THE LUMBER EXPORT TRADE OF THE UNITED STATES.

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In recent months the prospect of export trade in lumber and wood products has been discussed with perhaps greater interest than any other question confronting the lumber industry. In all this public discussion there is a singular failure to give consideration to the question of supplies of raw materials. Most of the leading industrial nations of the world -- whether lightly wooded and dependent upon imports or heavily wooded and exporters -- are taking steps to safeguard and develop their timber resources. The United States alone appears to be content to build up a great export trade without considering the ultimate effect upon domestic timber resources and their capacity in the future to supply the home market.

The contrast is clear when one considers how other nations view this situation and its ominous possibilities. New Zealand, for example, passed a law last year restricting the export trade of its native timber in order to safeguard the domestic needs. Switzerland, because of great pressure and high prices for wood products from both the allied and central powers, enacted a law restricting cuttings on private timberlands so as to prevent their exhaustion. Sweden, which is a great timber-exporting country, has a law preventing cutting in excess of annual growth. Norway has adopted a law regulating private cuttings on timberlands. England, as a result of her bitter experience during the war, now has an ambitious plan for planting some 1,700,000 acres and providing a forest area sufficient to sustain her domestic needs, in case of emergency, for three years. France is planning to husband her remaining forests even more carefully than she did before and is already enlarging her forest nurseries for extensive forest plantations. Even Russia, whose enormous forest wealth
is bound to play a prominent part in her economic rehabilitation, planned provision for the replacement of timber cut under concession. Though the timber exporting countries are preparing to enter the new markets which reconstruction will create in the war devastated regions, practically all of them except the United States realize that to follow such a policy blindly may involve sacrifice of their future well-being. They, therefore, propose to safeguard the continuance of their timber resources and protect their capacity for production to meet, perhaps, an even greater demand in the future.

At present there is an emergency need in Europe for large quantities of lumber for reconstruction. The depletion of Europe’s forests during the war and the setback to industrial conditions in the European wood-exporting countries should bring about a demand for larger amounts of American lumber. The quantities required are not so great as many persons have believed, but they are large enough to have a marked effect on the export problems and policies of the countries that will be called upon to supply them. It is a conservative estimate that for increasing housing facilities and other purposes 2,000,000,000 feet of lumber more than it ordinarily uses; France, about a billion and a half or more; Italy, one and three-fifths billion; Belgium, three-fourths of a billion; and Spain, about three-fourths of a billion.

Whether the European countries can actually import these quantities and how much may be contributed by the United States depends on a variety of circumstances. We must, of course, bear in mind the present financial situation in European countries. There will be a question regarding the wisdom of increasing the debt to the United States any more than is necessary, because of the effect on exchange. Europe needs lumber, but above all cheap lumber; and the prices of American lumber, coupled with heavy freight charges, do not make our product attractive
for the principal needs of reconstruction. Europe will doubtless use stone, brick, and cement as far as she can; and will seek to utilize with great economy whatever lumber is obtainable at home. The European nations will salvage the material now in temporary structures; they will use stocks on hand, which in the case of certain species like gum, whitewood, walnut, and spruce, are considerable; they will use the accumulated stocks said to exist in Finland and the White Sea ports. They will call upon stocks contracted for in this and other countries before the war but never delivered. If Germany is required to replace certain quantities as a reparation measure, an additional source of raw material is offered. And the well-forested countries of Norway and Sweden will be called upon to produce lumber to the limit of their powers and public policy.

Aside from the question of the emergency needs of Europe in reconstruction, the world situation in lumber offers an undoubted opportunity for a permanent export trade from this country of proportions that would seem to be limited only by our own powers to sustain the production of raw material. The prewar deficiency in wood which was supplied the nations of western Europe by Russia, the United States, Canada, Sweden, Austria-Hungary, and a few others, amounted to about 16,000,000,000 board feet per year, and represented a value of close to $600,000,000. This deficiency, because of the tendencies toward industrialization, will become greater as time goes on. The leading countries of Europe must continue to be large importers of timber; the domestic timber capital of Great Britain, France, Italy, Germany, Belgium, Holland, Switzerland, and other countries in Europe which do not grow sufficient timber to supply their entire domestic needs has been still further reduced by the wastage of the war period.
In Europe only Russia, Finland, and Sweden can increase their timber exports without lessening their forest capital. These countries and -- in spite of their declining supply -- Norway and the southeastern States formerly comprised in Austria-Hungary will be the chief international competitors for the foreign markets, particularly in softwoods. Of the other parts of the world still possessing vast timber areas most are lagging in development and their forest resources remain largely inaccessible and do not contain the common softwoods, the chief staple timber product of international trade. As a matter of fact the Central and South American countries are now dependent upon importations from Canada, the United States, and Sweden for most of their softwoods. Although in time they may develop their own forest resources to cover their domestic needs they will not for many years if ever become large exporters of timber of kinds suitable for the wood-using industries of Europe. Africa, in spite of large bodies of tropical forests, does not supply its own needs. Both South Africa and Egypt are large importers.

China is becoming an increasingly large importer of timber. Because of the lack of any large Chinese supplies, the impending industrial development of China, which now seems assured, will necessarily call for large importations of timber, the logical sources of which are Siberia and the United States. Japan can do little more than supply her own needs.

Australia depends upon the importation of softwood timber from the United States and Canada, and will probably never become a factor in export trade. New Zealand has recently been reported to need a larger importation of Douglas fir and hardwoods. The prices of ordinary building material in New Zealand have so greatly increased during the past few years that the Dominion Builders' Federation has submitted data to the Dominion
Board of Trade and Minister of Forestry with a view to the fixing of prices and the strict enforcement of regulations governing exports for the purpose of conserving the domestic timber supplies for home consumption.

