



WORLD
TRADE
IN
FOREST
PRODUCTS
2

EDITED BY

GERARD F. SCHREUDER

WORLD TRADE IN FOREST PRODUCTS 2

Edited by Gerard F. Schreuder



UNIVERSITY OF WASHINGTON PRESS
Seattle and London

Copyright © 1986 by the University of Washington Press
Printed in the United States of America

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage or retrieval system, without permission in writing from the publisher.

The following article was written and prepared by a U.S. government employee on official time, and is therefore in the public domain:

"The International Tropical Timber Agreement: What Difference Will It Make?" by Gilbert Donahue.

Library of Congress Cataloging in Publication Data

International Symposium on World Trade in Forest
Products (1983 : University of Washington)
World trade in forest products.

(Institute of Forest Resources contribution ; no. 48)
(The Geo. S. Long publication series)

"Proceedings of the International Symposium on
World Trade in Forest Products, held at the University
of Washington, March 22-25, 1983 ... and sponsored
by the University of Washington College of Forest
Resources and the Geo. S. Long Fund"--T.p. verso.

Vol. 2 edited by Gerard F. Schreuder.

Includes bibliographies and index.

1. Lumber trade--Congresses. 2. Forest products
industry--Congresses. I. Bethel, James Samuel.
II. Schreuder, Gerard F. III. University of Washington.
College of Forest Resources. IV. Title. V. Series:
Contribution (University of Washington. Institute of
Forest Resources) ; no. 48.

HD9750.5.I55 1983 382'.41498 83-17012

ISBN 0-295-96078-7

ISBN 0-295-96337-9 (v. 2)

Preface

On April 23, 1985 Governor Booth Gardner of Washington State signed legislation that authorized on a permanent basis the Center for International Trade in Forest Products at the University of Washington. The mandate for CINTRAFOR is broad and includes responsibilities for research and analysis, graduate education, data and model bases, and the dissemination of information on the complex subject of international trade in wood and wood fiber products. This second international symposium is a contribution of CINTRAFOR.

Prior to the official establishment of CINTRAFOR, Professor Robert J. Seidl of the College of Forest Resources, University of Washington, served as interim director of the provisional Center for International Trade in Forest Products. On May 1, 1985, Professor Thomas R. Waggener, also of the College of Forest Resources, was appointed director of CINTRAFOR.

Headquarters are at the College of Forest Resources, but support for the Center and this symposium is the result of cooperative arrangements with the School of Business Administration, the Jackson School of International Studies, the School of Law, and the Department of Economics. External financial support is provided by the U.S. Forest Service Pacific Northwest Forest and Range Experiment Station, the Washington State Department of Trade and Economic Development, and private sector participants with interests in international trade in wood products.

The symposium had several goals: (1) to foster an exchange of ideas and stimulate creative responses to important trade issues and opportunities, (2) to help develop and facilitate stronger relations and improved understanding between private and public interests, (3) to provide a forum for an international exchange of views between participants from different nations, (4) to develop an agenda of significant issues that need to be addressed in an objective and open manner through research and policy analysis, and (5) to provide supporting resources in a creative climate at the University of Washington to encourage an exchange of views, productive discussion, and debate.

David B. Thorud
Dean, College of Forest Resources

June 29, 1985

Contents

Preface	xi
I: IMPORTANT MARKETS: JAPAN, CHINA, AND OTHERS	
World Trade in Forest Products ROBERT J. SEIDL	3
Developing Countries as Markets for Forest Products JAMES S. BETHEL AND ADELINA Y. TSENG	11
The China Market for Forest Products from the American Perspective DAVID D. LELAND	48
Forestry and Forest Product Developments in the PRC: A Chinese Perspective YUAN HAIYING	54
Demand and Supply Outlook of Forest Products in Japan ISAMU NOMURA	57
Meeting Japanese Product Requirements: Observations from a Management Perspective DAVID D. BASKERVILLE	75
Outlook for Wood Chips in Japan YOSHI AMARI	98
The Japanese Market as Viewed from Oceania ROBERT T. FENTON	111
II: IMPORTANT PRODUCING COUNTRIES: U.S.S.R. AND INDONESIA	
The U.S.S.R. as a Supplier and Competitor of North American Forest Products JAN J. SOLECKI	131
Changing Trends in British-Soviet Trade GRAHAM BULKELEY	157

