

**CANADIAN FEDERATION OF WOODLOT OWNERS
FÉDÉRATION CANADIENNE DES PROPRIÉTAIRES DE BOISÉS**

**Ten arguments supporting the granting of an exemption for wood
from private forests in the future agreement
on softwood lumber exports to the U.S.**

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Background Concurrent with legal measures initiated by Canada to challenge the imposition of countervailing duties on its lumber exports to the U.S., negotiations will likely be conducted to reach an agreement that is satisfactory to both parties. As was the case in previous agreements, certain exemptions could be negotiated at this time. The 2006–2016 Softwood Lumber Agreement contained clauses granting exemptions to the Maritime Provinces and Quebec border mills, since a large proportion of their roundwood came from private forests in the U.S. and Canada.

Canadian private forests Canada’s rural regions contain 19 million hectares of private forests, or roughly 6% of the country’s forested landscapes (NRCan 2017) and 13% of its productive forest area (Dansereau and Demarsh 2003, Hardie 2013 and Côté 2013). These forests are owned primarily by individual families (450,000), although a few large corporations also own extensive forest tracts.

Excluding these very large forest tracts, the average size of private woodlots in Canada ranges between 30 ha and 60 ha, depending on the province. One commonality is that most of these forests are located in the most populated regions of Canada, and represent a significant component of our settled natural landscape (CFWO 2017).

The percentage of timber supplies that softwood sawmills obtain from private forests varies from province to province, depending on the prevalence of this type of forest tenure.

Table 1
Percentage of timber supplied to softwood sawmills from private forests in Canada

Provinces	Percentage of timber supplied to softwood sawmills from private forests	Sources
Nova Scotia	76% in 2015 (1.2 Mm ³)	Registry of Buyers of Primary Forest Products – Calendar year 2015. Nova Scotia Department of Natural Resources.
New Brunswick	42% in 2015 (2.1 Mm ³)	Timber Utilization Survey Report. New Brunswick Department of Natural Resources.
Quebec	15% in 2015 (3.2 Mm ³)	Données des registres forestiers 2015. Ministère des Forêts, de la Faune et des Parcs du Québec.
Ontario	5% in 2014 (0.5 Mm ³)	Electronic Facility Annual Returns (eFAR) – data for fiscal year April 1, 2014 - March 31, 2015. Ontario Ministry of Natural Resources and Forestry.
Manitoba	TBD	
Saskatchewan	TBD	
Alberta	TBD	
British Columbia	3-4% in 2015 (2-3 Mm ³)	Operation’s statistics. British Columbia Ministry of Forest, Lands and Natural Resources.

Compiled by: Canadian Federation of Woodlot Owners

Our position The *Canadian Federation of Woodlot Owners* and its members ask that, in any future agreement on Canadian softwood lumber exports to the United States, an exemption be granted to lumber produced from roundwood that was harvested in Canadian and U.S. private forests.

Canadian lumber produced from roundwood from private forests and that has demonstrated traceability must be exempt from duties and quotas.

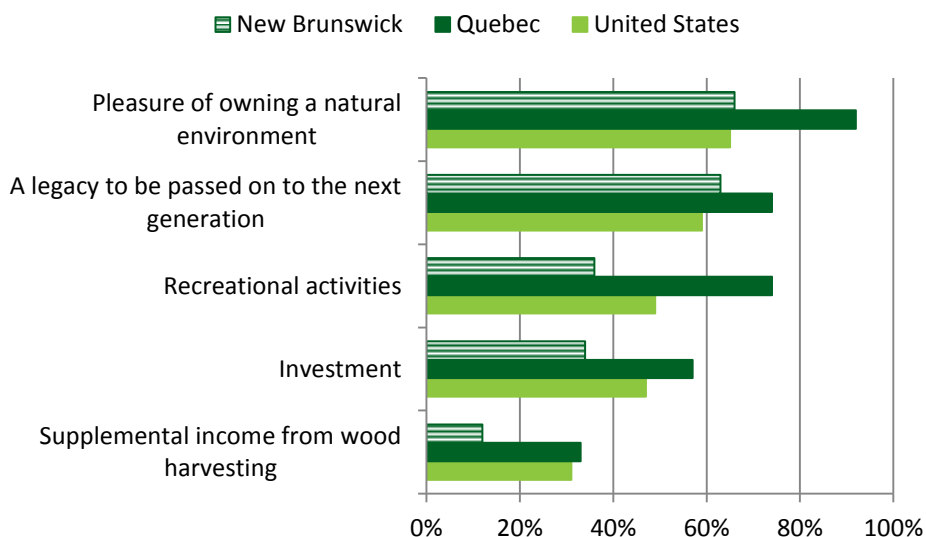
**Arguments supporting
an exemption for
lumber produced from
roundwood from
private forests**

Ten arguments can be advanced to support an exemption for softwood lumber produced from roundwood from private forests:

1. Canadian woodlot owners' management objectives and decisions are similar to those of U.S. woodlot owners.
2. The price of wood from private forests on the Canadian market is comparable to wood prices on the U.S. market.
3. If granted, the exemption would increase the price of a portion of Canadian sawmills' wood supplies. In contrast, duties and quotas imposed on all suppliers would result in a generalized drop in roundwood prices allowing a part of the countervailing duties to be absorbed.
4. The supply of wood from private forests is limited and can only partially replace wood from public forests in sawmills' wood supplies.
5. The purpose of financial assistance for the management of private forests is to fund the marginal cost associated with societal demands for forest regeneration and reduced harvesting to decrease the impact on landscapes. Such funding does not aim to reduce harvesting costs for clearcuts.
6. The decision to harvest wood from private forests is protected from government decisions since it is entirely up to the woodlot owner.
7. Wood from private forests can cross the border freely.
8. If prices are too low, woodlot owners will not sell their wood.
9. Canadian woodlot owners' associations allow woodlot owners to benefit from better and fairer terms of sale.
10. Standards exist to ensure the traceability of roundwood from private forests.

