

### Director's Message



#### Getting Serious About Raw Materials by Kirk Grundahl, WTCA Executive Director

When we think of the raw material that we use to manufacture our products, steel and wood instantly come to mind. With steel, think in terms of the \$500,000,000 (\$0.5 billion) in purchases of the myriad of products supplied to us by our truss plate, connector/hardware and cold formed structural shape suppliers. And in the case of wood, consider the \$7,500,000,000 (\$7.5 billion) in purchases of the wide range of wood-based products supplied to us by lumber, I-joist, LVL, glulam, and other suppliers. These two major raw materials are easy to see; however, there is another business component that is often lost in the shuffle—that is the truss design and software services that are also critical to our industry's success. A huge investment has been made by our suppliers to allow us to provide state-of-the-art truss and wall panel designs so that we can meet every need of our customer's architectural approach to their construction project.

Given this, let's take a closer look at the key issues that we face with each of these raw materials:

- Steel:
  - A recently imposed 30 percent tariff and the economic model distortion and unintended consequences that this creates on our valued added products.
  - Price uncertainty
  - Corrosion
  - Thermal performance
  - Fire endurance performance
- Lumber:
  - A recently imposed 27.2 percent tariff with more profound economic model distortion and unintended consequences.
  - Mold
  - Termites
  - Quality
  - Price uncertainty
  - Treatment issues
  - Fire endurance performance
  - A changing lumber resource and consequent lumber design property changes.
- Truss Design and Software Services:
  - The cost of sealing truss designs on structures that are exempt from any professional engineering requirements.
  - The pressure for our industry to seal truss placement plans and what that really means.

- Confusion over what an engineer's seal really means.

As far as I know, we are the only industry in the country that was unfortunate enough to be hit with the imposition of sizable tariffs on its two primary raw material components.

From our plate suppliers' vantage point, the 30 percent steel tariff has produced certain unintended consequences that include:

- Many of our suppliers had long-term contracts that were abruptly terminated once the tariff went into place. This was clearly disruptive to their economic model.
- There are cost increases for each of our plate suppliers and a great deal of pricing uncertainty. To date price increases have generally been in excess of 25 percent for our suppliers. They have passed on modest price increases to our industry absorbing the remainder of their increased costs. There continues to be pressure on increasing prices and this just adds to the uncertainty for their businesses' economic structure, and as a consequence, our industry's economic structure.
- In the market today, we continue to have price pressure as we sell products to our customers, so there is a squeeze on our margins. This means that if we get a price increase from our suppliers, it has become hard to pass this onto our customers. Our industry is caught in this "lower price for our products and rising cost of our raw material" vice.
- One interesting feature of the steel tariff relates to the remedies that exist. What this allows is the import of steel slabs that are used as the raw material for cold forming operations at U. S. facilities, tariff free. In effect, this allows the steel companies themselves to bypass the 30 percent tariff on imports of raw steel slabs and change the form of the steel into cold formed galvanized steel. This steel is protected by the tariff raising its value by 30 percent and restricting price competition from foreign suppliers of cold formed galvanized steel. This is a great bypass of the tariff situation for those that can accomplish it, as the value of the finished product goes up by the 30 percent tariff amount and any increases beyond that due to limited supply. Modern Metals reports that these finished product prices have increased from 20 to 50 percent in many markets. For those who benefited from the remedies, that means they were able to increase their prices 50 to 80 percent!

On the lumber side, the unintended consequences include:

- The anti-dumping provision has caused the lumber companies in Canada to reduce their unit costs by keeping production high, so that they can reduce the anti-dumping tariff percentage by showing that they are not selling their products below their unit cost of production. This is part of the reason for the oversupply of lumber in all markets and the resulting lower prices.
- Non-Canadian imports of lumber have increased, adding further to the over supply issues.
- As we have said all along, we believe that it does not take the market place long to figure out how to take advantage of any trade action to gain a business benefit. This is human nature. The longer the trade dispute continues, the more likely it is that market-based business solutions will be found whose sole purpose will be to bypass tariffs creating new competitive advantages and disadvantages (winners and losers) within both U.S. and Canadian markets.
- These consequences bring very uncertain business conditions that do not allow businesses to create long-term sustainable and strategic business models that serve the best interests of their customers, employees and shareholders.

