

**IMPACTS OF THE CHINESE HARDWOOD
PLYWOOD TRADE**

HEARING
BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND FORESTS
OF THE
COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ONE HUNDRED TENTH CONGRESS

FIRST SESSION

TO

RECEIVE TESTIMONY ON THE IMPACTS OF THE CHINESE HARDWOOD
PLYWOOD TRADE ON THE NATIONAL FOREST SYSTEM AND OTHER
PUBLIC LANDS, AND THE COMMUNITIES THAT DEPEND ON THEM

MEDFORD, OR, MAY 30, 2007



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IMPACTS OF THE CHINESE HARDWOOD PLYWOOD TRADE

WEDNESDAY, MAY 30, 2007

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC LANDS AND FORESTS,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Medford, OR.

The subcommittee met, pursuant to notice, at 12 p.m., in Medford City Council Chambers, Medford, Oregon, Hon. Ron Wyden presiding.

OPENING STATEMENT OF HON. RON WYDEN, U.S. SENATOR FROM OREGON

Senator WYDEN. The Subcommittee on Public Lands and Forests will come to order. Today we are going to consider the impacts of the Chinese hardwood plywood trade on the National Forest System and other public lands, and the communities that depend on them.

As chairman of this subcommittee, it is especially important for me to hold this hearing in Oregon because it is an issue of particular importance to many of our communities here at home.

Last fall, a group of Oregon hardwood plywood manufacturers asked to meet with me to discuss problems concerning hardwood plywood imports that they felt were threatening their businesses. Some of those folks are here today.

The numbers struck me as shocking. Over the past few years, U.S. hardwood plywood sector has experienced a dramatic downturn. 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 clearly been surging. In fact, from 2004 to 2006, Chinese hardwood plywood exports to our country increased from \$463 million to \$1.02 billion.

Even more troubling were allegations made by a number of people in the industry suggesting that this dramatic growth in the Chinese hardwood plywood export area was coming at the expense of our key industries and was based on a number of unfair and illegal practices, including illegal dumping, illegal subsidies, tariff misclassification, fraudulent stamping, and illegal logging.

Here in Oregon, hardwood plywood employs about 2,000 persons directly and many more indirectly. Those jobs are here in southern Oregon, Medford, and Grants Pass, and Klamath Falls, and Roseburg, Eugene, and across the southern part of our State. They are good paying family wage jobs. They are jobs I am not going to let go by the boards, and we are going to examine today what

needs to be done to protect those good paying jobs that are the foundation of the well-being of Oregon families. These jobs are obviously jobs that Oregon wants to protect, and the kind of jobs that we need more of.

The surge of low priced Chinese hardwood and plywood imports is a threat to long term health of the U.S. hardwood plywood industry. That, in turn, can have serious consequences for communities in southern Oregon and the families that rely on these good paying jobs.

The Chinese hardwood plywood imports could also hurt Federal hardwood and softwood timber receipts. In manufacturing plywood, hardwoods are used for the face and the backs. Softwoods are used for the inner plies. The Chinese hardwood plywood imports can adversely affect both Federal hardwood and softwood timber receipts. Were the domestic hardwood plywood industry to continue to contract in response to the Chinese hardwood plywood surge, so would those receipts, and those receipts are of great importance to our State.

The decline of the domestic hardwood plywood industry caused by the unfair and illegal Chinese hardwood plywood trade practice can also adversely impact Oregon and the Nation's salvage capacity, and this has great implications for forest health and for safety in our forest.

So when the timber folks brought these serious hardwood plywood concerns to me, it was clear to me that something had to be done. Not tomorrow, not next week, but quickly. Since that time I have been working to investigate the troubling allegations and take steps to address them.

As many of you know, I was the author of the original county payments legislation. That law brought to our State more than \$1.5 billion and it has expired this year.

For a number of years now, I have been working on a regular basis to get the law reauthorized because I realize how important these funds are to Oregon communities and in particular our rural sector. We were able to get a short-term extension, but it is absolutely key that Congress continue to work on this issue until there is a multi-year long-term county payments program.

I am pleased to be able to report to folks here at home that your Congressman, Congressman Walden, has been very helpful to me in working for the multi-year reauthorization. In fact, he tried to offer the legislation that would have brought 5 years of relief to southern Oregon, the measure that I was able to get 74 votes for in the Senate, Congressman Walden tried to offer it in the House of Representatives and was denied that opportunity.

But in my view, county payments and Chinese hardwood plywood are interconnected—both involve the role and responsibility of the Federal Government to ensure that the timber dependent communities have the opportunity to thrive and to prosper in the years ahead.

Today's hearing will give us an opportunity to get an update from folks affected by Chinese hardwood plywood imports, and to get a sense of the progress that is being made in investigating and addressing these unfair and illegal trade practices.

We have a number of witnesses and folks from the public here. I also want to thank the Mayor and the Medford City Council for hosting us.

So let us go to our first panel, Mr. Joe Gonyea, Chief Operating Officer at Timber Products in Springfield, Oregon; Phill Guay, Vice-President of Marketing and Strategic Planning for Columbia Forest Products in Portland; Tom Chamberlain, President of the Oregon AFL-CIO in Salem, Oregon; and Ned Daly, Vice President of Operations of the Forest Stewardship Council in Washington, DC.

Gentleman, we welcome you. We thank you for coming and appreciate the chance to work with you. We will make your prepared remarks a part of our hearing record in their entirety. Why don't you just hold forth with your comments this afternoon.

Mr. Gonyea, welcome.

STATEMENT OF JOSEPH J. GONYEA, III, CHIEF OPERATING OFFICER, TIMBER PRODUCTS COMPANY, SPRINGFIELD, OR

Mr. GONYEA. Thank you, Senator. We appreciate you holding these hearings today.

I am representing Timber Products Company in my capacity as Chief Operating Officer, which is owned by my family. I am the fourth generation of my family to work in the wood products industry. I am testifying to represent the views of our ownership, our management and 1,400 team members, some of whom are here today.

We have nine manufacturing facilities located around the Nation, most of which are right here in Southern Oregon. We operate an International Division that imports wood products from around the globe, including China, to complement our domestic production. Imported products account for approximately 12 percent of our annual sales. We are proud owners and stewards of 118,000 acres of forestland that are third-party certified under the standards of the Sustainable Forestry Initiative. In Oregon alone we have 834 employees and an annual payroll of \$38 million. Our largest product line, as you know, is hardwood plywood, which is used in the manufacturing of fine cabinets and furniture alike.

Senator, I want to thank you. Thank you for your leadership in Congress and thank you for being our champion for free trade that is fair trade. I also want to thank you, your colleagues for their assistance in moving this investigation forward and their interest, Senator Baucus, Senator Bingaman, and Senator Gordon Smith.

As you know, this is not a red or blue state issue. This is a red, white and blue issue for our industry and for our country. We hope your ongoing investigation will address these unfair trade practices and environmental discrepancies that give the Chinese hardwood plywood manufactures an advantage today.

The domestic hardwood plywood industry, like others in North America wood products industry such as furniture, cabinets and flooring, is facing an onslaught of unfairly trade imports from China. The continued survival of our industry is at risk. It does not have to be so.

As you know, our corporate headquarters are in Springfield. My family has lived in the Eugene/Springfield area for years. Our com-

munity is proudly known as Track Capital, USA. Hayward Field at the University of Oregon is the center of activity. A group of elite runners is now preparing for 2008 Olympics in Beijing. When they get to China, there is one thing they can be assured of—a level playing field. For all the competitors, the track surface will be the same, the weather will be the same, and given a fair set of rules for each sport, history has shown that hard-working American athletes can compete with the best of the best from around the world, including the Chinese.

When it comes to hardwood plywood business and China, the playing field is far from fair. The field is, is far from level and the competition is far from fair. Official U.S. Government import statistics from the Commerce Department, as seen on the charts* behind us.

Senator WYDEN. I had a feeling those weren't protestors.

[Laughter.]

Mr. GONYEA. Thank goodness, not.

These charts offer a glaring evidence of these inequities. Between 2002 and 2006, the dollar value of U.S. imports of non-tropical hardwood plywood from China rose by more than 1,000 percent. That trend continues, as a value of such imports in the first quarter of 2007 was 35 percent higher than the first quarter of 2006. In 2002, China accounted for roughly 10 percent of non-tropical hardwood plywood imports into the United States. In the first quarter of 2007, China accounted for a staggering 54 percent of all such imports into the United States.

How has this happened? Let's look at the facts. The Chinese government provides direct subsidies to hardwood plywood manufacturers which export their products to the United States. We have learned that the Chinese hardwood plywood importers have been trying to avoid tariffs by misclassifying their hardwood plywood and we appreciate your work with Customs to look into this. We have also learned that the Chinese hardwood plywood is fraudulently labeled or stamped and we appreciate your investigation of this problem as well. At the end of the day, all these unfair practices lower the price of Chinese hardwood plywood, making it harder for companies like ours, Timber Products Company, to compete.

Then there are the environmental issues. Independent studies state that some 30 to 50 percent of all the birch logs coming into China has either been stolen or are the result of illegal logging. Chinese manufacturers are not held to the environmental standards in their wood sourcing or in the manufacturing processes. Add up each of these factors, and it's no wonder the Chinese can sell products at below cost of a vertically integrated, highly efficient company like ours. These activities find the face of international trade rules—rules that China agreed to accept and abide by when they joined the WTO. You have not heard us discuss today anything about currency valuations or labor conditions, but these, too, are factors.

How does all of this impact the health and well-being of our local economy, Federal, State and BLM forests? As part of my testimony, I am providing you with data on the potential impacts of Chinese

* Charts have been retained in subcommittee files.

imports on public forestlands based solely on the impact to hardwood plywood manufacturers based in Oregon. As you know, 70 percent of all hardwood plywood manufactured in North America is headquartered right here in Oregon. These companies employ over 2,600 Oregonians and have six manufacturing facilities, which have the potential to produce and process 165 million feet of logs a year, a portion of which comes from Federal forests. Over the last 5 years, our company, Timber Products Company, has paid \$6 million to purchase 38 million feet of standing timber from U.S. Forestry Region 5 and BLM from sales that required thinning and salvage logging. Additionally, during 2005 and 2006, Timber Products Michigan operations purchased 650,000 board feet of hardwood logs from USFS Region 9. All of this was done in compliance with the law of the land in the strictest of environmental standards.

In this past year alone, two North American manufacturers of hardwood plywood closed, displacing 460 employees. If China is allowed to continue importing subsidized products made from illegally harvested logs, as they are today, it will undoubtedly lead to more mill closures in the United States, thereby making the job of thinning the forest health in National Forests even more difficult.

What's at stake here is significant. On the line are literally thousands of American jobs, closed mills, a further decline of local economies, and the degradation of forest health on public and private forestlands. The impact of Chinese hardwood plywood imports has the potential to exacerbate the situation.

I want to touch just a moment on what's happening on private forestlands in America. For four generations our family has owned and managed forestlands. I can assure you this forestry today is not my great-grandfather's forestry. Today we have laws which govern management of private forestlands. Hard science, technology, and good old fashioned experience have taught us a lot. Timber Products forestlands are certified under the Sustainable Forest Initiative Program. We manage every aspect of the ecosystem. American forestry should be the poster child for forest health and good practices. Instead, we allow countries like China unfettered access to America's wood products demand. By virtue of this, we condone their illegal and environmentally unsound practices while American managed public and private forestlands continue to be an underutilized asset.

As you know, in 1994, President Clinton proposed the Northwest Forest Plan for U.S. Forest Service Regions 5 and 6 and BLM lands to preserve and protect the Northern Spotted Owl. The plan was to reduce the annual harvest an estimated 75 percent from 4.5 billion feet to 1.1 billion feet. Going on its 14th year, however, the Northwest Forest Plan has not met its goal. The cumulative harvest has only produced a woeful 24 percent of targeted harvest.

Let's utilize our Federal forests as they were intended! When it comes to buying wood products, we must work together to educate the consumer to buy American to encourage those who supply their wood to purchase sustainable wood products, like we produce.

In summary, Senator, I want to thank you for taking the time to come to Medford, to investigate this issue. We appreciate your leadership on this so important trade issue.

In closing, my primary message is that free trade must be fair trade. As you watch the American Olympians compete in Beijing, remember, each athlete can be assured the rules of sport will be applied equally to all. The best athletes will win. We at Timber Products Company can compete on a global scale. Help us ensure it's a fair competition.

[The prepared statement of Mr. Gonyea follows:]

PREPARED STATEMENT OF JOSEPH J. GONYEA, III, CHIEF OPERATING OFFICER,
TIMBER PRODUCTS COMPANY

Thank you for the opportunity to be a part of the field hearing in Medford, Oregon. I am the Chief Operating Officer/Partner of Timber Products Company, which is owned by my family. I am the fourth generation of my family to work in the wood products industry. I am testifying to represent the views of our ownership, our management and our one thousand four hundred team members. Timber Products Company is in the manufacturing, sales and marketing, transportation, and timberland management business. We have nine manufacturing facilities located around the nation, most of which are here in Southern Oregon. We operate an International Division that imports wood products from around the globe including South America, Africa, Russia, and, yes, China to complement our domestic production. Imported products from all of these countries account for approximately 12% of our annual sales. Further, it may be of interest and somewhat ironic to note that, in years past, we exported a greater percentage of our overall company sales to countries throughout Europe and the Far East than we now import. We are proud owners and stewards of 118,000 acres of forestlands that are third-party certified under the standards of the Sustainable Forestry Initiative. In Oregon alone we have 834 employees and an annual payroll of \$38,000,000 (gross pay, not including benefits). Our largest product line is hardwood plywood, from which we produce panel products used in the manufacturing of fine cabinets, furniture, retail store fixtures, and decorative millwork products.

I want to thank you for your leadership in Congress and for being our champion for free trade that is fair trade! Thank you for advancing this investigation. I would also like to thank Senator Max Baucus of Montana, Senator Jeff Bingaman of New Mexico and Oregon Senator Gordon Smith for their roles in bringing these important issues to light. This is not a red or blue state issue but a red, white, and blue issue for our industry and country. It is our time to act. We hope your ongoing investigation will address these unfair trade practices and environmental discrepancies that give the Chinese hardwood plywood manufacturers an advantage. The domestic hardwood plywood industry, like other North America wood products industries including furniture, cabinets, and flooring, is facing an onslaught of unfairly traded imports from China. The continued survival of our industry is at risk. It doesn't have to be so!

Our corporate headquarters are in Springfield and our family has been long-time residents of the Eugene-Springfield area. As you may know, we are proudly known as the Track Capital, USA and my family has been track fans for generations. Hayward Field at the University of Oregon is the center of this activity. A group of elite runners is here to prepare for the 2008 Olympics in Beijing and some are part of the U of O Pac 10 Championship team. When they get to China, there is one thing they can be assured of—a level playing field. For all competitors, the track surface will be the same and the weather will be the same. Given a fair set of rules for each sport, history has shown that hard-working American athletes can compete with the best of the best from around the world, including the Chinese.

When it comes to the hardwood plywood business and China, the playing field is far from level and the competition is far from fair. Official U.S. Government import statistics from the Commerce Department offer glaring evidence of these inequities. Between 2002 and 2006, the dollar value of U.S. imports of non-tropical hardwood plywood from China rose by more than one-thousand percent, an increase of more than ten-fold. And that trend continues, as the value of such imports in the first quarter of 2007 was 35 percent higher than the value of such imports during the first quarter of 2006. In 2002, China accounted for roughly 10 percent of all non-tropical hardwood plywood imports into the United States. In the first quarter of 2007, China accounted for roughly 54 percent of all such imports into the United States.¹

¹U.S. Census Bureau IM-145 (Document has been retained in subcommittee files).

How did this happen? Once again, look at the available facts. The Chinese government provides direct subsidies to hardwood plywood manufacturers which export their products to the United States. Many of these products are sold at below our cost, despite the distance they must travel. We have learned that Chinese hardwood plywood importers have been trying to avoid tariffs by misclassifying their hardwood plywood and we appreciate your work with Customs to look into this. We have also learned that some Chinese hardwood plywood is fraudulently labeled or stamped and we appreciate your investigation of this problem as well. At the end of the day, all of these practices lower the price of Chinese hardwood plywood, making it harder for companies, like Timber Products Company, that play by the rules to compete.

And then there are the environmental issues. Independent studies state that some 30-50% of the birch logs coming into China have either been stolen or are the result of illegal logging. Chinese manufacturers are not held to environmental standards in their wood sourcing or in the manufacturing process with use of resins and lack of controls on air and water emissions. Add up each of these factors and it is no wonder the Chinese can sell products at below the cost of a vertically-integrated, highly efficient company like Timber Products Company. These activities fly in the face of international trade rules—rules that China agreed to accept and abide by when it joined the World Trade Organization. As a result, private hardwood plywood producers in this country are competing not only with Chinese companies but also with the Chinese government and its distortive economic policies. Furthermore, in our statement, you have not heard us discuss currency valuation or labor conditions, but these, too, are factors.

How does this impact the health and well being of our local economy and federal, state, and BLM forests? As part of my written testimony, I am providing you with data on the potential impacts of Chinese imports on public forestlands based solely on the impact to hardwood plywood manufacturers based in Oregon. These companies employ over 2,600 Oregonians. In addition to Timber Products Company's two mills, the other hardwood plywood manufacturers are: Columbia Forest Products, States Industries, Murphy Plywood, and Roseburg Forest Products. 70% of all hardwood plywood manufactured in North America is headquartered in Oregon with this group of companies. These six manufacturing facilities have the potential to process approximately 165,000 MBF of logs or on average 28,000 MBF +/- per mill, a portion of which comes from federal forests. Over the last five years, Timber Products Company has paid \$6MM to purchase 38,000 MBF of standing timber from the U.S. Forest Service and BLM from sales that required thinning and salvage logging. Additionally, during 2005 and 2006, Timber Products Michigan operations purchased 650 MBF of hardwood logs from USFS Region Nine. All of this is done under strict U.S. environmental guidelines, both federal and state laws.

