Volume 3 Number 1, 2002/p.29-45 esteyjournal.com

The Estey Centre Journal of
International Law
and Trade Policy

Economics of the US–Canada Softwood Lumber Dispute: A Historical Perspective[1]

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This paper reviews the U.S.–Canada softwood lumber dispute over the past two decades by outlining the key developments and critically appraising the arguments put forward by both countries. It also presents a welfare analysis of lumber trade distortions. Given the importance of lumber trade between Canada and the United States, an expeditious resolution of this long–running trade dispute would be beneficial for both countries.

Keywords: antidumping and countervailing duties; lumber; trade distortions; welfare.

Nature of the Trade Dispute

As trade between the United States and Canada has grown over the past decades, the dispute over softwood lumber trade has always been the most contentious of the disputes that have arisen, eluding a permanent solution. At the heart of the dispute lie ownership of forestlands and the approaches to forest management in the United States and Canada. The difference between the two countries in the ownership of forestlands presents a serious problem in the dispute. Almost 94 percent of Canadian timberlands (Canada, 1996) are publicly owned compared to 42 percent in the United States. The management of lumber production and timber supply in Canada is very different from that in the United States both in terms of determining the fees for harvesting public forestlands (stumpage fees) and land tenure. These differences along with marketing and trade practices in softwood lumber products form the basis of arguments and counter-arguments for and against "free trade" of lumber products between Canada and the United States.

Since 1982, U.S. softwood lumber producers have sought some kind of remedial actions by the U.S. government either (i) to force some Canadian provinces to change their forest management practices or (ii) to restrict trade in Canadian lumber products. Lumber producers in the United States argue that forest management practices in certain provinces constitute subsidies and that imports of such "subsidized" lumber products from Canada are a cause of material injury to the U.S. softwood lumber industry. The Canadian government and industry have always argued that their forest management practices and pricing policies are not trade distorting and hence do not qualify for any punitive actions by the United States (Griffith et al., 2001). They have also pointed out that differences in land tenure and forest management policies in Canada and the United States, which are also recognized by the U.S. government (Gorte and Grimmett, 2001), make comparison between the two systems difficult. Given the economic importance of softwood lumber trade between the United States and Canada, which is estimated at U.S. $7.3 billion annually, this trade dispute has drawn a lot of attention at academic, industry and policy levels.

This review article presents a historical perspective of the economics of the U.S.–Canada softwood lumber trade dispute over the last two decades. We examine how the same arguments and counter-arguments related to production structure and supply management of an industry can lead to different conclusions about a trade regime.

By analyzing the arguments of various stakeholders on both sides of the dispute and drawing on analysis in international trade, we provide conclusions based on the welfare economics of trade distortions.

History of the Dispute

Softwood lumber trade between the United States and Canada has never been very smooth. Some level of tariff and non-tariff barriers has always resulted from these trade disputes. Although the disputes over Canadian lumber imports predate the Canada–U.S. Trade Agreement (CUSTA), they did not take their present forms until 1982 when the U.S. lumber industry petitioned the U.S. government to impose tariffs against Canadian softwood lumber imports under the provisions of U.S. countervailing duty law. Even within the framework of the North American Free Trade Agreement (NAFTA), these disputes could not be resolved. Since 1981 there have been four lumber disputes, titled as Lumber 1 through Lumber IV. The following is an overview of the history of these disputes.

Lumber I (1981)

The current dispute began when the U.S. lumber industry, supported by a group of members of the United States Congress, submitted a petition asking the U.S. Department of Commerce and U.S. International Trade Commission (ITC) to investigate lumber imports from Canada for the possible imposition of a countervailing duty (CVD). According to the provisions of a U.S. trade law (U.S. Government, 1974), if the Department of Commerce determines that imported goods from a foreign country are directly or indirectly subsidized and the ITC concludes that such subsidized imports have materially injured a U.S. industry, a CVD equivalent to the calculated level of the subsidies can be imposed on imported goods.

