

Commentary- Montreal Economic Institute

Canadian Softwood Lumber: A Costly Dispute for Consumers and Companies

This Economic Note was prepared by Olivier Rancourt, Economist at the MEI, and Gabriel Giguère, Public Policy Analyst at the MEI. The MEI's Regulation Series aims to examine the often unintended consequences for individuals and businesses of various laws and rules, in contrast with their stated goals. Published June 30, 2022.

The Canada-US softwood lumber dispute that has lasted some forty years is good for neither country, MEI researchers conclude in this publication. The drop in Canadian production has direct consequences on this country's forestry industry, and is not offset by the increased production south of the border, which leads to a net loss in the volume of wood available in the American market. This artificially induced greater scarcity of wood leads to higher costs for consumers.

Tensions related to the trade in softwood lumber across the Canada-US border are not new. The imposition of protectionist measures has now persisted for some forty years. Successive disputes between the two trading partners, notably involving American politicians and producers accusing the Canadian forestry sector of dumping, have repeatedly been accompanied by the imposition of tariffs on Canadian softwood lumber. The main reason given by our southern neighbour in defence of these harmful measures is that 94% of Canadian forests are public, which proves according to them that Canadian softwood lumber is subsidized. The US government maintains this position despite multiple losses before WTO and NAFTA tribunals.

While tariffs have benefited American softwood lumber producers, Canadian forestry companies saw a US\$60-million slowdown in their activities in 2017. Moreover, American consumers, who saw the price of softwood lumber increase following the imposition of duties on Canadian lumber, are the big losers in all this. Tariffs on this resource have had more negative than positive effects on the economy and on American consumers.

A History of Conflict

There have been five separate disputes since 1982. Placed end to end, these conflicts over Canadian softwood lumber total 19 years, or nearly one in every two years since tensions began. In addition to having lasted too long already, this series of disputes has hurt the economies of both countries.

The first dispute erupted in 1982 when the United States filed complaints alleging that imported Canadian softwood lumber was, according to American producers, heavily subsidized. A few years later, in 1986, the American forestry sector filed new complaints, this time before the International Trade Administration (ITA), an organization attached to the US Department of Commerce, which then established countervailing duties of 15% on Canadian softwood lumber. The imposition of tariff barriers on the resource was a first in the saga.

This American reflex of imposing tariffs would persist, and would have negative repercussions on trade between the two partners. An agreement was then reached between the two parties in 1986, setting 15% tariffs. Canada withdrew from this agreement in 1991. Two other disputes between the trading partners followed in 1992 and 2005, both accompanied by complaints under free trade agreements.

The final dispute broke out in 2016 after Canada's non-renewal of an expired agreement that had lasted over nine years. This fifth dispute—which persists to this day—is part and parcel of the economic nationalism exemplified by President Trump's "Make America Great Again" slogan, as well as the Biden administration's modifications to the *Buy American Act*. It features duties on softwood lumber of 20.83% imposed in November 2017 by President Trump.

Following the complaint filed against the United States by Canadian representatives, the WTO concluded in a report made public in 2020 that the US Department of Commerce had not acted objectively and impartially with regard to American countervailing duties and antidumping measures. This decision shines a light on the disproportionate reaction of politicians south of the border.

Tariffs That Affect Softwood Lumber Production

The goal of customs duties is to penalize Canadian softwood lumber producers and favour the purchase of resources from American producers. US authorities collected C\$5.6 billion in export duties from the Canadian forestry industry between 2017 and 2021. In 2021, over 84% of exports of this Canadian natural resource went to our southern neighbor.

Furthermore, our projections show that from 2017 to 2027, these tariffs will have reduced Canadian producers' exports for a value of over US\$3 billion. This loss of value is not offset, however, by the increased activity of American producers stemming from the imposition of duties. Overall, according to our projections, with duties of 20.83%, there was a net loss of production of 71,000 m³ of wood, taking into account the decreased

activity at Canadian sawmills and the increased activity at US sawmills. This net loss, as we shall see below, has repercussions on the prices paid by American consumers.

