



Background On Lumber

Most softwood lumber is used for home building and remodeling, and lumber is the primary material used in new homes.

- An estimated 40 percent of U.S. consumption of softwood lumber is accounted for by construction of new homes and another 30 percent by remodeling and repair.¹
- A typical new wood-framed home requires about 15,000 board feet of lumber.²
- Including costs that rise in proportion to lumber costs, such as sales taxes, financing, real estate commissions, and permit fees, each increase of \$1 per 1,000 board feet (MBF) in wholesale lumber prices increases the cost of a home by \$20.

The U.S. has imposed countervailing duties (CVD) and antidumping duties (AD) totaling an average of 27.2 percent on lumber imported from Canada.

- For a CVD, the U.S. Department of Commerce must find that foreign producers receive government subsidies, and the U.S. International Trade Commission (ITC) must find that U.S. producers are injured. The Commerce Department issued a final ruling that Canadian lumber producers receive subsidies of 18.8 percent, in the form of timber sales at prices below market value.
- To impose an AD, Commerce must find that Canadian producers sold lumber for less than fair market value, and the ITC must find injury. A final ruling from Commerce imposed duties of 2.18 percent to 12.44 percent on 6 specific Canadian companies and 8.43 percent on all others.
- On May 2, 2002 the ITC voted that U.S. producers are threatened with injury from imported Canadian lumber. Duties became effective on May 22, 2002.
- Canada has initiated appeals to a binational panel under NAFTA, and to the World Trade Organization (WTO).
- In November 2002, the WTO formally adopted a ruling (first announced in July 2002) that the August 2001 preliminary U.S. Department of Commerce CVD decision was based on an invalid subsidy determination.
- Since the subsidy finding in the final U.S. decision was based on the same logic as in the preliminary U.S. decision, the chances that Canada's appeals of the final CVD will be successful are very good. Decisions on those appeals, however, are not expected before the middle of 2003, and there could be further delays.

¹ American Forest and Paper Association, *U.S. Forests Facts and Figures:1995*, p.24

² Darin Lowder and Will Biddle, "How Much Lumber in a House", *Housing Economics*, April 1997.

A preliminary CVD of 19.3 percent was imposed in August 2001, and preliminary AD rates averaging 12.58 percent were imposed in November 2001

- The preliminary duties were refunded after the ITC found in May 2002 that there had not been any injury to U.S. lumber producers, although the ITC did find a potential threat of future injury, allowing the final CVD and AD to be imposed.
- By the time of the WTO decision with regard to the preliminary CVD, that duty was no longer in effect, but the WTO decision clearly rejected the unprecedented Department of Commerce interpretation of the law defining subsidies.

From April 1996 to March 2001, Canadian lumber was subject to a tariff-rate quota.

- The Softwood Lumber Agreement covered lumber from four provinces in Canada.
- Shipments in excess of the quota were subject to export fees of up to \$148/MBF.
- The Softwood Lumber Agreement was officially an agreement between the governments of the United States and Canada. The government involvement allowed producers to restrict competition without facing antitrust charges.

From 1991 to 1994, there was a 6.51 percent CVD on Canadian lumber. Canada appealed the subsidy and injury findings to binational panels under the U.S.-Canada Free Trade Agreement, the predecessor of NAFTA. The subsidy finding was struck down in a 3-2 decision. The injury finding was rejected 5-0.

- The binational panels' decisions were based on U.S. trade law.
- The duties were refunded as a result of the panel decisions.
- After the CVD was struck down, U.S. law was changed, by provisions attached to the bill implementing the Uruguay Round GATT in December 1994.
- With the changes in U.S. trade law, U.S. lumber firms were able to threaten a new CVD and extract the 1996 Softwood Lumber Agreement, with its "voluntary" restraints.

Lumber from Canada is qualitatively different from much of the lumber produced in the U.S., and is used for different purposes.

- Imports from Canada are mainly Spruce and White Pine 2X4s, used for framing walls.
- The principal type of U.S. lumber is Southern Yellow Pine, a heavy wood from relatively young trees. It is often pressure-treated for outdoor use or used for floor joists, but it tends to warp when used in walls, causing cracks.
- Douglas Fir and other species found in the western U.S. are attractive for use in walls and other framing, but are in limited supply.

