



Photo reprinted with permission from *The Oregonian*

# Log Exports from Oregon

## Domestic conflict in an international context

It started, very prophetically, with a storm. And it occurred on a holiday that recognized one of the pioneers in opening world trade 500 years ago. On Columbus Day, 1962 an intense windstorm swept through the Northwest, toppling almost twice the timber normal annual harvest in Washington and Oregon. This was too much timber for the domestic mills, and foreign purchasers were invited to absorb the excess.

They did more than that, especially Japan whose buyers found the larger, high quality logs just what their customers wanted. Within five years the Japanese had established a growing log export business in the Northwest. Higher timber prices and tighter log supplies created by this new set of competitors created a storm of a different type. By the late 1960s many Oregonians were calling for restrictions on log exports; others were strongly defending the benefits of this new log market.

The log export conflict has been a running skirmish over the political landscape ever since.

The purpose of this paper is to describe the various facets of the log export controversy and to outline some of the options that policy makers may consider in the coming months and years. Hopefully there is enough detail to give the reader some sense of proportion in wood products trade and to stimulate thinking about the possible consequences of restricting log exports. The paper makes no attempt to define the "correct" path for public policy, only to help the reader sort out the facts, myths, and levels of uncertainty in the controversy and to help sharpen awareness of the value judgments involved.

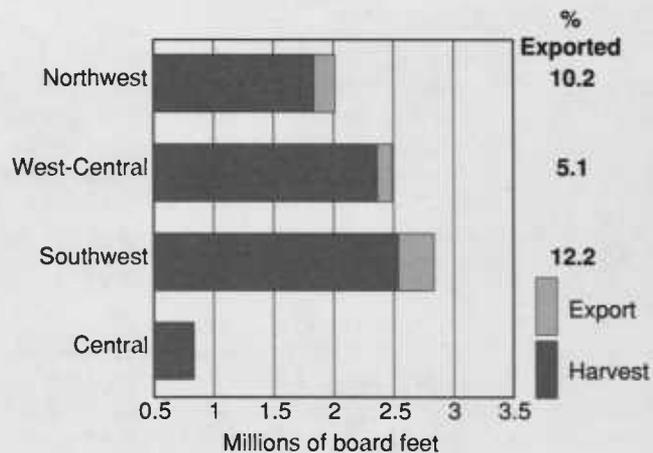
In recent years much public attention has been given to timber shortages and to the public pressure to preserve Oregon's forests in an increasingly global

---

David Cleaves  
Forest Resources Department  
Oregon State University



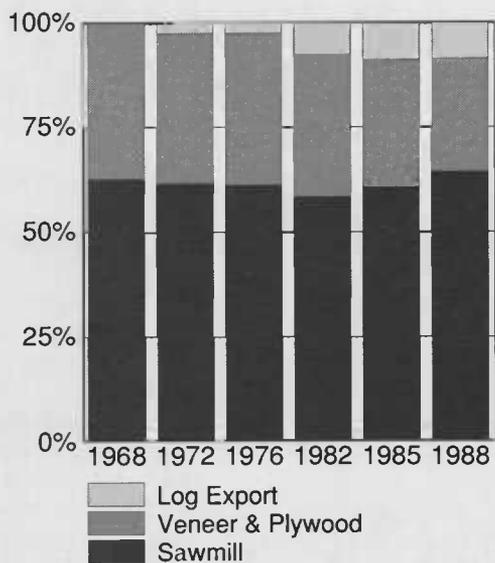
context. The forest industry is being challenged to compete and issues presented by this new economic environment will interact with the raging controversies about resource use at home. At the same time that Oregon's industry struggles with the physical and political dynamics of timber supply policy, it must widen its focus to include foreign horizons and shape a global competitive position. This requires dealing with new cultures, competitors, and marketing conditions as well as issues that entwine resource use and international trade. The debate about log exports in Oregon is one such issue.



**Northwest**—Clackamas, Clatsop, Columbia, Hood River, Multnomah, Marion, Polk, Tillamook, Washington & Yamhill counties.  
**West-Central**—Benton, Lane, Lincoln & Linn counties.  
**Southwest**—Coos, Curry, Douglas, Jackson & Josephine counties.  
**Central**—Crook, Deschutes, Jefferson, Klamath, Lake & Wasco counties.

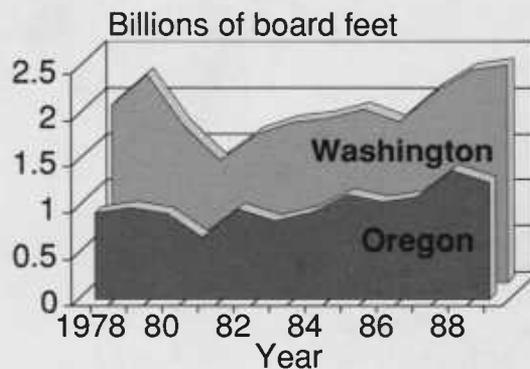
Source: Howard et al. 1990

**Figure 2. Harvest and Export of Softwood Logs by resource region in Oregon, 1988**



Values for Industries with less than 2 percent are not shown  
 Source: Howard, et al. 1990

**Figure 1. Log Consumption by Industry Oregon, 1968-1988**



Source: Warren, 1990

**Figure 3. Softwood Log Exports by source**

## The log export debate

No wood products trade issue in the Pacific Northwest (PNW) has been more contentious than the fight over whether and how to restrict log exports.<sup>(2,8,10)</sup> Residents with an economic stake see the issue as an almost life-or-death question. People outside the region have also developed strong feelings about exporting raw logs and have focused their attention on the PNW because it accounts for ninety percent of the country's softwood log exports.

