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Chair

The Honourable Mark Eyking

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● (0950)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Good morning everybody. Welcome to our trade committee.

Right now our committee has its hands full with so many issues. We're dealing with the European trade agreement that's finishing up and with the TPP, but of course softwood lumber is still a big issue right across this country. It affects different parts of the country quite differently, especially with what's going in the United States.

That being said, we are going to have two meetings on softwood lumber. Today's meeting is going to be on Ontario and the east, and we'll follow up with another meeting with the B.C. crew later on.

On that note, we'll start our meeting. We have three presentations, one from Ontario, one from Quebec, and one from the Maritimes. We'll start with Resolute Forest Products, and Richard Garneau, for five minutes.

We try to keep it to five minutes, but if you go over the time a little, we're a very flexible crew here.

[Translation]

Mr. Richard Garneau (President and Chief Executive Officer, Resolute Forest Products): Thank you very much, Mr. Chair.

Ladies and gentlemen, thank you for this opportunity to talk with you today about the future of softwood lumber production in Canada.

My company, Resolute Forest Products, is the largest producer of softwood lumber east of the Rockies. We are also one of the world's leading producers of newsprint and specialty papers, as well as wood pulp, with some 40 plants in Canada, the United States and South Korea. Our main office is in Montreal, and we have more than 7,700 employees.

I am aware of widespread comments to the effect that the 2006 Softwood Lumber Agreement has benefited Canada. Ms. Hillman, from Global Affairs Canada, testified before this committee in February that the agreement was "a success". The mantra has been that the agreement produced predictability and stability. Unfortunately, the reality is it absolutely did not. Managed trade is almost always more volatile when embedded in market forces.

As you know, there was no management of the housing market, the primary source of demand for softwood lumber, and there was no management of financial markets. I am sharing with you a graph that shows how unpredictable and unstable trade in softwood lumber was between Canada and the United States during the 2006 agreement.

During this time, western Canadian softwood lumber producers benefited from China's extraordinary economic development. In central Canada, however, the Chinese market is logistically out of reach.

Western producers also bought some 40 sawmills in the U.S., with a productive capacity of about five billion board feet, affording them an important measure of insulation from future restrictive measures. To put this capacity into context, it is over 150% of the total existing capacity of Ontario's sawmills and about the same production capacity of Quebec.

Canadian demand is simply not enough to absorb all the production of central Canadian sawmills. We need to be able to sell freely to the United States. Indeed, that was the whole point of NAFTA, and just about every industry enjoys free trade in North America, except for softwood lumber.

Mr. Dhaliwal asked federal officials in February before this committee whether, when they are negotiating an agreement, the implications might be harder on one province or another. Ms. Hillman answered that the recently expired agreement had been the very best deal for the whole country. Regrettably, that conclusion is not supported by the facts. The deal was dramatically harder on some parts of the country than others.

Answering another question from Mr. Dhaliwal, Ms. Hillman repeated that an alternative to litigation would be a deal, and a deal would necessarily be better than litigation. An alternative to litigation does not constitute a trade policy. The Liberal Party knew that and wisely voted against Bill C-24 in 2006. I urge the government to remember that the deal was not good for the whole country. It was in fact incredibly destructive for central Canada.

The purpose of a deal is to ensure fair and equitable trade. The willingness to give up free trade to escape litigation is like offering your lunch to the schoolyard bully before he takes it by force. If you give him your lunch today, he may not be content with only your lunch in the days that follow. Our negotiators, our gladiators, must be concerned not just with getting a deal, but rather with the deal that they get.

From experience, we know that the United States does not always play by the rules, and makes up new rules as it goes to protect its industries. This pattern of behaviour that we have experienced for more than three decades has discouraged our industry. The Americans always find a way to win, even when they lose, undermining our rights under international trade laws and agreements. The U.S. does believe in free trade, fair trade. Their view is that, if they get it for free, then it is fair.

The unavoidable truth is that Canadians have won every legal fight with the United States over softwood lumber. We have played by the rules, but our last government decided not to support its industry and capitulated. The government of Mr. Harper expropriated \$1 billion U.S. from the Canadian industry and gave it as ransom to our competitors, even though Canada has proven, according to the law, that its industry was not subsidized and did not cause injury.

• (0955)

Softwood lumber producers in Ontario and Quebec need free trade. Western Canadian producers may be satisfied with another managed trade agreement, what with the benefits of easy access to the Asian market, and their U.S. sawmills. We are not.

The federal government is the government for all of Canada, and it is bound to defend our interests every bit as much as British Columbia's and those of the Maritime provinces.

The government of Quebec instituted in 2013 an auction-based stumpage system producing market prices, a system patterned on that used by the U.S. Forest Service and the states with forest lands.

Quebec industry must have access to free trade because its timber prices are market prices. Quebec has a forestry regime that conforms to all American demands.