It is, of course, to be expected that exports of softwoods from this country will meet with the keenest competition from the exports from Russia, Finland, Sweden, Norway, and the States of Southeastern Europe -- Bosnia, and other small countries -- as soon as they are on their feet industrially. These countries will often have the advantage of proximity, cheap freights, better knowledge of the trade customs, and probably cheaper, though inferior, lumber. In the past our export trade has been made up largely of very valuable grades and species; although second to Russia's export in volume, it was higher in value. This was due not only to the fact that the bulk of our export trade was in sawed lumber, but also to the large proportion in it of the valuable grades and species -- the cream of our virgin forests. Nature took centuries to produce these kinds of lumber, and we can not expect to grow them any more.

Our hardwoods will be less subject to competition in the foreign markets. The United States has unquestionably the most valuable hardwood trees of any temperate region in the world. It is, with the possible exception of the Carpathian region of eastern Europe, the largest source of temperate zone hardwoods. Such species as hickory, black walnut, yellow poplar, American white oak, and red oak are known all over the world. These species have found a ready market even in such countries as Sweden and Russia, themselves large exporters of softwood timber. The extent to which they can be exported will be limited only by the available supply and the facilities for production and shipment.
In a recent study entitled, "Some Public and Economic Aspects of the lumber Industry," Mr. William P. Greeley, Asst. Forester of the United States, has pointed out that with the gradual slowing up of the process of settling the fertile tracts of the country and the increasing use of substitutes, the demand for lumber since 1907 not only has ceased to advance but has fallen off from some 46,000,000,000 feet in that high-water year to less than 40,000,000,000 feet. This eventuality was evidently not discounted by the industry, if its condition before the recent house, factory, and shipbuilding boom can be taken as an index. Not only had plant capacity been increased far beyond the domestic market requirements but timber holdings far beyond the needs of the immediate future had been acquired, partly for speculative purposes. Furthermore, many mills and much timber had been mortgaged, the bonded debt of the industry as a whole running into tens of millions. In order to meet maturing obligations of interest, amortization charges, taxes, etc., many operators were forced to liquidate their timber almost regardless of price and the state of the market, and produced only the upper grades of lumber in order to obtain any profit at all. In many sections sawmill operators contracted to cut parcels of timber within a specified time, timber left on the tract at the expiration of the time limit to be forfeited to the owners of the land. It often happened thus that the operator threw the lumber on the market at any price to avoid a greater loss, thereby causing a general decline of prices throughout his section. To meet his competition, other manufacturers had to cut prices and, to operate at a profit, they also utilized only the best material in the tree, leaving millions of feet of the lower grades in the woods. It has been estimated that in this country only about 40 per
cent of the tree is marketed, while in Germany, for instance, 96 per cent of the felled tree is utilized. The same wasteful methods were practiced in the mills, in the dry kilns, and in merchandising.

Efforts have been made from time to time to combine lumbermen as producers in other lines of activity have consolidated their interests, but owing to the great number of owners of the 49,000 sawmills and the immense reserves of timber greatly in excess of the immediate demand, together with the ease with which a small mill could be installed, such attempts to regulate and raise or even stabilize the prices have not been successful. This lack of cooperation has combined with the heavy bonded debt of the industry to render it unable to adapt itself consistently or effectively to the changed conditions of the last 30 years in the world lumber market. Unrestricted competition necessarily resulted in periods of prolonged depression, which in an industry already handicapped by overexpansion resulted in turn in hundreds of mills curtailing or ceasing operations. As soon as a slight upturn in prices occurred, these mills, perhaps in other hands and less encumbered, would resume operations and sometimes increase production, so that the market was again flooded with cheap lumber. The fluctuating course of mill prices over a period of years—more fluctuating, perhaps, for so long a period than prices in any other important industry—stands as testimony to the conditions that have been described.

Lumber stock that could not be sold on the domestic market at any price was offered for export, and the low prices accepted for lumber at the export points are illustrative of the necessity that forces the sales. It is a mistake, however, to picture the industry as a whole as active in merchandising for export even the surplus stock unsalable at home. The initiative came from the foreign buyers, who attracted by the bargain prices at which even the highest grades could be purchased,
sent their ships to American ports and bought for cash at the lowest
f. o. b. or even mill prices. The manufacturers, stimulated into keener
competition, sold at the buyers' prices and took no interest in the
future adventures of their products. A few mills, favorably situated
for export, have specialized in cutting export stock and have paid more
attention to a permanent export trade. Some mills that had succeeded
through many years of persistent work in establishing a fairly satis-
factory market abroad have been constantly handicapped in their efforts
by the indiscriminate dumping of other mills into their territory when-
ever conditions seemed favorable. On the whole, the lumber export mar-
ket has been a buyers' market quite as much as has the domestic market.

In the past the American lumberman has devoted most of his energy
to overcoming the physical obstacles of his business. He has been an
efficient logging engineer and an ingenious sawmill operator, but he
has consistently neglected the marketing of his product. His hope of
salvation from the continuing results of this neglect has been the in-
creasing scarcity and the rising price of accessible stumpage. Instead
of assigning the selling to a staff of experts who specialized in that
field, he has usually undertaken to handle it himself. This policy may
often bring misfortune even in the domestic market, but it is nothing
less than disastrous in dealing with foreign countries, where conditions
are strange and call for careful study and experience. If unsuccessful
in a first unconsidered attempt to export direct rather than through
a middleman, a manufacturer is frequently led to believe that there is
nothing in the export business but the trouble. Yet one of the most
successful American lumber exporters recently said, "There is less
trouble with one cargo for export than with three carloads for the
domestic market, and the prices are generally better than those obtained
at home." The lack of merchandising system, the ignorance of the con-
ditions in foreign markets, and the expensive methods employed account in large part for the small percentage of lumber exported and the low prices as a rule obtained for it, considering its comparative value to the foreign user. When the timber owners and lumbermen of this country thoroughly appreciate the superiority of American lumber to foreign species they can scarcely fail to realize the advantage of an organized export marketing system and the necessity of taking greater care of the country's forest resources. It is even more desirable that the producers should obtain the full value of their exported products in competition with the inferior goods of foreign countries and in the face of powerful buying syndicates than that they should simply continue to increase their exports under the prevailing methods.