The dispute culminated with the first CVD petition by a group of U.S. producers against Canadian subsidies (subsidies are prerequisite for establishing CVDs) on lumber production, alleging that various forest management policies in certain Canadian provinces, particularly British Columbia, Alberta, Ontario and Quebec, were providing subsidies to the Canadian manufacturers, producers and exporters. On the basis of the allegation by the U.S. producers, the ITC found preliminary evidence of injury to the U.S. lumber industry (Gorte and Grimmett, 2001). However, after a full investigation, which focused on the stumpage programs in different Canadian provinces, the International Trade Administration (ITA) of the Department of Commerce concluded in 1983 that the amount of subsidies was *de minimis* meaning it

was less than 0.5 percent. They also ruled that Canadian stumpage programs did not amount to countervailable subsidies (U.S. Federal Register, 1983).

The basis for this conclusion, according to Lindsey et al. (2000), is that Canadian stumpage fees are not specific to any industry or group of industries. Rather, they are applied to a wide range of different businesses, such as the lumber and wood product industries; the veneer, plywood, and building board industries; pulp and paper industries; and furniture manufacturing industries. The Department of Commerce further noted 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 standing timber throughout the United States and Canada" (U.S. Federal Register, 1983). The Department of Commerce finally concluded that the Canadian system constituted "a reasonable method of establishing stumpage prices" which "do not vary significantly from U.S. prices" and in some cases "the Canadian prices may be higher" than the U.S. prices (ibid). On the basis of that conclusion the Department of Commerce ended the first CVD investigation. The decision by the Department of Commerce was also upheld by the U.S. Court of International Trade (Lindsey et al., 2000).

Lumber II (1986)

Using the modified interpretation of U.S. countervailing duty law based on a 1985 court decision as to the definition of an industry (U.S. Federal Register, 1986), the U.S. lumber producers again petitioned for CVDs on Canadian softwood lumber imports. The U.S. producers, citing a previous court ruling related to certain imports from Mexico as a favorable precedent, asked the ITA to reverse its previous finding on Canadian lumber subsidies. This time a Department of Commerce investigation found that the Canadian stumpage programs were indeed countervailable and conferred a weighted average subsidy of approximately 15 percent *ad valorem* to lumber producers by Canada.

This preliminary finding by the Department of Commerce was based on the new way of treating forest product industries (such as the wood product industry and the pulp and paper industries) as a "single industry" because of their vertical integration. The economic foundation of that "treatment" was, however, contested by, among others, Percy and Yoder (1987) and Gange (1999). The ITC also reconfirmed its previous decision of preliminary evidence of injury to the U.S. industry by the Canadian stumpage programs (U.S. ITC, 1986). However on December 30, 1986, the day before the case went into final phase, Canada entered into negotiations with the

United States and concluded a Memorandum of Understanding (MOU) concerning Trade in Softwood Lumber Products between the United States and Canada which regulated bilateral trade in lumber products until 1991.

The 1986 MOU

Pursuant to the MOU, the government of Canada agreed to impose 15 percent export duties on Canadian softwood lumber products exported to the United States. The level of duties was set to coincide with the Department of Commerce's preliminary determination of a 15 percent countervailing subsidy which was not imposed following the signing of the MOU. The MOU also provided that the Canadian provincial governments could reduce and/or eliminate the 15 percent export tax by implementing so-called replacement measures, defined as increased stumpage fees for harvesting timber from publicly owned forestlands, within five years (Gorte and Grimmett, 2001). As most of the provinces, including British Columbia and Quebec, substantially increased the level of stumpage fees and other charges, and also made substantial changes in forest management policies that the U.S. government accepted as replacement measures for export taxes, Canada terminated the MOU in 1991.

