

Executive Summary

The Canada-U.S. Free Trade Agreement will be of significant benefit to the forest industry in Canada. It establishes an improved trading relationship based on more secure and open access to each other's markets. Given that the forest industry extends across the country, these benefits will flow to all regions of Canada.

In assessing the impact of the Canada-U.S. Free Trade Agreement, it is useful to distinguish the three major components or categories of subsectors making up Canada's forest industry.

The first group includes the primary producers (lumber, pulp, newsprint, and shingles and shakes) who have operated in a duty-free environment with the United States for a number of years. The primary producers have faced the full brunt of U.S. protectionism in recent years with two countervail investigations of Canadian softwood lumber and temporary tariffs imposed by the U.S. Administration on shingles and shakes. The immediate benefits for these producers will be the security of access and the more expeditious and predictable mechanism for resolving trade disputes. Primary products account for over 85 per cent of current Canadian exports of forest products to the United States.

The second group includes producers of higher value-added or intermediate forest products such as paper and paperboard, waferboard, particleboard, and plywood that serve both domestic and foreign markets. Elimination of tariffs on these products will open up new market opportunities in the United States and allow those Canadian companies that are not yet internationally competitive to modernize and expand productive capacity to world scale or to develop "niche" markets.

These two groups are highly capital-intensive. The more secure investment climate provided under the Agreement is important for securing the major capital investment required for modernization, productivity improvement, industrial restructuring and new capacity over the next decade.

The third group includes producers of converted products such as converted paper and paperboard, packaging, tissues, windows, doors, kitchen cabinets, and mouldings that use primary products as their raw material inputs. Canada-U.S. bilateral trade in these products has been relatively low. Canadian producers primarily serve a highly protected and fragmented domestic market and tend to be much smaller both in corporate size and plant scale than their U.S. counterparts. Many companies in this category will face major adjustments to the new competitive environment created by elimination of tariffs on both sides of the border. At the same time, new market opportunities will be created in some of these product lines in the United States and companies will have either a five- or ten-year transition period to make the necessary adjustments.

In summary, the following are the principal impacts of the Agreement on the forest sector:

- more secure access to U.S. markets as the result of the dispute settlement mechanism;