



Minister for  
International Trade

Ministre du  
Commerce extérieur

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# STATEMENT DISCOURS

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87/03

Statement on Softwood Lumber  
Settlement by the  
Honourable Pat Carney,  
Minister for International Trade

VANCOUVER

January 5, 1987.

Canada

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Ladies and Gentlemen

I have asked you here today to set the record straight and refute some of the uninformed charges which have been reported in the media.

As you know, we have reached an agreement with the U.S. on the softwood lumber countervail. We negotiated the best settlement possible, given the alternatives which we faced.

I would like to outline briefly for you the options, the process, the demands, and the results achieved in this agreement.

In 1983 we won the preliminary determination in the countervail action. In 1986, however, the preliminary determination was lost.

Therefore, we faced three options under U.S. trade law:

- fight, and risk losing the case and paying countervailing duties to the U.S. Treasury
- concede that our stumpage programs were subsidies and enter into a suspension agreement to keep the additional monies in Canada; or
- negotiate a settlement in order to protect the interests of the thousands of Canadians who work in the industry, while protecting the provinces' right to manage their resources, and keeping forest revenues in Canada.

The Canadian Government engaged in full consultations with the provinces, labour, and industry. We explored all options, consistent with our duty to protect Canada's interests.

As you know, a split developed between the provinces as to the approach we should take. Ontario wished to proceed to the final decision in the hope of reversing it, or if that failed, challenge it in the U.S. courts. British Columbia and Quebec favoured the negotiation of a suspension agreement to keep the money in Canada.

In discussion with U.S. Commerce officials, we became increasingly convinced that notwithstanding our strong case, we would lose the final determination.

Thus, in November I concluded that fighting the case through to the finish would almost certainly entrench a dangerous legal precedent, see the resulting countervailing duties flow to the U.S. Treasury and the duties might well be higher than 15%.

On the other hand, the suspension agreement approach favoured by B.C. and Quebec was equally unpalatable. That would surrender control over our forest management policies to the U.S. Government. That was totally unacceptable to the Government of Canada.

The proposal that I developed with Secretary Baldrige came the closest to meeting all parties' objectives. It was presented to the First Ministers' Conference in November and the premiers agreed to it.

The benefits were clear: (1) Increased revenues would be kept in Canada. (2) The provinces would retain their flexibility in determining stumpage pricing. (3) A dangerous development in U.S. countervail policy would be avoided by the withdrawal of the petition. (4) Further conflict between the provinces would be avoided. (5) The ability of the provinces to determine their own natural resource management policies would remain unimpaired. (6) Unlike a suspension agreement, U.S. authorities would not infringe Canadian sovereignty by policing provincial management practices.

The agreement we have reached with the U.S. meets all of these objectives. It is important to stress that it is supported by nine provinces who own the resource, the union which represents the forestry workers, and important elements of the industry.

It was the best that could be obtained in difficult circumstances. Moreover, it was reached on our terms.

Much has been made by the critics about the alleged infringement of Canadian sovereignty.

Contrary to the opposition's reading of the situation, Canadian sovereignty has been and will be maintained.

During the course of the negotiations the U.S. Coalition made many demands upon Canada. For instance, it sought to establish a floor price regardless of market conditions. It sought to dictate how Canadian stumpage policies would operate. It demanded specific changes in provincial stumpage systems within a defined time-frame, with a joint supervisory committee to oversee the changes. Were this accepted, the U.S. Government would be able to dictate how our policies should be made and implemented. It was totally unacceptable to Canada, and we rejected it out of hand.

The United States Administration has expressly recognized Canadian sovereignty in its statement of of January 2.

**"The United States Government will not be concerned with how Canadian authorities make changes in their forest management practices. When they do so or what form these changes make. These are matters for Canadians to decide."**

These are the essential qualities of sovereignty. These are matters for Canadians alone to consider. The only item that is the subject of consultation and agreement is the calculation of the value of any changes in the export charge.

Reaching this agreement is a major accomplishment. When compared to a suspension agreement, this settlement is infinitely preferable. Like a suspension agreement, the money stays in Canada. But more importantly, the intrusive policing of provincial management practices that a suspension agreement entails has been avoided.

As for the countervail route, an adverse decision would have entrenched a dangerous legal precedent. The money would have gone to the U.S. instead of being kept in Canada to benefit Canadians.. and very importantly, the kind of intrusive inspection of provincial and industry records that we encountered during the countervail investigation would have continued until the U.S. Government determined that the alleged subsidy had been eliminated.

I repeat that the only way out of a countervailing duty order would be to satisfy the U.S. Government. That would mean stumpage increases on top of the countervailing duty order - a double whammy that the industry would have to bear until the U.S. concluded that the so-called subsidy was eliminated.

Some of the critics have predicted massive job losses resulting from our agreement. As a federal Minister I must always be concerned with the employment effects of government actions. But we must recognize a few points.

First, the forest industry has always been a cyclical one, with ups and downs. Secondly, as the shakes and shingles tariff has shown, the effects of a tariff or charge are difficult to predict.

Most importantly, however, the organization most concerned with protecting these jobs, in the forestry sector, the I.W.A. has fully supported our efforts. Doug Smyth of the I.W.A. has advised me that they:

"Stongly believe that it was absolutely essential to conclude a negotiated settlement with the United States which will guarantee that the increased taxes on softwood lumber shipments to the U.S. be kept in Canada."

As before, we continue to work closely with the provinces, industry, and labour on this matter.

I would be pleased to take your questions.