viii CONTENTS

Indonesia as an Exporter and Importer of Forest Products GERARD F. SCHREUDER AND RICHARD P. VLOSKY	168
Indonesia as a Plywood Exporter KARSUDJONO SINDUREDJO	191
Indonesia as a Lumber Exporter MAX MEULENHOF	197
The Trade and Investment Opportunities of the Forestry Sector in East Kalimantan SOETARSO PRIASUKMANA	207

III: TRADE POLICY ISSUES

U.S. Trade Policy, Japanese Trade Barriers, and Canadian Lumber Imports WILLIAM J. LANGE	227
Trade Policy Issues for the Paper Industry IRENE W. MEISTER	230
The International Tropical Timber Agreement: What Difference Will It Make? GILBERT DONAHUE	242
An Overview of Canadian Forest and Wood Products Trade D. E. KETCHESON	248
Trade Policy Issues in Fiber Products: A Canadian Perspective T. M. APSEY	259
Statistics on Forest Products Trade: Are They Believable? PATRICK B. DURST, C. DENISE INGRAM, AND JAN G. LAARMAN	265
Spatial Equilibrium Modeling for Analysis of World Trade in Forest Products DENNIS DYKSTRA, MARKKU KALLIO, AND GÁBOR KORNAI	274

IV: TRANSPORTATION, LEGAL, AND FINANCIAL ISSUES

Transportation Strategies for Trade in Forest Products RICHARD D. FORD	293
---	-----

Analysis of Port Capacity to Handle Wood and Wood Fiber Products JOHN G. BELFORD	300
Financial Issues in Trade of Forest Products KENNETH W. ROSENBERG	311
U.S. Domestic Transportation Law and World Trade in Forest Products LOUIS A. HARRIS	316
Maritime Law and the World Trade in Forest Products ANNE E. MICKEY	329
Contributors	345
Index	347

Part I

IMPORTANT MARKETS: JAPAN, CHINA, AND OTHERS

WORLD TRADE IN FOREST PRODUCTS

Robert J. Seidl

It is entirely appropriate that this symposium should be sponsored by the University of Washington, and specifically by its new Center for International Trade in Forest Products (CINTRAFOR). This university has a long and distinguished record in the disciplines associated with forestry, and its studies had considerable international flavor long before the recent emphasis and publishing on world trade in the scope viewed today.

CINTRAFOR resides in the College of Forest Resources at the University of Washington, but it operates in cooperation with the Schools of Law and Business Administration, and the Jackson School of International Studies. Its basic support comes from the state of Washington, with long-term grants from industrial concerns, and some jointly sponsored specific studies with the U.S. Forest Service. This is a potent combination that promises to provide the perspective and depth needed for understanding the complex facets of international trade.

Simply stated, its objectives are:

1. To establish a superior educational program with multiple disciplines leading to graduate degrees that will prepare students for successful careers in international trade.
2. To organize a practical data bank and a comprehensive bibliographic service that have long-term continuity.
3. To conduct research as required to solve specific problems, or to capture opportunity for gains in the area of world trade.
4. To be a focal point for communication on matters of world trade by means of seminars, symposia, conferences, workshops, and publications.
5. To build a reservoir of knowledge, talent, competence, and experience that will provide a solid base for education, policy studies, and practical commercial actions relating to world trade.

The CINTRAFOR "team" consists of about a dozen specialists with skills in a diversity of subjects, who have

as well the large resources of the University to be tapped as needed. We invite you to look for CINTRAFOR research reports, data, bibliographies, newsletters, and whatever else emerges as the program evolves. The unit is still in its formative stage, so your ideas on how to increase its effectiveness are most welcome.

