that forest industries represent a leading economic sector in nearly all the Southern states. Forest industries rank first or

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1 Many of the statistics and descriptions of the Southern forest in this and the next section are taken from the South’s Fourth Forest report (USDA Forest Service 1987).
second in importance among major industry groups in most Southern states. Forests are clearly very important to the Southern economy.

The diversity of its timber resource has made the South a major producer of virtually all forest products. In 1984, Southern states accounted for one-third of all the softwood lumber, over two-fifths of the hardwood lumber, almost half of all plywood, and two-thirds of the wood pulp produced in the United States.

An important but often overlooked benefit of forest products manufacturing is that it has high employment and income multipliers compared with other forms of economic activity. Flick and Teeter (1988) found that income multipliers for forest products industries are above the median in all states, ranging between 1.96 and 4.88. Employment multipliers also are above the average, ranging between 1.24 and 10.14.

Access to Global Markets

Export Trends

Southern forest products represent about one-third of the total value of U.S. forest products exports, and have tended to follow the trend of U.S. exports over the years. Southern exports reached an all-time high of $2.9 billion in 1987, an 11 percent annual growth rate over the $0.3 billion exported in 1967. In real terms, exports grew at a six percent annual rate of growth.

Southern forest products export trends reflect the international economic environment of the last two decades. With the move from fixed to floating exchange rates in the early 1970s, the value of the U.S. dollar declined, making U.S. forest products more competitive in world markets, and exports increased sharply.

The decline in exports, beginning in 1981 and lasting until 1986, was also largely due to changes in the international economy. The starting point for these changes can be traced to the second oil price hike by OPEC in 1979. The increased price of oil sent the U.S. economy into a recession and real interest rates rose rapidly. The rise in U.S. interest rates caused interest rates around the world to increase. The U.S. economy and the world economy moved into a major recession. Rising real U.S. interest rates and the belief that the United States was a safe haven for foreign capital in a period of global economic uncertainty helped push the value of the dollar upward (Blanford 1986). In 1986, the dollar began to fall once again and forest products rebounded, reaching an all-time high in 1987. Data thus far indicate that Southern forest products exports will reach record heights in 1988.

Although the South's forest products export trends tend to follow those of the rest of the United States, both the market and product mix of Southern exports differs significantly from those of the rest of the United States. Pulp, paperboard, softwood lumber and plywood, hardwood lumber and veneer dominate Southern exports; whereas softwood logs, lumber, and wood chips dominate exports from the rest of the United States.

If we group forest products exports into the three major product groups, solid wood, pulp, and paper and paperboard, we get a clearer picture of the differences between Southern and the rest of U.S. exports. Pulp is the South's largest forest product export, amounting to 47 percent of the total, followed by paper and paperboard with 35 percent, and wood products with 18 percent. In contrast, solid wood products account for 59 percent of the rest of U.S. exports, whereas pulp is a relatively minor export, with only 16 percent of the total.

Western Europe, Asia, and Latin America are the South's major forest products market regions. On an individual country basis, the European Community (EC) countries dominate all others. The EC countries have substantial wood and paper deficits and are net importers of forest products. West Germany, Benelux, Italy, and UK are particularly important markets. Japan, Taiwan, and South Korea are important Asian markets. Mexico, Dominican Republic, and Jamaica are important Latin American markets (Puerto Rico is an important market, but technically not an export market).

Access to ports with facilities for handling forest products and reasonable port charges, along with differences in the geographic distribution of timber species throughout the South influence the choice of port of exit for forest product exports. The three most important customs districts
for solid wood product exports are Mobile, Norfolk, and Charles ton, together accounting for 52 percent of the total. For pulp, Savannah, New Orleans, and Mobile are most important, with 62 percent. New Orleans, Savannah, and Charleston are the most important districts for paperboard exports, with 57 percent of the total.

Indirect Exports

The importance of Southern forest product exports goes beyond the $3 billion worth of direct exports. A substantial quantity of forest products in the form of packaging paper, paperboard boxes, wooden boxes, crates, wooden pallets, are used to ship all kinds of export cargo. These indirect exports are not recorded in official export statistics. Thus, forest product export statistics underestimate the full impact of trade on the forest product industry, and the contribution of the forest product industry to local income and employment.

EXPORTS AS INDICATORS OF COMPETITIVE ADVANTAGE

The concept of competitive advantage is very useful for discussing trade policy, but it is an extremely difficult thing to measure. There have been no research studies of the competitive advantage of Southern forest products. In this, we are far behind our agricultural colleagues. In the absence of such studies, the best we can do is examine the export statistics for insights into products and markets in which the South appears to have a competitive advantage. Unfortunately, we cannot measure the strength of that advantage.

Wood Pulp and Paperboard

The South is the Nation's major wood pulp producer, so it is not surprising that pulp is the South's largest forest products export, on a value basis. In 1987, pulp exports amounted to 2.8 million tons, up from 0.8 million in 1967. This represents a 6 percent annual rate of growth. Wood pulp exports in 1987 were valued at $1.3 billion, or almost the value of all other forest exports combined.

Sulphate pulp, largely bleached, accounts for the bulk of pulp exports. Sulphate pulp is used to make packaging and wrapping papers and paperboards. The major markets are Europe, Asia, and South America. Sulphate pulp exports are explained by long-fiber wood shortages and the level of industrial activity in the importing countries.

In addition to wood pulp, the South exports about $100 million worth of non-wood pulp and wastepaper, about evenly divided between the two commodities. Non-wood pulp exports go largely to Europe; Asia is the primary market for wastepaper exports.

Paperboard is the South's most important paper product and its most important paper export (paperboard essentially is thick paper). Only a modest amount of paper is exported. Paperboard exports amounted to 1.7 million tons in 1987, up from 1 million in 1967, for an annual rate of increase of 3 percent. Paperboard exports in 1987 were valued at $599 million. The bulk of the paperboard is produced from sulphate pulp and is used in the manufacture of boxes, especially corrugated boxes, and food and packing cartons.

The major paperboard markets are Asia, Europe, and the Caribbean. Paperboard exports are driven by essentially the same forces as sulphate pulp. The major difference is that pulp imports are intended to supplement domestic pulp production, whereas paperboard imports often reflect the absence of domestic pulp production. Paperboard is exported to many of the same countries that import sulphate pulp, but important markets include countries with insufficient

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2 U.S. Department of Commerce customs districts include a range of ports around the port often which the district is named.
forest resources or population to justify a pulp mill. The Caribbean countries are cases in point.

**Hardwood Lumber, Veneer, and Logs**

The mountains and bottomlands of the South contain vast quantities of hardwoods, including many species highly valued both here and abroad for the making of furniture and cabinets. Hardwood products are among the fastest growing forest products exports. A variety of hardwood products are exported, but the most important on a value basis are lumber, veneer sheets, and logs.

The South exported 209 million board feet of hardwood lumber in 1987, up from 20 million in 1967. This represents a healthy 12 percent annual rate of growth. Most of this growth occurred in the 1980s. The value of hardwood lumber exports in 1987 was $157 million. The primary markets for hardwood lumber are Asia and Western Europe. The primary reason for the rapid growth in hardwood lumber exports was the expansion of the European furniture industry in the 1970s and the development of an export-oriented Taiwanese furniture industry in the 1980s. Almost the entire increase in hardwood lumber exports since 1967 has been oak species.

The South’s exports of hardwood veneer sheets increased from 13 million square feet, surface area, in 1967 to 305 million in 1987, an average annual growth rate of 17 percent. The value of veneer exports in 1987 was $26 million. European Community countries account for about 80 percent of the South’s veneer sheet exports. Oak is the most popular veneer export.

The South exported 33 million board feet of hardwood logs in 1987, valued at $39 million, compared to 9 million board feet in 1967. This represents an annual rate of growth of 7 percent. The bulk were oak species. Most hardwood log exports are veneer-quality logs going to Western Europe, especially West Germany. European interest in U.S. hardwoods increased during the 1970s because of restrictions on log exports from Asia and West Africa, and because of supply constraints on the European forests.

Logs are exported rather than veneer and lumber for several reasons. By importing logs, the buyers can manufacture their wood products in metric sizes. If they import our lumber or veneer, they must re-size it to metric dimensions, thereby wasting much wood. Many European mills have the technology to realize a significantly higher rate of wood utilization from logs than do our mills. Finally, hardwood lumber and veneer are subject to import tariffs whereas logs are not.

**Softwood Lumber and Plywood**

The softwood forests of the Southern coastal plain and piedmont regions represent the backbone of Southern forestry. This forest is world renowned for its productivity and is a world leader in the application of advanced forest management techniques. The South’s softwood forest produces a variety of valuable products important in the export trade, foremost among which are lumber and plywood, in addition to being the primary source of the sulphate pulp and paperboard exports discussed earlier.

Softwood lumber is a major Southern export, most of which is Southern pine. Southern pine lumber exports have almost tripled since 1967, increasing from 81 million board feet to 238 million board feet in 1987, a 6 percent annual rate of growth. The value of southern pine lumber exports in 1987 was $96 million. The major softwood lumber market regions are Western Europe and the Caribbean. Smaller quantities are also shipped to South America and Asia. In general, southern pine lumber markets have been slower to rebound from the recession than other market areas. Softwood lumber is used in construction, primarily of houses, and the level of southern pine exports reflects housing construction practices in the importing countries as well as the timber situations of competing softwood producing regions.

About $3 million worth of southern pine lumber is exported out of non-Southern customs districts, amounting to slightly more than 9 million board feet. Most of this is exported to Canada out of Northern districts and exported to Pacific Rim countries out of Western districts.

Southern plywood exports are primarily southern pine, used in construction. Plywood is one of the South’s most rapidly growing exports, growing from 11 million square feet in 1967 to 446
million square feet in 1987. This represents an impressive rate of growth of 20 percent annually. The value growth rate was even greater. The value of softwood plywood exports increased from $2 million in 1967 to $103 million in 1987. The bulk of the increase occurred during the last seven years. The EC absorbs over half of the South’s plywood exports, followed by the Caribbean, with one-third.

Softwood Chips

Softwood chips, a by-product of lumber and plywood production, have become an important source of raw material for the manufacture of pulp. In the mid-seventies, the Scandinavian pulp industry began to seek overseas sources of wood chips as the expansion of their paper-making capacity exceeded their forest’s sustained yield capacity. Chip exports have been extremely volatile, reflecting all the characteristics of a residual demand. Exports peaked in 1981, at 739 o.d. tons, valued at $52 million, but declined sharply thereafter to an insignificant amount in 1987. The decline was due to the depressed European economy and the Finnish ban on imports of Southern chips because of the fear of the pine nematode.

Chip exports represent a potential market outlet for Southern mill residues, but experience has shown that chip exports are quite sensitive to changes in the timber demand and supply and the economic performance of the importing countries. The export of hardwood chips to Taiwan is a new phenomenon, and its long-run potential remains to be seen.

ENHANCING THE SOUTH’S COMPETITIVENESS

The Need for Regional Cooperation

The South has the potential of becoming one of the world’s most important forest products export regions, but it will be difficult to increase exports without the combined efforts of the forest products industry and state and local governments. A close partnership between industry and government is the hallmark of the exporting strategies of our closest global competitors, and we must respond with our own brand of cooperative effort if we are to compete successfully in these markets.

Other speakers will address specific problems of tariff and non-tariff barriers and the special problems of specific products and/or markets. I will limit my comments to obstacles which, by their nature, can be attacked effectively only by the joint efforts of the forest products industry and state and local governments acting together cooperatively on a South-wide basis.

Obstacles to Exporting

Diseconomies of Small Firm Size

The typical Southern wood products firm is relatively small compared to its counterparts in the Pacific Northwest, Canada, and Scandinavia. The exceptions are the Southern branches of large integrated forest products firms such as Boise Cascade and Georgia Pacific, and pulp and paper corporations, both of which have sizeable international marketing staffs. In contrast, the typical solid wood products firm has a limited sales staff and no marketing staff. Small size was not a problem as long as Southern firms sold only in domestic markets, where the emphasis was on order-taking. But smallness is a major barrier to selling in foreign markets, where aggressive marketing is the key to success.

The disadvantages of the small firm extend to the supply side as well. Only a small percentage of the total volume of a typical forest will produce export-grade products, and it is difficult for a small firm to accumulate sufficient quantities of export-grade material to fill containers on
a regular basis. Thus, the small firm may only be able to market its export grade material by selling to a broker at a significantly lower price.

The most promising solution to the size problem appears to be for groups of 10-to-15 firms in an area to pool their resources and establish a wood products export trading company, or cooperative. By organizing into local export trading companies, small firms can marshal the resources and expertise needed to organize and finance an effective marketing program. At the same time, by pooling their production, they have a better chance of filling containers with export-grade material on a regular basis. If a bank is included as a member, the company will have access both to financing and financial expertise.

Institutional Bias Against Exporting

A second obstacle to exporting is the bias toward exporting built into our business and government institutions. For example, the forest products marketing and distribution system is oriented almost entirely toward the servicing of domestic markets. Until recently, Southern firms have been almost exclusively concerned with selling in domestic markets and have shown interest in export markets only when domestic markets were down. Export markets have not been viewed as important and sustained outlets for a significant portion of the South’s wood production. As a result, Southern firms have been reluctant to tailor their products to foreign customers. Instead, we try to convince foreign customers to alter their wood use practices to fit our products, most of which were designed with domestic markets in mind.

I firmly believe we would sell more wood overseas if we spent more time developing products tailored to the foreign customer, and less time trying to change wood use practices in other countries. Perhaps they have sound reasons for using wood in the ways they do. Imagine how few cars Toyota would have sold in this country if the instrument panels had had only Japanese letters on them. Instead, Toyota produced cars tailored to the American consumer.

A second example of institutional bias against exporting is the reluctance of banks to extend export financing to small firms, especially in rural areas where the bulk of the wood-product mills are located. Many banks have neither the ability to provide international services nor staff trained in international affairs. Apparently, the car loan and home mortgage businesses are more attractive and less risky than export financing.

One solution to the export financing needs of small firms is for the state to set up an export development authority to provide low-risk, competitive-rate export financing. The authority could be funded through the issue of bonds backed by a combination of a state appropriated debt reserve and bank letters of credit. The bonds would be retired from revenues generated by the authority. A statewide blanket insurance program could be negotiated with the Federal Credit Insurance Association (FICA), an agency backed by the EXIMBANK. This would ensure that all of the authority’s export transactions are fully protected. The insurance feature would allow the authority to sell its program to smaller banks because it means their risk is virtually nil (Wisdom and Littlefield 1998).

A third example of institutional bias is particularly disturbing to me as an educator and international researcher. That is the low priority given to the study of foreign languages, geography, and other international aspects of education, by our schools. At the university level, faculty involvement in international affairs and research typically is given low priority, seldom rewarded, and actually may be discouraged. The difficulty of obtaining funds for international travel is a case in point. Our educational institutions need to expand their foreign language, geography, and foreign affairs instruction; and encourage the involvement of university faculty in international affairs.
RESEARCH NEEDS

Wood Utilization and Technology

Modern forestry is a high-tech industry. In just a few years, forestry has evolved from practices based upon the most elementary technology to high-tech management regimens only faintly resembling traditional forestry practices. Examples are the use of genetics to produce super trees, the use of lasers to cut lumber, and computer-based forest management systems. Southern forestry owes much of its ascendancy in the post-World War II years to its willingness to put the latest technology into the fields and mills. But technological dominance is a never-ending treadmill. One must keep investing to maintain one’s technological lead.

Unfortunately, other countries have caught onto the sources of the South’s success. Countries such as Brazil have substantially increased their forest research and development investments, and are closing the productivity gap between forestry in the South and other countries (Zobel 1986).

We shall lose our technological lead unless we significantly increase our investment in forest research, development, and marketing. In particular, we must increase research funds devoted to the development of products in which we enjoy a competitive advantage, both in domestic and global markets and to improving product quality, and productivity. The need to reduce the federal budget deficit almost surely will mean that federal research dollars will be very tight in the future, and the South will need to shoulder a greater share of the financial burden of funding forest research, especially that portion aimed at global markets.

International Marketing Research

Southern forest products firms have been spoiled by easy access to a large and expanding domestic market with immense purchasing power. Southern firms have been able to concentrate on order-taking, with little incentive to develop marketing techniques, much less to conduct international marketing research. In contrast, countries like Canada and Finland have such small domestic markets that their firms, of necessity, have had to rely upon international markets for the core of their sales. These countries also have a history of conducting long-term international forest products marketing research. In recent years, the Pacific Northwest forest industry also has developed a global market focus, and has funded the establishment of a Center for International Trade in Forest Products (CINTRAFOREST) at the University of Washington.

Federal and state sponsored export promotion programs, about which we shall hear more tomorrow morning, have been, and will continue to be, of tremendous benefit to the forest products industry; as valuable as they are, however, these programs can’t do everything. In particular, they are not well-suited for conducting research aimed at identifying long-term trends in wood use and timber supply in the global timber markets. For very good reasons, their primary focus is on market promotion and penetration, programs with short-term payoffs.

The South needs to establish a regional center for international trade along the lines of CINTRAFOREST, with the mission of identifying the South’s competitive advantages in forest products, the identification of long-term trends in wood use in foreign markets where the South can compete effectively and, as needed, conduct policy analyses of unfolding trade issues of particular concern to the South.

SUMMARY

In summary, the South has an outstanding forest resource, a modern and efficient forest industry, and access to major global forest product markets, but all this only establishes the necessary conditions for successful competition in global markets. Creating the sufficient conditions will require the combined efforts of the private and public sectors working together to: (1) identify those products and markets in which the South has, or could have, a competitive advantage, (2) remove institutional obstacles to exporting, and (3) support research aimed at developing products designed to exploit the South’s sources of competitive advantage and to fit the needs
of the global markets. This will require close, regional cooperation among the Southern states and industry, perhaps in the form of a regional trade center.

LITERATURE CITED


GROWTH AND DEVELOPMENT: SOUTHERN FORESTS IN THE GLOBAL ECONOMY

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Abstract. The Southern Growth Policies Board has the mission to craft a better future for the South by creating strategies for economic development. The Board’s work in forestry dates from 1982 when the Board convened a conference with Duke University and published a report titled, Duke/SGPB Forest Policies Project. The present paper delineates major trends and cluster issues in the South’s future. The second part of the paper is devoted to the discussion plan—Halfway Home and a Long Way to Go, which, if implemented, will help make the South, including the forest industries, more globally competitive.

INTRODUCTION

We at the Southern Growth Policies Board are most often asked, “What is the future of economic development in the South?” More pointedly, you might ask, “What will it take for Southern forestry to fulfill its global advantage in the future?”

During its fifteen-year history, the Board has really been in the business of crafting a better future for the South by, in the words of our motto, “creating strategies for economic development.” We create these strategies through our research, publications, and meetings. In addition to our regular, serial publications dedicated to emerging economic issues, human resource development, international trade, growth and environmental management, intergovernmental relations, and technology, we also publish special studies and proceedings. I encourage you to stop by the Southern Growth Policies Board’s table during the social today to see examples of our work.

We are funded and governed by the thirteen state and territorial governments, with the governor, a state senator and representative, and two citizen members serving on the Board from each member state. This combination of gubernatorial, legislative, and private sector membership gives us a unique strength, and one critical in today’s economy. In addition, we have an Associate Membership program which includes over 250 corporations, universities, colleges, and non-profit agencies. Brochures describing Associate Membership, which entitles members to our publications, will also be available at our display, and I urge you to pick one up.

Our work in forestry dates from 1982 when, as part of our chairman Governor Bob Graham’s “Southern Common Market” agenda, we convened a conference with Duke University and published a report titled, Duke/SGPB Forest Policies Project. It contained over 25 findings and recommendations to the public and private sectors, addressing both the supply and demand sides of the timber equation. Many of you here today helped us with that historic project. We followed up with an Alert in 1983 titled, “Timber Markets in Transition.” Although we have not maintained an in-depth program in forestry issues at the Board, I am told that our work in the early 80s had a substantial impact on the forestry community in our 12 states, and we have continued to monitor state and federal policy in this area and to stay in touch with many of you.

So, it is good to be back with so many old friends...and, I hope, new ones as well.
I would like to organize my brief comments by first delineating what I see as some major trends and issue clusters in our future; and then, by discussing a plan which, if implemented, will help make the South, including the forest industries, more globally competitive. As I discuss these trends, I'll suggest ways that they affect forestry and forestry affects them. More importantly, I hope that each of you from forestry companies and associations, state and federal governments, universities, the financial community, development districts, port authorities, and trade councils will think of other connections. If the South is to fulfill its global advantage in forestry, all of us, working together, must respond to these trends.

