

The background of the slide is a solid brown color with a pattern of faint, overlapping autumn leaves in various shades of brown and tan. The leaves are scattered across the entire area, creating a textured, seasonal feel.

# **The Canada-US Softwood Lumber Dispute: Lessons in Managed Trade**

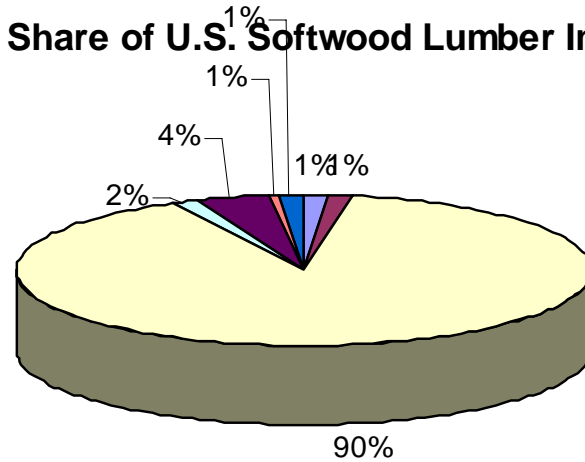
Presented by:  
Ryan Scholefield

# Motivation

- Argument stems from “Free Trade vs. Fair Trade”
- This has lead to a series of managed trade scenarios. It would be productive to assess the impact on various groups (Canadian/US producers, consumers and Government authorities).

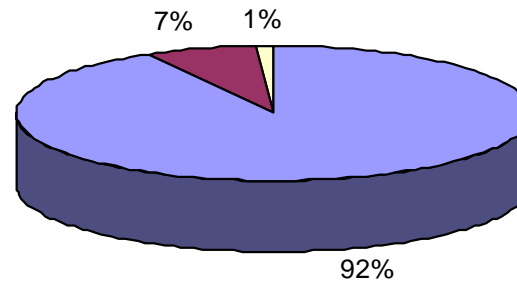
# Background

2005 Share of U.S. Softwood Lumber Imports



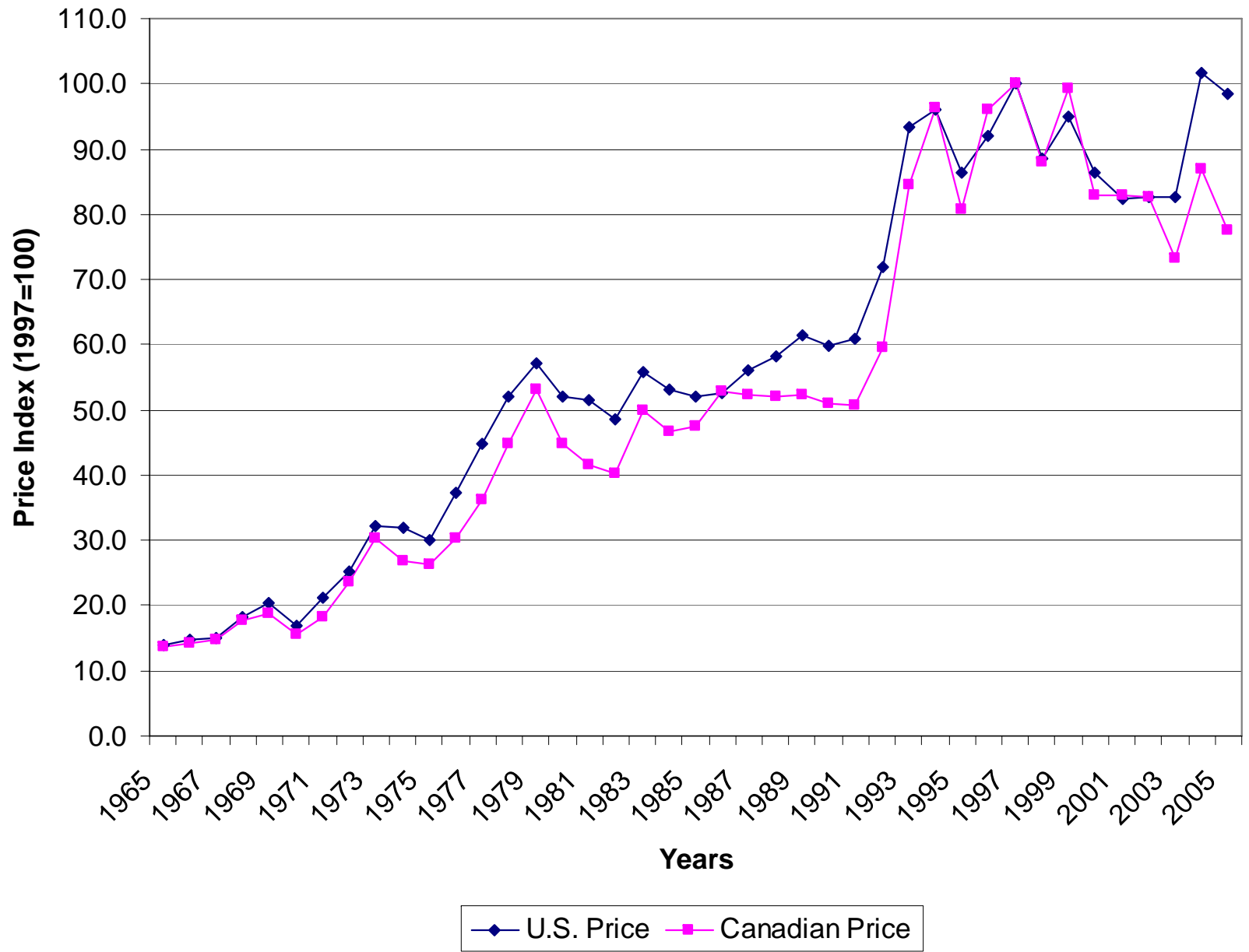
■ Austria ■ Brazil ■ Canada ■ Chile ■ Germany ■ New ■ Sweden

