

US duty on Canadian lumber comes into force

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29 May 2002

As of May 23, most Canadian companies exporting softwood lumber to the US have to pay a new 27 percent duty imposed by Washington.

According to industry analysts, the US duty will force Canadian lumber producers to dramatically slash production, eliminating thousand of jobs. British Columbia, the province with the largest share of the US market, is predicting the duty will result in the loss of 20,000 lumber jobs on Canada's West Coast. Quebec, the second most important exporter of softwood lumber to the United States, says it anticipates 3,000 jobs will be eliminated in its lumber industry.

For years, Canadian and US lumber producers have been engaged in a fierce battle for market share. Currently, Canadian softwood lumber exports to the US are worth \$10 billion (Canadian) per year and account for a third of the total US market, a share that has been growing in recent years, at least in part, because of the declining value of the Canadian dollar.

American producers lobbied hard for the duty. They charge that the system whereby most Canadian provinces adjust the royalty charged lumber companies for trees taken from government land in accordance with fluctuations in the market price of lumber constitutes an illegal subsidy. In the US, softwood lumber companies generally harvest trees from lands that they own or from government lands for which they have bid and won long-term harvesting contracts.

In upholding the 27 percent duty on Canadian softwood lumber imposed by the Bush administration, the US International Trade Commission ruled that Canadian exports constitute "a threat to the US softwood lumber industry".

The dispute over softwood lumber is one of a series of trade disputes with the US that have rattled Canada's ruling elite. Fifteen years ago, the most powerful sections of Canadian big business, abandoned Canada's historic National [economic] Policy and

pressed for free trade with the US on the grounds that it was the only way to assure secure access to a major market under conditions where the world was fracturing into trading blocs. Since then, expanding Canadian-US trade has been the principal engine of domestic economic growth, but to their chagrin Canadian producers have been unable to win protection from US trade laws.

In March, just before the Bush administration made a final determination on the softwood lumber duty, Canadian Prime Minister Jean Chrétien made a concerted effort to raise the issue with the highest levels of the US government. First he dispatched his closest advisor Eddie Goldenberg to Washington, then personally raised the issue with President George W. Bush, but to no avail.

On a couple of occasions Chrétien has said that the US cannot unilaterally decide what products to accept from Canada and what to reject. "If they [the U.S.] want electricity and gas, they will have to take [Canadian] lumber as well," said Chrétien. However, the principal representatives of the Canadian ruling class, including Chrétien himself, have scotched any suggestion that the issues of access to Canadian energy and lumber be linked. They consider it would be suicidal for Canada to so threaten US interests given Canada's economic dependence on the US.

Eighty percent of all Canada's foreign trade is with the US. Moreover, in the 13 years since the Canada-US Free Trade Agreement came into force, the significance of foreign trade to Canada's total economic output has risen dramatically, from 25 percent to 40 percent of Gross National Product. If the public sector is excluded, it is estimated that more than 50 percent of Canada's total GNP is dependent on trade with the US.

Canada is challenging the US duty both through NAFTA and WTO rules. But Canadian lumber producers are complaining that it will take up to three

years for any ruling and that in the interim many of them will be driven to the wall. The Canadian industry and many of the provincial governments have called on Ottawa to pay the duty on the companies' behalf, pending the rulings by the various international trade bodies. But the federal Liberal government has rejected this course, saying that Washington would be quick to classify this a subsidy and raise the duty still higher.

Both Ottawa and the Canadian companies have decried the plight of the thousands of Canadian workers who are losing their jobs as a result of the US duty. But their real attitude is underscored by their failure to put in place even a program of extended jobless benefits. Several thousand workers laid off last fall, when the US authorities first announced their intention to impose duties, have lost or are on the verge of losing their entitlement to employment insurance benefits.

Some major players in the Canadian lumber industry have indicated they would prefer paying the duty, or negotiating for it to be replaced by a Canadian export tax—which would have the effect of raising the price to US consumers, but without the money going to Washington—than change the present mechanism governing the royalties on lumber.

Others, however, see the imposition of the US duty as an occasion to proceed with a profound restructuring of the industry at the cost of thousands of jobs. While rejecting the US lumber companies' charges, they nonetheless want to deregulate the industry in the hope of gaining a guarantee of access to the US market and market share at the expense of smaller and weaker domestic Canadian producers. Echoing such sentiments, Environment Minister David Anderson has stated that a restructuring of the lumber industry was already in progress before the US duty and that it will only speed up the process.

The Chrétien government's failure to convince the Bush administration to drop the lumber duty or find a negotiated solution has drawn the ire of some industry representatives and a section of the political elite.

According to the ultra-conservative daily the *National Post*, even senior Liberal cabinet ministers, have expressed, anonymously, concerns over the prime minister's lack of influence and credibility with President Bush.

“Look at the agriculture bill, which is a terrible piece of protectionist legislation,” a senior insider is quoted

as saying. “Now we have this steel bill, which affects principally the Europeans, but it is there as a principle, and then there is softwood lumber. And what is the Prime Minister doing? He's running around Europe talking to people about [poverty in] Africa” instead of “talking about something that is relevant to Canadians.”

The *Post* speaks for a section of the Canadian bourgeoisie that, recognizing its room for maneuver has been greatly reduced as a result of Canada's economic integration with the United States, believes it can best maintain power and influence by welcoming, rather than grudgingly acquiescing, to the role of junior partner in a Fortress North America. Thus the *Post* demands Ottawa abandon its attempts to boost Canada's geo-political and economic interests under a humanitarian guise (“poverty in Africa”) and give unwavering support to the Bush administration in its world “anti-terrorism” war. Economic integration with the United States, these forces argue, will produce the best returns only if it is accompanied by increasing political and military integration.



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