

# STRUCTURAL BUILDING COMPONENTS MAGAZINE

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## The Dispute That Refuses to Die

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A Summary of the Softwood Lumber Dispute Prepared for a Media Seminar  
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*A look back at the history of the Canada-United States Softwood Lumber Dispute  
and what the future holds for the lumber industry and component manufacturers.*

The ongoing softwood lumber controversy is the longest running and most contentious in the entire history of Canada-U.S. trade relations. I welcome the opportunity to illuminate the issues in this 200-year old dispute that refuses to die.

My objective is to summarize the issues underlying the Softwood Lumber War, basing the analysis on a career-long interest in it. In 1962, I was part of a delegation of five Canadians who appeared before the U.S. Tariff Commission hearings examining the softwood trade. Since then I have been involved continually in the dispute. In 2001, I completed an extensive archival history of the lumber controversy.

My remarks will reflect that same historical context, apart from which it is impossible to understand the roots of discord, let alone discern a way between the horns of the dilemma we now face as neighboring sovereign nations. First, I'll summarize the dominant issues raised by the Coalition for Fair Lumber Imports (CFLI) since 1982. Then I'll relate these issues to the central core of the dispute, namely the saw timber deficits across the United States. Finally I'll offer my view of appropriate responses in both countries.

## MARKET SHARE

Canada's share of the U.S. softwood market in 1962 was 12 percent, which was claimed to be excessive at that time. The U.S. Tariff Commission disagreed emphatically, pointing the finger at the relative shortages of saw timber in the U.S. and the resulting higher delivered wood costs to U.S. sawmills. That was very good news at the time to U.S. consumers who were interested in stable supplies at reasonable prices. The millions of lumber users were of course in favor of free trade.

By 1995, the import share had tripled to around one third due to an increasing gap between available saw timber supply and lumber consumption.

Then with total disregard for the timber deficit, efforts were mounted to shut down federal and state forests, for landscape/environmental concerns. The efforts to de-log the public forests were about 90 percent successful. This was a body blow to sawmills in the U.S. West, removing some 50 million m<sup>3</sup> (21 million MBF) in annual log supply and destroying many forest-based

communities. That is equal to the combined softwood production of Washington, Oregon, Idaho and Montana. That loss of raw material was a giant migraine headache for their sawmill industry. Canadian provincial forest policies had nothing whatever to do with the American shortfall in saw timber supply. Their sawmills simply moved into the market vacuum created by American forest policies.

## **ALLEGED STUMPAGE SUBSIDY**

Canada's stumpage charges for standing timber are usually, but not always, less per m<sup>3</sup> than in the U.S. Why? Because our forests are more remote, cost more to harvest, and carry expensive burdens for road building and reforestation items that are not usually charged to companies logging federal timber in the U.S. The U.S. Department of Commerce (DOC) ignores this evidence and adopts the case contrived against our provincial forest managers:

- The DOC charges that provinces sell timber at less than its market value, and thereby subsidize Canadian sawmills.
- Commerce based this allegation on a discredited cross border stumpage comparison, insisting, for example, that a cubic meter of logs in Prince George, BC should carry the same stumpage as a cubic meter in Pine Hill, AL, regardless of timber specifications and costs.
- Their method of cross border comparisons has now been declared illegal by the WTO. Using the same reasoning, the previous Administration had refused to use the comparisons in earlier countervail charges against Canada.
- In addition, in 2002 the DOC knowingly used an obsolete conversion factor for translating cubic meter to board feet log scale, thereby elevating U.S. stumpage costs relative to those in Canada. Correction of these two egregious errors would completely undermine the protectionist case for a countervail duty.

To cap it off, the CFLI has the temerity to suggest that our provinces adopt the U.S. Forest Service system of bidding on federal timber sales. But that bidding system is broken. It is notorious for below-cost timber sales. At last count it was costing U.S. taxpayers an amount nearing U.S. \$1 billion annually in subsidies to American sawmills. The largest of these subsidies are in fact enjoyed by lumber producers in Montana, Idaho, Washington and Oregon.

## **THE CENTRAL CORE OF THE DISPUTE**

The real problem faced by U.S. sawmills is that the U.S. lumber producers obviously have a massive saw timber shortage. Their supply is deficient in three ways. One is inadequate volume of saw logs, in every region. The second is lower overall timber quality for lumber products, in several regions and especially the U.S. South. Third is the relatively higher cost of purchasing logs than in Canada. They simply are not competitive in terms of saw timber supply and cost. That is the real reason they complain about Canada's position with respect to market share. Availability of saw logs, in terms of volume, cost and quality—without any question, that has been the central core of the softwood dispute over the last 200 years.

That is precisely what the U.S. Tariff Commission found to be the case in 1962. They put their finger squarely on the problem in this perceptive finding: "The most important cause of the

increased imports is the rapidly rising price of timber and purchased logs. Underlying this development is the limited commercial availability of softwood timber in the United States, particularly of saw timber size, and the resulting intense competition among buyers of such timber.”

