

# CRS Issue Brief for Congress

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## **Lumber Imports from Canada: Issues and Events**

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## Lumber Imports From Canada: Issues and Events

### SUMMARY

U.S. lumber producers have raised concerns about softwood imports from Canada many years. Alleged Canadian subsidies (a prerequisite for establishing countervailing duties — CVDs) were investigated in 1982, 1986, and 1992. No subsidies were found in 1983. Preliminary subsidy findings led to a 1986 Memorandum of Understanding (with a 15% Canadian tax on lumber exported to the United States), and to a 6.51% CVD in 1992. The CVD was challenged under the U.S.-Canada Free Trade Agreement, and was terminated in 1994. A 1996 Softwood Lumber Agreement restricted lumber exports to the United States for 5 years, until March 31, 2001. (See CRS Report RL30826.)

**U.S. Industry Arguments.** The U.S. producers argue that they have been injured by Canadian subsidies, especially for provincial “stumpage fees” (for the right to harvest trees). In Canada, the provinces own 90% of the timberlands; this contrasts with the United States, where 42% of timberlands are publicly owned and where government timber is often sold competitively. These differences in land tenure make comparisons difficult.

In addition, U.S. lumber producers argue that log export restrictions in Canada subsidize Canadian producers by preventing other producers from getting direct access to Canadian timber. U.S. log exports from federal and state lands are also restricted, but logs can be exported from U.S. private lands. Canada has argued in the WTO that U.S. treatment of export restrictions as a subsidy violates the WTO Agreement on Subsidies and Countervailing Measures (SCM).

Finally, U.S. producers argue that they have been injured by imports of Canadian softwood lumber. They point to the growth in

Canadian exports and market share, from less than 3 billion board feet (BBF) and 7% of the U.S. market in 1952 to more than 18 BBF per year since 1998 and a market share of more than 33% since 1995. Canadians counter that the U.S. industry has been unable to satisfy the growth in demand. U.S. homebuilders and other lumber users assert that Canadian lumber is needed to satisfy U.S. demands.

**Current Issues.** The Department of Commerce (DOC) initiated CVD and anti-dumping investigations on April 30, 2001. On March 22, 2002, subsidies were determined to be 19.34% and dumping margins 9.67%. On May 2, the ITC determined that imports had injured the U.S. industry. Final duties of 29% were set on May 22. Canada has requested binational panel reviews of these findings under the NAFTA; each of the three panels has recently issued a report remanding the agency determinations. Negotiations to settle the dispute are also proceeding.

Canada has filed seven WTO cases against the United States in connection with softwood lumber issues. In August 2001, the WTO adopted a panel report finding that U.S. treatment of export restrictions as a subsidy violates the SCM Agreement; no U.S. action was required at the time. A panel report adopted August 30, 2002, upheld a U.S. law creating an administrative procedure for complying with WTO rulings in dumping and CVD cases. Five cases involve challenges of U.S. actions in the softwood investigations themselves. A final mixed decision involving DOC preliminary subsidy determinations was adopted November 1, 2002. Three panels have been established; one of these publicly issued a final ruling (similar to the subsidy decision) on August 29, 2003. One case remains in consultations.

## **MOST RECENT DEVELOPMENTS**

On July 17, 2003, the binational panel on antidumping instructed the Department of Commerce (DOC) to issue revised dumping margins by September 15. On August 13, the binational panel on the CVD instructed DOC to revise the subsidy calculation within 60 days. On September 5, the binational panel on the injury determination directed the International Trade Commission to reconsider its determination within 100 days. On May 22, 2002, DOC had issued final countervailing duty orders assessing countervailing duties of 19.34% ad valorem (as a percent of lumber values) and anti-dumping margins averaging 9.67% on Canadian lumber imports.

In five separate cases, Canada is challenging the U.S. investigations before the WTO. In two cases, panel reports with mixed decisions were adopted, in November 2002 and August 2003. Panels have been established in two cases, and consultations are continuing in the remaining case.