I will begin, then, by delineating eight major trends which will affect the future of economic development in the South.

EIGHT MAJOR TRENDS

The first major trend is that the Era of the Sunbelt will soon be over...and, in fact, already is over in many parts of the region. By this, I mean the 1980s media image of our region as the land of milk and honey, where people are moving and all of the jobs are being created. And, in the decade of the seventies, this was an accurate image...when Southern population grew 50% faster than the U.S. and job creation like-wise outpaced the U.S.

But, just when the image became implanted in the American mind, the reality had begun to change. Per capita income growth stayed flat in the last half of the decade, at about 86% of U.S. per capita income, and the differential in the rate of job creation between the South and non-South narrowed. While our Atlantic Seaboard states resumed their growth by the mid-eighties, most of the Deep South states had not. Some, like Louisiana, Oklahoma, Mississippi, and Alabama, had actually slipped in relative per capita income.

In our most recent report of the Committee on Southern Trends, we cite projections which indicate general regional stagnation in per capita income by the year 2000, although some of our current "worst" states will advance while some of our current "best" states will decline slightly. Likewise, in about 1995, the job creation rates will likely turn around, and the South will lag behind the nation in the creation of new jobs. The latest population projections indicate that even that most vaunted part of the Sunbelt boom—our growing population—will reverse by the year 2000 so that the nation's growth rate will exceed ours.

As our Committee on Southern Trends states: by the year 2000 "...Southern states may not be able to rely, as some have in the past, on immigration to provide either fresh recruits for the labor force or an expanded tax base...the future development of the region will be tied to its leaders' ability to make better use of the human, natural, and economic resources it now has."

With so much of forest product revenues linked to construction and related activity, it seems clear that any leveling off of regional population, employment, and income growth makes attention to export markets and new product development of growing importance. The recent Forest Service report, The South's Fourth Forest, reinforces this trend on a national scale, indicating that levels of housing construction over the next few decades will be relatively constant, suggesting that economic expansion in forest products will need to come from other sources.

The second major trend will be the nature of change itself. Change has always characterized economies in response to technological break-throughs and political decisions; however, what is different now is the pervasiveness and velocity of these changes. The Commission on the Future of the South proclaims, for example, that we are living in an era of technological renaissance, which means that innovations are ever more frequent and powerful—constantly altering products, the ways in which businesses are organized and financed, and how markets are defined and served.

At the bottom of the business spectrum, we have seen during the past six years unprecedented levels of small business creation and failure, a boiling caldron of entrepreneurship. At the top end—in the Fortune 500—we see much of the energies of America's so-called "great companies" being spent on mergers, acquisitions, hostile takeovers, restructuring, and refinancing—a gargantuan and costly reshuffling of assets with few jobs being created and little productive capacity increased. Robert Reich of Harvard refers to this as "paper entrepreneurship."
For the business manager and worker, all of this means increasing uncertainty in an everchanging and churning economy. Estimates are that the average worker entering the labor force during the remainder of this century will change occupations at least three times and jobs seven times during his or her working life. The entrepreneurial churning at the bottom, the internationalization of markets, and the seemingly whimsical effects on thousands of executives and workers of corporate restructuring—all of these factors will probably continue until 2000. All this uncertainty and change poses challenges for the forestry industries, where large capital investments and landholdings requiring many years for payback are common. Injecting flexibility to meet changing market demands while retaining a long-term economic focus may be a vexing problem in the years ahead.

A third trend is the growing importance of the human resource base in the future economy. Some economists argue that human capital has been the driving force in national economic growth for decades; and this has certainly become true for the South today. An educated, skilled, flexible work force will be the key to an economy functioning well in this volatile and uncertain environment. We already know the essential facts about the work force in the year 2000. About 75% of that work force is already working, and all have been born. Of our current labor force, 45% are female, 15% are minority, and 25% are classified as adult functional illiterates.

Regarding new entrants into the labor market, we all hope that the impact of current education reform will staunch the flow of newly minted illiterates into the work force. With the slowing of population growth, however, we will not have an abundant supply from which to choose, as immigration slows and high school graduation rates decline. Furthermore, according to a recent study by the Hudson Institute called “Workforce 2000,” the profile of new entrants into the labor force is startling. Only 15% will be native white men; two-thirds will be women, and nearly 21% minority or immigrant women; and over 42% will be minority or immigrant.

This, then, is the profile of our current and future labor force upon which our competitiveness will rest. Is the forestry community—the growers, harvesters, transporters, manufacturers, government, and universities—prepared to rely on these workers, as it must, for its future labor force?

A fourth trend, one central to this symposium, is the continuing globalization of the economy. This development has proceeded at almost exponential speed in the last twenty years and is almost certainly irreversible. For example, for forty years from 1929 to 1969, America’s dependence on international trade remained small and constant at about 4% of GNP. Between 1969 and the present, however, it has soared to over 20% of GNP; and, now, about 70% of our goods compete here and abroad with foreign-made goods.

While the nation can and must take steps to increase our international competitiveness, these fundamental trends show no signs of abatement. More and more Americans work for foreign-owned firms, as do nearly a million Southerners; and more and more jobs depend on exports—in the South alone, over one and a quarter million jobs. Firms continue to internationalize—in terms of markets, ownership structure, and production. Barring a calamity, we will most certainly function in a profoundly globalized economy by the year 2000.

I don’t need to expound on the importance of this trend to forestry; your presence today indicates you understand it. Harold Wisdom of Virginia Tech has done an excellent job of demonstrating this international interdependence by pointing out, for example, the large increase in furniture imports from Taiwan in recent years, and also the increase in exports of Southern furniture-grade hardwoods to Taiwan to make the furniture. Obviously, we would prefer the value-added of furniture making to remain in the U.S., and particularly in the South; but, if lower prices spur greater furniture buying, and if good jobs at good wages can be supported by hardwood exports, then global interdependence helps the South. I might add that forest product exports to wood-deficit countries such as Germany and Japan are particularly gratifying, given the enormous trade deficits we run with these trading partners.

The fifth trend will be toward a more sophisticated understanding of what has been called the post-industrial economy. The percentage of the work force employed in manufacturing will continue its twenty-year decline, and most of the job creation will be in the services sector, broadly defined. In the South, for example, the percent of the work force employed in manufacturing will decline from a 1985 level of 18% to 13% in 2000. Furthermore, probably 75-80% of the new jobs created will be in the services sector. Much of this relative decline in manufacturing
employment will be due to automation, which, in turn, will be a response to international competition and technology.

Yet, this relative decline in manufacturing employment does not mean a decline in the importance of manufacturing itself. The action in manufacturing between now and 2000 will not be in the mass employment arena, as it was prior to W.W. II. Instead, it will be in the area of technology—developing and applying sophisticated, computer-driven, integrated, quality-controlled, and flexible automated manufacturing systems...and, equally important, in the employment of a highly skilled work force. Again, according to the Hudson Institute, today 40% of the jobs fall into the lowest skills category; by 2000, that figure will be 27%. By contrast, only 24% of jobs fall into the highest skill category, while that figure will be 41% in 2000.

The forest industries are a mainstay of Southern manufacturing, which, in turn, is basic to our economy. As the South's Fourth Forest report points out, one of every nine manufacturing jobs, one of every 10 dollars in manufacturing wages and salaries, and one in every 11 dollars of manufacturing value-added in the South is in the forest products industries. Are these industries prepared for greater innovation, more flexibility, and increased automation?

Closely related to this trend is a sixth one, and that is information. Financial capital, raw materials, and good labor will continue to be essential to this new economy; but, information is emerging as the new strategic input into the economy of tomorrow. Ever since the Rothschild's built their financial empire, in part on their pioneering use of carrier pigeons to get information on markets and deals before their competitors, information has been an essential commodity. The development and availability of data bases and the telecommunications infrastructure to move them will be critical public policy issues for the next twenty years.

Another aspect of this information age is the growing interconnection between education and economic development. David Birch of MIT says it all when he asserts that "we will have to live by our wits." Much of this relates to trend #3 in which we saw that the education, skills, and attitudes of the labor force will be the single most important key to the future. This has profound implications for our education and training systems. And, it extends to higher education, where we see that the availability of brain power is important to local growth and development, particularly access to technology.

Information needs are as important to forestry as to any major economic endeavor. The development and transfer of new technology and practices, data on natural resource assets and their uses, information on forest product and financial markets will undoubtedly become more important in the future.

A seventh trend is that, like always, altered development patterns emerging out of a new business climate will have locational impact. In the next twenty years, this spatial impact will likely be the continued metropolitanization of the Southern economy at the expense of many rural and small town areas. This trend began probably a decade ago but was only recently documented by us and then, others. Until then, the pattern was one of dispersed industrialization powered by branch plant recruitment. This forty-year-old pattern began its relative decline sometime in the mid-seventies as globalization crashed over our traditional, labor-intensive industries like a tidal wave. As they began to "automate, emigrate, or evaporate," many of our smaller cities, of which these plants were the economic backbone, became distressed. Traditional manufacturing jobs were being lost in these areas, while the new information and services economy jobs were being created in the metro areas, leading to our worry now that two Souths are being created—one metropolitan, middle-class, growing; and one rural, isolated, heavily minority, and declining.

Since most of the elements of this new business climate—major airports, universities, urban amenities, telecommunications, and good schools—are found in our metro areas, this pattern will probably continue. It will also create a tricky policy equation at the state and regional levels: managing the growth in our emerging metropolises on the one hand, while supporting economic development in our rural and small town areas on the other.

Forestry is an important component in countering this trend. From growers to manufacturing, forestry is, and will almost certainly remain, a crucial economic force in rural areas, helping to stem the decline many rural areas have been experiencing. What seems clear to me is that we must redouble our efforts to ensure that forestry remains a sustainable long-term source of economic development; for instance, through greater efforts to improve the management of
non-industrial private forest lands for a variety of uses, from timber production to recreation.

The eighth and final trend which I see as critical in the next twenty years is the growing need to develop sophisticated, collaborative partnerships between the public and private sectors. Again, quoting Robert Reich of Harvard, characterizing the historic relationship between government and business in America as one of either "confrontation or collusion," but rarely true collaboration. Our major industrial competitors have been perfecting collaborative models for a long time. The Japanese experience is well known, but the Germans have done likewise. The April 1986 issue of MIT's Technology Review outlines some successful collaborations in Germany, Denmark, Sweden, France, and Italy. The key, as the article points out, is for the state to encourage "industries to reorganize in a manner that encourages innovative specialization."

HALFWAY HOME AND A LONG WAY TO GO

We at the Board have long cited the Cotton Incorporated model as an innovative partnership between the federal government and the cotton producers which turned around a potentially disastrous slide in the market share for natural fibers. We feel that more barriers will have to fall between the public and private sectors to enhance America's and the South's competitive position in world markets. I believe that forestry issues are a particularly fertile area for greater public/private cooperation. The U.S. Forest Service and state foresters have long had good relations with the private sector, and many of their programs are oriented to technical assistance and technology transfer, as opposed to regulation or enforcement which characterizes many public/private relationships. Assistance to non-industrial private forestland owners is clearly one possible public/private venture. Back in 1982, the Board promoted some form of the Cotton Incorporated model for forestry. We still believe such a public/private research and marketing effort deserves further consideration.

So how well positioned is the South to deal with this future? Returning to my opening comments, how well has our past prepared us for the future? In some ways, very well. In other ways, very poorly. We have come a long way in closing the per capita income gap from its 1930 level of 50% of the U.S. average to a figure that is now approaching 90%; we have diversified the economy until our employment structure closely resembles that of the nation; and we have made vast strides in education. But, as the report of the Commission on the Future of the South says, we are still only HALFWAY HOME AND A LONG WAY TO GO.

We at the Southern Growth Policies Board have been addressing many of these issues for years. All of this work came together in a new, integrated, and exciting way in the 1986 Commission on the Future of the South. We labored for over a year with a twenty-person, blue-ribbon commission appointed by our chairman, Governor Bill Clinton of Arkansas, to produce the final report and nine support documents—called by Governor Clinton "an unprecedented treasure trove of information on the South and Southerners." Chaired by former Governor William Winter of Mississippi, the Commission's final report, Halfway Home and a Long Way to Go, has been acclaimed as one of the most compelling and moving public policy documents in Southern history.

Halfway Home lists ten regional objectives for the South to work on for the next five years. These objectives provide us with a road map for addressing that future I described and the problems we face. It posits nothing less than a new model of economic development for the South. It is a model of internal development, rather than external, and one that calls for a new set of strategies aimed at education and training, capacity building, indigenous business creation, and a far more sophisticated role for government.

And, it is here, I would argue, that we find the good news from our region...and that is in our capacity to come together as Southerners, to care about each other, and to work on our problems collectively. This is a great regional strength that is found nowhere else in America. People in one Southern state really do care about their fellow Southerners in other states. This sense of regional identity is a tremendous asset if we harness it positively and with vision. And, this is what the Commission on the Future of the South is all about...an effort to create a regional agenda for action to address the problems and opportunities we share.

Listen as I read for you the ten regional objectives and in them you will see an action agenda which will address that future I described above:
1. Provide a nationally competitive education for all Southern children.

2. Mobilize resources to eliminate adult functional illiteracy.

3. Prepare a flexible, globally competitive work force.

4. Strengthen society as a whole by strengthening at-risk families.

5. Increase the economic development role of higher education.

6. Increase the South's capacity to generate and use technology.

7. Implement new economic development strategies aimed at home-grown industry.

8. Enhance the South's natural and cultural resources.

9. Develop pragmatic leaders with a global vision.

10. Improve the structure and performance of state and local government.

I won't discuss these objectives in detail, but would urge each of you to read the report, copies of which will be at our display table later this afternoon. They are available free of charge from the Board; it is only 23 pages long and can be read in less than an hour. Since we hired a novelist to write Halfway Home, you will also find that it is unlike any public policy document you have ever read. It is beautifully written in a Southern style.

The nine support documents that undergird the final report, dealing with Human Resource Development, Technology and Innovation, Government Structure, Equity, Internationalization, Urban-Rural Development, Public Finance, and Quality of Life also are available from the Board. Implementing the objectives of the report has been a top priority of our most recent chairmen and all of the work of the Board in some way arises from and advances the ten regional objectives.

So, in this report and in the work of the Southern Growth Policies Board, I see great hope for our region to be globally competitive. But, it will not be easy...and it will not be cheap. The report asks, "can we afford to make high-priced changes when budgets are tight? Can we afford not to?" But, a more difficult cost may have nothing to do with money, but with our historical reluctance as Southerners to change the way we do things. I would like to close with some selected quotes from Halfway Home and a Long Way to Go:

The familiar song says that old times in Dixie are "not forgotten." William Faulkner adds that in the South the past is not only not forgotten - it's not even past! History is to a people what memory is to an individual, and too often the old South preferred the past, resting by the roadside swapping tales of yesterday, postponing changes until the weather cooled, the crops were in, or the moon was in the right phase.

We dare not retrace that long, weary road. To honor the past is one thing. To prefer it will cost us the future.

We are already carrying into that future as heavy a load of past mistakes as past glory. If part of the burden of history is a poor underclass now threatening to become permanently mired in poverty, one of the South's surprises is how a wall of isolation, like Jericho's, has tumbled almost overnight, we must now decide which parts of our past need preserving and which need to be discarded.

The Commission praises, for example, the restoration of historic buildings and main streets; it applauds efforts to keep the South green and natural. It finds that our rever-
ence for strong personal relationships and family values are an enduring strength. We must save the best of what we inherited and bequeath it to the next generation.

But there are old mistakes and problems we need not pass along. Other self-proclaimed "New Souths" have dragged behind them like long, old chains the inevitable outcomes of the plantation system, secession and reconstruction, sharecropping, low-wage factories, and segregation. Decades after old economic systems have vanished, their high human costs remain.

As Robert Penn Warren has said, examination of the past should be done in order "to find what is valuable to use, the line of continuity to us and through us." Whatever the South failed at yesterday can be turned to success tomorrow; what it lost can be restored; what it dreamed can be made real...but change will prove tough and expensive.

Two centuries ago, when Benjamin Franklin looked up from signing the Declaration of Independence which was to transform a colony into a nation, he remarked, "We must all hang together, else we shall all hang separately."

As the Commission listened to concerned Southerners from every state, it became clear that the 1776 spirit of independence is still alive and well in our rugged individualism. But, something else has become clear - a sense of INTERDEPENDENCE...growing awareness that in today's world the good life of one individual is inextricably linked to the good life of the next. The South is part of a complex independent nation and a shrinking world.

The choice is one of action or inaction, of moving forward from this crossroads on our continuing journey home or of freezing in our tracks with little prospect of completing the journey.

If we fail to address the ten objectives in this report, we - unlike the signers of that original Declaration - will not literally "hang." We will, instead, simply stand still while a bustling world economy moves into the next century and leaves us behind.

By forging this new Declaration of Interdependence [among all people of the South and us with the world], we can renew our journey home. By taking action on these regional objectives, we can honor the past while moving into the future and building for ourselves and our children a resilient, competitive, and humane society which will, by 1992, bring us a lot closer to home.
PROMOTING SOUTHERN FOREST PRODUCTS

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Abstract. Promotion of Southern forest products in off-shore markets offers real opportunities for Southern producers. The potential for increasing export volumes is tremendous. Southern Forest Products Association, working within the Southern Pine Marketing Council, has concentrated its market development activities in two primary regions of the world, the Caribbean Basin and Western Europe.

Current and potential overseas markets for southern pine lumber products are discussed. Topics covered include objectives, targeted markets, and present and future market development. The reasons for seeking export markets, activities aimed at developing these markets, and the potential for increasing southern pine exports are discussed. The Southern Pine Marketing Council's goal is to increase shipments of southern pine lumber products to world markets by concentrating on southern pine's primary advantages—superior strength and treatability in relationship to competing species. Promotional efforts seek greater awareness of southern pine to builders, specifiers, timber influential and wood utilization in construction where traditional construction practices have used materials other than wood because of misconceptions regarding the use of and durability of wood. The object of this paper is to highlight export market opportunities for southern pine and to present activities undertaken to continue the development of these markets.

INTRODUCTION

It is my pleasure to have the opportunity to speak to you this afternoon, and I wish to thank Jim Neal and the sponsoring organizations for the time and effort that went into making this symposium possible. What I plan to do is review with you what the Southern Pine Marketing Council is doing to increase the exports of southern pine lumber products to world markets. The Council is a marketing partnership between the Southern Forest Products Association (SFPA) and the Southeastern Lumber Manufacturers Association (SLMA). Together, these two associations represent member manufacturers producing over 75% of the total southern pine lumber produced annually. Last year, 1987, 12.5 billion board feet of southern pine was produced.

This review can best be approached by presenting the Council's role in export promotion: the reasons for seeking export markets, the objectives and activities aimed at developing these markets and the potential for increasing southern pine lumber export demand.

PROMOTION PROGRAMS

To begin with, SFPA members decided in early 1982 that the association should step up its involvement in exporting southern pine lumber products. The association had, since mid-1980, been a co-cooperator in the USDA Foreign Agricultural Service (FAS) cooperator program.

Within this program agreement, the FAS reimburses the participating association for a portion of expenses incurred in promotional activities in developing foreign markets for U.S. forest products.
Starting from nothing eight years ago, the FAS forest products program has become a major catalyst in the industry’s export promotion effort. From $75,000 in FAS funding, involving one industry association and one market sector, the program has now grown to well over $5 million in total funding, both FAS and industry combined.

The program now involves a number of industry associations, representing all regions of the country, includes both softwood and hardwood lumber, and is aimed at all the major worldwide markets. In addition, FAS has created a forest products division to help implement these programs, and provide the industry with trade policy, credit programs, and other much-needed assistance.

During this same period, the southern pine lumber industry became more aware of its international potential, and decided to make a major export effort. Also, industry realized that because of changing demographics, never again would U.S. housing starts reach the 2 million units per year level they had in the late 1970s. With forecasts pointing to housing starts ranging from 1.3 to 1.8 million units per year during 1985-1990, and the decade of the ’90s having highs of 1.6 million and lows of just less than one million units, and with domestic production having the ability to supply this and more in the years to come, other markets had to be developed.

In late 1983, SFPA’s marketing committee formed a Select Panel to formulate strategy in the form of market sectors to be targeted for greater promotional activities. A five-year promotional plan, called “The Marketing Marathon,” was developed to increase the utilization of southern pine lumber products.

