

Softwood Lumber War: A U.S.-Canadian Trade Dispute

Daowei Zhang

School of Forestry &
Wildlife Sciences

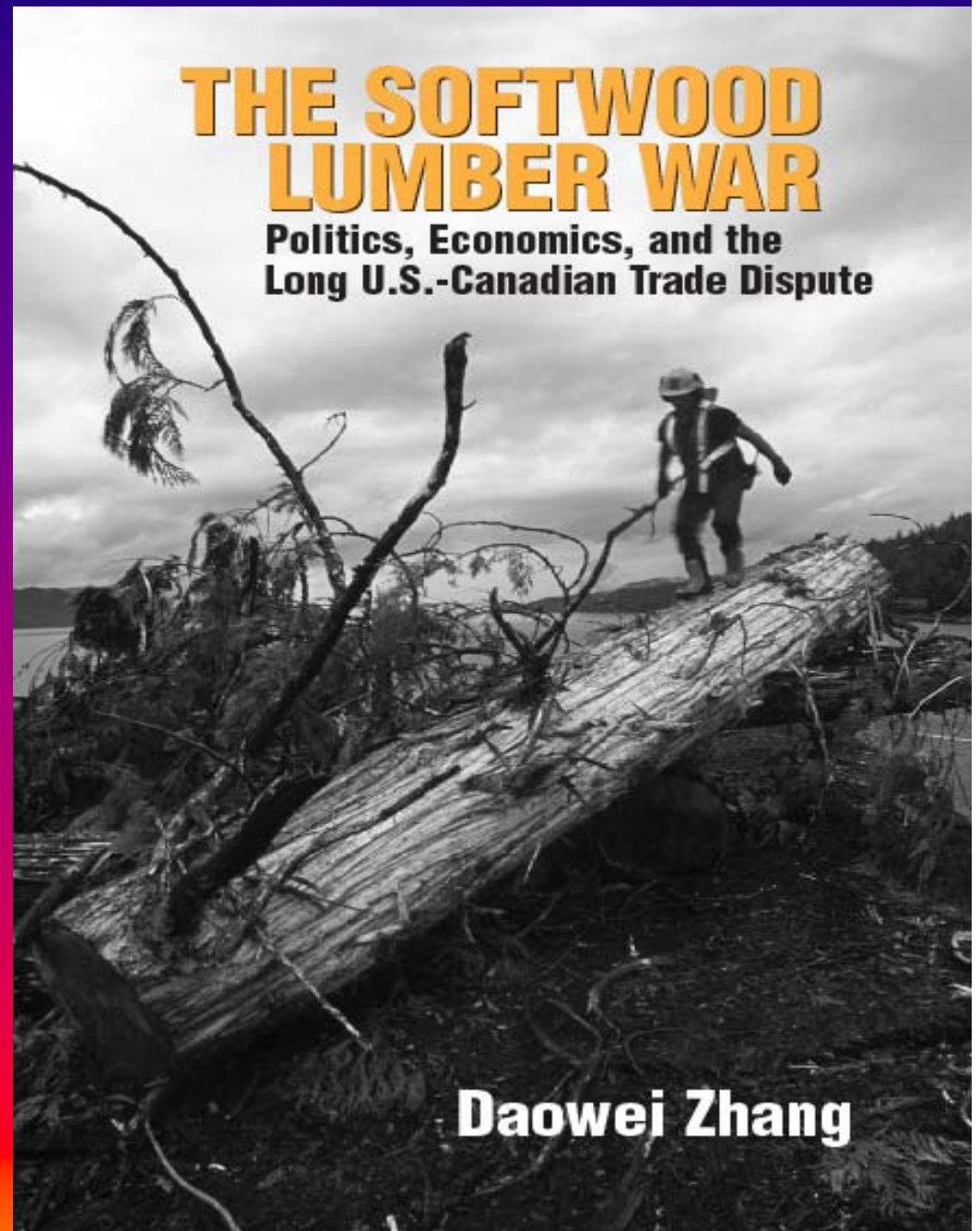
Auburn University

zhangd1@auburn.edu

Distinguished Lecture Series

BC Forum on Forest Economics and Policy

March 28, 2008



Acknowledgment + Disclaimers

The National Research Initiative of the Cooperative State Research, Education and Extension Service, USDA (Grant # 99-35400-7741) provided financial support for my earlier research on this subject.



