Negative: Canadian Lumber Tariffs - not a problem

By “Coach Vance” Trefethen

AFF Plan eliminates the US elevated tariffs on Canadian lumber, which is often used in new housing construction in this country.

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Negative: Canadian Lumber Tariffs

INHERENCY

1. Already reduced

Biden recently reduced Canada lumber tariffs substantially, down to 8.59% in Aug. 2022

National Association of Home Builders 2022. "Canadian Lumber Tariffs Cut by More than Half" 5 Aug 2022 (accessed 1 May 2023) https://www.nahb.org/blog/2022/08/lumber-tariff

The Department of Commerce has issued its final third administrative review to reduce duties on shipments of Canadian lumber into the United States by more than half from 17.99% to 8.59%. This is even lower than the initial third administrative review that would have set the tariffs at 11.64%. The new 8.59% lumber tariff is expected to take effect later this month.

HARMS / SIGNIFICANCE

1. Tariffs aren't the real cause of high lumber prices

Root cause is bad planning by the lumber industry during the pandemic. They cut output just when demand started increasing

Paul Specht 2021 (correspondent for PolitiFact North Carolina at WRAL. Previously he worked at the *News & Observer* in Raleigh, N.C., where he covered state government) "Are high lumber prices 'tied' to the Trump administration?" 23 July 2021 (accessed 1 May 2023) https://www.politifact.com/factchecks/2021/jul/23/alma-adams/are-high-lumber-prices-tied-trump-administration/

The lumber industry’s struggle to keep up with demand has been well-documented in American media, from [Vox](https://www.vox.com/22410713/lumber-prices-shortage) and [CNN](https://www.cnn.com/2021/06/01/business/lumber-steel-prices-tariffs-inflation/index.html) to [Fortune](https://fortune.com/2021/03/31/lumber-prices-2021-chart-wood-production-high-why-is-lumber-so-expensive-right-now-home-prices-data-update/) and [Bloomberg](https://www.bloomberg.com/news/articles/2017-04-24/trump-said-to-plan-20-tariff-on-canadian-softwood-lumber-j1wq4tyg). Experts told PolitiFact there are many factors that determine the price of lumber. Trump’s tariff is one of those factors but isn’t the leading cause of the spike. The price increases "can be traced back to mill closures and a massive reduction of output upon reopening based on the incorrect assumption that the housing market would indefinitely tank," Logan, the NAHB expert, [told PolitiFact in April](https://www.politifact.com/article/2021/apr/15/yes-price-plywood-range-252-market-factors-blame/).

2. Alternate causes of higher home prices - not imported lumber tariffs

Low inventory. Not enough houses available since 2008 when construction plummeted

Robin Rothstein and Chris Jennings 2023 (journalists) April 2023 "Housing Market Predictions For 2023: Are Home Prices Finally Becoming Affordable?" (accessed 1 May 2023) https://www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/ (brackets in original)

Low housing inventory has been a challenge since the 2008 housing crash when the construction of new homes plummeted. It hasn’t fully recovered—and won’t in 2023. Housing supply remaining stuck at near historic lows has propped up demand compared to other downturns, consequently sustaining higher home prices. “[D]eclining rates have brought borrowers back to the market but, as the spring homebuying season gets underway, low inventory remains a key challenge for prospective buyers,” said Sam Khater, chief economist at Freddie Mac, in a press statement.

Monetary policy. Federal Reserve policies put pressure on the housing market and reduce inventory

Robin Rothstein and Chris Jennings 2023 (journalists) April 2023 "Housing Market Predictions For 2023: Are Home Prices Finally Becoming Affordable?" (accessed 1 May 2023) https://www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/

In an exchange with Senator Raphael Warnock (D-Ga.), Powell acknowledged that raising the central bank interest rate increases borrowing costs for companies that develop new housing and makes financing and expanding production for suppliers more expensive. He also conceded that elevated fixed mortgage rates discourage homeowners with a low-rate fixed-rate mortgage from selling their homes. All of these circumstances put further strain on inventory. “The bottom line is that there really isn’t a likely scenario that leads to inventory levels approaching historically normal numbers in 2023, which means that prospective homebuyers are still going to have to work hard to find something to buy,” says Sharga.