In this past year alone, two North American manufacturers of hardwood plywood* closed, displacing 460 employees. If China is allowed to continue importing subsidized and illegally harvested logs as they are today, it will lead to more mill closures in the United States thereby making the job of thinning and forest health in National Forests even more difficult. An example of what can take place when we lose the balance of management of federal lands is USFS Region Three in Arizona and New Mexico. There, the U.S. Forest Service and environmental groups are finding it far more difficult to attract businesses needed to carry out important forest health projects back to the region, now that the infrastructure is gone. Obviously, this has had a large negative effect on the local rural communities which are surrounded by National Forests and BLM lands. We do not want to repeat the same mistakes in Oregon.

The decline of domestic hardwood plywood manufacturing could also lead to a further reduction of U.S. thinning and salvage capacity on government lands. The financial impact would be substantial, but even more serious would be impacts on forest health and public safety. What's at stake here is significant. On the line are literally thousands of American jobs, closed mills, a further decline of local economies, and the degradation of forest health on public and private forestlands. The impact of Chinese hardwood plywood imports has the potential to exacerbate this situation.

I would like to touch on what is happening on private forestlands in America. For four generations, our family has owned and managed forestlands. I've been doing it for over twenty years. I can assure you this—forestry today is not my great-grandfather's forestry. Today we have laws which govern management of public and private forestlands. Hard science, technology, and good old experience have taught us a lot. At Timber Products Company we are active participants in the Sustainable Forestry Initiative program, or SFI. We manage every aspect of the eco system on

* Longlac and GP Savannah.

our lands. We are not the only ones. Over 150 million acres of forestland in America have been audited by independent third parties to meet the SFI standards. American forestry should be the poster child for forest health and good practices. Instead, we allow countries like China unfettered access to America's wood demand. By virtue of this, we condone their illegal and environmentally-unsound practices while American managed public and private forestlands continue to be an underutilized asset.

As you know, Senator, in 1994, in an effort to preserve and protect the Northern Spotted Owl, President Clinton and his administration proposed the Northwest Forest Plan for U.S. Forest Service Regions 5 & 6 and BLM lands which was to reduce the annual harvest an estimated 75% in this area from 4.5 billion board feet to 1.1 billion board feet. This figure is an achievable harvest. In its 14th year, however, the Northwest Forest Plan has not met its goal. The cumulative harvest has only produced 3.5 billion board feet versus a plan of 14.3 billion board feet—a woeful 24% of the targeted harvest.²

Those who are concerned about the environment need to come to the table to help achieve the Northwest Forest Plan and produce a stable, reliable harvest from federal lands, and to stop the demand for imported wood products from countries that do not have good forest practices or environmental and product quality laws. Let's utilize the federal forests as they were intended. When it comes to buying wood products, let's work to educate the consumer to buy American and to encourage those who supply the wood to the consumer—the “big box stores”—to purchase sustainable wood products as they have advocated doing, but have failed to do at times with their purchasing practices.

In summary, I want to again thank you for your leadership on this trade issue which is so very important to my company and to our state. Thank you also to everyone on the panel. In closing, my primary message is that free trade must be fair trade. As you watch American Olympians compete in Beijing next year, remember each athlete can be assured the rules of the sport will be applied equally to all, and that the best athlete will win. We at Timber Products can compete on a global scale. Just help us ensure that it is fair competition!

Senator WYDEN. Thank you very much. We'll have some questions in a minute.

Phill, Mr. Guay.

STATEMENT OF PHILL GUAY, VICE PRESIDENT OF CORPORATE STRATEGY AND MARKETING, COLUMBIA FOREST PRODUCTS, PORTLAND, OR

Mr. GUAY. First I'd like to thank Senator Wyden and his staff for the opportunity to be a part of this important hearing. The issues that we're discussing here today are truly crucial to the survival of our domestic industry.

Columbia Forest Products is one of the largest manufacturers of hardwood products in North America. Our four divisions; hardwood plywood, hardwood veneer, hardwood flooring, and international division, amount to over \$1 billion in sales annually. We have more than 3,300 employee-owners in the United States. We have 11 domestic hardwood plywood and veneer manufacturing facilities. We are also a major importer, using offshore resources to complement our domestic product line. We are North America's largest Russian Birch importer, and we contract-manufacture with suppliers in China, South America, and throughout the world. We are also the Nation's second largest hardwood flooring manufacturer, with five plants in North America.

As a major manufacturer and importer, we recognize ours is a global industry. In fact, we have seized the opportunity to be global, both in sales and manufacturing. We have two flooring plants

² AFRC, “Actual Sawtimber Harvested From Sales Sold Under the Northwest Forest Plan”, 2006.

in Malaysia and sell plywood manufactured in China, not only here in the United States but in the European Union as well. We sell flooring here as well as the in the E.U., the Middle East, and Australia.

As a global company, we see the need for balance across all global regions. Balance is essential for the industry and consumers everywhere. Just as important, perhaps more so, is the global enforcement of logging rules. Such a practice would have an unbelievable impact on the environment by containing illegal logging, promoting sustainable practices, and curbing related pollution. So what we seek is not an advantage for any region but fairness across all regions, across all business functions, in raw materials, tax incentives, labor, and numerous others. What we seek is fair trade, and we believe free trade is fair.

Joe just got done spending some time talking about China, and I cannot emphasize enough that we agree with everything that Joe has said. Let me give you our perspective on China with a bit more emphasis on the global logging trends. Speaking from a Columbia perspective, green initiatives and sustainability are most important to us. For 10 years, Columbia Forest Products has maintained a Forest Stewardship Council chain of custody certification and was one of the first in our industry to do so with Certificate Number 65 out of 828 granted in the United States today.

We recently introduced a revolutionary, urea formaldehyde-free adhesive system we call PureBond, for the manufacture of hardwood plywood flooring. Recently the California Air Resources Board, or CARB, concluded that the United States is a toxic dumping ground for excess urea-formaldehyde products manufactured worldwide. CARB took bold steps to eliminate that practice by passing new regulations that are the most stringent in the world. Similarly, and just as importantly, we have an opportunity here to stop the United States from becoming the world's biggest consumer of illegal logging. In doing so, we can help the environment, our industries, domestic employment, and tax receipts simultaneously.

Although there are several programs which certify that wood is being harvested sustainably, we use FSC. Joe recently mentioned SFI, which timber uses. Of the 84.3 million hectares of forest land that is certified worldwide by the Forest Stewardship Council, 49 percent is located in Europe, 31 percent in North America, 3 percent in Africa, and 2 percent in Asia.

Certification is a clear indication of sustainable forestry practices. Since it is nearly impossible to log illegally on certified land, you can see how easily it would be to log illegally in Asia and Africa where under 5 percent of their forest land is certified. While we believe certification and legally controlled logging are both good business and social practices, they are not free. North American industries' commitment to these sustainable practices is expensive but the right thing to do. However, it puts us at a significant cost, and at times availability, disadvantage to most other areas of the world.

I'll give you some numbers to complement Joe's. Let's examine hardwood plywood first. When you look at the plywood imports in 2002, 2.2 million cubic meters of hardwood plywood was imported. In 2006 that number was 4.4 million cubic meters, or up 93 per-

cent. At the same time, as you well know, domestic production actually declined. During that same period from 2002 to 2006, China's share of imports increased from less than 10 percent to 54 percent, as Joe has just mentioned. Imports from other countries actually declined over that period as China entirely dominated growth. That trend has continued unabated. Despite a significant slowdown in the domestic housing industry, 2007 has seen an increase over 2006 with regard to imports, almost all again from China. Imports are up 33 percent on a value basis and 6 percent on a volume basis, first quarter 2007 over first quarter 2006. All of that, despite the housing slump, a slump that has caused domestic production to decline in that same period.

Although I know this hearing is on hardwood plywood, I'd like to mention hardwood flooring. The same logging and business practices that hurt domestic hardwood plywood are present in flooring as well.

Hardwood flooring imports have soared from 75 million cubic meters in 2001 to 325 million cubic meters in 2006. The domestic hardwood flooring industry is carrying the same unfair burden as plywood.

How does this affect our economy as well as Federal, State, BLM, and private landowners? The data in our submission provides a snapshot. Our plant in Klamath Falls, Oregon, 1 of 11, consumed 46 million board feet of timber in 2003; by 2006 that declined 35 million board feet. Admittedly, much of that timber is from private sources, but that decline clearly indicates a loss of revenue to various government entities, and landowners, and most importantly to us, job cuts at our Klamath Falls plant.

The story of log purchases and job loss at our Klamath Falls plant is no different from our other plants nationwide. Our two largest plants are on the east coast, they consume about 80 million board feet per year. Once again, that volume is falling dramatically.

So what do we want? Free and fair trade. Thanks to the effort of you, Senator Wyden, and your staff, an ITC 332 investigation is now underway for both hardwood plywood and hardwood flooring. That will address the unfair business practices negatively affecting our industry, tax receipts, and employment.

Senator WYDEN. Might get another initiative or two out of the Administration on the next panel.

Mr. GUAY. That's good. We're looking forward to that.

Just as important, perhaps more so, is that we develop and enforce measures so that all wood products imported into the United States are legally logged and, ultimately, sustainable logged. It is the key, not just to a healthy environment, but to free and fair trade, tax receipts, and employment and truly the survival of our domestic industry.

Global enforcement at the log level is the key to success. Clearly, most wood product manufacturing occurs in China, but most of the illegal logging undoubtedly occurs in Russia, elsewhere in Asia and Africa. While free and fair trade is essential, if logging practices are not controlled in the forest, we may improve our relationship between ourselves and China, but manufacturing will simply move

somewhere else. Hence, neither our tax receipts, nor our industry, nor the environment will really be improved.

So in summary, what we believe is that what is best for tax receipts is best for our industry. Free trade, fair trade, and legal logging everywhere.

I'd like to thank you, your staff, for everything you're doing on behalf of our industry.

[The prepared statement of Mr. Guay follows:]

PREPARED STATEMENT OF PHILL GUAY, VICE PRESIDENT OF CORPORATE STRATEGY
AND MARKETING, COLUMBIA FOREST PRODUCTS

My name is Phill Guay and I'm the Vice President of Corporate Strategy and Marketing at Columbia Forest Products. I would like to thank you for the opportunity to be a part of this important hearing, and in turn, thank everyone who made it possible.

Columbia Forest Products is one of the largest manufacturers of hardwood products in North America. Our four divisions: hardwood plywood, hardwood veneer, hardwood flooring and international division amount to \$1 billion in sales, and we have more than 3,300 employee-owners. We are one of the largest Employee Stock Ownership Programs (ESOP) in the United States. We have 11 hardwood plywood and veneer manufacturing facilities and are the largest manufacturer in that industry. We are also a major importer, using offshore resources to complement our domestic product line. We are North America's largest Russian Birch importer, and we contract-manufacture with suppliers in China, South America and throughout the world. We are also the nation's second-largest hardwood flooring manufacturer, with five plants in North America.

As a major manufacturer and importer we recognize ours is a global industry. In fact we have seized the opportunity to be global, both in sales and manufacturing. We have two flooring plants in Malaysia and sell plywood manufactured in China, not only in the United States but in the European Union also. We sell flooring here as well as the European Union, the Middle East and Australia.

As a global company we see the need for balance across all global regions. Balance is essential for the industry and consumers everywhere. Just as important, perhaps more so, is the global enforcement of logging rules. Such a practice would have an unbelievable impact on the environment by containing illegal logging, promoting sustainable practices and curbing related pollution. So what we seek is not an advantage for any region but fairness across all regions, across all business functions, in raw materials, tax incentives, labor and numerous others. What we seek is fair trade, and we believe free trade is fair.

Joe Gonyea has spent/will spend some time focusing on the issues in China. We agree with Joe. Let me give you our perspective not only on China but the overall global trends as well. Speaking from a Columbia perspective green initiatives and sustainability are most important to us. For 10 years, Columbia Forest Products has maintained a Forest Stewardship Council (FSC) chain of custody certification and was one of the first in our industry to do so with certificate number 65 out of 828 granted to date in the United States.

We recently introduced a revolutionary, urea formaldehyde-free adhesive system, PureBond™, for the manufacture of hardwood plywood and flooring. Recently the California Air Resources Board (CARB) concluded that the United States is a toxic dumping ground for excess urea-formaldehyde products manufactured worldwide. CARB took bold steps to eliminate that practice by passing new regulations that are the most stringent in the world. Similarly we have an opportunity here to stop the United States from being the world's biggest consumer of illegal logging. In doing so we can help the environment, our industries, domestic employment and tax receipts simultaneously.

Although there are several programs which certify that wood is being harvested sustainably, we use FSC; others use Sustainable Forestry Initiative (SFI) as well as additional programs available. Of the 84.3 million hectares of forest land certified world wide by the Forest Stewardship Council 49.7% is located in Europe, 31.5% in North America, 3.0% in Africa and 2.0% in Asia.

Certification is a clear indication of sustainable forestry practices. Since it is nearly impossible to log illegally on certified land, you can see how easily it would be to log illegally in Asia and Africa where under 5% of their forest land is certified by the Forest Stewardship Council. While we believe certification and legally controlled logging are both good business and social practices, they are not free. North

American industries' commitment to these sustainable practices is expensive but the right thing to do. However, it puts us at a significant cost—and at times availability—disadvantage to most other areas in the world.

Let's examine hardwood plywood alone. When you look at plywood imports in 2002, 2.2 million cubic meters of hardwood plywood was imported. In 2006 that number was 4.4 million cubic meters, up 93%. At the same time, domestic production declined. During that same period from 2002 to 2006 China's share of imports increased from less than 10% to 50%. Imports from other countries actually declined over the period as China dominated growth. That trend has continued unabated. Despite a significant slowdown in the domestic housing industry (the primary consumer of hardwood plywood) generally every month, 2007 has seen an increase over 2006 with regard to imports. Imports are up 33% on a value basis and 6% on a volume basis first quarter 2007 over 2006 despite the housing slump. Absolutely at this point we believe imports have done far more damage to our industry than the current housing slump. And many of those imports are subsidized by illegal logging as well as unfair trade practices.

Although I know this is a hearing on hardwood plywood, I'd like to mention hardwood flooring as well. In part because some hardwood plywood is converted into hardwood flooring, and flooring is a much bigger industry. But also because the same logging and business practices that hurt domestic hardwood plywood manufacturing are present in flooring too.

Hardwood flooring imports have soared from 75 million cubic meters in 2001 to 325 million cubic meters in 2006. The domestic hardwood flooring industry is carrying the same unfair burden.

How does this affect our economy as well as federal, state, BLM and private land owners? The data in our submission provides a snapshot. Our plant in Klamath Falls, Oregon, one of 11, consumed about 46 million board feet of timber in 2003; by 2006 that declined to 35 million board feet. Admittedly, much of that timber is from private sources, but the decline clearly indicates a loss of revenue to the various government entities and land owners, as well as job cuts at our Klamath Falls plant. The Northwest Forest Plan for United States Forest Service Regions 5 and 6 and BLM lands are running at under 25% of the allowable harvest for many reasons. But had the allowable targets been achieved it would have had a significant positive affect on forest health, revenue as well as our global competitiveness.

The story of log purchases and job loss at our Klamath Falls plant is no different at our other plants nationwide. Our two largest plants on the east coast consume about 80 million board feet per year. Once again that volume is falling and 98% of it comes from private land.

So what do we want? Free and fair trade. Thanks to the effort of Senator Wyden and his staff, an ITC 332 investigation is now underway for both hardwood plywood and hardwood flooring industries. That will identify the unfair business practices negatively affecting our industry, tax receipts and employment.

Just as important, perhaps more so, is that we develop and enforce measures so that all wood products imported into the United States are, first and foremost, legally logged and, ultimately, sustainably logged. It is the key, not just to a healthy environment, but to free and fair trade, healthy tax receipts, employment and the survival of our domestic industries.

Global enforcement at the log level is the key to success. Clearly, most wood product manufacturing occurs in China, but most of the illegal logging undoubtedly occurs in Russia and Africa. While free and fair trade is essential, if logging practices are not controlled in the forest, we may improve the relationship between ourselves and China, but manufacturing will simply move elsewhere. Hence, neither our tax receipts, nor our industry, nor the environment will really be improved.

So, in summary, what is best for tax receipts is best for our industry, free trade, fair trade and legal logging everywhere.

Senator WYDEN. Thank you very much. Tom, welcome.
Mr. Chamberlain.

**STATEMENT OF TOM CHAMBERLAIN, PRESIDENT, OREGON
AFL-CIO, SALEM, OR**

Mr. CHAMBERLAIN. Mr. Chair, I'd like to thank you for your leadership in addressing an issue that negatively impacts Oregon working families.

For the record, my name is Tom Chamberlain. I'm the president of the Oregon AFL-CIO, and I have been such since 2005.

The AFL-CIO represents 135,000 union members, supporting tens of thousand spouses and children, giving them a middle class lifestyle, which is the core of America. There are approximately 20,000 union members in the wood forest products industry. The value of these 20,000 jobs impact our economy three ways.