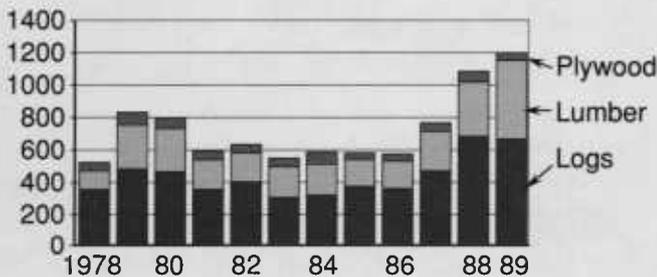
The pressure to limit exports has simmered since log exports began 30 years ago, but the debate has never been so heated as during the last three years. Strong demand for logs by Japan, Korea, and China, accentuated by concerns about accelerated harvesting and the fate of rural communities, have brought the export controversy to the boiling point.

### Who exports logs?

In 1988 Oregon exported about 1 billion of the 4.3 billion board feet of softwood logs exported from the U.S. Washington exported 2.7 billion and the rest came from Alaska and California. The total value of log exports from the West Coast was \$2 billion.<sup>(3,32)</sup>

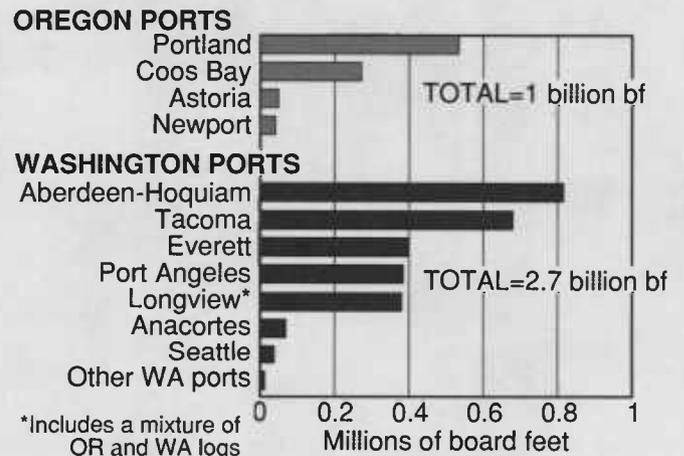
About a quarter of the timber harvested in the Northwest is exported as raw logs; a higher percentage of Washington's harvest (28 percent) is exported than Oregon's (11 percent) (Fig. 1).<sup>(10)</sup> These proportions have risen several percent over the last 15 years, although the volume harvested has fluctuated greatly.<sup>(13)</sup> The amount of harvest exported varies considerably by region of the state (Fig 2) being highest in the coastal regions and little in eastern Oregon.

Oregon is the second biggest log exporting state behind Washington (Fig 3). A growing proportion of Oregon's total wood products export value is lumber and plywood (Fig 4). Overall, logs, lumber, and other wood products equal about one-third the total value of Oregon's exports. Sixty percent of the lumber goes to Pacific Rim countries; eighty percent of the plywood to Europe. The most active Oregon ports for log exporting in the Columbia Snake Customs District are Portland and Coos Bay (Fig 5). Some Oregon logs are exported through the port of Longview, Washington.



Source: Warren, 1990

**Figure 4. Dollar Value of Exports Softwood Logs compared to Lumber and Plywood from Columbia-Snake Customs District\***  
\*Incl. Longview, WA which exports a mixture of OR and WA source wood products.



Source: Warren, 1990

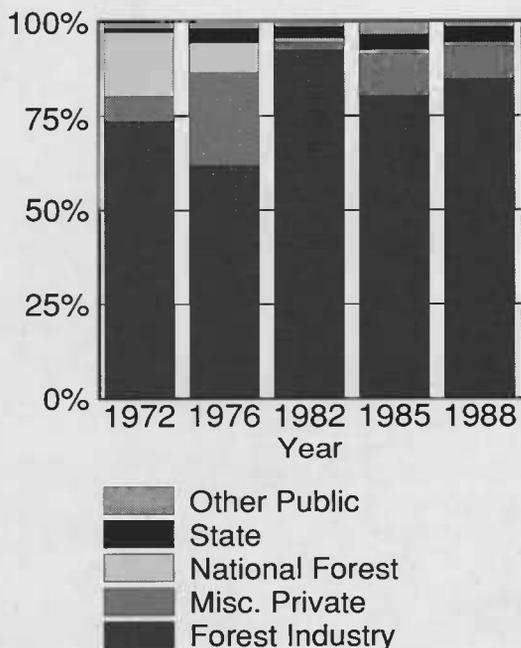
**Figure 5. Softwood Log Export Volume Pacific Northwest ports, 1989**

Historically about 95 percent of log exports from Oregon have been provided by industrial and nonindustrial private owners (Fig 6). Virtually none has come from federal land and only about 5 per cent from state lands. In the future no log exports will come from state lands, because of new legislation. In perspective Oregon's overall timber harvest is about 59 percent federal, 34 percent industry, 8 percent small private and 4 percent state. Private owners export about 25 percent of their harvest. Large companies such as Weyerhaeuser, Cavenham Industries, International Paper Co., Menasha, Georgia Pacific and large private tree farmers have traditionally accounted for more than half the export volume. Recent restrictions on public exports have forced some companies, such as Weyerhaeuser, to cease exports or lose the right to purchase public timber, so some decrease in exports can be expected. So far exports are not restricted from private lands in Oregon.

Export of timber from Western federal lands (except Alaska) had been prohibited since 1968 under the "Morse Amendment." This law also set rules to prevent

substitution, the practice of buying federal timber for processing while exporting logs purchased or grown on the company's own land. The Morse Amendment had been passed each year in federal appropriations legislation, but the recently enacted Forest Resources Conservation and Shortage Relief Act (PL 101-382), part of the Customs and Trade Act of 1990, has made the ban permanent and set up new substitution rules.<sup>(32)</sup>

State lands supply less than 5 percent of the raw log export volume, but nevertheless have been an object of scrutiny by log export opponents. Washington's state lands export a much larger portion of the total overseas flow and have influenced sentiments for federal intervention in state operations. Despite intense lobbying pressure by some exporters and Washington state politicians, the new federal law also gave Western states authority to restrict exports on non-federal public lands and directed them to exercise it. Washington is still allowed to export 25% of its state land's harvest and has developed definitions for "export-restricted" timber sales. Both states have implemented regulations for prohibiting substitution. (See appendix on Substitution.)



