

Western Hardwood Export Markets and the Impact of China's Tariffs

WESTERN HARDWOOD ASSOCIATION

2019 Annual Convention

September 12, 2019

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Center for International Trade in Forest Products

SCHOOL OF ENVIRONMENTAL AND FOREST SCIENCES

UNIVERSITY *of* WASHINGTON

College of the Environment





The Center for International Trade in Forest Products

1. We believe that using sustainably, responsibly sourced wood is good for the environment and for humanity.
2. We believe that “Peace is a natural effect of trade”.
3. Accordingly, we are involved in research and education to support and promote the use of, and trade in, sustainably produced forest products.

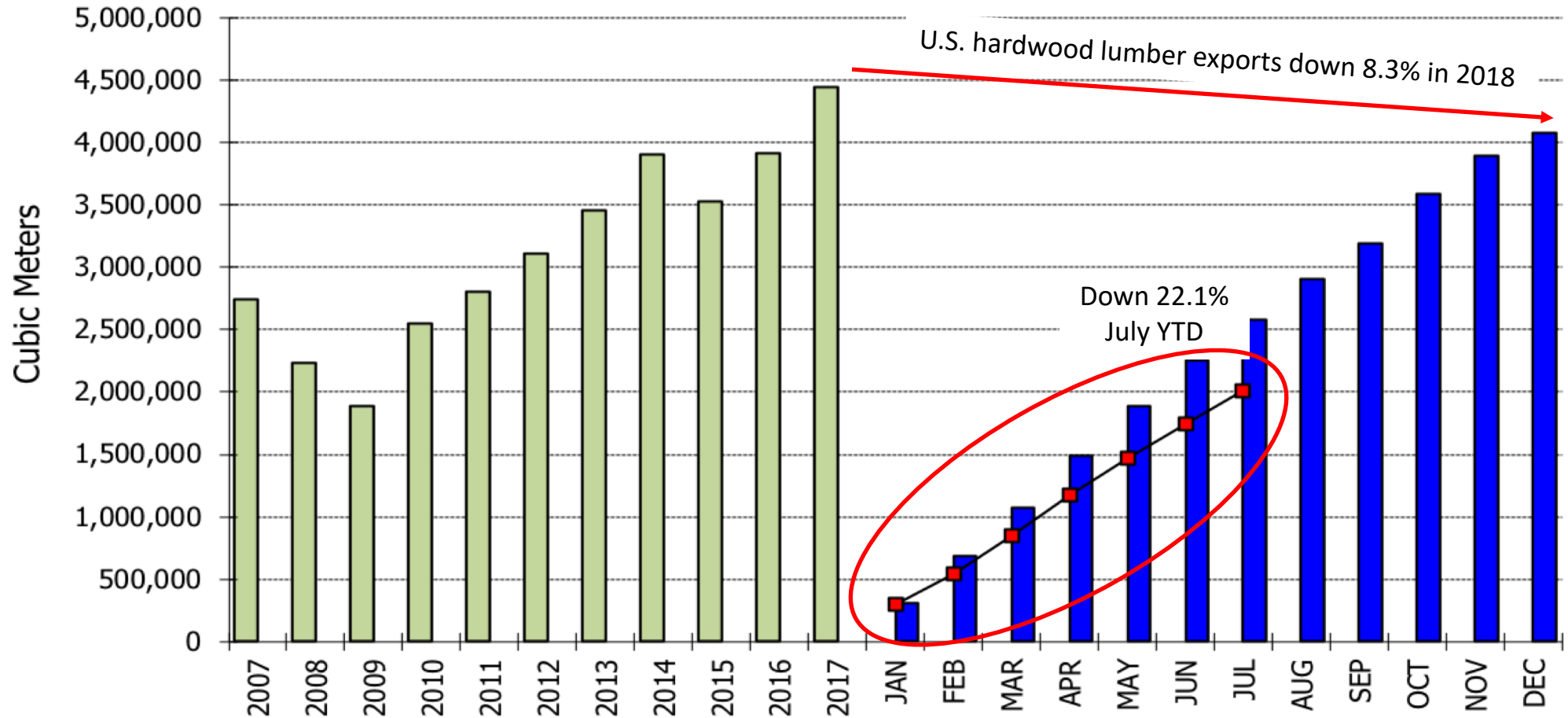


Kent Wheeler

- B.S. in Accounting
- Ph.D. in Marketing, University of Texas at Austin
- 30 years forestry industry experience, including 26 years with Weyerhaeuser Co.
- Lived in Tokyo for six years, Shanghai for four years, and Dubai for one year
- Career focus was market development and plantation operations
- Managed timber and bamboo plantations in China, Indonesia, Ghana, South Africa and Nicaragua
- Joined CINTRAFOR in July 2017

US Hardwood Lumber Exports

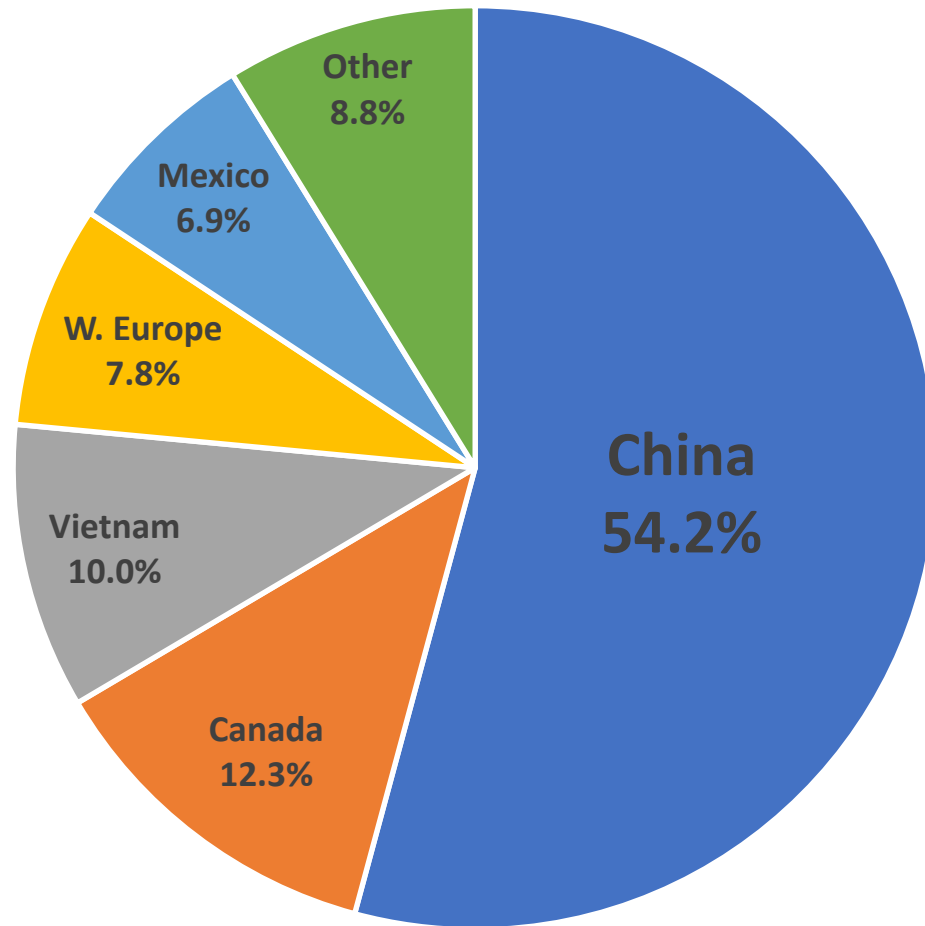
Blue Columns = 2018 Red Line = 2019 YTD



Source: Global Trade Atlas

U.S. Hardwood Lumber Exports in 2017

(by volume)