- Many Perspectives

Book Review Comments

- **This book will become the authoritative work. It brings the complicated and intense political, legal, historical, and economic issues into an easily understandable context.**
 - Stephen Devadoss, University of Idaho
- **An accurate, thorough, and comprehensive treatment of the long-running trade conflict.**
 - Ross W. Gorte, U.S. Congressional Research Service
- **Daowei Zhang cuts through the bombast on both sides and gets to the heart of the dispute. This meticulously researched analysis should be required reading for every Canadian and U.S. politician.**
 - Don Whiteley, The Vancouver Sun

Book Review Comments

- John Stewart, Senior Economist, U.S. Embassy, Ottawa
 - “I strongly recommend this just-published book, *The Softwood Lumber War...* to anyone with a serious interest in U.S. trade policy, U.S.-Canada relations and/or the lumber dispute itself.

The book is well-written, scholarly, comprehensive, and contains a wealth of data and analysis. The author... takes us to the very heart of the dispute and through twenty-five years of its development, including the October 2006 truce. He does much to explain how this dispute has resisted economic and political progress in the best of the bilateral relationship, and to outline carefully what the possibilities might be for a lasting resolution or, alternatively, for future rounds of conflict.

Book Review Comments

- To my knowledge, **this is the only such complete, objective discussion of the dispute for the non-legal reader,...**

I'll paraphrase Zhang's primary conclusions here, but do not let this summary substitute for reading at least a few chapters of this excellent work - even if you don't agree with its messages ...”

- “Comprehensive, detailed, and lucid”, and “will become the standard by which other books on forest trade policy are judged.”
 - Journal of Forestry 2008 (1): 55

Outline

- Concepts/Background
- 6 puzzles/Objectives
- Research methods
- History, major events (and explanations)
- What comes next?
- Why softwood lumber (in contrast with newsprint)
- Conclusions + Discussion

Concepts

- Stumpage = value of standing timber
- = Stumpage prices in private ownership
- How is stumpage determined in public forests?
 - Residual approach
 - Comparable sale



256507

Concepts

- Stumpage
+ logging &
Transportation cost
= Delivered log prices
- Log is a major input in
lumber manufacturing
- Even if there is a
subsidy in stumpage...



Concepts/Background

- U.S.
 - Presidential system
 - 73% private ownership of timberland
- Canada
 - Parliamentary system
 - 90% public ownership, especially provincial ownership

U.S. Trade Remedy

- Countervailing duty if
 - U.S. DOC: Subsidy
 - U.S. ITC: Injury or threat of injury
- Anti-dumping duty
- Safeguard relief (S. 201)
- Retaliation (S. 301)
- US Court International Trade
- CFAC

