CINTRAFOR
2001 Activity Summary

CINTRAFOR's Mission:

The Center for International Trade in Forest Products (CINTRAFOR) addresses opportunities and problems related to the international trade of wood and wood fiber products. Emphasizing international marketing, forest economics and policy impacts, technology developments, and value-added forest products, CINTRAFOR's work results in a variety of publications, professional conferences, and consultations with public policymakers, industry representatives, and community members. Located in the PNW, CINTRAFOR is administered through the College of Forest Resources at the University of Washington, under the guidance of an Executive Board representing both large and small companies, agencies, and academics. Supported by state, federal, and private grants, CINTRAFOR's interdisciplinary research is carried out by university faculty, graduate students, internal staff, and through cooperative arrangements with professional groups and individuals.

The Activity Summary

This brief summary of CINTRAFOR activities highlight the issues that are impacting the forest products industry's competitiveness; including trade policies such as the Canada/US Softwood Lumber Agreement, China's new housing policies, China's selective banning of timber harvesting, Japan's request for emergency Safeguard measures under the World Trade Organization (WTO) prompted by a surge in imports, and domestic pressures that environmental concerns have placed on forest resources, the international economic climate, and the technology transfer of wood frame construction.

For further review of CINTRAFOR's activities I invite you to visit our website.

Paul Boardman

Funding for CINTRAFOR research and outreach comes from multiple sources. Direct support for last year's $660,000 research and outreach budget was funded by: a special congressional grant from USDA (54%); a state grant from Washington State Office of Trade and Economic Development (21%); industry donations (10%); and several competitive projects (15%) from federal and state agencies, associations, companies, and university sources. Cooperative projects with other organizations and indirect support from the University raises the gross contribution for the research effort to over $1 million.

MARKET OPPORTUNITIES RESEARCH

In-depth market research characterizes the causes of changes and identify new opportunities and problems that must be addressed to achieve export success. Recent projects have focused on factors that influence success of North American forest products exporters, changes in the Japan housing market, and the impact of resource constraints on product substitution.

• While the Asian Economic crisis has adversely impacted the performance of most North American forest products exporters, a small number have experienced export gains. The results of a survey of forest products exporters suggests that a broad product mix, direct distribution channels, and a presence in the Japanese market are strongly correlated to export success. The results of this research will be published as a CINTRAFOR Working Paper in February 2001.

• An earlier study of material substitution in the residential construction industry (WP57) found that **engineered wood products and some non-wood products have made significant inroads into structural end-use applications** that have traditionally been dominated by softwood lumber. To better understand the rate of adoption and key contributing factors, surveys are being administered every two years to monitor change (Figure 1). The 1999 survey found that inroads were made by both wood and non-wood substitutes, although there was little change in the attributes builders considered most important (WP73). Surprisingly, builders perceive solid wood to be less environmentally friendly than either engineered or non-wood substitutes, a perception that has strengthened over the last 3 years.

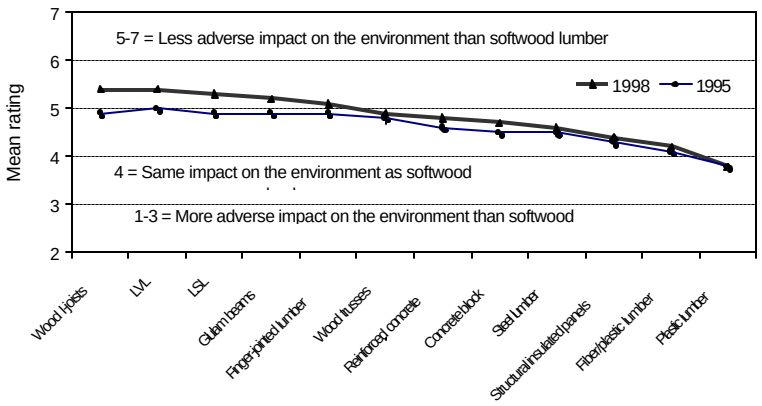

Figure 1. *Use of substitute materials has increased since 1995.*

• Incomplete technology transfer of 2x4 construction methods in Japan continues to constrain demand for US products. In a study of technology transfer strategies used by North American contractors and exporters in their 2x4 projects, **the most effective methods for training Japanese construction professionals** were hands on training and the use of North American site supervisors.

• The Japanese Post and Beam residential construction market makes up 37.7% of new housing starts and a large stock of the existing housing market. CINTRAFOR undertook an evaluation of the technical specifications and trends driving this segment of the market. The research found that, aside from fire code restrictions, **there are no technical barriers to the increased utilization of wood windows and doors in the post and beam segment** and that this market represents a sizeable opportunity for US manufacturers of fenestration products.

