

Forest Products

News Reports

Canada provides stiff competition in softwood lumber and plywood markets

By Shari Kosco
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The United States has been facing stiff export competition from Canada in certain softwood lumber and softwood plywood markets. This article will present a snapshot of Canada as a competitor and will examine Canada's recent softwood lumber and plywood export performance, the United States-Canada Softwood Lumber Agreement, and Canada's export promotion programs. Discussion will be limited to Japan, the United Kingdom (UK), and Mexico as import markets. Additional softwood product competitors of the United States will be presented in the circular later this year.

Softwood Lumber

Canadian Production

Canadian softwood lumber production increased almost 7 percent to 64.8 million m³ from 1994-97, but is forecast to decrease to 61.5 million m³ in 1998. British Columbia's mills are encountering grave difficulties from the Asian crisis and rising costs of stumpage rates, land set-asides, and government regulations. Logging has slowed and is causing tightening supplies. As a result, several B.C. lumber mills are expected to close in 1998. In contrast, U.S. coastal producers have

larger supplies since exports to Japan are down, and this is contributing to an easing of coastal log prices.¹ U.S. softwood lumber production increased 1 percent to 81.5 million m³ from 1994-97, and is forecast to increase slightly to 82.1 million m³ in 1998.

Canadian Exports to Selected Markets

In 1997, Canada's total exports of softwood lumber reached 47.7 million m³, or US\$9.0 billion² (see tables 1 & 2). The top three export markets in volume terms were the United States (40.7 million m³), Japan (5.3 million m³), and the United Kingdom (0.3 million). In value terms, the top three export markets were the United States (\$6.9 billion), Japan (\$1.6 billion), and Australia (\$81.6 million). In 1997, the overwhelming majority of Canada's softwood lumber exports went to the United States (76 percent) and Japan (18 percent), based on value. Less than 1 percent each went to the other top ten export markets, including the United Kingdom. From 1994-97, the proportion of Canadian softwood lumber exports to the United States increased, while it decreased or remained the same to each of the other top 10 export markets.

¹*Random Lengths*, "Timber focus shifts to B.C., South," Vol. 54, Iss. 3, Jan. 23, 1998, p. 1.

²Note that all figures hereafter are in U.S. dollars unless noted.

From 1994-97, the volume of Canada's total softwood lumber exports rose 6 percent (11 percent by value). Volume exports to the United States increased almost 9 percent, but decreased to the other top 10 export markets, except Egypt. In value terms, exports to the United States increased 18 percent, fell 6 percent to Japan, dropped 35 percent to the United Kingdom, and had mixed results in the other top 10 export markets.

Due to the Asian crisis, Canadian softwood lumber exports are projected to decline in 1998 for a second year in a row. Canadian exports are forecast to decrease by 6 percent to 45.0 million m³, while U.S. exports are projected to drop by 2 percent to 3.8 million m³.

Imports into Selected Markets

Japan

Japan imported 10.7 million m³ (\$3.6 billion) of softwood lumber in 1997, an increase of almost 6 percent by volume (0.1 percent by value) over the 1996 level (see tables 3 & 4). The top two suppliers in volume terms in 1997 were Canada (5.6 million m³) and the United States (1.3 million m³). In value terms, the top suppliers were Canada (\$1.9 billion) and the United States (\$537 million). In value terms, Canada provided 55 percent of Japan's softwood lumber imports in 1997, followed by the United States with a 15 percent import market share. Each of the remaining top 10 suppliers had approximately 2-5 percent of the import market share.

From 1994-97, the volume of Japan's total softwood lumber imports rose 20 percent (8 percent by value). However, during this period, imports from the top two suppliers, Canada and the United States, decreased by 3 percent and 29 percent, respectively, in value. Japanese imports by volume increased by

3 percent from Canada but decreased by 29 percent from the United States. Canada's import market share decreased from 61 percent in 1994 to 55 percent in 1997, and the United States' share fell from 22 percent to 15 percent. Each of the other top 10 suppliers, except Indonesia, experienced small import market share gains of up to 3 percent. The suppliers with the smallest import market shares (except Indonesia) are showing the most rapid growth. Both Canada and the United States have been losing market share since 1994 to Finland, Sweden, and Austria, among others.

United Kingdom

The U.K. imported 6.5 million m³ (\$1.5 billion) of softwood lumber in 1997, a 13 percent increase by volume (18 percent by value) over the 1996 level (see tables 5 & 6). The top three suppliers in volume terms in 1997 were Sweden (2.3 million m³), Latvia (1.2 million m³), and Finland (1.1 million m³). In value terms, the top suppliers were Sweden (\$536.9 million), Finland (\$303.9 million), and Latvia (\$198.7 million). In 1997, Canada was the fourth largest supplier by value (\$106 million) and the fifth largest supplier by volume (370,561 m³).