The unbroken record of saw timber depletion continued apace long after World War II. Dale Bosworth, the Chief of the U.S. Forest Service noted that the National Forests had been contributing up to half of the prime saw logs used by American sawmills in the 1980s, compared to about five percent today.

Why is there a lumber surplus today? Four factors have combined to obscure the underlying and longer term trends:

- The erosion of 15 percent of traditional softwood markets by substitutes.
- The recent flood of lumber imports from outside North America.
- The repatriation of logs previously shipped in raw form to the western Pacific.
- Scores of American sawmills have been scrapped, but the remaining ones now have a combined capacity six percent higher than in 1997.

This increase in U.S. softwood capacity has been documented in a recent study by Henry Spelter and Mathew Alderman who work with the U.S. Forest Service in Madison, WI.

Again, none of these factors were caused by the Canadian softwood lumber producers. First, substitution arose in large part as a response to the smaller size and lower grade of logs available to U.S. sawmills, and to erratic and unpredictable lumber prices. Second, offshore suppliers simply geared up to fill gaps in the supply of high quality framing lumber, brought on by two decades of efforts to exclude Canadian lumber, and by the increasing gap between U.S. saw timber supply and consumption. Third, the collapse of log exports to the Orient was unforeseen by most observers. Perhaps we should look carefully at the current pattern of degradation of forests around the western Pacific Rim, and then ponder the prospect that a higher volume of log export flows might well resume from the west coast in another few years. Fourth, the more efficient Canadian lumber industry can hardly be blamed for the smaller size of U.S. mills relative to competitors elsewhere, and the failure of the latter to keep abreast of technology.

## **IS THERE A SOLUTION?**

For Canadians, in my view the short run strategy is crystal clear. It is imperative that we persist in the two-track approach of jointly examining the issues, but with an unrelenting commitment to the goal of free trade in forest products. While doing so it is vital that we persist in the appeals process through the WTO and NAFTA panels.

Canada has already seen very significant WTO declarations supporting our position, first with the finding that the USDC cross-border stumpage comparisons are illegal, and second that the Byrd Amendment is contrary to U.S. obligations under international trade law. We expect that the CVD deposit rate will be sharply reduced or eliminated altogether. It would be foolhardy to

throw away these gains, knowing full well that we will need them to counter the next round of protectionism.

At the same time, we must redouble our efforts to support our natural allies across America who remanufacture, distribute and consume softwood lumber. We have been slow and ineffective for a number of years but have improved markedly in recent months.

Then the provinces must get their own houses in order, by removing foolish regulations on timber licensees, such as cut control limits that force extra lumber volumes on a sloppy market.

For the longer term, there is also essential work that can best be done in concert. For example, a joint Canada-U.S. timber supply outlook task force is long overdue. Such a task force, done under the leadership of impartial experts in both countries, would go a long way to document supply trends on both sides.

In these circumstances, a tariff on Canadian lumber is myopic and reckless. Barriers to imports simply worsen the U.S. domestic timber supply-demand gap by depleting domestic forests even more quickly. They also raise lumber prices paid by consumers, and ensure that the market erosion by substitutes will be even more pronounced. And they provide a marvelous opportunity to offshore competitors, those who face no tariffs on exports into the North American marketplace.

Finally, we need to develop a joint marketing strategy that will benefit producers in both Canada and the U.S. Here is an opportunity to combine our efforts constructively rather than waste energies in a trade war.

## **THE FINAL CAVEAT**

History has one paramount lesson for us in this dispute. There have been some 30 odd tariffs on Canadian lumber since 1789. The current 27.2 percent barrier is even higher than the globally hated Smoot-Hawley levy in the 1930s.

CFLI will never walk away from this fight. They have many friends in Congress, as they have had for two centuries, and protectionism for them has become a way of life.

This is not just a political game where the Canadian lumber sector might hope for lower government taxes, or less regulation to bail them out. The provincial and federal governments cannot save us from substitution, or from offshore competition. Instead, this is an economic game, one in which our sawmill managers must, as individuals, design and then remold their own destinies.

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## U.S. Value-Added Wood Products Alliance Position

The Department of Commerce (DOC) and the U.S. Trade Representative (USTR) must get all parties back to the negotiating table. A permanent resolution to this dispute is the only solution where the breadth of the North American softwood industry and its customers—the U.S. value-added wood products industry—both win.

The DOC and the USTR must ensure that Provincial Reforms are able to be implemented quickly and there is a date certain for all provinces to complete implementation.

Without a rapid resolution, unintended consequences are certain. For Canadian value-added companies this means a competitive advantage, for US value-added companies this means a competitive disadvantage. This competitive advantage disparity will escalate over time.

The DOC and the USTR must require that the U.S. Value-Added Wood Products Alliance has representation on any North American Council or Commission that is created within this negotiation process. We believe that our group can have a significant and positive impact on growing wood markets for the North American forest products industry.

Many thousands of U.S. jobs depend on a reasoned approach to this issue—we must get beyond the rhetoric and achieve a solution that reflects the best approach for all U.S. workers and their families.

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