This loss should worry Canadians, since the forestry sector represented \$24.2 billion in 2019. Given the size of the sector, these tariff barriers have a direct impact on the country's economy as a whole.

It would be a mistake to think that Canada is the only country that loses; the American market also suffers. The reason is simple: Given that the reduction of imports is not entirely compensated by increased domestic production, the quantity of lumber available to consumers falls. Prices therefore rise. Even if this is obviously not the only factor having an effect on the price of this material, its influence is undeniable. In the end, it is American consumers of softwood lumber who find themselves paying more for these materials because of these duties.

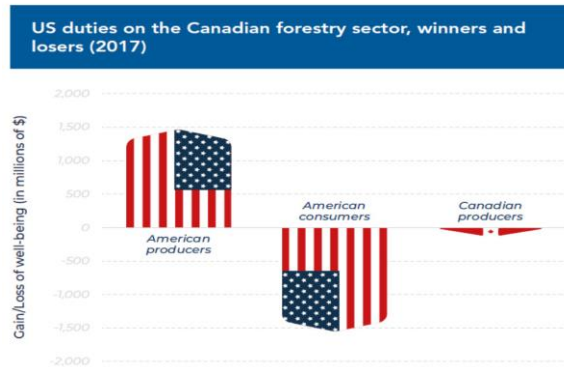
Protectionist Barriers: American Consumers Are the Big Losers

In terms of economic well-being, it is American consumers who have lost the most. The reduction in well-being is estimated by the shrinking gap between the reserve value (the maximum price the consumer is ready to pay for a good) and the actual price paid. This can be due either to an increase in the price of the resource or to a reduction in the reserve value—caused for instance by a reduction in disposable income.

American consumers lost the equivalent of over \$1.56 billion in 2017 because of duties on the Canadian forestry sector imposed by their political leaders. These tariff barriers hurt American consumers 26 times more in 2017 than they hurt Canadian producers. In other words, the financial repercussions for the US population were 26 times greater that year than for producers in Canada, for whom they represented a loss of economic well-being of just US\$60 million.

US politicians need to address this situation and acknowledge the harm they are causing to their own population (see Figure 3). Moreover, we estimate that the loss of economic well-being of American consumers was 7% greater than the gain for that country's producers. The duties therefore amount to a transfer from American softwood lumber consumers to producers. Given these facts, it would be in the interests of Americans for their government to revise its protectionist policy.

Figure 3



For their part, softwood lumber consumers can also be producers of other products, including residential construction. For this reason, among others, the National Association of Home Builders came out against the imposition of tariffs in 2022 that would push up the already high price of wood. It denounced the fact that US production is unable to meet domestic demand. US duties discourage consumers from purchasing this resource given the price increases that are entailed. According to one study, this led to a reduction of 240,000 m3 in the demand for softwood lumber during the period when the duties were 20.83%.

The case is clear: Protectionism has negative repercussions for the economies of all countries concerned. We have known this for centuries, notably since the economist David Ricardo demonstrated it with his theory of comparative advantage.

Admittedly, the United States is not alone in imposing these kinds of measures that undermine economic prosperity. Canada has also erected a number of barriers to free trade. The case of supply management is a clear example of Canadian protectionism in action. It consists of quotas and tariffs that can go up to 300% on certain products. Whether it is duties on Canadian softwood lumber or our own supply management system, protectionist measures directly harm the consumers of the countries that put them in place.

Conclusion

The Canada-US softwood lumber dispute, which has persisted for four decades, is good for neither country. The loss of production on the Canadian side has direct consequences for the country's forestry sector, and it is not fully offset by the increased production in the United States, resulting in a net loss. On their side, despite increased activity for American producers, it is American consumers who pay a hefty price. If the US government were to remove all tariff barriers on Canadian softwood lumber, both countries would come out ahead.

If you have an idea for a commentary or would like to submit your own commentary for a future newsletter please let me know at dave@wwta.ab.ca

Economic Update

August Housing Starts

In Alberta, urban housing starts totaled 2,807 in August 2022, a year-over-year increase of 6.25%. Canadian housing starts increased by 6.2% over the same period. In Alberta, single-detached units, which comprised 46.7% of all units, increased by 6.3%, while apartment units, which comprised 33.2% of all units, decreased by 0.2%.