To return to the topic of our symposium, it would be a waste of time to document in numbers the importance of international trade in forest products. Suffice it to say that it is measured in billions of dollars and many millions of tons annually. Its scale is such that shippers, bankers, longshoremen, and all the service businesses recognize its importance. Our objective is to make it both larger and more profitable so that it can better serve the larger society.

Seen from the perspective of the Pacific Northwest, more trade is absolutely essential. Since we have inadequate domestic markets to accommodate so vast a resource, we have little choice but to look outside. Unlike other areas, where international trade may perhaps be seen only as an added opportunity, the Pacific Northwest must view it as imperative.

Taking a global view, trading of forest products in all directions gives people goods they could not otherwise have, adds to economic bases, and contributes to better political relationships. Such commerce, with today's efficient travel methods, opens the cultures of the world to many people. Of course, it also creates its traumas, such as those caused by the surge of Canadian lumber into the United States.

The products of the world's forests are critical to the living standards of most people in the world. Benefits begin with the function of the forest as it affects water supplies, soil erosion, oxygen regeneration, animal habitat, and recreation. Happily, these benefits can be had even as we harvest a cornucopia of immensely valuable and essential products that are basic to human needs. Not only are we blessed with a resource available in fantastically large volume, but the ultimate gift is its renewability. All of this largesse is, of course, contingent on respect for the resource, good management, patience, and the avoidance of overexploitation and abuse.

The physical products of the forest are marvelous in their diversity. Historically man built structures with logs and heated his home with more logs. Plywood is as old as the pharaohs, but its widespread importance resulted from the discovery of resin glues. Particleboards were an obvious evolution of resin technology and diminished log quality. Pulp and paper from wood emerged not much more than a century ago, became the giant of the wood business, and set the stage for better forest management. Chemical products from wood

added a new dimension, and in recent times wood has emerged, for the second time in history, as an important source of fuel.

Integrated Use of Wood

A key to optimal forest management is the process of integration, or using all that grows in a spectrum of products, each of which represents the highest use of the raw material. Thus the best logs go to lumber and plywood, lesser ones to glued wood products, the next increment to subdivided wood for particle, flake, or strand boards, a major portion to pulp and paper, and most of what remains to fuel--to make much of this process energy self-sufficient.

You may feel that this is off the subject of trade, but I think not. Companies must be strong, versatile, and permanent to build up trade, and chances for success improve with the product scope and strength that integration provides. Of course, the pattern in the West may yield a mix of products different from what develops elsewhere. The differences in products, along with the economics, are motivators for foreign trade. The entire world is enriched by the effective distribution of what each can do best.

Between the simple concepts of benefits and the real world are imposing barriers and cultural aspects that probably do not make any special pattern. It is our challenge to find and isolate clear issues and to study them objectively. We must give a focus to our efforts so that we can help to fill the lines of commerce as well as the shelves of libraries.

Regional Views

What I said about integration was intended to suggest the scope of products that could be candidates for world trade. At the risk of being provincial, let me note the strengths of the North American continent, and indeed the Northwest, in relation to elsewhere. North America has splendid existing forests with good rates of tree growth. Viewed in the world it is a leading reservoir of coniferous trees, with the Soviet Union probably the only other major area with such large exportable volumes of coniferous trees. Within the United States the southern portion has unusual capacity for growing trees. It provides relatively easy logging and shipping and, geographically, is great for feeding the big internal markets.

The scale of the U.S. forest products industry is truly impressive. It has a very big inventory of raw material. Its

producing plants are of world scale, widely dispersed, with an immense domestic market which permits economies of size. It also has many good locations for export over both the Atlantic and Pacific oceans. Partly because of its scale, it has captured the benefits of integration described earlier, which gives it economic strength and product variety for export. I refer mostly to the coniferous tree operations, but of course this is also buttressed by hardwood industries that are important but not so unusual on the world scene.

Raw Material Supply

To develop larger export markets on top of big domestic demands requires confidence that enough raw material exists, which of course often invites controversy, usually specifically as it relates to logs. This prompts me to repeat a position that I have held all of my career, but which may put me in a hostile position with some readers.