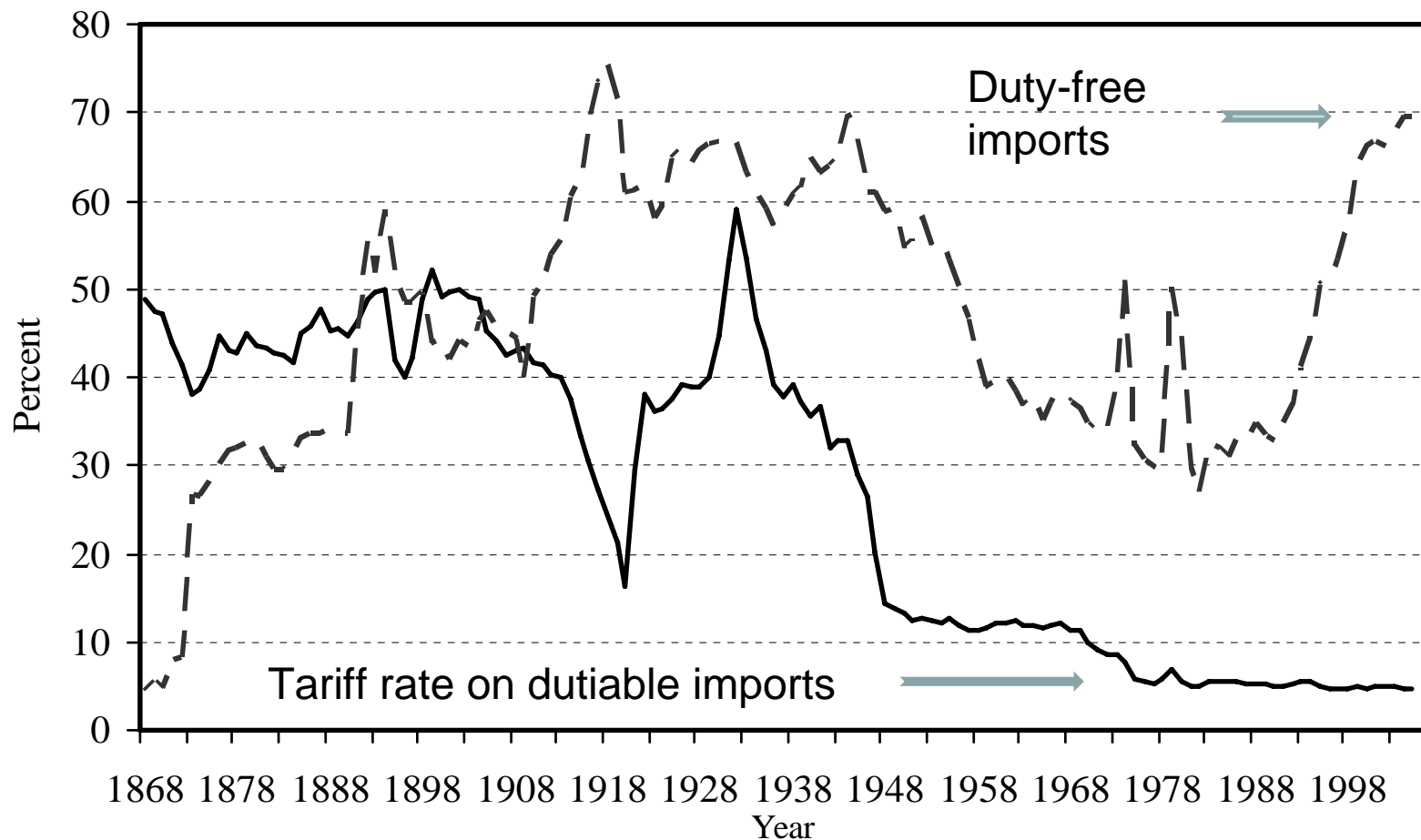


International Trade Dispute Settlement Mechanism

- NAFTA (FTA)
 - Bi-national Panel (5 persons)
 - Extraordinary challenge committee (3 persons)
 - Has the power of domestic court?
- WTO
 - Panel (Subsidy, Dumping, Injury)
 - Appellate panel
 - Compliance panel
 - Compliance appellate panel
 - Retaliation

