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*Trends Affecting Acceptance and Demand for
Tropical Timber in North America*

November 18, 2015

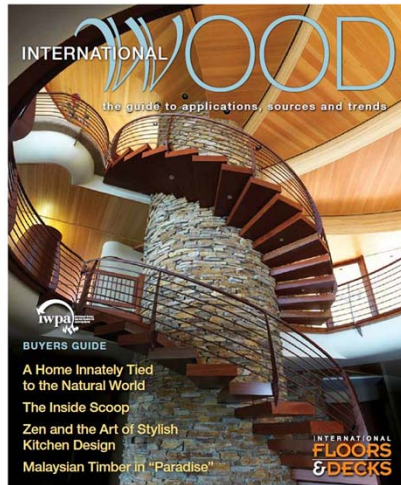
Overview

- Who is IWPA
- Selected indicators in the U.S. wood products market
- Challenges and Opportunities
 - Perception of Imported Products
 - CARB and EPA Formaldehyde Regulations
 - Lacey Act Enforcement
 - IWPA Due Diligence Training Project

IWPA Core Purpose & Values

- To build acceptance and demand in North America for globally sourced wood products from sustainably managed forests
- Visionary Leadership
- Social Responsibility and environmental sustainability
- High Ethical Standards
- Service to Members
- Lifelong Learning and Exchange of ideas

IWPA Activities

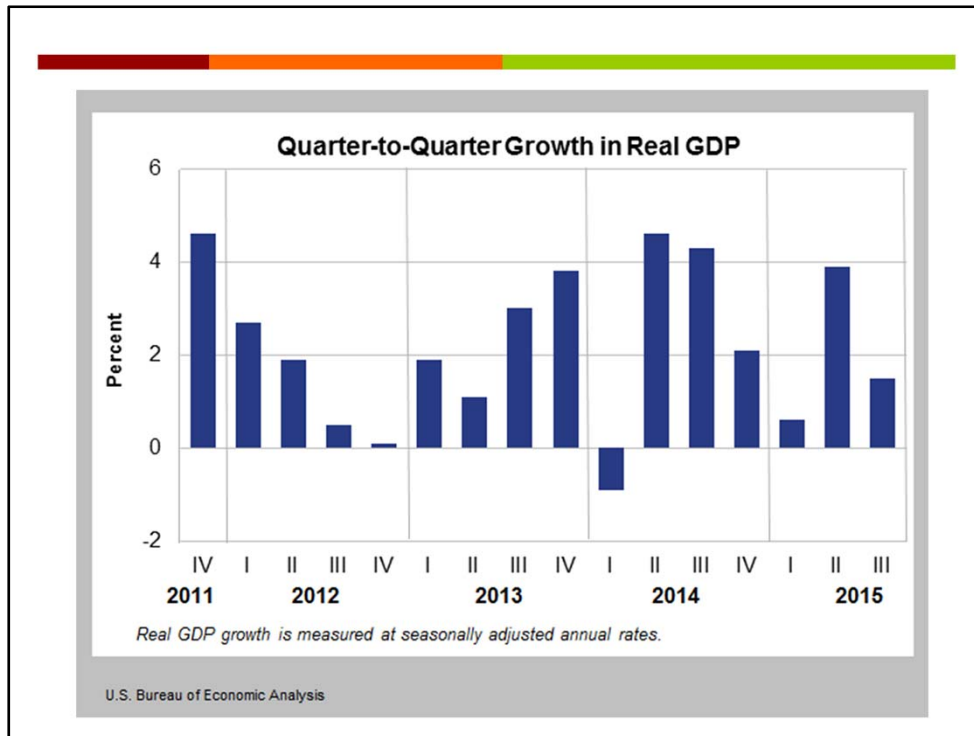


- Advocacy for Free & Responsible Trade
- Assisting Members with Compliance
- Weekly E-News -- critical updates and market Intelligence
- Promote Internationally Sourced Wood Products



Selected U.S. Market Indicators

- Relatively **strong U.S. GDP growth** has lead to **strong U.S. dollar** boosting imports
- **Housing sales continue steady improvement** – at a near eight-year high – but are not yet at pre-2008 levels
- **Consumer confidence** continues improving trend
- **Multifamily construction** spending has lead market improvement.