The last few years have witnessed the beginning of a reconstruction in the lumber business. Many small mills have been forced out of the industry by the long periods of depression, and huge mills have been built to manufacture in quantity at low unit cost. The smaller and more accessible timber tracts have been cut out. Stumpage has accumulated in fewer and stronger hands, and a more consistent sales policy has consequently been adopted. Mr. Greeley, of the Forest Service, says in the publication before mentioned, "Notwithstanding the acute character of many of the difficulties of the industry the very facing of them is of undoubted benefit to the lumber industry and an experience which sooner or later it was bound to undergo. It is forcing the industry to shake itself together, to eliminate its unsoundness, and to improve it's service to the public."

At the early stage of the exportation of lumber from this country the large export mills frequently operated their own sailing vessels and were thus brought into direct contact with the importers in foreign countries. With the advent of steamships, the number of mill-owned sailing vessels decreased every year. A steamer cargo is generally con-
siderably larger than that of a sailing vessel, requires a quicker dispatch, and involves heavy charges for demurrage. A steamer cargo frequently had to be split between two or more mills, and it became necessary to have a middleman who could bunch several orders to make up a cargo and attend to the details of clearing the steamer. It is mainly since steamers were used in carrying lumber cargoes that the export middleman have had a strong foothold in the American lumber export trade. Some mills are exporting their products direct to foreign countries, but by far the greater part of the American lumber export trade passes through the hands of export middlemen.

The sawmill operators cutting for export generally realize that it is necessary to maintain a special sales force to handle the export business satisfactorily. Very few of them, however, are able to go to the expense of maintaining such a selling force and call upon the export middleman to take the lumber destined for export off their hands. There are two classes of export middlemen in this country—the export agent and the export merchant. The export agent buys and sells lumber on a commission basis, and the export merchant buys the lumber outright from various mills and operates as an independent exporter. These middlemen are found in all lumber-exporting districts, but they are especially numerous on the Gulf and Pacific coasts. Their success is dependent upon a thorough knowledge of local conditions in the districts where they operate. They must be in constant personal touch with the various mills. They must know the characteristic qualities of the timber in the various sections of the country and have an intimate knowledge of the grades and quality of lumber turned out by the different mills. Only with such knowledge in hand are they in a position to place their orders to the best advantage. In case of obtaining an order containing a difficult specification they must know what mills would be in a position to fill it satisfactorily.
The export middlemen are generally called upon to submit an offer including the cost of the lumber at the port of loading, ocean freight to its destination, and insurance. In obtaining freight space they may either approach a ship broker or communicate direct with a shipping concern operating regular liners to the importing country. However, the lack of direct shipping facilities from this country to foreign countries has greatly handicapped the lumber export trade. Many times, upon submitting a quotation, the middleman takes a chance on obtaining the freight space when the order is placed. If the market should go up in the meantime, he may have to face a heavy loss, and he may not be able to secure the necessary tonnage at all.

However, if the middlemen operate near ports with direct steamship connections with foreign countries, they are often in a better position to secure occasional cheap rates to complete a cargo than a sawmill operator not in constant touch with the freight market. In some cases the middleman charters his own steamers, and it has been contended that during the last few years more money has been made by them in this way than by selling lumber. Since the war broke out the obtaining of orders from abroad has merely been a question of ability to supply tonnage and not a difference of a few dollars per 1,000 feet as in previous years.

The export agent is a commission man between the exporter in the producing country and the foreign importer, or even between the domestic export merchant and the trading company. In some instances, he is really a manufacturer's agent, selling and buying lumber on a commission basis. These agents are found in all the coast cities of the United States thru which lumber is exported. They sometimes operate direct with the importers and sometimes thru one or several foreign brokers. Their main asset is the local knowledge that they must possess in order to buy as cheap as possible, because competition is strong. Upon receiving an order the export agent communicates with his mill connections and often divides
an order among various mills where he can buy cheapest. He then assem-
bles the cargo in a convenient port or instructs the ship to pick up the
cargo lots at various ports. In many sections the agent has his own in-
spectors pass on the grades shipped.

The financial arrangement between the export agent and his broker
connection varies a great deal but generally stipulates the division of
the commission obtained or the payment of a fixed amount per 1,000 feet.
The export agent sometimes obtains a commission both from the mills and
from the purchaser—usually 2½% from each party, but sometimes less. In
other cases the importer pays the whole commission. Sometimes one or sev-
eral competing mills may appoint an export agent to handle their total
export business on a commission basis. The agent arranges for tonnage,
clearing the vessel, and insurance. The freight problem frequently leads
to speculation, and many agents charter their own steamers for speculative
purposes.

On the Pacific coast several strong firms of export agents are
found, mainly in San Francisco. They often maintain branch offices in
several of the important shipping ports on the coast to enable them to
keep in close touch with the mills and to attend to the loading and in-
spection of cargoes. Some of these agents have developed a very ex-
tensive business and many operate their own steamer.

