

ASSESSING THE SOFTWOOD LUMBER TRADE DISPUTE BETWEEN CANADA AND THE UNITED STATES

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I. INTRODUCTION

The last twenty years has seen the advent of protectionism in natural resources and resource based products from the United States. The brunt of the guardianship has been faced by the softwood lumber industry. Since the first countervail duty investigation on Canadian softwood in 1982, a series of intermediary resolutions and subsequent counteractions have been undertaken. The industry has repeatedly been forced to respond to intrusion after intrusion by government as three different duties and two agreements to restrict exports to the U.S. have been used over the past twenty years. The result has been an industry forced to survive the traditional impositions of the market, such as operational costs, as well as the new burden of excess duty costs and voluntary export restrictions.

The softwood lumber trade dispute stands as the longest running trade disagreement between Canada and the United States. Despite the time, energy, and money devoted to resolving this contentious dispute, neither side has been able to find anything but intermediary resolutions. The intent of this paper is to give a historical perspective of the dispute, analyse the statistical data of the past twenty years relating to government involvement, and highlight options towards a more common ground. The present investigation will examine the validity of the United States lumber manufactures argument for a countervailing duty against subsidies to Canadian lumber while investigating options that may mitigate or satisfy US demands. Specifically, the paper explores two economic alternatives that may help to end the dispute and to find a light at the end of the tunnel. Focus is placed on eliminating system friction by changing the Canadian forest tenure structure from a government allocated fee-based framework to a competitive bidding arrangement used in the United States.¹ The second option involves the removal of appurtenance clauses which ensure that trees are

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1. Canada's System of allocating long-term rights to harvest a specified area is referred to in industry as "stumpage." Provincial governments typically charge logging companies based on an arbitrary fee schedule and require the industry to supply capital required to build infrastruc-

processed in the region where they are cut giving access to raw logs to sawmills south of the border.²

II. THE BASIS OF THE DISPUTE

Government involvement in the industry is frequent and intense which makes an economic analysis of the topic difficult. The catalyst for action from government, on either side of the border, has been to gain advantage from significant highs or mitigate lows in housing starts in the United States.³ The intervention is also prompted on the side of the U.S. by Canada's significant market share for processed lumber in the United States, which has hovered between 25%-35% for the last twenty years (Percy et al. 1989). Each government's move was correspondingly matched by the other and the market is yet to be placed in an environment where it can operate on its own.

The difficulty in attempting to find resolve for the dispute is the divergent nature of the two systems. The two nations have varying means of allocating timber harvesting rights to respective softwood lumber producers. Canadian provinces own roughly 90 percent of the forest lands in Canada, while United States ownership is primarily in private hands and therefore is witness to "...a significantly higher volume of private timber transactions in the United States. In those instances, sawmills may negotiate forest tenure prices directly with private landholders" (Aldonas, 2003). The difference between administered tenure pricing, largely characteristic of Canadian lumber markets, and a competitive bidding structure remains a contentious issue.

Canada must also deal with an inhibiting federal government structure. Enumerated powers in section 91 and 92 of the Constitution Act of Canada have allocated natural resources as a provincial responsibility and manufactured goods and exports as a federal responsibility (Archer 1995). The political structure causes hardships in effective internationally lobbying about Canada's position on the dispute. The systemic differences are an obvious cause of friction and complicate an assessment of the softwood lumber dispute.

III. FIRST COUNTERVAIL INVESTIGATION DUTY (1982)

The history of the softwood lumber dispute has roots that pre-date Confederation with the first skirmishes occurring between Maine

to access the raw logs and reforest the land to provide for future logging. See also Percy, Michael B, and Christian Yoder. *The Softwood Lumber Dispute & Canada-U.S. Trade in Natural Resources*. Halifax: The Institute for Research on Public Policy. (1987). 47-78.

2. Both options are derived by numerous scholars and politicians as responses to direct complaints made by the United States during the course of the dispute. See Grant Aldonas "Proposed Analytical Framework for Changed Circumstances Reviews of the Outstanding

and New Brunswick in the 1820s which led to the *Reciprocity Treaty* of 1854-1866. Following the termination of the *Reciprocity Treaty*, the access to raw timber in Canada ended leading Lower (1938) to note that "...the public mind was prepared to accept the fact that the United States would probably never again be a free market for Canadian raw material." The result was an era of nationalism and self-reliance. The form of nationalism that developed prior to Confederation continues to exist. A significant aspect of the current round of discussions is whether lumber producers and politicians are willing to move away from nationalism and accept alternatives that may be contingent on granting access to the United States of Canada's raw timber.