Restricted supplies of timber from U.S. public lands have limited lumber output in the West, increasing the share supplied by other U.S. regions and by imports.

- Sales of timber from federal lands fell from 10.4 BBF in 1990 to 1.6 BBF in 2001.
- Supplies of lumber from the West declined by 24 percent from 1989 to 2001.
- Supplies of lumber from the South grew by 32 percent from 1989 to 2001
- Supplies of lumber from the North grew by 66 percent from 1989 to 2001.
- Imports of lumber from Canada grew by 38 percent from 1989 to 2001.
- Imports of lumber from other countries grew by 1130 percent from 1989 to 2001.
- About 35 percent of lumber consumed in the U.S. in 2001 was from Canada.

Sources of Softwood Lumber Consumed in United States

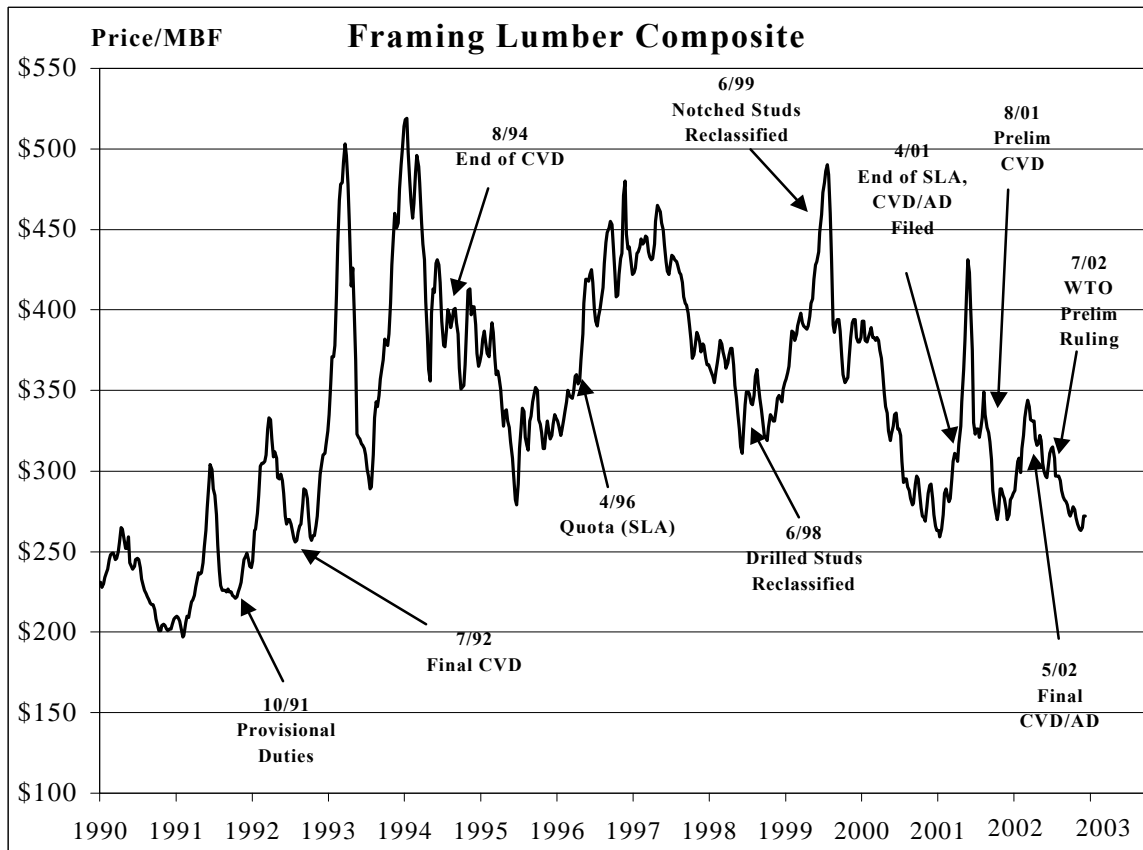
Millions of Board Feet

	U.S. LUMBER PRODUCERS				IMPORTS		TOTAL
	WEST	SOUTH	NORTH	TOTAL	Canada	Other	
1985	17,889	10,480	1,263	29,632	14,510	98	44,240
1986	20,592	11,383	1,344	33,319	14,110	128	47,557
1987	22,237	12,240	1,400	35,877	14,564	116	50,557
1988	21,471	12,108	1,128	34,707	13,700	106	48,513
1989	21,169	12,125	1,044	34,338	13,526	112	47,976
1990	19,507	12,388	960	32,855	12,081	67	45,003
1991	17,448	12,147	662	30,257	11,650	92	41,999
1992	17,372	13,893	1,092	32,357	13,259	122	45,738
1993	15,527	14,020	1,003	30,550	15,046	214	45,810
1994	16,129	14,618	976	31,723	16,062	318	48,103
1995	14,753	14,384	1,216	30,353	16,998	397	47,748
1996	15,256	15,112	1,301	31,669	17,803	412	49,883
1997	15,690	15,992	1,179	32,861	17,431	572	50,864
1998	16,167	15,789	1,567	33,523	18,039	647	52,209
1999	16,918	16,525	1,641	35,084	18,240	937	54,261
2000	16,483	16,374	1,630	34,489	18,333	1,116	53,934
2001	16,092	15,937	1,725	33,844	18,698	1,377	53,829

Source: American Forest and Paper Association

Import restrictions and limits on timber harvests have inflated lumber prices

- From 1980 to 1991, the Random Lengths composite price for framing lumber³ averaged \$219. Due to restrictions on federal timber supply, as well as the 1991-1994 CVD on Canadian lumber, the price became very volatile and sharply higher.
- The average price in 1995 was \$337/MBF. It jumped in 1996 after the U.S.-Canada Softwood Lumber Agreement was implemented.
- In the first quarter of 2001 (the last of the SLA), the average was \$285, but after CVD and AD petitions were filed, the price jumped again.