Currently, the Council is nearing the end of the fourth year of this five-year marathon. And its objective—increasing southern pine demand by an additional 1.4 billion board feet—has already been reached on the domestic scene. The Council’s export objective is to increase, by 1990, the export of southern pine lumber by 195 million board feet, in grades and sizes readily available to world markets. Over 151 million board feet of southern pine has been exported through May of this year. We believe this trend will continue throughout the year, bringing total southern pine exports to nearly 400 million board feet, surpassing our 1990 export goal.

TARGETED MARKETS

Southern pine overseas market development activities are targeted in two major geographic regions of the world—the Caribbean Basin and Western Europe. Promotional activities concentrate on southern pine’s main advantages—superior strength and treatability in relationship to competing species. The South’s timber supply and producing capacity can provide a continuing source of softwood products for export. With increased output by Southern producers and the projected decline in domestic markets, especially within the residential sector, increased exports help assure a healthy southern pine industry.

A physical presence in both these marketing regions, along with development of a growing awareness of southern pine lumber products among users, offers greater long-term opportunities for market penetration.

Let’s concentrate for a few moments on what is taking place in the Caribbean Basin and the opportunities that exist for increasing southern pine lumber demand.

THE CARIBBEAN BASIN

The Caribbean Basin is a natural export market for Southern producers, and we have intensified our efforts to further develop this southern pine “stronghold.” While the individual countries are small, collectively they represent a considerable market. Efforts toward economic expansion, coupled with the fact that they have few forest resources, ensures a promising market for the development of U.S. wood products.

Traditionally, the Caribbean Basin has been a consumer of Honduran pine, and it would probably continue today to be the preferred species if the Honduran forest industry could consistently supply grades, sizes, quantities, quality, and consistent shipments. Because of Honduras’ inability to do this, and the South’s marketing efforts in this region, southern pine exports have gained significantly. However, in the last several years, Chilean Radiata pine has gained a small
percentage of the softwood market. With southern pine's main advantages, superior strength and treatability, and by supplying quality products, we believe we will hold our market share.

One of the greatest opportunities for the expansion of Southern lumber exports is to overcome the traditional belief that wood frame housing is inferior to masonry and prestressed concrete construction. Thus, there is a need to educate specifiers and consumers as to the advantages of timber frame construction.

With the severe housing shortage in the Caribbean, inroads into this market can result in tremendous increases in lumber exports. The overall housing shortage in this region of Latin America is estimated to be more than four million units. At the same time, the region has one of the most rapidly increasing populations in the world.

Wood demonstration housing projects have been constructed in a number of these countries and others are planned for the future. These projects are aimed at demonstrating that wood housing can be built faster, use readily available construction materials, have the ability to withstand termite and fungal attacks and hurricanes, and hold up better than masonry construction during earthquakes. This market sector offers a tremendous opportunity for southern pine.

Besides residential markets, the SPMC and American Plywood Association (APA), are working on placing more wood products in the construction of new resort projects, a growing economic activity in the Caribbean. Coordinated promotion of various wood-engineered systems is taking place with continuous educational activities for architects, engineers, builders, importers, students, and government officials. A joint SPMC/APA office in the Dominican Republic, staffed by a trained association market manager, has been in place since 1986. Having a presence in the region shows importers and users that we have made the export commitment.

A recent program within the USDA, called Targeted Export Assistance (TEA), allows for allocations for U.S. agricultural commodities, including wood products. This extra funding, aside from our FAS budget funds, can greatly help our export promotions.

An SPMC TEA program proposal for the design and construction of a timber-frame resort facility on the north coast of the Dominican Republic has been approved by FAS for FY 1999. This activity alone could generate in excess of $20 million in southern pine sales to the Dominican Republic over the next several years, if successful, and we are very optimistic that it will be. This resort development can be easily duplicated in other Caribbean nations, paving the way for additional southern pine export advances.

Other activities underway include establishing a vocational carpentry training program in the Dominican Republic, in cooperation with the NAHB's Home Builders Institute. Training local carpenters to be knowledgeable in wood construction is a necessary ingredient for the long-term utilization of wood products.

Another project soon to be underway is the restoration of a historic building in a tourist community in the Dominican Republic using southern pine lumber and plywood for the reconstruction—just one more activity that will increase the demand for wood products from the South.

All in all, program activities in this region, such as the development of literature, educational programs, housing demonstration projects, and special projects such as the TEA program, all help to show the advantages of construction utilizing wood products, specifically treated products, in this region. Whenever we conduct seminars, visit importers, or work with specifiers, we stress the need to specify treated products. This is a key ingredient in demonstrating that wood construction is not inferior—that it can be just as durable as masonry construction.

There are always the various trade barriers to contend with—quotas, tariffs, taxes, lack of foreign exchange, and credit restrictions. There are, however, ways to overcome these obstacles, and you will be hearing more about these efforts later in this conference.

For now, the keys to maintaining and expanding the South's Caribbean "stronghold" are education, product availability, and quality Southern wood products. Funding from the FAS, along with the cooperation of industry members, has provided the necessary impetus for strong promotional efforts in the Caribbean Basin.
WESTERN EUROPE

Moving from the Caribbean to Western Europe, our other major export market for southern pine, export opportunities continue, but marketing conditions are different. We have had an office and a marketing manager in London since early 1984, and this physical presence confirms our export commitment in this important market.

Southern pine lumber currently shipped to Europe is primarily clear material used for joinery, paneling, and furniture parts. This high-quality clear material has been the principal export to Western Europe over the years.

Until the early 1980s, most producers and industry looked at the European market as a traditional user of high-quality clears; thus, little or no product or market promotion was required. In regard to general construction lumber, besides supplying a quantity of their own needs, Western Europe has acquired their softwood requirements from its principal suppliers—Canada, Sweden, the U.S.S.R., and Finland.

More recently, competitive factors, restrictions on suppliers of construction products from European producers, the growth, especially in the United Kingdom, of timber-frame residential construction, and a determination on the part of mills to seek overseas markets for their production capabilities, are increasing the need for promotion of standard as well as specialty lumber products.

The most immediate opportunity for increasing the utilization of southern pine structural and treated products is in the United Kingdom (UK). Timber frame construction, along with a growing utilization of engineered systems, has been developing in the U.K. Although timber-frame residential construction has lost market share in the past few years, U.K. and international timber organizations are conducting promotional activities to regain and further develop this market. One positive sign is that structural-engineered systems are not necessarily affected by the loss of timber-frame market share.

Roof trusses and floor joists are still constructed out of timber, providing an existing market for structural lumber whatever the building construction type. With the addition of visual design values for U.S. species in the latest British Standard and approval of MSR (Machine Stress Rated) values from North America, opportunities for greater market penetration are strong.

We currently are working on gaining acceptance of U.S. sizes in truss construction. There is a proposed change out for comment now which, if approved, will recognize U.S. truss sizes in the standard.

In the U.K., public concern about potential problems with rot and decay has pushed the industry into treating a great deal of timber. Even most trussed rafter material is now being preservatively treated as is most of the studs in the walls of both timber and brick and block construction. Floor joists are almost always treated.

We have been working within the U.K. to develop separate treating cycles for southern pine. The overall objective here is to get southern pine set apart in the Code of Practice as a superior species for treatment and a classification as a very permeable species, thereby requiring shorter treatment cycles and the utilization of less chemical preservative to obtain a higher degree of treatment than is available with any other species.

The major potential market in the short-term is the U.K. We are working to make sure that southern pine enjoys a premium status in the new building code. In addition, a major treated southern pine brochure is planned for the U.K. market to coincide with the publication of a new standard.

Current and future promotional activities include product seminars to trade influentials, exhibiting at major trade shows, advertising campaigns, development and distribution of literature, demonstration housing projects, and working with the British code groups.

To this end, we have concentrated our efforts on those codes and practices which are barriers to the use of southern pine lumber. The realistic potential exists with southern pine being the strongest listed softwood in the structural portion of the British Standard, coupled with its premium treatability, to become the norm by which all other timber species are gauged in the U.K. By positioning southern pine in the British Codes, we believe this will go a long way toward assuring acceptance of southern pine lumber products for Western Europe when the Euro-codes for the entire EEC are harmonized in 1992.
THE MIDDLE EAST

Beyond our two primary markets, the Caribbean and Western Europe, we have an eye on opportunities in the Middle East. Subsequent to an industry trade mission to this region last year, increased interest in southern pine has arisen. With FAS credit programs available in several Mideast countries, opportunities are developing. Just the week before last, a large shipment of southern pine lumber and plywood left the docks at Pascagoula, Mississippi, bound for Iraq. This order from Iraq came as a result of the Mideast trade mission and will add an additional 80-100 million board feet of southern pine lumber and plywood shipments to this region. This is just one more developing opportunity for our southern forest products.

CONCLUSION

In conclusion, what I have covered during the last half-hour, I hope has presented a clear insight into southern pine export markets, the objectives, market development programs and the potential for increasing demand for our Southern forest products abroad.

Exporting of forest products is of prime importance to the continued growth of our industry and the South. We must keep with the export commitment; as we develop markets, we have to be consistent in supply and quality; obstacles will be recurring—the strength of the dollar, lack of credit, foreign exchange problems, quotas, tariffs, etc. However, the market is out there. If we relax our market development efforts, other suppliers will take our place.
PACIFIC RIM AND MIDDLE EAST MARKETS FOR HARDWOOD PRODUCTS

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Abstract. Dramatic changes have taken place in the U.S. hardwood export market since 1975. World demand for U.S. hardwood logs, lumber, and veneer has quadrupled. Exports to Europe and particularly the Pacific Rim, have grown significantly. In this presentation, the focus will be on the Pacific Rim and Middle East markets. Reasons for overseas demand of U.S. hardwood products will be presented. Also addressed will be the importance of exports to our primary industry and the Southern hardwood resource situation. The benefits from increasing hardwood exports of non-select species from the South will be presented along with ways to expand the Southern hardwood industry through utilization of the present quality of sawtimber and resulting lumber.

SOME OVERVIEW POINTS

1. About $1 of every $5 received by the hardwood sawmill industry in 1987 was a result of export sales.

2. Latest FAO world forest products data show the U.S. ranked No. 2 in hardwood lumber exports and No. 5 in log exports (based on value).

3. Export products are different from those sold on the domestic market.


5. Hardwood exports could reach record levels of 1.3 billion board feet in 1988. These exports totaled 908 million board feet in 1987.

6. Markets have grown and shifted over the last 10+ years with major gains attained in the European and Pacific Rim markets.

7. The first four major importing countries are Canada, West Germany, Japan, and Taiwan.

8. Red oak, white oak, and a category called “other” (we speculate that much of this was cherry and red alder) made up 78% of log exports, 81% of lumber exports, and 91% of veneer exports in 1987.

9. Southern United States has substantial quantities of hardwood sawtimber and these resources are increasing and not decreasing.
10. By the year 2000, Southern inventories of select species sawtimber could increase by 41% to 113 billion board feet, up from 81 billion board feet in 1985.

11. However, only 21% of Southern hardwood sawtimber is in the select export species. Improved markets for nonselect species are needed.

12. High-grade material is in limited supply and is highly demanded for many of our popular species.

13. For exports to continue to increase, demands need to be broadened to include more species and products made from abundant medium- and low-grade material. The products could range from rough dimension to mouldings and sub assembled furniture parts.

INTRODUCTION

Our assignments, as speakers, are to focus on our export markets, the potential benefits from increasing exports of Southern forest products, and ways to expand industry in the South. Previous speakers have covered many of these areas. I will complement their remarks by focusing on hardwood exports to the Pacific Rim and to a much lesser degree the Middle East marketing areas.

You will be told that the Pacific Rim marketing area has become one of the largest markets for primary product hardwood exports. Preferences for fine hardwoods and limited local supplies of species such as oak should assure continued strong demands for U.S. hardwoods. In contrast, the Middle East market is presently very small but stability in this region could open the door for U.S. hardwood exports.

You will also be told that we (all of us) need to develop more markets for our abundant non-select oak species and others such as yellow poplar, sweetgum, hickory, and tupelo. Furthermore, you will be told that we need to develop more export markets for value-added dimension stock to expand our resource base for the export market. Medium- and low-grade lumber can be efficiently converted to dimension products.

This paper briefly discusses how export products are different, the major U.S. hardwood export markets, Pacific Rim and Middle East demands for U.S. hardwoods, and future opportunities. It also examines the sawtimber resources that support the export market.

HARDWOOD EXPORTS ARE DIFFERENT

Specifications and preparations for export logs, lumber, and veneer are often different for the same products sold on the domestic market. Log exports are primarily veneer quality. Export veneer is cut thinner and clipped and packaged differently.

Hardwood export lumber is the most different. It is sold kiln-dried, end-coated, branded, labeled, and strapped with substantial bands and protective corner clips. The lumber is usually reinspected after kiln drying to remove poorly dried boards, and it is sometimes completely wrapped with plastic for protection. Most bundles are accompanied by a tally sheet showing the measurements of all boards. In the past, none of the above was done for domestically shipped hardwood lumber except for kiln drying. Now some of the more progressive companies are shipping their domestic lumber in the same manner as export lumber.

Shipping is also different. Most export lumber is shipped in protective containers that provide much needed security, whereas most domestic lumber shipments are made on flat beds and with tarps when kiln-dried material is being shipped.
HARDWOOD EXPORT OVERVIEW

According to some of the latest FAO world forest products data, the United States in 1985 ranked No. 2 in the world in hardwood lumber exported based on value of shipments, and No. 1 in the world in sawn hardwood production. About $1 of every $5 received by the hardwood sawmill industry is a result of the export market.

The export market for hardwoods has changed dramatically since 1975 (table 1). Combined European, Canadian, and Pacific Rim demand for U.S. hardwood logs, lumber, and veneer has quadrupled. Exports to Europe, and particularly the Pacific Rim, have grown significantly. Exports to Canada have increased at a lower rate; however, they started at a much higher level in 1975. Pacific Rim demands have increased from 8 million board feet in 1975 to 281 million board feet in 1987.

PRIMARY PRODUCT EXPORTS TO THE PACIFIC RIM AND MIDDLE EAST

Why have hardwood exports to the Pacific Rim been increasing at tremendous paces during the 1980s? Or, why have our hardwood producers turned to this market to sell their products, and why have they been so successful in the last 8 years? On a dollar basis, Japan and Taiwan were the No. 3 and 4 importers of hardwood products (logs, lumber, and veneer) from the United States in 1987. In 1986, Taiwan was No. 1 and Japan was No. 4.

During this period, American hardwood sales in Europe and Canada were hurt by the increased value of the U.S. dollar and the slowed economic growth in these countries. At the same time, U.S. imports of furniture and furniture parts were increasing, thus reducing domestic demand for U.S. hardwood logs, lumber, dimension and veneer. On the other side of the globe, log embargoes and cheaper plywood production caused restructuring and redirection of industries from plywood to furniture in Taiwan and Korea. This created needs for different materials, such as our temperate hardwoods. Japan’s hardwood consumption was putting pressure on their limited hardwood resources, causing them to turn to America as a supplier since our woods are similar in many respect to those of Japan and are readily available.

Let’s take a closer look at recent U.S. hardwood exports to the Pacific Rim and the Middle East.

Exports to Japan

Japanese imports of American hardwoods have been mainly in lumber form (table 2). On a value basis, 1987 exports to Japan totaled $98 million. Of this total, 81 percent was lumber, 17 percent log, and 2 percent veneer exports. On a quantity basis, 89 percent was lumber, 10 percent log, and less than 1 percent veneer exports.

Unlike other major hardwood lumber export markets, the oaks do not dominate U.S. exports to Japan. Rather, they account for less than forty percent of these exports (this is almost doubling of oak demand since 1985 on a percentage basis). Forty-two percent of our exports are listed in the “other” category, and two-thirds of this lumber is shipped in dressed form. Much of this material appears to be red alder produced in the Pacific Northwest. The remainder of the “other” category wood is predominantly yellow poplar, black cherry, and cottonwood. Information showing the exact species and quantities by species is not available.

Most of these exports are destined for use in furniture or cabinet products, as showings at the 1985 Tokyo Furniture Show confirmed. Fine-grained hardwoods and oak were the predominant woods, but the oak appeared to be mostly Japanese white oak. Japanese industry people stated they need and use U.S. oak for legs and trim work, and they use the more expensive and preferred Japanese oak for the larger, more visible surfaces.

The Japanese furniture manufacturers using oak prefer and pay more for quarter-sawn lumber and/or quarter-sliced veneer with tight growth rings. In the production of domestic oak material in Japan, producers cut and separate quarter- and flat-sawn material. The material is then sold separately with the quarter-sawn obtaining a premium.
Table 1. Hardwoods (log, lumber, and veneer) exports from the United States in 1975, 1980, 1986, and 1987, in million board feet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>147</td>
<td>202</td>
<td>175</td>
<td>239</td>
</tr>
<tr>
<td>Europe</td>
<td>51</td>
<td>256</td>
<td>238</td>
<td>320</td>
</tr>
<tr>
<td>Pacific Rim</td>
<td>8</td>
<td>33</td>
<td>203</td>
<td>281</td>
</tr>
<tr>
<td>Total</td>
<td>206</td>
<td>491</td>
<td>616</td>
<td>840</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Commerce

Table 2. U.S. log, lumber, and veneer exports to Japan in 1987

<table>
<thead>
<tr>
<th>Species</th>
<th>Logs</th>
<th>Lumber</th>
<th>Veneer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (MBF)</td>
<td>Value (M$)</td>
<td>Quantity (MBF)</td>
</tr>
<tr>
<td>Birch</td>
<td>62</td>
<td>22</td>
<td>in &quot;Maple&quot;</td>
</tr>
<tr>
<td>Maple</td>
<td>521</td>
<td>265</td>
<td>10,139</td>
</tr>
<tr>
<td>Red Oak</td>
<td>1,944</td>
<td>1,339</td>
<td>33,708</td>
</tr>
<tr>
<td>White Oak</td>
<td>3,722</td>
<td>4,243</td>
<td>7,936</td>
</tr>
<tr>
<td>Ash/Hickory</td>
<td>in &quot;Other&quot;</td>
<td></td>
<td>20,603</td>
</tr>
<tr>
<td>Walnut</td>
<td>859</td>
<td>2,439</td>
<td>2,265</td>
</tr>
<tr>
<td>Other</td>
<td>6,470</td>
<td>8,533</td>
<td>48,666</td>
</tr>
<tr>
<td>Total</td>
<td>13,578</td>
<td>16,841</td>
<td>123,317</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Commerce
Japanese furniture manufacturers also like to use uniform, light-colored, fine-grained hard-woods that can be given a natural finish or stained. Several U.S. hardwoods meeting these criteria that were seen at the Tokyo Furniture Show included red alder, black cherry, cottonwood, maple, and sap-one-side yellow poplar. Most of these hardwoods are being used as substitutes for Japanese hardwoods, which are either in short supply and/or are more expensive to purchase. U.S. promotional efforts are also introducing additional hardwoods such as gum, aspen, and soft maple.

Exports to Taiwan

In 1987, almost $95 million worth of hardwood logs, lumber, and veneer were shipped to Taiwan from U.S. ports (table 3). As with Japan, the order of importance of exports to Taiwan was lumber (72 percent), logs (18 percent), and veneer (10 percent). On a quantity basis, 78 percent was lumber, 19 percent log, and 3 percent veneer exports.

Species sent to Taiwan were mainly red and white oak. On a quantity basis, 81 percent of the lumber, 70 percent of the logs, and 64 percent of the veneer were oak exports with the majority being red oak. The remaining demands were for woods such as maple, ash, walnut, cherry, and yellow poplar.

Why are there such great demands for American oak? Taiwan’s major furniture producers are export oriented, and we are the largest market in the world for furniture. Oak furniture is in the greatest demand in the United States and is also very popular in Europe and Japan (other markets for the Taiwanese); therefore, Taiwan manufacturers want and need oak. Regional supplies of oak from Japan are too expensive and are available only in limited quantities. So, they have turned to the United States for their rapidly growing oak needs.

Observations at a recent Taiwan Furniture Show in Taipei and a fall Southern Furniture Show in High Point, NC, revealed that rubberwood and other Southeast Asian species are being used in the furniture parts and furniture produced in Taiwan for export. It appears, however, that the companies using a great deal of rubberwood are those selling to retailers in the United States and not those dealing with U.S. manufacturers. Most of the companies selling to U.S. manufacturers are using U.S. hardwoods that American consumers are accustomed to seeing in furniture products.

