

STATEMENT OF STEVE SWANSON
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SENATE COMMERCE COMMITTEE SUBCOMMITTEE ON TRADE,
TOURISM AND ECONOMIC DEVELOPMENT

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Mr. Chairman and members of the Committee, I would like to thank you for holding this hearing on the longstanding problem of subsidized and dumped Canadian softwood lumber imports. My name is Steve Swanson and I am the head of The Swanson Group, a family owned lumber company with operations in Glendale, Roseburg, Glide and Noti, Oregon. We employ 1,030 workers and also own and manage 145,000 acres of timberlands in the state.

I am testifying on behalf of the Coalition for Fair Lumber Imports, an alliance of U.S. sawmills supported by millions of private landowners and organized labor in its effort to end the subsidies and dumping of Canadian lumber exports to the United States. You may have seen one of our landowner members, Blake Sullivan, on C-SPAN recently describing the devastation Canadian subsidies created in a small mill town in south Georgia. Environmental organizations are likewise pressing for an end to the unfair Canadian practices.

Mr. Chairman, this is not a new problem. Every Administration since the Reagan Administration has found that Canada subsidizes its softwood lumber production and that subsidized imports injure or threaten to injure U.S. sawmills and mill workers. The current Bush Administration has also found that Canadian companies “dump” softwood lumber into the U.S. market -- that is, the Canadian producers are selling into the U.S. market at unfairly low prices. The World Trade Organization has generally agreed with the United States in this dispute.

Canadian interests themselves have acknowledged that their provincially managed system of subsidizing timber is designed to maximize full employment in Canadian mills. In return for building sawmills and maintaining mill employment in Canada, the Canadian provincial governments, which own 95 percent of the timberland in Canada, provide Canadian lumber companies with a guaranteed supply of timber into the indefinite future. Crucially, Canadian lumber companies generally need not bid for the timber, as they would in a market. Rather, they pay set fees to the provincial governments that represent a fraction of the value of the timber. The Canadian mills are thus assured of a steady supply of timber at below-market prices. This system meets its goal of maximizing employment, while exporting unemployment to U.S. mills, particularly in weak economic periods.

It is hard to overstate the competitive benefit that Canadian lumber companies enjoy through artificially low timber pricing. My company is typical in that the unharvested trees account for around 60% of lumber production costs. Recent studies, including one from Canada, have confirmed that the United States has the most efficient sawmills in North American, but we cannot, and should not, be expected to compete with companies that are getting up to a 75% discount on the single largest cost component in producing lumber.

Attached as Exhibit A is a map that illustrates the problem. Timber values across Canada on average are 70 percent less than the comparable values in the free market economy that exists in the United States. Why would a Douglas fir tree of a given quality cost US\$439 per thousand board feet in the United States and US\$113 per thousand board feet immediately across the border in Canada? There is only one explanation -- because the Canadian provincial government is setting prices at an artificially low level to subsidize lumber production and employment.

Subsidized and dumped lumber imports are devastating to U.S. mills and mill workers, particularly during periods of weak markets. Attached as Exhibit B is a chart showing that Canadian market penetration increases when the market is weak which, of course, is exactly what is intended. Canadian mills can simply maintain or even increase their exports to the United States to maintain high production and full employment despite lower demand. As demonstrated by Exhibit C, during such downturns in the economy, U.S. mills suffer the consequences -- mill curtailments and even shutdowns -- of combined lower demand with increased subsidized imports from Canada. To put it bluntly, as Exhibit D makes clear, U.S. mills respond to changes in lumber prices; Canadian mills do not—because they benefit from subsidies.

It is a tragedy that this long festering trade dispute has not been resolved. This issue would disappear the day that Canada made reasonable, transparent and enforceable commitments to end their unfair trade practices and allow open and competitive markets for timber and logs. Canada simply refuses to do so because it is addicted to subsidies and has been unable to break the habit.

Rather than confront the problem, Canada instead has chosen to abuse the NAFTA dispute settlement process and the WTO by appealing the U.S. International Trade Commission and Department of Commerce subsidy and dumping findings to these bodies. The World Trade Organization has generally upheld the U.S. position. But NAFTA panels have routinely exceeded their authority, disregarded U.S. legal requirements, and have directed U.S. agencies to make specific findings to insulate the Canadian unfair practices from the requirements of U.S. trade laws.

We have thus been forced to bring our case before the U.S. courts that the NAFTA panel system is unconstitutional. Mr. Chairman, a summary of our legal challenge to the NAFTA

Chapter 19 dispute resolution process is appended as Exhibit E, but in general we believe that Chapter 19 denies U.S. citizens their constitutionally protected rights to fair and impartial judicial review of disputes involving them and their private property. NAFTA panels, one half of whom are foreign nationals, are interpreting and enforcing U.S. law. If the interpretation and enforcement of our trade laws can be outsourced to such unaccountable tribunals, similar systems can be created to apply to other statutory frameworks. In short, the NAFTA panel system is rife with conflicts of interest, accountable to no one, and is repeatedly telling the United States, a sovereign nation, how to interpret its own laws.

Some may argue that we are attacking a treaty that is working well and that we are just sore losers. This is not only wrong; it is simplistic and shortsighted. We have won the Canadian lumber dispute within the framework of our nation's laws and we have won at the WTO. The only forum that has complicated this matter is unconstitutional NAFTA panels, which are biased and tainted tribunals. We are not attacking all of the NAFTA; only the unconstitutional dispute resolution process. In the long run, the NAFTA Chapter 19 system must be cured -- not only to protect the rights of the domestic lumber industry but also the rights of the businesses, workers, and communities in other industries who will be vulnerable to devastating unfair trade practices without recourse to constitutional remedies enforceable by the U.S. courts.

Thank you Mr. Chairman. We believe that we have a strong case and will win our constitutional challenge. When we do, we believe the U.S. laws will then be allowed to work in a manner that responds to Canada's unfair trade practices and forces real changes in the Canadian system of subsidizing its lumber industry.