

GAO

Report to the Honorable  
Norman D. Dicks,  
House of Representatives

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May 1993

# AGRICULTURAL MARKETING

## Export Opportunities for Wood Products in Japan Call for Customer Focus



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United States  
General Accounting Office  
Washington, D.C. 20548

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**Resources, Community, and  
Economic Development Division**

B-252766

May 19, 1993

The Honorable Norman D. Dicks  
House of Representatives

Dear Mr. Dicks:

The U.S. forest products industry has traditionally sold most of its solid wood products, such as lumber and plywood, domestically. However, the industry recognizes that foreign markets have significant potential for growth, while domestic markets have only moderate potential for growth.

You therefore asked us to examine the industry-federal government approach to selling solid wood products overseas, particularly in view of marketing theory's current emphasis on the importance of meeting customers' needs. As agreed, we examined the efforts of the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS) to support the U.S. industry in promoting its solid wood products in Japan, the United States' largest customer for these products. This report is the second in a series of reports that you requested on forest products. Last year we reported on current conditions in the forest products industry, including its exporting position in the world market.<sup>1</sup> A third ongoing effort is examining the dimensions of the problems that the industry and dependent communities in Washington State and Oregon are facing and the federal assistance that is available to them.

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## Results in Brief

The industry-FAS approach for promoting solid wood products in Japan focuses primarily on reducing Japanese barriers to, and expanding Japanese demand for, products that the United States produces for the domestic market. This approach has resulted in the following changes. First, bilateral negotiations have reduced three major types of Japanese trade barriers—building codes, certification requirements, and tariffs—to imports of foreign-made solid wood products. Second, demonstration projects in Japan have contributed to these negotiations by increasing awareness of the advantages of U.S. products and timber-frame construction, which uses lumber already cut to North American measurements. By focusing on reducing trade barriers and increasing demand, this approach has emphasized solving problems faced by companies attempting to sell their products in the Japanese market.

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<sup>1</sup>Agricultural Marketing: Status of the Forest Products Industry (GAO/RCED-92-170BR, June 23, 1992).

However, this approach, with its emphasis on serving sellers' interests, does not stress the importance of meeting customers' needs. Current thinking and practice in marketing strategy emphasize focusing on customers' needs, and this focus is especially critical in selling in Japan, according to Japanese customers and successful U.S. exporters we interviewed. Because the industry-FAS approach has not focused on customers' needs, it may (1) miss opportunities to further penetrate Japan's large market for imported solid wood products—the materials needed for traditional Japanese wooden (post-and-beam) housing construction—and (2) not ensure that the opportunities it has created through trade negotiations will be developed and maintained by U.S. companies, rather than be lost to competitors, such as Canadian companies, which are more customer focused. While the industry-FAS strategy has not been customer focused, some U.S. wood products companies have adopted a customer focus and have successfully exported products to Japan.

Exporters, FAS, and industry association officials suggested other factors that may make it difficult for U.S. solid wood companies to export—such as difficulty in obtaining financing to begin exporting operations and an industry culture that does not generally consider exporting a viable option. As of April 1993, the industry-FAS approach had done little to address these factors, and FAS officials believe that the agency does not have a mandate to deal with them.

In January 1993 USDA issued its Long-Term Agricultural Trade Strategy. The strategy recognizes the importance of adopting a customer orientation in export promotion and of addressing other factors that may make exporting difficult for U.S. companies. However, the strategy does not specify how USDA will address these issues.

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## Background

FAS has primary responsibility for working with the private sector to expand and maintain foreign markets for U.S. agricultural exports, including solid wood products. Individual companies and the industry's trade associations also work with other federal agencies and state governments to market U.S. exports.

In addition to participating with the Department of Commerce and the Office of the U.S. Trade Representative in bilateral negotiations with the Japanese government, FAS promotes solid wood products in Japan through two export promotion programs—the Market Promotion Program and the

Foreign Market Development Program—delivered and co-funded by industry organizations. Between 1982 and 1993, funding for these two programs to promote wood products in Japan will total over \$17 million. FAS also offers other services, such as providing market intelligence to potential exporters.

In 1992 about 40 percent of all U.S. solid wood exports—valued at \$2.7 billion—went to Japan, making it the industry's largest export market. Softwood logs and lumber constituted the majority of the exports. The United States supplies more than half of the softwood logs and about 30 percent of softwood lumber imported into Japan.

Japan imports about 75 percent of the solid wood needed to satisfy domestic demand, and most is used in housing construction. Housing starts in 1991 were about 1.4 million units—higher than in the United States. About 46 percent of these new housing units are made of wood—about 624,000 units in 1991.<sup>2</sup> The remainder—and currently all multifamily, multistory housing—is constructed using steel and concrete. The percentage of new wooden housing as a share of total housing is expected to increase, according to U.S. and Japanese government and industry officials.

Most of the wooden housing constructed in Japan is in the traditional post-and-beam style. Typically, this method uses 4x4-inch posts and boards for framing and requires extensive custom carpentry. Traditional homes are built on a 3x6-foot module, which fits the standard-sized tatami mats that cover the floors. In addition, in post-and-beam construction, much of the wooden framing material is left exposed as decoration. Timber-frame construction comprises only a small proportion of wooden housing construction in Japan. Timber-frame—or “2x4”—construction is most often used in North America. Homes using timber-frame construction typically are framed with 2x4-inch boards on a 4x8-foot module and use more standard-sized and pre-assembled materials than in traditional Japanese construction. Also, the framing material is generally covered by wallboard.

<sup>2</sup>The latest data on housing starts available through the Japanese government.

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## Industry-FAS Approach Has Focused on Reducing Trade Barriers While Increasing Demand

FAS has participated with the Department of Commerce and the Office of the U.S. Trade Representative in bilateral negotiations that have resulted in lowered trade barriers—less prohibitive building codes, easier product certification, and lower tariffs on processed products. These negotiations have been part of the industry-FAS approach to increase Japanese demand for available U.S.-processed solid wood products while making it easier for U.S. companies to take advantage of the increased demand.<sup>3</sup> In addition, FAS and the industry have supported demonstration projects in Japan to illustrate the benefits of U.S. solid wood products and timber-frame construction techniques. FAS and U.S. industry officials believe that these recent changes have greatly improved market access for wooden structural materials and will lead to greater Japanese imports of U.S. solid wood products. (For additional information about FAS' market promotion activities in Japan, see app. I.)

