

Canadian Export Restraints on Log Sales Exacerbate and Reinforce Subsidies and Dumping

Both the federal and provincial governments of Canada severely restrict the export of softwood logs, particularly logs of sufficiently high quality to make softwood lumber. Since these Canadian logs can not be sold abroad, but instead can only be sold to Canadian sawmills, these sawmills can exploit suppressed prices for the logs. The log export ban protects the timber-price subsidies and adds to existing subsidies by artificially depressing Canadian log and timber prices.

- ***Canadian Provincial and Federal Governments Impose Onerous Restrictions on Log Exports:*** Most provinces restrict the export of logs harvested from government land by requiring that these logs be processed only in provincial sawmills. In British Columbia, similar domestic processing rules apply to logs harvested from private lands as well. In addition, the Canadian federal government imposes controls on the export of all logs.
 - In the United States, exports of logs harvested from federal and state lands west of 100° longitude are also restricted, but this requirement has little if any economical impact because most of the U.S. timber harvest comes from private land. By contrast, in Canada a large majority of the harvest (typically 90% or more) comes from government land subject to draconian provincial export restraints (apart from the federal controls, which apply to all logs).
- ***Restrictions on the Export of Logs Cause an Artificial Oversupply of Wood Fiber in Canada:*** Over the past decade, most Canadian provinces exported less than 1% of their total softwood log harvests. Even British Columbia, which is the source of the large majority of Canada's softwood log exports, exports only a small fraction of their harvest. Largely as a result, U.S. mills near the Canadian border paid much higher prices for logs than do Canadian mills.
- ***Canadian Log Export Restraints Are a Necessary Precondition of the Subsidy Programs:*** Without log export restraints, the Canadian subsidy system would not work. If U.S. producers could obtain under-priced Canadian timber for their sawmills in the United States, the benefit of the subsidy program would go to those U.S. mills. But the purpose of low public timber prices in Canada is to promote industry and jobs *in Canada*. Only by specifying that logs must be processed in Canada do the provinces ensure that the subsidies artificially increase production and employment *in Canada*.
- ***Canadian Log Export Restraints Exacerbate and Reinforce Unfair Practices:*** Log export restrictions create an artificial market disparity between U.S. and Canadian prices. The export restraints artificially increase supply within Canada, resulting in artificially reduced log prices in that country. Additionally, the restraints greatly reduce competition for Canadian logs and timber from sawmills outside Canada. In

essence, the restraints ensure that mills are insulated from competition while having access to an ample supply of timber. Such a scenario reinforces existing subsidies.

- ***Without Export Restraints, There Would be Great Potential for U.S.-Canada Trade in Sawlogs:*** Canadian timber is similar to U.S. timber in species, grade, and quality. Transportation costs to the northern United States are insignificant. There are U.S. mills near the Canadian border and some forms of transport, such as transporting logs from British Columbia over water, are quite economical over longer distances. The enormous price disparity in U.S. and Canadian log prices cannot be explained by natural, market forces. But for the log restraints, Canadian wood fiber prices would be at U.S. levels.
- ***The Log Export Restraints Violate Canada's International Commitments – the United States Should Seek Redress Before the WTO:*** The export restraint policies are a clear violation of Article XI of the GATT. Article XI bans "prohibitions or restrictions other than duties, taxes or other charges" on exports, including quotas and export license requirements, with a few limited exceptions (like environmental bans on exports of rare species, which Canadian softwood timber export restrictions plainly are not). Consequently, the United States can and should seek redress for Canadian log export restraints before the WTO.