

U.S. International Trade Commission
Economic Impact of U.S. Trade Agreements

Investigation No. TPA-105-008

October 6, 2020

Good morning/afternoon. My name is Kip Howlett and I am the President of the Decorative Hardwoods Association. We represent the U.S. hardwood plywood, hardwood veneer, and engineered hardwood flooring industries.

The Decorative Hardwoods Association's membership has manufacturing facilities in 20 states near the largest temperate forests in the world, which are both sustainably and legally managed. Our products represent 90 percent of the hardwood stock panels and hardwood veneer panels manufactured in North America.

As our organization represents both manufacturers that sell domestically and those that export raw materials across the globe, I can speak from experience about the effect that U.S. trade agreements have had on both domestic manufacturers and exporters.

I want to make four key points today about how U.S. trade agreements have affected the hardwood plywood, flooring, and wood products industries: first, our trade agreements were not developed to address large non-market economies, such as China; second, our trade agreements do not properly address trade circumvention

issues; third, they have not adequately accounted for illegal logging or other environmental factors; and finally, the treatment of different wood species under our current trade laws invites evasion.

On the first issue, our trade agreements – including our WTO agreements – were conceived and enacted to enable trade with market economies and to remove trade barriers. However, they did not anticipate and do not include adequate safeguards to address trade with non-market economies like China.

China’s mix of state-ownership and capitalism makes it almost impossible for U.S. manufacturers to compete with Chinese exports. Because of insufficient mechanisms in our FTAs to address such economies, the United States suffers as a result. While recent FTAs have started to try and address this issue, we must do more.

Top-down industrial policies such as China’s Five-Year Plans and Made in China 2025 funnel massive subsidies and incentives to favored industries. Whole towns and regions are devoted to “basic” or “pillar” industries, which includes forestry and wood products.

Because these industries are not guided by market forces and are not profit oriented, their receipt of Chinese government subsidies and other benefits has resulted in massive overcapacity. Furthermore, with Chinese supply far exceeding

domestic demand, there is nowhere for surplus products to go but abroad to the direct detriment of U.S. and other global producers. The most likely target is the large, open and attractive U.S. market.

This is not a new problem for the wood products and forestry sectors, in particular, and in fact dates back decades. For example, China's industrial policies have favored the forestry sector, which provides the base material for its wood processing industries, since at least its Tenth Five Year Plan, which covered 2001-2005. Because forestry has been selected for special treatment, the industry receives extensive financial support from the Chinese government.

This is how distorted trade has become: Chinese producers are often able to buy logs from abroad, transport them to China, process them into finished products and export them to the United States, and sell them here—all for less than the cost of U.S. production.

The U.S. government has repeatedly found that U.S. producers are harmed by such trade distortive practices. Since 2004, the government has imposed antidumping or countervailing duty orders on a host of wood products, including wooden bedroom furniture, multilayered wood flooring, hardwood and decorative plywood, and wooden cabinets and vanities and has preliminarily imposed duties on wood mouldings and millwork products.

One could have foreseen such problems, with China's harmful industrial policies pre-dating its accession to the WTO, and even the Uruguay Round agreements. Our current international trade framework fails to fully address aggressive non-market economies. The result has been disastrous for domestic manufacturing industries, with entire supply chains moving from the United States to China.

Second, our existing trade agreements do not do enough to prevent and address circumvention before it is too late.

For example, the United States has a free trade agreement with Vietnam. Yet, Vietnam enables rampant duty evasion. In the past two years, the Department of Commerce has initiated at least eight circumvention inquiries involving Vietnam.

To make matters worse, the mechanisms that are available to prevent circumvention take entirely too long to provide real relief for U.S. producers. For instance, under U.S. trade laws, circumvention inquiries can take well over a year from start to finish.

Our trade agreements should ensure that U.S. government agencies, including U.S. Customs and Border Protections, work quickly and directly with countries like Vietnam and our other free trade partners to ensure that bad actors aren't able to circumvent duties.

Without changes, U.S. producers face constantly changing sources of imports. Just when we catch unfair trading practices and bring successful antidumping and countervailing duty cases on one set of products and countries, they move somewhere else.

We have seen this, for example, with hardwood plywood. For instance, even while our case against China was going on, Chinese producers and exporters shifted their production to third-countries and variations of hardwood plywood products for minor processing.

Increased customs cooperation would help prevent evasion and catch it faster when evasion occurs.

Third, U.S. trade laws and agreements fail to properly account for illegal logging and other environmental considerations.

Between 15 and 30 percent of globally traded timber has been illegally harvested. China, the world's largest wood importer and exporter of wood products, is the largest illegal wood consumer, effectively exporting deforestation around the world.

Not only does the use of illegally harvested logs facilitate deforestation and loss of ecological diversity in sensitive ecosystems in Southeast Asia, Latin America, and Africa, but it distorts global trade in wood products.

As a result, producers that use cheaper, illegally harvested wood are at an economic advantage to responsible producers that use sustainably and legally sourced logs.

Other countries have also recognized China's rampant use of illegally harvested logs. Just last month the Netherlands blocked imports from Sakol Nederland B.V., one of the largest Chinese plywood exporters, due to concerns about how the wood was harvested.

The vast majority of our current FTAs by in large do not do enough to address the environmental and economic harms caused by illegal logging causes. Our FTA with Peru, however, includes strong forest governance protections. Other countries should adopt similar provisions to protect sensitive ecosystems around the world.

Additionally, U.S. trade remedy laws should take into account environmental costs in the Department of Commerce's calculations. Because Commerce does not consider costs associated with adhering to environmental regulations or best practices, responsible manufacturers are at a disadvantage to those that cut corners at the expense of our global ecosystem.

Fourth and finally, our tariff rates with other countries can encourage cheating and misreporting by treating species of wood differently, which ultimately creates distortions in the wood products market.

For instance, imports of Chinese and other birch faces of hardwood plywood and multilayered wood flooring products are subject to a 0 percent duty rate while all other species are subject to an 8 percent rate. This discrepancy incentivizes producers to find any way that they can to ship their product as birch.

For example, Chinese exporters will ship in product with one birch face, while the other face is another more expensive species, and pay 0 percent duty rather than the duty that is actually owed.

Not only does such treatment harm U.S. birch products but it disadvantages other species that are otherwise substitutes, such as maple, which of course is a very abundant light wood species in the United States.

I, along with the Decorative Hardwoods Association would like to work with the Commission to standardize these tariff rates to both prevent duty evasion and eliminate distortions in the light hardwood market.

In closing, I thank the Commission for the opportunity to present today and would be happy to answer any questions that you may have.