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## Building Codes Have Changed

Through bilateral negotiations in the 1980s and demonstrations illustrating the safety aspects of North American-style construction projects, the United States has begun to persuade Japan to revise its building codes. Until recently, Japanese building codes prohibited the construction of multistory wooden buildings, effectively limiting the potential use of imported wood for construction. In 1987 the codes were revised to allow single-family, multistory wooden buildings. By April 1994 multifamily, multistory wooden construction will be allowed in designated zones. FAS and American Plywood Association (APA) officials expect that these changes will result in increased construction of wooden multifamily, multistory housing in many of Japan's smaller cities. APA estimates that these changes will increase demand for wooden panels by 2.5-billion square feet, with U.S. companies expected to garner about 25 percent, or 625-million square feet, of this increase.

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## Product Certification Is Easier

Trade negotiations have also reduced the cost and the time needed for foreign companies to qualify for the Japanese Agricultural Standards (JAS) stamp on solid wood products. The JAS stamp certifies that the products have met the Japanese Ministry of Agriculture's grading standards and must be on all wooden materials used in any publicly funded construction in Japan. Since the JAS stamp is the standard used by most Japanese customers to judge product quality, it generally enhances the salability of solid wood products for any construction in Japan.

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<sup>3</sup>FAS does not promote exports of logs.

Qualifying for JAS certification is a complex process. Prior to 1987 JAS certification could only be obtained directly from the Ministry of Agriculture. A U.S. company may typically take 2 years to meet Ministry requirements, according to one U.S. company; during this period, Ministry officials will make multiple trips to the mill being evaluated, at the expense of the individual company. As a result of the negotiations, the Japanese government agreed to delegate JAS certification authority to certain foreign testing organizations (FTO), such as APA. Dealing directly with these FTOS in the United States makes qualifying for the JAS stamp less complicated and costly for U.S. wood products companies. According to June 1992 Japanese government statistics, 22 U.S. wood products mills have been certified since this delegation took effect. Previously, no U.S. wood products mills had been certified.

### Tariffs on Processed Products Are Lower

Until the late 1980s, Japanese tariffs on imported solid wood products were minimal on the least-processed products, such as logs, and were as much as 20 percent on more highly processed products. Through ongoing negotiations, the Japanese government agreed to lower tariffs on processed solid wood products. For example, the tariff on softwood plywood was lowered from 16 percent to 10 percent in 1988 and on glue-laminated beams from 15 percent to about 4 percent in 1990. One company that makes glue-laminated products told us that the decreased tariffs have helped it to sell its products in Japan.

### Demonstration Projects Have Increased Awareness of Benefits of Timber-Frame Construction

Since the mid-1980s, the U.S. industry and FAS have jointly supported several projects that demonstrate timber-frame construction techniques and showcase U.S. solid wood products. Well-known projects in Japan include the 1986 Summit House—a three-story, single-family house—and the 1992 Superhouse—a three-story, multifamily apartment building. Both were built using timber-frame construction techniques and U.S. wood products. In addition, a “shake-and-bake” demonstration, funded by the Japanese government, simulated the effects of earthquakes and fires to illustrate the safety aspects of timber-frame construction.

According to industry and FAS officials, the demonstration projects have greatly increased Japanese customers' awareness of the benefits of timber-frame construction techniques. At the Superhouse alone, over 10,000 potential Japanese customers toured and participated in seminars. In addition, according to the National Forest Products Association's (NFPA)

Vice President for International Trade,<sup>4</sup> timber-frame construction was virtually nonexistent in Japan prior to these efforts. Japanese government and Western Wood Products Association statistics show that timber-frame construction as a percentage of all wooden construction increased steadily from 2 percent in 1981 to 7 percent in 1991, when approximately 45,000 timber-frame units were built.

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### Industry-FAS Approach Has Not Emphasized Customer Focus

In focusing on reducing trade barriers and increasing demand, the joint industry-FAS approach has not emphasized the importance of meeting customers' needs, a focus particularly important to the Japanese market for wood products. Because the U.S. approach has not focused on customer needs, it has (1) not ensured that U.S. opportunities in the timber-frame market will be fully developed and maintained and (2) largely forgone opportunities to further penetrate one of Japan's major solid wood products markets—post-and-beam construction for housing. Furthermore, according to most of the Japanese customers we spoke with, Canadian companies are better than their U.S. counterparts at meeting Japanese customers' needs. Nevertheless, some U.S. companies have adopted a customer focus and competed successfully in Japan.

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### Market Development Strategy Calls for Customer Focus

Current marketing theory emphasizes the need to tailor products and services to the preferences of specific customers. This approach has proven to be a successful business practice in both the United States and international markets for all types of products. The need for customer orientation in USDA's market promotion activities has been pointed out by us in reports and testimony since 1988. (See Related GAO Products.) Marketing experts stress that customer focus is vital to the marketing process: In the marketplace, the customer's perception is a reality that producers must face. Therefore, to be successful, it is essential that potential exporters understand which quality attributes their customers perceive to be critical and adapt products and services accordingly.

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### Commitment to and Understanding of the Japanese Market Are Often Lacking

Customer focus is particularly important in dealing with Japanese customers, according to Japanese customers and successful U.S. exporters that we interviewed. Both groups consistently told us that some U.S. wood products companies do not show adequate commitment to

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<sup>4</sup>On Jan. 1, 1993, NFPA took responsibility for the pulp and paper segment of the forest products industry and was renamed the American Forest and Paper Association.



meeting Japanese customers' preferences. The lack of customer focus was evident on two fronts.

