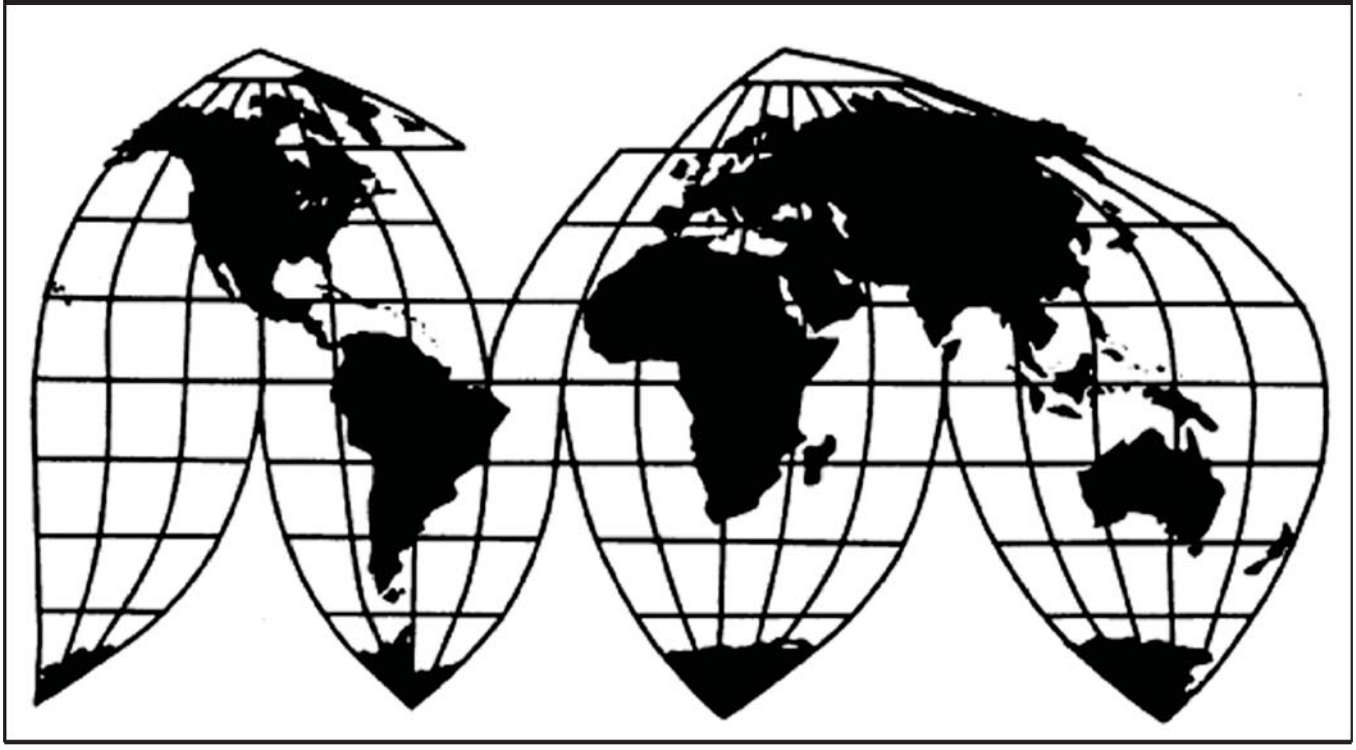
SOFTWOOD LUMBER PRODUCTS FROM CANADA

Investigation Nos. 701-TA-566 and 731-TA-1342 (Preliminary)

Publication 4663 **January 2017**

U.S. International Trade Commission



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Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436
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Note.—Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks

UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation Nos. 701-TA-566 and 731-TA-1342 (Preliminary)

Softwood Lumber Products from Canada

DETERMINATIONS

On the basis of the record[1] developed in the subject investigations, the United States International Trade Commission ("Commission") determines, pursuant to the Tariff Act of 1930 ("the Act"), that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of softwood lumber products from Canada, provided for in subheadings 4407.10.01, 4409.10.05, 4409.10.10, 4409.10.20, 4409.10.90, 4418.90.25, and may also be classified in subheadings 4415.20.40, 4415.20.80, 4418.90.46, 4421.90.70, 4421.90.94, and 4421.90.97 of the Harmonized Tariff Schedule of the United States, that are allegedly subsidized and sold in the United States at less than fair value ("LTFV").[2]

COMMENCEMENT OF FINAL PHASE INVESTIGATIONS

Pursuant to section 207.18 of the Commission's rules, the Commission also gives notice of the commencement of the final phase of its investigations. The Commission will issue a final phase notice of scheduling, which will be published in the *Federal Register* as provided in section 207.21 of the Commission's rules, upon notice from the Department of Commerce ("Commerce") of affirmative preliminary determinations in the investigations under sections 703(b) or 733(b) of the Act, or, if the preliminary determinations are negative, upon notice of affirmative final determinations in those investigations under sections 705(a) or 735(a) of the Act. Parties that filed entries of appearance in the preliminary phase of the investigations need not enter a separate appearance for the final phase of the investigations. Industrial users, and, if the merchandise under investigation is sold at the retail level, representative consumer organizations have the right to appear as parties in Commission antidumping and countervailing duty investigations. The Secretary will prepare a public service list containing the names and addresses of all persons, or their representatives, who are parties to the investigations.

[1] The record is defined in sec. 207.2(f) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(f)).

[2] Commissioner Pinkert not participating.

BACKGROUND

On November 25, 2016, the Committee Overseeing Action for Lumber International Trade Investigations or Negotiations (the "Coalition")[3] filed a petition with the Commission and Commerce, alleging that an industry in the United States is materially injured or threatened with material injury by reason of LTFV and subsidized imports of softwood lumber products from Canada and LTFV imports of softwood lumber products from Canada. Accordingly, effective November 25, 2016, the Commission, pursuant to sections 703(a) and 733(a) of the Act (19 U.S.C. 1671b(a) and 1673b(a)), instituted countervailing duty investigation No. 701-TA-566 and antidumping duty investigation No. 731-TA-1342 (Preliminary).

Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of December 2, 2016 (81 FR 87069). The conference was held in Washington, DC, on December 16, 2016, and all persons who requested the opportunity were permitted to appear in person or by counsel.

[3] The Coalition is an ad hoc association whose members are: U.S. Lumber Coalition, Inc., Collum's Lumber Products, L.L.C., Hankins, Inc., Potlach Corp., Rex Lumber Company, Seneca Sawmill Company, Sierra Pacific Industries, Stimson Lumber Company, Swanson Group, Weyerhaeuser Company, Carpenters Industrial Council, Giustina Land and Timber Company, Sullivan Forestry Consultants, Inc.. The Coalition is "an association, a majority of whose members is composed of interested parties" described in Section 771(9)(C) of the Act, 19 U.S.C. §§ 1677(9)(C).

Views of the Commission

Based on the record in the preliminary phase of these investigations, we determine that there is a reasonable indication that an industry in the United States is materially injured by reason of imports of softwood lumber from Canada that are allegedly sold in the United States at less than fair value and that are allegedly subsidized by the government of Canada.[1]

I. The Legal Standard for Preliminary Determinations

The legal standard for preliminary antidumping and countervailing duty determinations requires the Commission to determine, based upon the information available at the time of the preliminary determinations, whether there is a reasonable indication that a domestic industry is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of the allegedly unfairly traded imports.[2] In applying this standard, the Commission weighs the evidence before it and determines whether "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation."[3]

II. Background

The Committee Overseeing Action for Lumber International Trade Investigations or Negotiations (the "Coalition" or "Petitioners"), an association a majority of whose members are interested parties that produce softwood lumber in the United States, filed the petitions in these investigations on November 25, 2016.[4] Petitioners appeared at the staff conference and submitted a postconference brief.

Several respondent entities participated in these investigations. The government of Canada (joined by the governments of the Provinces of Alberta, British Columbia, and Ontario), and the British Columbia Lumber Trade Council (an association a majority of whose members are producers or exporters of subject merchandise) appeared at the conference. These respondents (joined by Canadian producers J.D. Irving, Ltd., Eacom Timber Corp., and Tembec, Inc.) submitted a Joint Respondents' postconference brief. Representatives of the National

[1] Commissioner Pinkert did not participate in these investigations.

[2] 19 U.S.C. §§ 1671b(a), 1673b(a) (2000); *see also American Lamb Co. v. United States*, 785 F.2d 994, 1001-04 (Fed. Cir. 1986); *Aristech Chem. Corp. v. United States, 2*0 CIT 353, 354-55 (1996). No party argues that the establishment of an industry in the United States is materially retarded by the allegedly unfairly traded imports.

[3] *American Lamb Co*., 785 F.2d at 1001; *see also Texas Crushed Stone Co. v. United States*, 35 F.3d 1535, 1543 (Fed. Cir. 1994).

[4] The Coalition is an ad hoc association; eight of its thirteen members are U.S. producers of softwood lumber (Collum's Lumber Products L.L.C.; Hankins, Inc.; Potlach Corp.; Rex Lumber Company; Seneca Sawmill Company; Stimson Lumber Company; Swanson Group; and Weyerhaeuser Company). Its other members include: U.S. Lumber Coalition, Inc.; Carpenters Industrial Council; Giustina Land and Timber Company; Sierra Pacific Industries; and Sullivan Forestry Consultants, Inc.

Association of Home Builders ("NAHB"), a trade association, appeared at the conference and filed a postconference brief.[5] Counsel for Western Forest Products Inc. (a producer and U.S. importer of subject merchandise) and Interfor Corporation (a U.S. and Canadian producer of softwood lumber) (collectively, "WRC Respondents") appeared at the conference and filed a postconference brief. Counsel for Ontario Forest Industries Association ("OFIA"), Conseil de L'Industrie forestiere du Quebec ("CIFQ"), and Resolute Forest Products Inc. ("Resolute") appeared at the conference and filed postconference briefs.[6]

U.S. industry data are based on the questionnaire responses of 52 producers, accounting for 61.0 percent of U.S. production of softwood lumber in 2015, and data from Western Wood Products Association ("WWPA") publications.[7] U.S. import data are based on official Commerce import statistics and questionnaire responses from 63 U.S. importers, accounting for 87.0 percent of total subject imports.[8] The Commission received responses to its questionnaires from 59 Canadian producers/exporters, accounting for approximately 82.3 percent of production of softwood lumber in Canada in 2015 and 82.1 percent of U.S. imports of softwood lumber from Canada over the January 2013 – September 2016 period of investigation ("POI").[9]

III. Domestic Like Product

In determining whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of the subject merchandise, the Commission first defines the "domestic like product" and the "industry."[10] Section 771(4)(A) of the Tariff Act of 1930, as amended ("the Tariff Act"), defines the relevant domestic industry as the "producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[11] In turn, the Tariff Act defines "domestic like product" as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation."[12]

The decision regarding the appropriate domestic like product(s) in an investigation is a factual determination, and the Commission has applied the statutory standard of "like" or

[5] NAHB also supports, adopts, and incorporates by reference the arguments made in Joint Respondents' Postconference Brief with respect to the analysis of volume and economic impact. NAHB's Postconference Brief at 1 n.1.

[6] OFIA, CIFQ, and Resolute also support the arguments made in each others' postconference briefs in addition to those presented in the Joint Respondents' Postconference Brief. OFIA's Postconference Brief at 1 n.1; CIFQ's Postconference Brief at 1 n.1; Resolute's Postconference Brief at 1 n.1.

[7] Confidential Report ("CR")/Public Report ("PR") at I- 4.

[8] CR/PR at IV-1.

[9] CR at VII-3; PR at VII-3.

[10] 19 U.S.C. § 1677(4)(A).

[11] 19 U.S.C. § 1677(4)(A).

[12] 19 U.S.C. § 1677(10).

"most similar in characteristics and uses" on a case-by-case basis.[13] No single factor is dispositive, and the Commission may consider other factors it deems relevant based on the facts of a particular investigation.[14] The Commission looks for clear dividing lines among possible like products and disregards minor variations.[15] Although the Commission must accept Commerce's determination as to the scope of the imported merchandise that is subsidized and/or sold at less than fair value,[16] the Commission determines what domestic product is like the imported articles Commerce has identified.[17]

In its notice of initiation, Commerce defined the imported merchandise within the scope of these investigations as follows:

> . . . softwood lumber, siding, flooring and certain other coniferous wood ("softwood lumber products"). The scope includes:
>
> - Coniferous wood, sawn, or chipped lengthwise, sliced or peeled, whether or not planed, whether or not sanded, or whether or not finger-jointed, of an actual thickness exceeding six millimeters.
> - Coniferous wood siding, flooring, and other coniferous wood (other than moldings and dowel rods), including strips and friezes for parquet flooring,

[13] *See*, *e.g.*, *Cleo Inc. v. United States*, 501 F.3d 1291, 1299 (Fed. Cir. 2007); *NEC Corp. v. Department of Commerce*, 36 F. Supp. 2d 380, 383 (Ct. Int'l Trade 1998); *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Torrington Co. v. United States*, 747 F. Supp. 744, 749 n.3 (Ct. Int'l Trade 1990), *aff'd*, 938 F.2d 1278 (Fed. Cir. 1991) ("every like product determination 'must be made on the particular record at issue' and the 'unique facts of each case'"). The Commission generally considers a number of factors including the following: (1) physical characteristics and uses; (2) interchangeability; (3) channels of distribution; (4) customer and producer perceptions of the products; (5) common manufacturing facilities, production processes, and production employees; and, where appropriate, (6) price. *See Nippon*, 19 CIT at 455 n.4; *Timken Co. v. United States*, 913 F. Supp. 580, 584 (Ct. Int'l Trade 1996).

[14] *See*, *e.g.*, S. Rep. No. 96-249 at 90-91 (1979).

[15] *See*, *e.g.*, *Nippon*, 19 CIT at 455; *Torrington*, 747 F. Supp. at 748-49*; see also* S. Rep. No. 96-249 at 90-91 (Congress has indicated that the like product standard should not be interpreted in "such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under consideration.").

[16] *See*, *e.g.*, *USEC, Inc. v. United States*, 34 Fed. App'x 725, 730 (Fed. Cir. 2002) ("The ITC may not modify the class or kind of imported merchandise examined by Commerce."); *Algoma Steel Corp. v. United States,* 688 F. Supp. 639, 644 (Ct. Int'l Trade 1988), *aff'd*, 865 F.3d 240 (Fed. Cir.), *cert. denied*, 492 U.S. 919 (1989).

[17] *Hosiden Corp. v. Advanced Display Mfrs.,* 85 F.3d 1561, 1568 (Fed. Cir. 1996) (the Commission may find a single like product corresponding to several different classes or kinds defined by Commerce); *Cleo*, 501 F.3d at 1298 n.1 ("Commerce's {scope} finding does not control the Commission's {like product} determination."); *Torrington*, 747 F. Supp. at 748-52 (affirming the Commission's determination defining six like products in investigations where Commerce found five classes or kinds).

that is continuously shaped (including, but not limited to, tongued, grooved, rebated, chamfered, V-jointed, beaded, molded, rounded) along any of its edges, ends, or faces, whether or not planed, whether or not sanded, or whether or not end-jointed.

- Coniferous drilled and notched lumber and angle cut lumber.
- Coniferous lumber stacked on edge and fastened together with nails, whether or not with plywood sheathing.
- Components or parts of semi-finished or unassembled finished products made from subject merchandise that would otherwise meet the definition of the scope above.
-

Softwood lumber product imports are generally entered under Chapter 44 of the Harmonized Tariff Schedule of the United States ("HTSUS"). This chapter of the HTSUS covers "Wood and articles of wood." Softwood lumber products that are subject to this investigation are currently classifiable under the following ten-digit HTSUS subheadings in Chapter 44:

4407.10.01.01; 4407.10.01.02; 4407.10.01.15; 4407.10.01.16; 4407.10.01.17; 4407.10.01.18; 4407.10.01.19; 4407.10.01.20; 4407.10.01.42; 4407.10.01.43; 4407.10.01.44; 4407.10.01.45; 4407.10.01.46; 4407.10.01.47; 4407.10.01.48; 4407.10.01.49; 4407.10.01.52; 4407.10.01.53; 4407.10.01.54; 4407.10.01.55; 4407.10.01.56; 4407.10.01.57; 4407.10.01.58; 4407.10.01.59; 4407.10.01.64; 4407.10.01.65; 4407.10.01.66; 4407.10.01.67; 4407.10.01.68; 4407.10.01.69; 4407.10.01.74; 4407.10.01.75; 4407.10.01.76; 4407.10.01.77; 4407.10.01.82; 4407.10.01.83; 4407.10.01.92; 4407.10.01.93; 4409.10.05.00; 4409.10.10.20; 4409.10.10.40; 4409.10.10.60; 4409.10.10.80; 4409.10.20.00; 4409.10.90.20; 4409.10.90.40; and 4418.90.25.00.

Subject merchandise as described above may also be classified as stringers, square cut box-spring-frame components, fence pickets, truss components, pallet components, flooring, and door and window frame parts under the following ten-digit HTSUS subheadings in Chapter 44:
4415.20.40.00; 4415.20.80.00; 4418.90.46.05; 4418.90.46.20; 4418.90.46.40; 4418.90.46.95; 4421.90.70.40; 4421.90.94.00; and 4421.90.97.80.
Although these HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.[18]

[18] Certain Softwood Lumber Products from Canada: Initiation of Less-Than-Fair-Value Investigation, 81 Fed. Reg. 93892 (December 22, 2016).

A. Arguments of the Parties

Petitioners state that "there have been no changes in the domestic softwood lumber industry to warrant a reconsideration of the Commission's previous findings" in prior investigations of softwood lumber.[19] Consequently, the domestic like product should be defined coextensively with the scope as softwood lumber.[20]

Respondents raise three domestic like product arguments pertaining to two species of softwood lumber – Western Red Cedar (WRC) and Eastern White Pine (EWP) -- and bed frame components.[21] WRC Respondents argue that WRC is a separate like product from the structural lumber products that are at the heart of these investigations. These respondents do not suggest that there have been any changes since the Commission considered and rejected this same argument in its most recent prior investigation of softwood lumber, but rather that the Commission's past findings were based on limited information.[22]

OFIA argues that EWP is a distinct product that enjoys a niche market and comprises a separate industry from other softwood lumber.[23] With respect to the arguments concerning WRC and EWP, Petitioners contend that the Commission has always considered WRC and EWP to be part of the same domestic like product as other softwood lumber and there is no reason to adopt a different like product definition in these investigations.[24]

Resolute, a Canadian producer of softwood lumber and wooden bed frame components, argues that all wooden bed frame components, including square-end bed frame components, are a separate domestic like product distinct from other softwood lumber.[25]

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[19] Petition at 31; *see also* Petitioners' Postconference Brief at 4-7.

[20] Conf. Tr. at 160.

[21] NAHB indicated that, for purposes of the preliminary phase investigations, it does not contest the like product definition as proposed by Petitioners. NAHB's Postconference Brief at 2-3; Conf. Tr. at 160-161. The government of Canada, however, agrees that the specific products – WRC, EWP, and bed frame components – are in no way substitutable for spruce-pine-fir (SPF) or the predominant lumber species produced in the United States, and thus it "supports the efforts other parties are making to reduce the breadth of any unwarranted remedy that might be imposed as a result of these investigations, but is not presenting arguments on these issues themselves." Joint Respondents' Postconference Brief, Exhibit 1 at 53-54.

[22] WRC Respondents' Postconference Brief at 2-7. WRC Respondents urge the Commission in any final phase investigations to further investigate and collect the information necessary to determine if WRC – either alone or in combination with other non-structural products such as other cedars and redwood – constitutes a separate like product distinct from the structural softwood lumber products covered by the petition. *Id*.

[23] OFIA's Postconference Brief at 1.

[24] Petitioners' Postconference Brief at 4-7.

[25] Resolute's Postconference Brief at 2.

B. Analysis[26]

There are three domestic like product issues presented to the Commission in these preliminary phase investigations: 1) whether WRC is a separate domestic like product; 2) whether EWP is a separate domestic like product; and 3) whether bed frame components are a separate domestic like product.[27]

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[26] The Commission must base its domestic like product determination on the record in this investigation, and it is not bound by prior determinations pertaining even to the same imported products. *Nippon Steel Corp. v. United States*, 19 CIT 450, 455 (1995); *Asociacion Colombiana de Exportadores de Flores v. United States*, 693 F. Supp. 1165, 1169 n.5 (Ct. Int'l Trade 1988); *Citrosuco Paulista, S.A. v. United States*, 704 F. Supp. 1075, 1087-88 (Ct. Int'l Trade 1988). We nevertheless find the Commission's prior like product findings useful in our analysis in these investigations. We have relied on some information from the record of the prior investigations when the current record does not contain more recent information nor indicate that such information is no longer correct. In each of the four prior countervailing duty investigations and one prior antidumping duty investigation of softwood lumber from Canada, the Commission found one domestic like product consisting of softwood lumber, notwithstanding the fact that softwood lumber varies based upon characteristics such as species, size, shape, stage of manufacture, moisture content, and grade, and the fact that not all softwood lumber is suitable for all uses. *Softwood Lumber from Canada*, Inv. No. 701-TA-197 (Prelim.), USITC Pub. 1320 at 4-5 (Nov. 1982) ("*Lumber I*"); *Softwood Lumber from Canada*, Inv. No. 701-TA-274 (Prelim.), USITC Pub. 1874 at 5-7 (July 1986) ("*Lumber II*"); *Softwood Lumber from Canada*, Inv. No. 701-TA-312 (Final), USITC Pub. 2530 at 5-11 (July 1992) ("*Lumber III*"); *Softwood Lumber from Canada*, Inv. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Pub. 3509 at 6-12 (May 2002) ("*Lumber IV*"). In *Lumber III*, the Commission considered and rejected arguments raised by certain parties that remanufactured products (and in particular wooden bed frame components) were a separate domestic like product. In *Lumber III*, Commerce was asked to exclude WRC and white pine products from the scope of the investigation, but declined to do so, finding that "Each of the specialty species can be used to produce the same or similar lumber products as any other coniferous species commonly harvested in Canada and the United States." *Certain Softwood Lumber from Canada*, 55 Fed. Reg. 22570 (May 28, 1992). In *Lumber IV*, the Commission considered and rejected arguments raised by certain parties that WRC, white pine, or remanufactured products (and in particular wooden bed frame components and flangestock) were separate domestic like products, and found that differences did not provide a clear dividing line between WRC or white pine and other species of softwood lumber. The Commission defined a single domestic like product that was coextensive with the scope of investigation. USITC Pub. 3509 at 6-9 (May 2002).

[27] In these investigations, the Commission does not have separate data on domestic production and subject imports of WRC, EWP, or bed frame components. Thus, any separate domestic like product and domestic industry would be assessed on the basis of the broader softwood lumber industry under a product line analysis. 19 U.S.C. § 1677(4)(D). While staff requested that Respondents indicate in their postconference briefs if separate trade and financial data would be available for a domestic industry corresponding to the narrowly defined separate domestic like products that they had proposed, none of the parties responded to this request. *See, e.g.*, Conf. Tr. at 165; *see also* OIFA's Postconference Brief at 3; Resolute's Postconference Brief at 3; Jt. Respondents' Postconference Brief, Exhibit 1 at 54 ("Upon disaggregating these products from other softwood lumber products, the Commission should find that there is insufficient evidence of injury or threat thereof by reason of imports of these products.").

The record indicates that both WRC and EWP have some unique characteristics. However, Congress has directed the Commission to look for "clear dividing lines among possible like products" and further stated that "[t]he requirement that a product be 'like' the imported article should not be interpreted in such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not 'like' each other …."[28] We therefore must consider whether and at what point differences in species (or groups of species) are sufficient to justify defining different domestic like products, and to what extent softwood lumber comprises a range of products that, although having various distinctions from each other, are not characterized by clear dividing lines.[29] For the reasons stated below, we find that there are not clear dividing lines between the numerous species that comprise the range of softwood lumber products and thus do not define either WRC or EWP as a separate domestic like product.[30] Instead, based on the record, we define a single domestic like product consisting of softwood lumber that is coextensive with the scope.

1. WRC

WRC grows in the United States in the coastal and interior forests of Washington, Idaho, and Montana, as well as in parts of Alaska, Oregon, and California. WRC accounts for two percent of total reported domestic softwood lumber production.[31]

Physical Characteristics and Uses. WRC has several physical characteristics that may distinguish it from other softwood lumber products. These include its coloring; fragrance; high heartwood to sapwood ratio (which enables it to withstand harsh weather conditions and insulate well); natural toxicity to decay-causing fungi; natural resistance to insect attack; hygroscopic nature (which gives it a low shrinkage factor, more dimensional stability, and lower likelihood of warping, twisting, checking, swelling, or cracking); high durability; and light weight.[32] Petitioners contend that WRC has the same general physical characteristics as other softwood lumber.[33]

WRC lumber is superior for a variety of non-structural uses[34] and generally is not used as a framing or structural lumber. The end uses for WRC lumber tend to be high-end exterior

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[28] S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

[29] We note that parties have explicitly limited their arguments to narrowly defined separate domestic like products for either WRC or EWP and have only in the alternative suggested defining separate domestic like products for several groups of products, such as framing or structural softwood lumber, all cedars/redwoods, all white pines, or appearance grade softwood lumber. *See* Conf. Tr. at 161-170; WRC Respondents' Postconference Brief at 3.

[30] In any final phase of these investigations, parties should provide in their comments on the draft final phase questionnaires any new information regarding any clear dividing line between product groupings.

[31] CR at I-30; PR at I-22.

[32] CR at I-30; PR at I-22; *see also* WRC Respondents' Postconference Brief at 10-11.

[33] Petitioners' Postconference Brief at 5-6.

[34] These include shakes, shingles, siding, clapboards, paneling, shutters, fencing components, arbors, trellises, benches, planter boxes, bird houses, hot tub skirts, playground equipment, agricultural (Continued…)

applications and specialty products.[35] Because WRC lumber generally is not used in applications requiring strength, the grading process for WRC is different than for certain other softwood lumber products, which are generally graded on characteristics such as strength, durability, utility, and/or appearance.[36] However, the evidence in the record demonstrates that other species of softwood lumber (including Atlantic White Cedar, Port Orford cedar, yellow cedar, southern yellow pine ("SYP"), and redwood) are used in the same applications (including some structural applications) as WRC lumber, such as siding, poles/piles/posts, and decks.[37]

Manufacturing Facilities, Production Processes, and Employees. WRC Respondents contend that the production processes for WRC lumber are tailored to the unique characteristics of the species, and include specialized equipment, slower, more labor-intensive processing, and specially trained employees.[38] Petitioners indicate that WRC grows among other tree species, is not harvested independently of those other species, and is processed the same way as other softwood lumber.[39] In *Lumber IV*, the record demonstrated that the same or similar production facilities, equipment, and employees were used for softwood lumber and WRC lumber production.[40] There is some evidence in the record that the production process for WRC lumber is more labor-intensive than that used for structural softwood lumber. However, more labor-intensive processes are also used for premium softwood lumber products other than WRC.[41]

Channels of Distribution. WRC Respondents contend that WRC is sold through distinct and specialized channels of distribution – primarily wholesalers, which is necessary because of the level of specialization required to sell WRC and includes separate branding, advertising campaigns, and industry associations.[42] Petitioners, however, maintain that WRC is distributed through the same channels of distribution as other softwood lumber.[43] In *Lumber IV*, information from questionnaire responses indicated that WRC lumber was more frequently sold through wholesalers/distributors than was the case for softwood lumber generally, but that there was overlap in the channels of distribution.[44] There is no information in the record that distribution patterns for domestically produced WRC products have changed materially since *Lumber IV*.

(…Continued)
stakes, lawn furniture, gazebos, exterior trim, indoor paneling, specialty window treatments, and particularly applications where appearance is emphasized. CR at I-30, n.68; PR at I-22, n.68.

[35] WRC Respondents' Postconference Brief at 11-12.

[36] CR at I-30; PR at I-22; WRC Respondents' Postconference Brief at 12-13.

[37] CR at I-30; PR at I-22.

[38] WRC Respondents' Postconference Brief at 21-27.

[39] Petitioners' Postconference Brief at 6.

[40] USITC Pub. 3509 at I-26.

[41] CR at I-31; PR at I-23; Conf. Tr. at 147 and OFIA's Postconference Brief at 9-12.

[42] WRC Respondents' Postconference Brief at 16-20.

[43] Petitioners' Postconference Brief at 6.

[44] CR at I-31; PR at I-23; USITC Pub. 3509 at Tables II-1 and II-2.

Interchangeability. While most softwood lumber is used in structural applications, WRC is used predominantly for exterior trim applications such as siding, fencing, and decking because of its higher price and its specialized characteristics, such as durability, appearance, stability, and resistance to the elements and decay.[45] Thus, for certain applications, WRC may also be interchangeable with non-wood substitutes, such as high-end premium composite products, plastics, cement, and brick.[46] Some purchasers may not substitute WRC for other softwood lumber (treated with chemicals such as arsenic) due to safety, appearance, or compliance with building codes or covenants. However, while customer preferences may limit substitution in certain applications, in other applications such as decks, fencing, and siding, WRC is interchangeable with other softwood lumber products (such as SYP, Port Orford cedar, yellow cedar, and redwood).[47]

Producer and Customer Perceptions. There is some evidence to suggest that customers and producers distinguish WRC from most other softwood lumber products due to its appearance, physical characteristics, and higher price, and that WRC is graded differently than most other softwood lumber.[48] Customers and producers generally perceive WRC as a high-end specialty product.[49] However, the record also shows that other premium products such as redwood and other types of cedar, including Atlantic White Cedar, are perceived as similar alternatives to WRC.[50] Moreover, treated SYP and SPF are also considered by many customers as non-premium alternatives to WRC for decking and fencing applications.[51]

[45] WRC Respondents' Postconference Brief at 14-16.

[46] CR at I-31; PR at I-23; WRC Respondents' Postconference Brief at 14-15.

[47] CR at I-30; PR at I-22; Petitioners' Postconference Brief at 5; WRC Respondents' Postconference Brief at 14-16.

[48] CR at I-30-31; PR at I-22; WRC Respondents' Postconference Brief at 12-13.

[49] WRC Respondents' Postconference Brief at 29-31. Respondents contend that the difference in perception also explains why customers are willing to pay a significant premium for WRC compared to other types of softwood lumber. CR at 31; PR at I-23.

[50] CR at I-30; PR at I-22; USITC Pub. 3509 at 10; WRC Respondents' Postconference Brief at 14-16.

[51] CR at I-30; PR at I-22; WRC Respondents' Postconference Brief at 11-12 and 14-16.

Price. WRC lumber is sold at a premium to most other softwood lumber products.[52] However, other softwood lumber products (such as redwood, Eastern red cedar, yellow cedar, Port Orford cedar, bald cypress, Atlantic white cedar, and white pine) also sell at the higher end of the price spectrum.[53]

Conclusion. In sum, while there are both similarities and differences between WRC lumber and other softwood lumber in terms of physical characteristics and uses, there are similarities in terms of interchangeability, manufacturing facilities, production processes, and employees, and channels of distribution. The differences, primarily in customer and producer perceptions or preferences and price, do not provide a clear dividing line between WRC and other species of softwood lumber. Thus, we do not define WRC as a separate domestic like product from other types of softwood lumber.

2. EWP

EWP production is primarily located in the northeastern United States. EWP accounts for less than one percent of total reported domestic softwood lumber production.[54]

Physical Characteristics and Uses. EWP is a lightweight, straight-grained softwood lumber with relatively few knots that readily and uniformly seasons, and when air-dried, has low shrinkage.[55] It is easy to work by hand and machine tools, is easy to glue, and has good nailing and screw-holding properties. OFIA maintains that EWP has limited and unique uses, and is primarily suited for furniture applications and other specialty products such as toys, carvings, and woodenware. It may also be used in non-structural construction for floors, window sashes and frames, doors, molding, shelving, cabinetwork, and other items that require dimensional stability but do not bear substantial loads, and in exterior applications like siding trim, doors, windows, and fences, and interior trimming, paneling, and millwork.[56] The heartwood of EWP is moderately durable but very permeable (*i.e.*, it carries fluids easily through the wood); its permeability is nearly seven times higher than that of balsam fir and almost fourteen times higher than that of red spruce. EWP must be treated with preservatives for conditions favorable to decay, and then is well-suited for exterior applications such as siding, trim, doors, windows, and fences.[57]

EWP generally has a lower strength-to-weight ratio and may be softer than other pines. It has fairly low resistance to impact.[58] Because white pine is not generally used in strength

[52] USITC Pub. 3509 at I-26 and Figure V-4. WRC Respondents reported the prices for WRC during the current POI were $1,166 to $1,331 per mbf compared with $306 to $429 per mbf for structural softwood lumber. WRC Respondents' Postconference Brief at 31.

[53] USITC Pub. 3509 at I-26.

[54] CR at I-33; PR at I-24.

[55] CR at I-33; PR at I-24; OFIA's Postconference Brief at 4-6.

[56] OFIA's Postconference Brief at 5-6; Petitioners' Postconference Brief at 7; Conf. Tr. at 38.

[57] OFIA's Postconference Brief at 5-6. The average service of an untreated EWP fence is six years compared to twenty-seven for eastern cedar. *Id*. at 8.

[58] OFIA's Postconference Brief at 5.

applications, the grading process is different than for other softwood lumber products. While the cost and physical characteristics of white pine may make it unsuitable for the general construction uses (studs and dimension lumber) of other softwood lumber, it has overlapping end uses with such other softwood lumber species as sugar pine, ponderosa pine, and Idaho pine.[59]

Manufacturing Facilities, Production Processes, and Employees. OFIA contends that the production processes for EWP lumber are designed to maximize quality and the appearance of the wood and that EWP almost never is made in the same mills as other softwood lumber; EWP mills are much smaller and less automated, use different equipment, perform different production processes, and train employees differently.[60] Petitioners maintain that EWP is produced using the same production facilities and employees as other softwood lumber.[61] In *Lumber IV*, the record demonstrated that the same or similar production facilities, equipment, and employees were used for white pine lumber production as for other softwood lumber.[62] There is some evidence, however, that the production process for EWP lumber as well as other premium products is more labor-intensive than other softwood lumber.[63]

Channels of Distribution. OFIA contends that EWP is sold through different channels of distribution, most often delivered directly to furniture, window, and other specialty product manufacturers, whereas softwood lumber is delivered to retailers or distribution centers.[64] Petitioners maintain that EWP is distributed in the same manner as certain other softwood lumber.[65] In *Lumber* IV, information from Commission questionnaire responses indicated that EWP was more frequently sold through wholesalers/distributers than was softwood lumber generally.[66] OFIA also contends that the distribution systems are geographically divided, with EWP sold predominantly in the eastern United States and Western Pines sold in the West.[67] There is no information in the record that distribution patterns for domestically produced EWP products have changed materially since *Lumber IV.*

Interchangeability. While most softwood lumber is used in general construction/structural applications, EWP's qualities (such as its weakness, softness, fairly low resistance to impact, and appearance) make it particularly suited for use as window sashes and frames, molding and millwork, doors, shelving, cabinetwork, and other items that require

[59] Petitioners' Postconference Brief at 6-7; Conf. Tr. at 38; USITC Pub. 3509 at I-20.

[60] OFIA's Postconference Brief at 9-12.

[61] Petitioners' Postconference Brief at 7.

[62] USITC Pub. 3509 at I-28.

[63] CR at I-31; PR at I-22; Conf. Tr. at 147 and OFIA's Postconference Brief at 9-12; USITC Pub. 3509 at 12 and I-28.

[64] OFIA's Postconference Brief at 9.

[65] Petitioners' Postconference Brief at 7.

[66] USITC Pub. 3509 at Tables II-1 and II-2. The retailers channel was the second most used channel of distribution for white pine. *Id*.

[67] OFIA's Postconference Brief at 9.

dimensional stability but do not bear substantial loads.[68] However, the record demonstrates that softwood lumber products such as sugar pine, ponderosa pine, Idaho pine, and spruce are interchangeable with white pine in the same applications.[69] OFIA acknowledged that EWP is interchangeable with other appearance-grade woods rather than with species used for framing.[70] While there is a separate grading system for EWP, as discussed above regarding WRC, EWP is not the only species of softwood lumber for which the grading system is not based on strength.[71]

Producer and Customer Perceptions. There is some evidence to suggest that customers and producers distinguish EWP from other softwood lumber products. EWP is valued for its dimensional stability and beauty while SYP and SPF are valued for their strength and resistance to splitting.[72] Similar to WRC lumber, EWP lumber is graded for appearance, rather than the grading based on strength covering most other softwood lumber.[73] However, the evidence also shows that other softwood lumber species such as ponderosa pine, sugar pine, and Idaho pine are perceived as alternatives to EWP.[74]

Price. EWP lumber is sold at a premium compared to most other softwood lumber products.[75] However, other softwood lumber products (such as ponderosa pine, Idaho white pine, redwood, Eastern red cedar, yellow cedar, Port Orford cedar, bald cypress, Atlantic white cedar, and WRC) also sell at the higher end of the price spectrum.[76]

Conclusion. In sum, while there are both similarities and differences between EWP lumber and other species of softwood lumber in terms of physical characteristics and uses, there are similarities in terms of interchangeability, manufacturing facilities, production processes, and employees, and channels of distribution. The differences, primarily in customer and producer perceptions or preferences and price, do not provide a clear dividing line between EWP and other species of softwood lumber.[77] Thus, we do not define EWP as a separate domestic like product from other types of softwood lumber.

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[68] OFIA's Postconference Brief at 7; *see also* Petitioners' Postconference Brief at 7; Conf. Tr. at 38; USITC Pub. 3509 at 12 and Table II-5.

[69] Petitioners' Postconference Brief at 6-7; USITC Pub. 3509 at 12 and Table II-5.

[70] Conf. Tr. at 150.

[71] USITC Pub. 3509 at 12; OFIA's Postconference Brief at 7.

[72] OFIA's Postconference Brief at 12-13.

[73] OFIA's Postconference Brief at 7 and 12.

[74] Petitioners' Postconference Brief at 6-7; Conf. Tr. at 38; USITC Pub. 3509 at 13 and Table II-5.

[75] USITC Pub. 3509 at I-29 and Figure V-4. OFIA reported the prices for EWP during the POI were $727-$875 per mbf compared with $297-367 per mbf for SPF and SYP. OFIA's Postconference Brief at 13.

[76] USITC Pub. 3509 at Figure V-4.

[77] Moreover, EWP is not the only type of white pine produced in the United States. There also are Western Pines (*e.g.*, Idaho white pine and ponderosa pine). USITC Pub. 3509 at 12 and Table II-5. Staff asked OFIA at the conference to address any differences between EWP and other appearance-grade pines, such as Western pines, in its postconference brief. Conf. Tr. at 166-170. OFIA did not do so, other than to state that EWP and western white pines are sold in distinct geographic markets. *See*

(Continued…)

3. Bed Frame Components

Resolute, a Canadian producer of wooden bed frame components, argues that all bed frame components, whether square end-cut or radius end-cut, constitute a single domestic like product that is separate from other softwood lumber.[78] Its argument is similar to one raised in both *Lumber III* and *Lumber IV* in which the Commission determined that specific products, such as bed frame components or flangestock, as well as all remanufactured products were not separate domestic like products.[79]

Bed frame components are essentially a "niche product" made from softwood lumber for use in the manufacture of bed box springs.[80] They are manufactured to customized dimensions and almost always sold together in kits; manufacturers will not source different wooden components from different suppliers. Resolute contends that invoices specifically state that the product is bed frame components and these components are graded differently from standard construction and are produced in different sizes than other softwood lumber.[81] According to Resolute, the unique customized sizes of bed frame components make them unusable and thus not interchangeable as construction lumber. Bed frame manufacturers do not have the equipment necessary to transform dimensional lumber into their required dimensions, and thus standard boards cannot substitute for bed frame components.[82]

According to Resolute, bed frame components are not produced in regular sawmills and they involve further processes that are not associated with the manufacture of dimensional lumber to make them into a value-added component.[83] It also maintains that "{b}ed frame manufacturers prefer, and generally insist, that bed frame components be manufactured from SPF lumber, because of the amount of nailing and stapling into the wood. SPF lumber is superior to Southern Yellow Pine for holding nails and staples and not splitting."[84]

Resolute contends that because there is only one use for bed frame components, they are sold through different channels of distribution from softwood lumber. Specifically, bed frame components are sold directly, or through distributors, exclusively to bedframe

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(…Continued)
OFIA Postconference Brief at 9. Thus, even assuming *arguendo* that a clear dividing line exists between white pine generally and other types of softwood lumber, OFIA presented, and the record in these preliminary phase investigations contains, no information of clear distinctions in characteristics and uses between EWP and other white and/or appearance-grade pine varieties within the scope.

[78] Resolute's Postconference Brief at 1-9. We note that Resolute's proposal suggests that the Commission define a separate domestic like product as all bed frame components that includes products not included in Commerce's scope, *i.e.*, radius cut bed frame components.

[79] Resolute is not arguing that bed frame components should be part of a separate remanufactured products like product, but rather if "brought to the Commission's attention, they also should be addressed as separate like products." Resolute's Postconference Brief at 2.

[80] Resolute's Postconference Brief at 5-6; USITC Pub. 3509 at 14.

[81] Resolute's Postconference Brief at 5-6.

[82] Resolute's Postconference Brief at 5 and 7.

[83] Resolute's Postconference Brief at 6-7.