- 1. Canadian woodlot owners' management objectives and decisions are similar to those of American woodlot owners**
- A number of studies confirm that the roughly 450,000 private woodlot owners in Canada have similar management objectives to the 10 million woodlot owners in the United States, with both also making similar management decisions. On either side of the border, possessing a woodlot allows owners to fulfill various personal and family objectives, including the pleasure of managing a natural environment, making a safe investment and obtaining extra income.

Figure 1
Comparison of the objectives of Canadian and American woodlot owners



Sources: Côté et al. 2015, Butler and Leatherberry 2004, Nadeau et al. 2012

Compiled by: Canadian Federation of Woodlot Owners

When Canadian and American woodlot owners harvest, or have someone else harvest, pulpwood or sawtimber from their woodlots, they seek to maximize their income in an imperfect market, which is characterized by a strong imbalance between the number of sellers and buyers, information asymmetries and buyers (mills) that are highly concentrated.

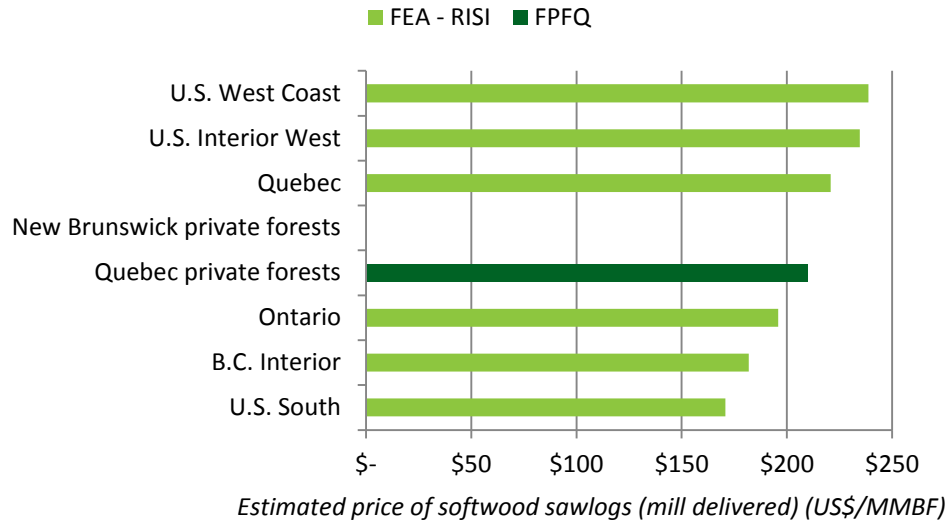
To mitigate these imperfections in the market, woodlot owners in Quebec and New Brunswick have formed associations to market their wood collectively, in order to increase their negotiating power with mills.

- 2. The price of wood from private forests on the Canadian market is comparable to wood prices on the U.S. market**
- Prices for wood from private Canadian forests are comparable to wood prices in the United States, according to price indices published by Forest Economic Advisers (FEA) and Resource Information Systems Inc. (RISI) for the year 2016.

On one hand, prices for wood in British Columbia, Ontario, Quebec—and more specifically for wood from private forests in Quebec and New Brunswick—were higher than those for wood from the southern U.S. in 2016. The southern U.S. is the largest lumber-producing region in North America and therefore should be used as a baseline.

On the other hand, the price of softwood sawlogs from the western United States was significantly greater than for wood from other regions supplying the North American market in 2016. The species, quality and size of wood, the local market, environmental and operational constraints, social issues, and the availability of an export market for West Coast wood could explain this significant difference in price between the western United States and the other regions evaluated.

Figure 2
Mean price of softwood sawlogs in 2016 in different regional markets in North America
(mill-delivered prices)



Sources: MFFP 2017 and FPFQ 2017

Compilation and analysis: Canadian Federation of Woodlot Owners

It should also be noted that, in 2016, the Canadian dollar was worth US\$0.76; if the two currencies were at parity, this would mean that Canadian wood prices would be 30% greater than for wood from the United States.

There is a price differential between wood from private forests and wood from public forests (Crown land), owing to the shorter average distance to the mill for the former. Despite the slightly lower mill-delivered price for private-forest wood, the shorter hauling distances ensure that private woodlot owners obtain higher stumpage rates than what logging companies usually pay for wood from public forests.

3. Granting the exemption would raise the price for part of the supplies to Canadian sawmills, rather than resulting in a generalized decrease in roundwood prices allowing some of the countervailing duties to be absorbed

A scenario in which no distinction is made between sources of supply in imposing countervailing duties will result in a generalized decline in demand for roundwood on the Canadian market, meaning that sawmills' suppliers will absorb part of these duties. Owing to the lower demand, prices will fall for wood from Canadian public forests as well as Canadian and American private forests (see Scenario 1 in the Appendix).

Conversely, a scenario in which an exemption is granted for roundwood from private forests will result in increased demand for wood from these forests. The increased demand for private-forest wood will be reflected in an increase in prices for this source of supply (see Scenario 2 in the Appendix).

