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Timber REITs likely to see boost from Canada lumber tariff

By [Karn Dhingra](#)

The Trump administration's move to slap a 20% tariff on Canadian softwood lumber will benefit U.S.-based timber real estate investment trusts, but some forest- and wood-products industry analysts question whether the duty will damage the broader economy by increasing prices.

The push for the tariff and anti-dumping duties is in large part being driven by the four publicly traded timber REITs, which want to get rid of a backlog of timber on their land holdings in the U.S. South, even as demand for lumber from the housing industry is at the beginning of an upswing, RBC Capital Markets analyst Paul Quinn said.

"This is just a cash grab by the U.S. timber industry," Quinn said, adding that sawmills in the U.S. South processing timber into lumber would also stand to benefit from the tariff.

Quinn, as well as D.A. Davidson analyst Steven Chercover and a team of analysts from Raymond James all said the tariff is likely to benefit the U.S.-based timber REITs.

"We expect healthy lumber pricing over the near-to-intermediate term will be supported by improving residential construction activity as well as duties on softwood lumber imports from Canada," the Raymond James team said in a note.

Yet Chercover said the tariff could potentially harm long-term U.S. economic interests by adding to builders' home construction costs and negatively impacting other industries dependent on lumber, with the increased costs eventually passed on to U.S. consumers.

"I think residential construction is one engine of the economy that could be a bigger needle mover than it is right now," he said.

[Potlatch Corp.](#) and [CatchMark Timber Trust Inc.](#) did not respond to requests for comment, while [Rayonier Inc.](#) declined to comment.

[Weyerhaeuser Co.](#) referred questions to Zoltan van Heyningen, executive director of the U.S. Lumber Coalition, who said the tariff's impact on the homebuilding industry would be negligible.

"It's difficult to have a discussion that's based on fantasy econ 101, the idea that a 20% duty on one-third of the lumber required to build an average house would produce a massive spike the way [the National Association of Home Builders] has been saying is beyond the pale of ridiculous," he said.

Canadian companies have said they have been able to absorb the tariff right now, van Heyningen added. The coalition estimated the tariff would add \$150 to \$200 to the cost of an average U.S. house, while the NAHB has calculated the tariff will add \$1,236 to the cost.

"The core issue at hand is the Canadian and U.S. timber and lumber industries operate on very different sets of principles," van Heyningen said. "You can have an interesting intellectual conversation on which system is better, but we're not here to judge."

The Canadian government relies on a policy using its 80% to 90% ownership of the country's timberland to foster a strong, healthy and high-job-growth industry, whereas in the U.S., that number is reversed, van Heyningen said.

The tariff, which went into effect April 28, could provide motivation for the U.S. and Canada to renegotiate their Softwood Lumber Agreement, which expired in 2015. Negotiations to renew the agreement stalled in early 2017. The U.S. and Canada have had some form of softwood lumber agreement in place since 1982.

The tariff also comes as the U.S. seeks to renegotiate the North American Free Trade Agreement with Canada and Mexico. Robert Lighthizer, the U.S. trade representative, [notified](#) Congress on May 18 that the Trump administration has started the clock on the renegotiation proceedings, with the stated aim of creating an agreement that "advances the interests of America's workers, farmers, ranchers, and businesses."

Doyle Simons, president and CEO of Weyerhaeuser, by far the largest U.S.-based timber REIT, with a market cap of nearly \$25 billion and owner of more than 13 million acres of timberland, applauded the tariff on a recent [earnings call](#). American lumber producers have long argued their Canadian counterparts enjoy an unfair advantage through their access to public land.

"Weyerhaeuser has a very strong position at the table. I would do the same thing if I was Doyle Simons," Quinn said. "His shareholder base is American, and 82% of Weyerhaeuser's production is in the U.S. and 18% is in Canada."

Weyerhaeuser owns 19 lumber mills, 16 in the U.S. and three in Canada. Potlatch's four lumber mills are in the U.S., while Rayonier and CatchMark do not own any mills.

Timber REITs	Market capitalization (\$M)	Timber acres	Premium (discount) to NAV (%)
Company name (ticker)			
Weyerhaeuser Co. (WY)	24,889.0	13,139,000	(3.02)
Rayonier Inc. (RYN)	3,550.5	2,660,000	(10.58)
Potlatch Corp. (PCH)	1,839.6	1,367,908	(4.13)
CatchMark Timber Trust Inc. (CTT)	447.9	507,831	(18.39)

Data as of May 15, 2017.
Data includes timber acreage as reported for individual properties in public filings.
Source: S&P Global Market Intelligence

Weyerhaeuser and the U.S. Lumber Coalition have also [petitioned](#) the U.S. Commerce Department to add anti-dumping tariffs on Canadian producers who sell lumber in the U.S. at below-market prices. They expect the U.S. Commerce Department to make a preliminary decision on the anti-dumping duties by June 23.

In Chercover's view, the U.S. argument for the tariff is weak.

"If the Canadians were heavily subsidizing their timber industry, then wouldn't it make sense for the Americans to go and buy mills in British Columbia or elsewhere?" he asked. "They could use their strong U.S. dollar, compared to the Canadian peso, to buy mills."

Some small Canadian lumber companies are likely to be hurt by the duty, Quinn said, but the country's larger forest product companies — West Fraser Timber, Canfor Corp. and International Forest Products, which own a combined 39 mills in the U.S. South — will be largely insulated from the effects.