While the export agent sells and buys lumber on a commission basis
the export merchant stands for the importer as an independent exporter,
in his own name. These export merchants are strongly intrenched on the
Gulf coast, where numbers of firms are found in the various shipping
ports. Naturally a thorough knowledge of local conditions is essential
in this business, which is almost entirely limited to buying and shipping.
Direct exporting is more frequent on the Pacific coast, but on the Gulf
cost very little business is done direct with foreign importers.
The export merchant generally makes arrangements with one of more foreign brokers to represent them in the various countries, and they look to these brokers for their orders. Unless the importer supplies his own tonnage, the export merchant is generally called upon to quote c.i.f. prices. Many times he takes a chance on obtaining both lumber and tonnage when the order is actually placed with him. The export merchant is the executor of the order and the broker the salesman who actually controls the business. The terms between them vary considerably, but the commission charged by the broker on all orders booked through him is generally 4 to 7 percent, including his guaranty for the payment of all accounts that he initiates. If any amounts are advanced by the broker to the export merchant, 6 per cent interest is usually charged. Provision is sometimes made to reimburse the broker for expenses of postage and telegrams, and sometimes these expenses are equally divided between exporter and broker. The broker sometimes acts as the export merchants representative in cases of dispute regarding the quality of the lumber shipped.

The broker seldom places any restrictions upon the export merchant regarding the source of supply and allows him considerable latitude in filing the orders where he can buy cheapest. To specify the product of individual mills is not the custom unless the product is branded or otherwise capable of being identified. Softwood in this country exported in any considerable quantities are generally not branded and it is practically impossible for the importer to know whether an order to supply lumber from certain sections has been carried out or not. In many cases such provisions are based on prejudice and are sometimes completely disregarded on this side. Hardwoods, on the other hand, are generally trademarked when intended for export. In some cases the export merchant brands the lumber he exports with his own brand and institutes new
grades based on some association rules but not always coinciding with
them. As long as he can maintain the standard of these grades he may
be very successful, but such constancy is not the rule. The lumber is
bought from various sections and may include lots differing to a con-
siderable extent in quality. In case of subsequent orders it may be
difficult to duplicate the grade that was shipped before and trouble
often ensues.

When the export merchant obtains an order through his broker he
sends out bids to his various mill connections. Upon receiving their
quotations he selects the most favorable offers, the advantage being
as a rule a matter of price. He makes up the cargo by buying from one
or from several mills. It will readily be seen that the export mer-
chant can often buy at very low prices because he is in a position to
approach many different parties engaged in competition, unorganized,
and often glad to resort to dumping of certain percentages of their out-
put which the domestic market is then incapable of consuming and which
they stipulate shall not come back on the domestic market.

In obtaining lumber supplies the export merchant employs two methods.
He either buys outright from the mills or speculates by contracting for
the output of a mill during a certain period. It is evident that the
export merchant's profit is entirely dependent upon his abilities as a
buyer and his knowledge of conditions at the different mills. When the
outlook for future business is bright or the export merchant has many
orders on his hands he may contract for the entire output on one or more
sawmills. He may either offer a fixed price for the output log run
or he may state a price for each grade separately based on some associ-
atations rules. The export merchant has his own inspector at the mill
supervising the grading. If the market declines, these export merchants
naturally are not so interested in taking the lumber and under these
circumstances their inspectors sometimes become unreasonable in their demands. On the other hand, if the market goes up, the mill may become dissatisfied and try to make a difficulty in inspection, with a view to inducing the export merchant to take as little as possible, because the mill can place the goods to advantage elsewhere.

Contracting for the output of a mill is often a hazardous undertaking, because if orders cease to come in the export agent has to store the lumber for which he has contracted. Storage involves a heavy expense, and if the export merchant lacks the necessary funds to hold the lumber in the yards until more favorable conditions present themselves, he is forced to dump his stock either on the foreign or on the domestic market.

Through special arrangements made with the local banks, the export merchant usually pays cash for the lumber he buys. Sometimes, especially with hardwood shipments, he may arrange for a short-term credit through the foreign broker or may pay the mill a certain percentage, say, 75 to 85 percent cash, and settle the balance after full payment for the cargo has been made by the importer on the other side.

The conduct of such a middleman's business does not generally necessitate any large capital, mainly because these middlemen can arrange with their banks to discount the drafts that they draw either on their customers or on their brokers in foreign countries.

Sawmill operators or export merchants frequently desire to dispose of their stock without waiting for orders to come in. They therefore establish connections with a concern in some foreign port where they plan to ship their goods from time to time, and call upon this correspondent to advise them as to the prospects for consigning their stock. Upon advice from him the consignors ship their lumber, which is taken care of upon its arrival by the firm acting as consignee. It is customary for the consignee to guarantee the sale within six months of lumber
consigned to him. Consignments from this country are often delayed several weeks in transit, and the market may change considerably while the goods are en route. If the market is good, the cargo may be sold while in transit or the consignee may succeed in disposing of it at a profit as soon as it is received; but as a rule conditions are not so favorable. The time of arrival may not be the proper time to dispose of the cargo. Odd sizes are frequently consigned and also small lots left over from previous shipments; and these sizes may not be in demand. Many other conditions may direct the consignor to have his lumber stored by the consignee. The latter often possesses large yards for this purpose, with docks and facilities for handling lumber cargoes. If the lumber is kept for some time in storage, the charges of handling, storage, insurance, etc., may not only entirely consume the expected profit but may result in a direct loss. Moreover, lumber in storage always has a depressing effect on the market.

The consignment business is confined almost entirely to hardwoods. Consignments are made chiefly to the principal European ports, such as London, Liverpool, Hamburg, Rotterdam, and Antwerp. Buyers from other countries frequently visit these cities and have the lumber transshipped.

