2006 Softwood Lumber Agreement: History & Overview

Western Forest Economists

Wemme, May 8, 2007

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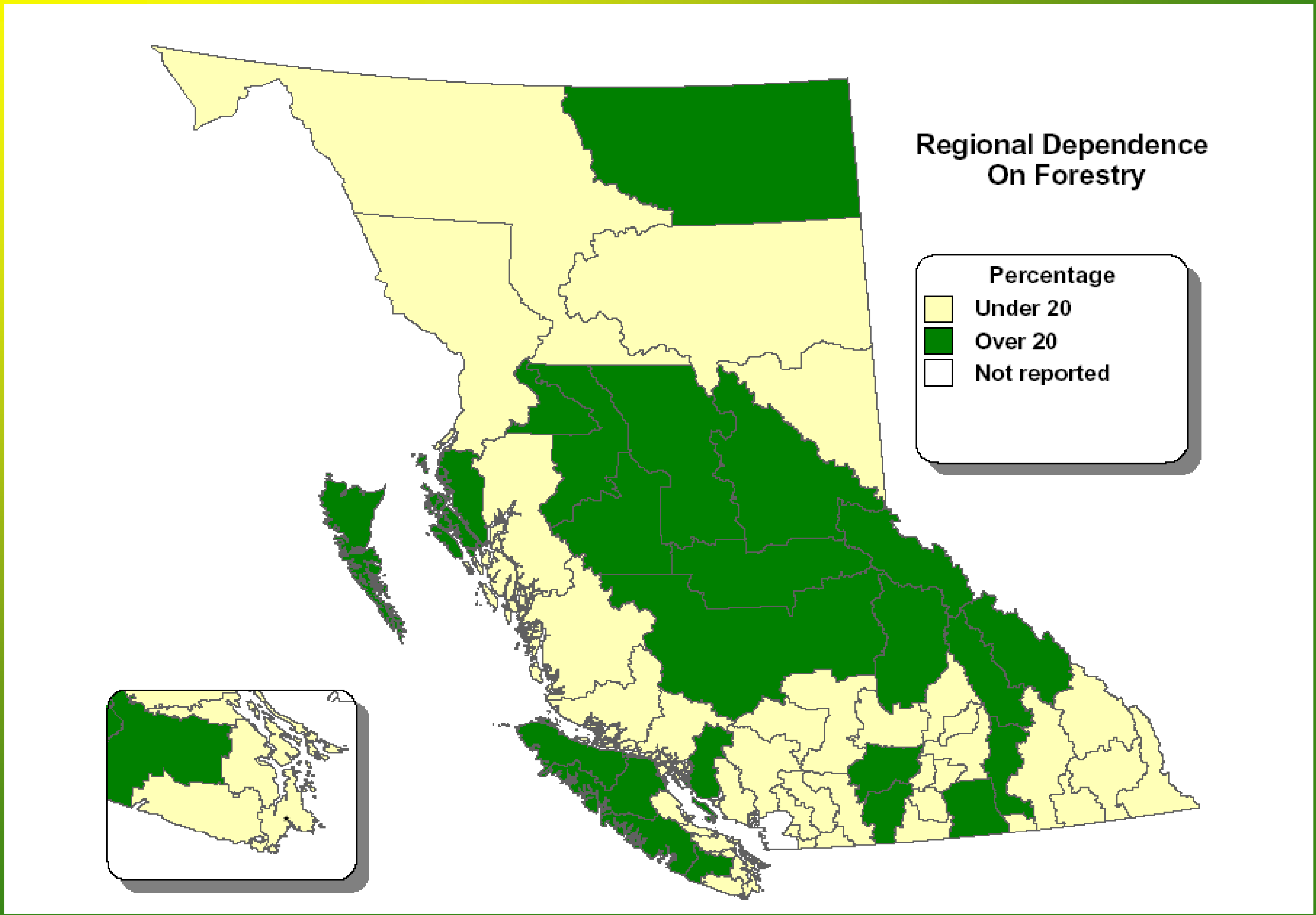
Outline of Presentation

- I Importance of BC Forest Industry
- II History of Trade Issue
- III 2006 Softwood Lumber Agreement
- IV Durable Solution?