## **BACKGROUND AND ANALYSIS**

Concerns among U.S. lumber producers about softwood lumber imports from Canada have been raised for decades; the current dispute has persisted for at least 20 years. U.S. producers argue that they have been harmed by unfair competition, which they assert results from subsidies to Canadian producers, primarily in the form of low provincial stumpage fees (the fees for the right to harvest trees from Province-owned timberlands) and Canadian restrictions on log exports. Canadians defend their system, and U.S. homebuilders and other lumber users advocate unrestricted lumber imports. This issue brief provides a concise historical account of the dispute, summarizes the subsidy and injury evidence, and discusses the current issues and events. (For more historical background and analysis, see CRS Report RL30826.)

### **Historical Background**

The current dispute began in 1981, when letters from Members of Congress and a petition from the U.S. lumber industry asked the U.S. Department of Commerce (DOC) and the U.S. International Trade Commission (ITC) to investigate lumber imports from Canada for a possible countervailing duty (CVD).<sup>1</sup> The ITC found preliminary evidence of injury to the U.S. industry, but in 1983, the DOC's International Trade Administration (ITA) determined that subsidies were *de minimis* (less than 0.5%), ending the CVD investigation.

In 1986, the U.S. lumber industry filed a petition for another CVD investigation with the DOC and the ITC. A 1985 court ruling on an ITA determination of countervailable

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<sup>1</sup> U.S. trade law (19 U.S.C. 1671-1671h) authorizes countervailing duties on imported goods, if the DOC determines that the imports are being subsidized (directly or indirectly) by a foreign country and if the ITC determines that the imports have materially injured a U.S. industry. The duty is set at the calculated level of the subsidies.

benefits on certain imports from Mexico was seen as a favorable precedent for reversing the ITA finding on Canadian lumber subsidies. The ITC again found preliminary evidence of injury to the U.S. industry, and the ITA reversed its 1983 determination, with a preliminary finding that Canadian producers received a subsidy of 15% *ad valorem* (i.e., 15% of lumber market prices). On December 30, 1986, the day before the final ITA subsidy determination, the United States and Canada signed a Memorandum of Understanding (MOU), with Canada imposing a 15% tax on lumber exported to the United States, to be replaced by higher stumpage fees within 5 years. This agreement led the U.S. industry to withdraw its petition.

In September 1991, the Canadian government announced that it would withdraw from the MOU, because most of the provinces had increased their stumpage fees. The U.S. Trade Representative (USTR) responded by beginning a §301 investigation,<sup>2</sup> pending completion of a new CVD investigation by the ITA and the ITC. In March 1992, the ITA issued a preliminary finding of 14.48% *ad valorem* subsidies, with a final determination in May establishing a 6.51% *ad valorem* subsidies, leading to a 6.51% *ad valorem* duty. This was confirmed in July with a final ITC finding that the U.S. industry had been injured by Canadian lumber imports.

The Canadian federal government appealed both the ITA and the ITC final findings to binational review panels under the U.S.-Canada Free Trade Agreement (FTA), which was signed on January 2, 1988. In May 1993, the binational subsidy panel remanded the ITA finding for further analysis, and in September, the ITA revised its finding to 11.54% *ad valorem* subsidies. In December, the binational subsidy panel again remanded the ITA finding and ordered the ITA to find no subsidies. In January, the ITA complied with the order. Using a provision of the FTA, the USTR requested an Extraordinary Challenge Committee (ECC) to review the binational panel decisions, but the ECC was dismissed in August 1994 for failing to meet FTA standards. In August, the DOC revoked the CVD, and in October, the USTR announced that it would terminate the §301 action.

Two events in September 1994 induced Canada to negotiate restrictions on its lumber exports to the United States. First, the U.S. lumber industry filed a lawsuit challenging the constitutionality of the FTA review process. Second, the Uruguay Round Agreements Act (URAA; P.L. 103-465) explicitly approved the President's "statement of administrative action" (SAA) that had accompanied his proposed legislation; the SAA stated that, because of Canadian practices, lumber imports from Canada could be subject to a CVD. In February 1996, the two nations announced an agreement-in-principle — a fee on Canadian lumber exports to the United States in excess of a specified quota for 5 years — with the final U.S.-Canada Softwood Lumber Agreement (SLA) signed in May and retroactive to April 1, 1996. The SLA was effective through March 31, 2001.