First, customers and exporters told us that U.S. companies generally do not demonstrate a commitment to building long-term business relationships with Japanese customers. They believe that, in general, U.S. companies will supply the Japanese market only when the U.S. market is sluggish and will withdraw from the Japanese market when the U.S. market picks up. Further, customers told us that, in their experience, U.S. companies do not provide adequate after-sales service or guarantee supplies and prices,<sup>5</sup> all of which are needed to cultivate continued business. Japanese companies value long-term business relationships and prefer to conduct business with suppliers that have proven reliable over a number of years.

Second, according to Japanese customers we spoke with, many U.S. companies do not appear to be interested in understanding the needs of their Japanese customers and/or tailoring their products to meet those needs; instead, U.S. companies try to sell the same products and services that are demanded by the U.S. market. For example, Japanese customers pointed out that many U.S. companies did not provide detailed technical documents, written clearly in Japanese, explaining how to use the U.S. products. We were told by customers that Japanese carpenters need detailed, written instructions on proper use of 2x4 products. In addition, U.S. companies often do not understand that the Japanese customer's definition of "quality" is often a preference for attractive finishing and a clear, knot-free appearance. Instead, U.S. companies stress the structural properties of their products, believing that the products should sell on the merits of their performance, as they do in the United States. Japanese customers indicated a willingness to pay more for their preferences. As one customer told us, price is an issue only if the quality of competing products is comparable, and his company insists on quality and service first before negotiating price. (For additional customers' views on exporters' performance and market opportunities, see app. II.)

U.S. exporters raised similar issues regarding the need for more customer orientation. One exporter acknowledged that his customers will pay up to 20 percent more for better product quality and service. Similarly, another exporter stated that in order to expand or improve market position, U.S. exporters must work harder at customer satisfaction than in the past.

<sup>5</sup>After-sales service includes activities such as answering questions on product capabilities, storage, and use, as well as replacing defective products.

FAS officials agree that meeting customers' needs is an important component of the overall strategy for building the market for U.S. wood products in Japan. They pointed out that activities in Japan under the Foreign Market Development Program, while a small portion of total FAS spending for wood products promotion in that market, concentrate on helping companies meet their customers' needs. (See app. I for additional information about the Foreign Market Development Program.) Furthermore, they believe that as more U.S. companies satisfy their Japanese customers' needs, exports of U.S. wood products will increase.

In addition to focusing on meeting the current needs of customers, FAS believes that the U.S. forest products industry could do more. FAS believes that attention only to current customers' needs unnecessarily limits U.S. marketing opportunities to Japan's current wooden housing market. By introducing timber-frame construction as an attractive, economical alternative to concrete and steel for multistory, multifamily structures, the industry and FAS hope to create a niche that U.S. companies can fill with products they already make. Furthermore, the industry-FAS approach in Japan is part of an overall effort to establish timber-frame construction worldwide because this type of construction requires U.S.-made sizes and qualities.

In contrast to the practices of U.S. companies, both customers and exporters told us that the Canadian approach is to aggressively demonstrate commitment to the market and to be more willing to meet the needs of Japanese customers. For example, Canada had the only FTO certified during 1987, the first year that FTO certification was available. By mid-1989, when Japan designated the first FTO in the United States, only four U.S. mills were certified. At the same time, Canada had nine JAS-approved mills, thereby obtaining a lead over U.S. companies in establishing business with Japanese customers. Furthermore, citing Canadian softwood plywood as an example, one customer commented that this product sells more successfully than U.S. plywood because Canadian companies, unlike U.S. companies, provide a reliable supply of plywood with a uniform appearance at a consistent price. All of these attributes are important to Japanese customers. One customer told us that U.S. companies are competitive in price and design but that Canadian companies are preferred because they pay more attention to appearance and quality, ask about customers' needs, and provide better after-sales service.

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FAS and industry association officials cited lower prices for Canadian timber as the primary reason for the inability of U.S. companies to compete with Canadian companies. According to the NFPA's Vice President for International Trade, industry members consistently attribute their difficulty in competing with Canadian companies to lower Canadian timber prices, and Canadian subsidies on timber have been the subject of recent trade disputes between the United States and Canada. Nonetheless, FAS and industry association officials agreed that Canadians have often been quicker to take advantage of reduced trade barriers, such as the lower tariffs and negotiated changes in certification requirements.

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### Industry-FAS Approach Has Not Targeted Largest Wood Housing Market

Post-and-beam construction accounted for about 80 percent of all wooden housing in Japan in 1991. In targeting its efforts primarily toward expanding the timber-frame construction market in Japan—about 7 percent of the market—the industry-FAS approach does not emphasize market development opportunities for solid wood products in the larger post-and-beam market. Japanese customers prefer to use old-growth timber, which is becoming less available in the United States, in post-and-beam construction. However, substitute products are available that do not require old-growth timber. These include engineered wood products, which use veneers, and more traditional products that are cut and finished to Japanese specifications for size and appearance.

FAS officials believe that the emphasis on timber-frame construction—not post-and-beam—will ultimately create the most opportunities for exports of processed solid wood products to Japan.

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### Some U.S. Companies Have Succeeded by Adopting Customer Focus

By recognizing the importance of customers' preferences, some U.S. companies have successfully sold both Japanese- and U.S.-style solid wood products in Japan. Company officials we spoke with identified a number of factors that were important to marketing those products in Japan, such as choosing an appropriate distribution method. However, they all cited a willingness to meet Japanese importers' needs and to establish and maintain good customer relations and servicing as essential to success.

For example, to maintain long-term customer relations, several of the successful exporting companies we spoke with have customer representatives in Japan who speak Japanese. One small company, which does not keep a representative in Japan, teaches the U.S. aspects of the

wood products industry to the sons of its Japanese customers. These students live with company officials during their U.S. stay. To satisfy customer needs, one large U.S. wood products company adapted its panel size to fit the Japanese 3x6-foot module.

FAS and NFPA officials acknowledged that many U.S. wood products companies are not committed to exporting and to meeting foreign customers' needs. However, according to the director of FAS' Forest Products Division, exporting has become increasingly important to the industry over the past 20 years, and some companies, by making a commitment to exporting and adopting a customer focus, have successfully penetrated the Japanese market. As the industry continues to become familiar with and dependent upon exporting, the director expects that a greater commitment to exporting and customer focus will develop.