Lumber III (1991)

In response to the termination of the MOU by Canada, the U.S. Trade Representative (USTR), in accordance with the provision of section 301of The Trade Act of 1974, self-initiated an investigation pending completion of a new CVD investigation by the ITC and the ITA. Under the provision of the act, the USTR can investigate and respond to, with a broad range of feasible actions, foreign trade practices which are found to be illegal, unreasonable, or discriminatory, and burdensome to the U.S. interest (U.S. Government, 1974). The USTR found that forest management programs in British Columbia, Alberta, Ontario and Quebec and *log* export restrictions from Canadian timberlands conferred countervailable subsidies. As a result, the U.S. government also imposed a temporary bonding requirement on lumber imports from Canada. In 1992, the ITA initially determined Canadian subsidies equivalent to 14.48 percent *ad valorem;* this determination was followed by the final imposition of a 6.51 percent *ad valorem* tariff on Canadian lumber imports. That decision was also confirmed by the ITC as a remedy towards the U.S. industry (U.S. ITC, 1992).

This was one of the first CVD cases in which the U.S. government imposed trade restrictions after the signing of the Canada–U.S. Free Trade Agreement (CUSTA) in 1988. The Canadian government challenged the U.S. decision under chapter 19 of CUSTA, which provides for the binational dispute settlement procedures. The order of the binational panel asked the ITA for further examination of their findings, which again determined 11.54 percent *ad valorem* subsidies (U.S. Department of Commerce, 1992). The panel remanded the ITA decision a second time and asked the ITA to reverse its decision on subsidies. The ITA finally complied with the order of the binational panel and terminated the CVD order.

Under the provision of Article 1904 of chapter 19 of CUSTA, the USTR requested that an Extraordinary Challenge Committee be set up to review the binational panel's decisions, alleging conflict of interest on the part of two Canadian panelists. Though the majority of the challenge committee voted in favor of Canada, it was dismissed in 1994. After extremely contentious trade litigations, according to the decisions of the CUSTA panel and the Extraordinary Challenge Committee, who found that Canadian stumpage fees and *log* export restrictions were not countervailable subsidies, the Department of Commerce terminated the countervailing duty order in 1994. As a result, all countervailing duties tentatively paid by Canadian exporters, which amounted to U.S. $800 million, were refunded by the United States (Lindsey, 2000).

In response to the cost of trade litigations both in terms of money and time, a consultative process including representatives of the softwood lumber industries and governments of both countries was established. Two developments in 1994 induced the negotiation of a managed-trade regime in lumber products between Canada and the United States. First, the U.S. lumber industry challenged the "constitutionality" of the CUSTA review process, which was not legally binding on the United States. Second, the U.S. Congress, in ratifying the Uruguay Round Agreement (U. S. Government, 1994), explicitly approved the President's "statement of administrative actions", which stated that because of forest management practices in Canada, lumber imports from Canada could be subject to a CVD. After a lengthy and difficult negotiation, both the U.S. and Canadian governments agreed to establish in principle a restricted trade regime governing imports of softwood lumber products from Canada.

The U.S.–Canada Softwood Lumber Agreement (SLA)

In 1996, in an attempt to achieve stability and also to resolve this major bilateral trade problem at least temporarily, the United States and Canada formulated the SLA, which aimed at restricting Canadian lumber exports to the United States for five years

beginning on April 1, 1996 (SLA, 1996). The agreement capped Canadian duty-free exports at 14.7 billion board feet (bbf) of softwood lumber products from British Columbia, Alberta, Ontario and Quebec. This quantity was substantially lower than 16.2 bbf, which was the level of exports from those provinces in 1995. The SLA also provided that after reaching the 14.7 bbf duty-free exports level, additional exports of softwood lumber from Canada would face a substantial amount of incremental specific tariffs.

The SLA detailed elaborate mechanisms of a managed-trade regime in terms of setting up a "trigger price", quota allocation of the tax-free export amount, customs procedures, monitoring of compliance, and dispute resolution. As part of the agreement, the U.S. government would refrain from pursuing trade remedy actions against Canada under the CVD or other trade laws. During the agreement period, however, there were several disputes over the U.S. reclassification of three processed products within the definition of softwood lumber. The World Customs Organization, upon a Canadian appeal, subsequently overturned this reclassification of lumber products by U.S. Customs. The SLA, which regulated U.S.–Canada bilateral trade of softwood lumber products for a five-year period, expired on March 31, 2001.