One, these are job creators. Depending on which economic setting you read, somewhere between four and six jobs are created for each manufacturing job in the woods product industry. So what we're talking about is 80 to 100,000 jobs in the Oregon economy, primarily in rural areas of the State where forest products is the backbone of their individual economies.

Second, these are manufacturing jobs. As I said earlier, they are the backbone of the middle class. They provide family wage jobs, health care, retirement benefits, and more importantly, an opportunity to achieve the American dream, which is that each generation is better than the last. We're not doing very well right now. A recent story in the *New York Times* reported last week that the average 30 year old earns 12 percent less than the parents, 12 percent less. This is a reversal of a 40-year trend which each generation has out-earned the preceding generation. One of the causes noted was the loss of manufacturing jobs. We also have to maintain an increase, our local tax base, by maintaining these family wage job providing vital services like fire and education and police.

Finally, the wood products industry is the key economic driver of rural Oregon, and keep many communities financially afloat.

As stated earlier, 70 percent of all the companies in the hardwood industry, or hardwood plywood industry, are headquartered here in Oregon. The future of the hardwood plywood industry has a significant impact on Oregon's economy.

The timing of this hearing is very important. Last week's Strategic Economic Dialogue talks in Washington, DC, addressed Chinese huge trade surpluses, unwillingness to float its currency, unwillingness or inability to protect America's intellectual property. These topics seem to be the primary focus of those discussions, but China's undermining of the forest products industry are just beginning to draw attention. That's why these hearings are so important.

Thanks to your efforts and a few of your congressional colleagues and a few news outlets, government and non-government organizations, its become very apparent that China are now, are not playing by the rules and will do whatever it takes to gain world domination, especially forest products industry. This, this strategy has been at play for years in Oregon, for years.

It's worrisome the length China will go to lure away well paying, highly skilled, unionized manufacturing jobs from Oregon and other places in the United States to China. China's hardwood plywood industry threatens to destroy large portions of the global ecosystem in Asia, Africa, South America, in order to keep its mills running at full capacity. They are in search of low costs, illegally logged supplies of fiber. This is a short run, this is a short run strategy because in the long run, it's going to damage our bio-systems.

Rather than focus on recapping problems, I'd like to talk about other activities that they are engaged in, and what the consequences of those activities are.

Illegal subsidies: Several studies have been documented that China spends over \$2 billion a year, excuse me, \$2 billion in the last 5 years in subsidizing their wood products industry. With the subsidies, China has constructed state-of-the-art mills while American workers are trying to compete in outdated mills that the industry can't update to maintain their competitiveness.

Now I'm not an economics major. I was a firefighter for 27 years, but even I can see where this is headed. We're not going to like it. We're not going to like the impacts it's going to have on the middle class and rural families in Oregon.

China's practice of mislabeling exports to avoid duties is making it harder for American firms to compete. This practice makes it easier for U.S. resellers to choose Chinese products based on unfair advantage. It is impossible, impossible to buy American, if you can't find American made products in stores.

Fraudulent stamping and illegal logging: You know, we believe in sustainable yields in our forests in Oregon, but not so in China. They have over-harvested their forest land and this was revealed in the Washington Post article, Chicago Tribune article and a Popular Mechanics article. Not only have they over-harvested, now they are purchasing illegal logs from Indonesia, Burma, Russia, or any other company that will sell to them and then falsifying their certification papers. This undermines the certification systems that are designed to protect our global ecosystems. According to the OECD illegal logging results, illegal logging results in an annual loss of global economy of \$15 billion a year, \$1 billion in the United States. Just think about what those dollars would bring to Oregon, to the rural communities in education and health care and so on. But we're losing those.

The lack of access to markets. There's a misconception that organized labor is against trade agreements. We're not against trade agreements. What we are against are trade agreements that do not include international laboring organization standards or environmental standards, and don't allow for access to other markets. Without that access, we cannot grow middle class or maintain it.

What can we do? Well, first, we have to put U.S. Government feet to the fire to pressure the Chinese forest products industry to reform its tactics. These strategies have had some success. Last year, U.S. Government filed an unfair subsidies case against the Chinese hardwood plywood industry at the World Trade Organization. Earlier this year, was, WTO finally was willing to fine duties on Chinese coated paper imports due to the subsidies. This action shouldn't be the last step. It should be the first step.

The Bush administration seems to have forgotten that the trade laws are only as good as they are enforced. Mr. Chairman, the steps that you and other Members of Congress are just the first steps you must take to find the solution. The U.S. International Trade Commission needs to complete its current investigation. We need to see action from the Bush administration. We need more congressional hearings and focus on this issue. We need Congress

to revise, revise the Lacey Act, and with the input of labor, industry and environmental to curb illegal logging in the world.

Finally, we need to promote the fact that American wood products are legally harvested. This can be done in two ways. First, the wood product industry can promote their work so that Americans concerned about illegal logging know that made in the USA label means that products are harvested legally. Second, Congress can encourage made in the USA as a way to say that we do not condone illegal logging. These just are initial steps; much more is needed to be done. The Oregon AFL-CIO looks forward to working with you in the future to define solutions to these very pressing problems.

[The prepared statement of Mr. Chamberlain follows:]

PREPARED STATEMENT OF TOM CHAMBERLAIN, PRESIDENT, OREGON AFL-CIO

Mr. Chairman. Thank you for taking the lead on this very important issue to workers in Oregon and for giving me the opportunity to testify. My name is Tom Chamberlain and I have had the honor of serving as the President of the Oregon AFL-CIO since 2005. My organization represents more than 135,000 union members in Oregon, and our members support hundreds of thousands of spouses and children. There are approximately 20,000 union members, both in the AFL-CIO and in other unions, who work in the Oregon forest products industry. The value these 20,000 workers add to the economy is very important in three ways.

First, this industry has a high job multiplier. Depending on the economic analysis you read, it is somewhere between four and six. This means that for every one person employed by the forest products industry, there are somewhere between four and six other Americans employed in support industries—such as logging, transportation, utility and retail—who rely on this industry for their jobs.

Second, these are the good manufacturing jobs that we should be striving to keep in the United States—they are highly skilled manufacturing jobs that pay high hourly wages and often come with full benefits. They keep up the local tax base that maintains necessary services such as police, fire and education. They are not low paying, no benefit “McJobs.”

Finally, these Oregon workers and their families make up the backbone of many rural communities in our state and elsewhere in the United States. It is these well paying, highly skilled jobs that keep many of these communities financially afloat.

As you mentioned in your opening statement, more than 70 percent of the companies in the hardwood plywood industry are headquartered in this state. There is no doubt that the future of this industry is of significant importance to Oregon.

The timing of this hearing is very important, as it comes on the heels of last week’s Strategic Economic Dialogue talks in Washington. While issues such as China’s huge trade surplus with the United States, the Chinese government’s unwillingness to float its currency and the country’s seeming inability to protect American intellectual property have garnered much of the attention, the corrosive effects of practices of the Chinese forest products industry are only beginning to receive much public attention.

But this is quickly changing. Thanks to your efforts along with a few other Members of Congress, the reporting of a few news outlets and the attention of a handful of governmental and nongovernmental organizations, the country and the world are beginning to realize what the hardwood plywood industry and its workers have known for many years—the Chinese do not play by the rules and will do whatever is necessary to establish global dominance.

What makes Chinese actions even more worrisome is that they go to such great lengths to lure well paying, highly skilled manufacturing jobs that were formerly held by unionized workers in Oregon and other parts of the United States to China. What we are seeing is an industry that threatens to destroy large portions of the global ecosystem—be it in Asia, Africa or even South America—in order to keep its mills running at capacity with low cost, largely illegally logged supplies of fiber in the short run. In the long run, as biosystems are destroyed, everyone loses—even the Chinese.

Rather than recapping what the problems are, I would like to spend a few minutes of the Committee’s time talking about some of the consequences of this activity.

Illegal subsidies.—Several studies have documented that the Chinese government has subsidized its forest products industry to the tune of nearly two billion dollars

over a five-year period. Chinese mills are quickly becoming some of the most modern and efficient in the world, while American workers are forced to compete in older mills since the industry can no longer fund necessary improvements to keep them competitive. It doesn't take a MBA from Yale to understand the long term consequences.

Customs issues.—By mislabeling exports to avoid duties, the Chinese make it harder for U.S. firms to compete as this deception makes it easier for U.S. resellers to choose Chinese products based on their unfair price advantage. It is impossible to “Buy American” if you cannot find American made forest products in the stores.

Fraudulent stamping and illegal logging.—In recent years, American companies and consumers have become increasingly aware of the importance of sustainably harvested wood products. However, as the Washington Post, Chicago Tribune and Popular Mechanics have reported, the Chinese forest products industry, having seen the negative effect over-harvesting domestically, has been importing illegally harvested logs from Indonesia, Burma, Russia and any number of other countries and accepting obviously false certification papers. These activities also undermine the certification systems that have been set up to protect global ecosystems. According to the OECD, illegal logging results in an annual loss to the global economy of \$15 billion a year; the U.S. economy alone takes a \$1 billion hit. Imagine what an additional billion dollars could for our industry or for rural school districts and counties in Oregon.

Lack of reciprocal market access.—While it remains fashionable for proponents of so-called “free trade” to claim that labor is opposed to trade, that is, of course, false. Organized labor supports trade as long as it is fair and the country we are trading with gives us reciprocal market access. When we lose access to such a quickly growing market, we lose access to one of the ways to grow our industry outside of North America.

So what are the next steps? We need to adopt the tactics of other groups that have begun to show some success in getting the Chinese government to act on issues such as Darfur. We need to shine a spotlight on Chinese practices and embarrass them into action. We need to garner support on all fronts from multiple allies. Here are some examples.

First, we need to put the U.S. government's feet to the fire to pressure the Chinese forest products industry to reform its tactics. So far, we have seen some successes—the U.S. government last year filed an unfair subsidies case against the Chinese hardwood plywood industry at the World Trade Organization and earlier this year was finally willing to apply duties on Chinese coated paper imports due to subsidies they receive. But these should not be the last steps—they should be the first. We need to remind the Bush administration that trade laws are only good if they are enforced.

Moreover, steps that you and other Members of Congress have taken are just the first steps. Not only do we need to see the U.S. International Trade Commission complete its current investigation, but we need to see action from the Administration. Not only do we need more hearings on the Chinese forest products industry, but we also need Congress to revise the Lacey Act with the input of industry, labor and the environmental movement in order to help curb illegal logging.

Finally, we need to promote the fact that American wood products are harvested legally. This can happen in two ways. First, the wood products industry can promote their work so that Americans concerned about illegal logging know that the “Made in the USA” label means that the product was harvested legally. Second, Congress can encourage “Made in the USA” as a way to say that we do not condone illegal logging.

These are just the first steps. Much more needs to be done. The Oregon AFL-CIO looks forward to working with you in the future to find solutions to this problem.

Senator WYDEN. Mr. Chamberlain, thanks very much. All three of you have been very helpful. We'll have some questions in a moment.

Mr. Daly.

STATEMENT OF EDWARD J. DALY, CHIEF OPERATING OFFICER, FOREST STEWARDSHIP COUNCIL—US

Mr. DALY. Thank you, Senator Wyden. Thank you to the subcommittee for inviting me here today. I appreciate being on this esteemed panel.

My name is Ned Daly. I'm Chief Operating Officer for the Forest Stewardship Council here in the United States.

As a way of introduction, the Forest Stewardship Council is a tool that creates a marketplace for sustainable wood produced and wood and paper products. It rewards the best companies and co-operatives for the best practices. More importantly for this hearing, it is a way to measure the worst practices out of the marketplace.

We are having an impact in China and across the globe with a very simple business motto. FSC is able to provide good producers and manufacturers, like the over 70 Oregon based FSC certified companies, a way to distinguish themselves in some environmentally and socially sustained operations in the global marketplace. FSC also allows consumers to identify sustainable wood products in the marketplace, and support companies with the best practices. It also allows environmentally social advocates to partner with sustainable companies and promote positive alternatives in the marketplace that support communities and the environment.

FSC believes that working forests are an integral and necessary component to forest conservation. The business model has allowed us to help the global timber industry become an ally in conservation of forest worldwide.

FSC standards have been applied to more than 225 million acres of actively managed forests in more than 70 countries, and it's growing steadily. These standards ensure the legal sustainable origin of FSC certified products.

FSC chain-of-custody certification require from manufacturers and distributors track certified products through the chain and has certified over 5,600 manufacturers and distributors in 73 countries.

Evidence of FSC success in our ability to impact markets in China are the numerous companies that have FSC procurement policies, including Home Depot, Lowe's, Crate and Barrel, Pier 1, Williams-Sonoma, Pottery Barn, JP Morgan, Bank of America, PNC Bank, Random House, Scholastic Publishing, Ikea, Nike, Starbucks, Staples, Office Depot, Wal-Mart, Patagonia, and the U.S. Green Building Council.

FSC has just started the process of establishing an office in China. The working group members represent a broad cross section of forest stakeholders, including the International Network for Bamboo and Rattan, WWF China, Beijing Forestry Society, IKEA and many others.

The FSC working group will focus on the development of national standards for timber harvesting in China, but due to serious flooding in 1998, when over 2,500 people lost their lives, the Chinese government banned commercial logging in 17 provinces. While the ban was intended to conserve landscapes, the most immediate impact has been the sharp increase of wood and pulp imported from Southeast Asia and Siberia.

Timber imports into China has tripled in volume and doubled in value between 1997 and 2003. It is estimated that nearly half of all tropical timber trees harvested worldwide are consumed in the Chinese goods producing sector. The majority of imports come from Indonesia, Malaysia, and Russia. FSC partner, the Environmental Investigation Agency has shown illegally logged timber imports from Russia (50 percent of all export trade in the Russian Far East

is considered illegal) as well as Burma, Cameroon, Gabon, Indonesia, Liberia, Papua New Guinea and Thailand. Thailand in turn imports illegal timber from neighboring Burma, Cambodia, and Laos for export to China.

Some more important than developing standards for harvesting within China, is the application of FSC chain-of-custody standards to provide oversight on every step in the commercial production of wood and paper products from the stump to the retailer.

As in any country, there are a number of goods sustainable producers and manufacturers throughout China and many Chinese companies that have already achieved FSC certification. But issues such as corruption, lack of management plans, lack of safety measures for workers, the inability to document or trace products create a large gap between much of the Chinese industry today and where they would need to be to become FSC certified.

Fortunately, FSC has quite a bit of experience working in sectors of the timber industry that face similar challenges, most notably the garden furniture industry in Viet Nam, the charcoal industry in South Africa, and the general wood products industry in central Africa and the Amazon Basin where Brazilian government estimates 25,000 people in the timber and cattle industry.

We are already seeing how market managed for sustainable products in the U.S. and Europe is affecting the Chinese export market. FSC accredited auditors have issued five forest management certificates in over 200 chain-of-custody certificates in China. But the challenges of operating in China remain significant.

China has a number of requirements that make it very difficult to establish FSC audits in an FSC general office in China, such as significant registered capital, over \$3 million, at least 10 full-time employees, and the requirement for conformity to government regulations that have not yet been promulgated. It has been a very difficult process to establish an FSC office in China and perform audits in China, but there are signs that the government is willing to accommodate FSC in the country.

The misappropriation of the FSC label is also an issue. We are all ready seeing misuse of labels by companies in China, including the use of the FSC logo by non-FSC certified companies on non-FSC certified hardwood plywood. FSC has addressed these issues. It has a very robust trademark infringement procedure. With the help of the over 5,000 certified companies we are trying to protect their legitimate use of the label, we've done a good job to date, but the growth in China will definitely test our ability to protect the FSC trademark.

Obviously the change will not happen overnight, but in tandem with our environmental partners such as WWF, Environmental Investigation Agency, FSC certified companies in support of governments in producing, manufacturing, and import countries, we can go a long way in the world, a long way in cleaning up international timber trade in China and around the world.

In conclusion, I'd like to say that while there are a number of issues and problems that make the Chinese economy unique, in many ways China is nothing more than a fork in the mill. There are underlying problems with the global timber industry, illegal logging, ecologically destructive practices, violation of human rights

that must be addressed alone with the global economy that seems blissfully ignorant to these terrible practices. I believe FSC is one tool that can help us address these issues in China and across the world.

[The prepared statement of Mr. Daly follows:]

PREPARED STATEMENT OF EDWARD J. DALY, CHIEF OPERATING OFFICER, FOREST STEWARDSHIP COUNCIL—US

Thank you for the opportunity to testify before the subcommittee today.

My testimony will cover how the Forest Stewardship Council supports and promotes companies with exemplary practices like the over 70 Oregon-based companies certified by FSC, what FSC is doing in China to reduce the impact of illegal and unsustainable wood and paper products on the global marketplace, and the challenges we see moving forward in China. I will address these issues in general, but they all apply to the market for hardwood plywood in the U.S. and globally.

FSC certification is a complicated system of standards, policies, principles, criteria and indicators necessary to implement and oversee a global standard for environmentally and socially responsible timber production. As a way of introduction, there is an easier way to think about FSC certification—Ebay for sustainable timber.

There are companies like Collins Pine, Warm Springs Forest Products and Columbia Forest products who have quite literally some of the best forest management and manufacturing practices in the world and they would like to be able to articulate to consumers that commitment to sustainability.

At the same time there are consumers, both institutional and individual who would like to buy products that are sustainably produced, or more importantly, not from illegal or destructive practices.

There are also advocates for conservation, sustainable forest management and healthy rural communities that would like to have positive alternatives in the marketplace that they can direct consumers to.