2005 Share of Canada Softwood Lumber Exports



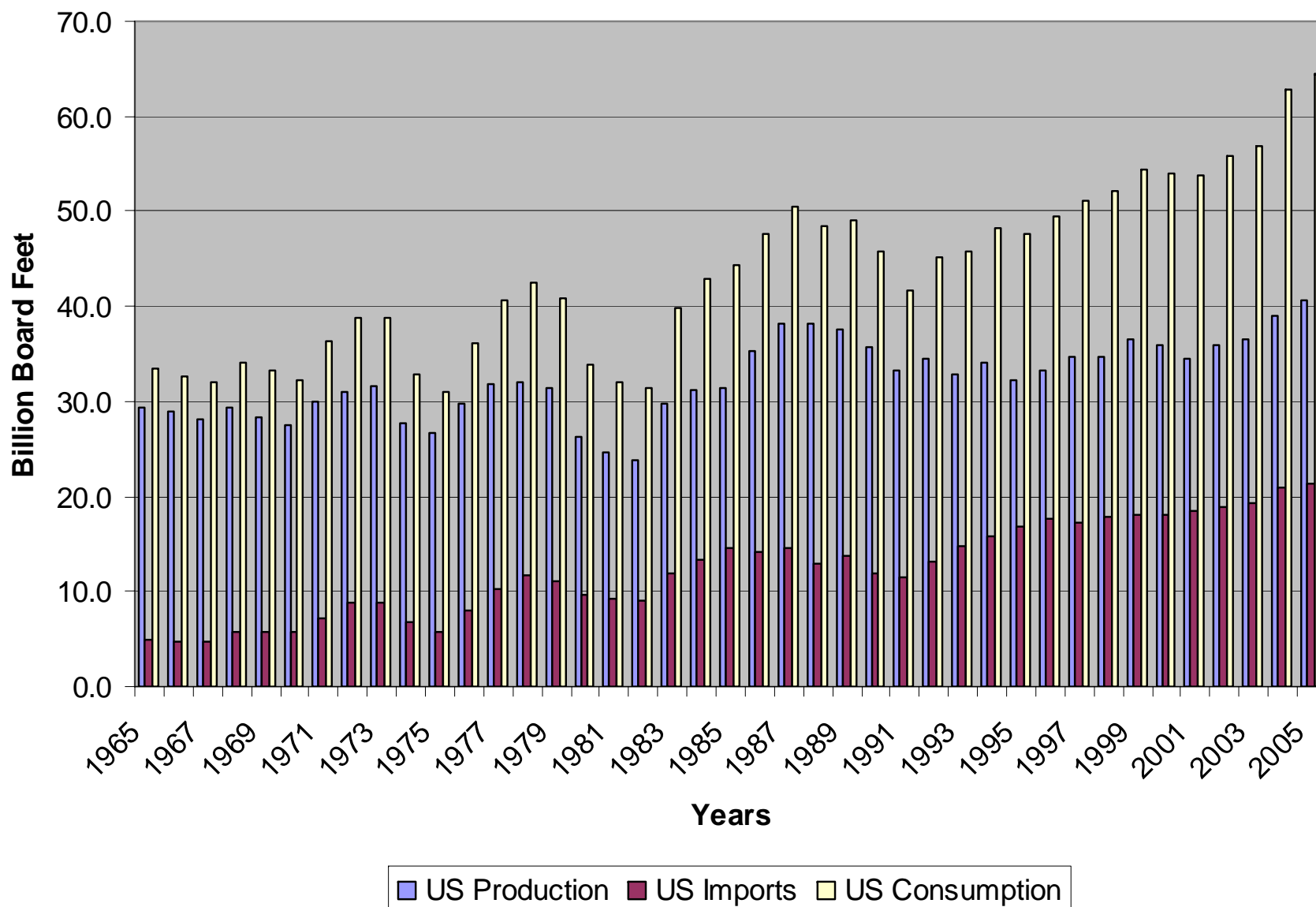
■ United States ■ Pacific Rim ■ Rest of the World

### Canadian and U.S. Producer Price Index

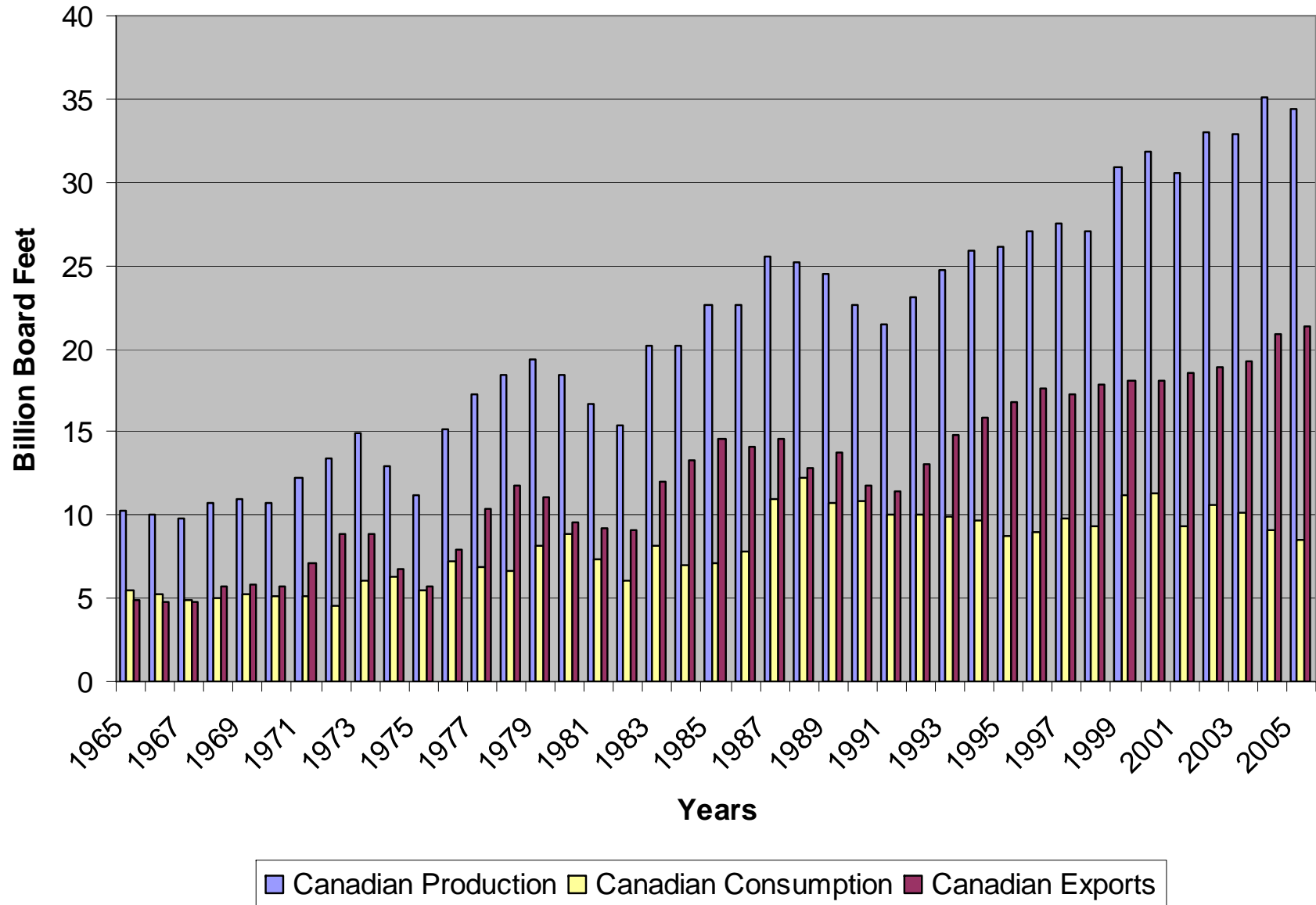


Source: U.S. Timber Production, Trade, Consumption and Price Statistics 1965-2005, Forest Services, Forest Products Laboratory

## U.S. Production Consumption and Imports from Canada



### Canadian Softwood Production, Consumption and Exports to U.S.



Source: U.S. Timber Production, Trade, Consumption and Price Statistics 1965-2005, Forest Services, Forest Products Laboratory

