Blue Ribbon Commission for Check-off

20 Myths and Facts
About The Softwood Lumber Check-off

Myth #1: Promotion is irrelevant.

Fact: For a decade, wood market share has been lost to competing products, especially concrete, composites, steel and vinyl. Lost sales are worth hundreds of millions of dollars annually and decreased demand has weakened prices and profitability. Yet despite significant price dips, the industry has not recaptured market share. Rather, the downward trend in market share continues as competing products use aggressive anti-wood campaigns to effectively communicate their value proposition. Promotion has worked for them; it can work for us.

Myth #2: We don't need a check-off.

Fact: The status quo, characterized by the absence of a coordinated industry-wide strategy, has been ineffective in protecting wood's market share against competition from steel, concrete and other substitutes. Existing industry efforts have been fragmented, too small, duplicative and poorly coordinated. A broad-based industry funding vehicle can protect market share, expand demand, drive a strong ROI and improve profitability. Other models have been tried in the past and have failed; it's time for a new approach.

Myth #3: The assessment is a tax.

Fact: The check-off assessment is ***not*** a tax. It ***is*** an investment that will generate substantial returns. Not only will it reverse the erosion of market share, price and profitability, programs will broaden demand to non-traditional markets. Demand increases above those expected in normal cycles will lead to significant increases in price. If the investment does not perform and industry does not see the expected return, the check-off can be terminated after five years.

Myth #4: The government will waste our money.

Fact: The check-off is ***not*** a government run program. It is designed and governed by industry. The industry board will develop the check-off business plans, decide where funds are to be spent, and outsource programs to experts and associations with proven track records. The government's role will be to ensure that funds are not misspent money on lobbying or activities that are misleading or create a conflict of interest, and to ensure that there are no free riders.

Myth #5: The panel industry is not participating and will free ride.

Fact: Ultimately there may be an opportunity to expand the softwood lumber check-off to include panels; however for the time being, the panel industry will complement investments by the softwood lumber check-off through their association APA-The Engineered Wood Association. Panel producers have invested almost $90 million over the past six years to support their industry, but have also been proactive in participating in and funding activities that benefit the wood products industry as a whole, partnering with other wood products sectors to deliver a broad range of programs, including codes and standards, grading and promotion. We are confident that APA and the industry they represent will be an active and positive partner and contributor to programs being considered for a check-off.

Myth #6: The cost of a check-off is too high.

Fact: The check-off will not be an incremental cost, but rather an investment that anticipates a significant return. Knowing how hard it is to vote for another fee in this economy, the Blue Ribbon Commission's Committee on Assessments and Exemptions tested industry tolerance through several surveys and informal consultations before settling on $0.35/mbf. The check-off program has the potential to produce market growth of 3.5 billion board feet annually after five years. This increased demand would increase prices significantly over normal cyclical movement, and create substantial returns detailed in the business plan. By contrast, the status quo, characterized by the absence of an industry-wide strategy with no funds to defend or grow markets, can only result in further erosion of share, loss of markets, and loss of profitability.

Myth #7: The check-off is just another financial burden.

Fact: A check-off will increase costs, but there are several mitigating factors even beyond the anticipated return on investment. First, it will create an opportunity to reduce or eliminate duplicate costs and therefore could lead to savings if the industry pursues these. Second, under a check-off there are no free-riders; with everyone paying into the program, the cost to individual companies would be reduced. Third, the costs will be the same for everyone, so will not create a competitive disadvantage. Fourth, once the check-off board is appointed, it could decide to fund softwood lumber's share of projects like the American Wood Council's (AWC) code research and engineering programs. With all companies supporting such programs through a check-off, the cost to individual companies would be substantially reduced.

Myth #8: Check-off dollars won't be well spent.

Fact: The check-off will be run like a business investment by a board of owners, CEOs and business leaders. Each director will be elected based on their experience and participation with broad, cross-industry programs. The board will have full oversight and control of all expenditures under the program, and the check-off Order limits administrative expenses to no more than 8% of revenues. Metrics will be established to evaluate the success; if industry doesn't like the results, it can terminate the check-off in five years.

Myth #9: The check-off will focus on consumer advertising.

Fact: The softwood lumber check-off programs will focus on design and building trades and other key influencers, rather than consumers. Specific market segments, like outdoor living, will be the exception. Consumer campaigns such as the "Got Milk," "Beef, It's What's For Dinner" and "Pork, The Other White Meat", will not work for softwood lumber because with the exception of the outdoor living market, it is rare that consumers specify their building products. Architects, builders, and other professional specifiers make that decision.

Myth #10: The Binational Softwood Lumber Council (BSLC) and other similar programs can pay for promotion.

Fact: The BSLC was established under the Softwood Lumber Agreement and the industry is fortunate to benefit from the BSLC funding for programs such as WoodWorks, SLMA's Real Outdoor Living and SFPA's Raised Floor Living. The BSLC funding invested in these programs is a lump sum that will not be replenished. There are no other broad industry funding organizations capable of investing in programs at the scale necessary to be effective. As such, supported programs that are achieving real results will be left without adequate support to achieve their goals. A check-off program will fill the gap.

