

# BC Lumber Trade Council

## Canada / US Trade in Softwood Lumber

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TRADE COUNCIL

# BC Lumber Trade Council

- Seeks long-term fair and free trade in softwood lumber, without tariffs, duties and litigation
- Seeks a long-term durable solution based on forest policy changes
- Represents majority of BC forest companies, BC softwood lumber production and Canadian exports



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# Trade Context – Pre 1982

Canadian market share increases 18% to 28% (1975-82)

- Increased US housing starts
- Depreciation of Canadian dollar
- Industrial expansion of BC interior (post 1978)

Fall in US fibre supply

- Environmental legislation
- Severe economic pressures in US Pacific Northwest
- Emerging complaints re: low Canadian (BC) stumpage rates



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# Trade Context 1982-2001

## Softwood Lumber I (1982)

- Claim of subsidy from low stumpage
- Export subsidy found not to exist
- US industry commences intense lobbying effort

## Softwood Lumber II (1986)

- US amends law to make claim of subsidy easier
- Canada/US MOU implements 15% Canadian export tax
- MOU terminates in 1991





# Trade Context 1982-2001

## Softwood Lumber III (1991)

- US government self-initiates, with a finding of 11.54%
- NAFTA “Chapter 19” Panel rules in favor of Canada
- US refuses to refund duties unless Canada agrees to negotiations

## Softwood Lumber Agreement (1996)

- Quota agreement
- Canada cannot take action to offset the export fee



# The Impact of the 1996 Softwood Lumber Agreement

- Equivalent to 15% border tax
- Canadian market share approximately 34%
- Exports from BC, Alberta, Ontario and Quebec fall 6.6%
- Huge leakages
  - Exempt provinces (up 125%)
  - Third countries (up 220%)
- Creates quota “haves” and “have nots”
- Canadian discount approximately US \$100/Mfbm





# Lumber IV – Why?

- September 1999, US position: US and Canada should get out of business of regulating lumber trade
- Coalition rhetoric: if Canada switches to auction-based timber pricing and eliminates cut control and appurtenancy, then trade problem goes away
- BC willing to consider policy solution BUT will issue always be market share and price?
- Price collapse in late 2000/early 2001 leads to large number of US closures/curtailments (recall leakage)
- Lumber IV inevitable, despite rhetoric and willingness to talk



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# Lumber IV

- Coalition files petition April 2, 2001
- Alleges subsidy and dumping
- Preliminary countervailing and anti-dumping duties imposed
- Duty cash deposit rates effective May 22, 2002
- CVD (cash deposit) rate: **18.79%**
- AD (cash deposit) rate: **8.43%**
- **Total rate: 27.22%**





# Lumber IV – Anti Dumping Rates

- Targets 6 largest exporters
  - Canfor: 5.96%
  - Slocan: 7.71%
  - Weyerhaeuser: 12.39%
  - West Fraser: 2.18%
  - Abitibi: 12.44%
  - Tembec: 10.21%
- All others rate: 8.43% (average of above 6)



# Commercial Implications

- Shipments require duty deposits paid in cash
- Deposits paid by Canadian companies May 2002 – September 2003 valued at \$1.34 billion (USD)
- Appreciation of Canadian dollar adds to cost of exporting lumber





# US Softwood Lumber Consumption Held by Imports

		Canada						Other Countries		Total	
		BC, AB, ON, QUE		Other Provinces		Total		Volume	%	Volume	%
Year	U.S. Cons.	Volume	%	Volume	%	Volume	%				
1996	49.9	16.5	33.0	1.3	3.0	17.8	35.7	0.4	1.0	18.2	36.5
1997	50.9	15.5	30.0	1.9	4.0	17.4	34.3	0.6	1.0	18.0	35.4
1998	52.2	15.8	30.0	2.3	4.0	18.1	34.6	0.6	1.0	18.7	35.8
1999	54.3	15.5	29.0	2.7	5.0	18.2	33.6	0.9	2.0	19.2	35.3
2000	53.9	15.4	28.0	2.9	5.0	18.3	34.0	1.1	2.0	19.4	36.1
2001	53.8	16.3	30.0	2.4	5.0	18.7	34.7	1.4	3.0	20.1	37.3
2002	56.7	16.8	30.0	2.2	4.0	19.1	33.5	1.9	4.0	20.5	37.0

