

to assure that small firms obtain a fair share of public timber offerings, and an aggressive export promotion program by the lumber and plywood industries directed primarily to Japan. The Department of Commerce has already begun working with these industries by giving assistance to three industry-organized, government-approved trade missions to Japan. These were the American Plywood Association missions in August 1964 and April 1965 and the West Coast Lumbermen's Association mission in April 1965.

The problems confronting some sawmills in the Pacific Northwest are varied and serious. The extent to which increased log exports may have contributed to their difficulties, however, cannot be isolated, in view of the presence of other important factors, such as intra-industry competition, competition between lumber and substitute materials like plywood and building board, changes in technology, and lumber imports.

Well before the export of logs started its significant increase in 1961 the lumber industry in western Oregon and Washington was undergoing important changes in both structure and operational levels. Available data indicate that between the years 1950 and 1960 the number of sawmills in the area decreased from 1,186 to 614, with the reduction concentrated almost entirely among the sawmills. Sawmill employment declined sharply, while logging employment fluctuated within a narrow range. Further, lumber production generally drifted downward.

Activity in the lumber industry began to improve in 1961, the same year that log exports started to increase. Lumber production, which had reached a post-war low in 1961, rose each year thereafter. The sharp decline in sawmill employment was arrested, and in 1964 was above its 1961 level. Also, logging employment increased each year since 1961.

Thus, while increased log exports have added to the competitive pressure for stumpage confronting some sawmills in western Oregon and Washington, they do not appear to have affected adversely the level of operations of the lumber industry as a whole in that area.

The log problem bears more heavily on smaller nonintegrated mills which are dependent on public timber and are squeezed between the prices paid for stumpage and the price they receive for their lumber. It is essentially an economic problem; to the extent that there may be occasional log shortages, in the literal sense, they are localized in nature, and have been a traditional hazard of the sawmill operation.

Rather than restricting the export of logs, it would appear that a positive approach should be taken leading toward an overall increase in timber availability.

Your suggestion concerning negotiations with the Japanese to establish a mixed trade consisting of proportionate exports of logs, lumber and plywood was thoroughly examined by the task force. The proposed trade pattern is desirable from the standpoint of many mills. However, markets in Japan, as in the United States, are private. Left to the play of the free market, the Japanese have shown a marked preference of U.S. softwood logs rather than lumber. It is likely to be difficult to persuade the Japanese to change their importing practices, especially when the change involves an economic sacrifice without a compensating benefit. It should also be kept in mind that any increase in the demand for lumber and plywood in the Pacific Northwest would further intensify the competition for logs among domestic concerns and would not resolve the log supply problem for nontimber-owning mills.

In considering whether any action might be taken by the U.S. aimed at restricting the availability of logs to Japan, serious consideration was given to the possible adverse effects on our economic relationships with that country. Japan is the second best customer for U.S. goods, having taken in excess of \$1.7 billion worth in 1963, including \$40 million of softwood logs shipped from Washington and Oregon. We had a favorable balance in that trade of over \$200 million. In 1964 total U.S. exports to Japan rose to \$1.9 billion; at the same time softwood log exports to Japan from these two states rose to over \$51 million, both states participating about equally in the trade. In view of our determined efforts to expand exports in order to strengthen our balance of payments position, a major curtailment of log exports to Japan, without a compensating substitute, would substantially affect our trade position. Furthermore, the economic losses for Oregon and Washington would be considerable.

The Federal Agencies represented on the task force are seriously concerned about the problems facing the sawmills in the Pacific Northwest and are continuing to follow the situation closely. You can be sure that any approach which