EXPORT TRENDS AND PROFILES FOR CONSUMER COUNTRIES AND COMPETING SUPPLIERS

CINTRAFOR staff analyze quarterly forest products trade data to identify market trends and opportunities, particularly those relevant to PNW producers and exporters. Country profiles are developed to characterize important market changes and the role of competing forest product suppliers that bear heavily on international forest products trade. 2000 highlights include:

• **China:** Research on China's housing and housing policy was conducted to analyze the market's potential. Changes in housing policy are expected to substantially alter both construction and the acquisition of building materials. Imports are also needed to replace China's domestic harvest, which has been curtailed to protect the environment and reduce flooding. In addition, Research on China's housing policy and relationships between economic growth and rising personal income is helping us characterize developments in construction and the implications for wood use.

• **Canada:** The softwood lumber trade between the US and Canada is one of the leading forest product trade flows in the world. The Softwood Lumber Agreement, enacted in 1996 as a temporary resolution of the trade dispute between the two countries that has lasted for more than fifteen years, expires in March 2001. Working Paper 80 examines the impacts of the SLA on lumber prices, the mix of lumber products imported, and lumber imports from other countries. A related research project exploring the impacts of regulatory and economic changes in the US, Europe, and Japan during the decade of the 1990s found that these events have worked to reduce the competitiveness of the Canadian softwood lumber industry. The results of this research will be published as a CINTRAFOR Special Paper.

WP = Working Paper, SP = Special Paper

• **Scandinavia:** While Sweden and Finland have been dominant suppliers of the European softwood lumber market, more recently, the demand for lumber in Europe has reached near saturation and Scandinavian suppliers are facing new competition from lower cost Eastern European suppliers. Faced with these challenges, **Scandinavian suppliers have sought and successfully entered the Japanese market and are seeking to increase their exports to the US** (Table 1). CINTRAFOR is researching the strategies used by Scandinavian firms to enter the Japanese market and future exporting plans.

Table 1. US and Japanese imports of softwood lumber by country of origin, 1992-1999.

US Imports	1992	1993	1994	1995	1996	1997	1998	1999
Austria	0	30	0	65	2,112	51,251	135,886	221,930
Sweden	0	2,975	6,867	6,199	5,837	15,273	39,324	119,706
Lithuania	0	0	0	0	1,596	5,752	15,217	34,908
Germany	185	92	63	397	1,202	4,493	4,561	32,112
Finland	0	884	529	550	10,005	23,223	33,883	20,564
Russia	188	8,778	3,947	3,422	1354	5,378	1,812	13,014
Japan Imports								
Norway	162	8,556	24,820	30,999	55,237	47,625	21,859	24,336
Sweden	1,188	82,439	204,142	209,254	349,575	809,105	303,441	586,895
Finland	1,514	128,064	214,483	365,680	447,932	587,941	421,224	673,395
Germany	1,157	8,348	37,121	54,144	32,472	95,215	24,203	46,710
Austria	2	4,899	77,584	157,243	285,019	463,075	233,361	464,209
US	2,368,386	2,022,856	2,261,779	2,056,941	2,031,283	1,314,862	672,239	672,588
Canada	4,413,272	5,455,889	5,198,347	5,811,122	6,028,509	5,653,614	3,816,447	4,526,851
Russia	224,512	284,729	350,338	n/a	n/a	522,929	310,324	458,037

ECONOMIC IMPACT ANALYSIS

While CINTRAFOR continues to emphasize trade research and analysis, it also has an international reputation for forest resource and forest sector economic research. Requests from government leaders and management agencies to analyze the regional economic impacts of declining timber supplies, and to work on long-term solutions for timber production and environmental protection remain an important component of CINTRAFOR's mix of projects.

• **An economic impact assessment on small businesses** of the new forest practice rules implemented under the Forest and Fish Agreement was completed for WA Dept. of Natural Resources. The study examined the costs associated with the rule changes on small and large businesses and determined whether there exists a disproportionate impact on small business. The study, currently being finalized by DNR, shows a disproportionate impact on small businesses in rural Washington resulting from implementation of these new proposed forest practices rules.

• **A cost benefit analysis** showed substantial variation in employment impacts. The preliminary findings of the Cost Benefit analysis indicate that the probable benefits of the new proposed rules may outweigh the costs of compliance for the rules if fish populations increase by 5% over assumed trend-line levels. The new proposed rules changes are the least burdensome when compared to an alternative rule change that further restricts timber harvests. These preliminary findings are under DNR review.

