

Transparency in Markets and Supply

NATIONAL COUNCIL OF FOREST ASSOCIATION EXECUTIVES

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SCHOOL OF ENVIRONMENTAL AND FOREST SCIENCES

UNIVERSITY *of* WASHINGTON

College of the Environment



Transparency in Markets and Supply

Transparency:

easy to perceive or detect, unequivocally clear, lucid

Transparency and Uncertainty

- **Some degree of uncertainty is inevitable but familiar and manageable (i.e., relatively transparent)**
 - e.g., supply, demand, inflation, housing, economic growth
- **Some uncertainty can be extremely disruptive, especially when clouded by a lack of transparency**
 - e.g., innovation (due to a lack of history) and war (because the stakes are high and secrecy is tantamount)
- **The U.S.-China trade war has escalated uncertainty and is resulting in casualties and long-term consequences**

The Trade-War Growth Slowdown

The damage from tariff uncertainty is all over second-quarter GDP.

By The Editorial Board

July 26, 2019 7:11 pm ET

Investors should sit on the fence amid trade war uncertainty, asset manager warns

Published: July 5, 2019 1:38 a.m. ET



June 30, 2019 | Topic: economy | Region: Americas | Tags: Economy, Donald Trump, Tariffs, Foreign Exchange, China

Uncertainty on Trade is Killing American Businesses

Uncertainty is causing real damage to U.S. consumers and producers.

by Robert Krol

China Business

What truce? US-China trade war uncertainty still weighing on global growth, Morgan Stanley says as it cuts outlook

- Continued uncertainty over US-China trade war remains an 'overhang' on business confidence
- Outlook for global GDP growth now 3 per cent for 2019, 3.2 per cent for 2020



Chad Bray

Published: 7:26pm, 1 Jul, 2019

Menu

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Bloomberg

Economics

Global Uncertainty Gauge Enters 2019 at Record High Level

By Shelly Hagan

February 4, 2019, 8:54 AM PST

24,390 views | Jun 6, 2019, 10:00am

Avoiding Collateral Damage From Trade War Uncertainty



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From soybeans and automobiles to lumber and lobsters, industries across the board have felt the impact as the U.S. seeks to stimulate demand for its goods and China continues to press for greater global economic influence. With the



The New York Times

Trade War May Be Slowing Business Spending and Factories, Fed Says

By Jeanna Smialek

July 5, 2019



WASHINGTON — Federal Reserve officials worry that the uncertainty caused by the trade war between the United States and China could be constraining business spending and may be contributing to a manufacturing slowdown that is dragging on growth.

The concerns were outlined in the Fed's semiannual [Monetary Policy Report](#), released on Friday as Jerome H. Powell, the chair, prepared to testify on Capitol Hill next week.

The Trade-War Growth Slowdown

The damage from tariff uncertainty is all over second-quarter GDP.

By [The Editorial Board](#)

July 26, 2019 7:11 pm ET

The big disappointment was private business investment, which subtracted a percentage point from GDP... Executives reported delaying investment decisions since they don't know the impact of a multi-front trade war on cross-border supply chains.

- Foreign investment in the U.S. has been declining (investment from China is down 88% between 2016-2018)
- Declining U.S. exports subtracted 0.63% from Q2 growth after a rush to buy from the U.S. in Q1 to avoid the impending increase in tariffs
- U.S. import prices are up 1.7%
- Tariff wars, real or threatened, are denting growth everywhere; the IMF has cut its growth forecast for the world economy from 3.6% to 3.2%

Uncertainty is compounded because the U.S. has historically championed free trade and lower tariffs

ECONOMICS & SOCIETY

America's Uneasy History with Free Trade

by I. M. Destler

APRIL 28, 2016

- After WWII, amid a desire to integrate and rebuild the post-war economy, the U.S. led the creation of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).
- Trade expansion was center to broader U.S. foreign policy during the Cold War. Trade agreements helped bind together the major free-market democracies, and their growing prosperity served as an effective counter to the centrally planned economies of the Soviet Union and China.

I saw that you could not separate the idea of commerce from the idea of war and peace. ... Though realizing that many other factors were involved, I reasoned that, if we could get a freer flow of trade—freer in the sense of fewer discriminations and obstructions—so that one country would not be deadly jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for lasting peace.

— Cordell Hull, U.S. Secretary of State, 1933-1944

“Peace is a natural effect of trade.”
—Charles de Montesquieu

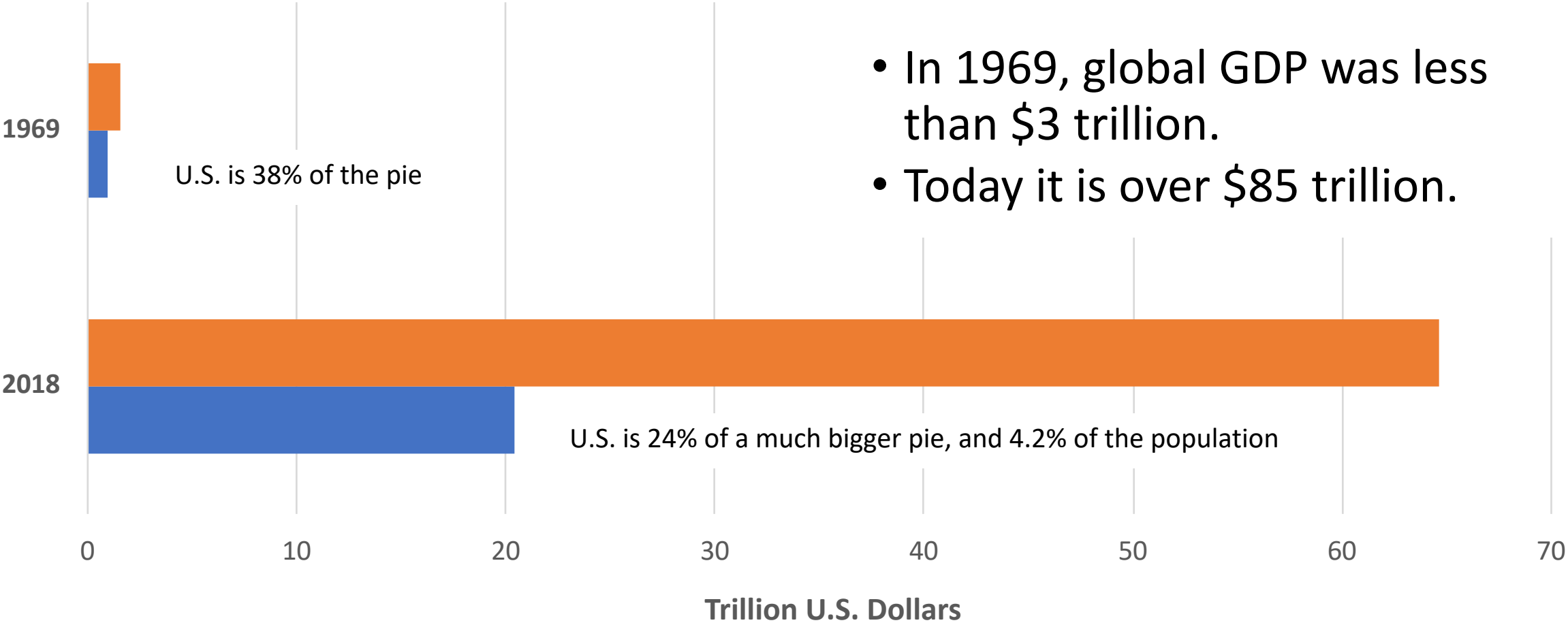
“Peace is a natural effect of trade.”
—Charles de Montesquieu

“Peace is a natural effect of trade.”
—Charles de Montesquieu



Global GDP 1969 vs. 2018

Rest of the World U.S.



“Free trade” involves rules & regulations

- The U.S. is the largest economy in the world, has the most complaints filed against it in the WTO, and files the most complaints with the WTO.
- Across all countries, complainants win about 90% of the time.
 - Since China joined WTO, the U.S. has filed 23 complaints against China: 9 were settled, 10 ruled in favor of the U.S., four are pending.
 - China has filed 15 complaints against the U.S.: 1 was settled, 4 ruled in favor of China, 1 ruled for the U.S., 3 were a split decision, 6 are pending.

Formal Complaints Filed with the WTO			
Top 10 Sources		Top 10 Targets	
USA	120	USA	150
EU	97	EU	85
Canada	38	China	41
Brazil	31	India	25
Mexico	25	Canada	23
India	24	Argentina	22
Japan	23	Korea	18
Korea	22	Brazil	16
China	21	Australia	16
Argentina	20	Japan	15

Source: World Trade Organization

And there are other remedies, such as antidumping and countervailing duties



FEDERAL REGISTER
The Daily Journal of the United States Government



Notice

Certain Hardwood Plywood Products From the People's Republic of China: Countervailing Duty Order

A Notice by the [International Trade Administration](#) on 01/04/2018

PUBLISHED DOCUMENT

AGENCY:
Enforcement and Compliance, International Trade Administration, Department of Commerce.

SUMMARY:
Based on affirmative final determinations by the Department of Commerce (Commerce) and the International Trade Commission (ITC), Commerce is issuing the countervailing duty order on certain hardwood plywood products (hardwood plywood) from the People's Republic of China (China).

DATES:
Applicable January 4, 2018.

DOCUMENT DETAILS

Printed version:
[PDF](#)

Publication Date:
01/04/2018

Agencies:
[International Trade Administration](#)

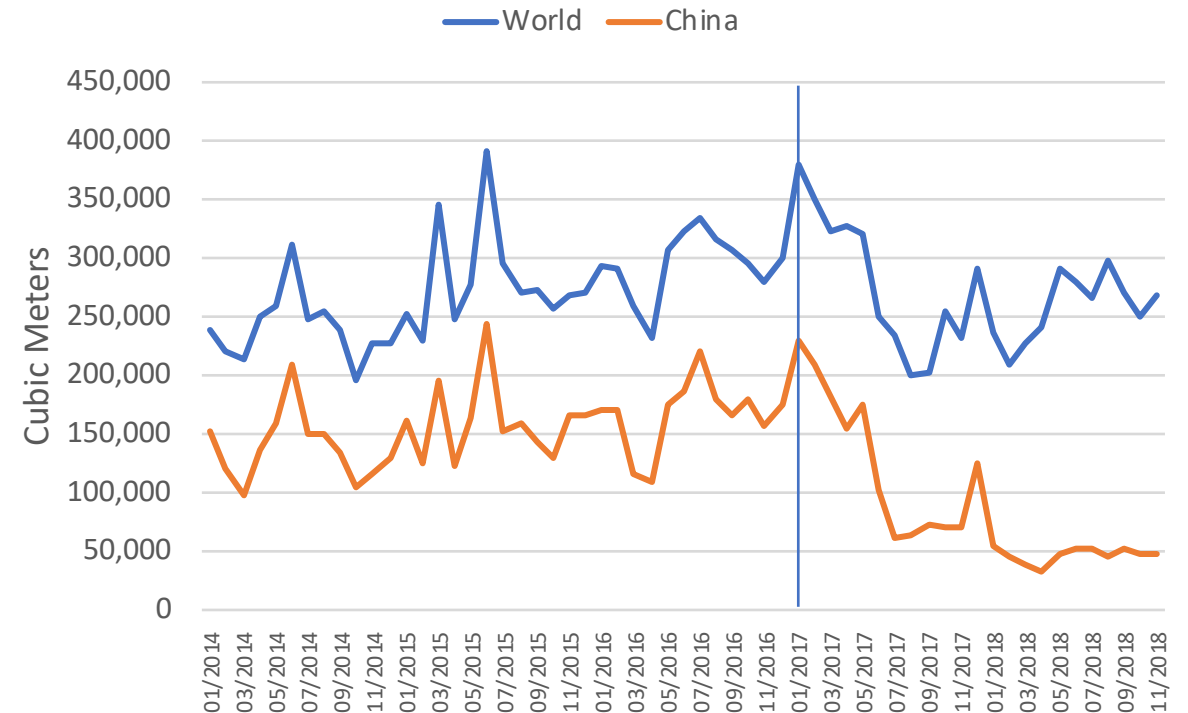
Dates:
Applicable January 4, 2018.

