



**Statement of Barry Rutenberg
on behalf of the
National Association of Home Builders**

**Before the Committee on Commerce, Science and
Transportation's Subcommittee on Trade, Tourism and
Economic Development**

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Written Testimony for the U.S. Senate Committee on Commerce, Science and
Transportation Subcommittee on Trade, Tourism and Economic Development

Good afternoon Mr. Chairman and members of the subcommittee. My name is Barry Rutenberg. I am President of Barry Rutenberg Homes, a home building business in Gainesville, Florida. In 2000, I served as the President of the Florida Home Builders Association and currently sit on the Executive Committee and Board of Directors for the National Association of Home Builders (NAHB). I appreciate the opportunity to appear today on behalf of the 225,000 member firms of NAHB and their more than 8 million employees in all fifty states.

Mr. Chairman, NAHB represents firms involved in home building, remodeling, multifamily construction, property management, housing finance, building product manufacturing and other aspects of residential and light commercial construction. NAHB's members are citizens of the communities in which they build. They seek to support the economy while providing shelter and jobs; partner to preserve important historical, cultural and natural resources; and protect the environment, all while creating and developing our nation's communities.

Housing continues to be one of the leading sectors in our nation's economy, with home sales and housing production providing strong direct support to both the Gross Domestic Product (GDP) and the job market. Integral to the construction of affordable homes is the industry's need for access to a stable and reliable supply of softwood lumber to meet our nation's growing housing needs.

Mr. Chairman, the subcommittee's attention to the issue of Canadian softwood lumber trade is crucial at this time. As you know, countervailing and anti-dumping duties on Canadian softwood lumber imported into the U.S. are currently being collected at a rate of approximately 10 percent, down from a recent high of 27 percent. This duty acts as a tax on American home buyers and home owners seeking to make improvements to their homes, hurts housing affordability, and prevents many families from qualifying for a mortgage.

The simple and critical fact is that the U.S. home building industry can not meet the need for new homes and improvements to existing homes without lumber imports from Canada. Due to current limits on the supply of U.S. timber similar to Canadian Spruce Pine Fir (SPF), and the unsuitability for wall framing of much of the timber available in the rest of the U.S., border restrictions on Canadian lumber only serve to act as a hidden tax on American consumers.

Lumber trade barriers increase costs, increase inflation, place U.S. manufacturers of value-added wood products at a competitive disadvantage, and have a negative effect on productivity. NAHB believes that barriers to lumber imports impose an unreasonable burden on U.S. home buyers, and on the industries that depend on adequate, affordable supplies of lumber to provide the housing, home improvements, and other vital goods and services that the nation needs. U.S. government policy with regard to this issue should reflect the interests of consumers and the overall economy, not just U.S. timber owners and lumber producers.

Let me be clear: NAHB vigorously opposes barriers to free trade in lumber. We do however support free trade policies that fully reflect the interests of consumers and downstream industries.

LUMBER IN HOUSING

The importance of a sufficient and stable supply of softwood lumber for the home building industry can not be overstated. The home building and remodeling industries account for over two-thirds of all of the lumber consumption in the U.S. Canada is the source of more than a third of the lumber used in U.S. home building. And, lumber accounts for a larger share of the cost of a home than any of the other materials used by home builders. Additionally, lumber's share of a new home's cost is generally greater for lower cost homes designed for home buyers with low or moderate income than for high end luxury homes, meaning that lumber price increases fall disproportionately on less affluent families.

While this issue is of the utmost importance to home buyers, home builders and subcontractors, there are also many other U.S. businesses that use softwood lumber, such as manufacturers of trusses, cabinets, pallets, box springs, and furniture, as well as lumber wholesalers and retailers. Together with home builders these heavily lumber-dependent industries employ more than 5 million American workers. Roughly another one million more workers are self-employed as independent contractors and business proprietors in the home building industry. Millions more are employed in housing-

related businesses such as real estate and mortgage finance. By contrast, the number of logging and sawmill jobs is less than 200,000. Overall, American workers in lumber-dependent jobs outnumber workers in lumber-producing industries by more than 25 to 1.

Additionally, the economic impact of home building extends itself deep into the economy of the U.S. Building a new home requires workers, skilled and semi-skilled. New homes require building materials, some produced locally and some produced at regional or national factories. New homes need appliances and carpets and cabinets and windows and literally thousands of large and small products that must be produced in order to complete the home. Homes are painted and landscaped and furnished and windows are covered. Building and selling a home requires professional services, such as surveyors, architects, attorneys, real estate brokers, bankers and insurance companies. All of this economic activity spreads itself across the local economy, the national economy and into a myriad of different industries.

