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Political Pressure: An Examination of U.S. Senators' Actions in Restricting Canadian Softwood Lumber Imports

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Abstract

The United States and Canada have had a long running trade dispute involving softwood lumber. The second managed trade agreement expired in 2001 and a number of American senators supported renewing the restrictions on softwood lumber imports thorough various legislative actions and political pressure. An influence index is used to capture senators' actions and a Tobit model is ran to reveal determinants of senators' choice to support the timber industry. Our results show that the importance of forest industry in a state, campaign contributions, logrolling, and past voting record played a role when senators decided whether to signal their support.

Key words: interest groups, lumber industry, political contributions, U.S.-Canada softwood lumber dispute.

As public choice theory predicts, when the benefits of a trade restriction are concentrated and the costs are spread out, the benefiting industry has a much greater incentive to lobby the government and is more likely to succeed (Stigler 1971). Since 1982, the American timber industry has lobbied the U.S. government to restrict imports of Canadian softwood lumber into the U.S. This effort succeeded in securing three restrictive trade agreements in the last 30 years, which brought the industry billions of dollars in economic rents.

This paper examines factors that influenced United States senators' decisions to support renewing trade restrictions on Canadian softwood lumber imports between 2001 when the second managed trade agreement between the two countries was about to expire and 2006 when the third managed trade agreement was signed. We attempt to account for all revealed actions of senators that supported the trade restrictions. Although the trade dispute has never had a congressional vote and negotiations are handled be the administration, congressional pressure has played an important role in securing all these agreements (Zhang 2007). We introduce a lumber influence index to capture all revealed actions, or the amount of political capital that a senator was willing to expend on the softwood lumber issue, and then attempt to determine motivating factors. We demonstrate that such an influence index captures the legislative and political production process with regard to protecting the U.S. timber industry, which was facing stiff import competition from Canada. The next section presents a brief history of the trade dispute, followed by a literature review and an outline of the index and data. The final sections present our statistical results and conclusions.

History

Trade between the United States and Canada has increasingly become less restricted, with a significant exception of softwood lumber (Zhang 2007). The most recent lumber trade

dispute started with the collapse of timber prices in the early 1980s when American producers sought to restrict imports from Canada in order to prop up prices. American producers found it unacceptable that Canadian producers increased their share of the American market while timber prices were falling. In 1982, a group of 350 small American lumber producers, named Coalition for Fair Canadian Lumber Imports, petitioned U.S. Commerce Department claiming that Canadian lumber was receiving unfair subsidies and requested restrictive measures.

In Canada, the provincial governments own the majority of the productive forestland, and have sold timber harvesting rights through various tenure arrangements (Canadian Forest Service 2004). This is in sharp contrast to the United States where over 70 percent of the timberland (productive forestland) is privately held (Smith et al. 2004). American timber companies claimed that they were at an unfair disadvantage since the Canadian tenure holders paid administratively-determined stumpage prices that amounted to a subsidy. After an investigation, the Commerce Department ruled against this coalition determining that Canadian firms were not receiving unfair subsidies. This initial trade dispute is referred to as Lumber I (Zhang 2007).

Soon the issue would be raised again, and Lumber II followed. This time the reorganized Coalition for Fair Lumber Imports (the Coalition) reinitiated the claim that Canadian firms were competing unfairly and requested a new inquiry. The new coalition was greatly strengthened by the participation of several large lumber producers and an industrial trade group, the National Forest Products Association. In a new investigation Commerce Department preliminarily determined that Canadian producers were receiving unfair subsidies and levied a 15 percent countervailing duty on Canadian imports. However, before the final determination was completed and a duty implemented, the United States and Canada signed a memorandum of understanding (MOU) under which Canada would collect an export tax on its softwood lumber.

The MOU lived for about five years. Wear and Lee (1993) determined that under the MOU, American producers received some $2.6 billion, while American lumber consumers paid $3.8 billion, both in 1982 dollars.

Lumber III began in September 1991 when Canada chose to withdraw from the MOU. The United States responded by imposing a temporary duty while it began a countervailing duty investigation. This was challenged by Canada under the Canada-United States Free Trade Agreement (FTA) which became effective in 1989. The FTA panels and subsequent Extraordinary Challenge Committee both ruled that Canadian lumber was not subsidized. Nonetheless, as a result of significant political maneuvering, the two countries signed the Softwood Lumber Agreement (SLA) of 1996 which set up a tariff-rate quota system, again restricting the importation of Canadian softwood lumber to the U.S.

