

Canadian Institute of Forestry/Institut forestier du Canada
“Voice of Forest Practitioners”

Information Paper

The Canada – United States Softwood Lumber Dispute

The Canada-United States (US) softwood lumber dispute is an unfortunate and contentious feature of our trade in forest products. It has been a US-Canada trade issue at one time or another since 1820. The Canadian lumber industry was given great impetus during the Napoleonic Wars when Britain’s traditional supplies of Baltic pine and spruce were cut off. As well, Britain desperately needed softwood lumber from both Canada and the US during both World War I and World War II. Then in the 1970’s a high level meeting between Canada and the US took place where the US government wanted assurances that Canada would be able to adequately supply the US with timber and other forest products.

The softwood lumber dispute is a complex situation. Help in understanding the basis for the dispute is essential whether one is an experienced forester, an international trade expert, and lumber sales executive, an inquiring citizen, or a journalist.

The basis for the dispute can be divided into seven areas. They are listed below in approximate order of priority.

1. Differences in forest land ownership and tenure systems.
2. Differences in the level of stumpage rates and how they are established.
3. Differences in regulatory requirements.
4. Differences in the scope and nature of the forest management responsibilities undertaken by companies operating on publicly owned forest land in Canada compared to companies purchasing wood from private wood-lots in the US.
5. US market demand for softwood lumber.
6. Recent changes in US trade law that provides for US companies to share in the financial benefits resulting from a lumber import investigation.
7. The physical/mechanical qualities of Canadian softwood lumber when used in construction.

Although they are all interrelated, the first three aspects have been the basis of at least three accusations by the US of government subsidies to the Canadian forest industry. The US sees these alleged subsidies as providing Canadian lumber producers with an unfair trade advantage in the US marketplace. The subsequent countervail suits have resulted in expensive legal battles complete with lobbying and intensive public relations efforts.



Forest land ownership and Tenure systems

The pattern of forested land ownership in Canada is different than in the US, as illustrated below.

	Province/State	Federal	Private	Number of small private owners
Canada	88%	2%	10%	425,000
USA	14%	13%	73%	10,000,000

Tenure systems are simple in the US. Private lands and the wood that grows on it are held in fee-simple ownership. Private lands probably contribute 80-85 percent of the US supply of industrial round wood. On the other hand, various levels of government manage public forested lands. Few if any, long term timber supply agreements are associated with public lands in the US.

In Canada, private land is also held in fee-simple ownership and supplies approximately 30 percent of Canada's industrial round wood. Public lands, which supply the remaining 70 percent of the wood supply, are managed under several different tenure systems. These agreements can be grouped into three categories:

1. Long term area agreements where a company is granted a license to manage a defined area of forested land for periods of 15-20 years or longer. These area agreements carry comprehensive responsibilities for long-term sustainable forest resource management and a requirement to plan and carry out all operations in compliance with regulations. These agreements are usually renewable at 5-year intervals if the company is in compliance with all regulations and the terms of the long-term management plan.
2. Long and medium term volume allocations, where a company is granted a license to obtain a set volume of wood each year from a defined area of forest that is under the management of the provincial government. The provincial government is responsible for comprehensive long-term sustainable forest resource management. The company is responsible for operational planning and to conduct operations in compliance with regulations. These allocations are usually renewable if the company complies with all regulations, the provisions of the management plan and the terms of their allocation.

In most cases forest management agreements provide the forest company with long term tenure in exchange for a commitment to build and operate a major wood/fibre using facility. This approach is based on industry's desire for secure, long-term access to wood from public lands and government's commitment to social, economic and environmental goals.



3. There are also a variety of short-term [1-10 year] agreements known as volume based permits. These permits are exercised on areas that are under long-term sustainable forest management plans developed by companies or by governments. The permits carry few forest management and planning responsibilities beyond compliance with regulations. These agreements are usually not renewable and are available to organizations that do not own mills.

Stumpage rates

In the US, most wood from publicly owned forested land is sold by auction on the open market. Wood from privately owned forested land is sold on the open market through a variety of buyer/seller agreements.

In Canada, most of the 70 percent of wood that comes from public lands, is “sold” i.e. title is transferred from the public owner to a private owner, at a stumpage rate set by the provincial government. Stumpage rates are set in some provinces by an appraisal system that mimics the effects of the free market without actually putting the wood up for sale to all potential buyers on the open market.

In many cases the provincial government will periodically set stumpage rates at a level that reflects the realities of the marketplace and the forest management responsibilities of the company. This approach includes a factor that ensures the stumpage rate can respond to changes in the market.

Some small proportion of the wood from public forested land is sold at auction but carries with it little or no responsibility for sustainable forest management. It is a pure sale of merchandise. This complicates comparisons between stumpage rates and auction prices.

The US industry argues that Canadian wood from public lands is sold at a stumpage rate set by government and that this rate is too low. As such, they believe these stumpage rates provide a subsidy to the Canadian forest industry.

Forest management legislation

Canada, like the US, is a federal state. In the US, however, the Federal government has considerably more power than the States and this is reflected in strong and visible federal legislation. In Canada, powers are more equally divided and the Provinces have the legislated jurisdiction for forest resource management. As such, the federal government has few opportunities to influence forest resource management. This has been an issue when US authorities attempt to analyze Canadian legislation against their federally legislated responsibilities. The absence of Canadian federal legislation leads to charges that its absence provides a de facto subsidy to the Canadian forest industry.



There are also substantial differences in the forest resources of Canada and the US. Canada has vast areas of publicly owned commercially productive forested lands that are not yet accessed with roads. Most of the private forested land in the US is accessed.

