10 March 2017

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The Ugly Truths of a Volatile Lumber Market

By: **Contributed** | March 1, 2017

Volatile lumber prices are causing jitters in areas of the US construction industry dependent on wood. Behind it is a long-running dispute over pricing practices in Canada that creates unfair competition in the U.S. So far there has been no solution, although deemed likely is a new trade agreement placing duties on Canadian imports of softwood lumber. The Structural Building Components Association has been following the issue closely. Below is a recent posting on their site SBC Magazine offering a review.

Lumber History Repeats Itself, and It's Gotten Ugly

History, it seems, is simply repeating itself. Random Lengths.com points out, "The three-week surge in lumber prices just ahead of anticipated duties on Canadian exports to the states looks similar to the one that occurred in 2001 just before the U.S. imposed countervailing and anti-dumping duties on Canada."

Here's what is contributing to the surge: A coalition of predominantly southern yellow pine (SYP) producers petitioned the U.S. Department of Commerce (DOC) last November, asking for an investigation into Canadian softwood lumber shipments with an eye toward levying tariffs on those shipments. According to the DOC's timeline, we may know their preliminary determination on countervailing and anti-dumping duties (CVD and AD duties) in the next few weeks.

It is very likely the DOC will determine harm has been done to U.S. lumber producers through the importation of lumber from Canada. It's "very likely" because the Trade Preferences Extension Act of 2015 now makes it even easier for U.S. industries to bring an action against a foreign country and win. Several changes to trade law within the bill allow the DOC and the U.S. International Trade Commission (ITC) to more easily impose CVD and AD duties, to assess higher duty rates and to examine fewer foreign companies to establish harm.

A preliminary determination in favor of U.S. petitioners is also "very likely" because the currency exchange rate between the U.S. and Canada favors the strong U.S. dollar. Since the exchange rate is influenced by a wide array of external factors, those petitioning for CVD and AD duties have an incentive to push for a determination now while the exchange rate helps make the case for a decision in their favor.

Lumber experts who have spoken with SBCA staff over the past few weeks have indicated the market assumes the total assessed duties will likely be in the range of 30 percent. If the DOC and ITC determine harm is being done to the U.S. companies who petitioned the investigation, the duties can be assessed on lumber imported from Canada retroactively up to 90 days from the preliminary determination date. This means lumber coming across the border today may be subject to CVD and AD duties.

If and when the CVD and AD duties are determined, the U.S. can begin collecting them from exporters in the form of cash deposits. For those who are interested, the U.S. Lumber Coalition provides a thorough summary of the CVD and AD duties determination process the last time this occurred from 2001-2006.

If and when CVD and AD duties are imposed, there will suddenly be a two-tiered lumber market in North America. Lumber purchased in Canada will be duty-free, while Canadian lumber purchased in the U.S. will be approximately 30 percent higher due to the CVD and AD duties. Higher prices and a restriction of supply from Canada will immediately increase demand for U.S. sources of lumber, and that will drive up the cost of U.S. lumber accordingly.

For CMs, higher lumber costs are very likely to stick around for the foreseeable future. Both the U.S. and Canada appear motivated to seek a new negotiated softwood lumber agreement (SLA). Unfortunately, there isn't consensus on when that new SLA might be reached. It could be in the next few weeks, or it might take years like it did back in 2001. While the free trade of lumber in North America over the past 16 months has been very good for lumber end users in the U.S., it seems that a managed trade deal is inevitable. U.S. petitioning companies would prefer an imposed limitation on Canadian lumber's market share in the U.S. Under free trade, Canadian lumber imports to the U.S. reached levels last seen in 2007 at the tail end of the housing boom.

Again, lumber experts who have spoken with SBCA staff over the past few weeks indicate the petitioners would prefer to reduce Canadian market share down to between 20-26 percent, which is considerably lower than the 30-33 percent that has traditionally existed, with the goal of altering the current lumber supply-demand equation.

Related post: Lumber Market Has Gone Emotional – Nothing Good Comes of This

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