The SLA of 1996 was more complicated than the MOU. The agreement only applied to exported lumber from the 4 major lumber producing provinces, British Columbia, Québec, Ontario, and Alberta, which collectively accounted for more than 95 percent of Canadian exports to the U.S. in 1995. The system allowed the first 14.7 billion board feet of softwood lumber to be exported to the United States fee-free. Subsequent imports were subjected to a tiered system of export fees with a US$50 per thousand board feet fee applied to next 650 million board feet, then a US$100 per thousand board feet fee thereafter. The SLA benefited the American lumber producers for an estimated $2.6 billion and cost American consumers $4.3 billion in 1997 dollars, resulting in a net welfare loss of $1.8 billion to the American economy (Zhang 2006).

The SLA of 1996 expired in March 31, 2001. Soon came the period of Lumber IV as the Coalition petitioned the Department of Commerce for a fourth countervailing duty investigation. This time, dumping was added to the allegation. During this time the incentive for the Coalition

to pursue trade protection had been greatly enhanced by the Byrd Amendment which became a law in 2000. The Byrd Amendment stipulated that duties collected by the U.S. Customs Service, as part of trade dispute cases, could be distributed to the affected industries as opposed to simply going into the U.S. treasury. Unsurprisingly, the Coalition mobilized all possible political forces and generated significant pressure on the administration to secure the SLA of 2006, which is similar to SLA of 1996, and is in effect for the next 7-9 years. Zhang (2007) observes:

> "The Coalition for Fair Lumber Imports is well organized and plays interest group politics better than U.S. consumer groups. Since inception, it has 'owned' some U.S. lawmakers. Usually, at some important juncture of negotiation or litigation, these lawmakers exert pressure on the U.S. administration and Canadians in the form of letters, public hearings, speeches, or legislative actions. A core group of U.S. senators, mostly from the lumber-producing states in the Pacific Northwest and South, plus other senators who exchange political favours with them, have sometimes constituted a voting majority or a significant block that no U.S. president could ignore....Under political pressure and U.S. trade laws, Commerce and the International Trade Commission have arguably used ever-shifting, result-driven methodologies in their respective subsidy, dumping, and injury investigations. Canadians are simply not able to win the lumber dispute when U.S. administrative and independent authorities actively help domestic producers; recall that both Commerce and ITC were repeatedly found by FTA and NAFTA panels to have failed to apply U.S. laws properly."

Literature Review

Often quantitative empirical analysis of legislative production does not cover letters, public hearings, speeches, pressures, or symbolic legislative actions, but specific bills with a

vote. Traditional roll call analysis is typically applied to a single vote, a series of votes, or specific acts and attempts to determine the legislators' motivation for voting in a certain manner. Roll call analysis has been used to examine legislation affecting a wide range of industries. For example, it has been applied to the recent financial bailouts of banks (Main, Sufi and Trebbi 2009), amendments to the Endangered Species Act (Mehmood and Zhang 2001), and agriculture (Welch and Peters 1983). One significant limitation of roll call analysis is it requires a clear vote or action on the issue being examined, and does not fully capture all the politics in the legislative body or the interaction between the legislature and administration, as final voting in legislatures occurs on only a small fraction of bills introduced. The political pressure applied from congress to the administration or bureaucrats has largely escaped the attention of scholars using quantitative methods to study American politics and legislative production process.

One of the exceptions is Zhang and Laband (2005) who applied a roll call analysis to two key senator letters to the U.S. President in this specific trade dispute. Another is Gokcekus and Fisher (2009) who attempted to identify the influence of the cotton industry on the passage of the 2002 farm bill. They created a 'cotton influence index' that categorized support based on voting, participation in the legislative process, and speeches. Following this line of research, we argue that, legislative involvement and influence on trade policy has often gone beyond the passage of specific laws. Involvement can be indicated by issue-driven inquiry, oversight, attendance, speech, hearing, letter-writing to key administration officials, negotiating behind scenes, and sponsoring or cosponsoring bills that are unlikely to pass but nonetheless exert political pressure. Thus, there is a need to measure and analyze the full extent of legislative involvement in the production process.