From 1994-97, the volume of the U.K.'s total softwood lumber imports dropped 9 percent. The value increased by 18 percent from 1995-97 (figures are not available for 1994). During this period, imports from Sweden and Finland fell 14 percent and 19 percent by volume, respectively, but increased 20 percent and 29 percent by value. However, imports from Latvia doubled in both value and volume. The Scandinavian countries supplied over 50 percent (based on value) of the UK's softwood lumber imports during this period, and together with Latvia,

they accounted for almost 70 percent of the import market share. Canada's share decreased to 7 percent and the United States' share remained fairly stable around 2 percent during 1995-97.

Mexico

Mexico imported 1.2 million m³ (\$50.1 million) of softwood lumber in 1997, a 76 percent decrease by volume (1 percent increase by value) over the 1996 level (see tables 7 & 8). The top three suppliers in volume terms in 1997 were the United States (1.0 million m³), Brazil (196,988 m³), and Canada (1,914 m³). In value terms, the top suppliers were the United States (\$47.4 million), Brazil (\$2.1 million), and Canada (\$410,860). The United States had a 95 percent share (by value) of the softwood lumber import market in Mexico in 1997, while Brazil was the second largest supplier with a 4 percent share, followed by Canada with 0.8 percent. Each of the remaining top 10 suppliers had less than 0.2 percent of the import market share.

From 1994-97, the volume of Mexico's total softwood lumber imports fell almost 99 percent (68 percent by value). Imports from the United States and Brazil decreased by 99 percent and 44 percent, respectively, by volume (67 percent and 79 percent by value). Canada's volume fell by 50 percent (58 percent by value).

Also during this period, import market shares changed moderately, but the United States dominated the market. The U.S. import market share rose from 92 percent in 1994 to 95 percent in 1997. Brazil's share decreased from 7 percent to 4 percent, and Canada's remained virtually the same (less than 1 percent). Each of the other top 10 suppliers' shares were negligible.

Softwood Plywood³

Canadian Production

Canadian softwood plywood production increased 6 percent to 1.83 million m³ from 1994-97, and is forecast to increase slightly to 1.87 million m³ in 1998. In contrast, U.S. production decreased 9 percent to 15.9 million m³ over this same period, and is forecast to decrease 5 percent to 15.2 million m³ in 1998. Strong competition in the building trades from other cheaper building boards, such as particleboard, MDF, and OSB, has held Canadian softwood plywood production static since 1990.

Canadian Exports to Selected Markets

From 1994-97, the volume of Canada's total softwood plywood exports rose 70 percent to 577,822 m³ (74 percent by value to \$184.7 million). The top export markets included Japan, Germany, the United Kingdom (UK), Italy, and the United States. However, further discussion will be limited to Japan and the United Kingdom as export markets (see the following sections). Over this period, softwood plywood exports increased 96 percent by volume to Japan, fell 7 percent to the UK, and increased 85 percent to the United States. In value terms, exports to Japan more than doubled, fell 6 percent to the UK, and rose 66 percent to the United States.

Due primarily to the Asian crisis, softwood plywood exports from Canada and the United States are projected to decline in 1998. Canadian exports are forecast to decrease by 6 percent from the 1997 level to 545,000 m³ in 1998, and U.S. exports, according to the latest American Forest and Paper Association estimates, are projected to drop approximately 12 percent to 1.2 million m³.

³Based on the internationally-harmonized 6 digit level HTS#441219.

In contrast, other major competitors' exports, such as Finland, New Zealand, and Sweden, are forecast to hold steady or increase slightly.

Softwood Plywood Imports into Selected Markets

Japan

From 1994-97, the volume and value of Japan's total softwood plywood imports rose 80 percent. During this period, Canada, New Zealand, and the United States were the top suppliers. Imports by volume from Canada rose 72 percent and more than doubled from the United States. Imports increased in value by 73 percent and 79 percent, respectively. Canada's import market share decreased from 70 percent in 1994 to 68 percent in 1997, and the U.S. share remained stable at 8 percent. Each of the other top 10 suppliers, except New Zealand and Finland, had share gains or losses that kept them under a 1 percent share.

United Kingdom

From 1994-97, the volume of the U.K.'s total softwood plywood imports dropped 9 percent. The value increased by 11 percent from 1995-97 (figures are not available for 1994). During this period, imports from Canada fell about 15 percent by value and volume. Imports from the United States fell 5 percent in volume, but rose 9 percent in value. Together, Canada and the United States made up over 50 percent of the import market share (based on value) over this period, however, both countries' shares decreased over this period.