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## Domestic Barriers to Export Success May Exist

According to exporters, industry representatives, FAS officials, and market analysts, a number of domestic factors may make foreign competition difficult for U.S. wood products companies. The officials cited many constraints on exporting, such as (1) restrictions on the supply of federal timber, (2) difficulty in obtaining financing, (3) an industry culture that often does not consider exporting an option, and (4) lack of an adequately trained work force. Industry and FAS officials acknowledge that factors such as these can constrain industry efforts to compete in the Japanese market. According to FAS officials, however, the joint effort to promote U.S. wood products has not focused on addressing these constraints because, in their view, these factors are outside their purview: They concern either other federal mandates or business practices in the private sector that must be addressed by that sector alone. FAS officials believe that these domestic factors are symptomatic of those faced by many U.S. industries and call for national, interagency solutions.

The first constraint—restrictions on supply—was identified because federal softwood timber is becoming less available. Companies dependent on this source of supply must look for other sources. Furthermore, current uncertainty about the source, quantity, and price of timber supplies makes it difficult for exporters to consistently supply products to their foreign customers. Finally, the decreased supply, with all else being equal, drives up the price of timber generally.

The second constraint—difficulty in obtaining financing—is peculiar to the companies seeking to export solid wood products to Japan, industry

analysts and exporters told us. Lenders and stockholders, who expect to recover their investments in the short term, consider exporting wood products to be high risk. The industry has been hurt in recent years by recessions; this, combined with the high start-up costs needed to export to Japan, contributes to the riskiness. Officials from several U.S. companies we spoke with have found it difficult or impossible to borrow sufficient funds to begin and sustain exporting, and they cannot afford to export without borrowing.

The third constraint—the industry culture—is viewed as a barrier preventing many companies from even exploring the possibility of exporting. According to industry experts, company officials often do not consider exporting a viable option. Many believe that they are too small to dedicate staff and funds to investigating export possibilities. Furthermore, accustomed to supplying only domestic customers, these companies think that difficulties in adapting products and packaging, dealing with foreign languages and currencies, arranging shipping, and developing foreign customer relationships are insurmountable and could not be profitable.

Finally, a constraint faced by many U.S. industries—lack of an adequately trained U.S. work force—may limit the ability of U.S. wood products companies to compete in global markets. According to an official of one such company, successful global competition will increasingly require the wood products industry to rely on advanced technologies. Since available workers do not possess even basic technical skills, the burden of providing technical training will increase for U.S. firms. This official also believed that global competition requires management and marketing employees with communication and language skills that are difficult to find in U.S. employees. Similarly, customers and exporters alike told us that although it was important to Japanese customers that oral and written business communications be in Japanese, this skill was difficult to find in U.S. employees.

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## USDA's New Strategy Discusses Both a Customer-Oriented Focus and Domestic Barriers

While attention to customer relations has not been the focus of the joint industry-FAS approach, this may be changing. USDA's Long-Term Agricultural Trade Strategy (LATS), issued on January 11, 1993, recognizes the importance of (1) adopting a customer-oriented focus in promoting exports and (2) addressing other factors that may make exporting difficult for U.S. companies and that may put them at a competitive disadvantage in international markets.

As part of its greater emphasis on customers' needs, the strategy states that USDA should help the agricultural sector provide competitive products and be a reliable supplier. It also explains that USDA policies should focus on price- and nonprice-based trade barriers, encourage a competitive work force, and help exporters acquire and improve their competitive skills. This approach reflects the strategy's view that USDA's goal or responsibility is not to manage agricultural trade for the industry but to create an environment in which "the natural comparative advantage of U.S. agriculture can prevail." We are currently reviewing the integration of FAS efforts into USDA's overall LATS implementation as part of a management review of FAS.

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## Conclusions

FAS has assisted the U.S. solid wood products industry in lowering trade barriers to Japan and raising Japanese awareness of the advantages of North American solid wood products and construction techniques. These actions are a critical first step in increasing exports of solid wood products to Japan. For some companies, these actions may have eased entry into the Japanese market or advanced ongoing efforts.

However, improved access and increased demand will not guarantee the competitive success of exports of U.S. solid wood products in Japan. While encouraging Japanese customers to adapt to U.S. products and construction techniques is a good strategy for developing a targeted, or niche, market, it ignores the other significant market opportunities that exist in Japan. The industry-FAS approach essentially relies on selling the types of products and services that companies provide for the domestic market rather than on determining Japanese market needs and then producing a product to meet those needs. Japanese customers are concerned about product appearance and after-sales service, areas that many U.S. wood products companies need to emphasize if they are to compete in the Japanese market. If they do not, competitors could seize the opportunity and act on the importance of Japanese customers' concerns. In that case, the industry-FAS effort to open the Japanese market will have served to help competitors more than the U.S. industry.

The approach followed by the industry and FAS in the past has not addressed potential domestic barriers to successful exporting. A future approach that addresses domestic as well as foreign barriers may help to ensure the competitive success of U.S. wood products companies in the international market.

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## Agency Comments

We discussed a draft of this report with the Director and Deputy Director of the FAS Forest Products Division, who generally agreed with the facts and observations that we presented. We incorporated specific points that they raised where appropriate. In addition, we briefed representatives of NFPA, the industry association with overall responsibility for implementing the industry-FAS approach, on the results of our work. They generally agreed that our results accurately describe the focus of the industry-FAS approach and accord with their experiences with U.S. companies' performance in supplying the Japanese market. As requested, we did not obtain written comments on this report.