[84] Resolute's Postconference Brief at 7.

manufacturers and not to retailers.[85] It also argues that bed frame components are marketed and sold as separate and distinct products, there is no mass market for bed frame components, they are sold at higher prices, and they are graded differently than softwood lumber.[86] According to Resolute, bed frame components are sold at significantly higher prices than the softwood lumber from which they are made. It indicated that it currently sells bed frame components for prices ranging between $*** and $*** per mbf delivered, whereas current market prices for 2x3 SPF studs are $308 per mbf.[87]

While bed frame components may have some distinctions in use, physical characteristics, and perceptions from softwood lumber as a whole, these distinctions are also apparent for other remanufactured or further processed lumber products. Moreover, remanufacturing is not a product but a process. Remanufactured products are simply products made from lumber rather than logs, but all of those products are also made by primary sawmills processing logs. Remanufactured products include a wide range of further processed lumber products such as wooden bed frame components (box spring components), shipping materials, flooring and siding, ladder stock, dimension lumber, and stock for furniture manufacturing.[88] In *Lumber IV*, the Commission found that there were practical difficulties in defining types of remanufactured lumber as distinct domestic like products. Specifically, the Commission found that while some domestic producers indicated that they converted some of their softwood lumber into a more specialized or higher grade product through further remanufacturing, none of these firms maintained separate trade and financial information relative to those operations.[89] These problems would be exacerbated were the like product defined to be a specific remanufactured product, such as bed frames. Indeed, there is nothing in the record identifying entities that may produce the proposed domestic bed frame like product, much less indicating that they maintain records with respect to that particular product, particularly when bed frames use a type of softwood lumber (SPF) that primarily is produced in Canada and is also used in numerous other applications.[90]

We find that there is no clear dividing line that separates such remanufactured products as bed frame components from other remanufactured lumber products within the scope of these investigations. Accordingly, we find that bed frame components are not a separate domestic like product but rather that square-end bed frames within the scope of investigation are part of a range of softwood lumber products that we define as a single domestic like product.

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[85] Resolute's Postconference Brief at 6.

[86] Resolute's Postconference Brief at 7-8.

[87] Resolute's Postconference Brief at 8-9.

[88] CR at I-26 and n.58; PR at I-19 and n.58; s*ee also* USITC Pub. 3426 at 10-12.

[89] USITC Pub. 3509 at 15.

[90] In response to questioning about separate trade and financial data for the production of bed frame components, counsel for Resolute did not directly respond but rather indicated only that "there is no evidence to support finding even a reasonable indication of material injury or threat of material injury to a domestic industry producing bedframe components." Resolute's Postconference Brief at 3.

IV. Domestic Industry and Related Parties

The domestic industry is defined as the domestic "producers as a whole of a domestic like product, or those producers whose collective output of a domestic like product constitutes a major proportion of the total domestic production of the product."[91] In defining the domestic industry, the Commission's general practice has been to include in the industry producers of all domestic production of the like product, whether toll-produced, captively consumed, or sold in the domestic merchant market.

We must determine whether any producer of the domestic like product should be excluded from the domestic industry pursuant to Section 771(4)(B) of the Tariff Act. This provision allows the Commission, if appropriate circumstances exist, to exclude from the domestic industry producers that are related to an exporter or importer of subject merchandise or which are themselves importers.[92] Exclusion of such a producer is within the Commission's discretion based upon the facts presented in each investigation.[93]

The record in the preliminary phase indicates that seven domestic producers are affiliated with a subject foreign exporter and/or imported subject merchandise into the United States during the POI.[94] Thus, these seven domestic producers – *** -- are related parties that are subject to exclusion from the definition of the domestic industry under appropriate circumstances.

We find that the principal interest for four of these related parties -- ***[95] -- is in domestic production. While the ratio of subject imports to domestic production varied among

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[91] 19 U.S.C. § 1677(4)(A).

[92] *See Torrington Co. v. United States*, 790 F. Supp. 1161, 1168 (Ct. Int'l Trade 1992), *aff'd without opinion*, 991 F.2d 809 (Fed. Cir. 1993); *Sandvik AB v. United States*, 721 F. Supp. 1322, 1331-32 (Ct. Int'l Trade 1989), *aff'd mem.,* 904 F.2d 46 (Fed. Cir. 1990); *Empire Plow Co. v. United States*, 675 F. Supp. 1348, 1352 (Ct. Int'l Trade 1987).

[93] The primary factors the Commission has examined in deciding whether appropriate circumstances exist to exclude a related party include the following:

(1) the percentage of domestic production attributable to the importing producer;

(2) the reason the U.S. producer has decided to import the product subject to investigation (whether the firm benefits from the LTFV sales or subsidies or whether the firm must import in order to enable it to continue production and compete in the U.S. market);

(3) whether inclusion or exclusion of the related party will skew the data for the rest of the industry;

(4) the ratio of import shipments to U.S. production for the imported product; and

(5) whether the primary interest of the importing producer lies in domestic production or importation. *Changzhou Trina Solar Energy Co. v. USITC*, 100 F. Supp.3d 1314, 1326-31 (Ct. Int'l. Trade 2015); *see also Torrington Co. v. United States*, 790 F. Supp. at 1168.

[94] Petitioners and Joint Respondents maintain that the Commission should not exclude any U.S. softwood lumber producer from the domestic industry under the related parties provision. Petitioners' Postconference Brief at 8; Jt. Respondents' Postconference Brief, Exhibit 1 at 7-12.

[95] *** is a related party because it is wholly owned by ***, and it imported subject merchandise during the POI. CR/PR at Tables III-3, IV-1, and VII-1. (It accounted for *** percent of subject imports from Canada in 2015.) *Id*. *** is a related party because it is wholly owned by ***, and it imported (Continued…)

these U.S. producers it never exceeded 75 percent,[96] and there is no indication that their imports shielded these four domestic producer from subject imports to any significant degree.[97] In 2015, *** accounted for a significant share -- ***, respectively -- of domestic production.[98] ***, however, are relatively very small U.S. producers, each accounting for *** of domestic production in 2015.[99] We recognize that no party has argued that these four domestic producers be excluded from the definition of the domestic industry, and that *** the petitions; ***.[100] We do not find that appropriate circumstances exist to exclude *** from the domestic industry as related parties.

We consider each of the other three related parties – *** – individually to determine whether appropriate circumstances exist to exclude it from the domestic industry.

*** was the *** largest domestic producer in 2015, accounting for *** of domestic production.[101] *** is wholly owned by ***, a Canadian producer and exporter,[102] and it imported subject merchandise during the POI.[103] Thus, *** is a related party. *** imported *** board feet in 2013 (the equivalent of *** of its domestic production in 2013), *** board feet in 2014 (the equivalent of *** of its domestic production in 2014), *** board feet in 2015 (the equivalent of *** of its domestic production in 2015), *** board feet in January-September 2015 ("interim 2015") (the equivalent of *** of its domestic production in interim 2015), and *** board feet in January-September 2016 ("interim 2016") (the equivalent of *** of its domestic product in interim 2016).[104] *** explained that it imported softwood lumber because ***.[105] ***.[106] ***.[107]

*** consistently large volume of imports as well as their share relative to its domestic production indicates that its principal interest lies in importation rather than in domestic

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(…Continued)
subject merchandise during the POI. CR/PR at Tables III-3, IV-1, and VII-1. (It accounted for *** percent of subject imports from Canada in 2015.) *Id*. *** is wholly owned by *** did not import subject softwood lumber, it is a related party because both *** and an importer of subject merchandise have a common parent (an exporter). 19 U.S.C. § 1677(7)(4)(B)(ii)(III). (*** accounted for *** percent of subject imports from Canada in 2015.) CR/PR at Table IV-1. *** is a related party because it imported subject merchandise during the POI, and is related to importer ***. CR/PR at Tables III-3 and IV-1. (It accounted for *** percent of subject imports from Canada in 2015.) *Id*.

[96] CR/PR at Table III-11.

[97] *See* CR/PR at Tables D-1.

[98] CR/PR at Table III-2.

[99] CR/PR at Table III-2. ***. *Id*. at Table III-11.

[100] CR/PR at Table III-2.

[101] CR/PR at Table III-2. *** acquired a number of U.S. lumber firms and increased domestic production during the period of investigation. CR/PR at Tables III-6 and III-11.

[102] CR/PR at Tables III-3 and VII-1. ***. *Id*.

[103] CR/PR at Table IV-1. It accounted for *** percent of subject imports in 2015. *Id*.

[104] CR/PR at Table III-11.

[105] CR/PR at Table III-11. The firm further explained that ***. *Id*.

[106] *See* CR/PR at Table D-1.

[107] CR/PR at Table III-2.

production.[108] *** is a relatively large U.S. producer, but it also accounts for a substantial share of overall imports of subject merchandise from Canada. While no party has argued that *** be excluded from the definition of the domestic industry, it *** the petition. On the preliminary record, we find appropriate circumstances exist to exclude *** from the domestic industry as a related party.

*** accounted for *** percent of domestic production in 2015.[109] *** is wholly owned by ***, a Canadian producer and exporter,[110] and it imported subject merchandise during the POI.[111] Thus, *** is a related party. *** imported *** board feet in 2013 (the equivalent of *** percent of its domestic production in 2013), *** board feet in 2014 (the equivalent of *** percent of its domestic production in 2014), *** board feet in 2015 (the equivalent of *** percent of its domestic production in 2015), *** board feet in interim 2015 (the equivalent of *** percent of its domestic production in interim 2015), and *** board feet in interim 2016 (the equivalent of *** percent of its domestic product in interim 2016).[112] *** explained that it imported softwood lumber to ***.[113] ***.[114] ***.[115]

*** is a relatively small U.S. producer and the large volume of *** imports relative to its domestic production indicates that its principal interest lies in importation rather than in domestic production. It accounts for a sizeable share of overall imports of subject merchandise from Canada and it *** the petitions. We recognize that *** accounts for a relatively small share of the industry, and no party has argued that it be excluded from the definition of the domestic industry. Nonetheless, due to its principal interest in importation, we find appropriate circumstances exist to exclude *** from the domestic industry as a related party.

[108] Chairman Schmidtlein and Commissioner Williamson note that both *** (discussed further below) produced large volumes of domestic softwood lumber during the POI and also imported large volumes from Canada. Both producers also exhibited some financial trends that were above the industry average, although other domestic producers that did not import from Canada did so as well. *See* CR/PR at Table D-1. For purposes of the preliminary determination, they determine, on balance, not to exclude either producer from the domestic industry, and encourage parties to comment on whether circumstances warrant exclusion of either of these producers in any final phase of these investigations. Given that *** exclusion from the industry does not significantly alter the industry's performance trends (and consequently its inclusion in the domestic industry would not significantly skew the data), Chairman Schmidtlein and Commissioner Williamson join their colleagues' analysis regarding a reasonable indication of material injury to the domestic industry.

[109] CR/PR at Table III-2.

[110] CR/PR at Tables III-3 and VII-1.

[111] CR/PR at Table IV-1. It accounted for *** percent of subject imports in 2015. *Id*.

[112] CR/PR at Table III-11. *** also purchased subject imports throughout the period of investigation. *Id*.

[113] CR/PR at Table III-11.

[114] *See* CR/PR at Table D-1.

[115] CR/PR at Table III-2.

*** was the *** largest domestic producer in 2015, accounting for *** percent of domestic production.[116] *** is wholly owned by ***, a Canadian producer and exporter,[117] and it imported subject merchandise during the POI.[118] Thus, *** is a related party. *** imported *** board feet in 2013 (the equivalent of *** of its domestic production in 2013), *** board feet in 2014 (the equivalent of *** of its domestic production in 2014), *** board feet in 2015 (the equivalent of *** of its domestic production in 2015), *** board feet in interim 2015 (the equivalent of *** of its domestic production in interim 2015), and *** board feet in interim 2016 (the equivalent of *** of its domestic product in interim 2016).[119] *** explained that it imported softwood lumber because ***.[120] *** operating income margins were ***.[121] ***.[122]

*** consistently large volume of imports, which frequently exceeded its domestic production, indicates that its principal interest may lie in importation rather than in domestic production. *** is a relatively large U.S. producer, but it also accounts for a *** of overall imports of subject merchandise from Canada. While no party has argued that *** be excluded from the definition of the domestic industry, we recognize that it *** the petition. On balance and taking into account its relatively substantial U.S. production operations, we find appropriate circumstances do not exist to exclude *** from the domestic industry as a related party for purposes of these preliminary determinations, but we plan to reconsider its inclusion in any final phase investigations.

Accordingly, we find that the appropriate circumstances exist to exclude *** from the domestic industry as related parties for purposes of these preliminary investigations. We consequently define the domestic industry to include all U.S. producers of softwood lumber, except ***.

V. Negligible Imports

Pursuant to Section 771(24) of the Tariff Act, imports from a subject country of merchandise corresponding to a domestic like product that account for less than 3 percent of all such merchandise imported into the United States during the most recent 12 months for which data are available preceding the filing of the petition shall be deemed negligible.[123] Based on official import statistics, subject imports from Canada accounted for 94.8 percent as a share of total imports of softwood lumber by quantity for the 12-month period of November

[116] CR/PR at Table III-2. *** acquired a number of U.S. lumber firms and increased domestic production during the period of investigation. CR/PR at Tables III-6 and III-11.

[117] CR/PR at Tables III-3 and VII-1. ***. *Id*.

[118] CR/PR at Table IV-1. It accounted for *** percent of subject imports in 2015. *Id*.

[119] CR/PR at Table III-11.

[120] CR/PR at Table III-11.

[121] *See* CR/PR at Table D-1.

[122] CR/PR at Table III-2.

[123] 19 U.S.C. §§ 1671b(a), 1673b(a), 1677(24)(A)(i), 1677(24)(B); *see also* 15 C.F.R. § 2013.1 (developing countries for purposes of 19 U.S.C. § 1677(36)).

2015 – October 2016,[124] and thus exceed the requisite 3 percent statutory negligibility threshold.

VI. Reasonable Indication of Material Injury by Reason of Subject Imports

A. Legal Standard

In the preliminary phase of antidumping and countervailing duty investigations, the Commission determines whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of the imports under investigation.[125] In making this determination, the Commission must consider the volume of subject imports, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations.[126] The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant."[127] In assessing whether there is a reasonable indication that the domestic industry is materially injured by reason of subject imports, we consider all relevant economic factors that bear on the state of the industry in the United States.[128] No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[129]

Although the statute requires the Commission to determine whether there is a reasonable indication that the domestic industry is "materially injured by reason of" unfairly traded imports,[130] it does not define the phrase "by reason of," indicating that this aspect of the injury analysis is left to the Commission's reasonable exercise of its discretion.[131] In identifying a causal link, if any, between subject imports and material injury to the domestic industry, the Commission examines the facts of record that relate to the significance of the volume and price effects of the subject imports and any impact of those imports on the condition of the domestic industry. This evaluation under the "by reason of" standard must ensure that subject imports

[124] CR at IV-10; PR at IV-9.

[125] 19 U.S.C. §§ 1671b(a), 1673b(a). The Trade Preferences Extension Act of 2015, Pub. L. 114-27, amended the provisions of the Tariff Act pertaining to Commission determinations of reasonable indication of material injury and threat of material injury by reason of subject imports in certain respects. We have applied these amendments here.

[126] 19 U.S.C. § 1677(7)(B). The Commission "may consider such other economic factors as are relevant to the determination" but shall "identify each {such} factor ... {a}nd explain in full its relevance to the determination." 19 U.S.C. § 1677(7)(B).

[127] 19 U.S.C. § 1677(7)(A).

[128] 19 U.S.C. § 1677(7)(C)(iii).

[129] 19 U.S.C. § 1677(7)(C)(iii).

[130] 19 U.S.C. §§ 1671b(a), 1673b(a).

[131] *Angus Chemical Co. v. United States*, 140 F.3d 1478, 1484-85 (Fed. Cir. 1998) ("{T}he statute does not 'compel the commissioners' to employ {a particular methodology}."), *aff'g* 944 F. Supp. 943, 951 (Ct. Int'l Trade 1996).

are more than a minimal or tangential cause of injury and that there is a sufficient causal, not merely a temporal, nexus between subject imports and material injury.[132]

In many investigations, there are other economic factors at work, some or all of which may also be having adverse effects on the domestic industry. Such economic factors might include nonsubject imports; changes in technology, demand, or consumer tastes; competition among domestic producers; or management decisions by domestic producers. The legislative history explains that the Commission must examine factors other than subject imports to ensure that it is not attributing injury from other factors to the subject imports, thereby inflating an otherwise tangential cause of injury into one that satisfies the statutory material injury threshold.[133] In performing its examination, however, the Commission need not isolate the injury caused by other factors from injury caused by unfairly traded imports.[134] Nor does

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[132] The Federal Circuit, in addressing the causation standard of the statute, has observed that "{a}s long as its effects are not merely incidental, tangential, or trivial, the foreign product sold at less than fair value meets the causation requirement." *Nippon Steel Corp. v. USITC*, 345 F.3d 1379, 1384 (Fed. Cir. 2003). This was re-affirmed in *Mittal Steel Point Lisas Ltd. v. United States*, 542 F.3d 867, 873 (Fed. Cir. 2008), in which the Federal Circuit, quoting *Gerald Metals, Inc. v. United States*, 132 F.3d 716, 722 (Fed. Cir. 1997), stated that "this court requires evidence in the record 'to show that the harm occurred "by reason of" the LTFV imports, not by reason of a minimal or tangential contribution to material harm caused by LTFV goods.'" *See also Nippon Steel Corp. v. United States*, 458 F.3d 1345, 1357 (Fed. Cir. 2006); *Taiwan Semiconductor Industry Ass'n v. USITC*, 266 F.3d 1339, 1345 (Fed. Cir. 2001).

[133] SAA, H.R. Rep. 103-316, Vol. I at 851-52 (1994) ("{T}he Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports."); S. Rep. 96-249 at 75 (1979) (the Commission "will consider information which indicates that harm is caused by factors other than less-than-fair-value imports."); H.R. Rep. 96-317 at 47 (1979) ("in examining the overall injury being experienced by a domestic industry, the ITC will take into account evidence presented to it which demonstrates that the harm attributed by the petitioner to the subsidized or dumped imports is attributable to such other factors;" those factors include "the volume and prices of nonsubsidized imports or imports sold at fair value, contraction in demand or changes in patterns of consumption, trade restrictive practices of and competition between the foreign and domestic producers, developments in technology and the export performance and productivity of the domestic industry"); *accord Mittal Steel*, 542 F.3d at 877.

[134] SAA at 851-52 ("{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports."); *Taiwan Semiconductor Industry Ass'n* , 266 F.3d at 1345. ("{T}he Commission need not isolate the injury caused by other factors from injury caused by unfair imports ... . Rather, the Commission must examine other factors to ensure that it is not attributing injury from other sources to the subject imports." (emphasis in original)); *Asociacion de Productores de Salmon y Trucha de Chile AG v. United States*, 180 F. Supp. 2d 1360, 1375 (Ct. Int'l Trade 2002) ("{t}he Commission is not required to isolate the effects of subject imports from other factors contributing to injury" or make "bright-line distinctions" between the effects of subject imports and other causes.); *see also Softwood Lumber from Canada*, Inv. Nos. 701-TA-414 and 731-TA-928 (Remand), USITC Pub. 3658 at 100-01 (Dec. 2003) (Commission recognized that "{i}f an alleged other factor is found not to have or threaten to have injurious effects to the domestic industry, *i.e.*, it is not an 'other causal factor,' then there is nothing to further examine regarding attribution to injury"), *citing Gerald Metals,* 132 F.3d at 722 (the statute "does not suggest that an importer of LTFV goods can escape countervailing duties by finding some (Continued…)

the "by reason of" standard require that unfairly traded imports be the "principal" cause of injury or contemplate that injury from unfairly traded imports be weighed against other factors, such as nonsubject imports, which may be contributing to overall injury to an industry.[135] It is clear that the existence of injury caused by other factors does not compel a negative determination.[136]

Assessment of whether material injury to the domestic industry is "by reason of" subject imports "does not require the Commission to address the causation issue in any particular way" as long as "the injury to the domestic industry can reasonably be attributed to the subject imports" and the Commission "ensure{s} that it is not attributing injury from other sources to the subject imports."[137] [138] Indeed, the Federal Circuit has examined and affirmed various Commission methodologies and has disavowed "rigid adherence to a specific formula."[139]

(…Continued)
tangential or minor cause unrelated to the LTFV goods that contributed to the harmful effects on domestic market prices.").

[135] S. Rep. 96-249 at 74-75; H.R. Rep. 96-317 at 47.

[136] *See Nippon*, 345 F.3d at 1381 ("an affirmative material-injury determination under the statute requires no more than a substantial-factor showing. That is, the 'dumping' need not be the sole or principal cause of injury.").

[137] *Mittal Steel*, 542 F.3d at 877-78; *see also id.* at 873 ("While the Commission may not enter an affirmative determination unless it finds that a domestic industry is materially injured 'by reason of' subject imports, the Commission is not required to follow a single methodology for making that determination ... {and has} broad discretion with respect to its choice of methodology.") *citing United States Steel Group v. United States*, 96 F.3d 1352, 1362 (Fed. Cir. 1996) and S. Rep. 96-249 at 75. In its decision in *Swiff-Train v. United States*, 792 F.3d 1355 (Fed. Cir. 2015), the Federal Circuit affirmed the Commission's causation analysis as comporting with the Court's guidance in *Mittal*.

[138] Commissioner Kieff does not join this paragraph or the following three paragraphs. He points out that the Federal Circuit, in *Bratsk*, 444 F.3d 1369, and *Mittal Steel*, held that the Commission is *required*, in certain circumstances when analyzing present material injury, to consider a particular issue with respect to the role of nonsubject imports, without reliance upon presumptions or rigid formulas. The Court has not prescribed a specific method of exposition for this consideration. *Mittal Steel* explains as follows:

> What *Bratsk* held is that "where commodity products are at issue and fairly traded, price competitive, non-subject imports are in the market," the Commission would not fulfill its obligation to consider an important aspect of the problem if it failed to consider whether non-subject or non-LTFV imports would have replaced LTFV subject imports during the period of investigation without a continuing benefit to the domestic industry. 444 F.3d at 1369. Under those circumstances, *Bratsk* requires the Commission to consider whether replacement of the LTFV subject imports might have occurred during the period of investigation, and it requires the Commission to provide an explanation of its conclusion with respect to that factor.

542 F.3d at 878.

[139] *Nucor Corp. v. United States*, 414 F.3d 1331, 1336, 1341 (Fed. Cir. 2005); *see also Mittal Steel*, 542 F.3d at 879 ("*Bratsk* did not read into the antidumping statute a Procrustean formula for determining whether a domestic injury was 'by reason' of subject imports.").

The Federal Circuit's decisions in *Gerald Metals*, *Bratsk,* and *Mittal Steel* all involved cases in which the relevant "other factor" was the presence in the market of significant volumes of price-competitive nonsubject imports. The Commission interpreted the Federal Circuit's guidance in *Bratsk* as requiring it to apply a particular additional methodology following its finding of material injury in cases involving commodity products and a significant market presence of price-competitive nonsubject imports.[140] The additional "replacement/benefit" test looked at whether nonsubject imports might have replaced subject imports without any benefit to the U.S. industry. The Commission applied that specific additional test in subsequent cases, including the *Carbon and Certain Alloy Steel Wire Rod from Trinidad and Tobago* determination that underlies the *Mittal Steel* litigation.

Mittal Steel clarifies that the Commission's interpretation of *Bratsk* was too rigid and makes clear that the Federal Circuit does not require the Commission to apply an additional test nor any one specific methodology; instead, the court requires the Commission to have "evidence in the record 'to show that the harm occurred 'by reason of' the LTFV imports,'" and requires that the Commission not attribute injury from nonsubject imports or other factors to subject imports.[141] Accordingly, we do not consider ourselves required to apply the replacement/benefit test that was included in Commission opinions subsequent to *Bratsk*.

The progression of *Gerald Metals*, *Bratsk*, and *Mittal Steel* clarifies that, in cases involving commodity products where price-competitive nonsubject imports are a significant factor in the U.S. market, the Court will require the Commission to give full consideration, with adequate explanation, to non-attribution issues when it performs its causation analysis.[142]

The question of whether the material injury threshold for subject imports is satisfied notwithstanding any injury from other factors is factual, subject to review under the substantial evidence standard.[143] Congress has delegated this factual finding to the Commission because of the agency's institutional expertise in resolving injury issues.[144]

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[140] *Mittal Steel*, 542 F.3d at 875-79.

[141] *Mittal Steel*, 542 F.3d at 873 (quoting from *Gerald Metals*, 132 F.3d at 722), 875-79 & n.2 (recognizing the Commission's alternative interpretation of *Bratsk* as a reminder to conduct a non-attribution analysis).

[142] To that end, after the Federal Circuit issued its decision in *Bratsk*, the Commission began to present published information or send out information requests in the final phase of investigations to producers in nonsubject countries that accounted for substantial shares of U.S. imports of subject merchandise (if, in fact, there were large nonsubject import suppliers). In order to provide a more complete record for the Commission's causation analysis, these requests typically seek information on capacity, production, and shipments of the product under investigation in the major source countries that export to the United States. The Commission plans to continue utilizing published or requested information in the final phase of investigations in which there are substantial levels of nonsubject imports.

[143] We provide in our discussions below a full analysis of other factors alleged to have caused any material injury experienced by the domestic industry.

[144] *Mittal Steel*, 542 F.3d at 873; *Nippon Steel Corp*., 458 F.3d at 1350, *citing U.S. Steel Group*, 96 F.3d at 1357; S. Rep. 96-249 at 75 ("The determination of the ITC with respect to causation is ... complex and difficult, and is a matter for the judgment of the ITC.").

B. Use of Available Published Information in These Investigations

The domestic softwood lumber industry is fairly large and dispersed, with thousands of sawmills throughout the United States.[145] Although there are large corporations with high volumes of production, most of the softwood lumber producers are small firms.[146]

Parties were offered the opportunity to provide comments regarding the use of secondary data sources.[147] Petitioners generally supported the use of secondary sources in addition to data obtained from Commission questionnaires. Regarding trade data, while Petitioners stated that official import statistics should be used absent any direct knowledge of the existence or nature of any aberrational transactions or data,[148] and they contend that the general trends would not be altered if the Statistics Canada (StatCan) trade data were used instead of official U.S. trade data.[149] Petitioners indicated that the three most prominent publicly available providers, and thus the best sources for the Commission to use when considering demand forecasts for the U.S. softwood lumber market, are Forest Economic Advisors ("FEA"), RISI, and Wood Markets Report.[150] They also noted that information about trends in the home remodeling industry is provided by the NAHB in their Remodeling Market Index and by Metrostudy in their Residential Remodeling Index.[151]

Joint Respondents indicated that there are several accurate and reliable data sources and/or publications, including StatCan (for export data), WWPA publications (the most reliable sources for U.S. production and shipment data), FEA (a necessary highly-regarded supplement to WWPA), and *Random Lengths*, which contains the Framing Lumber Composite Index (for pricing data).[152] Respondents contend that StatCan provides more accurate information on subject imports than U.S. Census data because it is based on transaction specific information (export permit data) that Global Affairs Canada had previously provided to U.S. Customs under the SLA 2006 (discussed below).[153] Regarding demand, Respondents recommend that the Commission rely on WWPA's annual "Statistical Yearbook" for historical breakdowns of U.S. softwood lumber consumption (demand) by markets, and regarding demand forecasts, Respondents recommend that the Commission rely on FEA and RISI.[154]

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[145] CR/PR at III-1 and Figure I-1.

[146] CR/PR at Table I-3. In 2015, the five largest producers accounted for about 36 percent of U.S. softwood lumber production, and the 20 largest firms accounted for more than 62 percent. *Id*.

[147] Conf. Tr. at 73-74 and 192-193.

[148] As discussed below, Joint Respondents contend that Statistics Canada (StatCan) data on subject imports are more accurate than official import statistics, and that the Commission should rely on StatCan data rather than its normal practice of considering official import statistics or questionnaire data. Jt. Respondents' Postconference Brief, Exhibit 1 at 2-5.

[149] Petitioners' Postconference Brief at 20-21 n.68.

[150] Petitioners' Postconference Brief, Annex 1 at 1-3. They point out that the majority of predictions from these sources rest on U.S. housing starts, published monthly by the U.S. Census Bureau, and may also examine Canadian housing starts, published by Statistics Canada.

[151] Petitioners' Postconference Brief, Annex 1 at 1-3.

[152] Jt. Respondents' Postconference Brief, Exhibit 1 at 5-6.

[153] Jt. Respondents' Postconference Brief, Exhibit 1 at 2-5.

[154] Jt. Respondents' Postconference Brief, Exhibit 1 at 29.

While the Commission followed its normal practice of collecting data from questionnaires completed by domestic producers, importers, and foreign producers, the Commission also has considered available published data from secondary sources in these investigations.[155] The available published data provide some comprehensive series that supplement the questionnaire responses.[156] While our questionnaire coverage overall is similar to that in prior softwood lumber investigations, there are areas such as pricing for which data are more difficult to collect. Consequently, we relied on pricing information from industry publications to supplement our dataset.[157] [158]

C. Conditions of Competition and the Business Cycle

The following conditions of competition inform our analysis of whether there is a reasonable indication of material injury by reason of subject imports.

1. Softwood Lumber Agreement ("SLA 2006")

On October 12, 2006, the United States and Canada formally entered into the *Softwood Lumber Agreement Between the Government of the United States of America and the Government of Canada* ("SLA 2006"), which initially was in effect for seven years, with an option to extend the agreement for an additional two years. In 2012, the United States and Canada agreed to exercise the two-year option and extended the agreement to October 12, 2015.[159] The SLA 2006 also included a "standstill" clause, under which the domestic industry

[155] The public sources include Commerce's *Current Industrial Reports*, Western Wood Products Association's *Lumber Facts*, *Random Lengths*, and official import statistics. CR at I-4 and V-8; PR at I-4 and V-5.

[156] The coverage for the questionnaire responses for 2015 is estimated at 61.0 percent of U.S. production, 87.0 percent of imports of softwood lumber into the United States, and 82.3 percent of Canadian production. CR/PR at I-4-5 and VII-3. The Commission forwarded questionnaires to 110 domestic producers believed to account for about 75 percent of U.S. production in 2015; 52 domestic producers provided responses. CR/PR at I-4 and III-1.

[157] *See* CR at V-8-15; PR at V-5-7. Specific published sources used for pricing data include *Random Lengths 2015 Yearbook* and 2016 issues of the *Yardstick* newsletter. CR at V-8 n.12; PR at V-5-6 n.12.

[158] The statute provides that the Commission may rely on "secondary information," 19 U.S.C. § 1677e(c), and the courts have upheld the Commission's use of such information. *See, e.g., Live Cattle from Canada and Mexico*, Inv. Nos. 701-TA-386 and 731-TA-812-813 (Preliminary), USITC Pub. 3155 at 16 (Feb. 1999), *aff'd, Ranchers-Cattlemen Action Legal Fund*, 74 F. Supp. 2d 1353, 1381 (Ct. Int'l Trade 1999); *Live Swine and Pork from Canada*, Inv. No. 701-TA-224 (Final), *aff'd, Alberta Pork Producers' Mktg. Bd. v. United States*, 669 F. Supp. 445, 460 (Ct. Int'l Trade 1987). *See also Chung Ling Co. v. United States*, 805 F. Supp. 45, 49-50 (Ct. Int'l Trade 1992).

[159] CR at I-15-16; PR at I-10-11; Petition at 37-40; Petitioners' Postconference Brief at 17-19; Jt. Respondents' Postconference Brief at 8-9 and Exhibit 7 (SLA 2006).

was required to wait one year from the October 12, 2015 expiration to file a petition for any trade remedy investigation.[160]

At the time the SLA 2006 took effect, Commerce rescinded ongoing antidumping and countervailing duty administrative reviews and revoked the antidumping and countervailing duty orders on softwood lumber from Canada that were then in place. In addition, a majority of U.S. producers formally agreed, by signing "no injury" letters, to waive their rights to pursue antidumping or countervailing duty investigations on softwood lumber from Canada while the SLA 2006 was in force. In exchange, Canada agreed to impose export restrictions – a combination of export taxes and quotas that varied by region – when prices fell below a specified level. Specifically, Canadian exporting provinces[161] were able to choose either of two export measures: (1) Option A – the collection of an export tax that ranged from zero to 15 percent depending on the price for lumber products, which tax would increase to 50 percent if the province's exports to the United States exceeded a volume threshold;[162] or (2) Option B – the collection of lower export taxes along with a restriction on export volumes.[163]

Joint Respondents argue here as they did in *Lumber IV* that the "no injury" letters signed by U.S. producers represent an unequivocal commitment that carries forward for the duration of the agreement, and that "it provide{s} important context for whether the U.S. industry can credibly claim to suffer injury under conditions that it previously agreed were not injurious."[164] Petitioners contend that the representations in the letters that they "shall have no force or effect after the SLA 2006 is terminated or expired," means that the letters have "no legal relevance now that the SLA 2006 has expired."[165]

In *Lumber IV*, the Commission rejected the same arguments now made by respondents that the existence of a bilateral agreement mandated a conclusion that subject imports are not causing injury. In particular, the Commission did not consider the representations made by the domestic producers in side letters to the agreement as *per se* binding on the Commission's analysis, nor did it find the stated purpose of the SLA as legally binding on the Commission's injury analysis in those investigations. Rather, the Commission emphasized its independent obligation to investigate the actual facts and legal arguments in the investigations, but recognized the SLA as a significant condition of competition during the period of investigation.[166] This position is consistent with prior instances in which the Commission did

[160] While the SLA 2006 was in effect, the domestic industry pursued arbitration under the dispute settlement provisions of the agreement, alleging that Canada had failed to fully implement the agreement. *See* Petition at 38-40.

[161] The Maritime Provinces and the three Canadian territories (Northwest Territories, Yukon, and Nunavut) were exempt from the application of the SLA 2006.

[162] Two Canadian provinces – British Columbia and Alberta – selected this option.

[163] Four Canadian provinces – Manitoba, Ontario, Quebec, and Saskatchewan – selected this option.

[164] Jt. Respondents' Postconference Brief, Exhibit 1 at 36-38. As Joint Respondents acknowledge, the majority of the domestic producers signed similar "no injury" letters under the prior softwood lumber agreement in 1996. *Id*. at 37; *see also* USITC Pub. 3509 at 21.

[165] Petitioners' Postconference Brief at 18-19.

[166] USITC Pub. 3509 at 21-22.

not view various voluntary export arrangements and suspension agreements as being legally dispositive of the question under the statute of whether a domestic industry is materially injured by reason of subject imports.[167] We follow our prior practice regarding the letters and treat the SLA 2006 as a significant condition of competition in our injury analysis, and focus our analysis on the available data about the industry performance.

2. Demand Conditions

Demand for softwood lumber is derived primarily from demand for residential construction activity (including new home construction and repairs and renovations on existing homes), nonresidential construction, and non-construction uses (respectively accounting for 30.1 percent, 38.7 percent, 11.0 percent, and 20.2 percent of consumption in 2015).[168] These end use demands for softwood lumber are determined by such conditions of competition as the general strength of the overall U.S. economy, cyclical trends in the housing market (which may be subject to larger macroeconomic factors like interest rates), and seasonality of housing and remodeling starts (which can also be affected by weather conditions).[169] Demand for softwood lumber also may be impacted by other factors, such as substitute products. A number of products -- such as steel studs or concrete for use in framing, vinyl for use in siding, and plastics, composite materials, and engineered wood products for use in decking and fencing -- may substitute for softwood lumber.[170] However, 33 U.S. producers and 38 importers reported that the use of substitutes for softwood lumber had not changed since January 1, 2013.[171]

According to Petitioners, the recession of 2008-2009 decimated the U.S. softwood lumber industry and, although demand has increased since 2008, it has not yet fully recovered.[172] Parties agree that despite some slow and erratic improvement, the primary

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[167] *See, e.g.*, *Uranium from Kazakhstan*, Inv. No. 731-TA-539A (Final), USITC Pub. 3213 at 12-13 (July 1999) (a suspension agreement entered pursuant to section 734(l) of the Act.); *Honey from China and Argentina*, Inv. No. 701-TA-402 and 731-TA-892-893 (Final), USITC Pub. 3470 at 17 (Nov. 2001) (suspension agreement with China); *Aramid Fiber Formed of Poly Para-Phenylene Terephthalamide from the Netherlands*, Inv. No. 731-TA-652 (Final), USITC Pub. 2783 at I-12 n.70 (June 1994) (cross-licensing agreement that restricted import volumes); *Certain Carbon Flat-Rolled Steel Products*, Inv. Nos. 701-TA-319 *et seq.*, 731-TA-573 *et seq.* (Final), USITC Pub. 2664, vol. I at 19 (Aug. 1993) (voluntary restraint agreements).

[168] CR/PR at Table I-1. Based on questionnaire responses, softwood lumber accounts for a relatively small share (2 percent to 20 percent) of the cost of building a home. CR at II-10; PR at II-6.

[169] CR at II-11; PR at II-6-7. Forty-nine U.S. producers and 49 importers reported that the U.S. softwood lumber market is subject to business cycles or conditions of competition, while three U.S. producers and ten importers stated that it was not. *Id*.

[170] CR at II-14; PR at II-9. Most U.S. producers and importers that named these substitutes indicated that changes in the prices of these substitutes had not affected the price of softwood lumber. *Id*.

[171] CR at II-15; PR at II-9.

[172] Petition at 40-42. They point out that in 2009, housing starts (the measure for new residential construction) hit a 50-year record low of 554,000, and only slightly increased in 2010 and (Continued…)

indicator of demand for softwood lumber, U.S. housing starts, is still far below historical figures[173] and has not recovered to pre-2008 levels.[174]

The vast majority of both producers and importers reported an increase in U.S. demand for softwood lumber since January 1, 2013, principally due to the continued recovery of the housing and repair/remodeling markets.[175] Apparent U.S. consumption of softwood lumber increased during the POI from 39.0 billion board feet in 2013 to 41.9 billion board feet in 2014 and 43.8 billion board feet in 2015, and it was 32.8 billion board feet in interim 2015 and 36.6 billion board feet in interim 2016.[176]

3. Supply Conditions

The domestic softwood lumber industry is fairly large and dispersed.[177] Although there are large corporations with high volumes of production, most of the thousands of softwood lumber producers are small firms.[178] The record indicates that the industry is becoming more consolidated. For example, the five largest U.S. producers accounted for 32 percent of domestic production in 2000 and 36 percent in 2015; similarly, the 20 largest firms accounted for 50 percent of domestic production in 2000 and 62 percent in 2015.[179] The domestic industry's capacity and production increased by ***, respectively, from 2013 to 2015, and both were *** higher in interim 2016 than in interim 2015.[180] The domestic industry has historically been the largest supplier of softwood lumber to the U.S. market, generally accounting for between 60 and 70 percent of apparent U.S. consumption. During the POI its share of the U.S. market declined from ***, and it was *** in interim 2016.[181]

Subject imports from Canada have historically been by far the second largest source of supply to the U.S. softwood lumber market. Their share of apparent U.S. consumption increased from 28.0 percent in 2013 to 30.3 percent in 2015, and it was 34.0 percent in interim 2016.[182] Joint Respondents contend that Canadian producers will be hindered by capacity constraints resulting from stringent protections of wildlife habitat in Central and Eastern

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(…Continued)
2011. A USDA Forest Service and University of Montana study focusing on the western regions of the United States found that with U.S. housing starts falling by 75 percent from 2005 to 2010, U.S. consumption of softwood lumber decreased by approximately 50 percent during the same period. *Id*.

[173] Petition at 40-42; Jt. Respondents' Postconference Brief at 9-10.

[174] CR at II-12 and Figure II-1; PR at II-8 and Figure II-1; Jt. Respondents' Postconference Brief, Exhibit 2 at Slide 19. Moreover, until recently, most of the housing recovery has been for multi-family homes, which use less softwood lumber than single-family homes. CR at II-12; PR at II-8.

[175] CR at II-13 and Table II-3; PR at II-9 and Table II-3.

[176] EDIS Document 600282 ("Staff Table C-2").

[177] CR/PR at III-1 and Figure I-1.

[178] CR/PR at Table I-3. In 2015, the five largest producers accounted for about 36 percent of U.S. softwood lumber production, and the 20 largest firms accounted for more than 62 percent. *Id*.

[179] CR/PR at Table I-3.

[180] Staff Table C-2.

[181] Staff Table C-2.

[182] Staff Table C-2.

Canada, consistent reductions by British Columbia in annual allowable cut allocations, and the effects of the mountain pine beetle on timber supply in Western Canada.[183] They also point out that due to the lower costs of timber supply and other advantages, Canadian producers have invested considerably in mills in U.S. locations and that there has been substantial and increasing integration in the North American lumber market.[184]

Nonsubject imports have historically been a very small source of supply to the U.S. market. Their share of apparent U.S. consumption ranged from 1.3 percent to 2.0 percent during the POI.[185]

4. Substitutability

In the United States, the leading species, or species groups, of softwood lumber produced (in descending order) are SYP, Douglas fir, hem-fir, and SPF, and then a variety of other lumber species, including WRC.[186] In Canada, SPF is the predominant species of softwood lumber, followed by WRC, Douglas fir, hem-fir, and then by a variety of other lumber species.[187] Species common to both countries accounted for approximately 41 percent of U.S. production and about 95 percent of Canadian production in 2015.[188] The major softwood lumber species consumed in the United States, in descending order, are SYP, SPF, Douglas fir, hem-fir, and ponderosa pine.[189]

The parties disagree regarding the level of substitutability between subject imports and the domestic like product, in particular the extent to which there is species segmentation by application, region of the country, or builder preferences.[190] Petitioners maintain that softwood lumber of different species is largely, if not always perfectly, substitutable, and thus imports from Canada compete with, and affect the prices of, all U.S. softwood lumber.[191] According to Joint Respondents, species plays a very large role in purchasing decisions; they disagree with the purchaser responses on which the Commission relied in *Lumber IV* that there is an overlap in use of SPF, Douglas fir, and hem-fir.[192] While acknowledging that different

[183] Jt. Respondents' Postconference Brief at 10-12.

[184] Jt. Respondents' Postconference Brief, Exhibit 1 at 12.