United States-Canada Softwood Lumber Agreement

The Softwood Lumber Agreement plays a major role in U.S.-Canadian softwood lumber trade. The softwood lumber dispute between the United States and Canada is one of the most complex and longest running trade disputes (dating back to October 27, 1982) between the two countries. After repeated countervailing duty investigations into alleged Canadian subsidies in the softwood lumber sector, the United States and Canada finally agreed in December 1994 to enter into consultations to find a long-term solution to the issue. The United States sought a change in the way Canadian provinces sell timber, but this approach did not succeed. Canada ultimately suggested, and the United States agreed to, a five-year agreement that attempts to limit Canadian exports of softwood lumber to the United States, by assessing surcharges on exports in excess of 14.7 billion board feet (BBF), or about 34.7 million m³, annually. The Softwood Lumber Agreement was signed on May 29, 1996, with a retroactive effective date of April 1, 1996. Current issues involve including pre-drilled studs being included under the Agreement, the lowering of B.C. stumpage fees, and changes in the B.C. stumpage formula.

Under the terms of the Agreement, 14.7 BBF of softwood lumber (and certain other softwood lumber products, such as molding) from British Columbia, Alberta, Ontario and Quebec may be exported annually to the United States tax-free. The quota is allocated on a provincial and individual firm level. Softwood lumber volumes in excess of 14.7 BBF and up to 15.3 BBF (36.2 million m³) are assessed an export tax of US \$50 per thousand board feet (MBF), while volumes in excess of 15.3 BBF are assessed U.S. \$100/MBF. The maritime provinces, Manitoba, and Saskatchewan are exempt

from the export tax.

U.S. Census import data from April 1997 through March 1998, as compared to the same period for 1996/97, show only a slight increase in U.S. imports from Canada. U.S. imports were 40.4 million m³ (17.1 BBF) for the 1996/97 period and 41.4 million m³ (17.5 BBF) for the same period in 1997/98. U.S. imports of Canadian softwood lumber were valued at \$6.5 billion for both the 1996/97 and 1997/98 periods.

Government of Canada (GOC) Export Programs, Joint Government- Industry Cooperation, and Provincial Government Programs

Strategies to increase Canadian forest products exports in world markets include greater efforts aimed at decreasing market access barriers and shifting export market promotion responsibilities from government to individual companies. In fiscal year 1997/98, total export program expenditures for Canadian forest products were estimated at \$3.5 million, comprised of \$1.6 million from government and about \$1.9 million from industry. As described below, there are several programs available to Canadian forest products exporters.

Council of Forest Industries (COFI)

COFI's goal is to increase the economic performance of the B.C. forest products industry. In fiscal year 1997/98, total estimated expenditures by the forest products industry under COFI were \$1.9 million, a 6 percent increase over the 1996/97 amount. Membership includes western based Canadian lumber, wood product, and pulp and paper associations. In recent years, COFI has directed more effort to market access issues. Its current priority issues include:

- ▶ reduction of non-tariff trade barriers in all markets
- ▶ elimination of wood product tariffs
- ▶ advocacy of wood usage in Japan
- ▶ adjustment of discriminatory building codes in Japan
- ▶ broader acceptance of wood products in Japanese products standards
- ▶ environmental issues in Europe and other markets
- ▶ Eurocodes development and implementation in Europe
- ▶ resolution of plant health issues (especially pinewood nematode concerns in Europe)
- ▶ participation in the development of standards on Sustainable Forestry Certification.

Particular achievements related to these issues include the conversion of a large prefab company in Japan to Canadian softwood plywood and three major 2x4 builders to COFI-ROOF (made from hardwood plywood). In July 1996, the Japanese Ministry of Construction agreed to permit Canadian structural lumber to be used in Japan's 2x4 housing construction industry without further grading to Japanese standards. The decision applies to lumber graded to the standards of the National Lumber Grades Authority (NLGA). Formerly, Canadian lumber used in Japan's 2x4 housing market had to be graded to the Japanese Agricultural Standards (JAS). With 50 JAS accredited mills in Canada, Japanese buyers now have the option of specifying NLGA or JAS standards when they purchase Canadian 2x4 lumber. The adoption of the Canadian grades is expected to assist Canadian exports of softwood lumber and manufactured housing to Japan.

Program for Export Market Development (PEMD)

PEMD is a funding program administered by DFAIT to assist Canadian exporters and industry associations. PEMD is also a government-business partnership designed to increase Canadian export sales by sharing the risks of entering a foreign market. The program will make a repayable contribution to cover up to 50 percent of eligible costs incurred in developing an export market strategy. Eligible expenses include promotional materials, trade fairs, product testing by foreign standards agencies, and return economy airfare to visit the target market. Repayment of the contribution is based on incremental sales made by the recipient company or contracts obtained. The PEMD annual contribution per application is \$5,000 to \$50,000. Expenditures for forestry products under PEMD for fiscal year 1997/98 were estimated at \$1.6 million.

