



NAHB
NATIONAL ASSOCIATION
OF HOME BUILDERS



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August 8, 2003

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The Honorable Grant Aldonas
Under Secretary for International Trade
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Attn: Softwood Lumber Policy Bulletin

Dear Secretary Aldonas:

On behalf of the 211,000 member firms of the National Association of Home Builders and their more than 8 million employees, I hereby submit these comments in response to the Proposed Policies Regarding the Conduct of Changed Circumstance Reviews of the Countervailing Duty Order on Softwood Lumber from Canada, as published in the Federal Register of June 24, 2003 (68FR37456).

Members of NAHB produce the vast majority of new residential construction in the U.S., as well as residential remodeling and light commercial construction. As such, our members account for more than two-thirds of the softwood lumber used in the U.S. Softwood lumber represents the largest component of the cost of materials in new homes. The wood-framed construction practiced in the U.S. has made it possible to provide housing at substantially lower costs, per square foot, than in most other industrialized countries.

We heartily applaud the underlying concept of the proposed Policy Bulletin. It is important to establish clear standards for determining subsidies, rather than applying different criteria each time an investigation is conducted. The lack of clear, explicit standards has discouraged reforms of provincial timber sales practices that would provide greater transparency and ensure market-based pricing.

I. The Standard for a Market-Based Timber Sales Program

The draft Policy Bulletin states:

To be considered “market-based,” a province *must* implement changes in its current timber sales programs that – (1) eliminate practices and policies that inhibit the ability of lumber producers to respond to changes in the market; and (2) ensure that the pricing of standing timber on provincial lands is set by reference to prices established in an open and competitive, independently functioning market for sales of standing timber or logs. (emphasis added)

The standards set forth in the Policy Bulletin should be sufficient, but not necessary, to establish that timber is not being provided for “less than adequate remuneration.” There are other arrangements under which governments may provide goods or services “at or above fair market value.” Indeed, we believe that current provincial sales are transacted at prices at or very near fair market value, although we realize that there is inadequate transparency for demonstrating that to be the case.

I-A. Policies that Inhibit Market Response

The elimination of appurtenancy, minimum cut, and other requirements that reduce supply elasticity are very welcome. It is not logical, however, to construe these added burdens imposed on Canadian producers as subsidies.

Requirements that distort the response to changes in demand and lumber prices are very detrimental to home builders and other downstream lumber-dependent industries, as well as to consumers. Indeed, that is why NAHB is strongly opposed to quota systems such as the arrangements imposed under the 1996 Softwood Lumber Agreement, as well as those contemplated in recent discussion between the U.S. and Canadian governments. When the supply of timber and/or lumber is not allowed to respond freely to demand, it results in risk, expense, and inefficiency for lumber producers and lumber consumers alike.

Market-distorting requirements reduce transparency and complicate estimates of adequate remuneration, but they represent costs, not subsidies, for Canadian producers.

I-B. Market-based Pricing

We support sales arrangements under which timber is priced, and processed, according to its highest and best use. In practice, it may not be possible to develop auctions to achieve that purpose. Lumber markets may actually provide a better basis than log or timber markets for determining adequate remuneration.

Differences in accessibility, transportation, terrain, tree size and shape, and other characteristics make timber valuation difficult. Often, there are only one or two mills for which use of a timber stand is feasible. While it is desirable to determine the value of timber or logs through competitive auctions, and possibly to use the results of auctions to establish values of non-auctioned timber, markets for timber and logs are generally further from perfectly competitive than lumber markets. In lumber markets, size, quality and other characteristics of the products are known and uniform. There are many fully informed buyers and sellers. Transportation costs and accessibility are not as onerous and do not give some market participants large advantages over others.

In basing prices for one timber stand on prices in another, the translation necessarily involves converting timber costs to product costs and then back. It is not a matter of calculating the cost of transforming an eight-inch diameter tree into a six-inch diameter tree a hundred miles away, but of estimating the relative cost of converting each tree into lumber and other products. This is not to suggest that markets for timber and logs could not provide benchmarks for stumpage values, but that is not the only legitimate basis for assessing value.

The key to assessing whether administered prices are market based is the availability of information about prices charged, the criteria used to establish prices, the characteristics of the timber sold, and other relevant factors. This subject is discussed in sections I-B-1-b and I-B-2 of the proposal.

Examples of Market-Based Timber Sales

The examples given provide a valuable roadmap for provinces where they are relevant. An example providing a feasible, realistic option for Quebec is needed, however, for the Policy Bulletin to achieve its intended result.

The Honorable Grant Aldonas

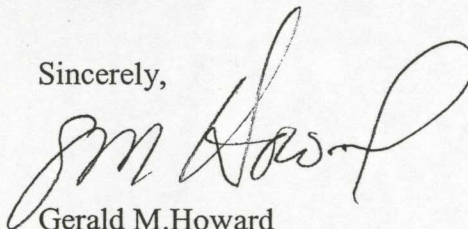
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The inconsistent approach to Quebec in the 2002 CVD investigation as compared to 1992 illustrates the need for this Policy Bulletin. Guidelines for establishing that Quebec provincial timber is sold for adequate remuneration need to be provided. With a substantial share of timber used in Quebec coming from private lands in both Canada and the U.S. that should not be impossible.

The approach outlined in the proposed Policy Bulletin is the right one for permanently resolving the softwood lumber dispute. Any concerns we have about specific provisions or language are minor compared to the critical need for clear standards. The policy Bulletin should be finalized and implemented as expeditiously as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald M. Howard". The signature is fluid and cursive, with a large loop at the end.

Gerald M. Howard
Executive Vice President
& Chief Executive Officer

GMH/mc