

British Columbia Losing Ground In U.S. Lumber Market

The value of British Columbia's lumber exports to the United States dropped sharply in 1998, adding to difficulties already confronting the forest industry from the collapse of Asian markets.

Most of this was the effect of lower lumber prices, with the average value received per unit of British Columbia lumber shipped to the United States dropping 7 per cent.

No other province experienced such a sharp decline in the value of lumber exports to the United States. For some, the value of U.S. bound lumber shipments actually rose.

Softwood Lumber Agreement Restricts Export Volumes

Some of British Columbia's difficulties in the U.S. lumber market have to do with the Canada-U.S.A. Softwood Lumber Agreement which sets restrictions on exports for some provinces.

The current five year Softwood Lumber Agreement became effective April 1, 1996. It allows penalty free shipments from British Columbia, Alberta, Ontario and Quebec up to a combined total of 14.7 billion board feet annually. Shipments beyond that require fees of \$US 50 per thousand board feet for the next 650 million board feet, and \$US 100 per thousand board feet beyond that. A small increase in fee free exports is permitted when lumber prices are high.

When the Agreement was signed in 1996, approximately 8.370 billion board feet of penalty free exports were allocated to producers in British Columbia, 1.092 billion to Alberta producers, 1.461 billion to Ontario producers, and 3.263 billion to Quebec producers. About 500 million board feet was set aside for transitional problems and for new entrants to the industry.

There is no absolute limit on the amount that can be shipped from provinces covered by the

Exports to the United States of Products Covered By the Softwood Lumber Agreement				
	1997	1998	difference	% change
	(\$ millions)	(\$ millions)	1997-98 (\$ millions)	1997-98
provinces covered by Softwood Lumber Agreement				
BC	5,293	4,829	-464	-8.8%
Alta	638	601	-37	-5.8%
Ont	909	906	-3	-0.3%
Que	1,983	2,015	32	1.6%
provinces NOT covered by Softwood Lumber Agreement				
Sask	185	181	-4	-2.2%
Man	72	86	14	19.4%
atlantic	670	787	117	17.5%
total				
Canada	9,756	9,412	-344	-3.5%
Notes:				
Export figures presented in this table aggregate all products covered by the Softwood Lumber Agreement. This differs from aggregations presented in most BC STATS' releases. For example, cedar siding is included in the Agreement, and is therefore included in the above figures. Elsewhere in BC STATS publications, cedar siding exports are included in 'selected value added wood products', not as softwood lumber.				
Figures above are not adjusted for misallocation by province of origin resulting from reload traffic.				
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Agreement, only a limit on the amount that can be shipped penalty free. In practice, however, it has rarely been profitable to ship amounts over the penalty free quotas.

Since being implemented, the Agreement has combined with price declines and weak Asian markets to squeeze lumber producers throughout the province. Coastal lumber producers were particularly hard hit.

Individual quotas for penalty free shipments were established on the basis of exports to the United States just prior to the Agreement. All BC producers received less quota than their overall production. However, many coast producers, and some in the interior, had been relying heavily on Asian trade, so their U.S. quota allocations amounted to even less of their overall production. When Asian markets collapsed, many coastal mills were left with little or no scope to shift sales to U.S. markets.

History of Canada–U.S. Lumber Disputes

Canadian - American disagreements over lumber trade are far from new and date back to struggles in the 1820s between Maine and New Brunswick. In the twentieth century, they have been flaring up off and on since the 1930s when the United States imposed a one dollar per thousand board feet duty on lumber from Canada.

Over the past two decades, British Columbia's share of the United States softwood lumber market (measured in terms of volumes) has fluctuated between 14 and 20 per cent. Canada's share, however, has increased, from approximately 27 per cent in 1980 to 34 per cent in 1998. United States lumber interests have responded to this change in market composition by initiating three major countervail trade actions against Canadian exporters over the past 15 years.

