

Statement of Tom Talbot, Founder and CEO of Glen Oak Lumber and Milling

**Before the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs
Oversight Hearing on the 2008 Lacey Act Amendments**

House Natural Resources Committee

February 27, 2014

Mr. Chairman, Members of the Subcommittee, I am Tom Talbot, Founder and CEO of Glen Oak Lumber and Milling, a hardwood lumber millwork and components manufacturer. I founded Glen Oak Lumber and Milling in 1979 in Montello, Wisconsin. Today we are operating six mills in Wisconsin and Kentucky, employing 165 workers in primarily rural areas. Our products include mouldings, S4S boards and shutter components.

I am here before you today to share my views as a member of the American hardwood industry which I have been involved with for over 40 years. Not only am I here as a hardwood business owner, I am also an active participant in a number of hardwood focused trade groups, including the Kentucky Forest Industries Association, the Lake States Lumber Association and the Hardwood Federation. Companies in the hardwood industry are predominantly small family-owned businesses dependent upon a sustainable supply of healthy timber resources, both imported and domestically sourced. They serve not only the domestic market, but a strong and growing export market. Members of the hardwood business community believe it is critical to keep American companies operating and our citizens employed by protecting forest resources and increasing consumer demand for hardwood products, and assuring fair competition worldwide.

The Hardwood industry includes many multi-generational families that provide good paying jobs in rural areas. They also care deeply about maintaining the long term health and sustainability of our forests, whether in North America or around the world.

A strong forest products industry supports healthy and valuable forests and the communities in which they are located. In 2012, the U.S. Department of Agriculture Forest Service released a study showing the positive correlation between an active forest products industry and expanding forests in areas of the world with the most active forest products industries, including North America, Northern Europe and Scandinavia. The Lacey Act is a valuable tool for the Hardwood industry in terms of both supporting the U.S. forest products industry and sustaining our natural forest resource.

I think it is also important to note that the U.S. is held in high esteem around the world for taking the first step in addressing illegal logging as a global problem. There is a growing movement around the world as others follow our work to reduce illegal logging; The European Commission estimates that 19% of lumber imports to the European Union are illegally sourced. The European Union, as well as other countries, are viewing this as a serious problem and also enacting Lacey-type laws to address sourcing. Some key examples include:

- The European Union passed their Timber Regulation in 2010 and fully implemented it in March of 2013;
- Australia passed the Illegal Logging Prohibition Act in 2012 and the government has committed resources to work with regional governments and industry on a number of measures to combat illegal logging;
- The Philippines is also ramping up its enforcement against illegal logging.

The Hardwood Federation, of which I am a Board Member, was among the first industry groups to recognize illegal logging as a serious threat. The Federation, along with 49 other trade associations, non-profits and unions supported passage of the Lacey Act Amendments as part of the 2008 Farm Bill. They did so for reasons that were both economic and environmental. Purveyors of illegally harvested timber have the potential to inundate our markets with products priced at levels that are simply out of reach for U.S. producers. In fact, illegal logging costs our industry billions of dollars each year by suppressing global prices by as much as 16 percent. (Illegal Logging and Related Trade: Indicators of the Global Response, Lawson & MacFaul; July 2010, p.1-1) By putting law-abiding U.S. producers at a competitive disadvantage, illegal logging costs us real jobs here in America.

Simply stated, the case for bolstering the century-old Lacey Act to address illegal logging was so compelling that the 2008 amendments were enacted under the Bush administration with strong bipartisan congressional support. The amendments were passed after public hearings and extensive negotiations among affected parties. My company and I applaud U.S. government agencies, including the Animal and Plant Health Inspection Service (APHIS) and the Fish and Wildlife Service (FWS), for implementing an effective program of compliance and enforcement given minimal resources. I am not alone; most of my business colleagues and competitors also understand the economic benefits of playing by a consistent set of rules.

It is important to note that the U.S. has the largest supply of sustainable, legally sourced hardwoods in the world. With a growing emphasis on worldwide enforcement against illegal practices worldwide, American hardwoods have benefited as a preferred choice.

Market forecasts show that the legality movement, which was prompted by the 2008 enactment of Lacey, will reduce wood supplies from countries where there is a significant risk of illegal logging, encouraging a level playing field for all to operate by the rules. Recent statistics from the American Hardwood Export Council show that this heightened awareness around the world is providing a real opportunity for legal operators in the United States.

- US hardwood lumber exports in 2012 were at their highest ever level, at \$1.6 billion;
- In 2008, the US share of global hardwood lumber trade was 13 percent. Since that time—coinciding with enactment of Lacey--that share has steadily grown and in 2012, reached 20% for the first time;

- Over the last four years, US hardwood lumber exports have risen by more than 70%;
- During the same period exports from all other leading hardwood lumber producing countries, with the sole exception of Thailand, have been flat or declining;
- In 2012, China's trade statistics recorded a 5% increase in imports of US hardwood lumber while imports of hardwood lumber from all other sources declined by 6%;
- In 2012, US hardwood lumber export value was more than double that of Malaysia (\$790 million), the world's second largest exporter of hardwood lumber.