Granting an exemption to private-forest wood would therefore raise the price of a portion of the wood supply to Canadian sawmills, while a countervailing duty on all sources of supply would result in a generalized decline in roundwood prices, with a portion of the countervailing duties being absorbed by the lower prices. Consequently, if an exemption is granted to roundwood from private forests, Canadian sawmills will rely more on wood from these forests for their supplies, which should correspond to the U.S. objective since this is the model that prevails in the United States.

4. Only a small proportion of Canada's productive forest land is privately owned (12.7%). These private forests consist mainly of small, family-owned woodlots (9.3%), and to a lesser extent, extensive tracts owned by large companies (3.3%). However, this average conceals significant regional variations, as Table 2 shows.
- The supply of wood from private forests is limited and can only partially replace wood from public forests in supplying sawmills**

Table 2
Productive forest land by ownership type in Canada (km²)

Province	Federally or provincially owned	Privately owned	Percentage of private ownership
Newfoundland and Labrador	11,000	17,050	61%
Prince Edward Island	350	2,380	87%
Nova Scotia	10,300	26,300	72%
New Brunswick	29,600	29,500	50%
Quebec	355,000	66,140	16%
Ontario	363,500	55,390	13%
Manitoba	135,000	9,870	7%
Saskatchewan	115,000	4,000	3%
Alberta	217,000	15,600	7%
British Columbia	467,000	21,000	4%
Total	1,703,750	247,230	13%

Source: CFWO 2017

Compiled by: Canadian Federation of Woodlot Owners

Although timber production in private forests could increase if an exemption was granted for privately produced roundwood, private-forest wood could never completely replace wood supplies from public forests. Indeed, timber from provincially or federally owned land makes up 84% of Canada's annual allowable cut.

Table 3
Annual allowable cut in 2015 in Canada by type of ownership (Mm³) (all species)¹

Province	Federally or provincially owned	Privately owned	All types of ownership combined
Newfoundland and Labrador	2.1	0.9	3.0
Prince Edward Island	0.0	0.4	0.4
Nova Scotia	1.4	6.9	8.3
New Brunswick	5.3	3.7	9.0
Quebec	30.2	15.1	45.3
Ontario	30.3	ND	30.3
Manitoba	8.2	0.6	8.8
Saskatchewan	8.2	ND	8.2
Alberta	32.4	1.8	34.2
British Columbia	72.4	5.8	78.2
Total	190.5	35.2	225.7
	84%	16%	100%

Source: NFD 2017 Compiled by: Canadian Federation of Woodlot Owners

Note:

¹The allowable cut is calculated for all species (hardwoods and softwoods) and all types of wood products (sawtimber, pulpwood, biomass, etc.).

First, the limited annual allowable cut in private forests means that this wood cannot completely replace wood from public forests. Second, there are environmental regulations and constraints on the extraction of timber in inhabited areas, where private forests are generally found. These regions generally have more restrictions on wood harvesting, which prevent the harvesting of timber from private forests from reaching its full potential.

Consequently, the volume of wood harvested in Canadian private forests in 2015 represented roughly 12% of the total volume of hardwood and softwood bolts and sawlogs harvested in Canada (see Table 4).

Table 4
Volume of wood harvested in 2015 by type of ownership (Mm³)
(bolts and sawlogs, hardwood and softwood combined)¹

Province	Federally or provincially owned	Privately owned	All types of ownership combined
Newfoundland and Labrador	0.2	0.1	0.3
Prince Edward Island	0.0	0.0	0.0
Nova Scotia	0.3	1.5	1.8
New Brunswick	3.2	2.1	5.3
Quebec ²	20.9	3.6	24.5
Ontario ³	6.3	1.1	7.5
Manitoba ³	0.7	0.1	0.8
Saskatchewan ³	2.8	0.1	3.0
Alberta	20.3	0.9	21.2
British Columbia	61.4	6.6	68.0
Total	116.1	16.2	132.3
	88%	12%	100%

Source: NFD 2017 and MFFP 2016

Compiled by: Canadian Federation of Woodlot Owners

Notes:

¹ Wood marketing statistics published by Natural Resources Canada do not make a distinction between hardwood and softwood. The volumes shown exclude pulpwood, other industrial roundwood and firewood, but could include some wood not strictly sent to softwood lumber mills such as wood harvested for shingles mills.

² Since statistics for Quebec were not available for the year 2015, we chose to use those provided by the Ministère des Forêts, de la Faune et des Parcs du Québec (MFFP 2016).

³ These provinces do not provide a breakdown of wood volumes by type of ownership. Therefore, we estimated the volume for private forests for Ontario (15%), Manitoba (7%) and Saskatchewan (3%) based on the percentage of forest land that is privately owned in these provinces.

5. Funding for private forest management aims to fund the marginal cost associated with societal demands for forest regeneration and reduced harvesting to decrease the impact on landscapes

Industrialized nations, including the United States and Canada, provide financial support to private woodlot owners for silvicultural operations in their forests. Direct grants, as well as income and property tax credits, are popular measures offered by governments on the national and/or regional level (states or provinces).