The commission generally charged for disposing of a cargo sent on consignment is 1½ per cent plus 1½ per cent del credere, in addition to charges for storage, handling, etc. Many consignors call upon the consignee to advance them money on the lumber consigned, and the interest charged is generally about 6 per cent. More than 60 per cent of the value of the lumber is seldom advanced unless there is a certainty of selling the goods in the near future at favorable prices. The consignor calls upon his local bank to discount his draft on the consignee, which is then turned over to a bank in the place where the consignee operates. The lumber may be sold by the consignee in small parcels, and payment is made
by the consignee to his bank as the amounts of these parcels are paid. If the bank in the foreign country turns over the whole consignment to the consignee, arrangements are made whereby the bank takes a chattel mortgage on the consignment. The bank may also arrange to receive payment as the lumber is sold. For further protection the bank always makes certain provisions regarding insurance when the lumber is held in storage.

To consign a cargo without knowledge of market conditions, etc, is a most primitive method of selling lumber, which can not yield a profit in the long run. It is customary with the European brokers dealing in hardwoods to send out among their exporters in the U. S. and other countries a market report showing the demand for the various species of hardwoods, the arrivals of cargoes, and other details of the market. In some cases they may encourage the sending of shipments on consignment, because at the time that the report was issued the outlook for the disposal of such stock seemed favorable. These reports are received by many exporters, who prepare to follow the broker's advice and make up shipments as fast as possible. The exporters who are in a position to make immediate shipment will be benefited by the market, but shippers who are unable to place their goods on the market for three or four months after the arrival of the market reports may find that conditions have changed so much that they will have to store their shipment or sell at a sacrifice. It must also be borne in mind that when the demand is brisk the inspection on the other side is likely to be easy, but if the market is glutted the buyers are more exacting in their demands.

Lumber shipped on consignment and not moved promptly is frequently sold at auction, and in several of the principal ports in Europe there
are firms that specialize in auction sales of lumber. London, Liverpool, and Hamburg are the principal cities where such transactions are carried on and important organizations are splendidly equipped with yards, docks, etc., to transact such business. From time to time printed circulars are distributed among thousands of prospective buyers, containing detailed descriptions of the different parcels for sale. The auction sales are also advertised through the trade papers. At these sales lumber merchants from the whole country and neighboring countries gather to supply their demands. They bid either direct or thru a broker. The commission is generally 1¼ to 1½ per cent, and in addition a small charge is assessed against each purchaser to cover the cost of printing catalogues, postage, etc. The auctioneer undertakes to collect the amount. Cost of storage and handling is charged to the original owner. Auction sales are confined mostly to hardwoods and have many advantages. The purchaser may personally inspect the goods before bidding and therefore has no ground for claims. The charges for such services are considered moderate and auction sales of hardwoods have become a permanent institution in Europe.

Direct exporting is carried on to a greater extent by foreign countries than it is by the U. S. But while the great bulk of lumber exported from the U. S. has moved through the various importing and exporting agencies described, there has been a growing tendency for the larger saw-mill companies favorably situated on the water to do business direct with the foreign importer or his broker, especially since the outbreak of the war. A few of the softwood mills have even made the adaptations of their plant necessary for specializing in dimensions and sized favored in the foreign markets. Until a mill did a large and continuous foreign business the profits of the trade have been left largely to the middleman. With the steadily increasing and concentrated demands from abroad, the export mill has now found it profitable to pay greater
attention to its foreign customers.

Direct exporting, if conducted properly, is the ideal way of doing business. Firms doing a direct export business in this country generally are mills of good financial standing with a large output, able to guarantee delivery at specified time. Unfortunately American exporters do not have the same facilities for extending credit and for obtaining credit information through American banks as have other countries, and the American export manufacturer therefore alomost invariably demands cash against documents, often before the cargo leaves port. If the importer accedes to such terms, he must have absolute confidence in the exporter. Direct exporting offers the mills many advantages, especially by enabling them to exercise better control of their business. The commission charged by one or more middlemen is eliminated and also the danger of having the grades tampered with.

Some American mills have taken steps to establish branch offices abroad to take charge of the selling and distribution of cargoes. Such steps are taken only after thorough investigation in the countries where they desire to operate, special attention being paid to the consuming power of the country, competition from other countries, the expense of developing the trade, and credit extension. The advantages that such an arrangement offers the mill are apparent. The branch office is in constant touch with the importers and the market and can supervise the unloading of cargoes and the settling of controversies arising from defective shipments. It is also in a position to place the lumber to the best advantage, to report whether or not the grades shipped satisfy the requirements, and to offer suggestions for improvement. Further, the exporter can obtain credit information direct through his branch office without using middlemen. In case of arrival of defective shipments the branch may take charge of them, and place the lumber on the market when conditions seem favorable. Without such representation on the spot,
the exporter many times is willing to accept any kind of settlement because he is at the mercy of the importer.

By elimination of middlemen the chances of misinterpretation of importers' instructions are greatly reduced. The brokers handle many different species and do not try to push any of them to the exclusion of others. By taking charge of the foreign sales themselves the mills would be in a position to push their own products more vigorously than if they were handled by brokers. For the mills to be represented through branch offices abroad has a strong moral effect upon the foreign importers. It gives the impression that the lumber manufacturer is a responsible person who has come to stay and who is willing to facilitate the setting of claims on the spot through his own representative.

Branches in foreign countries have been maintained for many years by Scandinavian forest owners and sawmill operators, who have control-interest in large selling and importing organizations in various countries. They have also founded deposits of lumber at the various seaports and wholesale and retail yard systems with woodworking establishments, and they own ships, etc., managed and operated by Scandinavians. In some cases these firms handle species of wood not in direct competition with wood from their forests. The business developed by these concerns is vary large and has been a great factor in the extension of markets for Scandinavian forest products abroad through the extended uses for their lumber. The lumber sold is nearly always branded. Some of these concerns bunch their orders for lumber, freights, supplies, etc., and can obtain better prices than smaller concerns. As a rule these branches have headquarters in Scandinavia, which attend to shipping the lumber and chartering ships.