## **Analysis: Subsidies and Injury**

Annual Canadian lumber imports have risen from less than 3 billion board feet (BBF), about 7% of the U.S. market, in the early 1950s to more than 18 BBF, more than a third of

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<sup>2</sup> Under §301 of the Trade Act of 1974 (19 U.S.C. 2411-2420), the USTR can investigate and can respond, with a broad range of feasible actions, to foreign trade practices which are found to be illegal, unreasonable, or discriminatory, and are burdensome to U.S. interests.

the U.S. market, since the late 1990s. U.S. lumber producers argue that subsidies to Canadian producers give them an unfair advantage in supplying the U.S. market and that this has injured U.S. producers. These two issues — subsidies and injury — are the basis in U.S. trade law for determining if a CVD is warranted. In addition, *critical circumstances* — which allow for retroactive duties — are deemed to exist, if imports rise significantly after ending import restrictions. Finally, dumping — selling imports at less than the cost of their production — can lead to additional duties.

**Subsidies: Canadian Stumpage Fees.** The U.S. lumber industry has argued that the stumpage fees charged by the Canadian provinces are less than the market price of the timber would be and are therefore a subsidy to Canadian producers. About 90% of the timberlands in the 10 provinces are owned by the provinces. The provinces require management plans for forested areas and allocate the timber harvests through a variety of agreements or leases, often for 5 or more years with renewal options. Stumpage fees for the timber are determined administratively, often with adjustments to reflect changes in market prices for lumber. This contrasts with the U.S. situation, where 42% of the forests are publicly owned and where public timber is typically sold in competitive auctions; thus, much of the timber in the United States is sold by public and private landowners at market prices.<sup>3</sup> The use of administered fees in Canada opens the possibility that the Canadian system results in transfers to the private sector at less than their fair market value, as the U.S. lumber industry has charged. However, comparisons of U.S. and Canadian stumpage fees are often disputed, because of: differences in measurement systems and the imprecision of converting Canadian cubic meters of logs to U.S. board feet of lumber; differences in the diameter, height, quality, and species mix of U.S. and Canadian forests; differences in management responsibilities imposed on timber buyers (e.g., road construction, reforestation); differences in environmental conditions and policies; and other factors.

**Subsidies: Export Restrictions.** Export restrictions by British Columbia (BC) were identified as a subsidy to BC lumber producers by the ITA in its 1992 CVD investigation. BC generally prohibits the export of logs from Crown (provincial) lands, to assure domestic production, provide jobs, and encourage economic development. Export restrictions on public timber in the United States indicate substantially higher prices for export logs than for comparable logs sold domestically. Most economists would consider restrictions that reduce domestic prices below the world market price to be subsidies, and the General Agreement on Tariffs and Trade (GATT) generally prohibits export restrictions. In addition, current U.S. trade law allows the DOC to consider an export restraint on a product to be a subsidy if the private parties who would be exporting the product provide the restrained good to domestic purchasers for less than adequate remuneration. Nonetheless, Canada challenged the ITA treatment of export restrictions as a subsidy, arguing that this treatment is inconsistent with the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures. This challenge is discussed more below.

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<sup>3</sup> Some argue that U.S. federal agencies are not comparable to traditional, market-oriented private “willing sellers,” because they do not make investments or sales based on profitability, as a private landowner presumably would. However, the U.S. federal government owns only 33% of U.S. timberlands, and thus probably has less impact on timber markets than do the Canadian provinces.

**Injury to the U.S. Lumber Industry.** Proving injury or threat of injury to U.S. lumber producers is also essential to establishing a CVD. The share of the U.S. softwood lumber market provided by Canadian lumber has grown substantially over the past 50 years. In 1952, lumber imports from Canada were less than 3 BBF, and Canada's market share was less than 7%. In 1998 and 1999, Canadian lumber imports were more than 18 BBF, and Canada's market share has fluctuated between 33% and 35% since 1995. These facts are cited by U.S. producers as evidence that Canadian imports have come at the expense of normal domestic growth in industrial lumber production. U.S. homebuilders and other lumber users counter that Canadian lumber is essential to meeting domestic demand, and argue for unrestricted imports. Despite consistent ITC findings of injury, indisputable proof of injury to U.S. producers is difficult to establish.

## Current Issues and Events

Two aspects of this situation are currently the focus of attention in this long-running dispute over the exports of softwood lumber from Canada to the United States. One is the 2001-2002 countervailing and antidumping investigations. The other is the several WTO challenges by the Canadians questioning the countervailing and antidumping investigative processes.