Four arguments can be made to justify this government support:

1. The return on investment for silvicultural work is low owing to the time required for the forest to grow. Rather than invest in silviculture, private interests will choose projects in other sectors where they get a quicker return on their investment and a greater financial yield.
2. This return on investment is also uncertain since a number of natural disasters could occur during the decades required for the forest to grow and damage the stands that were treated. It should be noted that woodlot owners cannot always predict decades in advance whether there will still be a market for their wood. Rather than investing in silviculture, private interests will choose projects with less risk in other sectors.
3. Environmental services provided by forests such as the protection of biodiversity, carbon storage and the conservation of forest landscapes are not generally remunerated by markets. Government funding compensates woodlot owners who must adapt their forest management practices to take account of the environmental needs expressed by society.
4. In Canada, as in the United States, incentives offered to woodlot owners for forest management are intended to defray the greater cost resulting from society's preference for partial cuts over clearcuts. Since society increasingly prohibits clearcutting due to environmental considerations, woodlot owners need this financial support to make up for the increased costs of complying with the requirements and restrictions imposed on harvesting and the cost of silvicultural operations.

Like the Canadian provinces, the U.S. states provide financial assistance to private woodlot owners in one way or another for silvicultural or forest management activities. For more information on the many financial assistance programs for silviculture offered to woodlot owners in the United States, we invite you to consult the National Timber Tax website (NTT 2017).

6. The decision to harvest wood is protected from government decisions In Canada, the decision to harvest wood on private land is always up to the individual woodlot owner. The government cannot require a woodlot owner to harvest wood and sell it to a sawmill. The woodlot owner, or his or her representative, accepts or rejects the conditions offered on the market and decides on the volumes to be harvested.

This is the complete opposite of State-run forest management, in which government authorities handle—or, at the very least, oversee—forest management, allotting wood volumes to mills and ensuring that industry benefits from a sufficient and constant supply of wood.

The government cannot under any circumstances overrule or circumvent the woodlot owner's decision to harvest wood. This type of behaviour, which would interfere with property rights, would not be tolerated in Canada any more than it would be in the United States.

Ultimately, market conditions dictate whether wood in private forests is harvested.

7. Wood from private forests can cross the border freely Woodlot owners in Canada and the U.S. frequently export roundwood to mills on the other side of the border.

This choice to sell roundwood to a mill on the other side of the border is strictly a business decision. Woodlot owners export roundwood when it increases their revenues. The price offered by the mill must offset the additional costs of shipping the wood and ensuring that it clears customs.

In eastern North America, Canadian softwood sawmills are generally located closer to the border than U.S. sawmills. Consequently, it is normal that exports of softwood sawlogs to the United States fall below imports since the distances covered and resulting cost of shipping make it generally prohibitive to send wood to U.S. sawmills.

Canadian forest owners support the free trade of roundwood harvested from private forests, including in British Columbia where a particular regulatory context restricts roundwood exports. Aside from this province, there are no legal or regulatory restrictions on exports of roundwood from private forests to the United States.

Woodlot owners constantly seek out new markets, among them U.S. sawmills. American and Canadian woodlot owners benefit from the free trade in roundwood and would benefit from it even more if they received an exemption for their wood in the next agreement.

8. If prices are too low, woodlot owners will not sell their wood If the prices offered by mills are too low, woodlot owners will put off their plans to harvest wood until later. Negotiation is an essential part of the sale of wood from private woodlots and this wood is sold at a price that satisfies the needs of both the woodlot owner and the purchaser.

Usually, before harvesting the wood, the woodlot owner or professional logger will examine all potential markets and will contact one or more mills in order to negotiate a satisfactory price that corresponds to the market price.

Whether woodlot owners negotiate the price of their wood themselves or through an association, if they deem that the terms of sale offered are unsatisfactory, the production of wood will stop, particularly since the sale of wood generally provides a supplementary income for the vast majority of woodlot owners rather than serving as their main source of income.

9. Canadian woodlot owners' associations allow woodlot owners to benefit from better and fairer terms of sale In some provinces, mainly Quebec and New Brunswick, woodlot owners have formed associations mandated to negotiate terms of sale for their wood on their behalf. These associations, set up to restore the balance of power between woodlot owners and the forest industry through strength in numbers, among other things, generally allow woodlot owners to benefit from better and fairer terms for the sale of their wood than if they sold it themselves. These associations are administered and funded by the woodlot owners themselves.

10. Standards exist to ensure the traceability of roundwood from private forests Distinguishing between wood from private forests and public forests in Canada is possible with the help of traceability control systems. Several systems could be used, including the following:

1. The requirements described in the FSC-STD-40-004 Standard of the Forest Stewardship Council (FSC) developed for the environmental certification of forest products
2. The requirements described in the SFI 2015-2019 Chain-of-Custody Standard of the Sustainable Forestry Initiative (SFI) developed for the environmental certification of forest products
3. The traceability chain used in New Brunswick during the previous Softwood Lumber Agreement
4. The mechanism to be used to identify American wood entering Canadian sawmills, which will allow U.S. woodlot owners to benefit from an exemption.

Respect of the traceability chain could also be enforced through the provisions of the *Lacey Act*, a U.S. law that prohibits illegal traffic in plant and animal species, including roundwood and manufactured wood products such as lumber. The law stipulates that buyers of wood and manufactured wood products must complete import forms specifying the origin of the wood, the species, volume and value, among other things.

It is the buyer's responsibility to ensure that the wood was harvested in accordance with regulatory and legislative provisions in the region of origin. A false or misleading representation regarding the origins of harvested wood, regardless of the traceability chain chosen, could result in a several reprimand from the U.S. government as a result of the legislative provisions surrounding the *Lacey Act*. The current regulations will, to a certain extent, strengthen the U.S. government's control of the traceability of wood by prescribing severe penalties for offenders.