In order to participate, companies must be established and operating in Canada, have an exportable product that meets Canadian content criteria of 50 percent, and be registered in the WIN Exports database (see below). Companies with annual sales between \$250,000 and \$10 million and/or less than 100 employees are given preference.

Export Development Corporation (EDC)

The EDC is Canada's official export credit agency and helps Canadian exporters compete in international markets by reducing financial risks in support of export sales. Its services include export credit insurance and related guarantees, and loans to foreign buyers of Canadian goods and services. The Canadian exporter is at minimized risk since it receives payment directly from the EDC. As a self-funding Crown corporation, EDC operates on commercial principles and charges fees and premiums for its products and interest on its loans.

According to the EDC, Canada's forest products exporters are chiefly concerned with insuring short-term receivables in volatile commercial markets. The EDC has a forestry team of ten short-term financial specialists who focus on product customization and competitive pricing. Included in the EDC's forestry sector are lumber, millwork, windows, doors, paper and paper-based products, pulp, and packaging. The top three subsectors in terms of business volume are lumber, paper, and pulp.

National Sector Teams and Canada's International Business Strategy for Building Products

The NST is the primary instrument for planning and launching business development initiatives for international building products. The process allows industry participants to coordinate their market development activities in order to better utilize resources and avoid being in conflict with one another's activities in foreign markets. According to Industry Canada, the NST provides no direct export market development funding.

Industry Canada (IC) and the Department of Foreign Affairs and International Trade (DFAIT) have developed a National Sector Team (NST) for building products. Public-sector members of the NST include representatives from several Federal departments, trade missions abroad, and provincial governments. Private-sector NST partners include industry associations such as the Manufactured Housing Association of Canada, the Canadian Manufactured Housing Institute, the Canadian Window and Door Manufacturers, and the Canadian Kitchen Cabinet Association, as well as individual companies. The team has over 100 contacts in its network.

The teams focus on international trade issues, disseminate information on market conditions and export opportunities, give advice on issues of importance to the industry, and provide an advisory role into Canada's International Business Strategy (CIBS) for forest products. The CIBS is an annual document which serves as a means of seeking industry participation in setting government priorities and allocating resources to ensure that government strategies and initiatives reflect the needs of Canadian industry. IC leads the government response to the concerns of the private sector for a more effective delivery of trade development programs, especially as regards focusing on the needs of small to medium-sized exporters and companies which are still gathering experience in export markets. IC's knowledge of domestic supply capabilities and of the product lines of companies allows the department to match this intelligence with foreign market opportunities by the DFAIT. Additionally, IC and the DFAIT organize annual missions to most leading international building products trade shows in which the GOC has a presence.

Electronic Information for Exporters

Industry Canada has created Strategis (<http://strategis.ic.gc.ca>), the largest Web site of business information in Canada that includes market intelligence, trade data, information on government programs, and industry analysis. One of the free services available on this site is the Canadian Company Capability (CCC) which acts on exporters' behalf as an international broker and promotional vehicle, as well as provides information on thousands of small and medium sized Canadian companies.

World Information Network for Exports (WIN Exports)

WIN Exports is a matchmaker computer database. This program provides users

with information on the capabilities, experience, and interests of more than 30,000 Canadian exporters, including forest products exporters. It helps Canadian trade development officers match foreign business leads to Canadian sources in response to requests for export information from foreign buyers.

Forum for International Trade Training (FITT)

FITT is aimed at small and medium sized firms and provides training using a series of integrated courses designed to assist exporters in assessing their export readiness, developing international business plans, and formulating financing and marketing plans in order to compete successfully in world markets. FITT offers both general international trade courses as well as workshops which focus on specific national and regional markets. While FITT has received funding from Canada's Federal government, it is a private organization administered by the business community through partnerships with groups like the Canadian Chamber of Commerce and the Canadian Exporters Association.

New Exporters Training and Counseling Program (NEXPRO)

NEXPRO is a comprehensive training program delivered by the Business Development Bank of Canada for small and medium businesses with export potential, but little experience. NEXPRO combines 40 hours of workshop instruction and 25 hours of round-table discussions with another 40 hours of personalized on-site counseling. NEXPRO is designed to help entrepreneurs broaden their export knowledge, as well as develop and implement a realistic export plan.

New Exporters to Overseas (NEXOS)

The NEXOS program coordinates trade missions in which exporters can learn about foreign markets. Each NEXOS mission focuses on a specific industry sector in a specific market and normally includes a visit to a major trade fair. In addition, a NEXOS mission will provide information on the exporters target markets with emphasis on such areas as customs procedures, market access, shipping, labeling, distribution, and currency regulations.