Housing Starts Alberta						
	Aug-22	Aug-22	% Change	YTD 2022	YTD 2021	% Change
Alberta	2807	2642	6.25%	23363	19488	19.88%
Edmonton	1119	1276	-12.30%	9682	8148	18.83%
Calgary	1182	1110	6.49%	11186	9389	19.14%
Red Deer	13	11	18.18%	100	154	-35.06%
Grande Prairie	21	7	200.00%	148	84	76.19%
Lethbridge	224	48	366.67%	692	469	47.55%
Wood Buffalo	18	13	38.46%	93	60	55.00%
Canada	20743	19536	6.18%	155427	162096	-4.11%

Calgary starts were down 37% from 1879 in July, while Edmonton starts down 18% from 1377 units last month. Total Alberta starts were down 21% from 3554 in July. Seasonally adjusted starts has remained bullish at 36,437 for Alberta, up by 5,453 from 2021 levels.



Monthly Alberta Housing Starts

Running Uphill: Alberta's economy heading into 2023

Rob Roach, ATB Economics | September 8, 2022

Between high inflation, rising interest rates and the invasion of Ukraine, economies around the world are struggling to keep from slipping into recession.

Alberta's economy faces the same challenges, but is on track to be one of the top performers in the country this year due to the offsetting boost it is receiving from strong commodity prices.

Our [latest forecast](#) pegs Alberta's real GDP growth in 2022 at 5.0% (unchanged from our May forecast) and 3.0% in 2023 (down half a percentage point from May).

Growth continues to be led by our oil and gas sector, which is benefiting from strong production and drilling activity in the wake of oil prices averaging above US\$100/bbl over the first eight months of the year.

Higher commodity prices and a weaker loonie are also boosting export revenues for most of our non-energy industries.

At the same time, our labour market is adding jobs despite ongoing staffing challenges and a lagging participation rate.

Housing activity has started to slow, but house prices will most likely avoid the severe correction expected in some markets.

It is, however, important to highlight that GDP is not a measure of well-being and that Alberta's recent growth does not mean everything is going well for everyone.

Strong GDP growth is fundamentally better than if things are moving in the other direction, but it does not negate the fact that many families and businesses are struggling with higher prices and rising borrowing costs.

On the bright side, the momentum Alberta has going into 2023 will help our economy weather the economic storm created by the "three I's" of invasion, inflation and interest rates.

Inflation Down but not out in August

The national inflation rate in August was 7.0% compared to 7.6% in July. The improvement was largely due to a drop in gasoline prices.

In Alberta, the inflation rate fell to 6.0% in August compared to 7.4% in July.

The inflation rate was lower in every province in August.

While the lower rates are welcome news, they remain well above the Bank of Canada's target inflation rate of 2%.

It's also concerning that the cost of food continued to rise. Nationally, food prices in August were 9.8% higher than 12 months earlier; they were 9.4% higher in Alberta.

Despite the drop in the inflation rate, the Bank of Canada is still likely to hike interest rates with its trend-setting policy rate potentially rising by another 75 basis points to 4.0% by the end of the year.