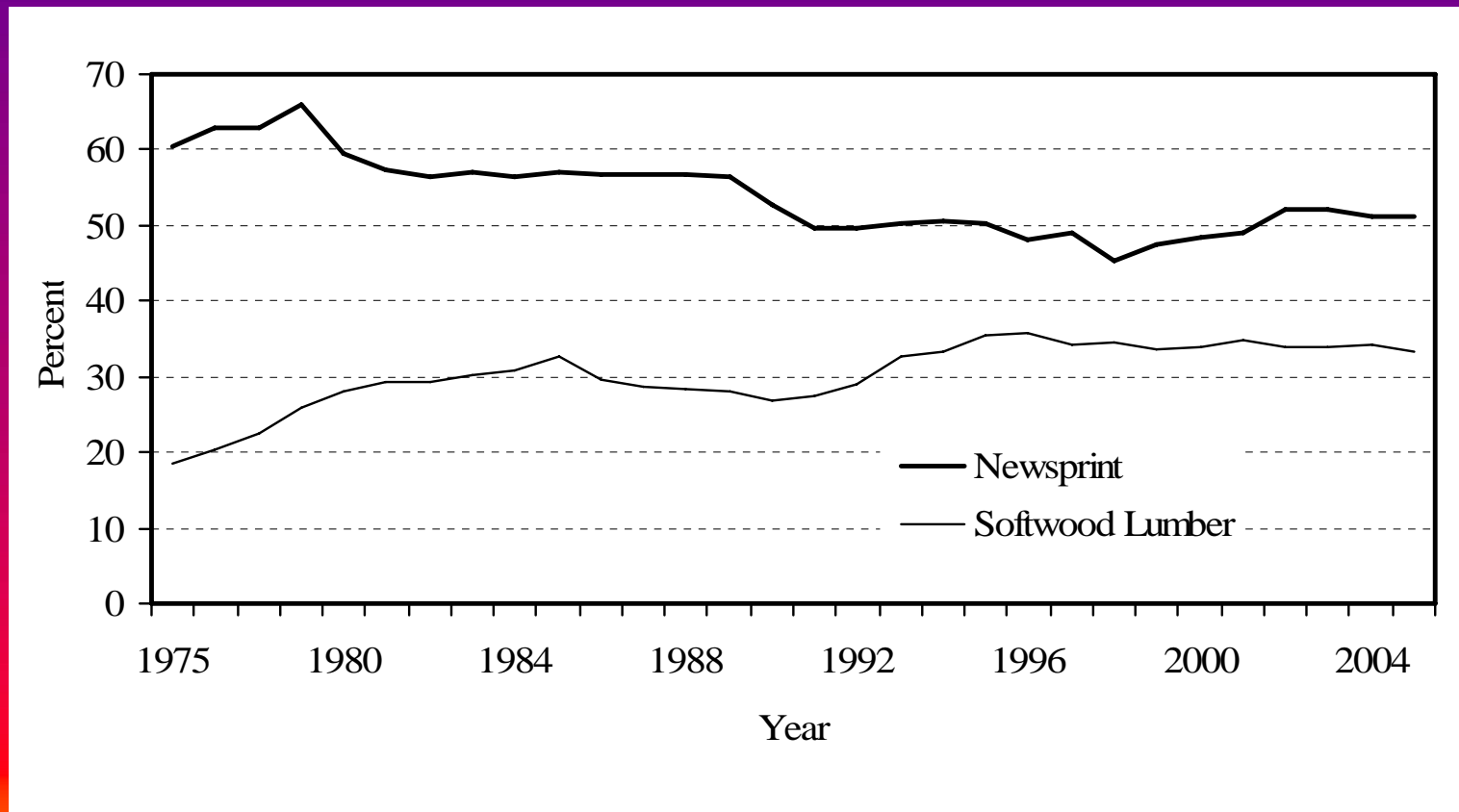
6 Puzzles

1. Free and freer trade in most goods , but softwood lumber



6 Puzzles

2. Free trade from other forest products, but softwood lumber



6 Puzzles

3. Why did both countries give up trade arrangements that are clearly benefited their economy as a whole?

4. The dispute has gone for 25 yrs, and is still going on, despite that...

(1)

(2)

(3)



6 Puzzles

5. Why has the allegation of subsidy in lumber persisted for nearly 30 years?

| | 1980-1984 | 1999-2003 |
|----------------------------|-----------|-----------|
| AD Case Initiated (Order) | 30 (4.7) | 48 (22.8) |
| CVD Case Initiated (Order) | 27.2(9.4) | 8.6 (5.2) |