Like Ebay, through a set of policies that legitimize the transactions in that marketplace and the establishment of a network of buyers and sellers, FSC is able to provide good producers and manufacturers a way to distinguish themselves in the marketplace, allows consumers to identify sustainable wood products and allows advocates to partner with sustainable companies to promote wood and paper products that support communities and the environment.

FSC believes that working forests are an integral and necessary component to forest conservation. With the growing impacts of conversion from sources like agricultural expansion and development, working forest a essential to provide value to standing forests and keep the forests standing.

WHAT IS FSC?

Since its inception in 1993, the Forest Stewardship Council has emerged as a globally influential system for transforming forestry around the world by reaching areas where other conservation strategies or government policies have fallen short. The Forest Stewardship Council is an independent, nonprofit organization that promotes the responsible management of the world's working forests through the development of forest management standards, a voluntary certification system, and trademarks that provide recognition and value to products bearing the FSC label in the marketplace.

FSC standards have been applied on more than 225 million acres of actively managed forests in more than 70 countries, and growing steadily. In 1994, FSC's members approved an international set of Principles and Criteria that define FSC's threshold for responsible forestry practices worldwide. These standards support biodiversity, reduce chemical use, protect streams and aquatic communities, conserve old growth, ensure protection of high conservation value forests, give stakeholders a voice, and ensure long-term timber supplies. Specific regional standards are developed in countries to interpret and operationalize the original Principles and Criteria in order to manage specific, local forest compositions. The regional standards were developed through a unique consensus process that allows for and actively seeks participation from all interested parties.

Manufacturers and distributors of wood and paper products are required to have a "chain-of-custody" certification in order to label and sell FSC-certified products. Chain-of-custody certification is the process through which wood and fiber are tracked from their original point of harvest through the manufacturing process. FSC is a credible system because consumers can be confident that their purchase of wood

or paper is truly linked directly back to the practice of certified forestry on the ground. FSC has 5,646 certified chain-of-custody companies in 73 countries.

With 37 national offices and representation in every major forest producing country, FSC and its partners are creating a marketplace that demands well-managed forestry practices. Moreover, NGOs, businesses, government agencies, financial institutions, and landowners increasingly use FSC standards as an important land conservation tool, a vehicle to implement corporate social responsibility practices, and a strategy for product differentiation in the marketplace. Through use of the FSC certification system, institutions of all kinds can ensure their commitments to high standards of forest management.

Demand for certified products is “pulling” acres into the FSC system. As certification gains recognition as the screen through which individual and commercial customers view their purchases, the most egregious forest practices are denied a place in the market. In short, the investment made to develop and apply FSC standards over the past decade is paying off in conservation benefits, such as protection of wildlife habitats, improved water quality, sustained availability of timber resources, and increased recognition that forestry can be practiced sustainably. With illegal logging still rampant in many parts of the world and wood and paper demands expected to grow over the next 50 years, the need for FSC standards as a conservation tool is greater than ever before.

Evidence of such demand pull are the numerous companies that have FSC procurement policies including Home Depot, Lowes, Crate and Barrel, Pier 1, Williams-Sonoma, Pottery Barn, JP Morgan, Bank of America, PNC Bank, Random House, Scholastic Publishing, Ikea, Nike, Starbucks (flooring), Staples, Office Depot, Wal-Mart, Patagonia, and the U.S. Green Building Council’s LEED program.

CERTIFICATION

FSC accredited, independent, “third-party” certification bodies or “certifiers” certify forests. They assess forest management using the FSC principles, criteria, and standards, each certifier uses their own evaluative process. This allows FSC to remain outside of the assessment process, and supports the integrity of the standard, and of the FSC system. Certifiers evaluate both forest management activities (forest certification) and tracking of forest products (chain-of-custody certification).

Forest landowners or managers can contact an accredited FSC certifier if they are interested in becoming certified. Certifiers engage in a contractual relationship with the landowner/manager to assess forest management against the FSC standard approved for the region where the forest is located. The general public is notified about certification assessments before they take place so that the certifiers, helping assure the integrity of the process, can hear a full range of voices. At the close, an assessment summary report is made public, while at the same time keeping the company’s proprietary information confidential. If the forest management operations assessed quality for certification, the landowner can choose to sign a certification contract. This event results in their being “certified” and brings with it the landowner’s commitment to continue to practice forestry in a certifiable fashion. This same process is applied in every country, including China, in which FSC operates.

The contract’s duration is five years, at which point a full assessment will be conducted again if the landowner wishes to continue being certified. These five-year audits are supplemented by annual audits to verify that the terms of the contract are being followed, and facilitate regular contact between the certificate holder and certifier.

For those companies who manufacture or trade certified products, a different form of certification applies. Again, to assure the credibility of claims on products, it is important to track materials as they leave the forest and become products down stream. This “chain of custody” (COC) certification process is quite simple. Like any inventory control system, COC allows products to be segregated and identified as having come from a particular source—in this case, an FSC-certified forest.

FSC’s model of certification allows products that flow from certified forests to enter the marketplace with a credential that is unique. Any FSC labeled product can be traced back to a certified source. This aspect of the system is the basis for any credible certification system and is the link between consumer preference and responsible, on the ground forest management.

FSC IN CHINA

FSC is in the process of establishing an office in China which is being led by the former director of accreditation for FSC International. A national working has been established to develop forest management standards for China. Since July 2005 the formative FSC working group in China has met seven times. Working group mem-

bers represent a broad cross section of forest stakeholders including the International Network for Bamboo and Rattan (INBAR), WWF China, Beijing Forestry Society (BFS), IKEA and others. Because of China's importance and the difficulty of establishing an office there, the FSC International board will hold its next meeting in Beijing.

The FSC working group will focus on the development of national standards for timber harvesting in China, but due to serious flooding in 1998, in which over 2,500 people lost their lives, the Chinese government banned commercial logging in 17 provinces. While the ban was intended to conserve landscapes, its most immediate impact has been the sharp increase of wood and pulp imported from Southeast Asia and Siberia.

Timber product imports into China have tripled in volume and doubled in value 1997-2003 and it is estimated that nearly half of all tropical trees harvested worldwide are consumed in Chinese goods producing sector. The majority of imports come from Indonesia, Malaysia, and Russia. FSC partner, the Environmental Investigation Agency has shown illegally logged timber imports from Russia (50 per cent of all export trade in the Russian Far East is considered illegal), Burma, Cameroon, Gabon, Indonesia, Liberia, Papua New Guinea and Thailand (Thailand in turn imports illegal timber from neighbouring Burma, Cambodia and Laos for export to China.)

So more important than developing standards for harvesting within China, is the application of FSC chain-of-custody standards to provide oversight on every step in the commercial production of wood and paper products from the stump to the retailer. The Chain of Custody standards that govern the processing of wood products—mills, secondary manufacturers, brokers and merchants—are internationally established and provide oversight for products made in China often from imported wood and exported globally.

Since FSC sets a global standard for exemplary forestry, there are many operations across the globe that cannot meet the FSC standard. This presents a challenge: how do you create market incentives for operations that cannot meet the FSC standard, that encourage those operations to move in the right direction.

As in any country there are a number of good sustainable producers and manufacturers throughout China and many Chinese companies have already achieved FSC certification. But issues such as corruption, lack of management plans, lack of safety measures for workers, and the inability to document or trace products create a large gap between where much of the Chinese industry is today and where they need to be to become FSC certified.

Fortunately, FSC does have some experience working with sectors of the timber industry that have faced similar challenges, most notably the garden furniture industry in Viet Nam and the charcoal industry in South Africa. Through partner organizations such as the Tropical Forest Trust, producers can receive selective recognition in certain markets if the commit to incremental improvement over 5 years and agree to become FSC certified at the end of the 5 year period.

Obviously change will not happen overnight, but in tandem with our environmental partners such as WWF, Environmental Investigation Agency, and others, FSC certified companies and the support of governments in producing, manufacturing and import countries we can go along way in cleaning up the international timber trade in China and around the world.

ESTABLISHING FSC CERTIFICATION IN CHINA

It has been a very difficult to establish an FSC office in China and to perform audits in China, but there are signs that the government is willing to accommodate FSC certification in country.

For an FSC accredited certifier to legally operate in China, it must adhere to the following regulations:

Article 10 A certification body to be established shall meet the following requirements:

- (1) having fixed premises and necessary facilities;
- (2) having management system that meets the requirements for certification and accreditation;
- (3) having a registered capital of not less than 3,000,000 yuan; and
- (4) having not less than ten full-time certification personnel in relevant fields.

A certification body to engage in product certification activities is additionally required to have technical competence in testing or inspection commensurate with relevant product certification activities.

Article 15 Any certification personnel, when practicing certification activities, shall practice in one certification body only and shall not practice in two or more certification bodies simultaneously.

Article 76 Structural fee charts for certification and accreditation shall be in conformity with the provisions of relevant laws and administrative regulations of the State on pricing.

For social issues certification (e.g. SA 8000) the Certification and Accreditation Administration of the People's Republic of China is operating on a 'case by case' basis both the certification organization and the enterprise involved must submit an application to CNCA in advance, explain the reasons for certification, and cannot start the certification process until approved.

The requirements for a physical presence, staff and investment in China make it difficult for many certification bodies to operate there. The fact that the Chinese government has not established guidelines for accreditation and certification in the forestry sector makes it difficult for FSC accredited auditors to establish management systems for operating in China.

But the government is moving forward on a number of initiatives that would help establish FSC certification in China. The State Forest Administration's (SFA) commissioned the Chinese Academy of Forestry (CAF) to develop a set of criteria and indicators suitable for national forest units. (The Chinese Academy of Forestry and the World Wide Fund for Nature (WWF) China were appointed for the task of establishing the FSC Working Group and develop a FSC National Standard in line with the regulations required by the FSC.)

Since November 2003, all certification bodies issuing certificates in China need to be approved by the Certification and Accreditation Administration of the People's Republic of China (CNCA). CNCA does not seem to have a major problem with the concept of 'International Accreditation' and certification bodies other than CNAB (CNAS) operating in China. Another positive sign is China is active in ENA-FLEG (Forest Law Enforcement and Governance Europe/North Asia) and shown a commitment to oppose illegal logging and associated trade.

Despite these difficulties, FSC has begun to make some inroads in China. FSC accredited auditors have issued five forest management certificates and over 200 chain of custody certificates in China.

LOOKING TOWARD THE FUTURE

There are rarely simple solutions to complex problems like those related to creating transparency and oversight for the international timber trade. In most cases it is a number of tools, such as legislation, diplomacy or market pressure that help resolve such issues. I believe FSC is a tool that can help remove the worst players from the international timber market and reward the sustainable producers in the marketplace. FSC also plays a very important role for wood and paper products more generally. As this industry and many other industries have seen before, a few bad actors can tarnish the whole industry's reputation. FSC establishes sustainably produced wood and paper products as the green, environmentally and socially beneficial products that they are. FSC can uniquely play that role because it is the only internationally recognized forest certification program that recognizes the importance of social issues—community involvement, indigenous and labor rights—in forest management.

Still there is a very difficult road ahead. There is little question that China will be FSC's toughest challenge to date. Along with the challenges aforementioned, trying to regulate misappropriation of the FSC logo and certification is a huge challenge. We are already seeing the misuse of labels by companies in China (including the use of the FSC logo by a non-FSC certified company on non-FSC certified hardwood plywood). FSC has a very robust trademark infringement procedure and with the help of the over 5,000 certified companies who are trying to protect their legitimate use of the label, we have done a good job to date, but growth in China will definitely test our ability to protect the FSC trademark.

I have included for the committee the FSC's Principles and Criteria which guide FSC certification and a list of the FSC certified companies in Oregon who use FSC as a way to highlight their sustainable practices and allows those companies to compete in the global marketplace based on good practices and good prices.

INTRODUCTION TO FSC'S PRINCIPLES & CRITERIA FOR FOREST MANAGEMENT CERTIFICATION

It is widely accepted that forest resources and associated lands should be managed to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. Furthermore, growing public awareness of forest destruction

and degradation has led consumers to demand that their purchases of wood and other forest products will not contribute to this destruction but rather help to secure forest resources for the future. In response to these demands, certification and self-certification programs of wood products have proliferated in the marketplace.

The Forest Stewardship Council (FSC) is an international body which accredits certification organizations in order to guarantee the authenticity of their claims. In all cases the process of certification will be initiated voluntarily by forest owners and managers who request the services of a certification organization. The goal of FSC is to promote environmentally responsible, socially beneficial and economically viable management of the world's forests, by establishing a worldwide standard of recognized and respected Principles of Forest Stewardship.

The FSC's Principles and Criteria (P&C) apply to all tropical, temperate and boreal forests, as addressed in Principle #9 and the accompanying glossary. Many of these P&C apply also to plantations and partially replanted forests. More detailed standards for these and other vegetation types may be prepared at national and local levels. The P&C are to be incorporated into the evaluation systems and standards of all certification organizations seeking accreditation by FSC. While the P&C are mainly designed for forests managed for the production of wood products, they are also relevant, to varying degrees, to forests managed for non-timber products and other services. The P&C are a complete package to be considered as a whole, and their sequence does not represent an ordering of priority. This document shall be used in conjunction with the FSC's Statutes, Procedures for Accreditation and Guidelines for Certifiers.

FSC and FSC-accredited certification organizations will not insist on perfection in satisfying the P&C. However, major failures in any individual Principles will normally disqualify a candidate from certification, or will lead to decertification. These decisions will be taken by individual certifiers, and guided by the extent to which each Criterion is satisfied, and by the importance and consequences of failures. Some flexibility will be allowed to cope with local circumstances.

The scale and intensity of forest management operations, the uniqueness of the affected resources, and the relative ecological fragility of the forest will be considered in all certification assessments. Differences and difficulties of interpretation of the P&C will be addressed in national and local forest stewardship standards. These standards are to be developed in each country or region involved, and will be evaluated for purposes of certification, by certifiers and other involved and affected parties on a case by case basis. If necessary, FSC dispute resolution mechanisms may also be called upon during the course of assessment. More information and guidance about the certification and accreditation process is included in the FSC Statutes, Accreditation Procedures, and Guidelines for Certifiers.

The FSC P&C should be used in conjunction with national and international laws and regulations. FSC intends to complement, not supplant, other initiatives that support responsible forest management worldwide.

The FSC will conduct educational activities to increase public awareness of the importance of the following:

- improving forest management;
- incorporating the full costs of management and production into the price of forest products;
- promoting the highest and best use of forest resources;
- reducing damage and waste; and
- avoiding over-consumption and over-harvesting.

FSC will also provide guidance to policy makers on these issues, including improving forest management legislation and policies.

Principle 1: Compliance with Laws and FSC Principles

Forest management shall respect all applicable laws of the country in which they occur, and international treaties and agreements to which the country is a signatory, and comply with all FSC Principles and Criteria.

Criteria

1.1 Forest management shall respect all national and local laws and administrative requirements.

1.2 All applicable and legally prescribed fees, royalties, taxes and other charges shall be paid.

1.3 In signatory countries, the provisions of all binding international agreements such as CITES, ILO Conventions, ITTA, and Convention on Biological Diversity, shall be respected.

1.4 Conflicts between laws, regulations and the FSC Principles and Criteria shall be evaluated for the purposes of certification, on a case by case basis, by the certifiers and the involved or affected parties.

1.5 Forest management areas should be protected from illegal harvesting, settlement and other unauthorized activities.

1.6 Forest managers shall demonstrate a long-term commitment to adhere to the FSC Principles and Criteria.

Principle 2: Tenure and Use Rights and Responsibilities

Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.

Criteria

2.1 Clear evidence of long-term forest use rights to the land (e.g. land title, customary rights, or lease agreements) shall be demonstrated.

2.2 Local communities with legal or customary tenure or use rights shall maintain control, to the extent necessary to protect their rights or resources, over forest operations unless they delegate control with free and informed consent to other agencies.

2.3 Appropriate mechanisms shall be employed to resolve disputes over tenure claims and use rights. The circumstances and status of any outstanding disputes will be explicitly considered in the certification evaluation. Disputes of substantial magnitude involving a significant number of interests will normally disqualify an operation from being certified.

Principle 3: Indigenous People's Rights

The legal and customary rights of indigenous peoples to own, use and manage their lands, territories, and resources shall be recognized and respected.

Criteria

3.1 Indigenous peoples shall control forest management on their lands and territories unless they delegate control with free and informed consent to other agencies.

3.2 Forest management shall not threaten or diminish, either directly or indirectly, the resources or tenure rights of indigenous peoples.

3.3 Sites of special cultural, ecological, economic or religious significance to indigenous peoples shall be clearly identified in cooperation with such peoples, and recognized and protected by forest managers.

3.4 Indigenous peoples shall be compensated for the application of their traditional knowledge regarding the use of forest species or management systems in forest operations. This compensation shall be formally agreed upon with their free and informed consent before forest operations commence.

Principle 4: Community Relations and Workers' Rights

Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.

Criteria

4.1 The communities within, or adjacent to, the forest management area should be given opportunities for employment, training, and other services.

4.2 Forest management should meet or exceed all applicable laws and/or regulations covering health and safety of employees and their families.

4.3 The rights of workers to organize and voluntarily negotiate with their employers shall be guaranteed as outlined in Conventions 87 and 98 of the International Labour Organisation (ILO).

4.4 Management planning and operations shall incorporate the results of evaluations of social impact. Consultations shall be maintained with people and groups (both men and women) directly affected by management operations.