Ontario's residual value system was validated by a NAFTA special panel in 2005, a full year before the capitulation and the ransom payment. The special panel determined that softwood lumber producers in Ontario were not subsidized and should, therefore, be excluded from countervailing duties and benefit from free trade. A strong argument for that position remains in place today.

If there is to be a deal, it must recall a principled purpose: that the Canadian softwood lumber industry does compete fairly in North America and pays a fair market price for timber, and that our forestry regimes are market-based. The Government of Canada must not negotiate a deal that does not fully recognize central Canada's right to free trade. The last government did not take central Canada's interests into account. The government today can, and should, recognize market-based changes. It must not negotiate an agreement that fails to recognize that NAFTA also must apply to softwood lumber.

Thank you very much, Mr. Chair and committee members. I am available to answer any questions.

• (1000)

[English]

The Chair: Thank you very much, Mr. Garneau.

We're going to move on to the Quebec Forestry Industry Council and Mr. Tremblay.

Go ahead, sir.

[Translation]

Mr. André Tremblay (President and Chief Executive Officer, Quebec Forest Industry Council): Mr. Chair, ladies and gentlemen, I want to thank you for giving me the opportunity to speak to you about a sector that is vital to Quebec's economy but also extremely

vulnerable because of trade barriers that could limit our products' access to the U.S. market.

My name is André Tremblay, and I am the President and Chief Executive Officer of the Quebec Forest Industry Council, an organization that represents more than 90% of the softwood lumber production in Quebec.

To illustrate the importance of the forestry sector in Quebec, it should be noted that the sector provides direct employment for about 60,000 people in all the regions, including Montreal. The sector has a wage bill of over \$3 billion. Including secondary and tertiary processing, the province's forestry industry posts revenues of approximately \$15 billion a year and has a trade balance of more than \$7 billion.

The softwood lumber industry is once again in a precarious situation because of the threat to its U.S. market access. With exports of more than \$3.2 billion out of a production of \$5.5 billion—or nearly 60% of our production—the U.S. market is critical to the survival of Quebec sawmills.

In 2006, despite repeated Canadian victories in the last four disputes, as Mr. Garneau pointed out earlier, the Canadian government decided to forgo free trade for an agreement designed to offer trade peace and predictability. In hindsight, this alternative proved costly for Quebec's industry.

On the other hand, the Quebec government took a proactive approach and, to allow Quebec producers to be exempt from future export restrictions—and this is one of the key pillars of our new regime—it opted for another alternative. It decided, shortly after the entry into force of the 2006 softwood lumber agreement, or SLA, to attack the problem at its source and introduced a forest regime with pricing based on open market rules that compared favourably with those in similar systems throughout North America, including, of course, in the United States.

Since 2013, Quebec has had a forest regime in which all timber volumes from the public forests are traded directly through auction or re-allocation.

The new forest regime resulted in substantial increases in the value of standing timber from \$7 per cubic metre to \$10 per cubic metre, making Quebec lumber some of the most expensive in North America. This is ironic, since Quebec trees are the smallest on the continent, and should therefore sell for less.

Because the new regime is based on open market rules, Quebec producers want open access to the U.S. market. They made the changes the U.S. demanded and have assumed the financial consequences since 2013. This situation must now be recognized.

The Quebec system took effect well before the expiration of the 2006 SLA in 2015. The agreement had a clear provision to assess changes to the provincial forest regimes. Despite numerous requests from Quebec industry since 2013, the Canadian and U.S. governments have never shown any interest in addressing Quebec's situation.

As I mentioned, Quebec cannot afford to enter into a new agreement that will restrict downstream access to the U.S. market, while constraining its upstream fibre supply by a substantial increase in supply costs.

U.S. protectionism cannot refute the logic that complies fully with the most stringent requirements: foreign exporters should be subject to the same rules of free competition as U.S. companies on their markets. Our forest regime was established to respond to this logic. As I pointed out earlier, we have a market-oriented system based on rules that go beyond those in the U.S.

Quebec industry members are following the discussions between the Canadian and U.S. governments with equal parts attention and apprehension. Discussions so far have focused on finding a solution, relegating Quebec's situation to the background.

Therefore, we are reiterating Quebec's basic requirement that our forest regime, which responds more than favourably to the most stringent requirements of the open market and healthy competition, must allow Quebec producers to be exempt from export constraints on their products and that, to this end, the forest regime be studied with the scientific rigour it deserves. This must be part of Canada's demands and constitute a prerequisite for the continuation of discussions between the two countries.

• (1005)

In closing, I would like to point out something that is unique to Quebec.

A number of border businesses are traditionally supplied from the U.S. In such circumstances, they should not be part of the discussions aimed at restricting trade to the U.S. They already benefit from an exemption that must be considered.

Therefore, we remain confident that the Government of Canada—and especially Ms. Freeland and her team, with whom we are in constant contact and who are aware of our system's particularities—will manage to conclude an agreement with the United States that will allow us to be exempt from the export constraints.

Thank you for your attention. We are ready to answer any questions you may have.

