

US Proposed Tariff: A glance at the Wood Sector

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Introduction

The resilience and foundational principles of the global trading system are being tested

There had been various tariff increase expectation in the lead-up to the current US administration

- The tariff situation is still unfolding
- The policy are aimed to :
- Strengthen domestic industries
 - Correct trade imbalances
 - National security

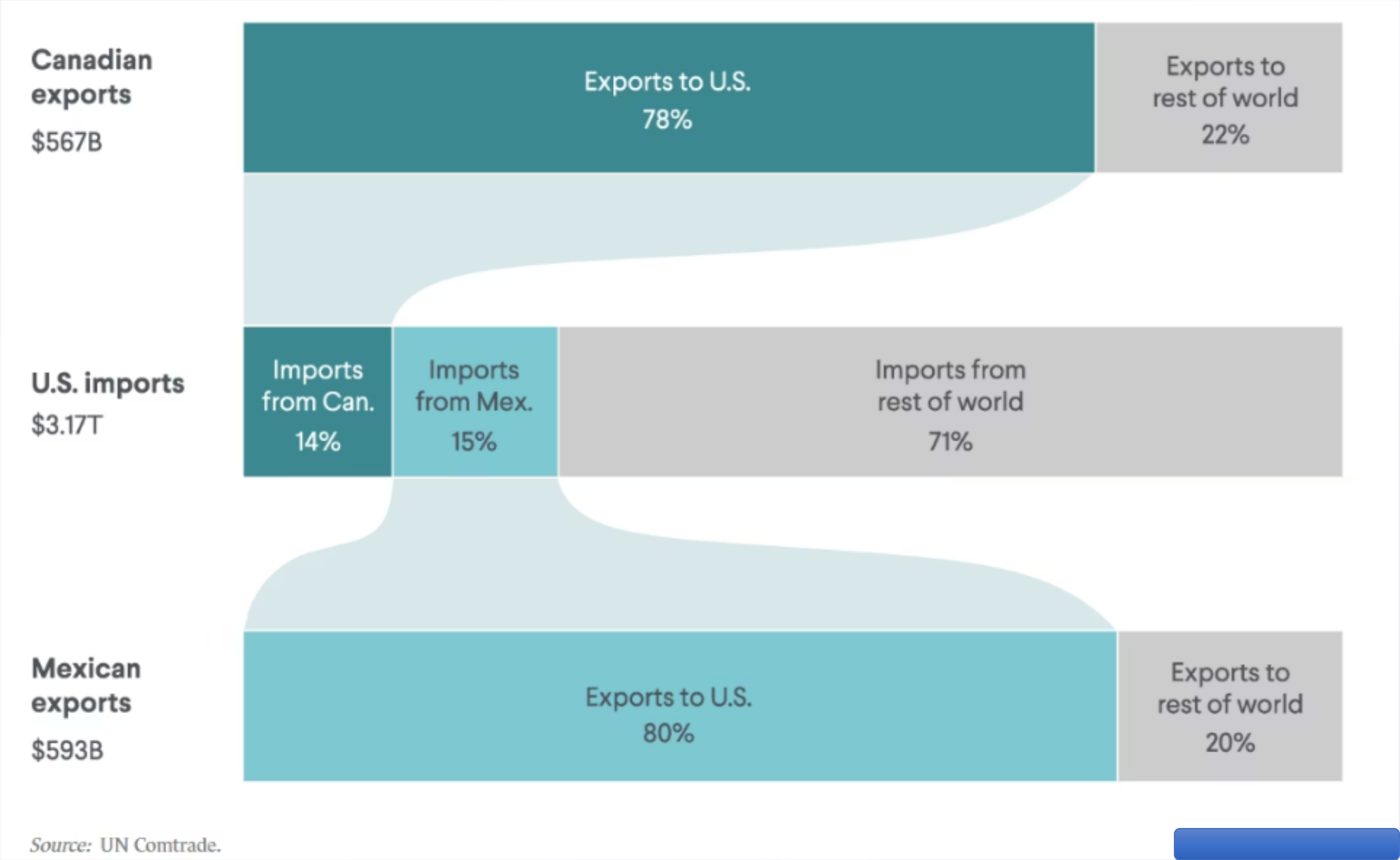
- Earlier tariff expectation was **25% on Canada and Mexico**, across al sector
- Some refinement under United States-Mexico-Canada Agreement

