



U.S. Could Impose Tariffs After Canadian Lumber Talks Fail

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The United States is moving forward with new import duties on Canadian softwood lumber, the Commerce Department announced Thursday, escalating a long-running spat between the two countries at a time when the Trump administration is working to redefine the two countries' trade relationship.

The Canadian government threatened to retaliate through legal action of its own under international trade agreements.

Most Canadian lumber producers would pay a combined tariff of 20.83 percent — down from a 26.75 percent duty proposed in an earlier preliminary decision. A handful of Canadian firms would be required to pay slightly higher duties.

The Commerce Department said the decision followed a failed effort to settle U.S. claims that Canadian firms are selling lumber in the United States at unfair prices, and doing so with the help of government subsidies.

“While I am disappointed that a negotiated agreement could not be made between domestic and Canadian softwood producers, the United States is committed to free, fair and reciprocal trade with Canada,” Commerce Secretary Wilbur Ross said in a statement.

The decision comes as trade relations between the North America neighbors are already on edge.

Negotiators from the United States, Canada and Mexico failed to reach an agreement to revise the North American Free Trade Agreement (NAFTA) last month, a trade pact which Donald Trump as a candidate said he would rip up.

Prime Minister Justin Trudeau threatened to cancel a previous proposal to buy Boeing F-18 Super Hornet fighter planes over an earlier trade dispute that imposed 300 percent tariffs on Canadian commercial jetliners. And Trump has separately criticized Canada for hurting the U.S. dairy industry.

The Canadian government described the Thursday action as “unfair, unwarranted and deeply troubling.”

“We will forcefully defend Canada’s softwood lumber industry, including through litigation, and we expect to prevail as we have in the past,” Canadian foreign affairs minister Chrystia Freeland said in a statement. “We are reviewing our options, including legal action through the North American Free Trade Agreement and the World Trade Organization, and we will not delay in taking action.”

The dispute dates back to the 1980s, when formal charges were first filed, and has flared up intermittently through petitions filed by U.S. firms. In some cases, the two parties have been able to negotiate settlements that effectively raise the price of Canadian imports, but the last agreement expired in 2015.

In the most recent tariff petition, filed in December 2016, a coalition of U.S. lumber firms pointed to mill closures, layoffs and falling market share as evidence that the United States has been harmed by Canada's trade practices. They pointed to a Canadian government loan program called Export Development Canada as evidence that Canadian firms are subsidized.

The tariff is still awaiting a decision from the International Trade Commission, a quasi-judicial U.S. agency that has the final say on trade disputes. But Thursday's decision marks a critical hurdle in the government's process for imposing tariffs, and the failure to broker a settlement leaves opponents with few options.

The import duties are small enough that Canadian suppliers will probably be able to continue selling in the United States.

But free trade advocates are worried that the Commerce Department's decision to impose varying tariffs on specific Canadian companies could skew the U.S. lumber market by privileging some firms over others.

Montreal-based Resolute Forest Products, for example, faces a smaller 17.9 percent tariff that could help it undercut its Canadian competitors.

"The companies with the highest rates are going to have a really hard time finding U.S. companies to do business with; Home Depot isn't going to want to buy from them," said Dan Ikenson, a trade expert with the Cato Institute.

Others are worried that extra taxes on imported Canadian lumber could kneecap the U.S. construction industry at a time when it is still in recovery mode.

The tariff decision could also hurt U.S. home builders, who already saw stock prices tumble Thursday morning on the revelation that the GOP-authored tax bill would slash the mortgage interest tax deduction for new home loans, something Americans have relied on for years to lessen the cost of buying a home.

The government estimates that the United States imported \$5.66 billion worth of Canadian lumber in 2016, a key building material for U.S. builders.

"By raising the price of Canadian lumber imports the Trump Administration is effectively raising the cost of building things, and there are a lot of Trump voters who work in the construction industry," said Lee Branstetter, a fellow at the Peterson Institute for International Economics. "By artificially jacking up the price of this key input we are effectively dropping a two-by-four on our foot."