Source: Global Trade Atlas

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. Logs & Lumber

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

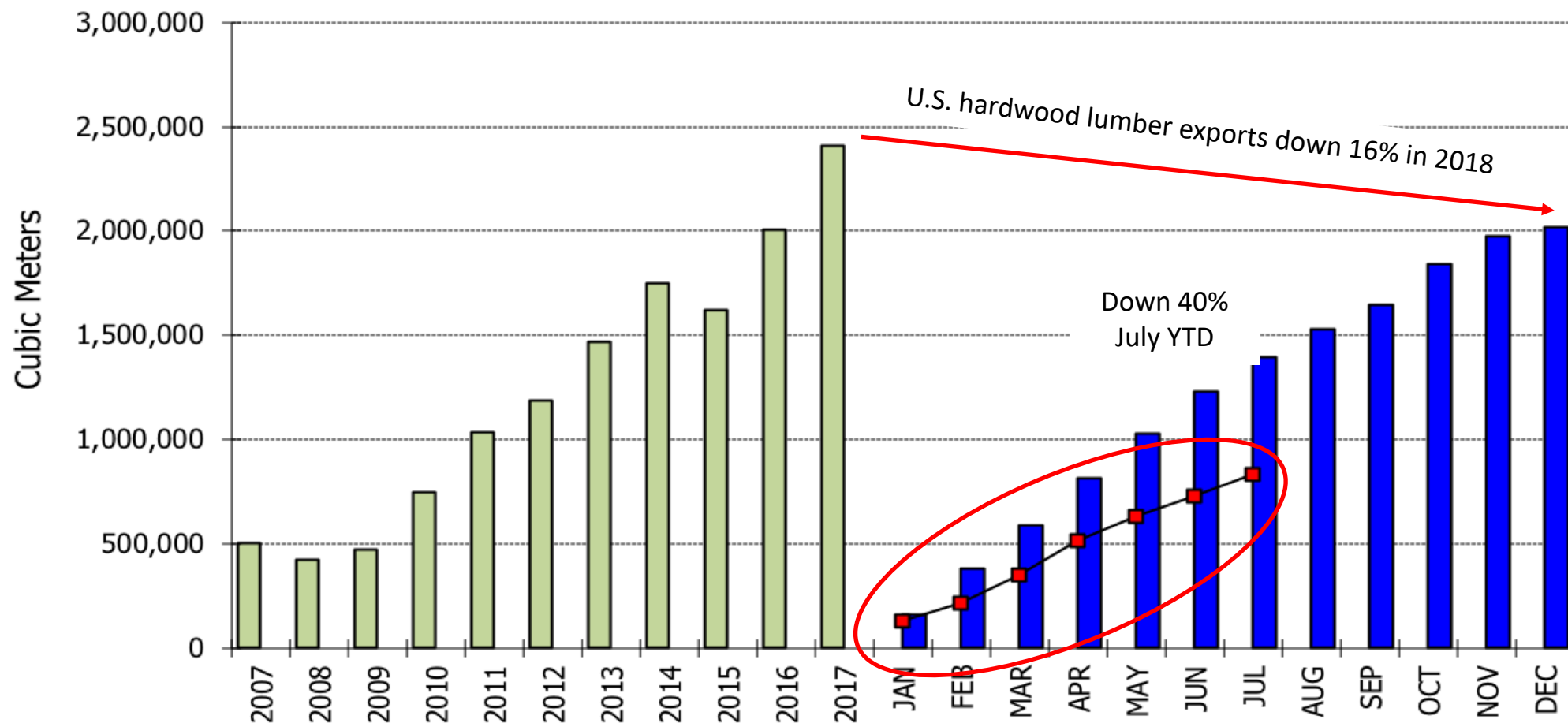
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US Hardwood Lumber Exports to China