The Canadian provinces, owners of 90 percent of Canada's productive forest land, require the preparation and approval of comprehensive sustainable forest management plans on all areas of publicly owned forested land that is to be actively managed and harvested. These management plans are developed in accordance with provincial planning manuals that list all of the material and information to be included in the plan.

The provisions of Canada's environmental legislation, federal and provincial are frequently written into these management plans. Federal legislation covering water quality and fish habitat is administered and enforced by the Department of Fisheries and Oceans. Wildlife and wildlife habitat is generally under provincial jurisdiction, although some species are under federal jurisdiction. Migratory birds are a good example of this. However, their habitats are under provincial jurisdiction.

Canadian forest products companies have a legal responsibility to ensure prompt regeneration after harvest. Regeneration must meet provincial regulations. Regulations require the use of either natural regeneration or planting with commercial species that are adapted to the site. The regulations require that the harvested area be 'free-to-grow' within a stated period [usually about 10 years] after harvest. Free-to-grow means that the young trees must fully occupy the site, and be free of competition from weed species or due to over-crowding by other young trees. Juvenile stand tending operations are frequently required to achieve these goals. These forest management requirements add costs to the operations of companies that manage public forested lands in Canada. With the exception of Endangered Species legislation, private forested lands in the US are not covered by similar management requirements. Like Canada, forest management in the US is generally well done.

US market demand for softwood lumber

The US is not self sufficient in softwood lumber. Most of the Federal forested land in the US is located in the Pacific Northwest. The US National Forests were established to ensure adequate reserves of timber to meet the needs of the nation but most of the National Forests are managed for non-timber purposes. The timber production capacity of US National Forests exceeds 12 billion board feet but the actual production is about 2 billion board feet.

State lands are managed for social/environmental values as well as timber. As a result most industrial round wood is harvested from the 73 percent of forested land in private ownership. Families own 57 percent and forest products companies and other institutions



own 16 percent of the forested land in the US. While consumers welcome Canadian lumber to maintain reasonable prices to meet the needs of the American public, the US forest industry claims they cannot compete against alleged government subsidized Canadian lumber.

Recent changes in US trade law

Accusations of subsidized lumber brought forth by the forest industry as a free trade issue initiates an investigation. If injury is confirmed and a duty imposed, the monies collected pursuant to this duty will now be redistributed amongst the companies that were signatories to the initial petition. Previously, duties were collected and retained by the US government. This change in US trade law in effect provides a monetary incentive to register complaints against Canadian softwood imports.

Physical/mechanical properties of Canadian softwood lumber

Large volumes of softwood lumber are produced in the southeastern region of the US from several fast-growing species of pine trees. The fast growth and the wood properties of these species produce a harder, heavier and less stable lumber than is grown in Canada where trees typically grow much more slowly. Canadian softwood lumber is easier to handle, cut and nail than southern pine and is more popular with building contractors. It enjoys an advantage in this marketplace. In contrast, southern pine is a much superior wood for the manufacture of treated lumber for applications like decks where the wood is constantly exposed to the weather.

Trade dispute triggers

American complaints of unfair trading practices leading to an application for countervailing duties tend to begin when the Canadian market share exceeds 30 percent.

The current dispute involves two main charges: Subsidies associated with stumpage rates that are considered to be too low and the alleged dumping of Canadian lumber in the US. Dumping refers to the sale of Canadian softwood lumber by Canadian firms in the US at prices below those of comparable sales in Canada, or at prices below the cost of production. In fact, a dumping investigation is being conducted at the same time as the countervail investigation.

The dispute is founded on the government-based system of stumpage rates. Canadian stumpage rates are perceived to be artificially low and therefore constitute a subsidy to the Canadian forest industry. However, the Canadian system of forested land tenure, through long-term area-based leases and volume allocations on public lands, has been developed to do two things.

- Provide the forest industry with a secure long-term wood supply in a situation where most forested land is in public ownership.



- Ensure long-term sustainable forest management of vast areas of publicly owned forested land through public policy and regulation, combined with private enterprise energy and efficiency in forest management planning and field operations.

As such, the Canadian approach has focused on a combination of strong government policy and legislation coupled with private enterprise efficiency and corporate financial stability.

Forest management performance

One issue that troubles Canadian forest practitioners is whether any negotiated change in our trade relationship with the US will impair our ability to ensure Sustainable Forest Management.

Canada now holds about 18 percent of world trade in forest products. Canada can only continue to be a major player in international trade in forest products if we manage our forests sustainably. The socio-economic interests of approximately 900,000 Canadians who are directly and indirectly employed in the forest products industry depend on this trade.

The combination of Canadian public opinion, good forest policy and legislation linked with certification and customer demands for sustainable forest management, is a powerful force. We can be confident that forest management will continue to improve in Canada.

Summary and conclusions

The recurring dispute over softwood lumber is costly to both Canada and the US. It spoils the trade atmosphere of both countries and is a serious irritant in an otherwise excellent civil and trade relationship. The dispute costs jobs on both sides of the border. Somehow, an enduring solution must be found. Prominent US economists have studied this issue and have concluded stumpage prices have no effect on exports or on supply and demand margins. It is not surprising, therefore, that the previous three countervail investigations have ruled that Canadian stumpage pricing and log export policies do not confer a subsidy to Canadian producers.

The CIF/IFC

The Canadian Institute of Forestry / Institut forestier du Canada (CIF/IFC) is a national voice of forest practitioners. The CIF/IFC, formed in 1908, represents members who are foresters, forest technologists and technicians, educators, scientists and others with a professional interest in forestry. The Institute's mission is "*to provide national leadership in forestry, promote competence among forestry professionals, and foster public awareness of Canadian and international forestry issues*".



We are people with a professional interest in forestry, working in government, industry, academic and consulting fields. Our members use their education, training, and experience to help manage the forests of Canada and to make the Canadian public aware of forestry.

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