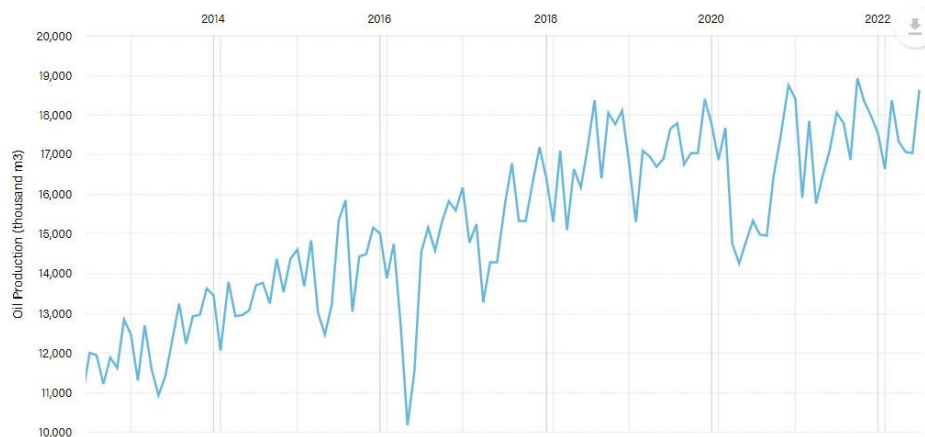
Oil output holding near record high

Alberta's oil production averaged near 3.8 million barrels per day (bpd) in July, just 1.7% shy of the historic peak set in November 2021.

As oil sands output jumped to the highest level in eight months, aggregate production stood 119 thousand bpd (+3.3%) above last July.

Alberta's oil production over the first seven months of 2022 was over 19 million barrels (+2.5%) higher than during the same period the year before. This was mainly a result of strong year-to-date gains in raw bitumen (+1.7%) and conventional (+12.5%) output, which offset a 0.4% dip in upgraded production during the same timeframe.

In terms of disposition, exports to external destinations drove almost two-third the year-to-date increase while volumes used within the province also remained upbeat.



10 year chart of oil production in Alberta

Lumber

Chicago lumber futures tumbled towards the \$400 USD per thousand board feet mark, a level not seen since June 2020 and down more than 70% from their March peak, as the US housing market is experiencing a sharp slowdown amid soaring rates. Existing home sales fell for a seventh consecutive month in August to their lowest level since May 2020, reflecting this year's skyrocketing mortgage rates. On top of that, new permits for home construction, a potential indicator of future activity, plunged 10% to 1.517 million units last month.



In the U.S. homebuilding is likely to remain on the back foot for the rest of the year. A survey on Sept. 18 showed the National Association of Home Builders/Wells Fargo Housing Market sentiment index fell for the ninth straight month in September.

The survey found almost a quarter of builders reported reducing home prices and more than half were offering incentives to bolster sales, including mortgage rate buydowns and free amenities.

Canfor to close BC mills due to demand

[More](#)

[Ignorance on display in Canada and Germany](#)

Quality Control

Removing and Replacing Plates

This month I wanted to touch on removing and replacing plates. This has to be done from time to time for a number of reasons such as lumber splitting during pressing or the plate being improperly placed during assembly of the truss.

That is why it is so important to properly place the plate in the first place as the time involved in replacing a plate is un-productive and has a cost associated with it. If the plate is not replaced properly there may be a weak connection that could result in truss failure.

From TPIC

G.4.1.3 Partially effective teeth

Teeth not completely embedded and can resist loading may be considered to be partially effective. **When a metal connector plate is installed in the connection area of lumber which contains tooth holes from a previously installed plate and where the wood is otherwise undamaged, metal connector plate teeth shall be considered 50% effective.**

So if you are placing a plate on a piece of lumber that had a previously installed plate, that portion of the plate requires twice the number of teeth that are specified on the joint detail. If you do not have the joint detail with the minimum number of required teeth specified you have to pick a plate that has double the area covering that piece of lumber.

This rule also assumes that the original plate has been removed with minimal damage and that no large pieces of the lumber are missing. If there are large pieces of lumber missing the wood member may also have to be replaced.

Safety First!

Before removing and replacing plates you must ensure that you are wearing eye protection and protective gloves!

Do not hit a hammer with another hammer to remove the plate!

First determine if the plate needs to be replaced.

If the plate is slightly misplaced and not within the allowable tolerances, it is usually a good idea to check with design to determine if it is still OK. Sometimes the truss will still work with the plate placed as is, depending on the control conditions of the design. You

may actually be doing more harm than good replacing a plate that is only slightly out of tolerance. Check with the production manager before replacing any plates.

If you determine that the plate needs to be replaced you need to get the original plate off while limiting the damage to the lumber. If a large section of lumber comes off with the plate that lumber member will may also have to be replaced, this means that you are probably replacing more than one plate.