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## Scope and Methodology

In developing information for this report, we interviewed Japanese customers, U.S. exporters, and U.S. and Japanese government officials. We supplemented these interviews with information obtained from marketing and wood products exporting analysts, marketing literature, and documentation provided by Japanese and U.S. government and industry representatives. We also used a consultant, Michael R. Czinkota, to provide insight into issues in international marketing. For both customers and exporters, we selected a range of representatives to interview to provide broad coverage of product type, geographic area, and unique experiences in the U.S.-Japan solid wood products trade. This report presents the views of the customers, exporters, and government and other officials we interviewed. We sought to obtain information from a wide range of individuals; however, we did not use random sampling in choosing interviewees. Therefore, the results of our discussions cannot be statistically generalized. (For further information on the scope of our work and the methodology we used, as well as a list of interviewees, see app. III.)

We conducted our review between August 1991 and March 1993 in accordance with generally accepted government auditing standards.

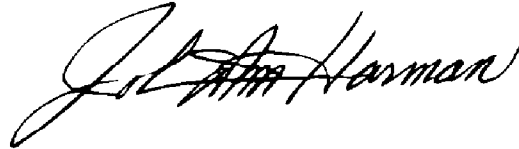
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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees; interested Members of Congress; the Secretary of Agriculture; and other interested parties. We will also make copies available to others upon request.

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Please contact me on (202) 512-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John W. Harman". The signature is written in black ink and is positioned below the text "Sincerely yours,".

John W. Harman  
Director, Food and  
Agriculture Issues





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## Abbreviations

APA	American Plywood Association
FAS	Foreign Agricultural Service
FTO	Foreign Testing Organization
GAO	General Accounting Office
JAS	Japanese Agricultural Standards
MPP	Market Promotion Program
NFPA	National Forest Products Association
TEA	Targeted Export Assistance Program
USDA	U.S. Department of Agriculture



# Foreign Agricultural Service's Market Promotion Activities in Japan

The Foreign Agricultural Service (FAS), formed in 1953, is the U.S. Department of Agriculture (USDA) agency with primary responsibility for expanding and maintaining foreign markets for U.S. agricultural exports. The Japanese market is a major target of FAS market development efforts for wood products. FAS activities in Japan fall into three categories: (1) trade policy, (2) export promotion, and (3) market information services.

## Trade Policy Activities

The U.S. government negotiates with the Japanese government to reduce trade barriers and increase market access for U.S. wood products in Japan. Over the years, the United States has addressed various kinds of barriers, including Japan's tariff structure, product standards and certification procedures, and building and fire codes. FAS works with the Department of Commerce and the Office of the United States Trade Representative in these negotiations.

The focus of U.S. trade negotiations for wood products in Japan has changed over the years. Initially, trade negotiations emphasized Japan's tariff structure, which favored unprocessed wood—logs—and product certification procedures, which required inspection of imported wood products to ensure that they met Japanese Agricultural Standards (JAS) for product quality. The United States sought lower tariffs on finished wood products and a process for U.S. mills to certify their compliance with JAS. In 1987 the emphasis shifted to revising building codes and product standards for North American-style timber-frame construction products. The United States wanted building and fire safety codes revised to permit larger wooden homes and multistory wooden apartment buildings, as well as product standards implemented for specified manufactured panel products. These changes could allow for greater market penetration of North American-style products.

Trade negotiations have succeeded in reducing some barriers to the sale of U.S. wood products in Japan. For example, during the 1980s tariffs were reduced on some processed products, including most softwood lumber items, particleboard, panel products, and plywood. In addition, since 1987 Japan has allowed qualified foreign mills to certify that their products meet the JAS product quality standards. Twenty-two U.S. mills had obtained this JAS certification as of June 1992. Furthermore, the Japanese government agreed to revise building codes and product standards for North American-style timber-frame construction products. For example, since late 1987 Japanese building codes have allowed construction of

larger wooden homes in Japan, and by April 1994 construction of multistory wooden apartment buildings will be permitted within certain zones.

## Export Promotion Activities

As a complement to trade negotiations, FAS works with industry trade associations to promote U.S. wood products in Japan. FAS and the industry jointly administer two export promotional programs for a variety of U.S. agricultural commodities and products: (1) the Foreign Market Development—"Cooperator"—Program, created in 1955, and (2) the Market Promotion Program (MPP), created in 1990 to replace the Targeted Export Assistance (TEA) Program started in 1986.<sup>1</sup> Wood products have been included in the Cooperator Program since 1980 and MPP/TEA since 1986.

Both the MPP and Cooperator Programs focus on increasing awareness and demonstrating the benefits of U.S. products in Japan. The programs are designed to overcome the lack of awareness and knowledge in Japan of specific aspects of U.S. wood products—such as the performance, economy, and safety of North American-style timber-frame buildings—and the environmental advantages of U.S. temperate hardwoods over tropical hardwoods from other countries. Both programs focus primarily on the same segment of the Japanese wood products market—timber-frame home construction. The programs conduct similar activities to achieve their goals, including seminars, personal contacts in Japan, trade shows, advertisements, and publications. In addition, both programs have sponsored activities related to on-site construction projects using a variety of wood products to demonstrate the benefits of timber-frame construction—such as safety features and cost savings—to architects, engineers, builders, bankers, insurance representatives, and housing and building code officials. MPP has also supported cooperation between industry representatives and FAS in meeting with Japanese officials to draft building code amendments and product standards.

The MPP and Cooperator Programs are jointly funded by FAS and the industry associations. Five trade associations, representing a cross section of the forest products industry, currently conduct these programs in

<sup>1</sup>TEA promoted exports of U.S. agricultural products that had been adversely affected by unfair trading practices. MPP extended program coverage to all commodities, with priority given to commodities hurt by unfair foreign trade practices.

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**Appendix I**  
**Foreign Agricultural Service's Market**  
**Promotion Activities in Japan**

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Japan: the National Forest Products Association (NFPA);<sup>2</sup> the American Hardwood Export Council; the American Plywood Association; the Western Wood Products Association; and the Wood Moulding and Millwork Producers Association.

