Minister for International Trade | Ministre du Commerce extérieur

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Statement by
the Honourable Pat Carney,
Minister for International Trade,
to the Legislative Committee
on Bill C-37 (Softwood Lumber Products
Export Charge Act)

OTTAWA
February 10, 1987.

Canada

Mr. Chairman, and members of the committee:

Thank you for this opportunity to appear before you today.

I would like to make some very brief opening remarks.

There has been a great deal of misinformed discussion on this issue.

I think it useful however, to review the background, and to point out some facts that critics of this agreement conveniently overlook.

It is an issue of long standing, dating back to the 1950's. A previous countervailing duty petition was fought off in 1983, but that was not the end of it. It did not resolve the problem.

In May of 1986, a second countervailing duty petition was filed by U.S. lumber producers.

We made numerous representations to U.S. authorities.

We requested the establishment of a GATT panel to determine whether the pricing of natural resources could be subject to countervailing action under international trade rules.

Then at the urging of provinces and industry, we put forward a proposal to the U.S. in an attempt to head off any preliminary determination.

The proposal was not accepted.

On October 16, the United States Department of Commerce made a preliminary determination and set a countervailing duty at 15 per cent.

The Federal Government and the provinces, which are the owners of the resources, were faced with a difficult choice at this point.

Ontario wanted to go on fighting and, if necessary, challenge the decision in the U.S. courts. However, by this time U.S. lumber producers had filed for duties of 36 per cent. If the Department of Commerce accepted that, prospects for Canadian producers would be devastating. The route through the courts would have been long, there was no certainty as to the outcome, and millions of dollars would have found their way into the U.S. Treasury.

British Columbia and Québec, by far the largest softwood producers, suggested we conclude a suspension agreement. That would have involved taking the management of provincial forests out of Canadian hands, and intrusive monitoring by the United States.

We faced another danger.

A positive determination by the Department of Commerce would have been an open invitation to other special interest groups in the U.S. to challenge Canadian natural resource pricing practices.

It was apparent that we could expect no reversal of the preliminary determination and that the final ruling would go against us.

The wisest course appeared to be a negotitated settlement if we could achieve it on our terms.

That settlement would have to:

- first, maintain Canada's right to manage our resources on our own terms.

- secondly, keep any additional revenues in Canada.

- and finally, avoid the creation of any dangerous legal precedents which could be used against other resource industries.

Our proposal -- that the Federal Government collect an export charge on softwood lumber equal to the alleged 15 per cent preliminary determination and far below what the U.S. industry was asking for -- was placed before the First Ministers in Vancouver on November 20.

Nine provincial Premiers agreed, and so did the union representing the forestry workers.

I think it's important to look at what the American producers demanded throughout the negotiations and what the eventual outcome was.

- first of all, they wanted much more than 15 per cent, and wanted the export tax to apply not only to lumber but also to all of its products.

- then they asked for a floor price on lumber regardless of market conditions.

- they tried to expand the range of products covered by the countervail.

- finally, they demanded specific changes in provincial stumpage systems within a given time-frame, with a bilateral committee to oversee and approve the process.

They got none of their demands.

The settlement signed on December 30 -- the date on which the Department of Commerce was to hand down its final determination -- was on our terms.

It brought about the withdrawal of the petition by the U.S. lumber industry.

It wiped out the preliminary determination, and a final determination -- which could have opened a pandora's box of trade problems -- was avoided.

The U.S. government will refund the bonds and cash deposits paid after the preliminary ruling, a benefit of approximately $82 million.

We met our objectives.

The additional revenues remain in Canada.

The provinces retain the right to manage their own resources and to make changes when they see fit.

A damaging legal precedent has been avoided. The pandora's box stays shut.

The only matter subject to agreement between the U.S. and Canadian governments is the "calculation of the value of any replacement measures in relation to the export charge."

Our choice was clear. We could keep the revenues in Canada or see them flow to the U.S. Treasury.

Given the circumstances I have outlined, we chose the best alternative for Canada. The revenues collected will go to the provinces. They can be used for silvaculture, reforestation, worker training or other activities within their jurisdiction.

The Federal Government is not directing the provinces in using these funds, but we are encouraging them to invest in the future of their forest industries. The one restriction is that these funds cannot be used to offset the export charge or any of the other measures that may replace it.

Any agreement with such wide-ranging effects on a major Canadian industry will have its critics.

It has been suggested that it will bear unfairly on provinces which currently collect relatively higher stumpage fees.

The Federal Government does not control stumpage fees, just as it does not control transportation or mill costs or the other expenses that go into the final price of lumber.

The across-the-board ad valorem tax was chosen as the method that would cause the least distortion to existing patterns of trade, save jobs, and retain our existing market share.

Some say that this will be a permanent measure, intrusive on provincial jurisdiction.

That is not so. It is a temporary measure.

It was designed to answer the American insistence on immediate action to remedy what they allege is a subsidy.

It is envisaged that it will be replaced in the form of increases in stumpage or other provincial charges, and that determination is to be made by the provinces. As they take action, the 15 per cent national rate will be reduced accordingly, and will eventually disappear.

We know that transitional process may not be easy.

That's why we have set up a Federal-Provincial task force to implement the agreement. My colleague, the Minister of State for Forestry and Mines, has already met once with his provincial colleagues. They are to meet again on the 9th of March.

Recently, there have been some concerns about the deal in light of the appreciating value of the Canadian dollar.

However, the forest industry is cyclical, and well used to market cycles and minor currency fluctuations. In fact, current returns to Canadian producers, after allowing for the export charge and appreciation of the dollar, are at or above levels they were before October 1986.

There are aspects of the agreement that leave us some concerns. No deal is perfect, nor can it be.

I'm thinking particularly of the remanufacturers, and the product coverage list in Appendix B to the agreement, and the question of corporate exclusions. We are actively pursuing a resolution of these questions with the United States in close consultation with the industries affected.

I am hopeful that these problems can be fairly resolved in the weeks ahead.

Mr. Chairman, after everything I have said about our efforts to resolve this situation on Canadian terms, I am surprised to hear this agreement continually attacked as an infringement on Canadian sovereignty.

It shows a complete misunderstanding about what has been accomplished.

Any time two nations negotiate a bilateral agreement, they are exercising their sovereignty. And what could have been a very serious situation for Canada was avoided.

I think we should look at what's happened since.

What's the marketplace like now?

Consider these developments compared with the period immediately before we reached agreement with the United States:

- the forest index of the Toronto stock exchange has jumped a whopping 30 per cent.

- the major forest companies have all seen a dramatic improvement in their stock prices -- as much as 47 per cent.

These are clear signs that investors see good prospects ahead, and new investment means new jobs.

The Dominion Bond Rating Service has just ended its alert on four major forest companies.

Demand for forest products in the United States has been very strong, pushing prices up from $190 U.S. to $218 U.S. for Western SPF 2x4's.

The American market appears to be absorbing much if not all of the export charge.

The IWA -- the union which represents the majority of workers in the forest industry -- has just released a report that says any adverse effect of the tax will be minimal, and highlights the strengths of the Canadian industry and its positive prospects.

The American marketplace has accepted the increased prices and demand for our forest products is strong.

We fought the countervail duty.

We maintained control of our resources.

We raised our prices to the Americans, and they're still buying, and we kept the money in Canada.

In the middle of all the sound and fury, those are the facts.

Thank you, Mr. Chairman. I am prepared to answer any questions you or other committee members may wish to ask at this time.