

# FAIR TRADE OF ENGINEERED HARDWOODS WITH CHINA: A FAIRY TALE OR REALITY?

- Ø HARDWOOD PLYWOOD AND MULTI-LAYERED WOOD FLOORING AD/CVD CASES
  - Ø HARDWOOD PRODUCTS CHINA TRADE IN GENERAL
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# THE CHALLENGES OF FAIR TRADE WITH CHINA

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- Two (2) Antidumping and Countervailing Duty Cases: Hardwood Plywood and Multilayered Wood Flooring
- Orders in Place with Rates for Chinese Imports of both MLWF and HWPW
- Trade Volumes of These and Other Hardwood Products Demonstrate a Pattern of Unfair Trade
- Circumventing These U.S. Trade Orders by Chinese Manufacturers
- Bilateral Negotiations Hopefully Open Up the Hardwood Veneer Market
- The Macroeconomic Business Model for China Predicated on Unfair Trade
- Will China Ever Be a Fair Trading Partner?



# TWO CASES: HWPW AND MLWF – DATES AND RATES

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- **Hardwood Plywood**

- Coalition brought an unsuccessful case in 2013
- 11/18/2016 Coalition filed a second case
- ITC voted unanimously 12/1/2017 U.S. industry materially injured and to institute AD/CVD rates on Chinese hardwood plywood
- The CVD rate is 194.9% for all Chinese produced HWPW imported into the U.S.
- AD rate is 183.6% except one company
- With these rates, there is an incentive to circumvent.

- **Multilayered Wood Flooring**

- In 2011, the ITC found material injury to the US producers from imported Chinese MLWF
- 11/29/2017 ITC continues AD/CVD order for another 5 years
- Current duties are 0 to 58.84% depending on the manufacturer
- Commerce Department undertaking a review this year of these rates

# CHINA SUBSIDIZES ITS EXPORTS


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- Policy Loans to the Hardwood Plywood Industry<sup>31</sup>
  - Preferential Loans to SOEs
  - ☒ Provision of Electricity for LTAR
  - ☒ Provision of Land-Use Rights for LTAR
  - ☒ Provision of Urea for LTAR
  - ☒ Provision of Formaldehyde for LTAR
  - ☒ Enterprise Innovation Loan Interest Grant
  - ☒ Foreign Trade Regional Coordination Development Promotion Fund
  - ☒ Linyi Mart Development Special Fund
  - ☒ Forest Certification Pilot Special Fund
  - Income Tax Reductions under Article 28 of the Enterprise Income Tax
  - ☒ Tax Offsets for Research and Development under the Enterprise Income Tax
  - ☒ Preferential Income Tax Policy for Enterprises in the Northeast Region
  - ☒ Forgiveness of Tax Arrears for Enterprises Located in the Old Industrial Bases of Northeast
  - ☒ Funds of Guangdong Province to Support the Adoption of E-Commerce by Foreign Trade
  - Enterprises
  - ☒ Preferential Loans for State-Owned Enterprises
  - ☒ Loan and Interest Subsidies Provided Pursuant to the Northeast Revitalization Program
  - ☒ Interest Loan Subsidies for the Forestry Industry
  - ☒ Foreign Trade Development Fund Grants
  - ☒ Export Assistance Grants
  - ☒ Export Interest Subsidies
  - ☒ Sub-Central Government Subsidies for Development of Famous Brands and China World
  - Top Brands
  - ☒ Funds for Outward Expansion of Industries in Guangdong Province
  - ☒ Provincial Fund for Fiscal and Technological Innovation
  - ☒ State Key Technology Renovation Fund
  - ☒ Shandong Province's Special Fund for the Establishment of Key Enterprise
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# CHINA SUBSIDIZES ITS EXPORTS