[English]

The Chair: *Merci*, Mr. Tremblay. Thank you for that presentation.

Last but not least, we have the best part of Canada, Atlantic Canada.

Voices: Oh, oh!

The Chair: I had to throw that in there.

Go ahead with your presentation, Mr. Poitras.

[Translation]

Mr. Gaston Poitras (Chairman, Atlantic Lumber Producers): Mr. Chair, members of the committee,

[English]

my name is Gaston Poitras and I'm here as the chairman of the Atlantic Lumber Producers.

I appreciate the opportunity to address you today on an issue of vital importance to the Atlantic Canadian lumber producers and the thousands of employees in the rural communities that depend on our mills.

First, with regard to the Atlantic Lumber Producers, or ALP, I would like to begin by introducing the group. Following the decision by the Nova Scotia and New Brunswick governments to remove the softwood lumber agreement file from the Maritime Lumber Bureau, our group was formed to specifically focus on the lumber trade issue. Our membership represents 95% of the lumber produced in Atlantic Canada. Since the formation of ALP in the summer of 2015, our group has been working very closely with the four Atlantic provincial governments on the lumber issue.

It must be noted that three U.S. agreements refer to a Maritimes' exclusion. However, the scope of the exclusion is actually applicable to the four Atlantic provinces. For the remainder of my time, I will, however, continue to refer to the Maritimes.

To give you an overview of the lumber forestry in the Maritimes, our region accounts for only 2.5% of the softwood lumber consumption in 2015. Despite the fact that the softwood lumber from our region was exempt from the export measure under the 2000 softwood lumber agreement, the absolute volume of softwood lumber produced, exported from our region to the United States, dropped from 1.5 billion board feet in 2006 to an average of approximately 1.1 billion board feet between the years 2010 to 2015. While small in comparison with the U.S. market, our forest product accounts for almost 12,000 direct jobs, primarily in rural communities throughout the Maritimes.

Next is the history of the softwood lumber trade agreement. Over the course of four separate U.S. CVD proceedings during the last 35 years, the Maritimes have been excluded from tariffs or any other trade restrictions. In fact the U.S. trade representatives and the U.S. Department of Commerce have never alleged that the softwood lumber production in the Maritimes was subsidized. The main focus of the four U.S. CVD proceedings has always been the allegations by the U.S. Lumber Coalition regarding the subsidized price paid in the Canadian provinces for crown stumpage. As most of you know, crown stumpage is the price paid to the province for the right to harvest standing trees on crown lands.

The main reasons for the Maritimes' exclusion and the lack of allegations related to the stumpage include that fact that the Maritimes have a high percentage of private land. Over 50% of the wood supply comes from private land. Stumpage rates from crown timber in the Maritimes are based on a survey of arm's-length private market price. The crown stumpage rates in the Maritimes have been, and continue to be, the highest in Canada. In fact, based on these factors, U.S. trade officials at the last softwood lumber proceedings recognized the Maritimes as establishing a model benchmark for accountability related to crown stumpage.

In terms of accountability for fair market stumpage evaluation, our provincial governments established stumpage rates based on independent, market-driven surveys of timber harvested from private woodlots. That same system has been in place, but for certain small adjustments, since before the four lumber CVD investigations. The Maritimes continue to improve the survey to ensure that stumpage values are based on the most accurate, comprehensive, and up-to-date data on prices charged by the private landowners. As an example, New Brunswick is now building a comprehensive database of private stumpage transactions that is based on data from all seven forest product marketing boards and other purchases of private stumpage.

• (1010)

This will mean more accurate and timely data, permitting annual calculations of private stumpage prices from a significantly larger data set. This will be an improvement over the past surveys that were based on a sample and done only every three years, with indexing for interim years. To ensure the accuracy and credibility of this approach, New Brunswick engaged the service of an independent third party firm, PricewaterhouseCoopers, to audit and verify the stumpage data and the analysts' reporting of the fair market prices.

Our region's ongoing commitment to improving the system for the established crown stumpage pricing for accuracy and transparency continues to justify the Maritimes' exclusion. Addressing the risk of circumvention that was required in the last SLA case, the Maritimes, by virtue of our process, geography, and a requirement of the last softwood lumber agreement, established rigorous controls to prevent circumvention by other provinces of lumber exported to the U.S. Specifically, for the last 15 years the Maritimes softwood lumber producers have maintained a certificate of origin program ensuring that softwood lumber product exported from the Maritimes to the United States, or further processed in other province and exported to the United States, originates from sawlogs harvested in the Maritimes. While the certificate of origin is no longer legally required because of the expiry of the SLA last October, the Maritime softwood lumber producers are voluntarily maintaining the program, which continued to be administered through the Maritime Lumber Bureau.