In light of difficulties surrounding a managed-trade regime and the costs related to trade restrictions, neither the U.S. nor the Canadian government seemed willing to negotiate another trade agreement involving softwood lumber products. As a result, following the expiration of the SLA, which ended the rights and obligations of both Canadian and U.S. governments regarding lumber products, another round of trade litigation started with the allegation of Canadian "subsidies" on timber production and "dumping" of softwood lumber products into U.S. markets.

Lumber IV

Immediately after the expiration of the SLA, pursuant to sections 702 and 703 of the Tariff Act of 1930, the U.S. lumber industry, represented by the Coalition for Fair Lumber Imports, filed two petitions (Investigation C - 122-839, 2001 and Investigation A - 122-838, 2001) with the ITA and ITC on April 2, 2001. In those petitions, as a remedy against Canadian subsidies and below-cost selling of lumber products in the U.S. market, the coalition asked for the imposition of countervailing duties as well as antidumping duties on Canadian softwood lumber imports to the United States.

In the CVD petition, the coalition alleged that low Canadian stumpage fees and the restrictions on the exports of raw *log* from Canadian public timberlands as well as some other federal and provincial programs conferred a 39.9 percent subsidy to Canadian lumber producers (Canada. Department of Foreign Affairs and International Trade, 2001a). Despite the request by the Canadian government not to consider the case, the Department of Commerce, as required by the U.S. law, initiated the CVD investigation which examined, among other points, (i) the determination of Canadian stumpage fees, (ii) log export restrictions programs, (iii) the Western Economic Diversification program, (iv) the Federal Economic Development Initiative for Northern Ontario, and (v) the Industry, Trade and Economics program of the Canadian Forest Service. The Department of Commerce also examined 13 other provincial programs directly or indirectly related to the lumber industry (ibid).

After a lengthy examination of all these programs, the Department of Commerce found that Canadian softwood lumber exports to the United States were subsidized in the amount of 19.31 percent *ad valorem* and established in August 2001 a preliminary CVD at that level on softwood lumber imports from Canada (U.S. Federal Register, April 2001). The Department of Commerce also established the existence of critical circumstances which would allow them to apply the duty retroactively (U.S. Federal Register, August 2001). In the mean time, the ITC had also issued their preliminary determination that there was "… a reasonable indication that a U.S. industry is threatened with material injury by reason of imports of softwood lumber from Canada that are allegedly subsidized and sold in the United States at less than fair value" (U.S. ITC, 2001).

In international trade, a country can impose a CVD, which is a special duty, on foreign imports in order to protect domestic industry. A CVD is aimed at mitigating injury caused by imports that have benefited from specific subsidies provided by a foreign government. Subsidiesthat are generally available, such as public expenditures on research, infrastructure and development, are not countervailable. An antidumping duty, on the other hand, aims at restricting the import of goods that are sold at prices below those charged for comparable sales in the home market or below the cost of producing the goods. The practice of below-cost selling is called "dumping".

In their antidumping petition, the Coalition for Fair Lumber Imports alleged that the antidumping duty margins on Canadian softwood lumber exports were in the order of 22.53 percent to 72.91 percent (U.S. Department of Foreign Affairs and International Trade, 2001b).