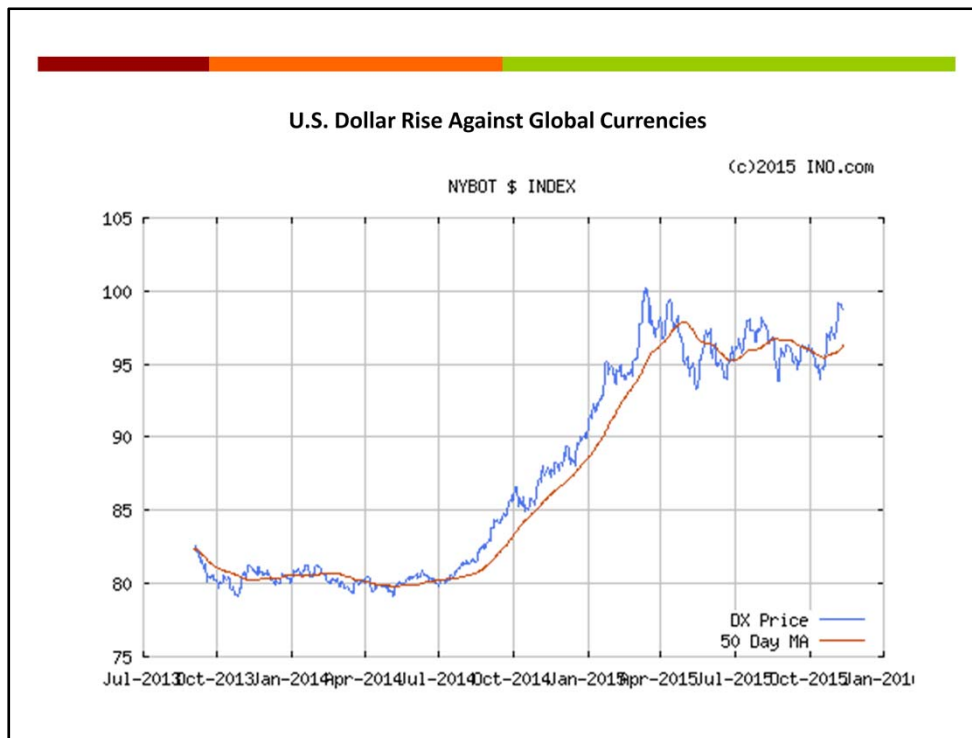


Since the 2008-2009 recession the U.S. economy has shown reasonably consistent growth in real GDP.

Many economists see the first quarters of 2014, which saw negative growth, and the first quarter of 2015, which only saw growth of 0.2%, as anomalies due to extended periods of bad weather along the East Coast which drove down economic activity.

This growth looks especially strong when compared to slower growth in areas such as the European Union and Russia.

Source – U.S. Bureau of Economic Analysis



Source – John Min’s Currency Corner at IWPAwood.org

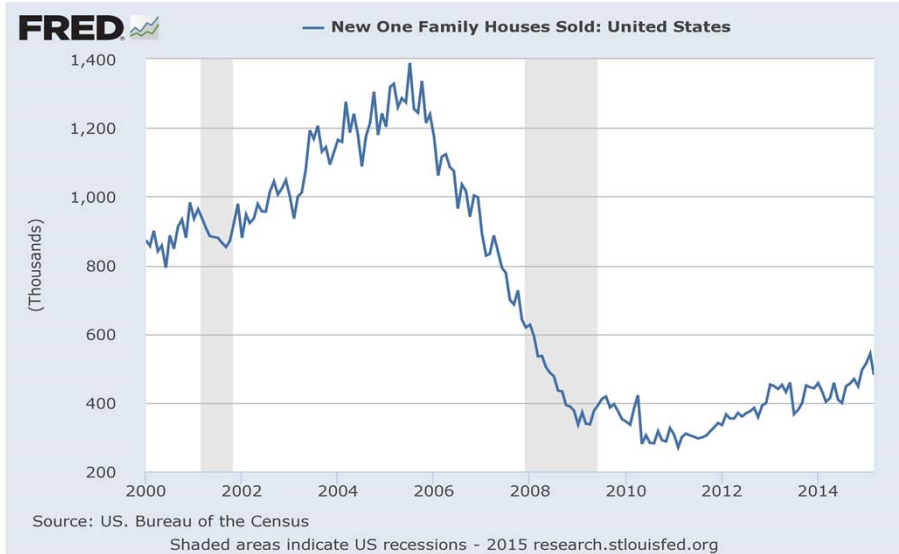
Robust consumer spending and improving labor markets in the US has led to relatively strong growth compared to other western economies since the 2007-2008 recession.