- The first trade action ended in May 1983 with the United States Department of Commerce finding that the Canadian timber pricing system did not confer a countervailable subsidy.
- The second trade action ended in December 1986 with the two countries signing a Memorandum of Understanding where Canada agreed to impose a 15 per cent tax on exports of lumber to the United States. The memorandum avoided a final subsidy determination by the Department of Commerce which would have resulted in a duty being collected by the United States on imports of lumber from Canada.
- The third ended in August 1994 with a successful Canadian challenge under the dispute settlement provisions of the Canada - United States Free Trade Agreement. The two countries subsequently agreed to launch a "consultative mechanism" under which forestry issues of mutual concern would be discussed. This led to the United States refunding all of the estimated \$800 million in duties collected and withdrawal of a challenge in the United States court regarding the constitutionality of the dispute settlement provisions of the Free Trade Agreement.
- Government and industry representatives engaged in consultations with the United States throughout 1995. The consultations led quickly to negotiations with the prospect of another countervailing duty action if no agreement was reached. An initial agreement-in-principle regarding softwood lumber was announced in February 1996

and the two countries signed the final agreement on May 29, 1996.

In recent Canada-United States lumber trade disputes, American complaints have usually focused on stumpage rates, the fees paid by companies to cut timber on Crown land. American lumber interests argue that timber pricing systems in some Canadian provinces provide subsidies to the lumber industry. In the latest trade action, United States lumber interests argued that stumpage rates and log export controls provide a subsidy to industry in British Columbia. United States officials chose to include log export controls in the trade action despite the existence of similar controls on public lands in the U.S. west.

During discussions leading up to the current Softwood Lumber Agreement, the United States pressed Canada to engage in negotiations on provincial forestry practices (including but not limited to stumpage). British Columbia negotiators proposed a border measure as an alternative and more direct means of curtailing export volumes, thereby addressing United States concerns regarding Canadian market share. This eventually became the basis for the current Agreement. Throughout the process, the primary goal of Canadian negotiators was to secure access to the United States market without the threat of another trade action.

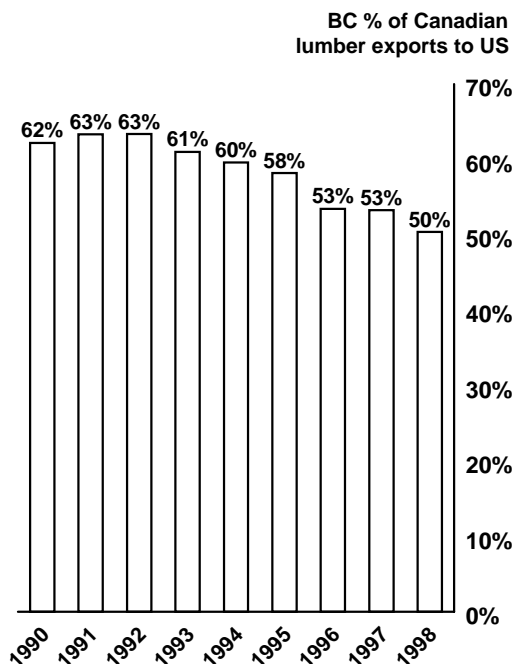
While the export restrictions have affected many BC producers, high cost producers with quota are insulated from competition with lower cost producers in Alberta, Quebec and Ontario. Producers in these provinces can only gain market share by exporting above their fee free allocations and paying associated export fees.

Recent Developments In Product Classifications

Quotas established under the Softwood Lumber Agreement were originally intended to cover only certain specified softwood lumber products. Canadian producers in provinces affected have naturally shifted more of their exports to other types of wood products for which quota limits do not apply. For the most part, this has meant adding more value added content to their product lines.

Recently, the U.S. lumber industry's Coalition For Fair Lumber Imports has argued that some items shipped from Canada to the United States under tariff classifications outside the Agreement are actually the same as products covered by the Agreement, with minor modifications. This led to U.S. Customs reclassifying pre-drilled studs (studs with holes drilled in them for wiring) to a category covered under the Agreement. They have since issued notices for similar changes to be made for notched lumber and rougher headed lumber. Canadian governments and forest companies are opposing these changes on a number of fronts.

B.C. Losing U.S. Lumber Market To Other Provinces



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These developments are particularly threatening for British Columbia because a key element of the province's strategy for reviving its depressed lumber industry is to focus more on value added wood products.