

Intelligence MEMOS



From: Rick Ekstein
To: The Hon. Chrystia Freeland, Minister of Foreign Affairs
Date: June 19, 2017
Re: **SOFTWOOD LUMBER AND THE FORGOTTEN VALUE-ADDED SECTOR**

There has been much press lately about the Canada-US Softwood Lumber dispute.

The US position has always been that Canada's provincial governments, which own the majority of our forests, price their timber at below-market prices to give Canadian sawmills an unfair advantage.

Having been in this business my entire life, I can tell you that decades ago this may have been true. Most provinces did use timber pricing as a form of social policy to ensure sawmills stayed open in remote regions, promoting employment in these areas. Today, as a result of the four major lumber battles over the past 30 years, this is no longer true. Today, market forces and physical access are the largest drivers of timber pricing.

The US industry however, has learned how to contort American trade law. They have become addicted to the successful cycle of lumber challenges that drive prices up for the benefit of a small number of American timberland holders and sawmills, and to the detriment of the American consumer and the building industry. They use the legal avenues open to them to wreak havoc with Canadian producers, tying up billions of dollars of industry capital in duty deposits, while we have to spend years trying to recoup these duties in legal challenges. We will once again win these disputes in the courts, but in the interim, liquidity will again dry up, sawmills will close, and thousands of jobs will be lost.

One of the lesser known sectors of the forest products industry is the value added, or "remanufacturing sector." Unlike sawmills who take round logs and make square lumber, the "remanners" purchase low-grade lumber from the sawmills, bring it into their plants in population centers close to the US border and re-process that lumber. Relative to volume, remanners create seven times as many jobs as sawmills, as it is a very labour-intensive process where each piece is handled and cut into a variety of higher value products.

Very much like the argument that exporting logs is exporting processing jobs, every piece of low-grade lumber has to be repurposed into something. The remanners are doing this processing in Canada, keeping thousands of well-paying jobs on this side of the border.

Yet remanufacturers are the unintended victims of US trade action against Canadian sawmills. Even if you accept the US position that Canadian timber is sold to our sawmills at a discounted price, the sawmills sell their low-grade lumber to remanners for as much as the market will allow – thereby extinguishing any alleged subsidies.

Yet remanners are then subject to almost double the duty of sawmills who export, because the rate of countervailing duty is applied not only on the value of their lumber but on their freight, labour, waste and profit. The duty on lumber shipped by the sawmills into the United States is about 20%. The duty on lumber used in remanufactured products actually works out to about 40%. A duty of this magnitude is untenable, and Canadian remanufacturers are already laying off people, and looking at moving their plants across the border into the US.

This value-added sector has done everything that aggressive Canadian small and medium enterprises should do – be innovative, create jobs, and add value to Canada's natural resources without taking any subsidies or help from government – and they are the hardest hit by recent trade actions.

In a previous dispute, a spokesperson for the US Lumber Industry stated that Canadian remanners were "akin to innocent victims of a drive-by shooting."

Unfortunately this is correct. The value-added sector is suffering a disproportionate amount of pain from a dispute that they should not even be involved in. This important sector cannot be forgotten!

Rick Ekstein is the Chief Executive Officer of Weston Forest, one of Canada's largest remanufacturing and companies and the founder of the Association of Lumber Remanufacturers of Ontario and the Canadian Lumber Remanufacturers Association.