- **Phase I (Oct 1982 -- May 1983)**

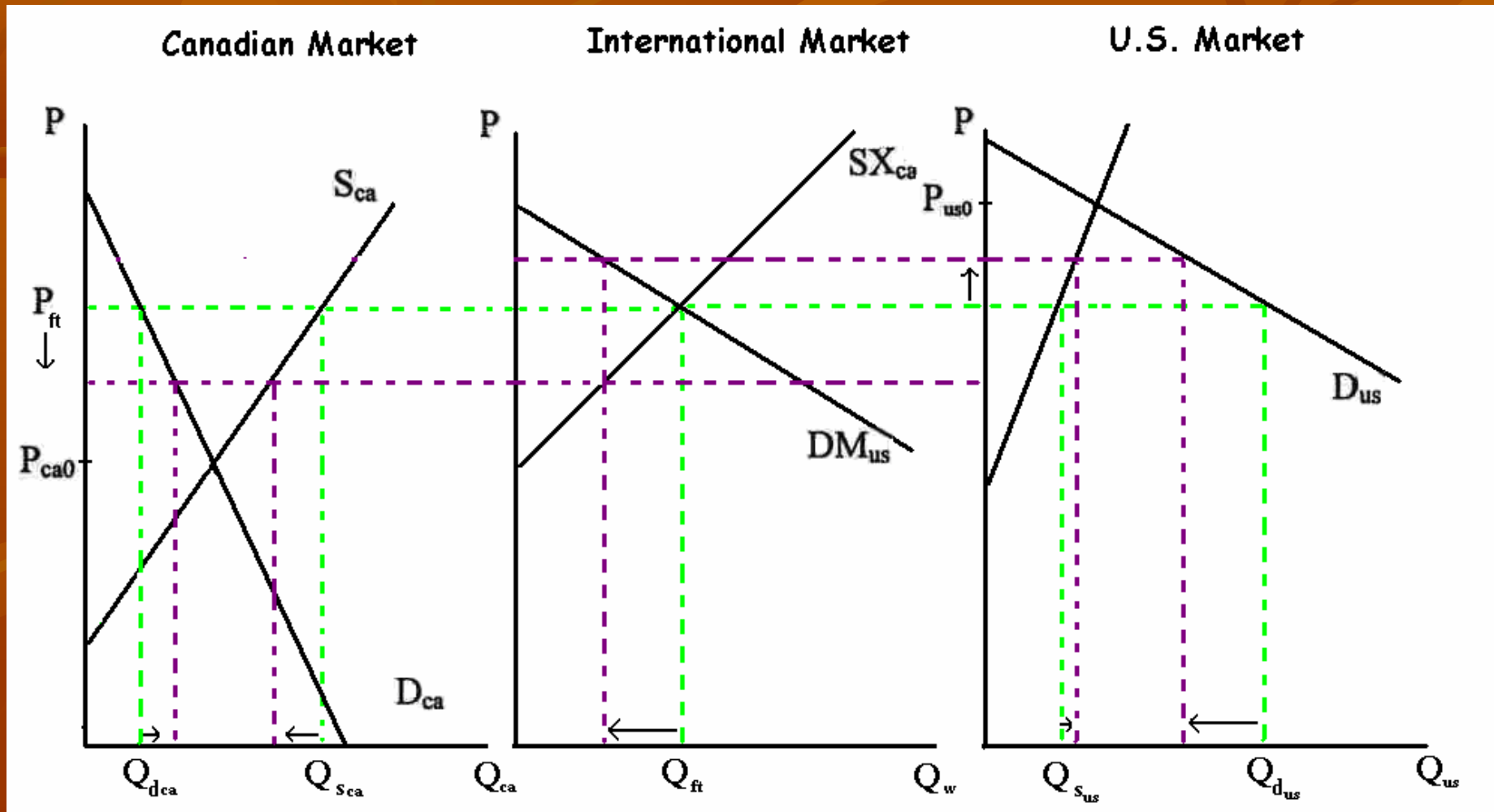
In 1981 due to low demand on U.S. softwood lumber and an increasing Canadian share of the market, the CFLI requested that the Department of Commerce investigate if the Canadian stumpage fee program was in fact subsidizing the Canadian producers.

- **Phase II - MOU (May 1986 - Sept 1991)**

Memorandum of Understanding (MOU) by which the Canadian government collected a 15% export tax on softwood lumber exports too the United States.



# Effect of a Tariff, Export Tax or Quota



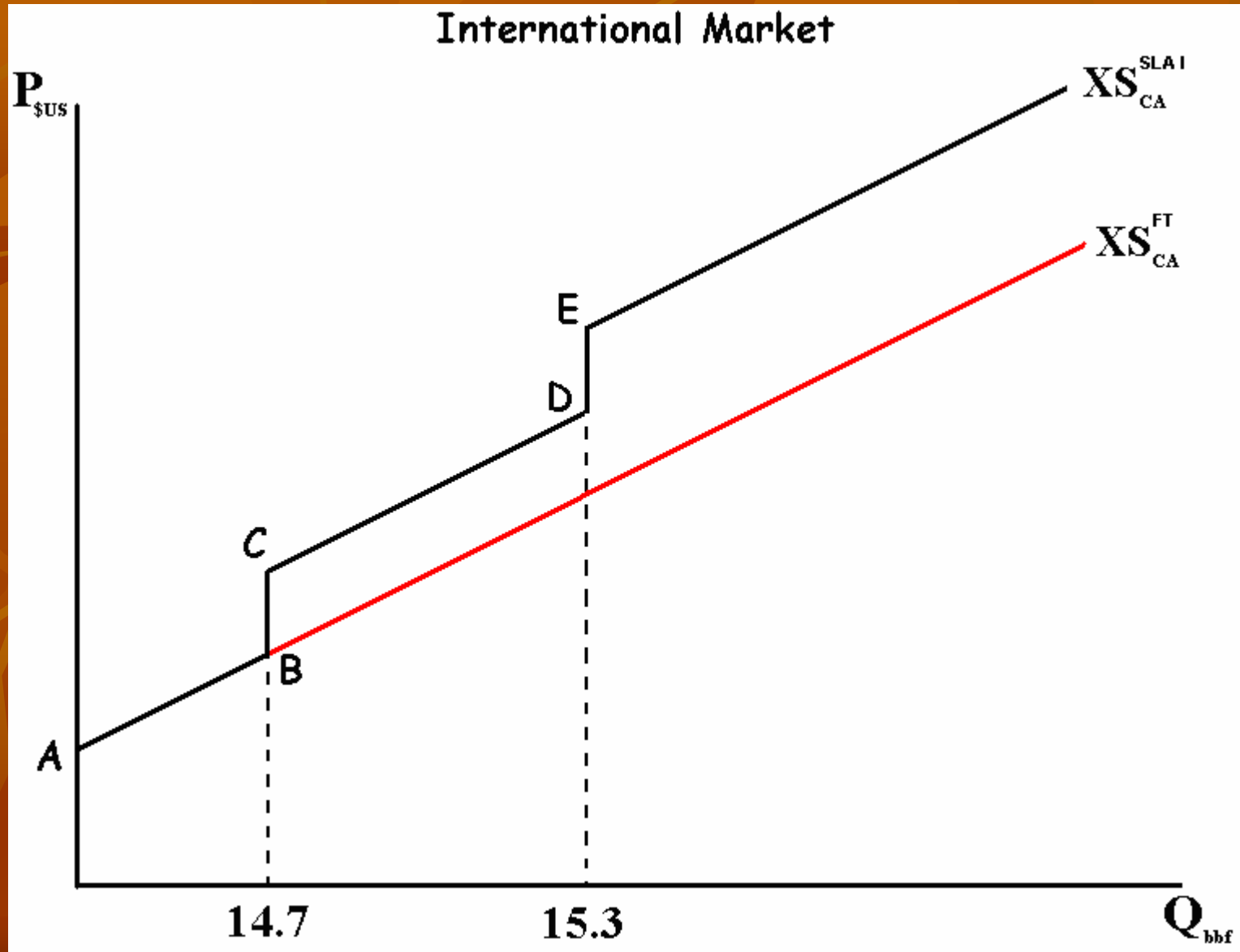
- Phase III – US CVD I - (Oct 1991 - Mar 1996)

