NAHB
NATIONAL ASSOCIATION OF HOME BUILDERS

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 21.2 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 or threatened with injury.

- The Commerce Department ruled in 2004 that Canadian lumber producers receive subsidies of 17.2 percent, in the form of timber sales at prices below market value. Previously, in 2002, the rate was set at 18.8 percent.

- To impose an AD, Commerce must find that Canadian producers sold lumber for less than fair market value, and the ITC must find injury.

- Following a review in 2004, anti-dumping duties of 0.92 percent to 10.59 percent were imposed on 7 specific Canadian companies, with all others subject to an AD of 4.03 percent.

- The imposition of duties was based on the May 2, 2002 finding by the ITC that U.S. producers are threatened with injury from imported Canadian lumber.

- Canada initiated appeals to binational panels under NAFTA, and to the World Trade Organization (WTO).

- The standard of review for NAFTA is whether the U.S. government action was consistent with U.S. law. For WTO, the question is whether the duties are consistent with international agreements.

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[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 series of NAFTA and WTO decisions found that the calculations used to arrive at the CVD and AD rates were invalid. Litigation regarding those calculations is ongoing.

- NAFTA and WTO reviews both concluded that the finding of a threat of injury was not justified.

- On April 26, 2004 the WTO Dispute Settlement Body adopted the report of its review panel stating that the ITC finding of a threat of injury was not one "that could have been reached by an objective and unbiased investigating authority," and "the United States failed to act consistently with the requirements of the AD and SCM agreements."

- A unanimous August 31, 2004, decision by the binational (3 Americans, 2 Canadians) NAFTA panel ruled for the third time that the evidence did not support a finding of a threat of material injury under U.S. law. After failing to justify the threat determination in response to two previous remands, the ITC was ordered to reverse its finding.

- On September 10, 2004, the ITC complied with the appellate decision and issued a determination that the U.S. lumber industry is not threatened with injury from Canadian lumber. Although this should have ended the duties, the U.S. instead announced its intention to appeal to a NAFTA Extraordinary Challenge Committee (ECC), alleging that the binational panel acted improperly. That appeal was filed on November 24, 2004.

- Also on November 24, 2004, the ITC sent the U.S. Trade Representative (USTR) a response to the report adopted by the WTO on April 26, 2004, repeating the conclusion that there was a threat of injury.

- On August 10, 2005, the ECC unanimously affirmed the August 2004 binational panel ruling. USTR said that the decision "will have no impact on the antidumping and countervailing duty orders given the ITC's November 2004 injury determination" (i.e., its response to the WTO ruling that the 2002 injury finding had violated WTO obligations).

- The WTO is reviewing whether the November 2004 ITC report brings it into compliance with WTO rules. Canada has asked for WTO authority to retaliate against imports from the U.S. for failure to comply.

- Canada has also appealed to the U.S. Court of International Trade, challenging the November 2004 attempt by USTR and ITC to reinstate the finding of a threat of injury.

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 with interest 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 threatened a new CVD and extracted 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 sawtimber from U.S. public lands have limited lumber output in the West, increasing the share supplied by other U.S. regions and by imports.

- Softwood sawtimber sales from federal lands fell from 10.4 BBF in 1990 to 1.4 BBF in 2004, reflecting restrictions to protect the Northern Spotted Owl and other threatened or endangered species, as well as other changes in government policy.

- Supplies of lumber from the West declined by 14 percent from 1989 to 2004.

- Supplies of lumber from the South grew by 47 percent from 1989 to 2004

- Supplies of lumber from the North grew by 88 percent from 1989 to 2004.

- Imports of lumber from Canada grew by 55 percent from 1989 to 2004.

- Imports from other countries grew by 3,067 percent from 1989 to 2004, with an increase of 93 percent from 2003 to 2004.

- About 33.5 percent of lumber consumed in the U.S. in 2004 was from Canada. The share from Canada has gradually declined from 35.7 percent in 1996.