The countervail investigation duty of 1982 was the impetus to a twenty-year international trade struggle. The Coalition for Fair Lumber Imports, an association of lumber producers in the United States, have been the leading lobbyists in initiating countervail investigations and brought forward a petition to the US Department of Commerce. The catalyst to the petition was the poor economic climate of the United States. The country was, according to Duvall and Garton (2002), "...in the midst of a severe recession, falling housing starts and declining lumber prices." Statistics Canada data show a decline in housing starts in the United States from 1,832,000 in the final quarter of 1979 to 843,000 in the first quarter of 1982.

The initial countervail investigation established and formalised the means by which the United States would determine if the imposition of a duty was warranted. The process determined was to apply the petition to the *Tariff Agreements Act, 1979*. The act reads in paragraph 1671:

1671. Countervailing duties imposed
- (a) General Rule. If-
- (1) the administering authority determines that -
- (A) a country under the Agreement, or
- (B) a person who is a citizen or national of such country, or a corporation, association, or other organisation organised in such a country, is providing, directly or indirectly, a subsidy with respect to the manufacture, production, or exploration of a class or kind of merchandise imported into the United States,
- and

Countervailing Duty Order on Imports of Softwood Lumber from Canada." U.S. Department of Commerce (2003), 9.

3. Housing starts in the United States saw significant declines from 1980-1981 (1,832,000 in 1979 to 843,000 in 1982); in 1986 (decade high quarter of 1,972,000 starts); and 1991 (lowest quarter of housing starts since reporting period began in 1959 of 798,000). These figures can be found in Statistics Canada. Table No. V4510004. *United States Construction, Seasonally Adjusted at Annual Rates: Total Private Housing Starts*.

- (2) the Commission determines that -
 - (A) an industry in the United States -
 - (i) is materially injured, or
 - (ii) is threatened with material injury, or
 - (B) the establishment of an industry in the United States is materially retarded, by reason of imports of that merchandise, then there shall be imposed upon such merchandise a countervailing duty, in addition to any other duty imposed, equal to the amount of the net subsidy.⁴

According to the *Tariff Agreement Act*, the Department of Commerce had to prove not only that a subsidy to Canadian lumber producers was evident but that material injury to US producers was real.

Two different quasi-judicial bodies of the Department of Commerce were utilised to address questions raised in the Trade Agreements Act. The International Trade Administration (ITA) was used to determine if subsidies are specific to an industry, and not generally available.⁵ Finally, the International Trade Commission (ITC) undertook the task of ensuring that material injury to US softwood producers was real (Percy et al. 1987).

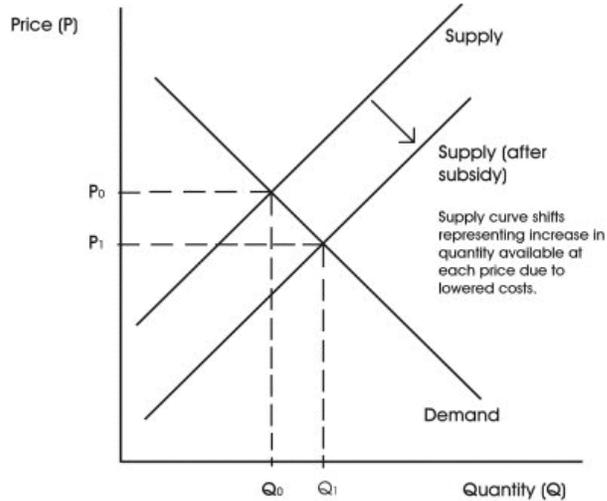
The complex nature of the softwood lumber dispute was realised during the investigation as the multiple uses for raw timber was uncovered. Tenure for Canadian raw logs are not allocated on an industry by industry basis. The findings showed that inputs to production are used, or re-used, in the lumber, furniture manufacturing, plywood, and pulp and paper industries. This resulted in the 1982 specificity test finding that a subsidy was not applicable to a countervailing duty because of the broad scope and general availability of raw timber to many industries (Duvall et al. 2002). These particular findings were later reversed, as will be discussed later in the paper, as the definitions of the specificity and general availability tests have developed.