Exports to South Korea

In 1987, almost $21 million worth of hardwood logs, lumber, and veneer were shipped to South Korea (table 4). On a value basis, 49 percent was log, 34 percent lumber, and 17 percent veneer exports. On a quantity basis, 51 percent was log, 45 percent lumber, and 4 percent veneer exports. Species demanded in Korea were more evenly distributed than to Taiwan and Japan. On a percentage basis, maple and walnut were more highly demanded.

Korean demands have the same roots as the Taiwanese demands. Manufacturers need raw materials to manufacture furniture, cabinets, and pianos for the export market. Many of the Korean manufacturers are quite large and also control more of their final product marketing. Given this situation, these producers can dictate their species usage. Therefore, they have used cheaper Southeast Asian hardwoods as solids mixed with U.S. and other fine hardwood veneers in many of their products. This situation is changing with increased difficulties in securing desired hardwood from Southeast Asia.

Exports to the Middle East

Middle East purchasers of U.S. hardwood products are shown in table 5. This is presently not a strong marketplace for hardwood products, but there could be some excellent market opportunities in this area if things in the region calm down. Only $8.9 million or 1.2 percent of our exports were sent to the Middle East in 1987. Israel, Egypt, Turkey, and Saudi Arabia are
Table 3. U.S. log, lumber, and veneer exports to Taiwan in 1987

<table>
<thead>
<tr>
<th>Species</th>
<th>Logs Quantity (MBF)</th>
<th>Logs Value (M$)</th>
<th>Lumber Quantity (MBF)</th>
<th>Lumber Value (M$)</th>
<th>Veneer Quantity (MSqFt)</th>
<th>Veneer Value (M$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birch</td>
<td>1,513</td>
<td>659</td>
<td>in &quot;Maple&quot;</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Maple</td>
<td>1,027</td>
<td>401</td>
<td>5,389</td>
<td>432</td>
<td>2,859</td>
<td>120</td>
</tr>
<tr>
<td>Red Oak</td>
<td>14,157</td>
<td>10,515</td>
<td>60,416</td>
<td>45,755</td>
<td>41,985</td>
<td>3,911</td>
</tr>
<tr>
<td>White Oak</td>
<td>2,267</td>
<td>2,639</td>
<td>16,548</td>
<td>14,029</td>
<td>28,541</td>
<td>2,108</td>
</tr>
<tr>
<td>Ash/Hickory</td>
<td>in &quot;Other&quot;</td>
<td>4,324</td>
<td>2,877</td>
<td>-</td>
<td>in &quot;Other&quot;</td>
<td>-</td>
</tr>
<tr>
<td>Walnut</td>
<td>207</td>
<td>497</td>
<td>2,927</td>
<td>1,849</td>
<td>1,526</td>
<td>119</td>
</tr>
<tr>
<td>Other</td>
<td>4,334</td>
<td>2,666</td>
<td>5,667</td>
<td>2,934</td>
<td>35,468</td>
<td>3,470</td>
</tr>
<tr>
<td>Total</td>
<td>23,505</td>
<td>17,377</td>
<td>95,271</td>
<td>67,876</td>
<td>110,379</td>
<td>9,728</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Commerce
Table 4. U.S. log, lumber, and veneer exports to South Korea in 1987

<table>
<thead>
<tr>
<th>Species</th>
<th>Logs</th>
<th>Lumber</th>
<th>Veneer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (MBF)</td>
<td>Value (M$)</td>
<td>Quantity (MBF)</td>
</tr>
<tr>
<td>Birch</td>
<td>42</td>
<td>14</td>
<td>in “Maple”</td>
</tr>
<tr>
<td>Maple</td>
<td>5,006</td>
<td>2,195</td>
<td>2,752</td>
</tr>
<tr>
<td>Red Oak</td>
<td>976</td>
<td>577</td>
<td>2,644</td>
</tr>
<tr>
<td>White Oak</td>
<td>1,853</td>
<td>1,847</td>
<td>1,026</td>
</tr>
<tr>
<td>Ash/Hickory</td>
<td>in “Other”</td>
<td></td>
<td>233</td>
</tr>
<tr>
<td>Walnut</td>
<td>1,615</td>
<td>3,739</td>
<td>1,908</td>
</tr>
<tr>
<td>Other</td>
<td>3,485</td>
<td>1,866</td>
<td>2,933</td>
</tr>
<tr>
<td>Total</td>
<td>12,977</td>
<td>10,258</td>
<td>11,496</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Commerce

* Maple veneer quality is not correct.
Table 5. Middle East market for U.S. hardwood products in 1987, in dollars

<table>
<thead>
<tr>
<th>Country</th>
<th>Value ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cypress</td>
<td>156,000</td>
</tr>
<tr>
<td>Egypt</td>
<td>2,545,000</td>
</tr>
<tr>
<td>Israel</td>
<td>2,928,000</td>
</tr>
<tr>
<td>Iran</td>
<td>3,000</td>
</tr>
<tr>
<td>Jordan</td>
<td>149,000</td>
</tr>
<tr>
<td>Lebanon</td>
<td>179,000</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1,372,000</td>
</tr>
<tr>
<td>Syria</td>
<td>14,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,404,000</td>
</tr>
<tr>
<td>Turks &amp; Caicos Islands</td>
<td>26,000</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>120,000</td>
</tr>
<tr>
<td><strong>Middle East</strong></td>
<td><strong>8,896,000</strong> (1%)</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td><strong>743,200,000</strong> (100%)</td>
</tr>
</tbody>
</table>

Source: U. S. Department of Commerce
the largest purchasers. This market needs cultivation with samples, example products, and visits by American producers. Presently, there is a general lack of knowledge about American hardwoods and the products that we offer.

MARKET SUMMARY

One-third of the U.S. hardwood log, lumber, and veneer exports in 1987 were shipped to the Pacific Rim market, primarily Japan, Taiwan, and South Korea. Taiwan manufacturers are purchasing mainly red and white oak to process into finished parts and furniture for the export market. Their largest furniture export market is the United States. According to Taiwan statistics, a majority of their wood furniture exports were shipped to the United States. However, they also export furniture to Japan, Canada, and Europe.

Japanese purchasers are buying large amounts of our "other" species such as red alder, black cherry, yellow poplar, and cottonwood. Two-thirds of these purchases are dressed or planed, kiln-dried lumber. In contrast with Taiwan, the U.S. hardwoods going to Japan are used as substitutes for their hardwoods in the production of furniture for domestic sales.

South Korean purchasers are more interested in logs and veneer than Japanese and Taiwanese purchasers, but their use of U.S. hardwood lumber is also increasing substantially. Lumber exports to Korea have increased about threefold since 1985. The Koreans are purchasing maple and walnut along with the oaks. Main uses of U.S. hardwoods are for export furniture, cabinets, and pianos.

Middle East markets for U.S. hardwood products are minor at this time but have potential. Presently, $8.9 million or 1.2 percent of our exports are being sent to the Middle East. Israel, Egypt, Turkey, and Saudi Arabia are the largest purchasers. This market needs cultivation with samples, example products, and visits by American producers. Now may be the time to start.

SOUTHERN HARDWOOD SAWTIMBER RESOURCES

Generally, the same select hardwood species are popular on both the domestic and export markets. The major select species are the select red and white oaks, yellow birch, hard maple, black walnut, black cherry, and the ashes. Stronger demands have stirred many supply-side concerns. For instance, can U.S. forests continue to supply both the domestic and export markets—can U.S. exports increase? Are U.S. resources being depleted? What is the grade output picture? The answers to these questions are just as important to producers in the United States as they are to export customers.

Sawtimber Quantity

Resource data were compiled on Southern hardwood sawtimber from USDA Forest Service state resource evaluation reports. The data were then adjusted to a 1985 base and combined into the summary with projections in table 6. Results show that 21 percent, or 81 billion board feet (International 1/4-inch rule), of the 1985 estimated sawtimber inventories are in the select sawtimber species. About 307 billion board feet are in nonselect species of hardwood sawtimber.

Sawtimber Species

Table 7 presents the estimated sawtimber distribution by species in the South. Only 21 percent is in the select export species, while we estimate that over 90 percent of our exports are select export species. The South has major quantities of yellow poplar, hickory, sweetgum, tupelo, black gum, and nonselect red and white oaks.
### Table 6. Estimated inventories of hardwood sawtimber in the South in 1985, and projections for 1990, 1995, and 2000

Billion board feet (international 1/4-inch rule)

<table>
<thead>
<tr>
<th>Year</th>
<th>All commercial hardwoods</th>
<th>All select hardwoods</th>
<th>Select oaks</th>
<th>Hard maple</th>
<th>Ash, walnut, cherry</th>
<th>Yellow birch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>387.4</td>
<td>80.6</td>
<td>65.4</td>
<td>3.1</td>
<td>11.9</td>
<td>0.2</td>
</tr>
<tr>
<td>1990</td>
<td>431.9</td>
<td>90.3</td>
<td>73.3</td>
<td>3.6</td>
<td>13.3</td>
<td>0.22</td>
</tr>
<tr>
<td>1995</td>
<td>481.6</td>
<td>101.2</td>
<td>82.1</td>
<td>4.3</td>
<td>14.9</td>
<td>0.24</td>
</tr>
<tr>
<td>2000</td>
<td>536.9</td>
<td>113.4</td>
<td>92.0</td>
<td>5.0</td>
<td>16.7</td>
<td>0.27</td>
</tr>
</tbody>
</table>

### Table 7. Estimated hardwood sawtimber in the South by species

<table>
<thead>
<tr>
<th>Species</th>
<th>% of total</th>
<th>Species</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select White Oaks</td>
<td>10.6</td>
<td>Hard Maple</td>
<td>0.8</td>
</tr>
<tr>
<td>Select Red Oaks</td>
<td>6.3</td>
<td>Soft Maple</td>
<td>3.5</td>
</tr>
<tr>
<td>Other White Oaks</td>
<td>8.8</td>
<td>Beech</td>
<td>1.9</td>
</tr>
<tr>
<td>Other Red Oaks</td>
<td>20.9</td>
<td>Yellow Birch</td>
<td>-</td>
</tr>
<tr>
<td>Hickory</td>
<td>7.4</td>
<td>Basswood</td>
<td>0.4</td>
</tr>
<tr>
<td>Ash</td>
<td>2.7</td>
<td>Cottonwood/Aspen</td>
<td>0.8</td>
</tr>
<tr>
<td>Yellow Poplar</td>
<td>10.7</td>
<td>Black Walnut</td>
<td>0.3</td>
</tr>
<tr>
<td>Sweetgum</td>
<td>10.1</td>
<td>Black Cherry</td>
<td>0.1</td>
</tr>
<tr>
<td>Tupelo &amp; Black Gum</td>
<td>7.9</td>
<td>Other Hardwoods</td>
<td>6.8</td>
</tr>
</tbody>
</table>
Sawtimber Quality

Two hardwood grading systems are used to present information on the quality of standing sawtimber hardwood resources. The first is a log grading system and the second is a lumber grading system. The Southern data are shown in Table 8. The lumber-grade results were derived by assuming that lumber would be produced from all the logs that are in sawtimber stands. In actual practice, many small-diameter, low-grade logs and many other larger, low-grade logs are never removed from the forests. Consequently, the quality of logs removed is better than that found in the woods. The actual distribution of sawn lumber, therefore, is unknown but somewhat better than the numbers in Table 8.

The Resource Answers

The South has substantial quantities of select species, and these resources are increasing, not decreasing. Thus, it would appear we have the resources necessary to continue to supply domestic and export markets. However, to alleviate problems from timber sales through primary processing and selling primary products, improved markets for nonselect species are needed in both the export and domestic markets. This is further brought home by the fact that only 21 percent of Southern hardwood sawtimber inventories are in select export species.

When considering the quality of the standing sawtimber in our forests and the potential output by lumber grade, about 50 percent of the output is secondary-quality material (1C/2C), and 42 percent is below this quality level. The vitality of markets for material of secondary quality dictates the overall economic performance of a sawmill and, therefore, is important.

MARKETS FOR STANDARD-SIZED ROUGH DIMENSION IN JAPAN AND EUROPE COULD HELP ANSWER THE LIMITED HIGH-GRADE RESOURCES PROBLEMS

Exports of further manufactured products such as rough-dimension material have been limited, while the potential to supply rough dimension from the United States seems excellent. We have abundant resources (medium- and low-grade lumber), kiln-drying capacity, and rough-dimension production capacity, and more could be added.

The potential demand for U.S. rough dimension, especially in Europe and Japan, appears to be excellent on the basis of demand for U.S. lumber and inquiries for material such as strip stock and squares. Another major reason for a favorable outlook is that these countries currently use standardized short- and medium-length rough-dimension stock that is produced at their domestic primary processing facilities.

We will quickly describe a set of proposed standard sizes of rough dimension that could be manufactured in the United States for the European and Japanese markets. Also, the benefits of the production and sale of standard sizes of export rough dimension are highlighted.

Proposed Standard Sizes

Working with standard-size rough dimension needs for the European and Japanese markets, a condensed set of standard sizes was developed that could be used for both markets. The proposed sizes are shown in Table 9 in English and metric measurements.

The lengths range from 12 to 72 inches in 4-inch increments, and from 84 to 108 inches in 12-inch increments. Overseas requirements for longer pieces can be satisfied with lumber. The widths are in groupings 2 1/8, 2-3/8, 2-3/4, and 3-1/8 inches, or they could be provided in random sizes with a 2-inch minimum. The thicknesses are listed at 4/4 and 5/4. It should be noted that atmospheric conditions in Europe and Japan dictate the need for a 10 to 12 percent kiln-dried moisture content rather than the customary 6 to 8 percent needed for most of the United States.

The goal in developing the proposed standards was to reduce the number of different sizes for production and inventory. The approximate amounts produced per size can be estimated...
Table 8. Estimated quality of hardwood sawtimber of select species in the South by log grade, and potential output of sawn lumber by lumber grade

<table>
<thead>
<tr>
<th>Species</th>
<th>Log grade</th>
<th>Lumber grade²</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 2 3&amp;4</td>
<td>FAS&amp;Sel 1C 2C</td>
<td>Below 2C</td>
</tr>
<tr>
<td>All select hardwoods</td>
<td>16 23 61</td>
<td>9 24 25 42</td>
<td></td>
</tr>
<tr>
<td>Select oaks</td>
<td>16 22 62</td>
<td>9 24 25 42</td>
<td></td>
</tr>
<tr>
<td>Hard maple</td>
<td>10 18 72</td>
<td>10 21 26 43</td>
<td></td>
</tr>
<tr>
<td>Ash, walnut, cherry³</td>
<td>19 27 54</td>
<td>14 22 23 41</td>
<td></td>
</tr>
<tr>
<td>Yellow birch</td>
<td>15 29 56</td>
<td>14 22 23 41</td>
<td></td>
</tr>
</tbody>
</table>

² Grade 4 not included, all logs grades 3 and 4 were considered as grade 3 in calculations.
³ Data not available to computer lumber yields.

Table 9. Proposed standard export rough dimension for Japanese and European markets (AD or KD-10-12 percent moisture content)

<table>
<thead>
<tr>
<th>Standard export rough dimension</th>
<th>English sizes</th>
<th>Metric size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length</td>
<td>12-72 in. in 4-in. increments</td>
<td>30-180 cm in 10-cm increments</td>
</tr>
<tr>
<td></td>
<td>84-108 in. in 12-in. increments</td>
<td>210-270 cm in 30-cm increments</td>
</tr>
<tr>
<td>Width</td>
<td>2 in. +</td>
<td>50 mm +</td>
</tr>
<tr>
<td></td>
<td>2-3/8 in. + or random</td>
<td>60 mm + or random</td>
</tr>
<tr>
<td></td>
<td>2-3/4 in. + width</td>
<td>70 mm + width</td>
</tr>
<tr>
<td></td>
<td>3-1/8 in. + (2 in. +)</td>
<td>80 mm + (50 mm +)</td>
</tr>
<tr>
<td>Thickness</td>
<td>4/4 in.</td>
<td>25 mm</td>
</tr>
<tr>
<td></td>
<td>5/4 in.</td>
<td>32 mm</td>
</tr>
</tbody>
</table>
and then refined based on eventual demand or overseas distributor recommendations.

Advantages of Making Standard Sizes

The proposed standard sizes can be made from abundant, below-export-grade lumber from which domestic producers can obtain good yields because:

- Many standard lengths can be cut at one time using either the longest length first or an optimizing cut-off technique.
- Random-width cuttings can be produced.
- The gang-ripping-first option can be used.
- This material also can be made in the green condition and then dried, eliminating the need to dry non-useable material.
- The dimension can be manufactured to fill and maintain an inventory. Therefore, undercutting and overcutting of requirements can be tolerated.

The high yields will help lower product costs, and the inventory advantages will make this product more acceptable overseas.

Advantages of Buying Standard Sizes

The overseas user of the standard sizes will not have to purchase, grade (or even know our grades), sort, and stack lumber; air-dry, pre-dry, kiln-dry, and store lumber; or process lumber into dimension parts in a rough mill. Rather, the purchaser need only buy the standard-sized dimension and then match, glue, and cut specific dimension parts, or just cut what is needed from the standard-size dimension.

Other advantages are reduced shipping volume, reduced waste disposal problems, and reduced requirements for raw material inventory. The overseas purchasing end-user also could order and receive quick shipments from distributors tied to U.S. producers who maintain inventories of the standard sizes.

Requirements for Successful Marketing of Standard Sizes

The key requirements for successfully marketing standard sizes in Europe and Japan include developing efficient low-cost product manufacturing, product pricing, aggressive marketing techniques, strong distributors in receiving nations, and strong promotional efforts at international trade fairs and exhibitions.

Product pricing, which will be affected by exchange rates and tariffs, is especially important. In setting prices, the exporter will need to position his or her product between the prices of export lumber (kiln-dried FAS/SeI) and specifically sized rough dimension. To minimize tariffs, the product should be left as rough as possible on top and bottom surfaces.

All of these steps would be necessary for successful marketing of standard-sized rough dimension from the United States, even though similar products are currently being produced and used in the target markets.
Additionally

There will be initial resistance to this product from both overseas distributors and end users because they are accustomed to receiving and using long, clear, export-quality lumber or clear long strips that are 3, 4, and 5 inches wide from U.S. producers. We can continue to supply these lumber products, but, with the addition of the standard-sized rough dimension, we can expand our product offerings from the South and the United States, make the products from our abundant medium- and low-grade lumber, and create a value-added product for our dimension industry or expanding primary producers.

For Taiwan, South Korea, and others in the Pacific Rim area making Western-styled furniture for export, we recommend standard-length, random-width dimension or glued panels in sizes developed for use by American furniture manufacturers (write the author for information on these products).

Although standard dimension from the United States has many resource advantages, successful introduction of standard-size dimension on the export market will depend largely on competitive advantage and aggressive marketing.

CONCLUSIONS

It is clear that the Pacific Rim is a major market for hardwood from the United States. We believe ample supplies of hardwood exist to meet future increases in demand, especially in the South, providing ways can be found to accommodate a greater variety of grades and species. Standard-size rough dimension could help with the grade utilization situation by providing a means to make nonexportable lumber into an exportable product. Tightening of hardwood supplies from Southeast Asia should help provide opportunities for a greater variety of American species in the Pacific Rim area. However, in both the Pacific Rim and Middle East marketing areas, increased promotion of our wide variety of species is needed. In the Middle East, we also need to provide samples of our products along with example uses or final products.
SOUTHERN FOREST PRODUCTS TO EUROPE—
AMERICA'S FIRST INDUSTRY AND STILL GOING
STRONG

Frederick T. Kurpiel
Director, Industry Affairs
American Plywood Association
Atlanta, Georgia

Abstract. Forest product exports from the United States are currently at a record pace, with 1988 estimates at $5 billion. Plywood exports for 1987 were a record 795,502,000 square feet (3/8" basis). The European market accounts for 75 percent of U.S. structural panel exports. Background data and information are presented, showing country-by-country market development, and supply of U.S. structural panel exports to Europe. Comparing 1987 with 1986, we find exports to the Economic Community (EC) 34 percent ahead, with some of the largest individual importing countries posting significant gains. On October 1, 1987, the American Plywood Association (APA) entered the eighth year of a continuing contract with the USDA Foreign Agricultural Service (FAS) for an export market development program. Consistent with export demand, 75% of the 1988 funds will be directed to 52 activities in Europe. Europe registers over two million housing starts each year, but the majority of these houses are masonry construction. The more lucrative markets for structural panels are packaging and nonresidential construction uses; however, the remodeling/do-it-yourself and new residential markets are growth markets for structural panels. An analysis of opportunity and projected growth is made, including product lines, applications, competition, and an explanation of perspective, preference, and concerns of the European buyers. Tables and graphs show the development and preferred grades shipped by U.S. producers. Over 60% of European structural panel sales came from production in the Southern region of the U.S. for 1987.