In conclusion, in January of this year the provinces of New Brunswick, Nova Scotia, P.E.I., and Newfoundland sent a letter to International Trade Minister Freeland supporting the consensus of the Canadian industry that a new softwood lumber agreement will provide the predictability and stability necessary to protect against a continuation of the endless legal battles that have been ongoing between the U.S. and Canada, and support the overall objective of ensuring that border measures do not apply to softwood lumber exports by Atlantic Canada to the United States. We also wish to go on record with the committee as supporting Canada's negotiations for a fair deal for our country, while recognizing the Maritimes' unique circumstances. Our history of significant private land ownership, along with a rigorous and recognized market-based process to establish stumpage rates, continues to justify the Maritimes' exclusion.

• (1015)

The Chair: Thank you very much.

Thank you all to the witnesses. You represent a lot of GDP, a lot of mills, and people working in your mills and the forest. So thank you for those presentations.

We're going to start with questioning from our committee members. I just remind all committee members that we're in a different format now, with five minutes. So keep your questions tight so the witnesses have time to answer them.

We're going to start off with the Conservative Party and Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Mr. Chair, and thank you, witnesses, for being here this morning.

I just have a couple of questions about Quebec. You've now changed your system on the stumpage. You've now gone to a system that is very similar to what you see would meet the requirements of the U.S. and that is maybe in line with Atlantic Canada's system. Is it fair to say to stay you'd like to be treated like Atlantic Canada in any type of negotiations?

[Translation]

Mr. André Tremblay: We have indeed changed things. Since 2013, we have had a new regime that is based on a public auction system, as I was saying earlier. That did not exist before.

Now, 25% of all timber volume from public forests is sold through public auctions. The results of those sales are used to determine stumpage fees paid for wood that is part of what we call guarantees. As a result, the fees for 100% of Quebec wood are determined according to the results of free sales based on free market rules. We asked that this situation be assessed on its merit in a new agreement. If the Maritime provinces or other provinces have considerations that enable them to be assessed in order to find out whether they can benefit from an exemption, I think that they have a right to benefit from a mechanism provided for in the agreement favouring a special assessment of a province.

In the new agreements, since forest regimes come under provincial jurisdiction, we want a mechanism to be included that could enable a province to have its regime assessed based on the changes it has made. We have been doing that in Quebec since 2013.

[English]

Mr. Randy Hoback: Okay, we're up to five minutes, and it's a short time.

So you've gone from a new system of stumpage. I understand that in the talks with the U.S., they now seem to have agreed with that type of stumpage. There's also a perception that you're getting subsidized by other means, for example, on supercalendered paper and stuff like that. Is that a fair perception of the State department?

How would you react to that, Mr. Garneau?

Mr. Richard Garneau: I'm going to take this one on supercalendered paper.

First of all, I would like to make a quick comment on the regime that we have in Quebec. With regard to article 12 of the softwood lumber agreement, Quebec has asked many times since 2013 to have the system verified. It has never been done. We had no response at all from the government.

Mr. Randy Hoback: Do you mean the Government of Canada or the Government of U.S.?

Mr. Richard Garneau: The Government of Canada. Well, it's both, but when we talk, we talk to the Government of Canada; we don't talk to the U.S.

Regarding SC paper, it's an interesting question that you asked because I think it's clear that when the U.S. Department of Commerce came basically to audit the information, the first audit result was the de minimis. I think that the auditors will probably send it back with the instruction to find something.

There is a new legal device that you're probably aware of in the U.S., which they call the adverse facts available. The U.S. Department of Commerce and the auditors have unlimited discretion basically to pick any punitive numbers. They picked two programs, and I see that they were absolutely unrelated to SC. Normally when you look at the CVD investigation, it's always related to the product that is made, but it was unrelated to SC and its subsidies. It was applied improperly. I believe that it's another example of a violation of the United States' international obligations. They have an obligation to respect the laws and regulations.

I hope that Canada will continue to defend its industry and that it will not accept this type of bullying. I think the U.S. is sending a message to the Government of Canada that the Government of Canada is like the Government of China, GOC, and I think that they've just mixed both of them. Canada has laws and regulations, and certainly always plays by the rules.

● (1020)

Mr. Randy Hoback: When we look across Canada, Quebec has a different opinion than B.C.

When you talk to your colleagues across Canada, is there any way to bring those two camps together? Do you see any future in somewhere having a Canadian common approach with the U.S.?

The Chair: Our time is short.

Mr. Richard Garneau: I'm going to go quickly.

I have had the benefit to work in Quebec, Ontario, and B.C., and I think that the interests are not identical.

Certainly now you're aware that B.C. bought 40 sawmills in the U.S.—5 billion of capacity. That's about the capacity of Quebec. I think that any deal that would restrain the trade in central Canada would basically protect B.C. They have the Asian market, and I think from my presentation, you will see the volume. It went up quite substantially. We don't have the luxury of this market in central Canada. Even with the system that B.C. has, there is some restriction on log exports that is a major irritant even for Japan, and in the U.S.

I think that is certainly something that should be taken into account. Let's remove the irritant, and maybe it will help to get free trade for Quebec and Ontario.

The Chair: We're going to go to the Liberals now.

Madam Lapointe, for five minutes.

