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The US-Japan Wood Products Trade Dispute: An Historical Perspective

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Executive Summary

Since the early 1980s, the US has worked to persuade Japan to open its wood products market to US products through various channels including bilateral talks, multilateral negotiations, and regional alliances. In response, Japan has reluctantly liberalized and deregulated its wood products imports through tariff reductions, building standards revisions, and foreign product standards recognition over the last fifteen years. Although the US-Japan trade dispute has been a widely discussed topic in general, the dispute over trade liberalization and market deregulation of the wood products sector has been often neglected or seldom mentioned. At a time when discussions of new multilateral trade talks are beginning within the WTO, and Japan is reevaluating its stance toward liberalized wood products imports by initiating a preliminary investigation to the possible implementation of a safeguard action against softwood lumber imports, it will be useful to look back and understand the process through which the US-Japan wood products trade dispute has progressed, the outcomes it has achieved, and the lessons that can be drawn from this experience.

The objectives of this study are 1) to describe the historical development of the US-Japan wood products trade dispute, 2) to summarize the trade liberalization and market deregulation measures taken in Japan as a result of these trade negotiations, 3) to analyze the performance of US products in Japan's mix of wood products imports, and 4) to conduct a preliminary evaluation of US trade liberalization and market deregulation initiatives on Japan's wood products market.

Historical Development of the Us-Japan Wood Products Trade Dispute

The US-Japan wood products trade dispute began in the early 1980s under the conditions of a growing US trade deficit with Japan, the economic recession in the US, and the relative decline of the wood products industry in the western US. In 1985, Japan's wood products sector was chosen as a target for the MOSS talks, mainly due to Japan's strong opposition to the reduction of tariffs on veneer and plywood. Both countries reached an agreement to reduce specific wood product tariffs and to modify product standards so as to meet the requests of the US.

In spite of the trade policy changes achieved in 1985, US legislators remained dissatisfied with the growing trade deficit with Japan and legislated the Omnibus Trade and Competitiveness Act of 1988, including the Super 301 provision. Due to US industry frustration with Japan's reluctance toward continuing the MOSS process, Japan's wood products sector was identified as a "priority practice" under the Super 301 provision in 1989. Under the threat of retaliation, both countries concluded the "1990 Agreement on Wood Products." Although the Agreement did not deal with tariff issues directly, it required an overhaul of Japan's building standards and products standards.

After the completion of Super 301 negotiations, the US wood products industry turned to a new trade issue: the zero-for-zero initiative in the GATT Uruguay Round, by forming the Zero Tariff Coalition in cooperation with other industrial sectors. Although several industrial sectors achieved mutual tariff elimination during the Uruguay Round, the wood products sector failed to achieve tariff elimination primarily due to Japan's opposition.

Following the end of the GATT negotiations in December 1993, the US continued its pressure on Japan to eliminate tariffs on wood products. Due to Japan's resistance, coupled with the failure of the Framework talks in February 1994, the US revived the Super 301 provision to name Japan's wood products sector in the watch list, forcing Japan to compromise. With Japan's promise to fully implement the 1990 Agreement and new

initiatives in Japan's housing sector that was partly stimulated by the Kobe Earthquake disaster, the US industry finally allowed the removal of Japan from the Super 301 watch list in 1996.

Although the tariff elimination issue was also discussed during the bilateral negotiations following the Super 301 revival, it was eventually transferred to the regional discussions held within APEC. While the elimination of wood products tariffs was successfully included in the EVSL initiative, Japan refused to participate in the wood products tariff measure citing the APEC principle of voluntarism. Finally, APEC members agreed to move the renamed ATL initiative to the WTO, hoping to reach agreement during the Third WTO Ministerial Meeting in Seattle. However, no progress was made on the ATL initiative, or on the initiation of the WTO New Round.

Results of Trade Liberalization and Market Deregulation

The US industry succeeded in the trade liberalization and market deregulation initiatives in Japan's wood products sector. As the result of fifteen years of negotiations, Japan reduced tariffs on wood products, changed its building standards from prescriptive to performance-based, and recognized wood products graded in the US for construction use in Japan.