NEWMEX

NEWMEEX is a joint venture between the DFAIT and FITT, and combines intensive one to two day export preparation programs with practical five-day missions to Mexico. NEWMEX is designed specifically for senior executives or marketing managers in small to medium-sized companies.

International Trade Centers (ITCs)

ITCs across Canada are a joint venture between ITC and the DFAIT, and helps companies determine their export-readiness. ITCs also assist firms with market research and market planning, provide access to government export promotion programs, and provide a link between the Trade Commissioner Service at Canadian Embassies and High Commissions abroad.

Team Canada Market Research Center (MRC)

The MRC produces country- and product-specific market reports for Canadian exporters in all sectors.

CanadExport

CanadExport is a free trade newsletter that provides information on key trade issues. The newsletter is published twice monthly in English and French by the DFAIT. CanadExport also provides special reports on trade-related issues and information on export opportunities, government programs for exporters, trade fairs, missions and conferences.

New Exporters to Border States (NEBS)

NEBS is a crash course for small and medium sized businesses in the essentials of exporting to the United States. NEBS provides practical information along with first-hand exposure to a nearby marketplace in a U.S. border state. While NEBS missions vary between provinces, they always involve a pre-departure briefing in Canada and a 1-3 day visit to a nearby U.S. market. NEBS missions often include the following: a briefing on border procedures by a U.S. customs officer or customs broker; a talk by a U.S. manufacturer, distributor or sales agent; a visit to local wholesalers or retailers; a briefing on the local market by staff from the Canadian consulate; one-on-one interviews with potential customers, agents or distributors; and receipt of an exporter information kit from the Canadian consulate. This program is open to all Canadian businesses that are not already

exporting to the United States on a regular basis and costs \$100 per participant plus personal expenses.

Provincial Government Export Promotion

In January 1998, the Ontario Ministry of Northern Development and Mines headed up a mission to Japan consisting of five forest

products companies to explain forest management and the forest industry in Ontario.⁴ Enterprises engaged in the forest business must be supplied with timbers through the Forest Resources Licenses. The Sustainable Forest Licenses are effective for 20 years, but the license must be requalified every five years. Licensees must sustainably preserve forest resources and cover all expenses required for reforestation after felling.

British Columbia's Coast Forest & Lumber Association (CFLA) is implementing a three-year promotion to expand Japanese demand for

Hemlock lumber for traditional post & beam housing. In January 1998, the CFLA began supporting building contractors' offices and small and medium builders in Japan. Activities include seminars and promotional events for the building contractors' offices, small and medium builders and their related organizations. Other activities include user surveys, plant visits to British Columbia, and a campaign to change the image of Hemlock to a "high quality and easily obtainable structural timber." They also pledged steady supplies, despite the reported shutdowns. Additionally, during a recent expo in Osaka, a Canadian-Japanese joint "Canadian Hemlock Promotion" was held.

(The Tables referenced in this article begin on the next page).

⁴*Japan Lumber Journal*, "Ontario Lumber Products Mission to Japan from Canada," Feb. 20, 1998, p. 10.

Survey identifies imported housing trends in Japan

By Craig Jenkins
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Japan's imported housing and building materials market has grown considerably in recent years. However, housing starts have decreased significantly (albeit from an unusually strong year in 1996) after the Japanese consumption tax was raised in April, 1997 which has severely impacted housing and building materials exports to Japan. In addition, the stagnant Japanese economy, combined with a loss of consumer confidence and a weakening of the yen is contributing to the decline of the once-favorable business conditions for imported housing and building materials.

A survey conducted in January of this year directed toward Japanese architects, builders, developers, manufacturers and distributors regarding the Japanese housing market provides an in-depth look at the variety of opinion regarding the state and direction of this huge and dynamic market. The questionnaire asked whether the current conditions in Japan are indicative of long-term structural changes or if they are simply a reflection of a temporary downturn in the housing market. All the respondents agreed that the days of 1.5 to 1.6 million annual housing starts are over and that housing starts will continue to shrink, mainly due to the higher quality, longer lasting housing being built. According to respondents, this year's slump is an aberration, and the housing market will improve with the economy, though not back to 1996 levels.

Regarding changing consumer preferences, respondents highlighted the increasing importance of high quality living environments.

This included a variety of criteria such as airtightness, good insulation, and high durability. Others emphasized the symbiosis of health and environment, which bodes well for solid wood products. Interest in comfort and convenience was stressed, as was the importance of affordability, reflecting an increase in cost-consciousness.

Many major lifestyle trends were identified which will affect Japanese housing in the long-term. An aging society and the importance of satisfying the needs of the elderly in housing was the most frequently cited coming development. An increase in rented housing, especially of apartments, was mentioned, as was an increasing number of people working out of their homes, and greater use of natural materials. A stronger "do-it-yourself" market is expected to emerge due to growing home maintenance needs and an interest in home improvement. However, most respondents think that this market will develop slowly, and will not reach the level found in the United States.