Lumber is less than 2% of the cost of a house. The real causes of home price increases are worker shortages, lack of buildable lots and other factors

*Zoltan van Heyningen 2019 (executive director of the U.S. Lumber Coalition)* Lumber duties not the cause of housing unaffordability 10 July 2019 THE HILL (accessed 2 May 2023) *https://thehill.com/opinion/finance/452250-lumber-duties-not-the-cause-of-housing-unaffordability/*

Lumber makes up less than 2 percent of the cost of a new home. An average new home [costs $377,200](https://www.census.gov/construction/nrs/pdf/uspricemon.pdf), and about 16,000 board feet of lumber is required to build a home. As of July 2019, lumber [cost $359](https://www.randomlengths.com/Woodwire/RL-Lbr-Pnl/) per thousand board feet, amounting to a total cost of $5,744 in an average-priced home. The real sources of housing unaffordability come from construction worker shortages, higher permitting costs, lack of buildable lots and other factors. Lumber prices [have actually remained largely consistent](https://www.randomlengths.com/In-Depth/Monthly-Composite-Prices/) over the past few decades—decreasing in real costs when considering inflation.

3. Tariffs justified by Canadian government subsidies

Canadian lumber is subsidized by their government: The government owns the timber lands

WASHINGTON EXAMINER 2017 (journalist John McCormack) 25 Apr 2023 "Lindsey Graham Backs Trump's Lumber Tariff: 'It's Good to Punch Back'" (accessed 1 May 2023) https://www.washingtonexaminer.com/weekly-standard/lindsey-graham-backs-trumps-lumber-tariff-its-good-to-punch-back

Indeed, as the [New York Times reported](https://www.nytimes.com/2017/04/24/us/politics/lumber-tariff-canada-trump.html) Tuesday, "At the conflict's heart is a fundamental difference in forestry ownership. In the United States, forest lands are largely held by lumber companies. In Canada, they tend to be owned by the government, and American mills contend that Canadian provinces subsidize their industries by charging low royalty rates for cutting trees. A temporary truce under President George W. Bush, which effectively limited Canadian exports to the United States, expired in 2015."

US tariffs are justified because Canada has been unfairly subsidizing their lumber industry for more than 5 decades

Steve Swanson 2018 (president and chief executive officer of the Swanson Group, a family-owned forest products company) 23 Aug 2018 "Not All Duties Are Bad" (accessed 2 May 2023) https://www.nrtoday.com/opinion/guest\_columns/not-all-duties-are-bad/article\_0ff6a99f-ae81-5f28-a5a2-c4139885fcf3.html ("Duties" = tariffs)

For more than five decades, the Canadian government has given handouts to its softwood lumber industry, allowing them to dump their products in the U.S. below market prices and tipping the scale in their favor. In fact, the U.S. government carried out a comprehensive investigation and found the imports were harming local lumber communities in the U.S. In response, the U.S. levied anti-dumping and countervailing duties on Canadian softwood lumber imports to offset Canada’s unfair trade advantage.

US tariffs merely offset Canadian subsidies to their lumber industry to allow fair competition

Steve Swanson 2018 (president and chief executive officer of the Swanson Group, a family-owned forest products company) 23 Aug 2018 "Not All Duties Are Bad" (accessed 2 May 2023) https://www.nrtoday.com/opinion/guest\_columns/not-all-duties-are-bad/article\_0ff6a99f-ae81-5f28-a5a2-c4139885fcf3.html ("Duties" = tariffs)

Critics of the duties miss an important fact. These duties were a result of regular government action rooted in a long and fact-based investigation into the effects of subsidized and dumped Canadian softwood lumber imports into the U.S. The softwood lumber duties bring balance to two different systems of production, thus giving U.S. workers and companies a fair shot to compete in the market.

Countering foreign government intervention in their trade is beneficial to our country and the global economy

Michael Pettis 2018 (Nonresident Senior Fellow, Carnegie Endowment for International Peace;  *professor of finance at Peking University’s Guanghua School of Management, where he specializes in Chinese financial markets*) 10 July 2018 "Tariffs and Trade Intervention" (accessed 2 May 2023) https://carnegieendowment.org/chinafinancialmarkets/76777

**Countering foreign trade intervention**: There are often cases in which mercantilist or interventionist policies in one country create trade and capital flow imbalances that must be absorbed by another country, usually in the form of unwanted trade deficits. According to both economic and trade logic, large deficits or surpluses cannot persist over many years unless significant policy distortions keep them in place. This is because trade imbalances alter economic conditions, especially monetary conditions, in ways that automatically cause them to be reversed. In other words, to the extent that imbalances have persisted for many years, or even decades, they must be sustained by policy distortions in either the surplus or the deficit country. In such cases, if a country is forced to absorb the distortions generated by another country, and it implements trade intervention policies aimed at reversing the effects of these distortions, these policies benefit both the first country and the global economy, although usually at the expense of the country where the distortions originated.

