

## Lumber Games: What the tariff means for B.C.

In what was likely the first in a series of protectionist policies, the U.S. has fired the opening salvo in what is expected to be a lengthy softwood lumber dispute backed by a sabre-rattling administration. In an unsurprising decision, the U.S. Commerce Department found that Canadian producers are being unfairly subsidized by provincial governments due to crown-owned timber supply and “unfair” stumpage fees relative to U.S. producers.

As a result, Canadian softwood lumber exports to the U.S. will face preliminary countervailing duties (tariffs) ranging from 3 – 24 per cent depending on producer. B.C. bears the brunt of the higher tariff structure, with tariffs on industry titans Canfor at 20.26 per cent, West Fraser at 24.1 per cent, and Tolko at 19.5 per cent. Outside B.C., Quebec’s Resolute faces a tariff of 12.82 per cent and J.D. Irving at 3.02 per cent. All other producers (including independents in B.C.), face a preliminary subsidy rate of 19.88 per cent.<sup>[1]</sup>

A tariff comes as no surprise given the silence following the end of last Softwood Lumber Agreement in October 2015 and little movement on the file during the grace year period following. In fact, it came in less than what many in the industry had expected, with figures in the 30 to 40 per cent range often predicted. However, the U.S. Commerce Department is scheduled to issue a preliminary determination in the anti-dumping duty case on June 23, which could push total duties above 30 per cent.

The implementation of the tariff is undoubtedly negative for B.C.’s forestry sector and sectoral employment. In 2016, with no export surcharges or tariffs, the value of B.C. softwood lumber exports to the U.S. reached \$4.5 billion, with 19.48 million cubic metres shipped. Dollar-volume shipments represented about 66 per cent of the value of B.C.’s global softwood lumber production. There were 19,500 persons

employed in direct forestry, logging and support, and 32,000 in the wood-product manufacturing industry. This represents about two per cent of total employment.<sup>[2]</sup>

It is difficult at this point to estimate the economic impact, but the tariff lowers the competitiveness of Canadian lumber in the U.S. and eliminates much of the gains created by a low Canadian dollar. Given last year’s activity, a ballpark figure is about \$880 million in tariffs, which will in the short term be absorbed by a combination of lower producer profits, and less production. Year-to-date softwood exports to the U.S. through February 2017 were already down nine per cent, which could reflect expectations of retroactive tariffs.

Large efficient producers will be able to weather the storm, albeit with lower profits, as they absorb the tariff, but higher cost independents face more significant challenges particularly given other factors in the background including tight fibre supply due to loss from the mountain pine beetle epidemic. This could cause earlier than planned mill closures. Forestry dependent communities are in for a bout of uncertainty.

A short-term dip in production is likely due the change in environment which is negative for production, employment and capital investment, but overall B.C. is well positioned to weather the policy shock due to generally efficient mills. Re-allocation of lumber to other markets is a possibility, but demand growth hasn’t been particularly strong in China, while grades and wood purposes may not match demand from markets like Japan. Companies have few options to adjust markets, but will likely be in a better position a year from now as lumber prices will rise due to stronger U.S. demand and lack of supply. This will lessen some of the burden, but not without short term pain.

As we noted earlier this year, forestry will be a drag on the economy due to the softwood lumber dispute and expected tariffs. We still expect

a three per cent decline in direct forestry and wood manufacturing real output this year with a mild increase in 2018. Employment is expected to follow a similar trend.

<sup>[1]</sup> <https://www.bloomberg.com/politics/articles/2017-04-24/trump-said-to-plan-20-tariff-on-canadian-softwood-lumber-j1wq4tyg>

<sup>[2]</sup> B.C. Stats

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