

62. The Need for a Renewed Softwood Lumber Agreement

Background

The forest industry is one of Canada's export largest sectors. With over \$29 billion in exports in 2014¹ to many global locations, including \$20 billion to the U.S. alone, forestry supports the direct employment of 235,000 employees in 200 communities across the country².

Back in 2002, the U.S. imposed countervailing and anti-dumping tariffs on imported Canadian softwood lumber based on a belief that Canadian, in particular B.C.'s, forestry industry received illegal government subsidies.

Between 2002 and the initial Softwood Lumber Agreement (SLA) in 2006, the U.S. collected duties of over \$4 billion dollars. The SLA of 2006 saw 81 percent of the \$4 billion in ADD/CVD duties refunded to the Importers' of Record, with 19 percent withheld from Canadian Importers of Record.

Canada has successfully appealed these allegations at the World Trade Organization and through the North American Free Trade Agreement in the past, but greater certainty was and is still needed.

As mentioned above, the 2006 Softwood Lumber Agreement, which was extended in 2012, provided immediate relief on countervailing tariffs and returned 80 percent of the \$4 billion to Canadian lumber producers. Though the SLA allowed for an export tax based on the market price per million board feet (mbf), the recently expired SLA does provide greater certainty for Canadian lumber producers.

Canadian forest companies knew the cost of doing business in the U.S. ranged from a 15% tax when prices were below US\$315 per mbf to no tax at prices over US\$355 per mbf.

Over the next 4 years, forest prices are expected to climb from the current price of around US\$315 per mbf to a high of close to US\$500 per mbf. Based on the recently expired SLA, Canadian forest companies could expect to pay no export duties as of January 2018 if current projections hold steady.

As of right now, the export tax has expired with the agreement and there is a one-year freeze on any new countervailing and anti-dumping duties being applied. Effectively, the status quo between Canada and U.S. is in place with respect to softwood lumber until the 1-year freeze is lifted in October 2016.

Given the political nature of the softwood lumber dispute, and the strong lobbyist efforts by U.S. business in past, it is likely that the U.S. Department of Commerce will reinstate duties. For that reason, it is imperative that the federal government continue negotiations with the U.S. government to achieve a similar agreement to the 2006 SLA.

Recommendations

That the federal government:

1. Actively defend Canada's rights to free trade in softwood lumber;
2. Ensure that any new Softwood Lumber Agreement entered into with the United States contains no terms with long-term ill effects for the industry or degrades current tariff-free treatment for any region in Canada; and,
3. Support the Canadian forest industry as required by:

¹Forest Products Association of Canada. 2015. Industry By the Numbers. <http://www.fpac.ca/canadian-forestry-industry/forest-products/>

²Forest Products Association of Canada. 2015. *Human Resources: The Greenest Workforce* http://www.fpac.ca/wp-content/uploads/Human_Resources.pdf

- a. Providing financial support to the industry in its legal defense against any U.S. litigation;
- b. Offering loan guarantees to help industry maintain credit and to borrow against cash deposits, so that the industry is not crippled by tariffs;
- c. Immediately preparing for prosecution of World Trade Organization violations.