We further argue that all forms of legislative actions are driven by legislators in pursuit of their self interests, and that whether or not a legislator will participate in or take such actions depends on the availability of economic and political rents. This is in line with the special interest theory model of public choice (Buchanan and Tullock, Stigler 1971, Kreuger 1974, Becker 1983). Under this model, interest groups demand, and legislators (government officials) supply, special favors or rents. In recent years, this model has received better empirical support than the public interests theory of government. Thus, all forms of legislative actions can be studied qualitatively as well as quantitatively by looking at the demand-side and supply-side factors of these actions.

Empirically, an influence index similar to the Cotton Influence Index (Gokcekus and Fishler 2009) may be the best way to capture a wide-range of legislative involvement and production process when a formal vote does not exist. The Senate was used for this study primarily due to the fact that the U.S. timber industry succeeded in applying pressure through the Senate Finance Committee in 1986—on whether to grant the President the fast track authority to negotiate what has become the FTA—to get a concession and commitment of the President to solve "the timber" issue (Zhang 2007).

Hypothesis and Data

For the purpose of this study a list of 14 activities are analyzed to determine whether Senators signaled their support for trade restrictions for Canadian softwood lumber between 2001 and 2006. These activities varied in their importance, but generally fell into 3 categories: sponsorship or co-sponsorship of legislation, endorsement of letters sent to administration officials supporting the position of American timber industry, or hearings and statements made

on the Senate floor. These activities formed the bases of our Forest Industry Influence Index (FIIX) and are listed in table 1.

Of the 14 activities, 6 were speeches or statements in the Congressional Record, 3 were legislation, and 5 were letters to the President and key officials of his administration. Of these actions, statements were considered the weakest, and received a score of '1' on the index. The statements are symbolic which may have little bearing on actual events that are often performed for the benefit of constitutes (Hill and Hurley 2002). Nonetheless, these statements provided a tangible action a Senator can use to satisfy the demand of a lobby group, without much of a political cost.

A more forceful form of action is the introduction of resolutions and bills in the Senate. One such resolution included in the FIIX is Senate Concurrent Resolution, S. Con. Res. 8 of 2001, which expressed the view of the sponsoring Senators on the softwood lumber dispute. A concurrent resolution is not considered to be true legislation since it does not require a presidential signature and will not become law. But a concurrent resolution is a tool used by the Senate or the House of Representatives for "expressing fact, principles, opinions, and purposes" (White 1941) and is a symbolic political action. Our FIIX also cover two senate bills. One was S. 219 of 2003, which was an amendment to the Tariff Act of 1930 and dealt with specific technical aspects of determining foreign subsidy that is directly related to softwood lumber. The second bill, S. 2992 of 2004, attempted to distribute duties collected from Canadian exports to the American timber interest in accordance to the Byrd Amendment. Both bills were referred to the Finance Committee, where they languished. These resolutions and bills are a stronger form of statement that is intended to influence political and administrative action, even though they

have not become laws. For the FIIX, sponsorship of a resolution received a score of '3', and co-sponsorship received a score of '2'.

The final form of action included was letters sent to officials involved in the trade negotiation. This is another forceful action that Senators could take, and would directly express the Senators' view to administration officials. Senators used these letters, which were sent to the President, Commerce Department officials, or U.S. Trade Representatives, in order to express a desire for action to be taken, and relay how important the softwood trade issue was to them. In a 2002 letter sent to the Secretary of Commerce, Donald Evans, and the United States Trade Representative, Robert Zoellick, 13 Senators expressed their strong desire to see the Bush administration 'vigorously and publicly defend' the Department of Commerce determination that Canada was dumping timber on the U.S. market (Bacus et al. 2002). By directly connecting administration officials, Senators are taking very strong action that signal their feeling on the trade issue. There was a total of 5 letters included in the FIIX, and Senators participation in these letters received a score of '2'.

