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Big Hike in US Duties on Canadian Lumber Shifts More Weight of Weak Market to Canada

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ARTICLE

The US and Canada have had a long-standing trade dispute over softwood lumber. The US government has backed its lumber industry's view that Canadian imports compete unfairly on the US market because Canadian lumber production is government-subsidized.

At issue is the cost of timber from publicly owned forests—which in British Columbia is most forests—and whether Canadian provincial governments adjust those costs based on lumber market conditions.

On August 13, the US Department of Commerce released the final results of its Fifth Annual Administrative Review concerning the antidumping (AD) and countervailing (CVD) duty orders on Canadian lumber exports to the US. It set a new combined duty rate of 14.54% for most Canadian lumber exports, nearly doubling the previous rate of 8.05%, and will be applied retroactively to exports made in 2022 as well as to new exports of softwood lumber to the US.

Was the Increase in Duties Surprising?

Lumber demand and prices have reached record lows, sparking mill curtailments and permanent closures across the US and Canada.

Data from the Western Wood Products Association (WWPA) shows US lumber production in the first half of 2024 was down by 3.2% year-over-year. Yet despite the market's challenges, Canadian sawmills increased their softwood lumber production in the year through June by 4.6% year-over-year and exported 3.4% more lumber to the US.

When the North American lumber market hits a slump, US federal government decisions on Canadian lumber duties usually favor US producers. Therefore, the Department of Commerce's August ruling, which confirmed the preliminary results of its review disclosed in February, was not a surprise.

The US Lumber Coalition welcomed the Department of Commerce's announcement in August. The Coalition maintains that, with lumber demand and prices at record lows and mills across the country struggling to keep afloat, “The United States does not need the unfairly traded Canadian lumber imports to supply current levels of home construction.”

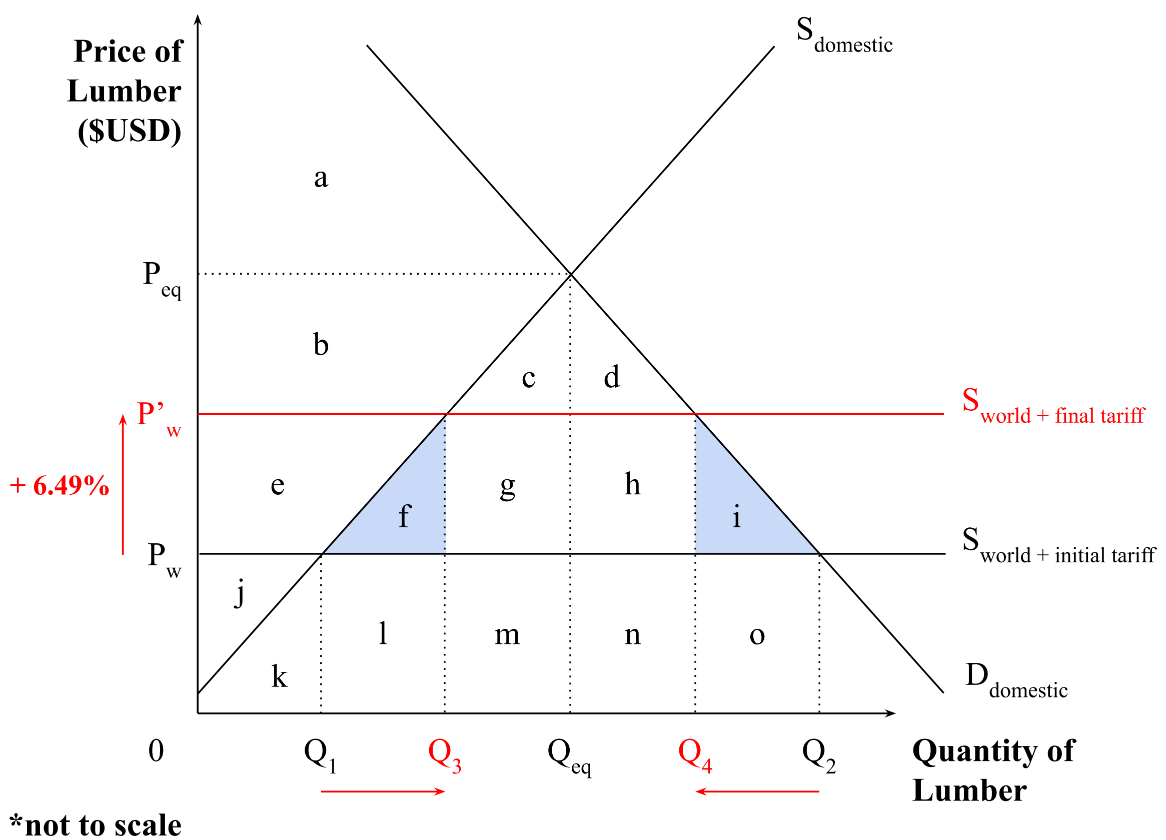
The Canadians, obviously, have a different view. Sawmills in Canada’s largest lumber producing province British Columbia are already struggling to stay afloat amid multiple challenges. These include, ironically, a dearth of affordable timber to feed their mills.

