RETAIL INDUSTRY LEADERS ASSOCIATION
Retail's Future…Educate, Innovate, Advocate

1700 N. Moore Street, Suite 2250, Arlington, VA 22209
Phone: 703-841-2300 Fax: 703-841-1184
Email: info@retail-leaders.org www.retail-leaders.org

December 19, 2007

The Honorable Marilyn R. Abbott
Secretary
United States International Trade Commission
500 E Street SW
Washington, DC 20436

Re: Post-hearing Written Statement of the Retail Industry Leaders Association on Investigation No. 332-487, Wood Flooring and Hardwood Plywood: Competitive Conditions Affecting the U.S. Industries

Dear Madam Secretary:

On behalf of the Retail Industry Leaders Association (RILA), I am pleased to provide written comments to the United States International Trade Commission ("Commission") regarding its investigation on wood flooring and hardwood plywood (Investigation No. 332-487). RILA's members include the largest retailers in the United States, including a number of home improvement retailers that carry wood flooring products. These products, whether produced domestically or abroad, compete openly in a free market system based on such factors as price, quality and design, with demand for wood flooring continuing to grow in the past decade due to new home construction and a surge in remodeling of existing homes.

By way of background, RILA promotes consumer choice and economic freedom through public policy and industry operational excellence. Our members include the largest and fastest growing companies in the retail industry – retailers, product manufacturers, and service suppliers – which together account for more than $1.5 trillion in annual sales. RILA members provide millions of jobs and operate more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

**<u>Consumer Preference Drives Product Sales</u>**

Consumer preferences for hardwood and softwood flooring drive sales in this competitive industry. Today's consumers not only shop for high quality products at prices they can afford, by they are increasingly looking for unique products, such as exotic woods not grown in the United States.

Retailers source products globally in order to provide a wide variety of flooring products to consumers. Even though hardwood and softwood flooring may sometimes be cheaper to produce overseas, there are added shipping and tariff costs that must be factored into the final purchase price.

For example, the average amount of time it takes for products shipped from Asia to United States via ocean shipping lines is six weeks. This lag time does not easily allow for product customization and is another non-price cost the retailer must consider when placing orders.

As a result, U.S. manufacturers are better equipped to deliver hardwood and softwood flooring to retailers in today's just-in-time retail marketplace. Wood that is harvested in the United States and Canada can be trucked to domestic processors in a more timely fashion than wood harvested overseas. For these reasons, domestically produced and harvested flooring is still highly competitive when compared with imports of finished products.

## **Exports Are Growing While Imports Are Slowing**

According to data compiled by RILA and maintained by the United States Department of Commerce, U.S. Census Bureau, Office of Foreign Trade Statistics, exports outpaced imports of softwood and hardwood lumber as a percentage of growth from 2005 to 2006. A combination of factors, such as consumer preferences, shipping costs, and the weakening of the U.S. dollar, has lead to higher worldwide demand for U.S.-produced flooring, while U.S. imports have significantly dropped over the past year. In addition, a substantial amount of raw product imports are used by the domestic manufacturing industry for processing and sale within the United States or export markets.

As indicated below in Figure 1, the value of U.S. worldwide exports of flooring products increased by over $6.02 million in 2006 over the previous year, or roughly a 5.98% increase. Advances in technology and investment in capital costs has made the domestic flooring industry more competitive in export markets. In addition, the weakened U.S. dollar has made domestically produced products more affordable for export.

Figure 1

**U.S. Worldwide Exports of Flooring Products**

Values in 1000 dollars

| | **2005** | **2006** | **% Change** |
|---|---|---|---|
| **Hardwood Flooring** | 92,473 | 99,364 | - |
| **Softwood Flooring** | 8,133 | 7,264 | - |
| Total | 100,606 | 106,628 | 5.98% |

Source: U.S. Department of Commerce

Compiled and calculated by the Retail Industry Leaders Association (RILA)

Meanwhile, Figure 2 illustrates that U.S. imports of flooring products fell dramatically between 2005 and 2006. In 2005, roughly $450.9 million in combined hardwood and softwood flooring was imported into the United States. For 2006, that number declined to $364.5 million, representing a drop of $86.4 million from the previous year. This one year plummet of imports represented a 19.16% decrease in the value of the imported products.

Figure 2

**U.S. Worldwide Imports of Flooring Products**

Values in 1000 dollars

| | 2005 | 2006 | % Change |
|---|---|---|---|
| **Hardwood Flooring** | 406,759 | 332,539 | - |
| **Softwood Flooring** | 44,175 | 31,999 | - |
| Total | 450,934 | 364,538 | -19.16% |

Source: U.S. Department of Commerce

Compiled and calculated by the Retail Industry Leaders Association (RILA)

Rising fuel costs, the weakening of the U.S. dollar, and a recent downturn in new home starts forced a market readjustment in 2006 as a result of lower U.S. demand for imported hardwood and softwood flooring.

In sum, the rise in exports and the decrease of imports shows that the U.S. market for hardwood and softwood flooring is highly competitive. A decrease in demand for imports in 2006 has caused the domestic industries to increasingly rely on export markets, and we expect similar market conditions for 2007 and beyond.

## Factors for the Commission to Consider

In compiling this report for the United States Senate Committee on Finance, RILA respectfully urges the Commission to proceed with caution before recommending government intervention in the free market movement of hardwood and softwood flooring. Barriers to trade such as price supports, tariffs, and quotas generally provide relief to a very small number of constituencies, while increasing costs on a far larger group and in this case at the expense of retailers, consumers, and downstream users.

In the case of hardwood and softwood flooring, it has already been determined that a competitive market exists in the United States, with neither imports nor domestically produced product dominating the market. Artificially restricting imports would adversely affect retailers by limiting the options they can provide to consumers, and by reducing supply which can increase costs. Such costs would then have to be shouldered by consumers of flooring products. These price increases could prove to be cost-prohibitive to a number of consumers who are considering either installing wood flooring in a new home or looking to remodel an existing structure. This would in turn negatively impact the contracting and construction installation business and cause additional ripples to reverberate in other areas.

Finally, limiting the importation of hardwood and softwood flooring or further propping up trade barriers would have the perverse effect of actually inhibiting the U.S. manufacturing industry from becoming any more competitive than it is today. Limiting competition would not only shield the effects market forces such as innovation, product differentiation and efficiencies in manufacturing from strengthening the U.S. industry, but reduced supply and increased prices could also cause consumer preferences to switch to other synthetic flooring products or carpeting, further eroding the market share of U.S. producers.

In conclusion, competition in the hardwood and softwood flooring industry is not dominated by either domestically manufactured products or imports. Consumer demand for high-quality products at prices they can afford will continue to drive what products our retail members' stores stock.

Thank you for allowing RILA the opportunity to provide written post-hearing comments to the Commission regarding its investigation (No. 332-487) on Wood Flooring and Hardwood Plywood: Competitive Conditions Affecting the U.S. Industries. If you should have any additional questions about the content of these comments, please contact Andrew Szente, Director of Government Affairs in the RILA office by phone at (703) 600-2033 or by email at andrew.szente@rila.org.

Sincerely,

Stephanie Lester

Stephanie Lester
Vice President, International Trade