Importance of Forest Industry to BC

- **Accounts for 7.6% of GDP and 29% of goods GDP**
- **Sales in 2006 were $15 billion, 36% of BC manufacturing shipments**
- **Exports in 2006 were $13.6 billion, 41% of total exports**
- **Direct employment of 78,100 persons in 2006**
- **Including indirect effects, accounts for 200,000 jobs**

Economic Dependence



Based on 2001 Census

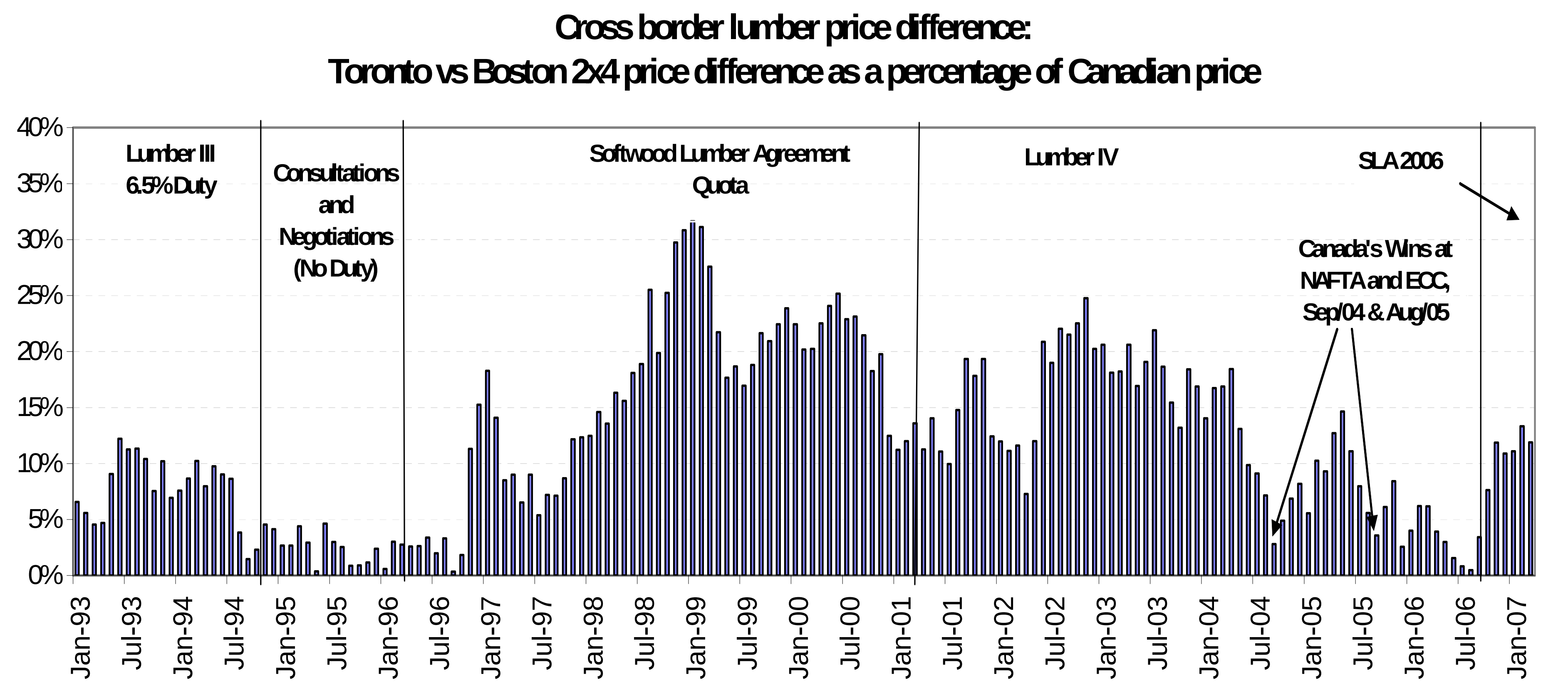
History of Trade Issue

“The 25 Years War”