INTRODUCTION

Over the years, industries have come and gone. It's hard to find a horse-drawn buggy manufacturer these days. But the first industry in America, producing finished products from the forest and selling them to Europe, is still vital and dynamic. When the early English settlers landed at Jamestown, Virginia, they were awed by the immensity of the forests. While some of the colonists were afraid of the dangers that lurked in the seemingly impenetrable forests, the leader of the group, Captain John Smith, quickly recognized the forest's commercial possibilities. He proposed to London, for repayment of debt and trading of goods, that they begin a forest products company. Several months later, Polish and Dutch millwrights arrived in the new world. Under the direction of Captain Smith, they constructed a sawmill near Jamestown, and America's first enterprise was born. The year was 1607. The revenue from those forest product exports and trade kept the early colonists afloat.

Wood product exports in 1987 were valued at $3.8 billion, a whopping 28% over 1986. U.S. wood product exports are expected to reach an all-time record of nearly $5 billion in 1988, a 32% increase over 1987. The long-term upward trend means that global trade will account for an increasing share of our total economy...nearly 25% of our gross national product by the mid 90s, up from 15% now, according to Kiplinger forecasters (see Table 1).
Table 1. Total Exports - First 5 Months of 1988

<table>
<thead>
<tr>
<th>Exports</th>
<th>Volume</th>
<th>Value*</th>
<th>% Change From</th>
<th>% Change From</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 mo.</td>
<td>5 mo.</td>
<td>May '88</td>
<td>May '88</td>
</tr>
<tr>
<td></td>
<td>1987</td>
<td>1987</td>
<td>May '88</td>
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<tr>
<td>Softwood Lumber to</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMBF</td>
<td>262.1</td>
<td>1,209.2</td>
<td>31.6%</td>
<td>92,984</td>
</tr>
<tr>
<td>MMFB</td>
<td>40.9</td>
<td>208.5</td>
<td>19.2%</td>
<td>13,365</td>
</tr>
<tr>
<td>Softwood Logs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMFB</td>
<td>461.7</td>
<td>1,955.6</td>
<td>32.3%</td>
<td>224,399</td>
</tr>
<tr>
<td>Softwood Plywood</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMSF 3/8''</td>
<td>48.9</td>
<td>416.7</td>
<td>14.1%</td>
<td>10,818</td>
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<td>Hardwood Lumber</td>
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<td></td>
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<td>MMBF</td>
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<td>482.5</td>
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<td>58,272</td>
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<tr>
<td>Hardwood Logs</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>MMBF</td>
<td>17.2</td>
<td>95.2</td>
<td>21.3%</td>
<td>15,653</td>
</tr>
<tr>
<td>Hardwood Veneer</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMSF surf</td>
<td>176.4</td>
<td>666.3</td>
<td>16.8%</td>
<td>14,758</td>
</tr>
<tr>
<td>Particleboard</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMSF 3/4''</td>
<td>30.8</td>
<td>133.7</td>
<td>47.6%</td>
<td>7,305</td>
</tr>
<tr>
<td>All Other</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>77,584</td>
</tr>
<tr>
<td>Total U. S. Exports</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>507,791</td>
</tr>
</tbody>
</table>

(*F.A.S. Thousands of Dollars)

Projected 1988 total value is estimated at over $5.0 billion, an all-time forest products export record.
Lumber exports will be addressed by other speakers; I will focus on the wood-panel product supply and demand in Europe.

EUROPEAN PANEL DEMAND AND INTERNAL SUPPLY

According to Harry Sakajarvi, Director of Strategic Planning for Raute Oy Corporation, plywood production in Europe last year was about 3.0 million cum, while consumption was between 3.5 - 4.0 million cum. The production and consumption levels of particleboard were about 13 million cum, of which some 4.5 million cum was the subject of value-added processing in the form of melamine overlaying. Medium-density fiberboard (MDF) and other homogeneous reconstituted panels still only command a relatively small share of the European market, but they are steadily growing. While oriented-strand board (OSB) is not showing the same sort of dominating trends in the United States and Canada, European manufacturers are employing great ingenuity to develop markets for OSB. Figures for the Soviet Union are not included in the foregoing summary.

The biggest producers of particleboard are the Federal Republic of Germany, France, Belgium, Italy, Austria, and Spain. At the same time, these, with the notable addition of England, are also the biggest consumers of the product. Finland, France, Italy, the Federal Republic of Germany and Rumania are the biggest manufacturers of plywood.

A clear growth in European panel production cannot be forecast. Nevertheless, value-added processing and the production of special purpose products is a strong growth area of both the reconstituted panel and plywood sectors.

Within the particleboard industry, the production of melamine overlayed panels has almost doubled since 1980. In 1980, some 3.0 million cum of melamine overlayed panels were produced, while today the level has risen to 5.0 - 5.5 million cum. Special panels and value-added processing are also characteristic of developments in the plywood industry. For example, in Finland over half of the plywood produced is the subject of value-added processing—mainly in the form of overlaying with phenolic film. Similarly, the West German plywood industry, based on the use of beech as its raw material, produces special purpose panels. The manufacture of conventional panels is clearly in the minority. This is partly due to the market domination of low-cost plywood from Indonesia, South and North America.

Right now, in this dynamic atmosphere, new processes for the transformation and value-added processing of basic panels are being developed continuously. In this, there are two clear trends: (1) the re-development of the basic structure of the panel, and (2) the development of various forms of overlaying and coating. In the re-development of the basic panels, the demand is for properties which improve the panel's performance in specific end-use conditions. Methods to facilitate use and installation, methods to improve weather- and fire-resistance and resistance to insect attack, as well as methods to give better structural performance are in particular demand. In a similar way, the processes and materials used in panel overlaying and coating have been developed to achieve specific characteristics in the end product.

The specific aim is to increase capacity and improve recovery from the raw material. The plywood industry has concentrated on reducing consumption of high-quality wood in an attempt to obviate future supply problems. For example, machinery suppliers have devoted special effort to improving the recovery and to achieving a better yield from birch, which is ever decreasing in size (see Table 2).

U.S. STRUCTURAL PANEL EXPORTS

The year 1987 was a record year for U.S. structural panel exports with U.S. Department of Commerce (USDC) statistics showing a total volume of 795,502,000 square feet (3/8" basis) shipped. This compares to a previous high of 790,800,000 square feet shipped in 1975, with 394,000,000 of that volume going to Canada. We know the 1987 USDC statistics are quite conservative. We look at export opportunities in 1988 positively and feel the volume will exceed one billion square feet (see Table 3). The EC again accounted for 75% of exports (see Table 4).
Table 2. European Panel Production 1985 (000 m³)

<table>
<thead>
<tr>
<th>Country</th>
<th>Particleboard</th>
<th>Plywood</th>
<th>Fiberboard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>5,812</td>
<td>336</td>
<td>220</td>
</tr>
<tr>
<td>France</td>
<td>1,731</td>
<td>476</td>
<td>195</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,594</td>
<td>50</td>
<td>28</td>
</tr>
<tr>
<td>Italy</td>
<td>1,350</td>
<td>361</td>
<td>250</td>
</tr>
<tr>
<td>Poland</td>
<td>1,298</td>
<td>201</td>
<td>601</td>
</tr>
<tr>
<td>Austria</td>
<td>1,200</td>
<td>4</td>
<td>86</td>
</tr>
<tr>
<td>Sweden</td>
<td>902</td>
<td>88</td>
<td>397</td>
</tr>
<tr>
<td>Spain</td>
<td>1,210</td>
<td>140</td>
<td>267</td>
</tr>
<tr>
<td>Finland</td>
<td>571</td>
<td>556</td>
<td>170</td>
</tr>
<tr>
<td>DDR</td>
<td>897</td>
<td>121</td>
<td>264</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>898</td>
<td>303</td>
<td>195</td>
</tr>
<tr>
<td>Switzerland</td>
<td>519</td>
<td>24</td>
<td>72</td>
</tr>
<tr>
<td>Great Britian</td>
<td>779</td>
<td>15</td>
<td>99</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>681</td>
<td>393</td>
<td>164</td>
</tr>
<tr>
<td>Norway</td>
<td>361</td>
<td>11</td>
<td>234</td>
</tr>
<tr>
<td>Portugal</td>
<td>548</td>
<td>21</td>
<td>60</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>389</td>
<td>97</td>
<td>109</td>
</tr>
<tr>
<td>Denmark</td>
<td>293</td>
<td>30</td>
<td>--</td>
</tr>
<tr>
<td>Greece</td>
<td>272</td>
<td>80</td>
<td>18</td>
</tr>
<tr>
<td>Hungary</td>
<td>286</td>
<td>27</td>
<td>80</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16</td>
<td>17</td>
<td>20</td>
</tr>
</tbody>
</table>
Table 3. U.S. Softwood Plywood Exports, 1987

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western Hemisphere</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>53,583</td>
<td>1,393</td>
<td>41,238</td>
<td>96,214</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,296</td>
<td>862</td>
<td>8,130</td>
<td>12,288</td>
</tr>
<tr>
<td><strong>Subtotal North America</strong></td>
<td>56,879</td>
<td>2,255</td>
<td>49,368</td>
<td>108,502</td>
</tr>
<tr>
<td><strong>South America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>French Guiana</td>
<td>2</td>
<td>--</td>
<td>--</td>
<td>2</td>
</tr>
<tr>
<td>Guyana</td>
<td>3</td>
<td>7</td>
<td>--</td>
<td>10</td>
</tr>
<tr>
<td><strong>Subtotal South America</strong></td>
<td>5</td>
<td>7</td>
<td>--</td>
<td>12</td>
</tr>
<tr>
<td><strong>Central America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>316</td>
<td>51</td>
<td>907</td>
<td>1,274</td>
</tr>
<tr>
<td>El Salvador</td>
<td>--</td>
<td>--</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Honduras</td>
<td>--</td>
<td>7</td>
<td>59</td>
<td>66</td>
</tr>
<tr>
<td>Panama</td>
<td>206</td>
<td>114</td>
<td>26</td>
<td>346</td>
</tr>
<tr>
<td><strong>Subtotal Central America</strong></td>
<td>522</td>
<td>172</td>
<td>997</td>
<td>1,691</td>
</tr>
<tr>
<td><strong>Caribbean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td>602</td>
<td>2,288</td>
<td>5,370</td>
<td>8,260</td>
</tr>
<tr>
<td>Barbados</td>
<td>--</td>
<td>705</td>
<td>304</td>
<td>1,009</td>
</tr>
<tr>
<td>Bermuda</td>
<td>--</td>
<td>--</td>
<td>103</td>
<td>103</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>831</td>
<td>790</td>
<td>350</td>
<td>1,971</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>142</td>
<td>12,443</td>
<td>269</td>
<td>12,854</td>
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<tr>
<td>French West Indies</td>
<td>--</td>
<td>175</td>
<td>85</td>
<td>260</td>
</tr>
<tr>
<td>Haiti</td>
<td>--</td>
<td>123</td>
<td>141</td>
<td>264</td>
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<tr>
<td>Jamaica</td>
<td>624</td>
<td>2,499</td>
<td>758</td>
<td>3,881</td>
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<tr>
<td>Leeward Windward Islands</td>
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<td>2,647</td>
<td>440</td>
<td>3,136</td>
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<td>Netherlands Antilles</td>
<td>12</td>
<td>4,597</td>
<td>417</td>
<td>5,026</td>
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<tr>
<td>Trinidad and Tobago</td>
<td>62</td>
<td>6,555</td>
<td>648</td>
<td>7,265</td>
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<tr>
<td>Turks and Caicos Islands</td>
<td>88</td>
<td>40</td>
<td>157</td>
<td>285</td>
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<tr>
<td><strong>Subtotal Caribbean</strong></td>
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<td>32,862</td>
<td>9,042</td>
<td>44,314</td>
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<tr>
<td><strong>Total Western Hemisphere</strong></td>
<td>59,816</td>
<td>35,296</td>
<td>59,407</td>
<td>154,519</td>
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**Europe**

**European Economic Community**

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<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium/Luxembourg</td>
<td>17,878</td>
<td>86,264</td>
<td>366</td>
<td>104,508</td>
</tr>
<tr>
<td>Denmark</td>
<td>97,995</td>
<td>1,348</td>
<td>4,533</td>
<td>103,876</td>
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<tr>
<td>France</td>
<td>608</td>
<td>6,173</td>
<td>736</td>
<td>7,517</td>
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<tr>
<td>Germany</td>
<td>17,742</td>
<td>17,477</td>
<td>1,119</td>
<td>36,338</td>
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<tr>
<td>Greece</td>
<td>58</td>
<td>--</td>
<td>--</td>
<td>58</td>
</tr>
<tr>
<td>Ireland</td>
<td>2,004</td>
<td>7,431</td>
<td>211</td>
<td>9,646</td>
</tr>
<tr>
<td>Italy</td>
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<td>96,625</td>
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<td>199,963</td>
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<td><strong>Subtotal EEC</strong></td>
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Table 3. continued.

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<th>Other Europe</th>
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<tr>
<td>Iceland</td>
<td>96</td>
<td></td>
<td>96</td>
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</tr>
<tr>
<td>Norway</td>
<td>1,486</td>
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<td>1,536</td>
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<td>Portugal</td>
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<td>Switzerland</td>
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<td>9</td>
<td>160</td>
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<td>Turkey</td>
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<td></td>
<td>12</td>
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<tr>
<td><strong>Subtotal Other Europe</strong></td>
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<td>4,496</td>
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<tr>
<td><strong>Total All Europe</strong></td>
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</table>

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| **Total All Markets** | 249,273      | 462,102      | 84,127 | 795,502|
| **Dollar (Thousand) Value** | $52,893  | $108,270  | $17,860|

*Source: U. S. Foreign Agricultural Service/U.S. Department of Commerce*
The health of the European market is critical for U.S. structural panel exports. The reason is simple—Europe has by far the largest percentage of panel imports in the world. The allocation of FAS funding for APA panel promotion (our 8th year of a continuing contract), based on fiscal year 1988 projection, illustrates the distribution of our export activity. About 75% of FAS funds are targeted to European activity.

EUROPEAN MARKETS

Let's take a closer look at the European markets, as the market situation varies country by country. Europe registers over 2,000,000 housing starts a year. But much of the housing is of masonry construction and the more lucrative markets are in export packaging and nonresidential construction (concrete forming). Efforts to expand markets and residential construction, including broader code acceptances and the do-it-yourself market, are targeted as special emphasis programs for 1988.

United Kingdom

U.S. forest products exports to the United Kingdom (UK) increased 36%, from $98 million in 1986 to $133 million in 1987. Softwood plywood and hardwood products were the biggest gainers. The total market for plywood in the UK is about one billion square feet. Last year, the United States shipped 225.7 million square feet, or about 25% of the total. We anticipate a 12% market growth for the UK through 1990.

Do-it-yourselfers consume about a quarter of the panels imported. Commercial construction shows potential and is projected to increase 13% by 1990. The fastest growing market is industrial, projected to increase 17% by 1990.

In the residential market, the long decline in timber-frame construction appears to have halted, and is poised for a gradual comeback. The APA plans to give the comeback a healthy push with a major demonstration project—Quality Home Line. While the Street-of-Dreams type of promotion has become common in the United States, it’s a new concept in Europe. We feel it’s an excellent way to present timber-frame construction to the Britons.

To re-establish confidence in timber-frame construction in the UK, our program there includes a showcase of six new homes, featuring the best in structural and aesthetic design in wood construction. Part of our intent is to counter the effect of destructive television documentaries which, through sensationalism, have driven the timber-frame market share down from over 20% to approximately 7%.

The strategy is to promote the benefits of timber-frame homes to the widest possible audience. This is a joint project with a UK builder and a consumer magazine, with funding for the project totalling $653,000.

The six competition winners, who will work with an architect to design a home of their dreams, have been named. The six winning houses will be built on an exclusive street of dreams which the public will be able to visit. The houses will then be judged, and the final winner may have their dream house built free on their lot anywhere in the UK.

Denmark

Residential construction is a significant market in Denmark, where 50% of the housing is estimated to be timber frame. Traditionally, a high percentage of imported structural panels have come from the United States. In 1987, we exported 103.9 million square feet, about 90% of the North American plywood shipped to Denmark.
The Netherlands

Our next stop is The Netherlands. U.S. softwood plywood exports to The Netherlands totaled 103.8 million square feet in 1987. If we can maintain our current 84 percent share of North American plywood exports to The Netherlands, we stand to gain from the projected 10 percent market growth. Residential and industrial applications are both important in this country.

Belgium

In Belgium, shipping is a big industry. Over half of the imported plywood goes to materials handling and transportation applications. Last year we exported 104.5 million square feet of structural panels to Belgium, a 46% increase over 1986. With the projected growth in materials handling, we feel we can increase panel exports to Belgium by 5 percent by 1990.

West Germany

Next is West Germany. With 36.3 million square feet, the United States had about a 50 percent share of the North American panel exports to West Germany in 1987. Again, there is a lot of room for growth. Approximately half of the plywood is consumed in the industrial sector. Concrete forming is also an important plywood market in West Germany.

Italy

The Italian market is primarily industrial, with most of the 14 million square feet of U.S. panels imported last year going to materials handling applications. This is a 144% improvement over 1986. APA promotion of the new 1100 liter bin, popularly known as “Big Bin,” has been well-received in Italy, where the bin is being used for wine and tomato paste. Continued promotion of Big Bin and other industrial applications, combined with market growth, can mean a 33 percent increase in U.S. plywood imports by 1990.

Market gains in the residential market could add to this projected increase. In September, we’ll evaluate the potential housing market first-hand, when we participate in a trade mission to Italy, Spain and Turkey. Led by Washington Congressman Sid Morrison, the trade mission members will meet with government and industry representatives of each country.

Spain and Portugal

The APA will open its fourth European office, in Spain, before the end of 1988. The office will be located in Madrid, and will serve as a base for the expanded promotion of APA trademarked products throughout the Mediterranean Region, particularly in Spain, Portugal, Italy, Greece, and Turkey.

Structural panel use in Spain is virtually unknown, but you can’t argue the potential in crating and agricultural materials handling. Spain ranks third in the world as an auto exporter. Portugal’s panel market is in a similarly undeveloped state, but it too has potential. One factor that could open the doors in trade with Spain and Portugal is their recent membership in the European Community (EC). Both countries must eventually reduce their duties to the 10 percent EC standard when the community is unified in 1992. An effort is being made to unify the various codes into a Eurocode by 1992.
NIL DUTY QUOTA

The U.S. reached a compensatory agreement with the European Communities that increased the 1987 coniferous nil duty quota by 50,000 cum (that's 734,500,000 square feet, or the production level of about seven mills). APA has been working for the quota increase since 1980, and we are happy to report that U.S. negotiators advanced plywood for priority treatment out of literally thousands of other products.

EXPANDING THE EXPORT MARKET

Whether the promotional activity is in Europe, the Caribbean or the Pacific Basin, the pattern of research and action is the same. Before initiating any promotional activity, we evaluate the potential market thoroughly. We consider the nation's housing needs, tariff barriers, code restrictions, and local construction methods and traditions. Next, we develop a strategy to capitalize on both the immediate and long-term targets of opportunity. Frequently, this means efforts to reduce tariffs, break nontariff barriers, and to beat down code restrictions.

We work closely with designers, code officials, and members of the distribution trade. In developing countries, we've found our demonstration units, combined with seminars, are a good way to present wood construction systems to local builders and code officials.

Developing the market for structural panels in the international marketplace is neither quick nor easy. APA first initiated export promotion for Europe in 1963, winning the President's E Award for increasing exports from the U.S. Export promotion requires perseverance. The support we have received from FAS and the boost from the TEA program are vital in our efforts to reach the 25-year goal of 5 billion square feet of structural panel exports set by APA President Bill Robison at our 1986 annual meeting.
CONCERNS OF SOUTHERN HEMISPHERE BUYERS OF SOUTHERN FOREST PRODUCTS

Geoff Boxall
Lumber Sales Manager, Export Georgia-Pacific Corporation
Atlanta, Georgia

Abstract. Buyers' concerns of Southern forest products vary from country to country and in most ways their concerns parallel those of the shippers. By far the largest market for Southern forest products in the Southern Hemisphere is the Caribbean, and this area holds the best prospects for increased business. During 1987, southern pine lumber sales to the Caribbean market were 133 million board feet and southern pine plywood sales were 33 million square feet, 3/8 basis. These figures do not include shipments made to Puerto Rico and do not include shipments made from Puerto Rico to islands in the Caribbean.