On the basis of the allegation, the Department of Commerce conducted a countrywide investigation in order to determine if Canadian softwood lumber products were sold below home-market prices in the U.S. market. An antidumping duty investigation – unlike a CVD, which usually examines public programs and procedures – concerns pricing behavior of firms in the industry. In their investigations, the Department of Commerce found that certain softwood lumber products of Canada were sold below their fair market prices in the U.S. market. This led them to determine antidumping margins ranging from 5.94 percent to 19.24 percent. However, in November 2001 final antidumping duties were determined at 12.58 percent on certain lumber exports from Canada. The implications of these two findings by the ITC and the ITA of the Department of Commerce were that a combined tariff of 31.89 percent *ad valorem* (19.31 percent from CVD and 12.58 percent from antidumping) would be imposed on all Canadian softwood lumber exports to the U.S. market by as early as May 19, 2002 (ibid).

A chronology of the latest developments in this dispute runs as follows. Following the preliminary determination of subsidy on August 17, 2001, the U.S. Department of Commerce imposed a provisional duty of 19.31 percent in the form of bonds or cash deposits on exports of Canadian softwood lumber products. According to U.S. countervailing duty law, a provisional measure of duty can only be imposed for 120 days, after which the Department of Commerce has to instruct the U.S. Customs Service to lift bonding or cash deposit requirements. The implication of this for the present dispute is that by December 15, 2001, the provisional countervailing duty on Canadian softwood lumber exports was to be removed. So there is a "gap period" running from December 15, 2001 to mid-March 2002 when there are to be no bonding or cash deposit requirements for the Canadian exporters of softwood lumber products (U.S. Department of Foreign Affairs and International Trade, 2001b). After completing the final investigation, the Department of Commerce would decide the amount of countervailing duty on softwood limber imports by the middle of March 2002. However, as for the antidumping duty margin of 12.58 percent, which was determined by the Department of Commerce on October 30, 2001, the bonding or cash deposit requirements would continue through mid-May 2002, by which time the investigation is to be concluded (ibid).

There have also been efforts to resolve the dispute at the government level. On October 16th 2001, President Bush appointed former Montana Governor Marc Racicot as a special envoy to try to broker a settlement of this dispute.

Concerned parties in both Canada and the United States hailed his appointment with the hope that he would be able find a lasting market-based solution to this long-running dispute. At times there was hope for finding a solution by the end of 2001. However, that did not materialize. Mr. Racicot reportedly wanted more time to meet with U.S. industry groups before agreeing to a framework settlement which Canadian Trade Minister Pierre Pettigrew wanted to finalize in order to boost industry confidence. On March 22, 2002, the United States imposed a 29 percent tariff (19.3 percent CVD and 9.7 percent antidumping duty) on Canadian softwood lumber imports. Canadian companies will post bonds for antidumping tariffs until mid-May, when the ITC will rule whether or not U.S. producers are hurt by Canadian lumber imports.

Arguments by the US Industry

There are primarily two issues on which the U.S. producers base their arguments against Canadian subsidies. They are related to (i) the determination of administered stumpage fees and (ii) the restriction of *log* exports to the United States. Stumpage fees are charges that a "license holder" has to pay to a public authority for the right of "land tenure" as well as for "cutting timber". The Coalition for Fair Lumber Imports argues in its representation that the federal and provincial governments in Canada subsidize their lumber industry by setting stumpage fees far below the market value of timber (Ragosta et al., 2000). Low costs of lumber production in Canada resulting from lower stumpage fees, which are administratively set, keep the prices of softwood lumber products artificially low. Exports of such lower-price products can potentially drive competing local products out of markets.

Let us examine the arguments of the coalition against the procedures for setting stumpage fees in British Columbia, which are more or less similar in other provinces. Stumpage fees in British Columbia are determined through what is known as "comparative value pricing". First, an aggregate amount of stumpage that the province wants to collect from the major licensees in a given year is determined. Average per unit rates known as "target rates" are then calculated consistent with the previously determined total amount of stumpage. Although the average stumpage rate varies depending on the quality of timber and is adjusted to reflect the movement of lumber and wood chip prices, the system is fundamentally non-market-based (B.C. Forest Resources Commission, 1991) as noted by the coalition.