- 3 countervailing duty cases (1982, 1986, 1991)
- MOU: Export Tax/Replacement Measures 1986-1991
- SLA 1: Export Quota 1996-2001
- Lumber IV: CVD and AD, 2001-2006
- SLA 2: Export Tax or Quota 2006-

Softwood Lumber Price Differentials

Toronto vs Boston



Source: Random Lengths

Reality of the Past 25 Years

We have been playing a game we cannot win

Low US Lumber Margins

Engineer Canadian Cost Increases

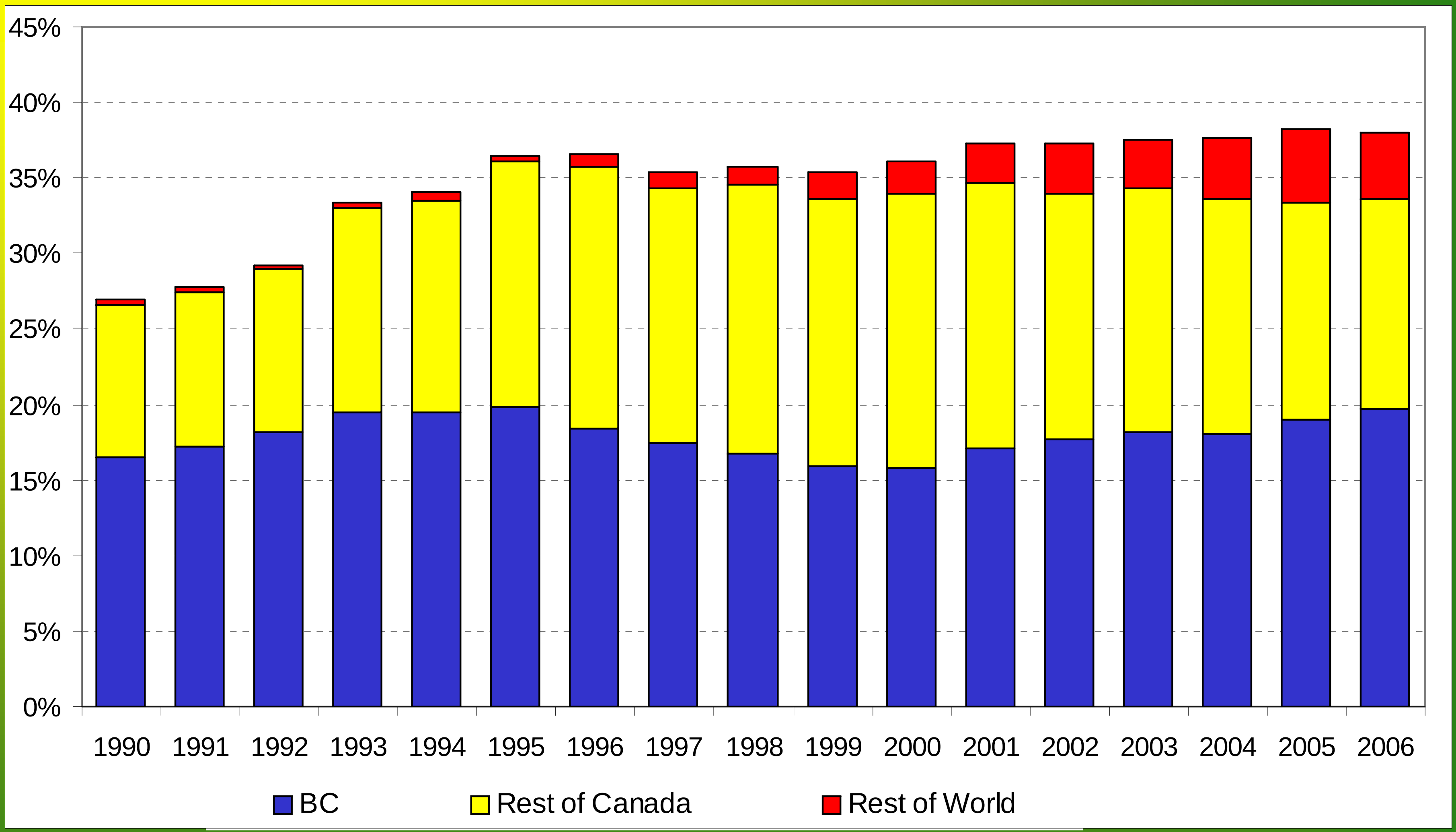
Higher Lumber Prices

Higher US Timber Prices

The "Circle to Hell"