**The 2001–2002 Countervailing and Antidumping Investigations.** The 1996 U.S.-Canada Softwood Lumber Agreement expired on March 31, 2001. On April 2, the U.S. Coalition for Fair Lumber Imports filed antidumping and CVD petitions. On April 24, the DOC announced that it was initiating the antidumping and CVD investigations, because the petitioners had standing and had shown adequate industry support. On May 16, the ITC issued its preliminary determination that there was “a reasonable indication that a U.S. industry is threatened with material injury by reason of imports of softwood lumber from Canada that are allegedly subsidized and sold in the United States at less than fair value” (Investigations Nos. 701-TA-414 and 731-TA-928 (Preliminary)). On August 17, the DOC published its preliminary determination of Canadian subsidies of 19.31% *ad valorem*, and established a preliminary duty at that level. DOC also found that critical circumstances existed, allowing retroactive application of the duty. On November 6, the DOC published its preliminary determination that Canadian firms were dumping lumber, with margins ranging from 5.94–19.24% (12.58% for most firms). The DOC also announced it would align, and postpone until March 25, 2002, final determinations in the CVD and antidumping cases.

Negotiations were undertaken to forestall final determinations of injury, subsidy, and dumping. The negotiations collapsed on March 21, 2002, and on March 22, the DOC issued final determinations, with Canadian subsidies determined to be 19.34% *ad valorem*, and dumping margins ranged from 2.26–15.83% (9.67% for most firms). On May 2, by a 4-0 vote of the commissioners, the ITC issued a final finding of injury. Duties averaging 29% went into effect on May 22, when the DOC published the final duty notice in the *Federal Register*.

Canada and Canadian lumber producers have sought binational panel reviews of DOC and ITC final determinations in both the antidumping and countervailing duty cases, an option available under Chapter 19 of the North American Free Trade Agreement (NAFTA) in lieu of judicial review. The panels have been established to examine whether the DOC

and ITC determinations are in accordance with U.S. antidumping and countervailing duty law.

The panel report on the DOC determination in the antidumping case, issued July 17, 2003, unanimously affirmed in part and remanded in part; DOC is directed to publish revised dumping margins in light of the panel's remand instructions, which focus in part on product comparisons made by the Department. DOC is to report its new determination to the panel by September 15, 2003.

The panel report on the DOC determination in the CVD case, issued August 13, 2003, upheld the DOC's treatment of provincial stumpage programs as subsidies and the Department's finding that the programs are "specific" to an industry (a necessary element of a domestic subsidy finding). At the same time, it found as contrary to U.S. law DOC's use of cross-border market comparisons to calculate the subsidy, the blanket refusal of DOC to exclude from the scope of the CVD order reprocessed Maritime-origin softwood lumber, and other aspects of DOC determination related to the exclusion of products. The panel remanded the case to the Department, directing it to report its new determination within 60 days of the panel report.

The panel examining the ITC's injury determination issued its report September 5, 2003, remanding in part and affirming in part. The panel has directed the ITC to reconsider its threat of injury determination, its like product determination relating to bed frame components and flangestock, and its decision to cross-cumulate dumped and subsidized imports in its threat of injury determination. The ITC is to report its new determination to the panel within 100 days of date of the panel report, on or about December 14, 2003.

In reconsidering threat of injury, the ITC is directed to take into account the potential negative effects of the existing development and production efforts of the domestic industry and to analyze the distinction between the contribution to threat of injury caused by dumped and subsidized imports and the contribution caused by other factors, including the domestic industry itself, engineered wood products, the insufficiency of timber supplies in the United States, and the cyclical nature of the softwood lumber industry. Regarding cross-cumulation, the panel has instructed the ITC to reconsider its conclusion that the statute requires cross-cumulation in the context of a threat determination and, "applying the fresh interpretation, reach an appropriate conclusion."

The panel upheld the ITC on a number of points, including its like product determination regarding Western Red Cedar and Eastern White Pine and its finding that it did not have statutory authority to treat the Maritime Provinces as a "country" entitled to a separate injury determination. The panel also affirmed that the ITC was not required as a matter of law to determine that the threat of material injury was caused through the effects of subsidies or dumping, and that the ITC adequately "considered" the nature of the subsidy and its likely trade effects so as to have met its statutory burden regarding the evaluation of relevant economic factors in assessing threat.