The U.S. wood products industry is closely integrated with Canadian and Mexican markets

- The implementation of a 25% tariff on these imports is expected
- Elevate production costs for United States-Mexico-Canada manufacturers
 - Higher consumer prices
 - Potential disruptions in the wood market supply chain

Aim is to analyze how these tariffs will impact U.S. wood sector and by extension Canada and Mexico

Trade in Goods, 2023



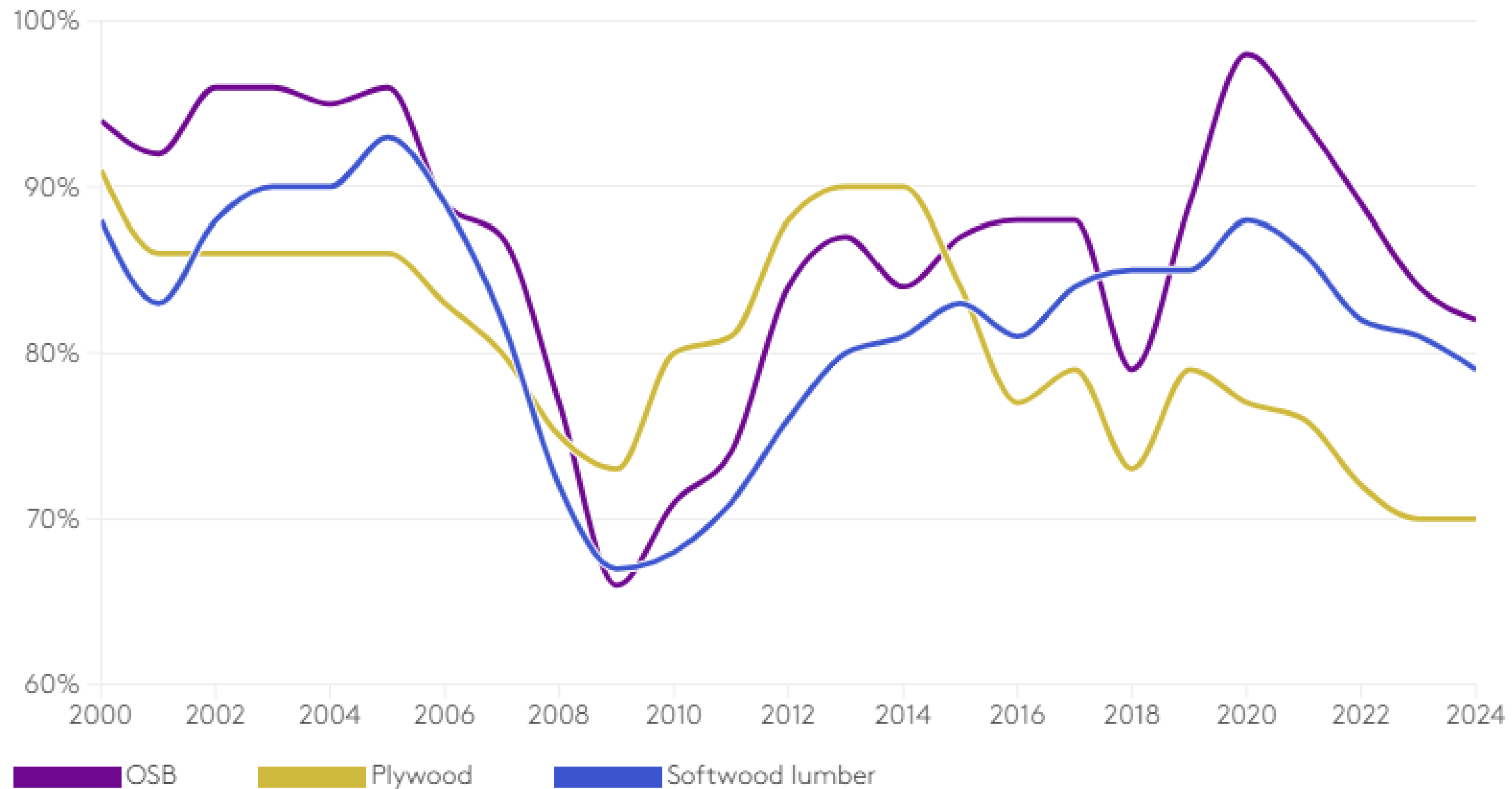
Source:
www.cfr.org



Slack exists in the US supply chain to absorb some Canadian wood products supply



US demand to capacity ratio (D/C), percentage



Source: [Fastmarkets](#)

Methodology: CINTRAFOR Global

Trade Model (CGTM)

Model Type	Data Scope	Sectors Modeled	Focus
<ul style="list-style-type: none">▪ CGTM is a Computable General Equilibrium Model (CGE) – which an adaptation of standard GTAP Model▪ It is tailored towards <i>wood sector</i> analysis	65 sectors, 141 geographic regions	19 wood-related, 14 non-wood sectors analyzed	Presentation focuses on wood sector outcomes

Data Scope in CGTM

List of Disaggregated Sectors in the Model

Old Sector	New Sectors	Description
