

BOOK REVIEW

The Softwood Lumber War: Politics, economics, and the long U.S.–Canadian trade dispute, by Daowei Zhang, Resources for the Future, Washington, DC, USA, 2007, xvii + 301 pp., US\$38.95 (paperback), ISBN 978-1-933115-56-6

The continuous friction for more than two centuries in softwood lumber trade between Canada and the United States only keeps escalating. The reason for the prolonged battle in the softwood lumber trade is the huge economic value of the bilateral lumber trade, the size of the lumber markets in both countries, and the adverse impact of one country's policies on the other country's lumber market. Lumber trade between the two countries is valued at US\$7.0 billion annually. The United States is the largest producer, importer, and thus, user of lumber. Canada is the second largest producer but not a major user of lumber, and hence, is the leading exporter. Consequently, any domestic policies, trade policies, or exogenous shocks (e.g. strong housing market expansion) have significant impact on the lumber markets in both countries. Furthermore, if one country's policies adversely affect the lumber producers in the other country, the injured party wants its government to enact retaliatory protective measures.

Given this backdrop, this book by Dr Zhang is very timely and comprehensive. The author has spent more than a decade working on this important topic, which he demonstrates by capturing the various intricacies of this complex, contentious, and explosive topic. Dr Zhang weaves through this complicated and intense lumber trade battle with careful attention to the details by taking into account all the historical, political, legal, and economic issues. This book will be of great interest to academics in forestry, economics, natural resources, and other fields. It will be also an excellent reference book for students of the lumber trade in general, and the US–Canadian lumber dispute in particular; timber growers and lumber producers, wholesalers, retailers, and consumers (e.g. home building supply stores) in the United States and Canada; government agencies and policy makers (e.g. USDOC, ITC, USTR, and USDA in the United States and central and provincial agencies in Canada dealing with forestry); lawyers and litigators working in the lumber dispute; and trade negotiators on the NAFTA and WTO panels.

The first chapter sets the stage to cover political, economic, policy, and legal issues surrounding this long-running trade dispute. It introduces to the

readers a brief review of the history of lumber trade problems from early 1980s to 2006. This chapter also highlights the paradox in the dispute by eloquently identifying six puzzles: freer trade for most commodities but not for lumber; more importantly, freer trade for most forest products but not for lumber; both countries tend to ignore the welfare gain from better trade agreements; politicians and lumber companies failed to reach a durable solution; a rise in US-administered protection; and the NAFTA and WTO dispute settlement mechanisms are not successful in solving this problem. In concluding this chapter, the author clearly puts forward the objectives and the plan of the book, which are helpful to readers in ascertaining whether the scope of this book meets their interest and need.

The second chapter focuses on four issues: political economy and formulation of public policy, the political system in both countries, ownership of forest land, and the important players in the lumber dispute. The section on public policy formation identifies various theories (public interest theory, interest group or capture theory, free rider problems, and logrolling or vote trading) to justify government intervention with a goal of maximizing social welfare. Although such a goal is solely to protect domestic interest groups, i.e. augment income of producers, job creation, rural development, and community stability, these protective measures benefit a few at the expense of smaller losses to many. This section could gain by relating the policy formation and protective measures specifically to the lumber dispute. The discussion on political systems observes the checks and balances between the executive and legislative branches in formulating trade policies in the United States and on the role of parliamentary and provincial governments in undertaking trade policies in Canada. The section on forest land ownership highlights three important points. First, private ownership of forest land is widely prevalent in the United States, whereas provincial government ownership is the most common in Canada. In the United States, of the total 302 million hectares, about 58% is owned by private entities and the remainder is owned by federal and state governments. But state governments own only 8% of the forest land. This is markedly in contrast to the ownership in Canada, where of the 418 million hectares, 71% is owned by provincial governments and 23% by the central government, with only 5% under private ownership. Second, in the United States, timber is sold through auctions to the highest bidder, whereas in Canada, the provincial government grants timber harvesting rights to private firms through leases by setting stumpage fees in return for managing the forest lands. Third, such an administered fee system lies at the crux of the battle, in that the US firms claim that provincial governments subsidize the timber sale because the stumpage fees are generally lower than the market price for the timber. The final section of this chapter identifies the important players in this dispute: US lumber producers, US consumers, US legislators, Canadian lumber producers, and Canadian governments. It is

worth noting that both countries' policies impact other countries, both exporters and importers, because the increased global lumber trade and the huge volume and value of lumber produced and consumed in these two countries can disturb the trade pattern.