[185] Staff Table C-2.

[186] In 2015, SYP accounted for 53 percent of U.S. softwood lumber production, Douglas fir for 24 percent, hem-fir for 10 percent, and SPF for 5 percent. Jt. Respondents' Postconference Brief, Exhibit 2 at Slide 13 and 35.

[187] In 2015, SPF accounted for 87 percent of Canadian softwood lumber production, WRC for 3.9 percent, Douglas fir for 3.1 percent, and hem-fir for 1.0 percent. Jt. Respondents' Postconference Brief, Exhibit 2 at Slide 13 and 35.

[188] CR at I-21-22; PR at I-15-16. There also may be an overlap in the "Other" category of species, which accounted for 6 percent of U.S. production and 4.9 percent of Canadian production. CR at I-22 n.51; PR at I-16 n.51.

[189] CR at I-21; PR at I-15.

[190] Petitioners' Postconference Brief at 2 and 8-12; Jt. Respondents' Postconference at 6-8, Exhibit 1 at 12-27 and Volume III (Economic Analysis); NAHB's Postconference Brief at 3-18; CR at II-18-19; PR at II-10-11.

[191] Petitioners' Postconference Brief at 2 and 8-12.

[192] Jt. Respondents' Postconference, Exhibit 1 at 16-25.

species are sometimes used in the same or similar applications, Joint Respondents maintain that "this certainly does not make them perfectly substitutable."[193] NAHB contends that there is limited substitutability between the subject imports and domestic product and that the species dictates purchasers buying decisions. Nevertheless, it also acknowledges that, while sophisticated builders take the unique characteristics of each species of wood into account when making their purchases, overlapping use of different species is possible and the preference for certain species is regional to a certain degree with a loose relationship to proximity to supply of certain species.[194]

The record supports a finding that subject imports of softwood lumber from Canada are at least moderately substitutable for domestically produced softwood lumber.[195] The majority of U.S. producers described softwood lumber from domestic and Canadian sources as always or frequently interchangeable, while the majority of U.S. importers described them as sometimes interchangeable.[196] As the Commission has recognized in prior investigations, Canadian softwood lumber and the domestic like product generally are interchangeable, although performance characteristics and customer preferences place some limitations on interchangeability among species.[197] In these investigations, the record also demonstrates that subject imports and the domestic like product, notwithstanding differences in species, are used in the same applications.[198] Specifically, a presentation by the National Association of

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[193] Jt. Respondents' Postconference, Exhibit 1 at 27. Joint Respondents point to studies performed since *Lumber IV* as evidence of an even lower level of substitutability then the Commission found in the past, not only between SPF and SYP, but also between SPF and Douglas fir. Conf. Tr. at 133 and Jt. Respondents' Postconference Brief, Exhibit 2 at Slide 37, and Volume III (Economic Analysis). Respondents submitted several papers by outside economists estimating the elasticity of substitution between U.S. and Canadian softwood lumber. The data used in these papers often include periods when the U.S. market was subject to various softwood lumber agreements; thus, the measured quantities of Canadian product demanded in response to changes in U.S. prices may have been affected by the terms of the particular agreement in place. In any final phase investigations, the Commission intends to further analyze the elasticity of substitution.

[194] NAHB's Postconference Brief at 3-18.

[195] CR at II-15; PR at II-10. While Petitioners characterize softwood lumber as a commodity product, referring to the Commission's opinion in *Lumber III*, softwood lumber includes a wide range of species of lumber. Consistent with *Lumber IV*, we do not characterize softwood lumber as a "commodity" product in making our finding that subject imports and domestic product are at least moderately substitutable and generally interchangeable, notwithstanding differences in species and preferences. *See* Petitioners' Postconference Brief at 2, 8-9; Petition at 35; Conf. Tr. at 61-63; USITC Pub. 3509 at 25-26.

[196] CR/PR at Table II-4.

[197] *See, e.g.*, *Lumber IV*, USITC Pub. 3509 at 25 and 26; *Lumber III*, USITC Pub. 2530 at 28-29, and 34.

[198] CR/PR at Table II-4. *See* Petitioners' Postconference Brief at 10-12 and Exhibits 5-7 (providing examples from U.S. producers, including "documented instances of SYP and SPF being used interchangeably in regions such as Florida, which exclusively produces SYP, and Arizona"; and an affidavit from another U.S. producer detailing an exchange with a purchaser confirming it had switched from SYP to Canadian SPF for truss manufacturing because of a difference in prices).

Homebuilders' Research Center ("NAHBRC") provides clear evidence that SPF, SYP, Douglas fir, and hem-fir are used in the same construction applications for lumber floor joists, wall studs, roof rafters, and roof trusses.[199] While regional preferences do exist – species are often used proximate to where they are milled – these preferences seem to reflect in large part availability of species, which may be affected by transportation costs, and not a lack of actual substitutability.[200]

D. Volume of Subject Imports

Section 771(7)(C)(i) of the Tariff Act provides that the "Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States, is significant."[201]

Subject imports from Canada increased during the period of investigation, with the most substantial increase in their volume occurring towards the end of the period. The volume of subject imports rose from 10.9 billion board feet in 2013 to 12.1 billion board feet in 2014, and 13.3 billion board feet in 2015; the volume of subject imports was 9.6 billion board feet in interim 2015 and 12.5 billion board feet in interim 2016.[202] Thus, subject imports increased by 21.5 percent from 2013 to 2015 and were 30.2 percent higher in interim 2016 than in interim 2015.[203] The volume of subject imports rose at a faster rate than apparent U.S. consumption,[204] and subject imports experienced significant gains in market share directly at the expense of the domestic industry.[205] Subject import market share rose from 28.0 percent in 2013 to 29.0 percent in 2014 and 30.3 percent in 2015; it was 29.2 percent in interim 2015 and 34.0 percent in interim 2016.[206] By contrast, the domestic industry's market share declined by *** from 2013 to 2015 and was *** lower in interim 2016 than in interim 2015.[207]

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[199] The NAHBRC presentation found the following softwood lumber use by construction application:

- For floor joists: SPF – 25 percent, SYP – 41 percent, Douglas fir or hem-fir – 33 percent;
- For wall studs: SPF – 49 percent, SYP – 25 percent, Douglas fir – 18 percent, hem-fir or other western wood –6 percent, other species – 2 percent ;
- For roof rafters: SPF – 24 percent, SYP – 57 percent, Douglas fir – 19 percent; and
- For roof trusses: SPF – 30 percent, SYP – 47 percent, Douglas fir – 22 percent.

Petitioners' Postconference Brief at 13 and Exhibit 13 (NAHBRC 2010 Presentation) at 11-12, 14-15, and 17-20. In *Lumber IV* a NAHBRC Building Survey similarly provided clear evidence that different species were used in the same construction applications. *See* USITC Pub. 3509 at 25-26.

[200] Petitioners' Postconference Brief at 10-15; NAHB's Postconference Brief at 13-17.

[201] 19 U.S.C. § 1677(7)(C)(i).

[202] CR/PR at Table IV-2.

[203] CR/PR at Table IV-2 and Staff Table C-2.

[204] Apparent U.S. consumption increased by 12.2 percent from 2013 to 2015 and was 11.5 percent higher in interim 2016 then in interim 2015. CR/PR at Table IV-4 and Staff Table C-2.

[205] Staff Table C-2.

[206] CR/PR at Table IV-4 and Staff Table C-2.

[207] The domestic industry's market share, as measured by quantity, was *** in 2013, *** in 2014, and *** in 2015; it was *** in interim 2015 and *** in interim 2016. Staff Table C-2.

For purposes of these preliminary determinations, we find that the volume of subject imports and the increase in that volume are significant both in absolute terms and relative to consumption in the United States.

E. Price Effects of the Subject Imports

Section 771(7)(C)(ii) of the Tariff Act provides that, in evaluating the price effects of subject imports, the Commission shall consider whether –

> (I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and
> (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.[208]

As discussed above, we find that there is at least a moderate degree of substitutability between subject imports and the domestic like product.[209] The majority of U.S. producers described softwood lumber from domestic and Canadian sources as always or frequently interchangeable, while the majority of U.S. importers described them as sometimes interchangeable.[210] In response to Commission questionnaires, price was cited first most frequently, followed by quality and species, as among the top three factors in purchasing decisions.[211]

Softwood lumber prices generally differ depending on grades and dimensions, and may differ by species and applications involved, with better grades and wider dimensions usually carrying higher prices then lower grades and narrower dimensions.[212] Parties disagree about the relative importance of purchasers' preferences for particular species, on the one hand, and differences in prices among these products, on the other hand, in purchasing decisions.[213] The particular grades/species/dimensions of softwood lumber each builder or contractor chooses are based on regional/individual builder preferences and availability of particular lumber species, the application in which it will be used, and building code requirements, as well as on relative prices of the softwood lumber products. As a result, purchasing decisions for softwood lumber can involve a number of price/performance considerations in light of how the product will be used, and may differ markedly across regions of the United States and from customer to customer within a single region.

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[208] 19 U.S.C. § 1677(7)(C)(ii).
[209] CR at II-15; PR at II-10.
[210] CR/PR at Table II-4.
[211] CR at II-17-18; PR at II-10-11.
[212] USITC Pub. 3509 at V-3 and V-4.
[213] CR at II-16; PR at II-10-11; Petitioners' Postconference Brief at 8-17; Conf. Tr. at 26, 30, 38, 41, 60, 123-125; NAHB's Postconference Brief at 6-17; Jt. Respondents' Postconference Brief at 6-8, and Exhibit 1 at 12-28.

Softwood lumber prices can fluctuate considerably from year to year and day to day. Domestic producers and importers of softwood lumber from Canada reported selling a majority of their product in the spot market, using mostly transaction-by-transaction negotiations and referring to weekly industry price reports such as *Random Lengths* to set prices.[214]

The Commission collected monthly pricing data from U.S. producers and importers for four specific softwood lumber products for sales within a 100-mile radius of four specific market areas (the cities of Denver, Colorado; Phoenix, Arizona; Atlanta, Georgia; and Chicago, Illinois), as was suggested in the petition.[215] Fourteen U.S. producers and 19 importers provided useable pricing data for sales of the requested pricing products, although not all firms reported pricing for all products for all months.[216] These data yielded a total of 12 direct price comparisons, with subject imports underselling the domestic like product in seven of the 12 monthly comparisons, or 58.3 percent of comparisons, at margins ranging from 1.3 percent to 9.0 percent from January 2013 to September 2016.[217] As the Commission has found in prior softwood lumber investigations, obtaining useful direct price comparisons for assessing underselling is problematic due to the range of species involved and nature of this market.[218] Although the pricing data covered only a small fraction of domestic sales, these direct price comparisons demonstrated that reported prices for domestic product and subject imports were within a narrow range and that all but one of the underselling comparisons occurred in 2015 and 2016.[219] Nevertheless, in light of the limited pricing data in the current record, notwithstanding our best efforts and those of the parties, we are unable to make a finding concerning the degree of underselling in these preliminary phase investigations.

However, both the questionnaire and published data on the record do permit an analysis of price trends.[220] In particular, the pricing information for softwood lumber

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[214] CR at V-8 and Tables V-1 and V-2; PR at V-3-4 and Tables V-1 and V-2.

[215] CR at V-15-16; PR at V-7. The softwood lumber pricing products are: Product 1 — Douglas Fir, 2x4, Grade No. #2, random lengths, kiln-dried; Product 2 —Douglas Fir, precision end trimmed stud, Grade No. #2, 8-foot length, kiln-dried; Product 3 — Spruce Pine Fir, precision end trimmed stud, Grade No. #2, 8-foot length; and Product 4 —Spruce Pine Fir, 2x4, Grade No. #3 (utility), random lengths.

[216] CR at V-16, Tables V-5 to V-19, and Figure V-6; PR at V-7, Tables V-5 to V-19, and Figure V-6. The pricing data account for a very low share of total shipments.

[217] CR/PR at Table V-21. There were *** board feet of subject imports involved in underselling comparisons, and *** board feet of subject imports involved in overselling comparisons. *Id*.

[218] *See, e.g.*, *Lumber IV*, USITC Pub. 3509 at 33. While there are a number of different sources of published pricing information regarding softwood lumber products, including *Random Lengths*, these data series do not yield improved direct comparisons, despite broader coverage. Although prices of one species affect those of others, absolute price levels differ.

[219] CR/PR at Tables V-5 to V-19 and Figure V-6.

[220] Based on questionnaire responses, prices for both domestic product and subject imports decreased during the period of investigation. CR/PR at Table V-20. Price decreases for the domestic like

(Continued…)

published in *Random Lengths* is the source the U.S. producers and importers most frequently cited in questionnaire responses as a guide to negotiating prices with their customers.[221]

Random Lengths data indicate that prices of both predominantly domestically produced and predominantly imported Canadian softwood lumber products generally declined from 2013 to 2015, with the most substantial decline in 2015.[222] Prices for all products increased in 2016 but did not return to similar levels as those at the beginning of the period of investigation in 2013.[223] The evidence demonstrates that the prices of different species closely track each other and seem to have an effect on other species' prices, particularly those that are used in the same or similar applications.[224] Moreover, the predominant Canadian species generally are lower priced than the predominant U.S. species throughout the period of investigation.[225]

Despite relatively strong and increasing apparent U.S. consumption (an increase of 12.2 percent from 2013 to 2015), prices for softwood lumber declined as the volume and market share of subject imports increased. Furthermore, from 2013 to 2015 the domestic industry faced rising costs as prices declined and, thus, appeared to experience a cost-price squeeze.[226] Therefore, from 2013 to 2015 as demand increased, there is evidence that substantially increasing volumes of subject imports depressed prices for the domestic like product and prevented price increases for that product that otherwise would have occurred. However, between interim 2015 and interim 2016, as demand continued to improve and subject imports captured significant market share, softwood lumber prices increased (although they did not return to the levels seen at the beginning of the POI in 2013) and the domestic industry's ratio of COGS to net sales

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(…Continued)
product ranged from 4.1 percent to 39.0 percent while subject import price decreases ranged from 4.2 percent to 32.2 percent. *Id*.

[221] CR at V-8; PR at V-5-6. *Random Lengths, Inc*. collects weekly price data from suppliers and purchasers and calculates weighted-average prices based on such factors as the size of the transaction and the quality of the lumber. *Random Lengths* publishes these data in its weekly and annual publications. Data from *Random Lengths* do not distinguish prices based on country of production. However, the products selected are either predominantly produced in the United States (*e.g.*, SYP and Douglas Fir) or in Canada (*e.g.*, Western SPF and Eastern SPF). *Id*.

[222] CR/PR at Table V-3 and V-4, and Figures V-3 to V-5.

[223] CR/PR at Table V-3 and V-4, and Figures V-3 to V-5.

[224] CR/PR at Figures V-3 to V-5.

[225] CR/PR at Figure V-5. Of the 12 purchasers responding to the Commission's lost sales and revenues inquiries in these preliminary phase investigations, eight purchasers reported that they had purchased subject imports instead of U.S.-produced product since 2013, and *** reported that subject import prices were lower than the prices for U.S.-produced product. Three of these eight purchasers reported that price was a primary reason for the decision to purchase subject imports rather than the U.S.-produced product. CR at V-66; PR at V-12.

[226] The domestic industry's ratio of costs of goods sold (COGS) to net sales *** from *** in 2013 to *** in 2014, and *** in 2015. Staff Table C-2.

improved.[227] We also observe that in interim 2016, when the limited pricing data available provide instances of subject imports being sold at lower prices than the domestic like product, the record indicates that the subject imports gained market share at the expense of the domestic industry. We recognize the divergence in pricing trends between 2013 to 2015, on the one hand, and between interim periods, on the other, and intend to examine this issue further in any final phase investigations.

F. Impact of the Subject Imports[228]

Section 771(7)(C)(iii) of the Tariff Act provides that the Commission, in examining the impact of the subject imports on the domestic industry, "shall evaluate all relevant economic factors which have a bearing on the state of the industry." These factors include output, sales, inventories, capacity utilization, market share, employment, wages, productivity, gross profits, net profits, operating profits, cash flow, return on investment, return on capital, ability to raise capital, ability to service debt, research and development, and factors affecting domestic prices. No single factor is dispositive and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry."[229]

Questionnaire data indicate that the domestic industry's production increased from 2013 to 2015, and was *** in interim 2016 than in interim 2015.[230] The domestic industry's capacity similarly increased each year from 2013 to 2015, and was higher in interim 2016 than in interim 2015.[231] Capacity utilization increased slightly from year to year, but remained at the same level in each interim period.[232] The domestic industry's U.S. shipments showed patterns

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[227] The domestic industry's ratio of costs of goods sold (COGS) to net sales was *** in interim 2015 and *** in interim 2016. Staff Table C-2.

[228] In its notice initiating the antidumping duty investigation, Commerce reported estimated antidumping duty margins of 20.12 to 53.08 percent for imports of softwood lumber from Canada. Certain Softwood Lumber Products from Canada: Initiation of Less-Than-Fair-Value Investigation, 81 Fed. Reg. 93892, 93895 (Dec. 22, 2016).

[229] 19 U.S.C. § 1677(7)(C)(iii). This provision was amended by the Trade Preferences Extension Act of 2015, Pub. L. 114-27.

[230] Staff Table C-2. The domestic industry's production was *** board feet in 2013, *** board feet in 2014, and *** board feet in 2015; it was *** board feet in interim 2015 and *** board feet in interim 2016. *Id*. WWPA data show that the domestic industry's production was 30.0 billion board feet in 2013, 31.5 billion board feet in 2014, and 31.6 billion board feet in 2015; it was 24.0 billion board feet in interim 2015 and 24.8 billion board feet in interim 2016. CR/PR at Table III-4.

[231] Staff Table C-2. The domestic industry's production capacity was *** board feet in 2013, *** board feet in 2014, and *** board feet in 2015; it was *** board feet in interim 2015 and *** board feet in interim 2016. *Id*. WWPA data show that the domestic industry's production capacity was 36.2 billion board feet in 2013, 37.3 billion board feet in 2014, and 38.5 billion board feet in 2015; it was 27.3 billion board feet in interim 2015 and 29.2 billion board feet in interim 2016. CR/PR at Table III-4.

[232] Staff Table C-2. The domestic industry's capacity utilization was *** in 2013, *** in 2014, and *** in 2015; it was ***. *Id*. WWPA data show that the domestic industry's capacity utilization was 82.7 percent in 2013, 84.3 percent in 2014, and 82.3 percent in 2015; it was 88.0 percent in interim 2015 and 85.0 percent interim 2016. CR/PR at Table III-4.

similar to those for production, increasing from 2013 to 2015 in line with increases in apparent U.S. consumption, but did not keep pace with consumption between interim periods.[233] Inventories relative to U.S. shipments fluctuated slightly from year to year, and were lower at *** in interim 2016 than at *** in interim 2015.[234]

The number of production and related workers employed by the domestic industry, the total hours worked, and wages paid increased during the period of investigation, with the largest increases from 2013 to 2014.[235] The industry's productivity fluctuated and *** overall from 2013 to 2015, but was higher in interim 2016 than in interim 2015.[236]

The financial performance of the domestic industry displayed substantial *** overall, particularly from 2014 to 2015. The domestic producers' total net sales values increased from *** in 2013 to *** in 2014, and then declined to *** in 2015, for a *** increase from 2013 to 2015.[237] Sales revenues were higher *** in interim 2016 than in interim 2015, an increase below that of apparent U.S. consumption (which was *** in interim 2016 than in interim 2015).[238] The domestic industry's unit net sales value fluctuated, with *** decline from 2014 to 2015 and was *** higher in interim 2016 than in interim 2015, but did not return to 2013 and 2014 levels.[239] Gross profit, net income, and operating income all declined overall from 2013 to 2015.[240] All three indicators were higher in interim 2016 than in interim 2015, reflecting higher sales values and higher quantities sold for the industry.[241] The domestic producers' ratio of COGS to net sales *** from *** in 2013 to *** in 2014, and *** in 2015; it was *** in interim 2015 and *** in interim 2016.[242] The domestic industry's ratio of operating income to net sales *** from *** in 2013 to *** in 2014, and *** in 2015; it was *** in interim 2015 and *** in interim 2016.[243] The industry's capital expenditures *** from 2013 to 2015,

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[233] Staff Table C-2. The domestic industry's U.S. shipments were *** board feet in 2013, *** board feet in 2014, and *** board feet in 2015; they were *** board feet in interim 2015 and *** board feet in interim 2016. *Id*. WWPA data show that the domestic industry's total shipments were 29.9 billion board feet in 2013, 31.4 billion board feet in 2014, and 31.7 billion board feet in 2015; it was 24.1 billion board feet in interim 2015 and 24.9 billion board feet in interim 2016. CR/PR at Table III-7.

[234] Staff Table C-2.

[235] Staff Table C-2.

[236] Staff Table C-2. Unit labor costs increased by *** from 2013 to 2015, but were *** higher in interim 2016 than in interim 2015. *Id*.

[237] Staff Table C-2.

[238] Staff Table C-2.

[239] Staff Table C-2. The domestic industry's average unit net sales value increased from *** in 2013 to *** in 2014, and then declined to *** in 2015; it was *** in interim 2015 and *** in interim 2016. *Id.*

[240] Gross profit was *** in 2014, before falling to *** in 2015; it was *** in interim 2016. Operating income declined from *** in 2013 to *** in 2014, and then fell to *** in 2015; it was *** in interim 2016. Net income was *** in 2015; it was *** in interim 2016. Staff Table C-2.

[241] Staff Table C-2.

[242] Staff Table C-2.

[243] Staff Table C-2.

although its research and development ("R&D") expenditures declined each year, and both of these expenditures were substantially lower in interim 2016 than in interim 2015.[244]

We find that subject imports had a significant impact on the domestic industry during the period of investigation. The significant and increasing volume of subject imports throughout the period of investigation led to a substantial erosion of the domestic industry's market share.[245] From 2013 to 2015, while virtually all trade indicators for the domestic industry increased as apparent U.S. consumption rose, financial indictors declined as the volume of subject imports increased and prices generally declined. The domestic industry's performance, particularly from 2014 to 2015, was not commensurate with increasing apparent U.S. consumption, and improvements during interim 2016 did not return its performance to levels experienced during 2013 and 2014 when the SLA 2006 was in effect. Despite relatively strong apparent U.S. consumption -- 11.5 percent higher (which equated to about 3.8 billion board feet in consumption) in interim 2016 than in interim 2015 -- the domestic industry's output was only slightly higher in interim 2016 than in interim 2015, as it lost significant additional market share to subject imports. We recognize that, despite these substantial increases in subject import volume and market share, the financial performance indicators for the domestic industry were also higher in interim 2016 than in interim 2015 as prices generally increased, but also observe that these indicators did not return to levels that the domestic industry experienced in 2013 and 2014 when the SLA 2006 was in effect. Thus, as a result of the substantial increases in subject imports, in many respects the domestic industry did not perform as well as would have been expected during the period of growing demand.

As discussed above, based on the record in this preliminary phase, we have found the volume and market share of subject imports to have increased significantly over the period of investigation, resulting in the domestic industry losing market share while prices generally declined even as apparent U.S. consumption increased. Consequently, we find, for purposes of the preliminary phase of these investigations, that the large and increasing volume of subject imports had a significant impact on the domestic industry.

In conducting our impact analysis, we have also considered the role of other factors so as not to attribute injury from other factors to subject imports.[246] Apparent U.S. consumption for softwood lumber increased during the period of investigation, so the domestic industry's trade and financial performance cannot be explained by declines in consumption.[247] Nonsubject imports had a minimal presence in the U.S. market during the period of

[244] Staff Table C-2 for capital expenditures and calculated from CR/PR at Tables VI-5 and D-2 for R&D expenditures.

[245] The domestic industry's market share by quantity decreased from *** in 2013 to *** in 2014 and *** in 2015; it was *** in interim 2016. Subject imports' market share by quantity, on the other hand, increased from 28.0 percent in 2013 to 29.0 percent in 2014 and 30.3 percent in 2015; it was 29.2 percent in interim 2015 and 34.0 percent in interim 2016. Staff Table C-2.

[246] Commissioner Kieff encourages parties to submit arguments concerning the application of *Bratsk/Mittal* in any final phase of these investigations.

[247] Staff Table C-2.

investigation,[248] and cannot explain the magnitude of the domestic industry's losses of market share and financial performance declines.

Accordingly, for purposes of these preliminary determinations, we conclude that subject imports have had a significant impact on the domestic industry.

VII. Conclusion

For the reasons stated above, we determine that there is a reasonable indication that an industry in the United States is materially injured by reason of subject imports of softwood lumber from Canada that are allegedly subsidized and sold in the United States at less than fair value.

[248] Nonsubject import market share was 1.3 percent in 2013, 1.6 percent in 2014, and 1.5 percent in 2015; it was 1.6 percent in interim 2015 and 2.0 percent in interim 2016. Staff Table C-2.

PART I: INTRODUCTION

BACKGROUND

These investigations result from petitions filed with the U.S. Department of Commerce ("Commerce") and the U.S. International Trade Commission ("USITC" or "Commission") by Committee Overseeing Action for Lumber International Trade Investigations or Negotiations (the "Coalition")[1], on November 25, 2016, alleging that an industry in the United States is materially injured and threatened with material injury by reason of subsidized and less-than-fair-value ("LTFV") imports of softwood lumber products ("softwood lumber") [2] from Canada. The following tabulation provides information relating to the background of these investigations.[3][4]

Effective date	Action
November 25, 2016	Petition filed with Commerce and the Commission; institution of Commission investigation (81 FR 87069, December 2, 2016)
December 15, 2016	Commerce's notice of initiation (countervailing 81 FR 93987,December 22, 2016 and antidumping 81 FR 93892, December 22, 2016)
December 16, 2016	Commission's conference
January 6, 2017	Commission's vote
January 9, 2017	Commission's determination
January 17, 2017	Commission's views

[1] The Coalition is an ad hoc association whose members are: U.S. Lumber Coalition, Inc., Collum's Lumber Products, L.L.C., Hankins, Inc., Potlach Corp., Rex Lumber Company, Seneca Sawmill Company, Sierra Pacific Industries, Stimson Lumber Company, Swanson Group, Weyerhaeuser Company, Carpenters Industrial Council, Giustina Land and Timber Company, Sullivan Forestry Consultants, Inc.. The Coalition is "an association, a majority of whose members is composed of interested parties" described in Section 771(9)(F) of the Act, 19 U.S.C. § 1677(9)(F).

[2] See the section entitled "The Subject Merchandise" in *Part I* of this report for a complete description of the merchandise subject to these investigations.

[3] Pertinent *Federal Register* notices are referenced in appendix A, and may be found at the Commission's website (www.usitc.gov).

[4] A list of witnesses appearing at the conference is presented in app. B of this report.

STATUTORY CRITERIA AND ORGANIZATION OF THE REPORT

Statutory criteria

Section 771(7)(B) of the Tariff Act of 1930 (the "Act") (19 U.S.C. § 1677(7)(B)) provides that in making its determinations of injury to an industry in the United States, the Commission--

> *shall consider (I) the volume of imports of the subject merchandise, (II) the effect of imports of that merchandise on prices in the United States for domestic like products, and (III) the impact of imports of such merchandise on domestic producers of domestic like products, but only in the context of production operations within the United States; and. . . may consider such other economic factors as are relevant to the determination regarding whether there is material injury by reason of imports.*

Section 771(7)(C) of the Act (19 U.S.C. § 1677(7)(C)) further provides that--[5]

> *In evaluating the volume of imports of merchandise, the Commission shall consider whether the volume of imports of the merchandise, or any increase in that volume, either in absolute terms or relative to production or consumption in the United States is significant.. . .In evaluating the effect of imports of such merchandise on prices, the Commission shall consider whether. . .(I) there has been significant price underselling by the imported merchandise as compared with the price of domestic like products of the United States, and (II) the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree.. . . In examining the impact required to be considered under subparagraph (B)(i)(III), the Commission shall evaluate (within the context of the business cycle and conditions of competition that are distinctive to the affected industry) all relevant economic factors which have a bearing on the state of the industry in the United States, including, but not limited to. . . (I) actual and potential decline in output, sales, market share, gross profits, operating profits, net profits, ability to service debt, productivity, return on investments, return on assets, and utilization of capacity, (II) factors affecting domestic prices, (III) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment, (IV) actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more*

[5] Amended by PL 114-27 (as signed, June 29, 2015), Trade Preferences Extension Act of 2015.

advanced version of the domestic like product, and (V) in {an antidumping investigation}, the magnitude of the margin of dumping.

In addition, Section 771(7)(J) of the Act (19 U.S.C. § 1677(7)(J)) provides that—[6]

(J) EFFECT OF PROFITABILITY.—The Commission may not determine that there is no material injury or threat of material injury to an industry in the United States merely because that industry is profitable or because the performance of that industry has recently improved.

Organization of report

Part I of this report presents information on the subject merchandise, alleged subsidy and dumping margins, and domestic like product. *Part II* of this report presents information on conditions of competition and other relevant economic factors. *Part III* presents information on the condition of the U.S. industry, including data on capacity, production, shipments, inventories, and employment. *Parts IV* and *V* present the volume of subject imports and pricing of domestic and imported products, respectively. *Part VI* presents information on the financial experience of U.S. producers. *Part VII* presents the statutory requirements and information obtained for use in the Commission's consideration of the question of threat of material injury as well as information regarding nonsubject countries.

MARKET SUMMARY

Softwood lumber is generally used to construct and remodel structures such as housing. The leading U.S. producers of softwood lumber are ***, while leading Canadian producers of softwood include ***. The leading U.S. importers of softwood lumber from Canada are ***.

Apparent U.S. consumption of softwood lumber totaled approximately 43.7 billion board feet ($15.9 billion) in 2015. U.S. producers' U.S. shipments of softwood lumber totaled 29.9 billion board feet ($10.6 billion) in 2015, and accounted for 68.2 percent of apparent U.S. consumption by quantity and 66.5 percent by value. U.S. imports from subject sources totaled 13.3 billion board feet ($4.7 billion) in 2015 and accounted for 30.3 percent of apparent U.S. consumption by quantity and 29.8 percent by value. U.S. imports from nonsubject sources totaled 0.7 billion board feet ($584 million) in 2015 and accounted for 1.5 percent of apparent U.S. consumption by quantity and 3.7 percent by value.

[6] Amended by PL 114-27 (as signed, June 29, 2015), Trade Preferences Extension Act of 2015.

SUMMARY DATA AND DATA SOURCES

A summary of data collected in these investigations is presented in appendix C, table C-1. Except as noted, U.S. industry data are based on questionnaire responses of 52 firms that accounted for 61.0 percent of U.S. production of softwood lumber during 2015 and Western Wood Products Association ("WWPA") publications. U.S. imports are based on official U.S. import statistics for HTS Chapter 44: 4407.10.01.01; 4407.10.01.02; 4407.10.01.15; 4407.10.01.16; 4407.10.01.17; 4407.10.01.18; 4407.10.01.19; 4407.10.01.20; 4407.10.01.42; 4407.10.01.43; 4407.10.01.44; 4407.10.01.45; 4407.10.01.46; 4407.10.01.47; 4407.10.01.48; 4407.10.01.49; 4407.10.01.52; 4407.10.01.53; 4407.10.01.54; 4407.10.01.55; 4407.10.01.56; 4407.10.01.57; 4407.10.01.58; 4407.10.01.59; 4407.10.01.64; 4407.10.01.65; 4407.10.01.66; 4407.10.01.67; 4407.10.01.68; 4407.10.01.69; 4407.10.01.74; 4407.10.01.75; 4407.10.01.76; 4407.10.01.77; 4407.10.01.82; 4407.10.01.83; 4407.10.01.92; 4407.10.01.93; 4409.10.05.00; 4409.10.10.20; 4409.10.10.40; 4409.10.10.60; 4409.10.10.80; 4409.10.20.00; 4409.10.90.20; 4409.10.90.40; and 4418.90.25.00 and questionnaire responses from 63 companies, representing 87.0 percent of U.S. imports.

HISTORICAL BACKGROUND - PREVIOUS AND RELATED INVESTIGATIONS AND AGREEMENTS BETWEEN THE GOVERNMENTS OF CANADA AND THE UNITED STATES

Softwood lumber initially was the subject of investigations at the Commission under sections 332 and 703 of the Tariff Act of 1930 (the Act). In December 1981, in response to a request from the Committee on Finance of the U.S. Senate and the Chairman of the Ways and Means Subcommittee on Trade of the U.S. House of Representatives, the Commission instituted investigation No. 332-134, concerning conditions relating to the importation of softwood lumber into the United States.[7] In March 1985, at the request of USTR, the Commission instituted investigation No. 332-210 to update that earlier study. The Commission's report in the latter investigation was issued in October 1985.[8]

In October 1982, the Commission and Commerce received a petition from the Coalition alleging that ". . . the federal and provincial governments in Canada subsidize, directly and indirectly, the Canadian forest products industry, including softwood lumber, through a broad variety of programs and practices." In November 1982, the Commission determined that there was a reasonable indication that an industry in the United States was materially injured by reason of the allegedly subsidized imports of softwood lumber from Canada.[9] However, in May 1983, Commerce issued a final negative countervailing duty determination and the

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[7] *Conditions Relating to the Importation of Softwood Lumber Into the United States,* USITC Publication 1241, April 1982.

[8] *Conditions Relating to the Importation of Softwood Lumber Into the United States,* USITC Publication 1765, October 1985.

[9] 47 FR 54183, December 1, 1982. *Softwood Lumber from Canada,* Inv. No. 701-TA-197 (Preliminary), USITC Publication 1320, November 1982.

Commission's investigation was terminated.[10] In its determination, Commerce found that Canadian stumpage programs did not confer a subsidy within the meaning of the Act because they were not provided to a specific enterprise or industry or group of enterprises or industries and because they did not confer domestic subsidies under the terms of the Act.

In May 1986, the Coalition[11] filed a countervailing duty petition with the Commission and Commerce, alleging that an industry in the United States was materially injured or threatened with material injury by reason of allegedly subsidized imports from Canada of softwood lumber. Consequently, the Commission instituted a preliminary countervailing duty investigation and determined, in July 1986, that there was a reasonable indication that an industry in the United States was materially injured by reason of the allegedly subsidized imports of softwood lumber from Canada.[12]

In October 1986, Commerce made a preliminary determination[13] that imports of softwood lumber from Canada were receiving certain benefits which constituted subsidies within the meaning of the countervailing duty law, finding that subsidies of 15 percent *ad valorem* were being provided to Canadian producers of softwood lumber products. The primary subsidy was the selective provision of a government resource, provincially owned timber, at administratively set prices which were determined to be at preferential rates within the meaning of subsection 771(5)(A)(ii) of the Act. As a result of Commerce's affirmative determination, the Commission instituted investigation No. 701-TA-274 (Final), in October 1986.

On December 30, 1986, prior to Commerce's final determination in the investigation, the Governments of the United States and Canada arrived at a settlement of the dispute regarding the existence and level of subsidies, and entered into a Memorandum of Understanding on Softwood Lumber (MOU). Under the MOU, the Government of Canada agreed to impose a 15-percent export charge on certain softwood lumber products. The charge could be reduced or eliminated for exports from those provinces that instituted replacement measures increasing the fee charged on the harvest of timber or other replacement measures (e.g., silvicultural work).[14] In exchange for Canada's agreement to collect an export charge

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[10] 48 FR 24159, May 31, 1983.

[11] At that time, the Coalition's members included the National Forest Products Association, the Northeastern Lumber Manufacturers Association, the Northwest Independent Forest Manufacturers, the Western Wood Products Association, the Western Forest Industries Association, and the Southeastern Lumber Manufacturers Association. These associations represented companies accounting for more than 70 percent of U.S. softwood lumber production in 1985. Additionally, the following state associations were members of the Coalition: the Alabama Forestry Association, the Arkansas Forestry Association, and the Lumber Manufacturers Association of Virginia.

[12] *Softwood Lumber from Canada*, Inv. No. 701-TA-274 (Preliminary), USITC Publication 1874, July 1986.

[13] 51 FR 37453, October 22, 1986.

[14] Softwood lumber produced in the Maritime Provinces (New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Island) from timber harvested in the Maritime Provinces was exempted from the MOU and was similarly exempted from Inv. No. 701-TA-312 (Final).

under the MOU, the U.S. lumber industry withdrew its petition and Commerce and the Commission terminated their investigations.[15] As a result, Commerce never made a final subsidy determination which, if affirmative, would have resulted in the offset of subsidies on imports through the imposition of countervailing duties in the event the Commission had subsequently found material injury or threat thereof to an industry in the United States. On October 4, 1991, the U.S. Government, via the United States Trade Representative (USTR), announced that Commerce would be self-initiating a countervailing duty investigation to determine whether Canadian softwood lumber is subsidized and whether subsidized lumber imports are causing, or threatening, material injury to an industry in the United States.[16]

At the same time, USTR announced that it would initiate an investigation under section 302 of the Trade Act of 1974 with respect to certain acts, policies, and practices of the Government of Canada affecting exports to the United States of softwood lumber.[17] As a part of that action, USTR announced that the United States had determined that it was appropriate, as of October 4, 1991, to withhold or extend liquidation of entries of imports of softwood lumber products originating in certain Provinces and territories of Canada, until the completion of Commerce's countervailing duty investigation. In order to maintain the status quo, it was determined that imports of softwood lumber products originating in certain Provinces and territories of Canada would be subject to contingent, temporary duties of up to 15 percent *ad valorem*. The imposition of those duties was contingent upon affirmative final subsidy and injury determinations in the countervailing duty investigation.[18]

As a result of Commerce's self initiation, the Commission instituted preliminary countervailing duty investigation No. 701-TA-312 (Preliminary) in October 1991; it subsequently determined there was a reasonable indication that an industry in the United States was materially injured by reason of the allegedly subsidized imports of softwood lumber from Canada.[19]

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[15] 52 FR 315, January 5, 1987, and 52 FR 1535, January 14, 1987, respectively.

[16] On October 31, 1991, Commerce self-initiated the investigation (56 FR 56055, October 31, 1991). USTR's action was taken in response to the Government of Canada's announcement that, effective October 4, 1991, it would terminate the Memorandum of Understanding (MOU) concerning softwood lumber exports from Canada. The MOU had been in effect since December 30, 1986.

[17] *Initiation of Section 302 Investigation and Request for Public Comment on Determinations Involving Expeditious Action: Canadian Exports of Softwood Lumber* (56 F.R. 50738, October 8, 1991).

[18] The Secretary of the Treasury was instructed to impose the following bonding requirements: For softwood lumber originating from the province of Quebec, a single entry bond in the amount of 6.2 percent of the entered value of entries filed before November 1, 1991, and 3.1 percent of the entered value of entries filed on or after November 1, 1991; for such products originating in other listed Provinces, except British Columbia, a single entry bond in the amount of 15 percent of the entered value; and for such products originating in the province of British Columbia, zero rate of duty. (56 FR 50738, October 8, 1991). No bonding requirement was imposed on imports from the Maritime Provinces.

[19] *Softwood Lumber from Canada*, Inv. No. 701-TA-312 (Preliminary), USITC Publication 2468, December 1991.

In May 1992, Commerce made a final determination[20] that prices charged by Canada's provincial governments for the timber used in softwood lumber provide countervailable subsidies to their lumber producers. Additionally, Commerce determined that the Province of British Columbia's export ban on logs provided a quantifiable benefit to Canadian lumber producers. The total net subsidy rate for these programs was determined to be 6.51 percent.[21]

In June 1992, the Commission determined that U.S. producers were being materially injured by reason of subsidized imports of softwood lumber from Canada. Almost immediately, Canada formally requested review of the Commerce decision by a binational dispute resolution panel under the Canadian Free Trade Agreement (CFTA) as well as a panel review of the Commission's final determination. Commerce's and the Commission's decisions were remanded by the binational panels in May 1993 and July 1993, respectively. The panel affirmed the decision in part and remanded the determination in part to Commerce, noting the reasons why it was not supported by substantial evidence or otherwise in accordance with law.[22] Commerce found on remand that the rate of subsidy was 11.54 percent. In December 1993, the panel affirmed Commerce's decision in part and remanded it in part because Commerce's remand decision was not supported by substantial evidence or otherwise in accordance with law.[23]

A different panel reviewed the Commission's final determination, and it affirmed the Commission's determination in part and remanded it in part, finding that the Commission's "determination of material injury by reason of subsidized Canadian imports {was} not supported by substantial evidence on the record."[24] In October 1993, the Commission issued its remand determination in which it again found that the domestic industry was experiencing present material injury by reason of imports of softwood lumber from Canada.[25]

In January 1994, in its second remand determination filed with the panel, Commerce found that the Provincial stumpage programs and log export restrictions did not constitute countervailable subsidies. The binational panel upheld Commerce's decision in February 1994 and, in April 1994, the United States lodged an extraordinary challenge to the panel's action.

In the meantime, in January 1994, the panel hearing the Commission's case affirmed the Commission's remand determination in part, but also found that two aspects of the Commission's price suppression analysis and the Commission's price trends analysis in its present form were not supported by substantial evidence or were otherwise not in accordance

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[20] 57 FR 37453.

[21] 57 FR 22570, May 28, 1992.

[22] Binational Panel, *In the Matter of: Softwood Lumber from Canada,* Secretariat Case No. USA-92-1904-1, May 6, 1993.

[23] Binational Panel, *In the Matter of: Softwood Lumber from Canada,* Decision of the Panel on Remand, Binational Secretariat Case No. USA-92-1904-1, December 17, 1993.

[24] Binational Panel, *In the Matter of: Softwood Lumber from Canada,* Secretariat Case No. USA-92-1904-2, July 26, 1993.