The argument here is that since the provincial government starts with a "target rate", which is set administratively, as a price of timber harvesting, the rate does not reflect the real value of the timber harvested. This system of setting an administered price for cutting timber from publicly owned forestlands is wide-spread across all Canadian provinces. It is further argued that as the federal and provincial governments in Canada own 95 percent of harvestable timber (Canada, 1996), even a small cost-advantage for Canadian producers resulting from lower stumpage fees would result in a significant competitive benefit vis-à-vis their U.S. competitors. Besides, the imports of softwood lumber products from Canada compete with domestic lumber products in the United States. Any unfair cost advantage for Canadian producers of softwood lumber would, therefore, have adverse implications for U.S. lumber products. Another comparative disadvantage of the U.S. producers is that publicly owned timberlands in the United States form a relatively smaller portion of total forestlands and stumpage fees are usually high because of timber being auctioned off in a competitive market.

Another major element of the Canadian integrated subsidy system, as claimed by the coalition, is the restriction on exporting logs from publicly owned timberlands (Ragosta et al., 2000). The system prevents non-Canadian producers from acquiring low-priced logs harvested from publicly owned forestlands. Thus this restriction helps to keep costs low only for Canadian producers. Administratively set stumpage fees and restrictions on the exports of raw log provide direct and indirect subsidies, rendering U.S. producers uncompetitive. U.S. producers finally argue that the steady growth in Canadian lumber exports and market share "… from less than 3 bbf and 7 percent of United States lumber consumption in 1952 to 18 bbf in 1998 and a market share of more than 33 percent in 1995" (Gorte and Grimmett, 2001) is also indicative of the Canadian subsidies on lumber production and dumping of softwood lumber products in the U.S. market.

Arguments by the Canadian Lumber Industry

Canadian lumber producers cite three points as explained in Nordhaus (2001) as to why stumpage fees do not constitute countervailable subsidies to softwood lumber producers in Canada. First, Canadian stumpage charges are not "remuneration" for "provision of goods or services" by the provinces. It is, therefore, incorrect as a matter of sound economics as well as law to contend, as the coalition does, that volumetric stumpage charges levied on the tenure holders in return for their rights of timber-harvesting in publicly owned timberlands constitute "prices" for timber.

It has been further explained in Nordhaus (2001) that "…stumpage charges are rent-sharing charges set by the governments in a manner similar to taxes. They are economically equivalent to taxes because they are charges levied on the fruits of an ownership right rather than for goods and services provided." The Canadian industry further argues that as there is no provision of goods and services in return for stumpage fees, the subsidy allegation of the coalition, which is based on a low-price argument, necessarily fails. While Canadian stumpage fees are adjusted to reflect changing market conditions, the U.S. auction system locks up the price over a number of years and may not change to reflect prevailing market conditions, particularly the downturns.

Second, stumpage charges levied by the provinces are consistent with market principles. Citing a ruling by a World Trade Organization panel (Griffith et al., 2001), the Canadian producers argue that stumpage charges do not provide any extra benefit to the softwood lumber industry relative to a competitive market. Even if stumpage charges are erroneously viewed as a "price" for a good or service, the Canadian industry claims that they meet the market-principle test of adequate remuneration set out in U.S. countervailing duty law. That is, the provincial governments' price-setting policies do not result in prices and quantities that would not have prevailed in a competitive market.

Third, the Canadian producers also point out that forest resources management systems, particularly the production and marketing of softwood lumber, in Canada and the United States are essentially different. The principal difference lies in the ownership structure of timberlands. Approximately 95 percent of the softwood timber supply in the United States comes from privately owned forests. The U.S. lumber industry uses much of the timber from its own holdings. The harvesting of softwood timber from U.S. national forests or other public lands, which is determined through a competitive bidding process, is less than 5 percent. By contrast, almost 95 percent of commercial forests in Canada that supply softwood timber are publicly owned. Canadian stumpage fees paid by the lumber industry are set in a way that reflects specific terms and conditions of long-term forest management agreements and timber harvesting licenses, as well as market conditions. These differences in land tenure, sustainable forest management practices and market conditions in the United States and Canada make comparison between the systems difficult (Gorte and Grimmett, 2001).