Blue Columns = 2018

Red Line = 2019 YTD



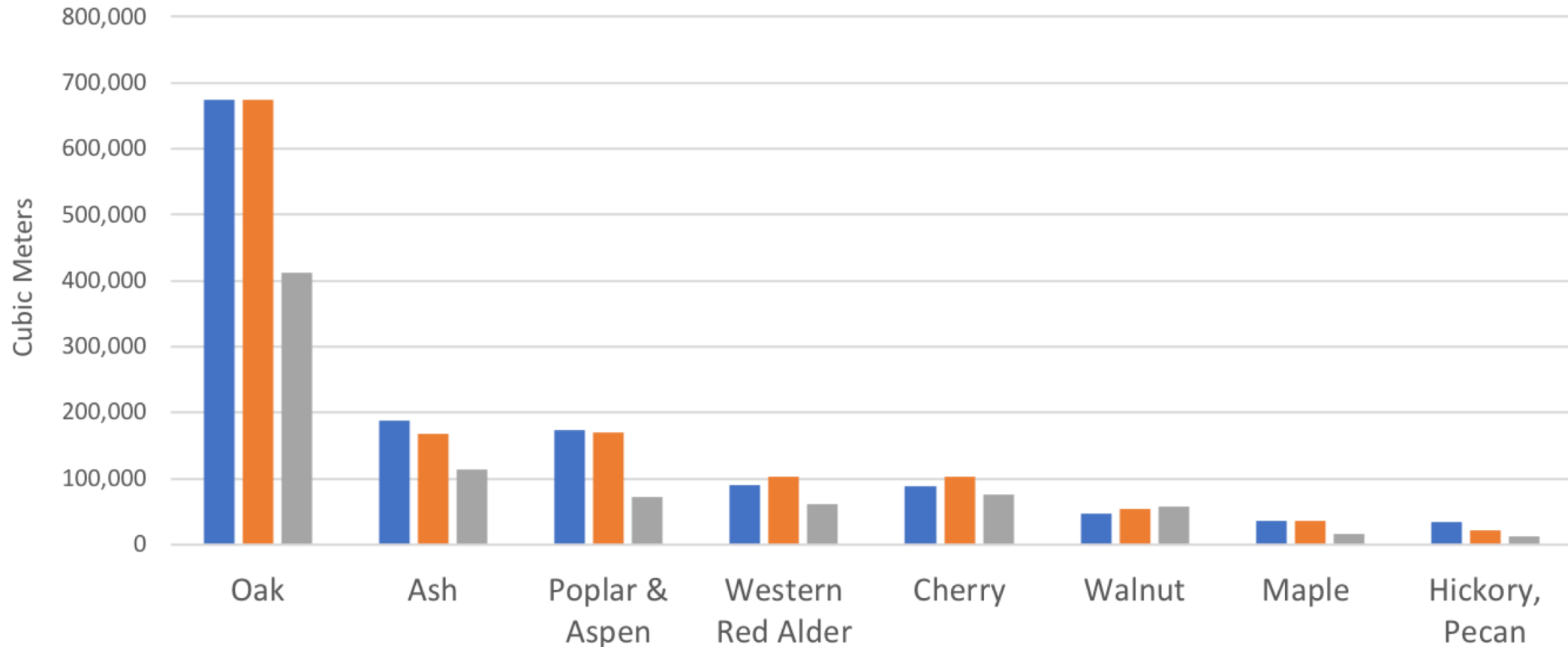
Source: Global Trade Atlas

U.S. Hardwood Lumber Exports to China

July Year-to-Date

■ 2017 ■ 2018 ■ 2019

Data source: Global Trade Atlas



Tariff as of June 1, 2019: 25%

20%

5%

5%

20%

5%

