THE SOFTWOOD LUMBER DISPUTE

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What to Expect????

- History of Forestry Practices
- History of Forestry: Timeline
- Softwood Lumber: a definition.

- 2 Systems
- The Argument
- The Negotiations
- The Effect

History of Forestry Practices

- Aboriginal Forestry
- Exploitation Forestry
- Sustained Yield Forestry
- Sustainable Forestry

Aboriginal Forestry

- WHEN??
- PURPOSE??

- Before European colonialism
- Shelter
- Clothing
- Food
- Medicine
- Necessities of life, nothing more

Exploitation Forestry

- 2 Stages
- French Control
- British Control

The French

- Early French Explorers and colonists viewed the vast forests as an obstacle to progress.
- Trees were considered a barrier to developing farms and other land uses necessary for survival and the creation of wealth.
- Trees were cut and burned to clear land.
The French Cont’d
- Logging for timber on an industrial scale began in the 1600’s.
- Timber was used primarily for shipbuilding.

The British
- 1763: Treaty of Paris was signed and France surrendered Canada to the British rule in resolution to the Seven Years War.
- The view that forests in Canada were a barrier to development gave way to opinions that the forests were an inexhaustible source of wealth to develop the fledgling country and its provinces.
- Policies from the 18th to mid-20th century focused on developing an industrial logging industry. Trees that were marketable were removed. Lands logged were left to regenerate to whatever plants could occupy the space created.
- This resulted in the continued reduction of high quality large timber.

Sustained Yield Forestry
- A growing view that forests were not inexhaustible gave rise in the early 20th century to a view that forests should be managed under practices that would perpetuate timber production.
- This view resulted in 3 developments:
  1. The first forester was hired in Ontario in 1903. He helped establish the Faculty of Forestry at the University of Toronto.
  2. The establishment of seedling nurseries
  3. The development of a cadre of professionalism in forestry with the establishment of the Society of Forest Engineers, the precursor of the Canadian Institute of Forestry in 1908.

Sustained Yield Forestry Cont’d
- By the end of the 20th century people were increasingly aware of the links of healthy forests and future opportunity.
- People involved in forestry in Canada realized that sustained yield with its focus on continuously timber supply was not able to meet the demands of citizens and consumers of Canada’s forest products.
- New forestry practices and regulations were required to meet these new aspirations.

Sustainable Forestry
- Unlike sustained yield forestry where maintaining productivity and continuous production of timber crops is the focus, sustainable forestry is much more complex.
- It attempts to provide for the wants of people, is concerned with maintaining forest productivity and also biological diversity.
- This is a more long-term goal as it effects all aspects of environmental and forestry concerns.

History of Forestry: Timeline
- 1899: Prime minister Wilfred Laurier creates The CFS (Canadian Forest Service).
- The CFS had one member, the superintendent, and a budget of $1000.
- Elihu Stewart would be named the first superintendent of forestry.
- In his first report he noted that conservation consisted of protecting forests, primarily from fire, and utilization through:

  “a judicious system of cutting the timber required for use so as to retain for all time a continuous supply from those districts that are better adapted for growth of timber than for agricultural purposes.”
Timeline Cont’d

- 1902: the first Tree Nursery is opened in Indian Head Saskatchewan.
- Prairie nurseries were primarily to provide settlers with windbreaks and timber for fuel and buildings.
- 1906: federal government hosts the first forest congress.
- Dominion Forest Reserves Act is passed, placing 14000 km² of prairie forests under management by scientifically trained foresters.
- 1907: Canada’s first forestry school is opened at the University of Toronto. Within 3 years, 2 others would be established. Their purpose was to develop a cadre of professional foresters in Canada.

Timeline Cont’d

- 1908: R.H. Campbell becomes second director of forestry in Canada.
- 1919: Following a particularly bad fire season, aerial patrols began in BC and Alberta.
- In addition to spotting and reporting fires, the patrols dropped leaflets over campsites and small towns to educate the public about forest protection.
- This was the beginning of a large scale public information program.

Timeline Cont’d

- 1924: Ernest Finlayson succeeds Campbell.
- Finlayson was a major proponent of federal involvement in forestry management.
- 1930: Due to political issues of the time a resolution turned over control of all the western national forest reserves to the western provinces.
- 1936: disappointed with the increasingly less hands-on role the federal government was taking, Finlayson disappears, leaving D. Roy Cameron, a professional forester, at the helm of the CFS.