FAS approves and funds the Cooperator and MPP Programs in response to plans submitted by the associations. For the Cooperator Program, FAS approves annual activity plans and funding levels. For fiscal year 1993, FAS plans to contribute about \$500,000 to the Cooperator Program for wood products promotion in Japan. The industry will contribute an additional 78 percent of this amount, or about \$400,000. For MPP, FAS first approves a multiyear strategic plan and then approves annual activity plans. FAS plans to contribute \$2.65 million in MPP funds for wood products promotion in Japan for the 1993 activity plan year—April 1993 through June 1994. The industry contribution will be an additional 8 percent of this amount, or about \$200,000. Table I.1 shows FAS funding for the MPP/TEA and Cooperator Programs since their inception in Japan.

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<sup>2</sup>Before Jan. 1, 1993, NFPA represented the U.S. solid wood industry. As of Jan. 1, 1993, NFPA became the American Forest and Paper Association and began representing the pulp and paper segment of the U.S. forest products industry as well. The American Forest and Paper Association is the national association of forest, pulp, paper, paperboard, and solid wood products industries.

**Appendix I  
Foreign Agricultural Service's Market  
Promotion Activities in Japan**

**Table I.1: FAS Spending for Export  
Promotion Programs for Wood  
Products in Japan, 1982-93**

Dollars in millions				
Activity year	Cooperator program	TEA/MPP program	Total <sup>a</sup>	Total in 1992 dollars
1982	\$0.004		\$0.004	\$0.006
1983	0.102		0.102	0.142
1984	0.146		0.146	0.194
1985	0.249		0.249	0.320
1986	0.164	\$0.977	1.141	1.421
1987	0.160	0.343	0.504	0.611
1988	0.197	0.366	0.562	0.657
1989	0.381	0.481	0.862	0.966
1990	0.343	1.125	1.468	1.573
1991	0.533	4.096	4.629	4.748
1992 <sup>b</sup>	0.590	2.792	3.383	3.383
1993	0.532 <sup>b</sup>	2.646 <sup>c</sup>	3.178	3.110
<b>Total</b>				<b>\$17.131</b>

<sup>a</sup>Totals may not add due to rounding.

<sup>b</sup>Approved budgeted amounts. Actual expenditures are not yet available.

<sup>c</sup>Allocated amounts. Budget was not approved as of Mar. 1993.

Source: GAO analysis of FAS and NFPA data.

## Market Information Services

FAS has a number of services and publications to help potential exporters learn about the Japanese market and to promote U.S. wood products in Japan. For example, FAS staff in Japan prepare annual reports on Japanese production, marketing, and trade of wood products. In addition, FAS staff in Japan offer individual counseling for potential exporters and have daily contact with potential and current exporters to provide information on the Japanese market and changes in Japanese government policy and tariff classifications. To assist U.S. companies in identifying export opportunities, FAS offers such information as the types of forest products demanded by potential Japanese customers and the names of Japanese customers interested in importing wood products. FAS also publishes a newsletter advertising U.S. products overseas. A monthly FAS magazine and periodic fact sheets and brochures provide further information on wood products exporting, including referrals to other federal services and programs.

# Japanese Customers' Views

We met with officials representing four Japanese trade groups and 13 individual wood products importers to obtain the perceptions of customers on (1) their experiences with U.S. exporters, (2) U.S. exporters compared with Canadian exporters, and (3) market opportunities for U.S. producers. In addition to the trade group representatives, the officials included representatives of construction firms, an architectural firm, a saw mill, a general trading company, and lumber wholesalers/dealers. (See app. III for a listing of those we interviewed and information on how we selected these representatives.)

We briefed representatives of the National Forest Products Association, the industry association with overall responsibility for implementing the industry-FAS approach, and FAS' Forest Products Division on the customer perceptions detailed below. Both industry and FAS representatives said that it is critical to have specific information about customers' perceptions to be able to successfully market wood products in Japan. Consequently, we have included this appendix to detail and highlight the information obtained during our interviews.

## Experiences With U.S. Exporters

Most of the customers we spoke to told us that U.S. exporters generally show a lack of commitment to and lack of understanding of the Japanese market. Examples of these problems are discussed below. The companies that told us about these problems are indicated in parentheses.

### U.S. Exporters Do Not Provide the Products Japanese Customers Want or Ensure a Reliable Supply

- U.S. exporters sell to Japan the same kind of products they make for the U.S. domestic market, instead of adapting to meet the product type, size, and quality demanded by Japanese customers. (Sources: four lumber wholesalers, two construction firms, and one general trading company.)
- U.S.-style wood products work well if used in U.S.-style designs and construction, but they do not meet the quality and appearance standards for Japanese post-and-beam construction. (Source: one lumber wholesaler.)
- U.S. exporters market their wood products as bulk commodities. They are reluctant to treat the products as value-added materials—concentrating on product details and trade servicing rather than just price. (Source: one construction firm.)
- U.S. exporters do not seem to understand that Japanese wood users want clean, knot-free lumber for both timber-frame and post-and-beam construction. (Source: one construction firm.)



- U.S. glue-laminated products lack adequate quality control.<sup>1</sup> Contractors must preassemble the materials away from the construction site to ensure that the pieces will fit together and make any adjustments before moving the material to the building site. (Source: one construction firm.)
- Successful exporters to Japan must understand and meet customer needs by maintaining close contact between importers and exporters. For example, members of one trade association will sometimes bring exporters to Japan to visit Japanese saw mills and understand how Japanese companies process and finish wood. (Source: one lumber association.)
- The American Plywood Association sponsored a computer simulation program on design using wood products, called WOODCAD. The contractor said that the program has little benefit for Japanese firms because the software program is available only on IBM-compatible computers, which most Japanese firms do not have. (Source: one construction firm.)
- U.S. exporters do not supply wood products to the Japanese market if the U.S. domestic market is good. U.S. exporters see export markets as buffer markets for products that they cannot sell in the domestic market. (Sources: one lumber wholesaler, two construction firms, and one general trading company.)
- U.S. exporters do not provide stable prices or guarantee supplies. (Sources: one lumber wholesaler and two construction firms.)
- U.S. exporters do not reliably provide supplies to meet customers' construction scheduling and product delivery needs, called just-in-time scheduling or delivery. (Sources: two construction firms.)
- U.S. exporters are not reliable suppliers to the Japanese market because they take a short-term outlook on trade. Quarterly financial performance reporting forces companies to react to short-term stockholder interests instead of long-term market strategies. (Source: one general trading company.)

