

## **SPEAKING NOTES**

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### **ALBERTA'S SOFTWOOD LUMBER IN INTERNATIONAL TRADE AND A BRIEF DISCUSSION ON CANADA'S AGREEMENT ON INTERNAL TRADE**

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**Edmonton Petroleum Club**

**Speaking time: 15 minutes**

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## **Introduction**

Thank you for your kind invitation and the opportunity to speak about international and domestic trade issues.

As Alberta's minister responsible for trade, I will be talking about our perspective on the softwood lumber dispute with the U.S.

I will also briefly discuss the province's participation in Canada's interprovincial trade accord called the Agreement on Internal Trade.

## **Softwood Exports**

Let me start by pointing out that last year, Alberta's softwood exports to the U.S. were about 7 per cent of Canada's total softwood exports or about \$500 million dollars.

In comparison, B.C. exports about 56 per cent of the softwood lumber in Canada or about \$4.8 billion dollars a year.

Canada supplies about one third of the softwood used in the American market – the type of wood most often used in construction.

## **The History of the Dispute**

The ongoing softwood trade dispute between Canada and the U.S. is complex – and, its been going on for decades.

On May 23, it is expected the U.S. Department of Commerce will publish anti-dumping duty and countervailing duty orders against Canadian softwood lumber.

This means the U.S. will start collecting duties on softwood exports, at a rate of over 27 per cent.

This action will be the end of anti-dumping and countervailing duty investigations initiated in April 2001, when a U.S. lumber industry lobby group complained to the U.S. Administration about unfairly-traded Canadian lumber.

While this is the first anti-dumping case the U.S. has launched against Canadian lumber, it is the fourth subsidy complaint since 1982.

Canada has already had two softwood lumber trade agreements with the U.S., two dispute resolution panels under the General Agreement on Tariffs and Trade, and two dispute resolution panels under the Canada-U.S. Free Trade Agreement.

Two dispute settlement proceedings are now underway in the North American Free Trade Agreement.

A dispute resolution panel has been formed in the World Trade Organization and Canada has requested consultations with this group on other issues arising from this case.

After these consultations are completed, another dispute resolution panel will be established.

Even more NAFTA and World Trade Organization dispute resolution panels are possible.

### **NAFTA**

People point to the NAFTA and are amazed that cases like this can still happen when we have a free trade agreement with the U.S.

The short answer is that the NAFTA does not prevent Canada or the U.S. from initiating countervail or anti-dumping cases.

It may surprise you to know the U.S. thinks Canada has more anti-dumping orders in place against U.S. products than the other way around.

But, no single Canadian case can compare to the complexity, level of trade or the numbers of jobs at stake in the most recent softwood cases.

As you can imagine, this process is becoming extremely tiresome, and I'll briefly discuss some of the factors causing the dispute.

### **Market Conditions**

Since the trade cases began in the early 1980's, our share of the U.S. lumber market has increased.

Now it is about 35 per cent. It's increased because Canada has vast forests, our mills are modern and efficient, and our lumber is valued for its quality by homebuilders and other U.S. consumers.

### **Causes of the Dispute**

Lumber is a commodity product, and is subject to cyclical price changes.

The U.S. lumber industry has political clout, and plays a big role when U.S. trade laws are written.

When markets go down, the obvious response of U.S. producers is to try to block imports.

This is easy to do when anti-dumping rules actually penalize companies for responding to market forces and when international subsidy rules are unclear about natural resource pricing practices.

The fundamental question is: "what is the correct price for a government to charge lumber companies to cut timber on Crown land?"

Despite allegations by the U.S. industry, all Canadian provinces are committed to ensuring that not only are forests managed in a sustainable manner, but that the public also gets a fair return for its forest resources.

A major source of friction in this dispute is that things are done differently in Canada and the U.S. Each country has different approaches to managing and selling our timber resources.

In the major Canadian softwood lumber producing provinces, the Crown or government owns most of the timber.

The Crown enters into complex arrangements where a company buys the right to harvest the timber, and has to take on rigorous long-term obligations.