4.5 Appropriate mechanisms shall be employed for resolving grievances and for providing fair compensation in the case of loss or damage affecting the legal or customary rights, property, resources, or livelihoods of local peoples. Measures shall be taken to avoid such loss or damage.

Principle 5: Benefits from the Forest

Forest management operations shall encourage the efficient use of the forest's multiple products and services to ensure economic viability and a wide range of environmental and social benefits.

Criteria

5.1 Forest management should strive toward economic viability, while taking into account the full environmental, social, and operational costs of production, and ensuring the investments necessary to maintain the ecological productivity of the forest.

5.2 Forest management and marketing operations should encourage the optimal use and local processing of the forest's diversity of products.

5.3 Forest management should minimize waste associated with harvesting and on-site processing operations and avoid damage to other forest resources.

5.4 Forest management should strive to strengthen and diversify the local economy, avoiding dependence on a single forest product.

5.5 Forest management operations shall recognize, maintain, and, where appropriate, enhance the value of forest services and resources such as watersheds and fisheries.

5.6 The rate of harvest of forest products shall not exceed levels which can be permanently sustained.

Principle 6: Environmental Impact

Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes, and, by so doing, maintain the ecological functions and the integrity of the forest.

Criteria

6.1 Assessment of environmental impacts shall be completed—appropriate to the scale, intensity of forest management and the uniqueness of the affected resources—and adequately integrated into management systems. Assessments shall include landscape level considerations as well as the impacts of on-site processing facilities. Environmental impacts shall be assessed prior to commencement of site-disturbing operations.

6.2 Safeguards shall exist which protect rare, threatened and endangered species and their habitats (e.g., nesting and feeding areas). Conservation zones and protection areas shall be established, appropriate to the scale and intensity of forest management and the uniqueness of the affected resources. Inappropriate hunting, fishing, trapping and collecting shall be controlled.

6.3 Ecological functions and values shall be maintained intact, enhanced, or restored, including: a) Forest regeneration and succession. b) Genetic, species, and ecosystem diversity. c) Natural cycles that affect the productivity of the forest ecosystem.

6.4 Representative samples of existing ecosystems within the landscape shall be protected in their natural state and recorded on maps, appropriate to the scale and intensity of operations and the uniqueness of the affected resources.

6.5 Written guidelines shall be prepared and implemented to: control erosion; minimize forest damage during harvesting, road construction, and all other mechanical disturbances; and protect water resources.

6.6 Management systems shall promote the development and adoption of environmentally friendly non-chemical methods of pest management and strive to avoid the use of chemical pesticides. World Health Organization Type 1A and 1B and chlorinated hydrocarbon pesticides; pesticides that are persistent, toxic or whose derivatives remain biologically active and accumulate in the food chain beyond their intended use; as well as any pesticides banned by international agreement, shall be prohibited. If chemicals are used, proper equipment and training shall be provided to minimize health and environmental risks.

6.7 Chemicals, containers, liquid and solid non-organic wastes including fuel and oil shall be disposed of in an environmentally appropriate manner at off-site locations.

6.8 Use of biological control agents shall be documented, minimized, monitored and strictly controlled in accordance with national laws and internationally accepted scientific protocols. Use of genetically modified organisms shall be prohibited.

6.9 The use of exotic species shall be carefully controlled and actively monitored to avoid adverse ecological impacts.

6.10 Forest conversion to plantations or non-forest land uses shall not occur, except in circumstances where conversion: a) entails a very limited portion of the forest management unit; and b) does not occur on high conservation value forest areas; and c) will enable clear, substantial, additional, secure, long term conservation benefits across the forest management unit.

Principle 7: Management Plan

A management plan—appropriate to the scale and intensity of the operations—shall be written, implemented, and kept up to date. The long term objectives of management, and the means of achieving them, shall be clearly stated.

Criteria

7.1 The management plan and supporting documents shall provide: a) Management objectives. b) Description of the forest resources to be managed, environmental limitations, land use and ownership status, socio-economic conditions, and a profile of adjacent lands. c) Description of silvicultural and/or other management system, based on the ecology of the forest in question and information gathered through resource inventories. d) Rationale for rate of annual harvest and species selection. e) Provisions for monitoring of forest growth and dynamics. f) Environmental safeguards based on environmental assessments. g) Plans for the identification and protection of rare, threatened and endangered species. h) Maps describing the forest resource base including protected areas, planned management activities and land ownership. i) Description and justification of harvesting techniques and equipment to be used.

7.2 The management plan shall be periodically revised to incorporate the results of monitoring or new scientific and technical information, as well as to respond to changing environmental, social and economic circumstances.

7.3 Forest workers shall receive adequate training and supervision to ensure proper implementation of the management plan.

7.4 While respecting the confidentiality of information, forest managers shall make publicly available a summary of the primary elements of the management plan, including those listed in Criterion 7.1.

Principle 8: Monitoring and Assessment

Monitoring shall be conducted—appropriate to the scale and intensity of forest management—to assess the condition of the forest, yields of forest products, chain of custody, management activities and their social and environmental impacts.

Criteria

8.1 The frequency and intensity of monitoring should be determined by the scale and intensity of forest management operations as well as the relative complexity and fragility of the affected environment. Monitoring procedures should be consistent and replicable over time to allow comparison of results and assessment of change.

8.2 Forest management should include the research and data collection needed to monitor, at a minimum, the following indicators: a) Yield of all forest products harvested. b) Growth rates, regeneration and condition of the forest. c) Composition and observed changes in the flora and fauna. d) Environmental and social impacts of harvesting and other operations. e) Costs, productivity, and efficiency of forest management.

8.3 Documentation shall be provided by the forest manager to enable monitoring and certifying organizations to trace each forest product from its origin, a process known as the “chain of custody.”

8.4 The results of monitoring shall be incorporated into the implementation and revision of the management plan.

8.5 While respecting the confidentiality of information, forest managers shall make publicly available a summary of the results of monitoring indicators, including those listed in Criterion 8.2.

Principle 9: Maintenance of High Conservation Value Forests

Management activities in high conservation value forests shall maintain or enhance the attributes which define such forests. Decisions regarding high conservation value forests shall always be considered in the context of a precautionary approach.

Criteria

9.1 Assessment to determine the presence of the attributes consistent with High Conservation Value Forests will be completed, appropriate to scale and intensity of forest management.

9.2 The consultative portion of the certification process must place emphasis on the identified conservation attributes, and options for the maintenance thereof.

9.3 The management plan shall include and implement specific measures that ensure the maintenance and/or enhancement of the applicable conservation attributes

consistent with the precautionary approach. These measures shall be specifically included in the publicly available management plan summary.

9.4 Annual monitoring shall be conducted to assess the effectiveness of the measures employed to maintain or enhance the applicable conservation attributes.

Principle 10: Plantations

Plantations shall be planned and managed in accordance with Principles and Criteria 1—9, and Principle 10 and its Criteria. While plantations can provide an array of social and economic benefits, and can contribute to satisfying the world's needs for forest products, they should complement the management of, reduce pressures on, and promote the restoration and conservation of natural forests.

Criteria

10.1 The management objectives of the plantation, including natural forest conservation and restoration objectives, shall be explicitly stated in the management plan, and clearly demonstrated in the implementation of the plan.

10.2 The design and layout of plantations should promote the protection, restoration and conservation of natural forests, and not increase pressures on natural forests. Wildlife corridors, streamside zones and a mosaic of stands of different ages and rotation periods, shall be used in the layout of the plantation, consistent with the scale of the operation. The scale and layout of plantation blocks shall be consistent with the patterns of forest stands found within the natural landscape.

10.3 Diversity in the composition of plantations is preferred, so as to enhance economic, ecological and social stability. Such diversity may include the size and spatial distribution of management units within the landscape, number and genetic composition of species, age classes and structures.

10.4 The selection of species for planting shall be based on their overall suitability for the site and their appropriateness to the management objectives. In order to enhance the conservation of biological diversity, native species are preferred over exotic species in the establishment of plantations and the restoration of degraded ecosystems. Exotic species, which shall be used only when their performance is greater than that of native species, shall be carefully monitored to detect unusual mortality, disease, or insect outbreaks and adverse ecological impacts.

10.5 A proportion of the overall forest management area, appropriate to the scale of the plantation and to be determined in regional standards, shall be managed so as to restore the site to a natural forest cover.

10.6 Measures shall be taken to maintain or improve soil structure, fertility, and biological activity. The techniques and rate of harvesting, road and trail construction and maintenance, and the choice of species shall not result in long term soil degradation or adverse impacts on water quality, quantity or substantial deviation from stream course drainage patterns.

10.7 Measures shall be taken to prevent and minimize outbreaks of pests, diseases, fire and invasive plant introductions. Integrated pest management shall form an essential part of the management plan, with primary reliance on prevention and biological control methods rather than chemical pesticides and fertilizers. Plantation management should make every effort to move away from chemical pesticides and fertilizers, including their use in nurseries. The use of chemicals is also covered in Criteria 6.6 and 6.7.

10.8 Appropriate to the scale and diversity of the operation, monitoring of plantations shall include regular assessment of potential on-site and off-site ecological and social impacts, (e.g. natural regeneration, effects on water resources and soil fertility, and impacts on local welfare and social well-being), in addition to those elements addressed in principles 8, 6 and 4. No species should be planted on a large scale until local trials and/or experience have shown that they are ecologically well-adapted to the site, are not invasive, and do not have significant negative ecological impacts on other ecosystems. Special attention will be paid to social issues of land acquisition for plantations, especially the protection of local rights of ownership, use or access.

10.9 Plantations established in areas converted from natural forests after November 1994 normally shall not qualify for certification. Certification may be allowed in circumstances where sufficient evidence is submitted to the certification body that the manager/owner is not responsible directly or indirectly of such conversion.

Senator WYDEN. Very good. Thanks, thanks to all of you. This has been very helpful. Let's take a minute or two and talk about where forestry is going in the State of Oregon, and then how hardwood plywood fits into it.

I spend a lot of time in Washington, DC, trying to point out to people in the U.S. Senate that the Federal Government owns most of our land. Essentially for 100 years now, we would get money for essential services through timber receipts. We have a cut, we get money for the receipts, we get those funds for schools and roads and we go about our business, that was how we paid for central services. It was different than the way it was done throughout the country.

When environmental values changed, that money dried up. I was able to get a law passed in 2000 to essentially pick up the slack. Once again, we're in the same boat. It seems to me, Oregon is really at a crossroads.

I'm going to push and push and push until we get another multi-year reauthorization to county payments for legislation. We would have gotten 81 percent, about \$1.1 billion, had what I got passed through the Senate become law. So now when I go back next week, we're going to pick up that fight again and stay with it until we get it done.

But it's very clear to me that we have to find other economic opportunities for resource dependent communities. Once I get the county payments legislation done, I'm going to go on to a thinning program, so we can get some of the dead material off the forest floor and get it to the mills. Bring together people like yourselves in industry and scientists and labor folks, environmentalists and do something that promotes the health of the forest. We're going to promote biomass programs because that's going to help clean energy, again, something that could put people to work.

But it seems to me what you're giving us today is an opportunity for a third leg, and that is additional opportunities in manufacturing that are value added. In other words, they take the resource, you add value to it, and it's an opportunity for us to have markets here and around the world in hardwood plywood. My sense is that unless we get fair rules and fair treatment with respect to the Chinese, we'll lose the very kind of value added manufacturing industry that we need as we try to make this transition that the Federal Government is pushing us toward in this county payments debate.

Do you all share that view? Why don't we just go right down the row, particularly for the—Mr. Daly, we'll spare you and just get the Oregonians into this debate.

Mr. Gonyea, Mr. Guay, Mr. Chamberlain, isn't this exactly the kind of industry we ought to be promoting as the Federal Government says look, you're not going to get all the money that you originally had in the county payments?

Mr. GONYEA. Absolutely, Senator. Many of those, that type jobs are represented here today. We'd be a sad community if we didn't offer employment and opportunity to make products like we do here in the Southern Rogue Valley.

Senator, part of the solution has to be at the tenable Federal programs. It seems to me that at minimum level we should strive for and work together would be the Northwest Plan. We've talked about it for 14 years and we can't even get close. At 1.1 billion feet is not unattainable. It should be a fair minimum and environmentalists should be working with us to achieve that for forest

health, for jobs in our community. It seems to me that needs to be part of the solution going forward.

Mr. GUAY. We would absolutely agree with Joe. If we could get back to the sustainable cut that was allowed, it would lower the cost of wood for us.

Senator WYDEN. We'll make the stool four legs.

Mr. GONYEA. Exactly. But I would, actually, in terms of the value added jobs, I would take it a step further, because I think it's either a far more bigger issue than just hardwood plywood. Plywood is an intermediate product. It's made into something else. When you stop making plywood in North America, you stop making furniture in North America. When you stop making hardwood planks in North America, you stop making engineered flooring in North America.

So, I just happened to be in Bend this past weekend and one of the articles in the Bend Bulletin, the local newspaper, was another small custom furniture manufacturer had closed that weekend. He hadn't—he wasn't small. He had 40 or 50 employees. His reason was he simply can't compete with offshore manufacturers. A big reason why he can't compete with those offshore manufacturers is because we cannot produce competitively priced panel 120 miles south of Klamath Falls to supply him. That is a lot about the illegal activities we've been talking about.

So, I think when you look forward at Oregon or our entire country, the absence of a competitive intermedial product with panels has put furniture manufacturers and other sorts of wood panel users offshore, compounding the value added job situation from that.

Senator WYDEN. Important point. Mr. Chamberlain.

Mr. CHAMBERLAIN. Senator Wyden, I couldn't agree with you more. You know, manufacturing jobs are so important to our community because they are an economic driver. When we lose a manufacturing job, it's like dropping a pebble into a brook or into a lake, rather. It has a ripple effect. It washes across the supplier, it washes across those folks employed by our school systems, public employees, folks in the building trades, everybody loses when we lose jobs like this.

The other way I look at this is, our State can't be driven by high tech alone. High tech is pretty much in the Portland Metro area. We have to think of Oregon as Oregon, not Portland center. These are rural Oregon's economic drivers. They are so important to the State. To lose these type of manufacturing jobs, that provides opportunity to working families across the State, is absolutely going in the wrong direction.

Senator WYDEN. Of course, it's of benefit to the whole State. What happens in rural Oregon creates jobs from the forest all the way to the boardrooms in downtown Portland. There's no question that there's a rural/urban connection that eats up what you described.

I'm going to get into some of the nuts and bolts issues of this question of how the Chinese engage in these practices, but I wanted to spend a minute on that first question because I think these debates always kind of strike people as "well, why are we bringing that up right now?" I want people to know that given the chal-

lenges we're going to have with county payments, and I'm going to get that law renewed, I'm going to get it renewed for a multi-year basis and multi-year program. The Congressmen from this area, on the other side of the aisle, has done a lot of good work in assisting me on this. But we're also going to have to find good paying additional industries in fields to strengthen the Oregon economy.

Frankly, I'm going to use your testimony. If somebody is trying to ratchet down our county payments program, I'm going to say you'd better help us in terms of these other areas, the question of the Northwest Forest Plan, biomass programs, thinning programs, and yes, this question of fair treatment in the trade area with respect to China. So you have put it in the right kind of context. I'm going to get into this, some of the nuts and bolts question of how these unfair practices go forward.

Tell me a little bit, for the record, what the HP-1 standard is. Because I understand this is one of the areas in which the Chinese hardwood people have engaged in questionable activity. Can you all enlighten me on that? I understand that you have heard that Chinese hardwood plywood manufacturers improperly labeling their product, as meeting this ANSI HP-1 standard. Is that right? I'm sorry, HPDA. I read an initial wrong. HPVA, yes.

Mr. GUAY. Definitely. We see that with plants that work over there, products are being labeled with HPVA grade levels that are not correct. It's a wide range.

Senator WYDEN. What does this mean for consumer?

Mr. GUAY. What it means to a consumer is they think, put most basically, they are buying a beautiful piece of plywood and they are not. They are buying a piece of plywood with certain structural characteristics, and they are not.

Senator WYDEN. Are there any dangers to people or—

Mr. GUAY. It isn't in that standard as probably the glues that are used. None of us import what we have to call dangerous formaldehyde levels in the United States, consciously. But China sends dangerous formaldehyde levels into the United States. We find that when the customer opens the container. That's quite dangerous.

Senator WYDEN. So China is sending products with dangerous formaldehydes in them? What's happening to those products now? They just go out across the land?

Mr. GUAY. You know, unless it's caught in Customs, which is a very low likelihood because of the volume versus the resources, it's in your kitchen cabinet.

Senator WYDEN. Mr. Gonyea, you've got something, a sustainable forest initiative certificate process, which strikes me as something where American industry is trying to go the extra mile to show that its products are of high quality. How does that work?

Mr. GONYEA. Senator, whether SFI, which we chose to kind of follow in our company, or FSC, what we can say is we initiated a third party certification of our forest lands, and quite a process to go through and audit on a regular basis to make sure that we're complying with the standards as set forth, and either as a buyer, FSC, and ensure that we're practicing sustainable forestry, which we are proud to do today.

Senator WYDEN. But yet I gather some of the people we're dealing with around the world are not exactly tripping over themselves to meet the same standards?

Mr. GONYEA. Besides SFI, obviously we comply to rigorous standards, both State and Federal, Senator. What we've done is take good forest practices here in this country. With foreign products, Chinese, we've exported demand to countries that have virtually no forest practices. I say let's bring back good forest practices and use our forest as intended.

