

The Japanese demand for imports of logs likely will continue to grow substantially, because of their construction boom, and the rapid pace of general economic growth, which stimulates demand for a range of softwood products, including pulp and paper. The domestic Japanese market for sawn lumber is bouyant, and prices quite high, because their building boom is coupled with effective restrictions on imports of sawn lumber. The Japanese prefer to process imported logs into sawn lumber in Japan. Largely informal import restrictions effectively limit the ability of U. S. sawmills to compete in product markets in Japan; Japanese trading companies control the import of logs into the high-priced Japanese market and effectively control through financing many of the domestic Japanese mills, and as a result the Japanese trading companies can outbid U. S. mills for the desirable good quality logs produced from U. S. timber stands.

This situation is damaging in terms of:

- Domestic politics. The Pacific Northwest Congressional delegations -- both parties -- are demanding corrective action. An export quota bill, to reduce log exports, may be introduced. Some sawmills have closed and other are experiencing narrowed profit margins and short-time employment.
- Our Balance of Payments. The U.S. has a large and growing deficit--\$1.1 billion in 1966-- in timber, wood, and products. Our exports of logs to Japan are replaced by imports of higher-valued sawn lumber from Canada, which does not permit unrestricted log exports but does sell increasing quantities in Japan.
- The Forthcoming U.S.-Japanese Balance of Payments Discussions. We hope to arrange offsets for the U. S. balance of payments effects of U. S. military expenditures in Japan.