

### ***Softwood Lumber – Duty Rates Going DOWN in July 2022***

**Event:** Today, the U.S. Department of Commerce (“USDOC”) announced the preliminary determination for its third Administrative Review (“AR3”) of the anti-dumping (“AD”) and countervailing duty (“CVD”) investigations of imports of softwood lumber from Canada. The new combined CVD/AD rate is a drop of 35% from the current 17.9% to 11.6%. The current rates went into effect on December 2, 2021 and they were a double of the 9.0% rate that had been in effect from November 2020. The final rate determination of AR3 is expected in late July. Once the new rates are published in the Federal Register, the new cash deposit rates will apply to all lumber shipments to the U.S. from August 2022. Table 1 lists the proposed new duty deposit rates. Most of the largest changes were in the anti-dumping duty rates. <sup>1</sup>

**Table 1 – Cash Deposit Rates – December 2021 – July 2023**

Company	Current Duty Deposit Rates December 2021 – July 2022			New – AR3 Duty Deposit Rates August 2022 – July 2023		
	CVD	AD	Total	CVD	AD	Total
Canfor	2.42%	17.12%	19.54%	1.83%	4.92%	6.75%
JD Irving	3.46%	11.59%	15.05%	2.33%	4.76%	7.09%
Resolute Forest	18.07%	11.59%	29.66%	15.48%	4.76%	20.24%
West Fraser	5.08%	6.06%	11.14%	8.46%	4.63%	13.09%
All Others	6.32%	11.59%	17.91%	6.88%	4.76%	11.64%

Source: U.S. Department of Commerce

<sup>1</sup> *Anti-dumping duties are applied when the USDOC determines that Canadian lumber companies are selling lumber into the U.S. at prices below their costs or the sales value in Canada.*

**The primary reason for the downward adjustment in the duty rates was a higher lumber selling price (+55%) for the AR3 Period of Review (calendar year 2020) versus AR2 (2019).**

**Impact: Positive.**

- 1) The new lower duty deposit rates, despite the fact that they don’t go into effect until mid-2022, will save the Canadian lumber companies that we hold in the Global Timber Fund an estimated \$220 million per year in combined cash duty deposits. Higher dividends are a possibility.
- 2) It is evident that **the next Administrative Review (AR4)**, which will be based on 2021 data (prices and costs), will produce **even lower duty rates in 2023.**
- 3) With strong balance sheets, the prospect for continuing record high free cashflows, and the fact that the duties, that went into effect in January 2018, are being held in trust by the **U.S. Customs and Border Protection Agency** (and collecting interest at 2% per year) – **there will be very little incentive for the Canadian industry to enter into or initiate a negotiated trade agreement.** The present situation is unlike the one in 2006, when the Canadian industry agreed to give 20% of the duties collected to the Americans, in return for a 7-year long Softwood Lumber Agreement.

**How much money is in the Trust Account?**

We estimate that total of cash duty deposits being held in trust by the CBPA is approaching US\$4.5 billion. Table 2 lists the lumber duty deposits for the major publicly traded lumber companies.

**Table 2 – Lumber Duties on Deposit (as of December 31, 2021)**  
(million \$)

COMPANY	TOTAL (e)	Per Share
West Fraser	US\$770	US\$7.05
Canfor	C\$745	C\$5.95
Interfor	C\$225	C\$3.65

Source: Company Filings, Corton Capital estimates

**What Will Happen to Lumber Shipments and Prices ?**

Based on history and considering the current tight lumber markets, **we expect the lower lumber duty deposit rates will not have any effect on lumber prices or shipments.** Lower harvest levels in British Columbia, as a result of old growth deferrals and the reduction in annual allowable cuts, are still expected to result in the permanent closure of a dozen or more sawmills. This, in turn, will further tighten Canadian lumber supply available for export to the U.S. **We expect the Canadian share of the U.S. lumber market to drop from 32% in 2016 (the start of the latest round of lumber duties) to less than 27% in 2022.** The U.S. needs Canadian lumber supply more than ever. The Biden Administration with its recently passed massive infrastructure bill and its **“Build Back Better”** campaign had better work hard to end the long-running lumber trade dispute with Canada. The real losers in the long standing trade war on softwood lumber imports from Canada are U.S. consumers and homebuilders.

For more information on how to invest in the Corton Global Timber Fund, please contact: David Jarvis – [David@cortoncapital.ca](mailto:David@cortoncapital.ca), John Duncanson - [john@cortoncapital.ca](mailto:john@cortoncapital.ca), or Jenny O’Meara – [jenny@cortoncapital.ca](mailto:jenny@cortoncapital.ca)

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