The third chapter documents various historical events, lobbying, and political development, leading to the Lumber I (1982–1983) trade war of the modern era. The 1980s' crisis of a sharp price decline in timber prices in the Pacific Northwest was the major impetus for the beginning of Lumber I. The lower timber prices led to lobbying by the forest industry for a bailout and import restrictions on Canadian lumber through an import tariff and the allegation that Canada subsidizes timber sales to its companies. Such allegations were further fueled by the International Trade Commission's report and a study by David Haley (1980), which said increased lumber exports from Canada to the United States are not only caused by a favorable exchange rate and low transportation cost, but are also due to reduced stumpage fees resulting from lack of competitive bids. As a result, the Coalition for Fair Canadian Lumber Imports filed a petition with the Department of Commerce (DOC) calling for a large CVD on lumber imports from Canada (also see Rahman and Devadoss 2002, for discussion on Lumber I). This chapter also digresses to highlight the fact that the lumber trade battle has a long history, starting from the early nineteenth century. This historical material could very well be expanded to be an earlier chapter by itself in the book. This dispute, which dates back to 1789, is also discussed at length by Reed (2001). The Lumber I culminated with the DOC's finding that Canadian stumpage is not given to a specific industry, and thus does not constitute as a subsidy.

Chapter 4 elaborates on the cobweb of political and legal developments and back and forth squabbling between US and Canadian lumber producers leading to the beginning of Lumber II (1984–1986) and culminating with a memorandum of understanding of a settled trade agreement. The important role of the Coalition for Fair Lumber Imports (Coalition) to begin the Section 332 investigation by the International Trade Commission (ITC), Grass Root Campaign, and political wheeling and dealing with the US Congress, US Trade Representative, DOC, and ITC is documented in microscopic detail. The Coalition's argument that a low Canadian stumpage fee is a subsidy and lumber imports from Canada injures the US industry, which are the justification for import restrictions, appears prominently in this chapter. This chapter also highlights the changes in the political landscape in Canada, particularly in British Columbia, and their impacts on lumber trade negotiations, leading to an offer of a 10% increase in stumpage charges. This offer eventually became the Coalition's hold as the floor price, and thus, the call for higher CVD. The agreement to impose a 35% tariff on imports of shakes and shingles from Canada added further fuel to the Coalition's cause for import restrictions. The DOC's determination of a

15% subsidy for timber harvest in Canada became the basis for the 15% Canadian export tax settlement under the 1986 Softwood Lumber Agreement (SLA). This chapter also presents a very basic economic analysis of this export tax for price, supply, demand, gains, and losses in both countries. The section on economic analysis could benefit by reviewing several studies related to this trade policy. Boyd and Krutilla (1987) employed a spatial equilibrium model to analyze the effects of Canadian export restrictions versus US tariffs on lumber imports from Canada on the regional US lumber markets. Myneni et al. (1994) analyzed the welfare impacts of the 1987–1991 Canadian ‘voluntary’ 15% lumber export tax and the 6.51% import tax, using a simultaneous equations model of the softwood lumber market.

Chapter 5, which covers the period 1987–1991, begins with the discussion of the US–Canada free trade agreement, its intertwining with the lumber dispute, and the setting up of the binational panel and the Extraordinary Challenge Committee to resolve any trade rows. It also elaborates on the pros and cons of trade problems solved by the binational panel versus the WTO dispute settlement body. As the Lumber II export tax was implemented, British Columbia undertook several measures, such as increasing the stumpage charges so that the 15% export tax could be removed. Quebec also took internal measures to reduce the export tax. These actions called for withdrawal of the memorandum of understanding and the export tax. But the DOC and US lumber producers were not content with these actions and wanted the export tax to be re-imposed on lumber imports. These disagreements poured the fuel for the Lumber III epoch.

Chapter 6 details the Lumber III, covering the period 1991–1994. The termination of the memorandum of understanding by Canada brought a more intense rhetoric and outrage by various parties (lumber producers, the Congress, and US trade representatives) in the United States, and the imposition of CVD of different magnitudes for various provinces without making any attempt to determine the amount of Canadian subsidies and injuries on the US lumber industry. The DOC in its preliminary determination found a subsidy of 14.48% arising from low stumpage fee and log export restrictions and instituted a tariff of the same percentage on lumber imports. The final subsidy determination is 6.51%. The details of the complexity and obscurity in determining the market value of standing timber, while a stumpage fee is administratively set by government intervention, are laid out clearly. Canada criticized the scope of the US investigation, the computation of the country-wide rate, and the specificity of the stumpage and log export restrictions. It also filed a challenge with the Canada–US free trade agreement (FTA) panels (subsidy and injury determination panels) and a GATT panel regarding the subsidy determination by the United States. The FTA panels largely ruled in favor of Canada, although they did find the log export restrictions could be countervailed and

the US lumber industry faced material injury from lumber imports from Canada. The DOC rebutted these panels' rulings and its recomputed subsidy was 11.54%, and much higher than its previous determination. The GATT panel ruled that US imposition of interim bonds on lumber imports from Canada is improper and wanted the United States to refund the monetary deposits. The FTA panels' rulings were unsatisfactory to US lumber producers, which led to an appeal to the Extraordinary Challenge Committee (ECC), which consists of three members. This was the first time such an appeal was made under the lumber dispute. The ruling of the ECC committee on a 2–1 decision favored Canada, but this did not end the Lumber III because the United States managed to push through a Softwood Lumber Agreement.

