

## **Softwood Lumber Dispute Escalates Between U.S. and Canada**

*By Ben Gann*

In April, the U.S. Department of Commerce announced it is placing countervailing duties (CVD) on softwood lumber imports from Canada to the U.S. Levies ranging from 3 to 24 percent are being applied on softwood lumber from five Canadian companies. As part of the preliminary decision, all other Canadian softwood lumber producers and exporters will pay a rate of 19.88 percent.

A preliminary decision by the Department of Commerce on antidumping duties (AD) is scheduled for June 23. A final CVD and AD determination is scheduled to be issued no later than September 6.

The action taken by the federal government is in response to a petition filed by the U.S. Lumber Coalition, a group representing American softwood lumber producers, alleging harm caused by unfair subsidies for the Canadian softwood lumber industry. As part of the petition, the coalition seeks to restore what it considers to be fair trade conditions in softwood lumber between the U.S. and Canada.

At the heart of the disagreement is the claim that Canadian provincial governments are unfairly subsidizing the softwood lumber industry, thereby causing harm to the U.S. producers. The U.S. Lumber Coalition wants duties imposed on Canadian imports to offset what it sees as the harm caused by those subsidies.

The Softwood Lumber Agreement (SLA) between the United States (U.S.) and Canada expired on October 12, 2015, and was in effect from 2006 to 2015. There was a one-year cooling off period following expiration of the agreement. Lumber prices have increased over the past year in anticipation of duties being placed on Canadian softwood lumber imports into the U.S.

Political events in the U.S. and Canada have only made negotiating a new agreement more challenging. Expiration of the agreement occurred just prior to the Canadian federal election that saw Justin Trudeau elected as the new Prime Minister. That was followed by the U.S. presidential election, which took place several weeks after the end of the one-year cooling off period.

Moreover, the issue of trade was prominent during last year's presidential election and defied traditional political norms held by Republicans and Democrats. President Donald Trump was able to resonate with voters, and ultimately win the election last fall, in part by bashing U.S.

trade deals as overly friendly to other countries. The president has continued his strong criticism of past trade deals, and has threatened to withdraw the U.S. from the North American Free Trade Agreement (NAFTA).

Efforts toward a new softwood lumber agreement have been further complicated by the slow pace in staffing federal agencies by the Trump Administration, including the Office of the U.S. Trade Representative (USTR) that negotiates trade agreements. Properly staffing USTR is important in moving forward to a new SLA.

Reports suggest that Commerce Secretary Wilbur Ross will play a larger role in trade policy than is traditionally the case for someone in his position. President Trump's economic advisers overall support a trade policy approach that is more protectionist than under President Obama.

NLBMDA members report they have seen significant increases in Canadian softwood lumber prices in recent months. The Random Lengths Framing Lumber Composite price corroborates that with the index up over 25 percent in the past year—likely in anticipation of new duties on Canadian imports.

American and Canadian softwood lumber producers have nearly all of the U.S. softwood lumber market. U.S. lumber producers have approximately 65 to 71 percent of the U.S. softwood lumber market, and Canadian producers' market share fluctuates between 28 and 34 percent. There is relatively little softwood lumber imported into the U.S. from countries other than Canada, although there have been efforts to encourage imports into the U.S. from other countries.

NLBMDA supports the U.S. and Canada reaching a new softwood lumber agreement that helps meet domestic demand for softwood lumber, does not put U.S. lumber producers at a competitive disadvantage, unnecessarily restrict the availability of products, or increase the cost of housing to the detriment of prospective homebuyers and U.S. consumers.

In addition, the association has not taken a position regarding any export taxes or market quotas as part of a new agreement. NLBMDA continues to meet with government officials regarding the need for a new softwood lumber agreement to avoid a prolonged trade dispute.