Not only does the company pay cash for the timber, it also has to perform so-called “in-kind” obligations like: building roads; protecting watersheds; planting trees; and, ensuring that the trees take root and succeed.

In contrast, most U.S. timber lands are privately owned.

Companies bid for the trees, but they don't have to perform the same “in-kind” obligations as in Canada.

When publicly-owned timber is sold in the U.S. it is usually sold on a short term basis.

For example, the U.S. Forest Service prepares the timber for sale, builds the roads, and does the reforestation, not the companies. Very often it does not even recover its costs.

These practices also led to speculative over-bidding, and in the past, many companies have not fulfilled their contractual obligations.

This is the type of forest management model that Canada rejected long ago, but which the U.S. lumber industry thinks should be used to measure subsidies.

In the three previous subsidy cases, even the U.S. Department of Commerce recognized that cross-border comparisons did not make sense.

A wide range of factors influence the price, factors such as timber quality and distance from markets.

When forest management systems differ, the cost for companies also differs.

In the current softwood cases, the Department of Commerce first compared Alberta's stumpage prices to those in Montana. When they realized this didn't work, they then compared us to Minnesota! That is why we are going to the NAFTA and the WTO.

### **Impact on the Industry**

I am deeply concerned about the impact this dispute will have on the industry, the communities and the Albertans that depend on this important renewable resource.

Even though the U.S. administration has already calculated subsidy and anti-dumping duty rates on softwood exports, duties are not going to be collected until May 23.

The impact of the duties on the softwood industry depends on several factors such as overall lumber prices, economic conditions -- like housing starts -- and the strength of the markets.

It's a serious situation for all lumber producing communities, yet it's difficult to determine the potential job losses and negative economic impacts to these communities.

Initial calculations by the Alberta Forest Products Association show that if the 27 per cent duties remain in place, the Alberta economy could lose about \$200 million dollars per year!

You may have heard rumours that the Canadian government is considering a \$95 million dollar package to soften the blow of the U.S. duties.

I understand the program includes:

- funding for expanding exports to markets outside of the U.S.,
- funding for research and development into new uses for Canadian lumber, and,
- funding for PR and lobbying activities to promote our position in this trade dispute.

It's too early to tell what this program means for Alberta, but it is something that needs to be examined very carefully.

Any direct assistance to the industry risks a new round of subsidy allegations by the U.S. lumber lobby.

### **Prospects for Resolution**

Many of you are probably wondering if there is any hope for resolving this case once and for all.

Last summer, we started talking with the U.S. in the hopes of finding a long-term, durable solution.

The provinces explained how their forest management systems worked.

Even though each provincial system is unique, we made good progress in identifying problem areas, and places where we could tweak our systems to confirm they do not distort lumber markets.

Throughout this process, the U.S. was preoccupied with ensuring our systems did not encourage companies to flood the market when prices were down.

In return, we sought assurances that the current trade cases would be dropped, that no more cases would begin, and that any disputes could be resolved through an impartial dispute process.

However, talks broke down because the U.S. lumber industry's demands became unreasonable.

It's uncertain at this time if negotiations will resume. We are not looking for a deal at any cost. Alberta's system of long-term forestry tenures will not be dismantled. They are integral to sound forest management in Alberta.

Any settlement will require a commitment from the U.S. to provide access to its markets and to end current and future trade actions.

Unfortunately, there has been little evidence to date that the U.S. industry coalition is becoming more open to settling the dispute.

### **Alberta Government Actions**

Alberta is extremely disappointed that the U.S. industry has pushed legal actions this far in the softwood lumber dispute, rejecting efforts on both sides of the border to achieve a long-term, durable solution.

Alberta does not take any trade dispute lightly and we play whatever role we can to defend our interests.

Since each case is unique, we work closely with industry to coordinate our actions to mount the most effective defence.

The Alberta government took the lead in defending its forest management practices in the countervailing duty investigation legal case, and worked closely with the other provinces, the federal government, and the industry on overall legal strategy.

The industry had to take its own lead in defending pricing practices in the anti-dumping case, and in the “material injury” component of both investigations.