Buyers' requirements focus on appearance and wane and are major complaints while our principal competitive product, Honduras pine, is wane free. Packaging is very important, with wide strapping bands and adequate protection for pattern stock and tongue and groove plywood essential.

Schedules for delivery are important, and shippers experience difficulties in servicing some islands with break bulk vessels, and shipments by container are very expensive. Terms of sale are of concern to both buyers and sellers, with payment by cash against documents and letters of credit preferred by sellers and terms of payment 30, 60, 90 days demanded by buyers. Payment in U.S. dollars is a problem for some buyers with their governments restricting currency transactions. Governments of importing countries level heavy duties and taxes which have a restricting effect on our exports.

INTRODUCTION

Buyers concerns of Southern forest products vary from country to country and in most ways their concerns parallel those of the shippers. By far the largest markets for Southern forest products in the Southern Hemisphere are the Caribbean countries that, in 1987, purchased 133 million board feet of lumber and 33 million square feet of plywood, 3/8" basis. These figures do not include shipments to Puerto Rico, which accounted for 61 million feet of lumber and 64 million feet of plywood. Although Puerto Rican shipments are not considered exports, they are a significant portion of the total off-shore market for southern pine products.

Total shipments of southern pine lumber to the Caribbean in 1987 increased 40% over the previous year, and the opportunities for continued increases in exports are very good. But the amount of lumber that can be shipped will depend on how well the following buyers' concerns can be met.

1. Specifications for southern pine lumber focus on appearance, with wane and stain a concern to buyers in all markets. Our major competition is Honduran pine which holds a traditional preference, and has no wane and has good appearance.
2. Packaging is very important with wide strapping bands, even-length bundles, and in some cases half-size bundles. Adequate protection for pattern stock and plywood is essential.

3. Shipping schedules are important, and shippers experience difficulties in servicing some islands on a regular basis and break bulk service is not always reliable. Container shipments to a number of islands are very expensive, making our products uncompetitive.

4. Terms of sale are of concern to both buyers and sellers, with payment by cash against documents and letters of credit preferred by sellers and terms of payment 30, 60, 90 days demanded by buyers. Of course, terms and payment vary from country to country, and customer relationships are a factor. These relationships can be affected by government policy, currency exchange regulations.

5. Governments of importing countries levy heavy duties and taxes, which have a restricting effect on Southern forest products exports. These trade barrier costs vary from country to country and are subject to change with little or no notice.

THE CARIBBEAN

Dominican Republic

The Dominican Republic is by far the most important market for Southern forest products in the Caribbean, with imports of 52 million board feet of lumber and 13 million square feet of plywood exported in 1987. This represented 40 percent of all southern pine lumber and 29 percent of all southern pine plywood exported to the Caribbean.

The Dominican Republic is in the midst of a construction boom. Most construction is residential cinder block townhouses, but a certain amount of lumber and plywood compliments this construction material. The pace of construction is so great that the country's cement block producers cannot keep up with demand.

The value of the Dominican peso has declined against the dollar from 3.00 pesos/dollar (P/$) to 6.36 during the past 21 months. The official exchange rate is 6.36 P/$, but as the unofficial rate is 6.50 to 7.00P/$, the banks have had few reserves. Until recently, most business appeared to be transacted with dollars obtained outside the commercial banking system.

This situation is changing rapidly. Recently the "Free Market" exchange rate got out of control, reaching upwards of 10.00 P/$. The Government immediately closed all exchange banks and made it illegal to exchange dollars outside of the commercial banking systems. They also increased the official exchange rate from 5.35 to 6.36 P/$. It seems that dollars are now being drawn into the official system. Imports of non-essential items have been banned to reduce pressure on the dollar.

The Dominican Republic is currently suffering 100% inflation, and it is hoped these new measures will help bring the economy under control. Certainly, without hundreds of exchange banks pushing the exchange rate up to potential buyers, currency exchange should stabilize and have a stabilizing effect on the entire economy.

The bulk of southern pine lumber exported to the Dominican Republic is No. 2 S4S and full-size rough, with some scant rough. Both boards and dimensions are purchased. The general opinion among importers is that material coming in from southern pine manufacturers is satisfactory.

- Although there are pressure-treating facilities in the Dominican Republic, they are insufficient to handle total requirements. All lumber used in houses should be pressure treated, but buyers are reluctant to purchase pressure treated timber due to the short money supply and the need to keep costs down.

Softwood plywood imported into the Dominican Republic is almost all southern pine. They
use CDX sheathing plug-and-touch sanded, for all general purpose work and plyform for high-rise projects and are satisfied with the quality supplied.

Jamaica

Jamaica, the largest English speaking island in the Caribbean, is an important market for southern pine. Twenty-six million board feet of southern pine lumber were exported to Jamaica during 1987, representing total Jamaican softwood lumber imports.

All softwood lumber is purchased by the Jamaica Commodity Trading Company, who in turn sells to seven or eight distributors, who then sell to retail stores or directly to users. All imported lumber, regardless of specification, is sold by the Jamaica Commodity Trading Company to distributors for the same price.

The product purchased is No. 2 grade 1 and 2 inches thick, in all widths, dressed four sides; and 1-inch pattern stock. Block and steel construction is the basis for home building, with lumber used for roofing systems, flooring, doors, and window frames. Other uses are for forming and furniture.

The Jamaica Commodity Trading Company only imports untreated lumber. Approximately 50 to 60 percent of the lumber is treated at one of the several treating plants on the Island. Quality is satisfactory and each shipment is inspected by the buyer at the port prior to loading the vessel. The method of purchasing lumber in Jamaica disallows claims by distributors.

Shipments are to Montego Bay and Kingston, where there is a 300-foot long size limit on vessels with a maximum draught of 25 feet. Payment terms are irrevocable confirmed letter of credit opened through a U.S. bank, guaranteed by the Commodity Credit Corporation, USDA Foreign Agriculture Service. This guarantee is a very important service because it removes the financial risk for exporters and, combined with the method of purchasing, makes business very attractive and competitive.

Expectations are high that Jamaica's imports will increase during 1988. Jamaica has the need for lumber products, currently purchases only southern pine, and, with a slowly improving economy, lumber demand should continue to grow.

Plywood is handled differently, with exporters selling directly to panel product distributors and users. During 1987, southern pine plywood amounted to 2.5 million square feet, or 62 percent of Jamaica's total plywood imports.

Trinidad and Tobago

Trinidad's economy is based on petroleum and agriculture, and has been steadily slowing down due to the worldwide oil situation. This slowdown has resulted in a reduction in the availability of money and a poor balance of payments. Potentially a very large market for both southern pine lumber and plywood, sales of these products have been stymied in the past few years by increasingly restrictive import controls.

The volume of southern pine lumber imports decreased from 23 million board feet in 1982 to 11 million board feet in 1987. Southern yellowpine plywood imports for 1987 were 6.5 million square feet 3/8 basis, which represented 90 percent of Trinidad's softwood plywood imports.

Imports are controlled by "E.C.O.s," which literally means Exchange Control - O, the form that importers must fill out and have approved for every product they wish to purchase and the amount of U.S. dollars required, on an annual basis. When the E.C.O. is returned approved, the U.S. dollar amount allocated is usually considerably less than the amount the importer requested. With each shipment that arrives, and as this fund is drawn upon, the buyer must submit the second part of the application, which is the E.C. 1. This is presented to the bank for the actual dollar amount requested against a given shipment.

Because the importers buying power is so restricted, it is imperative to them that each shipment meet quality requirements. A bad shipment, or even an insurance claim, means more than just selling the goods and being reimbursed for losses. It means less quantity that they can import and sell of that product. As a result, exporters must take great care to ship quality products
into the Trinidad market. Any material not meeting buyers’ standards will mean a financial claim and a very expensive settlement imposed on exporters since, in addition to the exchange restrictions, buyers face hefty tariffs, duties, and port charges which result in a landed price about 55 percent higher than the CIF value.

Honduran pine is the dominate species and sets a high standard for grade and appearance. Southern yellow pine must compete in quality to maintain its market share. Treated southern pine is being exported in increasing volume, and accounts for over 60 percent of shipments. There are a number of treating plants on the island, but it is costly to move material around, and buyers prefer to import treated stock.

Trinidad imports a mix of rough and dressed lumber in dimension, boards, and pattern stock. The majority of the material is used in various roof systems for housing construction. Traditionally, masonry products have been the primary residential construction material. Other uses include siding, flooring, door and window frames, and furniture. The grades used are mostly No. 2 with some No. 1.

Shipping services to Trinidad are frequent and do not require minimum inducement volume. Importers do express concern regarding full-size bundles, and half-size bundles would be preferred to eliminate equipment handling problems.

Barbados

Barbados’ economy is based on tourism and is doing very well. The wood products market is fairly straight-forward and uncomplicated. There are no foreign exchange restrictions. Import duties imposed on wood imports result in a cost to the buyer of about 35 percent over CIF value.

Barbados is a small and steady market, with southern pine lumber 4.7 million board feet during 1987, down slightly from 4.8 million the previous year. Honduras pine is a big competitor, generally being the preferred species, particularly in boards where buyers have a concern that southern pine is inclined to vary within grade to a greater extent than Honduran pine.

Shipping schedules to the port of Bridgetown are on a regular basis. The port facility and equipment available are not sufficient to handle normal size bundles and importers face excessive breakage and damage unless half-size units are shipped.

Netherlands Antilles

The Netherlands Antilles are an important market for Southern forest products with 11.4 million board feet of southern pine exported during 1987, an increase of 76% over the previous year, and 4.6 million square feet of southern pine plywood. Southern pine represented 90% of the softwood plywood exported from the United States to the Netherlands Antilles.

The major market is Aruba, which is experiencing a construction boom. Tourism, the basis of the economy since the oil refinery was closed two years ago, is up substantially and the island is busy constructing new hotels, time-sharing condos, and expanding existing hotels. In addition, residential construction is at a high level, reflecting the strength of the economy.

Aruba is basically a No. 2 southern pine market, with 80% or more of the material treated. Generally, untreated lumber is thought to be a product for temporary use. Residences are principally masonry with lumber used in roofing systems, door and window frames. Buyers have few complaints with southern pine quality.

Curacao is the larger of the Netherlands Antilles islands, but is a smaller market, and is not enjoying the benefit of high volume tourism to offset the depressed petroleum industry. Construction in Curacao is the same as in Aruba, namely, masonry and wood for roof systems, door and window frames. Southern pine is specified for government projects and accounts for almost all of the softwood lumber imported.
SOUTH AMERICA

South American imports of southern pine are restricted by: 1) unstable economies, 2) stringent import limitations, 3) foreign exchange controls, and 4) heavy taxes. The relative importance of each of these factors varies by country.

Venezuela

Venezuela used to be the largest importer of southern pine lumber and plywood in South America, but recently has been in such dire economic conditions since the drop in oil prices that imports of most products, wood included, are virtually non-existent today. There are some exceptions, with occasional small, cautious purchases of southern pine, and purchase on the free island of Margarita where imports are without restrictions. Importers and exporters were badly burned when Venezuela froze its foreign exchange several years ago while many large shipments of lumber were on the water or had just arrived. It took importers years to recover some of their losses. No one recovered completely and, as a result, exporters are very wary and cautious. Still, the need and appreciation of southern pine is greater in Venezuela than in any other South American country. If the economy stabilizes, Venezuela could once again become a significant market.

There are really only two other Latin American countries that import southern pine, or have imported it in the past. These are Argentina and Uruguay.

Uruguay

The most popular pine utilized in Uruguay is Brazilian pine, which is cheaper and more available than southern pine. Uruguay, unlike any other nation in South America today, has few import restrictions. There is no difficulty nor risk in exporting to Uruguay under letters of credit. A small segment of the lumber buying market recognizes the superior quality of southern pine over Brazilian and is willing to pay a higher price for it. It is not, however, so widely appreciated that it can withstand significant price differences, and thus the demand does fluctuate with cost. Recently, the price of southern pine rough No. 2 lumber has been too high for the Uruguayan market. This is due to a scarcity of the product, since so much of it is tied up in filling the huge Iraq order. Once demand is again at normal levels, prices should decline, making Uruguay a steady market once again.

Argentina

Four or five years ago this country, like Uruguay, was a steady consumer of southern pine as a superior alternative to Brazilian and Chilean pine. But Argentina’s disastrous economy, it’s rampant inflation and uncontrollable flow of money out of the country has made importing difficult and impossible in some cases. Since southern pine lumber is not an essential import, it has disappeared from the market. Interest remains, however, and there are signs that import restrictions are easing as letters of credit can be opened with 180-day payment terms confirmed through U.S. banks and guaranteed through the CCC. In addition, interest has been stirred up in southern pine plywood through a very successful seminar given by the APA, with the support of the U.S. Embassy, the Argentine Ministry of Housing and Argentine Department of Commerce. Interest in importing U.S. hardwoods and western woods has continued to a limited degree, even with the country’s economic difficulties.
Other Countries in South America

There have been imports of western woods, probably due to ease of transport between the U.S. west coast to the west coast of South America, but there is virtually no consumption of southern pine. Deeply involved in its own production and export of radiata pine, Chile has never been an important consumer of southern pine. Most of these countries, however, have never been exposed to southern pine, nor been in stable enough economic condition to encourage the introduction of southern pine lumber into their markets.
BARRIERS TO INTERNATIONAL TRADE IN SOLID WOOD PRODUCTS

Stephen M. Lovett
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National Forest Products Association
Washington, D.C.

Abstract. To realize the wood product industry's full trade potential will require the successful efforts of our government to eliminate trade barriers in overseas markets. This paper describes tariff and non-tariff barriers to wood product exports; describes the importance of these barriers in the context of our industry export strategy; and recommends ways in which our government can assist our industry in expanding export markets by eliminating these barriers.

INTRODUCTION

Statistics just released show that the United States has become a net exporter of wood products, registering a $9 million favorable trade balance for the first five months of 1988, with exports of $2.162 billion against imports of $2.153 billion. By comparison, for the same period in 1987, exports were $1.464 billion against imports of $2.196 billion. U.S. imports have remained fairly constant while exports have surged ahead by 48 percent over 1987. At this rate, the industry could surpass the $5 billion mark in export sales by the end of the year.

Among all our export markets, the strongest economic growth is projected in the Pacific Rim over the next five years. Because the Pacific Rim has per capita consumption of wood 1/10 that of U.S., a severe shortage of domestic timber supplies, critical housing shortages, and projected GNP growth averaging 3-4 times that of western nations, we believe that the Pacific Rim could offer a much larger potential for increased sales of U.S. solid wood products. If these markets were free of trade barriers, annual sales could increase dramatically, rising an additional $2 billion per year by 1994.

THE WOOD PRODUCT INDUSTRY EXPORT STRATEGY

The problematic issue of trade barriers must be understood in the context of the international programs conducted by our industry. By looking at trade barriers in this manner, these programs are found to be grouped under a three-part export strategy comprised of market development, trade policy, and export financing.

Market development is the first element in this strategy. Overseas markets in different stages of development are beginning to consider U.S. solid wood products for the first time: for example, India, Korea, China, Iraq, Algeria, Jordan, and Saudi Arabia. Because these countries are unfamiliar with U.S. products, we must educate buyers, specifiers and end-users about our products, how they are used, how our marketing system works, and about the stability of our long-term supply capability. In developed countries, continuing promotion and trade servicing activities are necessary to maintain market share for U.S. products.

To answer these needs, NFPA in 1979 teamed up with the USDA's Foreign Agricultural Service (FAS) in a market development program. When this program began, FAS Agricultural Trade Officers in more than 30 countries began to include forest products as one of their areas of responsibility. These offices help exporters understand the market, meet buyers, and get a feel
for how to do business in a country. They also prepare market intelligence reports once a year which are compiled and published by NFPA. The market reports describe foreign wood products industries and their end-use markets, volumes of supply and consumption levels, distribution systems, import volumes, competitors, and so forth.

The key element in the NFPA/FAS partnership is the Market Development Plan, administered by NFPA, and undertaken by the major product associations: the American Plywood Association, the Southern Forest Products Association, and the Western Wood Products Association. The Market Development Plan funds a wide variety of overseas activities including offices, publications in foreign languages, trade missions, trade fairs, demonstration projects, and seminars.

The Market Development Program was initially funded by FAS at $6,500. Today the program is supported by $2.8 million in government funds which, when matched by industry contributions, totals $5.7 million. With activities in about 30 countries, Europe accounts for 57% of the program, the Pacific Rim 29%, South America and the Caribbean 12%, while 2% goes to the Middle East. The program is roughly divided between softwood panels and lumber, with about 20 percent for hardwood products.

The Market Development Program has been one of the keys that has reversed the decline in exports, which fell to $2.7 billion in 1984 and 1985. During this period, our industry/government began to promote wood products overseas. As the Market Development Program gained momentum, export recovery took place worldwide. Wherever we conducted activities, we got results.

The second prong of the strategy is trade policy. The U.S. forest industry faces enormous barriers in markets around the world, yet wood products exporters of other countries confront virtually no obstacles to selling their products in the United States. Tariffs, subsidies, restrictive building codes, import quotas, licensing, and many other barriers obstruct sales of U.S. products overseas. Eliminating these barriers is probably the most important responsibility area that NFPA has in the international arena: expanding markets by reducing ways in which foreign governments prevent our products from entering their markets.

To assist our government in negotiating the reduction of trade barriers for wood products, NFPA has accomplished two important tasks so far this year: first, an industry-wide policy on trade negotiations lays out our objectives; and second, a data bank lists tariffs on wood products in more than 30 countries and describes the non-tariff barriers operating in those markets.

The third prong of NFPA’s export strategy is export financing. USDA’s Commodity Credit Corporation provides credit guarantees to a group of selected countries, allowing U.S. exporters to receive payment upon shipment, while the buyer gets financing for one or two years.

The export financing program has been very successful in opening markets in a few countries that would not normally purchase U.S. products. For example, in Iraq in 1987, export financing triggered sales of $20 million; additional financing in 1988 has brought exports to $50 million so far this year.

Total financing available for all agricultural products is $5.6 billion. At the present time $122 million of this is used for solid wood products. Our industry has strongly recommended that this amount be increased by making wood products eligible for the full range of USDA export financing, but such action has been blocked in the interagency process. Full access for all of USDA’s export financing program could mean some $500 to $700 million in financing for wood products.

TRADE BARRIERS

Although the primary obstacle which prevents our industry from expanding markets for solid wood products is trade barriers, nevertheless, several obstacles here at home prevent our industry from gaining its rightful competitive place in these markets; first, the lack of reliable documented evidence of trade barriers; second, the lack of strategy based on that information and strongly supported by our government; and third, the lack of sufficient political support from Congress to ensure the success of this effort.

In compiling the data bank of tariff and non-tariff barriers, NFPA has tapped the resources of the Department of Commerce, the Department of Agriculture, U.S. embassies overseas, and
finally the experience of our industry in foreign markets. Despite this effort, data bank information remains incomplete and anecdotal. Our industry cannot expect our government to go to the negotiating table with this kind of information.

May I invite your attention for a moment to some of the barriers we face. I would like to discuss the European Community, Japan, Korea, third country issues, and the GATT negotiations.

Europe

As members of the European Economic Community (EEC) near their 1992 goal of creating a single, unified market, other countries have begun taking the bloc more seriously. When all of the internal trade barriers among the twelve EEC countries are removed in 1992, a single market will be created with 320 million consumers, larger even than the United States.

Barring the favorable harmonization or removal of trade barriers in EEC countries before 1992, political compromises within the EEC could result in adoption of barriers which, now imposed by a single or a few countries, could then become the norm throughout the EEC. Fire codes, building codes, and product standard issues have already surfaced as problems. North American representatives from the American Plywood Association and from Canada have already been shut out of standards meetings. Standards governing wood-based panels and timber-frame design are two areas of greatest concern. Exporters to the EEC may find themselves at a competitive disadvantage, as EEC wood producers will no longer face internal barriers to EEC member trade. With such a tremendous potential market, the U.S. forest products industry must continue its trade policy and market development efforts in the EEC to maintain recent gains and establish ties which will last beyond 1992.

Japan, fearing that a unified market will upset global trade patterns, has been one of the most vocal watchdogs of the process, pressing the EEC to follow an open trade policy in accordance with the General Agreement on Tariffs and Trade (GATT). The Japanese business community, however, is taking a more direct route by investing heavily in, and in some cases purchasing, firms in EEC countries in hopes of guaranteeing future access to the market.