The most interesting aspect of the 1982 findings was in regards to the search of material injury. The Department of Commerce concluded that a comparison of Canadian stumpage prices with U.S. prices would be arbitrary and capricious in view of the wide differences between species composition; size, quality, and density of timber; terrain and accessibility of the standing timber through the United States and Canada (Duvall et al. 2002). During the process, the

4. Legislation is found in Percy, Michael B, and Christian Yoder. *The Softwood Lumber Dispute & Canada-U.S. Trade in Natural Resources*. Halifax: The Institute for Research on Public Policy. (1987). 82.

5. During the Uruguay Round the World Trade Organization (WTO) developed structured

FIGURE 1: SUBSIDY-INDUCED SHIFT IN THE CANADIAN SUPPLY CURVE



economic grounds for material injury claims received negligible support in what was primarily a politically moderated and motivated debate. The problem was addressed by Percy and Yoder (1987, p.73) who commented that “[t]he public and the media have been distracted by cross-border stumpage comparisons or by dwelling on the politics of the dispute both within Canada and within the United States. The basic economic issues in the dispute - the role of market forces versus timber-pricing policies in the provinces - have not been given the proper attention.”

The U.S. claim made in 1982 continues to be debated today. The U.S. position has been that the Canadian administration has forced the supply curve to the right by granting tenure for most logging areas at a cost below the market value, acting as a subsidy to the industry. The lower costs encourage industry to increase their output because more products and services can be provided at each price level. The result is that the price of standing timber in Canada is lower than the competitive market value (see Figure 1). The inherent difficulty of such an argument lies in estimating what a competitive market price for timber is, since existing market practices have prevailed throughout the nation's history. One approach involves the search for disparities

tests and definitions to specificity and availability industry subsidies. Tax credits and manpower training regulations are examples of subsidies by government that are generally available. Generally available subsidies are referred to by the WTO as “Green Light subsidies.” See also. “WTO: Subsidies and Countervailing Measures overview” <http://www.wto.org/english/tratop_e/scm_e/subs_e.htm>

in costs between the Canadian administered system and the U.S. market-based tenure allocation, which would quantify the effect of a Canadian subsidy on market prices.

Determining the presence and the scope of a subsidy is an arduous task. Transportation costs, which include the cost of building and maintaining roads, is borne by harvesters and the subsequently administered long-term tenure costs to harvest a specified area, referred to as stumpage charges, are lowered in Canada to compensate this cost. The effect of the lowered charge means a portion of the subsidies compensate the industry for outlays that are considered justifiable public expenditures in the American market. Second, differences in terrain cause variations in the cost of foresting and are represented in variations in stumpage fees. Third, environmental standards internalise costs to harvesters in the Canadian system and stumpage fees are reduced in order to allow loggers to implement necessary environmental and siculture standards. Fourth, stumpage is paid as the timber is harvested. The winning bids, therefore, often include an allowance for inflation and for movement in relative timber prices. Fifth, U.S. forest tenure often restricts supply leaving an allowable cut less than what the market demands and allowing for Canadian timber to fill the gap. The result of restricting supply forces the US domestic supply curve to the left in the United States which increases price and exacerbates the difference between the rents collected via the two nation's stumpage systems (Percy et al. 1987). All of the above factors create a challenge in determining the actual difference between the administrative and the market-based models.

Overall, the importance of the 1982 investigation cannot be ignored. The findings that emerged are still relevant today. The notable differences in the present dispute are marked by the introduction of the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA) quasi-judicial boards that afford Canada additional arenas to voice its opposition to the imposed duties.

IV. SECOND COUNTERVAIL INVESTIGATION DUTY (1986)

The U.S. Coalition for Fair Lumber Imports returned to an active lobbying position in 1986. A petition was filed with the ITC and ITA claiming again that rents received from provincial governments for harvesting Crown lands were underpriced and acted as a subsidy. The economic climate of the softwood industry had improved. Housing starts in the United States had increased substantially from 843,000 first quarter starts in 1982 to a decade high first quarter in 1986 of 1,972,000 starts.⁶ The increase in consumption required an increase

in imports from Canada, resulting in an increase in the percentage of Canadian lumber used for US consumption from 27.3% in 1982 to 31.6% after 1985 (Percy et al. 1987). In reaction to the loss in market shares, the U.S. Coalition led the request for another investigation into Canada's subsidization policies. However, the underlying cause of rising Canadian competition was not related to a change in the economics of the industry or of the administration of forest tenure but, rather, due to the evolution of specificity and preferentiality requirements employed by the ITA and ITC.

