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Current State of Small Business Exports

**U.S. House of Representatives
Committee on Small Business**

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Madam Chairman and members of the Committee, thank you very much for the opportunity today to address the export trends for small businesses. My name is Jamey French and I am President of Northland Forest Products, a family-run hardwood business which was founded in 1970, and with a history dating back to the late 19th century. Northland Forest Products continues today with domestic operations in New Hampshire and Virginia. We are a high-volume hardwood manufacturer with exports representing 45% of our total sales. We have served customers in 24 countries and provide top-quality Northern and Appalachian hardwoods.

I also serve as Chair of the Board of Directors for the Hardwood Federation which is an industry trade association that represents over 14,000 businesses, 30 trade associations and over one million hardwood families. The majority of these organizations are engaged in the manufacturing, wholesaling, or distribution of North American hardwood lumber, veneer, plywood, flooring, pallets, kitchen cabinets and related products. Hardwood facilities are located in every state in the union, in fact, 341 hardwood facilities are found in the districts of members on this committee.

As a representative of the hardwood industry and a company owner, I am here today to testify on the export trends and trade challenges that face the small hardwood business owners. The U.S. hardwood industry is a major exporter. The total volume of hardwood exported in 2007 was 2.94 billion. Exports are the livelihood for many hardwood businesses. In fact, the near-term future of the hardwood industry depends upon exports. The decline of the U.S. furniture industry and the recent housing crisis are major reasons why hardwood exports are increasingly important for the U.S. hardwood industry. We are constantly looking for new potential markets, like India and the Middle East. We need to expand growth opportunities in the Far East and Europe. For example, China and much of the Far East has a growing high end market interest in the beautiful, luxury products manufactured from U.S. hardwoods. We also see possible opportunities emerging from a stronger middle class wealth in Eastern Europe which could increase imports from the U.S. of specialty hardwood products.

In order to capitalize on these marketplace opportunities, we need to maintain a level playing field in order to be competitive internationally. Recent export challenges we face interfere with our ability to compete globally. These include possible increase in certification export fees, increased freight and shipping charges, and a shortage of shipping containers. All of these factors have contributed to industry woes. In addition, we are concerned with the recent foreign procurement policies, specifically in the European Union, requiring documentation for legal and sustainable hardwoods. I will be providing you more detail on all of these challenges, but first a brief overview of hardwood export market.

Hardwood exports include lumber, logs, veneer, flooring, plywood, molding and siding. Lumber dominates exports with 13% of production volume now being exported. This is up from 6% in 1997. Important to note, however, is the value basis of lumber exports is approximately 25% of production and that percentage is rising. This is due to the fact that the lower grade hardwood stock tends to not be exported. Following are details on hardwood exports and major markets. In summary, the EU is currently the largest export market in terms of value as well as highest unit value market.

Export data for the specific hardwood products:

Lumber: \$1.4 billion (down from \$1.6bn in 2006)

Logs: \$806 million (up 30% from '06)

Veneer: \$447 million (up 4% from '06)

Flooring: \$92 million

Hardwood Plywood: \$87 million

Chips, molding and siding make up balance of around \$85 million combined.

The major export markets are as follows:

Export markets for Lumber:

- 1) Canada: \$370 million*
- 2) China: \$222 million
- 3) Italy: \$111 million
- 4) Mexico: \$98 million
- 5) Spain: \$85 million
- 6) Vietnam: \$66 million
- 7) UK: \$64 million

Export Markets for Logs:

- 1) China: \$189 million (up 35% from '06)
- 2) Canada: \$136 million (down 23% from 2006. In '07, China surpassed Canada for first time)*
- 3) Italy: \$58 million
- 4) Germany \$51 million
- 5) Spain: \$48 million
- 6) Hong Kong: \$46 million

Export Markets for Veneer

- 1) Canada: \$143 million*
- 2) Spain: \$55 million
- 3) Germany: \$54 million
- 4) Italy: \$31 million
- 5) China: \$30 million