### U.S. Exporters Focus on Making Sales, Neglecting the Importance of After-Sales Assistance to Customers

- U.S. exporters are only interested in sales and do not show interest in after-trade services, like preparing technical documents to accompany the materials. (Sources: two lumber wholesalers.)
- U.S. exporters do not provide enough written information about their products to meet customers' needs. U.S. exporters must include design

<sup>1</sup>Glue-laminated products are one type of engineered wood product. Engineered wood products are materials formed through mechanical processes, such as laminated veneer lumber and oriented-strand board. Engineered products serve two major functions: (1) the products use wood materials that could not otherwise be used as lumber and (2) the products are often more structurally sound than solid timber and enable builders to use wood products instead of substitutes, such as steel or concrete.

manuals, cost manuals, and construction manuals in Japanese for the builders. Japanese construction crews need step-by-step written instructions in Japanese on how to use or assemble each piece of wood because these crews are not familiar with U.S. designs or construction methods and cannot read English. (Sources: one lumber wholesaler, two construction firms, and one architectural firm.)

- U.S. exporters' marketing strategy for Japan should include preparing accurate, detailed instructions for the storage, transportation, installation, and step-by-step assembly of all products. (Source: one construction firm.)
- The U.S. industry promoted a new roofing system in the Japanese market with descriptive material written in English, not Japanese, and without government approval for use in Japan. (Source: one construction firm.)

### U.S. Exporters Rely Too Much on U.S. Government Efforts to Open Markets by Removing Trade Barriers and Should Focus More on Meeting Customer Needs Through Marketing

- The U.S. wood products industry has not shown a commitment or interest in marketing in Japan. Instead, (1) U.S. exporters rely too heavily on the U.S. government's efforts to lower trade barriers, leaving the Japanese unaware of U.S. products and technology; (2) U.S. wood products associations rely too heavily on FAS for financial support and have put a burden on the staff for marketing and policy assistance; and (3) the effort of the American Plywood Association works at the fringes of market opportunities and does not push members to meet the needs of the Japanese market or to interact with the government on building codes and standards. (Source: one construction firm.)
- The United States' push for lower tariffs is misguided because marketing issues play a greater role than price in capturing Japanese markets. The tariff structure in Japan already benefits the United States over other competitors. U.S. exporters should understand key export issues, such as product quality, reliability of supply, and price competitiveness. (Source: one general trading company.)

### U.S. and Canadian Exporters Compared

Canada is a major competitor for the United States in the Japanese wood products market. Japanese customers we interviewed said that Canadian exporters are more aggressive in marketing wood products in Japan and are more successful than U.S. exporters in satisfying Japanese needs. Japanese customers described experiences with Canadian exporters in the following ways:

- Canadian exporters pay attention to the quality and appearance of the wood products they sell to Japan. (Sources: three construction firms.) For example, Canadian plywood mills have developed a uniform appearance

for plywood that meets Japanese customers' needs. (Source: one construction firm.)

- Canadian exporters provide price and supply competitiveness that U.S. exporters do not. (Source: one construction firm.)
- Canada promotes its products better than the United States does by providing trade servicing after sales and by locating 8 to 10 full-time staff in Japan and by developing strong relationships with wood products users. (Sources: one trade association, two construction firms, and one architectural firm.)
- The Council of Forest Industries of Canada shows a strong commitment to marketing in Japan by conducting business in Japanese, creating and maintaining contacts with importers, and providing trade servicing after sales. (Source: one construction firm.)
- Wood products from the United States and Canada are similar, but Japanese importers prefer Canadian products because Canadian exporters are more willing to meet importers' needs for product sizes, quality, and after-sales service. (Sources: one lumber terminal company, one construction firm, one architectural firm, and one saw mill.)

## Market Opportunities for U.S. Exporters

Japanese customers identified several market opportunities for U.S. exporters in the Japanese wood products market. Discussed below are the opportunities that customers mentioned most frequently.

### New Building Standards in Japan Create Opportunities for More North American-Style Timber-Frame Construction

- Timber-frame construction is generally less expensive than steel and concrete construction. (Sources: one lumber wholesaler, one construction firm, and one architectural firm.)
- Timber-frame construction allows for assembly away from the construction site. (Source: one lumber wholesaler.)
- Timber-frame construction would allow the United States to export the services of skilled labor and to take advantage of the higher productivity of U.S. labor. (Source: one construction firm.)
- Multifamily public housing projects offer opportunities for timber-frame construction. The major builders of multifamily public housing—prefectural governments and housing and urban development corporations—are interested in low-cost, attractive housing. (Source: one architectural firm.)

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**Japan Will Be a Growing Market for More Extensively Processed Wood Products, Including Engineered Products**

- Japanese lumber association members have traditionally imported logs as raw material for processing by domestic industries in Japan. A diminishing supply of logs, however, has led these members to import some processed wood products. The ratio of processed to unprocessed product imports is expected to grow in the future. (Source: one lumber importers association.)
- The market for highly finished products should increase in 3 to 5 years with the growth in timber-frame construction, which uses more finished products, such as trim and molding, than does the traditional Japanese home. (Source: one lumber wholesaler.)
- The new standards for timber-frame construction will open the market for engineered products. (Source: one construction firm.)
- The market for engineered products will expand as builders search for different materials and technology to provide more strength, better appearance, and lower costs. (Source: one construction firm.)
- Japanese importers are experimenting with softwood plywood or composite plywood that uses hardwood veneer with softwood centers. The softwood material provides more structural integrity than hardwood material, but softwood veneer does not satisfy the Japanese demand for a clear, knot-free appearance. (Source: one lumber importers association.)