Document Type:
Notice

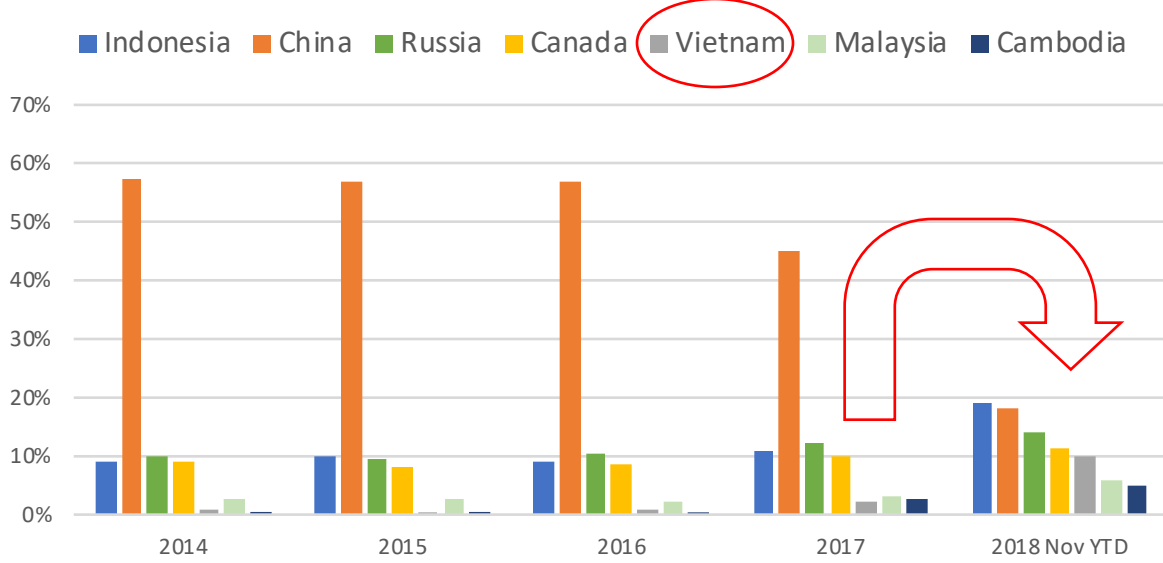
Document Citation:
83 FR 513

Page:
513-516 (4 pages)

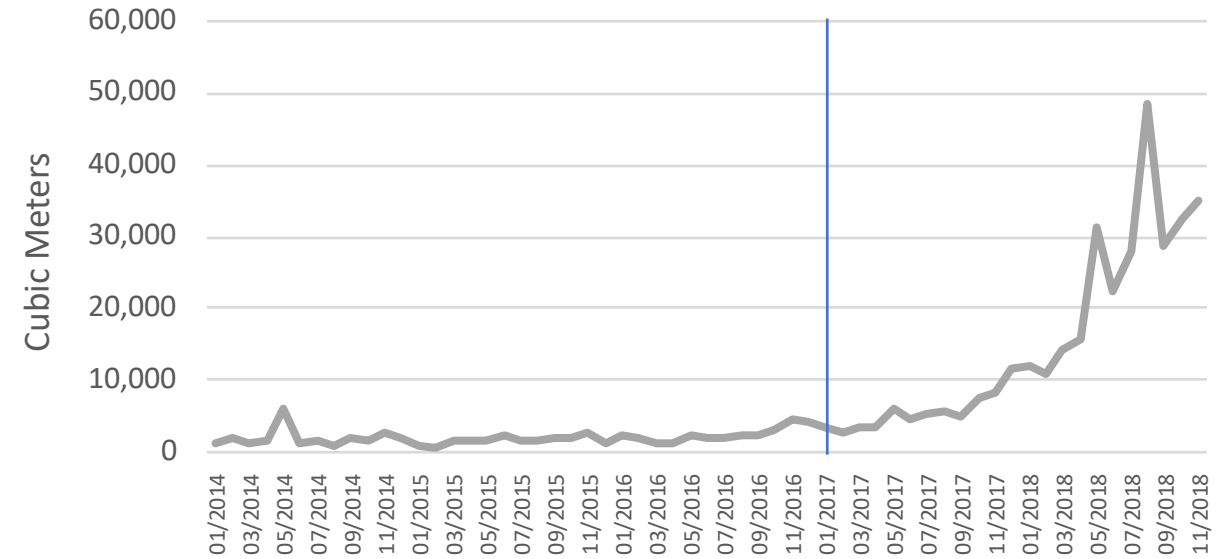
U.S. Imports of Hardwood Plywood



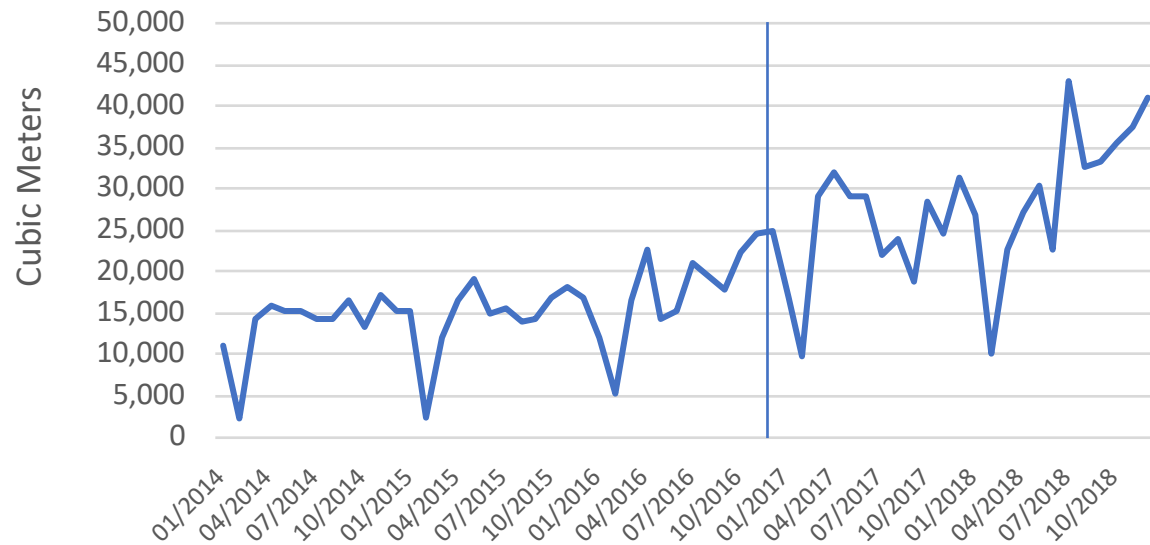
U.S. Hardwood Plywood Import Sources



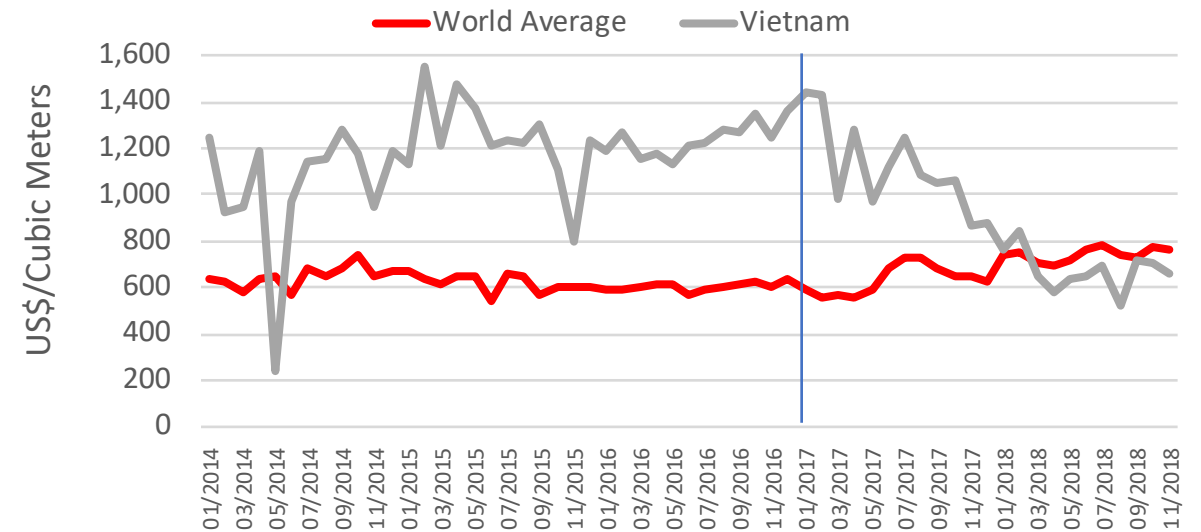
U.S. Hardwood Plywood Imports from Vietnam