Respondents agreed that consumer interest in imported housing is largely motivated by a desire for high quality housing. Many imported housing materials have strong price and quality advantages over Japanese produced materials, however, it was pointed out that imported housing is not necessarily of greater value than domestically produced materials. While the lifestyle and fashions of the West were mentioned as motivations for some consumers to purchase imported housing, the high performance and durability of imported housing materials was stressed. Other than high performance, "design" - including spaciousness - was highly regarded, as was the extensive use of wood.

Opinions on the "novelty" of imported housing were split, with half of the

respondents stating that the novelty has worn off, while the other half maintained that the image is still appealing. One respondent noted that, “If the highly insulated and airtight aspects of imported housing are emphasized, the novelty will eventually wear off...However, the novelty of imported housing can be maintained if lifestyle issues [comfort, etc.] are stressed.”

Many respondents felt that imported housing is being widely accepted in Japan and that the distinction between imported and domestic products will gradually disappear as building materials become more internationalized. The beneficial effect which imported housing has had on the reform of the Japanese housing industry, including deregulation, was highlighted, as was the likelihood of imported housing’s continued influence on Japanese design, environmental planning, and construction methods. One view, which blurs somewhat the line between what is currently called “imported housing” and Japan’s own versions of 2x4 and prefabricated housing is that, “Possibilities for imported housing are limited if they are only seen as kit houses. However, if they are viewed as imported housing components (i.e. building materials) and can be fused to Japanese housing, imported housing will continue to grow within the market.”

Source: Roundtable News, Volume 12, page 18.

Using U.S. Government export credit programs

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The recent financial crisis in Asia has renewed the U.S. export community’s interest in export credit programs offered by the U.S. Government. U.S. wood products exporters can use various programs offered by the U.S. Department of Agriculture and Ex-Im Bank. Financing assistance from the U.S. government usually takes the form of export credit guarantees, and these guarantees usually are assigned to the exporter’s U.S. bank.

USDA, Commodity Credit Corporation (CCC)

The purpose of CCC’s credit guarantee programs is to encourage U.S. exporters to expand, maintain and develop markets for U.S. agricultural products in areas where commercial financing may not be available without a payment guarantee. Under its programs, CCC does not provide financing but guarantees payments due from foreign banks or, in the case of the Supplier Credit Guarantee Program, from the importer. Under all CCC programs:

- ▶ Exporters must apply to be qualified to participate in CCC programs. Exporters must use qualified U.S. and foreign banks.
- ▶ Exporters must have a firm export sale before submitting an application.
- ▶ The product must meet the definition of a U.S. agricultural commodity.
- ▶ The guarantee fee paid at the time of application is non-refundable.
- ▶ CCC Program Announcements provide information on specific country and commodity allocations, length of credit period, and other program information

and requirements.

Export Credit Guarantee Program (GSM-102)

Under the GSM-102, CCC guarantees repayment of credits extended for credit periods not to exceed 3 years, however wood products are limited to 720 days. If the importer's bank fails to make payment for any reason, the U.S. bank may file a claim with the CCC for amounts due and covered by the guarantee. CCC will pay the claim and seek to collect the full overdue amount from the foreign bank. Typically, 98 percent of principal and a portion of interest is covered. Any follow-on credit arrangements between the foreign bank and the importer are negotiated separately and are not covered by the CCC guarantee. For countries eligible in FY98 for solid wood products, see the table on GSM-102, located on page five this circular.

Supplier Credit Guarantee Program

On August 30, 1996, the Supplier Credit Guarantee Program (SCGP) became effective. Under the SCGP, CCC will guarantee a portion of short-term credit that exporters have extended directly to the importers when secured by a signed promissory note. These direct credits must be secured by promissory notes signed by the importers and must be short-term (up to 180 days). The guarantee will cover a portion of losses resulting from defaults, whether for commercial or noncommercial reasons. The SCGP emphasizes high-value and value-added products but, for some countries or regions, may include commodities or products that have also been programmed under CCC's GSM-102 program. For countries eligible in FY98 for solid wood products, see the table on SCGP, located on page five this circular.

Facility Guarantee Program

On December 3, 1997, the Facility Guarantee Program (FGP) became effective. The FGP provides payment guarantees for capital goods and services. The FGP will target emerging markets where U.S. agricultural exports are hampered by inadequate infrastructure, such as inadequate storage, processing, or handling capabilities. By supporting such facilities, the FGP is designed to enhance sales of U.S. agricultural commodities and products to emerging markets where the demand for such commodities and products may be constricted. The U.S. forest products industry may benefit from the new program as it targets the construction of facilities, and only U.S. goods and services are eligible components under the program.