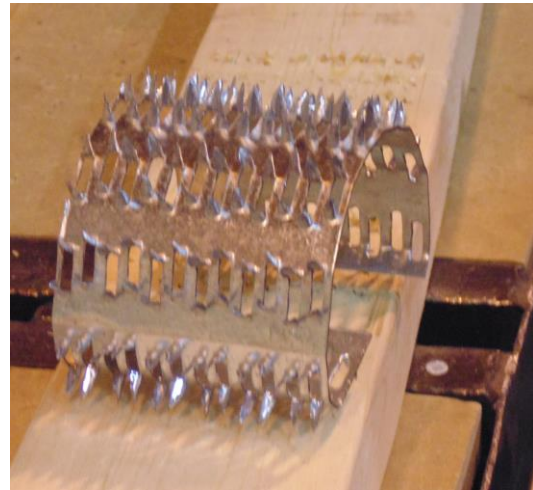


Plate removed with loss of wood

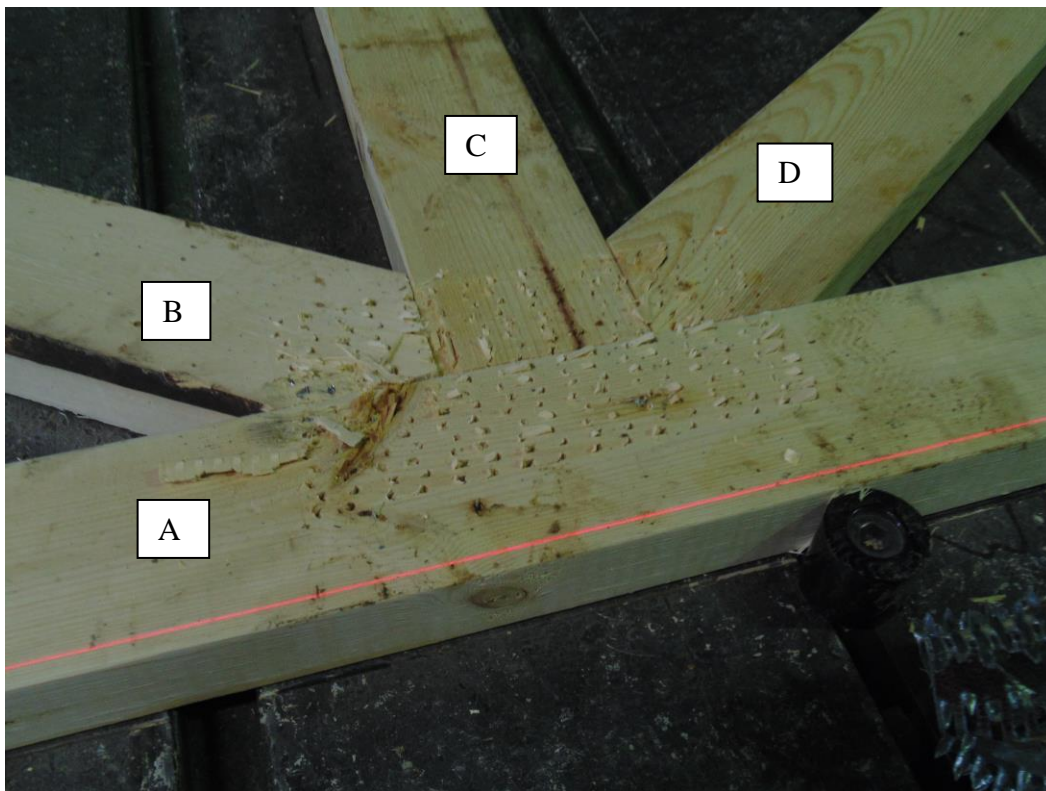
For small plates you may be able to remove them with the claw of a hammer, but for larger plates you should use a plate removal tool. This is typically a slotted bar that can roll the plate up once you get an edge started by using a nail puller. By rolling the plate the teeth are more likely to withdraw from the wood with little damage.



