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November 28, 2006

The Honorable Susan Schwab
United States Trade Representative
600 Seventeenth Street, NW
Washington, DC 20508

Dear Ambassador Schwab,

A number of serious issues have come to my attention concerning Chinese hardwood plywood and its effect on the U.S. hardwood plywood industry. At your earliest convenience, I would like to meet with you to discuss investigating and addressing these concerns.

As you may know, the forest products industry is a critical component of the Oregon economy, providing thousands of good paying jobs in the state. The hardwood plywood sector is an important contributor to Oregon's leadership in this area. 70% of North America's hardwood plywood is manufactured by companies headquartered in the state.

Over the past few years, the U.S. hardwood plywood sector has experienced a dramatic downturn, which has put the entire U.S. industry in jeopardy. Since at least 2003, U.S. production, shipment volume, production capacity, and market share have all declined. At the same time, the Chinese hardwood plywood sector has been surging. This dramatic growth in the Chinese industry – at the apparent expense of U.S. industry – is extremely troubling because it may be based on a number of illegal trade practices:

Hardwood Plywood Dumping and Chinese Industry Subsidization. It appears that there is significant selling of Chinese imports at less than fair market value in the U.S. Between 2003 and 2005, Chinese average hardwood plywood import unit values were consistently below U.S. average values. This disparity persists today. To the extent that some product prices have gone up since 2003, the increases have failed to cover the domestic industry's costs.

This underselling may be at least partially attributable to the Chinese government's heavy subsidization of its forest products industry. A 2004 study by the American Forest and Paper Association (AF&PA) identifies Chinese government subsidies of \$1.67 billion for renovation of state-owned paper mills from 1998-2002. Additionally, the Center for International Trade in Forest Products (CINTRAFOR) identifies several types of Chinese subsidies of the domestic wood products industry, including "below-market

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interest rates, loan interest subsidies, and unusually long payback periods." As a result of this underselling and subsidization, the U.S. domestic market has suffered severe injury.

Customs Issues. Import tariffs vary depending on the species of hardwood on the face and back of the plywood. For example, oak-faced plywood has an 8% tariff. On the other hand, there is no tariff for birch-faced plywood. I have been informed that China hardwood plywood is being improperly characterized (e.g., identifying the back as the front) to avoid applicable tariffs. As a result, Chinese hardwood plywood enters the U.S. market duty-free, giving it an unfair competitive advantage over legally-identified, imported hardwood plywood and U.S. produced hardwood plywood.

Fraudulent Stamping. Mislabeling of Chinese hardwood plywood is also hurting U.S. manufacturers. There are a large number of hardwood plywood industry classifications and specifications. For instance, hardwood plywood with an "FSC" or "SFI" stamp must come from wood harvested in a sustainable managed forest. An "E1" stamp signifies that hardwood plywood's formaldehyde emission levels are extremely low. More generally, there are a range of face and back grades set by the American National Standard for Hardwood and Decorative Plywood (ANSI/HPVA HP-1-2004). Usage of these stamps is contingent on compliance with the applicable rules and the ability to document that compliance. It is often very expensive and difficult to meet a specification or a classification. Chinese hardwood plywood is apparently being stamped with specifications and classifications that it does not meet. As a result, cheap, potentially unsafe, and fraudulently labeled Chinese hardwood plywood is supplanting U.S. product that does meet these specifications and classifications. This appears to be occurring in China as well as in the United States. It may also be occurring elsewhere, including Europe and Japan.

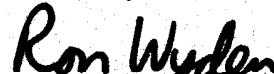
Illegal Logging. Illegal logging provides Chinese hardwood plywood manufacturers with an abundant source of low-priced imported forest products to the detriment of the U.S. hardwood plywood manufacturers. A June 2006 report by the Office of Industries, U.S. International Trade Commission (ITC) states that "a relatively large portion of China's log imports may be from questionable sources," and estimates that "50 percent of China's hardwood log imports from Russia and West Africa are from suspicious or illegal sources." According to the CINTRAFOR and the American Forest & Paper Association, China has imported more than 8 million cubic meters of illegal logs and 1.4 million cubic meters of illegal lumber in the past few years. CINTRAFOR has also found that illegal Chinese imports resulted in \$182 million in lost exports to U.S. industries in 2005 alone. These cheap, illegal imports also provide Chinese hardwood plywood with unfair competitive advantage over U.S. hardwood plywood manufactured from legal logging sources.

A Lack of Reciprocal Market Access. Despite the substantial increases in Chinese wood product exports to the United States, it is my understanding that there has been limited reciprocal access to the Chinese market. For instance, China has misclassified U.S. exporters' forest products, resulting in the imposition of abnormally high import tariffs. Additionally, there have been reports of reduced levels of Value Added Tax

(VAT) or no VAT at all being applied to logs and timber imported from Russia, which also disadvantages the U.S. hardwood plywood industry.

I look forward to working with you to investigate and address these important Chinese hardwood plywood issues.

Sincerely,



Ron Wyden
United States Senator

Cc: The Honorable Michael Chertoff, Secretary, U.S. Department of Homeland Security
The Honorable W. Ralph Basham, Commissioner, U.S. Customs and Border Protection
The Honorable Carlos Gutierrez, Secretary, U.S. Department of Commerce