

From: Campbell, Cristina FIN:EX
Sent: Thursday, November 3, 2016 12:46 PM
To: Galbraith, David J FIN:EX
Cc: Mirza, Sadaf FIN:EX; Costello, Mark FIN:EX; Hincks, Nicholas FIN:EX; Riley, Dave FIN:EX
Subject: RE: Information on potential impacts of softwood lumber sanctions

Hi Dave,

The impacts estimated by the NAHB on investment are relatively modest given the size of the US economy (in the third quarter of 2016, residential investment in the US was \$697 billion USD SAAR, compared with impacts of 0.6 and 1.2 billion). Stronger overall activity and improving economic conditions are expected to continue in the US in the near future, providing an offset to potential increases in building costs through increased demand. Therefore, the impacts on activity may be smaller than estimated by the NAHB.

If sanctions on Canadian softwood lumber were to be imposed, they would have a material impact on BC lumber exporters.

According to the Ministry of Forests, Lands and Natural Resource Operations:

- "The United States is B.C.'s largest market for softwood lumber products and within Canada, over 50% of Canada's softwood lumber exports to the U.S. originate from B.C."
- "Forestry is a key economic driver in over 140 B.C. communities."
- "In 2015, B.C.'s forest sector supported over 65,000 direct jobs"
- "B.C. is Canada's largest producer of softwood lumber."

Forestry and Logging with support activities is a small portion of BC GDP (around one per cent in 2015), however, forestry is an important employer in BC. The 65,000 jobs reported by MFLNRO represents around 2.8 per cent of employment in 2015. Note that the Ministry estimates of direct employment include Wood Product Manufacturing and Paper Manufacturing, while Forestry and Logging with support activities (more likely to be affected by softwood lumber sanctions) represent only 19,400 jobs. Therefore, we would expect softwood lumber sanctions to have small macroeconomic impacts with potentially larger effects on labour markets.

Losses would be concentrated in the forestry sector and therefore, impacts to specific regions could be more significant if, for example, mills were to close. Additionally, the impacts could be considerable in northern and other rural regions, as well as small communities across BC.

One more thing to note is that some large BC forestry companies have established operations in the US, and many companies adopted efficiencies in order to cope with trade sanctions established in the 2000s. Therefore, some adaptation to sanctions is already in place, which could reduce the negative effects of new sanctions.

Unfortunately, we have not come across any detailed analysis of potential impacts of sanctions on Canadian softwood lumber on BC's economy. We will continue to monitor the topic and let you know if there is any further analysis. We have included this topic as a question for EFC members, so we will have their take on the issue later this month.

Cristina Campbell

Director
Economic Forecasting and Policy Analysis Branch
Ministry of Finance

From: Galbraith, David J FIN:EX
Sent: Monday, October 31, 2016 3:00 PM
To: Campbell, Cristina FIN:EX
Cc: Mirza, Sadaf FIN:EX; Costello, Mark FIN:EX; Hincks, Nicholas FIN:EX
Subject: RE: Information on potential impacts of softwood lumber sanctions

Thanks Cristina, how then do those projections trickle down to BC?

David Galbraith
Deputy Secretary to Treasury Board
Ministry of Finance
Ph. 250.356.5427

From: Campbell, Cristina FIN:EX
Sent: Monday, October 31, 2016 2:57 PM
To: Galbraith, David J FIN:EX
Cc: Mirza, Sadaf FIN:EX; Costello, Mark FIN:EX; Hincks, Nicholas FIN:EX
Subject: Information on potential impacts of softwood lumber sanctions

Hi Dave,

Following up on your question from our external assumptions meeting here are some high level comments.

The status of the softwood lumber agreement between Canada and the US is well known, therefore, the risk of some trade sanctions materializing is likely to be included in the private sector forecast average. As such, we have implicitly incorporated that risk into the prudent outlook for US housing starts. Additionally, stronger overall activity and improving economic conditions are expected to continue in the US in the near future, which provides an offset to potential increases in building costs through increased demand. That said, we know the private sector tends to be optimistic in their forecasting of US housing starts, so we will be monitoring it closely and adjust our forecast accordingly to maintain prudence.

Below you can find some information regarding potential impacts from softwood lumber sanctions according to the National Association of Home Builders (NAHB) in the US.

According to studies conducted by the NAHB (published in May 2016), the following are the estimated impacts of imposing trade sanctions on Canadian softwood lumber in the US.

The first policy published was a tariff of 15 per cent on Canadian softwood lumber.

