Minister for International Trade | Ministre du Commerce extérieur

STATEMENT
DISCOURS

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Speech in the House of Commons by
the Minister for International Trade,
The Honourable Pat Carney,
on the Softwood Lumber Products
Export Charge Act,
January 19, 1987.

OTTAWA,
January 21, 1987.

Canada

SOFTWOOD LUMBER PRODUCTS EXPORT CHARGE ACT

MEASURE TO ENACT

The House resumed consideration of the motion of Miss Carney that Bill C-37, an Act respecting the imposition of a charge on the export of certain softwood lumber products, be read the second time and referred to a legislative committee.

Hon. Pat Carney (Minister for International Trade): Mr. Speaker, you are aware that we have finally reached an agreement with the United States on the issue of softwood lumber, after months of intense effort on behalf of the Government, and after a study of the many complex issues that this matter brought before us.

I wish to remind you that one of the reasons why this is so important, and the measures we are taking are so vital, is that Canada is very much a forest nation. Including our northern territories, all of Canada in some way is involved with forestry, as is all of Canada involved in some way with trade.

I wish to assure the House that in bringing forward this measure we have acted in the national interest, we have acted consistent with our GATT obligations, and we have acted in a way that is infinitely better than the alternative before us, which was to accept a countervailing duty.

In terms of the national interest, I would like to review with you that we in our agreement moved to protect our sovereignty. The Opposition would allow the U.S. to overrun our forests. We acted to protect our revenues. The Opposition would pay these revenues to the U.S. We acted to protect our industries. The Opposition would expose those industries to other countervails. We acted to protect jobs. The Opposition's preferred option, countervail, would cost jobs.

In terms of dealing with our GATT obligations, I would like to remind the House that Canada is an international trader. We are in the big leagues in trade. Canada, along with the European Community, the U.S., and Japan, are the four big trading interests which account for 40 per cent of the world trade. The Opposition would take us out of the big leagues. The Liberals would send us down to the minors. The NDP would leave us on the bench.

In terms of the countervail, I can only quote the Prime Minister (Mr. Mulroney). As the Prime Minister has stated, in terms of the countervail if we had a choice between this agreement and perfection, we would have taken perfection. But we had a choice between this negotiated agreement on our terms, and a countervail. In this agreement we have the best settlement possible, given the alternatives which we faced.

I would like to briefly outline the options, the process, the demands, and the results achieved in this agreement. First, I wish to remind the House that this is not a new issue. Our research shows that the earliest attempts to block softwood lumber exports to the U.S. were in 1892.

In 1983, faced with a similar countervail threat, we won the preliminary determination. However, in 1986 we lost the preliminary determination, and a 15 per cent duty was declared. Therefore, under international law, and under U.S. trade law, we faced three options. We could fight and risk losing the case and paying countervail duties to the U.S. Treasury. We could plead guilty that our stumpage programs were subsidies. This is a position that Canada has always maintained is not the case. Our second option was to plead guilty that our stumpage programs were subsidies and enter into a suspension agreement to keep the additional moneys in Canada. The third option open to us was to negotiate a settlement in order to protect the thousands of Canadians who work in the industry, while protecting the right of the provinces to manage their resources, and to keep forest revenues in Canada.

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

A split developed between the provinces as to what approach we should take. This is important, because this Government has always maintained the constitutional right of the provinces to their natural resources, a right that the Liberal Government has ignored in the past.

Ontario wished to proceed to the final decision in the hopes of reversing it, or if that failed, challenging it in the U.S. courts. British Columbia and Quebec are the major owners with 80 per cent of the forests. They favoured negotiating a suspension agreement to keep the money in Canada.

In discussion with the U.S. Commerce officials we became increasingly convinced that notwithstanding our strong case, we would lose the final determination. Such a final determination would have been an open invitation for any special interest group in the U.S. to file a petition against our other resource exports, because that would have put on the books, through the final determination, a precedent which could be used against our other export industries. Thus, in November, I concluded that fighting the case through to the finish would almost certainly entrench a dangerous legal precedent, and see the resulting countervail duties flow to the U.S. Treasury. I may remind the opposition Parties that the duties could well have been higher than 15 per cent. The U.S. industry was asking for 36 per cent. We had no reason to believe that it would be safe to assume that we would only have a 15 per cent duty.

It is our position that we do not fight to lose cases. We fight to win cases. On the other hand, the suspension agreement approach which was favoured by B.C. and Quebec was equally unpalatable. That would have surrendered 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 the objectives of all parties. It was presented to the First Ministers' Conference in November. The Premiers agreed to see if we could explore it. The benefits of seeking a negotiated settlement were very clear. It would meet both national and provincial objectives, increased revenues would be kept in Canada, and these could be used to replenish the forests. These revenues will be returned to the provinces and the provinces have the right to use them for silvaculture, reforestation, worker retraining, or other things within their constitutional jurisdiction.

The provinces would retain their flexibility in determining stumpage pricing, which is very important to the two provinces that had stumpage increases in their systems planned and were caught in the vice of the threatened countervail.