Conclusion Canada's private forests are similar to private forests in the United States in almost all aspects. Woodlot owners on both sides of the border have similar motivations, benefit from financial assistance to perform the silvicultural operations required by their respective societies and operate in an analogous commercial environment in which they have to negotiate satisfactory terms of sale for their roundwood.

In almost every respect, Canada's private forests mimic the American model. Instead, it is our public forest model that is usually so disparaged and opposed by U.S. pressure groups. It is a paradox that Canada's private forests are suffering collateral damage in the conflict over softwood lumber, since these private forests incarnate the American belief that such resources should be managed by private owners rather than the government. Canadian private woodlots thus embody the very essence of U.S. demands and aspirations.

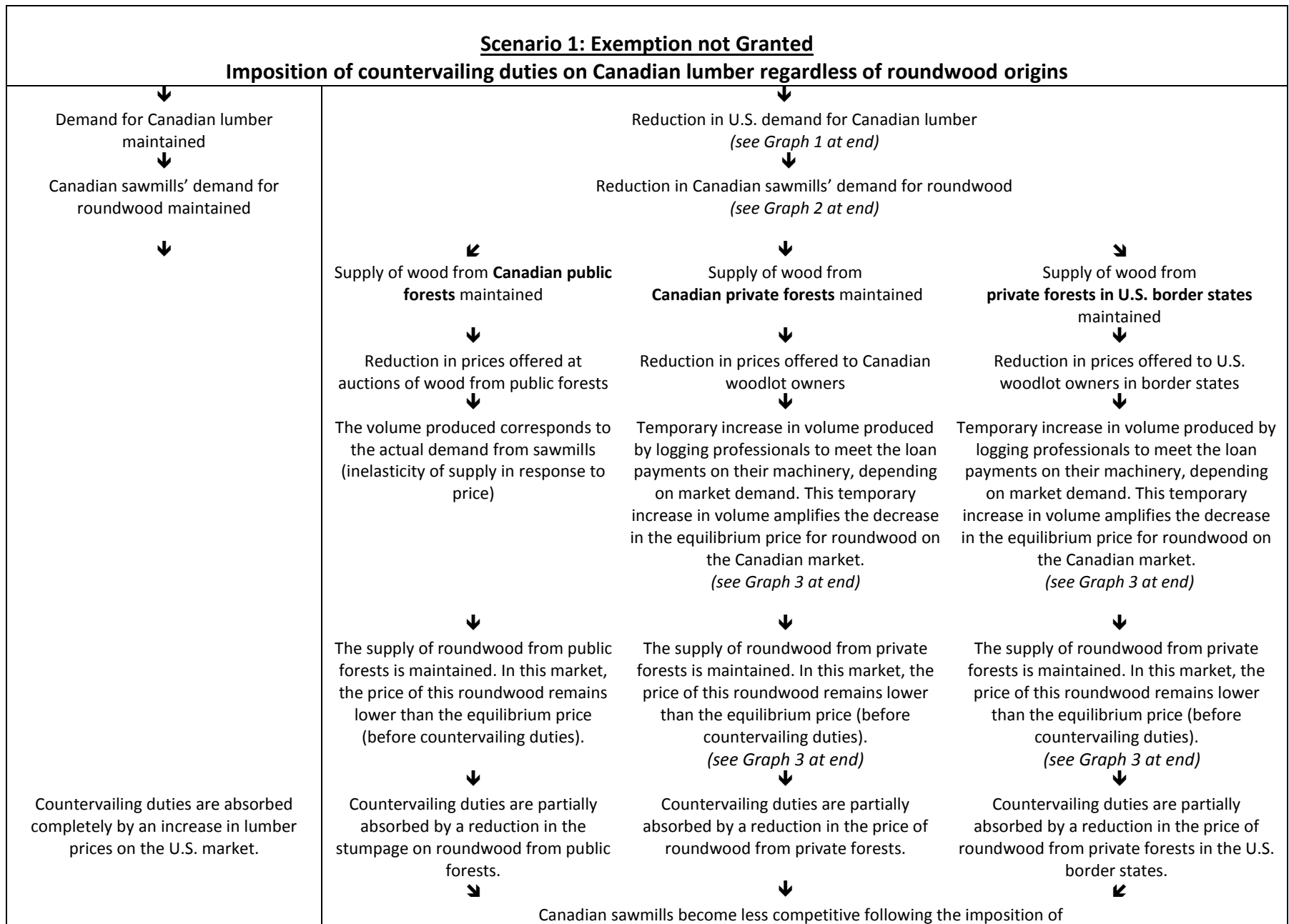
If Canadian woodlot owners were granted an exemption for their roundwood, the free market in wood from private forests would play a much bigger role in supplying Canadian sawmills. This corresponds to the objective sought by the U.S., since it is the existing American model.

Since government management of a large percentage of Canadian forests has been a historical irritant in trade relations between the United States and Canada, it makes no sense that trade agreements do not encourage the private ownership of forests by singling out this source of supply to sawmills.

This is why Canadian lumber made from roundwood from private forests and with demonstrated traceability must be granted an exemption from countervailing duties and quotas.

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Chain reaction of impacts linked to the imposition of countervailing duties on Canadian lumber



countervailing duties, which is partially countered by a reduction in the cost of their roundwood supplies owing to lower prices offered to woodlot owners and lower stumpage on wood from public forests.

Canadian sawmills receive lower prices for lumber than that received before the imposition of countervailing duties.

Canadian woodlot owners and U.S. owners from border states, the government and sawmills absorb part of the duty as the price of roundwood falls.