First, regarding tariffs, the MOSS agreement reduced tariffs on specific products including veneer and plywood, and the Uruguay Round Agreement reduced tariffs on most wood products by approximately 30% from the applied level in 1993. The final bound rates were implemented in 1999 following a five-year staging period. However, due to shifts in Japan's wood products imports from logs to processed products, the trade-weighted average of wood products tariffs increased slightly during the 1985-1999 period.

Second, in 1999, Japan revised its Building Standard Law from a prescriptive to a performance-based system, as promised in the 1990 Agreement on Wood Products and the 1996 Emergency Priority Program. Additionally, Japan immediately implemented specific building standard measures listed in the ANNEX of the 1990 Agreement. It is expected that the revised BSL will increase the number of 2x4 wood frame housing starts and promote the use of imported value-added wood products for post and beam homes.

Third, Japan introduced new systems, which recognized imported wood products for construction use in Japan. Regarding JAS, MAFF implemented the FTO system, which permitted the use of test data conducted by recognized foreign testing organizations for the mill certification and product testing process as a result of the MOSS agreement. Later, in 1999, MAFF revised the JAS Law to incorporate the RCO/RFCO system which authorized specific (foreign) certification organizations to certify (foreign) manufacturers to test their own products and self-label them as JAS approved. At the same time, MOC reached a mutual recognition agreement with the US industry which recognized the use of dimension lumber, MSR lumber, and finger-jointed lumber bearing the grademark of US testing agencies for 2x4 wood frame construction in Japan.

These measures will surely provide easier access for foreign products, not limited to just US products, in Japan's wood products market.

Effects of Trade Liberalization and Market Deregulation

In spite of its success in the trade liberalization and market deregulation initiatives, the US wood products industry has been losing market share in Japan's imports of softwood lumber, softwood plywood, softwood veneer, structural laminated lumber, wood doors, and wood windows. In some cases, the US increased its exports to Japan, but exports from other countries, mostly Canada and EU, increased more rapidly than those from the US, resulting in a lower market share for the US. This trend indicates that as the US industry was negotiating trade liberalization and market deregulation initiatives in Japan, structural changes were occurring that would adversely impact the competitiveness of the US wood products industry. These structural and market changes include changing material preferences in Japan toward kiln-dried products, the strength of the US dollar relative to Canadian and European currencies, and higher transportation costs from the US to Japan than from the EU. In addition, it should be noted that some studies indicated that other successful countries made substantial efforts to develop a better understanding of Japanese market conditions and accommodate Japanese customers' extra requirement for products and services.

Preliminary Evaluation

The declining share of US products in Japan's wood products imports can be attributed to two factors: an increase in US domestic consumption of wood products, and the reduced international competitiveness of US wood products. First, wood products exports have become less important to the US industry with the increasing consumption of wood products under the strong economic growth of the 1990s. Second, the US industry has been slow to develop its advantage relative to its competitors in Japan, where some market conditions, including a shift in material preferences toward kiln-dried products, less favorable changing exchange rates, and higher transportation costs, have adversely impacted the competitiveness of US wood products.

If the US industry wants to increase its wood products exports, it would be advisable for the industry to develop its advantages relative to its competitors in addition to improving market access. Important factors for success include developing a better understanding of the market, making stronger efforts to match product offerings with changing customer preferences, accommodating customers' extra requirements for products and services, improving product quality, and offering competitive prices. Additionally, the US industry may wish to reconsider their export strategies in response to increasing domestic consumption and constrained resource availability and the impact of these factors on their ability to commit to long-term relationships with their foreign customers.

At this time, it is too early to reach a final conclusion regarding the competitiveness of the US wood products industry. Given Japan's changing market conditions, new opportunities could emerge for the US wood products industry to further penetrate Japan's import market. In that case, future success is dependent upon the US industry's efforts to develop its advantages relative to their competitors.

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