

US slaps 10 pct duty on some Canada lumber imports

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- * US puts 10 pct duty on some lumber imports from Canada
- * US says Canada failed to make amends for treaty breach
- * Canada says has met its obligations

(Recasts, adds reaction from Canadian trade minister, U.S. industry group, value of lumber trade, information about second arbitration case and other details.)

By Roberta Rampton

WASHINGTON, April 7 (Reuters) - The United States said on Tuesday it will slap a 10 percent duty on some imports of Canadian lumber, alleging Canada has failed to make amends for violating a trade deal over the key construction material.

The new tax in the long-running dispute between the world's two biggest trading partners comes as tensions rise over nations moving around the world to wall off their borders to protect jobs.

The fight over the lumber used mostly for construction also comes as the U.S. economic downturn and housing market collapse has led to massive layoffs at American and Canadian sawmills.

"We regret that Canada has chosen not to meet its commitments and has made this action necessary," U.S. Trade Representative Ron Kirk said in a statement.

The duty, on lumber from the provinces of Quebec, Ontario, Saskatchewan and Manitoba, will remain until the United States collects \$54.8 million, the statement read.

"Current conditions ... only make it clearer that Canada needs to fulfill its obligations under the agreement and not continue to avoid the market consequences of its earlier breach," said Kirk, who also has said the Obama administration plans to focus on tougher enforcement of trade deals.

The LCIA, formerly known as the London Court of International Arbitration, ruled in February that Canada had breached its 2006 softwood lumber trade deal with the United States by miscalculating export taxes on lumber from four provinces in the first half of 2007.

The LCIA said Canada should collect a 10 percent tax on the value of its softwood lumber shipments from the four provinces until C\$68.26 million was collected. It does not include lumber from British Columbia, which produces about half of Canada softwood exports to the U.S.

The U.S. dollar equivalent based on the exchange rate at the time of the ruling is \$54.8 million, the USTR said.

Canada offered last week to pay C\$46.7 million (\$37.7 million) to comply, but the USTR rejected the offer.

Ottawa has said it wants the LCIA to rule whether its offer is adequate, and will pay more if the tribunal so orders.

Canada believes its payment offer "met the spirit and letter of the tribunal ruling," Trade Minister Stockwell Day told reporters before leaving on a trade mission to China.

A U.S. lumber industry group that has spearheaded the long-running trade fight with Canada said Ottawa's payment would be nothing more than a subsidy to Canadian producers.

"This critical step by the Obama administration provides comfort to U.S. industry and workers that trade agreements will be enforced," said Steve Swanson, chairman of the Coalition for Fair Lumber Imports.

The duties take effect April 15. Given the weak lumber market, a Canadian lumber official said it could take up to a year and a half for the United States to collect the money it says it is owed.

Canadian officials expect the LCIA to rule on the adequacy of their payment offer within 60 days.

The United States imported \$3.2 billion of Canadian softwood and treated lumber in 2008, down almost 34 percent from the previous year and 44 percent from the previous five-year average, according to U.S. government data.

The seven-year treaty signed in 2006 was intended to end a prolonged fight over allegations Canada improperly subsidizes its lumber producers, which supply about 30 percent of the construction lumber used in the United States.

This dispute is the first major dispute under the agreement. The U.S. government has launched a second complaint about government programs for lumber producers in Quebec and Ontario, and expects the LCIA to rule later in 2009.

(With additional reporting by Allan Dowd, Vancouver; Editing by David Gregorio)

(\$1=\$1.24 Canadian)