[Translation]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair. I want to thank the witnesses for joining us this morning.

Mr. Tremblay, my question is for you.

Earlier, you told us that there were 60,000 jobs in forestry. I would like you to tell me about direct and indirect jobs. I have some colleagues who believe that forestry only exists outside Montreal. I would like to know how many direct jobs there are in Montreal in this sector.

Mr. André Tremblay: Thank you, Ms. Lapointe.

The forest sector in Quebec represents 60,000 direct jobs. This morning, 60,000 individuals went to work in our plants. The industry accounts for between 150,000 and 160,000 direct, indirect and induced jobs. On Montreal Island, a study was carried out recently that showed that 4,300 individuals were employed directly in head offices or involved in company activities. Of course, this excludes any kind of subcontracting that may add to that number. I am talking about people who provide services to our paper mills or sawmills in all the regions in Quebec.

This industry is widely dispersed across the province and generates significant activity all over. This is Quebec's main manufacturing sector.

Ms. Linda Lapointe: Thank you.

Mr. Garneau, I will be brief.

Earlier, you talked to us about supercalendered paper. A tax of 17% was added by the United States. Did that have a direct impact on the Saguenay—Lac-Saint-Jean region? My colleague is very concerned about this issue.

Mr. Richard Garneau: It has a real impact. The tax is \$30 million a year. Every year, we have to pay that amount because of those charges. We are not alone. There are two other companies that are not subsidized in Canada—one in British Columbia and one in New Brunswick. They also have to pay the tax, which I believe is illegal. That has major impacts, as it jeopardizes those companies' long-term survival.

The U.S. will delay this as much as it wants. We were supposed to create with the United States a panel of experts 59 days after the payment. However, three months later, there is still no panel.

Ms. Linda Lapointe: Thank you.

My next question is for Mr. Tremblay. Bear in mind that I will have to be efficient with my time as I don't have much.

Mr. Tremblay, if there weren't a trade agreement and if an understanding couldn't be reached, do you think a mechanism could be put in place to support producers until a deal was struck?

Also, under the agreement, why do you think Quebec should be viewed as being in the same position as the maritime provinces?

● (1025)

Mr. André Tremblay: To answer your first question, I would say that being in a trade war with the United States is clearly anything but easy. We've been through four trade wars, and having government support is paramount. If the Canadian government wants to recognize its producers' right to participate in a free market system, it must, in my view, support the industry through guaranteed funding that will help cover the taxes imposed. Between 2002 and 2006, we paid \$5 billion in taxes. A deal was reached because the industry was spent and could no longer afford to pay those kinds of sums. That was one of the reasons given.

If we want to do battle, we need to have the resources to see that battle through to the very end, and that's not what we want. We want a negotiated agreement, naturally, but if we do end up having to do battle, the rights of Canadian and Quebec producers need to be defended. In that event, the government should help the industry in making certain its rights are recognized.

Ms. Linda Lapointe: Thank you.

Mr. Garneau, I have a question for you now.

A presidential election campaign is under way south of the border. Do you think softwood lumber is an important issue to the Americans?

Mr. Richard Garneau: People don't talk much about it, aside from the coalition.

Recently, we've been seeing signs of support for free trade in the U.S. I believe the National Association of Home Builders, the National Retail Federation, and the National Lumber and Building Material Dealers Association just put out a press release about that. They like Canadian lumber. I think we now have conditions in Canada that could open up access to free trade. All we need to do is make sure our rights are respected. The fact is Canada won across the board in 2006. When a legal ruling is made, it's merely a matter of enforcing the contract. A signed contract must be complied with.

Ms. Linda Lapointe: Thank you kindly.

I'm being told that I have just 30 seconds left.

Mr. Tremblay, if you could propose two solutions, what would they be?

Mr. André Tremblay: Earlier, we talked about the possibility of building some flexibility into the agreement. The agreement that just expired did offer that, option A or option B. Western provinces chose option A and eastern provinces went with option B.

Obviously, problems vary from province to province. Nothing prevents us from revisiting the idea of a flexible agreement, in other words, one that would satisfy the needs of western provinces, on one hand, and those of eastern provinces, on the other, in terms of the exemption we discussed earlier.

Ms. Linda Lapointe: Thank you.

[English]

The Chair: Thank you.

We're going to move over to the NDP now, and Ms. Ramsey.

Ms. Tracey Ramsey (Essex, NDP): Madame Trudel will be taking my time.

The Chair: Welcome, Madame Trudel.

[Translation]

Ms. Karine Trudel (Jonquière, NDP): Thank you, Mr. Chair.

I'd like to thank all the witnesses for their presentations.

My question is for Mr. Tremblay.

I have two questions for you. First of all, Quebec's new forest regime was mainly intended to facilitate entry of Quebec softwood lumber into the U.S. and, by extension, refute the claim that its producers were subsidized. Is that correct?

