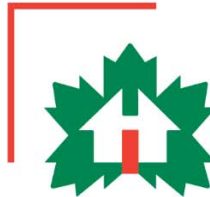


Suite 500
150 Laurier Avenue W.
Ottawa, Ontario K1P 5J4

T. 613-230-3060
E. chba@chba.ca
W. www.chba.ca

**Canadian
Home Builders'
Association**



**Association canadienne
des constructeurs
d'habitations**

September 1, 2016

Richard Pragnell, Investigations Senior Program Officer &
Matthew Lerette, Investigations Senior Program Officer
SIMA Registry and Disclosure Unit
Trade and Anti-dumping Programs Directorate
Canada Border Services Agency (CBSA)
100 Metcalfe Street, 11th Floor
Ottawa, ON K1A 0L8
simaregistry-depotlmsi@cbsa-asfc.gc.ca

Re: Additional information related to CBSA's dumping investigation on Gypsum Board

Dear Sirs,

This letter is intended as an addendum to our correspondence of August 26, 2016 on this matter.

As noted in our previous letter, the Canadian Home Builders' Association (CHBA) is concerned about potential market disruption following the preliminary determination of the Canadian International Trade Tribunal (CITT) on allegations of dumping and subsidizing of gypsum board in Western Canadian markets.

Since our previous letter, CHBA has been contacted by a number of its members in Western Canada expressing concerns and seeking information about how this preliminary determination, and any subsequent action by CBSA, could impact their businesses. Clearly, the preliminary determination has already generated a significant level of uncertainty and anxiety within our industry.

This anxiety has been exacerbated by the announcement by a major Canadian manufacturer of gypsum board - three days following the preliminary determination - that their pricing in Western Canada would increase by 12% effective September 8, 2016.

In writing to you today, we wish to pass along a summary of what we are hearing from our members, so that you are fully informed about the scope of these concerns. We readily acknowledge that such concerns remain speculative at this point, as no tariff actions have been announced by CBSA. However, we believe this information is nonetheless instructive and may be of relevance to the CBSA.

Pricing Concerns

- In general, gypsum board used in the construction and renovation of homes is purchased by drywall contractors, who operate under subcontract to builders and renovators. It is not directly purchased by the builders or renovators themselves.
- The common practice for drywall contractors is to provide a forward contracted price to builders for the installation of gypsum board. This price includes both the material and

labour costs expressed as a 'cost per square foot' of installed product. Such pricing is required by builders in order to determine their construction costs and selling price, and can lock-in pricing for the drywall contractor for an extended period of time.

- For the most part, contracts between home builders and drywall contractors do not include a price escalation clause allowing the drywall contractor to pass on any increased material costs to the builder. The historic price stability of gypsum board has meant that the risk of gypsum board price increases that are material to their cost structure has been minimal.
- Many drywall contractors also operate under bond, and cannot vacate their contractual obligations to builders without facing significant penalties.
- Gypsum board distributors, who supply drywall contractors, do not provide firm prices in advance of shipment, and will not be obligated to absorb any such increases related to manufacturers' pricing or imposed tariffs on imported product.
- Operating margins for drywall contractors are thin, particularly in Alberta and Saskatchewan, where difficult economic conditions have placed the entire home building industry under considerable financial stress.
- In the event that significant tariffs are placed on gypsum board imported into Western Canada from the United States, there is a realistic concern that many drywall contracting firms will be forced into bankruptcy, as they will be contractually obligated to fully absorb any resulting cost increase.
- Speculation within the industry is that tariffs in excess of 30% are possible. CHBA has no opinion as to the veracity of this speculation. However, we are informed by members in Western Canada that many, if not most, drywall contracting firms lack the financial capacity to absorb such cost increases and remain viable.
- In the event that drywall contractors are unable to fulfill their contractual commitments to home builders, the builders will, in turn, face significant financial pressures as they are forced to seek alternative arrangements and face higher prices, as they remain obligated to close previously contracted home sales at the agreed price and on schedule.
- Consumers, drywall contractors and builders could likely avoid some of the potential financial harm that a sudden imposition of significant tariffs could cause if currently contracted transactions were exempted, or if tariffs were introduced with sufficient lead times to allow current contracts to be completed.

Supply Disruption Concerns

- As noted in the preliminary determination, Western Canada faces specific regional conditions in relation to the supply of gypsum board and is partially dependent upon product imported from Eastern Canada or, more commonly, from the U.S.
- The uncertainty that currently exists concerning potential tariffs on U.S. gypsum board exports to Canada has fueled speculation that affected exporters may choose to abandon the Canadian market.

- Western Canadian manufacturing of gypsum board is insufficient to meet the demand for this product in the region. The costs of shipping gypsum board to western markets from Eastern Canada to meet any supply shortfall is not insignificant. In the absence of price certainty, Western Canadian gypsum board distributors are reluctant to commit to alternative Canadian suppliers outside their region of operation.
- These conditions raise concerns within the industry about the potential for a gypsum board supply disruption. It seems likely that such concerns will only be resolved when price and supply certainty for this product is restored.
- With no prior knowledge of the amount of a tariff and the prospect of immediate enforcement, the industry is left with significant exposure to harm and injury.

CHBA is providing CBSA with this information so that the Agency is more fully cognizant of the current state of uncertainty within our industry in Western Canada following the preliminary determination rendered by CITT. We would encourage CBSA to conduct its own examination on the points we have raised, should additional information or detail be useful in its deliberations going forward.

As expressed in our previous letter, CHBA would be pleased to provide any additional information or observations that would be of use the CBSA in this matter.

Sincerely,



Jason Burggraaf
Government Relations and Policy Advisor
Canadian Home Builders' Association