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**The Market Is Growing in Japan for Packaged Housing Systems in Which a U.S. Exporter Packages All the Components of a Home for Assembly at the Construction Site**

- The new building standards allowing timber-frame construction and the possibility of importing complete housing packages have created new market opportunities for exporters. (Sources: three construction firms.)
- Housing packages of timber-frame construction can cost less to build and use less expensive U.S. labor than does traditional Japanese housing. (Sources: two lumber wholesaler companies.)
- Opportunities lie in exporting total housing systems, not in sending individual products, such as lumber. Systems would work well in Japan. The Japanese need skilled labor, design expertise, and construction management as much as material. (Source: one architectural firm.)
- An opportunity exists for U.S. exporters to use consolidators to package complete housing systems. (Sources: two construction firms.)

# Customers and Exporters Contacted

To examine the joint industry-FAS approach to promoting sales of solid wood products in Japan, we obtained both customers' and exporters' views. We chose the interviewees, after consultation with industry, marketing, and government experts in Japan and the United States, to obtain broad coverage by wood product type, geographic location, and unique experiences of producers, wholesalers, end-users, and promoters of U.S. wood products in the Japanese market. We sought to obtain information from a wide range of individuals; however, we did not use random sampling in choosing interviewees. Therefore, the results of our discussions cannot be statistically generalized. This appendix provides additional information about the officials we contacted.

## Customers

Japanese Trade Groups. Most wood products, including logs, lumber, and plywood, are brought into Japan by trading companies or wholesalers, and many of these intermediaries belong to trade associations such as the three listed below:

- Japan American Lumber Conference, Tokyo, Japan;
- Japan Lumber Importer's Association, Tokyo, Japan; and
- Japan 2X4 Home Builders Association, Kobe, Japan.

In addition, we interviewed the manager of the Tokyo Lumber Terminal Company, Ltd. in Tokyo. About 23 percent of all lumber imported into Japan in 1991 was handled by the Tokyo Lumber Terminal Company, Ltd., which operates one of the largest lumber terminals in the world.

Japanese Importers. We interviewed the 13 Japanese wood products importers listed below in Tokyo, Osaka, and Kobe, Japan, including four lumber wholesalers or dealers; six construction companies; one architect; one general trading company; and one sawmill. Twelve of these companies have imported U.S. wood products and 1 company would like to import U.S. wood products in the future. Products imported by these companies include lumber, finished wood products—such as molding and flooring—and engineered wood products.

Lumber wholesalers/dealers we spoke with included

- Daiichi Wood Company, Ltd., Osaka, Japan;
- Enokido Lumber Company, Ltd., Tokyo, Japan;
- Izeki Meiboku Company, Ltd., Tokyo, Japan; and
- Sanco Company, Ltd., Tokyo, Japan.

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Construction companies we visited included

- city of Kobe, Housing Bureau, Public Building Construction Department, Kobe, Japan;
- Ebisu Construction Company, Kobe, Japan;
- Kumada Inc., Kobe, Japan;
- Mitsui Bussan International Housing Corporation, Tokyo, Japan;
- Mitsui Home Group, Tokyo, Japan; and
- Nippon Terrapin Company, Ltd., Tokyo, Japan.

In addition, we interviewed one architect with Issiki Architects and Partners, Inc.; met with a representative of Daiken Corporation, a general trading company; and spoke with the president of the Sato Sawing Mill Company, Ltd.—all in Tokyo, Japan.

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## Exporters

U.S. Trade Associations. We interviewed representatives of the National Forest Products Association (NFPA), the umbrella organization for the U.S. forest products industry, which represents the majority of the nation's production and sale of lumber and wood products. NFPA has 260 member companies that produce solid wood products and between 50 to 55 member associations that represent specific products, timber species, and/or regional interests. In 1992 NFPA and its member associations accounted for, on average, over three-quarters of all structural panel, hardwood lumber, hardwood plywood, hardwood veneer, and softwood molding, and 50 percent of the softwood lumber produced in the United States.

In addition, we interviewed five of NFPA's member associations in Tokyo, Japan, and the United States. Our selection of these member organizations reflects the regional importance of the Pacific Northwest and the South to the U.S. forest products industry, as we have previously reported.<sup>1</sup> In addition, NFPA and these five trade associations participate in FAS' export promotion programs. The U.S. trade associations we visited included the following:

- National Forest Products Association, Washington, D.C.;
- American Hardwood Export Council, Washington, D.C., and Tokyo, Japan;
- American Plywood Association, Tacoma, Washington, and Tokyo, Japan;
- Southern Forest Products Association, New Orleans, Louisiana;

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<sup>1</sup>Agricultural Marketing: Status of the Forest Products Industry (GAO/RCED-92-170BR, June 23, 1992).

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**Appendix III**  
**Customers and Exporters Contacted**

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- Western Wood Products Association, Portland, Oregon, and Tokyo, Japan; and
- Wood Moulding and Millwork Producers Association, Portland, Oregon.

U.S. Exporting Companies. We interviewed 10 U.S. forest products exporters and brokers in Japan, the Pacific Northwest, and the South. All 10 companies have at least 5 years of experience in exporting to Japan or elsewhere. Eight companies currently export to Japan, one company has exported to Japan in the past, and another company has the potential to do so in the future. These companies export products such as logs, lumber, panel and engineered wood products, pre-packaged homes, molding and millwork, chips, and wood pulp. The exporting companies we visited include the following:

- Central National-Gottesman, Inc., Atlanta, Georgia;
- Contact Lumber Company, Portland, Oregon;
- Forest Lumber Company, Meridian, Mississippi;
- Georgia-Pacific Corporation, Atlanta, Georgia;
- KMJ Nihon Shisha, Osaka, Japan;
- Michiels International, Inc., Seattle, Washington;
- Robinson Lumber Company, New Orleans, Louisiana;
- Trus Joist MacMillan, Ltd., Tokyo, Japan;
- Vanport Manufacturing, Inc., Boring, Oregon; and
- Weyerhaeuser Japan Ltd., Tokyo, Japan.

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# Related GAO Products

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U.S. Department of Agriculture: Revitalizing Structure, Systems, and Strategies (GAO/RCED-91-168, Sept. 3, 1991).

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