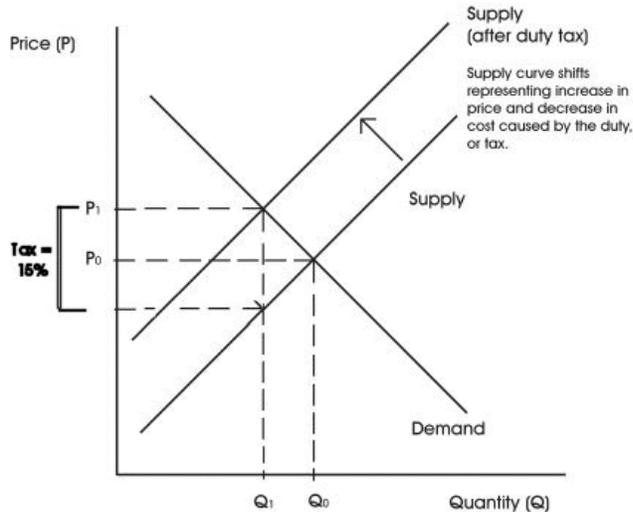
In April of 1986, the ITA underwent a review of specificity and preferentiality due to the Black Carbon trade dispute the United States was having with Mexico. Specificity tests determine if the allocation of resources are distorted by a subsidy that is not available to other sectors of the economy. During the review of the Black Carbon situation, it was determined that "...the absence of other actual purchases of a subsidized good or service meant that the specificity test was satisfied" (Percy et al. 1987, p.48). The resulting decision changed the precedence on specificity established in 1982 and under the new standard of specificity a Canadian subsidy was found to exist. Subsequently, a countervail of 15% was deemed to be the amount of material injury caused to U.S. Lumber Producers. The decision was faced with a series of appeals and lobbying from Canadian producers and provincial governments and the dispute received an enormous amount of media coverage, especially considering the prominence of the Canada/U.S. Free Trade Negotiations during the mid-80's (Mach 2002). Despite the appeals of Canadian producers, the definitions of specificity found in the Black Carbon case remained and the ruling would not be reversed.

V. SOFTWOOD LUMBER MEMORANDUM OF UNDERSTANDING (1986-1991)

The negotiation and appeal process did bring about one positive outcome for Canadian producers. There was the option for Canada to impose an export tax of fifteen percent, allowing the country to collect the funds that would have been normally collected by the U.S. Treasury (Mach 2002). The voluntary export restriction, being a 15% tax on Canada's softwood exports to the United States, was capsulated in the *Softwood Lumber Memorandum of Understanding* (MOU). The agreement was designed to effectively shift Canada's supply curve to the left and to raise timber prices (see Figure 2), while promoting Canadian provinces to implement changes to their forest

6. See Statistics Canada. Table No. V4510004.

FIGURE 1: TAX-INDUCED SHIFT IN THE CANADIAN SUPPLY CURVE



tenure and stumpage practices. The replacement measures were voluntary. Provinces, independently in control of their own natural resources, determined their course of action of whether to add costs to their tenure system totalling 15%, or to simply pay the export tax. Further, any systemic changes required labouriously difficult consultations where each province negotiated, individually, with the U.S. government to determine the value of the replacement measures. The measures increased the cost of administrative systems and legal responsibilities, and included slight changes to the tenure allocation process. Alberta and Ontario preferred to pay the tax while British Columbia and Quebec opted to implement the required changes to increase their stumpage fees to appease the U.S. British Columbia supplied, in the Forest Renewal Act of 1996, the most enterprising changes with the creation of the comparative value pricing system and super stumpage. According to Mach (2002, p.289), at the end of about five years "roughly eighty percent of the value of [timber] exports was no longer subject to the fifteen percent export tax, being in large measure replaced by increased provincial charges." The provinces had undertaken the millions of dollars of additional charges to the industry and despite the changes, the dispute raged on.