If higher duties force more Canadian sawmills to close, it could be hard to meet US lumber demand when the housing market recovers. US homebuilders, the primary consumer of softwood lumber, believe that duties on Canadian lumber raise costs for them and for homebuyers.

COMMENTARY

The article addresses the United States raising tariffs on imports of Canadian softwood lumber from 8.05% to 14.54%. The US government asserts that "Canadian imports compete unfairly on the US market because Canadian lumber production is government-subsidized." This protectionist measure was thus imposed as an attempted solution to support US producers by reducing foreign competition. Concurrently, these tariffs have repercussions for Canadian stakeholders, highlighting the **interdependence** of countries in trade, where choices made by the US can create ripple effects on the economic state of other nations.

Figure 1: Effects of raising tariffs on Canadian lumber in the US market



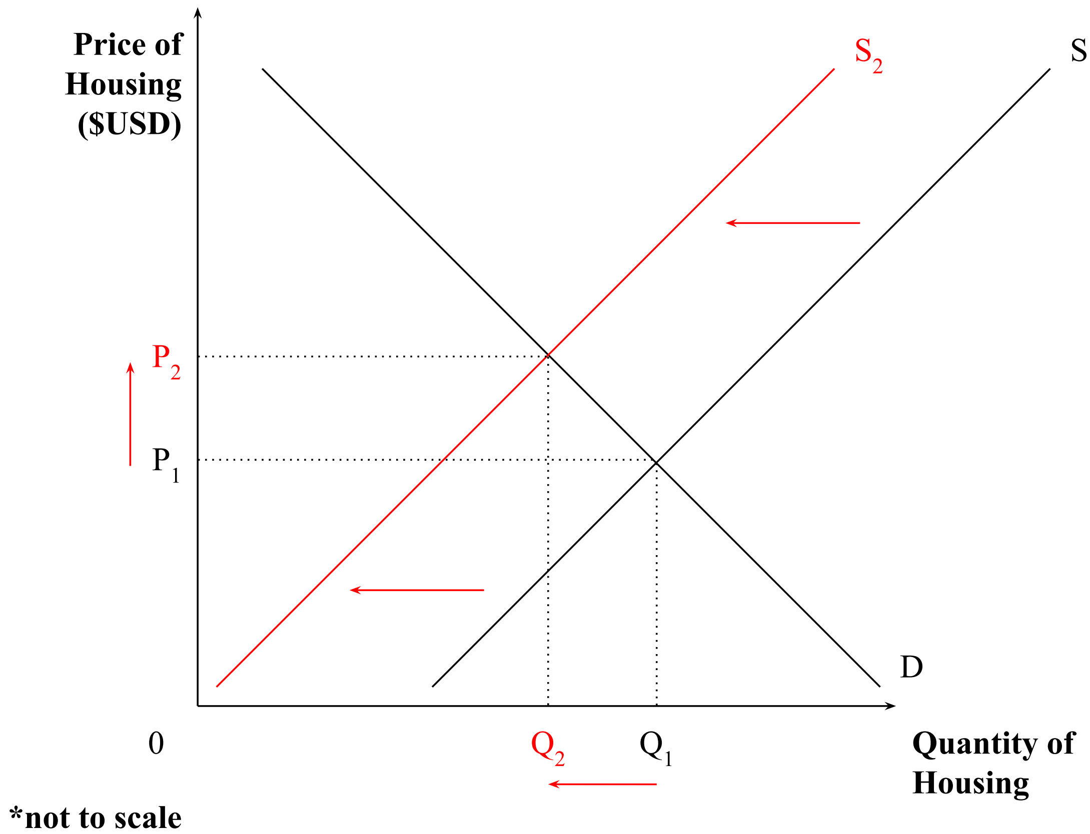
In Figure 1, before the new tariffs, American domestic producers were forced to sell at the world price (P_w) to remain competitive. As fewer producers were willing and able to supply at this price, the quantity supplied was Q_1. Therefore, with domestic consumption at Q_2, there was excess demand (Q_2-Q_1), which was fulfilled through imports of Canadian lumber into the US.

