



# Softwood Lumber Products Export Charge Notice

SWLN26

August 2010

## Notice to Wholesalers – Calculation of Export Price

The purpose of this notice is to provide additional information on the calculation of the FOB value and the export price by wholesalers as required under the *Softwood Lumber Products Export Charge Act, 2006* (the Act). This notice supplements the Softwood Lumber Products Export Charge Notice SWLN3, *Calculation of Export Price*.

The information in this notice is for reference purposes only and does not replace the Act or its regulations. Should there be any discrepancy between the information in this notice and that contained in the Act or its regulations, the legislative provisions apply. As the information in this publication may not completely address your particular situation, you may wish to refer to the Act or regulations, or call the number at the end of this document for additional information.

### Definition of export price

Under section 13 of the *Softwood Lumber Products Export Charge Act, 2006* (the Act), the term “export price” means the FOB value consisting of all costs payable by a purchaser, including those incurred in the placement aboard a conveyance for shipment, but not including the actual shipping costs and the amount of export charge payable under section 10 of the Act. This also applies when the purchaser is a wholesaler.

### FOB value and export price

The export price for a softwood lumber product exported to the U.S. is determined in accordance with the rules set out in section 13 of the Act:

- paragraph 13(2)(a) provides that where the softwood lumber product has undergone only primary processing, the export price would be the FOB value at the last primary processing facility before export;
- paragraph 13(2)(b) provides that where the softwood lumber product was last remanufactured by an independent remanufacturer prior to export, the export price would be the FOB value determined at the facility where the softwood lumber used by the independent remanufacturer to make the remanufactured lumber product last underwent primary processing;
- paragraph 13(2)(c) provides that where the softwood lumber product was last remanufactured prior to export by a remanufacturer that is not independent, the export price would be the FOB value at the last processing facility before export; and
- paragraph 13(2)(d) provides that when the FOB value cannot be determined, the export price is the market price for identical products sold in Canada at approximately the same time and in one of the following arm’s length transactions, listed in order of precedence:
  - a transaction at substantially the same trade level but in different quantities,
  - a transaction at a different trade level but in similar quantities, or
  - a transaction at a different trade level and in different quantities.

La version française de la présente publication est intitulée *Avis aux grossistes – Calcul du prix à l’exportation*.



Canada Revenue  
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Canada

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Wholesaler purchases from primary processors and remanufacturers that are not independent remanufacturers

The export price of softwood lumber product that was last processed before export by a primary processor or a remanufacturer that is not an independent remanufacturer, is the purchase price paid by the wholesaler f.o.b. the primary processor or the remanufacturer.

The supplying primary processor or remanufacturer should disclose on its sales documents any shipping costs included in the wholesaler's purchase price in order for the shipping costs to be deducted to determine the FOB value.

If the FOB value cannot be determined, or it is not disclosed, then a **market price** must be used. Market price is discussed below.

Wholesaler purchases from an independent remanufacturer

A wholesaler, exporting softwood lumber products last remanufactured by an independent remanufacturer, would use the independent remanufacturer's FOB value as its export price. In order for the wholesaler to use the independent remanufacturer's FOB value, it must be disclosed by the independent remanufacturer on the wholesaler's purchase documents.

If the FOB value is not disclosed by the supplying independent remanufacturer, then a **market price** must be used by the wholesaler to determine its export price. Market price is discussed below.

Shipping costs

As discussed above, FOB value does not include actual shipping costs invoiced by the primary processor or a remanufacturer that is not independent to transport the softwood lumber to the wholesaler. Therefore, shipping costs and in-transit reload costs, incurred as part of a continuous movement of the lumber to the wholesaler are deductible in determining the FOB value. The primary processor or remanufacturer must disclose on the sales documents the shipping costs included in the wholesaler's purchase price in order for them to be deducted.

Shipping costs that occur prior to and including placement on board the conveyance are not deductible when determining FOB value. An example of a non-deductible cost is one for a forklift to place the product on a truck or a railcar.

When purchasing softwood lumber products from an independent remanufacturer, however, a deduction is not permitted for shipping costs from the independent remanufacturer to the wholesaler in determining the export price. Shipping costs from the independent remanufacturer to the wholesaler do not form part of the independent remanufacturer's FOB value.

Wholesalers are <b>not</b> permitted to deduct shipping costs to its U.S. customers since these costs do not form part of the FOB value on which the export price is determined.
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The CRA may examine sales or purchase prices and shipping costs that are disclosed to wholesalers by its suppliers. Any CRA adjustments to these amounts could result in adjustments to the export price of the wholesaler.

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## Purchase price adjustments

Permitted adjustments are:

- **Cash discounts** – where the supplier and the wholesaler have agreed, prior to purchase of the product, that a cash discount will be applied if the wholesaler pays cash for the goods.
- **Early payment discounts** – where the supplier and the wholesaler have agreed, prior to purchase of the product, that an early payment discount will be applied if payment is made prior to the date that payment is required.
- **Volume discounts** – are deductions from the price of the product allowed by the supplier based on the quantities purchased over a given period.