Usually these plate removers are homemade devices, but the theory is to have a slotted bar that can be turned either with a socket or by hand to roll the plate so that the teeth come out straight without any wood attached.



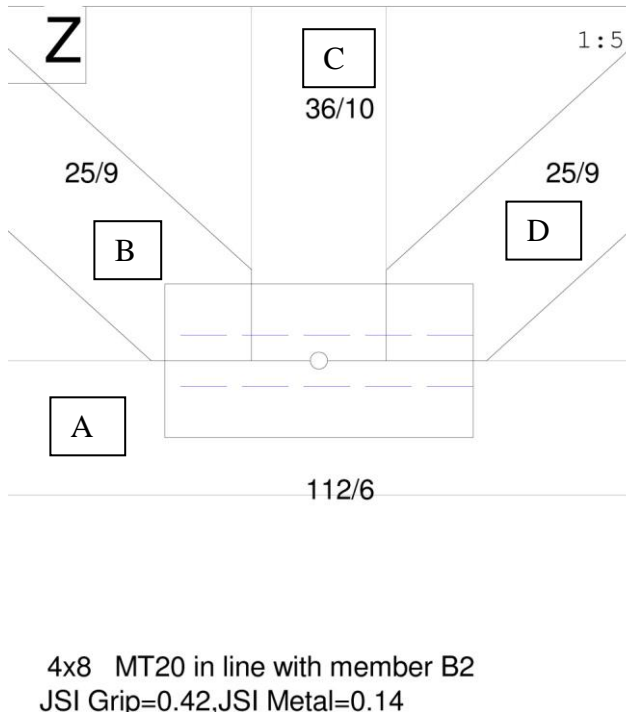
This type of removal results in minimal damage to the lumber



4x8 plate removed

Now that you have the plate off you have to determine what to replace it with. In almost all cases you cannot replace it with the same sized plate.

If the plate was removed because it was placed incorrectly all the lumber members will be damaged at that particular joint and you will have to pick a plate size that gives you twice the amount of minimum teeth required in each member.



For this 4x8 plate the new plate would have to be such a size that it had twice the minimum teeth required into each member.

If you do not know the number of minimum teeth required into each member you have to basically double the size of the plate. Therefore you would require an 8x16 plate.

By knowing the minimum number of teeth and seeing that this number is less than half of the actual teeth in each member, in this case you could use the same size 4x8 plate.

This is a reason why joint details are so important.

In the above example if the minimum number of required teeth into member “C” was over 18 you would have to choose the next size up plate (5X8) and place the plate so that it still had 2” into the bottom chord.

Remember when replacing a plate it is important to use the same gauge of plate.

When replacing a plate because you are replacing a wood member with a new one, perhaps because it split while pressing, you do not need to size the plate so that it has twice the minimum teeth into the new member as it has no damage.

Remember always check with the production manager before replacing a plate to determine the best solution.

If the rules are too much to figure out you can always revert back to the rule of thumb of doubling the size of plate if you remove one.

For more information on plate remove check out www.trustrainingonline module #109.

Health and Safety Toolbox

Similarly to the Quality topic the WWTa would like to give you a monthly item you can discuss when doing your Safety Toolbox meeting. This month we are going to focus on **Fatigue**, as I think it is something that is not always considered and of course it applies to all employees.

Fatigue is the state of feeling very tired, weary or sleepy resulting from insufficient sleep, prolonged mental or physical work, shift work, or extended periods of stress or anxiety. Boring or repetitive tasks can intensify feelings of fatigue.

One shift worker in five dozes off during a shift.

Signs

- sleepiness, including falling asleep against your will ("micro" sleeps)
- irritability
- depression
- giddiness
- loss of appetite
- digestive problems
- increased vulnerability to illness
-

Staying awake for 24 hours straight affects the human body almost exactly like a blood alcohol level of .10%, which exceeds Canada's legal limit for drivers.

Impacts of Fatigue

DECREASED

- decision making ability
- ability to do complex planning
- communication skills
- productivity / performance
- attention and vigilance
- ability to handle job stress
- reaction time
- memory / ability to recall details

INCREASED

- tendency for risk-taking
- forgetfulness
- errors in judgement
- sick time and absenteeism
- medical costs
- accident rates



Night, evening, rotating and irregular shifts are associated with an increased risk of occupational injury due to worker fatigue, less supervision and reduced co-worker support.