Senator WYDEN. Now, both of you also, as I understood it, given the crunch you're in, have to import some Chinese hardwood plywood as well. So, you have to bring some in. But you're also trying to make sure that the public is aware that there needs to be better protection in this area. Tell me a little bit about how you deal with the kind of meshing of these two concerns, Mr. Gonyea and Mr. Guay.

Mr. GONYEA. Senator, as I referenced in, yes, we do import products, about 12 percent of our total annual sales are imported products from around the globe. Yes, a small portion of that would be from China. It may be ironic to note that in not many years past, we exported products around the globe at a greater percentage of our overall sales.

Today, we import products because, not because we choose to do so, it's because our customers, the consumers have dictated their desires for price point advantageous products from around the globe. We would like to change those habits. We would like the consumers in our country to buy American made products that are sustainably produced and that we can ensure that they are sustainably produced because we comply with SFI or FSC.

Senator WYDEN. Mr. Guay.

Mr. GUAY. I think my answer is very similar to Joe's. We got into the import business by following our customers there, not by leading our customers to China. A big part of our customer base is very large original equipment manufacturers, OEM, furniture manufacturers, cabinet manufacturers that have moved their factories to China. They became used to sourcing from there and ultimately decided to use Chinese products here in the United States, the one that's left open. So they were going to import with or without us.

Our thought was by being the importer, we could make a profit for our shareholders, but perhaps more importantly, stay in contact with those customers because they were going to import, with or without us. If we didn't stay in contact with them, when initiatives like this took place, we would have no entree to say here's what's happening and here's what can be done better.

Senator WYDEN. I would gather that if you didn't have even a small amount of imports, folks in Oregon might not even have all the jobs they've got; is that right?

Mr. GONYEA. We think that imports do complement our product line and we hope to sell more domestic produced products with a smaller percentage. So, in that regard, I think that would be correct, Senator.

Senator WYDEN. You both, all three of you from Oregon, are in favor of new rules regulating the import of timber that occur illegally?

Mr. GONYEA. Absolutely.

Mr. GUAY. Absolutely.

Mr. CHAMBERLAIN. Yes.

Senator WYDEN. Tell me about the situation with Russia. Now, our understanding is a lot of the illegal timber coming into China, the manufacturer hardwood plywood comes in from Russia. You indicated that you were doing business in Russia. What has that experience been like and what is the connection, for the record, between China and Russia?

Mr. GUAY. When I say we import, the largest importer of Russian birch, the Russian birch we're bringing in is coming from the western side of Russia where we know it is legally logged. When you are talking about the logs going into China, they are coming, as Ned said, from Siberia and eastern Russia where, you know, frankly, I don't know that there is legal logging up there. It's so rampant and uncontrolled.

Relationship is really pretty simple. As Ned mentioned, in 2000 China began limiting their own timber harvest. During that same cycle, the numbers that Joe and I talked about saw an astronomical increase in consumption of wood in China for re-export to the United States. A vast majority of that is Russian birch. It's the cheapest wood in the world and it's adjacent to the plywood manufacturing centers of China. So it became the obvious source of wood, but it is an utterly uncontrolled environment.

Senator WYDEN. You describe the United States as being a dumping ground, Mr. Guay, that's pretty strong language. Somebody calls our country a dumping ground for unsafe wood, what do you mean by that?

Mr. GUAY. We are the world's largest, second largest consumer of wood. Almost all of that wood comes from sources offshore. Most of that is southeast Asia, Russia, and Africa. The logic there is simply those three parts of our globe have no control over logging. We are the second largest consumer of that wood on the planet. The E.U. being one of the other largest consumer, actually has regulations. There are entire species that are harvested in Russia, or excuse me, in Africa, that you cannot import to Europe, period. You can import it here. We lack control as a country.

Senator WYDEN. Mr. Chamberlain, a question for you, with respect to the value-added issue. I think one of the biggest challenges for our congressional delegation is a sensible trade policy. Mr. Gonyea often talked about free and fair trade. I often describe it as a need for smart trade, where you protect your interests, you have the freest possible market, but you're also a smart trading partner in the world.

One of the areas that I think there's the biggest consensus on, as it relates to the foundation of a new trade policy, is that we do everything we can to get a level playing field for value-added products, and the kind of products that we're talking about here today. Do you think that's the beginning of a new consensus between labor and business on this trade issue?

Mr. CHAMBERLAIN. I hope so. I hope so. The AFL-CIO National when I was in contact with them yesterday, prior to this meeting about trade, is they feel that they have made some progress on trade agreements with the International Laboring Organization

Standards being adopted in two trade agreements. But there has to be a consensus on maintaining, maintaining manufacturing jobs in this country and creating a level playing field for workers and business if it weren't in these trade agreements. I think it's essential.

Senator WYDEN. Mr. Daly, a couple questions for you. What does it mean when you say that the Chinese are misappropriating our logos? In other words, Mr. Gonyea, Mr. Guay are talking about this certification process, I guess the technical name for it is the FSC certification. So, we've got, our companies go through all this trouble to get everything certified and adhere to high standards. Then you say that the Chinese are misappropriating our logos. What does that mean? What are the real world implications of that?

Mr. DALY. It's very similar to what Joe and Phill said about the HPVA standard, or very similar to what you see with the Underwriters Laboratory standard on our electronic products. It is just used by a number of companies inappropriately without authorization to try to access these growing markets in the United States and Europe.

Clearly, we're having an impact. People feel like they have got to take these initiatives in order to access those markets. But it's, it's creating a lot of problems in terms of the legitimacy of the label.

So to date we haven't had any major problems. We've been able to address all the issues. We found the chain-of-custody seems to work very well. But our assumption is that this will be continuing to be a problem and something that we have to monitor.

We appreciate the work of the organization, a company like Columbia Forest Products, who probably, like a few other companies, spend a lot of time in China, make sure that what they are buying is legal and from sustainable sources. With partners like that, I think we can address this issue.

Senator WYDEN. How is Chinese law enforcement been in this issue? Are they being helpful?

Mr. DALY. Well, to date they have not had a very big impact. I think that—

Senator WYDEN. Is it because they are not trying or—

Mr. DALY. Not clear, but there's not been a lot of effort. The problem seems to be overwhelming in a lot of ways. And the imports from the far east of Russia, there is no oversight, no control whatsoever. Nothing at the border, no documentation. Clearly they could step up efforts.

Senator WYDEN. When you say the problem is overwhelming to Chinese law enforcement, that can't make people in Oregon, the people here feel particularly good. In other words, it suggests to me that there's a problem now and it's going to get bigger, unless we take steps to turn it around; is that right?

Mr. DALY. Definitely. Certainly in the Russian far east, and the illegal, like in southeast Asia, more often you're seeing mislabeled and misrepresented species, poor work, just logs coming in through ships in fairly remote ports where there's just either not a lot of oversight, where all the oversight is corrupt.

Senator WYDEN. I think that ought to be a wake-up call for everybody in the U.S. Congress and a good one to put this panel on.

We always like to give our witnesses the last word. Anybody on the panel want to add anything, or we'll excuse you at this time?

Mr. GONYEA. Senator, I just add thank you. I thank you for being an advocate for free, fair and hopefully smart trade. Let's keep moving forward.

Senator WYDEN. We are on it.

Mr. GUAY. I add one comment. I think, Senator, that you're absolutely right. We are at a cusp of change in our industry right now. First quarter of this year saw 6 percent increase in volume at 33 percent increase in value. Chinese are now bringing in a high valued, especially designed products that are now what remains of our bread and butter in this industry. If we lose those specialty products, we're going to lose this industry, period.

I thank you for the opportunity to be here, and most especially for you and your staff the efforts that you're doing here through 332, I think will have an enormous impact.

Senator WYDEN. Thank you all. Mr. Chamberlain, do you want to add anything?

Mr. CHAMBERLAIN. Yes, I do.

Senator WYDEN. Good.

Mr. CHAMBERLAIN. I really want to thank you for chairing. Oftentimes I have to fight to be on a panel. It's rare that I'm asked to join a panel. It's commendable if you want a working family's perspective into this problem because it is a working family problem. Thank you.

Senator WYDEN. You and working families are what it's all about. I particularly appreciate the fact that there's an effort, a labor business effort to reach out in this State. Mr. Daly, you'll always be welcome here in the Pacific Northwest. Thank you for coming.

Mr. DALY. Thank you very much.

Senator WYDEN. All right. You're excused.

Our next panel can come forward. Ms. Vera Adams, Executive Director of Trade and Enforcement Facilitation, United States Department of Homeland Security, Customs Bureau, and Mr. Tim Wineland, Senior Director of China Affairs, Office of China Affairs, U.S. Trade Representative.

Let us begin with you, Ms. Adams, Mr. Wineland, both of you, we thank you very much for coming. I also want to begin this panel, express my appreciation to the Trade Representatives Office. I have been meeting with the Trade Representative, Ambassador Schwab. At our first meeting I urged the ambassador to send a letter to the Chinese raising these hardwood plywood issues to determine whether the subsidies could be pursued in a World Trade Organization case.

After that meeting, U.S. Trade Representatives did file with the World Trade Organization subsidy cases, specifically targeted subsidy benefiting the Chinese hardwood plywood industry. We've had a number of follow-up meetings. Ambassador Schwab has been meeting with a number of our Senate Finance Committee on which I serve. So please express my appreciation to the Ambassador. It's an instance where you all really followed up and we appreciate and we welcome both of you.

Ms. Adams, we're glad that you all are involved in this as well, and pleased to make a part of the hearing record, your full remarks. If you can summarize your major concerns, that would be good.

STATEMENT OF VERA ADAMS, EXECUTIVE DIRECTOR, COMMERCIAL TARGETING AND ENFORCEMENT, OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF HOMELAND SECURITY, CUSTOMS AND BORDER PROTECTION

Ms. ADAMS. Thank you. Good afternoon, Chairman Wyden. It's a privilege and an honor to appear before you today to discuss importing Chinese plywood. We appreciate the support that Congress provides to the Department of Homeland Security as U.S. Customs and Border Protection performs its important security and trade enforcement mission, while simultaneously facilitating the flow of legitimate trade and travel that is so important to our nation's economy. As the guardian of our Nation's border, CBP recognizes the importance of enforcing trade laws that help protect the forest product industry and the communities that depend on it.

I want to first express my gratitude to you and the committee and to the Hardwood Plywood Veneer Association, the Hardwood Federation and other associations that have played a role in bringing to our attention certain enforcement concerns that pertain to import of plywood into the United States.

As the volume of trade increases, information from domestic associations place an ever more important role in assisting CBP in identifying illicit activity to ensure successful enforcement of our Nation's trade laws, CBP has developed 'Priority Trade Issues' or 'PTI's' to help facilitate legitimate trade while protecting the American economy from unfair trade practices and illicit commercial enterprises. The PTI's are specific commodities or other trade topics upon which CBP has decided to focus its resources. These PTI's are: Antidumping and Countervailing Duty, Intellectual Property Rights, Textiles and Wearing Apparel, Revenue, Agriculture, and Penalties. The concerns that have been raised with respect to plywood importations into the United States, cross over many of these PTI's.

As you are aware, CBP has been examining certain issues related to plywood importations since you first brought this to our attention in November 2006. As was stated in your letter to Commissioner Basham, it is alleged that the plywood is being misclassified as duty free under the tariff for birch-faced plywood instead of, for example, oak-faced plywood with an 8 percent duty rate.

CBP is quite familiar with the subject of tariff misclassification and we have initiated other enforcement actions with similar types of merchandise. For instance, in August 2005, CBP worked with the Hardwood Federation to investigate misclassified imports of hardwood flooring from China, Brazil, and Canada. CBP conducted a national operation targeting all imports entering under specific tariff classifications from the three target countries and found widespread misclassification. As of today's date, CBP has discovered more than 120 importers misclassifying the hardwood flooring, using a duty free or lower duty rate provision than is appropriate.

Approximately \$30 million in potential lost revenue has been identified so far. We are entering the penalty phase for those violations.

Regarding plywood, in recent months, CBP has conducted several meetings with industry associations and representatives from the Hardwood Plywood & Veneer Association, the Hardwood Federation, and the Industry Trade Advisory Committee on Forest Products to gather information to assist us in our enforcement actions. Based on the allegations raised in your letter to CBP and upon information provided by these industry representatives, CBP initiated a nationwide operation to verify the allegation of misclassification and misdescription. We learned from the hardwood flooring operation that misclassification and misdescription in this industry is rampant.

Senator WYDEN. I want to make sure I'm on that. So, you all have begun the process. You've already made some official assessments of it. You would say misclassification and the concerns that the industry, those practices are rampant, is that how you characterize it?

Ms. ADAMS. According to many of our domestic industry partners, yeah, they believe and we believe that in the end, the outcome will be determined there is also rampant misclassification coming in.

Senator WYDEN. That's, that's your assessment, that's the government's assessment, your Agency's assessment today?

Ms. ADAMS. We believe that there is going to be significant amount of misclassification. We have to wait for the end results, power enforcement operation in our laboratory to—

Senator WYDEN. It's just I was interested and I've been less clear about where we were with Customs. I wanted to get a sense on the record of what you all have done and picked up at this point, and that's very helpful.

Ms. ADAMS. OK. Shall I?

Senator WYDEN. Yes, please.

Ms. ADAMS. A significant number of shipments have already been targeted for intensive examination. As part of the operation, sections of plywood are cut from the arriving shipments and sent to our Laboratory and Scientific Services Division for analysis to determine whether the plywood face consists of ply birch or is composed of some other species, which would cause it to be in a different classification. Once the lab analysis is complete, our import specialists at ports of entry will determine the proper tariff classification and the amount of duty owed. At this point in time, our lab analyses are ongoing and the results of our enforcement actions are pending.

CBP recognizes that finding violations is only part of an enforcement picture. Follow-up to ensure continued compliance is essential to any enforcement action and is standard practice. Through data and trend analysis, document reviews, and examinations of merchandise, CBP continues to monitor hardwood flooring shipments and will monitor plywood imports after this current operation is complete and the results are in.

Mr. Chairman and members present, as CBP moves forward in addressing the subject of misclassified plywood imports, we look forward to working in partnership with Congress and industry

stakeholders to build on our accomplishments to date and focus on achieving the desired results. I thank you for this opportunity to testify.

[The prepared statement of Ms. Adams follows:]

PREPARED STATEMENT OF VERA ADAMS, EXECUTIVE DIRECTOR, COMMERCIAL TARGETING AND ENFORCEMENT, OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF HOMELAND SECURITY, CUSTOMS AND BORDER PROTECTION

Good Afternoon Chairman Wyden, and members of the committee, it is a privilege and an honor to appear before you today to discuss imported Chinese plywood. We appreciate the support that Congress provides to the Department of Homeland Security as U.S. Customs and Border Protection (CBP) performs its important security and trade enforcement mission while simultaneously facilitating the flow of legitimate trade and travel that is so important to our nation's economy. As the guardian of our nation's borders, CBP recognizes the importance of enforcing trade laws that help protect the forest product industry and the communities that depend on it.

I want to first express my gratitude to you and the committee and to the Hardwood Plywood & Veneer Association, the Hardwood Federation and other associations that have played a role in bringing to our attention certain enforcement concerns that pertain to the import of plywood into the United States. As the volume of trade increases, information from domestic associations plays an ever more important role in assisting CBP in identifying illicit activity.

BACKGROUND

To ensure successful enforcement of our nation's trade laws, CBP has developed 'Priority Trade Issues' or 'PTI's' to help facilitate legitimate trade while protecting the American economy from unfair trade practices and illicit commercial enterprises. The PTI's are specific commodities or other trade topics upon which CBP has decided to focus its resources. These PTI's are: Antidumping and Countervailing Duty, Intellectual Property Rights, Textiles and Wearing Apparel, Revenue, Agriculture, and Penalties. The concerns that have been raised with respect to plywood importations into the United States, which are within the authority of CBP to address, cross over many of the PTI's.

As you are aware, CBP has been examining certain issues related to plywood importations since you first brought this to our attention in November of 2006. As was stated in your letter to Commissioner Basham, it is alleged that the plywood is being misclassified as duty free under the tariff for birch-faced plywood instead of, for example, oak-faced plywood with an 8% duty rate.

CBP is quite familiar with the subject of tariff misclassification and we have initiated other enforcement actions with similar types of merchandise. For instance, in August of 2005, CBP worked with the Hardwood Federation to investigate misclassified imports of hardwood flooring from China, Brazil, and Canada. CBP conducted a national operation targeting all imports entering under specific tariff classifications from the three target countries and found widespread misclassification. As of today's date, CBP has discovered more than 120 importers misclassifying the hardwood flooring, using a duty free or lower duty rate provision. Approximately \$30 million in potential lost revenue has been identified.

CURRENT ENFORCEMENT

Regarding plywood, in recent months, CBP has conducted several meetings with industry associations and representatives such as the Hardwood Plywood & Veneer Association, the Hardwood Federation, and the Industry Trade Advisory Committee on Forest Products (ITAC 7) to gather information to assist us in our enforcement actions. Based on the allegations raised in your letter to CBP and upon information provided by these industry representatives, CBP initiated a nationwide operation to verify the allegation of misclassification and misdescription. We learned from the hardwood flooring operation that misclassification and misdescription in this industry is rampant. We are able to use what we learned in hardwood flooring and apply it to our current operation.

A significant number of shipments have already been targeted for intensive examination. As part of the operation, sections of plywood are cut from the arriving shipments and sent to CBP's Laboratory and Scientific Services (LSS) Division for analysis to determine whether the plywood face consists of ply birch or other species. Once the lab analysis is complete, our import specialists at ports of entry will deter-

mine the proper tariff classification and amount of duty owed. At this point in time our lab analyses are ongoing and the results of our enforcement actions are pending.

