

Senate T&E Committee  
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SENATE LEGISLATIVE COMMITTEE  
ON TRADE AND ECONOMIC DEVELOPMENT

April 19, 1991Hearing Room 343  
3:00 P.M.State Capitol  
Salem, OR

Tapes 83 - 84  
Eurowood Conference - Jon Morris and Uwe Fischer

MEMBERS PRESENT:           SEN. WAYNE FAWBUSH, CHAIR  
                                  SEN. SCOTT DUFF  
                                  SEN. JEANNETTE HAMBY  
                                  SEN. JIM HILL  
                                  SEN. PEG JOLIN  
                                  SEN. EUGENE TIMMS

MEMBERS EXCUSED:

STAFF PRESENT:            JOSEPH CORTRIGHT, EXECUTIVE OFFICER  
                                  TAMIRA MILLER, POLICY ANALYST  
                                  JERI CHASE, OFFICE MANAGER  
                                  HOLLY BROWN, COMMITTEE ASSISTANT

WITNESSES:GIL LATZ, INTERNATIONAL TRADE INSTITUTE  
JON MORRIS, MARKET MANAGER, MICHAEL WEINIG, INC.  
EWE FISCHER, OWNER, BUILDING PRODUCTS  
CATHERINE MATER, VICE PRESIDENT, MATER ENGINEERING

NOTE: These minutes contain materials which paraphrases and/or summarizes statements made during this meeting. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

TAPE 83, SIDE A

000 CHAIR FAWBUSH convenes the meeting at 3:20 p.m.

Eurowood Conference - Guests

011 GIL LATZ: My role today is to introduce the topic of secondary wood products manufacturing and value added manufacturing which led us to concentrate on the European case. I will present an overview of the project that brings our two visitors here and then an introduction of each of them. This project that the International Trade Institute is currently working on is entitled "Eurowood - niche

markets, value added products new processes." As an institute of the state system of higher education we have been quite concerned over the last several years at the transition that has been taking place in the wood products industry. There has been a tremendous amount of discussion with regard to value added wood products marketing opportunities. Most of this discussion has focused on the domestic market of which there is substantial opportunity and potential but as an international trade institute we became interested in the question, what are the international market opportunities? In the course of pursuing that question we were given some lottery funds to study market opportunities in the European case concentrating on Germany. Germany is one of the most important international trading partners of the state of Oregon. Europe is as important to Oregon, as a destination for manufactured value added products across the board, as Japan. We have a very practical objective to get information in the hands of those people in the business community and the wood products industry who need it and introduce them to experts who can talk in a very sophisticated way about the nature of demand in the German market. Presents guest information (EXHIBIT A).

094 JON MORRIS: My participation in this was broken into the 3 areas of manufacturing technology and the reason for that area was clear. When Oregon companies look to export into Europe their competition is working from a totally different base to start with and is not totally negative. I tried to show the market here where their opportunities are in Germany. This led to the second part which is products. Products opportunities from Oregon for export to Europe allows for the utilization of the pluses of this industry here. The third point of the products was marketing. Many of these companies here in the soft woods industry have been supplying totally into the US market and know very little as far as export, as far as value added products. Under the manufacturing technology side I centered on the differences in quality, the point being that the US manufacturers are going to have to match European quality, particularly if they are going to export into West Germany which has one of the highest quality requirements. There is a very simple definition of quality, measured in knife marks per inch. The US standard is 12 knife marks per inch, in Europe the products expect 18 to 22. Dimensional accuracy and straightness is not required by the buildings industry in the US. It is a requirement in Europe and paneling is a good example. Paneling is high speed in the US but they don't make straight boards. There are important technical differences that America will have to open up to. I wanted to open up US thinking to new ideas, especially in laminating, that are already out there and they have the ability to manufacture here in the US quickly and cheaply. I highlighted important areas in

import/export. 1) Use of government resources, both state and federal. 2) Select the right partner, it is very hard for any company from the US trying to export who does not have a knowledge of the languages, cultural differences and market opportunities. 3) Select markets and products carefully, there is a lot of products that can be sold at a much higher value for the same volume of wood. 4) Sell quality as opposed to the pressure to sell volume. 5) Service the market fully, stay with it because people complain that it is hard to work with American wood working manufactures because they will supply it readily when the US market is down but once the US market picks up they are gone.

264 UWE FISCHER: One of the products that we started from Oregon that was very popular was edged laminated solid pine boards. These boards go into the Do it yourself (DIY) shops or they go into the German pine converting factories. At the moment DIY and the French industry is consuming approximately \$150 million worth of these edged boards. This is a very logical product for this country because the same species which we are importing are growing here and there is interest.

335 CHAIR FAWBUSH: What is the value difference between a commodity piece of pine and a laminated finished product like you are talking about?

347 FISCHER: I think the price for lumber is \$300 or \$400 dollars per 1,000 board foot and we are getting between \$900 and \$1500 for the product. Louver doors had a nice market with west coast lumber and the dollar went up and we had no supply from here so we were forced to find sources from other countries. Our problem was when the dollar came back to normal compared to European currencies and the US was still at the 12, 15, 18, 21 widths, but Europe had change to the metric sizes. So we haven't been able to get back into the US market. Paneling is a huge market but Europe has its own spruce and very effective cheap mills. We also have a market for very nice paneling. This has been developed because nobody made a profit on the cheap line, but they make the profits on the high priced items. The market size for moldings in Germany is \$125 billion. It is changing because of environmental aspects we are going more into pine and spruce and soft wood. We have specifications and our tastes and the market is already fixed and organized we have to produce here what the market needs.