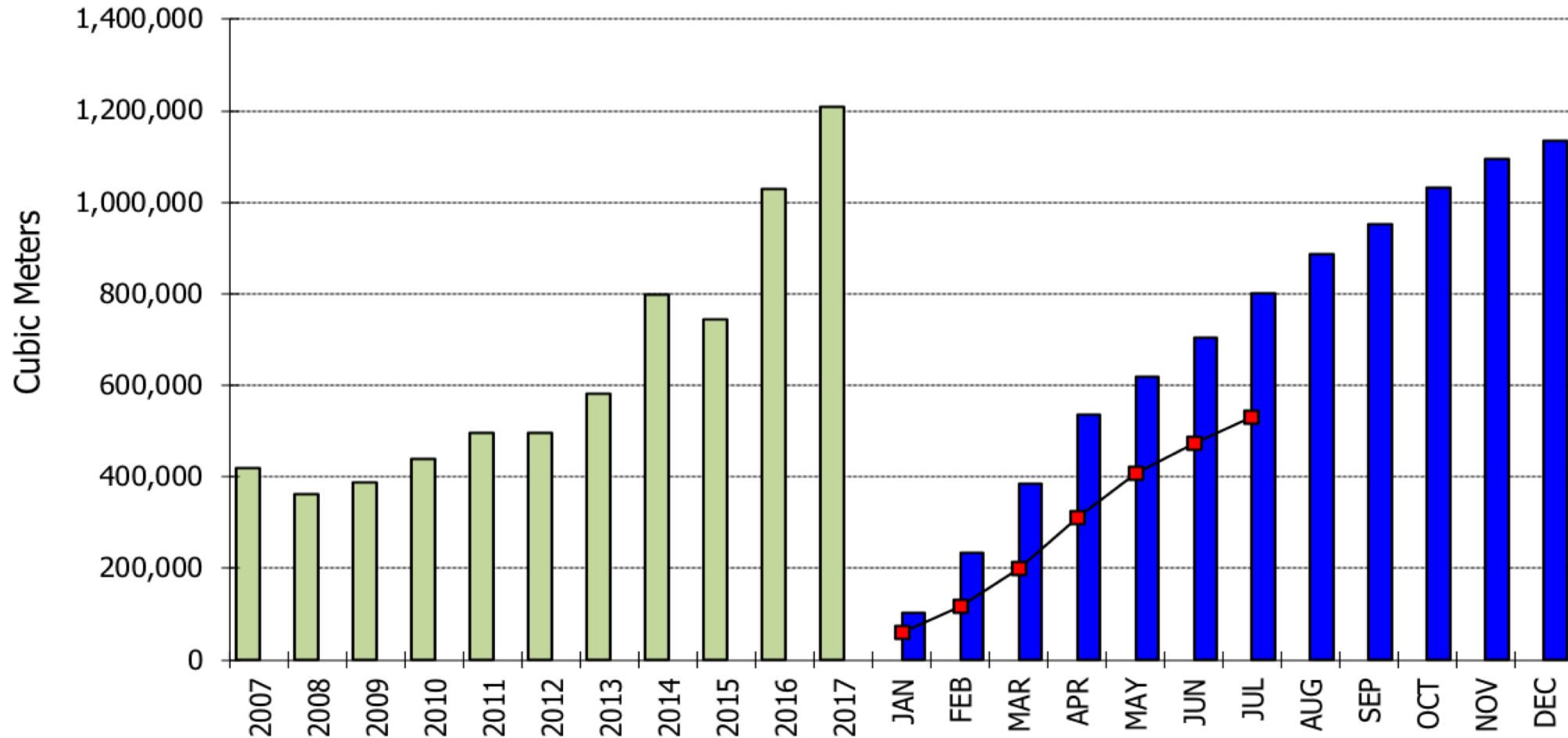
5%

5%

US Hardwood Logs Exports to China

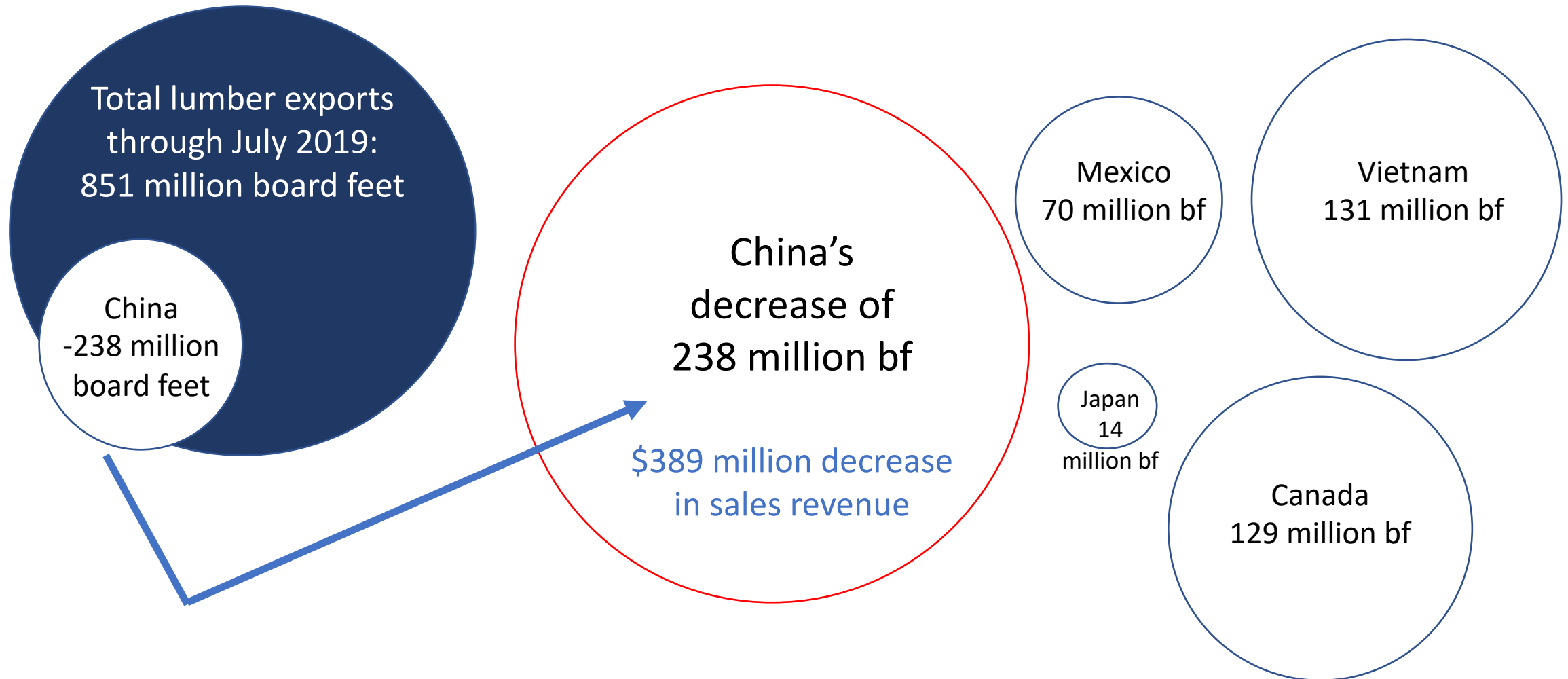
Blue Columns = 2018

Red Line = 2019 YTD



Source: Global Trade Atlas

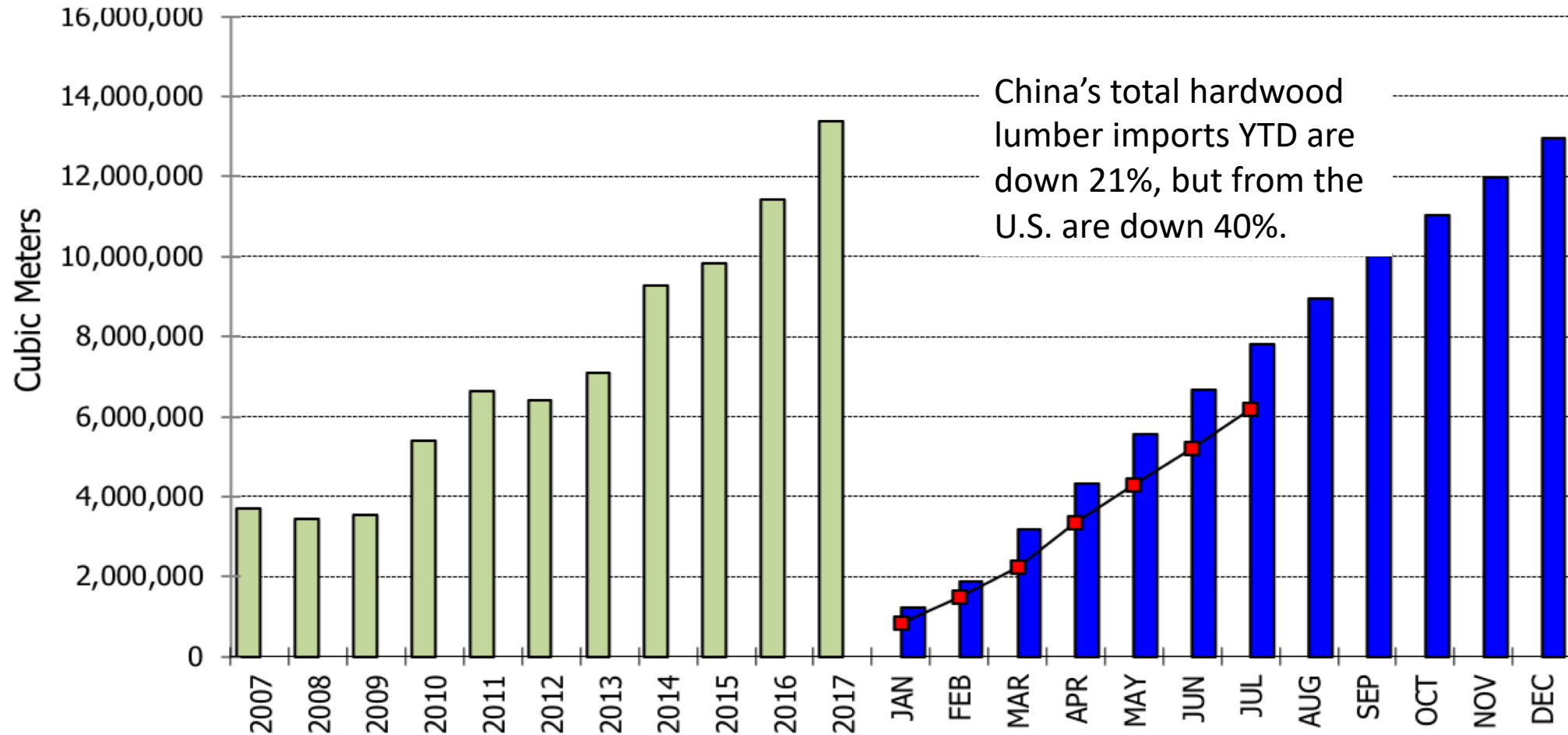
2019 exports to China through July are down 238 million board feet