CBP recognizes that finding violations is only part of an enforcement picture. Follow up to ensure continued compliance is essential to any enforcement action and is standard practice. Through data and trend analysis, document reviews and examinations of merchandise, CBP continues to monitor hardwood flooring shipments and will monitor plywood imports after this current operation is complete.

CONCLUSION

Mr. Chairman and members of the committee, as CBP moves forward in addressing the subject of misclassified plywood imports, we look forward to working in partnership with the Congress and industry stakeholders to build on our accomplishments to date and focus on achieving the desired results. I thank you for this opportunity to testify.

I will be happy to answer any of your questions.

Senator WYDEN. Very good.

Mr. Wineland.

STATEMENT OF TIM WINELAND, SENIOR DIRECTOR, OFFICE OF CHINA AFFAIRS, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Mr. WINELAND. Thank you, Chairman Wyden. I am pleased to participate in today's hearing. The office of U.S. Trade Representative is responsible for the developing and coordinating U.S. international trade policy and working to secure a level playing field for American workers, farmers, and businesses in overseas markets, as well as in the U.S. market. USTR oversees negotiations with other countries on international trade matters. We seek to resolve trade problems with other countries, plus giving a brief overview of USTR's engagement with China, touching on some of the tools that we use to address key trade concerns, including hardwood plywood sector.

Since joining the WTO 5 years ago, China has taken significant steps to bring its trading system into basic WTO compliance. These steps have helped to deepen and strengthen economic reforms that China had begun more than two decades ago. U.S. businesses, workers, farmers, service, providers and consumers have all benefited significantly from these steps.

Last year, U.S. goods exports to China climbed from 32 percent, while China's exports to the United States increased by 18 percent. Today, China is our fourth largest export market.

China's record in implementing its WTO obligations is decidedly mixed. While China has implemented many of its obligations, but there are a number of areas where it has a great deal of work to do.

In our engagement with China, we pursue trade problems through a dual-track approach—bilateral dialog where possible to try to achieve practical solutions to trade issues, together with a full willingness to use WTO dispute settlement process when necessary.

We are committed to seeking some cooperative resolutions through bilateral dialog with China and we've achieved some important successes that I have outlined in my written testimony. Many of those successes were derived through the Annual U.S.—China Joint Commission on Commerce and Trade or "JCCT". The

meeting is held annually to resolve a number of important trade issues in the JCCT.

However, in other areas, we've been unable to resolve important issues through bilateral dialog. In those cases, we have turned to formal WTO dispute settlements in five instances, including cases on China's value-added tax policies, its policies on imported auto parts, its illegal regime for protecting intellectual properties, certain barriers to market access for U.S. copyright-intensive industries. I do mention several of China's subsidies programs, which do have an impact on hardwood plywood sector.

I'd like to spend a little more time talking about that, the issue of subsidies. It is an area of priority concern for USTR, the Chinese Government's role in directing the Chinese economy through subsidy and other measures. We are confronting this serious challenge using both enforcement levers as well as dialog.

As you mentioned, in February 2007, we initiated WTO consultations with China over what we contend is China's persistent use of prohibited subsidies. Basically we believe that China uses its tax laws and other tools to encourage exports and to discriminate against imports on a variety of manufactured goods. The subsidies at issue in this case are offered across a broad spectrum of industry sectors, including wood products, steel, information technology, and others.

It's an important case, important because it challenges policies that are tilting the playing field against our workers and companies, but most important because it will help impel China to maintain a process of economic reform and to redirect its economy toward a model of consumption rather than export growth.

Victory for the United States in this WTO dispute should have a positive impact on the hardwood plywood sector. The case targets a number of very harmful subsidies, including export-related tax breaks offered to foreign-invested firms in China's plywood sector and other industry sectors.

While we have filed this WTO case, we continue to engage in dialog on China on their use of subsidies more broadly.

The hardwood plywood industry and other industries have expressed to us concerns about the problems that many other Chinese Government incentives create for them. Supporting industry's efforts to obtain more information about the various types of financial support that China provides to its domestic industries and taking effective action on that information is a priority for USTR.

Finally, although it does not fall within USTR's purview, I should note that the Department of Commerce continues to apply U.S. trade remedy laws to ensure unfair trade practices do not distort the playing field against U.S. companies.

Turning to other hardwood plywood issues, the administration has aggressively worked to ensure a level playing field for U.S. hardwood plywood manufacturers, as well as the entire forest and paper industry sector. China's hardwood plywood industry has emerged as a chief competitor to our industry.

In the forest product sector, the growth in China's wood processing industry and strong Chinese demand for imported wood have provided opportunities for U.S. exporters. Our exports of hardwood lumber have shown strong growth in recent years, meet-

ing some of China's demand for forest products and raw materials. At the same time, in some sectors of our forest industry, like wood panel products and hardwood plywood, we are aware that Chinese exports of these products to the United States are climbing.

In late January, as you mentioned after meeting with you, Ambassador Schwab wrote to Chinese Congressman, Minister Bo Xilai, specifically on the issue of hardwood plywood. She asked if we can begin talks to address this issue at a higher level. A first meeting on the issue of hardwood plywood was held in February in Beijing. We anticipate continuing a dialog on that issue.

We have been pressing China to help work with us to stem the problem of illegal logging timber that may be a source of raw material for Chinese producers. Specifically, this spring we asked China to agree to engage in a dialog on illegal logging effort after hearing about the concerns of industry and you to explore ways to cooperate through a bilateral agreement. We are pleased that as of last week's Strategic Economic dialog held in Washington, DC, Chinese Vice Premier Wu Yi agreed to our request to establish a cooperative dialog on the issue of illegal logging with the potential for a bilateral agreement at some point in the future. In coming weeks and months, we will open this dialog.

This effort builds on other initiatives we are taking on illegal logging, including a MOU with Indonesia on illegal logging and other regional efforts to accommodate Singapore and Malaysia.

We're also working to address other issues related to hardwood plywood. For example, we have raised with China the issue of their border trade policies, where wood and other products imported from Russia may be coming in without paying value-added taxes, disadvantaging our hardwood plywood industry.

Additionally, we continue to press China on the issue of "reference pricing," where Customs authorities in China, in some cases inappropriately use "reference pricing" and not the actual price of imports when calculating product valuation at the border, a practice that can in some cases lead to a higher Chinese tariff than appropriate. We have indicated to the U.S. hardwood plywood industry, our desire to work together on this and have sought specific examples, including specific shipments where reference pricing is being used by Chinese Customs.

In summary, USTR is committed to ensuring that we are using the most effective tools at our disposal to pursue an open and fair trade relationship with China.

Thanks for the opportunity to testify. I'll be happy to answer questions.

[The prepared statement of Mr. Wineland follows:]

PREPARED STATEMENT OF TIM WINELAND, SENIOR DIRECTOR, OFFICE OF CHINA AFFAIRS, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

INTRODUCTION

Chairman Wyden and distinguished members of the Energy and Natural Resources Subcommittee on Public Lands and Forests, I am pleased to participate in today's hearing.

I understand that today's hearing is focused principally on issues related to the impact of Chinese hardwood plywood trade on the National Forest System and other public lands, and our communities that depend on them. The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S.

international trade policy. The work of USTR aims at increasing exports by developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries. In working with other U.S. Government agencies we hope to expand market access for American goods and services abroad and secure a level playing field for American workers, farmers and businesses in markets around the world, including the U.S. market. USTR accordingly oversees negotiations with other countries on a wide range of international trade matters. In addition, we seek to resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

To provide more concrete perspective on our work, I will give you a brief overview of USTR's recent engagement with China, touching on the mechanisms USTR uses to address key trade concerns including concerns in the hardwood plywood sector.

KEY CHINA TRADE EFFORTS

China's accession to the WTO marked a critical step forward toward China's integration into the international rules based system. Since acceding to the WTO five years ago, China has taken significant steps in an effort to bring its trading system into basic compliance with WTO rules. These steps have helped to deepen and strengthen economic reforms that China had begun more than two decades ago. U.S. businesses, workers, farmers, service providers and consumers have benefited significantly from these steps and continue to do so as U.S.-China trade grows. Indeed, last year, U.S. goods exports to China climbed by 32 percent (while China's exports to the United States increased by 18 percent). These data suggest that the Chinese market is becoming more accessible for American companies, and that Chinese consumers are developing an appetite for America's highly competitive goods and services. China today has become our fourth largest export market, and the fastest growing major export market for the United States in the world. It is helping to support thousands of American jobs today and will support even more in the future.

Despite this progress, China's record in implementing its WTO obligations is mixed. While China has fully implemented many of its WTO obligations, there are a number of areas where it still has work to do, as it continues to transition from a centrally planned economy toward a free-market economy governed by rule of law.

In our engagement with China, the United States follows a dual-track approach to resolving its WTO concerns—bilateral dialogue to try to achieve practical solutions where possible, together with a full willingness to use WTO dispute settlement where appropriate to resolve problems that have evaded resolution through dialogue.

The United States remains committed to seeking cooperative and pragmatic resolutions through bilateral dialogue with China, and the United States has achieved some important successes. For example, through our bilateral dialogues in the past year, primarily conducted through the U.S.—China Joint Commission on Commerce and Trade or "JCCT", China made several commitments related to IPR protection and enforcement. It also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, to make adjustments to its registered capital requirements for telecommunications service providers, and to finalize a protocol allowing the resumption of trade in U.S. beef and beef products. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that new rules in the postal area would not negatively affect foreign express couriers. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. The United States has been working with China to make sure that it implements all of these commitments.

However, we have been unable to resolve other important issues through bilateral discussions, despite extensive effort, and we have turned to formal WTO dispute settlement in five instances:

- In March 2004, we commenced a WTO dispute against China's discriminatory value-added tax on integrated circuits. We were able to work successfully with China to resolve this issue during the consultation phase, and China repealed the discriminatory treatment.
- In March 2006, the United States, acting in coordination with the European Communities and Canada, commenced a WTO dispute settlement case challenging Chinese discriminatory charges on imported auto parts. We are now pursuing this case in front of a WTO arbitral panel.
- In February 2007, the United States, later joined by Mexico, filed a WTO consultation request in a case challenging several subsidy programs that appear to be prohibited under WTO rules, either because they are contingent upon

exportation or contingent upon the use of domestic over imported goods. The parties held a first round of consultations in March 2006.

- In April 2007, the United States requested WTO consultations regarding certain deficiencies in China’s legal regime for protecting and enforcing intellectual property rights related to copyrights and trademarks that affect a wide range of products. The problems identified include high thresholds for criminal prosecution that create a substantial “safe harbor” for wholesalers and retailers who distribute or sell pirated and counterfeit products in China. Under WTO rules, formal consultations will take place in this case before mid-June.
- In April 2007, on the same day as the filing of the IPR case, the United States requested WTO consultations regarding certain barriers to market access for U.S. copyright-intensive industries, including books, music, home videos and movies. Consultations in this case also are due before mid-June.

USTR provides a detailed discussion of the efforts the United States has made to address these and other areas of concern, using bilateral dialogue and WTO dispute settlement, in the “2006 USTR Report to Congress on China’s WTO Compliance,” issued on December 11, 2006. The report is available on the USTR website (www.ustr.gov).

SUBSIDIES

An area of priority concern for USTR is the Chinese Government’s role in directing the Chinese economy, including through the use of subsidies. We are confronting this serious challenge using both enforcement levers as well as dialogue.

As you know, and as I described earlier in my testimony, in February 2007 we announced that the United States has requested consultations at the WTO over what we contend is China’s persistent use of prohibited subsidies. Basically, the United States believes that China uses its tax laws and other tools to encourage exports and to discriminate against imports of a variety of manufactured goods. The subsidies at issue in this case are offered across a broad array of industry sectors in China—including wood products, steel, information technology, and others.

It is an important case—important because it challenges policies that are tilting the playing field against our workers and companies, important because it makes clear that we will use WTO dispute settlement procedures to hold China to its commitments where dialogue does not resolve our concerns, and—perhaps most of all—important because it will help impel China to maintain a process of reform and to redirect its economy towards a model of consumption-led, rather than export-led, growth. A victory for the United States in this WTO dispute should have a positive impact on the hardwood plywood sector. The case targets a number of very harmful subsidies, including export-related tax breaks offered to foreign-invested firms in China’s plywood sector and other industry sectors.

While we have filed this WTO case, we continue to engage in dialogue with the Chinese on their use of subsidies. These discussions are happening both at the sector-specific level—for example, our recently created “Steel Dialogue” under the JCCT is enabling a conversation among governments and industries of both sides—as well as in connection with our broader economic dialogues, including the Strategic Economic Dialogue. Industrial policies that limit market access for non-Chinese origin goods and that provide substantial government resources to support Chinese industries also remain a concern.

The hardwood plywood industry and other industries have expressed concerns to us about the problems that many Chinese government incentives create for them. Supporting industry’s efforts to obtain comprehensive information about the various types of financial support that China provides to its domestic industries and taking effective action on that information is a priority for USTR.

Finally, although it does not fall within USTR’s statutory purview, I should note that the Department of Commerce continues to apply U.S. trade remedy laws to ensure that unfair trade practices, whether undertaken by the Chinese or others, do not distort the playing field against U.S. companies.

CHINA HARDWOOD PLYWOOD ISSUES

The Administration has aggressively worked to ensure a level playing field for U.S. hardwood plywood manufacturers as well as the entire forest and paper industry sector. China’s hardwood plywood industry has emerged as a chief competitor to our industry.

In the forest products sector, the growth in China’s wood processing industries and strong Chinese demand for imported wood have provided opportunities for U.S. exporters. Our exports of hardwood lumber have shown strong growth in recent years, meeting some of China’s demand for forest products and raw material. At the

same time, in some sectors of our forest industry, like wood panel products and hardwood plywood, we are aware that Chinese exports of these products to the United States are climbing.

In late January, Ambassador Susan Schwab wrote the Commerce Minister of China specifically on the issue of hardwood plywood, asking Minister Bo Xilai to begin talks to address this at a high-level. In response, Minister Bo agreed to our request, and a first meeting on the issue of hardwood plywood was held in February in Beijing between the Assistant US Trade Representative for China Affairs and Commerce Ministry officials.

Additionally, in the past few months we have been pressing China to help work with us to stem the problem of illegal logging of timber that may be a source of raw material for Chinese producers. In the context of both the President's Initiative to Address Illegal Logging and the Strategic Economic Dialogue (SED), we asked China to agree to engage in dialogue and consultation on illegal logging in order to increase mutual understanding and communication, and explore ways of cooperation, including through a bilateral agreement. We are pleased that at last week's SED, Chinese Vice Premier Wu Yi agreed to our request. In coming weeks and months, we will open this dialogue with China.

This effort builds on other initiatives we are taking. The United States recently concluded a first-of-its-kind Memorandum of Understanding with Indonesia on combating illegal logging. We are also working to address the problem regionally, for example by getting Singapore and Malaysia more involved in efforts to stem illegal logging and associated trade.

We are also working to address other issues related to hardwood plywood. For example, we have raised with China the issue of their border trade policies, where wood and other products imported from Russia may be coming in without paying value-added taxes, disadvantaging our hardwood plywood industry. We remain committed to working with our industry to address these problems.

Additionally, we continue to press the Chinese government on the issue of "reference pricing," where Chinese Customs authorities in some cases inappropriately use "reference pricing," and not the actual price of imports, when calculating product valuation for the purpose of imposing Customs duties—a practice that can in some cases lead to a higher tariff than appropriate. We have indicated to the U.S. hardwood plywood industry our desire to work together on this issue, and have sought specific examples, including specific ports, and specific shipments where reference pricing is being used by Chinese Customs.

In summary, USTR is committed to ensuring that we are using the most effective tools at our disposal to pursue an open and fair trade relationship with China. This effort ties into broader Administration engagement on international economic issues, including work by Treasury and Commerce, and work with Members of Congress to achieve our common goals: a level playing field for American businesses, workers, and farmers.

Thank you for the opportunity to testify. I will be happy to take your questions.

Senator WYDEN. Thank you both and thank you for making the trek to the most wonderful part of the United States for this hearing.

Let me begin with you, Mr. Wineland. I'm sure people would be interested in knowing what it means to initiate a World Trade Organization case. I mean this had to be something of a wake-up call for the Chinese because there they are, and I was not happy with my initial kind of conversation with them and others. I kind of got the sense that they didn't think that the American Government was going to take this very seriously, and some guy from a place that they hadn't ever heard of called Oregon. All of a sudden there was going to be a case filed against them in terms of, in terms of these subsidies.

What was, what was the reaction after that case was filed, and particularly how has that affected the discussions that you've begun more recently? Have you found they are taking it more seriously now?

Mr. WINELAND. Well, legally we filed the WTF settlement case in February. Shortly thereafter, in March we targeted in that case

nine specific subsidies that we could identify. Certainly the U.S. Government and industry believe that there are many more subsidies out there that we need to address. But these are the nine that we could identify on short order, and pursue it as potential trade violations.

Shortly after we filed that targeted case, looking at nine Chinese subsidy practices, the Chinese, in fact, revoked one of the nine. So, we are hopeful that that suggests a recognition on China's part this is an important issue. That they have WTO obligation.

The filing with the WTO case essentially means that we have identified areas where China has promised to live by WTO rules. Filing WTO cases says that we have identified some problem areas, where China does not appear to be living by WTO rules. We have tried to resolve the issues of bilateral dialog and failed. So we have chosen the route of the WTO case where an independent panel of the WTO will rule on the case, make a decision and require China to change its policies.

