

"In general the Canadian and United States industries are similar in structure. The Canadian industry is slightly more concentrated and has a greater percentage of large mills . . . Canadian employees outproduce their U.S. counterparts . . . (a fact that may be) attributed to the U.S. having a larger proportion of small mills (less than twenty employees) that are not as efficient as larger mills." **U.S. International Trade Commission Report.**

The forest industries of the United States and Canada are similar but distinct. The differences have much to do with production and costs.

**MILLS AND WORKERS** The United States has thousands of softwood saw and planing mills, many small; Canada has far fewer, most of them large. Big plants are usually more efficient than small ones. In 1984 the average Canadian mill employee produced in an hour 95 board feet of lumber more than his U.S. counterpart. Wages are an important variable cost and while actual hourly wages were generally higher in Canada, the labour cost of producing 1,000 board feet was \$20 higher in the U.S. Wages accounted for 30 per cent of the production costs in the U.S., and for 27 per cent in Canada.

**SPECIES** The species of trees found in one country are not always found in the other. Some types of trees are worth more than others.

Some valuable species are more plentiful in Canada but in general the United States has a more valuable mix. The better species naturally bring higher prices.

**MILLWORK QUALITY** Canadian mills have maintained higher quality within grades. Some mills in the U.S., particularly those in the Southeast, have concentrated on increasing production and have allowed quality to slip.

**MARKET SIZE** The American market is ten times as large as the Canadian.

**PROXIMITY AND PRICE** Generally speaking, Canadian forests are more remote than American ones and this affects timber prices—a tree close to the mills and the markets is worth more than one far away.

**TRANSPORTATION** Transportation costs are a significant part of the total cost of producing lumber and delivering it to market. Rail and trucks are the principal carriers in both countries but the Canadian industry uses cheaper water transport as well and this helps to keep rail rates low. Water transport is not economically viable in the U.S. because of legal restrictions.

**THE CURRENCY EXCHANGE** The U.S. dollar is worth more than the Canadian dollar. As the gap has increased in recent years, Canadian producers have been able to enjoy a higher return in Canadian dollars from U.S. sales, without raising their selling prices.

**FOREST MANAGEMENT COSTS** In Canada almost all timberland is publicly owned and leased to private producers. Leaseholders are often responsible for many of the management costs.

Most public timberland in the United States is managed by the U.S. Forest Service. Much of the American softwood timber supply is owned by large U.S. forest product companies.

**TAXES** Owners and users of timberland in the United States have tax advantages that Canadian forest industry firms do not. Canadian firms on the average pay more taxes than American firms.

**MARKET ECONOMICS** The industries in both countries have been under severe pressures in recent years.

Although the American dollar is higher than the Canadian, the Canadian is also higher than most other currencies and the overseas sales of both countries have been affected adversely.

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OTTAWA

APR 16 1986

## The Great Lumber Dispute

Each year American home builders buy a substantial amount of Canadian softwood.

In 1982 the Canadian forest industries supplied 28 per cent of the U.S. lumber market. In 1984 they supplied 29 per cent.

The sales reflect the facts: that Canada has an abundance of forest resources while the U.S. has little surplus, that many Canadian mills are more technologically advanced than their U.S. counterparts and that builders prefer some Canadian species.

Some American producers, however, have contended that the differences between U.S. and Canadian prices for timber are the result of subsidization.

In 1983 the U.S. Department of Commerce ruled that this was not so. Some U.S. producers, however, continued their claims, and early last year Rep. Gibbons (D-Florida) and others introduced bills in Congress which would restrict lumber imports.

The Congressional Budget Office estimates that the proposed tariff increase would add 13.5 per cent to the cost of imported lumber and this would increase the price of the average house by hundreds to thousands of dollars. The U.S. National Association of Home Builders estimates that for every \$1,000 rise, more than 300,000 families would be priced out of the housing market.

Last March the United States Trade Representative asked the United States International Trade Commission to undertake a thorough study of "conditions relating to the importation of softwood lumber into the United States."

The Trade Commission's exhaustive, 224-page report, which was released in October, supports the Commerce Department's conclusion that there is no significant subsidization by the Canadian governments. It also details the differences between Canadian and American lumber production and the way they affect sales.

In this issue of *Canada Today/d'aujourd'hui* we report on the ITC study and on both competitive and cooperative aspects of North America's commercial lumber industry.