

The Softwood Lumber Dilemma. With NAFTA Renegotiation, What Elements of NAFTA are Critical to Canada – New Report

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Calgary – Forest products have been a cause of trade friction between Canada and the United States for a very long time, with disputes going back to the early 1800s. President Trump has begun the process of renegotiating NAFTA, in which one of their demands is the abolition of the Chapter 19 dispute settlement system. Chapter 19 was key for the return of 80 per cent of the duties collected to Canadian producers and potentially the key to other current disputes including steel and aerospace. Chapter 19 is critical to Canada's economic future. It will be critical that Canada's negotiators understand that.

Today The School of Public Policy and author Elaine Feldman, former head of the Canadian negotiating team for the last softwood lumber dispute, released a report that examines the softwood lumber issue and uses it as the case study showing what really matters to Canada in these negotiations.

According to the report "On the surface, the last dispute, known as Lumber IV, appeared to be a squabble over subsidization and dumping of Canadian softwood lumber exports. However, closer scrutiny revealed that this dispute was really about commercial interests triumphing over policy – the U.S. lumber industry wanted to ensure it kept a certain share of the market at the highest price possible. Complicating attempts to resolve any dispute is the fact that Canada is not a single entity in the lumber business; interest in quota or duties varies across regions. These variations thus create almost a divide-and-conquer situation in which one group of producers feels others are getting an advantage. The Canadian industry instead should be standing together as much as possible, creating a united front in any dispute with the U.S."

What does this mean for Canadian interests? It is important to recognize that there is no one Canadian interest, but rather regional interests. At one end is British Columbia, generally supported by Alberta. B.C., which has traditionally accounted for about half of Canada's softwood lumber exports to the United States, has large trees and large, efficient producers. Quebec and Ontario have small trees and smaller producers. The Atlantic provinces have worked strenuously to remain exempt from any managed trade agreement.

It is still unclear as to what the mindset of U.S. trade negotiators and indeed the President himself will be in trade negotiations, whether relating to the NAFTA or specific disputes such as softwood lumber. Will it be a "one side wins, one side loses," as some of the President's rhetoric would lead one to believe? Or will it be more along the lines of what President Obama suggested, but was unable to deliver - "each side will want 100 per cent, and we'll find a way for each side to get 60 per cent or so of what they need, and people will complain and grumble but it will be fine"? Only time will tell.

The paper can be downloaded at <https://www.policyschool.ca/publications/>

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