[25] *Softwood Lumber from Canada,* Inv. No. 701-TA-312 (Remand), USITC Publication 2689, October 1993.

with the law.[26] In March 1994, the Commission issued its second remand determination and through the plurality opinion of Commissioners Newquist and Rohr and the opinion of Commissioner Crawford, the Commission again found present material injury.[27] In July 1994, the binational panel once again remanded the Commission's determination, holding that the decision in part was "not supported by substantial evidence on the record and is inconsistent with previous rulings of the Panel."[28] In August 1994, the three judge committee that heard the extraordinary challenge of the panel's opinions in the Commerce proceedings dismissed the U.S. request on the grounds that the standards for an extraordinary challenge had not been met.[29] As a result of that decision, Commerce's negative countervailing duty determination on remand went into effect on August 5, 1994, and consequently, the Commission's investigation was terminated before the issuance of a third remand determination.

On May 29, 1996, the United States and Canada formally entered into a 5-year Softwood Lumber Agreement (SLA 1996) intended to ensure there is no material injury or threat thereof to an industry in the United States from imports of softwood lumber from Canada. The agreement was originally announced on April 2, 1996,[30] and the legal details were finalized over the next 8 weeks.

The five-year SLA 1996 established annual allocations and fees for the softwood lumber exports of the Canadian provinces of British Columbia, Quebec, Alberta, and Ontario.[31] The agreement stipulated that up to 14.7 billion board feet of softwood lumber could be exported annually without fees (i.e., export tax); for quantities between 14.7 billion and 15.35 billion board feet, a fee of US$50 per 1,000 board feet would be assessed; and a fee of US$100 per 1,000 board feet would be assessed for exports in excess of 15.35 billion board feet per year. The Government of Canada was responsible for allocating export allowances to the four

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[26] Binational Panel, *In the Matter of: Softwood Lumber from Canada,* Decision of the Panel on Review of the Remand Determination of the U.S. International Trade Commission, Secretariat Case No. USA-92-1904-2, January 28, 1994.

[27] *Softwood Lumber from Canada,* Inv. No. 701-TA-312 (Second Remand), USITC Publication 2753, March 1994.

[28] Binational Panel, *In the Matter of: Softwood Lumber from Canada,* Decision of the Panel on Review of the U.S. International Trade Commission's Second Remand Determination, Secretariat Case No. USA-92-1904-2, July 6, 1994.

[29] See, *In the Matter of: Certain Softwood Lumber from Canada,* ECC-94-1904-01USA, Memorandum, Opinion and Order, August 3, 1994.

[30] Office of the United States Trade Representative, "Statement of Ambassador Kantor on Finalizing the Softwood Lumber Agreement," press release 96-35, April 2, 1996; Canadian Department of Foreign Affairs and International Trade, "Agreement on Softwood Exports Preserves U.S. Market Access for Five Years, Eggleton Says," press release No. 56, April 2, 1996.

[31] Canada decided to base the allocations on historical trade levels. Allocations were distributed as follows: British Columbia, 59 percent; Quebec, 23 percent; Ontario, 10.3 percent; and Alberta, 7.7 percent. Exports originating in Manitoba, Saskatchewan, and the Maritime Provinces were not subject to the SLA.

provinces. Each province had an allocation and exported amounts over the allocation were assessed fees.

Under the SLA, U.S. lumber companies, unions, and trade associations pledged that they would not seek recourse to the trade laws against U.S. imports of softwood lumber from Canada for the duration of the five-year agreement. Additionally, Canada was assured that Commerce would not self-initiate any trade action during the life of the agreement and would dismiss any petition from this sector that was brought under the countervailing duty or antidumping law as long as the agreement was in effect and not breached. On March 31, 2001 the agreement expired, and imports of softwood lumber from Canada once again entered the United States unconditionally free of duty.

On April 2, 2001, the Coalition for Fair Lumber Imports Executive Committee and others filed antidumping and countervailing duty petitions, which the Department initiated on April 23, 2001 (Case Nos. A-122-838, C-122-839, 701-TA-414, 731-TA-928, "*Lumber IV*").[32] Following affirmative AD and CVD determinations by the Department and an affirmative threat of material injury determination by the Commission, the Department issued AD and CVD orders on May 22, 2002.[33] The Department also concluded, in the final results of two administrative reviews of these orders and in the preliminary results of a third, that softwood lumber from Canada continued to be subsidized and sold for less than fair value in the period after the orders were issued.[34]

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[32] *Certain Softwood Lumber Products from Canada*, 66 Fed. Reg. 21,332 (Dep't Commerce Apr. 30, 2001) (initiation of CVD investigation); *Certain Softwood Lumber Products from Canada*, 66 Fed. Reg. 21, 328 (Dep't Commerce Apr. 30, 2001) (initiation of AD investigation).

[33] *Certain Softwood Lumber Products from Canada*, 67 Fed. Reg. 36,068 (Dep't Commerce May 22, 2002) (amended final AD determ. and order); *Certain Softwood Lumber Products from Canada*, 67 Fed. Reg. 36,070 (Dep't Commerce May 22, 2002) (amended final CVD determ. and order). Both orders were subsequently amended to correct an inadvertent error in the scope description. 67 Fed. Reg. 37,775 (Dep't Commerce May 30, 2002).

[34] *Notice of Final Results of Countervailing Duty Administrative Review and Rescission of Certain Company-Specific Reviews: Certain Softwood Lumber Products from Canada*, 69 Fed. Reg. 75,917 (Dec. 20, 2004) and accompanying Issues and Decision Memorandum ("*Lumber IV* CVD AR1 Final") *Notice of Final Results of Antidumping Duty Administrative Review: Certain Softwood Lumber Products from Canada*, 70 Fed. Reg. 73,437 (Dec. 12, 2005) and accompanying Issues and Decision Memorandum ("*Lumber IV* CVD AR2 Final") (Exh. LW-34); *Notice of Preliminary Results and Extension of Final Result of Countervailing Duty Administrative Review: Certain Softwood Lumber Products from Canada*, 71 Fed. Reg. 33,931 (June 12, 2006) ("*Lumber IV* CVD AR3 Prelim") (Exh. LW-35); *Notice of Final Results of Antidumping Duty Administrative Review and Notice of Final Results of Antidumping Duty Changed Circumstances Review: Certain Softwood Lumber Products From Canada*, 69 Fed. Reg. 75,921 (Dec. 20, 2004) and accompanying Issues and Decision Memorandum ("*Lumber IV* AD AR1 Final") *Notice of Final Results of Antidumping Duty Administrative Review: Certain Softwood Lumber Products From Canada*, 70 Fed. Reg. 73,437 (Dec. 12, 2005) and accompanying Issues and Decision Memorandum ("*Lumber IV* AD AR2 Final"); *Notice of Preliminary Results of Antidumping Duty Administrative Review; Partial Rescission and Postponement of the Final Results: Certain Softwood Lumber Products From Canada*,

(*continued*...)

After numerous remands, a binational panel under the North American Free Trade Agreement ("NAFTA") found that the Commission's threat of material injury determination was unsupported by substantial evidence and, directed the Commission to enter a negative determination.[35] The panel's decisions were upheld by an ECC.[36] However, the Commission and Commerce's determinations also had been the subject of challenges in the World Trade Organization (WTO). In response to the original WTO panel decision regarding the Commission's threat determination, USTR requested that the Commission conduct a Section 129 of the Uruguay Round Agreements Act, 19 U.S.C. § 3538, proceeding. Based on the Commission's revised affirmative threat of injury determination under Section 129, the Department amended the AD and CVD orders,[37] and the AD and CVD orders therefore remained in effect.Other binational panels under NAFTA reviewed the Commerce final AD and CVD determinations. Although the Commerce AD panel proceeding had not yet concluded when the orders were revoked, the CVD panel ultimately directed the Department to make a finding of *de minimis* subsidization. An ECC was requested to review the final panel decision in the CVD case,[38] and this request was still pending when the orders were revoked on the basis of the new agreement.

The United States and Canada entered into a new Softwood Lumber Agreement on October 12, 2006 ("2006 SLA"). To implement the 2006 SLA, the Department revoked the antidumping and countervailing duty orders and terminated all related proceedings.[39] In exchange, and among other provisions, Canada agreed to apply certain export measures – export charges and volume limitations – to imports of softwood lumber from Canada when the price of such products fell below a certain level. While the 2006 SLA expired on October 12, 2015, the parties had agreed to a "standstill" clause in which the domestic industry was

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(…*continued*)
71 Fed. Reg. 33,963 (June 12, 2006) and accompanying Issues and Decision Memorandum ("*Lumber IV* AD AR3 Prelim").

[35] In entering the negative determination on remand as required by the Panel, the Commission stated: "{W}e disagree with the Panel's view that there is no substantial evidence to support a finding of threat of material injury, and we continue to view the Panel's decisions throughout this proceeding as overstepping its authority, violating the NAFTA, seriously departing from fundamental rules of procedure, and committing legal error." *Certain Softwood Lumber Products from Canada*, Case No. USA/CDA-02-1904-07, Views of the Commission on Remand (Third), Sept. 10, 2004, at 14 (footnotes omitted).

[36] *Notice of Completion of Extraordinary Challenge Committee*, 70 Fed. Reg. 48,103 (NAFTA Secretariat Aug. 16, 2005).

[37] *Amendment to Antidumping and Countervailing Duty Orders on Certain Softwood Lumber Products from Canada*, 69 Fed. Reg. 75,916 (Dep't Commerce Dec. 20, 2004).

[38] *Notice of Request for an Extraordinary Challenge Committee*, 71 Fed. Reg. 28,854 (NAFTA Secretariat May 18, 2006).

[39] *Certain Softwood Lumber Products from Canada*, 71 Fed. Reg. 61,714 (Dep't Commerce Oct. 19, 2006) (revocation of AD order); *Certain Softwood Lumber Products from Canada*, 71 Fed. Reg. 61,714 (Dep't Commerce Oct. 19, 2006) (revocation of CVD order).

required to wait one year from the expiration of 2006 SLA to file a petition for any trade remedy investigation.[40]

NATURE AND EXTENT OF ALLEGED SUBSIDIES AND SALES AT LTFV

Alleged subsidies

On December 22, 2016, Commerce published a notice in the *Federal Register* of the initiation of its countervailing duty investigation on softwood lumber from Canada.[41] Commerce identified the following 33 government programs which the department is initiating an investigation in Canada:[42]

- **1. Government of British Columbia Provision of Stumpage for LTAR**
- **2.-Government of Alberta Provision of Stumpage for LTAR**
- **3. Government of Saskatchewan Provision of Stumpage for LTAR**
- **4. Government of Manitoba Provision of Stumpage for LTAR**
- **5. Government of Ontario Provision of Stumpage for LTAR**
- **6. Government of Quebec Provision of Stumpage for LTAR**
- **7. Government of New Brunswick Provision of Stumpage for LTAR**
- **8. British Columbia Log Export Restraints**
- **9. Grants Under the Federal Forestry Industry Transformation Program**
- **10. Sustainable Development Technology Canada**
- **12. BC Hydro's Power Smart Load Displacement Program**
- **13. BC Hydro's Electricity Purchase Agreements**
- **14. New Brunswick's LIREPP**
- **15. Ontario Northern Industrial Electricity Rate Program**
- **16. GOQ Purchase of Electricity for MTAR under PAE 2011-01**
- **17. Tax Incentives for Private Forest Producers – Property Tax Refund for Forest Producers on Private Woodlands in Quebec**
- **18. Tax Incentives for Private Forest Producers – Deduction of Taxable Income for Forest Producers on Private Woodlands in Quebec**
- **19. Regional Tax Credit Program for Job Creation in Quebec**

[40] The original 2006 SLA had a term of seven years, with an option to extend the agreement for an additional two years; the parties agreed to extend the agreement to October 12, 2015.

[41] *Certain Softwood Lumber Products From Canada: Initiation of Countervailing Duty Investigation*, 81 FR 93897, December 22, 2016.

[42] Commerce is not initiating investigations concerning five alleged programs: Quebec's Log Export Restrictions; Quebec Provision of Steam for LTAR under PAE 2011-01; Quebec's Income and Capital Tax Deferral Program; Alberta Prescribed Off-Road Percentage Program; and Ontario's Refund of Stumpage Fees for 2005-2006.

- **20. Tax Credits for Investments Relating to Manufacturing and Processing Equipment**
- **21. Tax Holiday for Large Investment Projects**
- **22. Credits for the Construction and Major Repair of Public Access Roads and Bridges in Forest Areas**
- **23. British Columbia Motor Fuel Tax Refund for Off-Highway Purposes**
- **24. Alberta Tax-Exempt Fuel Program for Marked Fuel**
- **25. Alberta's Tax Rebates for Clear Fuel**
- **26. EDC: Export Guarantee Program**
- **27. New Brunswick Provision of Silviculture Grants**
- **28. New Brunswick License Management Fees**
- **29. Forest Industry Grants under the FSPF**
- **30. Ontario Loan Guarantees under the FSLGP**
- **31. Quebec Financial Aid for the Development of Private Woodlots**
- **32. Western Economic Diversification Canada – WDP**
- **33. Western Economic Diversification Canada – WINN**

Alleged sales at LTFV

On December 22, 2016, Commerce published a notice in the *Federal Register* of the initiation of its antidumping duty investigation on softwood lumber from Canada.[43] Commerce has initiated an antidumping duty investigation based on estimated dumping margins of 20.12 percent to 53.08 percent.

THE SUBJECT MERCHANDISE

Commerce's scope

Commerce has defined the scope of these investigations as follows:[44]

> *The merchandise covered by this investigation is softwood lumber, siding, flooring and certain other coniferous wood ("softwood lumber products"). The scope includes:*
>
> - *Coniferous wood, sawn, or chipped lengthwise, sliced or peeled, whether or not planed, whether or not sanded, or whether or not finger-jointed, of an actual thickness exceeding six millimeters.*

[43] *Certain Softwood Lumber Products from Canada: Initiation of Less-Than- Fair-Value Investigation*, 81 FR 93892, December 22, 2016.

[44] *Certain Softwood Lumber Products from Canada: Initiation of Less-Than- Fair-Value Investigation*, 81 FR 93892, December 22, 2016.

- *Coniferous wood siding, flooring, and other coniferous wood (other than moldings and dowel rods), including strips and friezes for parquet flooring, that is continuously shaped (including, but not limited to, tongued, grooved, rebated, chamfered, V-jointed, beaded, molded, rounded) along any of its edges, ends, or faces, whether or not planed, whether or not sanded, or whether or not end-jointed.*

- *Coniferous drilled and notched lumber and angle cut lumber.*

- *Coniferous lumber stacked on edge and fastened together with nails, whether or not with plywood sheathing.*

- *Components or parts of semi-finished or unassembled finished products made from subject merchandise that would otherwise meet the definition of the scope above.*

Softwood lumber product imports are generally entered under Chapter 44 of the Harmonized Tariff Schedule of the United States ("HTSUS"). This chapter of the HTSUS covers "Wood and articles of wood." Softwood lumber products that are subject to this investigation are currently classifiable under the following ten-digit HTSUS subheadings in Chapter 44:

4407.10.01.01; 4407.10.01.02; 4407.10.01.15; 4407.10.01.16; 4407.10.01.17; 4407.10.01.18; 4407.10.01.19; 4407.10.01.20; 4407.10.01.42; 4407.10.01.43; 4407.10.01.44; 4407.10.01.45; 4407.10.01.46; 4407.10.01.47; 4407.10.01.48; 4407.10.01.49; 4407.10.01.52; 4407.10.01.53; 4407.10.01.54; 4407.10.01.55; 4407.10.01.56; 4407.10.01.57; 4407.10.01.58; 4407.10.01.59; 4407.10.01.64; 4407.10.01.65; 4407.10.01.66; 4407.10.01.67; 4407.10.01.68; 4407.10.01.69; 4407.10.01.74; 4407.10.01.75; 4407.10.01.76; 4407.10.01.77; 4407.10.01.82; 4407.10.01.83; 4407.10.01.92; 4407.10.01.93; 4409.10.05.00; 4409.10.10.20; 4409.10.10.40; 4409.10.10.60; 4409.10.10.80; 4409.10.20.00; 4409.10.90.20; 4409.10.90.40; and 4418.90.25.00.

Subject merchandise as described above may also be classified as stringers, square cut box-spring-frame components, fence pickets, truss components, pallet components, flooring, and door and window frame parts under the following ten-digit HTSUS subheadings in Chapter 44:

4415.20.40.00; 4415.20.80.00; 4418.90.46.05; 4418.90.46.20; 4418.90.46.40; 4418.90.46.95; 4421.90.70.40; 4421.90.94.00; and 4421.90.97.80.

Although these HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of the investigation is dispositive.

Tariff treatment

The scope set forth by the Department of Commerce provides the relevant HTSUS subheadings for the subject goods, and the information available to the Commission indicates that the subject goods are imported under the corresponding provisions of the 2016 HTS. The general rate of duty for all products imported under these subheadings is free, except for the following subheadings:

- 4409.10.05.00, which has a general rate of 3.2%.
- 4415.20.80.00, which has a general rate of 10.7%.
- 4418.90.46.05; 4418.90.46.20; 4418.90.46.40; and 4418.90.46.95, which have a general rate of 3.2%.
- 4421.90.97.80, which has a general rate of 3.3%.

For each of these 4 subheadings, originating goods of Canada under the terms of general note 12 to the tariff schedule are eligible to receive duty-free entry into the United States with proper claim and documentation. The description of the subject merchandise in these Petitions, not the descriptions of the HTSUS subheadings or classifications within those subheadings, defines the scope of the investigations. Decisions on the tariff classification and treatment of imported goods are within the authority of U.S. Customs and Border Protection.

THE PRODUCT

Description and applications

The term "softwood lumber" relates to a wide variety of products--such as boards, planks, timbers, framing materials, flooring, and siding--produced from coniferous species of trees.[45] As noted earlier, for purposes of these investigations, the term "softwood lumber" refers to those products classified for tariff purposes under subheadings 4407.10.00, 4409.10.10, 4409.10.20, 4409.10.90, 4418.90.45, 4421.90.70, and 4421.90.97 of the HTS.[46]

[45] Hardwood lumber is produced from deciduous trees.

[46] As noted in the "tariff treatment" section, general duty rates for most such subheadings are free, with goods of subheading 4401.90.45 dutiable at 3.2 percent *ad valorem* and those of 4421.90.97 at 3.3 percent. Goods originating in the territory of Canada are eligible to enter free of duty under the NAFTA.

According to the extent or stage of manufacture, such lumber (a product derived from a log by lengthwise sawing which, in its original sawed condition, has at least 2 approximately parallel flat longitudinal-sawed surfaces, and which may be rough, dressed, or worked) is classified by producers of most softwood lumber (both domestic and imported) into seven major categories:

Studs--lumber used in framing building walls with little or no trimming before they are set in place.

Dimension lumber--lumber that is from 2" to 5" thick, and is 2" or more in width.

Stress grades--lumber having assigned working stress and modulus of elasticity values in accordance with accepted basic principles of strength grading and meeting the provisions of the American Lumber Standards for Softwood Lumber.[47]

Timbers--lumber that is at least 5" in least dimension.

Boards--lumber less than 2" in nominal thickness and 1 inch or more in width.

Selects--high quality lumber graded for appearance.

Shop--lumber that is graded for the number and sizes of cuttings that can be used for the manufacture of other products.

Of the aforementioned categories, studs and dimension lumber represent the largest categories of U.S. and Canadian softwood lumber.

The major softwood species groups in descending order of U.S. consumption are southern yellow pine (SYP),[48] spruce-pine-fir (SPF),[49] Douglas fir, hem-fir,[50] and ponderosa pine. Of these, the major competing species groups produced in both the United States and Canada are SPF, Douglas fir, and hem-fir; SYP is not produced in Canada. Species common to both

[47] These standards are published by Commerce in cooperation with manufacturers, distributors, and users.

[48] A species combination composed primarily of Loblolly, Longleaf, Shortleaf, and Slash pines. Various subspecies are also included in the group.

[49] A species combination with similar characteristics that have been grouped for production and marketing. The principal species in the Western SPF (W-SPF) group are: white spruce, Engelman spruce, Lodgepole pine, and Alpine fir; in the Eastern SPF (E-SPF) group: red spruce, black spruce, Jack pine, and Balsam fir.

[50] A species combination used by grading agencies to designate any of various species having common characteristics. Included in this group are: California red fir, grand fir, noble fir, Pacific silver fir, Shasta fir, white fir, and western hemlock.

countries accounted for approximately 41 percent of U.S. production and about 95 percent of Canadian production.[51]

Lumber is classified according to its moisture content as green or dried.[52] Often, more than half the weight of green lumber is moisture. Some lumber is used green (e.g., Douglas fir), because various characteristics of the wood make such use easier or more economical. However, to prevent warping, most lumber is seasoned by being dried before retail sale.

Although the HTS uses metric units, softwood lumber is measured and sold in the North American market by the board foot, a three-dimensional unit described as--

> The quantity of lumber contained in, or derived (by drying, dressing, or working, or any combination of these processes) from, a piece of rough green lumber 1 inch in thickness, 12 inches in width, and 12 inches in length, or the equivalent of such piece in other dimensions.[53]

In addition, the *American Lumber Standards for Softwood Lumber* sets forth minimum measurements for dressed lumber. For example, a rough 2"x4" piece of lumber can be a minimum of 1-1/2"x3-1/2" when dressed.

Softwood lumber is graded at the sawmill on characteristics that affect its strength, durability, utility, and/or appearance. Some common defects that lower the grade are knots, splits, shake (separation of annual rings), wane (bark or lack of wood on corner or edge), and pitch pockets. Standard rules for grading lumber are published by regional lumber manufacturing or marketing organizations; they vary with geographic regions and species of lumber. In the past ten years, many sawmills (particularly larger ones) have installed computerized grading technology, which has greatly improved the efficiency and accuracy of the grading process.[54]

Softwood lumber is readily workable, has a high strength-to-weight ratio, and is moderately durable; hence, it is widely used in the construction, shipping, and manufacturing industries.[55] In 2015, 30.1 percent of the U.S. consumption of softwood lumber was used in new residential construction (new housing) and 38.7 percent in repair and remodeling, as shown in table I-1 (see part II for more information on demand).

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[51] Joint Respondents' Presentation at Staff Conference, Dec. 16, 2016, Slides 13 and 35, based on Statistics Canada and WWPA. There also may be overlap in the "Other" category of species, which is 6 percent for U.S. production and 4.9 percent for Canadian production. Southern yellow pine (SYP) which accounts for 53 percent of U.S. production is not produced in Canada.

[52] Generally, lumber with a moisture content of 19 percent or under is considered dried.

[53] In this report, units are generally specified in tables and tabular presentations in mbf (thousand board feet) and mmbf (million board feet). Discussion may be in terms of billion board feet.

[54] Conference transcript, pp. 90-91.

[55] Hardwood lumber, building boards (e.g., plywood and oriented strand board), certain paperboard products, and nonwood products (e.g., brick, concrete blocks, steel, aluminum, and plastic products) compete with softwood lumber in many uses. These competitive products are often more economical for particular uses, or they furnish unique performance or appearance.

Table I-1
Softwood lumber: U.S. housing starts and distribution of consumption by end use, 2013-15, January-September 2015, and January-September 2016

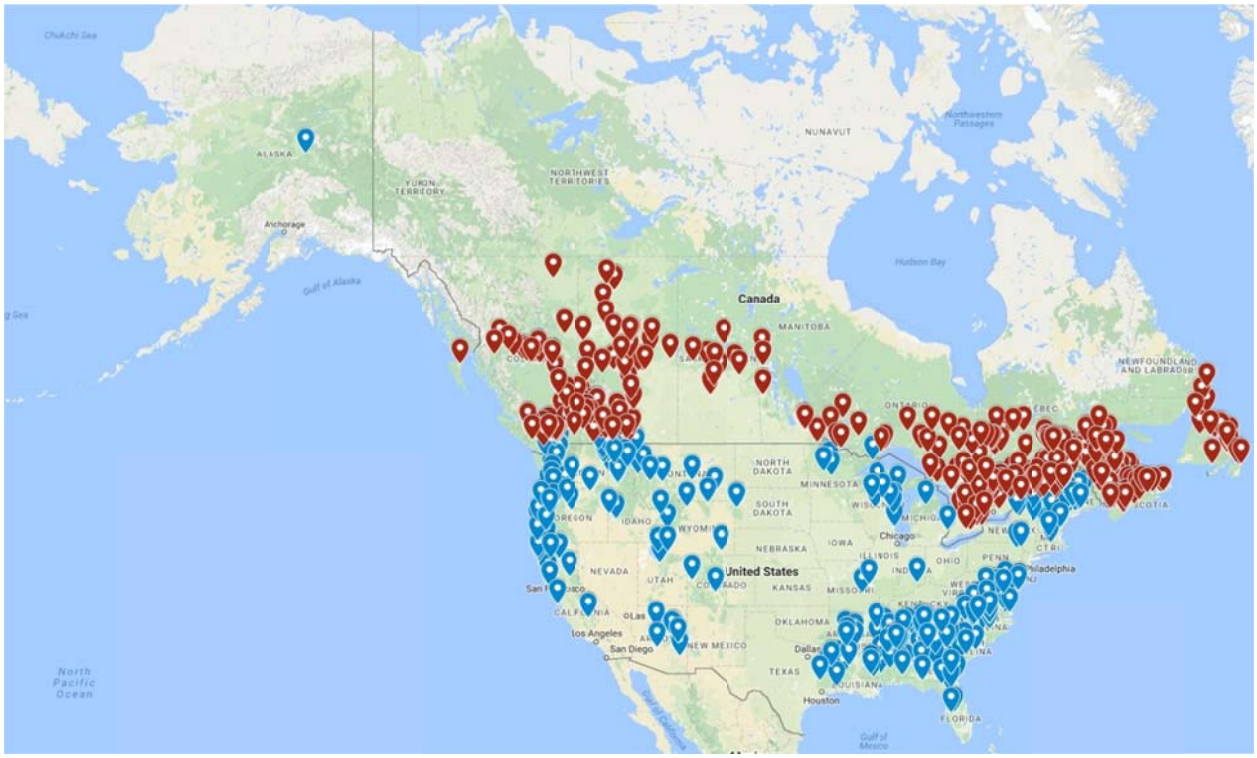
Item	Calendar years			January-September	
	2013	2014	2015	2015	2016
			1,000 units		
U.S. single family housing starts	618	648	715	548	595
U.S. multi- family housing starts	307	355	397	305	290
Total U.S. housing starts	925	1,003	1,112	853	885
			Percent		
New residential (new housing)	27.8	28.6	30.1	N/A	N/A
Repair and remodeling	40.0	39.6	38.7	N/A	N/A
Nonresidential	11.1	11.0	11.0	N/A	N/A
All other	21.1	20.7	20.2	N/A	N/A
Total	100.0	100.0	100.0	N/A	N/A

Note.–Because of rounding, figures may not add to the totals shown.

Source: Western Wood Products Association, *2015 Statistical Yearbook of the Western Lumber Industry*, WWPA and U.S. Census Bureau, *New Residential Construction, "Quarterly Starts and Completions by Purpose and Design*" (accessed December 19, 2016)..

Figure I-1 shows the primary locations of U.S. and Canadian sawmills throughout North America. Table I-2 shows the market share concentration of softwood lumber production.

Figure I-1
Sawmills of North America



Source: *2016 Big Book* , Random Lengths Publications, Inc., Eugene, Oregon

Table I-2
Softwood lumber: U.S. and Canadian production, 5 largest producers and 20 largest producers, 2013-15, and January-September 2016

Country and year	Total production *(mmbf)*	5 largest producers		20 largest producers	
		Production *(mmbf)*	Share of total production *(percent)*	Production *(mmbf)*	Share of total production *(percent)*
United States:					
2013	29,951	9,958	33	17,478	58
2015	31,643	11,957	38	19,566	62
2016 (Jan-Sept)	24,810	NA	NA	NA	NA
Canada:					
2013	24,446	12,065	49	18,801	77
2015	26,687	11,507	43	19,691	74
2016 (Jan-Sept)	21,364	NA	NA	NA	NA

Source: Lumber Track Reports: March 2015, March 2016, Dec 2016; Wood Markets International Report, *Canada & U.S. 'Top 20' Lumber Producers' Annual Ranking: 2015 and 2013*.

The Sawmilling Process

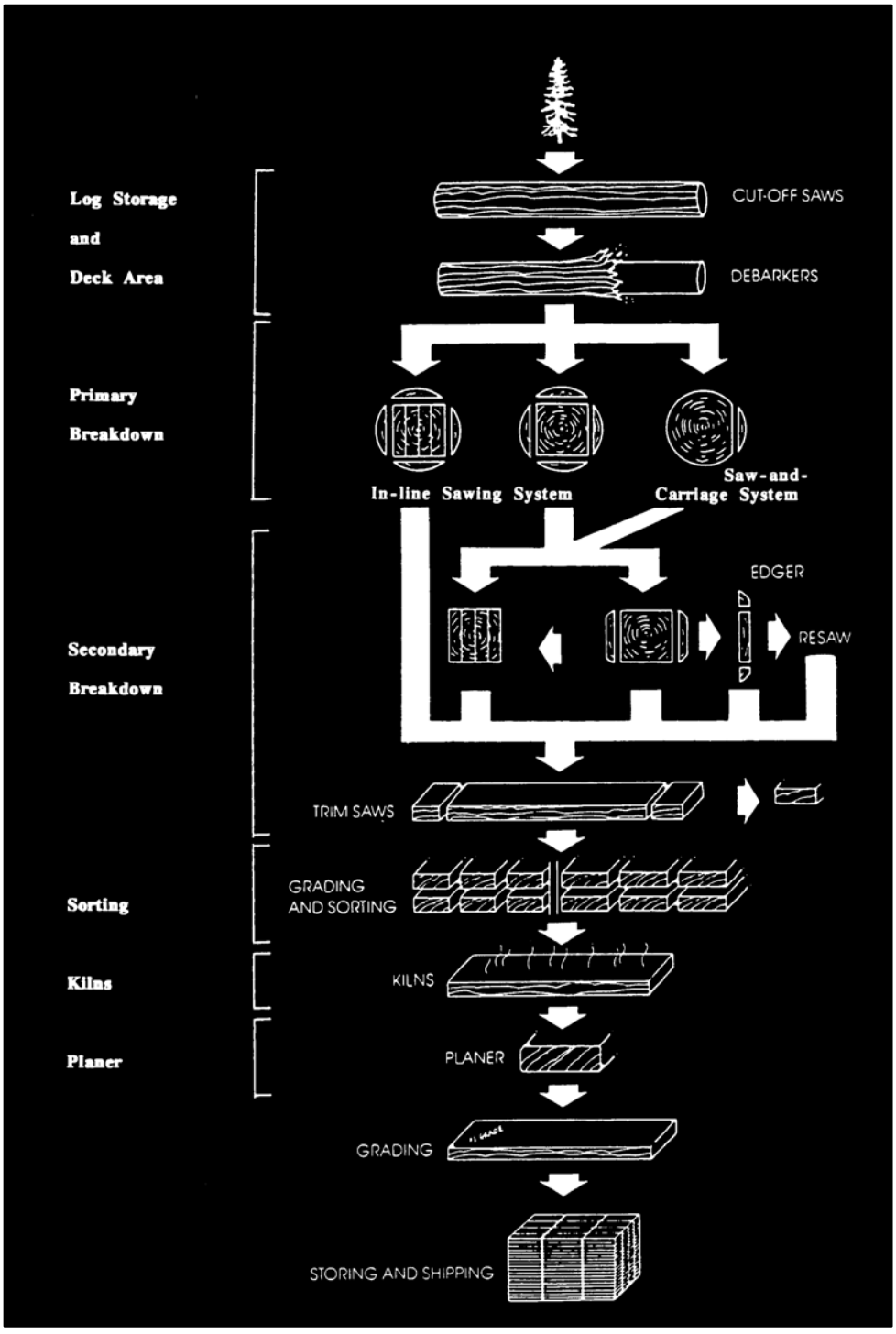
Figure I-2 shows a flow chart for a typical sawmill. The process begins in the storage yard, where the logs are sorted by species and size prior to entering the mill. At the log deck the bark is removed (debarking) and logs are cut or bucked to their most appropriate lengths. The logs are then transferred to the first sawing center within the mill, the primary breakdown area, where they are sawn into rough sizes known as cants or slabs. These primary products are then transferred to the secondary breakdown area. Here the cants and slabs are re-sawn into the most suitable thicknesses, widths, and lengths. The lumber is then sorted by thickness, width, and length in preparation for drying in the kilns. After drying, the lumber is planed to ensure a smooth surface. Finally, planed material is packaged into loads for shipment to wholesalers, retailers, and consumers.[56] Softwood lumber is generally used in construction, or remanufactured. Remanufacturing may require further re-sawing of lumber to specified sizes and edge profiles, joining two or more pieces of lumber by finger-jointing or glue-lamming, or further planing or sanding. Remanufactured lumber[57] is used for a variety of purposes, from construction to manufacturing furniture.[58]

[56] It should be noted that not all lumber is planed at the first mill. Some is sold "rough" for use in certain construction where appearance is not a driving factor, and remanufacturing--a process of converting rough lumber to a more specialized or higher grade lumber by further manufacturing.

[57] There is no widespread agreement on an exact definition of "remanufactured" lumber.

[58] Remanufactured lumber products are made from lower grade to higher grade lumber (e.g., utility grade to shop grade). Remanufactured products include bed frame material (box spring components), shipping materials, flooring and siding, ladder stock, dimension lumber, and stock for furniture manufacturing.

Figure I-2
Softwood lumber: The sawmilling process



Source: The Forest Sector Advisory Council. Reprinted with permission.

DOMESTIC LIKE PRODUCT ISSUES

Petitioners state that "there have been no changes in the domestic softwood lumber industry to warrant a reconsideration of the Commission's previous findings" [59] and that, consequently, the domestic like product should be defined coextensively with the scope as softwood lumber, as it was in previous cases.[60] At the conference, some of the Respondents argued that two species of softwood lumber—Western Red Cedar (WRC) and Eastern White Pine (EWP)—should be excluded from the domestic like product, preferably in the preliminary phase, and if not excluded in this phase, then they should be excluded in any final phase investigation.[61] Some respondents also requested that bedframe components be excluded from the domestic like product, stating that "the petition excludes radius{-end} bedframe components from the proposed scope, yet includes, without explaining why, square-end bedframe components," even though the pieces are generally made of the same type of wood and both ends are required to make a bedframe.[62] The government of Canada indicated that it did not plan to address domestic like product issues in the preliminary investigation.[63]

WRC Lumber[64]

At the conference, Respondents argued that WRC is a separate domestic like product from other softwood lumber (including other cedars and redwood) primarily because it is intended for different end uses and sells for much higher prices than the framing lumber described in the petition. Counsel testifying on behalf of Western Forest Products and Interfor, producers of WRC, contended that in the last lumber case Weyerhaeuser also took the position that WRC should be defined as a separate domestic like product.[65]

In the previous investigations, the Commission found that the record indicated some differences, but also some similarities, between WRC and other softwood lumber products in terms of physical characteristics and uses, interchangeability, channels of distribution, customer and producer perceptions, and price, and was inconclusive with respect to

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[59] Petition (public version), p. 31.

[60] Conference transcript, p. 160.

[61] Respondents stated that if there is "inadequate record to find that western red cedar is a separate like product in this preliminary phase, we urge the Commission to flag this issue for thorough and serious investigation in the final phase." (Conference transcript, p. 148)

[62] Conference transcript, pp. 151–152.

[63] Conference transcript, p. 161.

[64] Unless otherwise indicated, the source for the information in this section largely is drawn from *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-17-I-19.

[65] Conference transcript, p. 148. Weyerhaeuser, a U.S. and Canadian producer, as well as an importer of subject softwood lumber, is part of the petitioning Coalition in these investigations.

differences in manufacturing facilities, production processes, and employees.[66] Ultimately, the Commission concluded that "there are not clear dividing lines between the numerous species that comprise the continuum of softwood lumber and do not define either WRC or white pine as a separate domestic like product."[67]

Physical Characteristics and Uses

WRC grows in the United States in the coastal and interior forests of Washington, Idaho, and Montana, as well as in parts of Alaska, Oregon, and California. WRC accounts for about two percent of total domestic softwood lumber production. WRC has several physical characteristics that may distinguish it from other softwood lumber products, such as its coloring; fragrance; high heartwood to sapwood ratio (which enables it to withstand harsh weather conditions and insulate well); natural toxicity to decay-causing fungi; natural resistance to insect attack; hygroscopic nature (which gives it a low shrinkage factor, more dimensional stability, and lower likelihood of warping, twisting, checking, swelling, or cracking); and light weight.

WRC lumber is generally not used as a framing or structural lumber like other softwood lumber products and is superior for a variety of non-structural uses.[68] Because WRC lumber is not generally used in applications requiring strength, the grading process for WRC lumber is different than for other softwood lumber products, which are generally graded on characteristics such as strength, durability, utility, and/or appearance. WRC lumber, however, is used in some applications (including structural applications) such as decks and siding where other softwood lumber products (such as SYP, Port Orford cedar, yellow cedar, and redwood) also may be used.

Interchangeability and Customer and Producer Perceptions

In the 2002 case, it was established that one of the main markets where WRC may compete with other softwood lumber is in decking applications. Respondents state that the decking market has changed since that investigation. In the conference for this investigation, Counsel for the Respondents stated that "the market is developed, particularly, with respect to non-wood substitutes, premium composites it'll show more definitively in this case than it did

[66] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-17.

[67] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. 8.

[68] These include shakes, shingles, siding, clapboards, paneling, shutters, fencing components, arbors, trellises, benches, planter boxes, bird houses, hot tub skirts, playground equipment, agricultural stakes, lawn furniture, gazebos, exterior trim, indoor paneling, specialty window treatments, and particularly applications where appearance is emphasized.

in the last case that western red cedar and southern yellow pine are not competing in the decking market."[69]

Channels of Distribution

In the 2002 investigation, information from Commission questionnaires indicated that WRC lumber is more frequently sold through wholesalers/distributors than is the case for softwood lumber. Specifically, while 40 percent of U.S.-produced softwood lumber moved through the wholesaler/distributor channel in 2001, 91 percent of WRC lumber moved through that channel. Most of the remaining WRC lumber was sold to remanufacturers.

Manufacturing Facilities, Production Processes, and Employees

In the conference, Respondents mentioned that "{h}arvesting western red cedar often involves expensive helicopter logging and milling western red cedar is a much more labor-intensive and costly process" than for other softwood lumber.[70]

In the producer questionnaire used in the final phase of the previous investigation, producers were asked if they produced WRC lumber and, if so, do they "use the same production facilities, production processes, and employees as are used to produce other softwood lumber products?" Of the nine producers indicating they produced WRC lumber, four produced WRC lumber only while the others produced other softwood lumber products in addition to WRC lumber. In general, they indicated that the same production facilities, equipment, and employees were used for softwood lumber and WRC lumber production.

Prices

In the 2002 investigation, average unit values of WRC lumber shipments reported in producer questionnaires were $660-$690 per mbf compared with $340-$420 for softwood lumber shipments.

Eastern White Pine Lumber[71]

At the conference, counsel on behalf of the Ontario Forest Industries Association argued that white pine lumber is a separate domestic like product from other softwood lumber

[69] Conference transcript, p. 162.

[70] Conference transcript, p. 147.

[71] Unless otherwise indicated, the source for the information in this section largely is drawn from *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-19-I-20.

products (including other white pines) because it is an appearance-grade wood with different end uses and higher prices.[72]

In the previous investigations, the Commission found that the record indicated some differences, but also some similarities, between the broader category of white pine (not only EWP) and other softwood lumber products in terms of physical characteristics and uses, interchangeability, channels of distribution, customer and producer perceptions, and price, and was inconclusive with respect to differences in manufacturing facilities, production processes, and employees. Ultimately, the Commission concluded that "there are not clear dividing lines between the numerous species that comprise the continuum of softwood lumber and do not define either WRC or white pine as a separate domestic like product."[73]

Physical Characteristics and Uses

White pine lumber production is primarily located in the northeastern United States and it accounts for less than one percent of total domestic softwood lumber production. White pine is a light-weight, straight-grained softwood lumber with relatively few knots that readily and uniformly seasons, and when air-dried, has low shrinkage. It is easy to work by hand and machine tools, easy to glue, and has good nailing and screw-holding properties. Due to its high quality, it is often used for its aesthetic and appearance purposes in the manufacture of furniture and other specialty products such as toys, carvings, and woodenware. The heartwood of white pine is moderately durable but very permeable (i.e., it carries fluids easily through the wood); its permeability is nearly seven times higher than that of balsam fir and almost 14 times higher than that of red spruce. White pine must be treated with preservatives where conditions are favorable to decay. Because white pine is not generally used in strength applications, the grading process is different than for other softwood lumber products. While the cost and physical characteristics of white pine may make it unsuitable for the general construction uses (studs and dimension lumber) of other softwood lumber, it may have similar end uses as such other softwood lumber as sugar pine, ponderosa pine, and Idaho pine.[74]

Interchangeability and Customer and Producer Perceptions

At the conference, counsel stated that EWP is more interchangeable with other appearance-grade woods (many of which are hardwoods) than with the species used for framing mentioned in the petition.[75]

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[72] Conference transcript, p. 151.

[73] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. 8.

[74] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-20.

[75] Conference transcript, p. 150.

Channels of Distribution

Information from Commission questionnaires in the 2002 investigation indicated that U.S.-produced white pine lumber is more frequently sold through wholesalers/distributors than is the case for softwood lumber. While 40 percent of U.S.-produced softwood lumber moved through the wholesaler/distributor channel in 2001, 73 percent of U.S.-produced white pine lumber moved through that channel. Most of the remaining white pine lumber was sold to retailers.[76]

Manufacturing Facilities, Production Processes, and Employees

In the producer questionnaire used in the 2002 investigation, producers were asked if they produced white pine lumber and, if so, do they "use the same production facilities, production processes, and employees as are used to produce other softwood lumber products?" Of the eight producers indicating they produced white pine lumber, four produced white pine lumber only while the others produced other softwood lumber products in addition to white pine lumber.[77]

Prices

At the conference, Respondents noted that they had found EWP prices to be fairly steady at around $875 per mbf, while SPF and SYP prices fluctuated between $297 and $367 per mbf.[78] Data from the producer questionnaires in the 2002 investigation showed that the average unit values of white pine lumber shipments were $550-$575 per mbf compared with $340-$420 for softwood lumber shipments.