This investigation decided that the forestry management programs in the four largest provincial producers as well as log export controls imposed by British Columbia added up to unfair subsidies and imposed a 6.5% CVD

## Phase IV – SLA I (Apr 1996 - Mar 2001)

Under threats of further duties, both nations negotiated the Softwood Lumber Agreement (SLA). This allowed for lumber exports from the 4 largest exporting provinces (Alberta, BC, Ontario, Quebec) to export 14.7 bbf without taxes or fees. For volumes above 14.7 bbf and under 15.35 bbf were subject to a 50\$ per thousand board feet export tax. Volumes above 15.35 bbf were subject to a 100\$ per thousand board feet export tax

# SLA I



■ Phase V – CVD/ADD II – (April 2001 – Sept 2006)-

a) The subsidy rate was determined to be 18.79% (CVD) and the final dumping rate was 8.43% (ADD). Thus an overall total duty of 27.22% was levied on Canadian softwood lumber.

b) The total tariff was reduced to a combined 21.21% in 2005 and further reduced to 10.81% in 2006

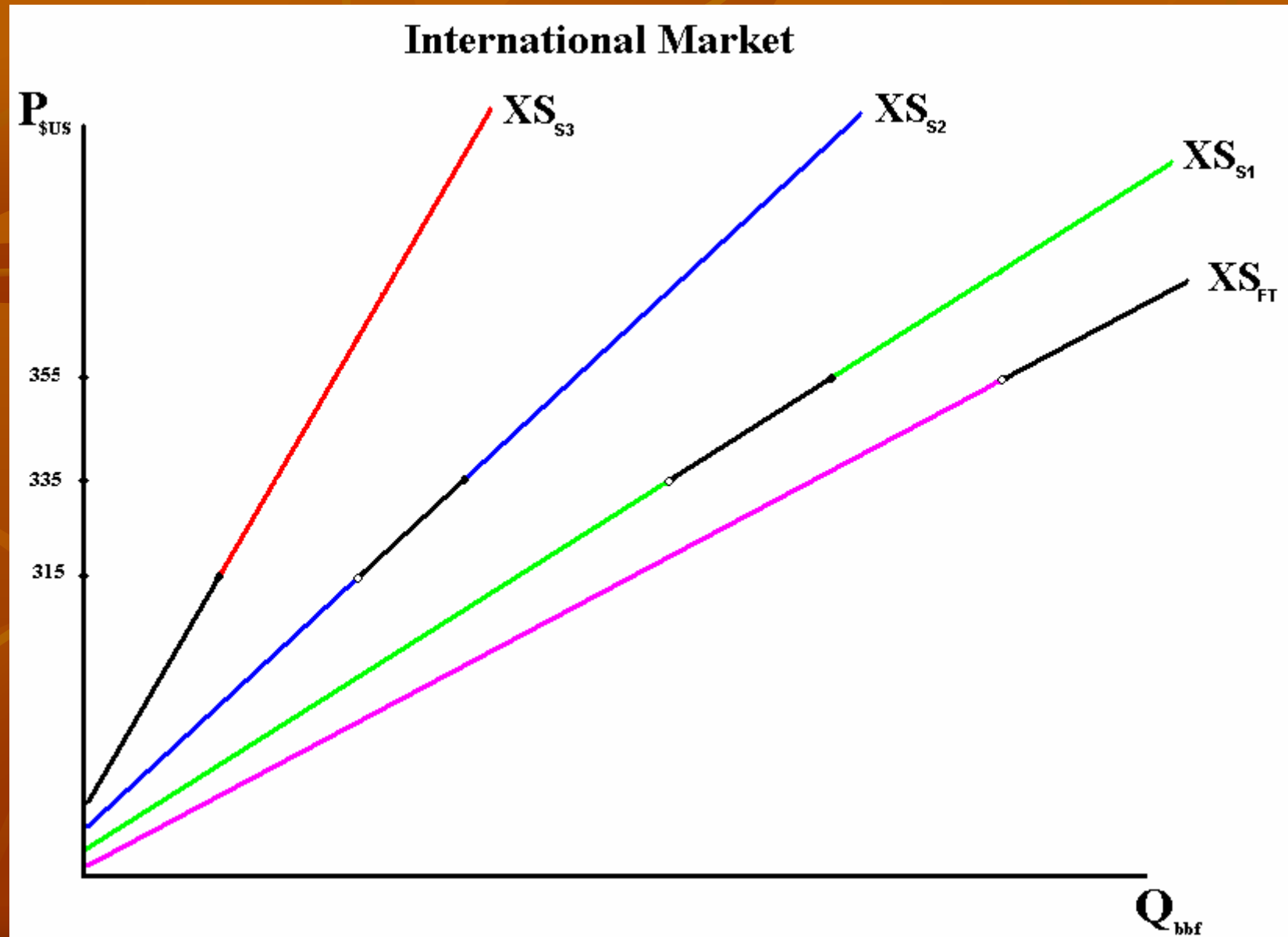
## ■ Phase VI – SLA II - (Oct 2006 – Present)

A price sensitive export measure will be imposed on Canadian softwood lumber exports. If the Random Length Framing Composite lumber price falls below a specific threshold, then a region (BC Coast, BC Interior, and each of the provinces east of BC) will choose between an export charge, or an export charge in combination with volume restraints. This will be accorded as follows:

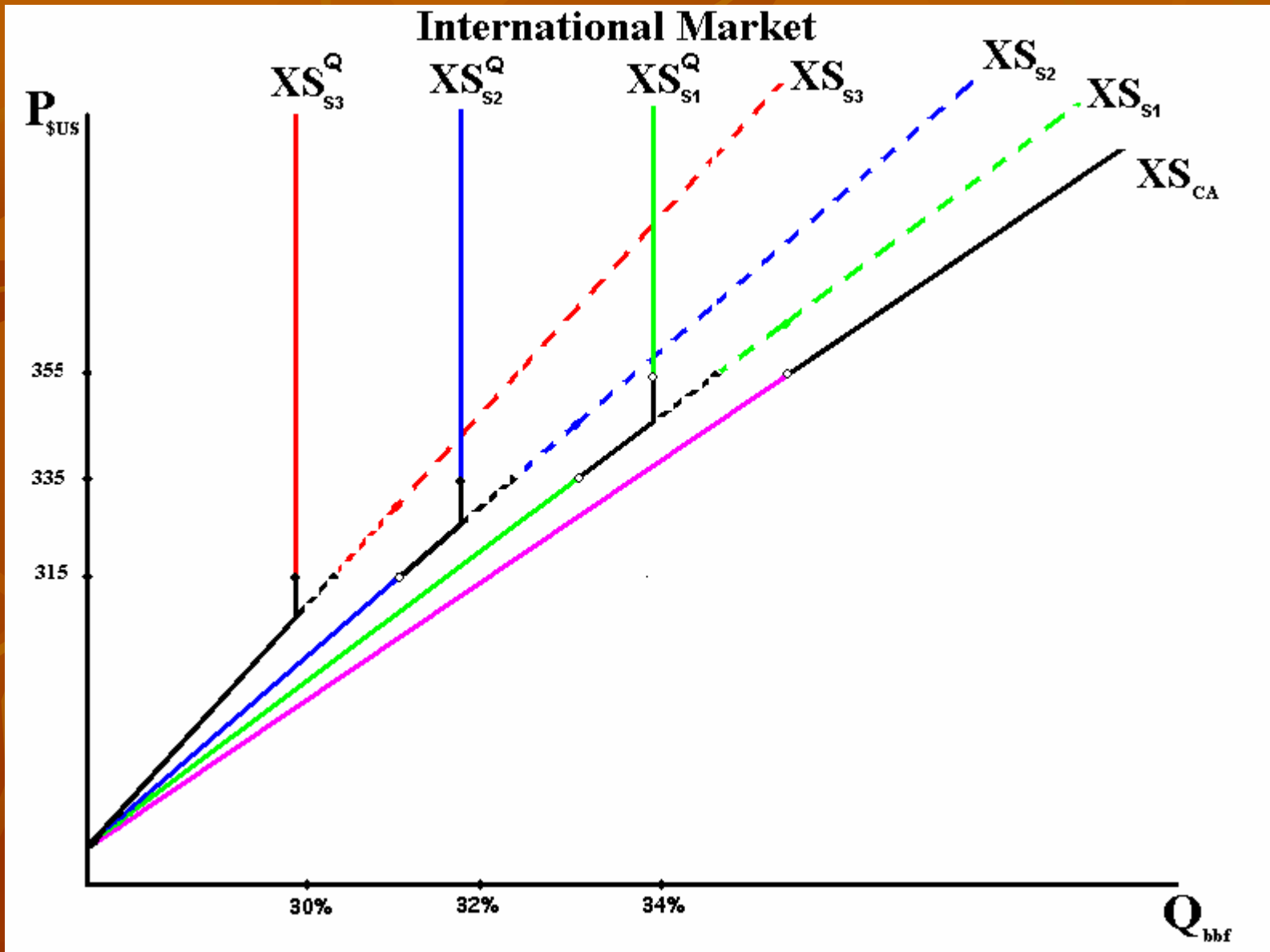
Price per MBF*	Option A –Export Charge (%)	Option B – Export Charge plus Volume Restraint**
Over US\$355	0	0
US\$336-355	5	2.5% + regional share of 34% of U.S. Consumption
US\$316-335	10	3% + regional share of 32% of U.S. Consumption
US\$315 or under	15	5% + regional share of 30% of U.S. Consumption

*\*\* A region's market share will be based on the region's average share of Canadian exports to the US during calendar years 2001 to 2005, inclusive, applied to the indicated national Canadian market share of the U.S. market.*