Source: Howard, et al. 1990

Figure 6. Log Exports by ownership, Oregon, 1972-1988

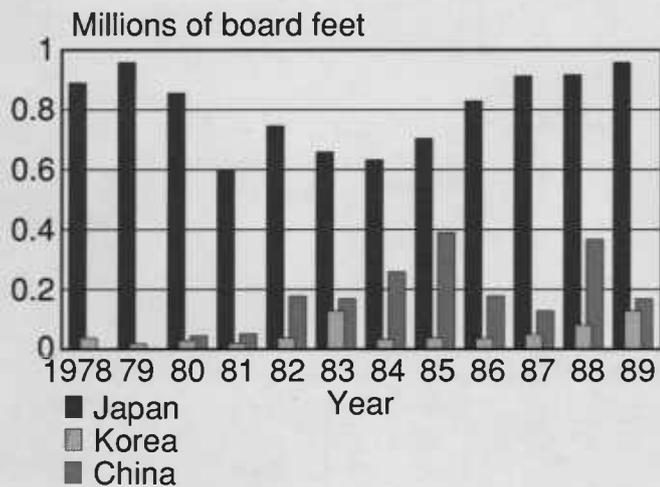
- Log exports comprise more than half the value of wood products exports from Oregon's ports.
- Oregon exports about 40 per cent of the volume of logs that Washington does.
- The vast majority of logs exported are from second growth timber on private lands.
- About 11 per cent of Oregon's harvest was exported in 1988. This is about 25 per cent of the harvest on private lands.
- Japan is the most likely destination for Oregon logs, but Chinese and Korean markets have grown considerably.
- Exporting logs from public lands—federal and state—is now prohibited and buyers are not allowed to export and buy public timber simultaneously.
- The proportion of Oregon's export value in processed lumber and plywood is growing relative to log exports.

### Who imports Oregon logs?

Most of Oregon's log exports are softwoods, primarily Douglas-fir and Western hemlock. Seventy-five per cent of these go to Japan (Fig 7). Since 1980, the Peoples Republic of China and South Korea have become more active markets for Oregon logs. China's purchases have slowed somewhat since 1985 because of internal

political problems, but Korea's demand has grown steadily. Most of the export timber that goes to Japan comes from 60-80 year old second growth trees. Younger trees supply an increasing proportion of the mix, because Korea and China accept lower quality material.

From the West overall about 52 per cent of the log exports have gone to Japan, 24 per cent to China, 13 per cent to Korea, and 8 per cent to Canada. As recently as 1980, 90 per cent of the logs exported went to Japan, so this represents rapid increase in the diversity of log markets.



Source: Warren, 1990

Figure 7. Oregon Softwood Log Export Destinations\*  
\*Port of Longview, WA, included

## The arguments

Many segments of the public favor restrictions on log exports.<sup>(2,21,22,33)</sup> In a 1989 statewide non-binding referendum, Oregonians voted nine to one that the state should ban export of logs from state-owned and managed lands.<sup>(24)</sup> (Coincidentally, the federal Public Law 101-382 passed in 1990 did restrict state exports, but was not a direct answer to the Oregon referendum.) The 1990 Oregon election was peppered with statements by candidates who claimed leadership in "the fight against" log exports.<sup>(23)</sup> Even the state's strategic development plan supports litigation or legislative measures that discourage exports of raw logs and encourage exports of value-added wood products.<sup>(9)</sup> To much of the public, exporting logs appears to violate the state and region's goal of maintaining a vibrant domestic industry, especially during a timber supply crisis. Some of the arguments for and against export restrictions are summarized in Table 1.

Even though recent laws have prohibited public exports, interest groups search for ways to divert private logs back into the domestic market. The most common strategy is an all out ban or quota on exportation although more conservative approaches such as export duties and tax incentives (to sell domestic) have been proposed. (Fig. 8) We will compare the possible consequences of these strategies later. First, it is important to understand the rationale supporting the general arguments for and against restriction.

### Timber supply

The central issue in the log export dispute revolves around log exporting's effect on the timber supply. Most troublesome are the recent increases in volume exported and proportion of the harvest this represents. To those who oppose log exports, a billion board feet of timber annually seems to be whisked away from hungry Oregon lumber producers. Three billion feet is exported from Washington, some of which could come to Oregon

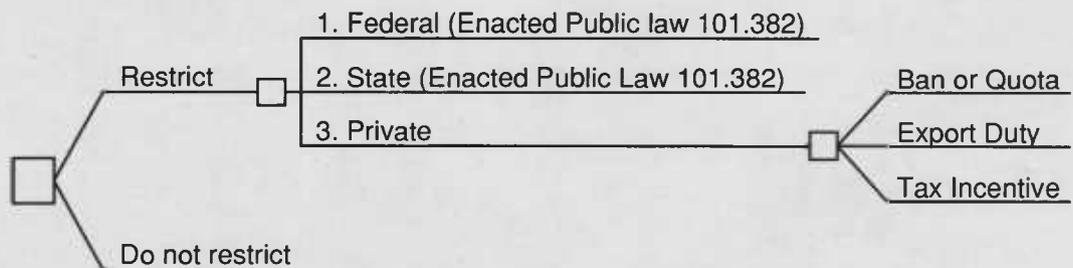


Figure 8. Policy Choices for Log Exports

Table 1. Summary of Log Export Issues

	Arguments for Banning Exports	Arguments for Continuing Exports
<b>TIMBER ISSUES</b>		
Timber supply	~ Relieve shortages, high prices and premature cutting	~ Provide incentives for timber management and long run competitiveness
Jobs	~ Keep mill jobs at home	~ Preserve exporting jobs
Old-growth preservation	~ Reduce pressure on harvesting old-growth forest ecosystems	~ The effect on old growth harvest is insignificant
<b>TRADE ISSUES</b>		
Competitive advantage	~ Keep manufacturing cost competitive and force Japan to buy more U.S. lumber	~ Slowly replace logs with lumber, plywood, as the export market allows
Trade relations	~ Force equitable treatment in lumber, plywood markets and force Japan to buy more U.S. lumber, plywood	~ Avoid retaliation in lumber, plywood, markets, or other commodity markets
<b>LEGAL ISSUES</b>		
State's rights	~ Remit control of economic and ecological destiny	~ Reserve federal authority in foreign commerce
Property rights (extension of ban to private lands without compensation)	~ Strategic importance of issue supercedes property rights	~ Avoid illegal "taking" of property rights

mills. These volumes total the reduction in harvest from federal lands that is forthcoming from national forest plans and environmental restrictions. On a Pacific Northwest basis, if even half the logs now exported were diverted to domestic mills, the federal shortfall would be compensated. Therefore, restricting log exports is seen as a mitigation of the effects of federal land allocation policies.