[76] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-20.

[77] *Softwood Lumber from Canada*, Invs. Nos. 701-TA-414 and 731-TA-928 (Final), USITC Publication 3509, May 2002, p. I-20.

[78] Conference transcript, p. 167.

PART II: CONDITIONS OF COMPETITION IN THE U.S. MARKET

U.S. MARKET CHARACTERISTICS

Softwood lumber is used in both construction of new homes as well as repairs and renovations of existing homes. U.S. market demand is mostly supplied by domestic producers and Canadian producers. Petitioners describe most U.S.-produced softwood lumber as coming from privately-owned land, while most Canadian softwood lumber comes from land owned by various levels of Canadian government.[1] As noted in part I, U.S.-produced softwood lumber is manufactured mostly from Southern yellow pine (SYP) in the Southeast, and Douglas Fir/Larch and Hemlock-Fir in the West. Canadian softwood lumber is manufactured mostly from spruce-pine-fir (SPF) from the provinces of British Columbia and Québec. Softwood lumber from Western Red Cedar (WRC) is manufactured in both the United States and Canada.

Apparent U.S. consumption of softwood lumber increased 12.8 percent from 2013 to 2015, and was 11.9 percent higher in January-September 2016 than in January-September 2015. As described in Part I, until October 2015, the 2006 Softwood Lumber Agreement (2006 SLA) was in effect.

Product range, mix, and marketing

Thirty-six U.S. producers and 45 importers indicated that there had not been any changes to the product range, mix, or marketing of softwood lumber since 2015. Fifteen producers did report changes. Three producers (***) mentioned instances of changing, diversifying, or eliminating some of their products in response to foreign competition. U.S. producer *** reported having to redirect its marketing focus to a different region within the United States as a result of its market share losses in another region due to Canadian softwood lumber imports. Thirteen importers also reported making changes to their product range or marketing. Of the importers reporting changes, four (***) stated that they were adding or shifting production to particular products and diversifying the number and volume of species offered in response to client requests. Three producers (***) and two importers (***) mentioned the Softwood Lumber Checkoff program[2] as being a marketing effort successful in expanding the use of softwood lumber in more commercial applications.

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[1] Conference transcript, pp. 12 and 18 (Kentz), p. 34 (Miller), and p. 51 (Roady). However, Joint Respondents described the Canadian stumpage system as having undergone market-based reforms. Joint Respondents' postconference brief, pp. 1, 11.

[2] The Softwood Lumber Checkoff program was established by the USDA Agricultural Marketing Service in 2011. The program levied a fee on large lumber manufacturers, with the proceeds being used to promote the use of lumber in construction. A judge ruled that the assessment the program charged to large home manufacturers was unlawful in May 2016. http://www.capitalpress.com/Timber/20160526/judge-rules-softwood-lumber-checkoff-unlawful May 26, 2016. See also Petitioners' postconference brief, exhibit 4.

Purchasers

There are numerous types of softwood lumber purchasers. They include "big box" stores (e.g., Lowe's, Home Depot, and Menard's), regional distributors, stocking distributors and pro dealers (for sales to construction firms), wholesalers, brokers, treaters, pallet manufacturers, and lumber yards. While U.S. producer Stimson stated that its largest customer is Home Depot, U.S. producers at the conference indicated that they generally try to sell to a wide mix of purchasers.[3]

Twelve U.S. producers indicated that they had sales to "big box" stores, though most of these producers reported that their shares of sales to these retailers were less than 10 percent of their total sales. Fifteen importers reported sales to big box stores, with seven of these importers reporting that their share of sales to these retailers was greater than 10 percent of total sales.

CHANNELS OF DISTRIBUTION

U.S. producers sold the greatest proportion of their shipments to distributors, with large shares also going to the retailer and remanufacturer markets. Importers sold a majority of their Canadian shipments of softwood lumber to distributors, as shown in table II-1.[4]

Table II-1
Softwood Lumber: U.S. producers' and importers' U.S. commercial shipments, by sources and channels of distribution, January 2013-September 2016

Item	Period				
	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Share of reported shipments (*percent*)				
U.S. producers' U.S. commercial shipments of softwood lumber:					
Distributors	36.7	36.3	36.1	35.7	35.1
Retailers	30.3	29.9	30.2	30.3	30.2
Remanufacturers	22.5	22.4	22.2	22.4	23.0
Other	10.5	11.4	11.6	11.6	11.7
U.S. importers' U.S. commercial shipments of softwood lumber from Canada:					
Distributors	59.9	60.3	59.3	59.5	59.1
Retailers	21.5	21.0	21.2	21.2	21.6
Remanufacturers	6.2	6.5	7.1	7.0	7.3
Other	12.3	12.2	12.5	12.3	12.0
U.S. importers' U.S. commercial shipments of softwood lumber from all other countries:					
Distributors	***	***	***	***	***
Retailers	***	***	***	***	***
Remanufacturers	***	***	***	***	***
Other	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

[3] Conference transcript, p. 30 (Miller), and pp. 78-79 (Miller, Banahan, Roady, and Dauzat).

[4] Data for imports from non-subject countries are based on ***.

GEOGRAPHIC DISTRIBUTION

Taken as a whole, U.S. producers and importers reported selling softwood lumber to all regions in the contiguous United States, as shown in table II-2. Individually, 18 U.S. producers and 24 importers reported selling to all regions in the U.S. as well. For U.S. producers, 14.5 percent of sales were within 100 miles of their production facility, 66.0 percent were between 101 and 1,000 miles, and 19.4 percent were over 1,000 miles. Importers sold 6.7 percent within 100 miles of their U.S. point of shipment, 47.8 percent between 101 and 1,000 miles, and 45.5 percent over 1,000 miles.

Table II-2
Softwood Lumber: Geographic market areas in the United States served by U.S. producers and importers

Region	U.S. producers	Importers
Northeast	42	57
Midwest	46	52
Southeast	46	53
Central Southwest	41	46
Mountain	31	33
Pacific Coast	27	28
Other[1]	17	8
All regions (except Other)	18	24
Reporting firms	52	59

[1] All other U.S. markets, including AK, HI, PR, and VI.

Source: Compiled from data submitted in response to Commission questionnaires.

SUPPLY AND DEMAND CONSIDERATIONS

U.S. supply

Domestic production

Based on available information, U.S. producers of softwood lumber have the ability to respond to changes in demand with small-to-moderate changes in the quantity of shipments of U.S.-produced softwood lumber to the U.S. market. The main contributing factors to this degree of responsiveness of supply are the availability of a moderate amount of unused capacity and inventories, constrained by an inability to shift shipments from alternate markets or from alternate products.[5]

[5] Counsel for petitioners described softwood lumber supply as generally inelastic because of the decades it takes to produce the raw material, timber. Conference transcript, p. 19 (Kentz). Past academic papers have come to similar conclusions via various econometric methods, estimating the U.S. lumber supply to be inelastic in both the long and the short-run, using data during the 2006 SLA period (Parajuli et. al. 2015) and prior to it (Song et. al 2011).

Industry capacity

Domestic capacity utilization increased slightly from 77.3 percent in 2013 to 79.6 percent in 2015. However, overall capacity also rose over the period. This moderate level of capacity utilization suggests that U.S. producers may have some ability to increase production of product in response to an increase in prices.

Alternative markets

U.S. producers' exports, as a percentage of total shipments, were 2.0 percent or less (on a quantity basis) during January 2013-September 2016, indicating that U.S. producers may have very limited ability to shift shipments between the U.S. market and other markets in response to price changes.

Inventory levels

U.S. producers' inventories were relatively stable, and remained under 7.5 percent of total shipments during January 2013-September 2016, suggesting that U.S. producers may have a moderate to limited ability to respond to changes in demand with changes in the quantity shipped from inventories.

Production alternatives

No responding U.S. producers indicated that they produced other products on the same equipment on which they produced softwood lumber.

Supply constraints

Forty-two producers stated that they had not refused, declined, or been unable to supply softwood lumber since January 1, 2013, while nine stated that they had, citing unacceptably low-priced offers, shortages of particular specialty products, and an inability to meet volume requirements for ***.

Subject imports from Canada[6]

Based on available information, producers of softwood lumber from Canada have the ability to respond to changes in demand with small-to-moderate changes in the quantity of shipments of softwood lumber to the U.S. market. The main contributing factors to this degree of responsiveness of supply are the moderate share of sales to non-U.S. export markets and

[6] For data on the number of responding foreign firms and their share of U.S. imports from Canada, please refer to Part I, "Summary Data and Data Sources."

moderate inventories, constrained by the limited availability of unused capacity and inability to shift production to or from alternate products.

Industry capacity

Canadian capacity utilization increased slightly from 2013 to 2015, and was always over *** percent. This somewhat high level of capacity utilization suggests that Canadian producers may have limited ability to increase production of softwood lumber in response to an increase in prices. Additionally, Joint Respondents described a mountain pine beetle outbreak in British Columbia (which began in 1999) that they stated would act as a constraint on future Canadian exports.[7]

Alternative markets

Canadian producers' shipments to the United States, as a percentage of total shipments, increased during 2013-15, and were over *** percent in 2015. Shipments to the Canadian domestic market were relatively stable during the same period,[8] as shipments to export markets other than the United States declined. Nonetheless, Canadian exports to other (non-U.S., non-Canadian) markets indicate that Canadian producers may have some ability to shift shipments to the U.S. market in response to price changes.

Inventory levels

Responding Canadian firms' inventories remained mostly unchanged during 2013 to 2015, and were always less than *** percent of shipments. These inventory levels suggest that responding foreign firms may have a moderate to limited ability to respond to changes in demand with changes in the quantity shipped from inventories.

Production alternatives

Responding foreign producers reported little production of alternative products on the same equipment with which they produced softwood lumber.

Supply constraints

Thirty-one importers of Canadian softwood lumber indicated that they had not refused, declined, or been unable to supply softwood lumber since January 1, 2013, while 26 stated that they had. Those that experienced supply issues mostly cited difficulty securing sufficient

[7] Conference transcript, p. 114 (Nicely), and Joint Respondents' postconference brief, exhibit 1, pp. 45-49.

[8] The Canadian market for softwood lumber is roughly one-fifth the size of the U.S. market for softwood lumber. Conference transcript, p. 203 (Dougan).

supplies of logs, although other reasons cited included a lack of WRC logs in particular or the firm's own production being at full capacity.

Nonsubject imports

Nonsubject imports accounted for less than three percent of total consumption during 2013-15 and in the first nine months of 2016. The only nonsubject country listed by importers as a source for softwood lumber was ***. Purchasers also listed Austria, Romania, unspecified European sources, Brazil, China, Russia, and New Zealand as sources of nonsubject imports.

U.S. demand

Based on available information, the overall demand for softwood lumber is likely to experience small changes in response to changes in price. The main contributing factors are the limited range of substitute products and the small cost share of softwood lumber in most of its end uses.[9]

End uses and cost share

U.S. demand for softwood lumber depends on residential construction activity, both for new home construction as well as repairs and renovations on existing homes.[10] More specific reported end uses include various applications in home construction such as framing lumber, siding, trusses, decking, fencing, and trim. Some non-construction end uses were also reported, including bed frames, as well as palettes and crates for industrial use. Further information on the uses of softwood lumber can be found in Part I.

According to both Petitioners and Joint Respondents, home construction, remodeling, and repair are the primary driver of softwood lumber demand, and softwood lumber itself is a relatively small percentage (approximately three percent) of the value of the finished home.[11] In questionnaire responses, U.S. producers and importers also indicated that softwood lumber accounts for a small share (2 to 20 percent) of the cost of building a home.[12] Among other uses, the total cost share of softwood lumber in bed frame construction was much higher, ranging

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[9] Counsel for petitioners described demand for softwood lumber as being inelastic because of the small cost share of softwood lumber in residential construction. Conference transcript, p. 19 (Kentz). Some academic research on the North America softwood lumber has come to the same conclusion, finding inelastic demand at the industry level (Song et al. 2011; Parajuli et. al 2015). There is also research, however, that finds that lumber demand elasticities can vary at the species level (Nagubadi et. al. 2004).

[10] Conference transcript, p. 87 (Miller), and Joint Respondents' Presentation, slide 11.

[11] See Petition, page 36, conference transcript, p. 19 (Kentz), and Joint Respondents' postconference brief, exhibit 1, p. 29.

[12] Staff has not used responses of "100 percent," which are likely due to questionnaire respondents misunderstanding the question.

from 30 to 50 percent, according to two importers (***). U.S. producer *** indicated that softwood lumber was 60 percent of the cost of coated lumber. In industrial applications, U.S. producer *** reported that softwood lumber was 75 percent of the total cost of the final product.

In addition, SPF, a predominant Canadian species, may not be suitable for treatment applications, while a major U.S. species, SYP, is. Homebuilder Arthur Rutenberg Homes stated that because SYP is suitable for treatment and SPF is not, the two products are not used interchangeably.[13] However, U.S. producer Rex Lumber stated that Canadian softwood lumber takes market share in the construction market, forcing more U.S. SYP softwood lumber into the treatment market, where it stated that prices then fall as well.[14]

Business cycles

Forty-nine U.S. producers and 49 importers reported that the U.S. softwood lumber market was subject to business cycles or conditions of competition, while three producers and ten importers stated that it was not. Specifically, producers and importers mentioned the seasonality of housing and remodeling starts, which can be limited by weather conditions (especially in the Northern United States). Two importers (***) and one producer (***) pointed out that weather also impacts access to log supply and the ability to transport raw materials and softwood lumber to and from mills. According to several importers (***), the business cycle of the softwood lumber market also follows the larger cyclical trends in the housing market, which can be subject to larger macroeconomic factors like the interest rate. ***, an importer of WRC softwood lumber, stated that WRC demand is driven by trends in the remodeling and maintenance of existing homes because it is used in visual applications.

Most of the producers and importers who noted that the lumber industry has conditions of competition distinct from those of the general economy cited the now-expired 2006 SLA as an important factor in the market, with one producer (***) explicitly reporting a sizable increase in the volume of Canadian softwood lumber imports following the expiration of the agreement. While acknowledging an increase in U.S. demand since 2013, several producers (***) stated that the supply of softwood lumber imports from Canada during this time period was so great that it absorbed this surplus demand and depressed prices.

Other importers (including ***) pointed to fluctuations in exchange rates as having a significant impact on the softwood lumber market. One importer (***) mentioned the decrease in the allowable annual cut in British Columbia in March 2016 as a condition of competition that has impacted the supply of subject imports.

Twenty-nine U.S. producers and 31 importers stated that there had been changes to the conditions of competition, while 16 producers and 17 importers stated that there had not. Those describing changes mostly pointed to the expiration of 2006 SLA, the weaker Canadian dollar (as boosting Canadian exports), and the improving U.S. housing market.

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[13] Conference transcrtipt, pp. 124-126 (Rutenberg).

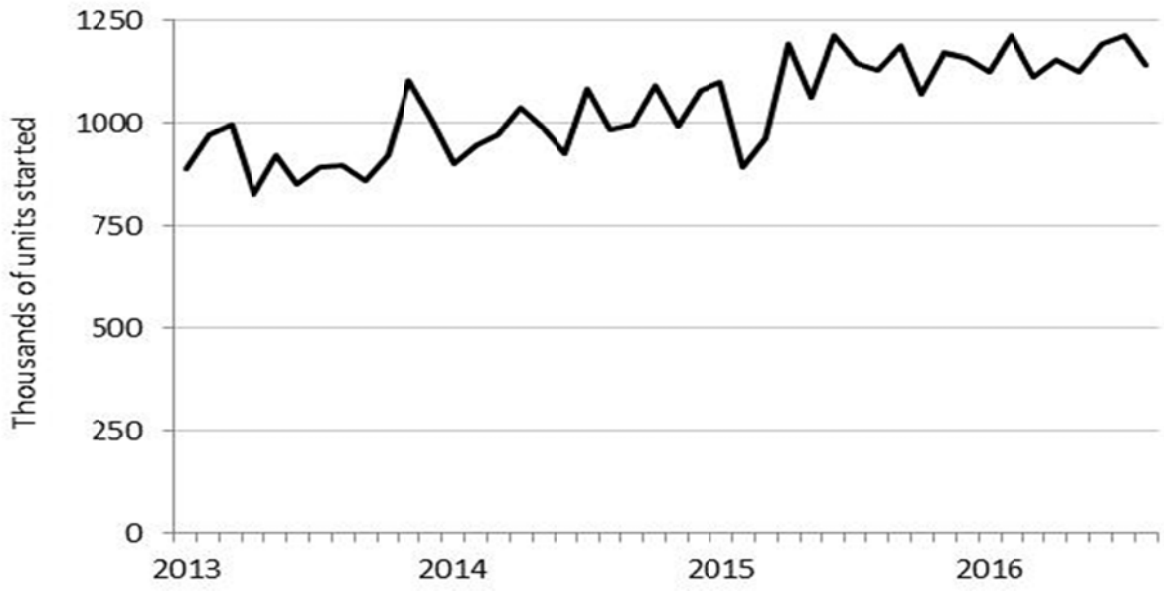
[14] Conference transcript, p. 42 (Dauzat).

Demand trends

According to petitioners, softwood lumber demand and prices have been significantly impacted by the "Great Recession" of 2008 and 2009 because of their connection to the demand for new homes. Petitioners described U.S. consumption of softwood lumber as falling markedly (including by up to 50 percent in the Western United States from 2005-2010) as U.S. housing starts declined to a 50-year low in 2009.[15] Since then, and including since 2013, housing starts have been recovering, although not yet to pre-2008 levels.[16] However, until recently, most of the housing recovery has been for multi-family homes, which use less softwood lumber than single-family homes.[17]

Figure II-1 shows new private housing units started from January 2013 until now. Petitioners described the most-used forecasts of softwood lumber demand as based on these data.[18]

Figure II-1
New Privately Owned Housing Units Started, Thousands of Units, Monthly (seasonally adjusted annual rate)



Source: U.S. Census Bureau via St. Louis Fed, Economic Research Division, https://fred.stlouisfed.org/series/HOUST, retrieved November 16, 2016.

[15] See Petition, pp. 40-41.

[16] See also Joint Respondents Presentation, slides 19-21.

[17] Conference transcript, pp. 87-88 (Miller and Banahan). Counsel for respondents stated that some U.S. producers were "bullish" (optimistic) about housing starts and future demand for softwood lumber. Conference transcript, pp. 113-114 (Nicely). See also Joint Respondents' postconference brief, exhibit 1, p. 29.

[18] Petitioners' postconference brief, annex 1, p.1.

The vast majority of both producers and importers reported an increase in U.S. demand for softwood lumber since January 1, 2013 (table II-3). Many of these producers and importers credited this uptick in demand with the continued recovery of the housing market. Two importers (***) also cited the continuing growth of the repair and remodel market segment as an additional driver.[19]

Opinions on demand changes for softwood lumber in markets outside the United States since 2013 varied between U.S. producers and importers. Three producers (***) and four importers (***) mentioned an uptick in demand in the Chinese market. Four producers (***) reported that foreign demand for softwood lumber has decreased since 2013 due to the strong U.S. dollar.

Table II-3
Softwood Lumber: Firms' responses regarding U.S. demand and demand outside the United States

Item	Increase	No change	Decrease	Fluctuate
Demand in the United States				
U.S. producers	42	1	3	5
Importers	50	3	0	6
Demand outside the United States				
U.S. producers	6	4	10	9
Importers	19	11	4	11

Source: Compiled from data submitted in response to Commission questionnaires.

Substitute products

Forty U.S. producers and 40 importers stated that there were substitutes for softwood lumber. Reported substitutes for softwood lumber in housing construction applications included steel (e.g., steel studs) and concrete for use in framing, vinyl for use in siding, as well as plastics, composite materials and engineered wood products for use in decking and fencing. However, most U.S. producers and importers that named these substitutes indicated that changes in the prices of these substitutes had not affected the price of softwood lumber. One U.S. producer stated that only when steel prices had been lower for a long period of time did substitution begin to occur. Others stated that the ease of using softwood lumber, along with developer preference, hindered substitution for other materials. Six U.S. producers and 14 importers stated that there were no substitutes for softwood lumber.

Thirty-three U.S. producers and 38 importers stated that use of substitutes for softwood lumber had not changed since January 1, 2013. However, seven producers and 6 importers stated that the use of substitutes had changed. U.S. producers *** indicated that softwood lumber may be gaining market share from substitutes, with *** adding that decreased substitution was due to decreasing softwood lumber prices. One U.S. producer and two

[19] Some of the producers that reported a decrease or no change in U.S. demand described an increase in Canadian supply.

importers stated that composite materials were being used increasingly as substitutes for softwood lumber in deck construction.[20]

SUBSTITUTABILITY ISSUES

The degree of substitution between domestic and imported softwood lumber depends upon such factors as relative prices, quality (e.g., grade standards, reliability of supply, defect rates, etc.), and conditions of sale (e.g., price discounts/rebates, lead times between order and delivery dates, payment terms, product services, etc.). Based on available data, staff believes that there is moderate degree of substitutability between domestically produced softwood lumber and lumber imported from Canadian sources.[21]

Petitioners described softwood lumber from the United States and Canada as being interchangeable despite some differences in species for the timber used.[22] They cited nearly identical structural building codes in the United States and Canada, allowing use of softwood lumber from multiple species, and stated that "wood is wood."[23] They elaborated that building codes typically specify performance grades that softwood lumber from multiple species can meet.[24] They also stated that lumber grades are set by American Lumber Grading Standards, and that a typical dimension will be able to meet high grades for about 80 percent of its production.[25]

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[20] Several producers and importers reporting that there had been changes in substitutes described substitution among different types of softwood lumber.

[21] In addition to the questionnaire material presented in this section, several academic studies have estimated the elasticity of substitution between U.S. and Canadian softwood lumber. (The elasticity of substitution measures the responsiveness of the relative U.S. consumption levels of the subject imports and the domestic like products to changes in their relative prices. This reflects how easily purchasers switch from the U.S. product to the subject products (or vice versa) when prices change.) Counsel and economists for respondents characterize these studies as finding that the U.S. and Canadian lumber are not highly substitutable. See conference transcript p. 15 (Parnes) and 132-133 (Kirgiz), and NAHB's postconference brief, pp. 17-18. Petitioners critiqued these studies in their postconference brief, and contend that those studies do not call into question the staff's prior findings that the substitution elasticity of softwood lumber fell within the range of 2.0-5.0. See Petitioners' postconference brief, pp. 15-17.

[22] In addition to their discussion of SYP compared to SPF, petitioners also stated that SPF is interchangeable with hem-fir and Douglas fir, and that therefore 41 to 47 percent of U.S. lumber production is the same species as Canadian species. Petitioners' postconference brief, p. 10.

[23] See, for example, conference transcript, p. 26 (Swanson), p. 30 (Miller), p. 38 (Banahan), p. 41 (Dauzat), and p. 60 (Miller).

[24] Conference transcript, pp. 80-81 (Miller and Banahan), and Petitioners' postconference brief, annex 1, p. 7.

[25] Conference transcript, pp. 84-85 (Miller and Banahan).

However, Joint Respondents disagreed, and homebuilder Arthur Rutenberg Homes testified that softwood lumber is purchased primarily on species.[26] Arthur Rutenberg Homes stated that builders prefer SPF softwood lumber for framing applications.[27] Joint Respondents added that different species may have different applications because of physical characteristics and/or regional preferences.[28]

Lead times

Softwood lumber is primarily sold from inventory. U.S. producers reported that 72.4 percent of their commercial shipments were sold from inventory, with the remaining 27.6 percent produced to order. For U.S. producers, lead times were usually 15 days or fewer.[29] Among importers, 11.4 percent of commercial shipments were sold from U.S. inventory, 42.6 percent were sold from Canadian inventory, and 45.9 percent were produced to order. For importers, lead times were usually 21 days or fewer, depending on the source of inventory.[30]

Factors affecting purchasing decisions

Purchasers responding to lost sales lost revenue allegations[31] were asked to identify the main purchasing factors their firm considered in their purchasing decisions for softwood lumber. The major purchasing factors identified by firms include price, quality, and species. Price was named as the most important factor by four purchasers, as the second-most important factor by one purchaser, and as the third-most important factor by five purchasers. Quality (including usability) was named as the most important factor by three purchasers, as the second-most important factor by four purchasers, and as the third-most important factor by four purchasers. Species/meeting customer requirements was named as the most important factor by three purchasers, as second-most important factor by one purchaser, and as the third-most important factor by two purchasers. Other factors mentioned by purchasers include logistics and freight costs, availability, and shipping time.

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[26] Conference transcript, p. 123 (Rutenberg). The National Association of Home Builders (NAHB) made similar statements in its postconference brief. See NAHB's postconference brief, pp. 6-7.

[27] Conference transcript, pp. 124-125 (Rutenberg).

[28] Joint Respondents Presentation, slide 14.

[29] Among U.S. producers, 20 reported having lead times of 5 days or fewer for sales from inventory, while 28 reported having lead times of 6 to 15 days for such sales. Twenty-five producers reported having lead times of 10 to 21 days for sales produced to order, while four reported fewer and five reported more.

[30] Nine importers reported having lead times of 6 to 15 days for sales from inventory, while seven reported having lead times of 5 days or fewer for sales from inventory. Twenty importers reported having lead times of 10 to 21 days for sales from foreign inventory, while five reported fewer and six reported more. Twenty importers reported having lead times of 10 to 21 days for sales produced to order, while three reported fewer and nine reported more.

[31] This information is compiled from responses by purchasers identified by Petitioners or other U.S. producers to the lost sales lost revenue allegations. See Part V for additional information.

Comparison of U.S.-produced and imported softwood lumber

In order to determine whether U.S.-produced softwood lumber can generally be used in the same applications as imports from Canada, U.S. producers, importers, and purchasers were asked whether the products can "always", "frequently", "sometimes", or "never" be used interchangeably. As shown in table II-4, the majority of U.S. producers described softwood lumber from domestic and Canadian sources as "always" or "frequently" interchangeable, while the majority of U.S. importers described them as "sometimes" interchangeable.

Table II-4
Softwood lumber: Interchangeability between softwood lumber produced in the United States and in other countries, by country pairs

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting			
	A	F	S	N	A	F	S	N
U.S. vs. subject countries:								
U.S. vs. Canada	31	15	6	0	5	7	38	8
Nonsubject countries comparisons:								
U.S. vs. nonsubject	7	12	9	0	3	2	14	4
Canada vs. nonsubject	8	5	7	0	3	2	14	6

Note.—A=Always, F=Frequently, S=Sometimes, N=Never.

Source: Compiled from data submitted in response to Commission questionnaires.

In other comments, multiple importers reported that the varying characteristics of different species of lumber precluded their interchangeability. Some importers (*** mentioned that SYP's superior ability to retain chemicals during the treatment process distinguished it from SPF imports from Canada. Others (***) reported that SPF lumber is denser, stronger, and thus less likely to warp than SYP, and that their customers notice the distinction. Still others (e.g., ***) stated that Canadian softwood lumber is higher quality even within the same species because Canadian timber grows more slowly, resulting in a stronger product. WRC importers *** also stated that the high-end end uses of WRC in specialty products distinguished it from the other species of softwood lumber employed in structural uses in home construction. *** elaborated that WRC does not have the strength to be used in structural applications, and is instead employed only in non-structural exterior and appearance uses.

Some U.S. producers (including ***) reported that sometimes the strength of wood could vary between species, a factor in the interchangeability between U.S., Canadian, and non-subject softwood lumber. Two producers (***) reported that the cost of freight as reflected in the delivered prices of lumber was an important factor in determining the interchangeability of products. *** reported that species, manufacturing specifications, and shipping times can prevent the interchangeability of domestically-produced and imported lumber, while *** responded that product interchangeability was dependent upon trade barriers, recognized product stamps, and phytosanitary restrictions.

In addition, producers, importers, and purchasers were asked to assess how often differences other than price were significant in sales of softwood lumber from the United

States, subject, or nonsubject countries. As seen in table II-5, most producers reported that differences other than price were “sometimes” or “never” significant factors in firm sales of the product, while most importers reported that non-price differences between U.S. and imported lumber were “always” or “frequently” a factor.

Table II-5
Softwood lumber: Perceived importance of factors other than price between softwood lumber produced in the United States and in other countries, by country pairs

Country pair	Number of U.S. producers reporting				Number of U.S. importers reporting			
	A	F	S	N	A	F	S	N
U.S. vs. subject countries:								
U.S. vs. Canada	6	3	18	24	28	16	11	3
Nonsubject countries comparisons:								
U.S. vs. nonsubject	3	4	15	6	12	7	3	0
Canada vs. nonsubject	2	4	10	6	13	7	3	0

Note.—A=Always, F=Frequently, S=Sometimes, N=Never.

Source: Compiled from data submitted in response to Commission questionnaires.

In other comments, multiple importers described species and strength as important factors other than price. Several importers (including ***) and two producers (***) cited timely availability and delivery as non-price factors in softwood lumber sales decisions. *** elaborated that its reliable supply chains and efficient transport systems were important factors. Another importer (***) mentioned geographic and customer preference as significant non-price factors. One U.S. producer (***) and two importers (***) described purchaser preferences as informed by local building codes or by the visual appearance of the lumber. Importers of WRC from Canada stated that the physical characteristics and uses of WRC were significant non-price factors distinct from those of other softwood lumber species.

U.S. producers had fewer additional comments than importers, although a few (e.g., *** made comments similar to those of many importers, i.e., that product strength, treatability, and availability were important non-price factors. *** stated that Canadian product quality is sometimes perceived as lower than U.S. or European product quality, and *** stated that U.S. softwood lumber from the southeastern United States is stronger and more treatable than Canadian product.

PART III: U.S. PRODUCERS' PRODUCTION, SHIPMENTS, AND EMPLOYMENT

The Commission analyzes a number of factors in making injury determinations (see 19 U.S.C. §§ 1677(7)(B) and 1677(7)(C)). Information on the alleged subsidies and dumping margins was presented in *Part I* of this report and information on the volume and pricing of imports of the subject merchandise is presented in *Part IV* and *Part V*. Information on the other factors specified is presented in this section and/or *Part VI* and (except as noted) is based on the questionnaire responses of 52 firms that accounted for the 61.0 percent of U.S. production of softwood lumber during 2015.

U.S. PRODUCERS

There are thousands of sawmills throughout the United States, the majority are small "local" mills. The Commission issued a U.S. producer questionnaire to 110 firms based on information contained in the petition and Western Wood Products *Big Book*, that staff believes comprised approximately 75 percent of all softwood lumber produced in the United States. While many large companies own extensive timber acreage, as much as one-half of the commercial timber supply in the West is publicly owned. Some producers in the West are 100 percent dependent on public timber for their raw material supply. To put this into perspective, the Canadian Government owns 90 percent of harvested timber while 85 percent of U.S. harvested timber is privately owned.[1] Table III-1 presents U.S. Department of Agriculture, U.S. Forest Service ("USFS") sales and timber harvested for 2013-16.

Table III-1
Softwood lumber: USFS timber sold and harvested, 2013-15, January-September 2015 and January-September 2016

Item	Calendar Years			January - September	
	2013	2014	2015	2015	2016
Quantity (*mbf*)					
Timber sold	2,491,016	2,985,815	2,847,351	2,477,602	2,576,599
Timber harvested	2,370,478	2,576,166	2,431,633	1,763,618	1,868,587

Source: USDA Forest Service, "FY 1905-2015 National Summary Cut and Sold Data and Graphs", accessed December 19, 2016.

[1] Conference transcript, p. 12 (Kentz).

Table III-2 lists U.S. producers of softwood lumber, their production locations, positions on the petition, and shares of total production. Figure III-1 displays locations of U.S. mills.

Table III-2
Softwood lumber: U.S. producers of softwood lumber, their positions on the petition, production locations, and share of reported production 2015

Firm	Position on petition	Production location(s)	Share of production (percent)
Bennett	***	Princeton, ID Clarkston, WA	***
Biewer	***	McBain, MI; Lake City, MI; Prentice, WI; Spencer, WI	***
Canfor	***	Camden, SC; Darlington, SC; Urbana, AR; Conway, SC; Fulton, AL; Graham, NC	***
CD Lumber	***	Riddle, OR	***
Charles Ingram	***	Effingham	***
Claude Howard	***	Statesboro, GA	***
Collum	Petitioner	Allendale, SC	***
Columbia Vista	***	Vancouver, WA; Vancouver, WA	***
Deltic	***	Waldo, AR; Ola, AR	***
Elliot	***	Estill, SC	***
F H Stoltze	***	Columbia Falls, MT	***
Gilman	***	Blackshear, GA; Dudley, GA; Fitzgerald, GA; Jacksonville, FL; Lake Butler, FL; Perry, FL	***
Grayson	***	Houston, AL; Marianna, FL	***
Great Western	***	Everson, WA	***
Hankins	Petitioner	Grenada, MS	***
Harrigan	***	Monroeville, AL	***
Hood Industries	***	Waynesboro, MS; Metcalfe, GA; Bogalusa, LA; Silver Creek, MS	***
Idaho Forest	***	Chilco; Moyie; Lewiston; Laclede; Grangeville	***
Interfor	***	Baxley, GA; Eatonton, GA; Georgetown, SC; Gilchrist, OR; Longview, WA; Meldrim, GA	***
Irving	***	Plantation, ME; Dixfield, ME	***
Jordan	***	Mount Gilead, NC; Barnsville, GA	***

Table continued on next page.

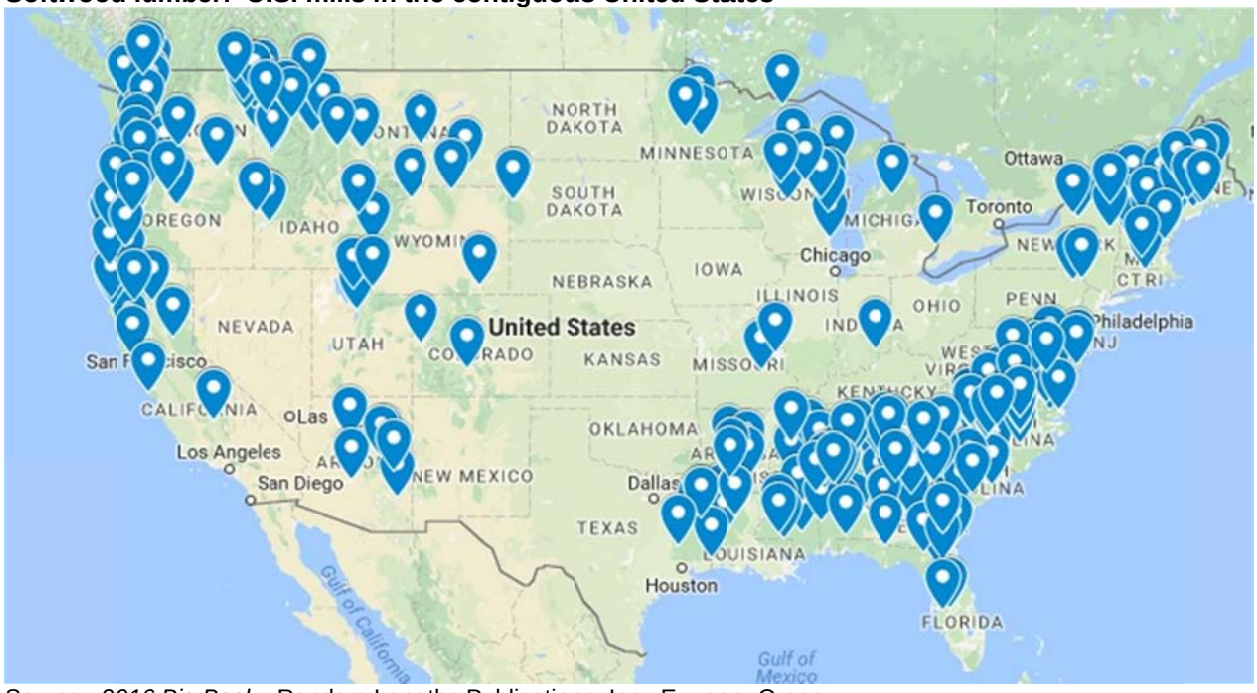
Table III-2--*Continued*
Softwood lumber: U.S. producers of softwood lumber, their positions on the petition, production locations, and share of reported production 2015

Firm	Position on petition	Production location(s)	Share of production (percent)
King Forest	***	Wentworth, NH	***
Klausner	***	Live Oak, FL; Enfield, NC	***
Langdale	***	Valdosta, GA	***
Maibec	***	Masardis, ME	***
Pleasant River	***	Dover-Foxcroft, Maine; Jackman, Maine	***
Potlatch	Petitioner	Bemidji, MN; Gwinn, MI; St. Maries, ID; Warren, AR	***
Precision	***	Wentworth, NH	***
Pyramid Mountain	***	Seeley Lake, MT	***
Rex Lumber	Petitioner	Graceville, Florida; Bristol, Florida; Brookhaven, Mississippi	***
Robbins	***	Searsmont, Maine	***
Rosboro	***	Springfield, OR	***
RY Timber	***	Townsend, MT; Livingston, MT	***
Schmidbauer	***	Eureka, CA	***
SDS	***	Bingen, WA	***
Seneca	Petitioner	Eugene, Or; Noti, Or.	***
Shuqualak	***	Shuqualak, MA	***
Sierra Forest	***	Terra Bella, CA	***
Sierra Pacific	Petitioner	Aberdeen, WA; Centralia, WA; Mt. Vernon, WA; Anderson, CA; Arcata, CA; Burney, CA	***
South Coast	***	Brookings, Oregon	***
Southport	***	North Bend, OR	***
Starfire	***	Cottage Grove, OR	***
Stimson	Petitioner	Forest Grove, Oregon; Tillamook, Oregon; Priest River, Idaho; Plummer, Idaho; St. Maries, Idaho; Clatskanie, Oregon	***
Stratton	***	Stratton, ME	***
Sun Mountain	***	Deer Lodge, MT	***
Swanson	Petitioner	Glendale, OR; Roseburg, OR	***
TR Miller	***	Brewton, Alabama	***
Trinity	***	Weaverville, CA	***
Union	***	Ripley, MS	***
West Fraser	***	Riegelwood, NC; Augusta, GA; Henderson, TX; Huttig, AR; Joyce, LA; Leola, AR	***
Westervelt	***	Moundville, AL	***
Weyerhaeuser	Petitioner	Millport, AL; Dierks, AR; Dodson, LA; Holden, LA; Bruce, MS; McComb, MS; Philadelphia, MS; Kalispell, MT; Greenville, NC; New Bern, NC; Plymouth, NC; Idabel, OK; Cottage Grove, OR; Santiam, OR; Longview, WA; Raymond, WA 98577	***
Total for 52 reporting firms			***

Source: Compiled from data submitted in response to Commission questionnaires.

As figure III-1 displays that U.S. softwood lumber mills are scattered throughout the United States. U.S. production of softwood lumber is concentrated in the South, where intensively managed plantations of SYP are grown by industrial and non-industrial land owners, and in the West, where large tracts of high-quality timber, including public timber, are located. These regions accounted for 52.6 percent and 42.9 percent, respectively, of U.S. softwood lumber production in 2015.

Figure III-1
Softwood lumber: U.S. mills in the contiguous United States



Source: *2016 Big Book* , Random Lengths Publications, Inc., Eugene, Oregon

Although there are large corporations with high volumes of production, most of the softwood lumber producers are small privately owned firms. Table III-3 presents information, from reporting U.S. producers', concerning ownership and affiliation since January 2013.

Table III-3
Softwood lumber: U.S. producers' ownership, related and/or affiliated firms, since January 2013

* * * * * * *

U.S. PRODUCTION, CAPACITY, AND CAPACITY UTILIZATION

Table III-4 present U.S. producers' production, capacity, and capacity utilization as compiled by WWPA. The 52 reporting firms accounted for 62.6 percent of U.S. capacity and 52.9 percent of U.S. production, as reported by WWPA, during the period of investigation.

Table III-4
Softwood lumber: U.S. production, capacity, and capacity utilization, 2013-2015, January-September 2015, and January-September 2016

Item	Calendar year			January - September	
	2013	2014	2015	2015	2016
Capacity *(mbf)*	36,216,000	37,345,000	38,466,000	27,272,000	29,188,000
Production *(mbf)*	29,951,000	31,496,000	31,643,000	23,999,000	24,810,000
Capacity utilization (*percent*)	82.7	84.3	82.3	88.0	85.0
Questionnaire coverage (*percent*)	56.8	57.8	61.1	60.9	61.6

Source: Compiled from data published by the WWPA.

Table III-5 and figure III-2 present U.S. producers' production, capacity, and capacity utilization of the 52 responding firms. Canfor, Interfor, Sierra Pacific, West Fraser, and Weyehaeuser, combined accounted for *** percent of reporting firms capacity and *** percent of reporting firms production during the period of investigation. Canfor, Interfor, West Fraser, and Weyehaeuser all produced softwood lumber in the United States and Canada, and import softwood lumber from Canada into the United States.