Mr. André Tremblay: That's basically what the Quebec government wanted to show by bringing in a new forest regime, and that's what it did. We can say that, since April 2013, so for three years now, Quebec has had a forest regime that meets those requirements.

Ms. Karine Trudel: I think we've pretty well covered that issue.

I have one last question for you.

You said the Quebec government was trying to be proactive in changing its forest regime. Why were you never able to go back to the bargaining table even though the agreement provisions allowed for that?

Mr. André Tremblay: Mr. Garneau brought up article XII. When the new regime was put in place, pressure was brought to bear on the federal government to have it included as an agenda item for the talks between Quebec, the U.S., and Canada. For all the reasons mentioned, neither the Canadian government nor the American government ever had any appetite to address the issue. I sent numerous letters, made plenty of phone calls, and had many meetings in Ottawa with the people in charge at the time. I would say no one wanted to throw sand in the gears, so to speak, when it came to taking a different view of Quebec's situation in light of the changes that had been made. I think that was the most commonly cited reason.

● (1030)

Ms. Karine Trudel: Thank you.

My next question is for Mr. Garneau.

We discussed jobs earlier, but I'd like to know how many direct jobs could be affected in the Saguenay—Lac-Saint-Jean region, specifically.

Mr. Richard Garneau: Off the top of my head, I believe it's close to 5,000 jobs in the Saguenay—Lac-Saint-Jean region, but it's important to consider the bigger picture.

In 2006, just prior to when the agreement came into force, Quebec had 82,000 jobs, and by 2015, that number had dropped to 55,000. That's a decrease of 32%. Let's not forget about Ontario, where things are just as bad. There, they went from 62,000 jobs to 36,000—a 42% decrease. We are talking about people in northern communities who lost their jobs because we didn't have access to the U.S. market. I know issues other than the softwood lumber agreement were involved, but these are workers who were affected. Not only was the industry abandoned, but so, too, were the workers.

Ms. Karine Trudel: Thank you.

[English]

Ms. Tracey Ramsey: I'll take the remainder of the time.

We know that the 2006 agreement expired in October of last year. Have federal representatives asked Canada's softwood lumber producers for their views about a new softwood lumber agreement, including the provisions that it should and should not contain? If you have been asked, have you been satisfied with the manner and extent to which you've been consulted? You can each answer that.

[Translation]

Mr. André Tremblay: We are in constant contact with the people at Ms. Freeman's office, as well as the officials in charge of leading the talks. So the answer is yes, we are being consulted. We are trying to find ways of gaining access that aren't necessarily obvious. Different regions in the country have different interests. The proper discussions are indeed under way to try to pinpoint the types of methods I just mentioned.

[English]

Mr. Gaston Poitras: I would support that answer. I think back in December the Canadian government went throughout Canada and consulted with all the provinces and came up with some recommendations. They were getting the pulse; they've done that. From what we know, because they've been communicating with the industry members—maybe not every week, because not much is going on as we speak, but they have been consulting with the industry. You have to understand that the Canadian government has a big challenge on its hands because you have all these provinces and everybody is pulling the covers on this or has a little different spin on how the thing should be dealt with. To answer Mr. Tremblay's remark here, I think they've been at it.

Mr. Richard Garneau: I also sent my views following a meeting with Minister Freeland. She is very engaged in this file and with consultants. We're insisting on NAFTA. NAFTA is an agreement that has been signed between Canada, the U.S. and Mexico. There is also dispute resolution. With Madam Freeland we insisted that she make sure with chapter 19 that there is a roster of panellists. We also suggested ways to try to deal with a dispute, if we ever are unable to have access to free trade. I think the main concern I had was to make the point for Quebec and Ontario. Ontario is the only province where the residual value system has been tested by the chapter 19 panel. In 2005 I insisted again on this point. In 2005 the panel said that the Ontario producers were not subsidized with the residual value. I think that's important and has been completely forgotten. In Ontario when you look at employment and production, Ontario's production went from 3.5 billion to 1.7 billion. When you're not subsidized and are limited by a quota and you have to pay a tax, then you don't

survive. It's that simple. I think I made that point to Madam Freeland, who was listening very intently.

• (1035)

The Chair: Mr. Garneau, thank you very much. We're way over time, but I let it go because you had some good comments and there were good questions there.

We're going to go back to the Liberals. Ms. Ludwig, you're up for five minutes.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Good morning, and thank you for your excellent presentations. I represent New Brunswick Southwest, so I'm going to direct a couple of my questions to my Maritime colleague.

Mr. Poitras, you had mentioned 12,000 direct jobs. That doesn't include all the spin-off jobs. In areas like the Atlantic provinces where we do have large land mass and lots of trees, but a small population, that represents a significant number of jobs that we are focusing on, so thank you for raising that.

The Canadian industry certainly is working to be innovative. As Mr. Garneau had mentioned, there are 40 companies that own U.S. sawmills, so they were looking at different ways to be flexible. How prepared is the Canadian market, particularly the Maritime market, to expand into the Asian area and to produce value-added products?