On January 6, 2003, the DOC offered a discussion draft entitled "Proposed Analytical Framework, Softwood Lumber from Canada." The draft identifies market-based timber sales as the conceptual starting point, discusses how provincial timber practices could be modified



to conform with this concept, and identifies bases for revoking the countervailing duty and antidumping margins. Negotiations are continuing.

On July 14, 2003, the Bureau of Customs and Border Protection announced its intent to distribute collected antidumping and countervailing duties to affected domestic producers under the Continued Dumping and Subsidy Offset Act of 2000 (CDSOA; 19 U.S.C. § 1765c) which mandates annual distributions of these funds for qualifying expenditures to petitioners and interested parties in the underlying trade remedy proceedings (68 *Fed. Reg.* 41597). Duties collected in both the softwood AD and CVD proceedings were listed as available for FY2003 distribution to firms identified in the notice. (68 *Fed. Reg.* at 41648-41650). While the CDSOA disbursement process is continuing for the current fiscal year, the statute was recently found to violate U.S. WTO obligations and the United States is facing an arbitrated compliance deadline of December 27, 2003, in the case.

**Canadian WTO Challenges to U.S. Countervailing Duty and Antidumping Laws and Proceedings.** Canada has initiated seven cases in the WTO in connection with softwood lumber issues. These cases, identified below with their WTO case number, involve challenges both to U.S. trade statutes and to the softwood lumber antidumping and CVD proceedings themselves.

***Export restraints as subsidies (DS194).*** The DOC recognized the countervailability of export restrictions in its 1992 determination of subsidies involving Canadian softwood lumber and in a 1990 determination of subsidies involving leather from Argentina. In the SAA accompanying the Uruguay Round Agreements Act (URAA; H.Doc 103-316, vol.1, pp. 925-926), and in the DOC's *Federal Register* explanation of its implementing rule (63 *Fed. Reg.* 65349–65351, Nov. 25, 1998), the Executive Branch confirmed that if it were again to investigate situations and facts similar to those in the two cases just described, U.S. trade law would continue to permit it to reach the same conclusion. Canada challenged this policy in the WTO, alleging that the U.S. interpretation, as set forth in those documents, is inconsistent with U.S. obligations under the WTO Agreement on Subsidies and Countervailing Measures (SCM). The WTO panel agreed with Canada that export restraints do not constitute a financial contribution from the government, and thus do not confer a countervailable subsidy under the SCM Agreement; however, the panel recommended no remedial action, since U.S. law does not require the DOC to treat an export restraint as a subsidy and since there was no current U.S. measure based on such a finding. The panel report was adopted August 23, 2001.

***Section 129(c)(1) (DS221).*** In apparent anticipation of possible U.S. antidumping and CVD cases against Canadian softwood lumber imports, Canada filed another WTO complaint against the United States on January 17, 2001, challenging § 129(c)(1) of the URAA, which sets forth procedures for administrative compliance with adverse WTO panel reports involving U.S. antidumping or CVD measures. Canada alleged that § 129(c)(1) prohibits the United States from refunding estimated duties in trade remedy proceedings that are found to be inconsistent with WTO obligations and thus violates portions of the WTO Dispute Settlement Understanding and various WTO antidumping and countervailing duty obligations. The panel's report, circulated to WTO Members July 15, 2002, concluded that the United States was not in violation of its WTO obligations since the law did not mandate a WTO-inconsistent result. The panel report was adopted August 30, 2002.

***Preliminary softwood CVD determinations (DS236).*** On August 21, 2001, Canada requested consultations with the United States, claiming that DOC's preliminary subsidy and critical circumstances determinations in the softwood lumber CVD proceeding violated the SCM Agreement and the GATT 1994 (WT/DS236). Regarding the subsidy determination, Canada cited, among other things, DOC's treatment of stumpage as a financial contribution, inflation of the subsidy by calculating a country-wide rate based upon only a portion of Canadian exports to the United States, and measuring the adequacy of remuneration for timber that provincial governments sold to lumber producers by comparing stumpage prices in U.S. and Canadian markets, rather than by referring to prevailing market conditions in Canada alone. (See 66 *Fed. Reg.* 45724-45725, August 29, 2001).