Environmental groups point to the seemingly contradictory industry behavior of decrying federal harvest reductions while busily exporting logs that are needed to run the mills. Compared with alternatives such as increasing forest management intensity or the efficiency of the industry in using wood material, banning exports appears to offer a more direct and immediate solution to timber supply ills. Some argue that restricting exports also alleviates some of the temptation for landowners to cut trees when they are too young, thereby better assuring an adequate supply of timber for the long term. Without the assurance of timber supply, companies in the future will be hesitant to invest in plant locations and expansions that fuel industrial development.

Exporters point out that the types of logs freed up by a ban may not be useful to the mills that are most in danger of closure, many of which are far inland. A full ban, including restrictions on private lands, would reduce the price of all logs and timber, as well as timber land values.<sup>(4,5)</sup> Export opponents counter that, using the industry's own proportional logic, the reduction in public harvests will buoy timber prices beyond any price dampening caused by export restrictions. The real question, as yet unanswered, is what would be the net timber price effect as all policies operated together. A negative timber price impact will extend beyond traditional industrial and small private landowners to many citizens whose pension fund assets are tied up in timberland investments. The argument is that price reduction ironically discourages private investment in timber production when increased timber supply is so critical to Oregon's future. It may be necessary then to further subsidize tree growing with increased government spending. Domestic mills would have more to purchase, but timber owners and tax coffers would be poorer as immediate losses in revenue to county and state governments would occur. Impacts would be strongest in the same coastal counties that would be hard hit by reductions in export-related employment. The burden of the restriction falls most heavily on the landowner to the benefit of mills and domestic consumers.

Exporters claim that a ban on the export of state logs will restrict the export supply enough to raise the prices of higher quality logs, which are already scarce. The only available logs will be private and private land-

owners will be encouraged to cut. Eventually, buyers would be faced with lowering their quality requirements, and would have to buy more volume to compensate.

### **Jobs**

Log exports seem to take jobs away and worsen the plight of timber-dependent communities already rocked by technological changes and environmental issues. In 1988, enough logs left Oregon ports to run perhaps 20 mills (at 50 million board feet per year average) for the year and employ 2,000. One argument is that a complete ban would provide raw material to support these mill jobs, assuming that the logs would all be processed in Oregon and be competitive enough to be sold in domestic or international markets. Mills with conventional processing technology employ about 4.5 persons per million board feet per year. Automated mills employ about 1.75 persons per million board feet.<sup>(11)</sup>

But export restriction would cost many export workers their jobs. Exporting logs employs about 1.3 persons per million board feet but at higher wages than milling jobs. About 2,500 people are employed in Oregon's log export activity, many concentrated in small coastal communities such as Coos Bay and Astoria, that have few alternatives for employment unless new mills are installed.

There is great uncertainty about the employment effects of log export restrictions. Part of the impact hinges on whether the additional volume would be processed in old or new mills. If the exports were diverted into the new, less labor-intensive mills, net revenue and perhaps net job losses might occur. Logging jobs could be unaffected since loggers have to be employed to harvest the timber whether it is going to domestic mills or export. None of the export purchasers uses foreign logging crews. Logging jobs would decrease if some of the timber under the export ban were simply withheld from any market.

In the restriction scenario new jobs would not necessarily come to the communities whose export jobs were displaced. Economic support could shift from coastal communities to those farther inland with new mills. Recent research has shown that the ban on log exports from state lands in Washington and Oregon could cause anywhere from a net loss of 170 jobs to a net gain of 700. Estimates of the effects of private restrictions have not been studied in great depth.<sup>(1,10)</sup>

The argument to keep mill jobs by banning exports also assumes that the exported logs will be processed into lumber and/or secondary wood products in Oregon mills. Whether this comes to pass depends on the development of a strong new market for lumber and plywood. If domestic markets sag and our strategy to

develop lumber export markets fails, communities could be no better off and subject to greater fluctuations in employment. If Japan and other countries do not buy lumber and plywood, the resulting excess could be dumped back in the domestic market to exacerbate industry problems with housing cycles. The nature and timing of an export restriction would be critical in preventing employment shifts before the market development efforts have had a chance to provide alternate opportunities. Consequently, some have proposed a gradual phase-in of log export restrictions, coupled with an intensified market development effort.

### **Old growth preservation**

Some groups have developed a strong platform integrating opposition to exports with conservation objectives. They view log exports as mining of ancient forests by a foreign country and claim that the resulting timber shortages encourage domestic mills to put extra pressure on the remaining old growth.

Export proponents point out that almost all old growth trees are in federal ownership from which log exporting has been prohibited for 20 years. Only about one-eighth of log exports from the Pacific Northwest is true old growth and that fraction shrinks each year.<sup>(10)</sup> Older second growth is being exported, but this is from private lands. Exporters also argue that importers overseas will get the timber they want from other perhaps more sensitive forest ecosystems of the world. Some would argue that an export ban that cuts off second growth exports from the U.S. may have the effect of encouraging the purchase of timber from natural rainforests elsewhere in the world. This ultimately defeats the environmental purpose in a global context. Also, since Japanese mills recover more lumber from logs than do American mills, processing logs at home is more wasteful and might result in even greater pressure on the resource.

