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The softwood blues

A look back does not provide much insight into fixing the problem

Everyone talks about it. And today it is dead. But what exactly is the softwood lumber agreement and how did Canada get in this position where one of its largest industries is at the mercy of American politicians?

It's an old story, one that has been going on since the 1800s as Canada and the United States have fought over tariffs. But it has been over the last two decades that the fight has really heated up.

In a nutshell, the Softwood Lumber Agreement requires a levy be applied when Canadian softwood lumber exports to the U.S. exceeds 14.7 billion board feet. The quota levels were established in 1996, and if surpassed, additional levies are applied — fees of \$50 (US) per thousand board feet are required on shipments of the next 650 million board feet and \$100 per thousand board feet on shipments above that level.

Canada ships about \$18.5-billion board feet into the United States.

The deal covers only the four major lumber producing provinces — B.C., Ontario, Quebec and Alberta — with the Maritimes and Prairies excluded.

As to why we have a deal, instead of free trade, there is one simple answer: the Americans wanted it that way.

Canadian companies decided it was better to have a negotiated deal, good for five years, rather than be subject to U.S. tariffs and trade action.

Comments by U.S. Senator Max Baucus show the benefit of having a written agreement. "Canada continues to pursue a shortsighted forestry policy to the detriment of U.S. mills and their workers, the North American environment and, ultimately, the Canadian taxpayer," the senator said recently.

Though both sides seem to indicate free trade is the preferred option, the U.S. lumber producers — who are a powerful lobby group — don't want Canadian lumber producers to have any more than 35 per cent of the market. And to ensure the neighbours to the north don't get it the U.S. will use any tools they can to restrict the flow of Canadian product.

"The Americans have the strongest commercial hand in the world and they use it effectively for their own interests," says Canfor president David Emerson.

Adds Bob Plecas, the president of the B.C. Lumber Council: "There are some hothouse academics that believe we should leave this matter to bi-national panels under the North American Free Trade Agreement and the World Trade Organization...but the short-term pain will result in layoffs and plant closures."

The reason the Americans give is that Canada subsidizes the industry with low stumpage rates giving Cana-



A button topper at Lakeland Mills arranges logs on the conveyor that will take them through a production line that can process 6000 logs per day into eight-foot 2x4 and 2x3 lumber. JOHN MCKENZIE/FREE PRESS

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dian producers an uneven playing field — their production is cheaper, allowing them to sell cheaper and allowing them to scoop more of the American marketplace.

The U.S. producers also don't like B.C.'s restrictions on the sale of raw logs — they can only be shipped if they are surplus to the needs of the province or no one is prepared to buy them in B.C. Ironically it's the same policy the U.S. has for its own raw logs.

In the battle to win the public relations battle, American lumber producers say the Canadian system gives us an advantage.

U.S. trade representative Robert Zoellick seems to support the idea. "Even the Canadian press I read recognizes that the timber practices in various provinces are not based on a

free market for logs and lumber. Some provinces use this as an employment program. Provinces have timber programs that reflect other interests, including creating local jobs and producing provincial revenues, as opposed to responding to market conditions," he says.

But Canadian lumber producers take great exception to that argument, arguing the Americans don't take everything into account when tallying up costs.

The B.C. stumpage system, as an example, forces additional expenses on loggers like road building and cleanup costs which their American counterparts do not have to deal with.

On three different occasions, the U.S. has taken Canada to task over stumpage and three times Canada has won.

The deal is dead and no one wants to renegotiate another one, as the impact, particularly in British Columbia, has been vividly felt.

"It's a mess, a real mess," says Mr. Emerson, who is also the chair of the Forest Products Association of Canada, established specifically to deal with the softwood-lumber dispute.

Mr. Emerson says it's near impossible to quantify what the deal has done to B.C., though he estimates this province has lost as much as 20 per cent of its market share in the U.S. and cut capacity so drastically that it is the equivalent of shutting down three major sawmills.

Mr. Emerson told the Vancouver Board of Trade in October that the drop in sales to the U.S. meant the loss of more than 20,000 jobs and about \$500 million in lost investment.

Today, with the death of the agreement, all lumber producers are very nervous as they wait to see what happens.

Mr. Emerson says expect a moment or two of free trade. Then count on a quick reaction from the U.S.

The one sliver of good news, according to analyst Russ Taylor, is there will be a window of free trade. "There is going to be a period when there is going to be trade — from April 2 to April 23 — with no retroactive countervailing duties."