Senator WYDEN. Now you also said that last week the Chinese agreed to work on illegal logging issues with the United States. What does that mean and specifically how are you going to hold their feet to the fire?

Mr. WINELAND. Well, that, that commitment came in context of the strategic economic dialog, which was established by Treasury Secretary Paulson last fall.

In the December 1 meeting of the SED, we agreed to talk about four main work streams, including economic and trade issues, as well as environmental trade issues. In the context of our work in the SED on environmental trade issues, through the spring, based partly in the concerns that we'd heard from you and from industry about illegal logging, we sought from China an agreement to work together on illegal logging, recognizing that in some, unlike say a country like Indonesia, the problems on the demand side by Chinese processing industry.

So, we, in the course of negotiating the strategic economic dialog outcomes, which came last week, we asked the Chinese to cooperate on this issue for the sake of the environment as well as the sake of a level playing field. China agreed to that.

To answer your question about holding their feet to the fire, I think the SED, the continuing meetings, it's twice a year exercise, the continuing meetings of the SED will build in some accountability on China's part to move toward a dialog on this issue, as well as concrete steps.

Senator WYDEN. Can we count on you all to stay and raise it, all of these strategic economic dialog programs until we get this resolved? I hate to use the initial SED kind of lingo for what these processes are described in Washington, DC, but to me here at home, what it means is every time we sit down for the big time talks with China, we're going to have these practices brought up and you'll have a chance to push the Chinese to change. Can you all keep bringing them up and make that commitment today until we get this resolved?

Mr. WINELAND. You absolutely can from the USTR. The State Department has joined the responsibility of the illegal logging

issue. We certainly will. It's part of the administration broader efforts to come back and to do the logging in the region.

Senator WYDEN. I appreciate that. Tell the Ambassador that we appreciate her office as well. She's got a lot on her plate right now. It's important that this be there as well. We appreciate the response.

Let me ask you, if I might, for our Customs. Is there a hardwood enforcement action underway now, Ms. Adams? I know you can't get into the case, and I appreciate that, in our discussions, but I think it is possible to just in a yes or no way to state so we have it for the record, whether or not there's a hardwood plywood enforcement action underway from your department?

Ms. ADAMS. Yes, I can confirm that yes, we have an enforcement action underway to address the issue. I can tell you that we have sampled shipments that comprise approximately 120 different employers. Those samples are pending lab analysis to determine whether the classification issue, which is an issue of whether it's birch or hardwood, is bonafide. Those lab analysis are pending. So we don't have the results yet but yes, we do have an action on those.

Senator WYDEN. Without compromising your case, and you can see how I'm sort of trying to kind of skirt around this, you all were successful in a wood flooring enforcement action. Is that from a comparative standpoint of some value in terms of looking at what our folks are dealing with here in the Northwest?

Ms. ADAMS. Yes. For two main reasons, and this is what I was somewhat alluding to in my opening statement. When it comes to classification of some of these hardwood products, there's three basic issues involving the classification to make sure you get to the correct one. No. 1: "What is the material made of?"; No. 2: "How is it constructed?"; and No. 3: "Is there any further processing done before it arrives at our shore?". Those same classification criteria apply in hardwood flooring, and to some extent, in the plywood situation.

So, you know, all of the expertise and knowledge of how they, the violators are misclassifying the hardwood puts us on the alert in terms of what kind of issues to look for in the plywood.

Sometimes when you have an industry group of importations that are commercially related, when you find violators in one segment, often the same importers are importing the same thing in other segments that you're now looking at. So, one of the things that we are in the process of doing is doing a crosswalk between the violators we've discovered in the hardwood flooring issue and see if those same importers are importing the plywood. By doing that crosswalk, we can vary, you know, more readily probably focus where the risk is going to be.

So that's where the benefit of the hardwood flooring operation comes into being, both from a technical issue, as well as from it tells us the violators are in one issue, and if they are also the importers of the plywood, which sometimes they are, we can more narrowly focus and start to know where the risk is likely to be.

Senator WYDEN. Heaven help us if one branch of government talks to another. I think you've laid out a good case for how to take this up. I appreciate that approach.

Tell me, if you would, about this matter of unsafe formaldehyde and content. Without going through all of the kind of technical issues, I think that our folks, our plywood people believe that with their sealing to bind the plys that contain formaldehyde, they have got actual alternatives they are using, soybased alternatives, and we obviously are concerned about the safety issues that we heard about earlier. Have your lawyers concluded that you don't have the authority to enforce a formaldehyde standard?

Ms. ADAMS. The preliminary analysis is, you know, CBP or Custom's can enforce many regulations for many different agencies. The difficulty with the HUD regulation on formaldehyde is that it's specifically geared toward what the end use of that product is. Meaning, if the wood product is used in the construction of a home, then it has to meet the certain HUD standards.

Unfortunately, at the time that the product crosses the border, we don't know what the end use of that wood product is going to be, which makes it very difficult for us to enforce a regulation like that or that type of requirement. We call those end use provisions. In fact, even as difficult as it is for us to know the end use, a lot of times the importer does not know the end use because they may be a distributor reselling downstream to further, you know, to construction companies or other things and they may not know exactly what the end use of that product is going to be. That's where the challenge of enforcing that type of regulation at the border comes in to play. Sorry, I'm very dry.

Senator WYDEN. No. I, I had gotten the sense from our discussions, there was some questions about your authority to enforce formaldehyde standards, some questions about your authority to enforce these labeling standards, you know, where our people are trying to do the certification, FSC kinds of issues. If you want to add anything to it—you've been very forthcoming today—if you want to add anything now or you can send it into the record. The reason I'm asking is we're going to get into the trade debate on the Finance Committee later this year. If you all were to tell us that you didn't have the authority to enforce formaldehyde standards and meet certification standards, then I'm interested in working with the Administration on a bipartisan basis to get that done.

Ms. ADAMS. We, we have the preliminary announcement from Counsel, but they had asked some additional followup questions on this end use situation. So, I prefer to submit something for the record when we get their final opinions back to us.

Senator WYDEN. Good. Let's leave it in the context that if it comes back that your lawyers do not feel they have the authority to enforce—formaldehyde is a safety issue. There are labeling kinds of questions that go to whether or not we have fair treatment for our plywood folks, I'm interested in following up with you all and the Administration.

Ms. ADAMS. The trademarks issue is a little bit of a different situation.

Senator WYDEN. Right, I understand.

Ms. ADAMS. If you'd like to me to address that.

Senator WYDEN. Fine. I understand that. I just want it, I just want it understood that because you all are initiating proceedings already, we welcome that. I wanted to get some information as to

whether you have adequate authority in those kinds of areas and please offer anything else you'd like to now.

Ms. ADAMS. The issue of, if the—in your letter you had brought up the issue of the fraudulent stamping.

Senator WYDEN. Right.

Ms. ADAMS. For voluntary standards, we cannot enforce the standard per se, unless it is backed by some kind of a Federal regulation or standard. But what we can do similar to the UL logo, the UL market, we're all used to seeing on our electronic appliances, if there is some kind of trademark, registered patent trademark, I believe the gentleman that was sitting here had mentioned such a situation, I'd like to followup on a dialog with him about that, his comments. If that trademark is also registered with CBC, we can enforce those types of trademarks, just like we do for Underwriters Laboratory.

What we are enforcing is the mark itself, not the standard behind the mark. The way it works with UL is we have access to their data base. We can see all of their registration numbers and the products related to those numbers. When something comes into the country and we verify with UL's data base whether that product is allowed to have that mark on it, and if not it's an IPR, it's product violation and we can easily seize that for that mark. So to the extent that the forest product industry can pursue that line, that we can easily work on that type of enforcement with them.

Senator WYDEN. I thank you, thank you both. I've got my constituents in the audience I see making paper fans trying to cool themselves off. So, I should probably wrap this up shortly, but we thank you very much for your responsiveness on these, these issues. It wasn't very many months ago when I raised this after folks in the hardwood plywood industry in our State brought it to me. You all both swung into action. We appreciate it. It's a long way to go.

But as you probably have picked up, in fact you can tell anybody else in the Administration, how strongly people in Oregon feel about the county payments legislation when you go back to Washington, DC, I suspect they already know, but you can tell them that nine or ten more times when you get back.

Tell them to make sure that we look at the kinds of industries that we are focused on today because we want to work with the Administration first to secure this multi-year county payment agreement. We very, very much need those dollars for libraries and police and schools and essential services, but we need them also to provide a transition into other areas. That's why it's so important that these kind of value-added industries like hardwood plywood get fair treatment because they are exactly the kind of industries that are going to pick up some of the slack as we deal with this transition on the county payment issue.

So you all have been very responsive. We'd like to give our witnesses, particularly the ones that come from Washington, DC, the last words for today's program.

Mr. Wineland, Ms. Adams, anything else you want to add.

Mr. WINELAND. No thank you. We look forward to continuing to work with you on these issues.

Ms. ADAMS. Likewise as well.

Senator WYDEN. With that, the subcommittee is adjourned.
[Whereupon, at 1:50 p.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF THE FOREST SERVICE, DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to submit written testimony to you today on the impacts of the Chinese hardwood plywood trade on National Forest System lands. The Chinese hardwood plywood trade has a negligible effect on National Forest System lands in Oregon. However, there have been changes to the forest products industry in the U.S. and in Oregon, which we will describe below.

A RAPIDLY CHANGING FOREST PRODUCTS INDUSTRY

The U.S. has been the world's largest market for wood and wood products, fueled by its demand for wood-frame housing.¹ However, forest product markets are changing, both in terms of where the products originate (domestically or abroad) and what products are being produced and consumed.

Source changes for forest products are being driven by globalization trends, technology advancements, and labor costs and supply, which are causing builders to change not only the way they build houses but also their choice of building materials.

Most imported structural lumber and panels in the U.S. continue to come from Canada. However, there are increasing softwood plywood imports from South America, and softwood lumber from both South America and Europe. Total North American structural panel imports are approximately two billion square feet (3/8" thickness) and that figure is expected to continue rising as more foreign mills obtain certification for our markets.

In another trend, more housing components are being manufactured in the factory (e.g., trusses, wall panels, and engineered floor systems), and shipped to the job site for final assembly. Conventional wood products, mostly solid sawn dimension lumber, are being replaced by engineered wood products that offer improved performance durability and efficiencies in site construction.

Non-wood products such as steel and concrete continue to make inroads into traditional wood markets, particularly in the South. The South accounted for 50 percent of housing starts in 2006, but termite problems have favored an increase in non-wood building materials.

Additionally, technological improvements in communication, computing, and distribution are driving changes in the supply chain. The number of parties participating in the supply chain is shrinking as more products go directly from the mill to the consumer with an ever-smaller market share moving through traditional distributors.

More recently, consolidation in the residential construction industry has resulted in fewer builders producing a larger share of houses. The top 10 builders now produce more than 20 percent of the single-family homes in the U.S., up from 10 percent a decade ago. The larger builders are leading the transition toward more factory manufactured components and are demanding more services from their suppliers, such as installed windows, doors, and wall panels; and complete framing packages cut to specification.

Builders want to simplify the construction process by accelerating accurate assembly of components on the job site, devoting more of their time to locating and developing land, providing financing to potential buyers, and reducing litigation risks.

¹From Challenge and Response—Strategies for Survival in a Rapidly Changing Forest Products Industry, by Al Schuler, USDA research economist; Craig Adair, market research director for the Engineered Wood Association; and Paul Winistorfer, professor, Virginia Tech, Engineered Wood Journal, Fall 2005.

All of these trends indicate that the North American wood products industry will face challenges ahead.

PLYWOOD PRODUCTION TRENDS IN OREGON

A large percentage of the United States forest products are consumed in one market—residential construction. About three quarters of structural wood panels and softwood lumber, and nearly 90 percent of the engineered wood products (e.g., I-joists and LVL) are consumed in residential construction including new construction and remodeling). Oregon is the largest hardwood plywood producing state in the United States and this plywood is used in manufacturing cabinets. However, the National Forests in Oregon are not a source of hardwood for these manufacturers as there is little high quality hardwood on National Forest lands. Most plywood manufacturers import their veneer from eastern Canada, the eastern U.S. including eastern national forests, and from overseas.

There have been several significant events that have greatly affected softwood plywood production in Oregon over the past two decades:

- Plywood production has fallen steadily in Oregon since 1987 as the production of other structural panels, particularly oriented strand board (OSB), has increased both in Oregon and elsewhere in North America. Currently OSB accounts for about 60 percent of the structural panel consumption in the United States.
- During the early 1990's, timber harvest in Oregon fell by nearly 50 percent as a result of the implementation of the Northwest Forest Plan. This caused an increase in prices for softwood products due to a reduced supply.
- In the mid to late-1990's, exports from the region fell because of these increased prices and the 1997 collapse of the Japanese real estate markets.
- Lastly, the recent downturn in U.S. housing markets has depressed lumber and panel prices leading to production curtailments among producers during 2006—2007.

In light of these trends and changes in the North American forest products industry, it is important that a strong industry is available to utilize wood from the national forests. To manage for healthy, sustainable forests, the national forests, as well as small non-industrial private landowners, need markets for a variety of timber products, including lumber, plywood, OSB, furniture, and flooring.

CONCLUSION

This concludes the Forest Service statement. Please submit any questions you may have to the Chief of the Forest Service.

STATEMENT OF THE HARDWOOD FEDERATION

Mr. Chairman and members of the Subcommittee, thank you very much for holding this hearing. The Hardwood Federation (HF) was formed in April 2004 to represent the interests of the hardwood industry in Congress and with the Administration. The HF was designed as an umbrella group of associations and serves to coordinate and align all key issues for the industry so that we speak with one voice on broad policy issues.

The HF is the largest forest products industry association in the United States representing over 14,000 businesses, 30 trade associations and over one million hardwood families. The Federation represents the majority of organizations engaged in the manufacturing, wholesaling, or distribution of North American hardwood lumber, veneer, plywood, flooring, pallets, kitchen cabinets and related products. The vision of the HF is to have a healthy hardwood community and the HF's mission is to:

- Promote and represent the common business interests of and improve business conditions among members of the hardwood industry.
- Maintain a healthy business environment for family businesses and small companies in the hardwood community.
- Maintain commercial access to federal and private hardwood timberlands.
- Maintain and improve the health of public and private hardwood forests through effective legislation.

The HF and its members believe it is critical to keep American companies operating and our citizens employed given the impressive record of hardwood forest stewardship and the growing consumer demand for hardwood products.

We are pleased that two of our leading member companies, Columbia Forest Products and Timber Products Company are appearing before you today to present a first-hand view of the impact of illegal logging, and Chinese imports on their Oregon businesses and federal timber resources. These companies have taken a lead in our efforts to address the inequities and unfairness currently being experienced in our worldwide trade, particularly with our trading partners in Southeast Asia and China. These companies also have experienced first hand the impacts on their neighboring federal forests and our industry echoes the concerns they are outlining in this important hearing. We would note that while most hardwood resources supplying our mills come from private landowners, the lines between public and private lands are immaterial when judging the impact of unfair trade policies; all stand to lose, and most critically, the health of this valuable U.S. resource.

Companies in the hardwood industry are predominantly small, family-owned businesses, dependent upon a sustainable supply of healthy timber resources. Many are operated by third, fourth or even fifth generation family owners. With facilities and employees in all 50 states, we have a wide U.S. presence.

U.S. hardwood plywood producers are facing unprecedented and rapidly growing competition in the U.S. market from imported products coming from China and Southeast Asia. In addition, competition from international producers is affecting the U.S. industry's ability to compete in export markets. If allowed to continue unchecked, this rapidly growing competition with an uneven playing field will result in the displacement of a significant portion of U.S.-based hardwood plywood industries.

Thanks to the efforts of Chairmen Wyden and Baucus, the International Trade Commission (ITC) has been asked to conduct a "Section 332" study to investigate unfair trade practices of imported Chinese hardwood plywood and wood flooring. Among other concerns the study will look at the misclassified Chinese hardwood plywood imports and illegal logging in Asia which we believe have put the U.S. plywood and flooring industries at a competitive disadvantage. The Hardwood Federation is working closely with our U.S. government trade analysts to provide a complete picture of current market practices and impacts. We are assured that the continued interest and support from our elected officials, particularly Chairman Wyden will help result in a complete and comprehensive study.

Hardwood plywood import tariffs vary depending on the species of hardwood on the face and back of the plywood: oak-faced plywood has an eight percent tariff, birch-faced plywood has no tariff. Chinese hardwood plywood is most likely 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.

In addition to tariff misclassification, illegal logging has hurt the competitiveness of the U.S. wood products industry. According to an American Forest and Paper Association (AF&PA) study, illegal logging robs U.S. companies of \$460 million a year in lost sales. A great deal of illegally harvested wood is shipped to manufacturing hubs in China before it is sent to the U.S. It is difficult for domestic hardwood industries to compete with foreign industries not adhering to timber harvesting laws.

Earlier this year, the Hardwood Federation issued the first public statement of support for efforts to end illegal logging, including the possibility of amending the Lacey Act. We are currently reviewing legislative proposals to determine implications for domestic hardwood producers and are optimistic that some agreement can be reached among various stakeholders to join together in supporting legislative action. Curbing illegal wood imports will help protect U.S. industries and employees.

Again, Mr. Chairman, thank you for calling this important hearing, and for your leadership in addressing the issues facing the hardwood industry in the State of Oregon and throughout the U.S.