China Hardwood Plywood Exports to Vietnam



U.S. Hardwood Plywood Imports \$/m3



But the current U.S.-China trade war is different

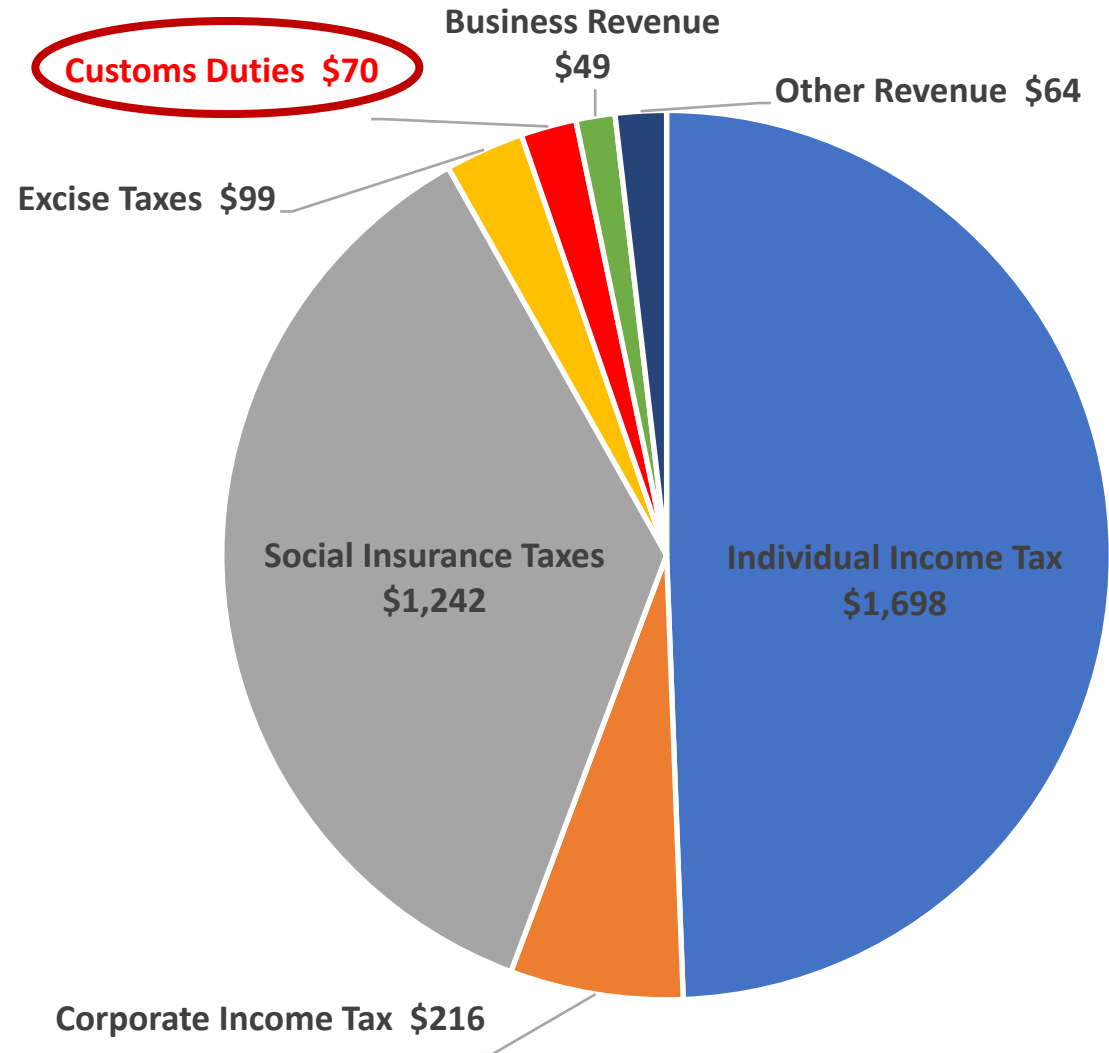
- Threatening and implementing wholesale tariffs to force a myriad of changes, often unrelated to the products being taxed, is wreaking havoc on the global trading system and many U.S. companies.
- The U.S.-China trade war has escalated uncertainty and is resulting in casualties and long-term consequences.

Tariffs

- **Tariffs are a tax on imported goods**
- **Paid by the U.S. importer**
- **Collected by U.S. Customs**
- **Tax revenue for the U.S. Treasury**

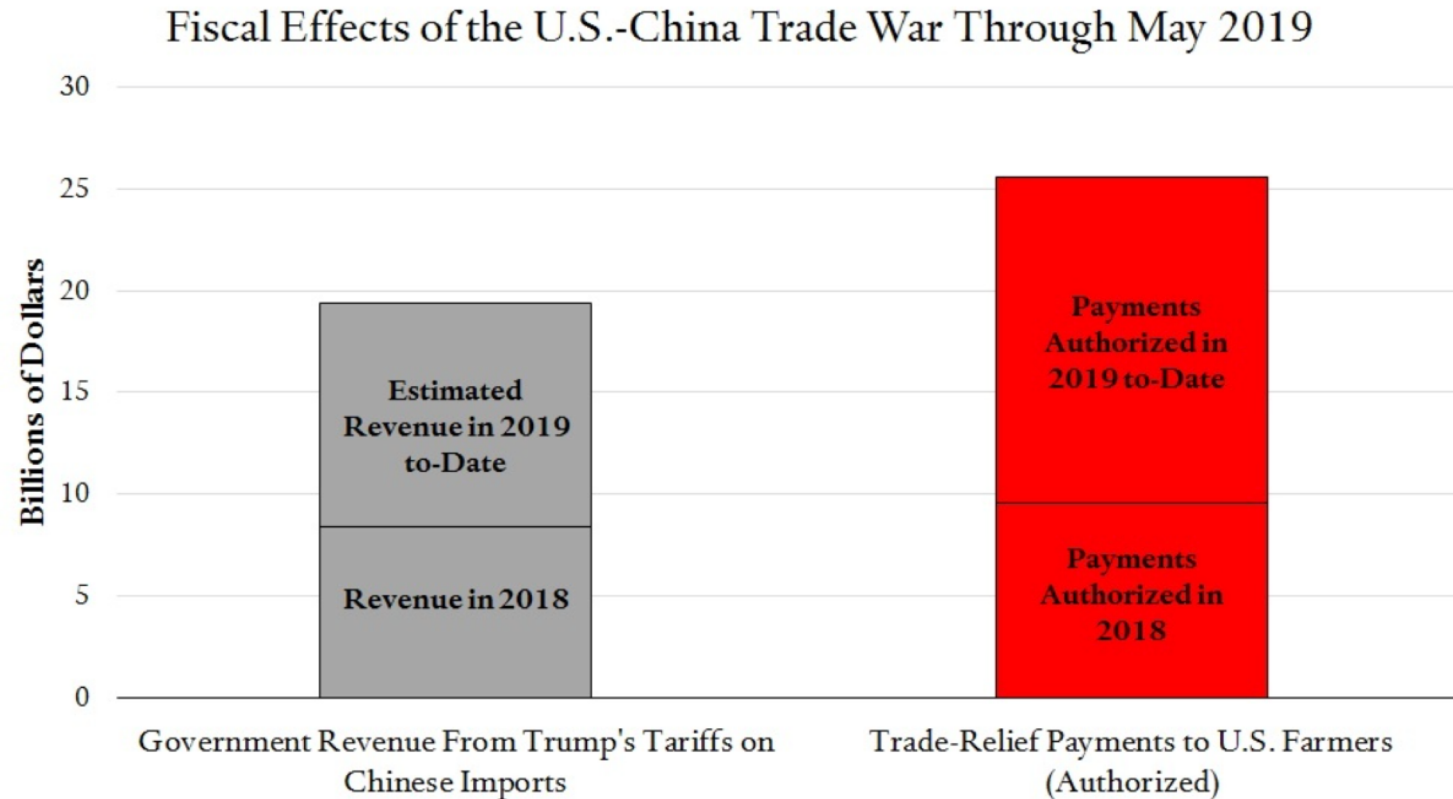
U.S. Federal Government Revenues

FY 2019 \$3.4 Trillion



- Tariffs provide 2% of Federal tax revenue
 - Est. \$70 billion in 2019

Relief for farmers alone is, thus far, costing more than the increase in tariff revenue



Notes: Tariff revenues for 2019 are conservatively estimated by extrapolating 2018 data, without adjusting for the declining volume of U.S. imports from China between January and March 2019. November and December 2018 tariff revenues are estimated from October 2018 revenues.
Data sources: Tariffs Hurt the Heartland; U.S. Department of Agriculture; authors' calculations

Benn Steil & Benjamin Della Rocca
cfr.org/blog/geo-graphics

Source: Council on Foreign Relations

Who Pays the Tariff?

- Tariffs are paid by the importer
- Who ultimately “pays” depends on market conditions
 - If the foreign supplier reduces prices to compensate, or loses the business to a non-tariffed supplier, they effectively pay
 - If the supplier doesn’t reduce prices, either the importer cuts their profit margin (i.e. the importer pays) or they raise prices and the consumer pays
 - If consumers pay the tariff via higher prices, it is a regressive form of taxation

Trade Wars

- **A unilateral increase in tariffs is usually reciprocated, leading to a “trade war”**
- **Some domestic companies and non-targeted foreign suppliers producing similar goods will benefit**
- **But in war there are casualties on both sides**
 - **Domestic companies depending on trade are damaged**
 - **Supply chains are disrupted**
 - **Consumer prices usually increase, and choice decreases**
 - **Investment is retarded**
 - **Non-tariff barriers increase**
 - **Distrust bred by the trade war spills into other areas**
 - **There will be unintended consequences**



TRADE & INVESTMENT POLICY WATCH

Steel Profits Gain, but Steel Users Pay

[Gary Clyde Hufbauer](#) (PIIE) and [Euijin Jung](#) (PIIE)

December 20, 2018 10:45 AM

Photo Credit: PIIE/William Melancon

Our arithmetic is stark. Steel tariffs will boost firm pre-tax earnings by \$2.4 billion and create about 8,700 jobs—over \$270,000 of pre-tax profits for each job. Steel users will pay an additional \$5.6 billion for more expensive domestic steel, thanks to protection. In other words, steel users will pay about \$650,000 for each job created in the steel industry.

Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy*

Alberto Cavallo
Harvard University

Gita Gopinath
Harvard University and IMF

Brent Neiman
University of Chicago

Jenny Tang
Federal Reserve Bank of Boston

May 2019

- A nearly complete passthrough of tariffs to the total price paid by importers suggests **the tariff incidence has fallen largely on the US.**
- Analyses of retail prices preliminarily shows the higher cost of imports passed through to consumers for some goods but absorbed by lower retailer profit margins for others.
- In contrast to imports, US exports subjected to retaliatory tariffs exhibited declines in their ex-tariff prices relative to equivalent but non-targeted goods.

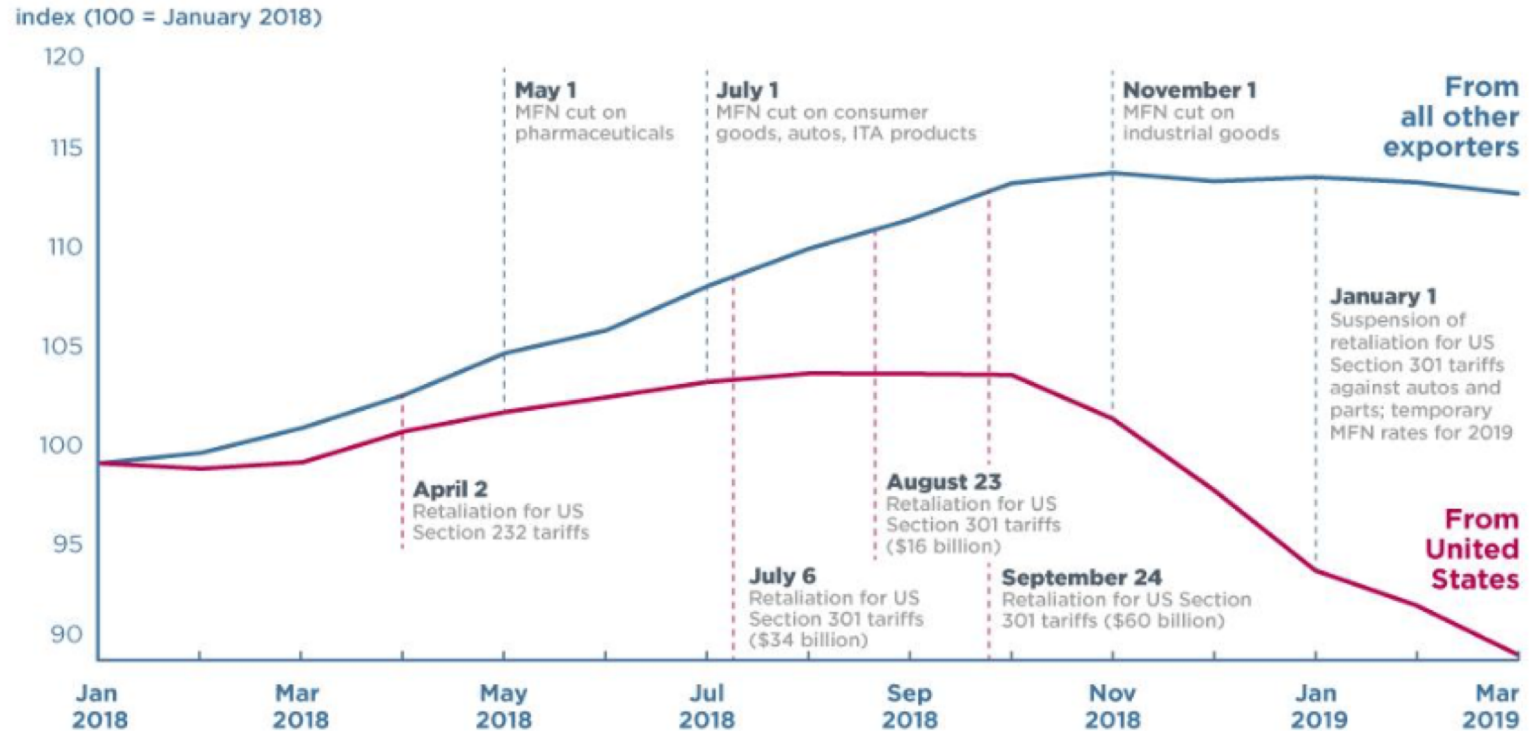
While imposing retaliatory tariffs on the U.S., China has lowered tariffs on everyone else