7. See "Factors affecting the international softwood lumber market, 1987-93." Monthly Labor Review. 117 (February 1994). United States Bureau of Labor Statistics: Washington. 24.

VI. THIRD COUNTERVAIL INVESTIGATION DUTY (1991-1996)

After forcing significant charges upon the industry between 1986 and 1991, Canadian interests felt that the increased charges to the softwood lumber industry were enough. The federal government gave notice of their termination of the Softwood Lumber MOU. The Canadian reaction was in response to export prices that continued to rise after 1987, even though expansion was achieved in the non-traditional markets of Japan and the European Union.⁷ The response was also contingent on the lowest quarter of housing starts since reporting began in 1959 of 798,000.⁸ Canadian softwood lumber producers, especially in British Columbia and Quebec, had seen their costs increase substantially and were now witnessing the detrimental effect of decreased demand for their product. The result was met with objection from the U.S. and subsequent action was undertaken to apply yet another countervail.

The third investigation was accompanied with new twists to the softwood lumber dispute. The structural changes to Canadian forest tenure and increased stumpage charges were disregarded by the United States and, for the first time, constraints on access to Canadian timber were raised. Appurtenance clauses require that timber must be processed in the region it was cut. The U.S. perception of the clauses are that they limit demand for standing timber as only select producers are permitted to bid on cut allowances. The new determination was that "Canadian log export restrictions provided a countervailable benefit to Canadian producers" (Mach 2002, p.287). The result was the final creation of a countervail duty of 6.51%, a reduction from the 14.48% countervail originally recommended by the ITC and ITA.

The Canadian federal government attempted to increase involvement in the softwood lumber dispute. During numerous consultations it was realised that the Canadian federal government was not in a situation where it could explain provincial government forest management systems. The new concerns brought by the U.S., such as the appurtenance clauses, were unable to be effectively countered. The consultation process continued to be active until 1996. However, the interest of provincial governments in the process was divergent. The provinces that had implemented significant replacement measures to their tenure structure during the MOU, such as British Columbia and Quebec, were interested in negotiating an agreement but a consensus amongst all Canadian provinces and industries was unattainable.

8. Data taken from Statistics Canada. Table No. V4510004.

According to Mach (2002), determining a resolve to the dispute was inhibited again by varying provincial forestry management practices.

The vulnerable nature of Canadian federalism in dealing with the softwood lumber dispute created pressure for action to stem the cost of the U.S. imposed countervail. Canada continued its political reactionary nature by attempting to create a Canadian national export restraint program based on a quota system for all of Canada. The *Softwood Lumber Agreement* was developed and acted as the guiding force behind U.S. and Canadian Softwood Trade from 1996-2001. The voluntary export quota achieved its mandate of driving lumber prices up, as they increased by almost one hundred dollars per thousand board feet (Mach 2002). The quota, combined with the millions of dollars applied to the forest tenure structure during the MOU, significantly raised costs to the softwood lumber industry in Canada. The *Softwood Lumber Agreement* was not without problems. The most significant issue was the realisation that the agreement inhibited entry and exit to the softwood lumber market. The quota was distributed to mills that had a history of shipping to the U.S. market. Therefore the new lumber producers' avenue to the international market was limited to other nations such as Japan or the European Union. The unfairness of the *Softwood Lumber Agreement* was evident. This realisation of inequity pushed the dispute into the most recent round of discussion. However, a consensus from the individual provinces on how Canada should proceed into the next round of negotiation with the U.S. has not yet been attained.

VII. FOURTH COUNTERVAIL INVESTIGATION DUTY (2001-PRESENT)

The *Softwood Lumber Agreement* expired five years after Canadian interests were unable to justify continuing with the agreement. The most significant benefit of operating under the *Softwood Lumber Agreement* was the ability of producers' to plan for the future with the knowledge of expected cost. The agreement acted as a voluntary intermediary to the issue but no systemic changes were made to forest tenure allocation during the years the agreement was in effect. By letting the agreement expire, Canadian lumber manufacturers opted to accept the risk of another countervail duty being applied to exports rather than continue under the quota formula. As expected, the U.S. Coalition for Fair Lumber Imports petitioned again claiming the subsidy to the Canadian market continued. The result of the newest investigation by the ITA and ITC was the assessment of an