Volume in billion board feet  
May not add due to rounding



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# The Risk

- 270 communities and 270,000 people in BC substantially depend on forestry for their economic well being
- Forest industry employs 14% of total BC workforce
- All levels of government collect in excess of \$3.5 billion in revenue from the BC forestry industry to finance programs such as health and education





# Litigation

- Canada has 6 appeals before and WTO and NAFTA
- WTO has ruled against:
  - Byrd Amendment
  - Export controls as a subsidy
  - Cross border pricing to prove subsidy
- WTO ruling on anti-dumping (Nov/03) and injury (Jan/04)



# Litigation

- NAFTA has ruled against:
  - Cross border pricing to prove subsidy
  - Majority of anti-dumping positions taken by DOC
  - U.S. International Trade Commission injury final determination
  - All three remanded
- Administrative review commenced May 2003
  - Deposit rates will be confirmed fall 2004
- But appeals will run to December 2006





# Litigation

- Litigation could take through 2007 to fully complete
- Uncertainty continues for workers and communities
- Incredible expense to fight through litigation
- No guarantees that the US will heed WTO or NAFTA decisions
- No guarantees that US will not launch Lumber V on the heels of any WTO or NAFTA decisions



# Draft Proposed Analytical Framework

- Grant Aldonas, Under Secretary of Trade, DOC
  - Met with BCLTC and BC government August 2002
- Released draft framework, January 2003, includes:
  - Market-based timber pricing
  - Auctions
  - Changed circumstances (policy bulletin)
  - Basis for long-term solution
- Released draft policy bulletin February 2003
- Initiated a return to negotiations late 2002





# Why Negotiations?

- BCLTC has always advocated a two-track process of litigation and negotiation
- Canadian and US companies cannot withstand the impacts on the market until legal cases are resolved
- Canada and US are not guaranteed legal victories at the WTO or NAFTA
- Resolution is needed now to return stability to the NA lumber market, forestry workers and communities across Canada



# Proposals for Resolution

- Weyerhaeuser Proposal – November 2002
  - Implement market-based policy changes in Canada
  - Interim sliding-scale Canadian border tax (25% in low markets, falling to 0% in high markets)
  - Set aside legal proceedings
  - Exempt Western Red Cedar
  - Joint US/Canada industry commission





# Proposals for Resolution

- BC Government Proposal – December 2002
  - Policy change process
  - Interim stepped tax rate (17.5% in low markets, falling in steps to 0% in high markets)
  - Terminate AD case
  - Exempt Western Red Cedar
  - Bilateral softwood lumber council
  - Changed circumstance review



# Proposals for Resolution

- Coalition of Fair Lumber Imports Proposal – February 2003
  - Low-market tax of up to 50%
  - Mid-market tax 15% - 18.8%
  - High-market tax 10% - 12.5%
  - Stop litigation
  - Disburse cash deposits to Coalition to compensate for litigation and injury
  - Joint industry commission, non-binding





# Proposals for Resolution

- Waddell-Aldonas Proposal – July 2003
  - Market share quota agreement
  - Up to 30% U.S. market share fee free
  - 30% - 30.99%: \$50
  - 31% - 32.50%: \$75
  - Above 32.50%: \$125
  - Five year term
  - Exit ramp through changed circumstances review
  - Deposits split evenly
- Negotiations ongoing using above framework



# Summing Up

- Our goal must continue to be a long-term, durable, free trade solution
- We urge the Canadian Government to continue its pursuit for long-term free trade between Canada and the US
- As one of the largest trading disputes in the world, the importance of finding a solution is critical for the Canada-US relationship