(consistent with WTO rules)

- China's average tariff on U.S. imports is now 20.7% (up from 8%)
- China's average tariff on everyone else is now 6.7% (down from 8%)

Figure 4

China's imports from the United States have declined much more rapidly than imports from elsewhere during the trade war



ITA = Information Technology Agreement; MFN = most favored nation

Note: China's monthly import data, not seasonally adjusted, 12-month trailing average.

Source: Constructed by the authors with data from Trade Map, International Trade Centre, marketanalysis.intracen.org.

US/China trade war could boost Brazil soy export, Amazon deforestation

by Zoe Sullivan on 21 June 2018 |



Unintended consequences

If the U.S./China trade war results in a significant surge in Brazilian commodities production, deforestation rates there could soar. Scientists worry that Amazon deforestation, now at 17 percent, could be pushed past a 20-25 percent climate tipping point, converting rainforest to savanna, greatly swelling carbon emissions, and potentially destabilizing the regional and even global climate.

Trade War Casualties in the U.S.

- Consumers
- Ports & dock workers
- Auto industry
- Farmers
- and others, including...
- **The U.S. Hardwood Industry**



Photographer: Tomohiro Ohsumi/Bloomberg

Markets

China's Tariffs on U.S. Hardwood Exports Deliver 'Painful' Blow

By [Jen Skerritt](#)

August 3, 2018, 11:48 AM PDT



U.S. Hardwood Industry Suffers from China Trade War

For Immediate Release

Media Contact

Dana Cole
Executive Director
Hardwood Federation
Dana.Cole@HardwoodFederation.com
202.463.2705

U.S. Hardwood Industry Suffers From China Trade War

WASHINGTON, D.C., May 24, 2019 – The U.S. Hardwood Lumber industry has a heavy reliance on export markets for its survival, and is being devastated by the ongoing trade dispute with China. Domestic mills have suffered sharp declines in export sales. Operations have been shuttered. Jobs lost. Communities, reliant on good paying hardwood jobs, ruined.

Woodworking Industry News

Hardwood lumberers concerned over proposed Chinese tariffs

By Robert Dalheim | August 07, 2018 | 1:56 pm EDT



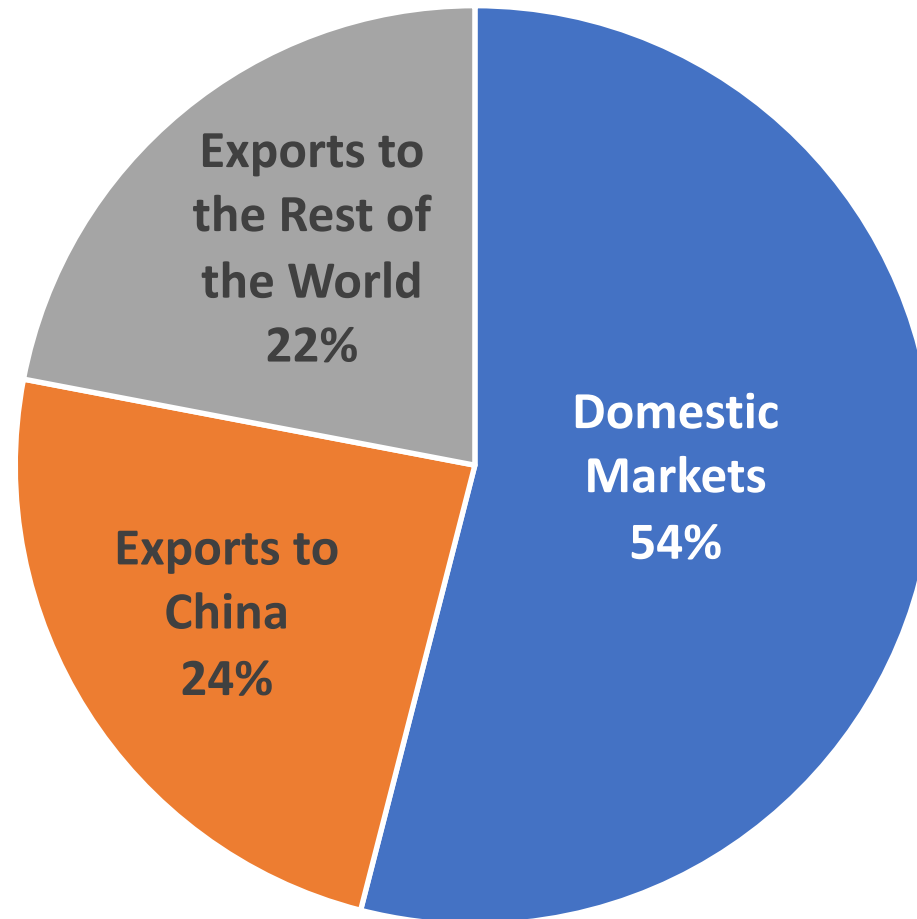
CNN Politics
@CNNPolitics

As trade talks stall between the US and China, the effects of soaring tariffs are making struggling US industries suffer even more. CNN's Vanessa Yurkevich reports the lumber industry has been cut by nearly 40% because of tariffs



China is the Largest Market for U.S. Hardwoods

U.S. Hardwood Grade Lumber Consumption 2018



Chronology of the U.S.-China Trade War 2018-2019

- Jan-Apr U.S. imposed 30% on solar panels and 20% on washing machines
U.S. imposed 25% on steel and aluminum
China retaliates with 15-25% on \$3 billion of U.S. goods
- July 6 US imposes 25% on \$34 + \$16 billion of goods, including furniture;
China retaliates in proportion
- Sep 24 U.S imposes 10% on \$200 billion of goods; increasing to 25% on Jan 1.
China retaliates with 5-10% on \$60 billion, including logs and lumber
- Dec 2 U.S. grants 90-day extension before the increase to 25%
- Feb 24 U.S. delays increase again
- May 10 U.S. increases to 25% on \$200 billion of targeted goods
- June 1 China increases to 10-25% on \$60 billion

Source: USDA Gain Report No. CH19030, May 17, 2019

Chinese Tariffs on U.S. Wood Products

September 24, 2018		June 1, 2019		
5%	10%	5%	20%	25%
	Pine logs			Pine logs
Doug Fir logs >15cm	Doug Fir logs <15cm	Doug Fir logs >15cm	Doug Fir logs <15cm	
	Spruce, Fir logs			Spruce, Fir logs
Other conifer logs >15cm	Other conifer logs <15cm	Other conifer logs >15cm	Other conifer logs <15cm	
	Hardwood logs		Hardwood logs excl. Oak	Oak logs
	Softwood lumber		Softwood Lumber excl. Spruce & Fir	Spruce, Fir lumber
Poplar, Maple, Walnut, Alder lumber	Oak, Cherry, Ash lumber	Poplar, Maple, Walnut, Alder lumber	Cherry, Ash lumber	Oak lumber