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- Enterprises
  - ☒ Tax Offsets for Research and Development by Foreign-Invested Enterprises
  - Income Tax Reductions for Export-Oriented Foreign-Invested Enterprises
  - Provision of Standing Timber for LTAR
  - Provision of Cut Timber for LTAR
  - ☒ Provision of UF Resin for LTAR
  - ☒ Provision of Export Credits - Export Buyers' Credit
  - ☒ Provision of Export Credits - Export Sellers' Buyers' Credit
  - ☒ Provision of Water for LTAR
  - ☒ Provision of Land to SOEs by the GOC for LTAR
  - ☒ Income Tax Benefits for Foreign Invested Enterprises Based on Geographic Locations
  - ☒ Local Income Tax Exemption and Reduction Programs for "Productive" Foreign Invested
  - ☒ Shandong Province's Environmental Protection Industry Research and
  - ☒ Development Funds
  - ☒ Waste Water Treatment Subsidies
  - ☒ Technology to Improve Trade Research and Development Fund
  - ☒ Income Tax Credits for Domestically-Owned Companies Purchasing Domestically Produced
  - Equipment
  - ☒ Value-Added Tax and Import Duty Exemptions for Use of Imported Equipment
  - ☒ Value-Added Tax Rebate Exemptions on Foreign Invested Enterprise Purchases of Chinese-
  - Made Equipment
  - ☒ Export Performance Award
  - ☒ Special Municipal Encouragement Fund for Foreign Trade Development
  - ☒ 2009 Special Promotion Fund for Foreign Trade Steady Growth
  - ☒ Finance Contribution Award
  - ☒ Special Fund for Export Credit Insurance Premium
  - ☒ Patent Application Award
  - ☒ Enterprise Technical Transformation Fixed Assets Investment Award
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# TRADE VOLUMES

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- MLWF
  - China volume and value of imports jumped 41% between 2016 (first 6 months) and 2017 (first 6 months) (FAS:USDA)
  - HTSUS Import Statistics show a drop of 9% from China while imports increased 6%
  - What is confusing in the HTSUS codes is 4412 is used for both MLWF and HWPW

# TRADE VOLUMES

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- U.S. Imports of HWPW:

	• 2016	2017	2018 ( 2 months)
• World	\$1.814 billion	\$1.778 billion	<-25%>
• China	\$1.092 billion	\$ 816 million	<-63%>
• Canada	\$ 106 million	\$ 116 million	14%

Where did the \$247 million drop in Chinese HWPW go? And growing?

Not Canada.

# CIRCUMVENTION OF THE ORDERS

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- Transship Chinese product from China to another country and then export with “new” papers to the U.S.
- Could this possibly be happening?
- Minor changes and represent as a different product
- Misrepresent by classifying as something else
- Represent as outside the scope of the order



# CIRCUMVENTION OF THE ORDERS

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- Transshipments

- Vietnam \$30 million of HWPW exports to the U.S. in 2016 rose to \$65 million in 2017. YTD in 2018 exports up 102%
- Cambodia \$27 million of HWPW exports to the U.S. in 2016 rose to \$92 million in 2017. YTD in 2018 up 79%

- Misrepresentation

- Cut to size, made to size, drill a hole are all within the “scope” of the HWPW order
- Miss classify these materials as RTA cabinets
- The Coalition and several large U.S. cabinet manufacturers have filed with Commerce regarding this practice

# RADIATA PINE PANELS

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- Does hardwood plywood require a hardwood face veneer to be HWPW? **NO!**
- ANSI/HPVA HP-1 2016 allows softwood decorative faces and includes grading tables for these species (pine, cedar, fir, and others)
- Chinese imports of radiata pine have surged.
- The Coalition filed an objection with the Commerce Department who made a preliminary determination that a panel with a face AND back of radiata pine was not HWPW.
- Even though it's made for the same applications as HWPW, with interior resins, and not "construction grade" plywood



# RADIATA PINE

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## Decorative HWPW – thin face and back veneers

- Interior resin system: ULEF, NAF (Soy), NAUF\* (phenol), or NAF (PVA)  
\*marine grade HWPW
- Cabinet and woodworking markets
- Manufactured housing and RV's
- ANSI/HPVA HP-1 2016 for grades and performance requirements

## Exterior Construction Panels

- Fir or pine
- Uniform veneer thickness greater than face and backs of HWPW
- Exterior resins systems (PF)
- APA national standards which are referenced in national and other building codes



# ANSI/HPVA HP-1 2016

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- **PLYWOOD, HARDWOOD or DECORATIVE** – A bonded assembly intended for interior use with at least *one decorative veneer surface* with a core consisting of an assembly of layers or plies of veneer, or veneers in combination with lumber, particleboard, MDF, hardboard, or special core in which the adjacent layers or plies are at approximately right angles.