6. Why did the NAFTA, WTO Dispute settlement mechanism not work?

Objectives/Research Methods

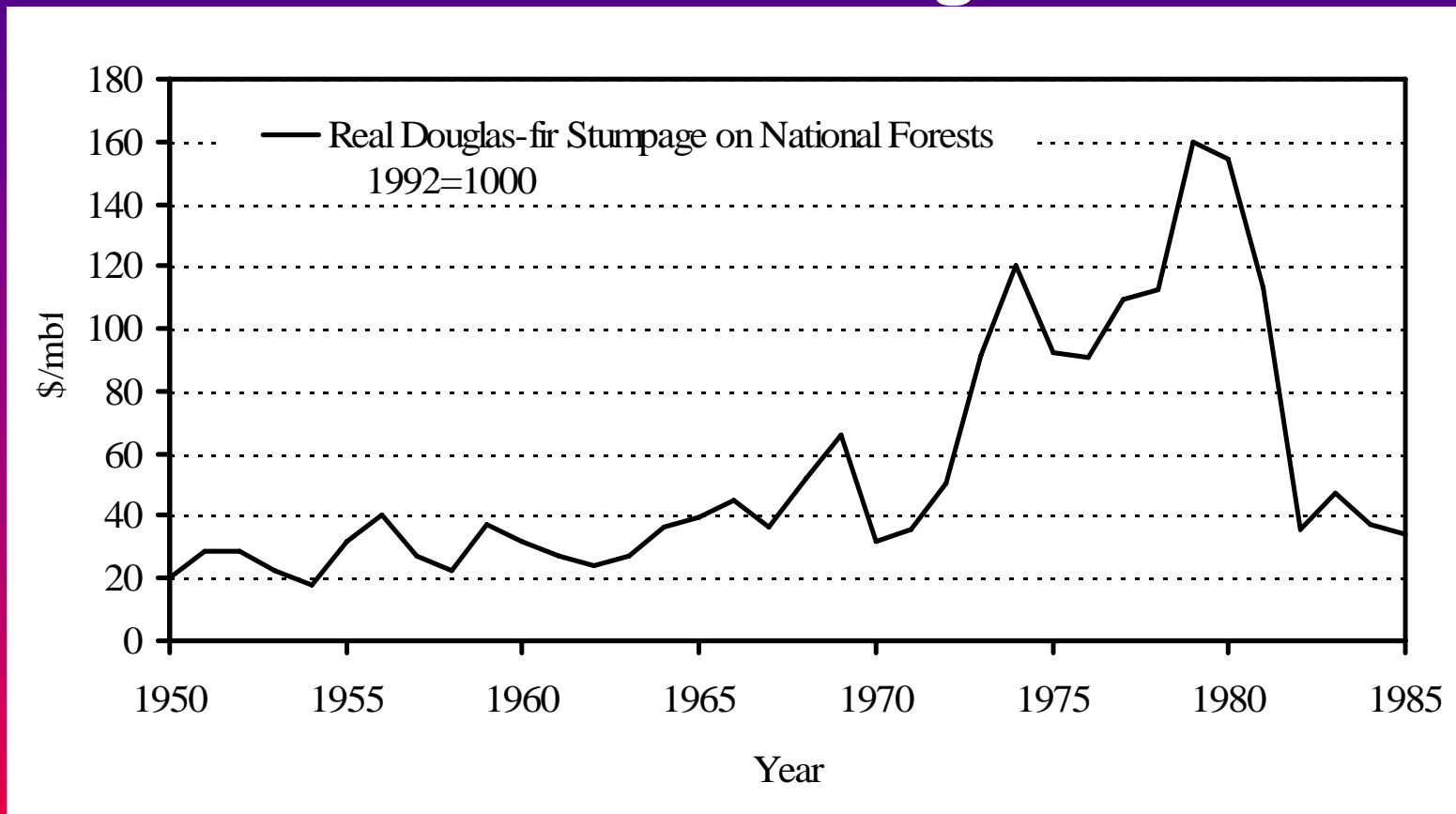
- Objective: Explain and tell story
- Historical + legal = Events, laws, regulations
- Institutional = Institutions, environment, decision-making organizations, interest groups
- Analytical = Public Choice theory
 - Public interest theory
 - Special interest group theory
- Comparative = In contrast with other forest products trade dispute
- Economic = Welfare economics + market analysis

Outline

- Concepts/Background
- 6 puzzles/Objectives
- Research Methods
- ➔ • **History, major events (and explanations)**
- What comes next?
- Why softwood lumber (in contrast with newsprint)?
- Conclusions + Discussion

Started when...

- Perceived Timber Shortage in later '70s



- Timber price collapsed in 1980
- Canadian share in U.S. market increased

History

- Lumber I: 1980-1983
 - U.S. DOC: No subsidy (neither specific nor preferential)
- Lumber II: 1984-1986
 - A new coalition
 - Early fall 1985, USTR felt pressure/wanted to do something, even though **the absolute Canadian advantage in delivered log was only \$8/mbf of lumber (or 3.6%)**

History

- Lumber II: 1984-1986
 - September 1985: The FTA negotiation
 - March 1986: A court case related to resource subsidy led to an reinterpretation of U.S. subsidy regulation
 - April 1986: Reagan conceded (in order for a key congressional committee not to derail his fast track authority in negotiating the FTA)
 - Divided Canadian defense + dispersed U.S. consumers counteraction to U.S. producers' lobby

History

- Lumber II: 1984-1986
 - Sept. 1986: Canada offered a 10% export tax
 - Oct. 1986: U.S. DOC Preliminary CVD determination “double counted or triple counted”
 - The MOU of 1986 = 15% Canadian export tax
 - Benefit Canada as a whole, but not its producers
- FTA took effect in January 1989
- Canadian industry pressured and got the MOU removed in October 1991

History

- Lumber III: 1991-1994
 - U.S. Used S. 301, despite that...
 - U.S. DOC + ITC = Affirmative
 - FTA Subsidy Panel: No subsidy
 - FTA Extraordinary Challenge Committee: FTA Panel Ruling stands
 - Both divided on national line

History

- Lumber III: 1991-1994
 - U.S. withheld Canadian duty (\$800 million)
 - Industry's Constitutional Challenge of FTA Dispute Settlement Mechanism
 - New U.S. Law: Uruguay Round Agreement Act
- 
- Softwood Lumber Agreement of 1996 = Duopoly market sharing agreement
 - All kinds of trade frictions
 - SLA 1996 expired on March 31, 2001

History : Lumber IV

- NAFTA Panel: No injury to U.S. industry
 - NAFTA ECC: Upheld the no injury ruling
 - NAFTA Panel: No Canadian subsidy
 - WTO: Mixed ruling on injury and subsidy
 - Various U.S. court cases: most in favor of Canadian producers (but...)
-
- U.S. collected some \$5 billion tariff
 - Negotiation led to SLA 2006: Another market sharing agreement

Unanimous

What comes next?