Arguments Based on Welfare Economics

In a competitive market, tariffs or non-tariff barriers result in what is known as dead weight loss. Some groups will benefit while others will be hurt. In this trade dispute, the imposition of countervailing and antidumping duties on softwood lumber imports from Canada will benefit U.S. lumber producers, who will receive higher prices for more output behind the import barrier. Employment in this sector will be sustained due to increased production in the U.S. lumber industry. U.S. consumers, on the other hand, will be hurt because they will bear the costs of higher lumber prices. Analyzing historical price data from 1980 to 1998, Lindsey et al. (2000) estimated that various trade restrictions such as voluntary export restraint, export quotas, etc. in softwood lumber products were responsible for raising lumber prices by between U.S. $50 and $80 per thousand board feet.

Softwood lumber is the main material used in homebuilding in the United States. According to an estimate by the Free Trade Lumber Council (1999), new home construction accounts for some 75 percent of softwood lumber usage in the United States. As there are few substitutes for lumber products in home building, any increase in the price of lumber would be reflected in the price of new homes. The National Association of Home Builders (2000) estimated that an average increase in the range of $800 to $1300 for a new home would result from the increased price of lumber following various trade restrictions in this dispute.

In terms of consumer and producer surplus, trade restriction always leads to both deadweight loss in consumption and efficiency loss in production (Houck, 1986). These losses arise because of the reallocation of consumers' expenditures and productive resources. In the softwood lumber trade dispute between Canada and the United States, the relative sizes of these losses will typically depend on the magnitude of tariff-distorted price changes of lumber products, and their supply and demand elasticities. Whatever the amount of actual value related to these losses, as long as the tariff-induced price is higher than the free-market price, welfare losses will result. Aggregate welfare for the United States in this dispute, however, depends on the structure of the U.S. market and the amount of tariff revenue it will generate. Because the United States is a large importing country of Canadian lumber, it is conceivable that the tariff revenue can exceed the consumption dead weight loss and production inefficiency.

Conclusion

This trade dispute between Canada and the United States comes at a very difficult time. North American lumber prices are at their cyclical low and there are signs of a slow-down in the overall performance of the industry (Cashore, 2001). Mill closure and job losses are reported on both sides of the border. Both Canadian and U.S. industries have cited this phenomenon as an argument for their respective positions. Because of subsidized and low-priced lumber imports from Canada, the U.S. lumber industry argues, the United States is losing hundreds of sawmill and logging jobs following the closure of many lumber mills. On the other hand, the Canadian lumber industry argues that steep tariff and quantitative restrictions on Canadian imports are responsible for the loss of thousands of forestry workers' jobs in British Columbia and other provinces. Whatever the merits of the arguments, the fact is that the regional lumber industry is in an economic downturn both in terms of output prices and profits. In the background of a North American recession, another trade war involving a vitally important industry like softwood lumber can adversely affect and spill over to other parts of the economies. It is, therefore, critically important to take advantage of the current "gap period" to resolve the issue as currently mediated by U.S. special envoy Mr. Racicot.

An alternative way of resolving the dispute is through the dispute-resolution mechanism of the WTO. Presently a WTO panel, which has been constituted at the request of Canada, is set to examine the dispute. The panel's findings are not expected before September 2002 (Canada. Department of Foreign Affairs and International Trade, 2001c). In order to resolve the dispute permanently, the decisions of the WTO panel need to be binding on both sides of the dispute. Presently the WTO has no ability to enforce its rulings. If a country does not comply with the WTO ruling, the other country can impose sanctions in the form of tariffs against the non-compliant country. In the interest of both countries, it is important to avoid lengthy trade litigations and accept the verdict of a third-party adjudicator such as the WTO.

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Endnote

1. We acknowledge the helpful comments of two anonymous reviewers.