TAPE 84, SIDE A

020 FISCHER: Garden products were cheap in Europe but that is changing. There is a project on the way from Canada for western cedar. Edge laminated pine boards are the base product for pine, ready to

assemble furniture.

086 CHAIR FAWBUSH: Did you come here to look for a supplier for that type of product?

091 FISCHER: We had a negative response in the early 80's. So, we went into other areas where we found people readily available and interested in doing this. We did not come here but now I will because the lumber prices should be right and we have found interest. The chance to get into the European market is good because the fall of the existing empire is so dramatic that now they have to re-privatize the companies and that will take 5 years at least. My distributor friends are short of quit a lot of pine and soft wood products including this type of furniture. Possibly one of the reasons we are so heavily booked with these types of furniture at the moment is because Eastern socialistic countries are not filling their contracts. The mentality of the exporter is important. Our distributors are signing contracts with big home center chains and the furniture industry and they have to honor them. Distributors have to pay 50% of the advertised price to the end consumer if the product is not available. The power of this is so tough that the distributors will pay because they sell 150 other products and they depend on them. We usually go to the source of the lumber and travel with them to find factories and then start regular business. To find the small factories that can do the added value products you have to search very hard. We find the projects but maybe we are the exception. There are other mentalities that would not go out and find them, they wait for the agent to show up and brings exactly what he wants.

199 CHAIR FAWBUSH: Would you care to comment on the potential for Oregon to go into the European market and how we start it?

203 MORRIS: We have been discussing the probability that through the organization here in Portland we will arrange for some manufactures to come over and visit some companies who could be buying these products. Also we should have the manufactures and the buyers get together and discuss what they each need. The reason we are in the middle is because if we are in the chain then we hear what is needed in both directions as far as technology and that is my job. We want to maintain the best technology that is required by the manufacturing base and the customer base.

230 CHAIR FAWBUSH: Are there businesses in Oregon that are capable of supplying your needs?

236 FISCHER: Yes.

248 SEN. TIMMS: What was your attendance like at the meetings you have gone to?

250 GIL LATZ: We exposed this information to 300-350 people.

268 SEN. TIMMS: Do you find flexibility of the big value added businesses are harder to get interested in your program?

274 MORRIS: What they do see as being a problem in their present manufacturing facility is the flexibility required to be able to change the product to match the end market. There are technology solutions to those problems.

287 CHAIR FAWBUSH: We are so commodity oriented, is it a problem?

299 MORRIS: Yes. What fascinates me is that the west coast US has the most capable people in running high volume production in the world. The history of that is clear they have an enormous amount of resources and an enormous market that will except basically one type of product. Unfortunately, the commodity aspect is making it tough. Our biggest growing companies are moving into high volume manufacture of hard wood moldings that people want for houses. There is a marketing problem because people aren't informed that soft wood moldings are good. They want to change they just don't know how to.

324 FISCHER: The Chilean and South African governments are subsidizing export activities and are helping factories that are interested and reliable to go to international trade shows. They are going to be great competition. The US needs to change to compete.

336 SEN. TIMMS: Do you believe in joint venturing with American firms? You could come in and furnish the engineering and the expertise to get us into the areas we are talking about as far as quality.

344 MORRIS: That is basically the way we set up Weinig in the US 13 years ago. The reason we came over was the recognition of the need to work with the industry to make things happen. We have combined technologies and we have a US organization.

366 SEN. DUFF: Is there something we can do to aid our local manufacturers in working with currencies so you don't have the low value dollar fluctuation having so much impact?

375 FISCHER: No. The companies have to stay commercial and open. I don't think the government should involve itself. I would suggest that, that is the job of the International Department of Banks.

386 MORRIS: When we export we publish a price book for other countries markets. In that price is the waiver factor that accommodates the fluctuations that we know will take place and we can insure against it and it isn't a problem. You have to understand it and then follow guidelines and banks can help.

407 CHAIR FAWBUSH: Do you deal with suppliers who will come together, two or three different companies, to fill an order or do you usual just deal with one plant for a specific product?

414 FISCHER: We don't want the same product from several different companies because then who do we give the order to. We give the wardrobe to one company, the chest of drawers to another, and see what each company can do and place the order.

TAPE 83, SIDE B

014 CHAIR FAWBUSH: Are you willing to try to do some business out here knowing the US market could go up again?

020 FISCHER: In business life there is no guarantee and we are seeing that now that the dollar is at acceptable levels and the lumber price is at acceptable levels we take a chance.

025 SEN. TIMMS: When you talk about timber supply is that a concern of yours as far as doing business in the state of Oregon?

032 MORRIS: Laminated products is a good solution, besides the fact that US technology is extremely good in laminating, it uses up a lot of wastage. We, on the manufacturing side, don't see a problem here with supply.

059 MORRIS: Secondary growth is acceptable in laminating. A lot of timber is going out of this country in log form that could easily be sawn. An interesting factor is that in 199 2 they will write the law that will block all import of green timber. This could be an enormous opportunity because those consumers will still want those wood products.

071 CHAIR FAWBUSH: It may force our commodity producers to look at better markets.

075 MORRIS: The key in this industry is the personnel in these plants learning how to move into these faster change overs and efficiency.

087 CHAIR FAWBUSH: We would like a list of the folks who participated and we would like some follow up on their response to the ideas of these gentlemen.

098 LATZ: We will produce a summary of the conference.

104 CATHERINE MATER: 75% of the people who participated were mill manufacturers and when they were through with that process we asked them what they were willing to differently now based on the information so you might want copies of those.

116 CHAIR FAWBUSH adjourns the meeting at 4:27 pm.

Submitted by,

Jeri Chase  
Office Manager

EXHIBIT SUMMARY

EXHIBIT A - Information on guest speakers, submitted by Gil Latz, pgs. 5.