Since the FIIX looked at the 106th, 107th, and 108th Congresses there was a total of 111 Senators serving doing this period. The FIIX ranged from 0 to 23, with a mean of 3.126 and a standard deviation of 4.206. Table 2 groups the FIIX into quartiles and list the corresponding mean campaign contributions. There is a clear relationship between the FIIX score and the amount of campaign contribution a Senator received from the forest industry, although the detailed relationship requires statistical analysis.

FIIX is our dependent variable, and we have looked at 8 explanatory variables in this study, 3 on the demand-side, and 5 are on the supply-side. The first demand-side variable is wood products as a percentage of state domestic products, which is used to account for how

important the timber industry is to each state. The next is campaign contribution from the forest industry, which accounts for the intensity of demand from the forest industry. The final demand-side variable is the campaign contributions from the housing industry, which counters the lobbying efforts from the forest industry. The housing industry is the most important consumers of timber products and could attempt to influence policy if it feels timber prices are too high. We used the total amount contributed by each industry for the 2000 through 2006 election cycles, using 2000 as the base year for indexing purposes (Center for Responsive Politics 2009).

Our supply-side variables include party affiliation, ideology, and the possibility of engaging in logrolling. The variable party is assigned to '1' for Republican senators and '0' otherwise (table 3). We approximate an ideology measure by using the Cato Institute's "Free Trade, Free Markets: Rating Congress" website and coding a Senator as opposing or not opposing barriers and opposing or not opposing subsides. Senators were coded a '1' in opposing trade barriers if over the course of their careers they voted against barriers at least 50 percent of the time. We used the same approach to define our subsidy variable. In the Senate, the Finance Committee is in charge of trade related issues. The resolution and bills were referred to the Finance Committee, where several of its members were vocal about the softwood trade issue. If a Senator served on the Finance Committee during any of the three congresses examined they were coded '1' and '0' otherwise. Finally, the variable *Border* is used as an approximation of other trade conflicts with Canada. States bordering with Canada often produce similar products with neighboring Canadian provinces—whether it is wheat and cattle in Montana and North Dakota, steel products in Pennsylvania and Ohio, auto parts in Michigan, forest products in Washington, Idaho, or Maine, or media products in New York. Over the years, when the U.S. has had trade disputes with Canada in wheat, auto parts, forest products, and printing media

products, Senators from these states might ask Senators from other states for their political support. In the case of the softwood lumber dispute, it seems plausible that Senators from these states will be supportive of the U.S. lumber industry, even though these states may not be large lumber producers. The *Border* variable serves as an indicator of logrolling in the U.S. Senate and is expected to have a positive sign (Zhang and Laband 2005).

Empirical Findings

The summary statistics are listed in table 4 and regression results in table 5. The Mckelvey & Zavoina's R^2 is the preferred measure for goodness of fit for a Tobit model (Veall and Zimmerman 1994). This model displayed a Mckelvey & Zavoina's R^2 of 0.463, indicates that it fits well.

The importance of the wood manufacturing as measured as a ratio of wood product manufacturing to state GDP was significant at the 1 percent level with a positive coefficient implying that an increase in the importance of the wood product manufacturing industry leads to an increase in senators' willingness to the support trade restrictions. The amount of campaign contributions a Senator receives from the forest industry and home building industry had opposite (positive and negative) signs and were statically significant at the 5 percent and 10 percent level respectively. More interesting is that the magnitude of the coefficients of both variables is almost the same. This indicates that a clear correlation between the source of campaign contributions and a Senator's stance.

Other significant variables are border and opposition to subsidy. The former is a variable that represents log-rolling. A positive sign in this variable indicate that logrolling did occur in the softwood lumber case. The variable for opposition to subsidies ends up being significant at the 1 percent level, but with a negative sign. This implies Senators with a history of favoring subsides

ranked high on the FIIX. This is interesting since support of trade barriers ended up being insignificant. The findings make sense as the softwood lumber dispute involves an indirect subsidy to the timber industry through trade restriction measures. The timber industry received large economic rents from the previous agreements with Canada. Also it had the prospect of directly receiving payments from the duties collected under the Byrd Amendment.