For more program information contact:

CCC Operations Division, Export Credits
Foreign Agricultural Service, USDA
1400 Independence Avenue SW - Stop 1035
Washington, DC 20250-1035
Telephone: (202) 720-6211
<http://www.fas.usda.gov/exprograms.html>

The Farm Service Agency (FSA) also has information available at:
<http://www.fsa.usda.gov/dam/fmd/ccc/GSM102-103.htm>

Ex-Im Bank

Ex-Im Bank, the official export credit agency of the United States, finances all types of U.S. goods and services as long as they are not military-related and contain at least 50% U.S. content. For FY 1997, Ex-Im Bank authorized \$12.2 billion in financing to

support U.S. exports. Non-capital goods, such as wood products, would qualify under Ex-Im Bank's short term programs. Ex-Im Bank will refer exporters to CCC if their product in a specific country already has coverage under an existing CCC program announcement.

The Export Credit Insurance Policies

Short-Term Multi-buyer Policy

The Multi-Buyer Policy gives the more experienced exporter comprehensive credit risk protection on the short-term sale of goods to many different buyers. The program offers a one-year renewable policy insuring all short-term export credit sales, with two coverage options. Under the first option, the "split coverage" option, Ex-Im insures 100 percent of the political risks and up to 90 percent of the commercial risks. The second option is "equalized coverage," under which Ex-Im insures 95 percent of both the political and commercial risks. Repayment terms typically range up to 180 days, although terms for agricultural commodities may be extended to 360 days.

Short-Term Single Buyer Policy

Coverage applies to a single sale, or repetitive sales over a one-year period, to a single buyer. The policy offers both political and commercial risk coverage. Exporters may cover single or multiple shipments under a sales contract or repetitive sales to a single foreign buyer. Repayment terms typically range up to 180 days, although terms for agricultural commodities may be extended to 360 days.

Small Business Policy

The Small Business Policy covers risks on short-term export credit sales of U.S. small businesses which have had a relatively small

volume of exports over the previous two years. The one-year renewable policy insures 100 percent of specified political risks, and 95 percent of commercial risks (98 percent for bulk agricultural goods) that might lead to default by the buyer (subject to policy conditions). The exporter must agree to include in the policy *all* of its eligible export credit sales. This policy frees the smaller exporter from "first loss" commercial risk deductible provisions that are usually found in regular insurance policies. The coverage is available to companies which are just beginning to export, or have an average annual export credit sales volume of less than \$3 million.

Pre-Export Assistance

Working Capital Guarantee Program

The Working Capital Guarantee Program provides pre-export financing and offers lenders a 90% guarantee on loans made to support the working capital needs of exporters. These guarantees must be fully collateralized by inventory, accounts receivable, or other acceptable collateral. Exporters can secure a 1-year revolving line or a transaction-specific line. Exporters can approach Ex-Im Bank directly for a preliminary commitment that provides the terms of its guarantee. Applications are accepted only for lines of credit over \$833,333; applications for lines under this amount are processed by the Small Business Administration.

For more information about Ex-Im Bank programs: (800) 565-EXIM or <http://www.exim.gov>

Europe: A new source for Japan's

softwood lumber needs

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U.S. exporters of softwood lumber have been rapidly losing market share to European suppliers in the Japanese market. Until recently, Europe was not considered a viable source of wood for Japan. Last year marked the first year in which European exports of softwood lumber exceeded those from the United States. Canada remains Japan's largest supplier. During the first quarter of 1998, Japan's imports of softwood lumber from Europe, 281,000 cubic meters, were substantially larger than the 171,000 cubic meters of imports from the United States. While Europe's sales this year are also falling off in the face of recessionary market conditions, many European companies are optimistic about the long-term prospects of the Japanese market and are gearing up for increased exports to Japan.

In 1993, Japanese softwood lumber imports from Europe, excluding Russia, totaled 237,000 cubic meters and more than tripled in growth to 812,000 cubic meters in 2 years, eventually expanding to over 2 million cubic meters by 1997. Top suppliers were Finland, Sweden, and Austria, all of whom rivaled Russia in exporting around half a million cubic meters of softwood lumber to Japan in 1997. Meanwhile, between 1995 and 1997, Japanese imports of softwood lumber from the United States dropped 25 percent to 1.3 million cubic meters.

There are a number of explanations for the rapid growth in Japanese lumber imports from Europe:

- ▶ Before European shipments became a significant factor, the United States and Canada played the role of price leaders as wood

suppliers to Japan. Other competing softwood suppliers such as Russia and New Zealand followed the North American lead in their respective marketing strategies. All-time high North American wood export prices in 1993 induced Japanese importers to look for alternative sources of supply including a dramatic shift to greater imports from Northern Europe.