This divergence has rallied the US dollar relative to a basket of foreign currencies by 18 percent since July.

The strengthening of the U.S. dollar against foreign currencies has made global imports into the U.S. market more price competitive.

This provides a great opportunity for firms looking to expand wood products exports to the U.S. market.

New Housing Sales Rebound, Though Well Below Pre-Recession Highs



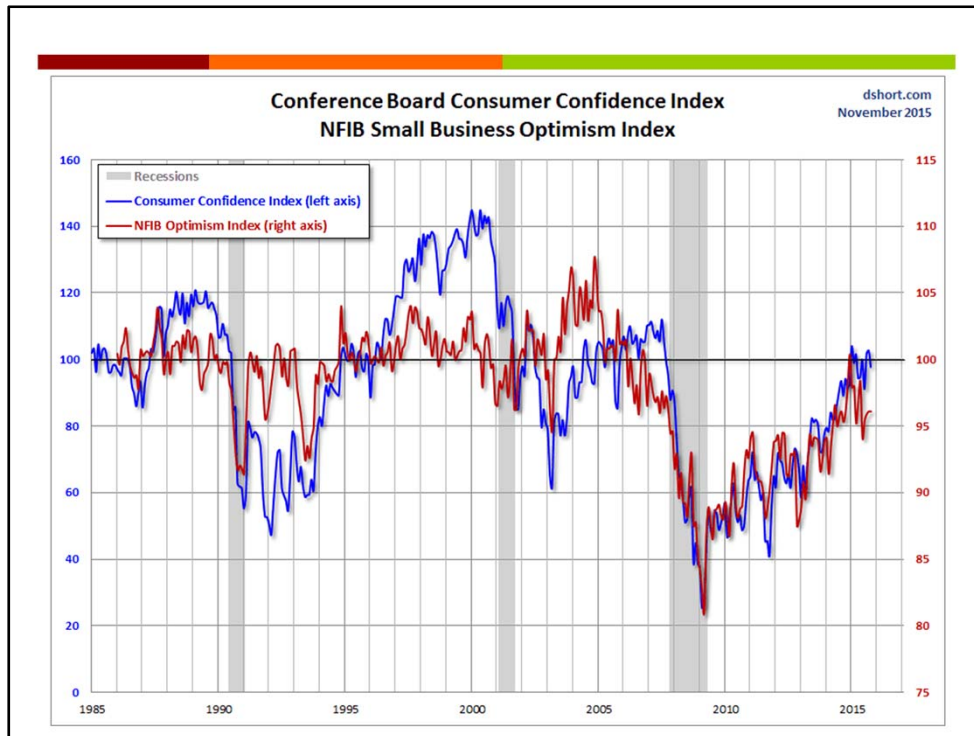
Source – Federal Reserve Bank of St. Louis

U.S. demand for wood products, both domestic and imported, plummeted when the housing bubble burst. Since 2010, new home sales has risen steadily, though it may be several years until new home construction approaches pre-recession levels.

New home construction, especially as U.S. policymakers look to make it easier for families to get a mortgage, will continue to be a large driver of demand for wood products.

Source: US. Bureau of the Census
Release: New Residential Construction
Growth Rate Calculations | US recession dates