Forestry (frs)	SoftLog	Softwood Log
	TroHardLog	Tropical Hardwood Log
	TemHardLog	Temperate Hardwood Log
	Pellets	Pellets
	OtherFor	Other Forestry
Wood products (lum)	Rough	Rough Wood
	SoftLum	Soft Lumber
	TemHardLum	Temperate Hardwood Lumber
	Veneer	Veneer
	OSB	Oriented Strand Board (OSB)
	OtherParBoard	Other Particle Board
	MDFnHDF	Medium-Density Fiberboard (MDF) and High-Density Fiberboard (HDF)
	Plywood	Plywood
	SeatsFurnit	Seats and Furniture made with wood
	OtherLum	*Builders' Joinery, Flooring, Fencing etc
Paper, Printing, and Publishing (ppp)	Paper	Paper
	Pulp	Pulp
	PrintPubli	*Other Print Publishing

Mappings from 6-digit HS codes to new wood sectors

Sector Name	HS codes
MDFnHDF	441111, 441119, 441121, 441129, 441131, 441139, 441191, 441199
OSB	441021, 441029
OthParBoard	441011, 441019, 441090
Pellets	440131
Plywood	441213, 441214, 441219, 441222, 441223, 441229, 441292, 441293, 441299
Wood in Rough	440310
SoftLum	440710
Softwood Log	440320
TemHardLum	440791, 440792, 440799
Temperate Hardwood Log	440391, 440392, 440399
Tropcal Hardwood Log	440341, 440349
Veneer	440810, 440890
OtherLum	441300, 440500, 441510, 441520, 441850, 441830, 441840, 441400