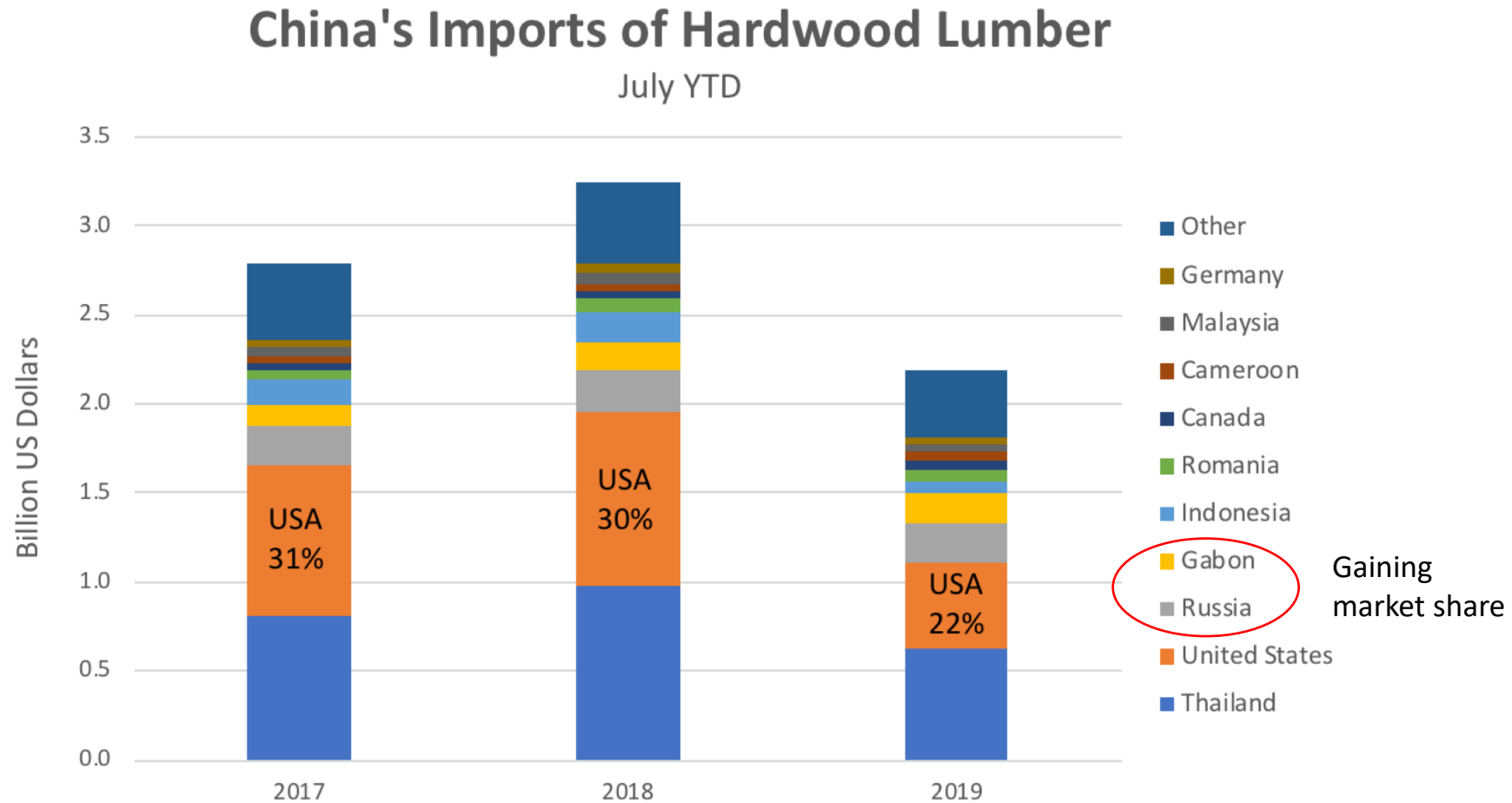
China Hardwood Lumber Imports

Blue Columns = 2018 Red Line = 2019 YTD

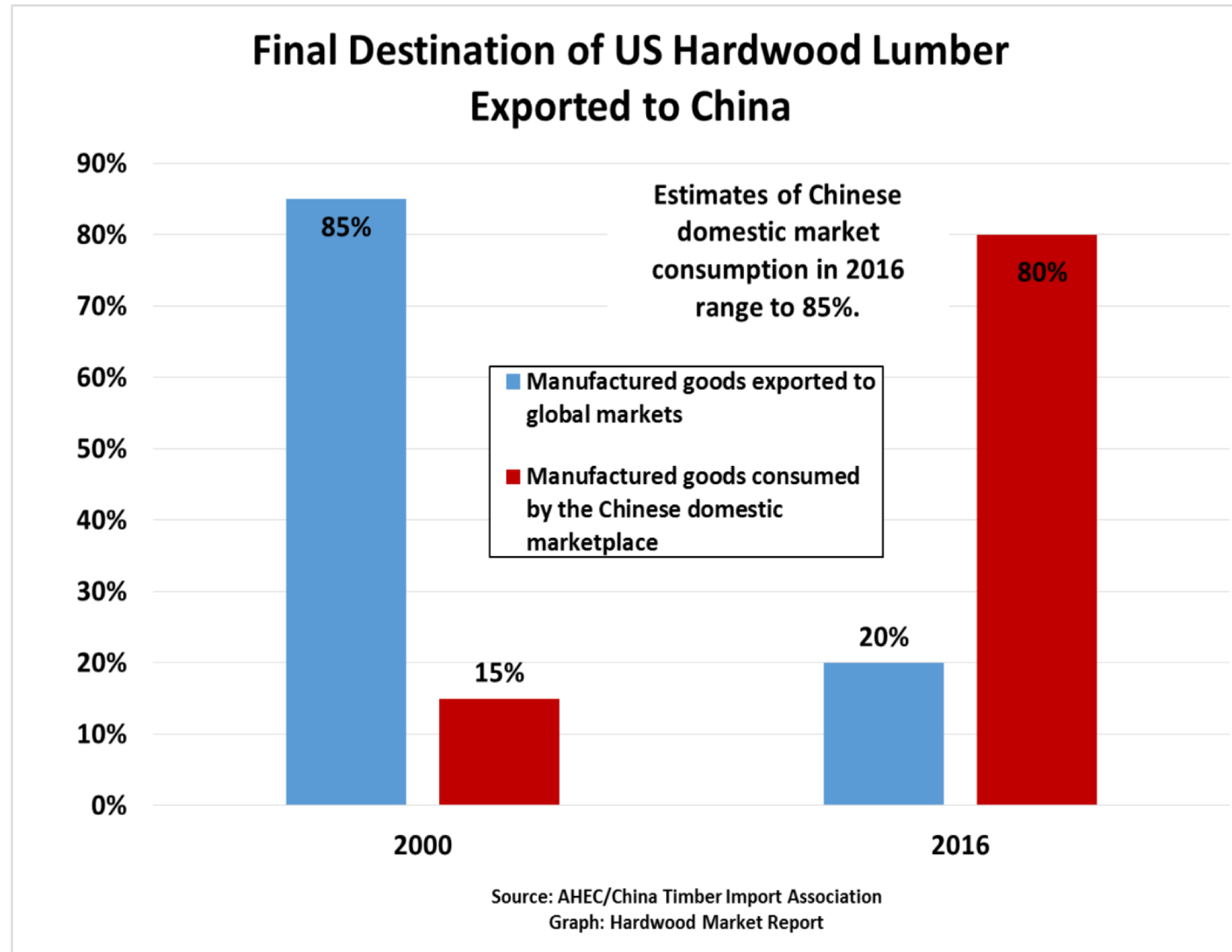


Source: Global Trade Atlas

The U.S. is Losing Market Share in China



Losing Market Share in a Large and Growing Domestic Market



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

China Field Trip Notes (August 2019)

- China domestic economic slowing is a bigger impact than the tariffs
- Hardwood lumber price reductions practically offset the import tariffs and weaker currency
- Reduction in purchases from the U.S. are due more to uncertainty than tariffs
 - Uncertainty about next step in the trade war
 - U.S. suppliers are cutting prices; risky to have product on the water
- Want to do business with U.S. suppliers and hope the trade war will end soon

China's Economy

- 6.2% Q2 growth is slowest since 1992, but double the incremental growth of the U.S.
 - 6.2% on a \$13.6 trillion economy vs. 2.1% on a \$20.5 trillion economy
- Manufacturing employment has been shrinking for several years as China's service-based economy increases.
- China's net exports are less than 1% of GDP, and exports to the U.S. are 5% of total.
- China has lowered tariffs on the rest of the world, from an average of 8% to 6%.
- Exports to the rest of the world have increased, offsetting much of the loss of U.S. markets.

U.S. & China GDP 2018

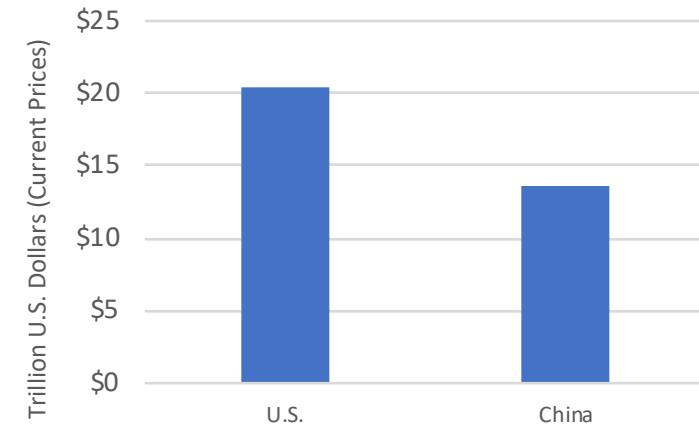
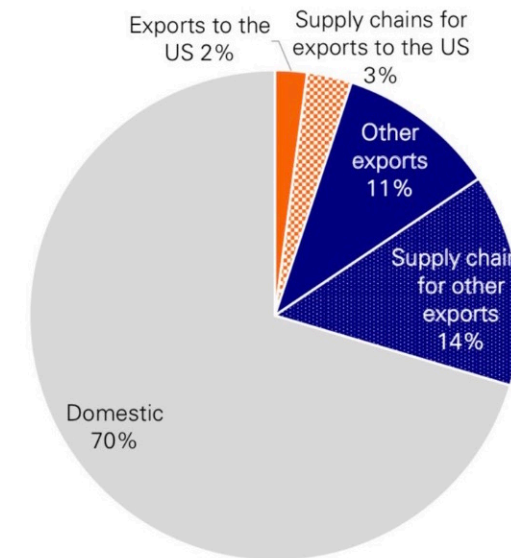


Figure 8: Exposure to the US = 5% of China's industrial output

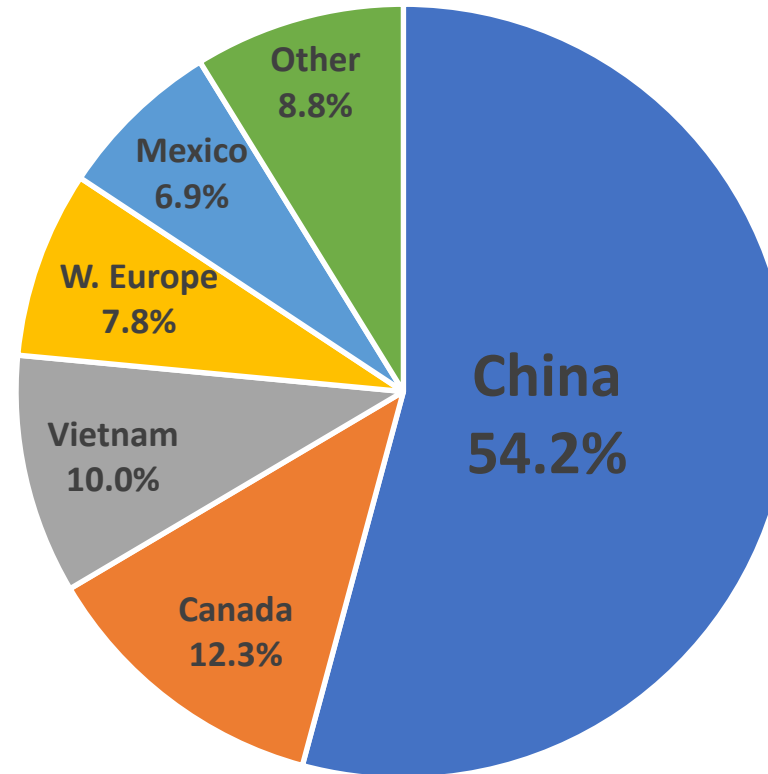


Source : Deutsche Bank Research, World Input-Output Database.

No Other Markets Can Absorb the China Volume

U.S. Hardwood Lumber Exports in 2017
(by volume)

Over the past year the U.S. has had trade disputes with the largest of our alternative markets.