According to the NAHB, a 15 per cent tariff in 2014 would have resulted in the following impacts on the softwood lumber market:

1. a reduction of 758 million board feet in Canadian imports,
2. an increase of 529 million board feet in US producer's output for the domestic market, and
3. an increase of 4.2 per cent in the price paid by US customers (i.e. builders).

Furthermore, NAHB estimated the amount of softwood lumber used in an average single-family (\$15,413 USD) and multi-family home (\$5,354 USD) at mid-2014 prices. And use that to estimate the effects of the 4.2 per cent increase on the prices paid by builders. The price increase would have translated into the following impacts:

1. \$647 USD increase in the cost to the builder of a single family home and \$225 USD for a multi-family home,
2. \$500 million USD reduction in investment in single-family homes and \$95 million USD reduction in investment in multi-family homes, and
3. a reduction of 4,666 jobs of which 69 per cent (or 3,226 jobs) would be in the construction sector

The second policy published was a cap of 25 per cent of the US market share for Canadian lumber.

The most recent available data show that Canadian imports accounted for about 28 percent of softwood lumber sold to U.S. customers in 2014. Therefore, the cap would have resulted in the following impacts:

1. a reduction of 1.5 billion board feet in Canadian imports,
2. an increase of 1.0 billion board feet in US producer's output for the domestic market, and
3. an increase of 8.2 per cent in the price paid by US customers.

The price increase would have translated into the following impacts:

1. \$1,257 USD increase in the cost to the builder of a single family home and \$437 USD for a multi-family home,
2. \$970 million USD reduction in investment in single-family homes and \$185 million USD reduction in investment in multi-family homes, and
3. a reduction of 8,941 jobs of which 70 per cent (or 6,265 jobs) would be in the construction sector.

Hope this is helpful, please let me know if you have any more questions.

Cristina Campbell

Director

Economic Forecasting and Policy Analysis Branch

Ministry of Finance

Mirza, Sadaf FIN:EX

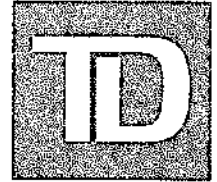
From: Naïr, Anita A FIN:EX
Sent: Thursday, October 13, 2016 10:39 AM
To: Riley, Dave FIN:EX; Mirza, Sadaf FIN:EX
Cc: Hamer, Sherra FIN:EX; Midgley, Ryan FLNR:EX
Subject: SLA dispute

<http://vancouver.sun.com/news/local-news/b-c-lumber-towns-braced-for-u-s-trade-assault>

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April 26, 2017

U.S. ANNOUNCES COUNTERVAILING DUTIES ON CANADIAN SOFTWOOD LUMBER

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Page 08 to/à Page 09

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Q6. Given the uncertain outcome of the negotiations between Canada and the US on a new Softwood Lumber Agreement, what are the risks to BC's economy?

A.

Key Messages:

- If sanctions on Canadian softwood lumber were to be imposed, they would have a material impact on BC lumber exporters.
- Forestry and logging with support activities is a small portion of BC GDP (around one per cent in 2015), however, forestry is an important employer. We would expect softwood lumber sanctions to have small macroeconomic impacts with potentially larger effects on labour and regional markets.
 - Losses would be concentrated in the forestry sector and therefore, impacts to specific regions (particularly northern and rural areas) or communities could be more significant, particularly if mills closed.
- Some adaptation to previous sanctions is already in place, which could reduce the negative effects of new sanctions.
 - Some large BC forestry companies have established operations in the US, and many companies adopted efficiencies in order to cope with trade sanctions established in the 2000s.

Background:

- According to the Ministry of Forests, Lands and Natural Resource Operations:
 - "The United States is B.C.'s largest market for softwood lumber products and within Canada, over 50% of Canada's softwood lumber exports to the U.S. originate from B.C."
 - "Forestry is a key economic driver in over 140 B.C. communities."
 - "B.C. is Canada's largest producer of softwood lumber."
 - In 2016, B.C.'s forest sector supported almost 60,000 direct jobs.
- According to analysis published by the US National Association of Home Builders (NAHB) in May 2016, the impacts of a tariff of 15 per cent on Canadian lumber or a trade cap of 25 per cent of the market would have significant impacts on the construction sector in the US.
 - A cap of 25 per cent of market share would generally have larger impacts. This means it would likely be more detrimental to BC as it would mean greater exports reductions than a tariff of 15 per cent.
 - However, impacts estimated by the NAHB on investment are relatively modest given the size of the US economy (in the fourth quarter of 2016, residential investment in the US was \$722 billion US SAAR, compared with impacts of \$0.6 to \$1.2 billion US).
 - Additionally, stronger overall activity and steady economic growth are expected to continue in the US in the near future, providing an offset to potential increases in building costs through increased demand.