It would avoid the dangerous development in U.S. countervail policy by having the petition withdrawn, because it was central to this negotiation that in return for a negotiated settlement the actual petition that was brought by the U.S. intra groups, the U.S. coalition of lumber, would be withdrawn, and further conflict between the provinces on how they determine their natural resource management policies would remain unimpaired. Unlike a suspension agreement, the U.S. authorities could not infringe Canadian sovereignty by policing provincial management practices.

The agreement we reached with the United States meets all of these objectives. It is important to stress that it is supported by the nine provinces that own the resource, the union that represents the forestry workers, and important elements of the industry. For our B.C. Members of Parliament, it may be useful to note that the B.C. NDP critic, Bob Williams, was reported in the media as saying that the softwood accord was "a pretty good deal". It was the best that could be obtained in difficult circumstances. Moreover, it was reached on our terms, because the key clauses that were on the table at the start of the negotiations were on the table at the end of the negotiations.

Much has been made by the critics about the alleged infringement of Canadian sovereignty. This is really a phoney issue. All countries regularly conclude international agreements in which they agree to restrict their freedom of action, even in the Auto Pact that the NDP is so worried about.

• (1610)

All agreements between countries is an exercise of sovereignty, by the very willingness and ability of countries to enter

into them. Our sovereignty is undiminished and, if at some future date we were to decide to terminate the agreement, that too would be an exercise of sovereignty.

What has Canada agreed to do in this agreement? During the course of the negotiations the U.S. coalition made many demands upon Canada. It is fundamental to understand that under existing U.S. trade law any interest group in the United States can bring this kind of action against any Canadian export. This is why we are seeking to negotiate a new trade treaty with the U.S.—to change these rules so that we avoid these kinds of border disputes.

One of the demands which the U.S. coalition sought was 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 systems within a defined time frame, with a joint supervisory committee to oversee the changes.

The opposition Parties forget that what the U.S. coalition was asking for was a $1.1 billion increase in stumpage in one year. That is what they were seeking, and that is what they did not get. That is almost three times the existing levels of stumpage collected in the country.

If the idea of the joint board had been accepted, the U.S. Government would be able to dictate how our policies should be made and implemented. That was totally unacceptable to Canada, and we rejected it out of hand.

The U.S. administration has expressly recognized Canadian sovereignty in its statement of January 2, wherein it said that "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."

I also assure the Opposition that I personally telephoned Mr. Yeutter, the U.S. trade representative, to make it clear, in terms of the letter which was quoted, that the U.S. had a choice—either we had an agreement on the terms that the U.S. accepted with the statement I have just read from Ambassador Niles, or the U.S. would be in contradiction of the agreement it had just signed. These are all the essential qualities—

Mr. Axworthy: What did he say?

Miss Carney: The Opposition asks: "What did he say?" They issued the statement; that is what they did. They issued the statement which said: "These are matters for Canadians to decide".

The Hon. Member has been spreading misleading information about this matter in a way which is detrimental to the national interest.

The only item which is the subject of consultation and agreement is the calculation of the value of any changes in the export tax, because the export tax is a 15 per cent tax at the border. At some point in time it is planned to phase it, in whole or in part, into increased stumpage, if that is what the provinces wish to do, and the U.S. has the reasonable right to ensure that the conversion from an export tax to stumpage meets the criterion of 15 per cent.

It must not be forgotten that if the countervail had been imposed, Commerce officials would have been coming into Canada, as they did on the preliminary determination, and would have verified provincial and industry books. They would be in the forest services records, they would be in the forests, and they would decide unilaterally how we were going about this method. That unacceptable practice has been avoided.

Under the agreement the information we will provide to the U.S. is essentially in the public domain and does not involve U.S. officials entering Canada to audit and verify it. Reaching this agreement is a major accomplishment. When compared with a suspension agreement, the settlement is infinitely preferable. Like a suspension agreement the money stays in Canada but, more important, the intrusive policing of provincial management practices which a suspension agreement entails has been avoided.

What the Opposition also fails to realize is that if the countervail had gone into effect as expected—and I hope every B.C. Member is conscious of this—the Canadian forest industry would have been faced with a double whammy of both a duty and an increase in stumpage, because the only way one can get rid of a countervail is to increase stumpage to the point where the Commerce Department in the U.S. unilaterally decides that the alleged subsidy was offset.

Here we have an industry which now has a 15 per cent tax that with a countervail would have had both the tax and increases in stumpage to offset it—a 30 per cent plus double whammy. We knew that the Canadian forestry industry could not sustain it. We negotiated the settlement because we knew the double hit of 30 per cent plus would break the industry.

In this we were supported by the IWA which said that the negotiated settlement was absolutely essential. I would like to read the particular paragraph where the IWA said: "We would suggest that many negative comments have been both ill-informed and ill-founded". The IWA also told us: "We ... strongly 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 United States be kept in Canada".

I am really looking forward to British Columbia NDP Members of Parliament returning to their ridings, because the IWA has stood by this even when the NDP asked them to back off. The NDP asked them to back off, and the IWA would not. The IWA has been barnstorming around, saying: "This is the letter which we sent the Minister and this is the letter we stand by".

Some critics have predicted massive job losses resulting from our agreement.