# SLA IIa



# SLA IIb

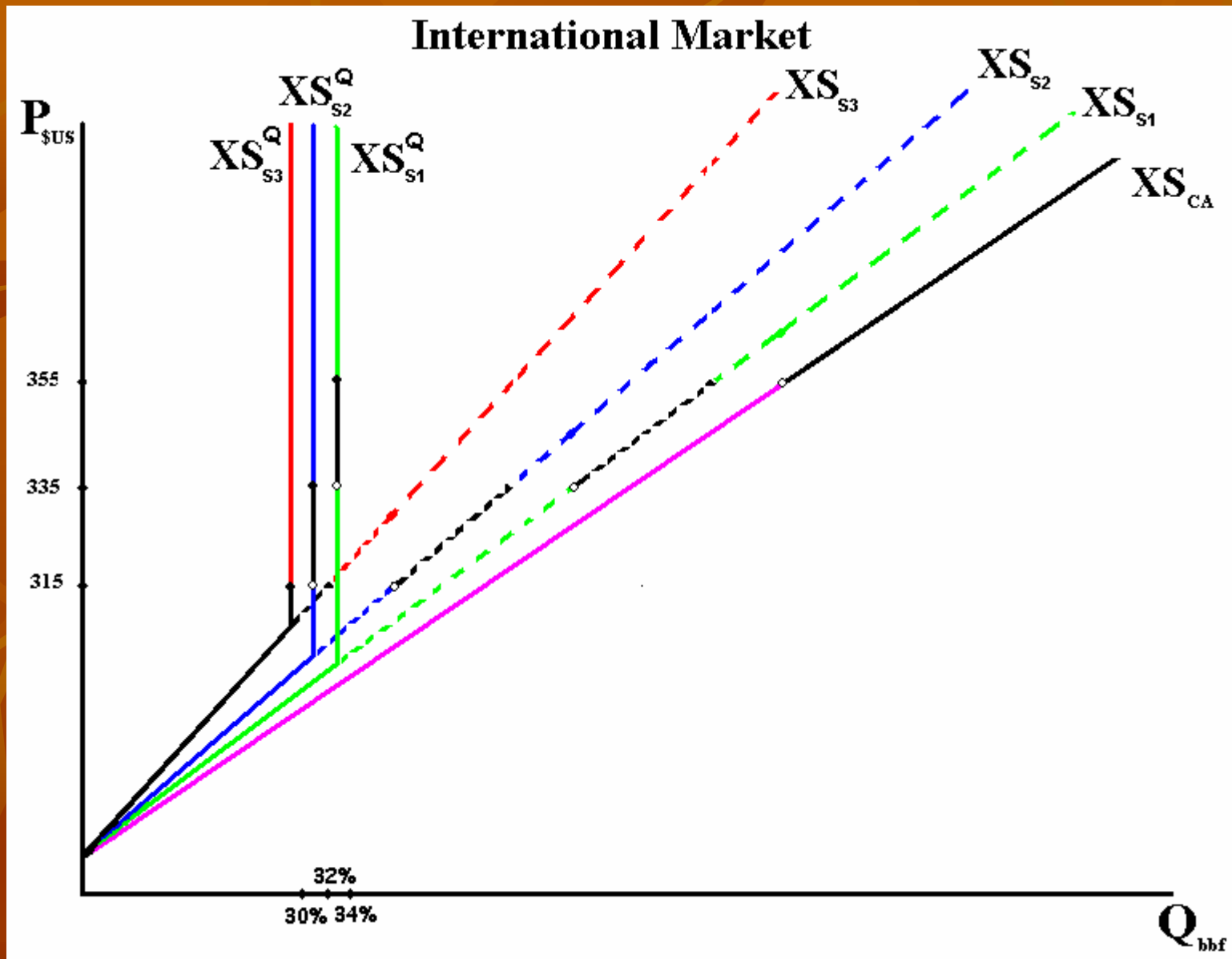




# Simulation of 2005

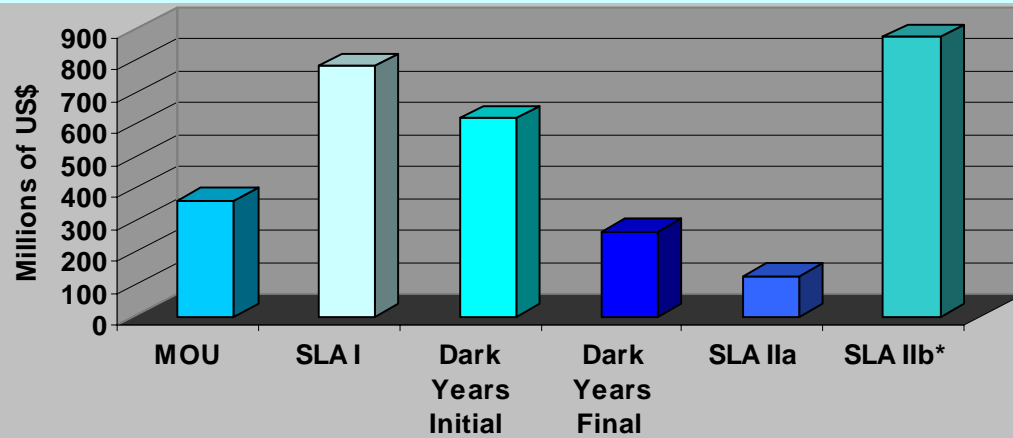
- Construct an unrestricted trade scenario as a benchmark or counterfactual using 2005 reference prices and quantities and previously estimated elasticities from Zhang (2005) and Adam and Haynes (1996)
- Then by manipulating the export supply function we can reconstruct how the various trade regimes would depart from this counterfactual by measuring the changes in welfare and government revenue.