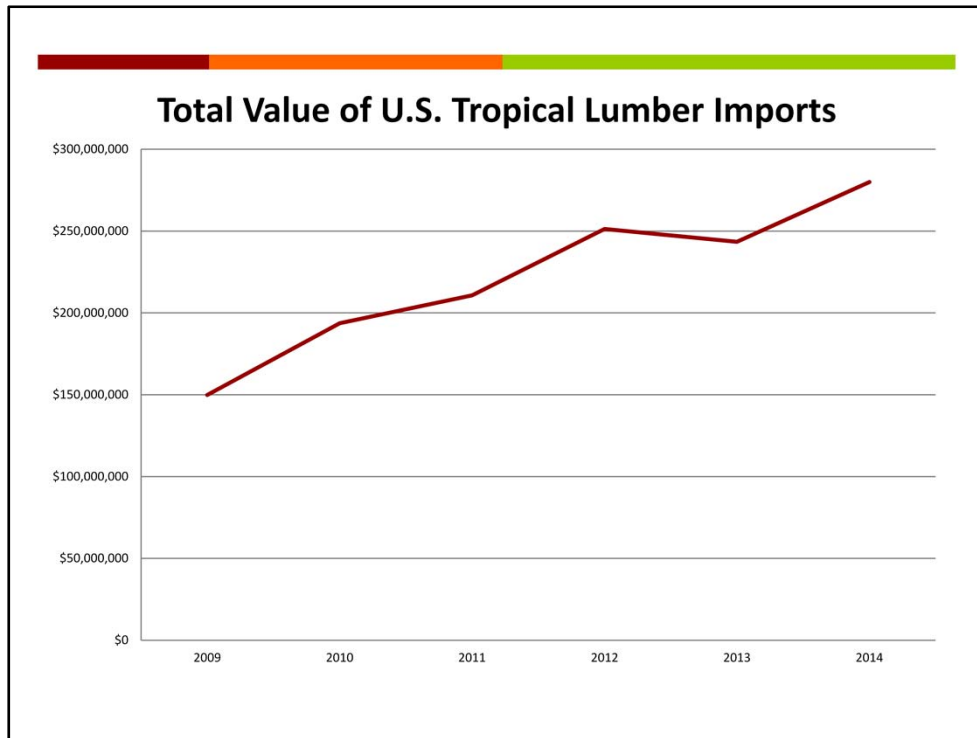
From January 1959 until July 1963, the 5 units or more category also includes 2 to 4 unit structures.
Source: US. Bureau of the Census
Release: New Residential Construction
Growth Rate Calculations | US recession dates



Similar to the previous slide, we see these two major measures of consumer confidence in the U.S. market steadily improving following the 2008 financial crisis and subsequent recession.

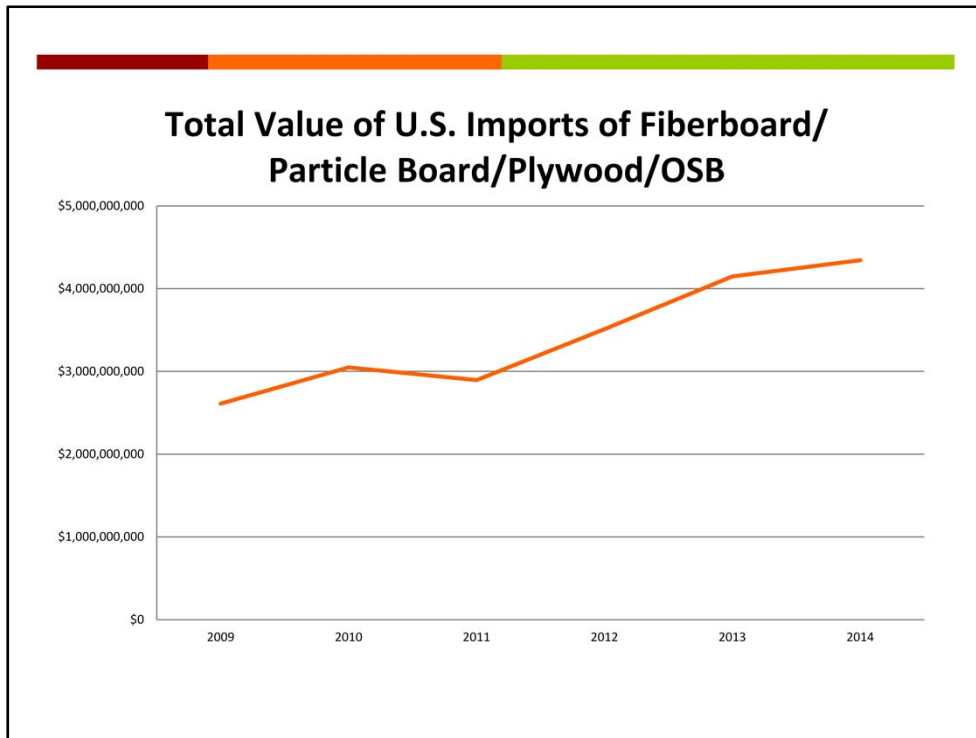
Unfortunately March 2015 saw one of these indicators, the National Federation of Independent Businesses Optimism Index (in red) drop sharply. This drop, which has since rebounded slightly, was attributed to decreased consumer spending and low foreign market growth.