** Overwhelming majority of US exports to Canada return to the US as further manufactured products or are re-exported to EU, Asia.*

Now, a review of some of the export challenges we face as an industry. First, I would like to address the potential increase in export fees. The USDA Animal and Plant Health Inspection Service (APHIS) provide the industry with a Phytosanitary Certificate which was developed to satisfy foreign regulatory standards. Our industry is required to issue a certificate for each container of lumber they ship into a country that requires a Phytosanitary Certificate to ensure that the wood is free from

invasive pests. Certificate costs last year, at a rate of \$50.00 per container, were close to \$100,000 for some hardwood exporters. A cost we recognize is part of doing business in many foreign markets. However, APHIS has announced a proposal to raise this export certification fee by nearly 100%. As proposed, the fee hike would raise the certification fee for an export shipment from the current rate of \$50 to \$99. With already tight margins, it has been estimated that this increase could cost some exporters up to \$200,000 a year. To address this increase, we have been working closely with APHIS on an alternative cost savings plan that would offer a Kiln Drying (KD) certification system in lieu of the APHIS Phytosanitary Certificate. This is an acceptable treatment process to control invasive pests and is recognized by USDA for its effectiveness. APHIS has sent letters to China, Vietnam and Australia asking for their acceptance of the KD certificate in lieu of the APHIS Phytosanitary Certificate and we are awaiting their response. (Please find enclosed an estimate of Phytosanitary Certification costs vs KD costs and a copy of the USDA letter to Vietnam requesting acceptance of KD certificate.)

Of importance to note with this issue is our largest challenge remains with our largest market. The EU currently requires the Phytosanitary Certificates for Oaks, Maples, Sycamore, Poplar, Chestnut and Ash. This is a very significant percentage of the market and our industry views the EU's acceptance of KD Certification in lieu of the government sponsored Phytosanitary Certificate a priority. While we are encouraged by the possibility of opening markets to the option of the KD certificate, in the short-term we are concerned about the increase in export fees currently proposed by APHIS. This type of increase would put a tremendous burden on the hardwood lumber businesses.

The industry requests the committee encourage USDA/APHIS to carefully consider the status of the development of the KD certification program along with the current economic condition of the industry before implementing the proposed increase. In addition, we would welcome your support in identifying effective strategies to encourage other countries to accept the KD certificate.

Second challenge of significant importance to the industry is the added freight charges hardwood industry exporters are experiencing. There is a growing concern for the increasing problems with ocean freight. This unexpected rise in charges from freight forwarding companies is creating a very difficult situation for our industry. It is an exorbitant cost for small business owners and one that cannot be passed on to the customer and remain competitive.

One North Carolina company tells the following story of what has been happening: Over the past six months, their business has experienced an increase in freight transportation booking fees by 141 percent. Here is a typical scenario we are seeing across the industry. Please note, the container values have remained stable and all have been shipped from Charleston, SC to Liverpool:

- December 3, 2007, freight charge of \$1,450, with an additional fee of \$200 once it arrived at the port.
- March 27, 2008 (3 months later) freight charge is \$2,400. Almost \$1,000 more, again with an additional fee of \$200 when it arrived at the port.
- June 3, 2008 freight charge estimated at \$3,200-\$3,550, again almost a \$1,000 increase with additional fees likely once the freight arrives at the port. Vessel is expected to sail on July 13, 2008.

The shipping companies and freight forwarders are demanding additional fees from \$200-\$1,000 to load containers of hardwood lumber that were already under contract. These contracts now state that all shipments are "subject to carrier and / or port security fees in effect at the time of shipment". In addition to these fee increases, the industry is experiencing bookings that were contracted and then cancelled within 24 hours of the vessel sail date after the container has arrived at the port.

Lumber exporters have little to no idea what it will cost to ship goods internationally. Sales are made and contracts signed today for fees that are not honored. Lumber exporters have no recourse but to pay the additional fee to move the goods or cancel the order and lose the sale. This is happening repeatedly at the domestic ports.