- The business issues that will cause competitive advantages/disadvantages to occur include:
  - Can companies buy the same grades of lumber markedly cheaper in Canada than in the U.S.?
  - What is the impact of the exchange rate on the competitiveness of value-added products coming out of Canada?
  - Is there any way for U.S. companies to bypass the tariffs by buying pre-cut truss chord and web stock? Do the economics make sense to do this? Is there supply available to meet all the demand that this could cause or will this approach only serve a few?
  - How quickly will the market change over to providing value-added products from Canada, bypassing the 27.2 percent tariff? When will the duration of the tariff be an absolute? For now it is five years with lawsuits pending. When will it be risk free enough to make the types of investments in Canada that would allow a reasonable return on investment through the various tariff bypasses available? How difficult is it for U.S. companies to shift production to Canada? Can profitable joint ventures be developed?

On the truss design and software side, the unintended consequences include:

- A rise in the cost of providing sealed engineering for what are otherwise exempt structures. In talking with one of our software suppliers, they said that the number of sealed engineered truss design drawings requested was up 48 percent over a year ago for the same period of time. This kind of increase in workload does not come without a cost that will have to be passed on at some point in time. There is only so much efficiency that can be built into the system to handle these types of service demand increases.
- We may have been our own worst enemy in the early years by saying that we can supply a sealed engineered truss design drawing for any structure.
- Should state imposed regulations continue to decide that every written document or instrument our industry produces needs to be sealed (like truss placement plans), there will need to be software modifications to allow us to be compliant with such requirements. Additionally, some of these demands will require much more manpower to comply with, again increasing the cost of all the engineering services being provided.
- The question here is what does the seal really mean? How does it ensure that the construction is any better than building code framing methods that require no seal at all? Is the requestor of the seal really getting the value they think they are or is it just an added cost that does little to assure better construction overall?
- Could this money be far better spent working with all the trade contractors and implementing sound construction quality control programs? If done properly, the risk protection that the seal seems to represent would not be needed at all if we were assured of greater construction quality and proper controls were in place to assess the as-built quality efficiently and accurately. This would also have a profoundly positive impact on construction defect litigation.

As one can readily see, the destiny of our industry and our suppliers' industry are inextricably intertwined. What one industry does will have a profound impact on the other's economic model.

What are we collectively doing to help?

- On the steel side, we are working closely with our suppliers and representing their interests in

Congress and wherever else a voice needs to be heard. When they need a letter or a contact, we have been there to support them.

- On the lumber side, we are working diligently to find a solution to the long running dispute. We are very involved in a new group called the U.S. Value Added Wood Products Alliance where our goal is to “seek an enduring settlement of the software lumber dispute and the preservation of U.S. jobs in the value-added sector.”
- We have been working closely with our truss design and engineering suppliers on all the professional engineering issues surrounding our business. We are working hard to ensure that everyone involved in these issues understands our industry and how we operate. We all need to have a deep understanding of the law and the concepts here so that we advance our industry's professional responsibility and reputation.

It should be clear that to have a valuable industry that provides a valuable place to earn a living, we—component manufacturers and all our suppliers—must communicate more and more effectively as we move forward. There are too many issues today where the action of one can have severe unintended consequences on another. We need to figure out how we can improve our communication so that we reduce the negative potential on either industry. Fortunately, we have a great start in this area with TPI Board members where our Executive Committee meets with them twice per year. The real question is how much longer can we afford NOT to get serious about putting a plan in place to ensure that there is great communication amongst ALL of us (lumber, plates, software, engineering, hardware, EWPs, steel, etc.) that have an interest in seeing the structural building components industry thrive?

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