As a federal Minister of course I am always concerned about 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. Second, as the shakes and shingle tariff has shown, the effects of a tariff or charge are difficult to predict. The NDP were maintaining that thousands of people would be laid off and that terror would reign in the woods. As a matter of record, that industry, although it has suffered, has in no way experienced nearly the catastrophe which the NDP suggested.

I can also say that the IWA has made the following clear, in terms of job loss in its letter to me:

> The second assumption is that the Canadian sawmilling industry will be unable to compete under the burden of a 15 per cent export levy. We regret the fact that not all Canadian sawmills will survive, and that some jobs will be lost.

As of course does the Government. It continues:

> It should not be assumed, however, that a substantial portion of the Canadian sawmilling industry will disappear.

In its letter it gives some well reasoned arguments why.

Where do we go from here? Last week I, along with my colleague, the very able Minister of State for Forestry and Mines (Mr. Merrithew), met with the provincial Ministers. We reviewed the agreement. A federal-provincial task force has been established to review all aspects relating to the implementation of the agreement. We will have a subgroup of forest Ministers, headed by the Hon. Len Simms of Newfoundland, which will study the matter of replacement measures. We will work together to ensure that we iron out the problems which the industry faces.

Before closing, I want to deal with some side issues which have been raised today in debate or in the newspapers. First, one of our colleagues from New Brunswick is worried about the impact on his province. I want to point out that the Government of Canada maintained for his province the 92 per cent exemption on lumber exports contained in the preliminary. In the preliminary decision, 20 firms won an exemption, and 92 per cent of New Brunswick's exports were thus protected. In the negotiations and in the final determination mechanism, the U.S. was moving to take away those exemptions and to expose the New Brunswick industry. We fought for New Brunswick and we maintained the exemption.

In the so-called Dennison letter, which is a self-serving letter, the U.S. told lumber producers, in effect, all the things they could not win at the bargaining table. It is a side letter which has no standing in Canada. It is a side letter which the Hon. Member for Winnipeg—Fort Garry (Mr. Axworthy) is trotting around as some sort of legal document. He knows that the negotiator for the U.S. side told him that it was a letter for Americans, that it had no standing. He was told that personally by the U.S. negotiator in Washington last week. Knowing that, and having been told that it has no standing for Canadians, he still purports that this is some kind of legal document, and that is misleading the public.

The NDP today in, I hope, an innocent error suggested that the export tax would apply to the added value of manufactured products. That is not true. We negotiated very hard.

Mr. Blackburn (Brant): I checked half an hour ago.

Miss Carney: The Hon. Member said he checked. He did not check with us.

Mr. Blackburn (Brant): A half an hour ago.

Miss Carney: He did not check with the Government of Canada because we negotiated an arrangement where the tax applies only to the lumber inputs, not to the added value.

Mr. Blackburn (Brant): Phone your people in London, Ontario.

Miss Carney: I refer the Hon. Member to the agreement. That was the second last clause that we dealt with. This too is better than a countervail because a countervail would have been applied to the whole product, as the New Democratic Party was suggesting.

In terms of jobs, I want to point out that the Members of the NDP travelled around this country with a task force and, as the media reported, they could not find any lay-offs directly attributable to the export tax, which is quite proper. This is a period of cyclical downturn for some mills and employment is related to the market.

Just one final point, Mr. Speaker. There were suggestions during these discussions that this agreement would be so bad for the industry that it would be paralysed. After seeing some of the statements, I thought people would be leaping out of windows and that terrible things would be happening to the forestry industry. It is worth noting that the market says differently. Stocks of those companies have gone up dramatically since this agreement.

The Chairman of MacMillan Bloedel said that this agreement would paralyse us and that thousands of people would be laid off, but his stock market price at December 29 was $41-7/8 while on January 18 it was $49.50, a 21 per cent increase. That is not bad. I know the stock. It is probably the best increase it has ever achieved in anything like that time frame.

Canfor stocks are up. That company has had problems, but its stock is up 21.8 per cent. Abitibi's stock is up 7.2 per cent. West Fraser, a smaller operation, is up 5.73 per cent. The forestry index went up a total of 8.6 per cent since December 29, before the agreement was signed, and last Friday when the market closed. The Hon. Member opposite says the Tories measure things by the stock market. That is not the point. This is the way the market operates. This is what investors think. Investors think that this industry is better off after the agreement than before. That is important because it is investors who will put up money for jobs.

In closing, Mr. Speaker, let me refer to one more paragraph from the letter from the IWA. It is an important paragraph:

> The International Woodworkers of America recognizes that the negotiated settlement of the softwood lumber dispute does impose an additional burden on the Canadian sawmilling industry. However, given the fact that the U.S. government would have imposed such a burden in any case, the current solution represents the lesser of two evils. We believe that in time adjustments can be made which will permit the Canadian industry to survive and to prosper in the future.
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> Those adjustments will require a high degree of co-operation between industry, government and labour. It is important to proceed as soon as possible with the search for these solutions.

I concur with the IWA. It is time for us to put this matter behind us, time for us to work out the agreement, implement it, and time to get on with the job of negotiating a new trade treaty.