We would like to request the Committee encourage regulatory bodies to review the business practices of shipping companies and their transportation charges to ensure responsible business practices are being followed and small businesses are not being unfairly penalized.

Just as a side note, to further complicate the issue, is the shortage of containers our industry is facing. The shortage of shipping containers has hindered the industry's ability to get their products to market. Shipping lines are 'bumping' wood products from ships in order to put on higher value commodities. With a strong U.S. economy an abundant supply of containers were available at a low price as ship lines would look for outbound goods. A weakening U.S. economy has decreased goods being imported and thereby decreased the containers available.

- The euro has strengthened against the Yuan, stimulating record shipments of Chinese goods to the EU, and diverting ships previously bound for the U.S.
- Massive growth in developing Asian countries has caused steamship lines to dedicate more trade lanes within Asia instead of to and from the U.S.

The third challenge I would like to address today is foreign procurement requirements for certified wood. In certain export markets, most notably in Europe and Japan, government procurement policies are requiring that wood products be shown to be from legal and sustainable sources. Private market purchasers are increasingly requesting similar assurances.

Certification often provides an accepted demonstration of legality and sustainability. While there are U.S. hardwood businesses that have been successful in attaining 3rd party certification, this is a complicating factor for most in the industry. Unlike many countries where forest land is controlled by governments, and where deforestation and illegal logging have been identified as issues, US forest ownership and hardwood supply is mainly private. US hardwood production is concentrated east of the Mississippi River but some hardwood species are commercially produced in the West as well. Over 90% of US hardwoods are supplied by private landowners, mainly by small family forest owners with an average holding of less than 25 acres. Most family forests are owned for reasons other than timber production -- as part of a farm, for recreation or other reasons. Thus, certification is generally not something that appeals to small forest owners who will only harvest irregularly, if at all, and perhaps only once or twice in a generation. Hardwood timber operators purchase from hundreds of different landowners each year, usually in small quantities. Much is sold through wood dealers who amass logs from many different sources and merchandize them by species as the market allows. This makes chain of custody tracking for certification challenging if not extremely difficult.

We are working to address this unique problem with 3rd party certificate programs. However, until these obstacles can be addressed the U.S. hardwood industry needs support to assure the legality and sustainability of U.S. hardwoods. Following are some of the key resources to support the industry's record of legality and sustainability:

- U.S. hardwoods are demonstrated through the yearly U.S. Forest Service Forest Inventory and Analysis Program to be abundant and inherently sustainable
- Despite development pressure and cropland needs, USDA data shows that the US hardwood inventory has more than *doubled* over the past 50 years. The annual hardwood growth exceeds removals by a significant margin of 1.9 to one, and net annual growth has exceeded removals continuously since 1952

- A recent independent study of the US hardwood resource concluded that “there can be a high confidence that rights of timber ownership are well-established and respected” while the World Bank ranks the US in the top 10% of all countries for government effectiveness, regulatory quality and rule of law
- U.S. hardwoods are awarded the highest conservation crop rating available under the USDA Environmental Benefits Index

The Hardwood Federation is currently working with members of Congress to address the importance of recognizing the sustainability and legality of U.S. hardwoods, and assure that the small businesses dominating lumber production as well as small landowners do not face an unfair and unwarranted competitive disadvantage abroad.

I would like to emphasize to Committee members the importance of maintaining a healthy export market for the hardwood industry and thank you again for taking the time to understand our export challenges. I hope these insights into our business have left you with a better understanding of the international competitiveness for small hardwood businesses. Before closing, I do want to mention a very important export promotion program our industry currently receives under the Foreign Agriculture Service. This funding recently passed in the farm bill provides small family owned businesses the opportunity to promote their products in the foreign marketplace through the American Hardwood Export Council (AHEC). Without this type of support, these small family businesses would not be financially equipped to cultivate international customers. With a slumping housing market and economy, foreign demand for U.S. hardwoods is essential to maintaining a healthy wood products industry. It is essential to the health of our industry that Congress continue to fully fund and USDA efficiently allocate the Market Access Programs of the Foreign Agriculture Service.

Thank you for your support.