*(Emphasis added)*

- Nowhere in the ANSI standard does it limit softwood species on both the face and back, nor does it require both or even one hardwood species.



# TRADE DATA ON RADIATA PINE: SURGING

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- From 2013 to 2016, softwood plywood imports from China ranged from \$16.4 million (2016) to \$32 million (2013).
- In 2017, Chinese export explosion to \$106 million of softwood plywood to the U.S.
- To date in 2018, in just the first 2 months the number was \$55 million which is on a course to exceed \$332 m
- Overall imports of softwood plywood are up into the U.S. in 2018 and China accounts for 39% of that increase.
- The U.S. is a major producer of softwood plywood and exported globally \$171 million in 2017 with \$42 million to China.



# CANADA IS A “FAIR” TRADING PARTNER

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- We imported \$116 million of HWPW in 2017 and in 2018 the number is up by 14% YTD.
- We exported \$54 million of HWPW in 2017 and the number is up 14% YTD.
- We exported \$95 million of hardwood veneers and imported \$95 million of hardwood veneers to Canada.
- We exported \$107 million of hardwood logs to Canada and imported \$19 million

# HARDWOOD VENEER: “FAIR TRADE”?

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- China keeps our veneer out
- Protect their domestic veneer industry
- Source logs from illegal suppliers and mix with legal wood, primarily from the U.S.
- High tariffs and VAT on veneer imports
- “Re-assess” value of veneer imports
- We import \$11 million of veneer from China and export \$8 million to China
- We export \$95 million to Canada, a country 2% the size of China (1.38 billion compared to 35 million)