Mr. Gaston Poitras: Maybe I could start by tackling the second question on the value-added. We're doing as much value-added as anybody else is trying to do with what you can do with lumber. When you ask me about China, unfortunately China is a long way from where we are. To get there you have climb over British Columbia, because they're a lot closer than we are. They have an easier way to ship their wood to China than we would have. We do ship wood to China from New Brunswick. It's highly specialized wood. It's hardwoods and things like that, but it's more difficult because of our location.

Ms. Karen Ludwig: Great. How does the exemption from the 2006 softwood lumber agreement's quota and export tax provisions affect softwood lumber producers in Atlantic Canada?

Mr. Gaston Poitras: We've been excluded from that, as I said in my presentation, for the last 35 years. Based on the fact we have a high percentage of private woodlot owners in New Brunswick, there are over 100,000 transactions a year. We have information and data that is surveyed and determines the value of the Crown. What makes us different in New Brunswick is the fact we have a high percentage of private land that determines the price of Crown, and that we have free access to the U.S.

Ms. Karen Ludwig: Is it accurate to say the Atlantic provinces pay the highest timber costs in Canada?

Mr. Gaston Poitras: That's for sure.

Ms. Karen Ludwig: If we were to lose the market share in the United States to other provinces, the provinces' softwood lumber producers in the event, how would that affect our area?

Mr. Gaston Poitras: I don't even want to think about it. We would be paying the highest stumpage rate in Canada, and it would be subject to tax or quota. It wouldn't be very good.

Ms. Karen Ludwig: The other question I have is regarding your research. You mentioned a database that you've been collecting.

Mr. Gaston Poitras: Yes.

Ms. Karen Ludwig: Is that being paid for by the associations?

Mr. Gaston Poitras: No, the industry doesn't have anything to do with that. It's a government initiative, and they're doing that as we speak. As I said earlier, they're using PricewaterhouseCoopers as an arm's-length auditor to make sure that the process is transparent.

We just want to make sure that we've been exempt for many years because of the way that we've been doing things and over the years. We've been improving our systems, and that's the reason that we should remain excluded.

Ms. Karen Ludwig: What is the relationship like with the state of Maine?

Mr. Gaston Poitras: There's wood that goes back and forth between New Brunswick and the state of Maine on a regular basis. I'm talking round trees, lumber, etc., and it's been tradition. If you look in the history books, you will find the Webster-Ashburton Treaty back in the 1800s that permitted the free access of wood between New Brunswick and the state of Maine, and it's still there.

Ms. Karen Ludwig: Thank you.

The Chair: You have half a minute. Are we just going to move on? It's up to you.

• (1040)

Ms. Karen Ludwig: I'll take another one.

Just quickly, for any of you here, what would be the key features to form the basis of a new softwood lumber agreement and any different types of export measures? You have about 40 seconds.

Mr. Richard Garneau: It's simple for Quebec and Ontario. The Ontario system has been tested. It's fair trade, and Quebec's system is a copy of the U.S. Forest Service one. Based on that, I think Quebec and Ontario should benefit from free trade. It's NAFTA.

The Chair: We're going to move to Mr. Fonseca for five minutes.

Mr. Peter Fonseca: The 2006 SLA included a dispute settlement process. What changes would the Canadian softwood lumber producers like to be made to the dispute settlement process going forward?

Mr. Richard Garneau: I can address this one dispute settlement we have in NAFTA. It's called chapter 19, and it's supposed to work really well and quickly. They're supposed to have their decision within 352 days, but it doesn't quite work this way. If I have any advice to give to the federal government, it is to make sure that chapter 19 of NAFTA works properly.

I think that based on our resolution experience in SC paper, we know that chapter 19 dispute resolution is a mechanism that does not exist elsewhere. It's Canada, U.S., and Mexico. Let's have this dispute resolution. It's already negotiated. Let's have it and let's make sure that it works.

Mr. Peter Fonseca: Why has it not been working for softwood lumber?

Mr. Richard Garneau: I think that it works really well. It took five years basically to get the decision, and if you look at the decision, it shows that Canada won all the way with chapter 19 in NAFTA. I think that we have a demonstration that this dispute resolution works. Make sure that it's there and that it's available. I wish that we were going to go there, but let's make sure that it operates properly.

Mr. Peter Fonseca: You cited Ontario's case from what year?

Mr. Richard Garneau: From 2005. I can forward the decision to you from the chapter 19 panel of NAFTA. Basically it's a force of law. Well, it was supposed to be the force of law.

Mr. Peter Fonseca: In the past, the United States has used tactics to gain an advantage as we enter into a new round of negotiations. What do you see happening from their side?

Mr. Richard Garneau: They just basically made exactly the same thing with SC paper, so they used the new provisions they have. Now with the adverse facts available, they can make it up.

I think that on SC papers, the Canadian industry is paying a tax now, certainly in our company, that it's made up. I think that it's a violation of the U.S. obligation with the agreement, the international trade agreement that they signed, and Canada has a responsibility, and I think Madam Freeland can do it to remind the U.S. that they have to respect the agreement that they signed.