Tariff Scenarios Analyzed

Scenario 1: **Tariff25per**

25% tariff on Canada & Mexico imports by US only

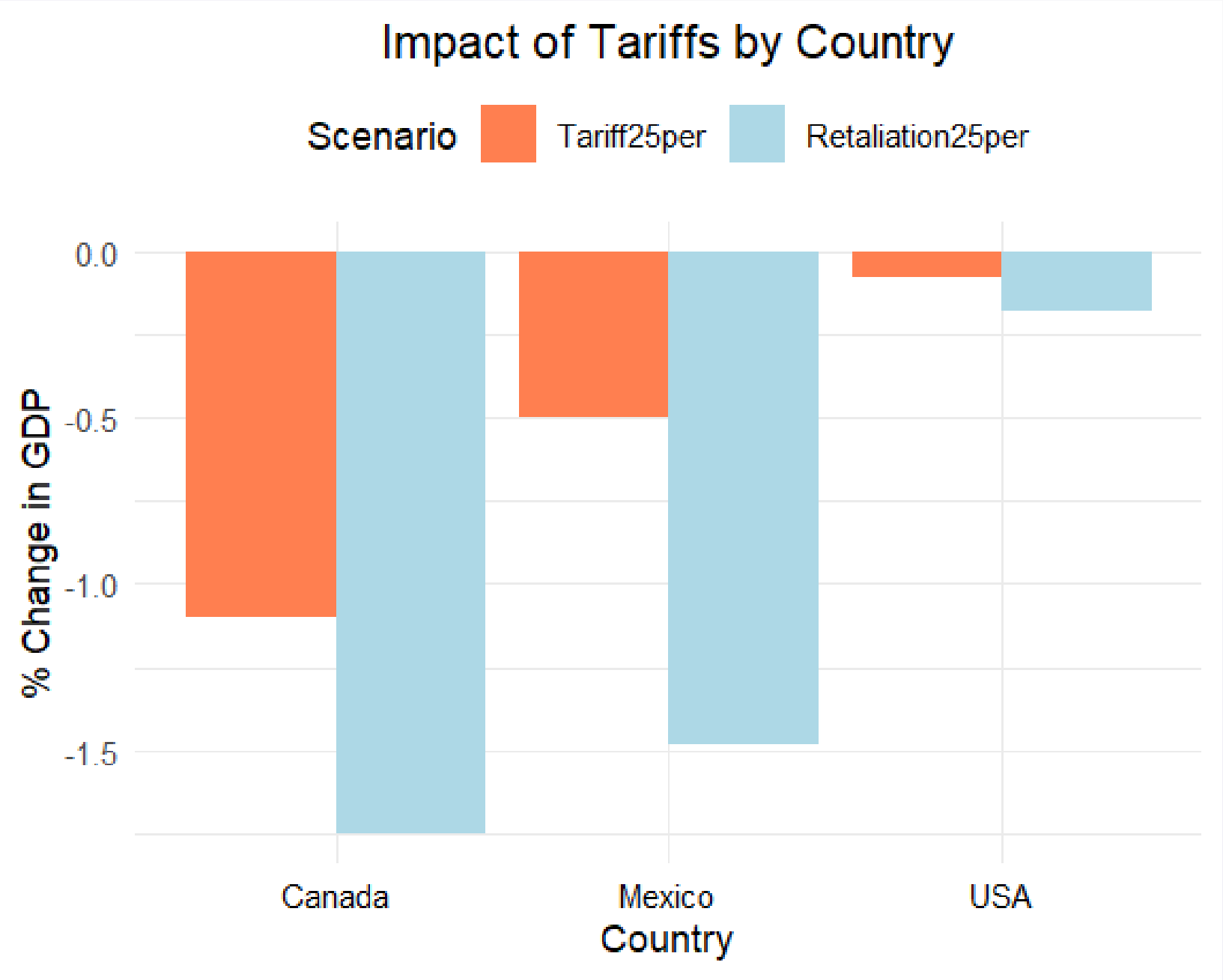
Scenario 2: **Retaliation25per**

25% tariff US imposes and Canada/Mexico retaliation

** Tariff25per and Retaliation25per are used in denoting Scenario 1
and 2*

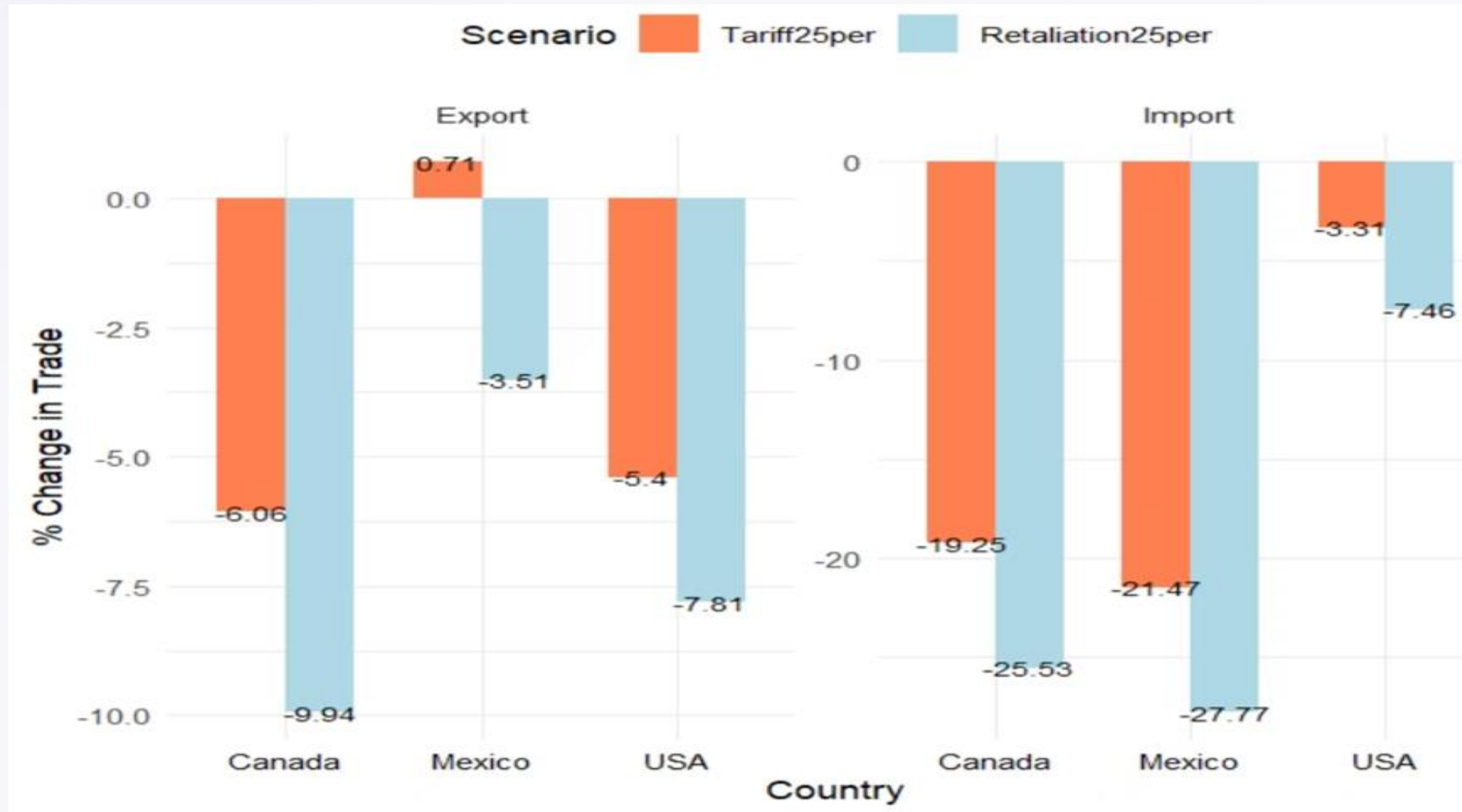


Discussions: on Real GDP



- U.S. remains largely insulated in both scenarios. US tariff (-0.08%) VS Retaliation (-0.18%).
- Canada the 25% tariff by the U.S. leads to a 1.1% decline in GDP, and retaliation exacerbates the impact (1.75%)
- Mexico experiences a similar pattern, with a 0.5% decrease from the U.S. tariff and a more significant contraction when under retaliation (1.48%)

Discussions: Trade Impact on Real Exports & Imports



Exports

- Both Canada and US experiences decline under both scenarios
- Retaliation reduces export for Mexico