9. See the Canadian Department of Foreign Affairs and International Trade, "Volume and Value of Exports to the U.S: Softwood Lumber Industry." (April 1 2001 to March 7, 2002)

10. See the Canadian Department of Foreign Affairs and International Trade (2001).

11. See Sage Birchwater, "Riverside curtails production" (Williams Lake Tribune. 24 April

18.79% ad valorem countervailing duty and an additional anti-dumping duty of 12.58%.⁹

The duties applied appear inordinately high considering the imposition of the countervail from 1991 to 1996 was only 6.51% and in special consideration of the costs of replacement measures many provincial governments implemented to appease U.S. interests. The initial reaction to the recent countervail was unexpected. Primary mills continued, and in many instances even increased production, in an attempt to increase operational efficiency by lowering the cost of processing. The continuation of production was validated by statistical data which shows that exports to the United States have decreased by only 2.05%.¹⁰ Recently, the countervail has caused sharper reductions in production due to the inability to ship lumber and a significant oversupply.¹¹ However, the hardest hit to Canadian industry appears to be in the new value-added sector. The ad valorem nature of the duties (the cost is measured on the value of the softwood lumber) has meant the branch of the industry that "adds value" to the product is increasingly punished by being forced to pay increased duty charges.

The history of the softwood lumber dispute has been repeatedly focussed on quasi-judicial factors and developing a system to moderate the dispute with a limited focus on understanding the true nature of the system friction that occurs between the two nations. The subsequent section summarises the unchanged U.S. perspective and addresses the validity of accomplishing proposed structural changes to the Canadian softwood lumber industry in an attempt to finally find a more durable solution to the debate.

VIII. ALDONAS PROPOSAL (2003)

On January 6th of 2003 undersecretary of the U.S. Department of Commerce, Grant Aldonas, released the "Proposed Analytical Framework for Changed Circumstances Reviews of the Outstanding Countervailing Duty Order on Imports of Softwood Lumber from Canada." The report contains significant structural changes to the Canadian forest tenure system to satisfy U.S. concerns of Canadian government subsidies. Canadian interests have resisted substantive changes to forest tenure. However, the largest softwood lumber producing province, British Columbia, has surprisingly come forward and announced that, "[c]onceptually, this approach could form the basis of a long-term solution."¹² The Aldonas report claims to provide a roadmap for changes in Canadian provincial stumpage prac-

2003).

12. De Jong, Michael "B.C. Government Statement on U.S. Softwood Bulletin." January 7, 2003.

tices that would move Canada toward a market-based system of timber sales.

The roadmap includes the United States' expectations of competitive market based sales which still permit a combination of administered pricing. Specific expectations in the report include the elimination of appurtenance clause conditions on timber that specify harvested timber must be produced in the region the logs were harvested and the basis for province by province countervail revocation by monitoring independent provincial pricing systems to ensure that the tenure allocation is market based. In attempting to determine whether any modifications to administered tenure have achieved market-based prices two specific tests have been developed. The first listed in the report involves a standard regression analysis that would make use of market prices gathered from competitive auctions to predict prices for timber on non-auctioned lands, while the other consists of a residual value calculation that would back out harvesting and hauling costs from competitively sold logs to derive a market price for standing timber. The tests address the two most contested issues surrounding the dispute - the U.S. requirement for forest tenure that responds to signals from the market and Canadian claims that significant savings must be awarded to harvesters to mitigate transportation costs.

The concept of a competitive market based system is likely to garner the most significant attention from Canadian interests. The proposal requires a fundamental change to the Canadian tenure allocation process. The Canadian argument has consistently been that as long as a "fair-market" value is achieved, even through administered pricing policy, then the requirement for a market based system is moot. During debate on the British Columbian Speech from the Throne an MLA of the Liberal caucus commented on changes to the forest industry by stating "[f]orest reforms will diversify tenure, provide for market-based stumpage, elimination of waterbedding, cut controls and appurtenance requirements all improving the industry's ability to compete."¹³ However, as was found previously, market-based stumpage is difficult, if not impossible, to attain as Canadian lumber producers are insulated from market signals because rents are paid as the timber is harvested and not collected when the license is allocated. The removal of risk means the Canadian system is not reacting to market signals. The tests outlined in the Aldonas Report

13. See Chutter, "Official Report of Debates of the Legislative Assembly: Hansard" Legislative Assembly of British Columbia (13 Feb. 2002 Afternoon. Vol. 11 No. 4).