Source: <http://www.advisorperspectives.com/dshort/updates/Conference-Board-Consumer-Confidence-Index.php>



Source: U.S. Department of Commerce

HTS Codes: 4403 & 4407



Source: U.S. Department of Commerce

US Select Indicators Conclusions

- US Economy Recovery will continue at a steady pace
- Housing starts – especially multi-family will continue to improve
- Expected interest rate increase – but from very low levels
- Anticipate almost all major suppliers will ship more to the US this year than in 2014

Challenges and Opportunities



Challenges and Opportunities

- Perception of Imported Product
- New Product Regulations
- Lacey Act Enforcement
- Industry Training – Due Care

Perception of Imported Products

- **'60 Minutes' Story** on Lumber Liquidators & Formaldehyde violations
- Stores **Halt Sales** of Chinese Laminate Flooring
- Major Brands / Retailers require **additional testing**
- **Fear** of Chinese made product



New Product Regulations

- **Formaldehyde Regulation** issued by State of California – CARB in the U.S.
- Already planned regulations moving forward
- **NEW!** U.S. Environmental Protection Agency is proposing new rules that go beyond CARB 1 & 2
- **NEW!** CARB Phase 3 – Amendment to Rules under development

IWPA Response

➤ IWPA / CARB
Formaldehyde Fact Sheet

➤ IWPA will work with EPA & CARB on **outreach** on new regulations



Lacey Act Enforcement

- In October, Lumber Liquidators reached **\$13 million settlement** with U.S. Department of Justice for violations of the Lacey Act and customs laws
- Detailed Compliance Plan Required

Guidance Needed



Challenge

- Keeping up with **trends in due diligence, country specific developments** & U.S. **regulatory** requirements can be daunting for large companies and even more so for **small to medium sized enterprises**.
- Staff turnover & need to keep veteran staff updated calls for **ongoing training** offerings.
- Compliance staff want to **network** and learn from each other.
- Need **more** than another standard.
- Must be **cost effective**



Solution

- *Solution:* IWPA partnership with the World Resources Institute / USAID to create a training program and forum for front-line compliance staff (Lacey, CITES and other rules)
- Phase 1 – Needs Assessment
- Phase 2 – Develop Course & Workshop Materials
- Phase 3 – First Test Workshop in Oct. 2015 & Rollout 2015-2016

Needs Assessment Preliminary Data

- Conducted phone interviews with industry members June 2015.
- Small sample not statistically valid but illustrative
- Included
 - Importers
 - Distributors
 - Wholesalers
 - Retailers
 - Brokers
- Firm Size Varied – 51-100 employees (37.5%); 26-50 (18.75%); over 101 (18.75%); 1-10 (12.5%); 11-25(12.5%)

Knowledge & Views

- Majority – 68.75% are “extremely familiar” with the declaration requirements of the Lacey Act.
- Based on sample respondents are importing covered products (sawn wood, plywood, flooring)
- **64%** of respondents views **compliance with the Lacey Act as a challenge.**
- Do you have a Lacey *specific* **standard operating procedure?**
 - **Yes** – 56.25%
 - **No** – 43.75%
- Lacey for many has been integrated into other compliance processes

Compliance Challenges

➤ **Top 5 Challenges** Ranked in order of most difficult:

- **Identification** of foreign laws / regulations
- **Acquisition** of documents for legal chain of custody
- **Validation** of Documentation
- **Supplier Cooperation**
- **Internal Data** management & Retention

Interestingly, **62.5%** listed CITES compliance as a **least difficult** area of compliance

Respondents also reported **relying on Customs Brokers** for Lacey Declaration

86% report **no difference** with the compliance process with **certified wood**. While, 14% reported it was easier.

Due Diligence Training

Seeing the
FOREST
AND THE
TREES

**Wood Trade
Compliance Training
and Due Diligence Tools**



Priorities:

- Train employees
- ID Resources
- Develop and refine company standard operating procedures (SOPs)
- Tailor training to varied business models
- Continuous Improvement
- Provide a forum for the exchange of ideas and expertise

2016 Plans



- Conduct training in multiple locations
- Evaluate adapting to international audience & producers
- ID future training or resources needed



Thank You

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