My contrary attitude has been that the raw material on this continent, broadly viewed, has never really been in short supply, and that the real challenge has always been to find enough markets for the wood available. Indeed, raw material in relation to the profit it yields today is so abundant as to discourage investment in forest management.

It is true that certain kinds of logs in certain locations have diminished, and structural changes in the industry move the point of focus. The shift from old growth to young growth in the West is a major example. Broadly, we are smothered in small-diameter trees, but my confidence in the volume of raw material stems from the response of technology, which permits high-volume useful products from wood of lesser quality. The enormous pulp, paper, particle, flake, and chemical products businesses testify to what is happening. Trade, both foreign and domestic, should, after all, be measured in dollars, jobs, stability, and growth, and not only in board foot units of logs and lumber.

The vast government ownership of trees is clearly an important factor in supply, especially in the West. Perhaps understandably the government thinks in terms of steady levels of growth and harvesting. But market needs are too cyclical to permit such luxury. Indeed, such lack of flexibility induces fear of shortages when markets are strong. This in turn stimulates developments in small-log use in other areas such as Canada or our South, heaping more trouble on Northwest markets. Ideally the harvesting rate would be responsive to market demand, with the average yield over many years about the same as it is when forestry alone guides the decisions.

Markets

In spite of its strength, our wood industry has much to learn about exporting. While internal marketing within the country has gained sophistication as a discipline, the magnitude of internal markets has commanded most of the attention. Unfortunately, export markets have been viewed as outlets for products only when they do not sell internally. This posture has discouraged aggressive and sustained focus on exports, and invites cycles of product availability unacceptable to customers. I believe that a fraction of the energy applied to sales within the country, had it been focused with consistency on the export market, would have yielded a much stronger position today. This is not to apologize for the past, but rather to note the need for new determination to increase exports.

It is natural for anyone involved in business to act quickly in terms of his interests and how they are affected by events. But in the quest for opportunity we should be open to prospects as diverse as direct exports of wood in any form, resale of imports, joint ventures or investments on both sides of the ocean, barter, or some arrangement not yet on the books. We do a greater service by opening minds to new opportunities than by documenting what many have already learned by experience. It is always easy to demonstrate what a friend of mine likes to call "a firm grip on the obvious."

Marketing, as distinguished from selling, implies forward strategies, creativity in finding and nurturing opportunities, building trusting relationships, demonstrating persistence and integrity, and solving problems fairly. There are many angles from which to begin to solve our marketing problems, but the best starting point is to focus on specifics of the products.

Products

In my experience, sharp focus on the product itself best clarifies communication. This focus will include measure of consumer need, detailed specifications, competition, economics, manufacturing location, shipping costs, service needs, quality control, and whatever will sustain a price that yields profit. The product specifics involve more detail than we can or should consider here. One could easily list the areas that need better definition for each product grouping, including logs, lumber, plywood, remanufactured items, pulp, paper, chips, and fuel. Such analysis will expose the field of most promise and help to generate the conviction that induces action. Regarding products in general, I suggest that

a newcomer seeking ideas and perspective might prow1 the docks to see exactly what is moving now.

I believe that the effort to export solid wood products has been neither intense enough nor sustained enough, and certainly has not been well integrated with markets. To present intense earnings pressure, most reactions result in cost reduction and automation, which is appropriate for survival. But I am concerned that we have too deep a fascination with the lowest common denominator of price, such as the 2 by 4 yields, almost without regard to the quality of wood involved. In this fixation we seem to exhibit a "death wish," except in rare market cycles. Following the crowd can yield volume and a fair chance during a high cycle, but somehow the return on the resource does not seem high enough to justify all the patience needed to develop it. We must learn to make and sell more upgraded products. It is difficult but rewarding.