Mr. Peter Fonseca: Mr. Tremblay.

[Translation]

Mr. André Tremblay: That's what I pointed out earlier. We know the Americans are going to engage in trade retaliation and file complaints, in terms of either anti-dumping or countervailing. It's crucial, then, that we be well-equipped and that we have the government's support if we are to deal with what's to come, if we are to fight their claims right to the end, and if we are to successfully show that we are entitled to free trade access. As I said, having the government's support is paramount.

[English]

Mr. Peter Fonseca: My question also focuses on the U.S.

Do you believe the U.S. has enough incentive to get another SLA done in the light of the bigger trade deals that are happening and these negotiations as they're going forward?

Mr. Richard Garneau: My view on this, which I shared with Madam Freeland, is that I think the U.S. wants to have support from Canada on the TPP.

I think we should remind the U.S. that if they want to have the support of Canada, they should basically abide by the rules of NAFTA and make sure that NAFTA—the free trade agreement we have among Canada, the U.S., and Mexico—works, and then we're going to give Canada's support on the TPP.

But we know that they are in violation now. Why should we support? I think we have a tool. I think Canada really has a very good opportunity, and I think Madam Freeland has a lot of tools in her tool box.

• (1045)

Mr. Peter Fonseca: Mr. Poitras.

Mr. Gaston Poitras: I'm just going to say that I've been involved with this file for over 25 years. From what you read, the American coalition and the U.S. commerce department are not going to go away.

The best thing Canada can do is to try to negotiate a deal, because if we don't negotiate a deal it simply means that we're going into litigation, and we all know how much that's going to cost. From my perspective, if that's what's going to happen, the only group that's going to be making money in the lumber business is the lawyers—no offence to any lawyers in the room, okay?

Voices: Oh, oh!

Mr. Gaston Poitras: Really, at the end of the day, our position in the maritimes is that we should negotiate. We should try to make a deal, and the best deal for Canada. Understand that.

The Chair: Thank you.

We have only two minutes left and we're going to give them to Mr. Ritz.

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Gentlemen, thank you so much for your insight today.

I totally agree with you on the dispute mechanisms. They always have to be done in a timely way and they have to be enforceable. We saw that with the U.S. on country-of-origin labelling. It's a David and Goliath situation, but we can't back away from it.

You're absolutely right, Mr. Poitras. Litigation is not the way to go, because no one makes money. You lose your trade advantage and you lose your ability to trade, simply because the U.S. turtles up and drags you through the courts.

Mr. Tremblay, you made the point earlier on that the provinces had option A or option B, and once they chose it they were locked in for the term. Is there something on flexibility that should be negotiated the next time, so that as you make adjustments in your stumpage fees and so on, you should be able to use either option A or option B?

[Translation]

Mr. André Tremblay: I think so, yes. A certain measure of flexibility should be built in to account for each province's distinct interests. That's what I was trying to point out earlier. It is entirely conceivable for Canada's western provinces to have an agreement that is based on principles that differ from those in the agreement with the eastern provinces.

We represent the Maritimes, Ontario, and Quebec. We put forward considerations that are absolutely critical to any agreement we are party to. But, yes, there is no reason why different considerations could not be included in agreements with British Columbia or Alberta.

[English]

Hon. Gerry Ritz: Yes, times have changed. There's no doubt about it.

There's one other point, too, Mr. Garneau. You were talking about the loss of jobs, and of course we all want to see a strong, vibrant industry, but some of that rationalization was done by the industry itself with the housing collapse in 2008, and of course with the changes to the pulp and paper industry. It's not just the softwood lumber agreement that drove some of that rationalization, and it's always unfortunate when people lose their jobs.

How much of a factor is the variance in the Canadian-to-U.S. dollar in the push-back from the U.S. side?

The Chair: Would you please be brief and wrap up?

Mr. Richard Garneau: On the costs, I'd like to make a comment. When you compare costs to litigation, I think the industry paid \$2.3 billion in export taxes, plus the \$1.4 billion Canadian, okay?

On the other point, when you look at the job losses, let's take the example of Ontario. Fifty per cent of the production has disappeared, and Ontario is right in the middle of the country and the only market it has is the U.S. If you don't have free trade and don't have access to that market, and you're hit by a tax and a quota, you don't invest.

So sure, in five, ten, or fifteen years the coalition will basically succeed in shutting down the industry in Canada. We know what happens when you don't invest. I think that's the reason we're insisting.... A deal is always good, but with NAFTA I think we have the tool that we need to have access to this market, as long as we have fair trade. I think we have fair trade in Canada and basically we need to have that recognized by our friends south of the border.

The Chair: Thank you, and thank you, Mr. Ritz. Thank you, gentlemen, for coming and giving us the briefings, and I thank all committee members for all of the good questions today. We had a very productive day.

That ends our meeting.

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