The Canada-US Softwood Lumber Dispute, Phase 4: Location

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Abstract

The Canadian-US softwood lumber dispute began in the early 1980s when US interests claimed Canadian exports were unfairly subsidized. This paper assesses recent (post 2001)

respect to in-situ adjustments and geographical expansion. It is argued that the costs and

established sawmills. Yet existing sawmills, whether controlled by large or small and medium-sized firms, remain strongly focused on the US market and product innovation away

Introduction

The Canada-US softwood lumber dispute began in the recession of the early 1980s and has

bilateral trade, are strong free trade proponents, and lumber was traded on a free trade basis

imposition of trade barriers and associated uncertainties, through political interference has

Empirically, this paper examines the recent implications of the trade dispute, since the onset of Phase 4, for location adjustments made by the largest and several small and medium-sized corporations between 2001 and 2010, at existing sites and through geographical expansion. In terms of information sources, the study relies on 18 personal interviews with mill managers based in four regions of BC, and annual reports of the four largest corporations.

responded to the trade dispute. Has it encouraged them to diversify sales away from US markets and to innovate products that do not face US restrictions? Have they sought to modernize and reduce costs to offset marketing barriers to the US? Have they become more - ? Answering these

questions is not straightforward. After all, the implications of the trade dispute for location adjustment are interwoven with resource cycle dynamics. Thus since the 1980s provincial harvest levels have plateaud and been influenced by environmental conflict, aboriginal land claims, and a pine beetle epidemic while market conditions themselves fluctuated widely (Edenhoffer and Hayter 2013). Nevertheless, market performance ultimately defines success or failure for business firms, and the softwood lumber dispute fundamentally changed access

supplies for their operations via control over long-term timber leases, purchases at timber auctions, and acquisitions. Our questions probed the various supply and demand conditions affecting the case study firms while requesting respondents to specifically judge how the trade dispute had affected locational adjustments. These judgments cannot be statistically quantified. However, a firm- and mill- level perspective helps understand decision-making variations and options that cannot be inferred from more aggregated analyses of trade patterns while drawing on more recent information than is often available in statistically-based studies (Krumme 1969).

The rest of the paper first briefly elaborates on why the lumber dispute has created costlier and uncertain rules for accessing the US market by BC firms. Second, the paper examines

The Perversity of the Canada-US Softwood Lumber Dispute

Thus proponents emphasized the stimulus of free trade arrangements to competition and innovation (Safarian 1979) while critics argued there would be widespread closure of less efficient American-controlled branch plants and domestic firms in secondary manufacturing serving Canadian markets (Britton 1998). In BC this debate seemed remote. Indeed, Shearer lared that free trade with the US offered little or no threat

to BC as its main industries, such as softwood lumber, had evolved rapidly in recent decades

institutionalized this view.

-based optimism was turned on its head 10 years later. Thus the lumber dispute originated in the deep recession of the early 1980s when housing demand and prices collapsed in North America, and micro-computer generated technological change started to take hold. In both countries, the lumber industry experienced massive layoffs, plant closures, and corporate losses. In the US, a group of sawmill firms formed the CFCLI to argue that their problems were caused by Canadian imports that were subsidized by low (below market value) stumpage rates (or taxes) charged by provincial governments for timber two days after the expiry of the 1996 SLA in 2001 when the CFCLI petitioned the US Department of Commerce (USDC) to re-introduce protectionist measures, marked

TABLE 1: The Four Phases of the Canadian-US Softwood Lumber Dispute

Phase 1: 1981-1983

CFCLI formed in 1981 to petition US for restricting the import of Canadian Lumber, claiming that low stumpages (timber harvesting taxes) constitute a subsidy. Canadian industry, represented by the Council of Forest Industries (COFI) successfully counter this accusation and emphasize that timber pricing in Canada reflects costs and risks of harvesting and distribution costs to markets. In 1983 US Department of Commerce (USDC) rejects countervail position.

Phase 2: 1983-86

CFCLI, led by Senator Max Baucus, is able to impose protectionism against Canadian lumber imports as a condition for approval by Congress for a free trade deal requested by Canada in 1985. After failing to find resolution at GATT, the respective Federal Governments sign a five-year Memorandum of Understanding (MOU) in 1986 that establishes a 15% tariff on Canadian lumber ced if stumpage levels (which affect all production) are increased. MOUL further recognizes US oversight on Canadian forest

(which affect all production) are increased. MOU further recognizes US oversight on Canadian forest policy that remains to this day. MOU also helps inspire the development of a trade dispute mechanism (TDM) in the Canada-US FTA in 1989 and subsequently in NAFTA (1994).

Phase 3: 1991-2001

Canada legally terminates MOU, and hopes dispute is over. Instead US government self-initiates

a significant escalation of the dispute in several ways. First, in response to this petition in 2002 the US International Trade Commission (ITC) imposed countervailing tariffs and, for -dumping duty. Combined these taxes

amounted to the remarkably punitive level of over 27% of lumber export values, much higher than previous levels of protection. By 2006 Canadian exporters had paid over US\$5 billion in

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the meantime, the closure of old, inefficient mills has been a major form of adjustment by industry to changing fibre supply and investment in very large, automated mills (Edenhoffer and Hayter 2013). Indeed, since 1980, 68 large-scale sawmills have closed throughout the province, and by 2009, jobs in sawmilling had declined from 37,564 to 12,043. Automation and increased wood recovery ensured that mill capacity has not declined to the same extent while the building of several super sawmills to exploit wood damaged by the pine beetle has placed additional pressure of the profitability of established mills and jobs.