Fatigue is regarded as having an impact on work performance. Most accidents occur when people are more likely to want sleep – between midnight and 6 am, and between 1-3 pm.

Fatigue is increased by...

- dim lighting
- limited visual acuity
- high temperatures
- high noise
- high comfort
- tasks which must be sustained for long periods of time
- work tasks which are long, repetitive, paced, difficult, boring and monotonous

Tips for Workers

- EAT a healthy diet that promotes longer-lasting energy. Complex carbohydrates (starch) are preferable to simple carbohydrates (sugar). Avoid fatty foods and junk food.
- ADOPT a steady exercise routine that includes cardiovascular, muscle strengthening and flexibility workouts.
- TRY to get at least 7.5 - 8.5 hours of sleep per night.
- STAY positive. Make a conscious effort not to be overwhelmed by negative circumstances.
- AVOID driving if you are tired, especially in inclement weather where vision is impaired.
- AVOID excessive noise.

Advice for Employers

- ENSURE the work environment does not promote fatigue. Try to avoid dim lighting, toasty temperatures, and excessive noise.
- VARY job tasks to eliminate repetition or long periods of boring, monotonous work.
- INCORPORATE and encourage taking breaks.
- TRAIN workers on the importance of getting enough rest and how to achieve work-life balance.
- INTRODUCE shorter shifts, and rotate shifts in the direction of the sun (morning, afternoon, night, in that order).

[Six Tips to Conquer Fatigue at Work](#)

The Alberta Government has a new format OHS eNews you can subscribe to with all kinds of good material at: <https://ohs-pubstore.labour.alberta.ca/>

News and Events

The Western Wood Truss Association of Alberta would like to welcome a new fabricator member.



Sunder Lumber is a company of strong integrity, and is committed to providing you with outstanding quality and service. We have always taken a keen interest in new product lines and technology within the construction & building industry. Our team of long-term, knowledgeable and experienced sales staff is here to provide you with exceptional service and to keep you informed of what's happening in the industry.

Sunder Truss is located at 3501 23 St NE Calgary, Alberta. (403) 300-2020, e-mail info@sunderlumber.com

We would also like to welcome a new preferred supplier to the association.



Steve Ratcliffe
Senior Field Sales Representative
Western Canada
m. 780.318.3557
sratcliffe@omginc.com



Building Code Update

The new edition of Alberta's building code, based on the NBCC 2020, will be available sometime this fall; however, the enforcement date won't be until a year after that. There will be a 1 year transition period where code users will be able to use both the current in-force 2019 edition as well as the new, not yet released edition.

Along with this new edition will come a new Standata to replace the current BCI-19-23. This code change will require a review of the current Standata that the WWTA will participate in. If you have any comments on the current Standata please forward them in writing to Dave.

Truss Plate Institute of Canada

The next meeting of TPIC is scheduled for the second week in October. Our representative David Klassen will be in attendance. If you have any issues or clarifications you would like to see addressed please get them to Dave Pasolli by the end of September.

Canadian Wood Truss Association

The CWTA will also be meeting in October and WWTA Executive Dave Pasolli will be in attendance. The main issue will be the continued discussion of the formation of a Certifying Body that will be able to certify truss plants to the CSA S349:20 standard.

A Conversation with Peter Moonan

We are working on a setting up a virtual call with Peter Moonan, National Sustainability Manager with the Canadian Wood Council for the 3rd week of October.

Peter will be discussing the Environmental Product Declaration, or EPD survey that the CWC will be sending out shortly and answer any questions you may have.

Look for an invite as soon as they release the survey and we lock down a date.

Did You Know?

I have posted previous conversations to the WWTA website if you would like to go back and review them. In particular there have been some requests to see the code update conversation with Chris Cordogiannis from MiTek. They can be found in the members section:

<http://www.wwta.ab.ca/wwta-conversations.html>