It is little surprise then that home building has led the national economic recovery over the past five years and helped reverse employment declines. However, the record levels of construction have contributed to large increases in the cost of building materials. During the past two years while the producer price index for all goods increased by 4 percent, the price of materials used in home building increased by 14 percent. Along with higher land costs and other factors, this has pushed up the price of new homes.

Many aspiring home buyers, especially those with lower incomes or first time home buyers are just on the edge of being able to qualify for a mortgage and make the required payments. Even a small change in house prices or interest rates can determine whether they can buy a home. This is one critical area where softwood lumber duties and trade restraints have had a direct impact on the ability of Americans to achieve the dream of home ownership. Additionally, the recent hurricanes that ravaged the southeast have resulted in the destruction or significant degradation of literally hundreds of thousands of homes. The current duties -- or the potential for future trade restraints through a negotiated agreement with Canada -- serve to act as a tax on many first time home buyers or the thousands of families in the southeast who will be rebuilding their lives and homes.

EFFECTS OF LUMBER PRICE INCREASES

Lumber price increases have a direct effect on the cost of housing. The current duties, if fully reflected in the price of lumber, would raise the cost of a home by approximately \$1,000. An increase of that amount is estimated to eliminate around 300,000 people from mortgage eligibility in this country according to the census bureau.

NAHB and its builder members across the country are working with Congress, the Department of Housing and Urban Development (HUD), and other state and local agencies to break down the barriers to home ownership. These current duties, and past managed trade agreements like the 1996-2001 Canada/U.S. Softwood Lumber

Agreement (SLA), only work to frustrate and undermine the efforts of our industry and others who are working to improve housing affordability across the country.

Lumber price increases also have an effect on the men and women who make their livelihood building the American dream. Home builders are generally entrepreneurial small business people. 87 percent of home builders build fewer than 25 homes a year and 72 percent build fewer than ten homes a year. Smaller builders have less of a capacity to absorb unanticipated changes in costs, such as those brought about by lumber price increases and volatility.

DIFFERENT SPECIES, DIFFERENT USES

The current lumber duties and any potential negotiated settlement that would result in quotas or an export tax; do little or nothing to increase the use of U.S. lumber in home construction. Builders use different types of lumber for different purposes in the same home, and the type of lumber used for framing a house is in short supply in the U.S. due to logging and other restrictions. As a result, the home building industry must import a third of the lumber it uses. Ultimately, lumber trade restraints only serve to penalize and tax American consumers since the very product subject to the restraints must be imported since sufficient quantities of suitable substitutes do not exist domestically.

I can tell you first-hand that the types of lumber imported from Canada are significantly different from much of the lumber produced in the U.S. Builders use

different lumber species for different structural uses in home construction. Home builders select different types of lumber for use in the same house based on different performance features. Builders know what will work best in each application involved in building a home.

Builders require lumber that is dimensionally stable and easy to nail, such as spruce, for studs, top plate, and subfascia work in framing the structure of the home. The origin of the lumber is not as much a concern as whether the product has the design values we need and meets our quality standards. However, Canadian Spruce Pine Fir (SPF) satisfies that requirement, both in terms of design value and quality.

I could not use American Southern Yellow Pine (SYP) for framing walls in the homes I build, even if it cost half as much as SPF. A builder's preference for SPF in framing is based on the better performance you will get from SPF: it produces walls that will remain straight. SYP, on the other hand, will warp and twist. If Canadian SPF were not available for use in wall framing, many builders would consider using steel in its place in framing applications. I know my customers— and home buyers generally — would not be satisfied with the result if I were to use SYP for many framing applications.

Builders do use SYP in applications that call for treated lumber, including outdoor applications, plates that contact the concrete foundation of the homes, and headers that are not engineered wood products. The trusses that I use are also made of almost 100% SYP because SYP satisfies the requirements for truss engineering.

The principal competitive threat to the use of Southern Yellow Pine lumber, the most common domestic lumber species, comes not from imports but from engineered wood products such as wood I-joists and composite materials, which offer improved performance, easier installation, and reduced reliance on old-growth timber.

NEGOTIATIONS

Since the imposition of duties following the expiration of the SLA in 2001, there have been a number of attempts to find a negotiated agreement to the end the current dispute. These negotiations have been viewed as an alternative to the ongoing litigation at the World Trade Organization (WTO) and North American Free Trade Agreement (NAFTA) panels. Proposed settlements have also provided for the money collected from the duties to be distributed in one manner or another and the duties themselves replaced with either a quota or an export tax. NAHB continues to oppose the imposition of a new quota or an export tax, and remains very concerned and frustrated that these negotiations have not included the interests of home builders or any other U.S. lumber consumers.