Imports

- Canada and Mexico substantial import declines substantially
- US relative import decline is smaller compared to Canada and Mexico

Discussions: Trade Impact on Real Exports (Percentage Change)

	Canada		USA		Mexico	
	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per
Soft wood Log	41.01	31.25	-4.75	-1.98	59.25	61.39
Tropical Hardwood Log	38.7	31.91	-5.52	0.43	-3.13	-4.77
Temperate Hardwood Log	26.82	11.19	-3.86	-2.53	90.86	85.71
Other Forestry	-39.89	-44.43	-3.15	-3.01	-1.23	-2.63
Rough Wood	-3.22	-4.74	-3.08	-0.66	20.6	16.59
MDF and HDF	-6.17	-8.47	-9.33	-12.18	-33.56	-44.71
OSB	-8.69	-12.4	-10.04	-15.31	-34.19	-43.07
Pellets	-6.2	-8.63	-9.87	-13.72	-35.8	-47.31
Other Particle Board	61.36	62.44	-19.49	-66.01	49.2	47.36
Plywood	-13.91	-19.61	-2.7	-0.14	-49.51	-55.57
Rough Wood	-10.01	-14.13	-9.01	-9.89	48.34	45.24
Seats and Furniture	-43.79	-44	-7.4	-25.84	104.47	99.55
Soft Lumber	-4.3	-5.21	-10.51	-18.47	43.09	37.47
Temperate Hardwood Lum	26.22	17.82	-1.79	-0.08	41.25	26.1
Veneer	-23.56	-29.13	-9.56	-17.68	44.92	37.01
Other Lumbers	-36.74	-37.91	-19.62	-40.29	-12.47	-14.43
Paper	-25.25	-27.61	-9.96	-29.19	-5.21	-16.1
Pulp	22.77	23.11	-4.85	-4.36	87.04	66
Other Print Publishing	-13.61	-16.33	-10.22	-28.2	2.04	-4.37

Discussions: Trade Impact on Real Imports (Percentage Change)

	Canada		USA		Mexico	
	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per
Soft wood Log	-24.75	-52.22	-7.44	-10.76	-25.94	-44.67
Tropical Hardwood Log	-23.86	-21.71	-6.57	-9.33	-22.83	-22.03
Temperate Hardwood Log	-22.23	-49.27	-20.98	-27.15	-20.87	-19.65
Other Forestry	-22.99	-21.37	-1.41	-2.64	-23.21	-22.62
Rough Wood	-30.58	-30.9	-9.75	-12.61	-32.03	-31.14
MDF and HDF	-32.31	-57.25	-18.22	-23.16	-10.52	-17.87
OSB	-30.09	-52.39	-17.17	-22.32	-11.6	-18.08
Pellets	-32.61	-56.92	-18.03	-23.05	-9.77	-15.59
Other Particle Board	-25.47	-38.53	-1.07	-6.82	-12.17	-13.94
Plywood	-29.23	-33.92	-2.78	-7.73	-9.82	-10.13
Rough Wood	-29.91	-52.86	-17.27	-22.2	-5.2	-6.43
Seats and Furniture	-20.11	-24.47	-0.73	-4.07	-30.21	-29.97
Soft Lumber	-32.68	-56.8	-17.62	-22.96	-4.68	-6.49
Temperate Hardwood Lum	-23.56	-56.11	-5.62	-11.44	-6.93	-11.94
Veneer	-29.18	-57.65	-24.97	-30.87	-3.97	-6.37
Other Lumbers	-17.92	-25.29	-5.97	-10.95	-29.49	-38.79
Paper	-21.55	-42.15	-11.82	-16.83	-9.2	-14.52
Pulp	-25.22	-41.49	-12.08	-16.36	-6.63	-9.49
Other Print Publishing	-16.75	-29.73	-5.12	-10.58	-20.33	-28.93