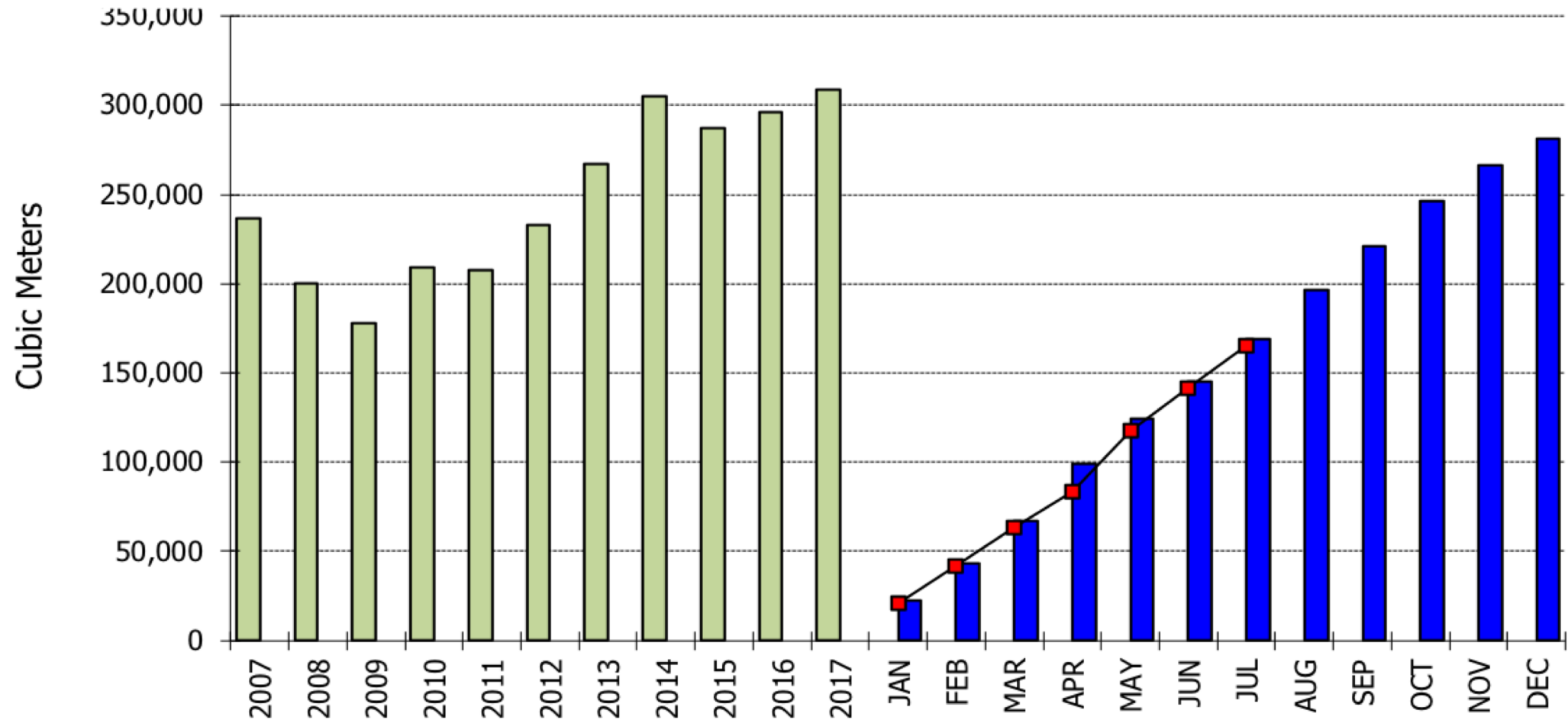
Source: Global Trade Atlas



US Hardwood Lumber Exports to Mexico

Blue Columns = 2018

Red Line = 2019 YTD



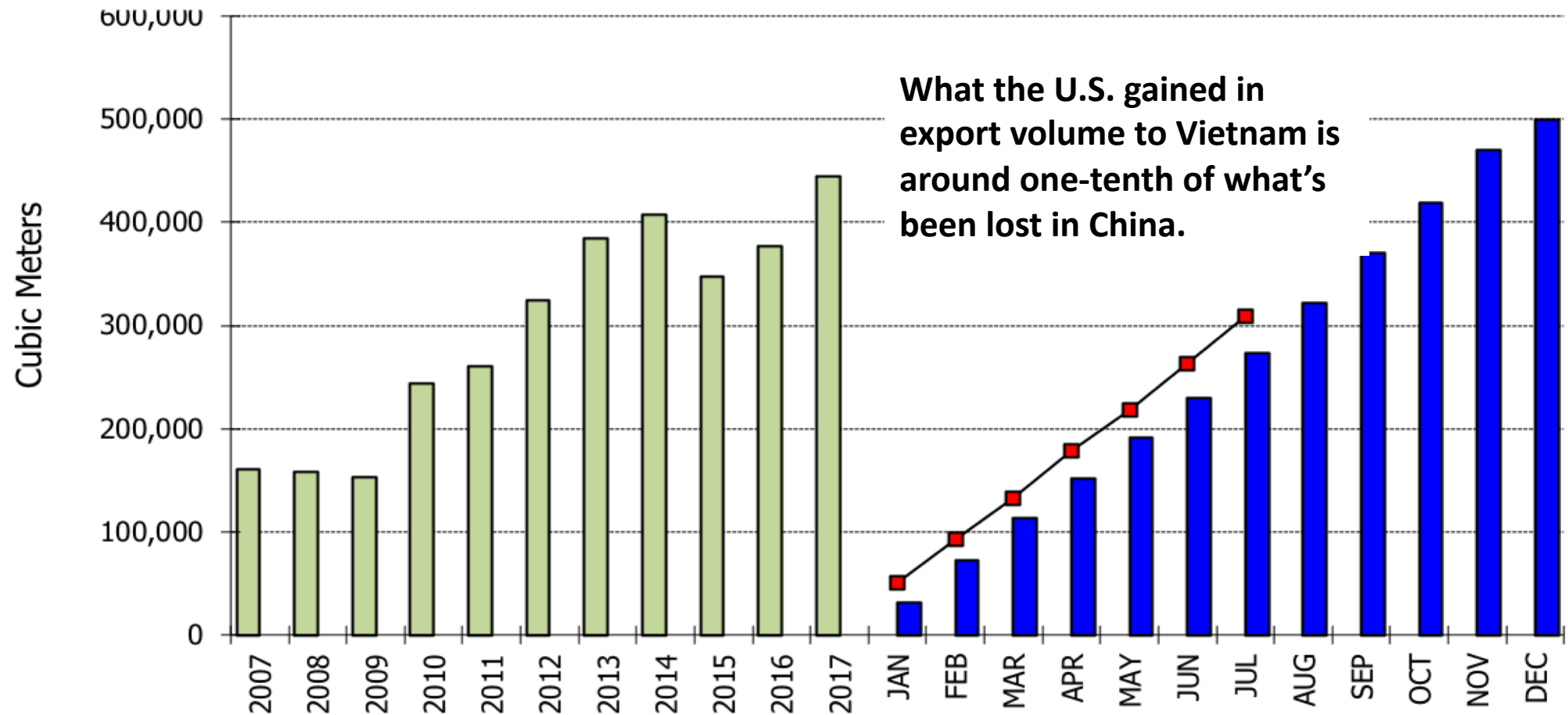
Source: Global Trade Atlas



US Hardwood Lumber Exports to Vietnam

Blue Columns = 2018

Red Line = 2019 YTD

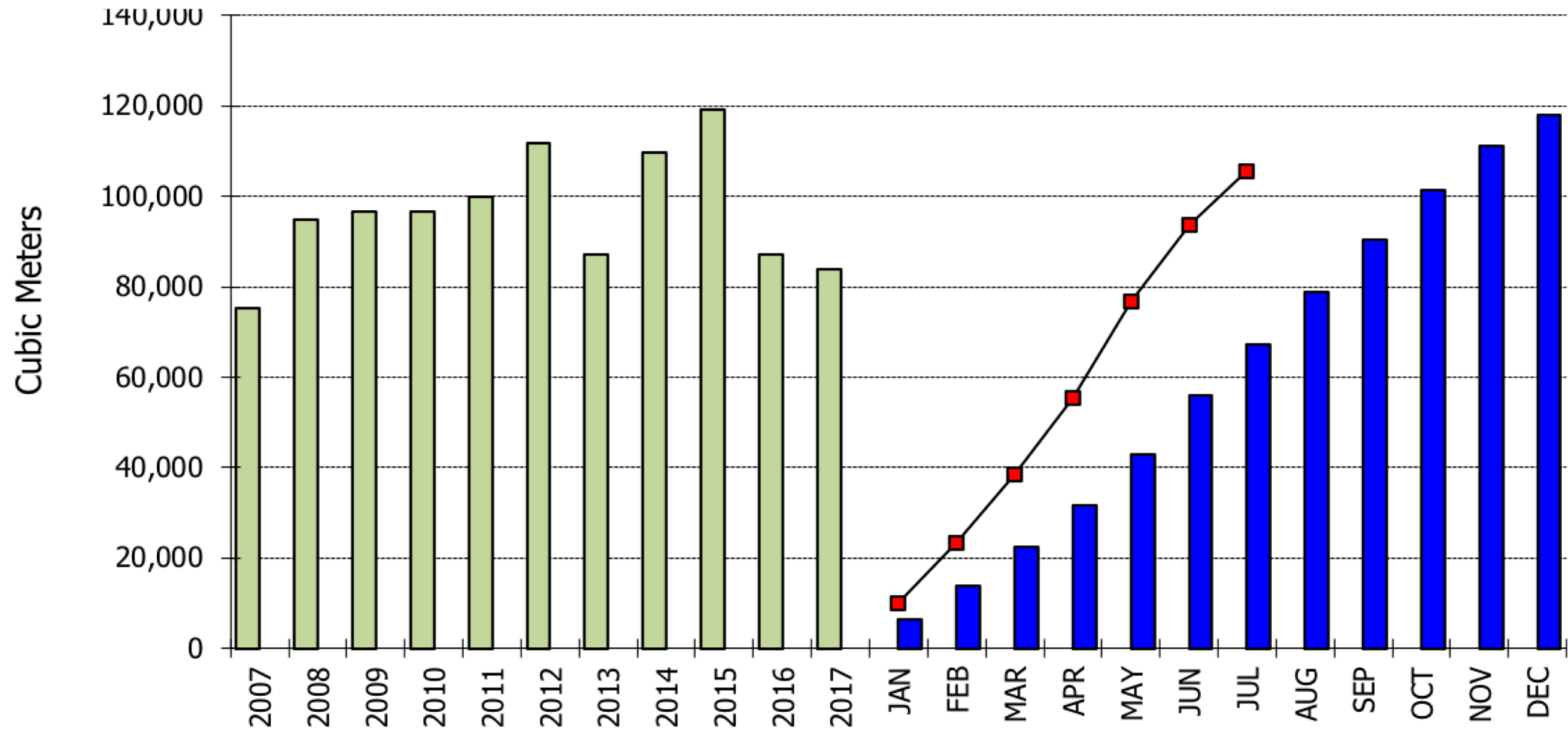


Source: Global Trade Atlas

US Hardwood Log 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	August 2019	% Change
Green Index	\$1,092/mbf	\$856/mbf	-22%
Kiln-Dried Index	\$1,458/mbf	\$1,169/mbf	-20%
N. American Hardwood Lumber Export	\$1,486/mbf	\$1,236/mbf	-17%

Source: Hardwood Review Weekly August 23, 2019, and Hardwood Review Global August 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.
- Chinese buyers hesitate to buy for fear of further declines in price.



PALLETENTERPRISE

China Trade Dispute Strains U.S. Hardwood Exports

The trade battle between the United States and China has already impacted U.S. hardwood producers and could cause longstanding market change if it continues.

By Chaille Brindley
Date Posted: 6/5/2019

Woodworking Industry News

China hardwood tariffs will depress prices for now, hurt U.S. sawmills

By Karl D. Forth June 17, 2019 | 10:07 am 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