Congress should insist that the interests of all U.S. stakeholders – not just U.S. and Canadian lumber producers – are included in lumber policy discussions. Specifically, the interests of homebuyers, home builders, and other U.S. consumers and downstream industries should be recognized and represented in negotiations, litigation,

and policy formulation regarding Canadian lumber just as much as the interests of U.S. and Canadian lumber mills are. Sadly, this has not been the case.

NAHB has been opposed to the idea of a negotiated settlement that involves quotas or export taxes for a number of reasons. Lumber agreements like the SLA allow lumber producers in the two countries to restrict supply and raise prices. In addition to raising prices, supply constraints contribute to volatility in lumber prices, which also hurts housing affordability. Ironically, the SLA ultimately imposed little or no penalty on Canadian lumber producers, but very large penalties on U.S. consumers, and in fact transferred billions of dollars from U.S. homebuyers to U.S. and Canadian lumber mills, and even to Canadian provincial governments.

As well as raising prices, the SLA and other quantitative restrictions make the price of lumber more volatile. Price volatility represents substantial risk for home builders, lumber dealers, and other businesses that produce or use lumber. New homes are typically sold for fixed prices before construction begins, and before materials are purchased. Swings in lumber prices can wipe out any expected profit from the sale of a home.

In addition to the possibility that negotiations could result in the imposition of a new quota, export taxes have also been discussed as a way of replacing the duties under a negotiated agreement. NAHB also opposes the institution of such a tax on American consumers. NAHB cannot support a tax that would be levied on U.S. consumers, collected at the border, and given over to Canadian provinces.

Instead of negotiating additional and further trade restraints, NAHB urges the U.S. Administration to adhere to its international obligations under NAFTA and implement those decisions which have invalidated the lumber duties. The U.S. signed NAFTA because of the benefit this agreement provides to consumers and producers alike. The U.S. has committed itself to binding dispute settlement procedures, and agreed to refund illegally collected border taxes under NAFTA. And in cases to date -- except for this current lumber dispute -- the U.S. has done just that. If we in the U.S. expect our trading partners to abide by their international obligations, we should expect nothing less from ourselves.

NAFTA panels have repeatedly ruled that U.S. lumber producers are not threatened with injury by Canadian lumber imports, reversing the U.S. International Trade Commission (ITC) decision that paved the way for the current duties to be instituted in 2001. Importantly, these decisions have been unanimous – and the five-member NAFTA panel included three Americans named to the panel by the United States Trade Representative (USTR). In another unanimous ruling, the U.S. lost its appeal of this case before a three judge NAFTA Extraordinary Challenge Committee in August of 2005 that included an American judge. This should have resulted in a revocation of the duties and a return of the approximately \$5 billion that has been collected to date. Despite this, the duties continue to be collected, and American consumers are paying the price.

NAHB calls on Congress to urge the Bush Administration to adhere to its international agreements under NAFTA and implement decisions that have invalidated these onerous lumber duties.

CONCLUSION

While housing continues to be one of the leading sectors in our economy, providing strong direct support to both GDP and the job market, the home building industry is also about providing American families with the dream of home ownership, and the safety, satisfaction, and economic security that provides. NAHB and our housing industry allies continue to work with HUD, Congress and others to make this dream as affordable and accessible as possible.

Lumber trade restraints, whether in the form of duties, quotas, or export taxes, only serve to undermine the gains made in housing affordability in this country, especially for those with lower incomes who are affected disproportionately by increases in lumber costs, and those rebuilding after last year's natural disasters.

The current lumber duties and any potential negotiated settlement that would result in quotas or an export tax; do little or nothing to increase the use of U.S. lumber in home construction. Builders use different types of lumber for different purposes in the same home, and the type of lumber used for framing a house is in short supply in the U.S. due to logging and other restrictions. As a result, the home building industry must import

a third of the lumber it uses. Ultimately, lumber trade restraints only serve to penalize and tax American consumers since the very product subject to the restraints must be imported since sufficient quantities of suitable substitutes do not exist domestically.

Mr. Chairman, I thank you for holding this hearing to focus the attention of Congress on the impact that these duties, and lumber trade restraints generally, have on housing affordability, and the various lumber consuming industries in the U.S. NAHB will continue to urge the Bush Administration and Congress to adopt and follow free trade policies, and to fully consider the impacts and effects of lumber trade restraints on American consumers.

I thank you again, and would be happy to answer any question you might have.