### **Competitive advantage**

One argument against exports of raw logs is related to the timber price question. Export log demand causes high prices for all logs, makes Oregon producers less competitive and leads to higher consumer prices for lumber. High prices encourage private landowners to cut trees prematurely and shortchange the financial and biological productivity of our timber resource. All these effects contribute to weakening Oregon industry's competitive global position. According to this argument, export restrictions would lower timber prices and allow mills more time to adjust to manufacturing and marketing policies, to the second growth resource, and to the new global marketplace.

Exporters admit that log exports help elevate timber prices, but they believe that federal forest policy deserves a much higher portion of blame. They argue that Oregon has a relative advantage in producing logs, and that higher log prices are themselves a return to Oregonians which may be as great as the dollar value added by processing them in domestic mills.

Exporters also claim that a ban will only subsidize inefficient mills and delay adoption of aggressive marketing and manufacturing strategies necessary to crack Japanese and other worldwide markets. Many domestic mills might choose to direct export logs into lumber in the domestic U.S. market, reducing lumber prices but exacerbating cyclical problems. This fails to further the state's economic diversification goals.

### **Trade relations**

Log export opponents claim that Japan and other log importers profit unfairly from our log trade policy while they maintain barriers to the importation of lumber, plywood, and more highly processed wood products. They propose that by cutting off log exports, we can force Japan to buy our lumber and other products and point to Indonesia's ban of hardwood log exports to Japan in 1981 and the resulting increases in hardwood plywood trade with Japan. They see Japan as similarly dependent on American wood products and contend that only a serious move such as a log export ban will budge their barriers to importation of lumber and plywood. This opinion holds that Japan has few short term alternative sources of logs in the USSR because the infrastructure is not available to get the trees harvested and transported.

Export proponents assert that Japan has alternate sources of both lumber (primarily Canada) and logs (USSR, New Zealand, Chile). Restricting exports will tag the U.S. as an unreliable trading partner and encourage Japan to develop these alternative sources of logs and wood substitutes and invite retaliation in the form of higher tariffs or stricter standards for other U.S. products including lumber, plywood, or pulp and paper products. Retaliation might be extended to non-wood products that have even a larger impact on the trade balance. Oregon and the U.S. could lose a lumber export market that is just beginning to grow by being protective in its raw material policy. Furthermore, they say, foreign buyers prefer getting all materials (logs, lumber, plywood, and finished products) from single sources; immediately cutting out the log component could easily frighten importers away to more diversified suppliers.

Japan imports only about 60 percent of the logs from the PNW region. A ban would also be endangering our trade relations with Korea and China, who have

provided market diversity, but who don't have as much potential as a lumber and plywood market. Exporters summarize that embargoes generally do not work and only serve to undermine confidence, encourage competing exporters and inject uncertainty in the market that artificially lowers prices paid. They cite backlashes in attempts to restrict exports of soybeans, wheat, and red cedar timber (from state lands.) Exporters also contend that log export restrictions may be in violation of the General Agreement on Tariffs and Trade (GATT) regulations.

Exporters claim that switching from logs to lumber wouldn't be an easy or rapid process for either us or Japan and that we would have to develop alternative markets in other Pacific Rim and European countries while these changes took place. Increasing U.S. lumber sales to Japan and other Asian countries would require an expensive crash marketing effort and dramatic changes in milling and marketing strategy, including sawing a much larger portion of our lumber to Japanese standards. Changes in Japanese lumber distribution systems, building codes, and consumer tastes and preferences could take place too slowly to absorb the lumber equivalent of our current log exports. If Japan purchased the same amount of lumber it processes currently from American log imports, as much as 30 percent of its own mills would have to curtail operations; an unlikely political prospect.

### **States rights**

Export opponents contend that a state should have the right to control the destiny of its public natural resources, especially when foreign trade patterns endanger state economies. Exporters counter that states should not be allowed to interfere with interstate commerce and the implementation of a uniform trade policy. Alaska, Oregon, California, and Idaho forbade the export of logs from state lands until 1984, when the Supreme Court invalidated the Alaska restriction.<sup>(12)</sup> However, the new law has wielded federal authority through the "commerce clause" of the Constitution, and has directed the states to prohibit exports. It seems that the state and federal bans have become uniform policies and the states rights arguments are moot. However, the new law has created an issue concerning lands owned by countries in special trusts managed by the state. Countries with forest land in those arrangements could see reduced revenues as the markets for their timber are reduced.

### **Private property rights**

A bill was introduced by Oregon Rep. Peter DeFazio into the 101st U.S. Congress (The Timber Fair Trade and Forest Conservation Act [HR 5651], a proposed amendment to the Export Administration Act of 1979) to ban log exports from private lands.<sup>(6)</sup> Landowners with less than 321 acres were exempt. This acreage minimum was designed to soften objections from the large number of landowners, perhaps 80 percent of that population, who account for a small portion of the harvest. The bill's authors claim that the federal government can and has, (in the case of some minerals and agricultural crops) stopped export of private goods.

The provisions of this bill impose federal authority on private property and have rankled landowners, even many of those exempted, who have interpreted it as an unconstitutional "taking" of private property without compensation. The ban would remove market options and likely have the impact of lowering timber prices. Lower prices favor the domestic processor and consumer, but shift the financial burden of the policy to the landowner. Some supporters of restrictions on public timber stop short of backing this proposal.

## Options for restricting private exports

Further restrictions of log exports point to private lands. Several proposals have been made. The previously mentioned HR 5651 proposes a complete ban. Senator Mark Hatfield favors a federal tax incentive in the form of a 15% capital gains reduction to entice landowners to sell their timber in the domestic market. Newly elected governor Barbara Roberts and other Oregon legislators favor a similar mechanism through state income taxes and/or timber severance taxes. The Wilderness Society and the National Wildlife Federation propose a tax penalty, or export duty to be paid by those who buy export logs with the proceeds applied to development of value-added industries. The three major types of options are outlined in Table 2.

