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The Softwood Lumber War: Politics, Economics and the Long U.S.–Canada Trade Dispute

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The endowment of natural resources, the size of the domestic market and major historical experiences shaping politics and the governance structure in a country often influence the type of domestic programmes and trade policies pursued in that country. Inadequate desire to understand and appreciate differences in economic environments, institutional development and policy perspectives can lead to irritating and often costly trade disputes among otherwise very friendly countries. The softwood lumber dispute between the United States and Canada represents one such dispute. It is the longest running dispute between these two countries. Despite a series of negotiated short-term agreements since 1986, the disputing parties failed to resolve it. The agreements, therefore, appear to be short-term fixes rather than any long-term solution. The most recent agreement signed in September 2006 is set to manage softwood lumber trade for next 5–7 years. If past events are reasonable predictors of the future, the dispute may flare up again by 2011. Given the longevity of this dispute and its travel through many twists and turns, several dozens of journal articles have been published focusing on various aspects of this dispute. While many features of the softwood lumber dispute are well documented in the literature, they are scattered over many journals. This book gives interested readers an opportunity, for the first time, to be informed about this infamous trade dispute, the real players in this dispute and many of its economic and policy consequences from one source. Therefore, it is a very welcome edition to the existing literature on the US–Canada softwood lumber dispute.

This book consists of 11 chapters. The first chapter provides a brief history of the modern softwood lumber dispute and introduces the key questions as six so-called ‘puzzles’. Chapters 2–10 are designed to shed light on those puzzles. Chapter 2 provides a brief overview of the political economy models of policy-making, describes differences in economic environments, political institutions and in forest resource development pathways in Canada and in the United States. The next two chapters deal with the first two rounds of the softwood lumber dispute in the 1980s, which eventually led to the signing of the Memorandum of Understanding (MOU) in 1986.

Economic realities and political lobbying on both sides of the border are documented, and the welfare consequences of the MOU of 1986 are discussed in these two chapters. Chapter 5 concentrates on the dynamics of the Canada–US Free Trade Agreement (FTA) of 1989 and the unilateral termination of the MOU by Canada on 3 September 1991. It highlights a number of unsuccessful attempts by Canada to renegotiate the MOU after implementing the FTA and the factors contributing to Canada's decision to withdraw from the MOU. While the unilateral termination of the MOU by Canada was within the legal mandate of the agreement, it ignited a significant political storm in the early 1990s and put the effectiveness of the dispute settlement mechanism under the FTA to its first real test. The essence of the political storm and the fallouts are analysed in Chapter 6, which also covers challenges under the FTA processes including two bi-national panels and an extraordinary challenge of the bi-national panel's decision by the United States.

Despite winning the legal battle under the FTA, the federal and provincial governments in Canada and the Canadian lumber industry became increasingly concerned about the growing public sympathy for the lumber producers' lobby in the United States and realised that the congressional allies of the US lumber lobby can potentially inflict long-term damage on the Canadian lumber industry. This motivated the Canadians to engage in a consultative process with the United States. After several rounds of consultations between the two governments, the Softwood Lumber Agreement (SLA) of 1996 was hammered out. This agreement governed the softwood lumber trade between Canada and the United States for next five years. These developments and the economic consequences of the SLA of 1996 are captured in Chapter 8. Also highlighted in this chapter are the trade frictions originating from the SLA of 1996 both in Canada and in the United States and their economic and political drivers. These trade frictions led to a series of litigations under the NAFTA and WTO after the SLA of 1996 expired in 2001. The key features of the litigation battle fought between the two countries during the 2001–2006 period are documented in Chapter 9. The fascinating story of reaching yet another SLA in September 2006 is told in this chapter. Also documented in this chapter are stories of unbelievable political manoeuvring of the policy process and the Department of Commerce in the United States by the lumber producers' lobby and a logical deduction of the gainers and losers of this agreement.

Pulp and paper are made from softwood, and Canada is also a large exporter of pulp and paper to the United States. So why, after winning three softwood lumber battles against Canada since the mid-1980s did the Coalition of Fair Lumber Importers in the United States not go after the pulp and paper sector? A comparative political economy discussion of the softwood lumber dispute and the newsprint tariff battle between Canada and the United States is contained in Chapter 10.

An attempt is made in the final chapter to put together the relevant economic, political, legal and institutional factors needed to foster a good understanding of the complexity and longevity of the softwood lumber dispute. This chapter also draws some lessons from the softwood lumber dispute

between Canada and the United States, which have significant implications for international trade relations and resource management.

This book is full of fascinating stories of how the legislature and other influential policy-making bodies in the United States became captive to interest group lobbying and how too many attempts by the Canadian side to accommodate US demand and appease the Coalition of Fair Lumber Imports have failed. The author is to be commended for painstakingly documenting the detailed institutional history of this dispute and providing interesting political economy interpretations. While there is enough institutional detail of the dispute to inform any interested reader of the policy process, the discussion of political economy models is terse and a bit dated. The political economy analysis has moved way beyond the basics presented in this book. The discussion of a number of relevant issues related to the longest running trade dispute is also absent from this book. For example, what constitutes a subsidy and why? Does it exist? How was it measured? If it exists, what is the extent of this subsidy? How did the subsidy induce additional timber supply and additional lumber export to the United States? Even if subsidy exists for logs, what fraction of this subsidy travels upstream to lumber in a vertically linked market? What is the appropriate level of countervailing duty? Did the Department of Commerce and the US International Trade Commission (USITC) pay close attention to these issues as they investigated and ruled many times on Canadian softwood lumber? Since the book is all about a trade dispute between the two friendly countries, the author could have devoted some efforts to providing a brief, but complete, overview of the dispute settlement mechanisms under the NAFTA and WTO. This would have shed additional light on how the two mechanisms can lead to different outcomes for the same dispute.

The above inadequacies notwithstanding, readers in North America and Europe will find the book very helpful for developing a good understanding of the complexities involved, political games played and economic powers exploited by the relatively more powerful nations in trade disputes even when elaborate rules exist to govern trade among nations. Given the lack of strong political will to conclude the Doha Round of trade negotiations under the WTO, it is very likely that trade disputes will grow significantly in the near future. Hopefully, a good understanding of the economic, political and institutional factors contributing to the softwood lumber dispute, the economic consequences and the policy lessons from this dispute as documented in this book will go a long way to inform and mitigate future trade disputes involving agri-food commodities.

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