"Euro-panic" is the phrase coined among members of the European Free Trade Association (EFTA) (Austria, Finland, Iceland, Norway, Sweden, and Switzerland) who conduct almost 45 percent of their trade with EEC members and supply significant quantities of wood products. These countries are afraid of losing market share after trade barriers fall, facing--at the very least--an increase in bureaucratic red tape, and at the most, serious handicaps to competitiveness.

The United States is also upgrading its study of the situation by creating the Single International Market 1992 Information Service, a new office within the Department of Commerce's office of European Community Affairs.

Plant health issues are another major concern in Europe. Many of you are familiar with the oak wilt problem. For softwood producers, the pine nematode continues as a barrier to EEC markets. The European and Mediterranean Plant Protection Organization's (EPPO) ad hoc panel on the pinewood nematode organism (Bursaphelenchus xylophilus) recently recommended that European countries act to prevent the entry and spread of the nematode in Europe. EPPO advised member countries to prohibit importation of coniferous sawn wood, roundwood, and wood chips from countries where the nematode is known to exist, or to insist that such imports be bark free and treated in accordance with EPPO-recommended procedures.

The panel's report stated that roundwood, with its probability of carrying beetle larvae and pupae, was considered to be the most dangerous import as the nematode could easily spread to native forests. Debarking, although helpful, would not ensure beetles' absence. Wood chips were also seen as a major liability because of the ease with which they (the nematodes) could be transported to any part of the country. Sawn lumber was determined to present the least risk. The panel also expressed concern that the nematode could be transferred to native beetles as well.

In addition, the panel recommended that countries, especially those in Scandinavia, increase and coordinate their current nematode research programs. Southern European countries should increase scrutiny of their coniferous wood imports for the nematode.
Japan

To capitalize on potential gains in the Japanese market, the U.S. government engaged in Market Oriented Sector Selective (MOSS) talks with Japan in 1985. The success of these talks encouraged our industry to ask for a renewal of the talks, as provided for in the January 10, 1986, agreement.

The earlier MOSS talks produced some progress toward the elimination of barriers to trade in wood products, but our industry continues to face trade barriers which prevent us from taking advantage of further opportunities.

Although in principle the Japanese have agreed to a continuation of these talks at the insistence of USDA's Foreign Agricultural Service, a renewal of the MOSS talks has been stalled for nearly a year on both sides of the Pacific, leaving excellent opportunity to expand markets untapped. Some progress came at the April 1986 U.S. Japan Economic Subcabinet Meetings in Tokyo when the United States called for resumption of the MOSS talks, and the Japanese responded affirmatively. Additional talks of a similar nature will be held at the end of August, but to date the first actual MOSS meeting has not been held. Additional support from Congress could help FAS gain the leverage it needs to ensure the success of these talks.

Objectives in the continuation of the MOSS talks will concentrate on: first, the elimination of remaining tariff barriers to softwood plywood, veneer, laminated lumber, medium density fiberboard (MDF), unfinished and finished lumber, wood beadings and mouldings, OSB, waferboard, surface-worked softwood plywood, and T&G softwood plywood; and second, the elimination of a range of non-tariff barriers in the area of building codes, fire codes, allowed occupancies, standards, and so forth which prevent the use of U.S. products in timber-frame construction.

Korea

Korea is a market of huge potential to which we are now being denied access because of tariff and non-tariff barriers. Our government is continuing intensive trade negotiations with Korea, and the Office of the U.S. Trade Representative continues to include forest products as one of the three negotiating groups in the agricultural sector. We are hopeful that these talks will continue beyond tariffs to include the many non-tariff barriers preventing access for U.S. wood products.

Korea holds enormous potential. We estimate a $500 million dollar market by 1995 if the tariff and non-tariff barriers come down. The most onerous tariffs are those on lumber (15%); plywood, MDF, and other panel products (20%); and veneer (15%); especially in view of adverse discriminatory tariffs which favor South Sea sources.

Non-tariff barriers include:

- a suspected system by which the Korean government sets quotas on overall wood product imports and allocates the percentage of imports to go to each country, thereby limiting market access with artificially applied import ceilings;
- as of January 1988, the duty treatment of wood products continues to be discriminatory against U.S. products in favor of those of Southeast Asia;
- the Ministry of Construction controls the amount of foreign wood allowed into the country for construction;
- the government uses restrictive foreign exchange measures to control imports;
- the government controls financing for public housing which prohibits the use of wood;
- the government supports an import substitution policy favoring non-wood materials;
• The government restricts imports through the use of import licensing and quotas.

In spite of these non-tariff barriers, we believe that the necessary first step to opening the Korean markets is tariff reduction.

In anticipation of the bilateral trade talks in Washington on August 8-9, 1988, Korea announced a plan to reduce tariffs on 651 items, including forest products, over the next five years beginning with reductions effective July 1, 1988. This action appeared to be a trial balloon to test the U.S. response, and a pre-emptive strike just before the trade talks as a part of a Korean strategy to diffuse U.S. pressure on Korea to open its markets to U.S. goods and reduce its huge trade surplus with the United States, which in 1987 stood at $9.6 billion.

Although the reduction was seen by some as a move in the right direction, even after the July 1 action, tariffs on value-added products remained too high to bring about any real change in the market. The U.S. forest product industry wants greater reductions implemented much more quickly than the Koreans have proposed, with staged reductions to reach 0 percent on all products by 1990.

An unofficial report of the talks on August 8-9 indicates that Korean negotiators were unresponsive, and would not confirm any tariff reductions. This is an area where our industry could clearly use greater support in bilateral negotiations.

Third Country Barriers

The trading practices of third countries often affect the ability of U.S. exporters to compete in a market. I would like to illustrate one way that this can happen.

The plywood tariff in Japan is 10%, sufficiently high to restrict exports of U.S. softwood plywood to Japan, which last year reached only $3 million. The Japanese maintain this tariff to protect their domestic plywood industry from imports from Indonesia. Indonesia's wood panel manufacturers receive manufacturing and export subsidies, and thus are able to engage in dumping to capture a market.

This practice has already caused contraction in the Korean plywood industry from 7 billion square feet of production per year to around 3 billion square feet today, and so the same principle by which the Japanese justify their 10% tariff holds true for the 15% tariff in Korea as well.

The Japan Plywood Manufacturers Association (JPMA) is urging the Japanese government to take Indonesia before the General Agreement on Tariffs and Trade (GATT) council. JPMA claims that APKINDO, the Indonesian wood panel manufacturers association, enforces a system whereby Indonesian hardwood plywood manufacturers face a penalty of US$50 per cubic meter if they exceed set country export quotas. Manufacturers can avoid the penalty if they send 30 percent of their exports to a "new market" which has no quota. Since there is no quota for Japan, Indonesian companies are strongly motivated to export to that market.

This unfair competition from Indonesia's unfair trade practice results in high tariffs in other world markets, which obstructs access for U.S. products.

GATT Issues for Forest Products

In March 1988, NFPA's Committee for Trade Policy met with Ambassador Daniel Amstutz, the U.S. agricultural negotiator in the current GATT multilateral trade negotiations (MTN). We discussed how wood products will be treated in the GATT, and which government agency will take responsibility for wood products in trade negotiations.

The wood products industry will be best served in the GATT's agricultural trade negotiations because the strategy in these negotiations is to reduce all tariff and non-tariff barriers to zero, whereas the strategy in other negotiating groups will be on a request-offer basis targeting specific tariff and non-tariff barriers.

However, Amstutz warned that it is very possible that wood products will be separated out of the agricultural negotiations this year. If this happens, the wood products industry must provide a shopping list of our tariff and non-tariff concerns to the office of the United States Trade
Representative and other involved government agencies, primarily the Department of Commerce. It is also important that we have the necessary political support from Congress so the administration will insure that our concerns are addressed.

THE INDUSTRY’S PRINCIPLE FOR TRADE NEGOTIATIONS

I would like to describe the U.S. wood products industry policy and principles on multilateral and bilateral trade negotiations. These are important to achieve our industry’s objectives in reducing trade barriers not just for a few selected products, but for the full range of solid wood products, regardless of the incremental state of manufacture.

The U.S. wood products industry is deeply disturbed by the high tariffs and significant non-tariff barriers which face its products through-out the world. Tariffs are often the highest in some of the most developed countries, and because these tariffs are often so high for wood and processed wood products, they totally preclude the United States’ ability to compete. The industry believes its government should use all of its economic and negotiating clout to see that barriers to trade are eliminated.

The U.S. wood products industry believes that U.S. negotiators should take the following positions in trade negotiations.

1. That all major developed countries should have zero tariffs on all wood products, regardless of the level of processing.

2. That newly industrialized countries (NICs) shall agree to a near-term (less than 5 years) schedule to have zero tariffs on all wood products.

3. That all less developed countries (LDCs) that have competitive industries in any wood products sector shall follow the same format as the NICs in those wood products sectors.

4. That all other LDCs shall have no tariff on any wood product over 10%; that such tariffs shall be temporary and serve only to protect an industry for development purposes; and that in any case, LDCs shall phase out all tariffs over a maximum ten-year period.

5. That subsidies for forest products worldwide shall be eliminated.

6. That the principle of performance standards for structural panel products be accepted worldwide.

7. That there shall be no tariff differential between processed and unprocessed wood products.

8. That improved access to U.S. markets shall be granted without reciprocal treatment for U.S. wood products.

9. That access to U.S. markets, including that provided under the Generalized System of Preferences program, shall be used vigorously to improve access for U.S. wood and processed wood products in foreign markets.

10. That non-tariff barriers for forest products worldwide shall be eliminated.

The way to win is to come up with a strategy which puts the entire industry in a position to substantially expand exports by focusing on market access for all U.S. wood products.

I stress that a strategy focusing on market access for all solid wood products gives us the advantage of representing our industry with a national position, not regional or factionalized.
We could therefore expect political support from many areas of the country.

To be effective, a strategy must be based on a definitive documentation of trade barriers. It is of vital importance that studies be conducted that document trade barriers and give evidence about how they operate and that these studies be credible and reliable.

The case also needs to be made to Congress and the administration that we are not satisfied with business as usual, but believe that the time is right to make our industry a focal point in winning open access to Pacific Rim markets.

The object is to win. The way: a sound, broad-based policy, effective studies, a realistic strategy, and political and industry support. The only down side is if we don’t participate, and in the end don’t win at all.

Today we have a superb and unprecedented opportunity to make gains that benefit our industry and country. The opportunity is now. The Commerce Department has commenced a study of trade barriers in the Pacific Rim. This is a first step, if we miss this opportunity, it may be a long time before we get another as potentially beneficial to our industry as this one is, and we will give a signal to our government that we don’t care.

RECOMMENDATIONS

I would like to suggest several areas where the administration, prompted by strong political support from Congress, can dramatically change the climate in foreign countries to the advantage of U.S. exporters. Specifically, we need support from Congress:

- to ensure that language in the recently passed trade bill making all solid wood products eligible for the full range of USDA export financing, including GSM-102, GSM-103, and P.L.-480, is implemented by the administration, which heretofore has opposed the use of these programs for some or all wood products.

- for USDA Foreign Agricultural Service programs. The FAS provides excellent programs, but has not received sufficient funding to realize fully the potential of these programs.

- for Targeted Export Assistance funding at the $325 million level mandated by the Food Security Act of 1985. Recent attempts to cap this program at $110 million will seriously thwart the wood products industry’s overseas promotion programs.

- for the wood products industry in bilateral and multilateral GATT trade negotiations. Even if sufficient evidence is accumulated to document trade barriers, it will be of no use if it is not used.

- for a continuation of the MOSS talks with Japan, which are vital if our industry is to make further gains for wood exports to that market.

- for government efforts to document trade barriers to solid wood products. In this regard, the Commerce Department’s International Trade Administration Study of Trade Barriers in the Pacific Rim is of vital importance to our industry. It is projects such as this that will allow our industry to fulfill our competitive potential.

Trade barrier reduction gives our industry an opportunity to help protect itself against a domestic downturn by expanding international markets. The industry projects only moderate growth of domestic markets in contrast to significant growth of markets offshore. The industry’s resource base, productivity, and competitiveness give it the capacity to successfully take advantage of overseas markets of opportunity, thereby enhancing correction of the U.S. trade deficits, and bolstering the competitiveness of domestic industries.

The United States is increasing its exports of wood products by being the world’s low-cost
producer. A combination of high productivity and comparatively low manufacturing costs means that U.S. sawn and semi-processed products are extremely competitive on the world market. The U.S. industry has the competitive edge to take advantage of any export opportunities created by government efforts to negotiate the removal of trade barriers.
THE JOINT INDUSTRY/GOVERNMENT FOREIGN MARKET DEVELOPMENT PROGRAM FOR U.S. SOLID WOOD PRODUCTS

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Abstract. Larger export markets will help keep the U.S. forest products industry healthy. The industry needs a broad array of markets around the world with different business cycles to reduce sharp fluctuations in production and prices. The nation needs strong export markets to keep employment up and to reduce the trade deficit.

Several years ago, the Foreign Agricultural Service (FAS), USDA, the National Forest Products Association (NFPA), and major product associations collectively initiated a major foreign promotion effort to expand overseas markets for solid wood products. All segments of the solid wood industry participate. The primary thrust of the program is to expand overseas demand long-term by resolving market access problems, and providing technical and trade servicing in selected foreign markets. Industry associations take the lead in planning and conducting program activities. A small unit within FAS works closely with industry associations to help keep the program running smoothly. Also, FAS provides trade data, market information, trade policy support on tariff and nontariff issues and considerable export credit financing for shipments to specific countries.

INTRODUCTION

Good morning. It is my pleasure to present an overview of the industry’s Market Development Plan for fiscal year 1988 and show how industry associations are spending their time and money to expand overseas markets. Government export credit programs and trade policy work has been discussed by other speakers. First, I will briefly discuss the background of the partnership between the USDA Foreign Agricultural Service (FAS) and the wood industry—represented by the National Forest Products Association (NFPA)—in conducting an overseas market development program.

HISTORY OF FAS/NFPA PROGRAMS

Throughout most of its 35-year history, FAS has been involved with farm product export promotion. In 1979, encouraged by the forest products industry's growing interest in exports, the Foreign Agricultural Service and the National Forest Products Association joined forces to initiate an overseas market development program for U.S. wood products.

FAS set up a Forest Products staff in 1982 to handle the expanding program of the U.S. wood products sector, the first new commodity group within the agency in nearly 30 years. In 1984, FAS established the Forest Products Division, one of seven commodity divisions at FAS. Forest products is the only single agricultural commodity to have its own division.

The FAS/NFPA partnership has worked since 1980 to plan and administer the market development program, decrease trade barriers to U.S. wood products, provide export financing
assistance for U.S. wood exporters, and build an international market intelligence system working with the FAS overseas network.

FAS funding for the industry’s first market development program in 1980 was $6,500. In FY 1988, government funding totaled $2.5 million.

Since 1980, the market development program has gone from one industry association and one market sector to 18 industry associations representing all regions of the country and the bulk of the industry’s production capacity, a remarkable achievement in a very short time.

The increase in government funds since 1980 has been more than matched by industry funds. This program has clearly become vital to the industry by providing funding for overseas promotion activities beyond that which could be provided by the industry. We will now take a closer look at the FY 1988 market development plan and how FAS funds are broken down by sector and by region.

The Market Development Plan

Total FAS funds for FY 1988 by sector illustrates how the funding is divided between panel products, Southern and Western softwood lumber, hardwoods, and the National Plan. About 33 percent of the plan is devoted to softwood lumber and 37 percent to panels, for a total of 70 percent representing a major effort to open up and expand markets for U.S. structural wood products overseas. The programs of the softwood products associations compliment each other and the associations plan and work together to promote softwood products overseas.

The next series of slides break out each sector of the plan and show the level of FAS funding committed to regions. This should give you a good idea of the areas of concentration, by products sector.

The panel products section of the marketing plan, as run by the American Plywood Association (APA), is heavily concentrated in Europe. APA has three offices in Europe (Germany, Belgium, United Kingdom) and will have a new representative in Spain beginning this year. It also shares the cost of a representative in the Dominican Republic with the Southern Forest Products Association (SFPA). APA’s program in Asia is complimented by a strong Targeted Export Assistance program (TEA) discussed later, which balances their emphasis as we will see.

The Western Softwood Lumber Plan, run by the Western Wood Products Association (WWPA), is strongly committed to the Asia/Pacific Rim region. WWPA has an office in Asia but also shares the cost of a representative in the United Kingdom with SFPA. WWPA will be hiring a new representative in Italy, covering the Mediterranean region this year along with SFPA.

The Southern Softwood Lumber Plan, administered by SFPA, is fairly evenly split between the Caribbean and South America and Europe. SFPA maintains an office in both the areas and will share the cost of a representative in Italy.

The hardwood products sector of the marketing plan is administered by the Hardwood Export Trade Council (HETC). HETC has two overseas offices, one in Tokyo and the other in London. Hardwood program funds are divided about equally between Asia and Europe.

The National Plan is administered by NFPA and charged with opening new markets for U.S. forest products by working on reducing tariff, nontariff, and technical barriers to trade, and by providing generic education about U.S. wood products overseas. The National Plan covers most areas of the world with particular emphasis on new markets in countries such as China and Korea.

The following slide breaks down the entire FAS plan by region. Europe is the region where the majority of our funds are used, maintaining and expanding some of our best markets for structural and hardwood products.

A Success Story

The next series of slides shows our industry’s success story in market development. It illustrates the relationship between market development funding levels by year to exports by year. As you all know, 1987 was a banner year for exports. It must be recognized that our industry’s
sustained market development effort has made a significant impact on these export figures, helping to turn around a declining trend in U.S. exports.

The success story of increased U.S. exports speaks for itself, but when you compare the export trend with the growth of our market development funding, you will see the connection. Exports were on a downward trend in the early 80's, just as our market development program began. There is a positive connection between U.S. forest products exports and market development funds for the period of 1979 through 1987.

Breaking out the success story by region, we see that in Europe exports made a major rebound. FAS funds are shown in millions, and exports in 100 millions of dollars. The positive relationship between program funding and U.S. exports looks similar for the Asia/Pacific region and the Caribbean/Latin American region.

The Middle East/Africa export history shows a major drop in U.S. exports which we have not yet fully recovered. Even in this example, the figures are beginning to reverse themselves. Increased effort is needed in this region.

Looking at export figures by product, as compared to FAS funding, we again see a relationship between the industry and government commitment to market development and expanded exports.

U.S. hardwood product exports have experienced huge gains in 1986 and 1987 and while it is a little difficult to see on this graph, funding levels have been growing.

NEW PROGRAMS

Nothing is certain in this world—certainly nothing subject to the vagaries of the federal funding process. Nevertheless, the future of the market development program looks relatively secure. In addition, we are making use of another program.

The Targeted Export Assistance program is a new and expanding FAS program for overseas promotion. The TEA program is administered by FAS and operated in much the same way as the Market Development Program. The main difference is TEA projects are directed toward markets where unfair trade practices are proven to exist.

The APA Summit House was the first project carried out under the TEA program and APA has taken the lead in using TEA to promote U.S. wood products. The next several slides show you TEA projects currently approved by FAS, broken down by product and location. Notice the fairly even distribution between Europe and Asia. TEA funds committed through 1989 total over 5.2 million dollars.

With Congressional approval, funding levels in this program could expand significantly in the next several years with major opportunities for the forest products industry to gain additional funding for its overseas market development effort.

APA plans to continue to use this new government resource to expand its markets. The HETC will be taking advantage of the promotion opportunities under TEA to more thoroughly promote its product.

SFPA has submitted a proposal for the Dominican Republic this year, and NFPA has submitted a TEA proposal for the Tsinghua Demonstration Building in China.

These are all proposals which have been submitted to FAS this year. Funding will commence in 1989 for those approved.

CONCLUSION

The industry has over 7.8 million dollars available to it today to promote wood exports overseas. The past record of market development successes and the turn around in export performance in the past few years should be encouragement enough for us to continue to commit our resources to getting the message out to the world about U.S. forest products. The leadership and support of the Forest Products Division at FAS for the total overseas market development program must inspire the industry to expand its commitment.
The success of our joint effort is clear. Calendar year 1987 exports reached a record level of $4 billion. Thus far this year, exports of most products are running 10 to 20 percent above last year. Clearly, 1988 will be another record—by a substantial amount.
Current TEA Projects

American Plywood Association
Summit House in Japan $2,100,000
Quality Home Lane in the U.K. 653,000
Mediterranean Project 1,200,000
Argentina Project 612,000

Hardwood Export Trade Council
Summit House in Japan 320,000
Quality Home Lane in the U.K. 395,000
Total TEA Funds Currently Committed Through 1989 $5,280,000
Future Plans

American Plywood Association

- Expansion of United Kingdom - Docklands Project
- Urban Redevelopment - Netherlands
- Expo 92 - Spain
- Advertising Program in Europe

Hardwood Export Trade Council

- Expansion of United Kingdom Program
- Expansion of Japanese Program
- European Promotion
- Pacific Rim Promotion
- Middle East Promotion
Future Plans (cont.)