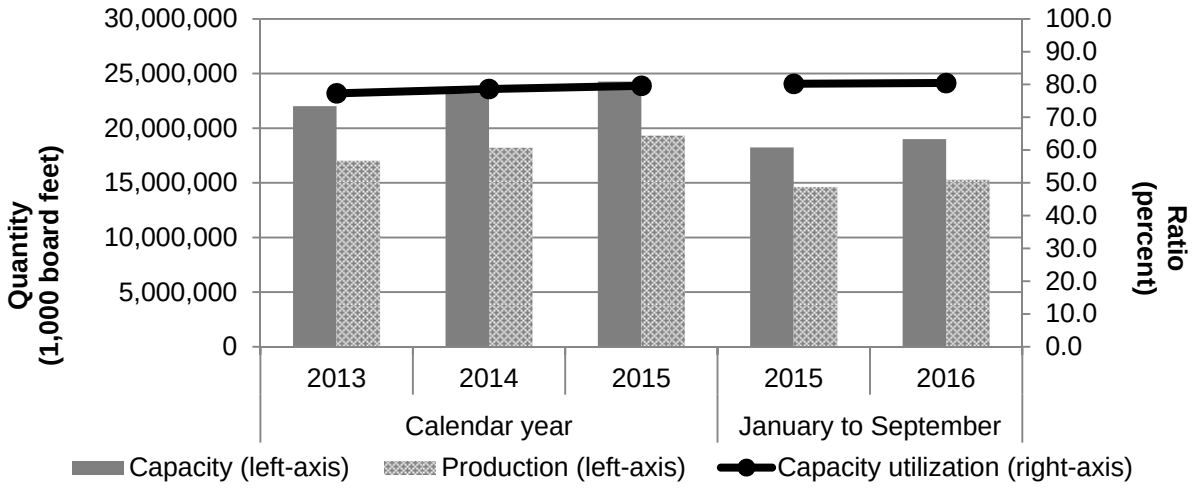
Six firms reported changes in operations such as plant openings and closings, 12 firms reported expansions, 7 firms reported acquisitions, 16 firms reported prolonged shutdowns or curtailments, four firms reported revised labor agreements, and 12 firms reported other (mainly technology upgrades). Additionally, 28 firms stated they had operated more shifts and/or longer hours worked in prior years, eight firms stated they could add shifts or hours, and 44 firms stated they did not have the ability to add more shifts or hours. Table III-6 presents these changes in operations.

Table III-5
Softwood lumber: U.S. producers' capacity, production, and capacity utilization, 2013-15, January to September 2015, and January to September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Capacity (*1,000 board feet*)				
Canfor	***	***	***	***	***
Interfor	***	***	***	***	***
Sierra Pacific	***	***	***	***	***
West Fraser	***	***	***	***	***
Weyerhaeuser	***	***	***	***	***
Subtotal	***	***	***	***	***
All other firms	***	***	***	***	***
Total capacity	22,019,262	23,152,736	24,276,932	18,235,045	18,997,849
	Production (*1,000 board feet*)				
Canfor	***	***	***	***	***
Interfor	***	***	***	***	***
Sierra Pacific	***	***	***	***	***
West Fraser	***	***	***	***	***
Weyerhaeuser	***	***	***	***	***
Subtotal	***	***	***	***	***
All other firms	***	***	***	***	***
Total production	17,022,199	18,204,693	19,322,952	14,624,606	15,283,246
	Capacity utilization (*percent*)				
Canfor	***	***	***	***	***
Interfor	***	***	***	***	***
Sierra Pacific	***	***	***	***	***
West Fraser	***	***	***	***	***
Weyerhaeuser	***	***	***	***	***
Subtotal	***	***	***	***	***
All other firms	***	***	***	***	***
Average capacity utilization	77.3	78.6	79.6	80.2	80.4

Source: Compiled from data submitted in response to Commission questionnaires.

Figure III-2
Softwood lumber: U.S. producers' capacity, production, and capacity utilization, 2013-15, January to September 2015, and January to September 2016



Source: Compiled from data submitted in response to Commission questionnaires.

Table III-6
Softwood lumber: Reported changes in operations in by producers in Canada, since January 1, 2013

* * * * * * *

Table III-7 presents regional U.S. shipments during the period of investigation. The South accounted for 52.6 percent of U.S. production, the West accounted for 43.8 percent of U.S. production and the North accounted for 4.6 percent of U.S. production during the period of investigation.

Table III-7
Softwood lumber: Total shipments, 2013-15, January to September 2015, and January to September 2016

Item	Calendar year			January to September	
	2013	2014	2015	2015	2016
	Quantity (*1,000 board feet*)				
South	13,477,000	13,909,000	13,585,000	10,360,000	10,600,000
West	15,071,000	16,111,000	16,661,000	12,628,000	13,147,000
North	1,391,000	1,387,000	1,451,000	1,104,000	1,139,000
All regions	29,939,000	31,407,000	31,697,000	24,092,000	24,886,000
	Ratio (*percent*)				
Questionnaire coverage	56.6	57.6	61.0	60.6	61.7
	Quantity (*1,000 board feet*)				
U.S. industry total shipments	29,939,000	31,407,000	31,697,000	24,092,000	24,886,000
U.S. exports	2,336,000	2,336,000	1,823,000	1,350,000	1,476,000
Derived U.S. producers' U.S. shipments	27,603,000	29,071,000	29,874,000	22,742,000	23,410,000

Source: WWPA *Lumber Tracks* reports.

U.S. PRODUCERS' U.S. SHIPMENTS AND EXPORTS

In general, shipments of softwood lumber vary only slightly from U.S. production, and follow essentially the same trends. Table III-8 presents U.S. producers' U.S. shipments, export shipments, and total shipments in response to Commission questionnaires. Overall, about 95 percent of U.S. softwood lumber shipments were commercial shipments and exports maintained approximately 2 percent during the period of investigation. U.S. shipments, by quantity, rose steadily throughout the period of investigation, increasing 14.3 percent from 2013 to 2015, and were higher by approximately 5.3 percent when comparing the interim periods. U.S. producers' U.S. shipments by value followed similar trends.

Table III-8
Softwood lumber: U.S. producers' U.S. shipments, exports shipments, and total shipments, , 2013-2015, January-September 2015, and January-September 2016

Item	Calendar year			January to September	
	2013	2014	2015	2015	2016
Quantity (*1,000 board feet*)					
Commercial U.S. shipments	15,969,906	17,084,140	18,191,900	13,766,702	14,475,604
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	16,612,464	17,746,704	18,990,516	14,366,406	15,130,243
Export shipments	347,234	331,191	335,637	244,042	221,620
Total shipments	16,959,698	18,077,895	19,326,153	14,610,448	15,351,863
Value (*1,000 dollars*)					
Commercial U.S. shipments	6,185,953	6,735,956	6,374,941	4,900,696	5,338,195
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	6,502,542	7,071,284	6,724,404	5,167,765	5,621,386
Export shipments	172,673	167,112	156,205	114,576	102,543
Total shipments	6,675,215	7,238,396	6,880,609	5,282,341	5,723,929
Unit value (*dollars per 1,000 board feet*)					
Commercial U.S. shipments	$387	$394	$350	$356	$369
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	391	398	354	360	372
Export shipments	497	505	465	469	463
Total shipments	394	400	356	362	373
Share of quantity (*percent*)					
Commercial U.S. shipments	94.2	94.5	94.1	94.2	94.3
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	98.0	98.2	98.3	98.3	98.6
Export shipments	2.0	1.8	1.7	1.7	1.4
Total shipments	100.0	100.0	100.0	100.0	100.0
Share of value (*percent*)					
Commercial U.S. shipments	92.7	93.1	92.7	92.8	93.3
Internal consumption	***	***	***	***	***
Transfers to related firms	***	***	***	***	***
U.S. shipments	97.4	97.7	97.7	97.8	98.2
Export shipments	2.6	2.3	2.3	2.2	1.8
Total shipments	100.0	100.0	100.0	100.0	100.0

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. PRODUCERS' INVENTORIES

Table III-9 presents U.S. producers' end-of-period inventories and the ratio of these inventories to U.S. producers' production, U.S. shipments, and total shipments. The increase in U.S. producers' end-of-period inventory levels between 2013 and 2015 was higher at 17.1 percent than the increase in U.S. producers' U.S. production over that same period at 13.1 percent, resulting in a slight increase in the ratio of inventories to production by the end of 2015. Similar dynamics impacted the ratio to U.S. producers' U.S. shipments and ratio to U.S. producers' total shipments over the 2013 to 2015 period. The increase in U.S. producers' end-of-period inventories was broad based with thirty four (34) firms indicating an increase in their end-of-period inventories by December 31, 2015, compared to eighteen (18) firms that indicated a decrease in their end-of-period inventories by December 31, 2015.[2] The build-up in inventories in full year periods reversed in the January to September 2016 interim period, when being compared to either the comparable nine month period in 2015 or the full twelve months of 2015. The reversal resulted in the lowest inventory ratios over the period being reported by the end of September 2016. As with the build-up in inventory levels in the full year periods, the decrease in inventory levels by the end of September 2016 was broad based, with thirty four (34) producers reporting lower inventory levels at that time compared to end of September 2015, and eighteen (18) producers reporting higher inventory levels.

Table III-9
Softwood lumber: U.S. producers' inventories, 2013-2015, January-September 2015, and January-September 2016

Item	Calendar year			January to September	
	2013	2014	2015	2015	2016
	Quantity (*1,000 board feet*)				
U.S. producers' end-of-period inventories	1,175,763	1,338,640	1,376,889	1,408,096	1,310,426
	Ratio (*percent*)				
Ratio of inventories to.--					
U.S. production	6.9	7.4	7.1	7.2	6.4
U.S. shipments	7.1	7.5	7.3	7.4	6.5
Total shipments	6.9	7.4	7.1	7.2	6.4

Source: Compiled from data submitted in response to Commission questionnaires.

[2] While no individual U.S. producer was noticeably driving these trends, four firms *** accounted for approximately *** percent of the reported increases.

U.S. PRODUCERS' IMPORTS AND PURCHASES

U.S. producers' purchases of imports and purchases of softwood lumber are presented in table III-10. Total reported purchases, throughout the period of investigation, were *** percent of reported production.

Table III-10
Softwood lumber: U.S. producers' purchases, 2013-2015, January-September 2015, and January-September 2016

Item	Calendar year			January - September	
	2013	2014	2015	2015	2016
	Quantity (*1,000 board feet*)				
Imports:					
Canada	***	***	***	***	***
All other sources	***	***	***	***	***
Total imported sources	***	***	***	***	***
Purchases:					
Domestic producers	***	***	***	***	***
Other	***	***	***	***	***
Total purchases	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

Table III-11 presents U.S. producers that not only produce softwood lumber in the United States and Canada, but also import softwood lumber. These firms combined, accounted for 27.5 percent of reported U.S. softwood lumber production during the period of investigation and 61.4 percent of reported Canadian production.

Table III-11
Softwood lumber: U.S. producers' U.S. production, subject imports and Canadian production, 2013-15, January to September 2015, and January to September 2016

* * * * * * *

U.S. EMPLOYMENT, WAGES, AND PRODUCTIVITY

Table III-12 shows U.S. producers' employment-related data. Between 2013 and 2015, U.S. producers increased employment by 16 percent, representing some additional 2,709 employees, with 38 firms reporting increased employment equivalent to 2,894 jobs added and 12 firms reporting decreased employment with 185 jobs lost. U.S. producer *** alone accounted for 48 percent of the reported increases between 2013 and 2015,[3] followed by *** accounting for 12 percent of the increases,[4] *** accounting for 8 percent of the increases,[5] *** accounting for 5 percent of the increases,[6] and *** for 4 percent of the increases.[7]

Table III-12
Softwood lumber: Average number of production and related workers, hours worked, wages paid to such employees, hourly wages, productivity, and unit labor costs, , 2013-2015, January-September 2015, and January-September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
All U.S. Producers:					
Production and related workers (PRWs) (*number*)	16,826	18,657	19,535	19,445	19,615
Total hours worked (1,000 hours)	39,277	43,775	45,485	34,011	34,540
Hours worked per PRW (*hours*)	2,334	2,346	2,328	1,749	1,761
Wages paid *($1,000*)	879,963	983,699	1,070,689	796,261	836,312
Hourly wages (*dollars per hour*)	$22.40	$22.47	$23.54	$23.41	$24.21
Productivity (*board feet per hour*)	433.4	415.9	424.8	430.0	442.5
Unit labor costs (*dollars per 1,000 board feet*)	$51.70	$54.04	$55.41	$54.45	$54.72

Source: Compiled from data submitted in response to Commission questionnaires.

[3] ***.
[4] ***.
[5] ***.
[6] ***.
[7] ***.

PART IV: U.S. IMPORTS, APPARENT U.S. CONSUMPTION, AND MARKET SHARES

U.S. IMPORTERS

The Commission issued importer questionnaires to 75 firms believed to be importers of subject softwood lumber.[1] Usable questionnaire responses were received from 63 companies, representing 87.0 percent of U.S. imports from Canada in 2015. Table IV-1 lists all responding U.S. importers of softwood lumber from Canada and other sources, their locations, and their shares of U.S. imports, in 2015. *** reported imports from *** and *** reported imports from ***. No other responding importer reported imports from sources other than Canada.

Canadian producers often act as the "importer of record" and/or "consignee" for imports of softwood lumber from Canada handling the Customs clearance paperwork for their sales to U.S. customers. Their imports go from their mills to their customers in the United States. Customers, numbering in the hundreds, include wholesale and retail lumber distributors (e.g., Lowes, Home Depot, etc.), domestic producers (e.g., Georgia-Pacific, Weyerhaeuser, etc.), and traders/wholesalers (e.g., Forest City Trading Group, Seaboard, Universal Forest Products, etc.). Separately, some U.S. producers (***) also import softwood lumber from their own operations in Canada. Some importer/consignees are manufacturers and/or remanufacturers with kiln operations. Because of this, they may have their operations near the border and utilize rough, green lumber only.

Some U.S. firms, such as mobile-home-building and cash-and-carry outlets, while not necessarily the importer of record, are supplied by distributors that purchase their imported stock from large shipments which generally go through reload centers[2] located near the U.S.-Canadian border in Canada or throughout the United States for disbursement to their final destinations.

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[1] The Commission issued questionnaires to those firms identified in the petition, along with firms that, based on a review of data provided by U.S. Customs and Border Protection ("Customs") under HTS subheading 4407.10.01.01; 4407.10.01.02; 4407.10.01.15; 4407.10.01.16; 4407.10.01.17; 4407.10.01.18; 4407.10.01.19; 4407.10.01.20; 4407.10.01.42; 4407.10.01.43; 4407.10.01.44; 4407.10.01.45; 4407.10.01.46; 4407.10.01.47; 4407.10.01.48; 4407.10.01.49; 4407.10.01.52; 4407.10.01.53; 4407.10.01.54; 4407.10.01.55; 4407.10.01.56; 4407.10.01.57; 4407.10.01.58; 4407.10.01.59; 4407.10.01.64; 4407.10.01.65; 4407.10.01.66; 4407.10.01.67; 4407.10.01.68; 4407.10.01.69; 4407.10.01.74; 4407.10.01.75; 4407.10.01.76; 4407.10.01.77; 4407.10.01.82; 4407.10.01.83; 4407.10.01.92; 4407.10.01.93; 4409.10.05.00; 4409.10.10.20; 4409.10.10.40; 4409.10.10.60; 4409.10.10.80; 4409.10.20.00; 4409.10.90.20; 4409.10.90.40; and 4418.90.25.00 in 2015-16.

[2] In a number of instances, lumber wholesalers, and in some cases manufacturers, own/control reload centers.

Table IV-1
Softwood lumber: U.S. importers by source, 2015

Firm	Headquarters	Share of imports by source (percent)		
		Canada	Nonsubject sources	All sources
Arbec (as sales agent)	St-Leonard, QC	***	***	***
Arbec (own production)	St-Leonard, QC	***	***	***
Aspen	Surrey, BC	***	***	***
Aspen (Mill and Timber)	Surrey, BC	***	***	***
Barrette	St-Jean-Sur-Richelieu, QC	***	***	***
Barrette Chapais	Chapais, QC	***	***	***
Blanchet	Québec, QC	***	***	***
Bonsai	Lévis, QC	***	***	***
Boscus	Pointe-Claire, QC	***	***	***
Brunswick	Fredericton, NB	***	***	***
Canfor	Vancouver, BC	***	***	***
Carrier	Prince George, BC	***	***	***
Carrier and Begin	Saint-Honore-De-Shenley, QC	***	***	***
Cedrico	Price, QC	***	***	***
Chaleur	Belledune, NB	***	***	***
Chibougamau	Chibougamau, QC	***	***	***
Clermond Hamel	Saint-Ephrem Beauce, QC	***	***	***
Conifex	Vancouver, BC	***	***	***
Crabbe	Florenceville-Bristol, NB	***	***	***
D and G	Quebec City, QC	***	***	***
Daaquam	St-Just-De-Bretenières, QC	***	***	***
Devon	Fredericton, NB	***	***	***
Downie	Revelstoke, BC	***	***	***
Dunkley	Prince George, BC	***	***	***
Eacan	Waverley, NS	***	***	***
Eacom	Montreal, QC	***	***	***
Fontaine	Woburn, QC	***	***	***
Freeman	Greenfield, NS	***	***	***
GDS	Dégelis, QC	***	***	***
Gorman	West Kelowna, BC	***	***	***
Interfor	Vancouver, BC	***	***	***
Irving	Fort Kent, ME	***	***	***
Klausner	Myrtle Beach, SC	***	***	***
Lauzon	East Hereford,, QC	***	***	***
Lecours	Calstock, Ontario, Canada,	***	***	***
Ledwidge	Enfield, NS	***	***	***

Table continued on next page.

Table IV-1--*Continued*
Softwood lumber: U.S. importers by source, 2015

Firm	Headquarters	Share of imports by source (percent)		
		Canada	Nonsubject sources	All sources
Lemay	Sainte-Marie, QC	***	***	***
Lignum	Vancouver, BC	***	***	***
Louisiana-Pacific	Nashville, TN	***	***	***
Maibec	Lévis, QC	***	***	***
Martek	Shawinigan, QC	***	***	***
Marwood	Fredericton, NB	***	***	***
Millar	Edmonton, AB	***	***	***
NAFP	St-Quentin, NB	***	***	***
NorSask	Meadow Lake, SK	***	***	***
Olympic	North Vancouver, BC	***	***	***
PF Industries	St-Martin Québec,	***	***	***
Portbec	Quebec City, QC	***	***	***
Prendiville	Kenora, ON	***	***	***
Resolute	Catawba, SC	***	***	***
Robbins	Searsmont, ME	***	***	***
Sartigan	St-Honore-De-Shenley, QC	***	***	***
Scieries du Lac St. Jean	Métabetchouan-Lac-À-La-Croix, QC	***	***	***
Sinclar	Prince George, BC	***	***	***
Tembec	Temiscaming, QC	***	***	***
Terminal	Richmond, BC	***	***	***
Tolko	Vernon, BC	***	***	***
Twin Rivers	Plaster Rock, NB	***	***	***
West Fraser	Quesnel, BC	***	***	***
Western	Vancouver, BC	***	***	***
Weyerhaeuser	Seattle, WA	***	***	***
Total responding importers		100.0	100.0	100.0

Source: Compiled from data submitted in response to Commission questionnaires.

Given the large number and variety of importers in this industry and the knowledge that official import statistics would supply import quantity and value data, the importer questionnaires were used primarily to obtain necessary import marketing information. The questionnaires were sent to Canadian producers who act as importers of record/consignees and a limited number of U.S.-based importers, distributors, retailers, and traders. In addition, U.S. producers were asked to complete a questionnaire if they had imported any product from Canada.

U.S. IMPORTS

Table IV-2 and figure IV-1 present data for U.S. imports of softwood lumber from Canada and all other sources. Canada was by the far the single largest source of imports of softwood lumber over the period of investigation never accounting for less than 94 percent of total imports, based on quantity, in any period. Imports from Canada based on quantity increased 21.5 percent from 2013 to 2015, and were 30.2 percent high in January to September 2016 compared to the same nine month period in 2015. Value of U.S. imports from Canada followed similar trends; however, in the latter part of the period, in line with the expiration of the 2006 SLA, the total value of U.S. imports from Canada increased more modestly than quantity. The 2006 SLA expired in October 2015 and in 2015 the average unit value of U.S. imports from Canada decreased by 15.0 percent compared to 2014 (13.2 percent compared to 2013). Average unit values of U.S. imports from Canada continued to decline into 2016 as they were 7.4 percent lower in the January to September 2016 period compared to the same nine month period in 2015.

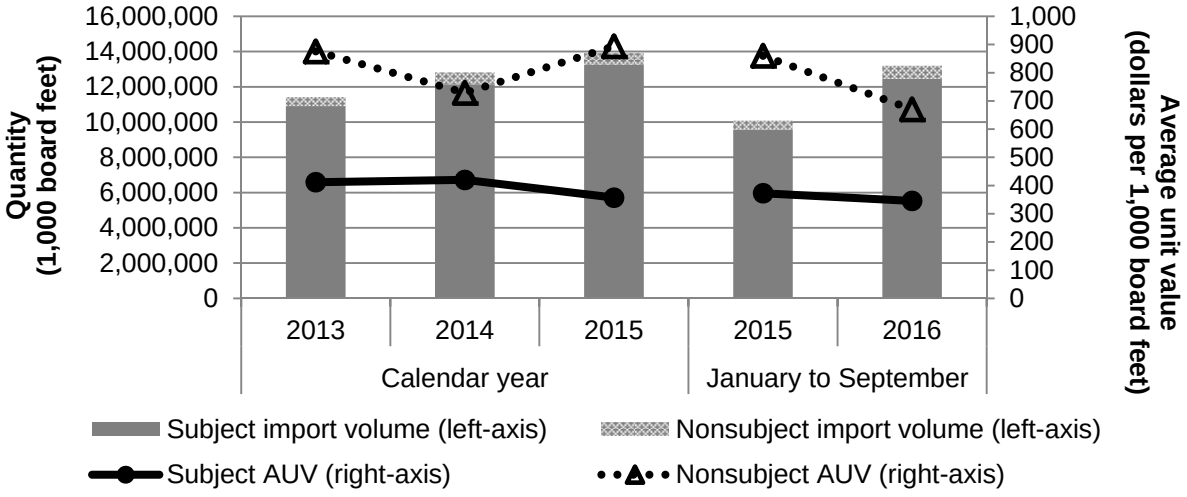
Based on an analysis of data submitted in response to Commission questionnaires, the U.S. producers who import/purchase softwood lumber identified in table III-11 account for approximately *** percent of U.S. imports from Canada over the period examined, but were responsible for only between *** percent of the increase between 2013 and 2015. In other words, the firms reported increasing their U.S. imports from Canada over the period examined but by a lesser extent than all other importers.

Table IV-2
Softwood lumber: U.S. imports, by source, 2013-15, January to September 2015, and January to September 2016

Source	Calendar year			January to September	
	2013	2014	2015	2015	2016
Quantity (*1,000 board feet*)					
U.S. imports from.--Canada	10,908,284	12,143,480	13,257,518	9,576,425	12,464,314
Nonsubject sources	508,926	669,236	653,016	509,394	735,570
All import sources	11,417,210	12,812,715	13,910,534	10,085,818	13,199,884
Value (*1,000 dollars*)					
U.S. imports from.--Canada	4,492,149	5,102,945	4,736,608	3,570,634	4,304,887
Nonsubject sources	445,643	487,689	583,565	438,056	492,980
All import sources	4,937,791	5,590,634	5,320,172	4,008,689	4,797,867
Unit value (*dollars per 1,000 board feet*)					
U.S. imports from.--Canada	412	420	357	373	345
Nonsubject sources	876	729	894	860	670
All import sources	432	436	382	397	363
Share of quantity (*percent*)					
U.S. imports from.--Canada	95.5	94.8	95.3	94.9	94.4
Nonsubject sources	4.5	5.2	4.7	5.1	5.6
All import sources	100.0	100.0	100.0	100.0	100.0
Share of value (*percent*)					
U.S. imports from.--Canada	91.0	91.3	89.0	89.1	89.7
Nonsubject sources	9.0	8.7	11.0	10.9	10.3
All import sources	100.0	100.0	100.0	100.0	100.0
Ratio to U.S. production (WWPA total) (*percent*)					
U.S. imports from.--Canada	36.4	38.6	41.9	39.9	50.2
Nonsubject sources	1.7	2.1	2.1	2.1	3.0
All import sources	38.1	40.7	44.0	42.0	53.2

Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Figure IV-1
Softwood lumber: U.S. import volumes and values, 2013-15, January to September 2015, and January to September 2016



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Table IV-3 presents the leading nonsubject sources of softwood lumber. U.S. imports from nonsubject sources never exceeded six percent of total imports over the period examined. The leading nonsubject imports were from Brazil, Chile, Sweden and New Zealand. As show in table IV-2, nonsubject sources of softwood lumber had much higher average unit values than subject imports (between 90 and 150 percent higher) over the period examined.

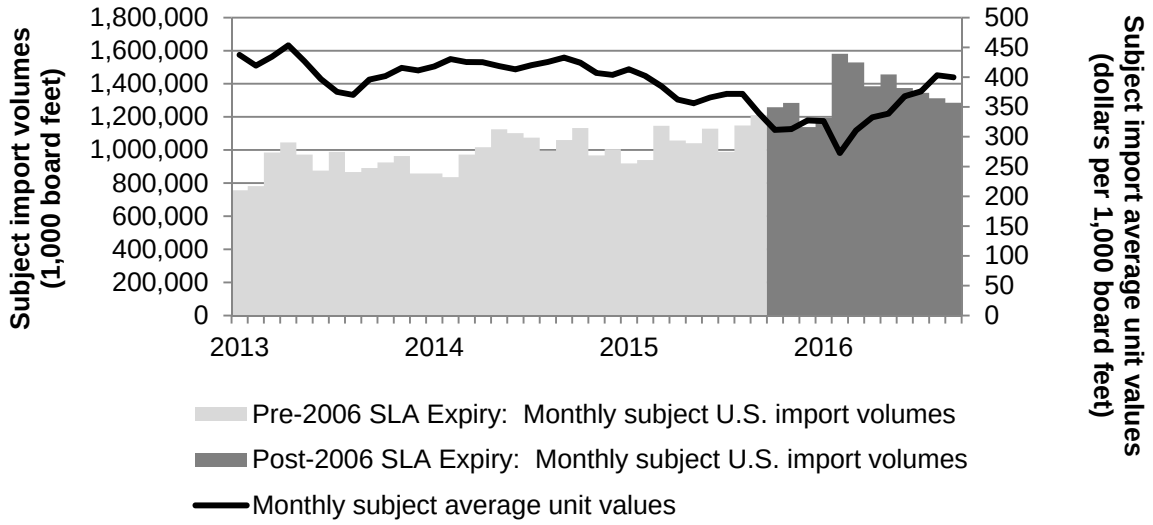
Table IV-3
Softwood lumber: Nonsubject U.S. imports, by source, 2013-15, January to September 2015, and January to September 2016

Source	Calendar year			January - September	
	2013	2014	2015	2015	2016
	Quantity (*1,000 board feet*)				
U.S. imports from.--					
Brazil	70,968	204,389	160,902	134,532	123,203
Chile	106,117	120,845	155,966	115,570	176,017
Sweden	66,024	58,193	105,453	84,631	72,869
New Zealand	76,214	75,658	84,748	63,093	66,020
Germany	36,154	43,228	35,872	29,168	50,346
Romania	5,789	6,119	29,454	22,299	15,629
China	24,471	19,070	22,370	16,063	40,457
Czech Republic	5,229	7,438	8,047	5,312	5,539
Uruguay	6,259	5,637	7,332	5,494	6,633
Austria	13,130	6,285	7,083	5,707	7,460
All other nonsubject sources	98,571	122,373	35,788	27,525	171,397
All nonsubject sources	508,926	669,236	653,016	509,394	735,570
	Share of total U.S. imports (*percent*)				
U.S. imports from.--					
Brazil	0.6	1.6	1.2	1.3	0.9
Chile	0.9	0.9	1.1	1.1	1.3
Sweden	0.6	0.5	0.8	0.8	0.6
New Zealand	0.7	0.6	0.6	0.6	0.5
Germany	0.3	0.3	0.3	0.3	0.4
Romania	0.1	0.0	0.2	0.2	0.1
China	0.2	0.1	0.2	0.2	0.3
Czech Republic	0.0	0.1	0.1	0.1	0.0
Uruguay	0.1	0.0	0.1	0.1	0.1
Austria	0.1	0.0	0.1	0.1	0.1
All other nonsubject sources	0.9	1.0	0.3	0.3	1.3
All nonsubject sources	4.5	5.2	4.7	5.1	5.6

Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Figure IV-2 presents monthly U.S. imports from Canada, the average unit value of monthly U.S. imports from Canada, and marks the timing of the expiry of the 2006 SLA. Average unit values of U.S. imports from Canada began declining beginning in the fourth quarter of 2014 (i.e., before the expiration of the 2006 SLA), but reached their lowest points over the period of investigation (on a monthly basis) in the third quarter of 2015 and the first quarter of 2016 (i.e., the period immediately following the expiration of the 2006 SLA). By the second and third quarters of 2016, average unit values of subject imports increased noticeably. Meanwhile, in terms of subject U.S. import quantities, 11 out of 12 of the highest monthly levels over the period of investigation occurred in the October 2015 through September 2016 period following the expiration of the 2006 SLA.

Figure IV-2
Softwood lumber: Subject U.S. import volumes and prices, January 2013 through September 2016



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

NEGLIGIBILITY

The statute requires that an investigation be terminated without an injury determination if imports of the subject merchandise are found to be negligible.[3] Negligible imports are generally defined in the Tariff Act of 1930, as amended, as imports from a country of merchandise corresponding to a domestic like product where such imports account for less than 3 percent of the volume of all such merchandise imported into the United States in the most recent 12-month period for which data are available that precedes the filing of the petition or the initiation of the investigation. However, if there are imports of such merchandise from a number of countries subject to investigations initiated on the same day that individually account for less than 3 percent of the total volume of the subject merchandise, and if the imports from those countries collectively account for more than 7 percent of the volume of all such merchandise imported into the United States during the applicable 12-month period, then imports from such countries are deemed not to be negligible.[4] Imports from Canada accounted for 94.8 percent of total imports of softwood lumber by quantity during November 2015 through October 2016.

APPARENT U.S. CONSUMPTION AND MARKET SHARES

Table IV-4 and figure IV-3 present data on apparent U.S. consumption and U.S. market shares for softwood lumber. Changes in overall consumption generally track U.S. housing starts. From 2013 through September 2016, both lumber consumption and housing starts increased, although the pace of increased lumber consumption lagged behind that of increases in housing starts for the period. Consumption in the repair and remodeling segment as a share of softwood lumber consumption decreased each year during 2013-15. Data with regard to housing starts, by types of structure and by regions, are presented in Part I (table I-2). Additional information on demand is in part II.

[3] Sections 703(a)(1), 705(b)(1), 733(a)(1), and 735(b)(1) of the Act (19 U.S.C. §§ 1671b(a)(1), 1671d(b)(1), 1673b(a)(1), and 1673d(b)(1)).

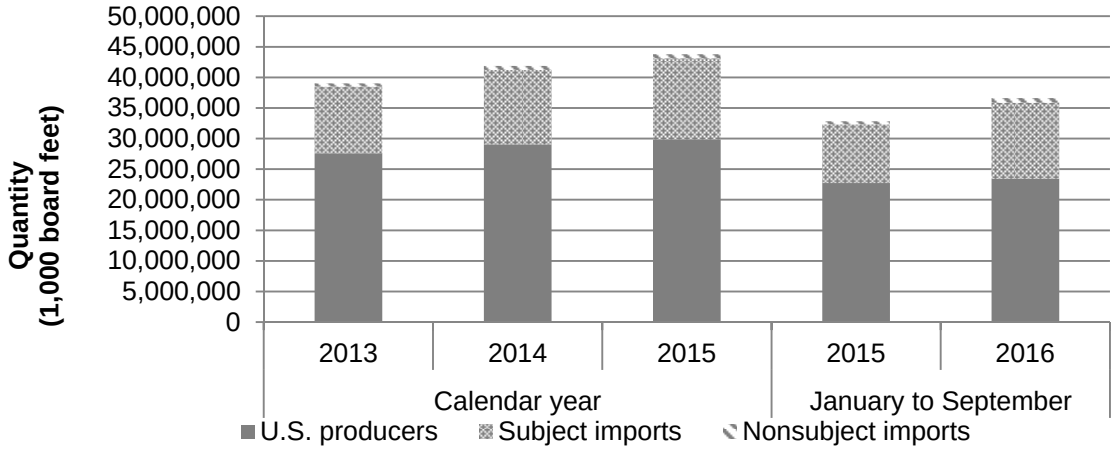
[4] Section 771 (24) of the Act (19 U.S.C § 1677(24)).

Table IV-4
Softwood lumber: Apparent U.S. consumption, 2013-15, January to September 2015, and January to September 2016

Item	Calendar year			January to September	
	2013	2014	2015	2015	2016
			Quantity (*1,000 board feet*)		
U.S. producers' U.S. shipments.-- Responding U.S. producers	16,612,464	17,746,704	18,990,516	14,366,406	15,130,243
All other firms	10,990,536	11,324,296	10,883,484	8,375,594	8,279,757
All U.S. producers	27,603,000	29,071,000	29,874,000	22,742,000	23,410,000
U.S. imports from.-- Canada	10,908,284	12,143,480	13,257,518	9,576,425	12,464,314
Nonsubject sources	508,926	669,236	653,016	509,394	735,570
All import sources	11,417,210	12,812,715	13,910,534	10,085,818	13,199,884
Total apparent U.S. consumption	39,020,210	41,883,715	43,784,534	32,827,818	36,609,884
			Value (*1,000 dollars*)		
U.S. producers' U.S. shipments.-- Responding U.S. producers	6,502,542	7,071,284	6,724,404	5,167,765	5,621,386
All other firms	4,301,976	4,512,236	3,853,763	3,012,800	3,076,204
All U.S. producers	10,804,518	11,583,520	10,578,167	8,180,565	8,697,590
U.S. imports from.-- Canada	4,492,149	5,102,945	4,736,608	3,570,634	4,304,887
Nonsubject sources	445,643	487,689	583,565	438,056	492,980
All import sources	4,937,791	5,590,634	5,320,172	4,008,689	4,797,867
Total apparent U.S. consumption	15,742,309	17,174,154	15,898,339	12,189,254	13,495,457
			Share of quantity (*percent*)		
U.S. producers' U.S. shipments.-- Responding U.S. producers	42.6	42.4	43.4	43.8	41.3
All other firms	28.2	27.0	24.9	25.5	22.6
All U.S. producers	70.7	69.4	68.2	69.3	63.9
U.S. imports from.-- Canada	28.0	29.0	30.3	29.2	34.0
Nonsubject sources	1.3	1.6	1.5	1.6	2.0
All import sources	29.3	30.6	31.8	30.7	36.1
			Share of value (*percent*)		
U.S. producers' U.S. shipments.-- Responding U.S. producers	41.3	41.2	42.3	42.4	41.7
All other firms	27.3	26.3	24.2	24.7	22.8
All U.S. producers	68.6	67.4	66.5	67.1	64.4
U.S. imports from.-- Canada	28.5	29.7	29.8	29.3	31.9
Nonsubject sources	2.8	2.8	3.7	3.6	3.7
All import sources	31.4	32.6	33.5	32.9	35.6

Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

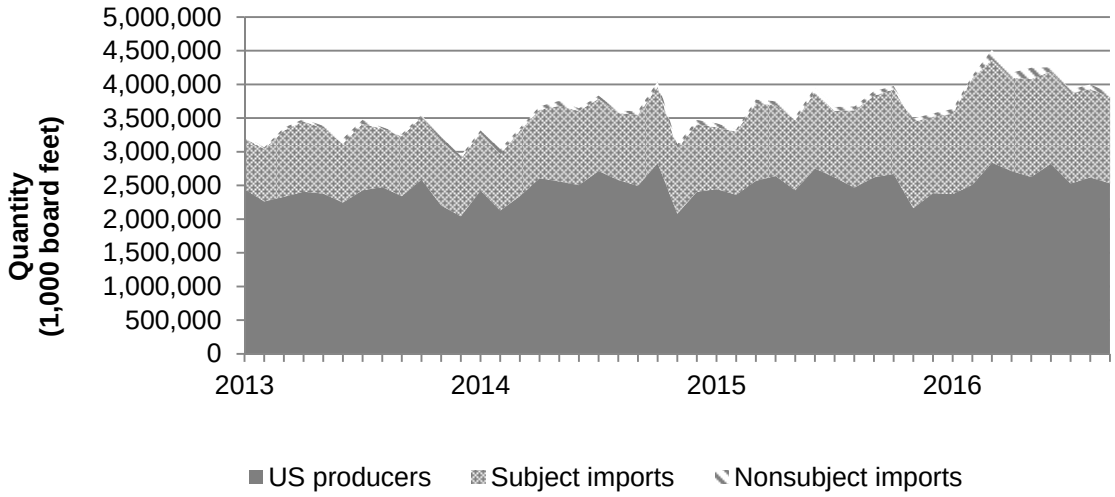
Figure IV-3
Softwood lumber: Apparent U.S. consumption, 2013-15, January to September 2015, and January to September 2016



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Figure IV-4 and Table IV-5 presents monthly apparent U.S. consumption during the period of investigation. Figure IV-5 shows monthly market shares.

Figure IV-4
Softwood lumber: Monthly apparent U.S. consumption, January 2013 through September 2015



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Table IV-5
Softwood lumber: U.S. production, exports of domestic merchandise, total imports, imports from Canada, and apparent consumption, January 2013- September 2016

Month	US producers' total shipments (WWPA)	US exports (WWPA)	Derived US producers' US shipments	Monthly US imports from subject sources (Census)	Monthly US imports from nonsubject sources (Census)	Monthly US imports from all sources (Census)	Total apparent US consumption
			Quantity (*1,000 board feet*)				
2013.--							
January	2,579,000	133,000	2,446,000	756,305	40,880	797,186	3,243,186
February	2,390,000	127,000	2,263,000	781,857	21,537	803,394	3,066,394
March	2,470,000	139,000	2,331,000	984,555	42,412	1,026,966	3,357,966
April	2,554,000	147,000	2,407,000	1,045,602	36,094	1,081,697	3,488,697
May	2,533,000	155,000	2,378,000	972,481	35,609	1,008,090	3,386,090
June	2,388,000	142,000	2,246,000	875,387	77,819	953,206	3,199,206
July	2,581,000	151,000	2,430,000	988,172	58,820	1,046,992	3,476,992
August	2,629,000	153,000	2,476,000	866,515	24,624	891,138	3,367,138
September	2,497,000	156,000	2,341,000	890,809	33,931	924,740	3,265,740
October	2,770,000	182,000	2,588,000	925,144	35,815	960,960	3,548,960
November	2,360,000	157,000	2,203,000	963,621	57,158	1,020,779	3,223,779
December	2,188,000	147,000	2,041,000	857,836	44,227	902,063	2,943,063
2014.--							
January	2,575,000	151,000	2,424,000	857,946	37,486	895,433	3,319,433
February	2,285,000	158,000	2,127,000	835,592	82,033	917,625	3,044,625
March	2,504,000	162,000	2,342,000	971,888	41,969	1,013,857	3,355,857
April	2,771,000	165,000	2,606,000	1,016,909	52,390	1,069,298	3,675,298
May	2,710,000	151,000	2,559,000	1,124,690	72,189	1,196,879	3,755,879
June	2,647,000	141,000	2,506,000	1,101,453	39,889	1,141,341	3,647,341
July	2,859,000	144,000	2,715,000	1,074,840	46,543	1,121,383	3,836,383
August	2,723,000	142,000	2,581,000	995,223	34,463	1,029,685	3,610,685
September	2,630,000	136,000	2,494,000	1,059,749	54,212	1,113,960	3,607,960
October	2,984,000	151,000	2,833,000	1,132,364	78,288	1,210,651	4,043,651
November	2,197,000	118,000	2,079,000	967,768	65,042	1,032,810	3,111,810
December	2,521,000	116,000	2,405,000	1,005,059	64,733	1,069,792	3,474,792
2015.--							
January	2,558,000	112,000	2,446,000	918,849	58,573	977,422	3,423,422
February	2,484,000	121,000	2,363,000	938,919	31,807	970,726	3,333,726
March	2,721,000	151,000	2,570,000	1,146,244	59,391	1,205,635	3,775,635
April	2,781,000	140,000	2,641,000	1,056,732	54,844	1,111,576	3,752,576
May	2,571,000	141,000	2,430,000	1,040,474	53,086	1,093,560	3,523,560
June	2,888,000	136,000	2,752,000	1,128,652	70,114	1,198,766	3,950,766
July	2,751,000	129,000	2,622,000	988,268	55,249	1,043,517	3,665,517
August	2,592,000	124,000	2,468,000	1,148,300	57,514	1,205,814	3,673,814
September	2,746,000	124,000	2,622,000	1,209,987	68,817	1,278,803	3,900,803
October	2,805,000	133,000	2,672,000	1,258,406	47,954	1,306,360	3,978,360
November	2,288,000	126,000	2,162,000	1,284,181	48,845	1,333,026	3,495,026
December	2,512,000	126,000	2,386,000	1,138,507	46,823	1,185,329	3,571,329

Table continued on next page.