Few of the proposers have come forth with complete analyses of the impacts of their plans. Some research is currently underway to quantify the economic impact of bans and export duties, but in the meantime, interested citizens can only rely on the generalized predictions of economic theory and the subjective judgment of experienced observers. We offer a qualitative and very preliminary view of the effects of the three options

on several social and economic variables. Most of the impacts listed under the complete ban have been discussed already so we will describe the other two options.

The word "success" means reducing the actual exportation of logs, and does not refer to employment, environmental protection, or other goals, including the diversion of these logs to domestic mills. A program could be successful in stopping exports but fail economically if the previously exported timber did not find its way into domestic processing. The public must decide whether private restriction is warranted, and if so, what is the best way to mix these different outcomes.

### Export duty

An export duty is a tax paid by the person who exports the logs. Most landowners don't have the wherewithal to directly export, so this function is handled by log buyers connected to export distribution channels. Supposedly, export buyers would pass on the penalty to landowners through reduced timber prices. If log demand was strong enough, they might only pass on part of the penalty. Although it is unconstitutional for the federal government to levy an export duty, it is legal for individual states to do so.<sup>(27)</sup> The impacts of an export duty

**Table 2. Alternatives and Possible Consequences for Restriction of Private Log Exports (compared with status quo of no private export restrictions)**

	Ban*	Export duty**	Tax Incentive***
• Mill jobs	maintain some	maintain some	maintain some
• Log Export jobs	eliminate	reduce	reduce
• Timber prices	large reduction	medium reduction	small reduction
• Tax revenues	lower	maintain or increase	lower
• Landowner incentive to grow timber	large reduction	some reduction	same as status quo (could be increased)
• Log export volume	eliminate	reduce	reduce a little

\*Complete prohibition of exports from private lands. A quota would have similar but less severe impacts.

\*\*A tax paid by buyers of export logs that attempts to compensate for the negative impacts or lost opportunities for the Oregon economy.

\*\*\*A credit or reduction on federal and/or state income and/or timber severance tax allowed to timber sellers who choose domestic over export buyers.

will depend on the level of the tax and how it is applied. To be successful in discouraging landowners from selling to export buyers, the duty would have to be high enough to consume the difference between export and domestic price. On high quality logs, where premium is the greatest, the tax might have to be 50-100 % of the domestic price. Down to the export price at which landowners would decide to sell to domestic mills, many logs would still go overseas. Part of the extra income that would have been enjoyed by the landowner would return to government. This could be a disincentive to manage for timber growth, so some groups have proposed that part of the tax be returned to the landowners in the form of timber growing tax incentives or subsidies.

- The arguments to restrict or not restrict exports involve many dimensions, including employment, timber supply, trade relations, competitive position, old growth preservation, and state's and individual property rights.
- Great uncertainty exists about the effects of various export restriction proposals. The most important uncertainties involve the net timber price and employment effects of a ban, and the prospects for selling the equivalent volume in new markets for wood products.
- Restrictions will generally favor domestic mills in the short run through lower timber prices, but will hurt landowners in the long run by removing markets and incentives for timber management.
- Since most of the log exports are from private land, a private ban or quota is the policy that would create the greatest effect. However, unlike the public land restrictions, this evokes the private property rights controversy.

The export duty could be levied as a specific rate per unit or as a percentage of the value. Export and domestic market conditions would affect these two forms differently. A per unit tax would not be as successful when export prices were high, and would have a proportionately greater impact on lower quality logs.

The real impact on prices and the quantity of logs traded would depend greatly on the reaction of Japan and the other log importing nations. If the volume of logs they demand is sensitive to price (because, for example, they have alternative sources of logs or lumber), landowners

could experience a reduction in revenues without hope of seeing their markets reincarnated in domestic mills who will be exporting more finished products.

### **Tax incentive for selling domestic**

The tax incentive strategy could take several forms. The objective would be to reduce the landowners' tax burden in exchange for a decision to sell logs in the domestic market. Oregon landowners pay federal and state income tax as well as state severance, harvest, and fire fund taxes on each harvest. The income tax burden varies with income tax bracket and other factors. Landowners currently pay severance tax equal to 6.5% of the net value of all but the first 25 thousand board feet (MBF) of each harvest. Landowners who pledge to sell to domestic mills might receive less for their timber, but could be compensated by paying a lower tax bill. Once again, the effectiveness in reducing exports would depend on the export buyers' reaction to the affected log supply. The tax incentive strategy would shift the financial burden of restricting exports to the state which would be forced to forgo some tax revenue that would have been forthcoming under higher valued export sales.

Depending on the difference between export and domestic price, the tax break might have to be quite large to compensate for the export price premium. If export prices are \$400 and domestic prices \$300 per MBF, even relieving the combined state income and severance taxes at about 16 percent would not make the two net returns equivalent. A large enough incentive to discourage exports could represent a substantial reduction in state tax revenues. If it did restrict export supply somewhat and the difference between export and domestic prices increased, the incentive to landowners would have to keep pace.

Such a program might be difficult to implement, because at least 75% of the private harvest is already being sold to domestic mills. Without some mechanism to target just owners who would be approached by export buyers, the tax break could go to landowners who would sell domestic anyway. The cost effectiveness of an improperly targeted program might be questioned. One economic scenario is that landowners could rush to get this tax break, reducing the supply to export buyers who would then increase prices, especially for high quality logs. This would encourage landowners with those logs to sell export, thereby defeating some of the purpose of the policy. Some have even questioned whether working the incentive through the state tax system would violate the federal government's sovereignty in regulating foreign commerce.

- If all other supply and demand factors remained constant, most forms of private restriction will result in lower overall timber prices. This could be offset by price increases caused by harvest reductions on public lands. The financial burden of the policy selected emanates from price reductions and may rest with the government, the export buyer or the landowner. A ban would remove the export option and most severely reduce prices. Export duties and tax incentives might actually lead to increased export prices for the highest quality timber.
- A private ban would create the greatest reduction in export volumes, but could stimulate property rights litigation.
- An export duty penalizes the export buyer who would conceivably pass at least part of the penalty on to the landowner in the form of reduced bid prices. Success in restricting exports would depend on the level and nature of the duty imposed.
- Tax breaks would restore some of the incentive for timber management to the landowner, but may be difficult to implement.