Alberta cannot make its own deal with the U.S. We are not the major softwood lumber exporter to the U.S., and a deal with Alberta alone is not in the U.S.’s interest.

This is a case where there is strength in numbers.

It is important for the provinces to stick together, and ensure that the U.S. does not try to play us off against each other.

But, we **are** looking out for our own interests.

Alberta officials negotiated directly with U.S. officials to ensure the unique aspects of the Alberta forest management system were recognized.

We worked closely with our industry and the other Canadian governments in the negotiations.

We could not sign a deal without agreement from the other provinces and an overall agreement signed by the two national governments.

If there is an opportunity to resume negotiations on a reasonable basis, we are prepared to participate again, on our terms.

I don’t know what the future holds, but I can assure you that whether we go back to the negotiating table, or fight it out in the NAFTA and the WTO, we are committed to

working with our industry, the other provinces, and the federal government to protect the rights of our exporters.

### **Prospects for Resolution**

Is there any prospect of a negotiated solution?

I hope so, but as I mentioned, we won't settle for a deal at any cost.

It's up to the U.S. to signal that it is prepared to work towards a reasonable outcome.

That concludes my comments on the softwood lumber dispute.

### **Agreement on Internal Trade**

I will now briefly discuss the status of domestic trade in Canada and the Agreement on Internal Trade.

Since 1995, Canada has had an agreement between provinces for breaking down a number of interprovincial barriers to goods, labour mobility, and investment.

All provinces and territories in Canada are signatories to the Agreement, including Quebec.

### **Alberta's position**

Alberta regards the Agreement on Internal Trade as the primary instrument for reducing and eliminating barriers to domestic trade.

Free trade enhances competitiveness, encourages investment, and results in lower costs for consumers and taxpayers.

Within Alberta, I am responsible for ensuring the government complies with the Agreement.

## **Compliance**

Our government has been very active in negotiating and implementing the Agreement and I am pleased to say Alberta was the only province to complete implementation of all provisions of the Agreement.

Our example led other provinces to follow with changes.

For example, the new government in British Columbia will begin following national purchasing procedures because of our intervention.

The federal Public Service Commission also changed discriminatory federal government hiring practices because of our involvement in the issue.

The Commission is now implementing a plan to incorporate a national recruitment and selection process.

## **Progress**

For the last two years, I've been the provincial co-chair of the Committee on Internal Trade – the officials overseeing the Agreement.

At the Committee's next meeting in June, we want to promote the resolution of two key issues:

- An agreement to allow all provincial Crown corporations to meet the purchasing obligations of the agreement via a fair and open national tendering process.

These entities purchase upwards of \$20 billion dollars of goods and services annually.

- We also want to try to finalize a chapter on energy, in order to have clear rules for free trade in energy goods and services, including electricity transmissions.

## **Winners and Losers**

There are no losers when we remove interprovincial trade barriers. Everyone becomes a winner. Canadians have a right to and expect to be able to do business and work across Canada without unwarranted interference from governments.

Keeping Alberta businesses from participating in Newfoundland energy projects, or placing conditions on them, is just as unpalatable as saying someone from another province should not be able to work in our province.

We are one country, we have some different rules in each of the provinces, but they should not prevent businesses and people from doing business.

One of the least known features of the Agreement is its dispute resolution process.

Businesses can report on unjustified provincial barriers.

Governments can take others to task for unfair restrictions.

We need to have businesses or individuals identify a problem they have encountered that is affecting their ability to do business elsewhere.

In Alberta, on our trade website, we have an online problem registration form. Check it out, if you have a problem, fill in the form and send it in.

Or, call us. If it is something we can pursue under the Agreement, we will.

We can only remove interprovincial barriers if they are brought to our attention.

## **Conclusion**

These issues are just a few of the priority international and domestic trade issues in Alberta.

I will continue to work on behalf of the province of Alberta and with my colleagues to ensure our national international trade priorities are addressed and a resolution to the softwood lumber dispute is achieved.

Thank you.

**END**