With the keener competition in the export trade, the reduction of selling expenses plays an important part in securing orders. Some ex-
Export mills have combined to sell their output through a joint agency and to separate the selling from the manufacturing of lumber in order to increase the efficiency of both production and marketing. Here and there a mill would form a separate selling organization to dispose of its entire output. Where the business developed beyond the capacity of the mill to fill, lumber was bought from outside mills producing approximately the same class of lumber. This situation in several localities developed into an amalgamation of such groups of sawmill operators, each bearing a proportionate share of the expense of the selling agency.

In certain sections, several mills located in the same territory and producing the same class of lumber have made arrangements with export merchants to handle their combined output. Such arrangements have been beneficial to these mills through their increased ability to take care of important orders that one mill would have found it difficult to execute alone, and through the elimination of a certain amount of competition among the exporting agencies.

The group of mills selling for export trade through a single agency has had thus far little effect in eliminating cutthroat competition among the mills and has perhaps even intensified the struggle between the groups and the individual outside mills to dispose of their cut. Consequently, plans are under way in all the important lumber sections to form gigantic selling companies to handle as much as can be controlled of the exported products of entire producing regions.

There has been some difference of opinion as to whether the provisions of the antitrust law would apply to combinations for the export trade. This uncertainty in some cases has prevented the active operation of such "combines" and in others has deterred exporters from joining export selling companies.
Two lumber export organizations are in operation at present, both on the Pacific coast. The Douglas Fir Exploitation & Export Co. was incorporated in San Francisco, Cal., to handle the lumber export trade and to exploit foreign markets, chiefly for Douglas fir. This company began operations in November, 1916, and acts as sole representative for export trade for nearly all the shippers of Douglas fir on the Pacific coast. The company allot orders received to the different mills in proportion to their capacity, as mutually agreed upon by the mills, and does this business on a commission basis. Payment is guaranteed within 10 days after the receipt of the complete shipping documents from the shippers. The shippers are the stockholders in the company, it is understood, intends not to exclude the services of the various middlemen but to cooperate with them when such cooperation will be mutually advantageous.

The success of the company depended largely upon getting a sufficient number of mills interested in its formation to give it their sole representation for export business and thus make it difficult for outsiders to compete. The company has already taken steps toward direct soliciting of orders from abroad and has representatives in the foreign field to attend to its business.

The Redwood Export Co. was formed in 1918 by manufacturers of California redwood controlling about 80 per cent of the total quantity exported. This company acts as a selling agency for the exporters. It also makes sales for outside companies on a commission basis (1% per cent). Orders to the members are distributed according to agreed proportions. The profits of the company are used partly in the development of foreign markets. Since its formation the exports of redwood have increased materially. The principal advantages derived from the combination are the ability to fill orders promptly and the stabilizing
of prices -- factors that have induced foreign merchants to carry large
stocks. Extensive propaganda work has been carried on in several
countries with great success, especially in Australia and Argentina.

**LUMBER IMPORTING METHODS.**

Situated between the great lumber-producing and lumber-using
countries of Europe, the Netherlands was once the leading country in
the international lumber trade, but centuries ago the supremacy passed
to the United Kingdom. For many years the United Kingdom has been
the greatest import lumber center of the world. The important trade
created by domestic needs has been supplemented by the export-import
trade of Great Britain's many rich colonies, and this natural founda-
tion, joined to the facilities of the British merchant marine and Brit-
ish financial power, has created and maintained the great English
lumber and timber brokerage firms that have come to conduct a world-wide
export and import business.

Especially in the United Kingdom, almost all lumber importation
is done through broker. Even the Government, important industrial
enterprises, and railroad companies place their orders through these
middlesmen. The British brokers, as a result of their extensive national
trade, have been able to divert considerable business from direct
channels between other importing and exporting countries and to build
up a valuable clientele in Continental Europe. Through their agency,
the Baltic pine and spruce of Scandinavia and Finland and the Baltic
and White Sea ports of Russia reach the English wholesaler, and through
them the teak of Siam and the tropical hardwoods of the African west
cost are distributed over Europe. Their chartered ships bring Cir-
assian walnut from Turkestan and Persia, rosewood and mahogany from
central and South America, eucalyptus, kaure, and jarrah from Australia
greenheart from British Guiana, and the pines fire, redwood, cypress,
spruce, and hardwoods form the U. S. and Canada. Thus the bulk of
the world's international lumber trade passes through Liverpool and
London and pays its toll to the British broker. By far the greater
part of the lumber trade across the seas uses British money quo-
tations and British cubic-foot measurements. Because England is a free-
trade country, the quotations prevailing there are generally taken as
a basis for the lumber market.

The more important brokerage firms, often of several partners,
handle considerable capital in carrying on their business with connec-
tions in practically every country of the world. Besides the capital
invested in their business, they generally enjoy extensive credit grant-
ed by British banks, which enables them to have millions of dollars
worth of business on their hands at one time. Several of the largest
firms have controlling interests in foreign forests, sawmills, export-
ing agencies, ships, etc. They establish connections with one or more
export agents or export merchants in foreign countries, and also direct
with the sawmills. They may obtain the sole representation for a certain
territory of the United Kingdom, the entire United Kingdom, the United
Kingdom and colonies, or even for the entire output of the exporter's
mill wherever they may choose to sell it. The brokers exercise great
influence, and their importance should not be underrated. Their fin-
ancial resources at least are generally considerably greater than
those of the export agents and export merchants in the United States.

Sometimes the brokers specialize only in handling one species of
wood, but as a rule they handle various kinds through different de-
partments. The same broker might represent one or more exporters of
Scandinavian and Russian pine and spruce, American and Canadian hard
and soft woods, Australian and Asiatic hardwoods, etc. This variety
of woods handled places him in a position to take care of almost any kind of order. Some of these brokers are engaged in the consignment business.