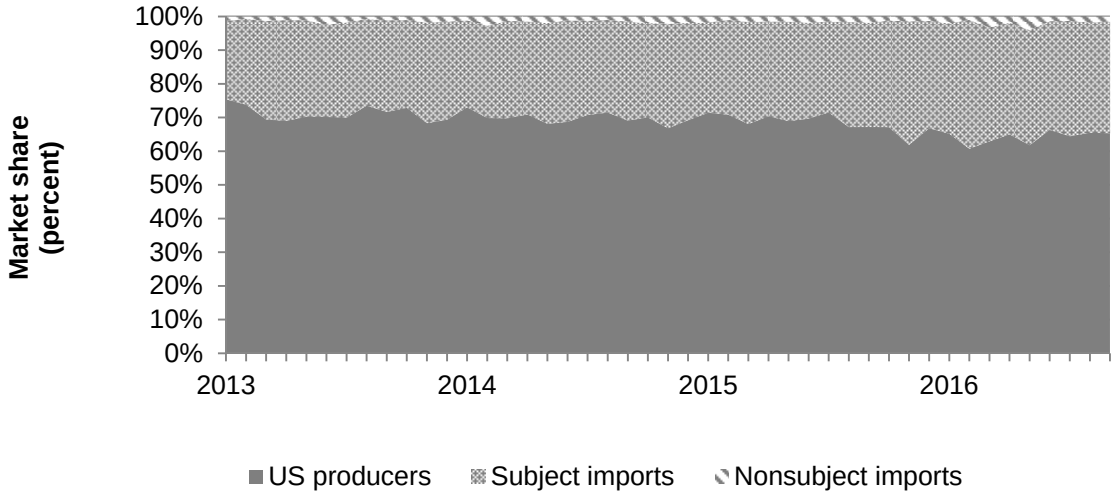
Table IV-5--*Continued*
Softwood lumber: U.S. production, exports of domestic merchandise, total imports, imports from Canada, and apparent consumption, January 2013-September 2016

Month	US producers' total shipments (WWPA)	US exports (WWPA)	Derived US producers' US shipments	Monthly US imports from subject sources (Census)	Monthly US imports from nonsubject sources (Census)	Monthly US imports from all sources (Census)	Total apparent US consumption
	Quantity (*1,000 board feet*)						
2016.--							
January	2,495,000	123,000	2,372,000	1,193,904	72,954	1,266,858	3,638,858
February	2,652,000	142,000	2,510,000	1,581,444	39,716	1,621,161	4,131,161
March	2,972,000	131,000	2,841,000	1,529,327	145,033	1,674,359	4,515,359
April	2,842,000	128,000	2,714,000	1,385,305	76,168	1,461,473	4,175,473
May	2,757,000	132,000	2,625,000	1,456,563	167,548	1,624,111	4,249,111
June	2,967,000	144,000	2,823,000	1,374,431	57,569	1,431,999	4,254,999
July	2,659,000	131,000	2,528,000	1,344,820	50,899	1,395,719	3,923,719
August	2,757,000	137,000	2,620,000	1,312,859	68,825	1,381,684	4,001,684
September	2,667,000	136,000	2,531,000	1,285,662	56,857	1,342,519	3,873,519

Note.—The monthly exports reported here are slightly under reported compared to annual reported in part III.

Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

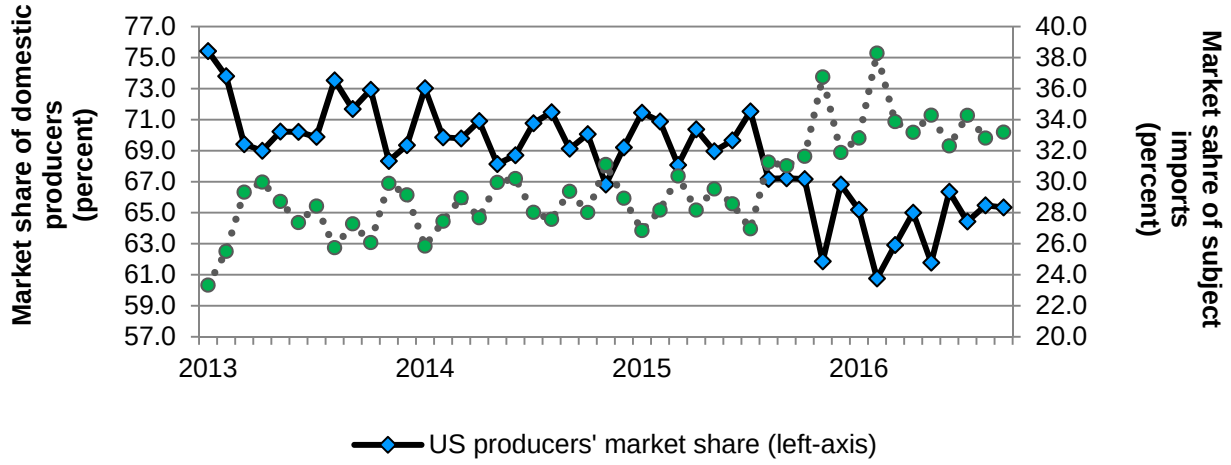
Figure IV-5
Softwood lumber: Monthly market shares, January 2013 through September 2015



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

Figure IV-6 presents the shift in U.S. producers' and subject import market shares. As figure IV-6 demonstrates, over the period examined there is almost a near perfect negative correlation (R=-0.98) in the loss of market share by U.S. producers with the gain of market share by subject imports. In other words, what U.S. producers lost in terms of market share, subject U.S. importers gained.

Figure IV-6
Softwood lumber: Juxtaposition of domestic and subject import market share trends, January 2013 through September 2015



Source: Official U.S. import statistics using HTS statistical reporting numbers listed in footnote 1 of page IV-1 accessed December 9, 2016.

PART V: PRICING DATA

FACTORS AFFECTING PRICES

Raw material costs

Raw material costs are a large component of the price of softwood lumber. Over 2013-2015, raw materials accounted for between 61.3 and 61.9 percent of U.S. producers' total costs of goods sold. Saw logs are the predominant material input to produce softwood lumber. Quarterly delivered saw-log costs for U.S. Douglas fir and Southern yellow pine (SYP) saw logs, for the period January 2013-September 2016, are shown in figure V-1. As shown in the figure, the cost of U.S. Douglas fir saw logs fluctuated from January 2013 to September 2015, but was mostly stable after that. Costs for SYP saw logs were mostly stable over January 2013 to September 2016.

Figure V-1
Saw log costs: U.S. delivered costs of saw logs purchased by U.S. lumber mills, by wood species and by quarters, January 2013-September 2016

* * * * * * *

U.S. producer Swanson described increased Chinese demand for U.S. logs as having increased the cost of timber in the United States relative to Canada, although such exports had declined recently.[1] On the other hand, U.S. producer Rex Lumber and an industry consultant described U.S. log costs as "relatively low" right now, although they did not expect low prices to last as forest owners find other uses for their lands.[2] U.S. producers may source logs both from their own lands and by buying saw logs from other private owners.[3]

A majority of U.S. producers and a plurality of importers indicated that raw material costs for softwood lumber production had increased since January 1, 2013, and most of the remainder indicated that raw material costs had fluctuated with no clear trend. Twenty-eight U.S. producers and 30 importers reported that raw material costs had increased, 12 U.S. producers and 19 importers reported that costs had fluctuated, 5 U.S. producers and 9 importers reported that costs had remained the same, and six U.S. producers and 1 importer indicated that costs had decreased.

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[1] Conference transcript, pp. 28 and 88 (Swanson). Joint Respondents stated that log exports from British Columbia had followed the same trends as U.S. log exports. See Joint Respondents' postconference brief, exh. 1, p. 42.

[2] Conference transcript, p. 42 (Dauzat) and pp. 45-48 (Sullivan).

[3] Conference transcript, p. 93 (Hester). Pleasant River Lumber stated that it is sometimes outbid on logs by Canadian producers that it stated source most of their logs from "subsidized" Canadian government sources. Conference transcript, p. 109 (Banahan).

U.S. producers described raw material cost increases as ranging from 3 percent to 41 percent.[4] Reasons cited by U.S. producers for the increases included Canadian producers blocking the export of logs from British Columbia, increased exports of U.S. logs to other countries, and acquisition of lumber mills by Canadian producers. Most responding U.S. producers indicated that changes in log costs do not affect the selling price for softwood lumber.

Among importers, two indicated that Québec's shift to an auction system for its sales of logs had resulted in increased costs of logs, but *** indicated that while the costs of logs from private lands had increased, the costs of logs from Crown lands had remained flat. Several importers of Western red cedar (WRC) stated that increased demand for that kind of wood had increased the log costs of WRC. As with U.S. producers, most responding importers indicated that changes in log costs do not affect the selling price for softwood lumber.

Transportation costs to the U.S. market

Transportation costs for softwood lumber shipped from Canada to the United States averaged 2.2 percent during 2015. These estimates were derived from official import data and represent the transportation and other charges on imports.[5]

U.S. inland transportation costs

U.S. producers and importers typically arrange transportation for their sales of softwood lumber, and inland transportation costs are usually well over 5 percent of the total delivered cost. Specifically, 31 responding U.S. producers and 58 responding importers reported that they typically arrange transportation to their customers, while 18 responding U.S. producers and 1 importer indicated that their customers arrange transportation. Nineteen U.S. producers and 21 importers reported costs of 10 to 21 percent, and 12 U.S. producers and 17 importers reported costs of 5 to 10 percent.[6]

U.S. producer Stimson, located in Maine near the Canadian border, stated that it transports about 30 percent of its softwood lumber by rail and about 70 percent by truck, and added that Canadian producers ship predominantly by rail, allowing them access to markets in the southern United States.[7]

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[4] The estimate of 41 percent was for the change in log cost from 2012 to 2015.

[5] The estimated transportation costs were obtained by dividing international insurance and freight by customs value for the HTS codes described in Part I, for the year 2015.

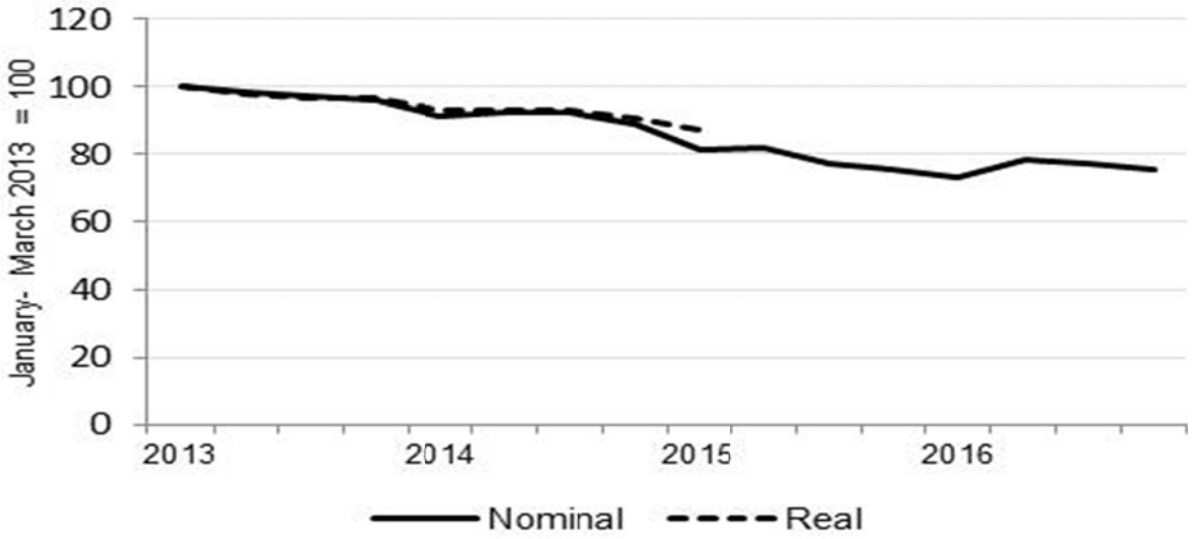
[6] Fifty-four importers indicated that they typically ship softwood lumber from Canada to U.S. customers from their point of importation, while seven indicated that they ship from a storage facility.

[7] Conference transcript, p. 37 (Banahan).

Exchange rates

The Canadian dollar has fluctuated against the U.S. dollar over January 2013-December 2016, depreciating by over 25 percent against the dollar over this time period. The nominal and real values of the Canadian dollar are presented in figure V-2.

Figure V-2
Exchange rates: Indices of the nominal and real values of the Canadian dollar relative to the U.S. dollar, by quarters, January 2013-September 2016



Note.-- Calculation of the real value of the Canadian dollar was not possible after the first quarter of 2015 as Canadian Producer Price Indices data were unavailable.

Source: St. Louis Federal Economic Reserve Data, retrieved November 16, 2016.

PRICING PRACTICES

Pricing methods

U.S. producers reported using mostly transaction-by-transaction negotiations and contracts to set prices, while importers reported using both those methods as well as being more likely to use set price lists than U.S. producers (table V-1). Thirty-one producers and 26 importers used more than one method of setting prices. Several producers and importers reported using their own price list or published prices from *Random Lengths* (see below),[8]

[8] U.S. producer Stimson described having a supply agreement with the Home Depot in which price is based on published prices in *Random Lengths*. Conference transcript, p. 32 (Miller).

although most of those that did elaborated that the price lists were usually a starting point for negotiations rather than a list of fixed prices.[9] U.S. producer Pleasant River stated that purchasers will almost always share competing mills' prices during price negotiations.[10]

Table V-1
Softwood lumber: U.S. producers and importers reported price setting methods, by number of responding firms[1]

Method	U.S. producers	Importers
Transaction-by-transaction	48	51
Contract	31	18
Set price list	8	22
Other	6	9

[1] The sum of responses down may not add up to the total number of responding firms as each firm was instructed to check all applicable price setting methods employed.

Source: Compiled from data submitted in response to Commission questionnaires.

As shown in table V-2, U.S. producers and importers reported their 2015 U.S. commercial shipments of softwood lumber by type of sale. U.S. producers and importers reported selling the majority of their product in the spot market, although both producers and importers had some sales under annual or long-term contracts.

Table V-2
Softwood lumber: U.S. producers' and importers' shares of U.S. commercial shipments by type of sale, 2015

Type of sale	U.S. producers	Importers
Long-term contracts	***	***
Annual contracts	***	***
Short-term contracts	***	***
Spot sales	***	***
Total	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. producers and importers using long-term contracts reported that those contracts were usually for two to three years. A majority of those using such contracts indicating that the contracts did not allow price renegotiation and fixed quantity, or both price and quantity. A majority of U.S. producers reporting long-term contracts indicated that such contracts had meet-or-release provisions. However, *** of importers using long-term contracts reported that their long-term contracts allowed price renegotiation and the other *** reported that their long-term contracts did not.

[9] Two U.S. producers, five importers of softwood lumber from British Columbia, and six importers of softwood lumber from Quebec submitted price lists.

[10] Conference transcript, p. 36 (Banahan).

Producers and importers using short-term contracts reported that those contracts ranged from two weeks to half a year, and a majority indicated that such contracts fixed quantity, or both price and quantity. A majority of U.S. producers reporting short-term contracts indicated that such contracts did not allow price renegotiation and did not have meet-or-release provisions. However, a small majority of importers using short-term contracts reported that their short-term contracts did allow price renegotiation and/or did have meet-or-release provisions.

Sales terms and discounts

Twenty-six U.S. producers typically quoted prices on a delivered basis, and 34 typically quoted on an f.o.b. basis (usually from their mill). Seven U.S. producers reported typically quoting on both a delivered and f.o.b. basis. However, importers were more likely to quote on a delivered basis, with 53 reporting that they typically quote prices on a delivered basis, and only five reporting that they typically quote on an f.o.b. basis. Producers and importers had typical sales terms of 0.5 to 1.0 percent for payment within 10-30 days, with the invoice date usually ranging from 11 to 30 days.

Thirty-one U.S. producers and 35 importers reported that they did not offer any discounts. However, seven U.S. producers and four importers offered quantity discounts, and 11 U.S. producers and 12 importers offered annual total volume discounts. Ten U.S. producers and 13 importers reported having other kinds of discounts, including discounts for prompt payment and rebates for certain customers.

PRICE DATA FROM INDUSTRY PUBLICATION

Softwood lumber prices are presented in several industry publications, including *Random Lengths*. U.S. producers and importers referred most frequently in their questionnaire responses to using prices of softwood lumber in *Random Lengths* as a guide to negotiating prices with their customers. *Random Lengths* collects weekly price data from suppliers and purchasers and calculates weighted-average prices based on such factors as the size of the transaction and the quality of the lumber. *Random Lengths* publishes these data in its weekly and annual publications.

Data from *Random Lengths* do not distinguish prices based on country of production. However, staff has selected several products in which the predominant producers are either U.S. or Canadian. Some of the products selected are similar to those for which pricing data were requested from U.S. producers and importers. (See “Price data from Commission questionnaires” below).

The long-term price trends for these products are presented on a monthly basis during January 2013-October 2016 in table V-3 and figure V-3 for the price series representing primarily U.S. production, and table V-4 and figure V-4 for the price series representing

primarily Canadian production.[12] All of the tables and figures also contain a framing lumber composite price, based on the prices of six species, including both predominantly U.S. and predominantly Canadian species. Figure V-5 combines price series for the predominant U.S. species (Douglas fir and SYP) and the predominant Canadian species (Western and Eastern SPF).

The specific products for which price trends are reported in table V-3 and figure V-3 are as follows: (1) Engelmann spruce/lodgepole pine (ESLP), kiln-dried, 2x4, P.E.T., stud grade, 8-foot length, net f.o.b. mill; (2) Douglas fir, kiln-dried, 2x4, standard and better, random lengths, net f.o.b. mill; and (3) Southern yellow pine–Eastside (SYP), kiln-dried, 2x4, #2, random lengths, net f.o.b. mill.[13] The specific products for which price trends are reported in table V-4 and figure V-4 are as follows: (1) Spruce pine fir (SPF)--Western (WSPF),[14] kiln-dried, 2x4, P.E.T., stud grade, 8-foot length, base prices;[15] and (2) SPF--Eastern (ESPF),[16] kiln-dried, 2x4, P.E.T., stud grade, 8-foot length, net delivered Boston. Note that cost of ESPF is the only one of the group that is a delivered cost,[11] reflecting the mill price and additional transport costs.

Table V-3
Softwood lumber: Framing lumber composite price index, and selling prices and price indexes of specific products produced primarily in the United States, by months, January 2013-October 2016

* * * * * * *

Table V-4
Softwood lumber: Framing lumber composite price index, and selling prices and price indexes of specific products produced primarily in Canada, by months, January 2013-October 2016

* * * * * * *

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[12] The monthly prices were reported in the *Random Lengths 2015 Yearbook* and 2016 issues of the *Yardstick* newsletter. Both tables and both charts contain framing lumber composite data for additional comparisons.

[13] SYP (Eastside) is untreated and refers to sales from U.S. lumber mills in Florida, Georgia, and South Carolina, a high-volume U.S. production region for this lumber species (*Softwood Lumber from Canada, Invs. Nos. 701-TA-414 and 731-TA-928*, USITC Publication 3509, May 2002, page V-6).

[14] Western SPF refers to SPF lumber produced mostly by Canadian mills located in British Columbia and Alberta (*Softwood Lumber from Canada, Invs Nos. 701-TA-414 and 731-TA-928,* USITC Publication 3509, May 2002, page V-6).

[15] Base price is somewhat analogous to an f.o.b. mill price but is not net of any mill returns and is derived by deducting an estimate for freight from the quoted delivered price based on an estimated weight, not necessarily actual weight (*Softwood Lumber from Canada, Invs. Nos. 701-TA-414 and 731-TA-928*, USITC Publication 3509, May 2002, page V-6).

[16] Eastern SPF refers to SPF lumber produced by Canadian mills located in provinces east of Quebec (*Softwood Lumber from Canada, Invs. Nos. 701-TA-414 and 731-TA-928*, USITC Publication 3509, May 2002, page V-6).

[11] Data on the price of ESPF net f.o.b. mill are not reported in *Random Lengths* 2015 Yearbook or in the *Yardstick* newsletter.

Figure V-3
Softwood lumber: Framing lumber composite prices and selling prices of specific products produced primarily in the United States, by months, January 2013-October 2016

* * * * * * *

Figure V-4
Softwood lumber: Framing lumber composite prices and selling prices of specific products produced primarily in Canada, by months, January 2013-October 2016

* * * * * * *

Figure V-5
Softwood lumber: Selling prices for the predominant U.S. and Canadian species, by months, January 2013-October 2016

* * * * * * *

PRICE DATA FROM COMMISSION QUESTIONNAIRES

The Commission requested U.S. producers and importers to provide monthly data for the total quantity and f.o.b. value of the following softwood lumber products shipped to unrelated U.S. customers during January 2013-September 2016. Data were requested only for prices on specific days (usually the first Tuesday) in each month, based on the day of sale, and for sales within a 100-mile radius of four specific market areas (the cities of Denver, Colorado; Phoenix, Arizona; Atlanta, Georgia; and Chicago, Illinois). Petitioners stated that day of sale and city of sale were important factors in price.[12]

The product descriptions were as follows:

Product 1.-- Douglas Fir, 2x4, Grade No. #2, random lengths, kiln-dried

Product 2.—Douglas Fir, precision end trimmed stud, Grade No. #2, 8-foot length, kiln-dried

Product 3.-- Spruce Pine Fir, precision end trimmed stud, Grade No. #2, 8-foot length

Product 4.-- Spruce Pine Fir, 2x4, Grade No. #3 (utility), random lengths.

Fourteen U.S. producers and 19 importers provided usable pricing data for sales of the requested products, although not all firms reported pricing for all products for all quarters.[13] Pricing data reported by these firms accounted for less than 0.0 percent of responding U.S.

[12] Conference transcript, pp. 82-83 (Yocis).

[13] Per-unit pricing data are calculated from total quantity and total value data provided by U.S. producers and importers. The precision and variation of these figures may be affected by rounding, limited quantities, and producer or importer estimates.

producers' shipments of softwood lumber and less than 0.0 percent of U.S. shipments of subject imports from Canada in 2015.

Price data for products 1-4 are presented in tables V-5 to V-19 and figures V-6. No data were received for product 4 sold into the Denver area.[14]

Table V-5

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 1[1] sold to Denver, Colorado, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-6

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 1[1] sold to Phoenix, Arizona, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-7

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 1[1] sold to Atlanta, Georgia, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-8

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 1[1] sold to Chicago, Illinois, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-9

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 2[1] sold to Denver, Colorado, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

[14] Staff removed data provided by ***.

Table V-10

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 2[1] sold to Phoenix, Arizona, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-11

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 2[1] sold to Atlanta, Georgia, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-12

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 2[1] sold to Chicago, Illinois, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-13

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] sold to Denver, Colorado, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-14

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] sold to Phoenix, Arizona, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-15

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] sold to Atlanta, Georgia, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-16

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 3[1] sold to Chicago, Illinois, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-17

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 4[1] sold to Phoenix, Arizona, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-18

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 4[1] sold to Atlanta, Georgia, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Table V-19

Softwood lumber: Weighted-average f.o.b. prices and quantities of domestic and imported product 4[1] sold to Chicago, Illinois, and margins of underselling/(overselling), by quarters, January 2013-September 2016

* * * * * * *

Figure V-6

Softwood lumber: Weighted-average prices and quantities of domestic and imported product, by quarters, January 2013-September 2016

* * * * * * *

Price trends

In general, prices decreased during January 2013-September 2016. Table V-20 summarizes the price trends, by country and by product/city combination. As shown in the table, domestic price decreases (for product/city combinations with data in 2013 and 2016) ranged from 4.1 to 39.0 percent while import price decreases ranged from 4.2 to 32.2 percent.

Table V-20
Softwood lumber: Summary of weighted-average f.o.b. prices for products 1-4 from the United States and Canada

* * * * * * *

Price comparisons

As shown in table V-21, prices for softwood lumber imported from Canada were below those for U.S.-produced product in 7 of 12 instances (1,153 mbf); margins of underselling ranged from 1.3 to 9.0 percent. In the remaining 5 instances (850 mbf), prices for softwood lumber from Canada were between 3.7 and 24.2 percent above prices for the domestic product.

Table V-21
Softwood lumber: Instances of underselling/overselling and the range and average of margins, by country, January 2013-September 2016

Source	Underselling				
	Number of quarters	Quantity[1] (mbf)	Average margin (percent)	Margin range (percent)	
				Min	Max
Canada	7	***	4.5	1.3	9.0
Source	**(Overselling)**				
	Number of quarters	**Quantity[1] (mbf)**	**Average margin (percent)**	**Margin range (percent)**	
				Min	**Max**
Canada	5	***	(10.8)	(3.7)	(24.2)

[1] These data include only quarters in which there is a comparison between the U.S. and subject product.

Source: Compiled from data submitted in response to Commission questionnaires.

LOST SALES AND LOST REVENUE

The Commission requested U.S. producers of softwood lumber to report purchasers where they experienced instances of lost sales or revenue due to competition from imports of lumber from Canada during January 2013-September 2016. Of the 53 responding U.S. producers, 42 reported that they had to reduce prices (9 reported that they did not), 11 reported that they had to roll back announced price increases (14 reported that they did not), and 39 firms reported that they had lost sales (11 reported that they did not).

Nine U.S. producers submitted lost sales and lost revenue allegations. The nine responding U.S. producers identified 68 purchasers where they had lost sales or lost revenue; in total there were 65 lost sales allegations, 17 lost revenue allegations, and 16 allegations of both lost sales and lost revenue. Aside from one firm (***) reporting lost sales from the third quarter of 2013 to 2016, all of the remaining allegations were for 2015 and later. Regarding method of sale, the vast majority of allegations were for individual sales. ***. The majority of the products in the allegations involved softwood lumber made from fir (including White, Larch, Hemlock and various types of Douglas fir), as well as SPF and some SYP.

Staff attempted to contact 68 purchasers and received responses from 12 of them. Responding purchasers reported purchasing approximately 4.8 million mbf of softwood lumber from domestic producers, 3.7 million mbf from Canada, and 0.2 million mbf from other sources during 2015 (table V-22).[15] Most of the responding purchasers reported increasing purchases from all sources; four firms reported increasing purchases from domestic sources, five reported increasing purchases of subject product, and five reported increasing purchases from other sources. One firm (***) reported decreasing purchases from domestic producers, and another

[15] Other reported sources included Germany and Romania (two firms), as well as Austria, Brazil, China, New Zealand, Russia, and Sweden (one firm each).

(***) reported decreasing purchases from Canada. The remaining firms reported either constant or fluctuating purchases from domestic and subject country sources since 2013.[16] Explanations for increasing purchases of domestic product included an increase in demand due to the recovery of the housing industry, an increase in overall business, and an increase in market share. Explanations for increasing purchases of subject product were similar, with one firm (***) adding that the exchange rate was more favorable for purchases of Canadian product over U.S. product. *** reported decreasing purchases of subject product because ***.

Of the 12 responding purchasers, 8 reported that they had purchased imported softwood lumber from Canada instead of U.S.-produced product since 2013, and *** reported that subject import prices were lower than U.S.-produced product.[17] Three of these purchasers reported that price was a primary reason for the decision to purchase imported product rather than U.S.-produced product. The reported estimated quantity these firms purchased from subject import sources rather than domestic sources was *** board feet (table V-23). Four purchasers described non-price reasons for purchasing imported rather than U.S.-produced product. *** reported that domestic producers do not produce ***; *** reported that ***; *** reported that the importance of price varies from order to order but that ***; and *** reported that its customers may ***.

Of the 11 responding purchasers, only one (***) reported that U.S. producers had reduced prices in order to compete with lower-priced imports from Canada (table V-24). *** estimated that U.S. producers reduced prices by *** percent, and added that there had been an increase in the amount of ***.

Table V-22
Softwood lumber: Purchasers' responses to purchasing patterns

* * * * * * *

Table V-23
Softwood lumber: Purchasers' responses to shifting supply sources

* * * * * * *

Table V-24
Softwood lumber: Purchasers' responses to U.S. producer price reductions

* * * * * * *

[16] Of the 12 responding purchasers, two firms (***) reported purchasing from unknown sources.

[17] One firm (***) reported both "Yes" and "No" in response to these questions, indicating that there are many variables involved in purchasing decisions and consequently more than one answer.

Responding U.S. purchasers identified various methods they use in purchasing softwood lumber. Most (***) firms purchase on an individual basis (including *** that reported exclusively purchasing this way). Five firms also reported purchasing via ***, four reported purchasing through ***, two via ***, two in *** and one through ***. *** also reported purchasing ***, with *** stating that it purchases ***.

In additional comments, ***.

PART VI: FINANCIAL EXPERIENCE OF U.S. PRODUCERS

BACKGROUND

Fifty two U.S. producers provided useable financial data, the same number that provided information in the trade section of the Commission's questionnaire.[1] Firms were requested to provide data on a calendar year basis and the trade and financial sections of the Commission's questionnaire reconciled to within rounding errors. Two firms reported transfers to related parties; 15 firms reported internal consumption of softwood lumber for the production of other products. Two firms began operations (***) in 2014 and 2015, respectively. As noted later, this industry is concentrated, with the leading eight firms accounting for nearly two-thirds of the reported sales.

OPERATIONS ON SOFTWOOD LUMBER

Table VI-1 presents aggregated data on U.S. producers' operations in relation to softwood lumber over the full yearly periods of 2013 through 2015, and during the partial year periods of January-September 2015 ("interim 2015"), and January-September 2016 ("interim 2016"). Table VI-2 presents changes in average unit values between years and interim periods.

[1] See discussion of coverage in Part III of this report. Financial data for the reporting firms are shown on an aggregated basis in this part of the report and are presented on a firm-by-firm basis in appendix D.

Table VI-1
Softwood lumber: Results of operations of U.S. producers, 2013-15, January-September 2015, and January-September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Quantity (1,000 board feet)				
Commercial sales	16,317,875	17,415,993	18,528,252	14,011,282	14,697,824
Internal consumption[1]	***	***	***	***	***
Transfers to related firms[2]	***	***	***	***	***
Total net sales	16,959,698	18,077,896	19,326,152	14,610,448	15,351,863
	Value (1,000 dollars)				
Commercial sales	6,358,832	6,903,283	6,531,367	5,015,440	5,440,928
Internal consumption[1]	***	***	***	***	***
Transfers to related firms[2]	***	***	***	***	***
Total net sales	6,675,215	7,238,395	6,880,612	5,282,342	5,723,930
Cost of goods sold:					
Raw materials	3,685,127	4,114,641	4,380,534	3,337,030	3,362,429
Direct labor	855,692	972,166	1,056,659	785,415	833,388
Other factory costs	1,465,431	1,565,741	1,710,312	1,306,365	1,392,369
Less: by-product revenue[3]	(785,513)	(887,977)	(995,642)	(751,463)	(765,668)
Total COGS	5,220,737	5,764,571	6,151,863	4,677,347	4,822,518
Gross profit	1,454,478	1,473,824	728,749	604,995	901,412
SG&A expense	295,137	324,637	321,882	242,568	244,477
Operating income	1,159,341	1,149,187	406,867	362,427	656,935
Interest expense	61,567	57,695	71,489	52,833	65,045
All other expenses	124,751	165,061	167,885	113,373	110,901
All other income	83,064	87,865	91,377	67,309	70,860
Net income	1,056,087	1,014,296	258,870	263,530	551,849
Depreciation/amortization	230,802	258,366	299,688	219,574	246,013
Cash flow	1,286,889	1,272,662	558,558	483,104	797,862
	Ratio to net sales (percent)				
Cost of goods sold:					
Raw materials	55.2	56.8	63.7	63.2	58.7
Direct labor	12.8	13.4	15.4	14.9	14.6
Other factory costs	22.0	21.6	24.9	24.7	24.3
Less: by-product revenue[3]	(11.8)	(12.3)	(14.5)	(14.2)	(13.4)
Total COGS	78.2	79.6	89.4	88.5	84.3
Gross profit	21.8	20.4	10.6	11.5	15.7
SG&A expense	4.4	4.5	4.7	4.6	4.3
Operating income	17.4	15.9	5.9	6.9	11.5
Net income	15.8	14.0	3.8	5.0	9.6

Table continued on next page.

Table VI-1 -- Continued
Softwood lumber: Results of operations of U.S. producers, 2013-15, January-September 2015, and January-September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Ratio to total COGS before by-product offset (percent)[4]				
Cost of goods sold:					
Raw materials	61.4	61.9	61.3	61.5	60.2
Direct labor	14.2	14.6	14.8	14.5	14.9
Other factory costs	24.4	23.5	23.9	24.1	24.9
Total COGS	100.0	100.0	100.0	100.0	100.0
	Unit value (dollars per 1,000 board feet)				
Commercial sales	390	396	353	358	370
Internal consumption[1]	***	***	***	***	***
Transfers to related firms[2]	***	***	***	***	***
Total net sales	394	400	356	362	373
Cost of goods sold:					
Raw materials	217	228	227	228	219
Direct labor	50	54	55	54	54
Other factory costs	86	87	88	89	91
Less: by-product revenue[3]	(46)	(49)	(52)	(51)	(50)
Total COGS	308	319	318	320	314
Gross profit	86	82	38	41	59
SG&A expense	17	18	17	17	16
Operating income or (loss)	68	64	21	25	43
Net income or (loss)	62	56	13	18	36
	Number of firms reporting[5]				
Operating losses	***	5	20	16	9
Net losses	***	4	22	19	11
Data	50	51	52	52	52

[1] Data reported by ***.
[2] Data reported by ***.
[3] By-product revenue represents the sale or consumption of residual wood chips, bark, shavings, sawdust, and other products produced during the course of producing softwood lumber.
[4] Calculated before by-product offset.
[5] Includes one firm (***) and one firm (***). Firm-by-firm financial data are provided in appendix D table D-1.

Source: Compiled from data submitted in response to Commission questionnaires.

Table VI-2
Softwood lumber: Changes in average unit values for all firms, between 2013-15, and between January-September 2015 and January-September 2016

Item	Between calendar years			Between Jan.-Sept.
	2013-15	2013-14	2014-15	2015-16
	Average unit values (dollars per 1,000 board feet)			
Commercial sales	(37)	7	(44)	12
Internal consumption	***	***	***	***
Transfers to related firms	***	***	***	***
Total net sales	(38)	7	(44)	11
Cost of goods sold:				
Raw materials	9	10	(1)	(9)
Direct labor	4	3	1	1
Other factory costs	2	0	2	1
Total COGS	10	11	(1)	(6)
Gross profit	(48)	(4)	(44)	17
SG&A expense	(1)	1	(1)	(1)
Operating income or (loss)	(47)	(5)	(43)	18
Net income or (loss)	(49)	(6)	(43)	18

Source: Calculated from the data in table VI-1.

As noted elsewhere in this report, Canadian producers (***) have invested in U.S. production and import subject product from Canada; ***. The effect on operations shown in table VI-1 of eliminating the data of these seven firms is shown in table VI-3 (numbers in parenthesis indicate a decrease from table VI-1 data).

Table VI-3
Softwood lumber: Change in results of operations with certain firms'[1] data eliminated from data presented in table VI-1, 2013-15, January-September 2015, and January-September 2016

* * * * * * *

Total net sales

As described by the data in tables VI-1 and VI-2, total sales quantity and value both rose between 2013 and 2015 and were greater in interim 2016 than in interim 2015; although the average unit value of sales per thousand board feet rose fell from $394 in 2013 to $356 in 2015 (much of the fall was between 2014 and 2015), it was greater in interim 2016 at $373 than in interim 2015 at $362.[2] Eight firms accounted for a majority of total sales (together accounting for 65.3 percent, by quantity, and 64.6 percent, by value in 2015), and for most of the increase in total sales quantity between 2013 and 2015.[3]

Operating costs and expenses

Raw material costs are substantial in this industry. Such costs increased from $3.7 billion in 2013 to $4.4 billion in 2015 (equivalent to an increase of 18.9 percent) with much of the increase occurring between 2013 and 2014. Expressed as a ratio to sales, the increase was from 55.2 percent in 2013 to 63.7 percent in 2015, although the 58.7 percent in interim 2016 was lower than the 63.2 percent in interim 2015. The change in raw material costs on a per-unit basis was similar to that of dollar costs or percentage of net sales. The input is logs.[4] According to petitioners, "a majority of softwood lumber producers do not own timber and must procure their log supply on the open market."[5] This can lead to regional differences in log prices, and reportedly, prices in the U.S. south remain low or lower than in other areas following the recession of 2008-09.[6] These numbers are prior to any adjustment for by-products (discussed below).

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[2] Respondents, citing the publication Random Lengths Framing Lumber Composite, stated that average annual prices in 2013 and 2014 were among the highest annual averages over the "past two decades." Joint respondents' postconference brief, answers to questions, p. 33.

[3] These firms were, in decending order in 2015: ***. Together these firms' sales totaled $***.

[4] Logs are purchased at tenders from public or private timberlands or transferred from company-owned timberlands. In some cases, the timberlands are held by a separate corporate entity; in the case of the ***; ***.

[5] Petitioners' postconference brief, answers to questions, p. 8. As noted at the staff conference, while many producers of softwood lumber source a percentage of logs from their own lands, there are more institutional landowners since 2002, changing the dynamic between buyers and sellers of logs. Institutional land holders are stronger financially and may withdraw land from logging if the price is deemed too low. Conference transcript, pp. 93-94 (Roady and Sullivan).

[6] Conference transcript, p. 102 (Yocis), 120 and 205 (Dugan). Petitioners' postconference brief, answers to questions, p. 9. As implied by respondents' testimony and conference submission, this price differential has led to investment in the southern part of the United States, leading to new sawmills, expansions of existing sawmills, and restarts of idled mills. See conference submission by respondents, slide 27 from Forest Economic Advisors. According to joint respondents' postconference brief, Canadian companies *** have made significant investments in the United States. Joint respondents' postconference brief, answers to questions, pp. 9-12. Respondents cited investment in other parts of

(*continued*...)

By-products, consisting of the sale or consumption of residual wood chips, bark, shavings, sawdust, and other products produced during the course of producing softwood lumber are not insubstantial in this industry, representing 11.8 percent to 14.5 percent of total net sales. As shown in table VI-1, by-product revenues increased from $785.5 million in 2013 to $995.6 million in 2015, and were higher at $765.7 million in interim 2016 than the $751.5 million. [7] The change was attributable to increased production over the period as well as a higher per-unit value recovered.

Other factory costs constituted the second greatest component of total COGS (table VI-1). These costs steadily increased from 2013 to 2015 (by $244.9 million, equivalent to 16.7 percent) and were higher in interim 2016 than in interim 2015 (by $86.0 million). Other factory costs increased when expressed as a ratio to total net sales as well as on a per-unit basis between 2013 and 2015. Data by firm was mixed: ***.

SG&A expenses are low relative to raw materials and other factory costs, at approximately 4.4 to 4.7 percent of sales. Between 2013 and 2015, SG&A expenses increased on a dollar basis (by $26.7 million, 9.1 percent), as a share of total net sales, but were mostly unchanged on a per-unit basis (table VI-1). SG&A expenses were higher in interim 2016 than in interim 2015 on a value basis ($1.9 million or 0.8 percent), but lower when expressed as a ratio to net sales and on a per-unit basis.

Shown in table VI-1 below the operating income line are interest expense, other expense, and other income. Interest expense increased from approximately $61.6 million in 2013 to $71.5 million in 2015, and were higher in interim 2016, $65.0 million. Other expenses increased as well, from $124.8 million to $167.9 million between 2013 and 2015, but were slightly lower in interim 2016 at $110.9 million.[8] "Other income" increased from $83.1 million in 2013 to $91.4 million in 2015 and was higher in interim 2016 at $70.9 million. The net amount of the three items was an expense, which reduced operating income.

(…*continued*)
the United States to indicate that investment in the southern tier of states was not an anomaly. See Joint respondents' postconference brief, answers to questions, pp. 38-40.

[7] By-products are either sold or consumed. If consumed there is a "revenue" recognized which offsets the cost that otherwise would be incurred (e.g., fuel purchased to operate machinery at the mill). In either case, the revenue or cost offset is recognized in the period in which it is incurred. The Commission's questionnaire asked firms where they normally classified by-product revenue. Of the reported $995.6 million in byproduct revenues reported in 2015, 51.5 percent was classified in net sales value, 31.5 percent as a reduction of COGS, 14.9 percent included in other income, and 2.1 percent was classified as a separate revenue item. All the firms reported data. See U.S. producers' questionnaire responses, section III-9b.

[8] There are various types of miscellaneous expenses and credits included in "other expense" and "other income". Two firms, ***, accounted for approximately 54 percent of total other expenses in 2015. When asked what was the nature of "other expense" ***. Included in other expense or other income were the following types of expenses or income: inventory adjustments (***); insurance claims (***); gains and losses on disposal of assets, including equipment and closure of mills or restructuring costs (***); penalties and fees relating to *** (***); *** energy research (***); *** (***).

Profitability

Gross income, operating income, and net income (and their measures as a ratio to total net sales and on a per-unit basis) fell from 2013 to 2015 but were higher in interim 2016 compared to the same period one year earlier (table VI-1). Cash flow (net income plus depreciation charges) changed with net income. The number of firms reporting operating losses and net losses increased noticeably from 2013 to 2015 to approximately 40 percent of reporting firms, but were lower in interim 2016 as indicated in table VI-1.

Variance analysis

A variance analysis for the operations of U.S. producers of softwood lumber is presented in table VI-4.[9] The information for this variance analysis is derived from table VI-1. A variance analysis is a method to assess the changes in profitability from period to period by measuring the impact of changes in the relationships between price, cost, and volume. A calculation is made of the impact of each factor by varying only that factor while holding all other factors constant. The components of net sales variances are either favorable (positive), resulting in an increase in net sales and profitability or unfavorable (negative), resulting in the opposite. As the data depict, operating income and net income both fell between 2013 and 2015, attributable to unfavorable price and net cost/expense variances (unit sales values fell and unit costs and expenses increased). Operating income and net income increased between January-September 2015 and January-September 2016 as each of the three variances were positive (prices increased and unit costs/expenses decreased).

[9] The Commission's variance analysis is calculated in three parts: Sales variance, cost of sales variance (COGS variance), and SG&A expense variance. Each part consists of a price variance (in the case of the sales variance) or a cost or expense variance (in the case of the COGS and SG&A expense variance), and a volume variance. The sales or cost/expense variance is calculated as the change in unit price or per-unit cost/expense times the new volume, while the volume variance is calculated as the change in volume times the old unit price or per-unit cost/expense. Summarized at the bottom of the table, the price variance is from sales; the cost/expense variance is the sum of those items from COGS and SG&A variances, respectively, and the volume variance is the sum of the volume components of the net sales, COGS, and SG&A expense variances. The overall volume component of the variance analysis is generally small.

