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## FACTSHEET

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Ministry of Forests, Lands and Natural Resource  
Operations

### **FACTSHEET: Canada-U.S. Softwood Lumber Trade**

#### **History**

- Since 1982, softwood lumber exports from Canada to the U.S. have been subject to five separate rounds of U.S. trade litigation with three managed trade agreements.
- The last agreement came into force in 2006 and expired on Oct. 12, 2015. Under the terms of the agreement, the U.S. was precluded from launching trade action against Canada for a period of one year after expiry.
- Softwood lumber disputes are costly to industry, workers, communities, provincial and federal governments, and U.S. consumers.
- Managed agreements are preferred to trade litigation due to increased market stability and certainty.
- Canada, with significant input from B.C., engaged the U.S. in negotiations on a new managed trade agreement for lumber. However, the insistence of the U.S. industry on imposing a hard cap quota on Canada (and B.C.) along with the election of a new American President led to an impasse.
- Since the expiry of the last agreement, B.C. and Canada have also prepared for the U.S. launch of new trade litigation.

#### **Status of the current Canada-U.S. softwood lumber trade dispute**

- On Nov. 25, 2016, the U.S. industry filed a petition with the U.S. Department of Commerce alleging that Canadian lumber exports are subsidized, injure the U.S. industry and that Canadian exporters are guilty of dumping behaviour.
- The U.S. Department of Commerce and the U.S. International Trade Commission are responsible for conducting the investigation. On Dec. 15, 2016, the U.S. Department of Commerce announced it would proceed with the case. On Jan. 6, 2017, the U.S. International Trade Commission ruled that Canadian softwood lumber exports had injured the U.S. industry.
- The U.S. Department of Commerce has identified the four largest Canadian exporters as mandatory respondents for the subsidy and dumping investigations, three of them are B.C.-based. One New Brunswick-based company was a voluntary respondent.
- On April 24, 2017, the U.S. Department of Commerce issued a preliminary determination on subsidy and assessed preliminary countervailing duty rates as follows:
  - Canfor 20.26%
  - J.D. Irving 3.02%
  - Tolko 19.50%
  - West Fraser 24.12%
  - Resolute 12.82%

- “all others” 19.88%
- On April 24, the U.S. Department of Commerce also made a preliminary finding of “critical circumstances” (significant increase in Canadian lumber exports) for J.D. Irving and the “all others” group of companies, but not to Canfor, Resolute, Tolko and West Fraser. This means that Irving and all other companies will need to pay countervailing duties on their shipments made since about Jan. 31 (90 days prior to the notice being published in the U.S. federal register, expected around May 1).
- Duties paid in the form of cash deposits are held in trust until rates are final following all appeals.
- The U.S. Department of Commerce is expected to make its preliminary determination on dumping on June 23, 2017.
- It is anticipated that the final decision orders for both subsidy and dumping will be issued by the U.S. in early January 2018.
- Currently, avenues of appeal are through NAFTA, the U.S. Court of International Trade and the World Trade Organization.
- Canada has always successfully argued that lumber exports to the U.S. are not subsidized, and NAFTA tribunals have found the same. Unfortunately for Canada and for American consumers, history shows that it can take several years of appeals at NAFTA and WTO tribunals before duties are lifted or a new agreement is negotiated that cancels duties.

#### **Why a Negotiated Outcome Makes Sense for Both Canada and U.S.**

- While free trade is the preferred outcome for B.C., a managed trade agreement is more desirable than litigation.
- The 2006 Softwood Lumber Agreement provided improved market certainty to lumber manufacturers in B.C. and Canada, enabling the province to manage its forest resources while maintaining access to the U.S. market.
- A managed trade agreement gives parties a venue for settling disputes. Both sides won and lost disputes under the previous agreement – dispute settlement works.
- The agreement also facilitated the creation of the Bi-National Softwood Lumber Council and Softwood Lumber Board, which have improved cross-border relations and grown the market for wood in the U.S.
- On Feb. 14, 2017, the B.C. government appointed David Emerson as the B.C. Trade Envoy to the United States to work with Canada and the U.S. in securing a new Softwood Lumber Agreement.
- Canada’s share of the U.S. market is lower today than when the previous Softwood Lumber Agreement was signed in 2006. Diversification of markets for B.C. lumber and the effects of the mountain pine beetle epidemic on timber supply mean that Canadian market share is not expected to grow.
- The U.S. needs Canadian lumber to build homes. High and variable duties lead to uncertainty of lumber access and higher prices for U.S. consumers and homebuilders.

#### **Why it Matters**

- B.C. is Canada’s largest producer of softwood lumber accounting for approximately half of overall production.
- While B.C. has made great strides in opening up Asian markets, the U.S. is still B.C.’s number one market for softwood lumber. In 2016, the value of B.C. lumber exports to

the U.S. was \$4.6 billion.

- Forestry is one of B.C.'s key economic drivers and key employers – providing more than 60,000 direct jobs. About 40% of B.C.'s rural communities are dependent on forestry.

**Contact:**

Media Relations  
Ministry of Forests, Lands and Natural  
Resource Operations  
250 356-5261

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