Import Share of US Market

BRITISH COLUMBIA



Source: WWPA, AF&PA

Lumber IV Litigation

- Department of Commerce Decisions
  - Initial investigation: 27% duty
  - Annual Administrative Reviews
    - AR1: 20% duty
    - AR2: 11% duty
- 8 NAFTA Appeals
- 5 direct + 3 indirect WTO Appeals
  - US will drop Byrd Amendment in 2007
- Canadian wins at US Court of International Trade (CIT)

2006
Softwood Lumber Agreement

Key Elements

- Implemented October 12, 2006
- 7 year term with option to renew for additional 2 years
- Return of 80% of duties paid to Canadian companies - ~US$4.3 billion
- Canadian regions choose export tax or quota; may switch at year 3 and year 6
- BC chose export tax.
- BC Coast and Interior treated as separate regions

Option A and Option B

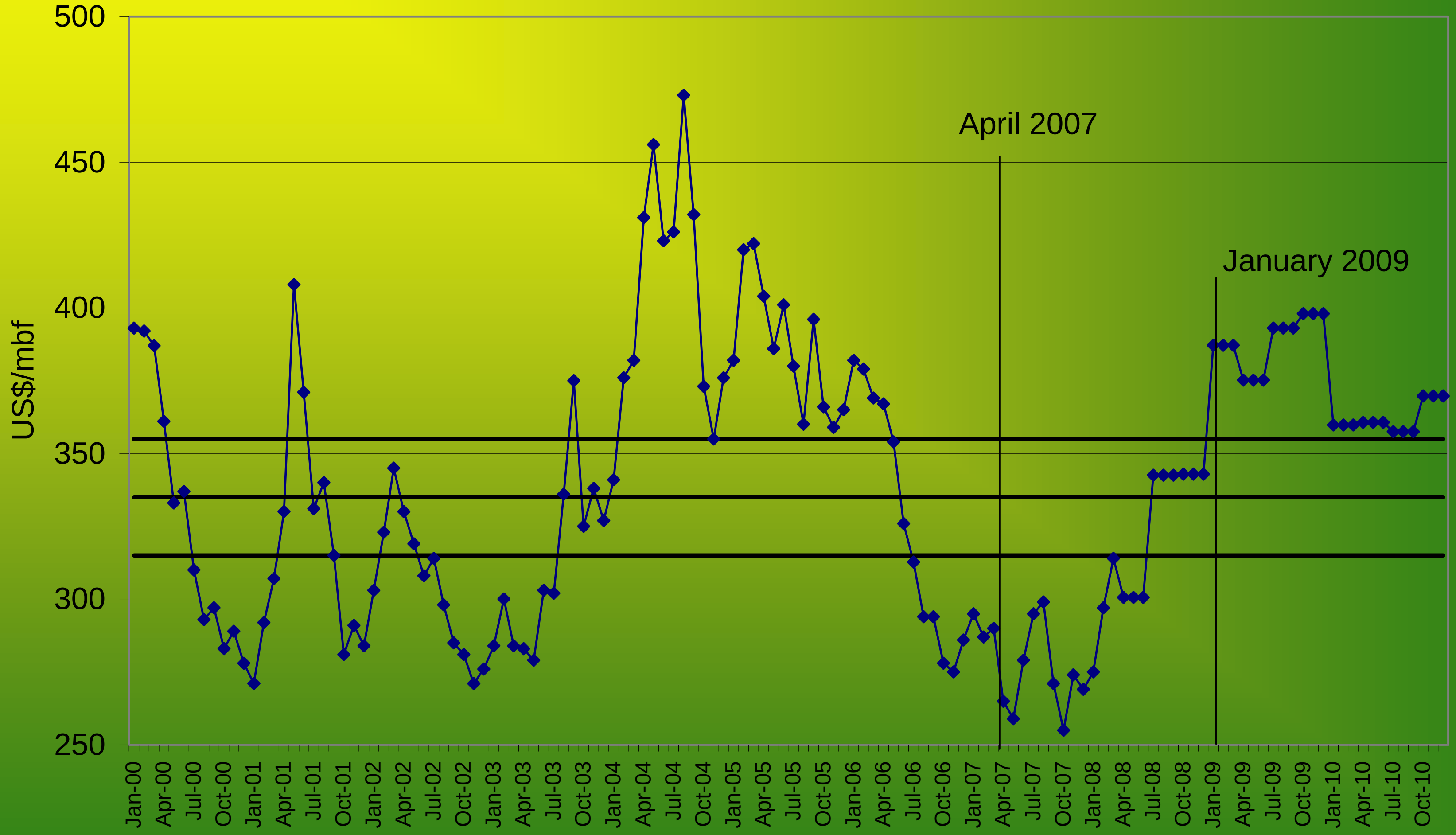
Prevailing Monthly Price US$/mbf	Option A – Export Charge	Option B – Export Charge (%) with Volume Restraint
Over $US 355	No export charge	No export charge and no volume restraint
$US 336-335	5%	2.5% + regional share of 34% of US Consumption
$US 316-335	10%	3% + regional share of 32% of US Consumption
$US 315 or under	15%	5% + regional share of 30% of US Consumption