14. The pine beetle attack effects 100% of the Prince George Forest Area, 90% of the Quesnel Forest Area, and 70% of the Williams Lake Forest Area. The Cariboo Lumber Manufactures

appear to be a significant move to attempting to determine the cost of standing timber and attempting to accomplish the goal of developing an administered pricing policy that is capable of responding to the market.

The discussion regarding transportation requirements and terrain difficulties as the rationale for administering tenure pricing is insubstantial. The provincial governments are adequately equipped to undertake the process of transportation infrastructure creation in the province. Experience and economies of scale methodology would perpetuate the notion that the provincial government is best suited to build the necessary transportation network of access roads and, therefore, should focus on receiving full remuneration on timber sales and providing the necessary road infrastructure.

The Canadian principle of internalising environmental externality costs to forest harvesters, as a means of sustaining public land by allocating long-term tenure, is valid. Yet the process of allocating long-term tenure does not inherently imply that a competitive bid process cannot attain the same goal. There is no justification for the tenure being administered rather than competitively bid upon. There is some consternation on the part of the U.S. which believes that long-term tenure inhibits entry and exit into the market. However, one of the core principles of the Aldonas report states:

- [T]he Department is... aware that sales of standing timber are an integral part of any government's broader forest management objectives. The Department intends to ensure that the Department's policy guidance and the methodology it applies do not inhibit changes in provincial forest practices that are consistent with sustainable forestry, as long as those practices do not confer a competitive benefit on Canadian lumber producers.

The possibility exists that a change permitting the flexible transferability of forest tenure will satisfy U.S. demands for the removal of entry and exit barriers to the market.

The second significant change to Canadian softwood lumber practices involves the removal of the appurtenancy requirements. The limitation of competition for lumber processing would be removed, satisfactory to U.S. demands. However, some significant considerations still need to be addressed. Permitting the transfer of raw timber across jurisdictions could increase the spread of biological wood diseases, such as the pine beetle in northern British Columbia which has been depleting northern British Columbian forests. The appurtenance

Association (CLMA) and Council of Forest Industries (COFI) held a workshop for civic politicians, that I attended, to express the environmental damage caused by the pine beetle, which kills trees leaving them unmerchantable and destroys the natural habitat.

clauses were initially created to stimulate regional growth through job creation. The clauses are also useful in restricting the transportation and spread of pine beetles from destroying an exorbitant amount of natural forest. Nevertheless, with strict environmental guidelines in place to restrict the transport of infected raw timber the only concrete fear to be addressed is the loss of Canadian jobs as raw timber heads across the 49th parallel to be processed in the United States.

From an economist's perspective, the determining factor in considering opening up raw timber trade is the concept of comparative advantage. If the United States is indeed the most cost-effective softwood lumber producer, it should undertake the role of primary producer and Canada should readjust its focus on an industry in which a comparative advantage exists. An alternative view is that, upon removing market and administrative frictions between the two nations, Canada could succeed in proving its strength in softwood lumber production. Regardless of which nation truly has a comparative advantage, the benefit to the world economy, in the language of the Ricardian theory of trade, would be the gains from trade captured by the two nations specializing in their respective market strengths.

However, continued negotiations should not be one-sided. The restrictions the U.S. places on Canada to undergo significant changes to its tenure practices should be reciprocated and matched. The United States should also lower the cost of production by undertaking structural changes to ensure its timber supply is open for harvesting, alleviating the upward pressure on U.S. domestic prices.

The Aldonas discussion paper has ushered the softwood lumber dispute into a new era. The previous political, policy-oriented, and judicial nature of the dispute have overshadowed the economic difficulties and system friction that exist between Canada and the United States. However, the Canadian lumber industry is still forced to undertake a significant decision and the Aldonas proposal is the catalyst for further discussion. Should the Canadian lumber industry pressure the provincial governments for change in the allocation of forest tenure or to continue the battle with the United States in the hopes that preferential treatment will eventually go undetected? Hopefully, the industry will realise that, with additional negotiation on the matters of U.S. timber supply and the need for international environmental standards, the world's economy would be better served by Canada's shift to a market-based softwood tenure system.

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