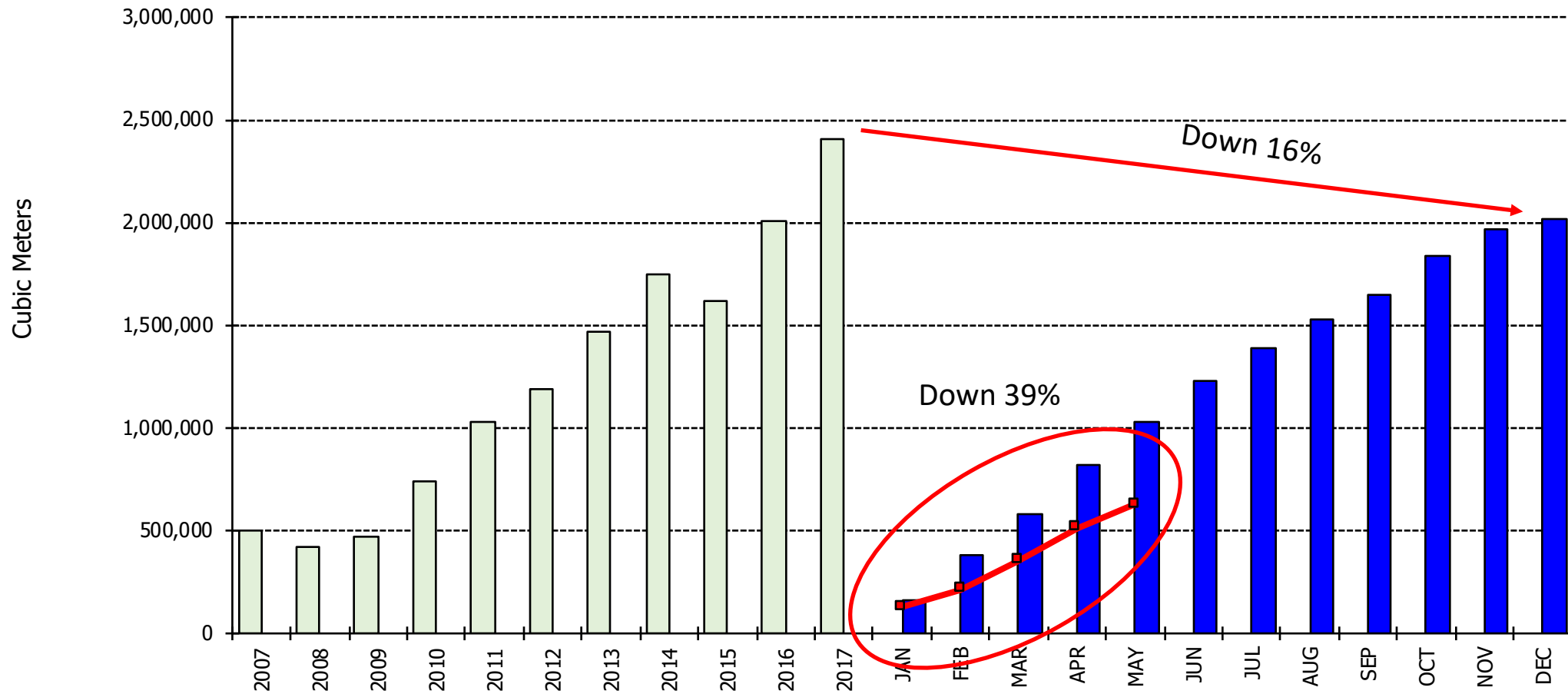
No change



US Hardwood Lumber Exports to China

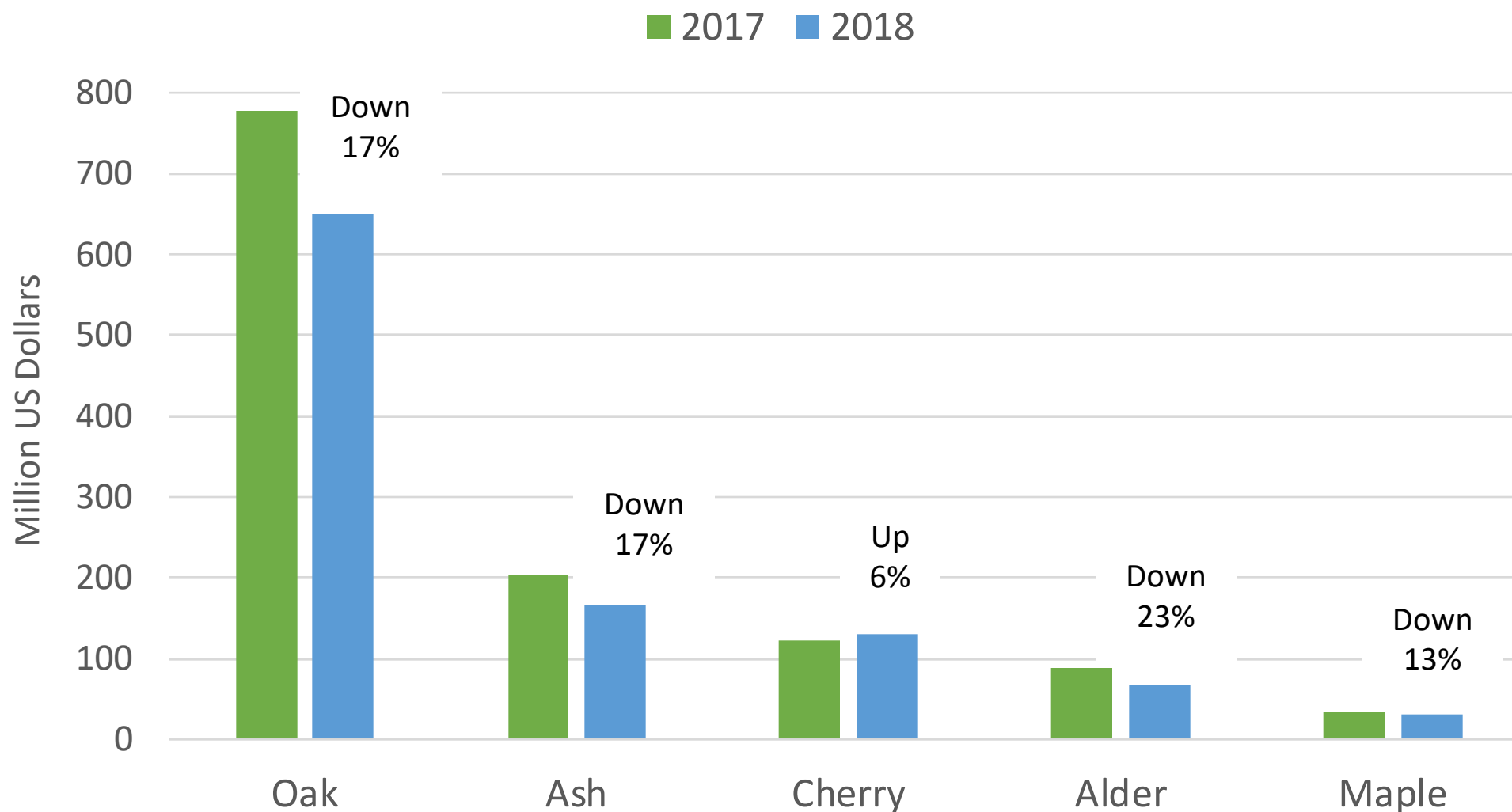
Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas

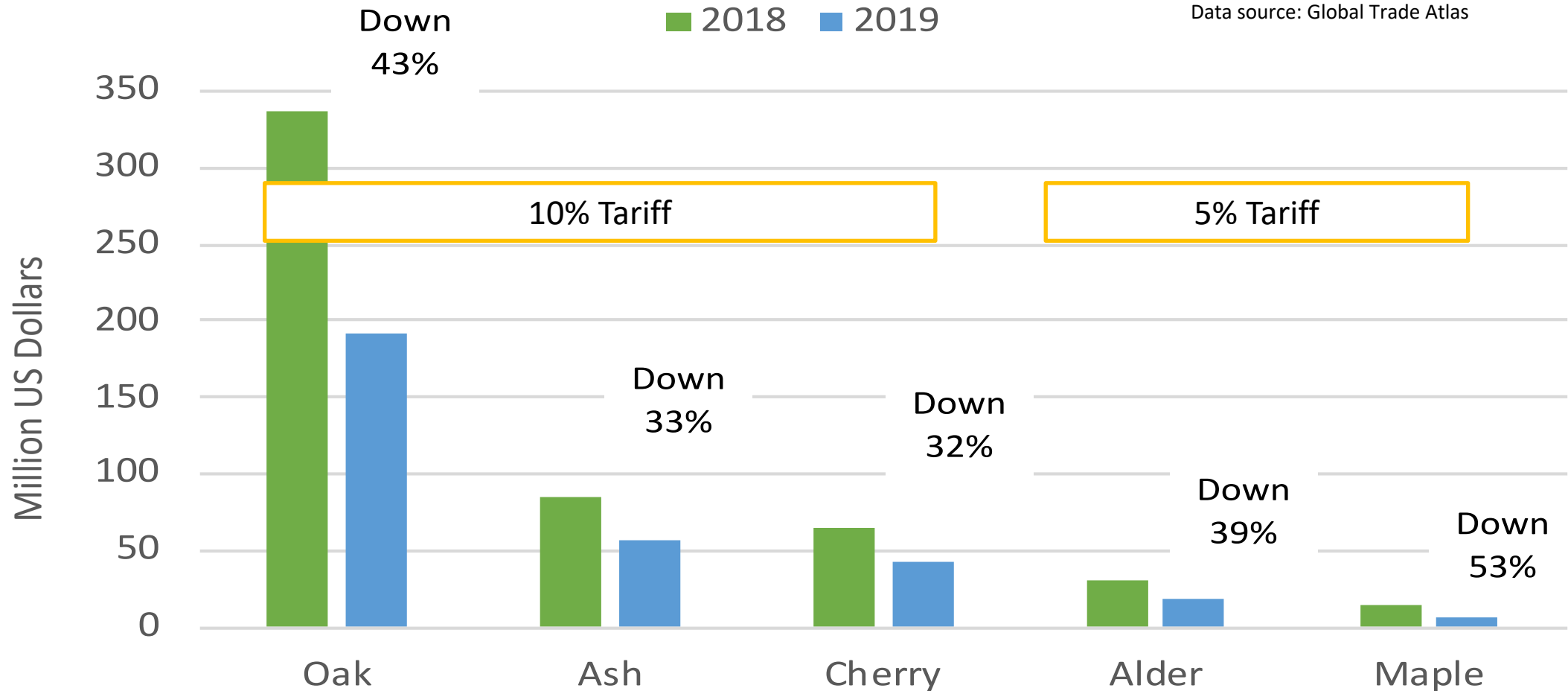
U.S. Hardwood Lumber Exports to China



U.S. Hardwood Lumber Exports to China

May 2018 YTD vs May 2019 YTD

Data source: Global Trade Atlas



Tariff as of June 1, 2019:

25%

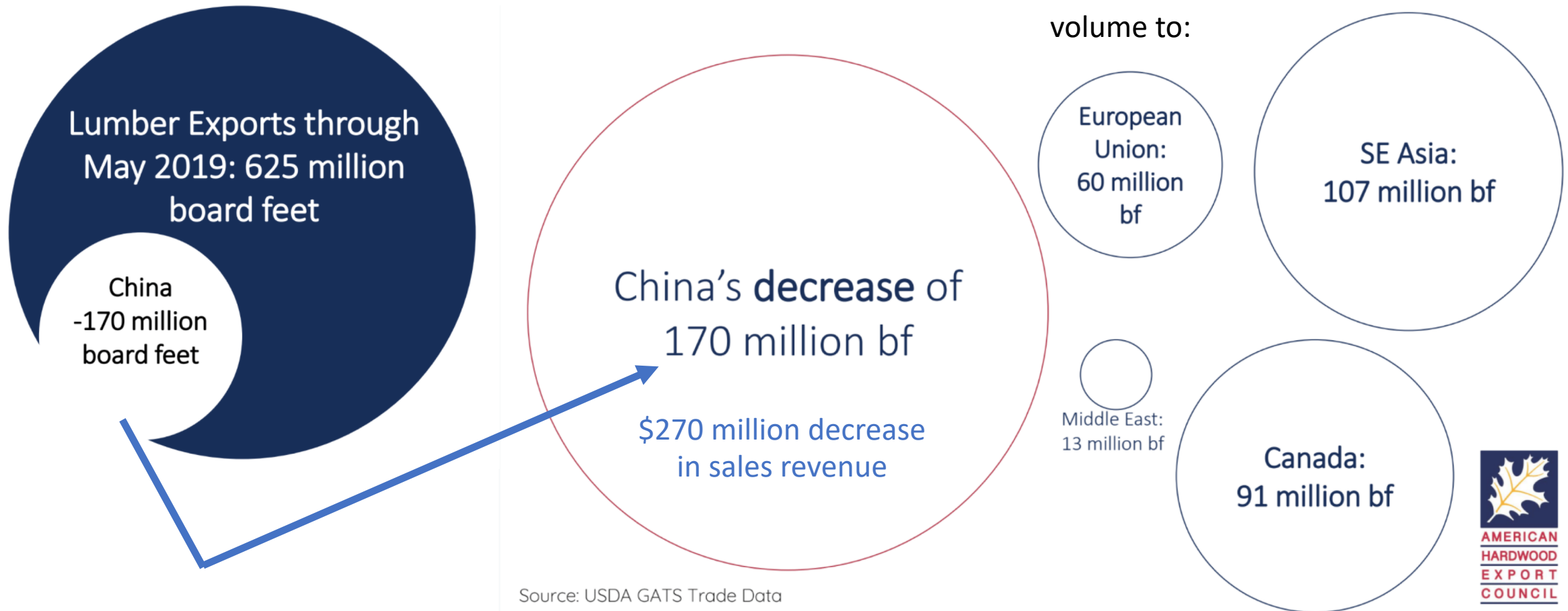
20%

20%

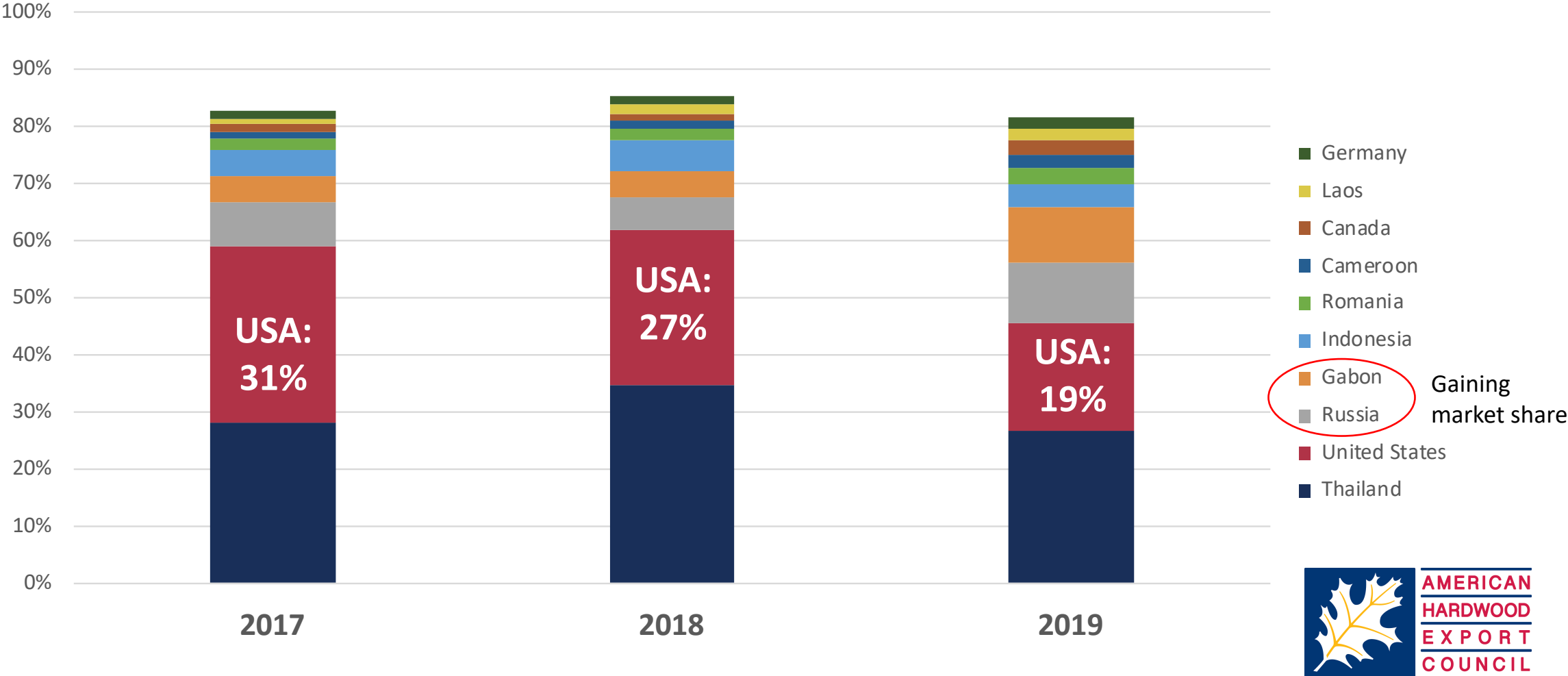
5%

5%

2019 exports to China through May are down 170 million board feet

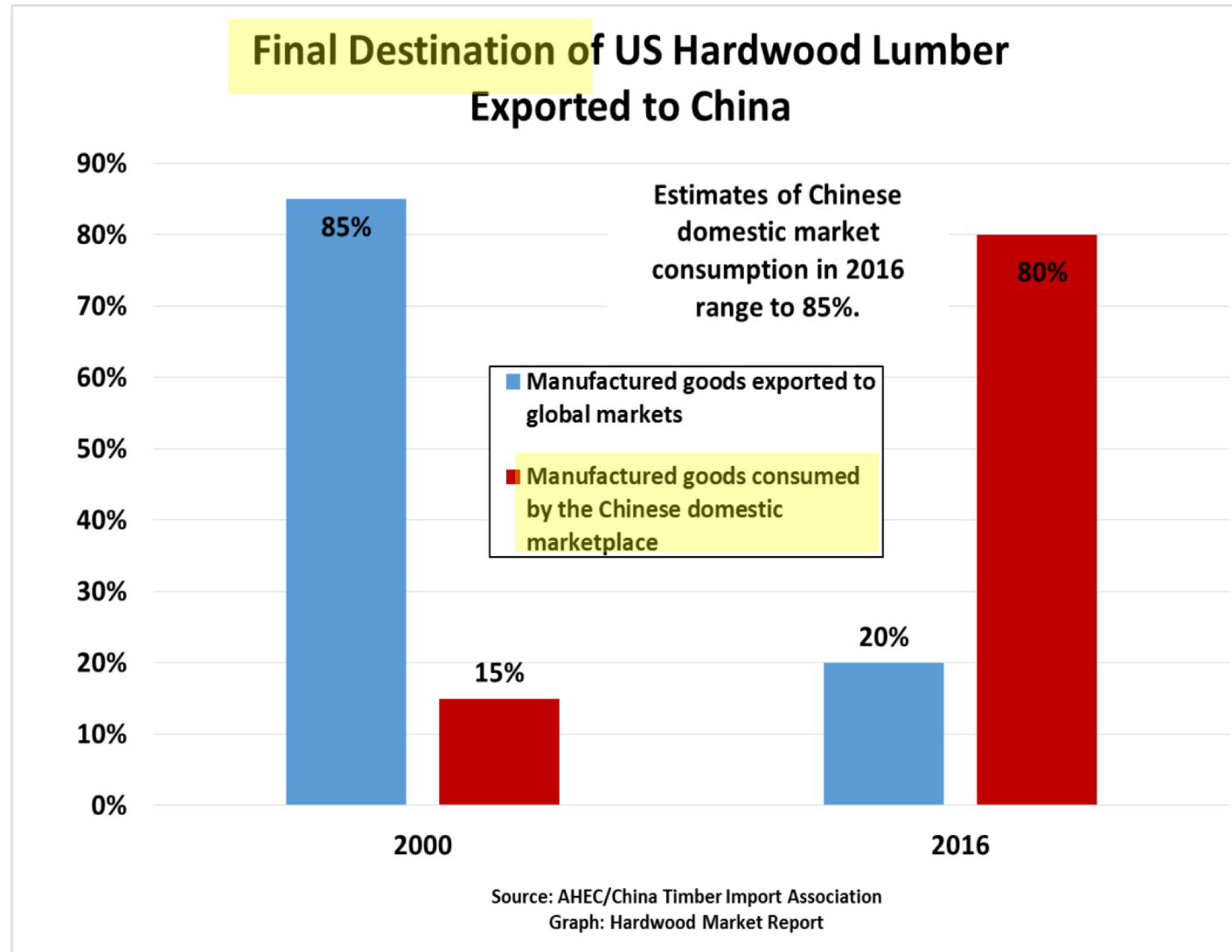


The U.S. is Losing Market Share in China



Source: Global Trade Atlas, data through March '19

Losing Market Share in a Large and Growing Domestic Market

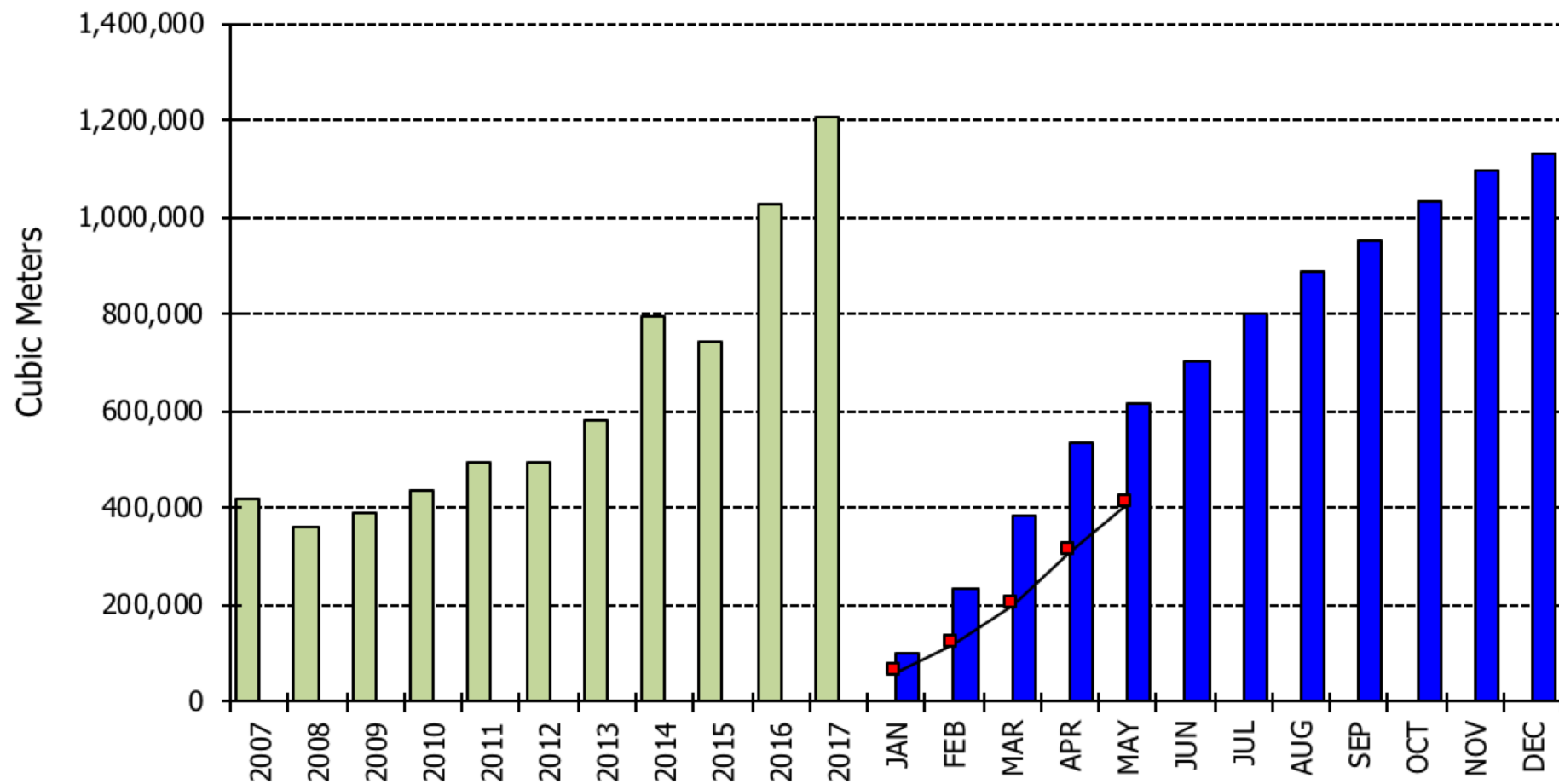


Most of the U.S. hardwoods going to China stay in China, in furniture and interior decoration for the domestic market.