These brokers operate exclusively on a commission basis. The charges vary considerably, according to the special arrangements for each firm. A commission of 4 to 8 per cent is generally charged the American exporter. This commission includes broker's charges for guaranteeing the payment of the accounts relative to the business that he initiates. If any arrangement has been made between exporter and broker regarding an advance on the sales made by the broker for the exporters account, the broker charges 2 per cent discount. If the broker secures orders from a distant country, a higher commission is paid by the exporter. For European business outside of the United Kingdom, an additional 1 per cent is often paid by the exporter. In some cases the broker's expenses for postage and telegrams are either paid by the exporter or divided between the exporter and the broker.

The commission charged Scandinavian exporters is generally less than that which American exporters pay, mainly because the different mills in Scandinavia have more established markets and cause the broker less expense and work in disposing of their stock.

The more important broker firms have established connections or branches in various countries. In this manner the brokers are able to comb the territory and to keep in close touch with the importers. The broker generally splits his commission with his correspondents, or sub-agents, as they are called. These subagents receive specifications from the various importers in their territory and transmit them to the broker, together with credit information regarding the importers concerned, and other information relative to competition, etc. The broker cables his connections among the various exporters in the countries
where the order may be filled. Upon receiving quotations he submits
them to the importer through the subagent. When an order is placed
with the lowest-bidding American exporter, the latter draws on the
broker for 75 per cent of the net amount of the invoice, depending
upon previous arrangement. This draft is sent to the broker through
the exporter's demands for cash payment if they did not have the ade-
quate support from their banking connections.

The broker frequently extends credit to the English and Conti-
nental importer -- generally for four months or longer -- but gives him
the option of cash payment, less 2 percent. In case of extending
credit, the broker, as a rule, draws on the importer and discounts the
draft in the great London discount market. He has all facilities for
ascertaining the standing of his customers through his representatives
and banking connections. Besides, the more important lumber importers
in the European countries are well established and pursue more conserva-
tive business methods than elsewhere. This fact lessens the risk
of losses through credit extensions, if the broker should prefer to carry
them himself.

In cases if keen competition among various brokers, the importer
frequently calls upon the broker who succeeds in obtaining the business
to guarantee the exact execution of the contract. In other cases, the
importer calls upon both the broker and his representative. With a per-
sonal guaranty form one of these parties, or from both, the importer,
in case of defective shipment, can immediately hold them responsible.
This procedure in many cases is considerably safer and cheaper that
to look for final settlement form the exporter in a distant country.
As a rule, competition is keen among the brokers and no compensation
is paid by the importers for such services.
In a few markets where American lumber is sold, some brokers have registered their own brand and demand that all lumber shipped through them be branded with this special trade-mark. Frequently the broker does not look with favor upon branded lumber (exporter's brand) unless he has a permanent connection with the exporter. So many specifications might call for this or that brand, if the standards were kept up, that the exporter would be disposed to take steps toward selling direct to the exclusion of the broker or to arrange for better terms elsewhere. This contingency is sometimes prevented by branding the lumber with the broker's own registered trade-mark.

Scandinavian lumber handled by the foreign brokers, as a rule, is branded and has been handled by the same brokers for a number of years. The standard of grades, however, is kept up carefully. This has created a permanent market for particular brands and lessened the cost of selling, thereby enabling the exporters to secure better terms from the brokers.

A number of European brokers have established direct connections with American sawmill operators, generally on the same terms as those in effect between the broker and export merchant.

The advantages offered by the broker to the exporter are chiefly that the broker has obtained a clientele of importers through years of persistent work, knows the conditions on the other side, and is also in a position to finance the business. He is frequently called upon to settle controversies between importer and exporter on account of deficient grades, etc., and understands the position of both parties concerned. He also bunches orders to make up a full cargo divided among various importers. Through his banking connections he is able to arrange credit for the importer and advance cash payment on cargoes to the exporters at a lower rate than it is possible to transact such
business in this country, where interest has been 1 per cent and more above the European rate. He knows his customers; his representatives visit them regularly. He is also in a position to guarantee the proper execution of the contracts that he arranges, and this gives the importer the necessary confidence in the proper fulfillment of the contract.

The commission charged by the London and Liverpool brokers may not seem large in any individual case, but the volume of business transacted in the course of a year rolls up a noteworthy aggregate in commissions. It has been stated that the brokers collect about $1,000,000 annually in commissions on lumber and timber exported from this country to the United Kingdom alone.

In Germany, the Netherlands, Belgium, France, Italy, Spain, and other countries there are important brokers, but their combined business would probably not compare in volume with that of a comparatively few British brokers. Moreover, the British brokers often operate in close connection with these Continental brokers, who in many cases may be considered as their representatives or partners.

In Germany the principal brokers are located in Hamburg and Bremen both of which have free ports. From these trade centers the lumber is distributed to the most remote parts of Germany through the excellent systems of canals and railways. The hardwood trade is practically in the hands of a very few concerns operating storage yards with facilities for handling lumber cargoes. The German brokers do not restrict their activities to their own country. The neighboring countries, such as Switzerland, Austria-Hungary, and the Scandinavian countries, besides German colonies and the south European countries, are canvassed by these brokers, who frequently reconsign cargoes in parcel lots to the various markets.
In France, Paris is the residence of the largest brokerage firms. Besides France and its colonies, Spain, Portugal, and northern Africa are occasionally covered by the French brokers. In Spain and Italy the principal brokers are located in Barcelona and Genoa. The neighboring countries are frequently visited by these brokers. In the Netherlands and Belgium the important brokerage firms are found in Rotterdam, Antwerp, and Brussels. From these centers quantities of lumber are distributed through the Rhine region for most of Germany. The Continental brokers do business in the same way as the brokers of Britain, and generally on the same terms.