Chapter 7 delves into the developments leading up to the 1996 Softwood Lumber Agreement. Even though various panels ruled in favor of Canada in most of the litigation, the United States was dragging out and delaying rather than returning the CVD it collected, and kept wanting Canada to come to the bargaining table to tackle the 'injurious subsidy' provided by Canada. But negotiations proceeded to be aimed at Canadian export volume restrictions rather than the stumpage subsidy. However, Quebec was opposed to any quantitative limit on exports, although British Columbia (BC) would settle for such a limit. The author first briefly summarizes that under the Softwood Lumber Agreement (SLA), the exports from BC will be subject to an export tariff rate quota, and other provinces (Quebec, Alberta and Ontario) will increase their stumpage charges. However, the small section summarizing the details of the 1996 SLA describes very well the various fine points of the export tariff-rate quota, but it is silent on the stumpage fee increases. As the SLA approached the end of its five-year period, tension arose over the stumpage fee reduction in BC and the reclassification of predrilled studs, notched studs, and rougher headed lumber as part of the SLA quota. In addition, the United States threatened to impose countervailing and anti-dumping duties.

Immediately after the expiry of 1996 SLA, the US lumber producers started to file a petition with the DOC and ITS and to lobby Congress to investigate and take measures against the alleged Canadian practices of stumpage subsidy and dumping. This led to another long drawn-out battle on the dispute between two countries and is generally titled in the literature as Lumber IV (2001–2006). The resolutions of Lumber IV proceeded on two tracks: the litigation track, which is the subject matter of Chapter 8 and the negotiation track, which is covered in Chapter 9. Chapter 8 documents in great detail the several rounds of legal battles (involving petitions, rulings, challenges, appeals, responses, and public rebuttals) that were waged under the auspices NAFTA, WTO dispute settlement panels, and US courts as to the validity of Canadian stumpage subsidies, US countervailing duties, dumping and injury to US industry, and anti-dumping duties. The table at

the end of the chapter succinctly summarizes the litigation process chronologically, which is very helpful in enabling readers to gather the gist of Lumber IV without reading through the extended war of words among various factions. Studies that examined the Lumber IV issues very closely but were not included in this chapter are Adams (2003); Devadoss and Aguiar (2004), and Devadoss (2006).

Chapter 9 weaves through the elongated process of the negotiation track in resolving the Lumber IV dispute. Specifically, the various policy proposals of US lumber producers and counter proposals by Canadian producers are clearly identified and documented. The DOC revised the CVD and AD rates based on its administrative reviews. One other thorny issue that arose in finding an agreement is how much of the fund collected under the CVD and AD will be returned to Canada. Canadian lumber producers claim that the money belongs to them and that the US producers and legislators are willing to part with it. After prolonged negotiations, the 2006 SLA was reached, which consists of two options. Under option A, Canada will impose an export tax that could be up to 15% depending on US lumber prices. Under option B, Canada will limit its lumber exports to less than 34% of US demand and impose an export tax ranging from 0–5%. This chapter identifies the various policy measures outlined under the 2006 SLA and elaborates the potential winners and losers of this agreement.

Chapter 10 documents the details and the long history behind the trade restrictions of newsprint. It also covers the contrasting nature of the political economy surrounding the lumber dispute and the newsprint tariff battle and their interlinkages. This chapter also elaborates the different factors that influenced the diverse outcomes of these two trade policies.

The final chapter recaps the nature and various causes of the lumber war and the reasons for this prolonged dispute. This chapter also weighs several long-term options to resolve this battle and outlines how to accomplish these solutions. This chapter ends with a summary of the important lessons learned from this never-ending trade war. The book correctly points out that the 2006 agreement is by no means the end of the conflict and is not a permanent solution. This agreement moves away from the spirit of free trade as negotiated in the world trade order because it does not address the removal of the Canadian subsidy issue and imposes more trade barriers. This point is very well highlighted in the book.

Although the book tackles almost all the nuances of the softwood lumber trade between the two countries, one issue that needs a more in-depth discussion is Canada's unwillingness to move toward an open market bid. US lumber producers continue to claim the Canadian stumpage is subsidized because auctioning the timber in the open market will fetch much higher prices. So unless Canada follows a free market policy in its stumpage system, this battle will prolong, which needs to be dealt with more elaborately in the book.

The book could be improved in its coverage of economic studies on this topic. A few of these studies were noted earlier in this review. Studies by Boyd et al. (1993) and Chen et al. (1988) also have worthy materials related to trade policies of this lumber dispute. However, this book is going to have a lot of mileage for the foreseeable future. The author is very objective and presents the material on a factual basis. But one has to bear in mind, given the controversy of this dispute, that it is all in the eye (and in the mind) of the readers. For example, readers representing US lumber producers may feel the book is biased.

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