The final panel report, circulated to WTO Members September 27, 2002, upheld the U.S. determination that provincial stumpage programs constitute a financial contribution to the industry, but faulted the methodology used by DOC in determining whether a benefit was conferred on Canadian lumber producers, citing the above-mentioned use of cross-border price comparisons as well as the Department's failure to examine whether a subsidy had passed through an unrelated upstream supplier to a downstream user of lumber inputs. While the panel also found that DOC's preliminary critical circumstances determination (allowing provisional duties) was improper, DOC had revoked the finding in its final CVD determination. Finally, the panel upheld U.S. laws and regulations regarding expedited and administrative reviews in CVD cases, finding that they did not require the Executive Branch to act inconsistently with WTO obligations. Neither party pursued an appeal and the panel report was adopted November 1, 2002. USTR stated in a press release issued at the time that even though the United States had not appealed the report, it did not agree with the adverse panel conclusion regarding DOC methodology and would argue in the WTO proceeding challenging DOC's final subsidy determination (DS257, below) that the later panel should disregard these earlier findings. The United States reported to the WTO November 29, 2002, that it did not need to take any action to comply with the panel report on the ground that the preliminary duties were no longer in effect and the provisional cash deposits at issue had been refunded to Canada before the panel report was circulated.

***Provisional softwood antidumping measure (DS247).*** On March 6, 2002, Canada requested consultations with the United States regarding the provisional antidumping measure imposed on Canadian lumber after DOC's affirmative preliminary dumping determination October 31, 2001. Canada is arguing that neither the initiation of the antidumping investigation nor the preliminary determination is in accord with the WTO Antidumping Agreement. The case remains in consultations.

***Final softwood subsidy determination (DS257).*** On May 3, 2002, Canada requested consultations with the United States on DOC's final subsidy determination in the softwood lumber CVD proceeding. The United States blocked Canada's first panel request, made at a July 29, 2002, meeting of the WTO Dispute Settlement Body (DSB). Canada later withdrew the request, refiled it, and made a new panel request at the DSB's August 30, 2002, meeting. A panel was established October 1, 2002, the United States having blocked Canada's August 30 request. Panelists were named by the WTO Director-General November 8, 2002.

A final report in the case was reportedly issued to the parties July 2, 2003, and publicly circulated August 29, 2003. The panel made findings similar to those in DS236 above,

upholding the DOC finding that provincial stumpage programs were financial contributions by the government for purposes of the WTO subsidy definition, and that the subsidies were specific to an industry. The panel faulted the Department, however, on its use of cross-border comparisons and its determination that the subsidy passed through to downstream users. Either disputing party may appeal the report.

***Final softwood dumping determination (DS264).*** On September 13, 2002, Canada requested consultations with the United States regarding the final affirmative determination of sales at less than fair value with regard to Canadian softwood lumber announced by the Department of Commerce March 21, 2002. Canada claims various violations of the GATT and the WTO Antidumping Agreement, arguing that the Department improperly initiated the case because of the lack of sufficient evidence in the petition and the same failure to gauge industry support alleged in DS257 (discussed above); that the Department improperly applied a number of methodologies, resulting in artificial or inflated dumping margins; that it did not establish a correct product scope for its investigation; and that it failed to adhere to various WTO requirements involving procedural matters in the investigation. A panel was established January 8, 2003; the United States and Canada agreed on panelists February 25, 2003. The panel issued a statement August 25, 2003, that due to the complexity of the case, it would not be able to complete its work within the normal 6-month timeframe and instead expected to submit its final report to the disputing parties in December 2003.

***ITC injury investigation in softwood antidumping and countervailing duty cases (DS277).*** On December 20, 2002, Canada requested consultations with the United States regarding the International Trade Commission's injury investigation in the softwood antidumping and countervailing duty cases, including its May 2, 2002, final affirmative injury determinations that resulted in the imposition of duties in each. Canada has claimed violations of the GATT, the Antidumping Agreement, and the Agreement on Subsidies and Countervailing Measures, alleging, among other things, that the ITC based its threat of injury determination "on allegation, conjecture and remote possibility" and that it failed to consider properly a number of relevant factors in its determinations of injury or threat. Canada made its first request for a panel in the case at an April 15, 2003, meeting of the WTO Dispute Settlement Body; the United States maintained that it would be premature for the WTO to establish the panel at that time. A panel was established May 7, 2003, after Canada made its second request. The WTO Director-General appointed panelists June 19, 2003.