- The interpretation and implementation of SLA 2006 are under dispute
 - Arbitration
 - Policy exit?
 - Withdrawal from SLA 2006?
- Unintended consequences
 - Over capacity/over supply
 - Substitutes (of three kinds) come in
 - Canadian mills have become more efficient

Why Softwood lumber (in contrast with newsprint)?

- The Newsprint Tariff Battle: 1890-1913
 - U.S. ran out of spruce
 - U.S. had a huge tariff on pulp and paper imports
 - U.S. producers wanted Canadian logs
 - Canada has enormous raw materials
 - Canada wanted to develop its paper industry
 - Canada disliked U.S. “Resource Grab” + implemented a log export ban
 - U.S. Newsprint Consumers Won!

Why Softwood lumber (in contrast with newsprint)?

- The political + economic environment
- Trade politics
- Behavior of producers and consumers
- ----strength in and the interplay of U.S. consumers, and Canadian producers, Canadian federal+ provincial government vs. U.S. producers +their allies in U.S. Congress

Why Softwood lumber (in contrast with newsprint)?

- The newsprint battle is mainly between two powerful U.S. groups
- The objective of U.S. consumers and Canadian producers are the same (nearly identical)
- The media industry is concentrated and more powerful than home builders
- U.S. ownership of Canadian paper industry
- A united Canadian governments
- Environmentalists (Baptists?)

Conclusions: Why Softwood lumber (in contrast with newsprint)?

- Cost difference is not the primary cause for a trade dispute (of lack of)
 - In 1910, total manufacturing costs of newsprint in Canada was 19.5% lower than that in the U.S. (80% attributed to wood)
- International trade dispute settlement mechanism helps (but not sufficient)
- Domestic politics overrode international politics (+ economics)