August 9, 2019

“At this point in the U.S.-China trade war, it is becoming more probable that your job – and your company – will not be here at this time next year.

We are now 16 months into a trade war we didn't think would last 6 weeks, with a country that accounted for 55% of all hardwood lumber exports at this time last year, and it's getting worse instead of better.”

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 distributed on July 19 this year, which is intended to help offset the impact of the trade war, the wood industry (AHEC, APA, SEC, SFPA) received \$87,000.

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

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The U.S. has historically championed international trade and lower tariffs

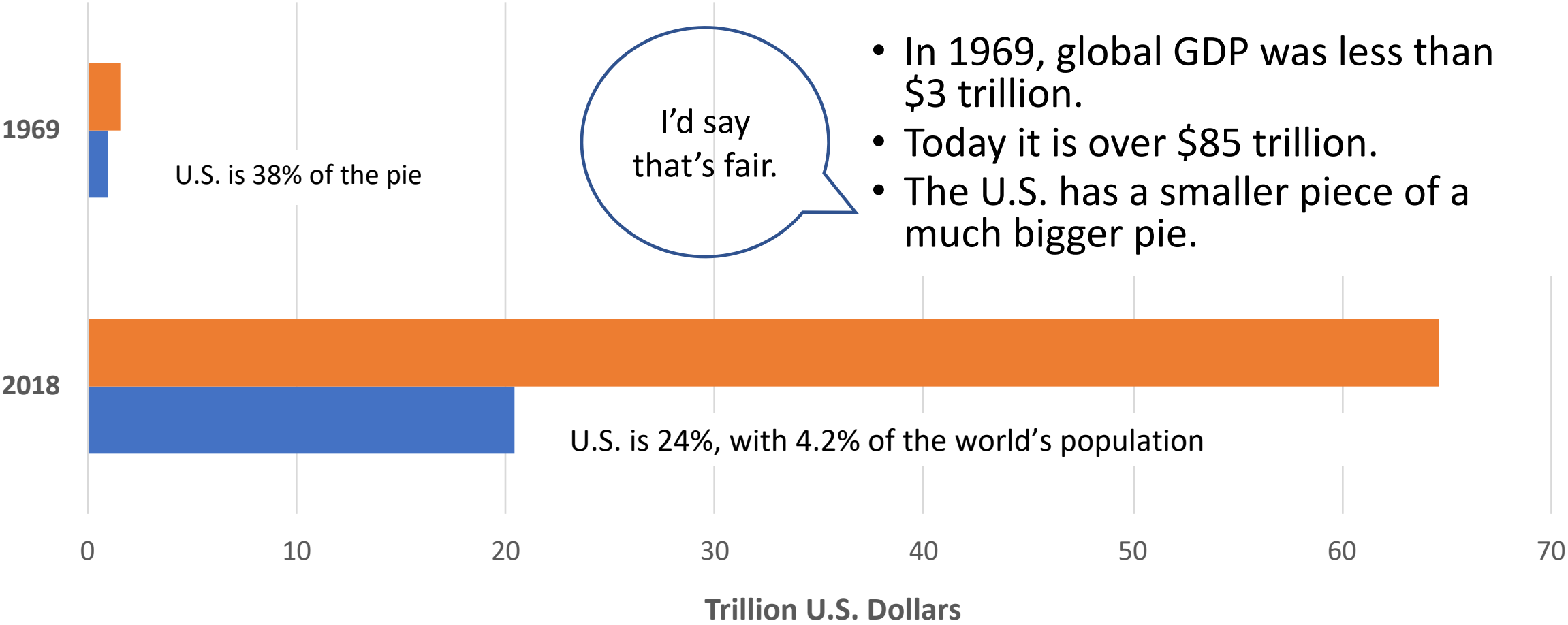
- After WWII, to integrate and rebuild the post-war economy the U.S. led the creation of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).
- Trade expansion was center to broader U.S. foreign policy during the Cold War. Trade agreements helped bind together the 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. ... 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

Global GDP 1969 vs. 2018

Rest of the World U.S.