The supply of Canadian lumber is greater than that expected with the introduction of countervailing duties, but less than it would be without these duties.

Home construction and renovation costs in the U.S. increase since American buyers pay a higher price for Canadian lumber.



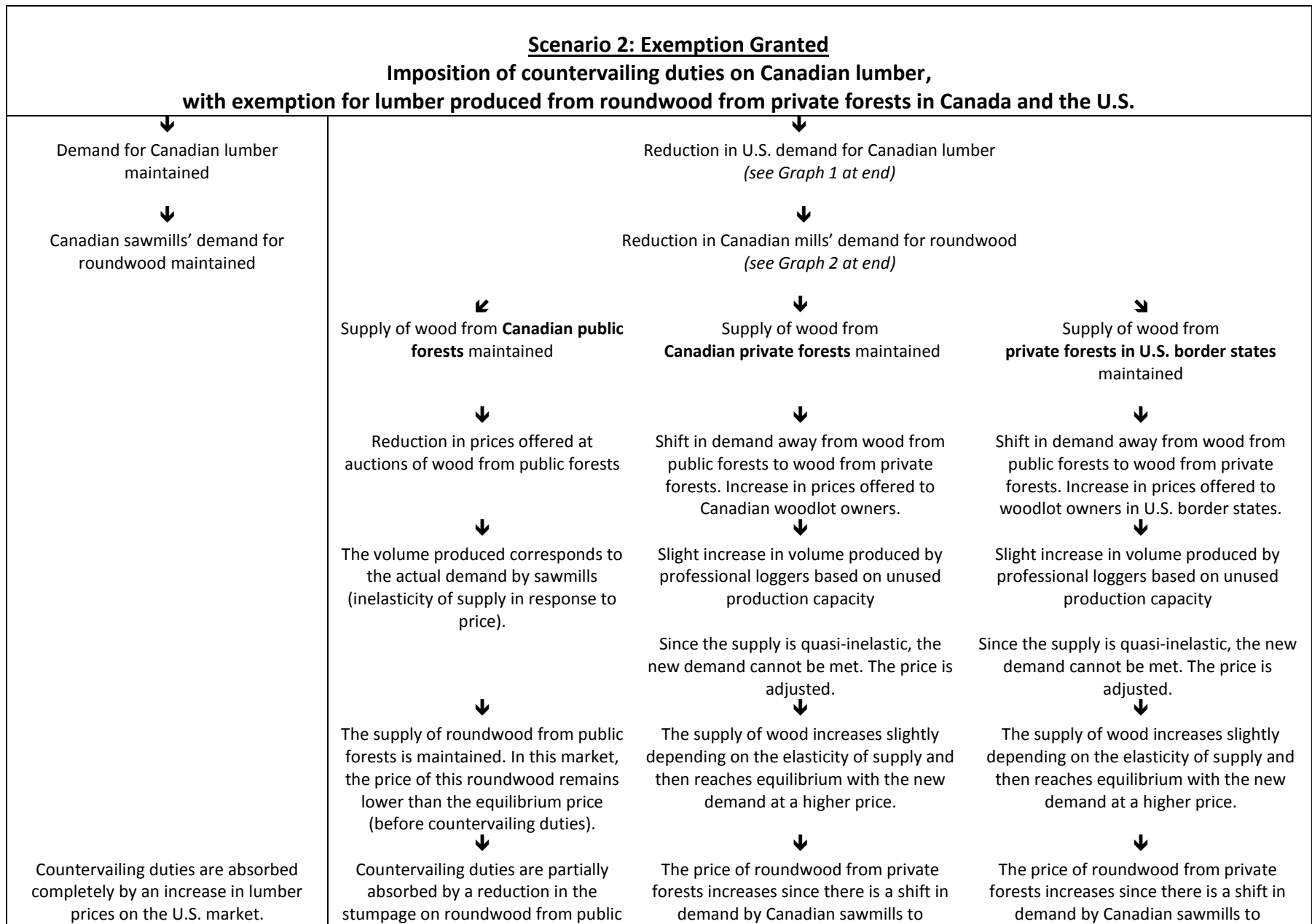
Supply of Canadian lumber is maintained

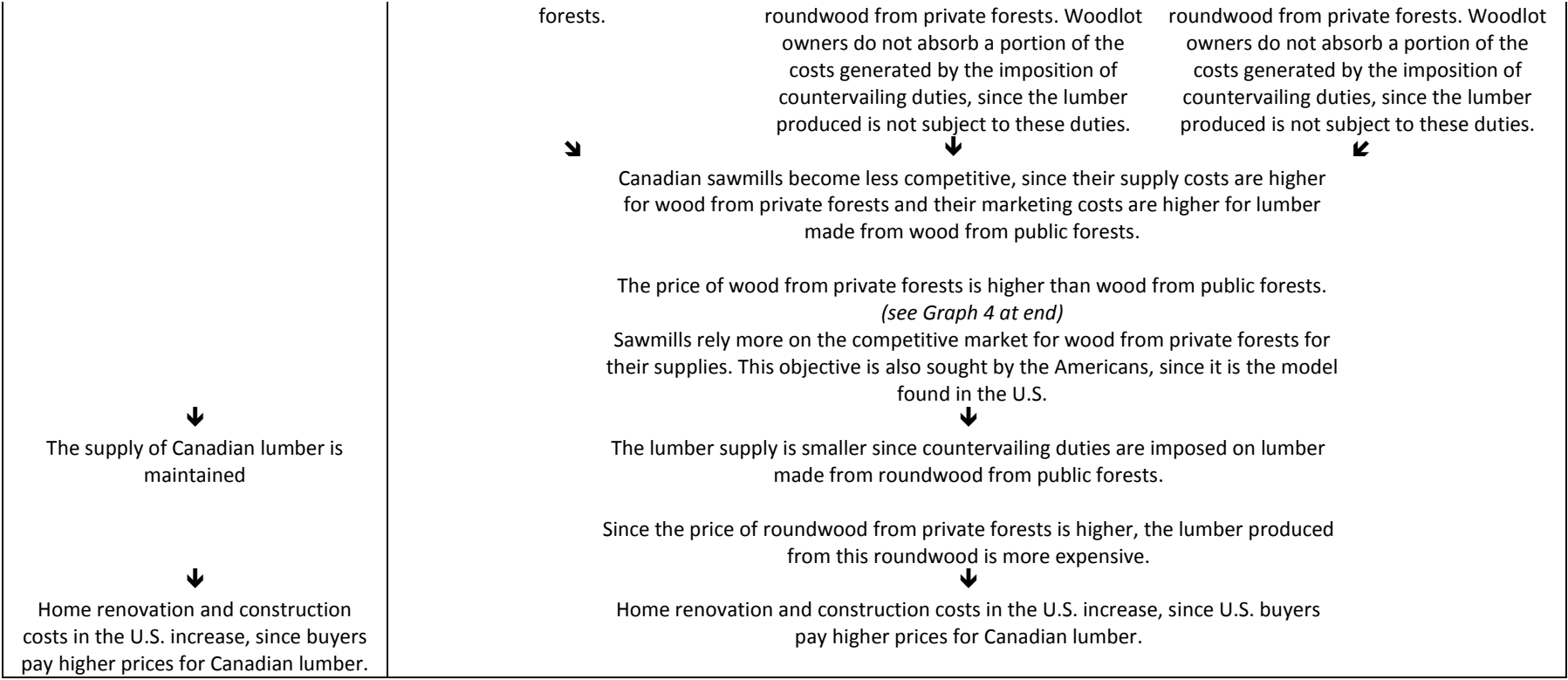


Home renovation and construction costs in the U.S. increase, since U.S. buyers pay higher prices for Canadian lumber.



Chain reaction of impacts linked to the imposition of countervailing duties on Canadian lumber





forests.

roundwood from private forests. Woodlot owners do not absorb a portion of the costs generated by the imposition of countervailing duties, since the lumber produced is not subject to these duties.

roundwood from private forests. Woodlot owners do not absorb a portion of the costs generated by the imposition of countervailing duties, since the lumber produced is not subject to these duties.