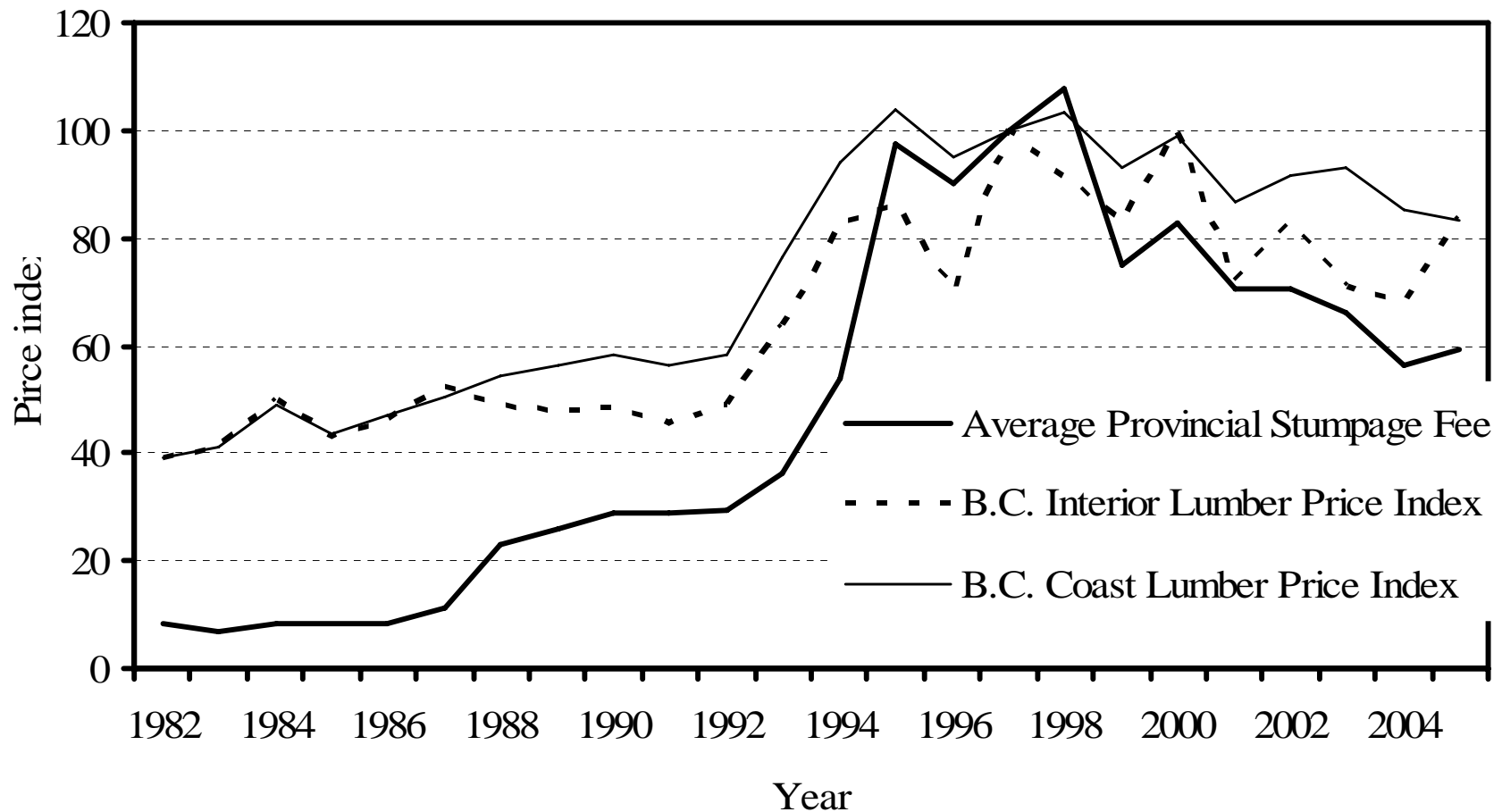
Conclusions

- NAFTA Dispute Settlement Mechanism is (close to be) dead
- Institutional arrangement/incentive matters
- Lumber dispute would be here for a while
 - The stubbornness of lumber dispute defies gravity

Discussion

- Is (Was) Canadian lumber subsidized?
 - Cross-border comparison is not allowed by NAFTA panel + questioned by WTO panel
 - Comparable sales
 - Correlation between stumpage + lumber price

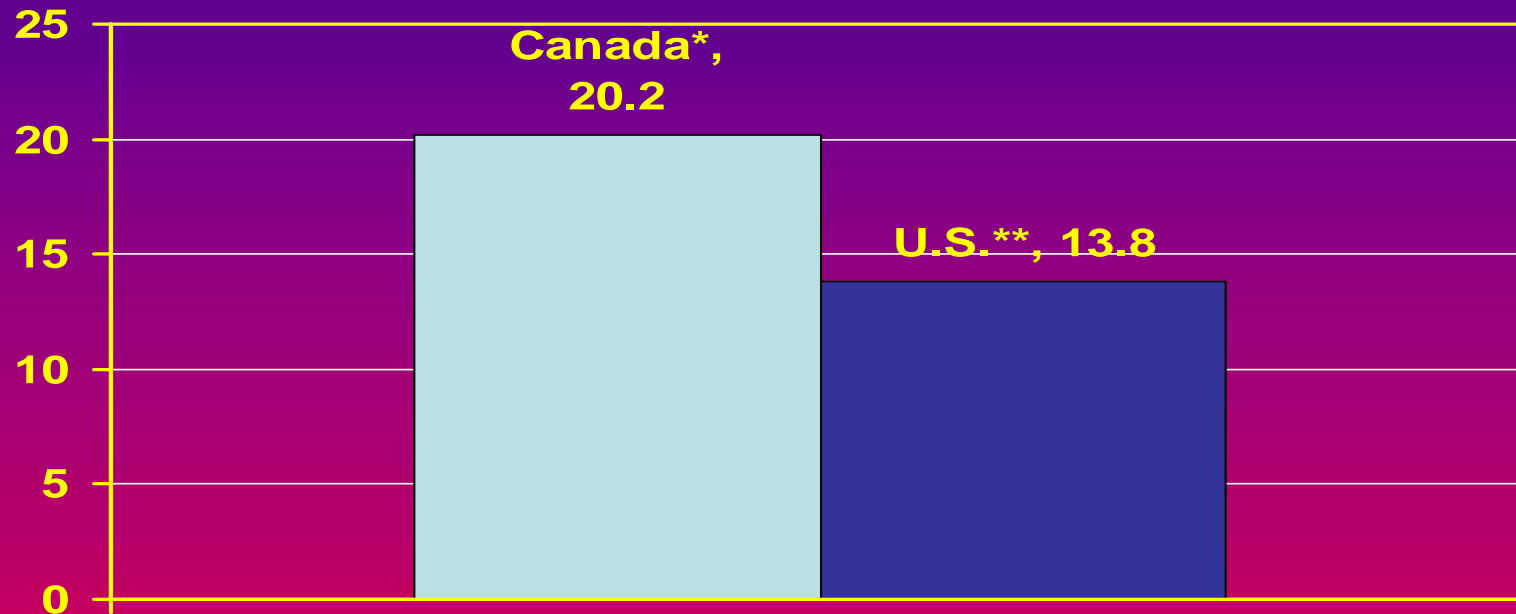
Average stumpage fees and lumber price index in B.C.