Southern Forest Products Association
- Dominican Republic

National Forest Products Association
- China
FOREIGN TRADE - HOW IN THE WORLD?

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Abstract. Factors involved in forming and operating an export trading company dealing in wood products are discussed. Business assumptions underlying the venture and essential steps in planning and implementing such a cooperative effort are presented. The vital nature of outside support is explained. Plans and experiences of an actual group involved in forming a trading company are drawn upon.

INTRODUCTION

We've got a problem—a big one! Yep, we're up agin' it! Deficit foreign trade, that's the name of the varmint. Competitive imports escalate while export trade conditions deteriorate. World softwood lumber competition intensifies and economic conditions pose a major challenge for Southern wood product exporters. Last year, our country's exports were worth $170 billion dollars less than our imports. And, that's just the latest bad news in an unhappy trend.

The need is to find and initiate ways to profitably expand export sales of forest products from the South. The mission boils down to setting targets, designing a program strategy and model, building an industry base of support, launching the effort, and energetically seeing it through. Who's to do it?

A few farsighted Southern wood manufacturers seem to have found one answer. They've decided, as the old sage advised, "to light a candle instead of cursing the darkness." This is their story.

Background

Florida's Commissioner of Agriculture, Doyle Conner, set a project in motion some months ago to help Florida's forest industry increase overseas sales. The result is a neophyte wood products trading company called "The Olde South Traders, Inc." Charter members of the Traders are several of the South's leading lumber and roundwood manufacturers. These farsighted businessmen have a notion that they can do jointly what's beyond the reach of all but a few giant corporations to do individually. In this case, doing involves the initiation and expansion of overseas sales of Southern wood products through a trading cooperative. It's a complex, ambitious, and exciting undertaking, the type of business initiative that can favorably affect the international trade problem, and at the same time, tuck away a nice profit in the company strongbox.

Basic Assumptions

For openers, the Olde South Traders made a few basic assumptions. First, the bottom line is to profitably increase sales—make no mistake about that. Also, the export marketing of manufactured forest products is to be emphasized over the exporting of raw materials. A solid base for concerted action is essential, and a well-planned, vigorous marketing effort must follow. Foreign commerce is complex; mistakes are costly. Homework has to be done; preparation is crucial.
A sound cooperative program must rest upon strong management, thorough analysis, effective promotion, vigorous pursuit of sales, and reliable service to customers. On-the-ground representatives to cultivate and ably service customers are vital, especially to establish, hold, and develop new contacts. Product improvement must be on-going, and attractive packaging has to be guaranteed. Finally, a major foreign marketing effort, properly done, is costly. This is especially true when a program is being generated from scratch, is being done on behalf of a major statewide industry, and has the potential to become regional in scope. Considerable initial investments are involved. Industry must stay the course in good times and bad. There is very limited payoff for one-shot deals. Unless they’re consistent and reliable, they’ll never hold foreign markets. And, most of all, genuine cooperation among members of the cooperative must become second nature. The challenge is great, but so is the payoff.

Current Status

With these essentials well in mind, the hard work of launching the company is underway. The pioneer members are establishing guidelines, setting operational directions, arranging for management, and providing for customer sales and services. Leaders are being selected, and the policies and directions by which they will operate are being worked out. Equitable ways of allotting foreign sales opportunities among Olde South members are being agreed upon. Certification from the U.S. Departments of Commerce and Justice to provide a measure of anti-trust immunity for export operations has been arranged.

Any sales initiatives rest heavily upon the quality of the product, so product quality and packaging are concerns. Hard work to improve both product and packaging is essential. Southern yellow pine has certain quality features to build upon. It’s strong, durable, readily treatable, and has good nail-holding characteristics. And, there is a large, renewable supply of pine raw material. All of these features together open up a wide range for creative improvement.

Long-term buyers of Southern wood products are being located and developed in targeted countries. The trading company’s initiative is based upon the development of a continuing producer-customer relationship. Promotional materials and programs will be developed. Trade missions to find and pursue sales opportunities will be undertaken. Mill visits for selected foreign buyers and government officials will showcase the products, facilities, and personnel of the group.

Governmental emphasis and leadership must be strong, consistent, and enduring. The State must be the conscience, caring about the problem of trade imbalance and spotlighting the need for action and cooperation. Often, state officials can provide the catalyst—getting useful action started, orchestrating the effort and keeping it going. State officials are well-positioned to facilitate the effort by building strong government-to-government trade rapport with target countries and by introducing the Traders to foreign buyers.

The Traders are well aware that such outside support is vital if their fledgling company is to prosper. And they’ve become painfully aware of some troublesome realities which continue to frustrate companies attempting to get into export trade. Although considerable encouragement and interest are evident from the banking community, obtaining tangible financial support under attractive terms still poses a major difficulty. And, the need for legislative change to facilitate export trade remains. Probably most crucial is the need simply to find individuals within the public service community who’ll roll up their sleeves and join in facing and overcoming the difficulties in creating an export trading company.

Prospects

Once underway, operations of the Olde South Traders will involve close tracking and re-direction, as needed, to ensure long-term growth and effectiveness. Anticipating developments and staying ahead of events are crucial. To be successful, the company must grow and expand. Other high-quality wood producers must be recruited, companies whose track records mark them as leaders in the industry.
Results in terms of export business actually generated will be recorded soon and, assuming the program is well-carried out, results will significantly increase year by year. The Traders should consider setting annual project growth milestones based upon net revenues generated as a percent of project investments. They should also prepare a schedule of expectations for the first several years of project activities. Having clear goals and a sound procedure for tracking results in tangible terms are important and should be assured.

SUMMARY

That’s the story, chapter one, of the Olde South Traders. It says that a cooperative, industry-based initiative is the only game in town. So far, nearly a dozen of the South’s top lumber and roundwood manufacturers believe that to be the case. To these pioneers, the idea of an overseas trading company makes sense—dollars and cents. Following an initial huddle last February, when the traders first considered the matter, they’ve worked hard to build upon that idea. Problems are being discussed and solved, agreements are being reached, enthusiasm is growing, and the exciting work of creating and launching a major business enterprise is underway. Our economy is changing. The world is getting smaller. In a fast developing world economy, a strong position in export sales is increasingly important. The solid business position for tomorrow will involve a good mix of domestic and export sales.

CONCLUSIONS

Company officials should find such joint ventures to their liking because:

1. They offer a proven way to amplify political and economic influence through cooperative effort.
2. They provide a realistic way to gain greater sales payoff from a relatively small individual investment.
3. They provide an aggressive marketing team to companies not large enough to otherwise afford one.
4. They offer a forum for the collection and exchange of useful marketing information.
5. They provide a basis for planning and conducting essential training in a complex yet potentially profitable activity.
6. They provide an excellent opportunity to capitalize on market development and product promotion work being done by other organizations.
7. They create a way of giving firms and products strong representation at trade shows and on trade missions.
8. They provide a reliable way of bringing producers into export marketing.
9. They provide a marketing initiative in which results are trackable, enabling consortium members to assess and redirect or terminate the effort at any time.
10. They give the industry, to which the fortune of each company or individual is largely tied, a marketing shot in the arm.
11. They provide all of the above benefits for a relatively small individual investment and offer the benefits of joint action without impairing the right and opportunity for member individuality.

Government officials should find such projects attractive because:

1. They aim at strengthening a major statewide industry and yielding employment and revenue benefits.

2. When well-done, they have a favorable effect on the balance of trade.

3. They provide a way in which the state might anticipate the future and take a progressive step forward in world marketing.

4. They are implemented through the industry to be assisted—they are largely self-help efforts.

5. They require effective government-to-government contact. Government officials have a vital role to play in partnership with industry personnel.

The success of any program to stimulate export marketing of wood products will primarily depend upon four factors.

1. The degree to which world trade conditions favor U.S. exporters.

2. The extent to which financial means to pursue the effort is made available.

3. The extent to which the effort is wisely planned, directed, and tracked.

4. The extent to which the consortium members work hard and cooperate.

The methods and strategies of effective marketing are known and have been well-demonstrated and documented. The key is in securing adequate resources to mount such an effort and, once financed, in doing the job well.

So, what’s it to be—light candles or curse the darkness? An increasing number of the South’s growth-minded forest products executives are reaching for the candles and matches.
THE WOOD PRODUCTS MARKETING COOPERATIVE, INC.

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Abstract. The origin of the Wood Products Marketing Cooperative, Inc. is discussed. The traditional competition between lumber firms made the formation of a cooperative difficult, but the effort finally paid off. After many meetings and disagreements, the cooperative was formed and is now in operation. The paper discusses details of the organization and operation of the cooperative.

ORGANIZING PROBLEMS

I'm going to tell you about our Wood Products Marketing Cooperative, Inc. It began about five years ago when TVA, the state of Mississippi, the state of Alabama, and several regional industrial development boards decided to have an export seminar for all government people, state people, federal people, and lumber manufacturers in our area in a town called Tupelo, Mississippi. At that meeting one brave person from the TVA got with another brave person from Mississippi, and they decided to take 25 lumber manufacturers from Mississippi and Alabama into a room and shut the door and say, "Can you all come out of that room together?"

Now folks, I don't know how it is in government, but in lumber we compete every day against each other, we fight like cats and dogs even with our best friends. We look across the table and say, "I can sell my lumber better than you can." In itself, to have 25 lumber people in that room trying to get together to do anything as a group was the beginning of something that a lot of people never believed could happen. But, five years later I am very proud to say that we have a successful operation in a little bitty town called Pickensville, Alabama, on the Ten-Tom Waterway.

At this point, I express my sincere thanks to the state of Alabama, their industrial development board, the state of Mississippi people who were instrumental from the beginning, TVA who was the father of the whole deal, and the Appalachian Regional Commission. I say this for one reason: You see, it took all those folks in government to get all those folks in the lumber business to sit down together and do something that was beneficial for everybody concerned. That is what we are about today, I feel, in this meeting.

What we are about is trying to find a way for you to go home, as Don said, and do something. I challenge each one of you to go to your home towns throughout the southeastern United States and ask a lumber manufacturer, ask a paper mill, ask somebody in the wood products business, "Are you exporting? Do you want to export? Do you want some help?" If there's interest and help is wanted, each of you possesses enough information to lead them in the proper direction. If we are going to be successful in the wood products industry, we have got to get our products out of the United States of America. We have got to get them overseas. We have got to sell ourselves. I am going to get out of the pulpit now, quit preaching, and tell you something about our co-op.

Out of that meeting of about 25 people, we progressed for over a year, meeting and meeting and meeting and beating heads. And, as Don said, when it was over with, it was time to put the money up. And when it got time to put the money up, 10 people laid their money on the
Basically, what we had to start off with was five mills in Mississippi and five mills in Alabama that went together and formed a co-op that is called Wood Products Marketing Co-op. We formed under the laws of the state of Alabama as an agricultural co-op. We wrestled with an export trading company, we wrestled with several different ways to go about what we were trying to do. We did this in cooperation with a TVA staff that worked with us full-time for over a year.

We started out with 25 companies and when it was over, we had 10. When the group got down to about 14 or 15, it got crucial because some could not meet the criteria that the co-op had to have in order to export the products. It is very difficult to decide who is going to get in and who gets out. You see, the whole idea about a wood products marketing co-op is to grow, is to get more people. We stayed for nearly two and a half years with 10 members. I am proud to say that with our growth we have brought three additional members into our co-op, and we hope to bring in an additional two to three in the next six months.

OBJECTIVE

Our objective is to attract the small businessman who doesn’t have a chance to export, who doesn’t have the staff, who doesn’t have the financial capabilities or the expertise in the foreign markets to export lumber. We are very proud to say that there are two members of our co-op who never exported a stick of lumber in their lives, who now, after a few years of operation, are our export leaders.

On the Ten-Tom Waterway, we built a warehouse facility, a dock facility to load barges, and we have just completed, in the last six months, a wood chip handling system which consists of a truck dump that will pick up the entire truck and trailer to dump its load onto conveyors that fill barges with wood chips.

This was in the master plan that we put together. We were looking at a two-prong approach. Number 1, we were trying to penetrate the export market with lumber that our mills produced and 2) with wood chips, getting rid of which is a consistent problem with sawmills in our region. As growth in the United States continues on a day-to-day basis, mills are producing 10 to 12 percent more than they did last year. You know, that extra 10 or 12 percent has to go somewhere and that’s the problem that we approached. If we were to move forward, we had to export these two products overseas.

We ran into more problems than I really care to remember. But, the people that we have in our organization, I am very proud to say, have tenacity. I tell you they stuck with it when it was difficult to come together as a group, think as a group, and progress as a group.

NUTS AND BOLTS OF OPERATION

Now, I’ll get down to the nuts and bolts so that you can understand what I’m talking about. We put this co-op together to export lumber. Well, there’s a problem. Let’s say that a German company calls up and wants five containers of FAS white oak. We have 5 pine mills and 5 hardwood mills. Well, you know each individual mill has its own customer base to take care of, but we now have an order for 5 containers of white oak to ship to Europe, and it has to be filled from somewhere within the co-op. Who gets the order or how do we divide it? Well, each individual mill must decide how much it will commit to export over a year’s time and that member is obligated to perform to the level it has committed itself. So, the German order could be handled by a member capable of handling it within its export commitment, or the order could be shared by 2 or more hardwood mills. However, by late April of this year, the co-op, within its own membership, was unable to fill the hardwood orders that we had for the Pacific Rim and for Europe. So, we stepped outside of the co-op and started bringing outside mills in and buying their lumber. That is something that you always have to keep in mind: as a co-op progresses in business, it brings other people on board. We feel like our organization is helping other mills in Mississippi and Alabama get into the export market.

You see, it’s so hard for John Doe who runs a little hardwood mill or pine mill to tackle an order going to Europe. Logistics in the export business is unbelievable. We at Belcher Lumber
Co. continue to export everyday. We’ve been in business since 1906. We’re a fairly good-sized firm, but our export either goes through our co-op or through export trading companies that exist here in the United States right now. Because, ladies and gentlemen, you don’t realize the detail that it takes to get something as simple as a truck load of white oak to Taiwan.

Here’s how we go about doing it: The member mills bring the product into the warehouse facility that we have on the dock. Do we load it on a barge and ship it down to Mobile? No. We load it in a container which we truck to Birmingham. We put it on a railroad car in Birmingham and ship it to Savannah, GA. We then take it off the rail head, put it in a ship, and it goes to Taiwan.

So you see, when we get involved in exporting, it touches a lot of people, a lot of states. At that time the real purpose of the co-op comes into play because then we have an organization that can provide the freight forwarder, the quality control inspector, the man who handles the railroad, the man who handles the container, the man who gets it to Taiwan, and the man who collects on the letters of credit and makes sure the documentation is right. Those are things that we individual member mills don’t have the capacity to do, but our co-op and our organization gives us those things that are needed to make that penetration into the foreign market.

It gets very detailed.

For example, we are working on an order for Taiwan right now. I’m from Alabama and I want to use Alabama state docks, but the delivered price in Taiwan is going to determine what we can and cannot do. So, we’re negotiating the movement of white oak and red oak lumber to Taiwan, Japan, and the Peoples Republic of China by loading it in a container at our Pickensville operation, trucking the container to Birmingham and putting it on a rail car and railfreighting it all the way to the Pacific coast. But, once again, if we land it in Taiwan or Japan or the Peoples Republic at the level that we make a profit, we have to go the best way we can.

There are so many things that get involved in the actual movement of a product that many people in the lumber industry keep out of exporting. For example, there is the fear that a $12,000 container-load of lumber arrives in Hamburg, and the customer says he doesn’t want it because the quality isn’t right. You’ve got $1500 freight over there and $1500 back and you’re sitting there saying, “What in the world am I going to do?” That fear alone keeps a lot of small operators out of the export market.

Our co-op, through the way it operates, takes that fear away because we have quality control within our organization. When we buy outside of the co-op, we send our people out to inspect the lumber prior to its departure. We’re proud to say that in 3-1/2 years of existence, we’ve had 2 claims. And I’m very proud of that and even prouder to say that the 2 claims that we had were not on our co-op members but on outside suppliers.

Those are things that are encountered in the formation and operation of a co-op. But for a small operator who wants to get into the export business, that’s the way to go because he teams with others of like production and moves forward.

I’ve told you that we’ve recently installed a chip unloading system. It works this way: We sell our hardwood chips to the Pacific Rim. We have each one of our member mills bring their hardwood chips to our facility at Pickensville. We load a barge, the tugboat comes along, floats the barge down to Mobile and straight out to the Bay; the chips are pulled out of the barge right straight into the big ships that go across the big pond.

Recently, a tug boat pushed out six barges that we had loaded over a couple of days at Pickensville. Those six barges going to Mobile represented 240 truck loads of wood chips. A small to average sawmill will make four to five truck loads of chips a day. So, there is no way it can come up with the kind of chip volume to get into the export market. But, through the co-op, through the joining of our 13 mills, we can tackle an order like that. The domestic price of chips and the export price of chips and the movement of both of them has taken some of the strain off the domestic side. The paper mills can only buy so many chips and when the sawmills are producing more and more chips every day and getting more efficient, other markets must be found to make them cost effective. Export of chips is an answer for our co-op members.

But, we had to be patient. We worked on this chip deal three and a half years. Three and a half years of beating our heads against the wall and being turned down and being told about those barriers that the previous speakers told us about. But, those barriers can come down; they did for us because we kept pushing. Just in the last 15 days we’ve moved about 42 barges
of chips down the Ten-Tom Waterway to Mobile; because of our being able to do this, we are now negotiating a contract that will last 10 years. When we have that 10-year contract, we have a chance to have some mills within our co-op grow, and we have a chance to bring more mills on board. And that is what the governmental help that we got is all about. What we heard preached from day one is: Let’s get more jobs, let’s get more people on board, let’s do some expanding.

Also, because of the movement of our container wood to both the Pacific Rim and Europe, we stand a chance in the next six months of landing a five-year contract for hardwood. Price, of course, will fluctuate during that time period; but, more than anything else, we have a chance to make a good, firm commitment. When we have commitments like that, we can go back to our members and say that if they do want to make an expansion this year, they can do it.

MARKETING IS THE KEY

If you want to export, you have got to go to the market. Through the SLMA last year, we conducted a seven-day Caribbean cruise. I am getting off the subject a little bit here, but I went on that trade mission representing both Belcher Lumber Company and the co-op. When we got down there, the Ambassador to Jamaica met with me and the other members of the trade mission. We had a very good visit. He was impressed by the fact that we are competitive in the market, so we let them know that we are still the best in the world. That is what the co-op is all about for us. It has been a joy to be associated with it.

If there is any time that I can help any organization in any state, if I can come to you and explain any of the things that it took to get our co-op together, I will be more than happy to do so.

ANSWERS TO QUESTIONS

The question is, “What type of co-op are we and do we pay taxes?”

The co-op is a non-profit agricultural organization authorized by the laws of the state of Alabama. Any profit that is made goes back in the form of higher prices paid to co-op members for producing the products sold. So, what we are trying to do is generate profits for the members of the co-op, not for the co-op itself. The co-op is non-profit.

A second, inaudible question concerning status of members with respect to anti-trust laws in determining prices of products sold through the co-op:

Through TVA we were informed that as long as we operate as an agricultural co-op under the laws, we are able to work together and establish the prices that the co-op is going to sell its members’ products for. We wrestled with that because it’s tough to get 10 or 13 sawmill operators to sell particular products for.

You know, we learned a valuable lesson after we got into this thing; we worried about anti-trust and the legality of group pricing. But, we learned that we don’t establish the price. The lumber industry is so competitive that the people we are selling to establish prices; whether we can meet the buyer’s price is what the members must decide. I used to think that we can all get together and say we are going to sell all our products at $700 a thousand. It doesn’t work that way. There is so much production out there that we can’t establish the price. The market that we are going to sell to will establish what we can land our products at. That is just an added note so that you won’t think that a bunch of lumber guys can get together and fix their prices.
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