# SLA IIb Oscillation – 2005

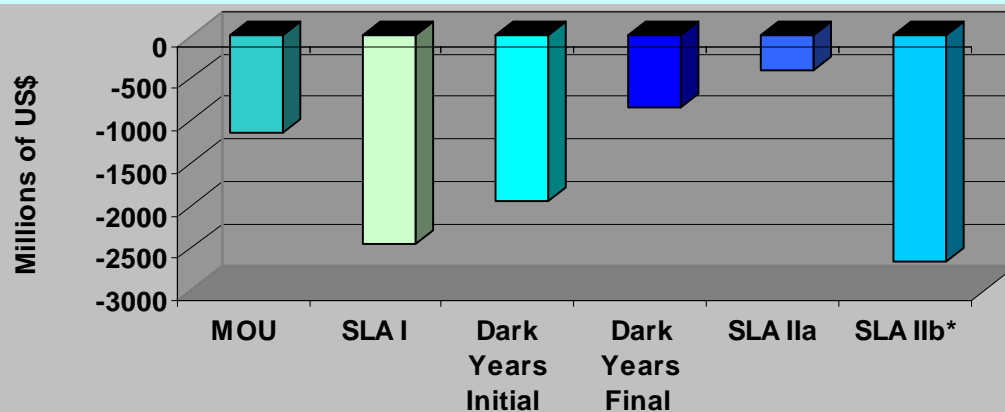


# Consumer Surplus 2005

2005 Canadian Consumer Surplus change from Free Trade

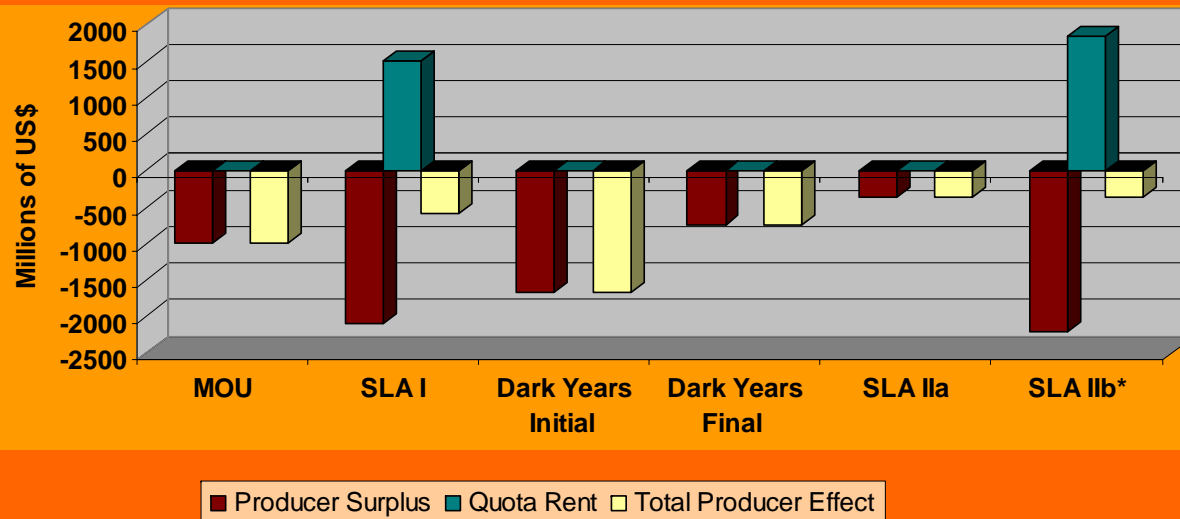


2005 U.S. Consumer Surplus Change from Free Trade

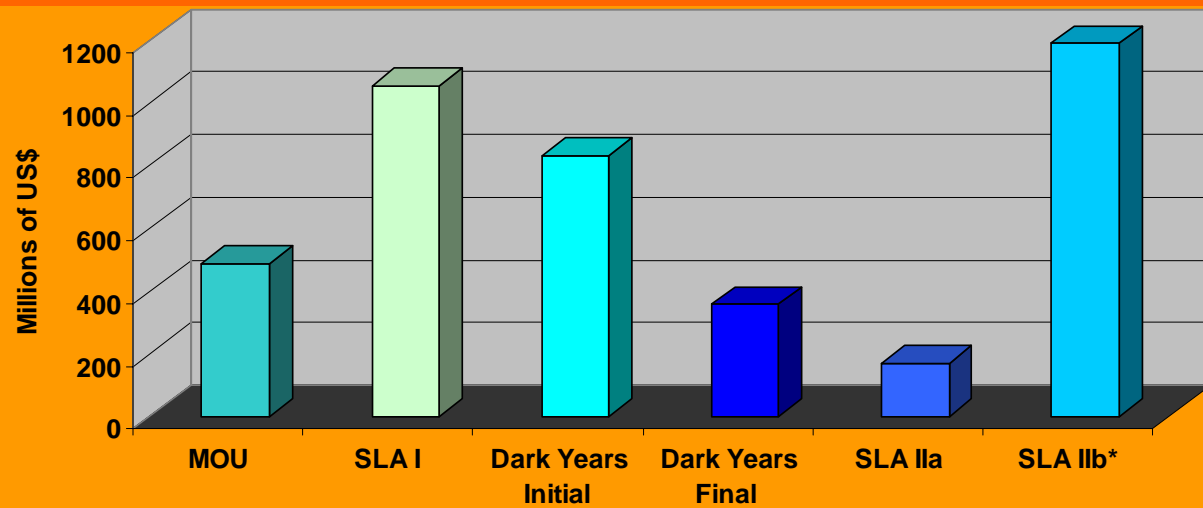


# Producer Effects

## 2005 Can. Producer Effects Change From Free Trade

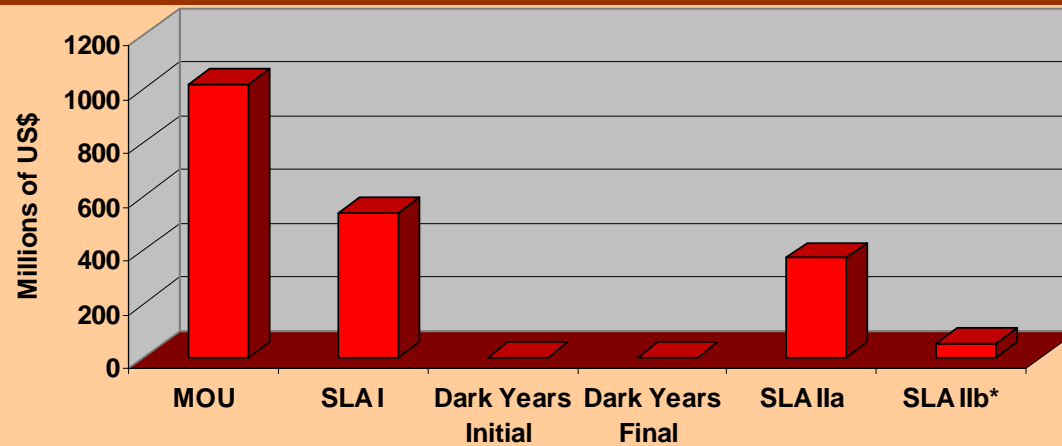


## 2005 U.S. Producer Surplus Change From Free Trade

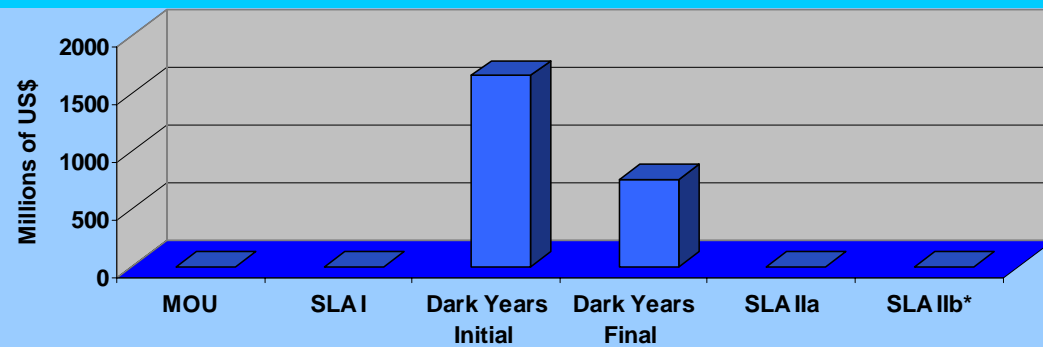


# Government Revenue

2005 Canadian Gov't Revenue Change from Free Trade

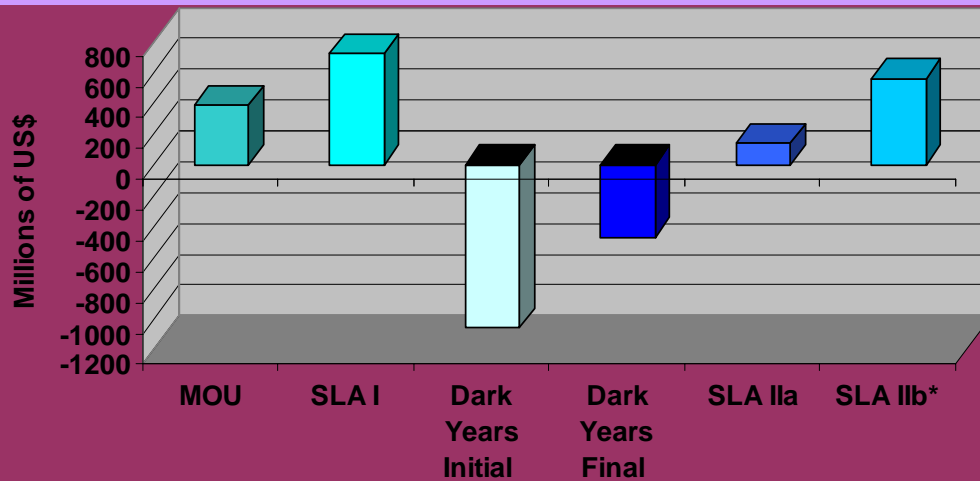


2005 U.S. Government Revenue Change from Free Trade

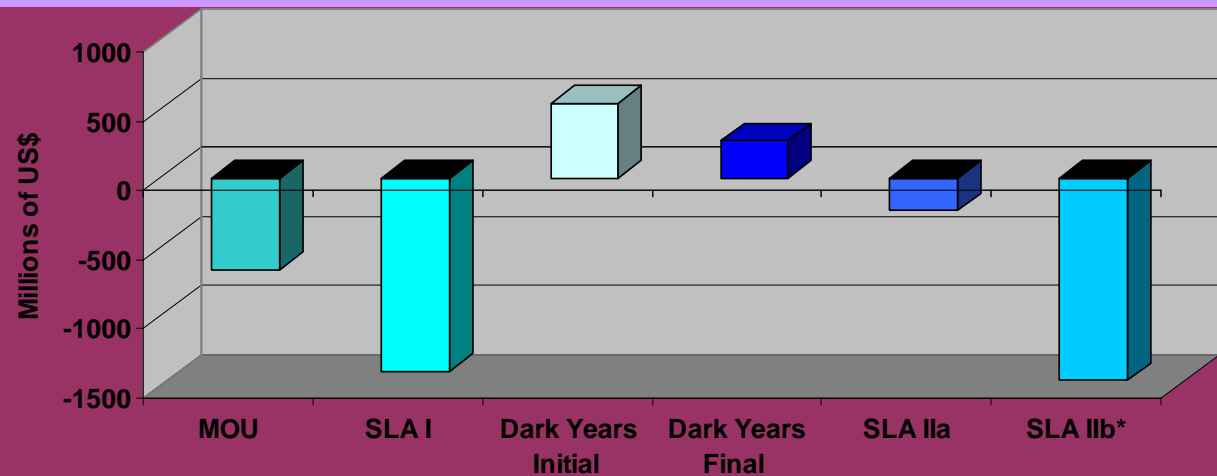


# Total Effects

## 2005 Can. Total Surplus Change from Free Trade



## 2005 U.S. Total Surplus Change from Free Trade



# Extensions Ongoing Issues

- Disaggregate analysis to a regional standpoint
- Updated estimation of national and regional elasticities