Discussion

- Is the U.S. industry injured?
- What is the relative (total & per-capita) softwood timber endowment in the U.S. & Canada?

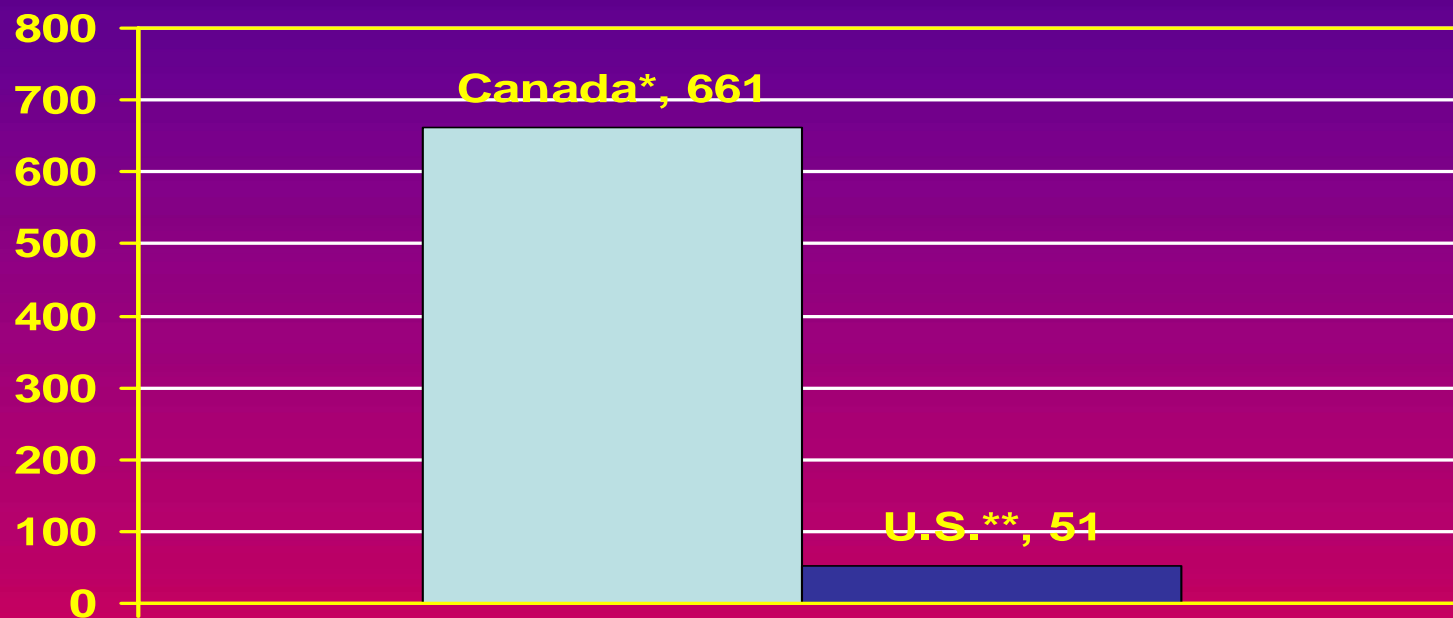
Total Softwood Growing Stocks in Canada and the U.S. (in billion cubic meters): 1997



*Gross merchantable wood on stocked, timber productive, no reserved forests

** Growing stock on timberland

Per-capita Softwood Growing Stocks in Canada and the U.S. (cubic meters): 1997



*Gross merchantable wood on stocked, timber productive, no reserved forests

** Growing stock on timberland

Discussion

- If Canadian producers have a windfall profit due to government subsidy, what U.S. producers can do other than paying a hefty lawyer fees + facing uncertainty?
- How to solve the dispute?