Canadian sawmills become less competitive, since their supply costs are higher for wood from private forests and their marketing costs are higher for lumber made from wood from public forests.

The price of wood from private forests is higher than wood from public forests.
(see Graph 4 at end)

Sawmills rely more on the competitive market for wood from private forests for their supplies. This objective is also sought by the Americans, since it is the model found in the U.S.



The lumber supply is smaller since countervailing duties are imposed on lumber made from roundwood from public forests.

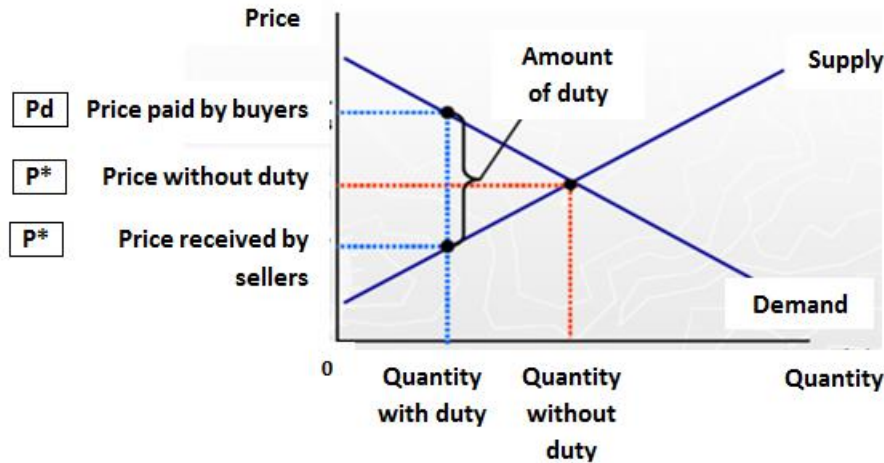
Since the price of roundwood from private forests is higher, the lumber produced from this roundwood is more expensive.



Home renovation and construction costs in the U.S. increase, since U.S. buyers pay higher prices for Canadian lumber.

Chain reaction of impacts linked to the imposition of countervailing duties on Canadian lumber

Graph 1
Canadian lumber market

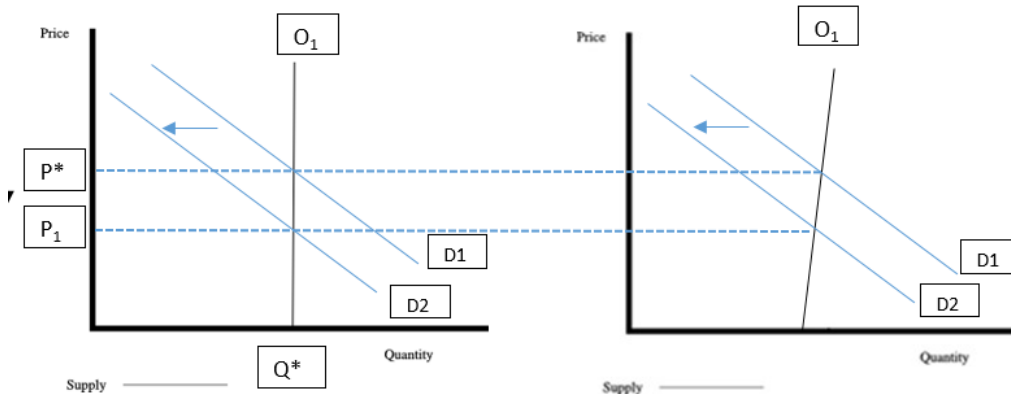


The lumber supply comes from Canada while the demand comes from the United States.