- Present analysis is hampered because it is restricted to simulating linear demand and supply curves, so a more broad treatment of additional functional forms.
- More rigorous treatments of third party importers and exporters as well as transportation costs

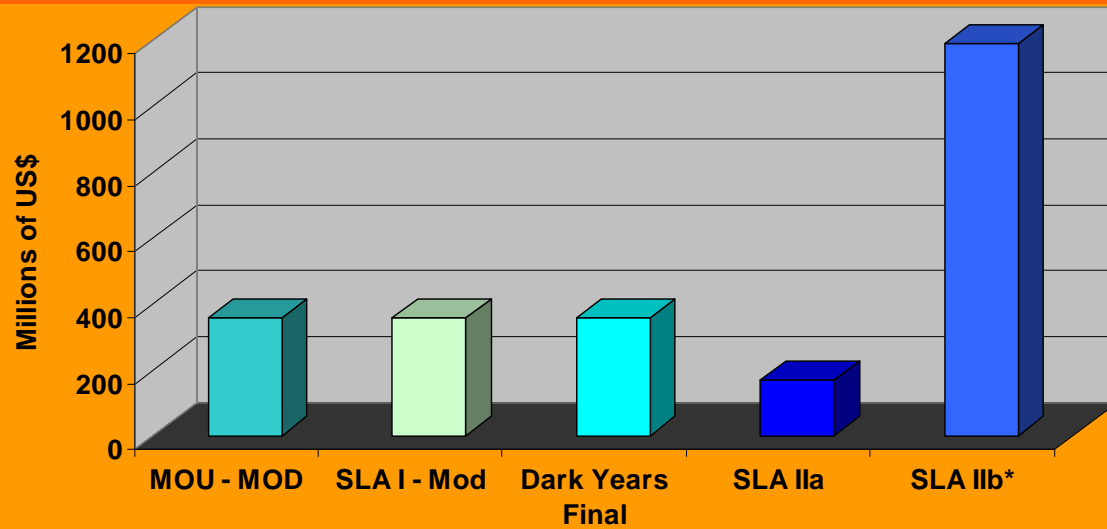
# Conclusion

- The trend appears to be more complex agreements that take into account more diverse interests, it is essential that we carefully evaluate the potential benefits and consequences of such actions
- Managed trade agreements are rarely favorable to all parties involved but through careful identification of priorities potential disruptions can be minimized

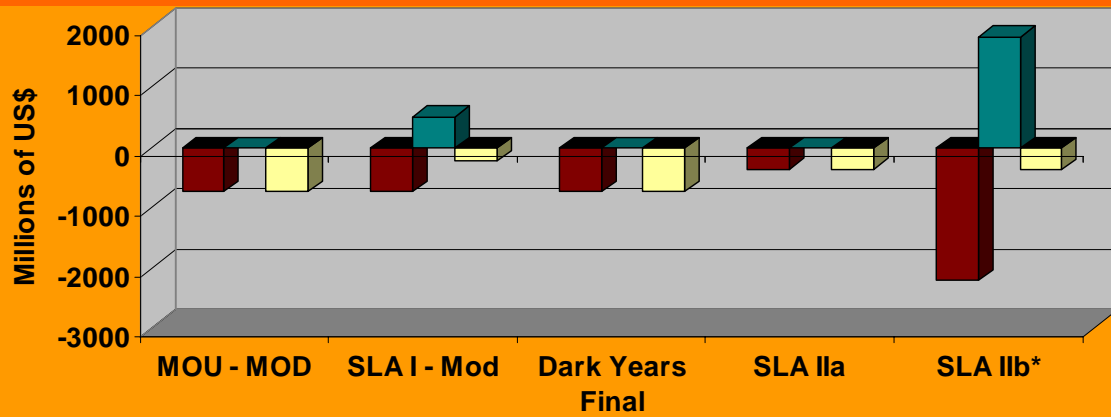


# Modified Regimes

2005 U.S. Producer Surplus Change From Free Trade



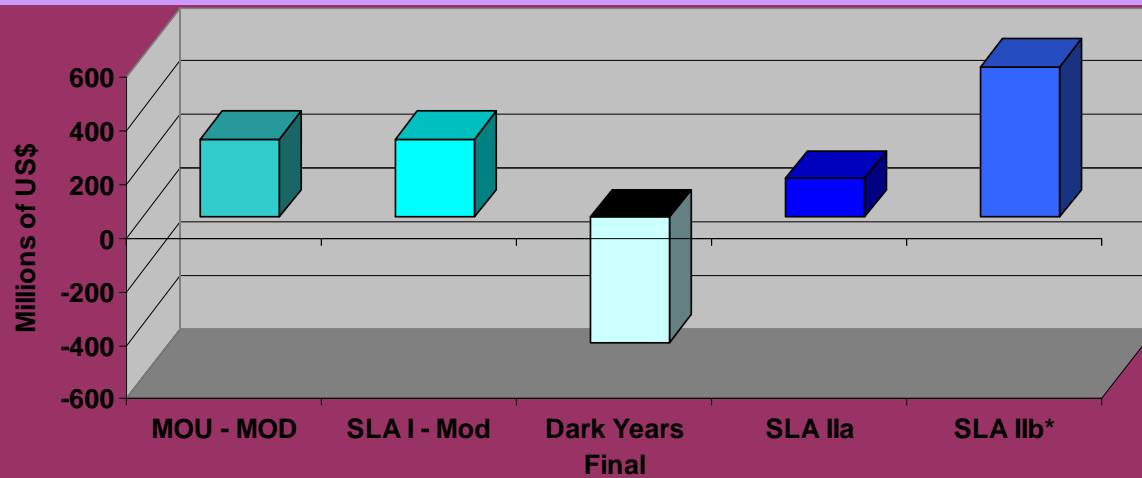
2005 Can. Producer Effects Change From Free Trade



■ Producer Surplus ■ Quota Rent ■ Total Producer Effect

# Modified Regimes

2005 Can. Total Surplus Change From Free Trade



2005 U.S. Total Surplus Change From Free Trade.