## **LEGISLATION**

### **H.Con.Res. 197 (Kolbe); S.Con.Res. 22 (Nickles)**

Expresses the sense of Congress that a competitive, unrestricted lumber market is fairest for American consumers, and urges resolution of the dispute over imports of Canadian lumber. S.Con.Res. 22 introduced March 13, 2003; referred to Senate Finance Committee. H.Con.Res. 197 introduced May 22, 2003; referred to House Ways and Means Committee.

## CHRONOLOGY

- 09/03 – On September 5, a binational panel directed ITC to reconsider its injury determination.
- 08/03 – On August 13, a binational panel directed the DOC to recalculate subsidies.
- 08/03 – On August 29, a final panel decision on the final U.S. subsidy determination, with mixed results, was adopted by the WTO.
- 07/03 – On July 17, a binational panel directed the DOC to revise dumping margins.
- 11/02 – On November 1, a final panel decision on the preliminary U.S. subsidy determination, with mixed results, was adopted by the WTO.
- 07/02 – On July 15, a WTO panel upheld U.S. law for complying with WTO decisions.
- 05/02 – On May 22, the DOC published its final countervailing duty order, with duties averaging 29%.
- 05/02 – On May 3, Canada requested WTO consultations on whether U.S. final subsidy determination is consistent with the SCM Agreement.
- 05/02 – On May 2, the ITC voted 4-0 that the U.S. lumber industry was injured by Canadian imports.
- 03/02 – On March 22, the DOC announced final subsidy findings of 19.34% *ad valorem*, and final antidumping margins of 9.67% *ad valorem* for imports from most Canadian firms.
- 03/02 – On March 6, Canada requested consultations on whether U.S. antidumping investigation and preliminary determination are consistent with WTO Antidumping Agreement.
- 12/01 – On December 5, a WTO dispute panel was established to hear Canada's complaint that the DOC's preliminary determinations in the softwood lumber CVD proceeding violate the SCM Agreement and the GATT 1994.
- 11/01 – On November 6, the DOC announced its preliminary finding of Canadian lumber dumping, with margins of 12.58% for imports from most firms, and the alignment of the antidumping and CVD cases, with the final finding postponed until March 25, 2002.
- 08/01 – On August 23, the WTO adopted a panel report holding that U.S. treatment of export restraints as subsidies violated WTO agreements. Also on August 23, a WTO panel was established to examine Canada's complaint that a U.S.

- law prohibiting the refund of estimated duties in proceedings found to be inconsistent with WTO obligations also violated WTO agreements.
- 08/01 – On August 21, Canada requested consultations with the United States in the WTO regarding the DOC’s preliminary determinations in the CVD case.
- 08/01 – On August 17, the DOC issued its preliminary finding of 19.31% *ad valorem* Canadian subsidies and of the existence of critical circumstances.
- 05/01 – On May 16, the ITC issued its preliminary finding of injury to the U.S. lumber industry by Canadian lumber imports.
- 04/01 – On April 2, the U.S. Coalition For Fair Lumber Imports filed antidumping and CVD petitions to restrict Canadian softwood imports. On April 24, the DOC announced the initiation of the antidumping and CVD investigations.
- 03/01 – At midnight on March 31, the 1996 Softwood Lumber Agreement expired.
- 01/01 – On January 17, Canada requests consultations with United States under WTO Dispute Settlement Understanding, arguing that U.S. procedures for administrative compliance with adverse WTO panel reports violate the Understanding.
- 09/00 – WTO panel established to assess Canadian objection to U.S. treatment of export restrictions.
- 05/00 – Canada requests consultations with United States under WTO Dispute Settlement Understanding, arguing U.S. treatment of export restrictions is inconsistent with WTO Agreement on Subsidies and Countervailing Measures.
- 06/99 – U.S. Customs Service reclassifies rougher-headed lumber and notched studs as softwood lumber subject to the SLA.
- 12/98 – U.S. Court of International Trade upholds Customs Service ruling that drilled studs are softwood lumber subject to the SLA.
- 06/98 – U.S. Customs Service issues final decision reclassifying drilled studs as softwood lumber subject to the SLA.
- 02/97 – U.S. Customs Service issues New York Ruling Letter B81564 classifying drilled studs as builders’ joinery exempt from the SLA.
- 05/96 – USTR and Canada sign Softwood Lumber Agreement (SLA), retroactive to April 1, 1996.
- 12/94 – Negotiations begin between the USTR and Canada to restrict lumber imports.
- 10/94 – USTR terminates §301 action against Canadian lumber imports.