There are real problems with China trade

- Industrial subsidies
- Intellectual property protection
- Forced technology transfer
- Market access
- Data privacy

And the trade deficit is too high

- The fundamental cause of a trade deficit is an imbalance between a country's savings and investment rates.
- We are consuming more than we are making.
- That additional spending must, by definition, go toward foreign goods and services.
- Financing that spending happens in the form of either borrowing (which adds to the national debt) or foreign investment in the U.S.
- In other words, money flowing out to pay for imports flows back in to help pay for productive investment in new capital.

There is an organized system that, with cooperation & maintenance, does work

- 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.
 - The U.S. usually loses cases brought against us, but...
 - We usually win cases we bring against others

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](#)

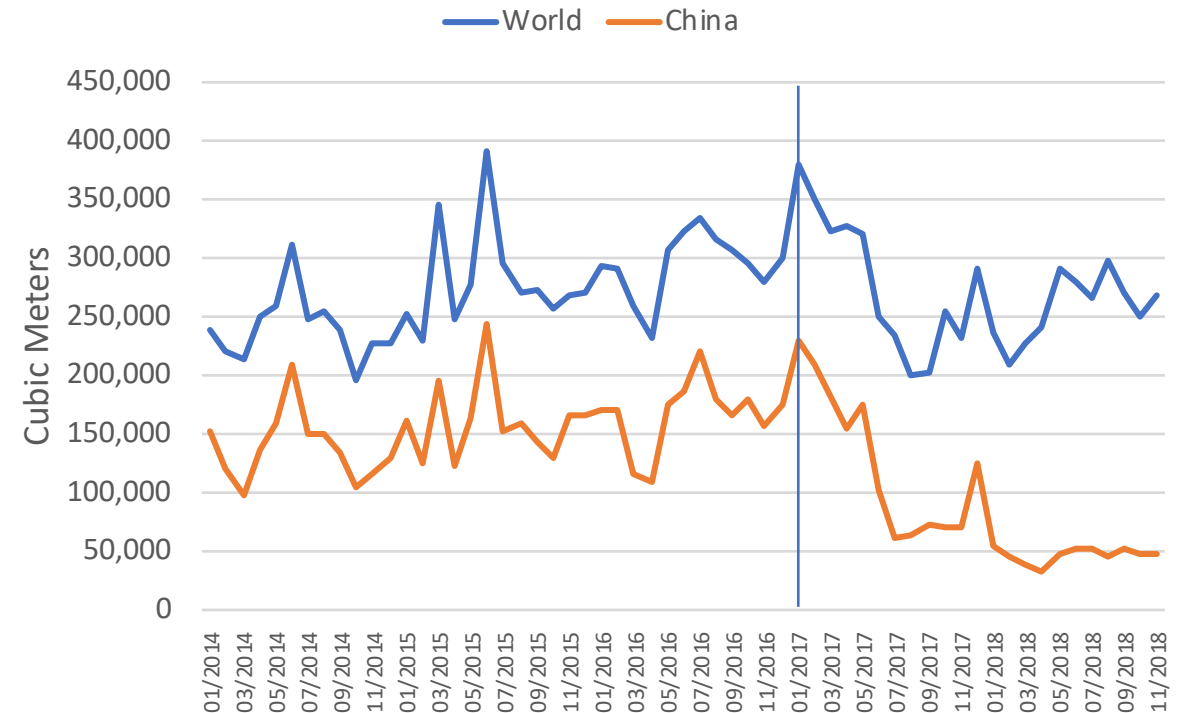
Dates:
Applicable January 4, 2018.

Document Type:
Notice

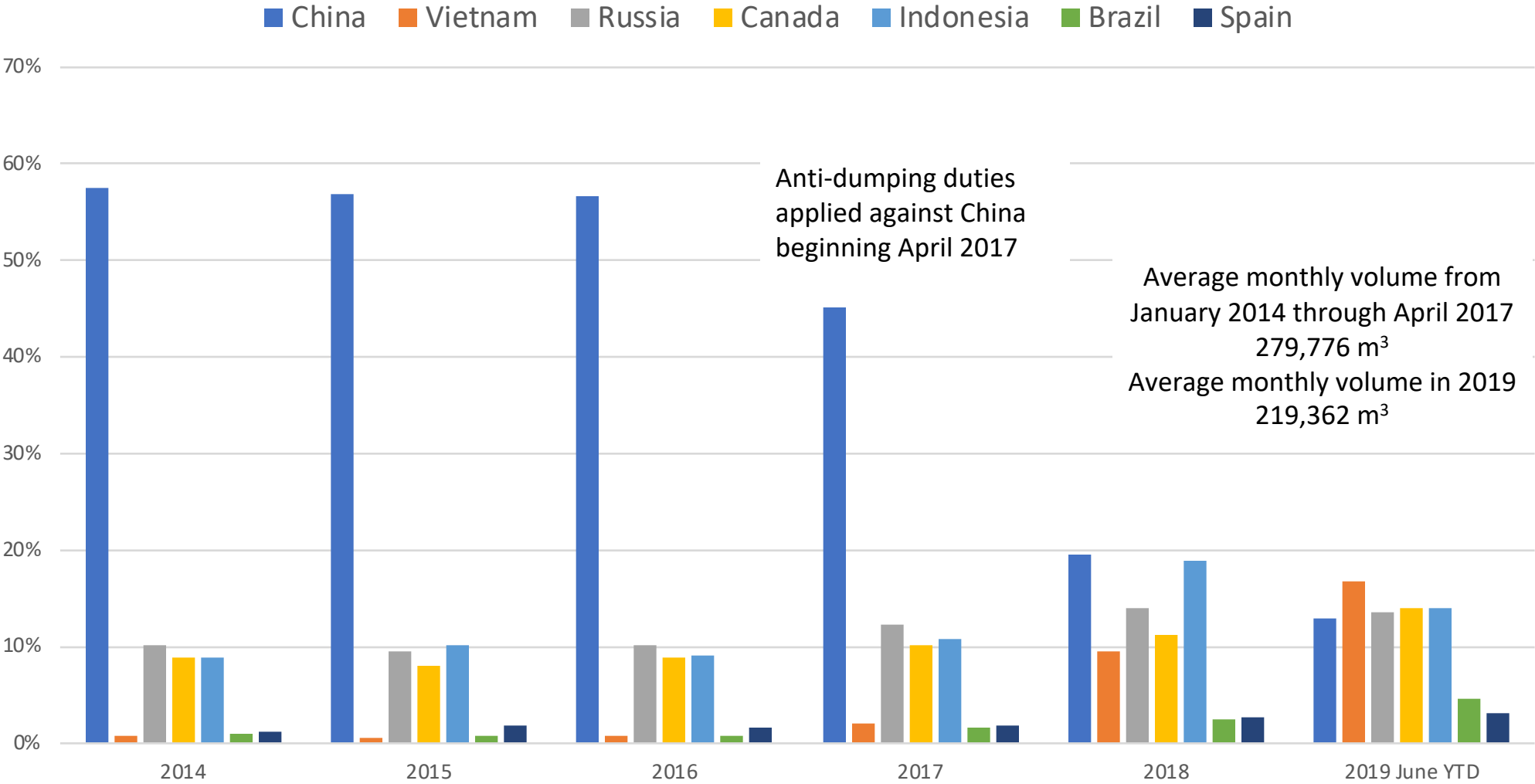
Document Citation:
83 FR 513

Page:
513-516 (4 pages)

U.S. Imports of Hardwood Plywood



U.S. Hardwood Plywood Imports Sources of Supply



But 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 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

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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

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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 [in Q2 growth of 2.1%] 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 0.6% from Q2 growth
- U.S. import prices are up 1.7%

Summary

- **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.**



LET
PURPLE
REIGN
AGAIN

WASHINGTON
FOOTBALL



Thank
you!