

# Canada/U.S. Softwood Lumber Issues

## Presentation to Political Science Students

October 24, 2007

John Allan

President and Chief Executive Officer, COFI

President, BCLTC



# 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



BC LUMBER  
TRADE COUNCIL



# 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



BC LUMBER  
TRADE COUNCIL



# 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%**



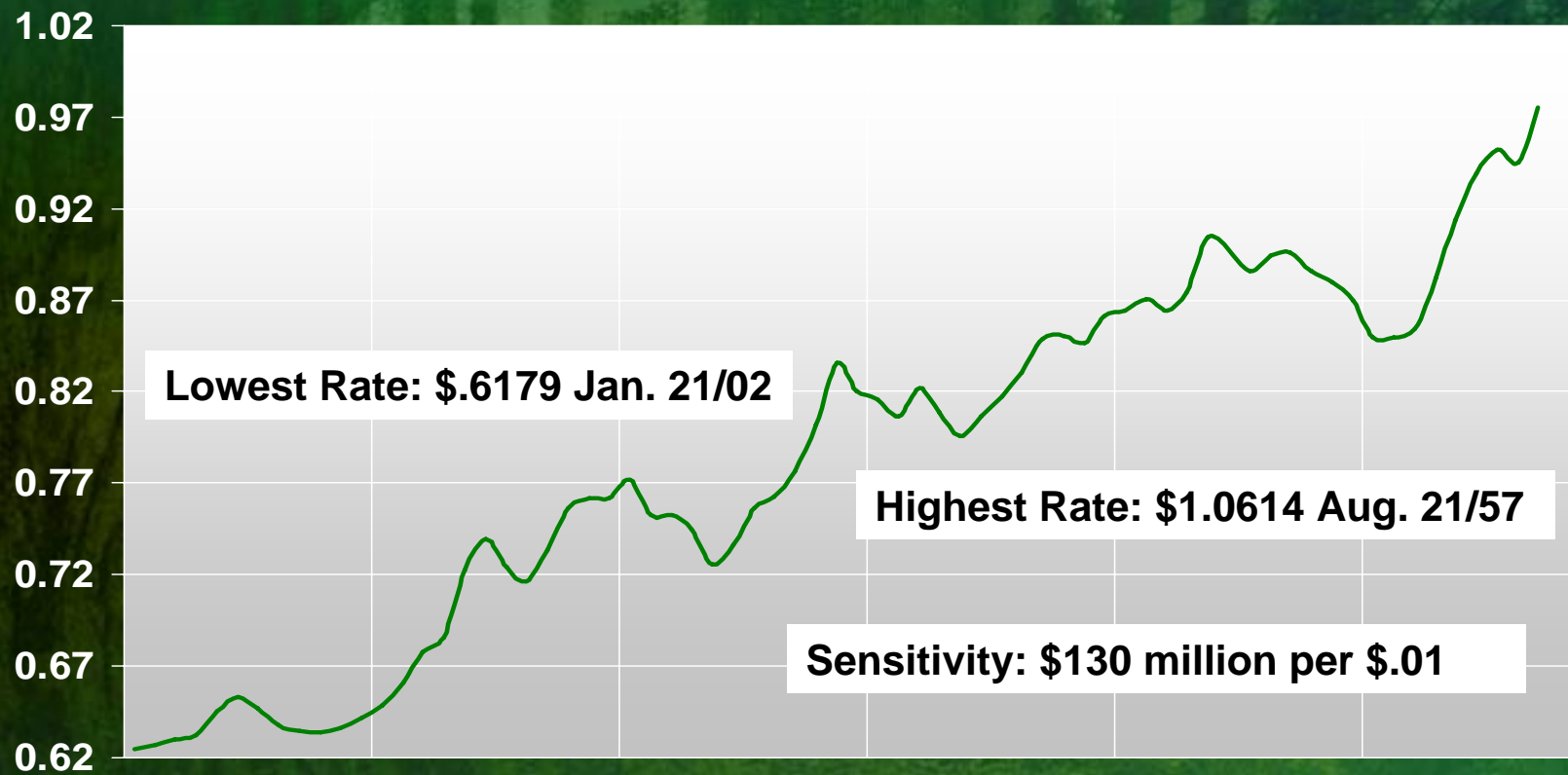
BC LUMBER  
TRADE COUNCIL



# Commercial Context

- Shipments require duty deposits paid in cash
- Deposits paid by Canadian companies May 2002 – October 2006 valued at \$5.5 billion (USD) including interest
- Appreciation of Canadian dollar (2002 – 2006) added significantly to cost of exporting lumber

# Canadian Dollar vs. US Dollar



Source: Bank of Canada; USD per CAD; Monthly Average Rates

# The BC Response To Improve Global Competitiveness

## *New paradigm*

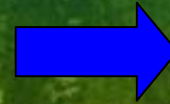
Producing at capacity

Capital investments

(LRF, mill modernization)

Mergers/consolidations to achieve synergies

Policy reform



Lower unit costs

Avoid shutdown costs



BC regaining U.S. market share

2000: 15.7% 2005: 19.1%

2006: 19.7% (6 months)

BC exports to U.S. at record levels

2000: 8.5 bbf 2005: 12.9 bbf

2006: 6.4 bbf



Lower ADD rates

Duty refunds



BC LUMBER  
TRADE COUNCIL



# Litigation Context

- Litigation runs past 2007
- Huge expense for both sides
- US ignores WTO and NAFTA decisions
  - Duty refunds
  - Section 129
  - Byrd - “millionaires’ club”
- Canada wins Sec. 129/Duty Refund Cases
- Coalition Constitutional Challenge to NAFTA



BC LUMBER  
TRADE COUNCIL



# Political Context

- Attack on NAFTA Chapter 19 on softwood equals collateral attack on NAFTA proper
- Bush Administration Policy
- File managed out of White House
- Senate support for Coalition is strong
- DOC can be “endlessly creative”



BC LUMBER  
TRADE COUNCIL



# Why Negotiations?

- BCLTC has always advocated a two-track process of litigation and negotiation
- Many Canadian and US companies could not survive until legal cases are resolved
- Canada and US were not guaranteed legal victories at the WTO or NAFTA or courts
- Huge political momentum
  - McKenna: Fall '05
  - Wilson: Spring '06



BC LUMBER  
TRADE COUNCIL



# The Deal

- Tax or quota in low markets
- 80% of deposits returned
- About US\$4.5 billion including interest
- US\$1 billion to US
  - \$500 to Coalition
  - \$450 to meritorious projects
  - \$50 to Bi-National Committee
- 7 year term plus 2 year renewal
- Surge penalty
- Technical Working Groups
- Anti-Circumvention Clause
- Dispute Resolution Process
- Maximum tax rate since inception



BC LUMBER  
TRADE COUNCIL

