

SATURDAY REPORT

A U.S. perspective

Some Americans fear that after this harsh market period is over, enough U.S. sawmills will have shut down that Canadians will be in a better position to move in during the next market upturn

Editor's note: the Softwood Lumber Agreement between the United States and Canada expires at midnight tonight. What happens next isn't clear, but there are indications the U.S. will slap Canadian lumber exports with duties or penalties that some Canadian companies suggest will cripple the industry here. Today we present a perspective of the situation from south of the border, a lumber producing jurisdiction just like ours, Georgia.

By GORDON HAMILTON
Southam Newspapers

PERRY, Ga. — In the pine forests of central Georgia, an economic drama is being played out that is uncomfortably similar to the logging woes of British Columbia's beleaguered resource towns.

Lumber prices hover at 10-year lows and Ben Currie, whose family owned logging company works a 30-hectare clear-cut, is finding it harder and harder to make a living.

"Forestry is Georgia's No. 1 industry. This is it. This is what Georgia thrives on," he says in his broad southern accent, his hand gesturing across the clear-cut where his father and two sons are part of an eight-member crew harvesting southern yellow pine.

The land Currie's crew is logging is owned by a sawmilling family that has managed it for several generations. The soil is nutrient-poor and has taken 80 years to produce a crop of large sawlogs.

In the Georgia countryside, timber is king. Sawmills and wood-chipping plants are scattered throughout the state.

There are huge differences between the

getting up and going to work."

Sawmills here are closing down, unable to buy timber at a low enough price to convert it to lumber. Landowners are sitting on their timber, hoping prices will climb but putting loggers out of work as a result.

Everywhere, Canadians are getting the blame as southern yellow pine producers notch up the rhetoric in their campaign to limit Canadian lumber imports. But is the pain in the South the result of solely of Canadian lumber imports?

Canadian lumber is not the only imported lumber in the South. At the Boise Cascade distribution centre east of Atlanta, railcars full of Austrian lumber wait to be unloaded alongside cars of B.C. lumber. In South Carolina, lumber manufacturer and distributor Mack Singleton brokers wood from as far away as Germany.

Singleton, a former chairman of the Coalition for Fair Lumber Imports, sees no problem in bringing in wood from Germany to compete in the U.S. The German wood, he says, comes from private lands, so it raises no obvious issue that it might be subsidized.

"I don't know how they can produce it that efficiently over there, but they can, and we are brokering for them east of the Mississippi."

He says currency exchange rates are favourable with Europe, making it easier to import lumber at a competitive price. Exchange rates also favour Canada, a Georgia Pacific executive noted.

Singleton, who at one time imported wood from his Canadian counterpart in the 1996 softwood lumber talks, Jake Kerr, says the problem may be complex, but from the U.S. perspective, the difference in the two economic systems makes Canada an obvious target.

He compares the Canadian system, under which the Crown owns the timber and sells it at an administratively set price, to "the old Soviet-era approach of the government owning all the infrastructure. Who else do you have like Canada? North Korea? Cuba? Russia?"

"We don't have anything against Canadians personally or their right to ship into the market. It's just that we have to play by one set of rules — market pricing on lumber and market pricing on logs — and our competitors have market price on lumber, but no market price on logs. Logs are 75 per cent of our cost, so we are between a rock and a hard place."

What irritates the Americans is that in British Columbia, social values are tagged on to timber production, distorting market forces. In B.C., for example, the cost of timber is far lower than in Georgia, where markets set the price. But B.C. forest companies are required to keep operating regardless of markets, harvesting within 10 per cent of their allocated timber supply over a five-year cut-control period.

The reason for the B.C. policy is to create a steady stream of timber revenues for the province and a steady employment base in resource towns, a fiscal and social value that is totally missing in the U.S. lumber equation. As a result, fewer Canadian mills tend to shut down permanently when markets collapse.

Singleton says the U.S. concern is that in the South, land owners are refusing to sell their timber now because prices are so low, forcing mills to operate at a loss or shut down. American sawmillers fear that after this harsh market period is over, enough U.S. sawmills may have been forced to shut down that Canadians will be in a better position to move in during the next market upturn.

"Part of the problem is that a lot of us are building too many high-production mills on both sides of the border. The only thing is, if you don't wipe people out of the business and they all stick around, if all the outages are on this side of the border,



CP photos

A loaded logging truck is shown travelling in the north Maine woods.

when the market comes back Canada will have 50 per cent of the U.S. market."

Canadian sawmillers have also been their own worst enemies. During the five years when lumber trade was controlled by the Softwood Lumber Agreement, the Canadians antagonized American producers by coming up with schemes to circumvent the treaty.

One way they got around it was by drilling holes in one end of framing lumber and calling it a value-added product, making it exempt from the quota restriction of the agreement. The Canadians argued that the pre-drilled holes would save electricians time and money in installing wiring.