- 08/94 – ECC dismissed, and 2/94 binational subsidy panel order affirmed.
- 01/94 – Binational subsidy panel orders ITA to find no subsidies; ITA complies.
- 10/93 – ITC reanalysis confirms original finding of injury to U.S. industry.
- 09/93 – ITA reanalysis confirms and revises final finding to 11.54% *ad valorem* subsidies by Canada.
- 07/93 – Binational injury panel remands ITC analysis of injury for further analysis.
- 05/93 – Binational subsidy panel remands ITA analysis of subsidies for further analysis.
- 08/92 – Canada challenges ITA and ITC findings under the U.S.-Canada Free Trade Agreement (FTA), leading to binational panels to review the ITA finding of subsidies and ITC finding of injury.
- 07/92 – ITC issues final finding of injury, confirming the CVD.
- 05/92 – ITA issues final finding of subsidies, establishing the CVD at 6.51% *ad valorem*.
- 10/91 – USTR initiates §301 action; ITA self-initiates a CVD investigation.
- 09/91 – Canada announces it will withdraw from the MOU.
- 12/86 – Canada and USTR announce a Memorandum of Understanding (MOU) with a 15% Canadian export tax instead of a CVD.
- 10/86 – ITA issues preliminary finding of subsidies, setting a CVD at 15% *ad valorem*.
- 05/86 – U.S. Coalition for Fair Lumber Imports files a CVD petition.
- 03/83 – ITA issues preliminary finding of *de minimis* subsidies, ending CVD investigation.
- 10/82 – U.S. lumber industry files petition requesting a CVD.
- 12/81 – Letters from Members of Congress to USTR requesting a CVD investigation of lumber imports from Canada.

## **FOR ADDITIONAL READING**

Benjamin Cashore, *Flights of the Phoenix: Explaining the Durability of the Canada-US Softwood Lumber Dispute* (Orono, ME: Canada-American Center, Dec. 1997).

Brink Lindsay, Mark A. Groombridge, and Prakash Lougani, *Nailing the Homeowner: The Economic Impact of Trade Protection of the Softwood Lumber Industry* (Washington, DC: Cato Institute, 2000).

John A. Ragosta, Harry L. Clark, Carloandrea Meacci, and Gregory I. Hume, *Canadian Governments Should End Lumber Subsidies and Adopt Competitive Timber Systems: Comments Submitted to the Office of the United States Trade Representative on Behalf of the Coalition for Fair Lumber Imports* (Washington, DC: Dewey Ballantine LLP, April 14, 2000).

FLC Les Reed, *Two Centuries of Softwood Lumber War Between Canada and the United States: A Chronicle of Trade Barriers Viewed in the Context of Saw Timber Depletion* (Montreal, Canada: Free Trade Lumber Council, May 2001).

Random Lengths, *In Depth: U.S.-Canada Trade Dispute Timeline* (at [[http:// www.randomlengths.com/base.asp?s1=In\\_Depth&s2=U.S.-Canada\\_Trade\\_Dispute](http://www.randomlengths.com/base.asp?s1=In_Depth&s2=U.S.-Canada_Trade_Dispute)]).

World Resources Institute, *Canada's Forest at a Crossroads: An Assessment in the Year 2000*, a Global Forest Watch Canada Report (Washington, DC: 2000).

### **CRS Reports**

CRS, "Softwood Lumber Imports From Canada," *Trade Briefing Book* (at [<http://www.congress.gov/brbk/html/ebtra119.html>]).

CRS Report RL30826, *Softwood Lumber Imports From Canada: History and Analysis*, by Ross W. Gorte, Feb. 2, 2001.