## Appendix

### Substitution in public export restrictions

The new prohibitions on federal and state exports have indirect impacts on the number of buyers available for private timber through the so-called substitution provisions. Under these regulations, buyers who export private logs from a given area are ineligible to buy public logs within that area. The rules are necessary to prevent loopholes that subvert the intent of the legislation. However, it also effectively forces some buyers to specialize in either private (export) or public sources. Buyers can purchase private logs for domestic mills and still be eligible for public sales; those who are ineligible for public sales can buy private logs for the export or domestic markets. However, a buyer can no longer combine export and public procurement operations in the same area.

Because the majority of timber for domestic processing still comes from public lands, many buyers who use multiple sources and destinations may choose to back out of the export market, thereby reducing the number of buyers (and perhaps bid prices received) for private landowners. Some companies may find that this forced specialization does not give them enough flexibility to maintain viable log purchases. These rules also apply to secondary buyers, so the longer term impact may be to discourage the trading of logs among firms and reduce the incentive to sort logs to their highest markets.

The timber species, grades, and the source (or timbershed) to which the substitution rules apply is critical. Some difference exists between the federal ban, specified in the law and implemented by the U.S. Forest Service and Bureau of Land Management, and the state ban, whose regulations are developed by the state forestry agencies.<sup>(25,26)</sup> At this writing, the states have used the state boundaries. Federal definitions will be made in early 1991. A buyer who exports private Oregon logs might be ineligible for public logs in Oregon but could buy public logs in Washington.

Substitution rules have forced a choice for multistate companies, some of whom have already declared intentions to specialize as mentioned above. Weyerhaeuser Co. has announced that it will no longer export unprocessed logs from its Oregon land holdings, but would continue to export in Washington<sup>(16)</sup>. Weyerhaeuser's decision was guided by the need to supply an old growth mill at Springfield with logs from federal lands and by the fact that the Oregon operations accounted for only 10 per cent of their export volume. Under the old federal substitution rules the company could legally export logs in a smaller area and continue to buy federal logs in the Willamette Valley. This announcement and those by other firms has been claimed a victory by politicians who had helped implement the law. Weyerhaeuser's decision was lamented by the Port of Coos Bay which would lose about 50 MBF (about 15 ship loads) of traffic a year and some ship and dock worker jobs. Weyerhaeuser has further stated that it would probably not sell this volume to local domestic mills at current prices, so there will be a reduction in the logging employment.

## Reading list and citations

1. Baker, J. and Lippke, B. 1990 "Changing forest products export trends and impact of restrictions on log exports." In *Proceeding of the PNW Regional Economic Conference*. April 26-28. University of Washington, Seattle.
2. Carp, T. 1989. "The battle over log exports." *Oregon Business*, May 1989.
3. Corlett, M.L., Sowle, J.A., and J.A. Carr (eds). 1989. *Forest Industries 1989-90 North American Factbook*. Miller Freeman Publications Inc., San Francisco CA.
4. Darr, D.R. 1980. "Softwood log export policy: the key questions." *Journal of Forestry*. March. pp 138-140.
5. Darr, D., R.M. Haynes and D.H. Adams. 1980. *The Impact of the Export and Import of Raw Logs on Domestic Timber Supplies and Prices*. PNW RP-277. Portland, OR.
6. DeFazio, P. 1990 (Sept. 18). H.R. 5651. A bill (introduced in the 101st Congress) to amend the Export Administration Act of 1979 to prohibit the export of unprocessed logs harvested from lands west of 100th meridian.
7. Flora, D.F. and W. J. McGinnis. 1989. "Embargoes on and off: Some effects of ending the export ban of federal logs and halting exports of state-owned logs." *Western Journal of Applied Forestry*. 4(3):77-79.
8. Flora, D.F. 1989. "Timber exports: Winner and losers." Lecture, Oregon State University, Corvallis OR, October 26, 1990.
9. Goldschmidt, N. 1989. "Oregon shines: An economic strategy for the Pacific century." Oregon Economic Development Department, Salem OR.
10. Gruenfeld, J. and R. Flynn. 1990. "Log exports: an update." *American Forests*. Sept/Oct. pp 50-53,74-76.
11. Hamilton, T.E. 1971. "Log export policy: Theory vs. reality." *Journal of Forestry*, Vol. 68, No. 8.
12. Hines, J.A. 1987. *Log export restrictions of the Western States and British Columbia*. U.S. Department of Agriculture, Forest Service, Pacific Northwest Research Station, PNW-GTR-208. Portland, OR.
13. Howard, J.O. and F.R. Ward. 1988. "Oregon's forest products industry: 1985." *Resource Bulletin* PNW-RB-149. U.S. Department of Agriculture, Forestry Service, Pacific Northwest Research Station, Portland OR.
14. Howard, J.O. and F.R. Ward. 1990. *Oregon's Forest Products Industry 1988*. USDA Forest Service Research Paper
15. Johnson, J.A. and W.R. Smith (eds). 1988. *Forest products trade: Market trends and technical developments*. University of Washington Press, Seattle WA.
16. Kadera, J., R. Ulrich, and J. Griffith. 1990. "Weyerhaeuser to halt Oregon log exports." *The Oregonian*, Portland. Wednesday, Nov. 28.
17. Olsen, J. 1988. "Pacific Northwest lumber and wood products: An industry in transition." *National Forests: Policies for the Future*, Vol. 4. The Wilderness Society, Washington D.C.
18. Oregon Legislature. 1983. The log export issue: An analysis by the Joint Legislative Committee on Trade and Economic Development. 1983. Salem, OR.
19. Pacific Rim Trade Association. 1983. Briefing Paper on the Oregon Log Export Controversy.
20. Pacific Northwest Regional Commission. 1974. "Benefits and costs of alternative log export policies," Phase I report by Stanford Research Institute. Volumes I and II.
21. Ramsey, B. 1988. "The logjam over timber exports." *Seattle Post-Intelligencer*. Tuesday, May 31.
22. Robertson, L. 1989. "Log exports: Mortgaging our future?" Four part series, *Eugene Register-Guard* beginning July 9.
23. Shribman, D. 1990. "In Oregon, a little-known challenger believes Sen. Hatfield can't see the forest for the trees." *The Wall Street Journal*, Wednesday, Sept. 26.
24. State of Oregon Measure No. 2, 1989. Official 1989 Special Election Voter's Pamphlet.

