

Canada / US Trade in Softwood Lumber

The BC Response

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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 U.S. industry complaints re: low Canadian (BC) stumpage rates

Sets stage for next 25 years

Trade Context 1982-2001

Softwood Lumber I (1982)

- Claim of subsidy from low stumpage
- Not proven

Softwood Lumber II (1986)

- Canada/US MOU implements 15% Canadian export tax

Softwood Lumber III (1991)

- NAFTA Panel rules in favor of Canada

Softwood Lumber Agreement (1996 - 2001)

- Quota agreement – BC/Alberta/Quebec/Ontario

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 promoted policy solution BUT now clear issues are market share and price
- Price collapse in late 2000/early 2001 leads to large number of US closures/curtailments

Lumber IV

- Coalition files petition April 2, 2001
- 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%**
- **Rate as of January, 2005: 20.96%**
- **Rate as of January, 2006: 10.81%**

Commercial Context

- Shipments require duty deposits paid in cash
- Deposits paid by Canadian companies May 2002 – March 2006 valued at \$4.4 billion (USD)
- Appreciation of Canadian dollar (2002 – 2005) adds almost 40% to cost of exporting lumber

CVD/ADD deposits

Cash Deposits (USD Millions)

	2002 ⁽¹⁾	2003	2004	2005/ 2006 ⁽²⁾	Total
BC	352	634	849	665	2,500
Rest of Canada	276	491	665	468	1,900
Total	628	1,125	1,514	1,133	4,400

(1) May 22nd to December 31st

(2) January 1st to March 31st, 2006 (est.)

The BC Response To Improve Global Competitiveness

New paradigm

Producing at capacity

Capital investments

(LRF, mill modernization)

Mergers/consolidations to achieve synergies

Policy reform



Lower unit costs

Avoid shutdown costs



Lower ADD rates

Duty refunds



BC regaining U.S. market share

2000: 15.7% 2005: 19.1%

BC exports to U.S. at record levels

2000: 8.5 bbf 2005: 12.9 bbf



Litigation Context

- Litigation will run to 2007 to complete fully
- Huge expense for both sides
- US ignoring WTO and NAFTA decisions
 - Duty refunds
 - Section 129
 - Byrd - “millionaires’ club”
- Byrd Retaliation
 - CIT (Sec. 129/Duty Refund) April 4, 2006
- US action places trade relationships at risk

Political Context

- Attack on NAFTA Chapter 19 on softwood equals collateral attack on NAFTA proper
 - No refunds – applies only to NAFTA partners
 - ECC win moot – Section 129
- Bush Administration Policy
- File managed out of White House
- Senate support for Coalition is strong
- DOC can be “endlessly creative”

Why Negotiations?

- BCLTC has always advocated a two-track process of litigation and negotiation
- Many Canadian and US companies may not survive until legal cases are resolved
- Canada and US are not guaranteed legal victories at the WTO or NAFTA or courts
- There will be a “right time and place”