While the brokers mentioned operate almost exclusively with the large importers, others are found who try to reach the wholesalers, retailers, and consumers. This broker gets in direct touch with the more important consumers, such as contractors, railroads, factories, etc., and endeavors to make up a cargo by bunching their orders. If sufficient orders can not be obtained for a full cargo, the broker tries to communicate with steamship companies operating regular lines between the producing and the consuming countries, and sometimes succeeds in this way in obtaining the necessary space.

The nature of his business naturally brings this broker in severe competition with the large brokerage firms and also with the importers in the countries where he operates. The business of these brokers is necessarily often limited and uncertain, and it is difficult for them to obtain the representation of any important exporting concern. In most cases they do not have the facilities for transacting their business in so profitable a way as have the large brokerage firms. One defective shipment with resulting claims is often more than sufficient to put them out of business. Still, they are sometimes in a position
to offer serious competition by submitting direct to consumers quotations that give them the benefit of wholesale prices. Their activities can not be compared with the American mail-order business, because the transportation question is the chief obstacle that they have to overcome.

Financing the Lumber Export Trade.

The question of finance is always one of the most important matters in connection with the export trade. The manufacturer or the export agent can not afford to have money tied up in shipments that will probably take months to reach their destination. Besides, it is too much of a risk to place the goods in the hands of an importer (whose standing many times is unknown to the exporter) without adequate security. If the lumber is not paid for, the importer with the cargo in his port could refuse to accept it and by making unjust claims practically force the exporter to come to terms.

Cases where credit is granted between exporter and importer in direct dealing with each other are not very common in this country. The exporter sends his draft to a bank for collection, either a local bank of a bank in one of the principal cities in this country or direct to a bank in the country in which the debtor resides. The debtor is charged with interest for the time which it takes for the exporter to get his money.

The terms between sawmill owners and export agents are nearly always cash. In dealings between sawmill owners or export middlemen and brokers the two parties generally agree upon the following arrangement: As soon as the vessel is loaded and clearance papers obtained the exporter may draw on the broker either for the full amount of the cargo or for for a percentage — usually 70 to 90 per cent; most commonly 75 per cent — the balance to be settled after the cargo has arrived
and been found satisfactory. All necessary shipping documents must be attached to the draft in order to place the broker in possession of the cargo when he takes up the draft of accepts it. In other words, the bank actually grants the exporter a loan having security (a) in the apparent value of the shipment made, (b) in the broker who takes up or accepts the draft, and (c) in the exporter himself, to whom he has redress in case the broker should be unable to pay the draft when it falls due. It is essential for the bank to ascertain the standing of the exporter before discounting his draft, and also to verify the shipping documents.

Banks are found in all the large cities with proper connections abroad to discount the exporters' drafts. In places less important the smaller banks nearly always have arrangements with banks in the large cities to enable them to handle the exporters' drafts in their sections. Unfortunately this country has not the same banking facilities abroad as have the other exporting countries, though steps have been made during the last few years to establish branches of American banks abroad, especially in South America.

In some cases where exporter and broker have mutual confidence an open credit is arranged between them. The exporter is credited with the amount of his shipments and debited with the amount of his drafts. Open credit is used where continuous shipments take place and may be limited to a certain time. As a rule, the broker demands that a certain balance remain in his favor. The advantage of such arrangement is that it enables the exporter to draw for a larger amount of a series of shipments instead of drawing 75 to 80 per cent for each and awaiting settlement of each shipment before he can get the balance of his money. The drafts are discounted in the local banks in the usual way.
Grading and Inspecting of lumber for Export.

Considering that this country has over 300 species of wood, it can readily be seen that the fixing of standard grades for the principal species exported is a very difficult matter.

Special grading rules have at times been adopted for the export trade, differing materially from the domestic grades, especially with regard to the amount of sap allowed. These rules are made as definite as possible but leave a wide margin to depend on grader's judgement. Each rule must answer requirements of its particular country.

Douglas fir inspection and grading rules are generally conceded to be the most satisfactory. A bureau of inspection called, The Pacific Lumber Inspection Bureau, which is a separate establishment from the lumber associations. This bureau employs licensed inspectors and undertakes at a fixed charge per 1,000 feet to inspect cargoes for export. When cargoes have been found "up to the grade" the bureau issues an inspection certificate, sworn to by a notary public and counter-signed by one of the supervisors.

Shipping lumber:

Advantages of shipping by steamer:

1. Two to three times as fast as a sailing vessel.
2. Importer can determine time of arrival.
3. Chance of deterioration or discoloration lessened when shipped by steam.
4. Marine insurance rates on steamers are cheaper.
5. Steamer loads faster.
6. Larger cargo can be taken. (as high as 4,000,000 ft.)

Advantages of sailing vessels:

1. One mill can load a whole cargo on a sailing vessel alone.
2. Docking facilities are often sufficient for sailing vessels but not for steamer.
3. Importer's risk in buying small lots is not so great.
4. Space at importers disposal is limited, owing to high cost of land.
5. Less breakage in sailing vessels.
6. When unloaded from sailing vessels lumber can be piled in the yard and unloaded at once.

**Freight Rates**

Freight rates depend on many factors such as character of tonnage, facilities in ports of loading and ports of discharge.

The relation of our forest supplies to the export problem can not be judged on a basis of the total amount of timber standing in the country. It is necessary to consider the quantities of different species and of different grades of timber that are in demand abroad and at home. We must also consider the economic effect of rapidly exhausting the available supplies in different regions on which American wood-using industries are wholly dependent. And the effect on the price to the domestic consumer of hastening the exhaustion of local supplies should not be overlooked.

The fact that there are still large quantities of standing timber in the far West does not mean that our country is not already suffering from the consequences of forest destruction. Europe will look first to our Eastern States for lumber, because of the shorter distance. And the eastern supplies of old timber are rapidly approaching exhaustion.