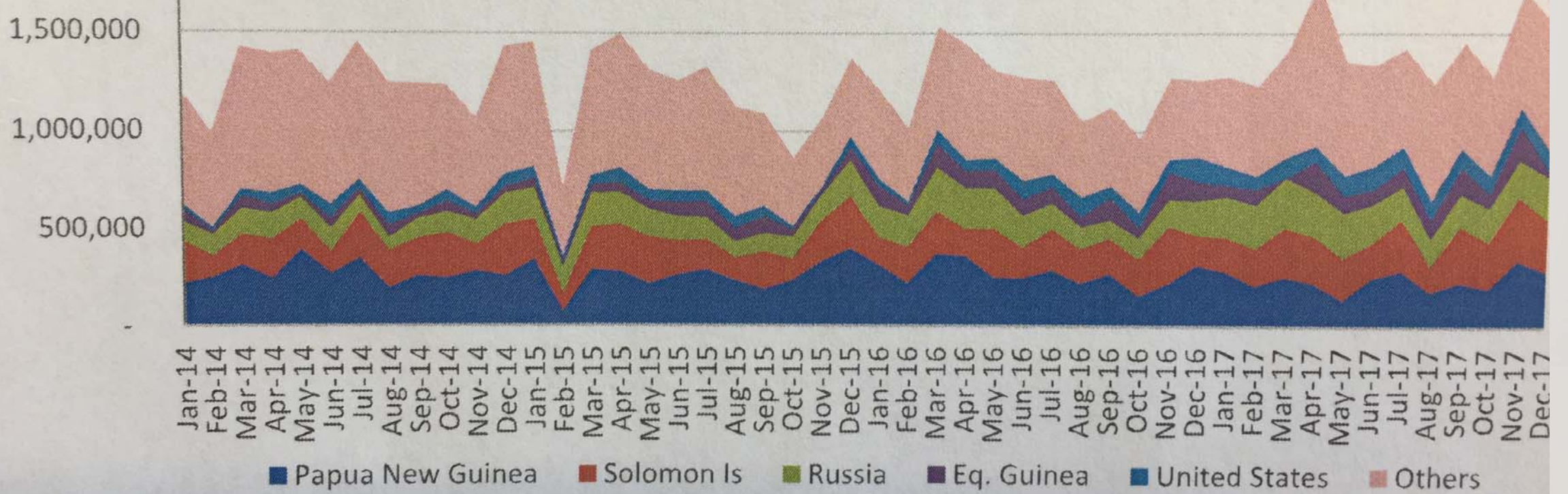


# HARDWOOD LOGS

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- U.S. exports \$854 million of hardwood logs
- YTD in 2018 increased 22%
- U.S. exports \$564 million to China (64%)
- YTD exports to China increased 31%
- U.S. exports \$107 million to Canada (12%)
- YTD up 4 %
- China imported 1.6 million m3 of HW logs (China Customs, BOABC Database)
- The top supplying countries are Papua New Guinea, Solomon Islands, Russia, Eq. Guinea, USA, (62%) all others (38%)





Source: China Customs, BOABC Database

## 4.2 Sawn Timber



## HOW BIG A PROBLEM IS IT?

\$10 - \$100 Billion illegal timber sold annually globally

Much of this is consumed locally

*Hardwood* is more likely than softwood to be illegally harvested and traded

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*Illegally produced wood products (except lumber) are likely to be illegally traded* than legal wood products

*Plywood is the most likely to illegally traded*

*“Almost all illegal hardwood plywood is exported”*





# GLOBAL TRADE

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- 2000 to today
- 14% of round wood logs are illegally and 7% are legal
- 27% of lumber is illegal and 30% is legal
- 53% of plywood is illegal and 35% is legal
- Uncertainty
- 79% ???
- 43% ???
- 12% ???



# CHINESE ECONOMIC MODEL IN HARDWOOD

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- China picks “winners” and losers”
- Dominance of “state favors”
- Largest consumer of illegal logs in the world
- Largest consumer of legal logs
- Started with furniture: ask NC how that worked out for them?
- HWPW was next: in the fight for our life.
- Kitchen cabinets are next with over \$1 billion of RTA’s from China now into the UA annually and growing. Moving up from low to higher end.



# CAN TRADE WITH CHINA BE FAIR?

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- Both Sides Would Lose a U.S.-China Trade War
  - The largest market in the world is open for business. Will America forfeit this opportunity?
  - By Jack Ma  
*Mr. Ma is executive chairman of Alibaba Group.*
  - April 11, 2018 5:30 a.m. ET
  - Copyright Wall Street Journal 2018
- “The U.S. has a structural trade deficit with China because of *the market forces of comparative advantage*: Economies produce what they are best at making and import other things. Dollars earned from trade surpluses in China have been recycled to finance American borrowing, keeping U.S. interest rates low with favorable economic conditions. “

# CAN TRADE WITH CHINA BE FAIR?

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- “American economic policy for the past 30 years *encouraged U.S. companies to outsource labor-intensive manufacturing to China* and other Asian countries while *retaining the most valuable parts of American ingenuity: innovation, technology and brand.* “
- “The Chinese government promoted foreign investment and built the economy on the strength of its large and increasingly skilled labor force. As a result, China became the world’s largest exporter, with a significant trade surplus. American consumers benefited from low prices and *American corporations made giant profits.*
- There’s no better example of a beneficiary of this symbiotic relationship than Apple...”

# CHINA IS A 4,000 YEAR OLD CULTURE

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- “The man who moves a mountain begins by carrying away small stones.”

Confucius

- “If you think in terms of a year, plant a seed; if in terms of ten years, plant trees; if in terms of 100 years, teach the people.”

Confucius

- The journey of a thousand miles begins with one step.

Lao Tzu

- An ant on the move does more than a dozing ox.

Lao Tzu