• **New regulations** that have been put into place to protect salmon stocks have affected timber harvest in buffer zones around streams. While lower timber harvest levels will increase market prices in the short run, long-run effects are not as clear. Understanding to whom the burden of these restrictions falls may be measured by correctly deducing the price and volume effects from implementing timber harvest buffers. CINTRAFOR provided WA State DNR with an estimate of the long-run demand elasticity for timber under varying harvest levels in the state by using the Global Trade Model. Longer-term price responses suggests that potential revenue increases for those timber owners with available supplies will depend on substitution pressures from outside the region and demand projections for the US and Asian economies. An estimated reduction in mill capacity is likely to lead to less timber demand in the region, while lumber and other intermediate product supply may be met by other producers outside of Washington State. As a consequence there may be little price impact over the longer term for timber producers in Washington State.

CINTRAFOR's Contributing Faculty*

B. Bruce Bare, Acting Dean, *quantitative systems & forest valuation*
Paul Boardman, *international marketing research*
David Briggs, *value-added industries & operations research*
Ivan Eastin, *international marketing research*
Richard Gustafson, *paper process simulation*
Robert Lee, *sociology of forest communities*
Bruce R. Lippke, *forest sector economic impact analysis*
Jay Johnson, *wood & wood component properties*
Dorothy Paun, *marketing management*
John Perez-Garcia, *international competitiveness*
Gerard Schreuder, *statistics and global forestry*

**Most faculty are not paid by CINTRAFOR but contribute research time to projects carried out by CINTRAFOR funded graduate research assistants*

Staff

Rosemarie Braden
research & technical communications
Jane Edelson
research & information systems
Kylie Dunn
publications , administrative systems
Nicole Stevens
administration

GLOBAL WOOD COMPETITVENESS AND ENVIRONMENTAL IMPACT ASSESSMENT

CINTRAFOR's Global Trade Model (CGTM) and regional supply analyses provide valuable tools for understanding global competitiveness and environmental linkages.

- An analysis of the potential effects of implementing the **Accelerated Tariff Liberalization (ATL)** proposal was completed for the US Trade Representative**,** with support from the US Forest Service and EPA. Trade simulations with the CGTM were implemented with and without the ATL program in place. The results suggest that the current market condition in Asia (low demand with little processing) and tight supply conditions in the US (high demand with tight timber supplies) would lead to increased US prices in the softwood lumber market and reduced consumption. Those countries with available processing facilities and timber increased their production. Countries without the processing facilities and only the raw material did not increase production as some have suggested. Since much of the increased activity occurs in North American rather than Asia, the ATL program does not present any significant threat to the unmanaged forests of Asia. Results of the analysis were published in a report by the USTR for the WTO meeting in Seattle.

- Responses of the global forest sector to different scenarios of **carbon emission** controls were recently examined. The global forest products sector has been integrated into assessments of the global carbon cycle by linking global models of general economics (with a focus on energy use), climate dynamics, ecosystem processes and forest economics. In general, policies to manage emissions lead to alternative climate and economic responses. Alternative climates affect the forest sector through changes in timber availability. The responses of the forest sector in the hardwood sector are smaller than the responses observed for the softwood sector. Economic factors exert a significant influence over the response of the forest sector. Regions with the lowest wood fiber production costs expand market shares at the expense of higher cost regions, irrespective of timber inventory gains associated with climatic factors. While the global economy experiences gains in consumption and lower product prices, trade in forest products produces different economic responses across the globe. In general, timber owners lose revenues and consumers gain welfare due to climate change. A journal article of the findings has been submitted for peer review.

OUTREACH MARKET ASSISTANCE, EDUCATION, AND PUBLICATIONS

CINTRAFOR strives to make research results and project information available to interested users while supporting the education of young professionals and continuing education programs. In 2001:

- CINTRAFOR sponsored the **17th Annual International Forest Products Marketing Conference** this year. Numerous representatives from the private sector, government offices, and associations, from numerous countries attended the conference in November. Speakers covered projections, deregulation and code changes, market opportunities, country profiles, analysis of regional timber supplies, and financial performance. Presentations from the event are posted on CINTRAFOR's website for review.

- Two **newsletters** highlighting research findings were published and distributed to a mailing list of 2,500. A website of publications, abstracts, and trade statistics was expanded to increase public access to CINTRAFOR information and activities. Four hundred published reports were distributed.

- Information was provided to industry, government, foreign delegates, non-profit, academic, and media users through approximately **1200 short consultations** and requests for information and activities. About **70 public and professional conference presentations** were provided.

- CINTRAFOR's weekly seminar on issues important to international trade was offered as a graduate-level University of Washington course for three quarters in 2001. CINTRAFOR's research is supported by 7 funded graduate students in marketing and economic research. Students provide language proficiency in Japanese, Chinese, Korean, Spanish and a number of European languages.

WP = Working Paper, SP = Special Paper

For more information about any of these projects contact:

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