- The price has actually fallen since the final CVD and AD were imposed in May 2002. This reflects a number of factors, including increased imports of lumber from Europe, reduced exports of logs and lumber from the U.S. to Asia, the introduction of new efficient sawmills, and incentives for Canadian mills to increase output in order to reduce the average costs that are used to calculate anti-dumping duties.



³ *Random Lengths* is a price reporting service in Eugene, OR. Their weekly price quotes are widely used in the lumber industry. The composite price is a weighted average of wholesale prices for 15 types of framing lumber.

U.S. jobs depend on reliable, affordable supplies of lumber.

- With timber harvests restricted, the U.S. cannot increase lumber output significantly, and the number of jobs in lumber production will continue to decline.
- In 2001 the number of jobs in logging and lumber production averaged 207,000. In 1995, the year before the Softwood Lumber Agreement, the average was 231,000.
- Producers of secondary wood products such as trusses, cabinets, and windows that use lumber as an input, employed 487,000 workers in 2001. Barriers to imports of lumber have put U.S. producers of secondary wood products at a competitive disadvantage relative to producers in Canada and other countries.
- Wholesale and retail lumber dealers employed 818,000 workers.
- Home builders and their subcontractors provided over 5 million payroll jobs. In addition, more than a million self-employed independent contractors work in home building.

Employment in Lumber-Producing and Lumber-Dependent Industries

	1995	1998	1999	2000	2001
Lumber-Producing					
Logging	83	80	81	79	73
Sawmills & planing mills, ex hardwood	<u>148</u>	<u>144</u>	<u>142</u>	<u>142</u>	<u>134</u>
	231	224	223	221	207
Lumber-Dependent					
Millwork	111	121	124	127	123
Wood kitchen cabinets	76	88	97	103	104
Structural wood members, nec	35	42	47	48	48
Wood containers	51	56	59	58	56
Wood buildings & mobile homes	81	100	101	90	77
Misc wood products	<u>88</u>	<u>88</u>	<u>86</u>	<u>84</u>	<u>80</u>
	442	494	514	510	487
Wholesale lumber, plywood & millwork	124	134	142	145	138
Retail lumber & building materials	<u>513</u>	<u>577</u>	<u>610</u>	<u>643</u>	<u>681</u>
	636	711	751	789	818
Residential general contractors	609	706	775	798	753
Residential operative builders	27	28	30	32	33
Special trade contractors	<u>3,201</u>	<u>3,804</u>	<u>4,084</u>	<u>4,251</u>	<u>4,301</u>
	3,837	4,537	4,889	5,082	5,087

Data in thousands, annual average. Excludes self-employed independent contractors.

Source: U.S. Bureau of Labor Statistics

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