The imposition of countervailing duties forces consumers to pay the price P_d and the producer to receive the price P_s .

A reduction in the quantity offered is observed, at a price lower than the equilibrium quantity.

Graph 2
Canadian roundwood market (public forests) Canadian roundwood market (private forests)

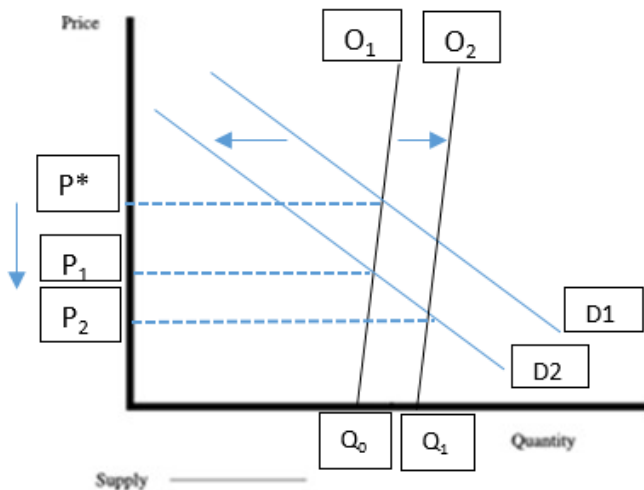


The supply of roundwood comes from professional loggers working in Canadian public forests, Canadian private forests and U.S. private forests. The demand for roundwood comes from Canadian sawmills.

The reduced demand for Canadian lumber following the imposition of countervailing duties results in lower demand for roundwood by Canadian sawmills (from D_1 to D_2). The sawmills expect a drop in revenues since part of the revenues from lumber shipped to the U.S. will be eaten up by countervailing duties. The drop in revenues will be reflected in a decrease in the price for roundwood, regardless of its origins (from P^* to P_1).

In the short term, the supply of roundwood is assumed to be inelastic in Canadian public forests and quasi-inelastic in private forests due to supply agreements, wood already harvested and wood currently in inventory.

Graph 3
Canadian roundwood market (private forests)



The quasi-inelastic supply of roundwood comes from professional loggers, while the demand comes from Canadian sawmills.

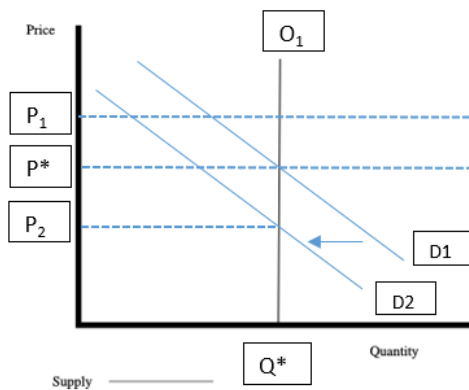
Initially, a decrease in demand is observed, shown by the shift of the curve leftward (from D1 to D2). The decreased demand results in a lower equilibrium price (from P* to P1).

Subsequently, an increase in supply is seen, since professional loggers must increase their production volume to meet their loan payments on forestry machinery. This is shown by the shift of the roundwood supply curve to the right (from O1 to O2).

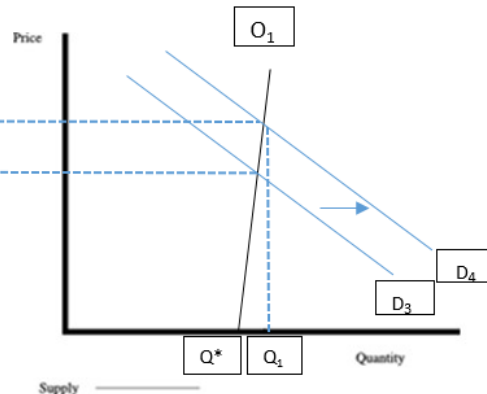
This results in a decrease in the equilibrium price (from P1 to P2) and an increase in the quantity exchanged at equilibrium. The new equilibrium price is P2 and the quantity exchanged, Q1.

Graph 4

Canadian roundwood market (public forests)



Canadian roundwood market (private forests)



A difference can be seen between the price for roundwood from public forests and that from private forests.

This can be explained by a decrease in the demand for roundwood from public forests since the resulting lumber is subject to countervailing duties (from D1 to D2), and an increase in the demand for roundwood from private forests due to its exemption from countervailing duties (from D3 to D4).

Since, in the first case, the wood supply is inelastic, the equilibrium price for wood from the public forest decreases (from P* to P2), while that for wood from the private forest increases (from P* to P1).

The price differential corresponds to the difference in price between wood from the public forest (P2) and private forest (P1), or P2 minus P1. A slight increase is observed in the quantity of roundwood from private forests offered on the market (from Q* to Q1).