Discussions: Sectorial impact Percent Change

	Canada		USA		Mexico	
	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per
Logs	-2.8	-3.17	0.25	0.18	1.03	0.56
Other Forestry	-2	-2.2	0.17	0.02	0.56	0.05
WoodRough	-3.54	-4.41	0.51	0.33	-1.95	-2.6
MDF and HDF	-4.56	-4.56	0.45	0.27	25.86	45.67
OSB	-5.86	-7.39	0.62	0.44	25.34	40.38
Pellets	-4.37	-4.3	0.46	0.24	26.56	47.07
Other Particle Board	12.44	12.29	-0.2	-0.46	25.64	25.43
Plywood	-5.28	-8.39	0.05	0.32	21.16	18.28
Rough Wood	-7.33	-8.95	0.72	0.7	31.69	29.61
Seats and Furniture	5.63	4.5	0.05	0.78	43.88	41.05
Soft Lumber	-3.33	-3.19	0.32	-0.04	31.16	41.4
Temperate Hardwood L	10.11	13.4	-0.4	-0.68	25.09	72.71
Veneer	-11.32	-10.23	0.23	-0.3	33.62	51.64
Other Lumbers	-9.43	-10.19	0.13	0.02	-5.61	-5.94
Paper	-6.26	-1.17	0.11	-0.97	12.81	19.02
Pulp	9.58	10.92	-0.04	-0.25	29.18	41.65
Other Print Publishing	4.22	13.4	-0.29	-1.26	9.04	11.81



Discussions: Sectorial impact (millions USD)

		Canada		USA		Mexico
	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per	Tariff25per	Retaliation25per
Wood logs	-450.13	-511.11	160.38	113.19	26.65	14.65
Other Forestry	-9	-10	3	0	16	1
Wood Rough	-1	-1	0	0	-2	-3
MDF and HDF	-128	-128	134	80	15	26
OSB	-195	-246	178	126	17	27
Pellets	-156	-153	170	87	16	28
Other Particle Board	59	58	-10	-22	5	5
Plywood	-22	-36	4	24	7	6
Seats and Furniture	121	96	22	365	1132	1059
Soft Lumber	-98	-94	96	-13	4	5
Temperate Hardwood Lumber	63	84	-186	-314	2	6
Veneer	-79	-72	20	-27	1	2
Other Lumbers	-744	-804	234	26	-875	-928
Paper	-1187	-223	256	-2224	713	1057
Pulp	1350	1537	-52	-361	211	301
Other Print Publishing	239	759	-450	-1922	680	886
Total	-1238	256	580	-4059	1969	2494

Conclusion

- Canada and Mexico face substantial declines in GDP and sector outputs, the U.S. economy appears relatively insulated, with minimal impacts on GDP.
- The decline in trade and sectoral volumes may worsen under a retaliatory approach. Retaliatory tariffs could disrupt the intricate interdependencies that characterize North American wood trade."
- US wood products can further deteriorate in the global market and by extension negatively impact the housing sector.
- A balanced approach that fosters the growth of the domestic wood sector in the USA, Canada, and Mexico would help mitigate adverse effects
- What next? we shall be modelling the dynamic version that allows a more long-term view.



What are your thoughts?

Are there any exceptions to the Reciprocal Tariffs?

Yes. Some products will not be subject to the Reciprocal Tariffs. Excepted articles include:

1. Articles subject to 50 USC § 1702(b) (*i.e.*, personal communications, donations, personal luggage)
2. Steel/aluminum articles and automobiles/auto parts already subject to Section 232 tariffs
3. Certain articles of copper and lumber, pharmaceuticals, and semiconductors listed in Annex II
4. All articles that may become subject to future Section 232 tariffs
5. Articles subject to Column 2 rates of duty from countries with which the U.S. does not have normal trade relations (Belarus, Cuba, North Korea, and Russia)
6. Bullion
7. Energy and other certain minerals that are not available in the U.S.
8. Other articles delineated in Annex II of the Order