Concluding Remarks

In the absence of a specific softwood lumber bill or amendment, we constructed a lumber influence index to capture Senators' actions and participations in the latest round of the U.S.-Canada softwood lumber trade dispute. Our results show that Senators prefer to support trade restrictions when the industry in their state is large in size, that the sources and amount of money they received in campaign contributions matter, and that the senators' ideology is an influencing factor. While special interest theory may explain why U.S. lumber industry has been winning the softwood lumber war in the last three decades, our results show a detailed linkage between industry campaign contributions and senators' political actions. The policy implication of this study is that free trade in softwood lumber or any other goods and services could be greatly enhanced when the money trails is broken or restrained.

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Table 1. Events included in the Forest Industry Influence Index

Event	Date
Sen. Con. Res. 8	7 February 2001
Letter to President	16 March 2001
Letter to Commerce	30 November 2001
Speech	19 December 2001
Letter to ITC	15 March 2002
Letter to Commerce	20 September 2002
Letter to USTR	1 November 2002
S.219	28 January 2003
Statement in Congressional Record	7 July 2003
Statement in Congressional Record	10 May2004
Statement in Congressional Record	11 May 2004
Statement in Congressional Record	19 May 2004
S.2992	17 November 2004
Statement in Congressional Record	24 January 2005

Source: Zhang (2007) and the Library of Congress (2009).

Table 2. Forest Influence Index

Group	Frequency	Mean Contributions to Senators from Forestry Industry (2000 to 2006)[a]	Mean Contributions to Senators from Home Building Industry (2000 to 2006)[a]
No Support (Forest Industry Index = 0)	52	$12,133.31	$26,819.88
Weak Support (Forest Industry Index = 1 or 2)	10	$18,677.91	$35,733.76
Moderate Support (Forest Industry Index = 3 to 5)	35	$22,339.30	$17,797.58
Strong Support (Forest Industry Index = 6 or higher)	14	$66,272.16	$20,440.52

Notes: a. in 2000 dollars

Table 3. Mean campaign contributions by party and election cycle

Party	2000	2002	2004	2006	Total[a]
Republican					
Forest Industry	7,086.62	10,706.45	5,968.42	7,981.63	31,743.35
Housing Industry	4,596.98	5,152.07	7,759.07	11,300.60	28,808.73
Non-Republican					
Forest Industry	2,3438.68	3,645.39	4,586.35	2,373.13	12,948.74
Housing Industry	2,585.83	4.088.30	6,577.76	5,430.14	18,682.03

Note: a. The yearly sums might not equal the total due to rounding; in 2000 dollars.

Table 4. Summary Statistics

Variable	Mean	Std. Dev.	Min	Max
FIIX	3.126	4.206	0	23
Importance of wood industry[a]	0.475	0.455	0.0317	2.097
Total Forest Campaign Industry Contributions[b]	22.769	36.549	0	276.180
Total Housing Industry Campaign Contributions[b]	23.973	27.289	0	149.584
Opposition to Subsidies[c]	0.261	0.441	0	1
Opposition to Tarrifs[c]	0.640	0.482	0	1
Finance Committee Membership	0.315	0.467	0	1
Party[d]	0.523	0.502	0	1
Border[e]	0.261	0.441	0	1

Notes: a. Percentage of wood product manufacturing to State GDP. b. Total contributions from 2000 to 2006 in thousands; with a 2000 base year. c. Data from http://www.Cato.org d. 1 if Republican, 0 otherwise. e. 1 if a Senator's state shares a border with Canada, 0 otherwise.

Table 5. Regression Results

Variable	Coefficient	Standard Error	t-ratio
Importance of wood industry	4.24***	1.51	2.80
Total Forest Campaign Industry Contributions	0.05**	0.026	2.50
Total Housing Industry Campaign Contributions	-0.05*	0.03	-1.81
Opposition to Subsidies	-4.51***	1.47	-3.06
Opposition to Tariffs	-0.28	1.23	-0.23
Finance Committee Membership	1.13	1.15	0.98
Party	0.24	1.25	0.20
Border	2.22*	1.15	1.92
Constant	-0.74	1.23	0.55
Sigma Constant	4.72	0.47	
Log Likelihood	-205.21		
Mckelvey & Zavoina's R^2	0.46		

Notes: Single asterisk (*) denotes significance at the 10% level, a double asterisk (**) denotes significance at the 5% level, and triple asterisk (***) denotes significance at the 1% level.