Economics of trade are all-encompassing, but considering the trouble that professional economists have in reaching agreement, I am constrained mostly to listen and observe. I find the interlocking of economic aspects fascinating. For example, large volumes of wood chips exported from the West Coast drive up costs for western pulp plants relative to plants in the South. The foreign customer pays more for the chips than makes sense, considering that the chips could be pulped here and the product sent overseas. Some export of chips from the South, coupled with mill expansion there, brings the West into better perspective again. Freight in both directions, and of course service to customers, become part of the dynamics. Vast exports do raise fears about price and supply in domestic markets, but I believe that the resulting economics of scale and benefits of more export yield a favorable balance.

Obstacles to Success

I have outlined an optimistic range of opportunities, but the real world presents a quagmire of barriers. Some are political and economic, such as tariffs, quotas, policies, protectionism, shipping restrictions, and exchange rates.

There are also unstated barriers that relate to government acceptance, codes, or technical points like the disease threats to agricultural products. Some projects seem to go well until they run into an array of subtle barriers that strain one's patience. Some of these are beyond solution by a company and deserve more government priority. We can, and do, blame our lack of progress on such restrictions. But

I believe that we also have some self-imposed barriers that deserve examination and correction:

1. We have a preoccupation with internal markets so large that export is seen as a peripheral activity until the domestic market strengthens. Any evidence of this is a "turn off" to a serious long-term export customer.

2. If we have large-scale equipment, we find it difficult to adapt to foreign product specifications for small, early orders that might later lead to larger volume.

3. If our equipment is small, we may not have the resources and staff to find and supply markets, or indeed even to finance inventories. Certainly some kind of aggregation of smaller units, possibly with help from financial institutions, should be examined.

4. Our heritage in foreign trade is shallow. Our overseas visits are often random, not focused on decision makers, and sometimes not even made to the country of greatest promise. More education and information would be helpful.

5. We may not be creative enough in seeking new opportunities. Perhaps we should be more aggressive in inviting foreign companies to build or buy here and thus create jobs. There are some very impressive examples of successful courting of electronic businesses, but only a few in forest products. Certainly there is no larger or more competitive wood industry in the world than our own, nor one more capable of substantial expansion.

6. We have been unwilling to learn the language, the customs, the business traditions, the social culture of others, and are generally not as comfortable as we might be with what we see as foreign. This, fortunately, is changing.

7. Our college programs have lacked the scope needed to prepare young people for the many and complex elements of world trade, and a prime objective of CINTRAFOR is to correct this shortcoming.

General

In our search for progress we might well look to nonwood industries for clues. For example, the Japanese in the automobile business have learned to cope with the great shipping distances, high fuel cost, American customer needs, advertising in our language, service, costly inventories, quality control--all for a very complex product. This is a great example of product focus.

In spite of all the promise beckoning, I believe that the next few years will be very difficult ones. Even as we understand the problems, the entire process of building up

foreign trade will not come fast enough to satisfy us.

Everything else aside, a crushing burden for Americans in export is the impact of the strong dollar. Industry people plan investment moves very carefully in terms of location, strategy, products, scale, markets, timing, and raw materials. Bankers will support good plans from good companies. Yet a sovereign government can effect an exchange rate for its own purposes that, in turn, may have an enormous detrimental impact on an otherwise splendid plan. I have no words of wisdom on this matter, and can only state the hazard, but I believe our companies do not deserve that vulnerability. While learned economists expound on the overall good versus harm of the strong dollar, its impact on a specific potential transaction is all too clear. Furthermore, this situation is not likely to change quickly. I would hope that the academic community will focus some of its brainpower on this difficult issue.

I have great faith and confidence that we can vastly improve world trade to the benefit of all. While an absolutely free market may be a myth, the degree of freedom is negotiable. We can be innovative, with confidence that success comes to those who find a special need to fill. We are already dealing with a business that involves billions of dollars, and millions of tons, as I said at the start. Whether it brings profit or loss to its principals, it has a scale that affects loggers, producers, bankers, shippers, and services. The objective is to make it bigger, better, and more stable, and in the process to develop stronger relations with other countries. It is not too much to hope that this will also contribute to efforts to promote peace in the world.