Myth #11: The 15mmbf exemption is too low.

Fact: Based on 2007 data, an exemption of 100mmbf would eliminate around 400 companies and 10.25 billion board feet from the check-off. Extending this exemption to the first 100 mmbf for every company would eliminate a total of 18.45 billion feet, and only 58% of shipments would participate in the check-off, creating the kind of free rider problem that doomed previous voluntary promotion programs. With such a large percentage of production not participating, many companies would considered the check-off unfair and vote it down.

Myth #12: The 15mmbf exemption is too high.

Fact: Based on 2007 data, an exemption of 15mmbf would eliminate only 1.27 billion board feet, about 2.9% of U.S. domestic production. The impact of this amount is de minimis as far as free riders is concerned, yet it relieves the administrative burden from 200 of the smallest companies. Extending the 15mmbf exemption to all companies raises the exempt production to 11%, but since it is applied to all companies equally, it creates no competitive advantage, while still being low enough to allow the check-off to capture about 90% of production.

Myth #13: The 15mmbf exemption will cause some importers to try to avoid the assessment.

Fact: The assessment on 15 mmbf would only be $5,000 against the inefficiencies of trying to game the system by importing through multiple companies under 15mmbf. USDA's analysis of U.S. Customs data indicates that there are 883 importers of record, with 103 over 15 mmbf. 88%, or 780 importers, would be exempt from paying an assessment. Further, of the 103 importers of record who are over 15mmbf, the majority are significant Canadian manufacturers of softwood lumber unlikely to game the system. 25 of the 103 are established importers representing eight overseas countries. It appears that the impact of this concern, should it materialize, would be minimal.

Myth #14: A check-off will duplicate fees and programs.

Fact: The Blue Ribbon Commission—the group who has undertaken the task of developing the check-off and who are in the same economic boat with the rest of the industry—aimed to design a check-off that does not raise company costs. This means cutting out duplication. Many promotion programs—the Wood Promotion Network and the Abundant Forest Alliance—have closed their doors , and the others—Outdoor Living, Raised Floor—are funded in large part by the Binational Softwood Lumber Council whose funds will soon be depleted and not replenished. A check-off is needed to continue the good work being done to grow markets, not duplicate it. Without a check-off, current programs will cease, or be severely diminished.

Myth #15: The assessment comes at a bad time.

Fact: The Blue Ribbon Commission has recommended that the implementation of the assessment be delayed. The industry is experiencing the worst market conditions in decades. The lumber market has not come back as expected, and no one knows when it will. This has caused some companies to view check-off as an extra burden in a difficult time. The BRC believes that many companies will appreciate extra time before USDA initiates check-off assessments in order to give the market more time to recover, and to alleviate anxieties that might dampen support for the check-off. For this reason the Blue Ribbon Commission has recommended that assessments for the softwood lumber check-off not begin until 2012.

Myth #16: Exempt importers will be unfairly burdened.

Fact: Either small importers will be placed on an exempt list so that Customs will not collect from them at all, or some similar method will be used to relieve the burden on small importers, so that their money will be not tied up and they will not need to expend financial and staff resources on broker fees and processing. This will also eliminate the need to process refunds for 780 companies, thereby conserving the check-off board's resources.

Myth #17: There are not enough board seats for some regions.

Fact: Apportioning seats by regional production is the fundamental requirement of a check-off board. Increasing the seats in any region would require adding seats in the other regions, creating a board of a size that would be unwieldy and potentially dysfunctional. To address this concern, board seats will be regularly reapportioned to be sure the regional balance is correct, and board rotation (3 year terms), as well as a nominations process broken out by sub-regions, ensures that all sub-regions will be involved in governance over time. There are ample opportunities for dealers and wholesalers to participate in the governance process through the board's committee structure.

Myth #18: The check-off has not been well communicated.

Fact: In addition to the website, www.softwoodlumber.org, over thirty presentations, workshops and webinars devoted to check-off were made in 2009 and 2010 in all regions of the United States and Canada. Numerous articles have been published in major industry trade publications such as Random Lengths, ProSales, and the Softwood Buyer, and in industry association newsletters, and information was sent on numerous occasions to trade associations representing the softwood lumber industry to be communicated with their members. Blue Ribbon Commission staff and commissioners remain open to participating in meetings to discuss the benefits of the softwood lumber check off.

Myth #19: Small mills will be unfairly burdened.

Fact: In fact, small mills and importers, almost 1,000 of them, won't pay.

Myth #20: There are too many unknowns.

Fact: On the contrary, over the years the industry has done an enormous amount of market research, and a significant portion of that is current. All of that has been considered by the check-off developers so that the check-off board can get up and running with a foundation of practical thinking to target their market growth efforts and return on investment. A thorough synopsis of this work is available at www.softwoodlumber.org, and can be obtained by mail or email.