RANDOM LENGTHS SPECIAL REPORT

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Answers to frequent questions about the tentative agreement

The governments of Canada and the U.S. reached a tentative agreement in the softwood lumber dispute April 28. While the framework for an agreement has been outlined, it is expected to take several months before a final document has been negotiated and signed. The tentative agreement has spawned numerous questions from our readers. Answers to some are available, while various issues are still being negotiated. Here's the latest information we have.

Under terms of the tentative agreement, would Canadian lumber imports be capped at 34% of the U.S. market? No. When the Random Lengths Framing Lumber Composite Price is higher than $355, Canada can ship to the U.S. without a tax or quotas. If the Composite Price drops to $355 or lower, each province would face a tax or quota, depending on which border measure option they chose. In B.C., the Coast and Interior regions would choose an option separately. Those who chose Option A would face an export tax of 5-15% when the Composite Price is $355 or lower. Those opting for Option B would pay a lower tax but face a quota on shipments to the U.S. While a "surge mechanism" would also be in place to discourage heavy shipments to the U.S. during weak markets, there is no absolute cap.

What is the surge mechanism? This measure would be triggered if a producing region (B.C. Interior, B.C. Coast, and each of the provinces east of B.C.) shipped more than 110% of its allocated share to the U.S. during a time when the Composite Price is $355 or less. For the purpose of the surge mechanism, a region's allocated share would be based on that region's average share of Canadian exports to the U.S. during 2004 and 2005. If a region shipped between 110% and 111% of its allotment, then that region's allotment would be reduced during the next period by the amount it overshipped. If a region shipped more than 111% of its allotment, then it would pay 150% of the applicable export tax for that period. For instance, if that region's export tax were 10%, it would be charged 15% during that period.

Will provinces be allowed to switch from Option A to Option B under the border measures once they have designated their choice? Trade officials from Canada and the U.S. will have to negotiate whether this will be allowed under the agreement.

What is the Random Lengths Framing Lumber Composite Price? The Composite Price is a weighted average of 15 key framing lumber prices. It was designed as a broad measure of price movement in the lumber market. Items included in the Composite are #2&Btr or Std&Btr 2x4s of KD Hem-Fir/White Fir (Spokane), KD Southern Pine (westside), KD Western S-P-F, KD Eastern S-P-F (Boston), and green Douglas Fir (Portland); #2&Btr 2x10s of KD Hem-Fir/White Fir (Redding), KD Southern Pine (westside), KD Western S-P-F and green Douglas Fir (Portland); and 2x4 8-foot studs of KD Hem-Fir (Coast), KD Fir & Larch, KD Southern Pine, KD Western S-P-F, KD Eastern S-P-F (Boston), and green Douglas Fir (Portland). For more details on the Composite Price, log on to www.rlpi.com, go to In Depth, and click on U.S.-Canada Lumber Trade Dispute.

The export taxes/quotas are triggered when the Random Lengths Framing Lumber Composite Price is $355 or lower. Is this based on a monthly, quarterly, or annual average? That is still being negotiated.

If the $355 trigger price is reached, how quickly would the export tax/quotas kick in? The framework agreement was designed to adjust with current market conditions. For instance, if the trigger price were based on the monthly average Composite Price, and at the end of a month the average was $350, the taxes/quotas would be in place the following month.

Will the market allocations under the quota option be adjusted to reflect seasonal trends? This issue has yet to be decided, and is another topic U.S. and Canadian negotiators will have to settle.

Is there still a chance the deal could be scrapped? While there's always that chance, the fact that President Bush and Prime Minister Harper and their administrations have signed off on the deal, makes it unlikely that the deal will fall through. There are still plenty of specifics to hash out, but most trade and industry officials expect the deal will eventually be signed.

What happens between now and when the deal is finalized and in place? Duties totaling 10.8% on Canadian shipments to the U.S. will remain in place until any deal is finalized.

How long will it be before the duty funds collected since May 2002 are distributed? Once a final deal is signed, the U.S. would revoke the CVD and AD duties. Then it would be up to U.S. Customs to liquidate entries and refund the accumulated deposits. A U.S. trade official estimated it would take a couple of months before the funds are distributed.

Who will decide who gets the approximately $US4 billion going back to Canada? That money will be distributed to the importers of record. Whenever lumber is shipped from Canada to the U.S., one of the parties in the purchase agreement is designated as the importer of record. This is usually the Canadian manufacturer, but not in all cases.

Who will decide who gets the $1 billion distributed in the U.S.? Half of it would go to members of the Coalition for Fair Lumber Imports, who filed the duty cases. However, this money would not be distributed under the Byrd Amendment. A portion of the remaining $500 million would be used for a joint initiative benefiting the North American lumber market, and the remainder would be used for charitable causes as identified by the U.S. government in consultation with Canada. The fund to benefit victims of Hurricane Katrina and Habitat for Humanity have been mentioned as possible causes.

Can another trade case be filed during the life of this agreement? No. As part of the agreement, all litigation would be terminated, and no new cases could be filed.

Would the Maritimes be subject to any potential taxes/quotas? The Maritimes are excluded from this agreement.

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However, there is a clause that states that if softwood lumber exports from the Maritimes to the U.S. exceeded 100% of softwood lumber production in the region in any quarter, then exports to the U.S. from the Maritimes in the following quarter would be subject to a penalty of $C200 per thousand on the excess.

Are high-valued products such as some Cedar and Eastern White Pine items treated differently? Yes. Any export tax on products valued at more than $US500 per thousand would be charged as if their value were no more than $500 per thousand. For example, if a 5% export tax were in place, a product sold at $1,250 would only be taxed 5% of $500.

Would remanners be treated the same as primary mills? There is an exception for remanners who operate independently of timber tenure holders. In that case, Canada would limit the export tax to the first mill price. In other words, those remanners without timber rights would pay the tax based on the prices they paid for their raw material, not the prices of the products they sell.

Would Canadian provinces be able to remove themselves from export measures during the duration of the agreement? No detail is given to so-called "policy exits" in the tentative agreement. It does say that the two countries will make best efforts to define "policy exits" from the export measure for each province within 18 months of the deal being finalized.

If disputes arise during the agreement, how would they be settled? A binding dispute settlement process would be used. The basic terms describe the process as "neutral, transparent, expeditious, and well-defined." Panelists who would settle any disputes are referred to as "non-North American commercial arbitrators."

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