Today, the U.S. forest products industry produces approximately \$200 billion in products annually and employs nearly 900,000 men and women in good paying jobs. The industry meets a payroll of approximately \$50 billion annually and is among the top 10 manufacturing sector employers in 47 states. Our industry, like others, has been challenged over the last few years by economic and regulatory uncertainties. However, there are key benefits we are realizing since the passage of Lacey, and there is widespread support to enforce the current law.

In addition to these macroeconomic figures, I would like to share my personal story of my engagement in the Lacey Act debate and why full and consistent implementation and enforcement of the law and its regulations are essential to healthy business and robust jobs.

Prior to my awareness of the illegal timber trade, I had naively assumed that all members of the Hardwood industry, domestic and foreign, played by the same rules; and that any discrepancies in global prices were due to cheaper labor costs abroad.

My eyes were opened when I read the New Yorker article, *Stolen Forests*, which documents the severity of illegal logging and impacts on U.S markets. I have submitted the article as part of my written testimony.

Speaking on more personal terms, illegal logging directly affected my company and my employees at my Montello, Wisconsin wood products processing plant.

Over the last few years, Glen Oak Lumber spent \$5 million on developing a world class wood blind finishing and coating facility in Montello to service the leading wood window fashion manufacturer in the U.S.

We hired employees, and as recently as last fall we were considering adding a second shift to ramp up to meet expected production demands.

To meet demand at the time, we were consuming 20 truckloads of Wisconsin sourced Basswood each month, providing jobs to local loggers and truckers, in addition to the newly hired mill workers.

Last fall, after successfully developing a technically advanced U.V. coating process following the exacting requirements of our customer, we were first informed by our customer that volume would be cut in half.

A few weeks later, we were notified the entire contract was terminated and that all products would now be sourced from Chinese suppliers.

The reason given was that Chinese suppliers were able to purchase equivalent wood, convert raw material into finished blinds and ship them to the U.S. for less than I was able to do locally.

I was selling the pre-finished slat for 20 cents, resulting in a small profit.

The Chinese price was 12.3 cents.

The costs quoted by the Chinese are low beyond belief; impossible to beat domestically and impossible to imagine how such low prices can be offered using legally sourced materials.

Please understand that 70% of costs associated with producing this product are raw materials. The only way I see the Chinese capable of such a low price is the procurement of illegally harvested, cheaply sourced wood.

The end result is that more than 45 jobs have been eliminated and production in the Montello facility has been shut down. In addition, \$5 million of investment has been stranded.

This is where full implementation of the Lacey Act, rather than exemptions, becomes vital. While Mr. Harris's Bill may be a well intentioned effort at eliminating burdens on the regulated business community, the actual effect will be to eliminate an important tool that strongly encourages businesses to do everything possible to ensure legal supplies of wood and allows U.S. authorities to identify and track shipment patterns and specific shipments, particularly those of high volume and frequency from countries with questionable timber sourcing practices. This would severely limit the enforcement capacity of APHIS as information would not be readily available for analysis.

In addition, APHIS is well into test and implementation phases of a web-based filing system and are working to improve their electronic database system in ways that we believe fully address the concerns about the declaration that form the basis of Mr. Harris' legislation. We understand this streamlined web-based interface may be operational as early as April. The declaration "on demand" system proposed in Mr. Harris' bill would not save importers any time or effort as they would still be required to collect and compile the information, but would no longer need to submit it to APHIS. Elimination of this final step undercuts a key component of enforcement and analysis in

the law. It also removes the incentive for companies to ensure the information is all factually correct if there is limited chance that the declaration will ever be requested.

Similarly, Mr. Fleming's Bill, while a laudable attempt to focus enforcement efforts on more recent activity, is unnecessary as U.S. agencies currently have the required authority to address these concerns without opening the Lacey Act. The proposed changes would create huge loopholes for illegal suppliers to inaccurately claim that their timber and forest products were pre-2008. This is just the type of loophole that bad actors are looking for. Further, agency officials have repeatedly confirmed that they do not intend to confiscate musical instruments or other products manufactured and imported prior to date of enactment.

It is important to note that delivering on Lacey Act objectives is not a process without growing pains as the private sector and the government learn from each other about implementation realities. However, I urge Congress to allow the Lacey Act to be fully implemented as currently written. It is also my recommendation that Congress provide full funding for Lacey Act implementation so that computer systems and other critical infrastructure and enforcement measures needed to make this law fully effective are in place. I strongly oppose Congressional actions aimed at re-opening the statute and diminishing enforcement.

Thank you for your consideration of an industry perspective on this issue. The Lacey Act is critical to US hardwood jobs and I urge the Committee to assure that the statute is allowed to continue to be fully implemented as originally envisioned.