US Hardwood Logs Exports to China

Blue Columns = 2018

Red Line = 2019 YTD

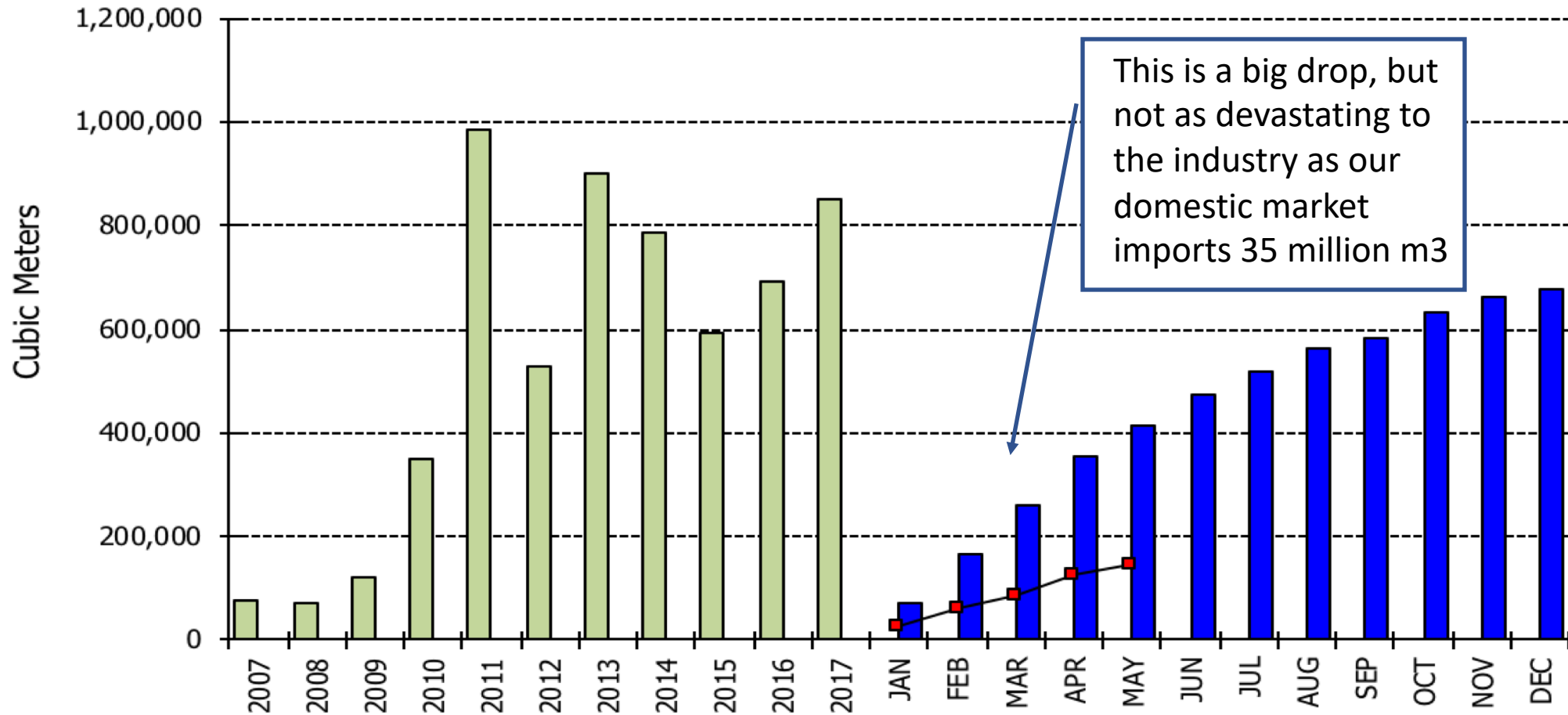


Source: Global Trade Atlas

US Softwood Lumber Exports to China

Blue Columns = 2018

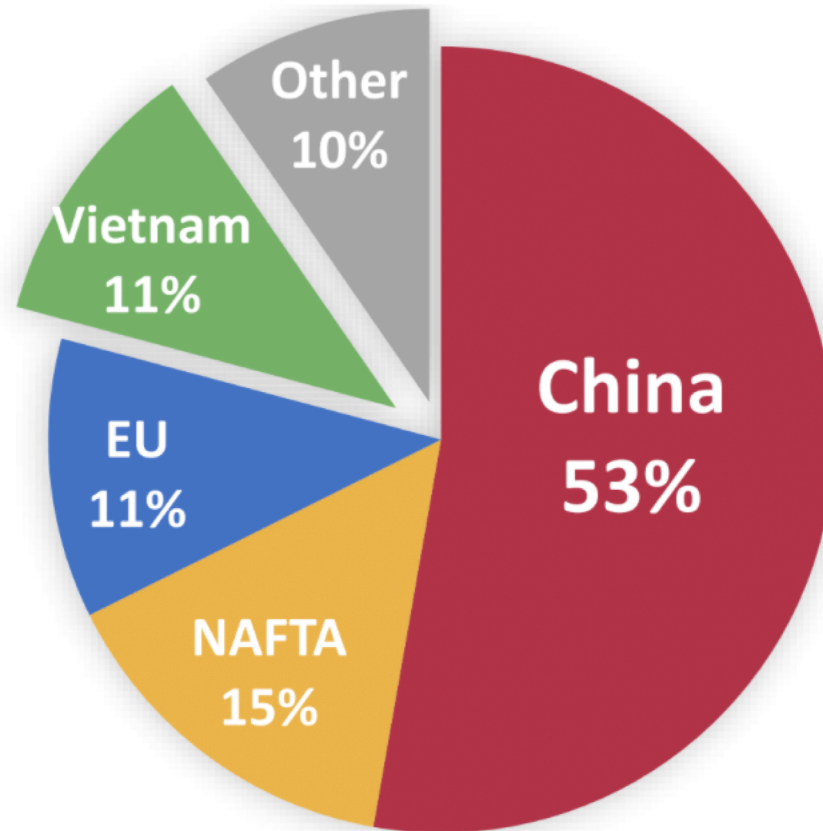
Red Line = 2019 YTD



Source: Global Trade Atlas

No Other Markets Can Absorb the China Volume

And... the U.S. concurrently has ongoing trade disputes with the largest of our alternative markets.



Source: USDA GATS Trade Data



The Inter-Mountain

Tariffs taking toll on hardwood

industry

Frank Stewart
Executive Director
W.Va. Forestry Assoc.

The third round of retaliation in September 2018 placed a 10% tariff on Red Oak and other species from the U.S. With falling prices, and now a tariff, Red Oak quickly became a loss leader for sawmills. The number one market for the number one species of American hardwood lumber was being sold below cost — if it sold at all.

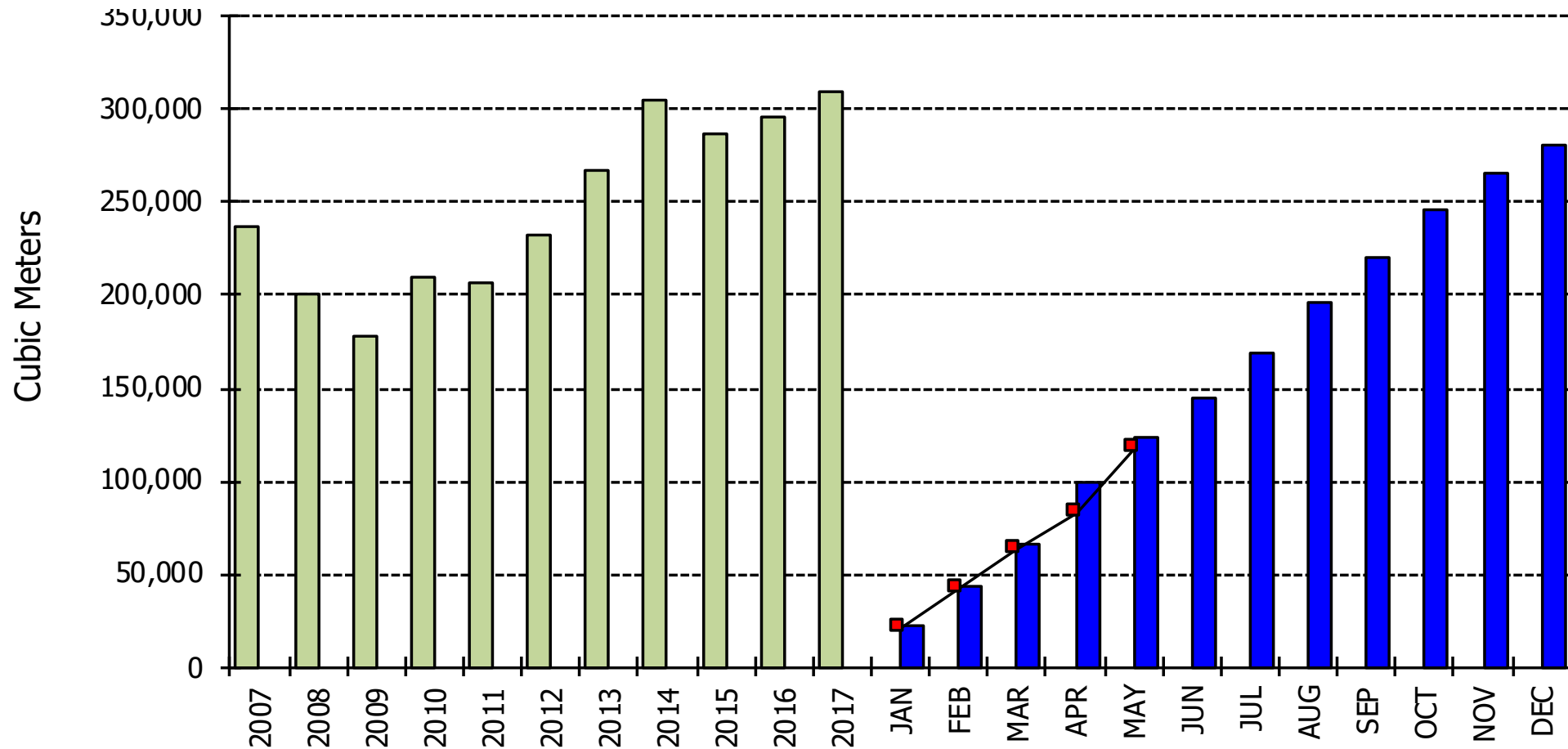
Sawmill owners looked for alternative markets in Vietnam, Indonesia and Europe. There is no other market to absorb 32,025 shipping containers of American Red Oak that sold to China in 2017. The tariffs have taken all profits from U.S. hardwood exports to China. It will drive mills out of business this year, losing jobs and outlets for landowners to sell their timber.