Timeline Cont’d

- It is during the 1930’s that the federal government embraces it’s role in forestry.
- Countless research institutes and school are established all over the country to learn more about the scientific management and protection of forests.
- 1939-1945: Forestry emphasis is shifted in support of the war effort.
- By 1948 a collective consciousness emerged about the value of Canadian forests and in 1949 the Canada forestry act was passed.
- The economic boom that succeeded the war had an adverse effect on the industry.
- In 1968 a report was issued highlighting the danger of over cutting and emphasizing the need for more second-growth forests.

Timeline Cont’d

- By the 1970’s the emphasis had shifted to sustainable forest management.
- Since then there has been a close relationship between the provincial and federal governments to manage and control our forests.

A Storm Brewing

- In the 1970 Canadian timber exports grew rapidly.
- By 1980, Canadian Softwood accounted for approximately 1 third of all softwood used in the United States.
- With Canada Grabbing an increasingly larger market share below the boarder, US firms become threatened, and strike back.
**What is Softwood Lumber??**

- Typically Softwood lumber is lumber from trees that are scientifically categorized as Gymniosperms.
- Gymniosperms are made up of conifers, or "cone-bearing" trees.
- The seeds from softwood trees grow inside a cone and upon maturing the seed is released with no covering.
- Hardwood lumber comes from trees that are Angiosperms that produce covered seeds such as a fruit or a nut.
- Generally, Hardwood trees are deciduous and softwood trees are coniferous.

**Dimensions of lumber**

- Softwood lumber is generally machined to lengths of 2 foot multiples. (i.e. 2', 4', 6', 8').
- Softwood width generally ranges from 2 to 16 inches.
- Softwood thickness is divided into three categories:
  - Boards are lumber that is less than 2 inches thick.
  - Dimension Lumber is from 2 inches up to, but not including, 5 inches.
  - Timbers are 5 inches or more in thickness.

**Softwood trees and what they’re used for**

- **LARCH**
  - Fencing, Gates
  - Building, telephone poles, particle board
  - Roofing, Flooring, chipboard

- **SCOTS PINE**

- **LODGEPOLE PINE**

- **DOUGLAS FIR**
  - Furniture, Paper pulp

**American Forestry: the Free Market**

- Majority of timber produced comes from privately owned land (60%).
- The sale of this land or contracts to work this land are auctioned off on the free market.
- This auctioning provides an accurate market value to the timber.
- After the auction, government plays a minimal role in forestry.
- The US industry stands for a free market/private driven approach that would see the free movement of logs across the border and market-based price setting for timber.
- This would imply the lifting of log export restrictions and the privatization of large portions of Canadian public lands or, at least, the auctioning of crown-land timber.

**Canadian Forestry: Royalties**

- Opposite to the US, 90% of our forests are on Crown land.
- Provincial governments make money from forestry in the form of stumpage fees.
- Under the stumpage fee system, timber prices are established using formulas that take into account such factors as government revenue targets, the assessed value of the timber, timber quality and geographic location.
- Each province sets its own formula. While the fee-setting mechanism is fixed, actual stumpage fees vary.
- However, those fluctuations may not correspond to prices that a free market system – say via auctions – would determine.
- Canada stands for a public management approach to its forest resource, keeping both ownership of land in the public hand and raw timber at home for processing.

**THE DIFFERENCE??**

- this conflict is about public policy: free market versus public control over resources.
- One country prefers to keep control of its natural resources while the other allows the market to determine such things as market price and supply.
**THE PROBLEM??**

- American government and firms claim that the provincial stumpage fees do not accurately represent the true market value of lumber.
- By keeping stumpage fees low, Americans claim that the provinces are providing de facto subsidies.
- US sawmills are also battling Canadian restrictions on timber exports.
- The US industry argues that restricting the cross-border flow of log shipments exerts both a downward pressure on timber prices in Canada and upward pressure on US prices.

**Primary Arguments Canada vs. U.S.**

- Both the U.S. Government and lumber producers believe that the subsidies are found primarily in the form of low provincial stumpage fees.

  **Remember:** “Stumpage fees” are the fees paid to a Canadian provincial government in order to receive the rights to harvest trees from provincially owned land.

**United States:**

- U.S. lumber producers claim that they have been harmed by unfair Canadian competition.
- They claim such unfair competition results from subsidies provided to Canadian producers.

**As quoted directly from the U.S. based Coalition for Fair Lumber Imports:**

“The Canadian Provinces artificially encourage lumber production irrespective of market conditions by setting timber fees at one-fourth to one-third of their true market value.”
In effect, Canadian subsidies mean that U.S. mills must compete against Canadian government treasuries and regulators intent on ensuring robust Canadian production and employment regardless of the market and of the impact on U.S. sawmills and U.S. workers.

