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TRADE | BY CINDY MACDONALD

The softwood lumber dispute: Piece by piece

The American lumber industry has been up in arms about Canadian softwood lumber imports for decades. The softwood lumber dispute dates back to the early '80s and is now in its fifth iteration.

The latest development in this saga is the imposition of anti-dumping duties, announced on June 23, 2017. The U.S. Department of Commerce concluded a preliminary investigation, and believes that exporters from Canada have sold softwood lumber in the United States at 7.72 per cent to 4.59 per cent less than fair value. Consequently, it has imposed duties of varying rates of on Canadian exporters. The Department of Commerce is scheduled to announce its final anti-dumping determination on September 7, 2017.

The anti-dumping duties apply in addition to countervailing duties announced in April 2017. When combined, the applicable duty rates range from 30.88 per cent to 17.41 per cent. Specific and unique duty rates apply to Canfor (27.98 per cent), Resolute (17.41 per cent), Tolko (27.03 per cent) and West Fraser (30.88 per cent); all other companies are subject to a common rate of 26.75 per cent.

A countervailing duty is intended to counteract what are presumed to be subsidized imports.

In a statement following the imposition of anti-dumping duties, Ministers Jim Carr and Chrystia Freeland reiterated Canada's position. "We will vigorously defend Canada's softwood lumber industry, including through litigation, and we expect to prevail as we have in the past.

"As with the preliminary countervailing duties announced this past April, these penalties are based on a flawed rationale that is damaging to workers, communities and consumers in Canada and the United States."

By mid-July, several industry analysts in Canada said a softwood lumber deal was in the works. It was suggested by experts that the NAFTA negotiations scheduled to begin in mid-August would either provide an impetus to settle quickly or move the lumber negotiations to the back burner.

Rooted in history

Gordon Ritchie, a former free-trade negotiator and special envoy for softwood lumber, wrote in the *Globe and Mail* recently that the dispute "truly has little to do with Canadian resource-management practices, although these have long been used as the pretext by

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Photo courtesy Toromont Cat

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FOCUS ON HEAVY EQUIPMENT

MARKET UPDATE | Contributed by Hakan Ekstrom, Wood Resources International

Global lumber prices moved higher in early 2017

Global softwood lumber prices trended upward in early 2017 with prices in North America hitting a 13-year high.

Globally traded softwood lumber reached an all-time high in 2016. Wood Resources International (WRI) estimates that 118 million m³ of lumber was traded last year, or 10 per cent more than in 2015. Imports to the U.S. account for about one-third of globally traded lumber and have almost doubled in five years. China accounted for about 17 per cent of import volumes in 2016, followed by the United Kingdom, Japan and Germany.

The biggest declines in imports globally from 2015 to 2016 were to the MENA region, where demand for lumber fell in all the major markets, including Egypt, Algeria, Saudi Arabia and Morocco.

North America

Lumber production in North America in 2016 was up six per cent from the previous year, reaching its highest level since 2007. The biggest rises in production occurred in the U.S. South and Eastern Canada, while

the increases in western Canada and the western U.S. were more modest.

Prices for lumber in the U.S. jumped during the first four months of the year to hit a 13-year high in April. Many of the commonly traded grades surged in price by more than 20 per cent from April 2016.

Northern Europe

Sweden exported 12.9 million m³ of softwood lumber in 2016, which was the highest volume exported since 2006. The increase from 2015 was a modest 1.5 per cent, with shipments to Denmark, Japan, China and France rising the most.

Domestic lumber prices in both Finland and Sweden continue to be close to their lowest levels in ten years in U.S. dollar terms, as reported in the Wood Resource Quarterly.

China

Prices for imported softwood lumber to China have been in a steady upward trend during 2016 and 2017

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Softwood lumber dispute: Piece by piece

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successive administrations and U.S. Congresses.” The previous softwood lumber agreement (SLA 2006) expired in October 2015. This was followed by a grace period of 12 months, during which the United States agreed not to initiate trade actions against the Canadian industry.

Negotiations between the two countries have been ongoing since before the 2015 deadline, but once the grace period expired, trade investigations began and duties were imposed. The duties have a ripple effect through the wood products sector. Canada’s forest sector supports rural communities and generated \$22 billion in GDP in 2016.

The big picture

Following its strongest showing in three years, production growth in Canada’s wood products industry is expected to moderate significantly in 2017 due to the U.S. trade restrictions, according to The Conference Board of Canada’s Canadian Industrial Outlook: Canada’s Wood Products Manufacturing Industry. Canada’s wood products manufacturers will see pre-tax profits shrink from \$1.8 billion in 2016 to \$1.4 billion this year and \$1.1 billion in 2018, as the United States issues duties averaging 30 per cent on Canada’s softwood lumber.

“The Canadian wood products industry’s financial performance is forecast to deteriorate in the years ahead as import duties cut into shipments to the U.S. and act as a drag on industry growth,” said Michael Burt, director,

industrial trends, The Conference Board of Canada. “Revenues that would previously flow into the pockets of Canadian lumber producers will now be diverted to U.S. Customs and Border Protection in the form of cash deposits. While Canadian producers will not bear the total cost of the new duties, revenues will be impacted

Timeline of key events in the Canada/U.S. softwood lumber dispute

- October 2015: *Softwood Lumber Agreement 2006 expires*
- October 2016: *End of grace period for no trade actions*
- Nov. 25, 2016: *U.S. industry coalition files petition with U.S. Department of Commerce*
- Jan 28, 2017: *Some countervailing duties retroactive to this date*
- April 1, 2017: *Some anti-dumping duties retroactive to this date*
- April 24, 2017: *Countervailing duties announced*
- June 23, 2017: *Anti-dumping duty announced*
- Aug. 27, 2017: *Collection of countervailing duties ends*
- Sept. 7, 2017: *Final determination scheduled for anti-dumping duties*
- January 2018: *Final orders for countervailing duties and anti-dumping duties to be published*

and revenue growth is not projected to keep pace with cost increases in the near term.”

The Conference Board also predicts softwood lumber duties will cause production within the industry’s sawmills segment to contract in 2017.

However, non-lumber production will help the industry manage GDP growth of 0.3 per cent this year.

The sawmills segment, the largest contributor to the industry’s production, is forecast to see exports contract in 2017, as U.S. lumber duties result in less profitable production being scaled back. Substantial employment losses are also anticipated in this segment, with a net loss of 1,100 workers forecast for the segment in 2017.

Faced with these economic consequences, the Canadian government, trade councils, unions and even mayors of lumber-dependent communities have been vocal in defence of the Canadian industry.

“These tariffs are a slap in the face to the concept of fair trade,” said Jerry Dias, Unifor national president. Scott Doherty, executive assistant to the Unifor national president, commented: “It’s very unlikely these tariffs will stand up to legal scrutiny, so Canada should bargain from a position of strength.”

Susan Yurkovich, president of the BC Lumber Trade Council, said in a press release: “These duties result from the trade action which is part of the continued attempt by the protectionist U.S. lumber lobby to constrain imports of high-quality Canadian lumber into the U.S. market and to drive up prices for their benefit.”

She continued: “The ongoing allegations levelled by the U.S. industry are without merit. This was proven in the last round of litigation and we fully expect it will be the case again.”

Quebec Premier Philippe Couillard told media: “If they think they will tire us out and at some point we will throw in the towel, they’re mistaken.”

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