However, since the Biden administration levied additional tariffs, $S_{world+initial\ tariff}$ shifted upwards by 6.49% to $S_{world+final\ tariff}$ and the market price increased to P'_w. This increases domestic revenue from j+k to e+f+j+k+l, stimulating the quantity supplied domestically to Q_3 and making the US less **dependent** on foreign lumber. Simultaneously, consumption decreases to Q_4, as consumers pay more and have limited choices of lumber to purchase. Altogether, this decreases imports into the US from Q_2-Q_1 to Q_4-Q_3. As the US and Canada are **interdependent**, Canadian lumber exports will correspondingly decrease, where their producer revenue falls from l+m+n+o to m+n. Hence, as sawmills in Canada are already struggling with low productivity due to "a dearth of affordable timber to feed their mills," the tariffs will worsen their financial scarcity by increased costs.

Additionally, a global misallocation of resources results in a welfare loss (f+i). Although there is an increase in producer surplus from j to j+e in the domestic market, there are more inefficient US producers at f. As prices rise, consumers must allocate more resources to buy lumber-related products than necessary at i, which reduces consumer surplus from a+b+c+d+e+f+g+h+i to a+b+c+d. The generated US government revenue, g+h, decreases the opportunity cost for investments, encourages subsidies and funds for other industries, and helps overcome budget deficits. In turn, this reduces the US' need to **depend** on international trade, effectively protecting its domestic industry from prior unfair competition.

Specifically, US protectionist measures for "antidumping and countervailing" aim to prevent Canadian producers from selling goods below the market price and to offset the comparative advantage they gained from the lumber subsidy. While this discourages innovation and efficiency from the decreased foreign competition, the tariffs allow US lumber producers to regain competitiveness and revenue, providing more job opportunities.

Figure 2: Housing market in the US



Yet, the tariffs may trigger trade wars. US homebuilders argue that “duties on Canadian lumber raise costs for them and homebuyers.” Namely, lobbying to remove these tariffs may encourage negotiations with Canada; however, it does not guarantee a bilateral trade agreement. Canada could instead impose retaliatory tariffs to stay competitive, increasing costs and hindering the **interdependence** between both countries. In Figure 2, the hike in tariffs also increases the price of its complementary goods in the housing market from P_1 to P_2, and supply decreases from S_1 to S_2. With low housing affordability, the US’ decision worsens their ongoing housing crisis.

“When the housing market recovers,” decreased lumber imports from Canada will make it difficult to meet US housing demand, as fewer homes can be built. As Canadian export costs rise, reduced sales may force their sawmills to close, and their balance of trade would decline with fewer exports. Although US lumber producers are better off, the countries’ **interdependence** means that fewer Canadian imports into the US can create ripple effects in the

US housing market: less demand for homebuilders, and homebuyers are worse off with less affordable housing.

In the short run, since the US relies heavily on Canadian lumber imports for housing and construction, the tariffs will make it difficult for US construction companies to shift to substitutes such as hardwood, steel or concrete, as they are very different materials. Moreover, the reduced **interdependence** leaves the US and Canada more prone to supply shocks from wildfires or other natural disasters, where they cannot **depend** on each other for lumber trade to cover their losses. In the long run, trade diversion may occur where both countries seek cheaper, though less efficient trade partners further abroad, as they are clearly not self-sufficient.

Overall, the US government's intention behind additional tariffs was to counteract Canada's lumber subsidy. However, this predominantly benefits domestic producers, which neglects numerous stakeholders notably those in lumber-related industries: homebuilders and homebuyers. Due to the strong **interdependence** between the US and Canada, the duty orders are ineffective because higher lumber prices heavily impact both countries, stalling the housing market recovery and potentially worsening their "long-standing trade dispute."