Canada:

- Canada’s position is that its “stumpage fee system” does not provide any kind of competitive advantage to its industry.
- The “Stumpage fees” reflect fair market value and do not represent hidden subsidies.

In addition, it should be acknowledged that most Canadian firms are responsible to pay for many additional costs of logging that their American counterparts are not.

Private vs. Public Ownership

For example such costs include:
- The building of roads
- Land maintenance/Environmental Costs
- Silvicultural costs

Canada also continues to defend their position based on past and current U.S. domestic demand

- U.S. homebuilders and other lumber users are quick to point out that Canadian lumber is essential to meeting their domestic demand.

It is essential to recognize the fundamental differences between both systems.

- Other considerations for a competitive advantage:
  - Canadian industry consolidation
  - Value of Canadian dollar
Initial Negotiations:

(1982-1983)

- The U.S. Industry first petitioned under countervailing duty law.
- U.S. Department of Commerce concluded that “stumpage” did not confer a countervailing subsidy

(1986)

- After second review, the U.S. DOC determined that Canadian "stumpage systems" confer a weighted average subsidy to producers of approx 15%
- Canada fears protectionist acts
- Free Trade negotiations

(1986)

- Canada agreed to an MOU (memorandum of understanding)
- Abiding by the MOU Canada agreed to collect an export charge of 15% on all lumber exported from Canada.
- MOU also provided the provincial governments the opportunity to rid the 15% charge by raising “stumpage” or other provincial charges.
- BC (0%) + Quebec (3.1%)
Both the U.S. Department of Commerce and International Trade commission issued a final determination that not only was Canada providing subsidies, they were large enough to cause “injury” to U.S. producers.

A subsequent 6.1% countervailing duty was imposed on Canadian exports.

Canada appealed both final decisions to a binational panel under Chapter 19 of the FTA.

The panel remanded the decision to the U.S. DOC because they found no legal basis to sustain the finding of a subsidy.

After a second remand, the U.S. DOC accepted the panels decision that neither Canadian “stumpage fee’s” nor its log restrictions constituted as countervailing subsidies.


5 year agreement between Canada and the U.S.

Under the agreement Canada was permitted to the fee-free export of up to 14.7 billion board feet per year.

Upon exceeding 14.7 billion:

First 650 million board feet= approx $50 U.S.
Followed by $100 U.S. (per one thousand board feet)

IN RETURN:

The U.S. agreed to dismiss any new petitions for trade action against Canada during the lifetime of the agreement.

BC, Alberta, Ontario, Quebec

Recent Negotiations

The U.S. DOC announced its decision to impose a single, country-wide countervailing duty of 19.34% while it continued it most recent investigations into Canada’s current actions.

Maritimes were again excluded from any duties.

“Here we go again!!!”

The end of the Softwood Lumber Agreement was met with the creation of the U.S. based Coalition for Fair Lumber Imports.

In April 2001 they filed the first of many anti-dumping and countervailing petitions with the U.S. government.
Current Negotiations

- Both the Canadian Federal and Provincial Governments, as well as industry coalitions have continued to defend Canada’s system through both Chapter 19 of the NAFTA as well as through appeals to the WTO.
- Canada suffered its latest setback through U.S. imposed “anti-dumping” duties. Some of which force specific Canadian producers to pay as much as 12.44% (at one point these duties averaged out to equate to approx. 27.22%)

Current Negotiations

- The NAFTA panel reviewing the case is bound to issue its final decision within 315 days of its formation.
- The most recent ruling on “anti-dumping and injury” by the WTO was actually expected in March but has been delayed until April.
- December 2003 agreement??? (Quota)

The Effects on Provinces and Private Firms

- Export sales in BC alone = 7 billion dollars
- Quebec and Ontario constitute 25.7% and 38.1% of Canada’s annual timber harvest
- BC> Pressuring resolution
- ONT/QUE>Pressuring Ottawa to pursue WTO and NAFTA

The Effects on Provinces and Private Firms

- It is obvious that the recent U.S. imposed duties are severely damaging the profits and operations of all Canadian producers.
- Forcing Canadian producers to increase volume of production
- Substitute products and foreign competition
**Effects on Provinces and Private Firms**

- Lobby, Lobby, Lobby!!

- Many larger firms such as Weyerhaeuser have actually aided in consultation with the U.S. government as well as proposed their own ideas to resolve the issue.

**What’s next!?**

- Is a changing Canadian system on the horizon?

- There is no doubt that Canada as a whole is extremely dependent on U.S. demand. However at what cost?

- Best for both parties to resolve the conflict as soon as possible.

**Any Questions??**