4. Higher home prices aren't always bad

Home buyers hit by the pandemic are able to avoid foreclosure because the value of their homes has increased

Robin Rothstein and Chris Jennings 2023 (journalists) April 2023 "Housing Market Predictions For 2023: Are Home Prices Finally Becoming Affordable?" (accessed 1 May 2023) https://www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/

A key difference now compared to the 2008 housing crisis is that many homeowners, and even those struggling to make payments, have had a large boost to their home values in recent years. That means they still have equity in their homes and are not underwater—when you owe more than the house is worth.  Sharga noted that borrowers in foreclosure are leveraging the positive equity in their homes by refinancing their home or selling for a profit. “It seems likely that this is a trend that will continue in 2023,” Sharga said.

5. A/T "Tariffs harm consumers"

Lots of positive impacts to tariffs that offset and outweigh. For example: Lower unemployment and higher wages

Michael Pettis 2018 (Nonresident Senior Fellow, Carnegie Endowment for International Peace;  *professor of finance at Peking University’s Guanghua School of Management, where he specializes in Chinese financial markets*) 10 July 2018 "Tariffs and Trade Intervention" (accessed 2 May 2023) https://carnegieendowment.org/chinafinancialmarkets/76777

Most economists limit their discussions about the impact of tariffs and trade intervention to the impact on consumers. This is dishonest, or at best confused, because the primary impact of tariffs (and of trade intervention, generally) is not necessarily on consumption. Countries have successfully intervened in trade for centuries; yet mainstream economists often argue, against the evidence, that trade intervention is always harmful to the intervening country because it raises consumption prices. But raising consumption prices is only one of the many ways that trade intervention can affect households. Trade intervention can also reduce unemployment, as it clearly did in the case of Germany after the Hartz labor reforms, which I discuss below. (Repressing wages, as I will show, has the same beggar-thy-neighbor impact on trade as devaluing the currency or imposing tariffs.) For similar reasons, trade intervention can affect households by allowing for domestic wage increases, as I explain in my most recent [blog entry](https://carnegieendowment.org/chinafinancialmarkets/75972).

DISADVANTAGES

1. Lost jobs

Tens of thousands of jobs depend on protecting US lumber industry against subsidized foreign imports

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 In response, the U.S. levied anti-dumping and countervailing duties on Canadian softwood lumber imports to offset Canada’s unfair trade advantage. Don’t get us wrong. We welcome a good fight here in Glendale. We’ve made countless tough decisions during hard times and overcome economic challenges to be here today. But we can’t compete against foreign companies that receive subsidies from their own government. The duties have given local family-owned businesses like ours a chance to compete fairly in the market. They’ve given us the confidence to continue providing good-paying jobs to our local communities, build state-of-the-art technologies and train skilled individuals to promote local economic growth. They allow more than 61,000 workers in Oregon’s forest sector to complete an honest day’s work to lead the country in lumber production and support more than 107,000 jobs in Washington.

Canada lumber tariffs directly link to more US jobs

*Zoltan van Heyningen 2019 (executive director of the U.S. Lumber Coalition)* Lumber duties not the cause of housing unaffordability 10 July 2019 THE HILL (accessed 2 May 2023) *https://thehill.com/opinion/finance/452250-lumber-duties-not-the-cause-of-housing-unaffordability/*

In response, and in the absence of a trade agreement, the U.S. government followed domestic trade law and imposed countervailing and antidumping duties on imported Canadian softwood lumber that simply offset the unfair advantage provided to Canadian producers. These duties on Canada’s subsidized and unfairly traded imports create a level playing field for U.S. manufacturers. With fair competition, [domestic producers have increased production](https://uslumbercoalition.org/resource/5-things-need-know-u-s-softwood-lumber-industry/) since 2006 by over two billion board feet of lumber to supply the U.S. housing market. This means that more U.S. lumber is being produced by U.S. workers and U.S. forestry communities to build U.S. homes—offsetting any Canadian drop in lumber imports.