The pre-drilled studs loophole was closed by U.S. Customs after American producers argued the Canadians were circumventing the agreement.

Southern sawmillers also focus on the difference in land ownership between the two countries. There is virtually no public forest land in the southern states. Ninety per cent is privately owned, either by multinational forest giants focused more on pulp production, or by landowners who put their timber up for auction only when they feel they can get the best price.

It leaves sawmillers at the mercy of market forces, and when they look north to Canada they see a system in which public forests are harvested by companies paying a government-set price for timber called stumpage. And there have been enough

abuses of the stumpage system — particularly in B.C. — to raise questions here about the fairness of Canadian timber policies.

"Each week, we pay the bank what we cut on a tract of timber," said sawmiller Rusty Wood, whose company Tolleson Lumber operates two sawmills in Georgia, "and we pay the loggers weekly. When we borrow on the tract, we borrow before we ever cut the first piece. We are paying interest on that."

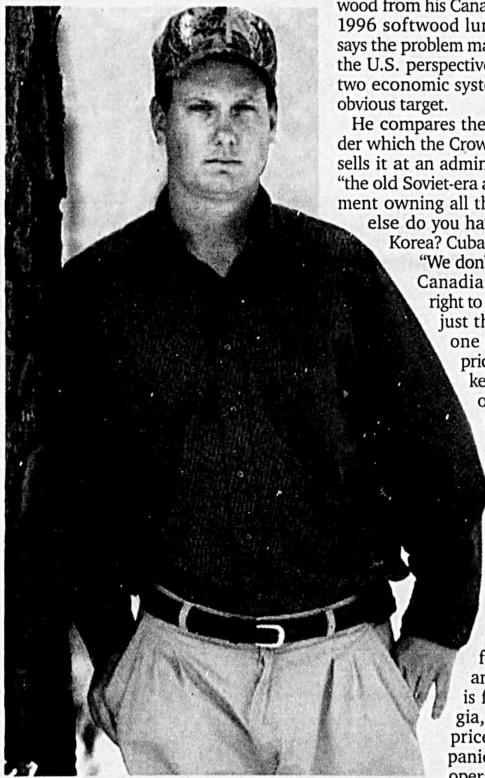
"In Canada, we hear, maybe on some occasions they cut the timber, they manufacture it at their mill, they ship it, they might even get paid for it by the customer, before they have even paid for the timber."

Wood was referring to instances of the British Columbia government allowing forest companies to go into default on their stumpage payments, in one case permitting Slocan Forest Products' stumpage debt to climb to \$65 million.

"How is that for a cashflow deal?" Wood said. "That's sweet. That is a cashflow dream. Oh, to be born a Canadian sawmiller."

Such differences between the two systems leave Canada vulnerable to allegations of subsidy, says Russ Taylor, a Canadian forest industry consultant.

Taylor, who publishes the trade journal Wood Markets, says Canada and the U.S. have different ways of evaluating lumber and timber, making it impossible to accurately determine issues such as subsidy and price differences.



Ben Currie finds it harder to make a living these days.

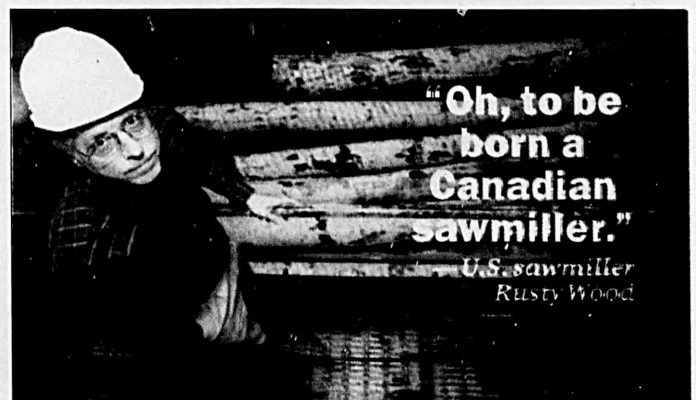
way the industries in Georgia and B.C. operate, but here, where skidders drag thick pine logs to a landing, exposing the brick-red clay of Georgia, it boils down to the same thing: There is no longer enough money in lumber to sustain the people who depend on it.

Sawmills in the South have invested to increase their capacity — a global trend — yet U.S. housing demand is falling from the all-time highs of the late 1990s.

That housing drop has fuelled a North America-wide decline in demand for wood at a time when lumber capacity, particularly in the U.S. South, is at record highs.

Landowners here are reluctant to sell their timber in a falling market, leaving the South squeezed by poor lumber prices and high log costs.

"On some tracts, we have to take a cut in pay so the company can afford to buy the timber," Currie says. "We do it because this is our means of making a livelihood, not just for me. I have families counting on us



Sawmiller Rusty Wood, who owns Tolleson Lumber, stands in his mill.

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