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KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

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TO: Senator Dole
FROM: George Pieler
SUBJECT: American Paper Institute Talk

Your remarks to the American Paper Institute and National Forest Products Association are scheduled to begin at 8:30 tonight at the Pinehurst Hotel, Pinehurst, North Carolina.

(1) State of the paper/wood products industry. The paper industry is making a reasonably good recovery from the recession, while the wood industry is still not back to pre-recession levels: housing starts, in the 1.7-1.8 million range per year in recent years, are still well behind the pre-recession level of about 2 million a year. In addition, imports of Canadian soft timber have been gaining ground over the past 5 or 6 years, and now account for about 35% of the U.S. market in softwood timber. Overall, U.S. wood producers are selling about half of what they were in the 1978-79 period.

(2) Exports/dollar value. Like most industries that rely on international trade, the paper industry is disadvantaged by the high value of the dollar. The industry used to be able to boost exports by 5-10% a year, but that growth has slowed in some years to a zero rate. The industry may be inclined to move more processing facilities off-shore in the future, which would shift jobs out of the U.S. Overall the industry is happy to hear rhetoric about retaliating for barriers to market entry overseas as a 'pressure point', but would be disturbed by measures that actually raise the threat of protectionist retaliation.

(3) Taxes. In 1983, according to the Joint Committee, the paper and wood products industry paid a U.S. effective tax rate of -0.5%, and a worldwide effective tax rate of 7.2%. The main reasons are ITC carryovers, accelerated depreciation, and favorable capital gains treatment (including the special rules allowing sale or disposition of timber to result in ordinary income in some cases).

The industry strongly supports deficit reduction but not tax increases. Generally they are not unsympathetic to the Treasury reform proposal but would want to keep some incentive equivalent to the special capital gains treatment for timber.