25. State of Washington. 1990 Log Export Restrictions, Chapter 240-15 of WAC.
26. State of Oregon. 1990. Proposed Log Export Rules to be part of OAR 629-30. November 20.
27. Thomas, K.R. 1989. "Regulation of timber exports: Legislative options." *Congressional Research Service Report for Congress*. Library of Congress. Nov. 14.
28. U.S. General Accounting Office. 1985. *Potential Impacts of Tighter Forest Service Log Export Restrictions*. Report # GAO/RCED-85-17.
29. Ulrich, A.H. 1988. U.S. "Timber production, trade, consumption, and price statistics 1950-86." U.S. Department of Agriculture, Forestry Service; Demand, Price and Trade Analysis Group, Washington D.C.
30. U.S. Congress. 1990 Customs and Trade Act of 1990 including Public Law 101-382. Title IV Sec 487. Forest Resources Conservation and Shortage Relief Act.
31. Vlasky, R.P., and J. Gruenfeld. 1985. "History of North American West Coast Log Exports and Comment on Future of Log Exports from Alaska." CINTRAFOR reprint. Univ. of Washington, Seattle.
32. Warren, D.D. 1990. "Production, prices, employment, and trade in Northwest forest industries, fourth quarter 1989." Resour. Bull. PNW-RB-174. U.S. Department of Agriculture, Forest Service, Pacific Northwest Research Station, Portland OR.
33. Series entitled "Northwest Forests: The New Era." *The Oregonian*, Dec. 16-21. Portland, OR.

## Discussion Questions

1. Should Oregon continue to export logs? Should log export restrictions from public lands be lifted? Why or why not?
2. Should private lands be included in the log export restrictions? Do you think these restrictions will lower the prices received for timber by private landowners? Which of the three policy options described (ban or quota, export duty, or tax incentive) do you think will best create the intended benefits of restriction with the least disruption of employment patterns, rights, and privileges? Why?
3. The impact on trade and timber prices of a private export ban would certainly be greater than the recently enacted ban on state logs, but the ethical and perhaps legal questions of private property rights would surely be evoked. Do you think that a log export ban is an unacceptable "taking" of landowners' rights? Do you think landowners should be compensated fairly if this policy is chosen? How?
4. Is banning log exports from Oregon an effective way to save our old growth timber resource? Do you think the Japanese are deliberately trying to exploit the state's forest resources? Could the importing nations' need for logs cause increased exploitation of valuable forests elsewhere in the world? What areas of the world would be most vulnerable?
5. Do you think a private export ban will keep forest industry workers employed? What information would you seek in trying to arrive at your conclusions?
6. How are foreign buyers able to pay more for logs than domestic log buyers? What happens to the differential (or export premium)? Who benefits from it? How might this compare with the benefit derived from processing the same logs up in domestic mills? Do you think landowners should be taxed on the export premium?
7. What do you think would be the Japanese reaction to the banning of all log exports from the U.S.? Do you think they will buy the equivalent in lumber from us or will they go elsewhere for additional logs and lumber (e.g. USSR, New Zealand, or Chile) or to wood substitutes such as concrete and steel? Might we endanger our steadily growing share of the Japanese lumber consumption with log export restrictions?
8. How do you think Korea and China will react to an log export ban? Although most of the discussion of export restriction focuses on Japan, it purchases only half the export logs from the Pacific North West. Korea and China buy most of the other half, yet have even less potential for buying lumber and plywood. By prohibiting these two countries from buying logs, we may have problems in finding a big enough international market. Do you think we have focused our export opposition on Japan too much, perhaps out of our experience in World War II, or that Japan most clearly represents a foreign threat to our economic dominance?
9. British Columbia has long prohibited log exports except for some relaxation in the mid-1980s when it had too many logs for its production needs. How might BC react if the U.S. bans log exports? If U.S. prices drop and the BC industry becomes less competitive, might BC decide to send "surplus logs" to Japan to replace the U.S. imports? Might it step up its foreign lumber marketing efforts in anticipation of an American onslaught? Which of the two countries do you think Japan would rather turn to supply its lumber needs?
10. Several PNW companies are trying to import Siberian (USSR) logs that provide the close grain needed for secondary wood products such as window and door moldings. Logs of this quality are rapidly becoming less available from the nearby national forests. This seems to indicate that if we want to preserve old growth timber and the industries that have relied on it, we may have to import logs just as the Japanese do. However, importing logs also could open up our forests to new insect and disease organisms brought in with imported logs.  
Do you think log importing should be encouraged or discouraged? If we restricted our own log exports, which are mainly second growth, but began to import in earnest from Japan's primary alternative source of logs, what kind of reaction might we get from Japan? What implications does this have for the old growth ecosystems of Siberia and the rest of the world?

---

Extension Service, Oregon State University,  
Corvallis, O.E. Smith, director, Produced and distributed  
in furtherance of the Acts of Congress of May 8 and June  
30, 1914. Extension work is a cooperative program of  
Oregon State University, the U.S. Department of Agricul-  
ture, and Oregon counties.

---

Oregon State University Extension Service offers  
educational programs, activities, and materials without  
regard to race, color, national origin, sex, age, or disability  
as required by Title VI of the Civil Rights Act of 1964,  
Title IX of the Education Ammendments of 1972, and  
Section 504 of the Rehabilitation Act of 1973. Oregon State  
University Extension Service is an Equal Opportunity  
Employer.

---



Recycled  
Paper