The wholesaler must actually take the discount in order to deduct it in determining the export price.

Discounts offered by an **independent remanufacturer** to the wholesaler are **not** deductible. As the wholesaler would be using the independent remanufacturer's FOB value as its export price, not the purchase price, discounts on a purchase price are not permitted.

Export administration fees and customer discounts are not deductible

Export administration fees such as brokerage and export permit fees and port charges are **not** permitted deductions for determining the export price. These fees do not form part of the FOB value of the lumber.

Export price for high value softwood lumber products

Paragraph 13(2)(e) provides that if the export price is greater than US\$500 per thousand board feet, the export price is deemed to be US\$500 per thousand board feet.

Other allowable adjustments

- **Quality discounts** – are deductions from the purchase price where the product received by the wholesaler was of a lesser quality than the goods invoiced. Care should be taken to distinguish that this adjustment is to the purchase price paid by the wholesaler as opposed to an adjustments given by the wholesaler to its U.S. customer.
- **Sales returns** – where a credit refund is issued for product that is returned to Canada and to the wholesaler that exported it.

In the above situations, the CRA will accept adjustments to previously declared export prices and the applicable export charge (including any surge charge) for the month that the credit or adjustment is issued. If the credit or adjustment is made prior to the filing of the return on which the outgoing shipment is reported, adjust the export price reported on that return. In any other case, complete Form B278, *Softwood Lumber Products Export Charge – Application for Refund*.

When a product is returned to Canada, Customs and other supporting documentation will be required showing that the softwood lumber product, previously exported and subject to the export charge, has been returned. As explained above, claim the credit or adjustment in the month it is issued. If the credit or adjustment is made prior to the filing of the return on which the outgoing shipment is reported, adjust the export price for that shipment on that return, otherwise, complete Form B278, *Softwood Lumber Products Export Charge – Application for Refund*.

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## Determining market price

When the FOB value cannot be determined, paragraph 13(2)(d) provides that the export price is the Canadian market price for an identical product sold in Canada at approximately the same time and in one of the following arm's length transactions, listed in order of precedence:

1. a transaction at substantially the same trade level but in different quantities,
2. a transaction at a different trade level but in similar quantities, or
3. a transaction at a different trade level and in different quantities

**Approximately the same time** generally means within 30 days prior to the date of export. In periods of stable pricing, a longer term may be acceptable; however, when price fluctuations are occurring frequently, a period shorter than 30 days may be warranted.

**Related persons**, for the purposes of the Act, are deemed not to deal with each other at arm's length; and it is a question of fact whether persons not related to each other were, at any particular time, dealing with each other at arm's length.

### *Applying the order of precedence*

1. "Transactions at substantially the same trade level but in different quantity" means the Canadian purchaser is offered the same volume or price discount or purchase incentive as the U.S. purchaser but the quantities are different.
2. "Transactions at a different trade level but in similar quantities" means the Canadian purchaser is offered a larger or smaller quantity or price discount or purchase incentive as the U.S. purchaser and the quantities approximate the quantities being exported. Approximate quantities should be comparable to within 10%, more or less, with the quantities being exported to the U.S. purchaser.
3. "Transactions at different trade levels and in different quantities" means that the Canadian purchaser is offered either a larger or smaller quantity or price discount or purchase incentive as the U.S. purchaser and the quantities may be more or less than the quantities being exported.

The market price should be f.o.b. the wholesaler and not include shipping costs.

In a situation where there are two or more transactions at the same precedence level and, other than for the exclusion of shipping costs, no further adjustments are made to the particular transaction, then the transaction that results in the lowest market price may be used.

### *Price lists*

It is permissible to use bona fide Canadian Price Lists for determining market price. The wholesaler should be prepared to support that Canadian sales of identical product have occurred at the trade level of precedence selected and within an acceptable period of time.

To determine market price, discounts normally offered and taken at the trade level selected are permitted. The wholesaler must retain all calculations and supporting documents.

### *Price publications*

In situations where the wholesaler does not have Canadian sales of the identical product, it is permissible to use price publications to determine a Canadian market price. The wholesaler must select the identical product and use the first precedence level when using a price publication to determine market price.

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Discounts are not permitted to publication prices, however, an adjustment to deduct shipping costs may be made to the publication price if it clearly includes shipping costs.

#### Enquiries

For technical enquiries about the *Softwood Lumber Products Export Charge Act, 2006*, please call 1-866-330-3304.

Information on export volumes and export permits may be found on the Web site of the Department of Foreign Affairs and International Trade at [www.softwoodlumber.gc.ca](http://www.softwoodlumber.gc.ca).

All technical publications on the softwood lumber products export charge are available on the CRA Web site at [www.cra.gc.ca/softwood](http://www.cra.gc.ca/softwood).