US Hardwood Lumber Exports to Mexico

Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas



US Hardwood Lumber Exports to Vietnam

Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas

Falling Demand has Hammered Prices

Hardwood Lumber Price Indexes			
	July 2018	July 2019	% Change
Green Index	\$1,092/mbf	\$878/mbf	-20%
Kiln-Dried Index	\$1,458/mbf	\$1,205/mbf	-17%
N. American Hardwood Lumber Export	\$1,486/mbf	\$1,259/mbf	-15%

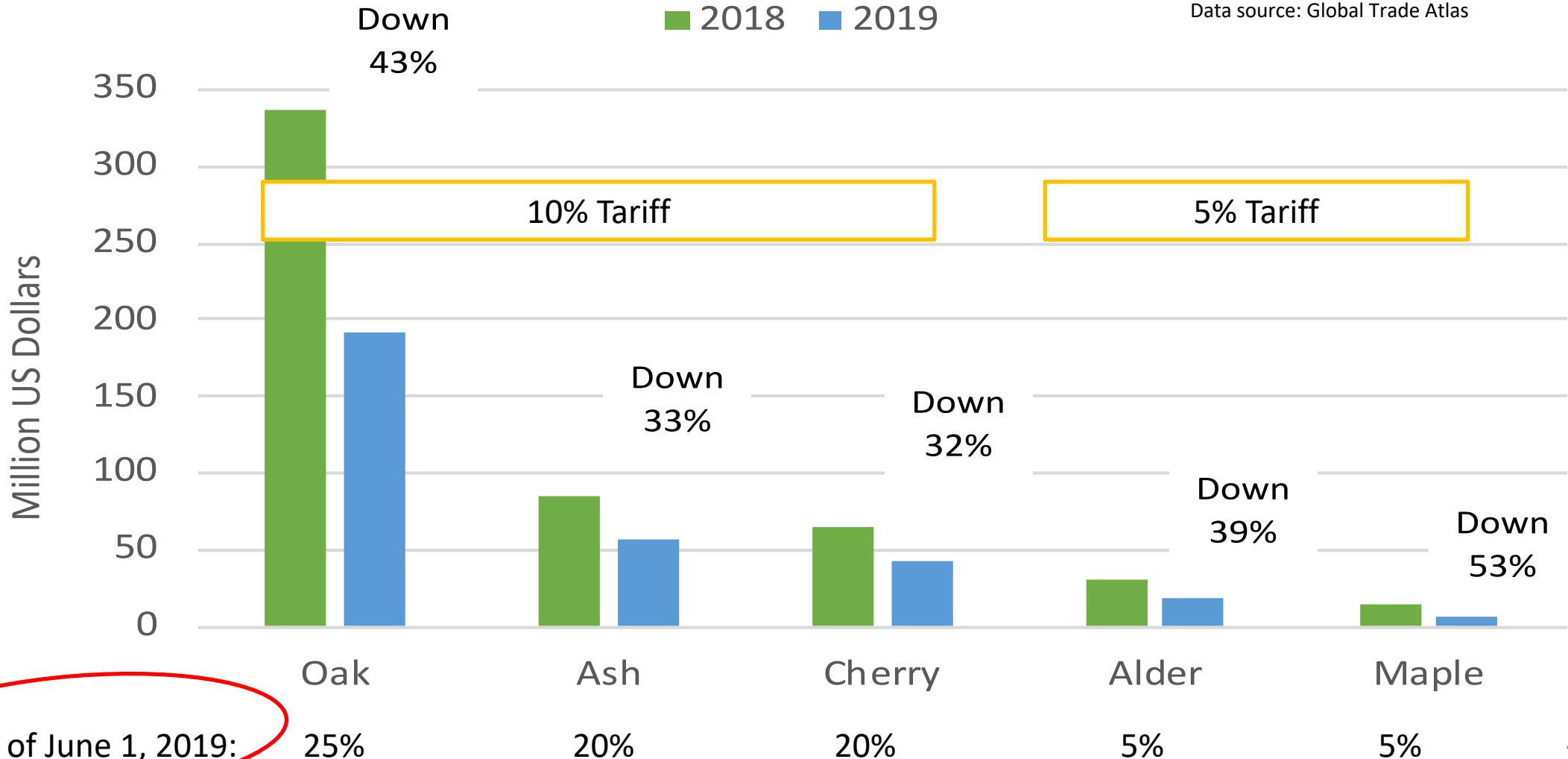
Source: Hardwood Review Weekly July 19, 2009, and Hardwood Review Global July 2019

- Falling demand in China results in lower prices everywhere on all sales, domestic and export.
- Hardwood producers lose both volume and value.
- Prices are falling so fast it can be difficult to recover what you paid for the logs.

U.S. Hardwood Lumber Exports to China

May 2018 YTD vs May 2019 YTD

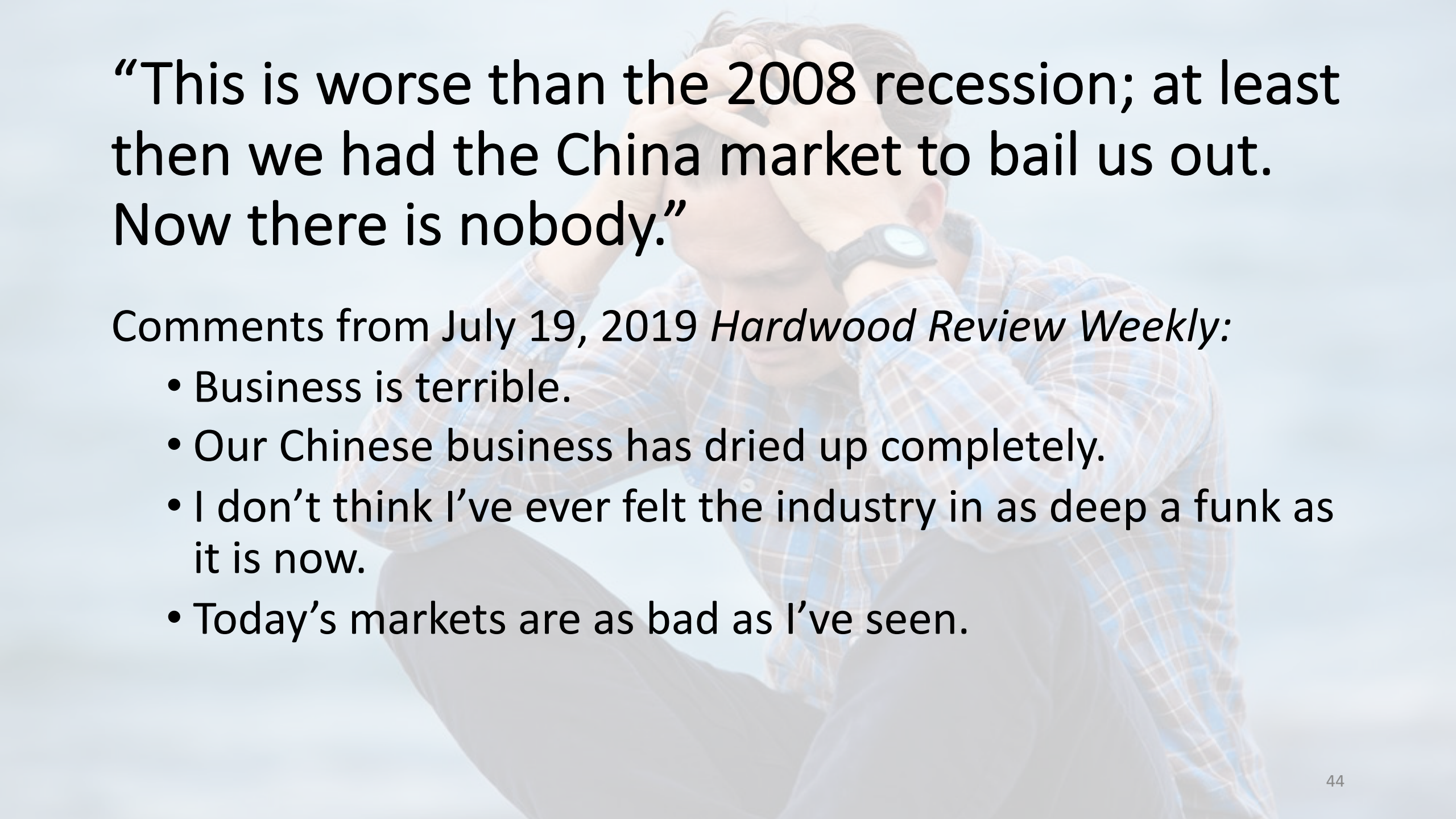
Data source: Global Trade Atlas



Tariff as of June 1, 2019:

It's Going to get Worse

- With 25% tariffs, summer sales volumes will fall off a cliff.
- Hardwood lumber producers are going bankrupt.
- China can replace us easier than we can replace them.
- If China can substitute cheaper hardwood lumber from Russia and Gabon, they may not come back.
- A group of Chinese sawmillers are petitioning their government for a tariff exemption on U.S. hardwood log imports. If they succeed, we may lose those lumber markets for many years.



“This is worse than the 2008 recession; at least then we had the China market to bail us out. Now there is nobody.”

Comments from July 19, 2019 *Hardwood Review Weekly*:

- Business is terrible.
- Our Chinese business has dried up completely.
- I don't think I've ever felt the industry in as deep a funk as it is now.
- Today's markets are as bad as I've seen.

Hardwood Industry Not included in U.S. Tariff Aid Package

by WFB Editors  May 29th 2019



\$12 Billion in 2018
\$16 Billion in 2019

The **hardwood industry was not included** in a federal aid package for industries negatively impacted by the ongoing trade war with China, according to the Hardwood Federation. The Federation **had recently lobbied for the hardwood industry's inclusion in the aid package**, generating more than 1,000 messages to Congress from more than 330 hardwood industry professionals.

The commodity aid package from the U.S. Department of Agriculture was announced May 23 and will go to U.S. farmers who produce edible farm goods and cotton.

“In spite of this setback we will continue to reach out to Congress and the Administration to explore options for those in the industry hit by the retaliatory tariffs imposed by China,” the Hardwood Federation said in a statement.

p.s. Of \$100 million in Agriculture Trade Promotion (ATP) money recently distributed on July 19, which is intended to help offset the impact of the trade war, the wood industry (AHEC, APA, SEC, SFPA) received \$87,000.

Summary – Global Trade

- **The world's trade rules were set largely by the U.S., strengthened by the U.S. legal system, and created with the support of U.S. business.**
- There are problems, and always will be.
- **It is to our advantage to work within the system we created, rather than “throw the baby out with the bath water”.**
- Threatening and implementing wholesale tariffs to force a myriad of changes, often unrelated to the products being taxed, is wreaking havoc on the global trading system and many U.S. companies.
- **To effectively change Chinese government and business practices, we need to work within the global trade system in cooperation with our allies.**

Summary – Forestry & Forest Products

- The U.S. hardwood industry is being irreparably damaged by the trade war with China.
- There will be shrapnel wounds to the U.S. softwood industry and coniferous forest owners.
- It also has negative effects for the global environment.
- Any concessions eventually negotiated with China are unlikely to benefit the U.S. hardwood industry.
- Please raise awareness with your members and help them petition their Congressional representatives for resolution and an end to this war.

www.govtrack.us



LET
PURPLE
REIGN
AGAIN

WASHINGTON
FOOTBALL



Thank
you!