In tandem there has been a shakeout of large corporations and, excepting Canfor, now

economy prior to the 1980s have downsized or left the province. A few large firms, notably Canfor, Interfor, Western Forest Products (WFP), West Fraser and the privately held Tolko

provincial lumber production in 2008. However these firms are less integrated, less foreign owned and have less control over timber harvests compared to their pre-

Small firms in secondary wood processing, manufacturing products such as engineered wood, log homes, doors and windows, and furniture, have expanded, but this growth has been concentrated in the Vancouver metro region and the rapidly urbanizing Okanagan valley, and has only partially compensated for overall declines in jobs or production.

industries was to be expected. With the maturation of the resource cycle, timber supply costs have increased, the quality and accessibility of timber has declined and other regions have become more competitive. Yet, these deteriorating supply conditions have been compounded by the increased costs and uncertainties of accessing their most important market, in which Phase 4 is the most recent,

oriented, with the US easily the dominant destination (Table 2). Between 2000 and 2006, US tariffs on Canadian exports were offset by the extraordinary expansion of US housing

and imposed export taxes, while reimbursing illegally collected taxes from the previous five years (Figure 1). Increases in the dollar exchange rate has further penalized BC exporters

poration with the takeover of MacMillan Bloedel in 1999, argued strenuously for the 2006 SLA. Despite claims to the contrary, after receiving \$344 million in escrow as a result of the SLA, Weyerhaeuser then closed down 9 of its 10 lumber mills in BC in the next two years (and sold its pulp mill). In a state of financial crisis, the US-owned Pope

em with developing new

markets resulting from the downsizing of corporate marketing networks as part of cost-

siness. I think as the industry

The ten SME-owned factories were generally more varied in product focus and market S

markets, and perhaps more unexpectedly by the establishment of facilities in the US. Thus the three SME-controlled dimension lumber (interior) operations supplying US markets in 2001, namely SE 3, OK 5 and OK 4, substantially downsized output and jobs as Canadian markets became dominant. OK 5 was closed at the time of interview. Two other interior mills (SE 1 and SE 4) have replaced US markets with Canadian markets, the latter while increasing its diversified range of products (paneling, decking and boards), and the former while maintaining production (and increasing jobs). CO 4, a highly diversified producer of cedar products, has retained its focus on the US but reduced output (and jobs) in 2008 from 2001; in practice this mill makes initial cuts and the cedar is then shipped to be remanufactured in Washington State at an affiliated mill, initially acquired in the 1990s. OK 2 and CI 2 have also established operations in the US Pacific Northwest to which they send either logs or lumber for further processing, investments. Indeed, for OK 2 its US plant

remanufactures lumber sent from the Okanagan plant. Even for SMEs, US-based operations provide flexibility in accessing markets there.

CO 5 and especially OK 2 stand out because they have substantially increased production and jobs, while US markets remain important. Both emphasize high value products, the former as a custom-cut factory and the latter through diverse, modern manufacturing capabilities, and a focus on non-dimension products and innovation. In general, the 10 SME factories increased productivity, with a stronger emphasis on product quality and differentiation than the big eight sawmills. For example, since 2003, CO 5 has introduced

e SLA did not affect the trade with the US. [CO 4] was less affected by the SLA than other firms, due to the customer base

into the US and cutting out the middle

economic crunch. Sold more in Canada, sell to Rona now. Went to Japan, Korea, Mexico,

In general the respondents of large and small sawmills alike expressed considerable disillusionment over the trade dispute, and Phase 4 has smashed any hopes for a return to

the freer trade environment that existed prior to the 1980s. The 2006 SLA was highly controversial among the respondents, evenly split for and against, with the large firms er, despite its controversial nature and divided

support, all but one respondent (a SME) emphasized that Canada should not now withdraw from the SLA, thus disagreeing with Parfitt (2010). The majority also agreed that the SLA

what the rules are, because when we know what the rules are, we can work around to make

these new rules impose costs, and are the basis for continuing US criticism of BC forest policy. Trade and product diversification has occurred to some degree, but the scope for adding value among these firms in BC appears limited, not least because of the powerful pull of markets on these activities.

Conclusion

Phase 4 has confirmed the perverse reversal of the continental free trade regime experienced

environmentally as well as economically sustainable. Research within industrial geography can usefully address the potential of alternative forms of employment, within and outside the forest sector, that meet these values and whether support can be provided for dispersed, specialized forest communities that have suffered the most from commodity decline.

Acknowledgments

We gratefully acknowledge the constructive insights of two referees, encouraging advice, and the financial support of the (Canadian) Social Sciences and Humanities Research Council (grant number, 410-2008-2605).

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