Table VI-4
Softwood lumber: Variance analysis on the operations of U.S. producers, 2013-15, January-September 2015, and January-September 2016

Item	Between calendar years			Between January-September
	2013-15	2013-14	2014-15	2015-16
	Value (1,000 dollars)			
Net sales:				
Price variance	(726,022)	123,065	(857,585)	173,533
Volume variance	931,419	440,115	499,802	268,055
Net sales variance	205,397	563,180	(357,783)	441,588
COGS:				
Price variance	(202,656)	(199,617)	10,744	92,183
Volume variance	(728,470)	(344,217)	(398,036)	(237,354)
COGS variance	(931,126)	(543,834)	(387,292)	(145,171)
Gross profit variance	(725,729)	19,346	(745,075)	296,417
SG&A expenses:				
Cost/expense variance	14,437	(10,041)	25,171	10,400
Volume variance	(41,182)	(19,459)	(22,416)	(12,309)
Total SG&A expense variance	(26,745)	(29,500)	2,755	(1,909)
Operating income variance	(752,474)	(10,154)	(742,320)	294,508
Summarized (at the operating income level) as:				
Price variance	(726,022)	123,065	(857,585)	173,533
Net cost/expense variance	(188,219)	(209,658)	35,915	102,584
Net volume variance	161,767	76,438	79,350	18,392
Financial expenses:				
Cost/expense variance	(30,336)	(24,829)	(3,792)	(1,170)
Volume variance	(14,407)	(6,808)	(9,314)	(5,019)
Total SG&A expense variance	(44,743)	(31,637)	(13,106)	(6,189)
Net income variance	(797,217)	(41,791)	(755,426)	288,319
Summarized (at the net income level) as:				
Price variance	(726,022)	123,065	(857,585)	173,533
Net cost/expense variance	(218,555)	(234,487)	32,123	101,413
Net volume variance	147,360	69,631	70,036	13,373

Note.—These data are derived from the data in table VI-1. Unfavorable variances are shown in parentheses, all others are favorable.

Source: Compiled from data submitted in response to Commission questionnaires.

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT EXPENSES

In accounting terms, capital expenditures increase the value of specific plant and equipment and total assets, while charges for depreciation and amortization (in the case of intangible assets), impairments, and divestitures (or retirement or abandonment of property) decrease the value of assets. Capital expenditures are made and research and development

("R&D") expenses are incurred to achieve improvements in equipment or reduce operating costs and the quality of products produced. Table VI-5 presents capital expenditures and research and development ("R&D") expenses as reported by the producing firms.

Table VI-5
Softwood lumber: Capital expenditures and R&D expenses of U.S. producers, 2013-15, January-September 2015, and January-September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Value (1,000 dollars)				
Total capital expenditures	515,742	885,569	850,227	677,299	410,212
Total R&D expenses	***	***	***	***	***

Note.—Data for capital expenditures and R&D expenses on a firm-by-firm basis is presented in appendix D table D-2.

Source: Compiled from data submitted in response to Commission questionnaires.

Generally speaking, firms stated that their capital expenditures were directed to: (1) product quality and production improvements, including capacity increases, cost reduction and productivity or efficiency improvements; (2) critical upgrades to existing equipment allowing the firm to continue operating; (3) replacement of worn out equipment, including replacement and upgrading systems put on hold during the recession; and (4) to improve environmental compliance and worker safety.[10] Responding firms indicated that the nature and focus of their R&D was to improve the lumber manufacturing process, i.e., production and mill efficiency, quality improvements in products, and yield, and equipment. Testimony at the staff conference indicated that investment began to pick up when prices improved in 2013 and 2014 although recovery from the financial crisis of 2008-09 has been slow, and that investment has been made after "long durations of deferral."[11]

ASSETS AND RETURN ON INVESTMENT

The Commission's questionnaire requested firms to provide data on their total assets associated with the production, warehousing, and sale of softwood lumber. The value of total net assets increased from 2013 to 2015 by approximately $1.3 billion, equivalent to 37.3 percent and much of the increase in total net assets was due to spending on new plant and equipment. ***.[12] According to respondents, Canadian companies *** have made significant investments in the United States, particularly in the southern United States.[13] Respondents noted that expansion or investment has not been limited to that area (although it represents

[10] U.S. producers' questionnaires, section III-14.
[11] Conference transcript, p. 29 (Swanson) and p. 44 (Dauzat).
[12] Calculated from data in app. D table D-3.
[13] Joint respondents' postconference brief, answers to questions, pp. 9-12.

over half of the U.S. lumber market), citing acquisitions and a new mills in Washington (***) and Maine (***).[14]

The ratio of operating income to total net sales (operating margin) fell *** over the three yearly periods (depicted in table VI-1). As assets increased and the operating margin fell, the ratio of operating income to total net assets also fell. The dynamic of operating margin, sales, and assets is shown in table VI-6 as two calculations, the asset turnover multiple and the operating return on assets. The asset turnover multiple is the ratio of total net sales to total net assets. This is an indicator of how efficiently a firm uses its assets to generate a dollar of sales (i.e., it shows dollar of sales per dollar of assets). The calculation shows that this ratio also fell from 2013 to 2015, because total net sales did not increase as much as did total assets. The asset turnover multiple is used to calculate the operating return on assets, which is the operating margin times the asset turnover multiple. The operating return on assets fell *** from 2013 to 2015, mostly because of changes in the operating margin but was affected by the declining asset turnover multiple. Table VI-6 presents data on the U.S. producers' total net assets as well as the two calculated ratios.

Table VI-6
Softwood lumber: U.S. producers' total assets, the operating return on assets, and the asset turnover multiple, 2013-15

* * * * * * *

CAPITAL AND INVESTMENT

The Commission requested U.S. producers of softwood lumber to describe any actual or potential negative effects of imports of softwood lumber from Canada on their firms' growth, investment, ability to raise capital, development and production efforts, or the scale of capital investments. Table VI-7 tabulates the responses on actual and anticipated negative effects of imports on investment, growth, and development. Appendix D tables D-4 and D-5 present

[14] Joint respondents' postconference brief, answers to questions, pp. 38-40.

firms' narrative responses on actual negative effects on investment, and growth and development, and the anticipated negative effects of imports of softwood lumber from Canada, respectively.

Table VI-7
Softwood lumber: Negative effects of imports from Canada on investment, growth, and development since January 1, 2013 and anticipated negative effects of imports from Canada

Item		No	Yes
Negative effects on investment[1]		15	34
	Cancellation, postponement, or rejection of expansion projects		22
	Denial or rejection of investment proposal		7
	Reduction in the size of capital investments		19
	Return on specific investments negatively impacted		20
	Other		8
Negative effects on growth and development[2]		28	23
	Rejection of bank loans		4
	Lowering of credit rating		6
	Problem related to the issue of stocks or bonds		0
	Ability to service debt		9
	Other		11
Anticipated negative effects of imports[3]		9	43

[1] The following firms responded "no" to this question: ***.
[2] The following firms responded "no" to this question: ***.
[3] The following firms responded "no" to this question: ***.

Note: Narrative comments of firms responding "yes" to these questions are shown in appendix D tables D-4 and D-5.

Source: Compiled from data submitted in response to Commission questionnaires.

PART VII: THREAT CONSIDERATIONS AND INFORMATION ON NONSUBJECT COUNTRIES

Section 771(7)(F)(i) of the Act (19 U.S.C. § 1677(7)(F)(i)) provides that—

> *In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of the subject merchandise, the Commission shall consider, among other relevant economic factors*[1]*--*
>
> *(I) if a countervailable subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the countervailable subsidy is a subsidy described in Article 3 or 6.1 of the Subsidies Agreement), and whether imports of the subject merchandise are likely to increase,*
>
> *(II) any existing unused production capacity or imminent, substantial increase in production capacity in the exporting country indicating the likelihood of substantially increased imports of the subject merchandise into the United States, taking into account the availability of other export markets to absorb any additional exports,*
>
> *(III) a significant rate of increase of the volume or market penetration of imports of the subject merchandise indicating the likelihood of substantially increased imports,*
>
> *(IV) whether imports of the subject merchandise are entering at prices that are likely to have a significant depressing or suppressing effect on domestic prices, and are likely to increase demand for further imports,*
>
> *(V) inventories of the subject merchandise,*

[1] Section 771(7)(F)(ii) of the Act (19 U.S.C. § 1677(7)(F)(ii)) provides that "The Commission shall consider {these factors} . . . as a whole in making a determination of whether further dumped or subsidized imports are imminent and whether material injury by reason of imports would occur unless an order is issued or a suspension agreement is accepted under this title. The presence or absence of any factor which the Commission is required to consider . . . shall not necessarily give decisive guidance with respect to the determination. Such a determination may not be made on the basis of mere conjecture or supposition."

(VI) the potential for product-shifting if production facilities in the foreign country, which can be used to produce the subject merchandise, are currently being used to produce other products,

(VII) in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both),

(VIII) the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the domestic like product, and

(IX) any other demonstrable adverse trends that indicate the probability that there is likely to be material injury by reason of imports (or sale for importation) of the subject merchandise (whether or not it is actually being imported at the time).[2]

Information on the nature of the "alleged" subsidies was presented earlier in this report; information on the volume and pricing of imports of the subject merchandise is presented in *Parts IV* and *V*; and information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts is presented in *Part VI*. Information on inventories of the subject merchandise; foreign producers' operations, including the potential for "product-shifting;" any other threat indicators, if applicable; and any dumping in third-country markets, follows. Also presented in this section of the report is information obtained for consideration by the Commission on nonsubject countries.

[2] Section 771(7)(F)(iii) of the Act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other WTO member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

THE INDUSTRY IN CANADA

The Commission issued foreign producers' or exporters' questionnaires to 75 firms believed to produce and/or export softwood lumber from Canada.[3] Useable responses to the Commission's questionnaire were received from 59 firms. These firms' exports to the United States accounted for approximately 82.1 percent of U.S. imports of softwood lumber from Canada over the period being examined. Responding Canadian producers accounted for 82.3 percent of 2015 production of softwood lumber in Canada. Table VII-1 presents information on the softwood lumber operations of the responding producers and exporters in Canada. Like U.S. production, Canadian production of softwood lumber is dependent upon U.S. construction activity.

Table VII-1
Softwood lumber: Data for producers in Canada, 2015

Firm	Production (1,000 board feet)	Share of reported production (percent)	Exports to the United States (1,000 board feet)	Share of reported exports to the United States (percent)	Total shipments (1,000 board feet)	Share of firm's total shipments exported to the United States (percent)
Apollo	***	***	***	***	***	***
Arbec	***	***	***	***	***	***
Arbec (as sales agent)	***	***	***	***	***	***
Aspen	***	***	***	***	***	***
Barrette	***	***	***	***	***	***
Barrette-Chapais	***	***	***	***	***	***
Blanchet	***	***	***	***	***	***
Blanchette	***	***	***	***	***	***
Canfor	***	***	***	***	***	***
Carrier	***	***	***	***	***	***
Carrier and Begin	***	***	***	***	***	***
Cedrico	***	***	***	***	***	***
Chaleur	***	***	***	***	***	***
Chilbougamau	***	***	***	***	***	***
Clermond Hamel	***	***	***	***	***	***
Conifex	***	***	***	***	***	***
Crabbe	***	***	***	***	***	***
D and G	***	***	***	***	***	***
Daaquam	***	***	***	***	***	***
Delco	***	***	***	***	***	***

Table continued on next page.

[3] These firms were identified through a review of information submitted in the petition, Random Length's *Big Book*, and contained in *** records.

Table VII-1--*Continued*
Softwood lumber: Data for producers in Canada, 2015

Firm	Production (1,000 board feet)	Share of reported production (percent)	Exports to the United States (1,000 board feet)	Share of reported exports to the United States (percent)	Total shipments (1,000 board feet)	Share of firm's total shipments exported to the United States (percent)
Devon	***	***	***	***	***	***
Dunkley	***	***	***	***	***	***
Eacom	***	***	***	***	***	***
Elmsdale	***	***	***	***	***	***
Fontaine	***	***	***	***	***	***
Fornebu	***	***	***	***	***	***
Freeman	***	***	***	***	***	***
GDS	***	***	***	***	***	***
Interfor	***	***	***	***	***	***
JD Irving	***	***	***	***	***	***
La Crete	***	***	***	***	***	***
Lakeland	***	***	***	***	***	***
Lauzon	***	***	***	***	***	***
Lecours	***	***	***	***	***	***
Ledwidge	***	***	***	***	***	***
Lemay	***	***	***	***	***	***
Maibec	***	***	***	***	***	***
Martek	***	***	***	***	***	***
Marwood	***	***	***	***	***	***
Millar	***	***	***	***	***	***
NAFP	***	***	***	***	***	***
Nechako	***	***	***	***	***	***
NorSask	***	***	***	***	***	***
Petit Paris	***	***	***	***	***	***
PF Industries	***	***	***	***	***	***
Prendiville	***	***	***	***	***	***
Resolute	***	***	***	***	***	***
Sartigan	***	***	***	***	***	***
Scotsburn	***	***	***	***	***	***
Sinclair	***	***	***	***	***	***
Taylor	***	***	***	***	***	***
Tembec	***	***	***	***	***	***
Terminal	***	***	***	***	***	***
Tolko	***	***	***	***	***	***
Twin Rivers	***	***	***	***	***	***
West Fraser	***	***	***	***	***	***
Western	***	***	***	***	***	***
Weyerhaeuser	***	***	***	***	***	***
Williams Brothers	***	***	***	***	***	***
Total	***	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

Table VII-2 presents reported changes in operations, since January 1, 2013, by Canadian producers of softwood lumber. Nine firms reported plant closings, four reported reported relocatons, eight reported expansions, nine reported acquisitions, two consolidations, 17 reported prolonged shutdowns or curtailments, 17 reported revised labor agreements, and 24 reported other (primarily technology based).

Table VII-2
Softwood lumber: Reported changes in operations in by producers in Canada, since January 1, 2013

* * * * * * *

As figure VII-1 shows, mills are scattered throughout Canada.

Figure VII-1
Softwood lumber: Location of Canadian mills

Source: *2016 Big Book* , Random Lengths Publications, Inc., Eugene, Oregon

Table VII-3 presents capacity and production for the eight leading Canadian producers and all others. Like U.S. production, Canadian production of softwood lumber is dependent upon U.S. construction activity. British Columbia is the leading province for softwood lumber production in Canada.[4] Data concerning Canadian production, exports, imports, and apparent consumption of softwood lumber are presented in table VII-4. Canada's exports to the United States are mostly marketed in areas of high housing activity east of the Rocky Mountains, with California being a primary market in the western United States. After the United States, Japan is Canada's next largest export market. Canada's other important export markets include the EU and Australia.

[4] Conference transcript, p. 121 (Dougan)

Table VII-3
Softwood lumber: Production and capacity by top producers in Canada, 2013-15, January to September 2015, and January to September 2016 and projection calendar years 2016 and 2017

Item	Actual experience					Projections	
	Calendar year			January to September		Calendar year	
	2013	2014	2015	2015	2016	2016	2017
	Capacity (*1,000 board feet*)						
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
Top eight (8) producers	16,298,500	15,808,830	16,023,830	12,015,742	12,220,549	16,220,000	16,329,000
All other firms	7,841,285	8,023,116	8,588,060	6,405,417	6,645,887	8,826,229	8,830,206
Total capacity	24,139,785	23,831,946	24,611,890	18,421,159	18,866,436	25,046,229	25,159,206
	Production (*1,000 board feet*)						
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
Top eight (8) producers	14,346,803	14,265,361	14,509,728	10,883,776	11,322,911	15,032,932	15,582,030
All other firms	6,615,415	6,877,798	7,464,223	5,470,043	6,127,626	8,150,179	8,273,446
Total production	20,962,218	21,143,159	21,973,951	16,353,819	17,450,537	23,183,111	23,855,476
	Capacity utilization (*percent*)						
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
***	***	***	***	***	***	***	***
Top eight (8) producers	88.0	90.2	90.6	90.6	92.7	92.7	95.4
All other firms	84.4	85.7	86.9	85.4	92.2	92.3	93.7
Total production	86.8	88.7	89.3	88.8	92.5	92.6	94.8

Source: Compiled from data submitted in response to Commission questionnaires.

Table VII-4
Softwood lumber: Data on industry in Canada, 2013-15, January to September 2015, and January to September 2016 and projection calendar years 2016 and 2017

Item	Actual experience					Projections	
	Calendar year			January to September		Calendar year	
	2013	2014	2015	2015	2016	2016	2017
	Quantity (1,000 board feet)						
Capacity	24,139,785	23,831,946	24,611,890	18,421,159	18,866,436	25,046,229	25,159,206
Production	20,962,218	21,143,159	21,973,951	16,353,819	17,450,537	23,183,111	23,855,476
End-of-period inventories	1,966,264	1,987,461	2,051,834	2,105,750	1,984,568	1,771,010	1,717,346
Shipments:							
Home market shipments:							
Internal consumption/ transfers	320,562	353,734	321,927	240,598	253,198	376,913	423,027
Commercial shipments	6,621,341	6,334,845	6,737,561	4,946,391	5,250,332	7,003,988	7,080,212
Subtotal, home market shipments	6,941,903	6,688,579	7,059,488	5,186,989	5,503,530	7,380,901	7,503,239
Export shipments to:							
United States	9,454,747	10,269,863	11,109,972	8,178,263	9,446,220	12,565,620	13,039,721
All other markets	4,464,092	4,252,382	3,900,123	2,991,815	2,610,111	3,488,926	3,348,658
Total exports	13,918,839	14,522,245	15,010,095	11,170,078	12,056,331	16,054,546	16,388,379
Total shipments	20,860,742	21,210,824	22,069,583	16,357,067	17,559,861	23,435,447	23,891,618
	Ratios and shares (percent)						
Capacity utilization	86.8	88.7	89.3	88.8	92.5	92.6	94.8
Inventories/production	9.4	9.4	9.3	9.7	8.5	7.6	7.2
Inventories/total shipments	9.4	9.4	9.3	9.7	8.5	7.6	7.2
Share of shipments:							
Home market shipments:							
Internal consumption/ transfers	1.5	1.7	1.5	1.5	1.4	1.6	1.8
Home market shipments	31.7	29.9	30.5	30.2	29.9	29.9	29.6
Subtotal, home market shipments	33.3	31.5	32.0	31.7	31.3	31.5	31.4
Export shipments to:							
United States	45.3	48.4	50.3	50.0	53.8	53.6	54.6
All other markets	21.4	20.0	17.7	18.3	14.9	14.9	14.0
Total exports	66.7	68.5	68.0	68.3	68.7	68.5	68.6
Total shipments	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Quantity (1,000 board feet)						
Resales exported to the United States	26,555	32,027	29,088	21,378	15,839	18,643	16,216
Total exports to the United States	9,481,302	10,301,890	11,139,060	8,199,641	9,462,059	12,584,263	13,055,937
	Ratios and shares (percent)						
Share of total exports to the United States.--							
Exported by producers	99.7	99.7	99.7	99.7	99.8	99.9	99.9
Exported by resellers	0.3	0.3	0.3	0.3	0.2	0.1	0.1
Adjusted share of total shipments exported to US	45.5	48.6	50.5	50.1	53.9	53.7	54.6

Table VII-5 presents Canadian softwood lumber production by Province. British Columbia produces half of all Canadian softwood lumber production with Quebec producing approximately one-quarter of all Canadian softwood lumber production and Ontario and the Prairie and Maritime Provinces the remaining (the table has a column of “unidentified” production that is explained in footnote 3 of table VII-5).

Table VII-5
Softwood lumber: Canadian production, by Provinces, 2013-2015, January-September 2015, and January-September 2016

Period	British Columbia			Quebec	Ontario	Maritime Provinces[1]	Prairie Provinces[2]	Unidenti-fied[3]	Total
	Coast	Interior	Total						
Quantity (*million board feet*)									
2013	1,509	11,214	12,723	5,168	397	-	3,667	2,418	24,372
2014	1,551	11,083	12,634	5,211	1,312	144	3,855	1,491	24,646
2015	1,563	11,651	13,214	5,751	889	346	4,181	2,307	26,687
Jan-Sep 2015	1,170	8,736	9,906	4,195	436	268	3,181	1,865	19,851
Jan-Sep 2016	1,214	9,125	10,339	4,875	1,386	80	3,263	1,421	21,364
Share of total production (*percent*)									
2013	6	46	52	21	2	0	15	10	100
2014	6	45	51	21	5	1	16	6	100
2015	6	44	50	22	3	1	16	9	100
Jan-Sept 2015	6	44	50	21	2	1	16	9	100
Jan-Sept 2016	6	43	48	23	6	0	15	7	100

[1] New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Islands.
[2] Alberta, Manitoba, and Saskatchewan.
[3] Production figures for British Columbia match Lumber Track exactly, but the sum of all others is lower, as is the total of all provinces. For some months, province-specific numbers are suppressed for confidentiality reasons, which is why the province-specific numbers do not add to the total. When a data point is suppressed due to confidentiality it appears in the CANSIM table as an "x". This does not mean that the data point is equal to zero, but only that the data cannot be published to avoid divulging information that Statistics Canada deems confidential as required by the Statistics Act.

Source: Statistics Canada. Table 303-0064 - Lumber production, shipments and stocks, by Canada and provinces, monthly (cubic metres), CANSIM (database). Accessed at http://www5.statcan.gc.ca/cansim/

The following tabulation, as calculated by Stats Canada, presents Canadian softwood lumber production by species group SPF and all other.

Species	Calendar year			January-September	
	2013	2014	2015	2015	2016
	(*million board feet*)				
SPF	21,966	22,056	24,158	17,897	19,237
All Other	2,405	2,590	2,530	1,954	2,127
Total	24,372	24,646	26,687	19,851	21,364

Table VII-6 presents Canadian apparent consumption as calculated by Stats Canada.

Table VII-6
Softwood lumber: Canadian production, imports, exports of domestic merchandise, and apparent consumption, 2013-2015, January-September 2015, and January-September 2016

Period	Production[1]	Shipments[2]	Imports[2]	Exports to U.S.[3]	Total exports[4]	Consumption[5]	Exports to consumption	Exports to U.S. to production	Imports to consumption
	Quantity (*million board feet*)						(*Percent*)		
2013	24,372	23,280	414	10,918	16,437	7,257	67	45	6
2014	24,646	24,026	401	12,141	17,052	7,375	69	49	5
2015	26,687	26,333	361	12,978	17,625	9,069	66	49	4
Jan-Sept 2015	19,851	19,487	278	9,506	12,982	6,783	65	48	4
Jan-Sept 2016	21,364	21,413	275	11,260	14,441	7,247	68	53	4

[1] Statistics Canada. Table 303-0064 - Lumber production, shipments and stocks, by Canada and provinces, monthly (cubic metres), CANSIM (database). Accessed at http://www5.statcan.gc.ca/cansim/
[2] WWPA Lumber Track, September 2016, December 2015, and December 2014.
[3] Statistics Canada.
[4] Exports to the United States from Statistics Canada. All Other Exports from WWPA Lumber Track as listed above.
[5] Canadian Shipments plus imports into Canada minus total Canadian exports.

The following tabulation presents the estimated share of softwood lumber consumed in Canada, by end use, in 2015.

End use	Share of consumption (*percent*)
Construction:	
New residential (new construction)	22
Repair and remodeling	49
New nonresidential construction	6
Industrial	23
Total	100

Source: Derived from Statistics Canada data.

U.S. INVENTORIES OF IMPORTED MERCHANDISE

Table VII-7 presents data on U.S. importers' reported inventories of softwood lumber. Inventories of Canadian softwood lumber imports were *** percent of all softwood lumber imports during the period of investigation.

Table VII-7
Softwood lumber: U.S. importers' end-of-period inventories of imports by source, 2013-15, January to September 2015, and January to September 2016

Item	Calendar year			January-September	
	2013	2014	2015	2015	2016
	Inventories (*1,000 board feet*); Ratios (*percent*)				
Imports from Canada					
Inventories	211,179	280,212	234,509	250,851	255,754
Ratio to U.S. imports	2.1	2.6	2.0	2.2	1.9
Ratio to U.S. shipments of imports	2.2	2.7	2.1	2.2	2.0
Ratio to total shipments of imports	2.1	2.6	2.0	2.2	1.9
Imports from all other sources:					
Inventories	***	***	***	***	***
Ratio to U.S.	***	***	***	***	***
Ratio to U.S. shipments of imports	***	***	***	***	***
Ratio to total shipments of imports	***	***	***	***	***
Imports from all import sources:					
Inventories	***	***	***	***	***
Ratio to U.S. imports	***	***	***	***	***
Ratio to U.S. shipments of imports	***	***	***	***	***
Ratio to total shipments of imports	***	***	***	***	***

Source: Compiled from data submitted in response to Commission questionnaires.

U.S. IMPORTERS' OUTSTANDING ORDERS

The Commission requested importers to indicate whether they imported or arranged for the importation of softwood lumber from Canada after September 30, 2016. The tabulation below presents the reported arrangements from 36 firms.

Item	Period				
	Oct-Dec 2016	Jan-Mar 2017	Apr-Jun 2017	Jul-Sept 2017	Total
Canada	2,365,338	315,916	276,345	266,209	3,223,808
All other sources	12,600	0	0	0	12,600
Total U.S. imports	2,377,938	315,916	276,345	266,209	3,236,408

ANTIDUMPING OR COUNTERVAILING DUTY ORDERS IN THIRD-COUNTRY MARKETS

There are no known antidumping or countervailing duty orders currently in effect concerning softwood lumber in third-country markets.

INFORMATION ON NONSUBJECT COUNTRIES

TableVII-8 presents global exports, by exporter, by value for 2013-15. Canada is by far the largest exporter of softwood lumber accounting for 26.0 percent of global exports for 2013-15. During this same period Russia (12.1 percent), Sweden (11.9 percent), Finland (6.9 percent), Germany (6.2 percent), and Austria (5.1 percent) all reportedly exported more softwood lumber than the United States.

Table VII-8
Softwood lumber: Global exports by exporter, 2013-15

Item	Calendar year		
	2013	2014	2015
	Value (*1,000 dollars*)		
United States	1,311,326	1,272,276	1,110,376
Canada	7,290,130	7,663,876	6,767,939
All other major exporters.--			
Sweden	3,363,124	3,605,489	2,993,650
Russia	3,556,064	3,632,445	2,895,289
Finland	1,927,399	2,075,761	1,747,714
Germany	1,750,255	1,908,301	1,495,018
Austria	1,503,232	1,484,455	1,300,939
Chile	1,079,748	1,276,821	1,088,581
New Zealand	751,649	697,362	633,641
Latvia	573,741	671,791	574,734
Brazil	395,869	462,664	505,613
Romania	694,081	641,335	421,979
All other exporters	4,040,321	4,590,341	3,799,490
Total global exports	28,236,941	29,982,915	25,334,962
	Share of value (*percent*)		
United States	4.6	4.2	4.4
Canada	25.8	25.6	26.7
All other major exporters.--			
Sweden	11.9	12.0	11.8
Russia	12.6	12.1	11.4
Finland	6.8	6.9	6.9
Germany	6.2	6.4	5.9
Austria	5.3	5.0	5.1
Chile	3.8	4.3	4.3
New Zealand	2.7	2.3	2.5
Latvia	2.0	2.2	2.3
Brazil	1.4	1.5	2.0
Romania	2.5	2.1	1.7
All other exporters	14.3	15.3	15.0
Total global exports	100.0	100.0	100.0

Note.--Quantity data not shown as they are reported in multiple differing units of measure. Data includes exports of both in-scope softwood lumber as well some out-of-scope merchandise.

Source: Official exports statistics under HTS subheading 4407.10 and 4409.10 as reported by various national statistical authorities in the IHS/GTA database, accessed December 21, 2016.

APPENDIX A

FEDERAL REGISTER NOTICES

The Commission makes available notices relevant to its investigations and reviews on its website, www.usitc.gov. In addition, the following tabulation presents, in chronological order, *Federal Register* notices issued by the Commission and Commerce during the current proceeding.

Citation	Title	Link
81 FR 87069, December 2, 2016	*Softwood Lumber Products from Canada; Institution of Antidumping and Countervailing Duty Investigations and Scheduling of Preliminary Phase Investigations*	https://www.gpo.gov/fdsys/pkg/FR-2016-12-02/pdf/2016-28922.pdf
81 FR 93892, December 22, 2016	*Certain Softwood Lumber Products from Canada: Initiation of Less-Than-Fair-Value Investigation*	https://www.gpo.gov/fdsys/pkg/FR-2016-12-22/pdf/2016-30780.pdf
81 FR 93897 December 22, 2016	*Certain Softwood Lumber Products From Canada: Initiation of Countervailing Duty Investigation*	https://www.gpo.gov/fdsys/pkg/FR-2016-12-22/pdf/2016-30774.pdf

APPENDIX B

LIST OF CONFERENCE WITNESSES

CALENDAR OF PUBLIC PRELIMINARY CONFERENCE

Those listed below appeared as witnesses at the United States International Trade Commission's preliminary conference:

Subject: Softwood Lumber from Canada

Inv. Nos.: 701-TA-566 and 731-TA-1342 (Preliminary)

Date and Time: December 16, 2016 - 9:30 a.m.

Sessions were held in connection with these preliminary phase investigations in the ALJ Courtroom A (Room 110), 500 E Street, S.W., Washington, DC.

In Support of the Imposition of
Antidumping and Countervailing Duty Orders:

Picard Kentz & Rowe LLP
Washington, DC
on behalf of

Petitioner

Steve Swanson, President and Chief Executive Officer, Swanson Group

Andrew Miller, President and Chief Executive Officer, Stimson Lumber Company

Steve Banahan, SPF Sales Manager, Pleasant River Lumber Company, Inc.

Caroline Dauzat, Owner, Rex Lumber Co.

Blake Sullivan, Forest Landowner, Principal, Sullivan Forestry Consultants, Inc.

Chuck Roady, Vice President and General Manager, F.H. Soltze Land & Lumber Company

Susan B. Hester, Ph.D., Consultant, Moongate Associates, Inc.

Deanna Tanner Okun, Consultant, Adduci, Mastriani & Schaumberg LLP

Andrew W. Kentz)
) – OF COUNSEL
David A. Yocis)

In Opposition to the Imposition of
Antidumping and Countervailing Duty Orders:

Hughes Hubbard & Reed LLP
Washington, DC
on behalf of

Government of Canada

Colin Bird, Minister-Counsellor, Trade and Economic Policy,
Embassy of Canada

James P. Dougan, Vice President, Economic Consulting Services, LLC

Cara Groden, Economist, Economic Consulting Services, LLC

Kivanc Kirgiz, Vice President, Cornerstone Research

Matthew R. Nicely)
) – OF COUNSEL
Eric S. Parnes)

Mowry & Grimson, PLLC
Washington, DC
on behalf of

National Association of Home Builders ("NAHB")

Barry Rutenberg, Chairman, Arthur Rutenberg Homes

Rich Millman, President, Millman Lumber Company

Jeffrey S. Grimson)
) – OF COUNSEL
Kristin H. Mowry)

In Opposition to the Imposition of
Antidumping and Countervailing Duty Orders (continued):

Steptoe & Johnson LLP
Washington, DC
on behalf of

British Columbia Lumber Trade Council ("BCLTC")

Mark A. Moran)
) – OF COUNSEL
Matthew A. Frumin)

Cassidy Levy Kent (USA) LLP
Washington, DC
on behalf of

Interfor Corporation and Western Forest Products Inc.

Myles S. Getlan) – OF COUNSEL

Baker & Hosteller LLP
Washington, DC
on behalf of

Ontario Forest Industries Association ("OFIA")
Conseil de I'Industrie forestière du Québec ("CFIQ")
Resolute Forest Products Inc.

Elliot J. Feldman)
John Burke)
) – OF COUNSEL
Michael Snarr)
Jake Frischknecht)

APPENDIX C

SUMMARY DATA

Table C-1
Softwood lumber: Summary data concerning the U.S. market, 2013-15, January to September 2015, and January to September 2016
(Quantity=1,000 board feet; Value=1,000 dollars; Unit values, unit labor costs, and unit expenses=dollars per 1,000 board feet; Period changes=percent--exceptions noted)

	Reported data					Period changes			
	Calendar year			January to September		Calendar year			Jan-Sep
	2013	2014	2015	2015	2016	2013-15	2013-14	2014-15	2015-16
U.S. consumption quantity:									
Amount	39,020,210	41,883,715	43,784,534	32,827,818	36,609,884	12.2	7.3	4.5	11.5
Producers' share (fn1)	70.7	69.4	68.2	69.3	63.9	(2.5)	(1.3)	(1.2)	(5.3)
Importers' share (fn1):									
Canada	28.0	29.0	30.3	29.2	34.0	2.3	1.0	1.3	4.9
Nonsubject sources	1.3	1.6	1.5	1.6	2.0	0.2	0.3	(0.1)	0.5
All import sources	29.3	30.6	31.8	30.7	36.1	2.5	1.3	1.2	5.3
U.S. consumption value:									
Amount	15,742,309	17,174,154	15,898,339	12,189,254	13,495,457	1.0	9.1	(7.4)	10.7
Producers' share (fn1)	68.6	67.4	66.5	67.1	64.4	(2.1)	(1.2)	(0.9)	(2.7)
Importers' share (fn1):									
Canada	28.5	29.7	29.8	29.3	31.9	1.3	1.2	0.1	2.6
Nonsubject sources	2.8	2.8	3.7	3.6	3.7	0.8	0.0	0.8	0.1
All import sources	31.4	32.6	33.5	32.9	35.6	2.1	1.2	0.9	2.7
U.S. imports from:									
Canada:									
Quantity	10,908,284	12,143,480	13,257,518	9,576,425	12,464,314	21.5	11.3	9.2	30.2
Value	4,492,149	5,102,945	4,736,608	3,570,634	4,304,887	5.4	13.6	(7.2)	20.6
Unit value	$412	$420	$357	$373	$345	(13.2)	2.0	(15.0)	(7.4)
Ending inventory quantity	211,179	280,212	234,509	250,851	255,754	11.0	32.7	(16.3)	2.0
Nonsubject sources:									
Quantity	508,926	669,236	653,016	509,394	735,570	28.3	31.5	(2.4)	44.4
Value	445,643	487,689	583,565	438,056	492,980	30.9	9.4	19.7	12.5
Unit value	$876	$729	$894	$860	$670	2.1	(16.8)	22.6	(22.1)
Ending inventory quantity	***	***	***	***	***	***	***	***	***
All import sources:									
Quantity	11,417,210	12,812,715	13,910,534	10,085,818	13,199,884	21.8	12.2	8.6	30.9
Value	4,937,791	5,590,634	5,320,172	4,008,689	4,797,867	7.7	13.2	(4.8)	19.7
Unit value	$432	$436	$382	$397	$363	(11.6)	0.9	(12.3)	(8.5)
Ending inventory quantity	***	***	***	***	***	***	***	***	***
U.S. producers':									
Average capacity quantity	22,019,262	23,152,736	24,276,932	18,235,045	18,997,849	10.3	5.1	4.9	4.2
Production quantity	17,022,199	18,204,693	19,322,952	14,624,606	15,283,246	13.5	6.9	6.1	4.5
Capacity utilization (fn1)	77.3	78.6	79.6	80.2	80.4	2.3	1.3	1.0	0.2
U.S. shipments (WWPA for A/C):									
Quantity	27,603,000	29,071,000	29,874,000	22,742,000	23,410,000	8.2	5.3	2.8	2.9
Value	10,804,518	11,583,520	10,578,167	8,180,565	8,697,590	(2.1)	7.2	(8.7)	6.3
Unit value	$391	$398	$354	$360	$372	(9.5)	1.8	(11.1)	3.3
U.S. shipments (questionniare data):									
Quantity	16,612,464	17,746,704	18,990,516	14,366,406	15,130,243	14.3	6.8	7.0	5.3
Value	6,502,542	7,071,284	6,724,404	5,167,765	5,621,386	3.4	8.7	(4.9)	8.8
Unit value	$391	$398	$354	$360	$372	(9.5)	1.8	(11.1)	3.3
Export shipments:									
Quantity	347,234	331,191	335,637	244,042	221,620	(3.3)	(4.6)	1.3	(9.2)
Value	172,673	167,112	156,205	114,576	102,543	(9.5)	(3.2)	(6.5)	(10.5)
Unit value	$497	$505	$465	$469	$463	(6.4)	1.5	(7.8)	(1.4)
Ending inventory quantity	1,175,763	1,338,640	1,376,889	1,408,096	1,310,426	17.1	13.9	2.9	(6.9)
Inventories/total shipments (fn1)	6.9	7.4	7.1	7.2	6.4	0.2	0.5	(0.3)	(0.8)
Production workers	16,826	18,657	19,535	19,445	19,615	16.1	10.9	4.7	0.9
Hours worked (1,000s)	39,277	43,775	45,485	34,011	34,540	15.8	11.5	3.9	1.6
Wages paid ($1,000)	879,963	983,699	1,070,689	796,261	836,312	21.7	11.8	8.8	5.0
Hourly wages (dollars)	$22.40	$22.47	$23.54	$23.41	$24.21	5.1	0.3	4.8	3.4
Productivity (board feet per hour)	433.4	415.9	424.8	430.0	442.5	(2.0)	(4.0)	2.2	2.9
Unit labor costs	$51.70	$54.04	$55.41	$54.45	$54.72	7.2	4.5	2.5	0.5
Net sales:									
Quantity	16,959,698	18,077,896	19,326,152	14,610,448	15,351,863	14.0	6.6	6.9	5.1
Value	6,675,215	7,238,395	6,880,612	5,282,342	5,723,930	3.1	8.4	(4.9)	8.4
Unit value	$394	$400	$356	$362	$373	(9.5)	1.7	(11.1)	3.1
Cost of goods sold (COGS)	5,220,737	5,764,571	6,151,863	4,677,347	4,822,518	17.8	10.4	6.7	3.1
Gross profit or (loss)	1,454,478	1,473,824	728,749	604,995	901,412	(49.9)	1.3	(50.6)	49.0
SG&A expenses	295,137	324,637	321,882	242,568	244,477	9.1	10.0	(0.8)	0.8
Operating income or (loss)	1,159,341	1,149,187	406,867	362,427	656,935	(64.9)	(0.9)	(64.6)	81.3
Net income or (loss)	1,056,087	1,014,296	258,870	263,530	551,849	(75.5)	(4.0)	(74.5)	109.4
Capital expenditures	515,742	885,569	850,227	677,299	410,212	64.9	71.7	(4.0)	(39.4)
Unit COGS	$308	$319	$318	$320	$314	3.4	3.6	(0.2)	(1.9)
Unit SG&A expenses	$17	$18	$17	$17	$16	(4.3)	3.2	(7.3)	(4.1)
Unit operating income or (loss)	$68	$64	$21	$25	$43	(69.2)	(7.0)	(66.9)	72.5
Unit net income or (loss)	$62	$56	$13	$18	$36	(78.5)	(9.9)	(76.1)	99.3
COGS/sales (fn1)	78.2	79.6	89.4	88.5	84.3	11.2	1.4	9.8	(4.3)
Operating income or (loss)/sales (fn1)	17.4	15.9	5.9	6.9	11.5	(11.5)	(1.5)	(10.0)	4.6
Net income or (loss)/sales (fn1)	15.8	14.0	3.8	5.0	9.6	(12.1)	(1.8)	(10.3)	4.7

Notes:

fn1.--Reported data are in percent and period changes are in percentage points.
fn2.--Undefined.

Source: Compiled from data submitted in response to Commission questionnaires, WWPA industry data, and official U.S. import statistics (as discussed in part IV).

APPENDIX D

FIRM-BY-FIRM DATA

OUTLINE

This appendix presents data on a firm-by-firm basis for the following areas:

(1) Table D-1, selected financial results of operations, which corresponds to Part VI table VI-1.

(2) Table D-2, capital expenditures and R&D expenses, which corresponds to Part VI table VI-5.

(3) Table D-3, total net assets, which corresponds to Part VI table VI-6.

(4) Table D-4, firms' narrative responses to capital and investment, which corresponds to Part VI table VI-7.

SELECTED FINANCIAL INDICATORS OF RESULTS OF OPERATIONS:

Table D-1
Softwood lumber: Selected results of operations of U.S. producers, by firm, 2013-15, January-September 2015, and January-September 2016

* * * * * * *

CAPITAL EXPENDITURES AND RESEARCH AND DEVELOPMENT (R&D) EXPENSES

Table D-2
Softwood lumber: Capital expenditures and R&D expenses of U.S. producers, by firm, 2013-15, January-September 2015, and January-September 2016

* * * * * * *

ASSETS AND RETURN ON INVESTMENT

Table D-3
Softwood lumber: Value of assets used in production, warehousing, and sales and ratio of operating income to total net assets of U.S. producers, by firm, 2013-15

* * * * * * *

CAPITAL AND INVESTMENT

The Commission requested U.S. producers of softwood lumber to describe any actual or potential negative effects of imports of softwood lumber from Canada on their firms' growth, investment, ability to raise capital, existing development and production efforts (including efforts to develop a derivative or more advanced version of the product), or the scale of capital investments. Tables VI-7 in the body of this report tabulates the firms' "no" and "yes" responses on actual negative effects on investment, growth, and development. In this appendix, table D-4 presents firms' narrative responses on actual negative effects on investment, growth and development. Table D-5 presents the comments by firms on anticipated negative effects of the subject imports.

Actual negative effects

Table D-4

Softwood lumber: U.S. producers' narrative responses on negative effects on investment, growth, and development since January 1, 2013

* * * * * * *

Anticipated negative effects

Table D-5

Softwood lumber: U.S. producers' narrative responses on anticipated negative effects of imports

* * * * * * *