Sources of Softwood Lumber Consumed in United States

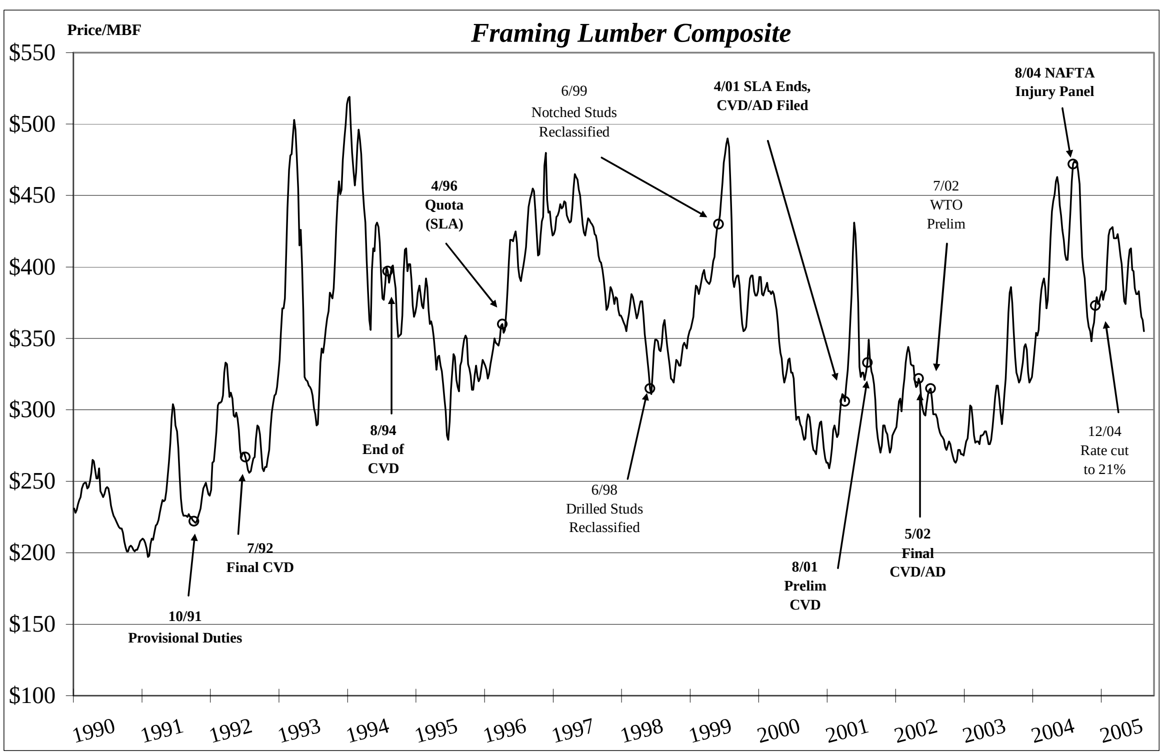
Millions of Board Feet

	U.S. LUMBER PRODUCERS				IMPORTS		TOTAL
	WEST	SOUTH	NORTH	TOTAL	Canada	Other	
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	33,754	18,698	1,377	53,829
2002	16,663	16,571	1,832	35,066	18,969	2,017	56,053
2003	17,270	16,759	1,724	35,753	19,342	1,846	56,941
2004	18,254	17,812	1,960	38,026	20,950	3,549	62,524

Source: American Forest and Paper Association, Statistical Roundup Feb 2005

Import restrictions and limits on timber harvests have inflated lumber prices

- From 1980 to 1991, the Random Lengths composite price for framing lumber[3] 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 since the final CVD and AD were imposed in May 2002 has averaged about $350. The duties, and strong demand, were partly offset by 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. The likelihood that the duties will ultimately be refunded as a result of the NAFTA and WTO appeals has also limited the impact on consumers.



[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 2004, the number of jobs in logging and lumber production averaged 185,000. In 1995, the year before the Softwood Lumber Agreement, the average was 220,000.

- Producers of secondary wood products such as trusses, cabinets, and windows that use lumber as an input employed 573,000 workers in 2004. 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 1.2 million workers.

- Home builders and residential subcontractors provided 3.0 million payroll jobs in 2004. In addition, more than a million self-employed independent contractors work in home building.

Employment in Lumber-Producing and Lumber-Dependent Industries

NAICS		2001	2002	2003	2004
	Lumber-Producing				
1133	Logging	74	70	69	68
3211	Sawmills and wood preservation	127	121	117	118
		200	191	187	185
	Lumber-Dependent				
321213,4	Engineered wood members and trusses	47	48	51	54
321911	Wood windows and doors	72	72	72	76
321912,8	Cut stock, resawing, planing, other millwork	85	82	79	80
32192	Wood containers and pallets	65	60	59	61
321991	Manufactured and mobile homes	53	51	44	44
33711	Wood kitchen cabinets and countertops	149	149	154	161
32199	All other wood products	110	105	97	97
		580	567	555	573
42331	Wholesale Lumber and wood	124	124	124	129
4441	Building material and supplies dealers	997	1,025	1,038	1,081
		1,121	1,148	1,163	1,211
2361	Residential gen'l contractors/builders	781	804	838	894
238 (part)	Residential specialty trade contractors	1,848	1,887	1,967	2,102
		2,630	2,691	2,805	2,996

Source: Bureau of Labor Statistics, Current Employment Statistics Survey

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