- ▶ European softwoods have competitive landed costs in terms of the yen value at Japanese ports. Increased European production leading to falling prices together with weaker European currencies relative to the U.S. dollar have been the major drivers. As a result, European product has become competitive in the export market, despite the longer voyage time and, possibly, higher freight rates for marine transportation compared to shipments from North America. According to some reports, freight costs from Europe may actually be lower than from North America due to lower backhaul rates on vessels carrying Japanese manufactured goods.
- ▶ European species and product appearance have been readily accepted by the Japanese. European spruce, pine, and larch have small knot sizes and therefore easily meet stringent Japanese visual requirements. Also, the lighter-colored and tighter-grained European species are more similar to Japanese softwood species.
- ▶ The advent of machined, pre-cut structural housing packages in the 1990's for Japan's

traditional post and beam housing has increased demand for a more stable and uniform structural lumber product. European kiln-dried and cut-to-size stock for re-manufacturing, lamstock for glulam production, and finished cut-stock ready for construction site applications are gaining popularity among Japanese laminators and pre-cutters due to their proper moisture content and precise sizing.

The growth in imports from Europe during 1997 exacerbated the market glut in softwood lumber. The oversupply further depressed the already weak Japanese

lumber market at a time when housing market demand for lumber, impacted by the economic downturn and the hike in Japan's consumption tax from 3 to 5 percent, was already weakened. During the first quarter of 1998, Japanese lumber imports from Europe were down 47 percent from the

same period last year while Japanese softwood lumber imports from the United States were down 71 percent. According to FAS contacts, the downturn in softwood imports from Europe has not eroded the competitive strength of the product nor its increasingly positive reputation in the Japanese market. Many European companies are optimistic about the long-term prospects of the Japanese market and are gearing up for increased exports to Japan. At the Tokyo Good Living Show this past April, Austrian, Nordic and French wood product exporters were in full force and with large exhibits. Sodra Timber Corporation, Sweden's largest wood products manufacturer with 6 plants and an

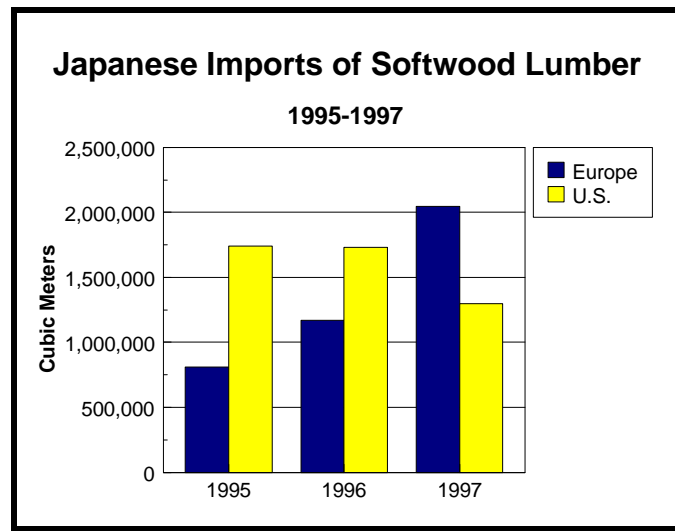
annual production of 650,000 cubic meters, announced in May a major plant investment plan which will increase output by 270,000 cubic meters. Sodra plans to expand production of products tailored for the Japanese market such as finger-jointed studs, prefabricated housing stock, lamstock for glulam production, and dimension lumber to meet the final product specifications ready for on-site construction assembly. Sodra plans to sell at least 15 percent of their production to Japan. New product shipments will arrive during the Fall of 1999, and Sodra will be

able to meet Japanese orders as small as one container load.

According to the Nordic Trade Council, while Scandinavian softwood exports to Japan may drop substantially in 1998 to less than 1 million cubic meters due to the tight market conditions, exports to Japan

are forecast to expand to 2 million cubic meters a year by 2005. Scandinavian exports to Japan in 1997 were 1.4 million cubic meters. Additionally, U.S suppliers are facing increasing competition from Chile, Russia, Austria, New Zealand, and to a lesser extent, China and Germany. Meanwhile, Canada continues to dominate the market for imported "dimension" lumber (i.e. 2x4, 2x6) for platform frame housing construction.

U.S. industry is responding to the challenge by increasing the production and promotion of higher valued kiln-dried metric structural softwood products that meet the new market



needs of the Japanese laminators and post and beam pre-cutters.

Of course, the future of European lumber in the Japanese market will depend largely on relative foreign exchange rates. However, it is safe to assume that European wood is here to stay as a formidable competitor to U.S. wood products in Japan.

Sources: FAS Tokyo and Japanese import data.