Living under Export Tax

- Tax rate depends on Random Lengths Composite Price – can be 0%, 5%, 10% or 15%
- If surge is triggered in a month, then a surcharge equal to 50% of tax rate
- Surge tax triggered if exports greater than 111% of BC’s market share.
- Federal government website shows monthly surge limits, and daily export levels by region

Random Lengths Composite

Random Lengths Composite Lumber Price, Monthly Outlook
based on RISI April 2007 outlooks for Western SPF 2x4



Anti-Circumvention

- Governments are prevented from actions that offset the export measure
- The agreement explicitly exempts:
  - Programs that existed on July 1, 2006
  - Actions for purpose of environmental management, as long as they don't undermine pricing
  - Payments or other compensation to First Nations to address or settle claims
  - BC tenure takeback compensation
- Disputes will be resolved through London Court of International Arbitration

First Potential Dispute

- US has requested consultations on surge trigger calculations and on certain policy changes by Ontario, Quebec, and federal govt
- Consultations April 19 in Ottawa
- If not resolved in 40 days, can ask for arbitration

Working Groups

- The Agreement set up a number of working groups
- Softwood Lumber Committee has met once
  - Set up working groups on scope and data issues
- Side letters to agreement identify working groups on:
  - duty free access for Private land lumber
  - examine the running rules to ensure they are commercially viable
- Working Group set up to examine potential provincial Policy Exits from the agreement
- Bi-National Industry group looks at marketing opportunities and other areas for cooperation

Benefits of SLA 2006

- US$4.3 billion refunded to Canadian companies; half to BC
- End of litigation
- Export tax stays in province and increases government revenue
- Coast benefits from US$500 cap
- Remanufacturing sector benefits from 'first mill treatment' - no tax on value added

Durable Solution?

Market Based Policy Changes

March 26, 2003 – BC Announced Forestry Revitalization Plan:

1. Reallocation of Tenure
2. Reducing Constraints on Market Forces
3. Market-based Stumpage

North American Ownership of Mills

- To bring a CVD case, US industry must have certain percentage of producers on board
- Canadian companies buying US mills:
  - Interfor
  - West Fraser
  - Canfor
- US companies buying Canadian mills:
  - Hampton
  - Pope & Talbot

For more information

BC Ministry of Forests & Range website:

http://www.gov.bc.ca/for

- **Choose link for *Updates on Softwood Lumber Agreement* (midway down in centre of page)**
  - **Implementation information**
  - **Links to information on litigation, negotiations and history**
  - **Links to federal government, NAFTA, WTO, Random Lengths historical summary**